Meggitt PLC
Annual report and accounts 2007

MEGGITT
smart engineering for extreme environments

Contents

1-35
Board reports

Reports on key strategic, operational and financial developments during the year

36-98
Financial statements

Statutory financial statements including the independent auditors' report

99–101
Investor information

Summary information and contact details for our shareholders

The Meggitt PLC annual report and accounts 2007 can be downloaded from www.meggitt.com

Chairman's statement

Meggitt put in another outstanding performance in 2007.

Revenues increased 31% to £878.2 million and underlying profit before taxation was up 35% to £179.0 million. Cash flow was again strong with 99% of underlying operating profit converted to cash. The order book at 31 December 2007 closed at over £650 million. All this is enabling us to propose a 12% increase in the final dividend to 5.75 pence.

At the same time, Meggitt invested £134.4 million in facilities and intellectual property across the group.

One of the major milestones in the year was our £920.1 million acquisition of K & F Industries Holdings Inc (K & F). This is Meggitt's largest purchase and is being integrated according to plan and trading well, with synergy savings ahead of expectations.

In 2008, we disposed of S-Tec Inc, our non-core autopilot business, and acquired Ferroperm, a supplier of advanced sensing materials. This extends the ability of our sensing systems division to respond to customers' requirements for more data from cryogenic to high heat environments.

Organisation

During the year, we reorganised our aerospace equipment, sensing and defence systems divisions.

Aerospace equipment continued to focus its businesses around key capabilities—polymer solutions, fluid control, thermal management, safety systems and wheels and brakes.

We merged our sensing systems business units into one division.

Defence systems consolidated its Californian combat systems operations into a brand-new site and its aerial, marine, ground targetry and simulated weapons training business units now operate as one—Meggitt Training Systems.

Braking power

Braking systems in particular saw a quantum leap in capability with the acquisition of K & F. We are merging its braking business with Meggitt's established braking operations to create one highly competitive company with the services and technologies in demand in the market place.

In addition, we acquired an operation that has the same business model as Meggitt. K & F has an extensive aftermarket that delivers predictable and profitable income streams throughout economic cycles. As long as cargo and people need to fly, the aircraft that carry them will need spares and repairs to stay in service.

With K & F came Engineered Fabrics Corporation (EFC), which conforms to Meggitt's interest in businesses that lead in their chosen fields. EFC is the premier supplier of innovative flexible fuel tanks to the US military and is a close fit with our existing polymers business.

With facilities in Mexico, K & F is playing its role in enhancing Meggitt's manufacturing footprint. Like our Chinese operation, this helps us to respond to the requirements of customers' own global sourcing strategies.

Group resources

Meggitt's businesses continue to rise to the challenge of meeting the group's goals, supported by experts in operations excellence and materials sourcing, organisation development, strategy and marketing, information services, export compliance and ethics.

This is because Meggitt people continue to be excited about working for our fast-growing group, demonstrating tenacity and imagination in pursuit of divisional and operating unit goals. Our *smart engineering for extreme environments* would be nothing without them and I would like to congratulate all at Meggitt for another outstanding performance this year.

Sir Colin Terry
Chairman

Meggitt at a glance

Headquartered in the United Kingdom, Meggitt PLC is an international group employing over 8,000 people specialising in aerospace equipment, sensing and defence systems. Our consistent record of strong financial performance comes from businesses balanced across market segments; innovative products that generate stable, long-term aftermarket income; organic growth reinforced by acquisitions; and investment in people, facilities, operations and strategic technology development. Our companies have access to an evolving group infrastructure that enables them to work together, combining talent and resources to benefit customers and operations.

Employees

8,298

Group capabilities

Percentage of group revenue

Revenue (£ millions)

Aerospace equipment

- Wheels and brakes
- Thermal management
- Fluid control
- Safety systems
- Polymer solutions

60.1%

03	151.4
04	210.3
05	328.6
06	356.6
07	528.1

Sensing systems

- Condition-monitoring
- High performance sensors
- Avionics

26.9%

03	195.3
04	197.4
05	201.7
06	218.9
07	235.9

Defence systems

- Training systems
- Combat systems

13.0%

03	52.0
04	68.9
05	86.0
06	94.8
07	114.2

Financial highlights

Revenue (£ millions)

878.2

03	402.4
04	476.6
05	616.3
06	670.3
07	878.2

Underlying profit before tax (£ millions)

179.0

03	77.8
04	90.3
05	116.3
06	132.7
07	179.0

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

214.3

03	85.6
04	111.0
05	138.4
06	140.3
07	214.3

Dividends per share (pence)

8.2

03	5.6
04	6.0
05	6.6
06	7.4
07	8.2

Underlying earnings per share (pence)*

22.1

03	14.0
04	14.9
05	17.1
06	19.1
07	22.1

The definition of "underlying" is provided in note 10 to the financial statements on page 64.

Comparative data for earnings and dividends has been adjusted for the bonus element of the rights issues approved by shareholders in 2004 and 2007.

Figures for 2003 have not been adjusted to take account of the transition to International Financial Reporting Standards.

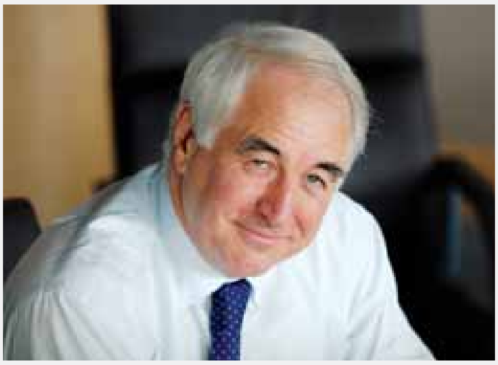
Group strategy

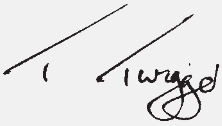
Deliver upper quartile returns through focused leadership positions in aerospace, defence and specialist markets.

Group strategic objectives

1.	Invest in high technology and aftermarket businesses	Strong intellectual property, stable revenues from replacing and repairing Meggitt parts, higher value packages and sub-systems from existing product, fast-tracking market leadership through acquisitions
2.	Leverage group capabilities	Shared services, common standards, best practice, world-class compliance, functional leadership
3.	Pursue operational excellence	Improving supply chain effectiveness, manufacturing strategically, combining resources
4.	Satisfy our customers	Nurturing strategic supplier relationships and delivering value for money
5.	Maintain a culture of strong performance	Developing leaders, rewarding drive and ambition at all levels, maintaining tight financial controls

Delivering group strategy





Terry Twigger
Chief Executive

Executing our strategy

Meggitt's goal is to continue to deliver excellent returns to our shareholders by providing smart engineering for extreme environments.

Our strategic objectives are to carefully target investments, maximise the efficiency of our organisation and get the right people, in the right place, with the right tools to provide high-value solutions to our customers.

We execute this through three focused divisions covering aerospace equipment, sensing and defence systems.

Investing in technology ...

Meggitt invests significantly in its highly engineered, specialist products to sustain positions on current programmes and win positions on new ones—around £70 million in 2007. We are continually improving core technologies; widening their uses; and investing in brand-new products that meet our customers' requirements for greater efficiency, reliability and performance within their operating and regulatory environments.

Meggitt's sensing systems division has provided an aero-engine sensors and ignition package that simplifies procurement for customers. Its advanced electronic processing expertise has enabled it to provide the only on-engine monitoring system that can deliver the detailed images of aero-engine condition needed to manage maintenance efficiently. The division continues to invest in breakthrough technologies such as turbine tip clearance measurement, which will increase the operational and environmental performance of industrial gas turbines as well as aero-engines. In January 2008, it acquired a leading piezo-electric ceramics business to advance Meggitt's position in sensing materials for demanding environments.

In 2006, we added virtual firearms training technology to our defence systems division. This expanded the scale of our training operations internationally and repositioned us as the leading supplier of integrated live-fire and virtual weapons training worldwide, a mix determined by the armed forces as the most effective form of combat training in this area.

Our aerospace equipment division's fluid controls businesses are using their long experience in electro-mechanical extreme environment engineering to develop advanced motor control and smart actuation for aircraft with more electric content. Meggitt's safety systems business is responding to the growing market for overheat detection across a wide temperature range with new sensors. Our expanded braking systems operations continue to develop the long-life, lightweight friction materials that lie at the economic heart of this business.

... and strong, stable aftermarket businesses

Meggitt is an established investor in products that work hard in extreme environments on virtually every military and civil aircraft flying today.

There are around 18,000 large civil planes and tens of thousands of regional, business, light jet and general aviation aircraft in service. They require support throughout their service lives—up to 35 years for many aircraft types—in the form of spares, repairs, maintenance and overhaul that come with Meggitt's high tech and precision-mechanical products. The last 30 years has seen over 5% per annum compound growth in air travel. More air miles flown means more wear and tear on components and systems and therefore more opportunities for us to sell parts and services to operators.

We will continue to invest in products needing aftermarket support for new generations of aircraft, providing consistent revenues over the long term and maintaining this important stabilising force within the group's market mix.

Acquisitions are an important complement to Meggitt's organic growth. They can expand our presence in existing markets and enhance customer service through critical mass; add technology to build on core capabilities; and reinforce the success of existing business models like the aerospace aftermarket in which we have long experience.

Group strategy

Deliver upper quartile returns through focused leadership positions in aerospace, defence and specialist markets

Group strategic objectives

Invest in high technology and aftermarket businesses
- Organic growth
- Targeted acquisitions

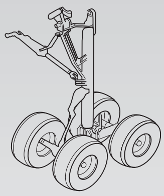
Leverage group capabilities
- Shared services, common standards
- Best practice, world-class compliance
- Functional leadership

Pursue operational excellence
- Efficiency
- Delivery

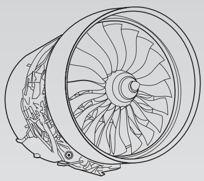
Satisfy our customers
- Value for money
- Supplier of choice

Maintain a culture of strong performance
- Leadership and skills development
- Succession planning
- Financial rigour

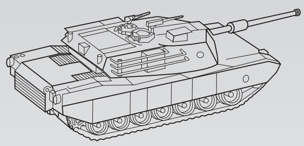
Business implementation



Aerospace equipment
- Win positions on new platforms with extreme environment electro-mechanical products
- Continue to excel in providing profitable aftermarket services



Sensing systems
- Sustain lead in condition-monitoring for high value rotating machinery
- Build sales of ignition and sensing packages direct to engine-makers
- Continue to excel in high performance, extreme environment sensors



Defence systems
- Become the preferred supplier worldwide for integrated live and virtual weapons training
- Sustain leading positions in precision-mechanical systems for combat vehicles

smart engineering for extreme environments

Delivering group strategy
continued

The acquisition of K & F last year met all these criteria. We are merging its braking systems business with an established Meggitt wheels and brakes operation. This has strengthened our capabilities in the core technologies essential for our chosen business jet, regional aviation and military markets—such as electrical braking, advanced friction materials and brake control systems—and enable us to improve the efficiency of the combined business cost-base. In addition, customers have greater access to aftermarket support through improved global coverage for the spares and replacement parts they need to keep their aircraft flying.

K & F also brought the US Department of Defense's leading supplier of fuel bladder tanks, further enhancing our portfolio of military products.

Leveraging group capabilities

We're building an increasingly integrated group. Operating units work together, facilitated by group resources in strategy and marketing, information services, organisation development and operational excellence. All this is underpinned by strong, centralised standards on export compliance, business ethics and health, safety and environment.

We are reducing cost and increasing efficiency as we set group standards for information technology systems and computer hardware. Over time, this will include all Meggitt businesses migrating to one enterprise resource planning system.

Work on Meggitt's supply chain effectiveness continues to grow. Opportunities to work and buy as a group were increased when Meggitt bought the design and manufacturing businesses of Dunlop Aerospace in 2004 and grew by one third at a stroke. The K & F acquisition expanded Meggitt by one third again, offering even more opportunities to exploit the group's materials' buying power. We launched the international purchasing office in Asia in 2005, saving around £1.5 million to date. In 2006, an indirect sourcing initiative saved us a further £2.1 million per annum. In 2007, a group supply chain team completed a substantial assessment of direct spending by product category throughout the businesses to help managers progress Meggitt's long-term sourcing strategy. The benefit of the activity is expected to exceed £2 million in 2008 and £10 million in 2010.

Meggitt's operating units are increasingly working together to increase organic growth and generate higher-value offerings by combining complementary capabilities.

In aerospace equipment, streamlining 14 businesses into three units focusing on fluid controls, polymer solutions and thermal management, has enabled our aerospace equipment division to pursue wider sub-system opportunities.

Dealing with government departments and original equipment manufacturers, our key customer relationship managers are enabling us to promote Meggitt capabilities from a wide perspective. They ensure our activities—from technology development to operational excellence initiatives—are relevant to the requirements of our markets.

Initiatives like these meant that Meggitt's businesses achieved another year of strong organic growth with a rise of 11% in revenues and a 13% increase in underlying profit.

Pursuing operational excellence

Over the past year, operational excellence teams have been working in the operating units, adding structure and formal support to what was already being achieved in waste elimination and improved customer service. These teams are helping to spread best practice across the group and ensure activity is aligned with Meggitt's goals.

We invested £41.0 million in property, plant and equipment, a substantial proportion of which focused on adding capacity and combining capabilities to improve efficiency and competitiveness.

- Meggitt Defence Systems co-located its precision-mechanical businesses in California onto a single site to combine core capabilities and pursue new programmes.
- In Atlanta, Georgia, we started to build the factory that will enable us to co-locate our live and virtual firearms businesses and advance Meggitt's integrated defence training systems vision.
- We doubled the capacity of our compact heat exchanger business, enabling it to respond to demand from the energy industry for highly-advanced products that optimise power plant and rig space without sacrificing performance.

- Again, we doubled the capacity of our Chinese manufacturing facility, enabling Meggitt to compete by utilising low-cost elements in product packages.
- We combined two UK polymers factories onto one site.
- Meggitt Sensing Systems' operation in Switzerland completed its expansion to meet demand from the aerospace and energy markets for its leading condition-monitoring products.
- Our United States' brake carbon facility expanded to ramp up production of *NuCarb*, Meggitt's next generation, longer-life friction material.
- In 2008, we will expand the manufacturing capacity in Mexico acquired with K & F.

Satisfying our customers

We take care to maintain the strong customer relationships we have and develop those needed to become suppliers and partners of choice on new programmes. We actively monitor our customers' evaluation of what we do for them through our operating units, key customer relationship managers and customer surveys. Our performance on delivery adherence, product quality and customer support has led to multiple awards including 'Gold' supplier status in condition-monitoring from Airbus, Performance Excellence from Boeing and Supplier of the Year awards in braking systems from Gulfstream, Embraer and AVIC1 Commercial Aircraft Co.

Maintaining a strong performance culture

Meggitt has a well-deserved reputation for outstanding performance and we regard the drive exhibited by our employees as a quality that must be preserved and enhanced as we grow. We want the entrepreneurial flair on which individual operating company success is founded to remain as much a feature of the group's culture as the disciplined financial management and compliance and ethical standards with which we are strongly associated.

We are equipping our people with the management skills needed to sustain the increasingly large and complex programmes we are winning after successful commercialisation of our technologies and engineering innovation.

In addition to succession planning, assessment and competitive reward and incentive schemes, we have set up our own management development programme with Oxford University.

Positioned for success

Meggitt is well-positioned to execute its strategy.

- Strong intellectual property and the wide range of Meggitt products provides the stable revenue stream needed to invest in new programmes.
- Our technologies service the civil aerospace, military and energy markets, offsetting exposure to any given cycle and ensuring we are not dependent on sales of original equipment to single customers or programmes.
- Our revenues are evenly balanced between North America, and Europe and Asia.
- Our manufacturing capability is global and includes low-cost facilities in China and Mexico.
- Investment in our group infrastructure ensures our three divisions can share best practice and resources.

In 2007, our divisions continued to put group strategy into practice with tangible results.

Aerospace equipment excelled in current aftermarkets and secured future business by winning positions on a wide range of new aircraft and ground vehicle programmes. With K & F, it strengthened its wheels and brakes businesses and acquired additional ice protection and fuel system technologies.

Sensing systems continued to respond to market requirements for the condition-monitoring technology that reduces gas turbine operating costs, optimises maintenance regimes and reduces pollution; and for high performance extreme environment sensors in a range of specialist applications.

Defence systems took significant steps toward achieving its vision of becoming the preferred supplier around the world for integrated training systems and precision-mechanical equipment for aircraft and land vehicles.

Meggitt is executing a clear strategy and is operating in favourable markets. This means we can look forward to making further progress in 2008 and beyond.

Market review

Meggitt's smart engineering for extreme environments is well-established in aerospace and defence but has a growing presence in other markets such as energy, where its core capabilities can be deployed in innovative applications.

Civil aerospace

48% of Meggitt revenues come from civil aerospace.

Revenue by segment

- Civil 48%
- Military 38%
- Other 14%

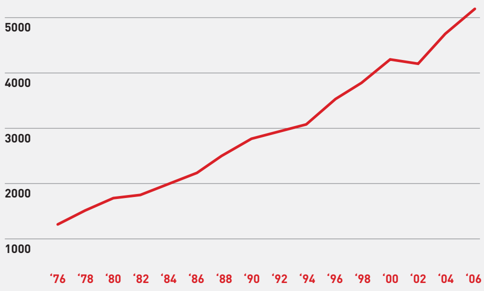
Aftermarket

The Meggitt business model combines high tech, high growth businesses—at the leading edge of sensor science for example—with established electro-mechanical enterprises such as brakes and hydraulic controls. The aftermarket rewards associated with these precision-engineering businesses are strong and steady, remaining so, despite the ebb and flow of aircraft production cycles. We use them to fund technology development and secure wins on new programmes.

Analysis of civil aerospace

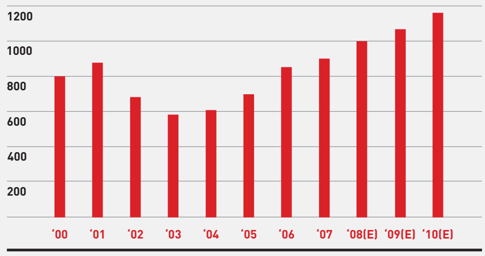
- Aftermarket 64%
- Large jet 17%
- Other 19%

Meggitt targets original equipment manufacturers—aircraft constructors and engine-makers—to make sure our product is specified on brand-new aircraft. We also target airline operators with aftermarket services, replacing and repairing Meggitt product installed on their aircraft for the rest of their service lives—typically, up to 35 years. While aircraft production has its peaks and troughs, aircraft usage for passengers and cargo continues, wearing out our products and providing opportunities for us to replace and repair them.



Available seat kilometres (millions)
Source: International Air Transport Association

Meggitt products are on virtually every commercial aircraft in service today, from the largest wide-body transporters to very light business jets. Global air passenger traffic has grown by 5% annually over the past 30 years. It is measured in available seat kilometres, a proxy for aircraft usage and, therefore, the spares and repairs requirement. Similar rates are predicted for the next two decades, with growth in developing economies offsetting slowdowns in mature markets. The aftermarket accounts for 64% of civil aerospace revenue sales.



Large aircraft deliveries
Source: Meggitt analysis

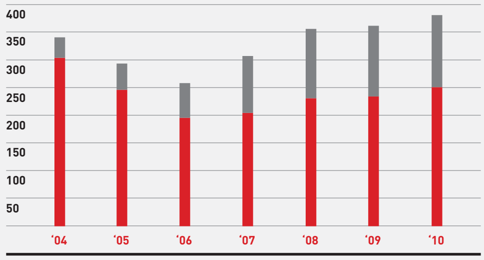
Direct sales to the OEMs

Meggitt wins contracts on new aircraft programmes to maintain leadership positions and deliver future aftermarket business.

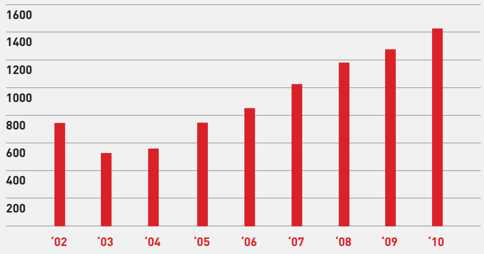
In 2007, record numbers of aircraft were delivered. Boeing and Airbus each won orders for over 1,200 planes, led by demand from carriers in Asia, the Middle East and Europe. With total order books of 6,800 aircraft, this represents seven years' production at current rates. Meggitt's product revenues have benefited across the board, with its engine monitoring units setting new standards in condition-monitoring on the A380 and B787, helping to save fuel and optimise running costs.

The delivery of business aircraft rose to more than 1,000 jets in 2007 (16% up on 2006 levels). Order book backlogs at the major producers average 2.5 years, with some up to five years. Meggitt has product on most new business jets, from the Embraer Phenom 100 at the very light end to very long range jets such as the Gulfstream 550 and Dassault Falcon 7X.

The acquisitions of the Dunlop Aerospace businesses in 2004 and K & F in 2007 positioned Meggitt as the leading provider of wheels and brakes to regional aircraft as well as business jets and, consequently, a leading provider of aftermarket support. High utilisation and quick turnarounds exemplified by innovative regional carriers cause brakes to wear faster, providing the attractive aftermarket opportunities that are the source of growth for Meggitt in this market.



Regional aircraft deliveries
Source: Meggitt analysis
• Prop
• Jet



Business jet aircraft deliveries
Source: Meggitt analysis

Military

In 2007, some £336 million—38% of group revenues—were in military markets.

The US Department of Defense (DoD) and its prime contractors are Meggitt's largest defence customer. Business with this group grew in 2007 by around 43%, reflecting the acquisition of K & F and high government defence spending. Congress and the DoD continued to support programmes key to Meggitt's future growth. Future Combat Systems will utilise half the Army's 2015 to 2025 procurement budget; the F-35 Lightning jet is fully funded for the fiscal year 2008; and the UH-60 Black Hawk will continue to support US operations for the next decade. Overall, the US defence budget for 2008 rose by 10% from USD438 billion in 2007 to USD481 billion, with supplementary funds of USD197 billion likely to be appropriated.

While the base budget supports long-term military requirements, supplemental funds are used to meet the additional and specific needs of current operations. Although a gradual drawdown in troops will reduce overall supplemental funding levels, increased funding to reset and repair equipment when it is brought home or needed to support longer term deployment is expected.

Our facilities and sales infrastructure in Asia, Australia, Europe, the Middle East and North America enables us to sell direct to end-users and capitalise on growth opportunities worldwide. The UK is the world's third largest defence exporter behind the US and Russia. Meggitt companies have extensive content on the Hawk, Typhoon, Lynx and EH101 aircraft, which continue to prosper as exports.

Aerospace

Aerospace accounted for 66% of our military revenues.

Meggitt's components and sub-systems are installed on virtually every military aircraft in service. Meggitt's key revenue platforms include the Eurofighter Typhoon, Hawk, Tornado, B1 Lancer and F-15, 16 and 18 fighter jets and the Apache and Blackhawk helicopters. Revenue from these rose by around 20% in 2007.

Contracts on new platforms, such as the F-22 and F-35 military jets and the V-22 helicopter will sustain this important revenue stream.

Training systems

Meggitt is the leading supplier of integrated live-fire and virtual weapons training worldwide, with over 10,000 Meggitt live fire ranges and 5,200 virtual systems providing training to the armed forces, law enforcement and security organisations. This accounts for around 20% of Meggitt's military revenue.

Combat systems

The balance of our revenues comes from products like ammunition-handling equipment, electronics cooling, countermeasure launch and recovery systems and special-purpose pods. Meggitt leads in automatic ammunition-loading, installed on aircraft and ground vehicles from the M1A tank to the Apache helicopter and AC130 gunship. Our products continue to show their mettle—reliability, low weight and compact size—in the US Army Future Combat System's new generation of fast, light, agile and easily deployable vehicles.

Meggitt's mission-critical cooling systems for high-density electronics are being used to retrofit current aircraft and vehicles as well as new platforms.

Analysis of military

• Aerospace	66%
• Training systems	20%
• Combat systems	14%

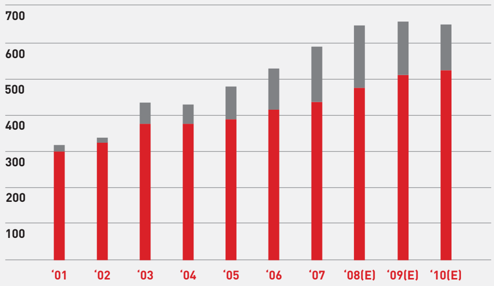
Revenue by geographic destination

• North America	49%
• Europe	24%
• UK	14%
• Rest of world	13%

Market review
continued

Analysis of other markets

• Energy 56%
• Industrial & Other 44%



US Department of Defense budget outlook (USDbn)
Source: various including the Government Electronics & Information Association

• Base budget • Supplemental

Energy and other markets

Meggitt's extreme environment, high performance technology reaches beyond aerospace and defence into energy and other markets, amounting to 14% of group revenues.

Our sensors are used in specialist medical applications and laboratory and crash test analysis but the energy sector is the fastest growing area of Meggitt's specialist markets.

The US Government's Energy Information Administration has forecast a doubling in demand worldwide for electricity before 2030, with the highest growth rates in China and India. New power generation facilities of all source types are being commissioned, providing significant opportunities for our specialist monitoring, thermal management and fluid control technologies.

Meggitt saw unprecedented demand for its compact heat transfer engineering products in 2007, with revenues double those of 2006. Since 2004, Meggitt's energy products have doubled from £33.4 million to £66.8 million in 2007.

Meggitt worldwide

Meggitt is geographically-balanced, making revenues resilient to regional trends. In 2007, 49% of revenues were from US-based customers, with Europe a close second at 38%. Revenues from the rest of the world were 13%.

Alan Kaufman
Business Development Director, Engine Sensors & Ignition, Meggitt Sensing Systems

There are more ways than one to meet customers' requirements. It's what I enjoy most—balancing cost and performance criteria and helping shape product development to get the best for the customer and Meggitt. Logistics, procurement and programme management expertise come into it too, hence our engine sensors and ignition award from Rolls-Royce last year.

We have most of the products and technologies needed to provide our customers with the complete package—and what it takes to procure the rest. Meggitt has ticked most of the boxes needed for successful supply chain integration in this area, including acquiring a top three ignition company. But the masterstroke is our ability to include low-cost ingredients. Meggitt's group manufacturing strategy includes an established facility in China on which our companies can draw selectively. This has put us years ahead of the competition in this market segment.

Business review

Overall performance

	2007 £'m	2006[1] £'m	Increase % /(decrease)
Revenue	**£878.2**	£670.3	31
Underlying:			
Operating profit[2]	**£216.3**	£149.2	45
Profit before tax[2]	**£179.0**	£132.7	35
Earnings per share[2]	**22.1p**	19.1p	16
Statutory:			
Operating profit	**£142.7**	£143.2	–
Profit before tax	**£105.4**	£126.7	(17)
Earnings per share	**14.6p**	18.6p	(22)
Cash flow from operations[3]	**£214.3**	£140.3	53
Cash conversion[3]	**99%**	94%	

Meggitt delivered another outstanding set of results for 2007, with strong proprietary positions, a large installed fleet and an aftermarket business underpinned by the positive trend in aircraft utilisation. With increasing military demand and record civil aerospace order books, our markets look healthy over the coming years.

In 2007, civil aircraft production and order books hit record levels. Civil aircraft usage continued to grow and with it, profitable aftermarket revenues.

Military markets were also strong. The US Department of Defense continued to spend heavily on new equipment, upgrades and replacements, creating broad demand for Meggitt products. However, delayed supplemental budget approvals slowed orders for training systems products.

We performed well in energy markets, with heat management products for oil and gas platforms and condition-monitoring products for industrial gas turbines.

Overall revenues increased by 31% to £878.2 million (2006: £670.3 million) reflecting strong (11%) organic growth and the K & F acquisition in June. Our more profitable and less cyclical aftermarket revenues were boosted by K & F. Our civil and military aftermarket revenues, which reached 44% of the group total, (2006: 38%), are set to increase in 2008 with the full-year impact of K & F. With civil aerospace revenue up by 46%, military by 36% and revenue from other markets by 15%, Meggitt remains well-balanced. Civil aerospace markets account for 48% of group revenue (2006: 44%); military markets 38% (2006: 39%); and other markets 14% (2006: 17%).

The group's order intake for December 2007 was 35% higher than 2006, with organic growth of 7% at constant exchange rates. Our closing order book exceeded £650 million at 31 December 2007.

Underlying operating profit increased by 45% to £216.3 million (2006: £149.2 million). The underlying operating margin increased to 24.6% (2006: 22.3%). Excluding the impact of currency and acquisitions, revenues increased by 11% while underlying operating profit increased by 13%. Net interest costs increased by £20.8 million to £37.3 million due to the additional financing for K & F. As a result, underlying profit before tax (PBT) increased by 35% to £179.0 million.

The Board's principal measure of the group's trading performance is underlying profit. As expected, the K & F acquisition caused a further divergence between underlying and statutory profit. This arises for two principal reasons. First, we are required to revalue K & F inventory to selling price on acquisition, less selling expenses. Second, a significant amount of K & F's value is allocated to intangible assets which we are required to amortise against profit. Further detail on these and other adjustments can be found in Note 10.

Investments

K & F comprised Aircraft Braking Systems Corporation (ABSC) and Engineered Fabrics Corporation (EFC), a manufacturer of flexible bladder fuel tanks. At £920.1 million, including acquired debt, this was Meggitt's largest acquisition (see note 44).

Combining Meggitt's Dunlop Aircraft Braking Systems business with ABSC has created a strong platform for continued growth in their core military, regional and business jet segments. Integration is proceeding well. Early synergies came from eliminating head office costs and, creating one sales and marketing organisation. We expect synergies of £18 million in 2009, compared to the £16 million previously announced, with a further £4 million expected in 2010 to give a run rate of £22 million. We expect this to cost £29 million compared to the £23 million previously announced.

In January 2008, we sold S-TEC, a non-core general aviation autopilot specialist, for US Dollars 38 million and acquired Ferroperm, which makes piezo-electric ceramic materials for sensors, for up to Danish Kroner 100 millon (£10 million) in cash.

Key performance indicator definitions

Revenue growth
Percentage change in group revenue from previous financial year.
Target compound organic growth: 7%

Underlying PBT growth
Percentage change in group underlying profit before tax from previous financial year.
Target compound organic growth: 9%

Underlying EPS growth
Percentage change in group underlying earnings per share from previous financial year.
Target compound growth: 8%

Operating margin
Underlying operating profit as a percentage of revenue.
Target growth in line with revenue and PBT growth.

R&D as % of revenue
Research and development expenditure as a percentage of revenue.
Target gross spend: 6—8%

Cash conversion
Cash inflow from operations before exceptional operating costs as a percentage of underlying operating profit.
Target conversion: 100%

Financial statement references

1 2006 comparatives have been restated as detailed in note 45.

2 Underlying profit and EPS are defined and reconciled to statutory measures in notes 10 and 16 respectively.

3 Cash conversion is the ratio of cash flow from operations to underlying operating profit. Cash flow from operations is before exceptional operating costs, interest, tax and investing activities.

Business review
continued

Analysis of R&D costs

£million	2007 Group	2007 Aerospace equipment	2007 Sensing systems	2007 Defence systems
R&D expenditure	**70.0**	25.2	33.0	11.8
% of revenue	**8%**	5%	14%	10%
Customer-funded R&D	**(17.1)**	(1.8)	(8.0)	(7.3)
Capitalised	**(22.4)**	(8.2)	(13.2)	(1.0)
Amortisation	**3.8**	0.9	2.8	0.1
P&L charge	**34.3**	16.1	14.6	3.6

We continue to invest in intellectual property, increasing product development spend by 22% to £70.0 million (2006: £57.6 million), of which £17.1 million was customer-funded. R & D expenditure as a percentage of revenue (one of our key performance indicators) was 8.0% (2006: 8.6%). R & D costs charged to the profit and loss increased by 31.9%, slightly above revenue growth, to £34.3 million (2006: £26.0 million). We also invested £20.1 million in programme participation contributions and supplying equipment free of charge.

We increased capital expenditure on property, plant and equipment by 29% to £41.0 million (2006: £31.8 million), on new equipment, facilities expansion and consolidation across the US, UK, Switzerland and China.

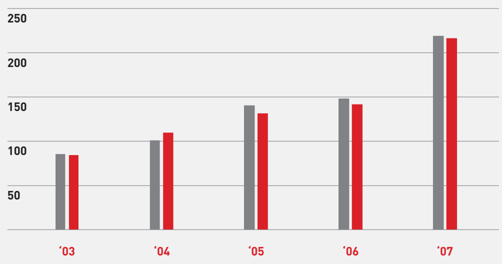
Cash flow

Meggitt continued its track record of excellent cash generation, with cash inflow from operations before exceptional operating costs of £214.3 million (2006: £140.3 million as restated) representing 99% conversion of underlying operating profit to operating cash.

The business generated £41.0 million of net cash before acquisitions. The impact of the acquisition of K & F, which was part-funded by a rights issue, was to increase our net borrowings at 31 December 2007 by £493.5 million. Overall, after taking account of non-cash movements, net borrowings increased in the year by £461.7 million to £815.4 million.

Cash flow (£'m)

Opening net borrowings	**(353.7)**
Cash flow from operations before exceptional operating costs	214.3
Exceptional operating costs paid	(4.2)
Net interest/tax paid	(53.2)
Capitalised development costs/ programme participation costs	(42.5)
Net capital expenditure	(41.2)
Net amounts paid to shareholders (excluding rights issue)	(32.2)
Reduction in net debt excluding financing of K & F acquisition	**41.0**
Acquisition of K & F (including debt acquired)	(920.1)
Less rights issue proceeds (net of costs)	426.6
Increase in net debt arising from financing of K & F acquisition	**(493.5)**
Other non-cash movements	(9.2)
Closing net borrowings	**(815.4)**



Underlying profit and cash flow from operations (£'m)
• Underlying operating profit • Cash flow from operations

Capital structure and treasury policy

Meggitt's operations are financed by a combination of equity (share capital and retained earnings) and debt. We seek to minimise the cost of capital while recognising the constraints of the debt and equity markets and the risks associated with high levels of gearing. Our current post-tax average cost of capital is approximately 7.4%.

To mitigate the exchange rate exposures arising from the retranslation of the net assets of our overseas subsidiaries, net borrowings are held, where cost-effective and practical, in the currencies of those subsidiaries.

Currency profile of net borrowings (£'m)

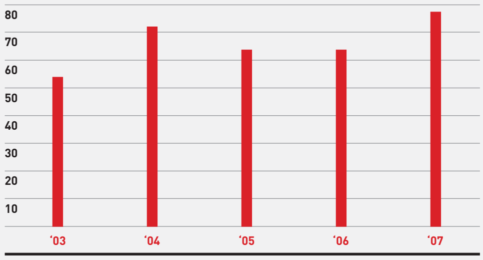
	2007	2006
Sterling	**(11.9)**	13.6
US Dollar	**765.5**	298.6
Euro	**5.7**	10.3
Swiss Franc	**53.8**	29.1
Other	**2.3**	2.1
Total net borrowings	**815.4**	353.7

In addition to cash and cash equivalents of £64.9 million, the group has committed undrawn facilities of £205.6 million. The weighted average maturity profile of our committed facilities was 3.8 years and we had access to significant lines of uncommitted facilities.

Maturity profile of committed bank facilities (£'m)

	2007	2006
2010	**341.6**	347.4
2012	**587.7**	–
2013	**90.4**	92.0
2015	**35.2**	35.7
Total committed facilities	**1,054.9**	475.1

Gearing, driven by the acquisition of K & F was 77% at the end of December 2007 (2006: 63%).



Gearing %

Peter Longstaff
Vice President, Strategy & New Product Development, Meggitt Defence Systems

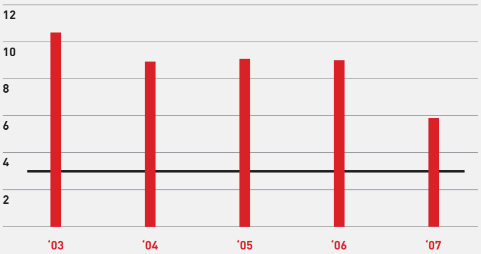
I've been in simulation for the best part of 30 years, starting by maintaining Boeing 737 flight simulators and then building them. At Meggitt, I can indulge my passion for engineering and undertake a broad management role. I'm here to combine our live and virtual weapons training capability into an integrated training offering that seamlessly connects the simulator room to the dirt on a range.

On the virtual side, realism is the Holy Grail, using wireless weaponry and artificial intelligence. On the live side, it's about collecting more information on the performance of trainees and units. We're connecting physical targets into WiFi networks allowing us to create the sophisticated performance reviews you could only get in virtual simulation. As the only company worldwide with these disciplines in-house, we are well-placed to exchange data between both training environments and create what our customers want—a total system; one provider.

Business review
continued

Our banking covenants are still measured under UK GAAP and, on this basis, interest cover was 6.5 times (covenant greater than 3.0). Net debt to EBITDA was 2.7 times (covenant less than 4.0) so we have significant headroom on both measures. Interest cover (based on underlying operating profit) was 5.8 times (2006: 9.0 times).

Meggitt seeks to reduce volatility in interest expenses from rate fluctuation. This is achieved through the underlying character of the debt instruments and by using interest rate derivatives such as interest rate swaps. At 31 December 2007, the percentage of net debt at fixed rates was 65% and the weighted average period to maturity was 4.0 years. Both exceed our treasury policy minimum criteria of 25% and two years respectively.



Interest cover • Interest cover • Covenant

Exchange rates—translation

The results of overseas operations are translated into sterling at weighted average exchange rates. Currency denominated net assets are translated at year-end rates. Effective translation rates were:

	2007	2006
Average rates		
US Dollar	**2.02**	1.86
Euro	**1.45**	1.47
Year-end rates		
US Dollar	**1.99**	1.96
Euro	**1.36**	1.48

The group's underlying profit before taxation for the year was adversely affected by £8.8 million as a result of exchange rate translation due, primarily, to the weakening of the dollar.

Exchange rates—transaction

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. Effective transaction rates were:

	2007	2006
US Dollar/£	**1.82**	1.79
US Dollar/Euro	**1.21**	1.24
Swiss Franc/US Dollar	**1.20**	1.24

The group's underlying profit before taxation for the year was adversely affected by £1.0 million as a result of transaction exposure.

Taxation

The group's underlying tax rate increased, as expected, to 27.5%, up from 27% in 2006. The tax rate increased due to the impact of the acquisition of K & F, which results in more of the group's profits being made in higher tax jurisdictions.

Dividends

The Board is proposing an increase in the final dividend of 12.1% to 5.75 pence (2006: 5.13 pence as restated for the effects of the rights issue), bringing the full year dividend to 8.20 pence (2006: 7.36 pence as restated for the effects of the rights issue), an increase of 11.4%.

Retirement benefit plans

Pension schemes (see Note 35)

The group has a number of defined benefit pension schemes. The principal schemes are closed to new members with the exception of those arising on the acquisition of K & F.

Pension schemes summary

£'m	2007 Excluding K & F	2007 K & F	2007 Group	2006 Group
Assets	**413.3**	**58.1**	**471.4**	395.8
Liabilities	**482.0**	**91.5**	**573.5**	493.0
Deficits	**68.7**	**33.4**	**102.1**	97.2
Funding status	**86%**	**63%**	**82%**	80%

As a result of the K & F acquisition, the total deficit reported by the group increased by £4.9 million to £102.1 million. Excluding the acquisition, deficits reduced by £28.5 million to £68.7 million. This reduction came from a £17.5 million increase in assets, driven by asset returns and a £11.0 million decrease in liabilities. One of the key drivers for the decrease 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, the UK discount rate increased by 60 basis points, more than offsetting the effect of UK inflation rate increase of 35 basis points.

Employer contributions made by the group in the year were £13.4 million (2006: £11.2 million). Regulations in the UK and US require repayment of pension deficits over a period of time. This will require cash payments into the respective schemes in addition to normal contributions. These additional cash payments, which are not charged against profit, continue to be discussed with the relevant schemes' trustees and we estimate they will be less than £20 million (pre-tax) per annum.

Other post-retirement benefit schemes

The group has two principal other post-retirement benefit schemes providing medical and life assurance benefits, both of which arose on the acquisition of K & F. These schemes are not funded and have a combined deficit of £51.2 million at the end of the year. Employer contributions made by the group post-acquisition were £1.1 million.

Accounting standards

The group's results were not affected by changes to accounting and financial reporting standards in 2007.

IFRS 7 "Financial instruments: Disclosures" was adopted during the year and the additional disclosure required by this standard has been implemented in the relevant notes to the accounts.

Restatement of prior-year results

The group has restated its 2006 results and net assets after finalising the fair values of businesses acquired in 2006 and to change the way in which programme participation costs are classified on the balance sheet following the acquisition of K & F. The adjustments did not affect underlying profit and further details can be found in note 45 to the accounts.

Over the following pages, you can read about how our divisions performed and how they have refocused their activities through organisational changes that are enabling them to address their markets with new strength and new clarity.

Aerospace equipment

An electro-mechanical engineering business specialising in smart engineering for extreme environments. Its products are on virtually every aircraft in service, ensuring stable aftermarket revenues over the long term.

Markets

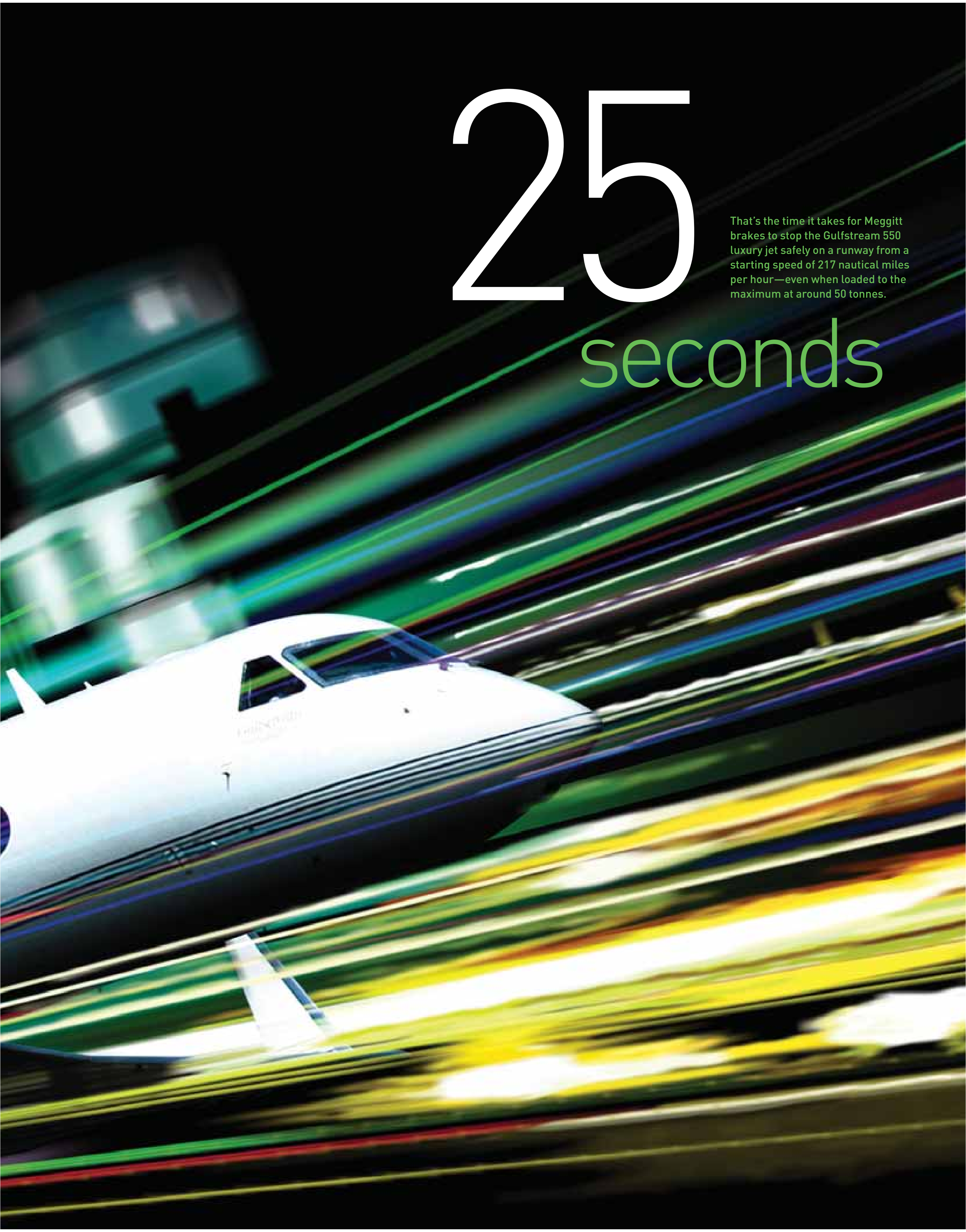
- Civil aerospace: large, regional and business jets and general aviation
- Military: aircraft, ground vehicles, ships
- Energy

Capabilities

- Wheels, brakes and anti-skid systems
- Thermal management
- Fluid control
- Safety systems
- Polymer solutions

Growth strategy

- Invest in component design and technology to meet next generation platform requirements and create enduring value
- Adapt new aftermarket business models to ensure stable, long-term revenues
- Develop profitable integrated solutions and subsystems that add value to our customers
- Acquire complementary businesses that align with strategic intent
- Stabilise product cost base through astute supply chain management
- Consolidate operations further to deliver efficiencies
- Further integrate engineering resources to increase depth and breadth of capabilities



25 seconds

That's the time it takes for Meggitt brakes to stop the Gulfstream 550 luxury jet safely on a runway from a starting speed of 217 nautical miles per hour—even when loaded to the maximum at around 50 tonnes.

Aerospace equipment

More heat, with less power
Meggitt Thermal Systems has spent 40 years successfully addressing the complex task of protecting the engine air inlets of fixed and rotary wing aircraft from in-flight icing hazards with electro-thermal systems.

Today, this heritage equips Meggitt's thermal systems group to respond to the aircraft constructors' increasing deployment of more electric aircraft technology. It is working with key customers on electrical solutions to heat the leading edges and slats of wings and nacelle lipskins in place of bleed air, which compromises engine power and the efficiency of aircraft performance overall.

This initiative reflects the aerospace equipment division's strategy of maintaining market leadership by developing technology that consumes less power.

Financial highlights (at constant exchange rates)

- **Total revenues of £528.1 million, an increase of 56%**
- **Underlying operating profit of £158.2 million, an 82% increase**
- **Organic revenue and underlying operating profit increased by 14% and 19% respectively**
- **Orders up 52% on 2006 (8% excluding acquisitions)**

New clarity and new critical mass

In 2007, Meggitt's aerospace equipment division consolidated its approach to creating value by managing and marketing groups of companies with complementary product lines through focused business units. Groups such as Meggitt Fluid Controls, Meggitt Thermal Systems and Meggitt Polymer Solutions continue to service their markets with critical components but are equipped to provide packages of product and higher-value sub-systems to simplify procurement for customers.

The profile of Meggitt's wheels and brakes business saw the most dramatic change as it expanded threefold following the acquisition of K & F's braking systems business in June. On 4 January 2008, a single wheels and brakes business unit was launched to customers under the Meggitt Aircraft Braking Systems name.

The profile of Meggitt's wheels and brakes business saw dramatic change as it expanded threefold

The opportunity to support Meggitt product installed on airline fleets grew substantially with the acquisition and the division will continue to focus on the operations excellence needed to satisfy customers whose profits depend on keeping aircraft flying to schedule.

Like our sister sensing systems division, we continue to make headway in energy markets. Solutions from our thermal management and fluid controls businesses are especially in tune with extreme environment industries' need for innovative product that reduces emissions and improves fuel economy and running costs.

Divisional overview

65% of our revenues come from the aftermarket and we continue to win orders for the original equipment that fuels this profitable income stream.

Following the K & F acquisition, our installed base grew. Today, Meggitt wheels and brakes are present on over 30,000 aircraft across 150 aircraft types, performing more than 15 million take-offs and landings per year. We also supplied new equipment for over 800 production aircraft in 2007. These included the high utilisation jets and higher cycle business jets that drive continued aftermarket growth.

Major orders included several multi-year military programmes such as B-1B Lancer spares valued at £22 million, Korean Aerospace Industries' T-50 trainer totalling £6.5 million of original equipment and Eurofighter orders of over £9 million. These complemented our strong performance on civil OE programmes where we captured the majority of major contract awards for the most advanced next generation business jet aircraft, strengthening our position in the light and mid-size market segments.

This follows three consecutive years of multiple awards for major new business jets reflecting the successful execution of our strategy to be the leader in this growing segment. We won supplier of the year awards from Gulfstream and Embraer for our contributions to their businesses. Winning the wheels, brakes and brake control system contract from BAE Systems for the Taranis technology demonstrator programme reinforced our leading position in systems for unmanned aircraft.

Our engineering organisation made substantial progress supporting eight major new wheel and brake programmes. We made initial deliveries of hardware for the ARJ-21 Chinese regional jet, Phenom 100 and 300 and the Cessna CJ4, celebrating other key milestones including the roll-out of the ARJ-21, the roll-out and start of flight testing of the Phenom 100 and the certification of the Falcon 7X. This is Dassault's newest long-range, large category business jet and features our latest wheels, brakes, digital brake-by-wire brake control and brake temperature monitoring systems.

Other aerospace equipment businesses had an excellent year in revenue and operating profit achievement. This was underpinned by strong order intake which, excluding our wheels and brakes business, was up 29% in 2007 (19% excluding Engineered Fabrics Corporation acquired with K & F).

Three consecutive years of multiple awards for major new business jets

Safety Systems won a contract to develop a complete fire protection system for a next generation business jet, including engine fire detection, smoke detection and extinguishing, valued at over £15 million of OE revenues. They also won a fire detection contract for a new class of US Navy destroyer, the DDG-1000. Cessna selected the thermal systems group to provide a vapour cycle system for the CJ4 business jet and completed a development programme for high-pressure ducting in the F-35 Joint Strike Fighter. This is expected to lead to production orders of over £20 million through the life of the programme.

Engineered Fabrics Corporation, K & F's flexible bladder fuel tanks and ice protection business, continues its rapid expansion. We are adding 60,000 sq ft to enable the business to meet a record order book including orders for replacement flexible bladder fuel tanks for the KC-135 in-flight refuelling tankers. Multi-year contracts for flexible bladder fuel tanks received in 2007 were valued at over £25 million, in addition to the contract awarded by Sikorsky valued at over £70 million between 2007 and 2012 to support the upgrade of the US Army UH-60M and US Navy MH-60R/S helicopter force. We received further orders totalling £45 million to support strategic military aircraft such as the CH-53K heavy-lift helicopter, the V-22 tilt rotor and the F15 and F16 fighter jets between 2009 and 2013.

Revenues from our energy and industrial customers increased by 37% on the back of continued high oil and gas prices. Heatric, our compact heat exchanger business serving the oil and gas exploration industry, received record orders in 2007 validating our decision to expand the factory at the end of 2006. Major orders included a £7 million contract to supply compact heat exchangers for a sour gas processing plant in the Middle East.

60.1
% of group revenue

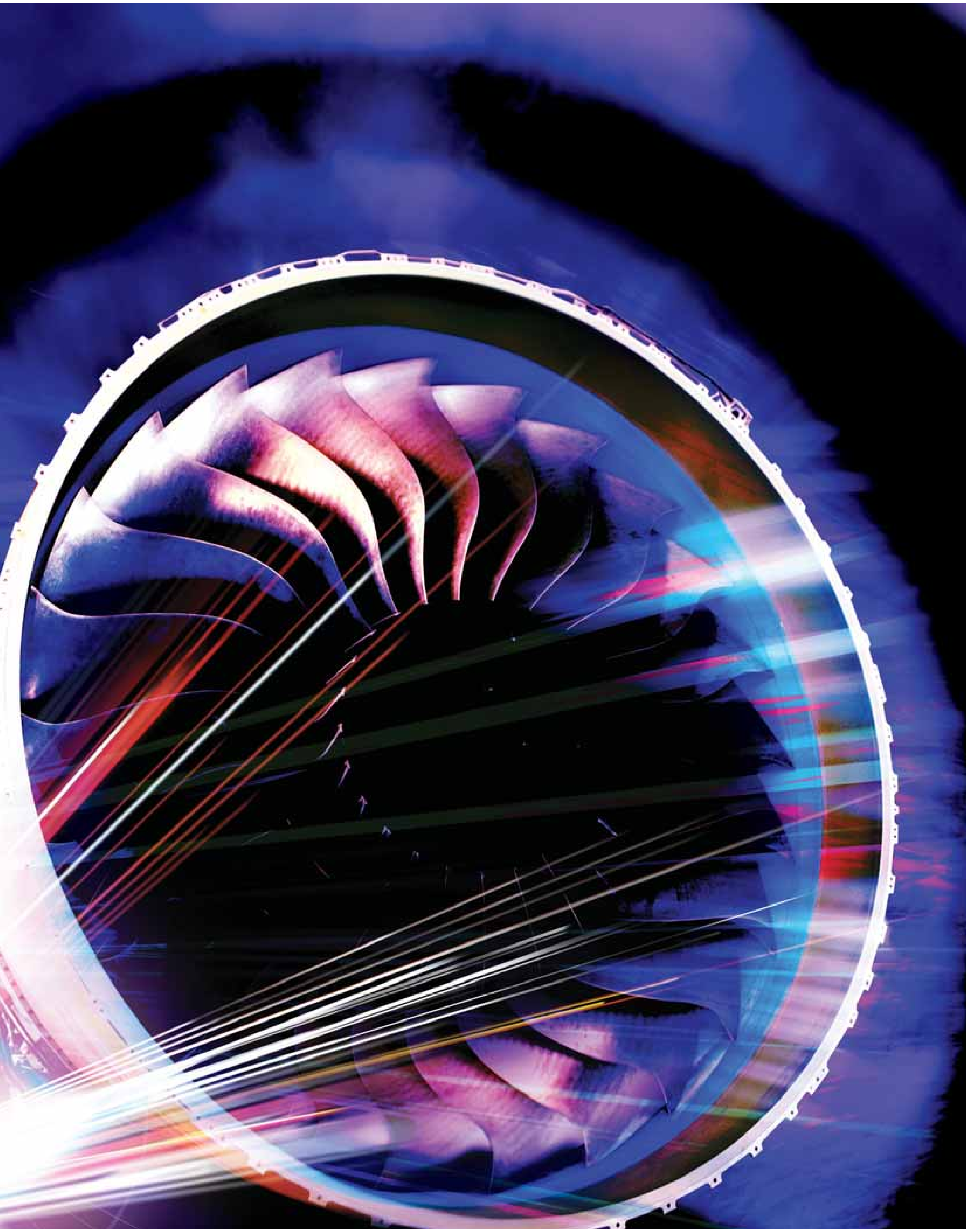
528.1
Revenue (£millions)

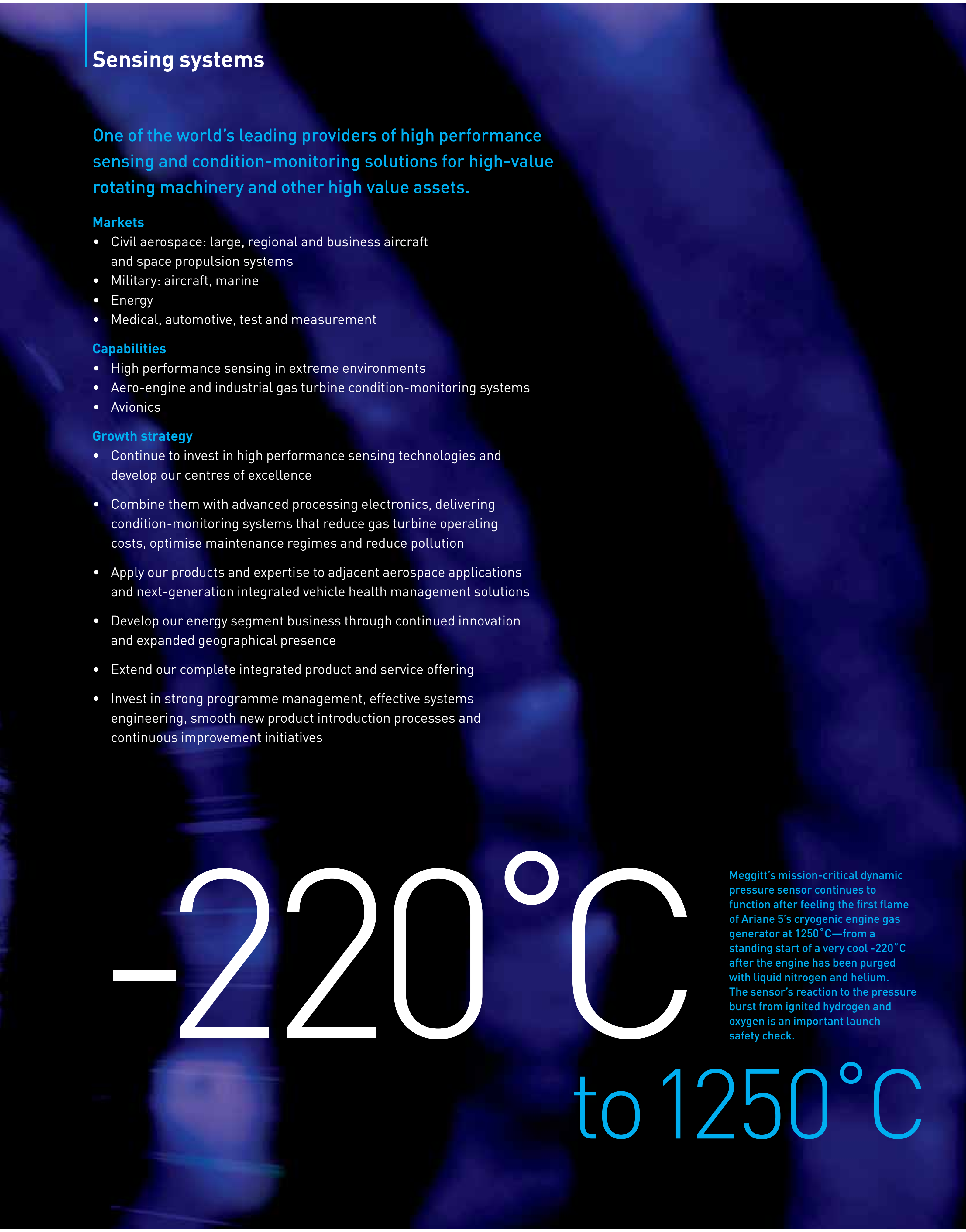
158.2
Underlying operating profit (£millions)

Tank Williams
Executive Vice President & General Manager, Meggitt Aircraft Braking Systems USA

From design to distribution, operations excellence is about everything and everyone connecting. In the Air Force, where I learned the hydraulics trade, I would memorise an airplane's blueprint en route to a job, close my eyes and feel as if I could almost touch every component under the airplane's skin. Detail is important but never more important than inspiring people to make the best better.

My challenge is to motivate the team working to make Meggitt Aircraft Braking Systems an operational success. We're combining the best from the best—two braking systems businesses into one, with operations that flow like nobody else's. We compete globally, so we have to keep looking outwards and never stop asking ourselves: "Is this the best we can do?" That's what effective *continuous improvement* is all about and why we are going to succeed.





Sensing systems

One of the world's leading providers of high performance sensing and condition-monitoring solutions for high-value rotating machinery and other high value assets.

Markets

- Civil aerospace: large, regional and business aircraft and space propulsion systems
- Military: aircraft, marine
- Energy
- Medical, automotive, test and measurement

Capabilities

- High performance sensing in extreme environments
- Aero-engine and industrial gas turbine condition-monitoring systems
- Avionics

Growth strategy

- Continue to invest in high performance sensing technologies and develop our centres of excellence
- Combine them with advanced processing electronics, delivering condition-monitoring systems that reduce gas turbine operating costs, optimise maintenance regimes and reduce pollution
- Apply our products and expertise to adjacent aerospace applications and next-generation integrated vehicle health management solutions
- Develop our energy segment business through continued innovation and expanded geographical presence
- Extend our complete integrated product and service offering
- Invest in strong programme management, effective systems engineering, smooth new product introduction processes and continuous improvement initiatives

-220°C

to 1250°C

Meggitt's mission-critical dynamic pressure sensor continues to function after feeling the first flame of Ariane 5's cryogenic engine gas generator at 1250°C—from a standing start of a very cool -220°C after the engine has been purged with liquid nitrogen and helium. The sensor's reaction to the pressure burst from ignited hydrogen and oxygen is an important launch safety check.

Sensing systems

Hotter engines, greener skies
For an engine to emit fewer pollutants and use less fuel, it's got to burn better. The cleaner the fuel burns, the hotter it gets. To optimise performance in such conditions, you need data from sensors of astonishing temperature tolerance—up to 1000ºC for some parts of a gas turbine.

We sense where few others can, pushing material science to the limit in-house and through partnerships and acquisitions. Acquiring *Ferroperm*, the piezo-electric pioneer, gives us a high temperature, high sensitivity, high volume capability and a place on important European research programmes. Partnering *Piezocryst*—alone in commercialising the monocrystalline material whose signal quality and measurement accuracy is impervious to high heat—gives our condition-monitoring portfolio an advantage that may be unmatched for sometime.

Financial highlights (at constant exchange rates)

- **Total revenues of £235.9 million, an increase of 11%**
- **Underlying operating profit of £41.5 million, a 10% increase**
- **Orders up 7% on 2006**

One streamlined organisation

We formed Meggitt Sensing Systems in January 2007 by combining our Aerospace Systems and Meggitt Electronics divisions into one high performance sensor group with a portfolio of products to address measuring and monitoring in temperature, vibration and chemical extremes. We can, collectively, measure nearly every physical parameter.

Some of our businesses excel in miniaturisation; some, extreme environment endurance; others, processing electronics. Now, drawing on centres of excellence in the United States and Europe, our new organisation is enabling us to play a number of cards in various technology combinations. Clarifying sales channels and making more of the talent and resources that reside in our multiple sensing businesses is already bearing fruit. Turbine engines, for example, need a wider range of sensors than ever to hone performance and conform to environmental regulation and Rolls-Royce has selected us to provide all the critical system components needed for a business jet engine in a single package.

Strengthening the programme management, systems engineering and processes to maintain excellent customer service

One of sensing systems' strongest cards is its expertise in monitoring the condition of aeroengines, helping operators cut pollution, running costs and fuel consumption. To satisfy current demand, we have significantly increased our manufacturing capacity in Switzerland and are strengthening the programme management, systems engineering and processes needed to maintain excellent customer service on increasingly complex contracts. At the same time, we are investing significantly in sustaining our technology lead and exploring how we can measure and monitor more of an aircraft's high value structures.

Meggitt Sensing Systems is at home wherever harsh environments and the need to monitor critical machinery combine. In land-based condition-monitoring for the energy market, Meggitt has forged strong relationships with key customers like Siemens and is targeting operators of smaller turbines with smaller, scaleable and modular derivatives of the systems that are currently equipping power generation's megamachines.

Advancing our business means advances in science

Our condition-monitoring capability arises from combining sophisticated electronics processing with the building blocks of our business: sensors that perform reliably in harsh environments. Advancing our business means advances in science and we pursue a range of development routes to make sure that our products address customers' technical and commercial challenges. Internal R&D, acquisitions, partnerships and licences all play their part as we deploy the right technologies and smart materials to create original solutions to measuring, monitoring, diagnosis and prognosis.

Divisional overview

We performed strongly last year with continued demand for our state-of-the-art condition-monitoring systems from aerospace and energy customers.

We made our first commercial sales of engine condition-monitoring units. The units have been certified on engine variants for the Airbus A380 and Boeing 787 and entered service with the A380. Vibro-Meter's vibration monitoring unit was certified by Boeing for the 737 aircraft and will be cut into production units from the middle of 2008. Orders for over 850 Boeing 737 aircraft placed in 2007 will drive substantial revenue, with opportunities for retrofit programmes on the 3,000 Boeing aircraft in service. Vibro-Meter's advanced vibration monitoring unit for the 777 aircraft is scheduled to cut into production from April 2008. The outlook for original equipment (OE) revenues of condition and vibration monitoring equipment is excellent with Boeing and Airbus reporting order books of over 3,400 aircraft each in December. As aircraft and engine manufacturers migrate from vibration monitoring units (one unit per aircraft with limited functionality) to condition-monitoring units (one unit per engine with richer functionality) OE revenue per aircraft will multiply over the coming years.

During the year, sensing systems was appointed lead integrator for Rolls-Royce on the engine sensor and ignition package for the BR 700 series engine for a next generation business jet. This was a milestone in the division's strategy to provide the competitively-priced mix of products, logistics and procurement expertise customers want. With estimated sales of over 1,000 engines, this will deliver more than £20 million in OE as well as future spares revenues.

Increasingly tough operational economics and environmental constraints are driving demand for smart engineering solutions from our energy sector customers. Industrial revenues performed well as we delivered to Siemens the 2,000th VM600 condition-monitoring unit. The unit, which optimises the performance of critical parts in large-scale steam and gas turbine operations, will monitor the world's largest gas turbine. We expect continued growth from this segment in 2008. Radatec, the high tech start-up acquired in 2006 offering a revolutionary microwave-based sensing system to monitor turbine blades, successfully tested its turbine tip clearance solution on a General Electric electricity generation turbine, resulting in significant incremental fuel efficiencies and carbon emission reductions. We expect such advanced technologies to contribute to future growth in the division.

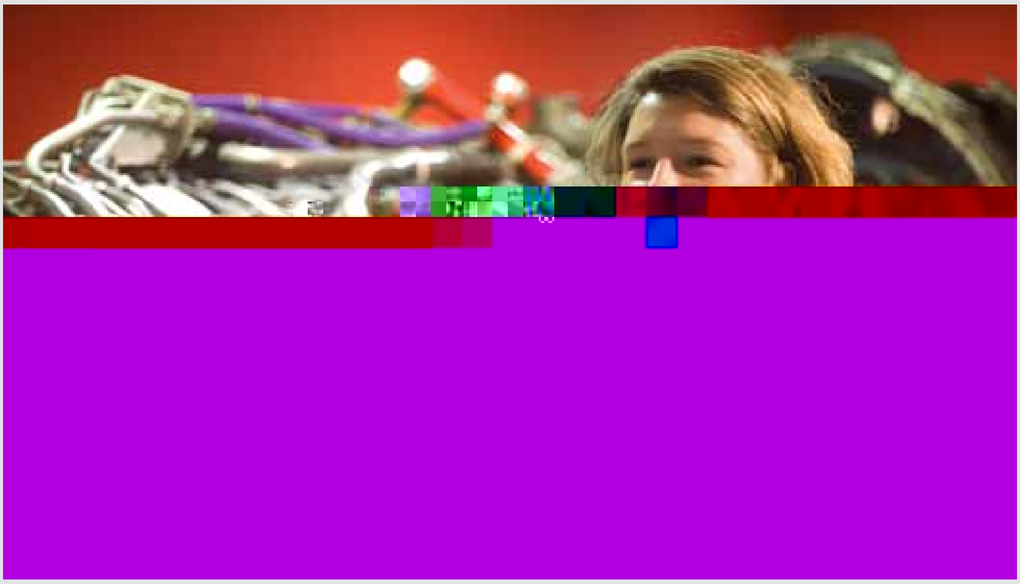
Tough operational economics and environmental constraints are driving demand for smart engineering solutions from energy customers

A strong financial performance in 2007 was matched by high levels of recognition by our customers. Awards included Performance Excellence from Boeing, another Gold award from Airbus for customer support in our seventh year as top ten suppliers and Supplier of the Year for the ARJ-21 Chinese jet.

26.9
% of group revenue

235.9
Revenue (£millions)

41.5
Underlying operating profit (£millions)



Estelle Leyrolles
Systems Engineer & Project Leader, Meggitt Sensing Systems

I was brought up in Toulouse, so aerospace is in my blood. Still, after my Masters in Physics, I started in automotive electronics engineering before moving to Airbus and system engineering in controls and monitoring.

At Meggitt, I am deploying the project management skills I learned in automotive, applying engine condition-monitoring experience to wheels and brakes—it's just as capable of costing an operator dear when an unexpected condition fault grounds an aircraft for unscheduled maintenance. We believe in maintenance on condition—looking after parts when they need it, not when you think they need it, which saves on running costs too. It's a good marriage—Meggitt's aircraft braking and sensing systems working together. Monitoring tyre pressure and wheel speed first, we're taking it step by step. Our goal is the fully integrated system our customers want—one supplier, one contract.


SESSION COMPLETE<<
LEVEL: 4.2

Defence systems

An international training and combat systems business positioned to meet the challenges of modern conflict.

Markets
- Military aircraft and ground vehicles
- Armed forces, law enforcement and security organisations

Capabilities
- Integrated training systems
  – live and virtual firearms training
  – low-cost air weapons training
  – acoustic and radar scoring systems
- Precision-mechanical combat systems
  – automatic linkless feed ammunition-handling
  – mission-critical electronics cooling
  – 'special purpose' deployable pods
  – countermeasure launch and recovery systems

Growth strategy
- Be the preferred supplier worldwide for integrated and networked live and virtual training packages
  – supporting the lead systems integrators implementing armed forces training doctrine and providing deployable systems direct to users
  – fulfilling the training needs of police forces and security organisations
  – responding to homeland security requirements
- Be the preferred supplier worldwide for precision-mechanical systems for combat platforms, sustaining leading positions in electronics cooling and ammunition-handling and selected specialist technologies
- Build systems, combining the division's core electrical, mechanical, controls and software capabilities, to pursue larger contracts in our chosen markets

1,000s
safer

Meggitt training tools in Lockheed Martin's convoy simulator optimise military convoy procedures by fostering leadership, teamworking and effective incident response. This minimises the chances of being attacked and, if attacked, enables soldiers to employ the very best defence measures and contain a situation swiftly.

Defence systems

Cool MULE
Only reliable cooling systems count when it comes to keeping mission-critical computer systems running in military vehicles. And they've got to be small as well as powerful if they are to cool the increasing density of electronics being packed into combat workhorses. Meggitt's compact yet rugged electronics cooling technology is meeting this requirement on current and future platforms.

Our latest contract win is on MULE —the US Future Combat Systems Multifunction Utility/Logistics Equipment Vehicle. We are also providing light, portable and powerful cooling systems for military aircraft and vehicles designed in the Reagan era. They are being retrofitted with powerful devices that control everything from modern avionics to better braking systems, emitting significant heat in space that wasn't designed to accommodate them.

Financial highlights (at constant exchange rates)

- **Total revenues of £114.2 million, an increase of 28%**
- **Underlying operating profit of £16.6 million, a 3% increase**
- **Order intake up 33% on 2006**

Smart moves

In 2007, Meggitt Defence Systems took steps towards its vision to be the preferred supplier around the world for integrated training and precision-mechanical systems for combat platforms across aircraft and combat vehicles.

Our goal is to carve out market niches where we have particular expertise, with products no one else can match for quality, cost and speed of delivery.

Both sides of our businesses meet these criteria. We are a world-leader in sub sonic aerial targets. We lead in ground targets and simulation. Our leading positions in ammunition-handling equipment, electronics cooling, countermeasure deployment systems, special-purpose aircraft pods and radar sensing systems present a tough competitive challenge to any contender.

Now, to move forward from these strong positions, we are combining capabilities to offer higher value packages of training and more complex systems. These are exemplified by the networked live-fire capability demonstrated last August by Meggitt at BATUS, the British Army's premier training range in Canada and the special-purpose pods integrated with electronics cooling and radar and radomes developed for prime defence contractor, ITT Industries.

Training systems

The seamless live-virtual training favoured by the armed forces is fundamental to the division's growth so Meggitt's live fire training specialist Caswell, acquired in 2003, and simulation house Firearms Training Systems (FATS), acquired in 2006, are merging and migrating onto a brand-new 206,000 sq ft purpose-built facility in Georgia, US in 2008 under the banner of Meggitt Training Systems. Ashford, UK is the European hub for simulation support and aerial target manufacturing, supported by offices and facilities in the Middle East, Asia and Australia.

Combat systems

On June 11, Meggitt Defence Systems closed the doors on its Fullerton, Irvine and Tustin sites in California and converged its combat systems' businesses onto one 155,000 sq ft state-of-the art facility in Irvine. This fully operational design and production facility houses 250 people including 60 engineers, facilities for R&D, test and production, secure space for classified engineering and room to grow internally and by acquisition.

Working more closely together to offer higher value packages of training and more complex systems

The consolidated business can control cost more effectively with unified processes and procedures and the move sets the scene for growth and facilitates a systems capability. With our engineering talent combined on one site, we can respond more quickly to what our customers want. We can pursue bigger contracts and create new product offerings based on integrating our electrical, mechanical, controls and software programming capability.

Divisional overview

The division had a mixed year in 2007. Overall revenue and profit were ahead of the previous year, eight manufacturing locations were reduced to five to create a more integrated, efficient business and the order intake was very strong. However, taking out the impact of the integration of the FATS acquisition, revenue and profit declined for two principal reasons. First, the cost of the various moves in California and the UK, which have now been completed. Second, uncertainty around the timing of budgetary approvals in the US, which slowed orders into our training systems businesses, although this improved later in the year.

Our customers continued to recognise our extensive capabilities and awarded further substantial development contracts on fighting vehicles that will result in future large-scale production programmes. We have won three contracts on the US Future Combat Systems vehicle programme; further development of the 120mm autoloader for the Mounted Combat System; initial development of the 30mm autoloader for the Infantry Carrier Vehicle; and the integrated electronics cooling system on the MULE (Multifunctional Utility/Logistics and Equipment) vehicle programme. These contracts should result in production contracts worth over USD500 million starting in 2014, positioning us to win further programmes for these gun variants on other vehicles such as the Expeditionary Fighting Vehicle.

We continued to win fresh production orders for the cooling system on the M1A2 SEP Abrams tank. The system has been in continuous production since 2000 and the USD36 million order received in 2007 will ensure this programme continues for the foreseeable future. We anticipate further orders to complete the retrofit of existing vehicles and installation in new production, which includes an order from the Saudi Arabian armed forces. As the only ground combat vehicle thermal management system to have been proven in theatre, we are in a strong position to win continuing orders on next generation ground combat vehicles such as the M1A3 tank which is expected to commence development in 2009/10 and enter into service around 2016.

Substantial development contracts that will result in future large-scale production programmes

With our strong order book and restructured facilities, defence systems should show substantial improvement in 2008.

13.0
% of group revenue

114.2
Revenue (£millions)

16.6
Underlying operating profit (£millions)

Greg Hill
Director of Marketing, Ordnance Systems Meggitt Defence Systems

After the US Submarine Service, I found my niche in marketing at General Dynamics. That's where I was first exposed to Meggitt's ingenious automatic ammunition handling systems—reloading the rapid-fire Phalanx Close-In Weapons System.

Meggitt's ammunition-handling systems were launched 25 years ago on the Apache attack helicopter and later, infantry carriers and tank gun systems. They're extremely fast, light, compact and reliable and have never been bettered—except by us. Today, the US Army Future Combat System programme is incorporating this technology into a new generation of agile, rapidly deployable land vehicles. What's more, there's enormous scope for our failsafe systems on unmanned weapons.

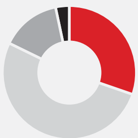
In the heat of battle, soldiers need to keep the mission in their sights rather than on the breech of a gun. This requires machines that line up and load ammunition fast and with surgical precision. It's my privilege to work on the autoloaders that won't let them down.

Corporate responsibility

Employees by length of service (years)

Less than 5	3,903
5-10	1,543
10-15	614
15-20	560
20-25	539
Over 25	1,139

Employees by region



UK	2,513
North America	4,380
Europe	1,196
Rest of world	209

Employees by segment

Aerospace equipment	58%
Defence systems	11%
Sensing systems	30%
Group	1%

Meggitt PLC recognises its responsibility to shareholders, employees, customers, suppliers and the wider community. We comply with all relevant national laws and regulations and aim for continual improvement of our financial, social and environmental performance.

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 the communities in which we operate
- minimising the environmental impact of products and processes
- acting as a responsible supplier
- and encouraging our contractors and suppliers to adopt and implement these principles.

Governance and compliance

In January 2007, the 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 and is available on our website.

Meggitt devotes significant resources to ensuring that its operating units comply with its CR policy as exemplified by the rolling programme of independent environmental and health and safety compliance audits by external consultants. This approach enables us to identify and manage potential compliance issues across all units.

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

CR in action

Vibro-Meter in Switzerland exemplified the approach of many Meggitt businesses to responsible corporate citizenship when it won the cantonal prize for Encouragement à l'Entreprise Citoyenne. This recognised the significant economic contribution to the local community made by Meggitt's condition-monitoring specialist, underpinned by a first-class apprenticeship scheme; early adoption of environmental management standard ISO14001; equal pay; flexible working hours and family involvement; help with smoking cessation and encouraging sport activity; ethics training and support for a diverse and vibrant workforce, 20% of whom are from outside Switzerland.

Environment

- Ten sites audited by external consultants for environment in 2007
- 66% of sites certified for ISO14001 as at 31 December 2007
- Signatory to the Sustainable Aviation Strategy of the Society of British Aerospace Companies

During 2007, Meggitt made substantial progress in its environmental management strategy.

The group's UK Environment, Health & Safety Council held two meetings and proved a useful forum for coordinating efforts to prepare for forthcoming legislation and sharing best practice throughout the group.

Many of our business units have continued to implement initiatives to reduce their environmental impact. Endevco in the US replaced air conditioning units, significantly reducing energy usage, the risk of refrigerant gas leakage and running costs by around USD99,000 per year. Meggitt Aircraft Braking Systems in the US invested USD350,000 in air pollution controls for new furnaces, reducing potential organic compound emissions by 99%. Meggitt Polymer Solutions in the UK implemented a "green" travel scheme involving car sharing and cycling.

We achieved several notable improvements in waste and wastewater management practices in 2007. Meggitt Thermal Systems, which relocated to Dunstable in 2006, increased its rate of recycling of solid waste from 4% in 2006 to 61% in 2007. Meggitt Aircraft Braking Systems and Engineered Fabrics Corporation in the US used 300 tons of hazardous waste as an energy source instead of incineration, saving USD125,000. Endevco in the US implemented a treatment system reducing a hazardous wastewater stream by 97%, generating clean wastewater for discharge under permit, significantly reducing the frequency of off-site transportation and saving USD100,000 per year on haulage and disposal costs.

Meggitt Thermal Systems in Coventry achieved ISO14001 status during 2007. The process of obtaining certification has delivered real benefits to the business, enhancing its environmental management systems and developing closer relationships with the local community, local authority and other enforcement agencies. The few remaining sites without ISO14001 have plans to achieve certification.

In January 2008, we appointed a Group Health, Safety & Environmental Manager. This appointment supports and progresses our management of these areas and will enable us to focus on improving environmental performance aided by the data we have collected around the group since 2006. Figure 1 shows a selection from our 2007 data (see our website for all CR data collected).

The substantial K & F operating units are resource-intensive and their manufacturing processes have had a significant impact on our headline data and metrics based on revenue. We are committed to working with all our businesses to develop a long-term strategy to minimise our environmental impacts.

Figure 1: Environmental data

	2007	2007 excluding K & F	2006
Carbon dioxide emitted			
tonnes/£'000 revenue	**0.12**	**0.08**	0.08
tonnes	**107,389**	**57,110**	56,995
Volatile organic compounds emitted			
tonnes/£'000 revenue	**0.00029**	**0.00009**	0.00009
tonnes	**255.38**	**65.05**	59.95
Water consumption			
m^3/£'000 revenue	**0.94**	**0.71**	0.59
m^3	**826,820**	**527,679**	395,638
Non-hazardous waste recycled			
%	**35.06**	**35.54**	**32.11**

Ken Thrasher
Group Vice President Manufacturing & Material Control, Meggitt Aerospace Equipment

Improving the operational performance of Meggitt's aerospace equipment businesses worldwide couldn't be more stimulating. When the group buys companies, it buys opportunities—opportunities to do things better. It sees the gold and my team are the miners tasked to extract it. Management structures, product lines, cultures, people and degrees of operational effectiveness differ but one thing's common—the way our continuous flow methodology switches lights on and shows people how to transform their companies into best-in-class executing organisations. It is very fulfilling to see professional pride and shareholder value rise at the same time—and I feel especially satisfied when sales people never have to apologise and can make promises about price, speed and quality with absolute confidence.

Corporate responsibility
continued

Health and safety

- Eight sites audited by external consultants for health and safety

In January 2008, the main board approved a group policy setting out our commitments to health and safety, which include operation of the formal management systems needed to ensure we comply with legislation, regulation, best practice and employee engagement at all levels (see the policy in full on our website).

Meggitt Aircraft Braking Systems in the UK implemented an enhanced programme of training to reinforce awareness and personal responsibility for health and safety. For Meggitt as a whole, the number of reportable injuries per 100,000 employees in 2007 was 1,579 (2006: 2,669).

Ethics

During 2007 we adopted the European Aerospace & Defence Common Industry Standards for Anti-Corruption and incorporated them into our Ethics and Business Conduct Policy. On-line tutorials released across the group in 2007 focused on anti-corruption, diversity and conflicts of interest. We provided bespoke training and conducted a successful pilot programme on ethics and US government contracts.

In 2007, we adopted a global data protection policy covering the processing of personal information to achieve a minimum standard of compliance across the group (see the full policy on our website).

Meggitt continues to be the principal sponsor of the innovative National Intercollegiate Business Ethics Competition designed to promote increased awareness of business ethics and hosted by Loyola Marymount University in Los Angeles.

Training and development

The Group Organisational Development Director and Group Human Resources Manager continue to drive initiatives to improve training and development across the group. This includes a leadership development programme and professional development reviews.

In 2007, Meggitt Aircraft Braking Systems in the UK demonstrated its outstanding commitment to employee training and development, winning an award from Coventry City Council for its apprenticeship programme. Later in the year, apprentice Victor Asiasi won Apprentice of the Year from Coventry City Council and from the Midlands Engineering Employer's Federation.

Average training hours across the group per employee was 27.91 (2006: 26.27).

Customers and suppliers

Supplying safe 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.

Our relationships with aerospace and defence customers are well established and we continue to receive commendations and performance awards.

In 2007, Meggitt Avionics received the 2007 Boeing Performance Excellence Award for superior supplier performance. Meggitt Defence Systems in Canada was ranked seventh in a list of top defence companies by the authoritative defence journal, Canadian Defence Review.

Endevco was awarded the Best of Sensors Expo 2007 Bronze Award for new product development and was accredited as a "total quality" supplier by United Launch Alliance Harlingen Operations for its outstanding record for product quality and on-time deliveries. Wilcoxon Research's shear mode vector sensor development featured in the US Navy's "Success Stories", a roll call of technologies providing superior solutions.

Business continuity

- 88% of group sites have implemented and embedded business continuity plans
- 12% of group sites are new to the programme

In 2007, group acquisitions led to four new sites starting to work on business continuity plans. The remainder of Meggitt's sites have implemented plans and are progressing through the more advanced stages of the programme. Learning from training and real incidents such as the Buncefield explosion, is captured and shared.

Local communities and charitable donations

Our local community and charitable strategy entrusts each business to undertake appropriate local initiatives. There are numerous examples of positive contributions. In 2007, Endevco employees' contributions to the American Red Cross Fire Relief Fund for victims of the Southern California fires were matched by the business unit.

Employees gave their time, like the Meggitt USA staff who joined other volunteers with MedWish International in the remote villages of Honduras, providing medical assistance to impoverished patients.

The Meggitt group supports charities relevant to our people and our businesses. In 2007, we sponsored a student under the Arkwright Scholarship Trust, which encourages high calibre students into engineering careers by awarding scholarships over the A level/Scottish Higher academic years. We donated £10,000 to Help for Heroes, a campaign for the rehabilitation of wounded soldiers.

Committing the resources

The year 2008 has already seen excellent progress with the appointment of a Group Health, Safety & Environmental Manager and the adoption of a Group Health & Safety Policy. We will continue to commit the resources needed to ensure that we run our businesses responsibly and with respect for all those involved with them.

Khoon Ooi
Vice President, Engineering and Business Development, Meggitt Airdynamics

At Meggitt Fluid Controls, we understand fluid and thermal sciences, electromechanical design for high-speed machines, high-power density motors, control electronics and system integration. These technologies are the building blocks from which we develop innovative products for a variety of uses, not least the emerging electric aircraft and any platform where high performance, lightweight equipment is needed.

Today we are working on traction drive systems. With significant experience in lightweight, extreme environment equipment for aircraft and cooling components for battle tanks, we expect to reduce the weight of components and sub-systems for next-generation combat vehicles. This delivers tactical advantage—smaller military transports to deploy them; days, not weeks and months, before they reach their destination; and operational agility on the ground.

Board of directors

Membership of committees
- * Audit
- \+ Nominations
- ø Remuneration

Sir Colin Terry KBE CB FREng DL
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. Since retiring, he has held the positions of Group Managing Director of Inflite Engineering Services, Chairman of the Engineering Council (UK), President of the Royal Aeronautical Society and the Council of European Aerospace Societies. Currently, he is President of the Soldiers, Sailors, Airmen and Families Association in Buckinghamshire where he is also a Deputy Lieutenant. He is a Chartered Engineer.

Philip Green
Group Corporate Affairs Director

Philip joined Meggitt in 1994 and was appointed to the Board in January 2001, responsible for legal and compliance matters. He relinquished the role of Company Secretary during 2006. Previously, Philip spent 14 years at British Aerospace. He is a Fellow of the Institute of Chartered Secretaries and Administrators.

Terry Twigger
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
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.

Sir Alan Cox CBE
Non-Executive Director +

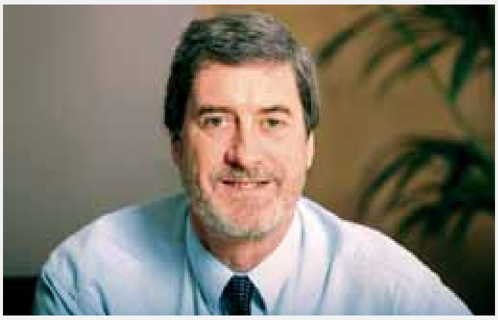
Sir Alan was appointed to the Board in May 1996. Previously Chief Executive of ASW Holdings PLC, he was also a director of The Morgan Crucible Company plc from 1995 until April 2004 and a board member of Cardiff Bay Development Corporation from 1987 to 2000. He is Chairman of The Mountview Academy of Performing Arts and was Chairman of the Wales Millennium Centre from 1996 to 2001. A member of the Financial Reporting Council from 1995 to 1999, Sir Alan is a Chartered Accountant and Chartered Management Accountant.

Peter Hill CBE
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 Williams
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 Independent Director at Taylor Wimpey Plc and Mondi plc. He is also a non-executive director of Tullow Oil plc and DP World Limited, chairing the audit committee at both. David is a Chartered Accountant.



David Robins
Non-Executive Director * + ø

David was appointed to the Board in January 2002 and became Senior Independent Director on 1 March 2007. 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 Henderson TR Pacific Investment Trust PLC and Oriel Securities Ltd and a director of two venture capital backed companies and chairman of three charities.

Risks and uncertainties

Meggitt operates globally, principally in the aerospace and defence markets. There are 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 covering identification, assessment of impact, likely occurrence and mitigation.

Reduced demand for our products

Meggitt is exposed to political risk, possible terrorist action and other external factors that could reduce air travel and defence spending and affect demand for our products. We seek to mitigate such risks by spreading our activities across civil and military markets; sales to original equipment manufacturers and aftermarket services; and between different geographical regions.

Competition

We operate in highly competitive markets and compete with established companies with significant financial, technological and marketing resources. If we were unable to adequately compete in our markets or lose a significant customer our results would be affected. We seek to protect our position by maintaining a broad customer base; developing proprietary intellectual property and products in markets that demand high levels of technology, quality and service; and through strong, long-term relationships with customers. The diversity of our products and operations reduces the effect of action by any single competitor.

Legal and regulatory

We are subject to litigation in the ordinary course of business and make provision for any expected cost to the group. However, there is a risk that successful claims or costs may exceed the provisions made. For example, a number of asbestos-related claims are received each year by subsidiary companies. To date, the total amount concerned for such claims in any year has not been material and many claims are covered fully or partly by existing insurance or indemnities. There is a provision for claims which cannot be recovered from insurers.

We are subject to the export control regulations of the countries in which we operate. Those of the USA are particularly complex and detailed and there is a system of voluntary disclosure to the relevant authorities to deal with any 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.

We have invested significant resources in implementing a best practice export compliance programme across the group to minimise the risk of violating the export regulations of the countries in which we operate.

In 2004 the US Department of Commerce and the US Department of Justice commenced an investigation into the alleged violation of US export control regulations by a US subsidiary of the group. In addition, the US Department of State is investigating alleged breaches of US re-export regulations by a UK subsidiary. These investigations are likely to lead to the payment of financial penalties for which a provision has been made.

Environmental

Meggitt operations and facilities are subject to laws and regulations that govern the discharge of pollutants and hazardous substances into air and water, the handling, storage and disposal of such materials and other environmental matters. Compliance is a significant obligation with failure to comply potentially exposing the group to significant costs.

The group is involved in the investigation and remediation of certain sites for which we have been identified as a potentially responsible party under US law. We have made provision for the expected costs arising from these sites based on information currently available and established a receivable to the extent these costs are recoverable under the group's environmental insurance policies.

Risks are mitigated by designing processes that minimise the effect of our operations on the environment, commissioning independent third-party audits of our sites and maintaining environmental insurance. Extensive environmental due diligence is carried out on businesses which may be acquired and environmental insurance purchased for all new sites.

Equipment fault

Equipment manufactured by the group generally operates in extreme environments where a serious incident arising from failure could result in liabilities for personal injury or death as well as damage to our reputation. The group mitigates its risk by designing manufacturing processes to ensure stringent quality and reliability standards. Our reputation for safety and reliability is a key factor for customers in selecting our products. Liability insurance protects the group from future product liability claims.

Fixed price contracts

We have a number of multi-year, fixed price contracts with original equipment manufacturing customers. Accordingly, we are exposed to the upside and downside of decreases or increases in the cost of making these products. Risk is reduced by ensuring estimates of cost are based on reliable historic data and by entering into multi-year, fixed price contracts with major suppliers.

Foreign exchange

We operate in, and sell products to, a range of countries with different currencies resulting in an exposure to exchange rates. Transaction risk arises where revenues are made in currencies which are different from those of the costs of manufacture. Transaction risk is hedged in the short term but the group remains exposed to the long term risk of exchange rate fluctuations. Further mitigation is achieved by sourcing goods and services in currencies which match the exposure. Translation risk arises on the translation of net assets and income statements of overseas subsidiaries and is managed where possible by the partial currency matching of borrowings with the net assets of overseas subsidiaries. See the Business Review for further details.

Credit risk

Credit risks exist in relation to customers, banks and insurers. Established credit control procedures are in place to monitor and manage credit risk. Meggitt benefits from a wide customer base and is not over-reliant on a single customer. Relationships with banks and counterparties are closely monitored by the centralised treasury function. Insurance risk is minimised by choosing insurers of good standing.

Interest rate risk

Fluctuations in interest rates will affect the interest the group is required to pay on its external borrowings. We manage this risk through the underlying character of the debt instruments and use of interest rate derivatives such as interest rate swaps.

Retirement benefits funding

Details of the group's retirement benefit schemes are shown in note 35 to the Financial Statements and a summary of funding is shown in the Business Review. The group is exposed to funding risks such as poor investment performance, changes in interest rates and improved mortality rates.

With the exception of the schemes that arose on the acquisition of K & F, the main schemes in the UK and USA are closed to new members. The group is discussing future contribution levels with trustees aimed at reducing the deficit level.

Acquisitions

Meggitt has grown by acquisition and continues to pursue appropriate acquisitions as part of its strategy. We are exposed to the risk that such acquisitions do not realise the benefits anticipated when those businesses were acquired. Risks are mitigated by due diligence, business integration processes and, where practicable, by representations, warranties and indemnities from the vendors.

Supply chain

The group relies on its own manufacturing operations and independent suppliers for key raw materials and components. Any disruption to the supply chain could have an impact on the group's ability to meet customer requirements and adversely affect the group's results.

To address the risk, the group invests significantly in modernising facilities and improving production processes to develop leading manufacturing operations. Robust business continuity plans are in place to manage the risk of a loss of a major facility or supplier and are subject to regular testing.

Financial statements 2007

Report of the directors

The directors submit their annual report and the audited financial statements for the year ended 31 December 2007. The Group financial statements have been prepared in accordance with EU endorsed International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Acts 1985 and 2006 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 a public limited company, listed on the London Stock Exchange, incorporated in England and Wales with registered number 432989 and a registered office at Atlantic House, Aviation Park West, Bournemouth International Airport, Christchurch, Dorset, BH23 6EW.

Meggitt PLC is the parent company of a Group whose principal activities during the year were the design and manufacture of high technology products and systems for the aerospace, defence and other specialist markets including medical, industrial, test and automotive.

The Business Review on pages 11 to 27 outlines the Group's activities and future plans in more detail.

Group results

Profit before taxation amounted to £105.4 million (2006: £126.7 million as restated). The profit attributable to ordinary shareholders amounted to £89.3 million (2006: £94.3 million as restated) which after dividends of £42.2 million (2006: £34.3 million) resulted in a retained profit for the financial year of £47.1 million (2006: £60.0 million as restated).

Dividends

The directors recommend the payment of a final dividend of 5.75p net per ordinary 5p share (2006: 5.13p as restated) to be paid on 4 July 2008 to those members on the register at close of business on 14 March 2008.

An interim dividend of 2.45p (2006: 2.23p as restated) was paid on 9 November 2007. If the final dividend as recommended is approved the total ordinary dividend for the year will amount to 8.20p net per share (2006: 7.36p as restated). 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.

During 2007 the Company made available the Meggitt PLC share dividend plan in respect of the dividends paid in July 2007 (being the final dividend for 2006) and in November 2007 (being the interim dividend for 2007). The amount of dividend necessary to give an entitlement to one new ordinary share was fixed at 341.90p and 318.85p 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 November 2007 were 319.00p and 316.50p 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 June 2007, Meggitt completed the acquisition of K & F Industries Holdings, Inc. ('K & F'). Total acquisition costs were £920.1 million comprising net debt acquired of £356.5 million and cash consideration, after costs, of £563.6 million. K & F 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 are located in Ohio, Kentucky and Georgia. The acquisition was financed by a combination of a rights issue and debt.

Post balance sheet events

On 3 January 2008, Meggitt completed the disposal of S-TEC Inc. ('S-TEC') to Cobham plc for USD 38 million paid in cash. S-TEC designs, certifies and manufactures general aviation autopilots, supplying original equipment manufacturers and the aftermarket. The business was no longer considered core to Meggitt's current operations.

Share capital and control

The authorised share capital of the Company as at 31 December 2007 together with details of shares issued during the financial year is shown in note 37 on page 83. During 2007 the authorised share capital of the Company was increased from £32,000,000 to £44,250,000 by the creation of an additional 245,000,000 ordinary shares of 5p each. As at 31 December 2007 there were 658,316,007 ordinary shares in issue. A further 268,062 ordinary shares have been issued between 31 December 2007 and 25 February 2008 as a result of the exercise of share options. The ordinary shares are listed on the London Stock Exchange.

The rights and obligations attaching to the Company's ordinary shares are set out in the Company's Articles of Association. A copy of the Articles of Association is available for inspection at the registered office. The holders of ordinary shares are entitled to receive the Company's reports and accounts; to attend and speak at General Meetings of the Company; to appoint proxies and to exercise full voting rights. There are no restrictions on transfer or limitations on the holding of ordinary shares and no requirements for prior approval of any transfers. There are no known arrangements under which financial rights are held by a person other than the holder of the shares and no known agreements on restrictions on share transfers or on voting rights. Shares acquired through Company share schemes and plans rank pari passu with the shares in issue and have no special rights.

The Company has disclosed significant direct or indirect holdings on page 38, and this information is published on a Regulatory Information Service and on the Company's website.

Rules about the appointment and replacement of directors of the Company are contained in the Articles of Association and changes to the Articles of Association must be submitted to the shareholders for approval. The powers of directors are as set out in the Memorandum and Articles of Association of the Company and are governed by applicable legislation in force from time to time. At each Annual General Meeting of the Company, the shareholders are requested to renew the directors' powers to allot securities in the Company up to a specified value and also to renew the directors' powers to allot securities without the application of pre-emption rights up to a specified value in accordance with Article 4 of the Articles of Association. The Company may, as and when required, seek authority from the shareholders at the Annual General Meeting to purchase its own shares.

There are a number of long-term agreements that may take effect, alter or terminate upon a change of control of the Company following a takeover bid. None is considered to be significant in terms of their potential impact on the business of the Group as a whole.

The service contracts for the executive directors state that if at any time during their employment there is a change of control in the Company, the executive director may elect to terminate their employment within 6 months of that change of control and will be entitled to receive compensation for loss of office from the Company. The compensation would be the annual remuneration plus the value of benefits for the unexpired notice period less 5%.

The Company does not have any agreements with the non executive directors or any other employees that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a takeover.

Report of the directors

continued

Significant shareholdings

As at 25 February 2008 the Company had been notified that the following had an interest amounting to 3% or more of the issued ordinary share capital:

	Direct voting rights*	Indirect voting rights*	Percentage of total voting rights attaching to the issued ordinary share capital of the Company
Prudential plc	50,070,021	–	7.60
AXA SA	5,423,820	32,407,746	5.74
Fidelity International Limited & FMR Corp	–	34,883,996	5.30
Bailie Gifford & Co	–	34,138,890	5.18
Resolution Investment Services Ltd	–	32,672,307	4.96
Lloyds TSB Group plc	–	32,022,162	4.86
Schroders plc	–	31,825,191	4.83
Legal & General Group plc	26,347,154	–	4.00
Standard Life Investments Ltd	22,153,694	3,769,560	3.94

* One voting right per ordinary share.

Share Incentive Plan

The Trustee of the Share Incentive Plan has been allocated £0.8 million from 2007 profits to acquire ordinary shares in Meggitt PLC for eligible employees (2006: £0.7 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, Sir Colin Terry, Mr T Twigger and Mr D A Robins retire by rotation at the forthcoming Annual General Meeting and being eligible offer themselves for re-election. Mr D A Robins will have been appointed for over six years and his proposed re-election has been subject to a rigorous review taking into account the need for progressive refreshing of the Board, however the Board believes that Mr D A Robins' excellent understanding of the city and the investment community will continue to be of great value in their deliberations. Sir Alan Cox retires at the forthcoming Annual General Meeting and being eligible, offers himself for re-election. Firstly, he is retiring in accordance with Article 79 of the Company's Articles of Association, by reason of his being over the age of 70. Secondly, in compliance with A.7.2 of the Combined Code (2006), by reason of his having served as a director for more than 9 years.

Details of directors' contracts and their interests in the ordinary shares of the Company are as shown in the Remuneration Report on pages 45 to 48. 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.

Corporate responsibility

The Board takes regular account of the significance of social, environmental and ethical matters and a report giving a full update on activities and achievements during 2007 can be found on pages 28 to 31. In January 2007 the Board approved a Corporate Responsibility Policy. The following specific matters fall under the broad definition of corporate responsibility:

People

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 enable their active participation in and commitment to the Group's success. This policy has been pursued for all employees through the Share Incentive Plan and the Sharesave Scheme in the UK. It is estimated that, when the current year's allocation has been made by the Trustee under the Share Incentive Plan, approximately 2,000 UK employees will hold shares in the Company. The number of employees contributing to the Sharesave Scheme at 31 December 2007 was 901. Senior executives are also granted awards under the Executive Share Option Scheme and the Equity Participation Plan, both of which operate throughout the Group, details of which can be found in the Remuneration Report on page 43.

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 and in addition, protective equipment is provided when necessary and safety courses are made available. In January 2008 the Board approved a Group Health and Safety Policy.

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, which were revised in September 2007. All employees have received a copy of the Code of Conduct and follow up training, which is refreshed on a regular basis. Ethics and business conduct is reviewed regularly by a committee of the Board.

Report of the directors
continued

Community relations and charitable donations

Charitable donations made during the year ended 31 December 2007 amounted to £0.1 million (2006: £0.1 million). In addition, Meggitt PLC gave financial assistance to local organisations amounting to £20,000 (2006: £10,000). There are also many examples throughout the Group of non-financial assistance being provided to local organisations.

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 2007 were 30 days (2006: 30 days). Group creditor days at 31 December 2007 were 63 days (2006: 70 days). These calculations are made in accordance with the Companies Act 1985 and therefore include the full value of trade creditors in acquired businesses but only include their purchases from the respective dates of acquisition.

Political contributions

In accordance with the Group's policy, no contributions were made to political parties or political organisations (2006: £Nil) and no EU political expenditure exceeding £200 was incurred in the year by the Company or any of its subsidiaries (2006: none above £200).

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. Including amounts funded by customers, expenditure on research and development amounted to £70.0 million (2006: £57.6 million). Excluding amounts funded by customers, expenditure on research and development amounted to £52.9 million (2006: £37.5 million), of which £22.4 million (2006: £14.5 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 24 April 2008, 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 £60,000 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, (iv) approve new employee incentive arrangements, namely the 2008 Sharesave Scheme; and (v) approve amendments to the Company's Articles of Association, primarily to reflect the provisions of the Companies Act 2006.

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 IFRS 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 IFRS, 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 enable them to ensure that the Group's financial statements comply with the Companies Acts 1985 and 2006 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.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other juridictions.

By order of the Board

Mark Young

M L Young
Company Secretary
3 March 2008

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 (issued in 2006) as reported in the Statement of Compliance on page 42. Further explanation of how the principles have been applied is set out below and, in connection with Directors' remuneration policies and total packages, are contained in the Remuneration Report on page 43 .

Board composition

The Board considers it has a good balance of executive and non executive directors, is of a size and includes the skills and experience appropriate for the requirements of the business. The Board comprises a non executive Chairman, Sir Colin Terry, a Chief Executive, Mr T Twigger, two other executive directors and four non 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 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 makes him a valuable member of the Board. 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. 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. Biographical and other relevant information on directors submitted for re-election will be provided in the Notice of the Annual General Meeting.

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

The Nominations Committee consists of Sir Colin Terry (Chairman), Sir Alan Cox, Mr P J Hill, Mr D A Robins, Mr D M Williams and Mr T Twigger. The 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. 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. In compliance with Combined Code requirements, Sir Alan Cox will be subject to annual re-election in 2008 and each subsequent year. The Board has approved written terms of reference for the Committee which are available on the Company's website.

The Board, its committees and proceedings

The full Board met on ten occasions during the year and these meetings were attended by all directors, except that Sir Alan Cox, Mr P J Hill and Mr D M Williams were excused from one meeting each. The Board regularly 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. There were no circumstances arising during the year where it was necessary to record unresolved concerns in the Board's minutes.

The Chairman talks with and holds meetings on an informal basis with the other non executive directors without the executives present.

Committee membership, number of formal meetings held during 2007 and attendance is shown in the following table:

	No. of meetings during year	No. of meetings attended
Audit		
Mr D M Williams (Chairman)	3	3
Mr P J Hill	3	3
Mr D A Robins	3	3
Sir Alan Cox	1*	1*
Remuneration		
Mr D A Robins (Chairman)	4	4
Mr D M Williams	4	4
Mr P J Hill	4	3
Sir Alan Cox	2*	2*

* Sir Alan Cox attended all Committee meetings prior to his retirement from those Committees on 14 June 2007.

There were no meetings of the Nominations Committee during 2007.

Directors' statement on corporate governance
continued

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. The Company maintains appropriate Directors' and Officers' insurance.

Performance evaluation

In January 2008 the Board conducted a self-evaluation assessment. The Chairman led a review and discussion to consider the Board's performance against some high level objectives and its own terms of reference 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.

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.

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 Financial Reporting Council's updated Turnbull guidance on Internal Control (2005).

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 reviews these areas of compliance on a quarterly basis.
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 they are 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 plans. 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 buildings surveys 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 financial statements.

The Board considers that there is considerable comfort in the fact that the Group's cash inflow from operating activities represented 99% of underlying operating profit in 2007.

Directors' statement on corporate governance
continued

Audit Committee and auditors

The Audit Committee is appointed by the Board. From 1 January 2007 to 14 June 2007, there were four members, three of whom were considered to be independent. On 14 June 2007 Sir Alan Cox, who had relinquished his role as Chairman of the Committee on 26 April 2007, stood down as a member. As a result, from 14 June 2007 to the current date the Committee has had three members, all of whom are considered to be independent. Mr D M Williams was appointed as Chairman on 26 April 2007. 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 2007 the Committee met on three occasions. The external auditors attended these meetings to discuss the scope and the final results of the 2006 audit in detail (which included the main risks facing the Group), the strategy for the 2007 audit, the "hard close" results of the 2007 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 Committee reviews at each meeting the activities of the internal audit function and regularly reviews its effectiveness. In addition, the Audit Committee monitors the integrity of the financial statements of the Group, formal announcements relating to the Group's financial performance and reviews significant financial reporting judgements contained in them.

The Committee has primary responsibility for recommending the appointment, reappointment and removal of the external auditors. The Company places great importance on the independence of its auditors and, together with them, is careful to ensure their objectivity is not compromised. The Committee is responsible for agreeing the fees to be paid to external auditors in respect of their services as auditors. The Company's general policy in respect of other non-audit fees is:

- audit related services: the external auditors would be invited to undertake those services which they are required to, and most suited to, perform;
- 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.

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 regular reports by the Company's brokers to the Board and attendance at analysts' briefings as required. Analysts' notes on the Company are made available to all directors.

Constructive use of the Annual General Meeting

The Board uses the Annual General Meeting as an occasion for communication with its shareholders. Proxy appointment forms for each resolution provide shareholders with the option to direct their proxy to vote either for or against the resolution or to withhold their vote. All proxy votes for, against and withheld are counted by the Company's Registrars and the level of voting for, against and withheld on each resolution is made available at the end of the meeting and on the Company's website. The proxy form and the announcement of the results of a vote make it clear that a vote withheld is not a vote in law and will not be counted in the calculation of the proportion of votes for and against the resolution. Separate resolutions are proposed at the Annual General Meeting on substantially separate issues and there is a resolution relating to the financial statements.

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 2007 the Company has complied with the provisions set out in Section 1 of the 2006 Combined Code on Corporate Governance with the following exceptions:

a) 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.

b) A.4.1 A majority of members of the Nomination Committee should be independent non executive directors and this was not the case during 2007: Sir Alan Cox is no longer regarded as independent owing to his appointment as a non executive director for more than nine years. As a result, the Committee is made up of six members, of whom three are independent non executive directors. The Board considers that Sir Alan Cox's extensive experience in industry and other organisations make him a valuable member of the Committee.

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 Business Review on pages 11 to 27.

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 FSA and describes how the Board has applied the 2006 Combined Code on Corporate Governance relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be considered.

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

Unaudited information

Remuneration Committee

The Remuneration Committee is appointed by the Board. It is responsible 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.

From 1 January to 14 June 2007, the Committee consisted of four non executive directors: Mr D A Robins (Committee Chairman), Mr D M Williams, Mr P J Hill and Sir Alan Cox, all of whom were considered to be independent with the exception of Sir Alan Cox. With effect from 14 June 2007, Sir Alan Cox retired from his position as a member of the Committee, and the Committee consisted of three independent non executive directors from that date. 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 follows schedule A of the Combined Code, "Provisions on the design of performance related remuneration". 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 2007 updated this advice. This was taken into account for the salary review which took effect from 1 January 2008.

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 through a combination of cash bonus and share schemes. In 2008 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 under which options are granted at market value;
- benefits which include membership of the Executive Pension Plan and a pensions allowance, a fully expensed car and free medical insurance for the individual and their immediate family.

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 under the Meggitt Equity Participation Plan 2005, as described on page 44.

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.

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%.

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 strong financial performance of the Group.

Following the most recent salary review, base salaries for the executive directors have increased to a level at or slightly above the market median to reflect the increase in size and complexity of the Group after the acquisition of K & F Industries Holdings, Inc. and the experience and track record of the incumbents. With effect from 1 January 2008, the basic salaries of the executive directors are as follows:

T Twigger	£600,000
P E Green	£275,000
S G Young	£360,000

Remuneration report
continued

Unaudited information continued

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 2007 was 165% of basic salary at 31 December 2007 and reflects the strategic growth and development of the Group and the continuing outstanding financial performance, as shown by the improvement in underlying profit, the increase in underlying earnings per share, the increase in final dividend and the continuing strong cash flow from operating activities.

Policy on share schemes

The Company's Equity Participation Plan and Executive Share Option Scheme are an important part of the performance related remuneration of executive directors encouraging them to contribute towards the continuing growth in, and performance of, the Company by participating in the Company's success along with other shareholders. An award is made under the Equity Participation Plan on an annual basis and grants are considered under the Executive Share Option Scheme subject to regulatory and scheme limits. 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 basic award of shares may be made under the Meggitt Equity Participation Plan (the 'Plan') to executive directors of up to 125% of basic salary ('basic award'). A basic award made to executive directors under the plan was made at 75% of basic salary during 2007. 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.

Executive directors may also invest 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') 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
Bodycote International	Senior
Cobham	Smiths Group
FKI	Spectris
Halma	Spirax-Sarco Engineering
IMI	Spirent
Invensys	Tomkins
Morgan Crucible Company (The)	Ultra Electronics Holdings
Renishaw	VT Group
Rolls-Royce Group	Weir Group

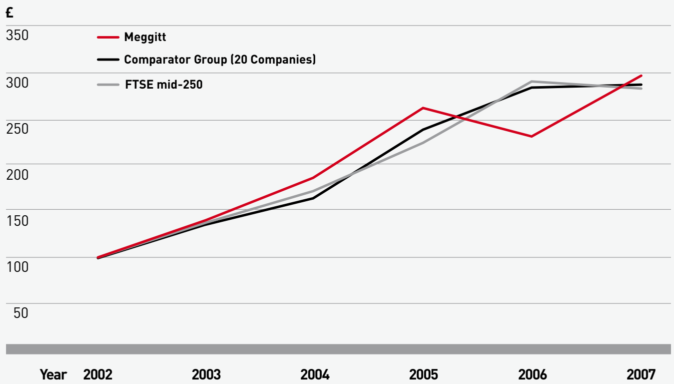
No shares will vest if the Group's TSR performance is below the 50th percentile. At the 50th percentile, 30% of the shares that are the subject of the award will vest, rising on a straight-line basis to 100% vesting at the 75th percentile and above. Notwithstanding the Group's relative TSR performance,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

The FTSE Aerospace & Defence Index is dominated by Rolls-Royce Group and BAE Systems, who are also included in the Comparator Group. Therefore, the Board believes that a more appropriate index for comparison is the FTSE mid-250.

Remuneration report

continued

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 may be up to three times basic salary. In 2007, awards were made of 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 101.

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 executive 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:

	Shareholding Ordinary shares of 5p each	
	2007	2006
Sir Colin Terry	**6,426**	4,284
T Twigger	**676,358**	451,587
Sir Alan Cox	**20,000**	20,000
P E Green	**344,395**	224,644
P J Hill	**9,000**	6,000
D A Robins	**59,714**	39,506
D M Williams	**5,000**	–
S G Young	**78,263**	51,804

The executive directors were allocated shares at an initial market value of 303.95p under the Share Incentive Plan during 2007 as follows:

	Ordinary shares of 5p each
T Twigger	983
P E Green	983
S G Young	983

These shares have been included in the share interests shown in the table above. Details of directors' share options are shown on pages 47 and 48.

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 by means of a pensions allowance 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 £120,000. The cap will increase annually in line with the lifetime allowance, which is the total capital value of all pension arrangements, excluding the state pension, which can be built up without paying extra tax.

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 2007 are shown on page 46. 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 set the level of fees for non executive directors to reflect the time commitment and responsibilities of the role after consulting independent surveys of such fees. Fees paid to non executive directors during 2007 are shown on page 46.

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.

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 2007 no executive director was a director of another public company.

Audited information

Details of directors' remuneration

	Basic salary 2007 £	Fees 2007 £	Benefits 2007 £	Bonus payments 2007 £	Other* 2007 £	Total emoluments excluding pension 2007 £	2006 £
Executive directors							
T Twigger	**500,000**	**–**	**29,028**	**825,000**	**190,937**	**1,544,965**	1,177,593
P E Green	**221,500**	**–**	**14,256**	**365,000**	**51,688**	**652,444**	500,301
S G Young	**288,000**	**–**	**20,370**	**475,000**	**84,938**	**868,308**	665,195
Non executive directors							
Sir Colin Terry	**–**	**120,000**	**–**	**–**	**–**	**120,000**	108,000
Sir Alan Cox	**–**	**59,333**	**3,965**	**–**	**–**	**63,298**	61,234
P J Hill	**–**	**41,000**	**–**	**–**	**–**	**41,000**	39,000
D A Robins	**–**	**47,000**	**–**	**–**	**–**	**47,000**	44,400
D M Williams	**–**	**45,667**	**–**	**–**	**–**	**45,667**	2,030
Total	**1,009,500**	**313,000**	**67,619**	**1,665,000**	**327,563**	**3,382,682**	2,597,753

* With effect from 6 April 2006 no further contributions were made to the funded unapproved retirement and death benefits scheme. 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 45.

	T Twigger* £	P E Green £	S G Young £
Meggitt Executive Pension Plan			
Accumulated total accrued pension at 31 December 2006	36,100	44,900	10,900
Real increase in accrued pension in year excluding inflation	–	3,700	3,800
Total increase in accrued pension in year	1,400	5,500	4,100
Accumulated total accrued pension at 31 December 2007	37,500	50,400	15,000
Transfer value (GN11 basis) at 31 December 2006	549,600	506,100	133,200
Real increase in transfer value excluding inflation less directors' contributions	(8,300)	36,400	40,100
Directors' contributions	8,300	8,300	8,300
Other increases in transfer value	64,900	72,600	19,900
Transfer value (GN11 basis) at 31 December 2007	614,500	623,400	201,500

* During the year the accumulated total accrued pension and pension transfer values for T Twigger were restated to take account of benefit accrued from a previous employment. The inclusion of benefit from previous employment within the maximum allowable pension benefit, reduces the Meggitt Executive Pension Plan's values as an element of this maximum.

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 – 2006	47,050	13,550	21,550
Company Payments – 2007	–	–	–

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

	Date of allocation	Value of allocation £	Number of shares: at 1 Jan 2007	Rights issue adjustment	Transferred to directors	at 31 Dec 2007	First date for transfer to directors
T Twigger	09.03.05	150,000	55,147	8,896	–	64,043	09.03.08
P E Green	09.03.05	70,000	25,735	4,152	–	29,887	09.03.08
S G Young	09.03.05	92,000	33,823	5,456	–	39,279	09.03.08

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 at 1 Jan 2007	Rights issue adjustment	Awarded during 2007	at 31 Dec 2007	Market price at actual date of transfer	First date for transfer to directors
T Twigger								
Basic Award	10.10.05	337,500	105,982	17,819	–	123,801	–	10.10.08
Basic Award	04.04.06	361,500	100,622	16,918	–	117,540	–	04.04.09
Basic Award	17.08.07	374,997	–	–	118,252	118,252	–	17.08.10
Matching Award	10.10.05	225,000	69,444	11,676	–	81,120	–	10.10.08
Matching Award	04.04.06	241,000	68,661	11,544	–	80,205	–	04.04.09
Matching Award	04.09.07	252,374	–	–	79,114	79,114	–	04.09.10
P E Green								
Basic Award	10.10.05	150,000	47,103	7,919	–	55,022	–	10.10.08
Basic Award	04.04.06	160,500	44,674	7,511	–	52,185	–	04.04.09
Basic Award	17.08.07	166,125	–	–	52,386	52,386	–	17.08.10
Matching Award	10.10.05	100,000	30,864	5,189	–	36,053	–	10.10.08
Matching Award	04.04.06	107,000	30,484	5,125	–	35,609	–	04.04.09
Matching Award	04.09.07	111,800	–	–	35,047	35,047	–	04.09.10
S G Young								
Basic Award	10.10.05	195,000	61,234	10,295	–	71,529	–	10.10.08
Basic Award	04.04.06	208,500	58,035	9,758	–	67,793	–	04.04.09
Basic Award	17.08.07	215,998	–	–	68,113	68,113	–	17.08.10
Matching Award	10.10.05	130,000	40,123	6,746	–	46,869	–	10.10.08
Matching Award	04.04.06	139,000	39,601	6,658	–	46,259	–	04.04.09
Matching Award	04.09.07	145,368	–	–	45,570	45,570	–	04.09.10

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 48:

	Date of grant	Number of options at 1 Jan 2007	Granted/ (exercised)	Rights issue adjustment	at 31 Dec 2007	Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
T Twigger									
1996 No 1	20.04.98	19,838	–	3,335	23,173	129.45p	–	20.04.01	19.04.08
1996 No 2	14.12.00	5,902	(6,894)	992	–	162.10p	294.75p	14.12.03	13.12.07
	17.10.02	172,132	–	28,942	201,074	136.76p	–	17.10.05	16.10.09
	02.10.03	148,056	–	24,894	172,950	179.24p	–	02.10.06	01.10.10
	06.10.04	152,439	–	25,631	178,070	210.59p	–	06.10.07	05.10.11
2005, Part B	10.10.05	276,497	–	46,490	322,987	278.65p	–	10.10.08	09.10.15
	27.09.06	312,987	–	52,626	365,613	263.67p	–	27.09.09	26.09.16
	29.03.07	–	334,448	–	334,448	299.00p	–	29.03.10	29.03.17
Sharesave	07.04.05	2,578	–	433	3,011	188.76p	–	01.06.08	30.11.08
	05.10.06	2,759	–	463	3,222	203.18p	–	01.12.11	31.05.12
		1,093,188	327,554	183,806	1,604,548				

	Date of grant	Number of options at 1 Jan 2007	Granted/ (exercised)	Rights issue adjustment	at 31 Dec 2007	Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
P E Green									
1996 No 1	27.03.97	8,125	(8,125)	–	–	101.52p	289.13p	27.03.00	26.03.07
	20.04.98	14,382	–	2,418	16,800	129.45p	–	20.04.01	19.04.08
1996 No 2	27.09.01	93,843	–	15,778	109,621	114.03p	–	27.09.04	26.09.08
	17.10.02	78,241	–	13,155	91,396	136.76p	–	17.10.05	16.10.09
	02.10.03	71,640	–	12,045	83,685	179.24p	–	02.10.06	01.10.10
	06.10.04	71,138	–	11,961	83,099	210.59p	–	06.10.07	05.10.11
2005, Part A	29.03.07	–	2,759	–	2,759	299.00p	–	29.03.10	29.03.17
2005, Part B	10.10.05	122,887	–	20,662	143,549	278.65p	–	10.10.08	09.10.15
	27.09.06	138,961	–	23,365	162,326	263.67p	–	27.09.09	26.09.16
	29.03.07	–	145,402	–	145,402	299.00p	–	29.03.10	29.03.17
Sharesave	22.10.02	5,133	–	863	5,996	109.56p	–	01.01.08	30.06.08
	07.04.05	1,498	–	251	1,749	188.76p	–	01.06.10	30.11.10
	05.10.06	2,759	–	463	3,222	203.18p	–	01.12.11	31.05.12
		608,607	140,036	100,961	849,604				

Audited information
continued

Details of directors' remuneration continued

	Date of grant	Number of options: at 1 Jan 2007	Granted/ (exercised)	Rights issue adjustment	at 31 Dec 2007	Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
S G Young									
1996 No 1	01.04.04	14,725	–	2,475	17,200	174.40p	–	01.04.07	31.03.14
1996 No 2	01.04.04	211,074	–	35,490	246,564	174.40p	–	01.04.07	31.03.11
2005, Part B	10.10.05	159,754	–	26,861	186,615	278.65p	–	10.10.08	09.10.15
	27.09.06	180,519	–	30,352	210,871	263.67p	–	27.09.09	26.09.16
	29.03.07	–	192,642	–	192,642	299.00p	–	29.03.10	29.03.17
Sharesave	07.04.05	8,106	–	1,362	9,468	188.76p	–	01.06.12	30.11.12
		574,178	192,642	96,540	863,360				

None of the non executive directors held options over the Company's shares at any time during the relevant periods.

Between 1 January 2008 and 25 February 2008 (the latest date for which it was practical to obtain the information) the following changes occurred in the directors' interests shown above:

Mr T Twigger – acquired 90 shares through the Meggitt PLC Share Incentive Plan.

Mr P E Green – acquired 90 shares through the Meggitt PLC Share Incentive Plan and on 2 January 2008 exercised his 1998 Sharesave option granted on 22 October 2002 for 5,996 shares at an exercise price of 109.56p.

Mr S G Young – acquired 91 shares through the Meggitt PLC Share Incentive Plan.

The market price of the shares at 31 December 2007 was 332.75p and the range during the year was 285.25p to 359.75p. Options may, in certain circumstances, be exercised or lapse earlier than the dates shown on page 47 and above.

Gains made on exercise of directors' share options

	Option	Exercise date	Options exercised	Gain 2007 £'000	Gain 2006 £'000
T Twigger	Sharesave 1998	19.01.06	2,953	**–**	7
	1996 No 2 Executive Share Option Scheme	13.12.07	6,894	**9**	–
P E Green	Sharesave 1998	04.01.06	4,576	**–**	10
	1996 No 1 Executive Share Option Scheme	15.03.07	8,125	**15**	–
				24	17

Gains in 2007 were made on options granted under the rules of the 1996 Number 2 Executive Share Option Scheme and the 1996 Number 1 Executive Share Option 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
3 March 2008

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 2007 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 2007 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 2006 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 of the Chairman's Statement, Meggitt at a Glance, Delivering Group Strategy, Market Review, Business Review, Corporate Responsibility, Board of Directors, Risks and Uncertainties, 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 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 2007 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
3 March 2008

Consolidated income statement

For the year ended 31 December 2007

	Notes	2007 £'m	2006 Restated £'m
Continuing operations			
Revenue	5	**878.2**	670.3
Cost of sales	7	**(493.4)**	(373.8)
Gross profit		**384.8**	296.5
Net operating costs	7	**(242.1)**	(153.3)
Operating profit*	6	**142.7**	143.2
Finance income	12	**32.7**	25.1
Finance costs	13	**(70.0)**	(41.6)
Net finance costs		**(37.3)**	(16.5)
Profit before tax from continuing operations**		**105.4**	126.7
Tax	14	**(16.1)**	(32.4)
Profit for the year from continuing operations attributable to equity shareholders	40	**89.3**	94.3
Earnings per share – basic	16	**14.6p**	18.6p
Earnings per share – diluted	16	**14.5p**	18.5p
Dividends paid to equity shareholders in the year	17	**42.2**	34.3

* Underlying operating profit	10	**216.3**	149.2
** Underlying profit before tax	10	**179.0**	132.7

Consolidated balance sheet

As at 31 December 2007

	Notes	2007 £'m	2006 Restated £'m
Non-current assets			
Goodwill	19	**1,071.2**	563.4
Development costs	20	**57.7**	31.9
Programme participation costs	20	**121.8**	33.9
Other intangible assets	21	**742.2**	219.0
Property, plant and equipment	22	**195.4**	127.6
Trade and other receivables	25	**14.4**	20.3
Deferred tax assets	34	**41.4**	32.9
Assets held for sale	23	**14.5**	–
		2,258.6	1,029.0
Current assets			
Inventories	24	**204.6**	154.6
Trade and other receivables	25	**214.6**	172.3
Derivative financial instruments	32	**3.6**	8.4
Current tax recoverable		**7.8**	0.2
Cash and cash equivalents	26	**64.9**	43.6
		495.5	379.1
Total assets		**2,754.1**	1,408.1
Current liabilities			
Trade and other payables	27	**(226.8)**	(199.6)
Derivative financial instruments	32	**(0.9)**	–
Current tax liabilities		**(43.1)**	(17.5)
Obligations under finance leases	29	**(0.5)**	–
Bank and other borrowings	30	**(16.7)**	(17.3)
Provisions	33	**(18.0)**	(7.5)
		(306.0)	(241.9)
Net current assets		**189.5**	137.2
Non-current liabilities			
Trade and other payables	28	**(7.0)**	(4.2)
Derivative financial instruments	32	**(10.7)**	(0.6)
Deferred tax liabilities	34	**(276.5)**	(69.9)
Obligations under finance leases	29	**(5.0)**	–
Bank and other borrowings	30	**(858.1)**	(380.0)
Provisions	33	**(72.5)**	(54.9)
Retirement benefit obligations	35	**(153.3)**	(97.2)
Liabilities directly associated with assets classified as held for sale	23	**(1.6)**	–
		(1,384.7)	(606.8)
Total liabilities		**(1,690.7)**	(848.7)
Net assets		**1,063.4**	559.4
Equity			
Share capital	37	**32.9**	21.8
Share premium	40	**781.6**	356.1
Other reserves	40	**14.1**	14.1
Hedging and translation reserves	40	**(6.8)**	(6.2)
Retained earnings	40	**241.6**	173.6
Total equity attributable to equity holders	40	**1,063.4**	559.4

The financial statements were approved by the Board of Directors on 3 March 2008 and signed on its behalf by:

T Twigger
Director

S G Young
Director

Consolidated cash flow statement

For the year ended 31 December 2007

	Notes	2007 £'m	2006 Restated £'m
Cash inflow from operations before exceptional operating costs		**214.3**	140.3
Cash outflow from exceptional operating costs	11	**(4.2)**	(1.8)
Cash inflow from operations	42	**210.1**	138.5
Interest received		**5.0**	1.2
Interest paid		**(34.8)**	(17.7)
Tax paid		**(23.4)**	(19.5)
Cash inflow from operating activities		**156.9**	102.5
Purchase of subsidiaries	44	**(563.6)**	(86.3)
Net cash acquired with subsidiaries	44	**11.5**	4.7
Capitalised internal development costs	20	**(22.4)**	(14.5)
Capitalised programme participation costs	20	**(20.1)**	(7.5)
Purchase of other intangible assets	21	**(3.3)**	(3.6)
Purchase of property, plant and equipment		**(40.5)**	(31.4)
Proceeds from disposal of property, plant and equipment		**2.6**	4.5
Proceeds from disposal of investments available for sale		**–**	0.8
Cash outflow from investing activities		**(635.8)**	(133.3)
Dividends paid to Company's shareholders	17	**(35.6)**	(32.0)
Issue of equity share capital	40	**439.8**	3.7
Expenses of issue of equity share capital	40	**(9.8)**	–
Proceeds from borrowings		**520.7**	96.5
Debt issue costs		**(3.6)**	–
Repayments of borrowings		**(406.0)**	(36.0)
Cash inflow from financing activities		**505.5**	32.2
Net increase in cash and cash equivalents		**26.6**	1.4
Cash and cash equivalents at start of year		**43.6**	45.5
Exchange losses on cash and cash equivalents		**(5.3)**	(3.3)
Cash and cash equivalents at end of year	26	**64.9**	43.6

Consolidated statement of recognised income and expense

For the year ended 31 December 2007

	Notes	2007 £'m	2006 Restated £'m
Currency translation differences		**(0.5)**	(7.1)
Taxation recognised on currency translation differences – current	14	**7.2**	2.0
Actuarial gains/(losses)	35	**24.8**	(4.6)
Taxation recognised on actuarial (gains)/losses – deferred	14	**(8.2)**	1.3
Losses on cash flow hedges		**(10.2)**	–
Taxation recognised on cash flow hedge losses – deferred	14	**2.9**	–
Net income/(expense) recorded directly in equity		**16.0**	(8.4)
Profit for the year	40	**89.3**	94.3
Total recognised income for the year		**105.3**	85.9

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 as described in note 45.

2 Summary of significant accounting policies

The principal accounting policies adopted by the Group in the preparation of the 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. Items included in the financial statements of each of the Group's subsidiaries are measured using the functional currency of the primary economic environment in which the subsidiary 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 items

Items which are significant by virtue of their size or nature and which are considered non-recurring are classified as exceptional 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 items are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10).

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.

Notes to the financial statements
continued

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.

Programme participation costs
Programme participation costs consist of incentives given to Original Equipment Manufacturers ('OEMs') in connection with their selection of the Group's products for installation onto new aircraft where the Group has obtained principal supplier status. These incentives comprise cash payments and/or the supply of initially manufactured parts on a free of charge or deeply discounted basis. Programme participation 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.

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

Amortisation of intangible assets acquired as part of a business combination is excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10).

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.

Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs of disposal if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

Investments available for sale

Investments available for sale are initially recorded at fair value 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 non-financial 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. When this inventory is subsequently disposed of post acquisition the fair value is charged to the income statement. The difference between the fair value of the inventory consumed and its cost is excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10).

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-groupmanufacture. Provision is made for the full amount of foreseeable losses on contracts.

Notes to the financial statements
continued

2 Summary of significant accounting policies 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 cash flows discounted where appropriate. Any impairment required 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.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Leases

Leases where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in liabilities. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The assets acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) 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 environmental, legal and regulatory liabilities, onerous contracts and for product warranty claims when the Group has a present obligation as a result of past events, it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. Provisions are discounted to present value where the impact is significant, using a AAA band rate, and the difference recognised as finance costs.

Retirement benefit schemes

For defined benefit schemes, pension costs and the costs of providing other post retirement benefits (principally healthcare) 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.

For defined contribution schemes, payments are recognised in the income statement when they fall due.

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.

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.

Notes to the financial statements
continued

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.

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. Gains and losses arising from measuring the contracts at fair value are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10). The Group, for instance, 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.

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 45).

Adoption of new and revised Standards

In the current year, the Group has adopted IFRS 7 'Financial Instruments': Disclosures, which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1 'Presentation of Financial Statements'. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital.

Recent accounting developments

The following interpretation has been published and whilst not being mandatory, has been early adopted by the Group in these financial statements:

- *IFRIC 11, 'IFRS 2 – Group and treasury share transactions'*, was early adopted in 2007. IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and Group companies. This interpretation does not have an impact on the Group financial statements.

The following amendments to existing standards, new standards and interpretations have been published and are mandatory for the Group's future accounting periods. They have not been early adopted in these financial statements, but may have an impact on future financial statements when adopted:

- *IFRS 8, 'Operating segments' (effective from 1 January 2009).* IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management.
- *IFRS 3 (Revised), 'Business combinations'.* The amendment to the standard is still subject to endorsement by the European Union. This standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently remeasured at fair value through income. Goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest. All transaction costs will be expensed. The standard is applicable to business combinations occurring in accounting periods beginning on or after 1 July 2009.

The following amendments to existing standards, new standards and interpretations have been published and are mandatory for the Group's future accounting periods. They have not been early adopted in these financial statements and are not expected to have a significant impact on future financial statements when adopted:

- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009);
- IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008);
- IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008);
- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008);
- IFRS 2, 'Share based payments' (Amended);
- IAS 27 (Revised), 'Consolidated and separate financial statements';
- IAS 1 (Revised), 'Presentation of financial statements' (effective for annual periods beginning on or after 1 January 2009).

Notes to the financial statements
continued

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. In addition, many of the Group's principal customers are either government departments or large multinationals. 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 other 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
The Group maintains sufficient committed facilities to meet projected borrowing requirements based on cash flow forecasts. Additional headroom is maintained to protect against the variability of cash flows and to accommodate small bolt-on acquisitions. Key ratios are monitored to ensure continued compliance with covenants contained in the Group's principal credit agreements.

The following table analyses the Group's financial liabilities and derivative assets and liabilities as at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows:

			2007		
	Less than 1 year £'m	**1–2 years £'m**	**2–5 years £'m**	**Greater than 5 years £'m**	**Total £'m**
Bank and other borrowings	**6.5**	**1.1**	**733.5**	**127.4**	**868.5**
Interest payments on borrowings	**13.8**	**6.8**	**20.3**	**9.4**	**50.3**
Obligations under finance leases	**0.5**	**0.5**	**1.8**	**2.7**	**5.5**
Derivative financial instruments:					
Inflows*	**(0.5)**	**–**	**–**	**–**	**(0.5)**
Outflows*	**0.5**	**0.5**	**1.5**	**–**	**2.5**
Total	**20.8**	**8.9**	**757.1**	**139.5**	**926.3**

			2006		
	Less than 1 year £'m	1–2 years £'m	2–5 years £'m	Greater than 5 years £'m	Total £'m
Bank and other borrowings	15.6	1.2	251.3	128.8	396.9
Interest payments on borrowings	10.3	6.9	20.7	14.3	52.2
Derivative financial instruments:					
Inflows*	–	–	–	–	–
Outflows*	0.2	0.2	0.5	0.3	1.2
Total	26.1	8.3	272.5	143.4	450.3

* Assumes no change in interest rates from those prevailing at year end.

Notes to the financial statements
continued

3 Financial risk management continued

Sensitivity analysis

The Group's principal exposures in relation to market risks are to changes in the US dollar against sterling exchange rate and to changes in US interest rates. The table below illustrates the sensitivity of the Group's results to changes in these key variables as at the balance sheet date. The analysis covers only financial assets and liabilities held at the balance sheet date and is made on the basis of the hedge designations in place on the relative dates and assuming no hedge ineffectiveness.

	2007		2006	
	Income statement £'m	Equity £'m	Income statement £'m	Equity £'m
USD/GBP exchange rate +/- 5%	3.0	35.8	3.4	12.8
US yield curve +/- 1%	2.0	12.2	0.6	0.0

Of the impact on equity from movements in the exchange rate, £38.7 million (2006: £15.3 million) relates to net US dollar debt. However, as all US dollar debt is designated as a net investment hedge, the impact is entirely offset by the retranslation of overseas operations.

Capital risk management

The Group's objective when managing its capital structure is to minimise the cost of capital while maintaining adequate capital to protect against volatility in earnings and net asset values. The strategy is designed to maximise shareholder return over the long term. The relative proportion of debt to equity will be adjusted over the medium term depending on the cost of debt compared to equity and the level of uncertainty facing the industry and the Group. The capital structure of the Group at the balance sheet date was as follows:

	2007 £'m	2006 Restated £'m
Obligations under finance leases – current	0.5	–
Bank and other borrowings – current	16.7	17.3
Obligations under finance leases – non-current	5.0	–
Bank and other borrowings – non-current	858.1	380.0
Less cash and cash equivalents	(64.9)	(43.6)
Total net debt	815.4	353.7
Total equity	1,063.4	559.4
Debt/equity %	**77%**	63%

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.

Retirement benefit obligations

The liability recognised in respect of retirement benefit obligations is dependent on a number of estimates including those relating to mortality, inflation, salary increases, healthcare cost increases and the rate at which liabilities are discounted. Any change in these assumptions would impact the retirement benefit obligations recognised. Further details on these estimates are provided in note 35.

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 programme participation costs

The Group capitalises development costs and programme participation 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.

Notes to the financial statements
continued

4 Critical accounting estimates and judgements continued

Environmental matters

The Group is involved in the investigation and remediation of certain sites for which we have been identified as a potentially responsible party under US laws. 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.

Legal and regulatory

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 for these matters is based on a careful analysis of each individual issue with the assistance of outside legal counsel. However, actual claims incurred could differ from the original estimates.

Fair value of intangible assets acquired in a business combination

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

5 Revenue

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

	2007 £'m	2006 £'m
Sale of goods	**789.6**	605.1
Contract accounting revenue	**38.8**	32.7
Revenue from services	**32.8**	12.4
Revenue from funded research and development	**17.0**	20.1
Total	**878.2**	670.3

6 Segmental analysis

Primary reporting format – business segments

The Group's primary segments are its business segments. The Group manages its businesses under the key segments of Aerospace Equipment, Sensing Systems and Defence Systems.

Year ended 31 December 2007

	Aerospace Equipment £'m	**Sensing Systems £'m**	**Defence Systems £'m**	**Total £'m**
Revenue	**528.1**	**235.9**	**114.2**	**878.2**
Underlying operating profit (see note 10)	158.2	41.5	16.6	216.3
Exceptional operating costs (see note 11)	(4.7)	–	(0.7)	(5.4)
Amortisation of intangibles acquired in business combinations (see note 21)	(30.5)	(0.4)	(7.5)	(38.4)
Disposal of inventory revalued in business combinations (see note 10)	(21.3)	–	–	(21.3)
Financial instruments (see note 10)	(4.2)	(1.1)	–	(5.3)
Goodwill adjustment arising from recognition of tax losses (see note 10)	(3.2)	–	–	(3.2)
Operating profit	**94.3**	**40.0**	**8.4**	**142.7**
Net finance costs				(37.3)
Profit before tax				**105.4**
Tax				(16.1)
Profit for the year				**89.3**
Depreciation (see note 22)	11.8	6.1	0.9	**18.8**
Amortisation of intangible assets* (see notes 20 and 21)	40.8	3.9	8.3	**53.0**
Capital expenditure**	57.0	24.8	5.0	**86.8**

* Of the total amortisation in the year £14.6 million has been charged to underlying profit as defined in note 10.

** Capital expenditure includes internal development costs capitalised of £22.4 million (see note 20), capitalised programme participation costs of £20.1 million (see note 20), other purchased intangibles of £3.3 million (see note 21) and property, plant and equipment of £41.0 million (see note 22) but excludes additions arising from the acquisition of businesses which are shown separately in note 44.

Notes to the financial statements
continued

6 Segmental analysis continued

As at 31 December 2007

	Segment assets £'m	Segment liabilities £'m
Aerospace Equipment	2,194.2	(216.9)
Sensing Systems	270.1	(70.4)
Defence Systems	157.7	(25.0)
Unallocated	3.4	(12.8)
Total	**2,625.4**	**(325.1)**

Segment assets and liabilities exclude net debt, taxation, retirement benefit obligations, interest rate derivatives and assets and liabilities classified as held for sale.

Year ended 31 December 2006

	Aerospace Equipment Restated £'m	Sensing Systems Restated £'m	Defence Systems Restated £'m	Total Restated £'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)	(10.1)	(0.9)	(1.9)	(12.9)
Disposal of inventory revalued in business combinations (see note 10)	(0.6)	(0.1)	(0.6)	(1.3)
Financial instruments (see note 10)	9.8	2.3	–	12.1
Goodwill adjustment arising from recognition of tax losses (see note 10)	(2.4)	–	–	(2.4)
Operating profit	89.0	41.1	13.1	143.2
Net finance costs				(16.5)
Profit before tax				126.7
Tax				(32.4)
Profit for the year				94.3
Depreciation (see note 22)	8.8	4.8	1.1	14.7
Amortisation of intangible assets* (see notes 20 and 21)	16.2	4.0	2.1	22.3
Capital expenditure**	30.0	26.3	1.1	57.4

* Of the total amortisation in the year £9.4 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), capitalised programme participation costs of £7.5 million (see note 20), other purchased intangibles of £3.6 million (see note 21) and 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 44.

As at 31 December 2006

	Segment assets Restated £'m	Segment liabilities Restated £'m
Aerospace Equipment	907.7	(160.3)
Sensing Systems	266.3	(71.4)
Defence Systems	153.8	(25.2)
Unallocated	3.6	(9.3)
Total	1,331.4	(266.2)

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

Notes to the financial statements
continued

6 Segmental analysis continued

Secondary reporting format – geographical segments

The Group's secondary segments are its geographical segments.

	2007 £'m	2006 £'m
Revenue		
UK	**121.3**	108.4
Rest of Europe	**212.2**	152.7
North America	**428.3**	331.5
Rest of World	**116.4**	77.7
Total	**878.2**	670.3

Revenues are based on the location of the customer.

	2007 £'m	2006 Restated £'m
Total segment assets		
UK	**734.9**	736.3
Rest of Europe	**101.5**	89.9
North America	**1,783.7**	500.9
Rest of World	**5.3**	4.3
Total	**2,625.4**	1,331.4

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

	2007 £'m	2006 Restated £'m
Capital expenditure		
UK	**29.6**	31.2
Rest of Europe	**14.5**	10.2
North America	**42.6**	15.6
Rest of World	**0.1**	0.4
Total	**86.8**	57.4

Capital expenditure is based on the location of the assets, and includes capitalised internal development costs, capitalised programme participation costs, other purchased intangibles and property plant and equipment but excludes additions arising from the acquisition of businesses which are shown separately in note 44.

Notes to the financial statements
continued

7 Expenses by nature

	2007 £'m	2006 Restated £'m
Raw materials and consumables used	**254.6**	180.9
Changes in inventories of finished goods and work in progress	**(31.2)**	(12.6)
Disposal of inventory revalued in business combinations (see note 10)	**21.3**	1.3
Employee costs (see note 9)	**290.7**	235.2
Depreciation of property, plant & equipment (see note 22)	**18.8**	14.7
Amortisation of development costs (see note 20)	**3.8**	3.0
Amortisation of programme participation costs (see note 20)	**7.8**	3.3
Amortisation of other purchased intangible assets (see note 21)	**3.0**	3.1
Amortisation of intangibles acquired in business combinations (see note 10)	**38.4**	12.9
Foreign exchange gains	**(2.8)**	(1.5)
Operating lease rentals – land and buildings	**7.7**	7.5
Operating lease rentals – plant, equipment and vehicles	**1.1**	0.7
Exceptional operating costs (see note 11)	**5.4**	1.5
Financial instruments (see note 10)	**5.3**	(12.1)
Goodwill adjustment arising from recognition of tax losses (see note 14)	**3.2**	2.4
Other administration costs	**109.2**	88.0
	736.3	528.3
Other operating income	**(0.8)**	(1.2)
Total	**735.5**	527.1
Analysed in the income statement:		
Cost of sales	**493.4**	373.8
Net operating costs	**242.1**	153.3
Total	**735.5**	527.1

Research and development costs charged to the income statement were £34.3 million (2006: £26.0 million).

8 Auditor remuneration

		2007 £'m	2006 £'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	**1.4**	0.8
	: Fees payable for other services supplied pursuant to such legislation	**1.4**	–
	: Services relating to corporate finance transactions	**0.1**	0.1
	: All other services	**1.3**	0.9
Total		**4.4**	2.0

Fees paid to PricewaterhouseCoopers LLP shown as other services pursuant to such legislation of £1.4 million (2006: £Nil) have been capitalised within acquisition costs of businesses acquired during the year.

'All other services' primarily relates to fees in respect of cost saving advice on 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 £27,000 (2006: £29,000).

The Group engages PricewaterhouseCoopers LLP to undertake those non-audit related activities which they are required to, and most suited to, perform. Further details on the Group's policy in respect of non-audit fees is contained in the Directors' statement on corporate governance on page 42.

Notes to the financial statements
continued

9 Employee costs

	2007 £'m	2006 £'m
Employee costs during the year including executive directors:		
Wages and salaries	**232.0**	189.2
Social security costs	**33.0**	27.0
Pension costs – defined contribution schemes (see note 35)	**8.4**	6.4
Pension costs – defined benefit schemes (see note 35)	**11.6**	9.3
Other post retirement costs – healthcare schemes (see note 35)	**0.5**	–
Share-based payment (see note 38)	**5.2**	3.3
Total	**290.7**	235.2

	2007 No.	2006 No.
Average monthly number of persons employed including executive directors:		
Production	**6,023**	4,859
Selling and distribution	**611**	572
Administration	**726**	594
Total	**7,360**	6,025

Details of directors' remuneration can be found in the Remuneration Report on page 43, which constitutes part of these financial statements.

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. It excludes certain items as shown below:

	Note	2007 £'m	2006 Restated £'m
Operating profit		**142.7**	143.2
Exceptional operating costs (see note 11)		**5.4**	1.5
Amortisation of intangibles acquired in business combinations	a	**38.4**	12.9
Disposal of inventory revalued in business combinations	b	**21.3**	1.3
Financial instruments	c	**5.3**	(12.1)
Goodwill adjustment arising from recognition of tax losses	d	**3.2**	2.4
Adjustments to operating profit		**73.6**	6.0
Underlying operating profit		**216.3**	149.2
Profit before tax		**105.4**	126.7
Adjustments to operating profit per above		**73.6**	6.0
Exceptional finance costs (see note 11)		**2.0**	–
Exceptional finance income (see note 11)		**(2.0)**	–
Adjustments to profit before tax		**73.6**	6.0
Underlying profit before tax		**179.0**	132.7
Profit for the year		**89.3**	94.3
Adjustments to profit before tax per above		**73.6**	6.0
Tax effect of adjustments to operating profit		**(33.1)**	(3.4)
Underlying profit for the year		**129.8**	96.9

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

	2007 £'m	2006 Restated £'m
Amortisation of other intangible assets (see note 21)	**41.4**	16.0
Less amortisation of purchased intangible assets (see note 21)	**(3.0)**	(3.1)
Amortisation of intangibles acquired in business combinations	**38.4**	12.9

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 acquired inventory is thus significantly higher than the same items built post acquisition, the value of which includes no profit element. This increase arising from the revalued 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.

Where interest rate derivatives do not qualify to be hedge accounted, movements in the fair value of these derivatives are excluded from underlying profit. Where interest rate derivatives do qualify to be accounted for as fair value hedges, the difference between the movement in the fair values of the derivatives and in the fair value of fixed rate borrowings is excluded from underlying profit. Any gains or losses arising from the requirement to continue to measure fixed rate borrowings at fair value after the associated interest rate derivatives have matured or have been cancelled are also excluded from underlying profit.

	2007 £'m	2006 £'m
Movement in the fair value of foreign currency forward contracts (see note 32)	**5.8**	(14.0)
Impact of retranslating net foreign currency assets and liabilities at spot rate	**(0.7)**	2.0
Movement in the fair value of interest rate derivatives	**0.2**	0.1
Movement in the fair value of associated fixed interest rate borrowings	**–**	(0.2)
Financial instruments – loss/(gain)	**5.3**	(12.1)

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 items

	Note	2007 £'m	2006 £'m
Integration of K & F Industries Holdings, Inc. ('K & F')	a	**4.7**	–
Integration of Firearms Training Systems Inc ('FATS')	b	**0.7**	1.5
Exceptional operating costs		**5.4**	1.5

	Note	2007 £'m	2006 £'m
Rights issue – Interest on bank deposits	c	**(2.0)**	–
Rights issue – Reduced interest payable net of costs of new facilities	c	**(1.6)**	–
Redemption of K & F 7.75% senior subordinated notes	d	**3.6**	–
Exceptional net finance costs		**–**	–
Analysed as:			
Exceptional finance income		**(2.0)**	–
Exceptional finance costs		**2.0**	–
Exceptional net finance costs		**–**	–

a. Costs incurred to date arise from eliminating K & F head office costs, combining our UK brakes maintenance, repair and overhaul facilities in the UK onto Dunlop's Coventry site, as well as the creation of a single brakes sales and marketing organisation and detailed planning of the remaining integration activities. Further exceptional operating costs of £24.3 million are expected to arise over the next 3 years as the integration is completed.

b. During the year the consolidation of FATS UK onto the Meggitt Defence Systems Limited site in Kent has been completed. In the US, Caswell is in the process of being consolidated with FATS US at a new site in Atlanta. The consolidation will be completed in the first half of 2008.

Cash expenditure on all exceptional operating costs was £4.2 million (2006: £1.8 million). The tax credit in respect of the exceptional operating costs was £1.7 million (2006: £0.5 million).

c. The Group announced on 6 March 2007 the proposed acquisition of K & F for an enterprise value of USD 1.8 billion funded in part by a rights issue with the balance financed by a new debt facility. The reduction in net finance costs arising from the cash raised by the rights issue and finance costs associated with the new debt facilities have been treated as exceptional net finance income in respect of the period between the completion of the rights issue on 18 April 2007 and the completion of the acquisition on 22 June 2007.

d. Following the acquisition of K & F, the Group commenced a cash tender offer for K & F's USD 315 million aggregate principal amount of 7.75% senior subordinated notes which were due in 2014. This tender offer successfully completed on 3 August 2007. The premium payable on redemption, being the difference between the total consideration paid and the book value of the notes at the date the offer completed, has been treated as exceptional finance costs.

Notes to the financial statements
continued

12 Finance income

	2007 £'m	2006 £'m
Interest on bank deposits	**3.6**	0.8
Unwinding of interest on other receivables	**0.9**	1.0
Expected return on retirement benefit scheme assets (see note 35)	**27.0**	22.8
Other finance income	**1.2**	0.5
Finance income	**32.7**	25.1

13 Finance costs

	2007 £'m	2006 £'m
Interest on bank borrowings	**27.1**	10.9
Interest on USD 250 million senior notes	**6.7**	7.3
Interest on 7.75% senior subordinated notes	**1.7**	–
Interest on finance lease obligations	**0.2**	–
Unwinding of interest on retirement benefit scheme liabilities (see note 35)	**28.2**	21.8
Unwinding of interest on provisions (see note 33)	**1.1**	1.0
Premium payable on redemption of 7.75% senior subordinated notes (see note 11)	**3.6**	–
Other finance costs	**1.4**	0.6
Finance costs	**70.0**	41.6

14 Tax

	2007 £'m	2006 Restated £'m
Current tax – current year	**36.4**	27.8
Current tax – adjustment in respect of prior years	**(2.9)**	0.8
Deferred tax – current year	**(8.5)**	10.6
Deferred tax – adjustment in respect of prior years	**(5.7)**	(4.4)
Deferred tax – adjustments to goodwill on recognition of tax assets* (see note 10)	**(3.2)**	(2.4)
Total taxation	**16.1**	32.4

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:

	2007 £'m	2006 Restated £'m
Profit on ordinary activities before taxation at weighted average standard tax rate of 34.9%** (2006: 34.3%)	**36.8**	43.5
Effects of:		
Permanent differences	**(4.8)**	0.1
Timing differences	**(1.8)**	(0.1)
Tax credits and incentives	**(2.3)**	(5.0)
Prior year credit	**(8.6)**	(3.7)
Deferred tax – adjustments to goodwill on recognition of tax assets*	**(3.2)**	(2.4)
Total taxation	**16.1**	32.4

Notes to the financial statements
continued

14 Tax continued

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

	2007 £'m	2006 £'m
Current tax on exchange movements	**(7.2)**	(2.0)
Deferred tax on actuarial gains and losses	**8.2**	(1.3)
Deferred tax on share based payment	**(0.6)**	(2.4)
Deferred tax on cash flow hedge	**(2.9)**	–
Total taxation recorded in equity	**(2.5)**	(5.7)

* 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, not withstanding 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 2007 to increase or reduce respectively by approximately £1 million.

15 Profit of parent company

The consolidated profit attributable to the shareholders of Meggitt PLC includes a profit, after dividends received, of £40.8 million (2006: £16.8 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.

16 Earnings per ordinary share

Earnings per ordinary share ('EPS') 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 39). 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.

	2007 £'m	**2007 No. 'm**	**2007 Pence**	2006 Restated £'m	2006 Restated No. 'm	2006 Restated Pence
Profit attributable to equity shareholders	**89.3**	**612.7**	**14.6**	94.3	507.5	18.6
Own shares (see note 39)	**–**	**(0.1)**	**–**	–	(0.1)	–
Basic EPS	**89.3**	**612.6**	**14.6**	94.3	507.4	18.6
Effect of dilutive potential ordinary shares – options	**–**	**3.3**	**(0.1)**	–	3.3	(0.1)
Diluted EPS	**89.3**	**615.9**	**14.5**	94.3	510.7	18.5

Prior year figures have been restated for the effects of finalising the fair values of acquisitions made in 2006 and for the rights issue approved by shareholders on 27 March 2007 (see note 45).

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

	2007 Pence	2006 Pence
Basic EPS	**14.6**	18.6
Add back effects of:		
Exceptional operating costs	**0.6**	0.2
Amortisation of intangibles acquired in business combinations	**3.3**	1.8
Disposal of inventory revalued in business combinations	**2.1**	0.2
Financial instruments	**0.6**	(1.7)
Exceptional finance income	**(0.5)**	–
Exceptional finance costs	**0.4**	–
Rights issue*	**1.0**	–
Underlying EPS	**22.1**	19.1

* As referred to in note 11 the Group has excluded exceptional net finance income arising from the rights issue for the period from when the rights issue proceeds were received on 18 April 2007 to 22 June 2007, the date when the acquisition of K & F was completed. For the purposes of underlying EPS for 2007 the Group has also adjusted the weighted average number of shares used to exclude the effect of the new shares for this same period. The weighted average number of shares used for underlying EPS in 2007 is 586.9 million.

Notes to the financial statements
continued

17 Dividends

	2007 £'m	2006 £'m
In respect of earlier years	**–**	23.0
In respect of 2006:		
Interim of 2.23p per share*	**–**	11.3
Final of 5.13p per share*	**26.2**	–
In respect of 2007:		
Interim of 2.45p per share	**16.0**	–
Dividends paid	**42.2**	34.3
Less paid as scrip dividend (see note 43)	**(6.6)**	(2.3)
Dividends paid in cash	**35.6**	32.0

* Adjusted to reflect the bonus element of the rights issue approved by shareholders on 27 March 2007.

A final dividend in respect of 2007 of 5.75p per share (2006: 5.13p as restated), amounting to a total final dividend of £37.9 million (2006: £26.2 million) is to be proposed at the Annual General Meeting on 24 April 2008. 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:

	2007 £'m	2006 £'m
Wages and salaries	**6.7**	5.0
Social security costs	**0.9**	0.8
Pension costs – defined contribution schemes	**0.1**	0.1
Pension costs – defined benefit schemes	**0.3**	0.3
Share based payment	**2.0**	1.2
Total	**10.0**	7.4

Interests of key management personnel in shares schemes operated by the Group at the balance sheet date are set out below:

	2007 Average exercise price pence	2007 No. outstanding 'm	2006 Average exercise price pence	2006 No. outstanding 'm
Share options	**249.34**	**5.0**	233.55	4.1
Share appreciation rights	**281.95**	**0.7**	271.03	0.5
Equity Participation Plan shares	**N/A**	**1.6**	N/A	2.0

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 43 which constitutes part of these financial statements.

Notes to the financial statements
continued

19 Goodwill

	Total £'m
At 1 January 2006	
Cost	546.9
Year ended 31 December 2006	
Opening cost	546.9
Exchange rate adjustments as restated	(34.0)
Businesses acquired as restated	52.9
Adjustment arising from recognition of tax losses (see note 10)	(2.4)
Closing cost – restated (see note 45)	563.4
Year ended 31 December 2007	
Opening cost	563.4
Exchange rate adjustments	(0.8)
Businesses acquired (see note 44)	520.3
Transfer to assets classified as held for sale (see note 23)	(8.5)
Adjustment arising from recognition of tax losses (see note 10)	(3.2)
Closing cost	**1,071.2**

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 (2006: £Nil) and the cumulative impairment charge recognised to date was £Nil (2006: £Nil).

The key assumptions used in the impairment calculations were:

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

The resulting cash flows were discounted using a post tax discount rate of 7.4% (2006: 8.0%).

Sensitivity analysis as at 31 December 2007 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.

An analysis of goodwill by significant acquisition is shown below:

	2007 £'m	2006 Restated £'m
Arising from the acquisition of:		
K & F Industries Holdings, Inc	**522.0**	–
Design and Manufacturing division of Dunlop Standard Aerospace Group Limited	**204.2**	207.4
Whittaker Corporation	**156.3**	159.0
Firearms Training Systems Inc	**42.5**	43.2
Other	**146.2**	153.8
Total	**1,071.2**	563.4

A segment level summary of goodwill is shown below:

	2007 £'m	2006 Restated £'m
Aerospace Equipment	**926.8**	410.8
Sensing Systems	**76.5**	83.8
Defence Systems	**67.9**	68.8
Total	**1,071.2**	563.4

Notes to the financial statements
continued

20 Development costs and programme participation costs

	Development costs £'m	Programme participation costs Restated £'m
At 1 January 2006		
Cost	31.3	47.1
Accumulated amortisation	(9.6)	(17.4)
Net book amount	21.7	29.7
Year ended 31 December 2006		
Opening net book amount	21.7	29.7
Exchange rate adjustments	(1.3)	–
Additions	14.5	7.5
Amortisation charge	(3.0)	(3.3)
Closing net book amount	31.9	33.9
At 31 December 2006		
Cost	44.3	54.6
Accumulated amortisation	(12.4)	(20.7)
Net book amount	31.9	33.9
Year ended 31 December 2007		
Opening net book amount	31.9	33.9
Exchange rate adjustments	1.2	0.4
Businesses acquired (see note 44)	7.0	75.2
Additions	22.4	20.1
Transfer to assets classified as held for sale (see note 23)	(1.0)	–
Amortisation charge	(3.8)	(7.8)
Closing net book amount	**57.7**	**121.8**
At 31 December 2007		
Cost	74.0	150.4
Accumulated amortisation	(16.3)	(28.6)
Net book amount	**57.7**	**121.8**

Programme participation costs have been reclassified from other receivables to intangible assets. Further details on the effect of the reclassification are provided in note 45.

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 2006						
Cost as restated	138.7	37.0	6.7	8.5	10.5	201.4
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	5.0	181.4
Year ended 31 December 2006						
Opening net book amount	130.1	34.8	3.1	8.4	5.0	181.4
Exchange rate adjustments	(1.4)	(1.3)	–	(0.4)	(0.3)	(3.4)
Businesses acquired as restated	17.1	27.6	1.5	7.2	–	53.4
Additions	–	–	–	–	3.6	3.6
Amortisation charge	(7.2)	(2.8)	(2.4)	(0.5)	(3.1)	(16.0)
Closing net book amount – restated (see note 45)	138.6	58.3	2.2	14.7	5.2	219.0
At 31 December 2006						
Cost	154.2	63.2	8.1	15.4	12.8	253.7
Accumulated amortisation	(15.6)	(4.9)	(5.9)	(0.7)	(7.6)	(34.7)
Net book amount – restated (see note 45)	138.6	58.3	2.2	14.7	5.2	219.0
Year ended 31 December 2007						
Opening net book amount	138.6	58.3	2.2	14.7	5.2	219.0
Exchange rate adjustments	1.7	–	–	(0.1)	(0.1)	1.5
Businesses acquired (see note 44)	447.6	94.3	10.1	6.9	1.0	559.9
Additions	–	–	–	–	3.3	3.3
Transfer to assets classified as held for sale (see note 23)	–	–	–	–	(0.1)	(0.1)
Amortisation charge	(21.9)	(9.5)	(3.6)	(3.4)	(3.0)	(41.4)
Closing net book amount	**566.0**	**143.1**	**8.7**	**18.1**	**6.3**	**742.2**
At 31 December 2007						
Cost	603.8	157.6	18.3	22.2	15.5	817.4
Accumulated amortisation	(37.8)	(14.5)	(9.6)	(4.1)	(9.2)	(75.2)
Net book amount	**566.0**	**143.1**	**8.7**	**18.1**	**6.3**	**742.2**

* 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 2006			
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	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
Year ended 31 December 2007			
Opening net book amount	73.3	54.3	127.6
Exchange rate adjustments	0.5	1.1	1.6
Businesses acquired (see note 44)	14.2	33.1	47.3
Additions	15.6	25.4	41.0
Transfer to assets classified as held for sale (see note 23)	(0.5)	(0.7)	(1.2)
Disposals	(1.8)	(0.3)	(2.1)
Depreciation charge	(3.2)	(15.6)	(18.8)
Closing net book amount	**98.1**	**97.3**	**195.4**
At 31 December 2007			
Cost	122.3	293.5	415.8
Accumulated depreciation	(24.2)	(196.2)	(220.4)
Net book amount	**98.1**	**97.3**	**195.4**

The Group's obligations under finance leases (see note 29) are secured by the lessors' title to the leased assets, which have a carrying amount of £5.2 million (2006: £Nil).

23 Non-current assets and liabilities held for sale

The disposal of S-Tec Corporation (part of the Sensing Systems segment) was announced on 21 November 2007 subject to certain regulatory clearances being obtained. The related assets have been classified as a disposal group held for sale and are presented separately at the balance sheet date together with directly associated liabilities. The sale was subsequently completed on 3 January 2008 for a consideration of USD 38.0 million.

	2007 £'m	2006 £'m
Goodwill (see note 19)	**8.5**	–
Development costs (see note 20)	**1.0**	–
Other intangible assets (see note 21)	**0.1**	–
Property, plant and equipment (see note 22)	**1.2**	–
Inventory	**2.0**	–
Trade and other receivables	**1.7**	–
Assets held for sale	**14.5**	–

	2007 £'m	2006 £'m
Trade and other payables	**1.4**	–
Provisions (see note 33)	**0.2**	–
Liabilities directly associated with assets classified as held for sale	**1.6**	–

Notes to the financial statements
continued

24 Inventories

	2007 £'m	2006 Restated £'m
Contract costs incurred	**14.1**	8.9
Less progress billings	**(10.1)**	(3.2)
	4.0	5.7
Raw materials and bought-in components	**82.8**	64.0
Manufacturing work in progress	**72.7**	52.2
Finished goods and goods for resale	**45.1**	32.7
Total	**204.6**	154.6

The cost of inventories recognised as an expense and included in cost of sales amounted to £244.7 million (2006: £169.6 million as restated).

25 Trade and other receivables

	2007 £'m	2006 Restated £'m
Trade receivables	**158.3**	125.5
Amounts recoverable on contracts	**10.9**	7.5
Prepayments and accrued income	**5.7**	4.2
Other receivables	**54.1**	55.4
Total	**229.0**	192.6
Less non-current portion:		
Other receivables	**14.4**	20.3
Non-current portion	**14.4**	20.3
Current portion	**214.6**	172.3

Programme participation costs (previously referred to as 'deferred costs' in the Group's 2006 financial statements) have been reclassified from other receivables to intangible assets. Further details on the effect of the reclassification are provided in note 45.

Other receivables include £17.5 million (2006: £24.7 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 33) of which £4.0 million (2006: £5.3 million) is shown as current.

Other receivables in total also includes £Nil million (2006: £0.3 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 39). 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.

The Group's trade receivables are stated after a provision for impairment of £2.9 million (2006: £3.4 million). Other balances within trade and other receivables do not contain impaired assets. The provision for impairment against trade receivables is based on a specific risk assessment taking into account past default experience and is analysed as follows:

	2007 £'m	2006 £'m
At 1 January	**3.4**	3.8
Exchange movements	**–**	(0.2)
Credit to income statement	**(0.5)**	(0.2)
At 31 December	**2.9**	3.4

The credit to income statement for impaired receivables has been included in 'net operating costs'.

Notes to the financial statements
continued

25 Trade and other receivables continued

As of 31 December 2007, trade receivables of £28.5 million (2006: £24.6 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2007 £'m	2006 £'m
Up to 3 months	**25.6**	21.5
Over 3 months	**2.9**	3.1
Total	**28.5**	24.6

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2007 £'m	2006 £'m
Sterling	**83.9**	76.3
US Dollar	**124.7**	98.4
Euro	**15.3**	14.6
Other currencies	**5.1**	3.3
Total	**229.0**	192.6

26 Cash and cash equivalents

	2007 £'m	2006 £'m
Cash at bank and in hand	**64.9**	43.6
Cash and cash equivalents	**64.9**	43.6

Cash and cash equivalents are subject to interest at floating rates.

The credit quality of cash and cash equivalents was as follows:

	2007 £'m	2006 £'m
S&P rating:		
AAA	**1.4**	–
AA	**53.7**	39.3
A	**9.8**	4.3
Total	**64.9**	43.6

27 Trade and other payables – current

	2007 £'m	2006 Restated £'m
Payments received on account	**44.2**	47.3
Trade payables	**79.4**	65.2
Social security and other taxes	**6.9**	4.2
Accrued expenses	**22.9**	10.3
Deferred consideration on acquisitions	**3.5**	3.2
Other payables	**69.9**	69.4
Total	**226.8**	199.6

28 Trade and other payables – non-current

	2007 £'m	2006 Restated £'m
Other payables	**7.0**	4.2
Total	**7.0**	4.2

Notes to the financial statements
continued

29 Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2007 £'m	2006 £'m	**2007 £'m**	2006 £'m
Amounts payable under finance leases:				
Within one year	**0.9**	–	**0.5**	–
In the second to fifth years inclusive	**3.2**	–	**2.3**	–
After five years	**2.8**	–	**2.7**	–
Total	**6.9**	–	**5.5**	–
Less: future finance charges	**(1.4)**	–		
Present value of lease obligations	**5.5**	–		
Non-current portion	**5.0**	–		
Current portion	**0.5**	–		

The underlying currency of obligations under finance leases at the balance sheet date is Sterling £0.2 million and US dollars £5.3 million. The weighted average period to maturity for these finance leases was 6.0 years and the weighted average interest rate was 5.6%.

30 Bank and other borrowings

	2007 £'m	2006 £'m
Current		
Bank loans	**15.2**	16.0
Other loans	**1.5**	1.3
Total current	**16.7**	17.3
Non-current		
Bank loans	**727.0**	247.9
Other loans	**131.1**	132.1
Total non-current	**858.1**	380.0
Total borrowings	**874.8**	397.3
Analysis of borrowings repayable:		
In one year or less	**16.7**	17.3
In more than one year but not more than two years	**3.1**	1.2
In more than two years but not more than five years	**729.2**	250.7
In more than five years	**125.8**	128.1
Total	**874.8**	397.3

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 £0.7 million (2006: £0.8 million).

The Group had the following committed facilities:

	2007			2006		
	Drawn £'m	**Undrawn £'m**	**Total £'m**	Drawn £'m	Undrawn £'m	Total £'m
Senior notes (USD 250.0 million)	**125.6**	**–**	**125.6**	127.7	–	127.7
Syndicated credit facility (USD 680.0 million)	**229.1**	**112.5**	**341.6**	237.0	110.4	347.4
Syndicated credit facility (USD 1,170.0 million)	**494.6**	**93.1**	**587.7**	–	–	–
Total	**849.3**	**205.6**	**1,054.9**	364.7	110.4	475.1

The Group issued USD 250.0 million of loan notes to private investors in 2003. These were all drawn at 31 December 2007 and the sterling equivalent was £125.6 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 negotiated a USD 1,170.0 million, five year, unsecured multi-currency revolving credit facility during 2007 in connection with the acquisition of K & F. In addition the covenants contained in the Group's existing USD 680 million credit facility agreement and in the loan notes were amended to facilitate the acquisition. At 31 December 2007 the amounts drawn under our revolving credit facilities were £723.7 million represented by borrowings denominated in US dollars of £661.7 million (USD 1,317 million), in Euros of £10.1 million (Euros 14 million), and in Swiss francs of £52.0 million (Swiss francs 117 million). Borrowings under the facilities are subject to interest at floating rates.

Notes to the financial statements
continued

30 Bank and other borrowings continued

The committed facilities outstanding at 31 December 2007 and 2006 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:

	2007		2006	
	Book value £'m	**Fair value £'m**	Book value £'m	Fair value £'m
Current	**16.7**	**16.7**	17.3	17.3
Non-current	**858.1**	**855.9**	380.0	377.6
Total	**874.8**	**872.6**	397.3	394.9

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 2007:

					Fixed rate borrowings	
	Floating £'m	**Fixed £'m**	**Non-interest bearing £'m**	**Total £'m**	**Weighted average interest rate %**	**Weighted average period for which rate is fixed years**
Sterling	**–**	**–**	**–**	**–**		
US dollars	**272.3**	**527.5**	**–**	**799.8**	**5.5**	**4.0**
Swiss francs	**58.0**	**–**	**–**	**58.0**		
Euro	**10.0**	**0.7**	**5.9**	**16.6**	**5.7**	**2.9**
Other	**4.4**	**–**	**–**	**4.4**		
Gross borrowings	**344.7**	**528.2**	**5.9**	**878.8**		
Less unamortised debt issue costs	**(3.6)**	**(0.4)**	**–**	**(4.0)**		
Book value of borrowings	**341.1**	**527.8**	**5.9**	**874.8**		

As at 31 December 2006:

					Fixed rate borrowings	
	Floating £'m	Fixed £'m	Non-interest bearing £'m	Total £'m	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		

The weighted average period to maturity for non-interest bearing borrowings is 5.1 years (2006: 2.8 years).

31 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.

Notes to the financial statements
continued

31 Financial instruments continued

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

	2007 Book value £'m	2007 Fair value £'m	2006 Book value Restated £'m	2006 Fair value Restated £'m
Financial assets				
Non-current:				
Trade and other receivables	**14.4**	**14.4**	20.3	20.3
Current:				
Trade and other receivables	**214.6**	**214.6**	172.3	172.3
Derivative financial instruments (see note 32)	**3.6**	**3.6**	8.4	8.4
Cash and cash equivalents	**64.9**	**64.9**	43.6	43.6
	297.5	**297.5**	244.6	244.6
Financial liabilities				
Current:				
Trade and other payables	**(226.8)**	**(226.8)**	(199.6)	(199.6)
Derivative financial instruments (see note 32)	**(0.9)**	**(0.9)**	–	–
Obligations under finance leases	**(0.5)**	**(0.5)**	–	–
Bank and other borrowings	**(16.7)**	**(16.7)**	(17.3)	(17.3)
Non-current:				
Trade and other payables	**(7.0)**	**(7.0)**	(4.2)	(4.2)
Derivative financial instruments (see note 32)	**(10.7)**	**(10.7)**	(0.6)	(0.6)
Obligations under finance leases	**(5.0)**	**(5.0)**	–	–
Bank and other borrowings	**(858.1)**	**(855.9)**	(380.0)	(377.6)
	(1,125.7)	**(1,123.5)**	(601.7)	(599.3)
Total	**(828.2)**	**(826.0)**	(357.1)	(354.7)

The above table excludes non-current assets and liabilities held for sale (see note 23).

32 Derivative financial instruments

	Contract or underlying principal amount		Fair value	
	2007 Assets £'m	**2007 Liabilities £'m**	**2007 Assets £'m**	**2007 Liabilities £'m**
Interest rate swaps	**59.4**	**(401.9)**	**0.1**	**(10.7)**
Foreign currency forward contracts	**59.6**	**(35.1)**	**3.5**	**(0.9)**
Total	**119.0**	**(437.0)**	**3.6**	**(11.6)**
Less non-current portion:				
Interest rate swaps	**–**	**(401.9)**	**–**	**(10.7)**
Non-current portion	**–**	**(401.9)**	**–**	**(10.7)**
Current portion	**119.0**	**(35.1)**	**3.6**	**(0.9)**

	Contract or underlying principal amount		Fair value	
	2006 Assets £'m	2006 Liabilities £'m	2006 Assets £'m	2006 Liabilities £'m
Interest rate swaps	–	(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	–	(28.1)	–	(0.6)
Non-current portion	–	(28.1)	–	(0.6)
Current portion	113.6	(7.2)	8.4	–

Notes to the financial statements
continued

32 Derivative financial instruments continued

Interest rate swaps

The notional principal amount of the outstanding interest rate swap contracts at 31 December 2007 was £461.3 million (USD 918.2 million). The swaps have the economic effect of converting floating rate dollar borrowings into fixed rate dollar borrowings. The notional principal amount of the outstanding interest rate swap contract at 31 December 2006 was £28.1 million (USD 55.0 million).

Foreign currency forward contracts

	2007 £'m	2006 £'m
Fair value:		
US dollar forward sales (USD/£)	**2.6**	7.4
Forward sales denominated in other currencies	**0.9**	1.0
Total asset	**3.5**	8.4

The credit quality of derivative financial assets was as follows:

	2007 £'m	2006 £'m
AA	**3.5**	7.6
A	**0.1**	0.8
Total	**3.6**	8.4

33 Provisions

	Environmental legal & regulatory (a) £'m	Onerous contracts (b) £'m	Warranty costs (c) £'m	Total £'m
Balance at 1 January 2007 as previously reported	52.4	1.2	7.9	61.5
Restatement following finalisation of fair values (see note 45)	–	–	0.9	0.9
Balance at 1 January 2007 as restated	52.4	1.2	8.8	62.4
Exchange rate adjustments	(0.5)	–	–	(0.5)
Businesses acquired (see note 44)	13.3	5.3	12.6	31.2
Transfer to liabilities held for resale (see note 23)	–	–	(0.2)	(0.2)
Charge to income statement – net operating costs	6.7	4.0	0.6	11.3
Charge to income statement – net finance costs (see note 13)	1.0	0.1	–	1.1
Utilised	(11.7)	(0.3)	(2.8)	(14.8)
Balance at 31 December 2007	**61.2**	**10.3**	**19.0**	**90.5**

	2007 £'m	2006 Restated £'m
Current	**18.0**	7.5
Non-current	**72.5**	54.9
Balance at 31 December 2007	**90.5**	62.4

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. The Group's operations and facilities are subject to a number of laws and regulations that govern the discharge of pollutants and hazardous substances into air and water, the handling, storage and disposal of such materials and other environmental matters. Currently the Group is involved in the investigation and remediation of certain sites for which it has been identified as a potentially responsible party under US environmental laws. The Group has made provision for the expected costs arising from these sites based on information currently available and established a receivable to the extent these costs are recoverable under the Group's environmental insurance policies. A number of asbestos related claims are received each year by subsidiary companies. To date the total amount concerned for such claims in any year has not been material and many claims are covered fully or partly by existing insurance or indemnities. There is a provision for claims which cannot be recovered from insurers. In 2004 the US Department of Commerce and the US Department of Justice commenced an investigation into the alleged violation of US export control regulations by a US subsidiary of the Group. In addition the US Department of State is investigating alleged breaches of US re-export regulations by a UK subsidiary of the Group. These investigations are likely to lead to the payment of financial penalties for which a provision has been made. The provisions are expected to be mainly utilised over the next ten years and are discounted, where appropriate, using a discount rate relevant to each provision.

b) Onerous contracts include lease obligations and trading contracts. 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. Provision has also been set up for the estimated losses to be made under certain trading contracts. These are expected to be utilised over the next six years.

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

34 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 2006	5.8	31.4	4.5	41.7
Exchange rate adjustments	–	(0.9)	(0.2)	(1.1)
Businesses acquired	–	–	3.3	3.3
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	13.4	50.9
Exchange rate adjustments	–	0.2	0.4	0.6
Businesses acquired (see note 44)	–	32.2	(21.3)	10.9
Reclassifications	–	–	(8.4)	(8.4)
Credited/(charged) to income statement (see note 14)	(4.0)	(2.2)	11.9	5.7
Credited/(charged) to equity (see note 14)	–	(8.2)	3.5	(4.7)
Balance at 31 December 2007	**2.7**	**52.8**	**(0.5)**	**55.0**

Deferred tax liabilities

	Accelerated tax depreciation £'m	Intangible assets (*) £'m	Other £'m	Total £'m
Balance at 1 January 2006	(9.0)	(53.8)	(0.2)	(63.0)
Exchange rate adjustments	0.5	0.4	0.3	1.2
Businesses acquired	–	(17.2)	–	(17.2)
Reclassifications	(0.4)	(7.6)	–	(8.0)
Credited/(charged) to income statement (see note 14)	(3.1)	2.4	(0.2)	(0.9)
Balance at 31 December 2006	(12.0)	(75.8)	(0.1)	(87.9)
Exchange rate adjustments	–	(2.2)	–	(2.2)
Businesses acquired (see note 44)	(5.5)	(214.6)	–	(220.1)
Reclassifications	8.5	(0.2)	0.1	8.4
Credited/(charged) to income statement (see note 14)	(0.1)	11.8	–	11.7
Balance at 31 December 2007	**(9.1)**	**(281.0)**	**–**	**(290.1)**

* 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:

	2007 £'m	2006 Restated £'m
Deferred tax assets	**41.4**	32.9
Deferred tax liabilities	**(276.5)**	(69.9)
Net balance at 31 December	**(235.1)**	(37.0)

Deferred tax assets are analysed as follows:

	2007 £'m	2006 Restated £'m
To be recovered within 12 months	**23.0**	5.9
To be recovered after more than 12 months	**18.4**	27.0
Total	**41.4**	32.9

Deferred tax liabilities are analysed as follows:

	2007 £'m	2006 Restated £'m
To be recovered within 12 months	**(2.0)**	(3.4)
To be recovered after more than 12 months	**(274.5)**	(66.5)
Total	**(276.5)**	(69.9)

Notes to the financial statements
continued

34 Deferred tax continued

The Group has unrecognised deferred tax assets of £7.5 million (2006: £21.1 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 £21.0 million (2006: £7.9 million).

35 Retirement benefit obligations

Pension schemes

In the UK, the Group operates four defined benefit schemes, one of which arose on the acquisition of K & F. The assets of the schemes are held in trust funds separate from the Group's finances. In the USA, the Group operates five defined benefit schemes, three of which arose on the acquisition of K & F. The schemes are a mixture of funded and unfunded plans. In Switzerland the Group operates a defined benefit scheme which is a funded scheme. The Group also operates a number of defined contribution schemes.

Healthcare schemes

The Group has two principal other post-retirement benefit schemes providing medical and life assurance benefits, both of which arose on the acquisition of K & F. These schemes are unfunded.

Amounts recognised in the income statement:

	2007 £'m	2006 £'m
In respect of:		
Defined contribution schemes (see note 9)	**8.4**	6.4
Defined benefit schemes		
Service cost (see note 9)	**11.6**	11.1
Past service credit (see note 9)	**–**	(1.8)
Expected return on scheme assets (see note 12)	**(27.0)**	(22.8)
Interest cost (see note 13)	**26.6**	21.8
Total cost of defined benefit schemes	**11.2**	8.3
Healthcare schemes		
Service cost (see note 9)	**0.5**	–
Interest cost (see note 13)	**1.6**	–
Total cost of healthcare schemes	**2.1**	–
Total charge	**21.7**	14.7

Of the total charge £9.8 million (2006: £6.8 million) has been included in cost of sales, £10.7 million (2006: £8.9 million) in net operating expenses and a charge of £1.2 million (2006: credit of £1.0 million) included in net finance costs.

Amounts recognised in the balance sheet

	2007			
	UK pension schemes £'m	**Overseas pension schemes £'m**	**Healthcare schemes £'m**	**Total £'m**
Fair value of scheme assets	**334.2**	**137.2**	**–**	**471.4**
Present value of scheme liabilities	**(387.4)**	**(186.1)**	**(51.2)**	**(624.7)**
Retirement benefit obligations	**(53.2)**	**(48.9)**	**(51.2)**	**(153.3)**

Of the total deficit of £153.3 million, £58.6 million is in respect of unfunded schemes.

	2006			
	UK pension schemes £'m	Overseas pension schemes* £'m	Healthcare schemes £'m	Total £'m
Fair value of scheme assets	315.9	79.9	–	395.8
Present value of scheme liabilities	(396.8)	(96.2)	–	(493.0)
Retirement benefit obligations	(80.9)	(16.3)	–	(97.2)

* In Switzerland the Group operates a retirement benefit scheme whereby contributions are made based on percentages of the employees' covered salaries, to a collective pension fund operated by an insurance company. The scheme has many of the characteristics of a defined contribution scheme, however, unlike defined contribution schemes, the minimum interest rate at which employees' savings accounts under the plan are required to be remunerated is guaranteed by law. During the year the Swiss Auditing Chamber's Auditing Practice Committee and its Accounting Practice Sub-committee concluded that such schemes should be accounted for as defined benefit schemes under IAS 19 'Employee Benefits'. Prior year figures for scheme assets and liabilities have been restated accordingly. The scheme had a small surplus at 31 December 2006 and 31 December 2007 which have not been recognised.

Of the total deficit of £97.2 million, £2.2 million is in respect of unfunded schemes.

Notes to the financial statements
continued

35 Retirement benefit obligations continued

Analysis of scheme assets

	2007							
	UK Pension schemes			Overseas pension schemes			Total	
	£'m	%	Expected return %	£'m	%	Expected return %	£'m	%
Equities	**187.3**	**56.0**	**7.50**	**62.5**	**45.6**	**9.50**	**249.8**	**53.0**
Government bonds	**69.5**	**20.8**	**4.50**	**19.5**	**14.2**	**5.70**	**89.0**	**18.9**
Corporate bonds	**52.6**	**15.7**	**5.65**	**46.8**	**34.1**	**6.40**	**99.4**	**21.1**
Property	**19.5**	**5.8**	**7.50**	**3.8**	**2.8**	**7.50**	**23.3**	**4.9**
Other assets	**5.3**	**1.7**	**4.00**	**4.6**	**3.3**	**1.00**	**9.9**	**2.1**
Total	**334.2**	**100.0**	**6.53**	**137.2**	**100.0**	**7.56**	**471.4**	**100.0**

	2006							
	UK Pension schemes			Overseas pension schemes			Total	
	£'m	%	Expected return %	£'m	%	Expected return %	£'m	%
Equities	177.0	56.0	7.50	35.4	44.3	9.50	212.4	53.7
Government bonds	66.2	21.0	4.55	16.2	20.3	5.30	82.4	20.8
Corporate bonds	50.1	15.9	5.05	23.4	29.3	6.00	73.5	18.6
Property	21.4	6.8	7.50	2.6	3.3	7.50	24.0	6.1
Other assets	1.2	0.3	4.50	2.3	2.8	1.00	3.5	0.8
Total	315.9	100.0	6.48	79.9	100.0	7.31	395.8	100.0

The schemes have no investments in the Group's occupied properties or any other assets of the Group. 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.

Changes in the fair value of scheme assets

	2007 £'m	2006 £'m
Fair value of scheme assets at 1 January	**395.8**	377.0
Exchange rate adjustments	**1.2**	(9.0)
Businesses acquired (see note 44)	**58.0**	–
Expected return on scheme assets	**27.0**	22.8
Contributions – Group	**14.5**	11.2
Contributions – Members	**4.6**	4.2
Benefits paid	**(21.0)**	(15.7)
Actuarial (losses)/gains	**(8.7)**	5.3
Fair value of scheme assets at 31 December	**471.4**	395.8

Financial assumptions used to calculate scheme liabilities

	2007			2006		
	UK pension schemes	**Overseas pension schemes**	**Healthcare schemes**	UK pension schemes	Overseas pension schemes	Healthcare schemes
Discount rate	**5.65%**	**6.40%**	**6.40%**	5.05%	5.75%	N/A
Inflation rate	**3.25%**	**N/A**	**N/A**	2.90%	N/A	N/A
Increase to deferred benefits during deferment	**3.25%**	**N/A**	**N/A**	2.90%	N/A	N/A
Increases to pensions in payment	**3.25%**	**N/A**	**N/A**	2.90%	N/A	N/A
Salary increases	**4.25%**	**4.00%**	**N/A**	3.90%	N/A	N/A
Healthcare cost increases	**N/A**	**N/A**	*****	N/A	N/A	N/A

* Healthcare cost increases are assumed to be 9.5% for 2008 trending down to 5.0% by 2013.

In determining pension liabilities the Group uses mortality assumptions which are based on published mortality tables adjusted to reflect the characteristics of the scheme populations. The Group's mortality assumptions are based on the PA92 medium cohort (year of birth) mortality tables for the UK schemes and the RP2000 IRS RPA @ 2008 tables for the US schemes. The life expectancies reflected in the mortality assumptions used are as follows:

	2007		2006	
	UK schemes years	**Overseas schemes years**	UK schemes years	Overseas schemes years
Member age 45 (life expectancy at age 65) – male	**21.2-22.8**	**19.2**	21.2	17.6
Member age 45 (life expectancy at age 65) – female	**24.0-25.6**	**21.1**	24.0	20.1
Member age 65 (current life expectancy) – male	**20.1-21.5**	**18.8**	20.1	17.6
Member age 65 (current life expectancy) – female	**23.0-24.4**	**20.8**	23.0	20.1

Notes to the financial statements
continued

35 Retirement benefit obligations continued

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 scheme liabilities at 31 December 2007 to increase by approximately £9.9 million;
- The impact of a 10 basis point reduction in inflation rate would cause scheme liabilities at 31 December 2007 to reduce by approximately £6.8 million;
- The impact of a 10 basis point increase in medical trend rates would cause scheme liabilities at 31 December 2007 to increase by approximately £0.4 million;
- The impact of assuming every scheme member were to live for an additional year would cause scheme liabilities at 31 December 2007 to increase by approximately £16.4 million.

Changes in the present value of scheme liabilities

	2007 £'m	2006 £'m
Present value of scheme liabilities at 1 January	**493.0**	475.2
Exchange rate adjustments	**1.3**	(11.4)
Businesses acquired (see note 44)	**140.0**	–
Service cost	**12.1**	11.1
Past service credit	**–**	(1.8)
Interest cost – unwinding of discount on liabilities	**28.2**	21.8
Contributions – Members	**4.6**	4.2
Benefits paid	**(21.0)**	(16.0)
Actuarial (gains)/losses	**(33.5)**	9.9
Present value of scheme liabilities at 31 December	**624.7**	493.0

Cumulative gains/(losses) recognised in equity

	2007 £'m	2006 £'m
As at 1 January	**(12.7)**	(9.4)
Actuarial gains/(losses)	**24.8**	(4.6)
Deferred tax (charge)/credit	**(8.2)**	1.3
Net actuarial gains/(losses)	**16.6**	(3.3)
As at 31 December	**3.9**	(12.7)

The actual return on plan assets was £18.3 million (2006: £28.1 million).

History of experience gains and losses and retirement benefit obligations

	2007 £'m	2006 £'m	2005 £'m	2004 £'m	2003 £'m
Experience adjustments on scheme assets:					
(Loss)/gain	**(8.7)**	5.3	25.7	12.1	13.7
Percentage of scheme assets	**(1.8%)**	1.3%	7.4%	4.1%	6.6%
Experience adjustments on scheme liabilities:					
Gain/(loss)	**22.1**	(7.1)	(13.4)	(20.5)	1.5
Percentage of scheme liabilities	**3.5%**	(1.4%)	(3.0%)	(5.5%)	0.5%
Fair value of scheme assets	**471.4**	395.8	349.1	298.2	207.5
Present value of scheme liabilities	**624.7**	493.0	447.3	373.2	278.2
Scheme deficits	**153.3**	97.2	98.2	75.0	70.7

The estimated amounts of contributions expected to be paid to the schemes during the current financial year is £35.0 million.

36 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

37 Share capital

	2007 £'m	2006 £'m
Ordinary shares of 5p each		
Authorised: 885.0 million shares (2006: 640.0 million)	**44.3**	32.0

	No. of shares 'm	Nominal value £'m	Net consideration £'m
Allotted and fully paid:			
Balance at 1 January 2007	436.1	21.8	
Issued in respect of the rights issue	218.2	10.9	426.6
Issued on exercise of executive share options	1.9	0.1	3.4
Scrip dividends	2.1	0.1	6.6
Balance at 31 December 2007	**658.3**	**32.9**	

Year of grant	No. of ordinary shares under option	Exercise price per share	Exercise period From	Exercise period To
i) Meggitt 1998 Sharesave Scheme:				
2000	12,800	126.26p	01.01.08	30.06.08
2002	52,737	109.56p	01.01.08	30.06.08
2002	32,581	109.56p	01.01.10	30.06.10
2005	711,414	188.76p	01.06.08	30.11.08
2005	701,881	188.76p	01.06.10	30.11.10
2005	220,777	188.76p	01.06.12	30.11.12
2006	505,973	203.18p	01.12.09	31.05.10
2006	428,202	203.18p	01.12.11	31.05.12
2006	81,797	203.18p	01.12.13	31.05.14
ii) Meggitt 1996 No 1 Executive Share Option Scheme:				
1998	39,973	129.45p	20.04.01	19.04.08
1998	7,274*	87.27p	25.09.01	24.09.08
1999	32,237	134.90p	01.10.02	30.09.09
2000	3,512	162.10p	14.12.03	13.12.10
2002	6,963	136.76p	17.10.05	16.10.12
2003	26,029	179.24p	02.10.06	01.10.13
2004	17,200	174.40p	01.04.07	31.03.14
2004	14,245	210.59p	06.10.07	05.10.14
iii) Meggitt 1996 No 2 Executive Share Option Scheme:				
2001	206,386	114.03p	27.09.04	26.09.08
2002	507,134	136.76p	17.10.05	16.10.09
2003	639,047	179.24p	02.10.06	01.10.10
2004	246,564	174.40p	01.04.07	31.03.11
2004	1,267,293	210.59p	06.10.07	05.10.11
iv) Meggitt Executive Share Option Scheme 2005 Part A:				
2005	485,519	278.65p	10.10.08	09.10.15
2006	114,409	263.67p	27.09.09	26.09.16
2006	11,141	269.23p	09.10.09	08.10.16
2007	92,298	299.00p	29.03.10	28.03.17
2007	10,152	295.50p	16.04.10	15.04.17
2007	10,389	288.75p	17.08.10	16.08.17
v) Meggitt Executive Share Option Scheme 2005 Part B:				
2005	1,599,774	278.65p	10.10.08	09.10.15
2006	2,339,754	263.67p	27.09.09	26.09.16
2006	61,108	269.23p	09.10.09	08.10.16
2007	2,353,965	299.00p	29.03.10	28.03.17
2007	35,533	295.50p	16.04.10	15.04.17
2007	5,152	288.75p	17.08.10	16.08.17

*Shares have been purchased in the market from previously issued share capital and are held by the trustee of the ESOP as shown in note 39.

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 6.1 years (2006: 5.8 years).

Numbers of shares and exercise prices were adjusted with effect from 29 March 2007 to reflect the bonus element of the rights issue approved by shareholders on 27 March 2007.

Notes to the financial statements
continued

38 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 £5.2 million (2006: £3.3 million). The nature of each scheme which has a significant impact on the expense recorded in the income statement is set out below. Comparative figures have been restated where appropriate for the bonus element of the rights issue approved by shareholders on 27 March 2007.

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 £1.8 million (2006: £1.4 million) was recorded in the year.

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

	2007 Average exercise price pence	**2007 No. of options outstanding 'm**	2006 Average exercise price pence	2006 No. of options outstanding 'm
Balance at 1 January	**223.75**	**9.8**	194.05	9.9
Granted	**298.87**	**2.5**	263.67	2.6
Lapsed	**265.13**	**(0.2)**	174.37	(0.5)
Exercised	**180.22**	**(2.0)**	149.53	(2.2)
Balance at 31 December	**250.28**	**10.1**	223.75	9.8

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 68.9 pence (2006: 68.1 pence). The significant assumptions used in the model were:

	2007 Award in March	2006 Award in September
Share price at date of grant (pence)	**299.00**	263.67
Exercise price (pence)	**299.00**	263.67
Vesting period (years)	**3**	3
Expected volatility	**25%**	30%
Expected life of option (years)	**5**	5
Risk free rate	**5.10%**	4.65%
Expected dividend yield	**2.85%**	3.00%

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 grant 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 £1.2 million (2006: £0.4 million) was recorded in the year. The Group has recorded a liability at the balance sheet date of £1.6 million (2006: £0.5 million). The total intrinsic value at the balance sheet date was £2.9 million (2006: £Nil million).

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

	2007 Average exercise price pence	**2007 No. of SARS outstanding 'm**	2006 Average exercise price pence	2006 No. of SARS outstanding 'm
Balance at 1 January	**270.68**	**3.5**	278.65	1.6
Granted	**296.07**	**2.3**	263.67	1.9
Lapsed	**275.67**	**(0.5)**	–	–
Exercised	**276.04**	**(0.1)**	–	–
Balance at 31 December	**281.55**	**5.2**	270.68	3.5

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

38 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. 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 £1.9 million (2006: £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:

	2007 No. of shares under award outstanding 'm	2006 No. of shares under award outstanding 'm
Balance at 1 January	**4.0**	2.9
Awarded	**2.0**	1.8
Lapsed	**(0.4)**	(0.1)
Released to employees	**(0.1)**	(0.6)
Balance at 31 December	**5.5**	4.0

The fair value of the award is measured using a Monte Carlo model. The fair value of awards during the year was 180.76 pence (2006: 144.64 pence). The significant assumptions used in the model were:

	2007 Award in September	2006 Award in March
Share price at date of award (pence)	**317.12**	301.33
Vesting period (years)	**3**	3
Expected volatility	**23%**	20%
Expected life of award (years)	**3**	3
Risk free rate	**5.26%**	4.48%
Expected dividend yield	**2.47%**	2.40%

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

39 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 43.

At 31 December 2007 the trust held 104,773 ordinary shares (2006: 94,292 shares) of which 7,274 were allocated to the Meggitt 1996 Executive Share Option Schemes (2006: 6,227 shares) and 97,499 were unallocated (2006: 88,065) 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 2007 (2006: £0.1 million).

The market value of the shares at 31 December 2007 was £0.3 million (2006: £0.3 million) representing 0.02% of the issued share capital of the Company (2006: 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

40 Consolidated statement of changes in equity

	Share capital £'m	Share premium £'m	Other reserves £'m	Hedging and translation reserves* £'m	Retained earnings £'m	Total equity £'m
Balance at 1 January 2006	21.7	350.2	14.1	(1.1)	111.8	496.7
Actuarial losses	–	–	–	–	(3.3)	(3.3)
Currency translation differences as restated	–	–	–	(5.1)	–	(5.1)
Net expense recognised directly in equity as restated	–	–	–	(5.1)	(3.3)	(8.4)
Profit for the year as restated	–	–	–	–	94.3	94.3
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 as restated	21.8	356.1	14.1	(6.2)	173.6	559.4
Actuarial losses	–	–	–	–	16.6	16.6
Currency translation differences	–	–	–	6.7	–	6.7
Losses on cash flow hedges	–	–	–	(7.3)	–	(7.3)
Net (expense)/income recognised directly in equity	–	–	–	(0.6)	16.6	16.0
Profit for the year	–	–	–	–	89.3	89.3
Rights issue	10.9	415.7	–	–	–	426.6
Employee share option schemes:						
Value of services provided	–	–	–	–	4.3	4.3
Proceeds from shares issued	0.1	3.3	–	–	–	3.4
Dividends	0.1	6.5	–	–	(42.2)	(35.6)
Balance at 31 December 2007	**32.9**	**781.6**	**14.1**	**(6.8)**	**241.6**	**1,063.4**

* The hedging and translation reserves at 31 December 2007 were made up of a credit balance on the translation reserve of £0.5 million (2006: £6.2 million debit balance) and a debit balance on the hedging reserve of £7.3 million (2006: £Nil).

Transaction costs of £9.8 million arising in relation to the rights issue have been charged against the share premium account.

41 Contractual commitments

	2007 £'m	2006 £'m
Capital commitments		
Contracted for but not incurred – property, plant & equipment	**20.3**	7.0

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:

	2007 £'m	2006 £'m
Not later than one year	**9.0**	7.5
Later than one year and not later than five years	**29.9**	25.1
Later than five years	**17.7**	14.8
Total	**56.6**	47.4

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

42 Cash inflow from operations

	2007 £'m	2006 Restated £'m
Profit for the year	**89.3**	94.3
Adjustments for:		
Tax	**16.1**	32.4
Depreciation (see note 22)	**18.8**	14.7
Amortisation (see notes 20 and 21)	**53.0**	22.3
Profit on disposal of property, plant & equipment	**(0.5)**	(1.6)
Finance income (see note 12)	**(32.7)**	(25.1)
Finance costs (see note 13)	**70.0**	41.6
Financial instruments (see note 10)	**5.3**	(12.1)
Adjustment to goodwill on recognition of tax losses (see note 10)	**3.2**	2.4
Changes in working capital:		
Inventories	**14.7**	(19.5)
Trade and other receivables	**(11.7)**	(14.6)
Trade and other payables	**(11.9)**	22.3
Provisions	**(3.5)**	(18.6)
Cash generated from operations	**210.1**	138.5

43 Major non-cash transactions

During the year Meggitt PLC issued 2.1 million shares worth £6.6 million in respect of scrip dividends (2006: 0.7 million shares worth £2.3 million).

44 Business combinations

Total consideration payable in respect of acquisitions was as follows:

	2007 £'m	2006 £'m
Businesses acquired in 2007	**563.6**	–
Businesses acquired in 2006	**0.5**	89.5
Total consideration payable	**564.1**	89.5
Consideration satisfied in cash (including costs)	**563.6**	86.3
Deferred consideration	**0.5**	3.2
Total consideration payable	**564.1**	89.5

Total goodwill arising in respect of acquisitions was as follows:

	2007 £'m	2006 Restated £'m
Businesses acquired in 2007	**519.8**	–
Businesses acquired in 2006	**0.5**	52.9
Total goodwill arising	**520.3**	52.9

Acquisitions made in 2007

On 22 June 2007 the Group completed the acquisition of 100% of the issued share capital of K & F Industries Holdings, Inc (K & F). Total acquisition costs were £920.1 million comprising net debt acquired of £356.5 million and cash consideration, after costs, of £563.6 million. K & F is predominantly a US based manufacturer of aircraft braking systems and flexible bladder fuel tanks. The acquisition was financed in part by the issue of 218,187,729 new shares at 200p per share by way of a 1 for 2 rights issue. The acquisition has been accounted for using the purchase method of accounting.

Notes to the financial statements
continued

44 Business combinations continued

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

	Book value £'m	Fair value £'m
Goodwill	426.6	**519.8**
Development costs (see note 20)	7.0	**7.0**
Programme participation costs (see note 20)	75.2	**75.2**
Other intangible assets (see note 21)	25.6	**559.9**
Property, plant and equipment (see note 22)	52.4	**47.3**
Inventories	45.3	**66.3**
Trade and other receivables – current	26.6	**25.4**
Derivative financial instruments – current	0.5	**0.5**
Cash and cash equivalents	11.5	**11.5**
Trade and other payables – current	(37.8)	**(41.0)**
Current tax liabilities	(9.1)	**(17.0)**
Obligations under finance leases – current	(0.4)	**(0.4)**
Bank and other borrowings – current	(5.7)	**(5.7)**
Provisions – current (see note 33)	(6.2)	**(6.2)**
Trade and other payables – non-current	(0.8)	**(0.9)**
Deferred tax liabilities (see note 34)	(2.8)	**(209.2)**
Obligations under finance leases – non-current	(5.0)	**(5.0)**
Bank and other borrowings – non-current	(338.7)	**(356.9)**
Provisions – non-current (see note 33)	(1.5)	**(25.0)**
Retirement benefits (see note 35)	(82.0)	**(82.0)**
Total	180.7	**563.6**
Consideration satisfied in cash (including costs)		**563.6**
Total consideration payable		**563.6**

Goodwill is attributable to the profitability of the acquired businesses and expected future synergies arising following the acquisition. Goodwill on acquisition 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 2008.

The acquisition of K & F is considered significant. Since acquisition, K & F has contributed £133.9 million to Group revenue, £23.3 million to underlying profit for the year (as defined in note 10) and a loss for the year of £3.7 million. Had K & F been part of the Group for the whole of 2007, it would have contributed revenue of £237.0 million, £38.8 million to underlying profit for the year (as defined in note 10) and £10.2 million to profit for the year. Annualised figures exclude acquisition costs expensed by K & F prior to acquisition by the Group and have been restated using the Group's accounting policies.

Analysis of the net outflow of cash in respect of the acquisition of K & F:

	2007 £'m
Cash consideration	**551.7**
Directly attributable costs	**11.9**
	563.6
Less net cash acquired with subsidiary undertakings	**(11.5)**
Net outflow of cash and cash equivalents for acquisitions	**552.1**

Acquisitions made in 2006 – amendment of provisional fair values

The Group acquired the business and assets of Radatec, Inc, in August 2006, acquired Keith Products LLP in September 2006 and acquired Firearms Training Systems, Inc. in October 2006. At 31 December 2006 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 2007. In accordance with IFRS 3 these amendments have been recorded as though they were made in 2006. 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 2006 as appropriate.
The impact on net assets and the income statement arising from the finalisation of fair values is shown in note 45.

Notes to the financial statements
continued

45 Restatement of prior year comparatives

Finalisation of fair values of prior year acquisitions

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 2007 the Group finalised the fair values of three acquisitions completed in 2006 and this resulted in adjustments to the profit for the year ended 31 December 2006 and to the balance sheet at that date. Further details are provided in note 44.

Programme participation costs

Programme participation costs have been reclassified from other receivables to intangible assets. Programme participation costs were previously referred to as 'deferred costs' in the Group's 2006 consolidated financial statements.

Rights issue

Earnings per share and dividends per share data for prior years have been restated for the bonus element of the rights issue approved by the shareholders of the Group in 2007. The factor applied to reflect the bonus element was 1.16814.

The impact of the restatements is shown below:

	2006 As reported £'m	2006 Fair value adjustments £'m	2006 As restated £'m
Revenue	670.3	–	670.3
Cost of sales	(372.6)	(1.2)	(373.8)
Gross profit	297.7	(1.2)	296.5
Net operating costs	(151.2)	(2.1)	(153.3)
Operating profit	146.5	(3.3)	143.2
Net finance costs	(16.5)	–	(16.5)
Profit before tax from continuing operations	130.0	(3.3)	126.7
Tax	(33.5)	1.1	(32.4)
Profit for the year	96.5	(2.2)	94.3
Earnings per share – basic	22.2p	(3.6p)	18.6p
Earnings per share – diluted	22.1p	(3.6p)	18.5p

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

	2006 As reported £'m	2006 Fair value adjustments £'m	2006 Programme participation costs £'m	2006 As restated £'m
Goodwill	598.9	(35.5)	–	563.4
Programme participation costs	–	–	33.9	33.9
Other intangible assets	171.6	49.1	(1.7)	219.0
Trade and other receivables – non-current	49.0	0.2	(28.9)	20.3
Inventories	154.4	0.2	–	154.6
Trade and other receivables – current	174.8	0.8	(3.3)	172.3
Trade and other payables – current	(198.2)	(1.4)	–	(199.6)
Trade and other payables – non-current	(4.3)	0.1	–	(4.2)
Deferred tax liabilities	(55.2)	(14.7)	–	(69.9)
Provisions – non-current	(54.0)	(0.9)	–	(54.9)
Other net liabilities – not affected by restatement	(275.5)	–	–	(275.5)
Net assets	561.5	(2.1)	–	559.4

Notes to the financial statements
continued

46 Post balance sheet events

On 21 November 2007, the disposal of S-Tec Corporation ('S-Tec') was announced subject to certain regulatory clearances. The sale subsequently completed on 3 January 2008 for a consideration of USD 38.0 million (see note 23).

47 Group companies

The following information is not a complete listing of all subsidiary companies at 31 December 2007 and relates only to those subsidiaries principally affecting the profits or assets of the Group.

United Kingdom

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

Continental Europe

Navarra de Componentes Electronicos SA – Spain
Vibro-Meter SAS – France
Sensorex SAS – France
Vibro-Meter SA – Switzerland

North America

Aircraft Braking Systems Corporation – USA
Endevco Corporation – USA
FATS, Inc – USA
Keith Products LLP – USA
K & F Industries Holdings, Inc. – USA ‡
Meggitt Defense Systems, Inc – USA
Meggitt Holdings (California) Inc – USA ‡
Meggitt Oregon, Inc – USA
Meggitt Thermal Systems, Inc – USA
S-Tec Corporation – USA #
Vibro-Meter Inc – USA
Whittaker Corporation – USA ‡
Dunlop Aerospace North America, Inc – USA ~
Engineered Fabrics Corporation – USA
Firearms Training Systems Inc – USA ‡
K & F Industries Inc – USA ‡
Meggitt Defence Systems Caswell Inc – USA
Meggitt GP Inc – USA ‡
Meggitt Holdings (USA) Inc – USA ‡
Meggitt Safety Systems Inc – USA
Meggitt-USA, Inc – USA ‡
Stewart Warner South Wind Corporation – USA
Whittaker Controls Inc – 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 2007.
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 37.
vi) The company marked # was sold on 3 January 2008 as described in the Report of the Directors on page 37.
vii) The companies marked ~ changed their names after the year end, as follows:
Dunlop Aerospace Limited changed its name to Meggitt Aerospace Limited on 4 January 2008.
Dunlop Aerospace North America, Inc changed its name to Meggitt Aircraft Braking Systems Atlanta, Inc on 7 January 2008.
Dunlop Aerospace (SE Asia) Pte Ltd changed its name to Meggitt Aerospace Asia Pacific Pte Ltd on 7 January 2008.
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 2007 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 2007.

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 section 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 group financial statements. The other information comprises of the Chairman's Statement, Meggitt at a Glance, Delivering Group Strategy, Market Review, Business Review, Corporate Responsibility, Board of Directors, Risks and Uncertainties, 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 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 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 2007;
- 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

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Reading
3 March 2008

Company balance sheet

As at 31 December 2007

	Notes	2007 £'m	2006 £'m
Fixed assets			
Tangible fixed assets	4	**1.8**	2.0
Investments	5	**171.2**	167.3
		173.0	169.3
Current assets			
Debtors	6	**2,220.2**	1,358.1
Derivative financial instruments	11	**–**	8.5
Cash at bank and in hand		**7.2**	7.5
		2,227.4	1,374.1
Creditors – amounts falling due within one year	7	**(605.7)**	(660.7)
Derivative financial instruments	11	**(0.1)**	(8.5)
Net current assets		**1,621.6**	704.9
Total assets less current liabilities		**1,794.6**	874.2
Creditors – amounts falling due after more than one year	8	**(851.4)**	(374.2)
Provision for liabilities and charges	9	**(0.2)**	(0.3)
Derivative financial instruments	11	**(10.7)**	(0.6)
Net assets		**932.3**	499.1
Capital and reserves			
Called up share capital	14	**32.9**	21.8
Share premium account	16	**781.6**	356.1
Other reserves	16	**17.5**	17.5
Profit and loss reserve	15	**100.3**	103.7
Total shareholders' funds	16	**932.3**	499.1

The financial statements were approved by the Board of Directors on 3 March 2008 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.

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:

Notes to the financial statements of the Company
continued

2 Summary of significant accounting policies continued

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 an on-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

	2007 £'m	2006 Restated £'m
Employee costs during the year including executive directors:		
Wages and salaries	**7.1**	5.2
Social security costs	**1.3**	0.6
Other pension costs	**0.6**	0.6
Share-based payment (see note 16)	**1.4**	0.6
Total	**10.4**	7.0

Details of the Group's employee share schemes are included in note 38 of the Meggitt PLC Group accounts.

	2007 No.	2006 No.
Average monthly number of persons employed including executive directors:		
Administration	**38**	36
Total	**38**	36

4 Tangible fixed assets

	Land and buildings £'m	Plant, equipment and vehicles £'m	Total £'m
Cost at 1 January 2007	0.8	1.9	2.7
Additions	–	0.3	0.3
Disposals	–	(0.2)	(0.2)
Cost at 31 December 2007	**0.8**	**2.0**	**2.8**
Accumulated depreciation at 1 January 2007	0.2	0.5	0.7
Charge for year	–	0.4	0.4
Disposals	–	(0.1)	(0.1)
Accumulated depreciation at 31 December 2007	**0.2**	**0.8**	**1.0**
Net book amount at 31 December 2007	**0.6**	**1.2**	**1.8**
Net book amount at 31 December 2006	0.6	1.4	2.0

	2007 £'m	2006 £'m
Net book amount of land and buildings		
Freehold	**0.1**	0.1
Short leasehold	**0.5**	0.5
Total	**0.6**	0.6

5 Investments

	2007 £'m	2006 £'m
Shares in subsidiaries		
At 1 January	**167.3**	164.8
Additions – capital contribution arising from share-based payments	**3.9**	2.5
At 31 December	**171.2**	167.3

A list of principal subsidiaries is included in note 47 of the Meggitt PLC Group accounts.

Notes to the financial statements of the Company
continued

6 Debtors

	2007 £'m	2006 £'m
Amounts falling due within one year		
Amounts owed by Group undertakings	**2,215.5**	1,357.0
Other debtors	**0.7**	0.6
Prepayments and accrued income	**0.4**	0.5
Deferred tax assets	**3.6**	–
Total	**2,220.2**	1,358.1

Deferred tax assets include £2.9 million (2006: £Nil) due after one year.

7 Creditors – amounts falling due within one year

	2007 £'m	2006 £'m
Bank loans and overdrafts	**8.8**	11.0
Other loans	**0.4**	0.3
Trade creditors	**1.8**	1.1
Amounts owed to Group undertakings	**579.0**	628.9
UK corporation tax payable	**9.2**	14.3
Taxation and social security	**1.6**	0.9
Other creditors	**0.7**	0.7
Accruals	**4.2**	3.5
Total	**605.7**	660.7

8 Creditors – amounts falling due after more than one year

	2007 £'m	2006 £'m
Bank loans	**726.5**	247.2
Other loans	**124.9**	127.0
Total	**851.4**	374.2

	2007 £'m	2006 £'m
Analysis of bank loans and overdrafts repayable:		
In one year or less	**8.8**	11.0
In more than two years but not more than five years	**726.5**	247.2
Total	**735.3**	258.2

	2007 £'m	2006 £'m
Analysis of other loans repayable:		
In one year or less	**0.4**	0.3
In more than five years	**124.9**	127.0
Total	**125.3**	127.3

9 Provisions for liabilities and charges

	Onerous lease costs (a) £'m	Deferred tax (See note 10) £'m	Total £'m
Balance at 1 January 2007	0.2	0.1	0.3
Credit to profit and loss account – operating costs	–	(0.1)	(0.1)
Balance at 31 December 2007	**0.2**	**–**	**0.2**

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

	2007 £'m	2006 £'m
Accelerated capital allowances	–	(0.1)
Deferred tax liability	**–**	(0.1)

11 Derivative financial instruments

	2007 Assets £'m	2007 Liabilities £'m	2006 Assets £'m	2006 Liabilities £'m
Interest rate swaps	–	(10.8)	–	(0.6)
Forward foreign exchange contracts	–	–	8.5	(8.5)
Total	**–**	**(10.8)**	8.5	(9.1)
Less non-current portion:				
Interest rate swaps	–	(10.7)	–	(0.6)
Forward foreign exchange contracts	–	–	–	–
Non-current portion	**–**	**(10.7)**	–	(0.6)
Current portion	**–**	**(0.1)**	8.5	(8.5)

The Company is exempt from the FRS 29 disclosures as the consolidated financial statements of Meggitt PLC give the disclosures required by IAS 32 (see Meggitt PLC Group accounts notes 31 and 32).

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 35 to the Meggitt PLC Group accounts.

13 Commitments

	2007 £'m	2006 £'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:

	2007 £'m	2006 £'m
Not later than one year	**0.2**	–
Later than one year and not later than five years	**0.7**	–
Later than five years	**1.6**	2.2
Total	**2.5**	2.2

Notes to the financial statements of the Company
continued

14 Share capital

	2007 £'m	2006 £'m
Ordinary shares of 5p each		
Authorised: 885.0 million shares (2006: 640.0 million)	**44.3**	32.0

	No. of shares 'm	Nominal value £'m	Net consideration £'m
Allotted and fully paid:			
Balance at 1 January 2007	436.1	21.8	
Issued in respect of the rights issue	218.2	10.9	426.6
Issued on exercise of executive share options	1.9	0.1	3.4
Scrip dividends	2.1	0.1	6.6
Balance at 31 December 2007	**658.3**	**32.9**	

15 Profit and loss reserve

	£'m
At 31 December 2006	103.7
Profit for the financial year	40.8
Dividends	(42.2)
Losses on cash flow hedges	(7.3)
Employee share option schemes:	
Value of subsidiary employee services (see note 5)	3.9
Value of services provided	1.4
At 31 December 2007	**100.3**

16 Capital and reserves

	Share capital £'m	Share premium £'m	Other reserves £'m	Profit and loss reserve £'m	Total 2007 £'m	Total 2006 £'m
Balance at 31 December 2006	21.8	356.1	17.5	103.7	499.1	507.5
Profit for the financial year	–	–	–	40.8	40.8	16.8
Dividends	–	–	–	(42.2)	(42.2)	(34.3)
Losses on cash flow hedges	–	–	–	(7.3)	(7.3)	–
Employee share option schemes:						
Value of subsidiary employee services (see note 5)	–	–	–	3.9	3.9	2.5
Value of services provided	–	–	–	1.4	1.4	0.6
Rights issue	10.9	415.7	–	–	426.6	–
Issued on exercise of SAYE and executive share options	0.1	3.3	–	–	3.4	3.7
Scrip dividends	0.1	6.5	–	–	6.6	2.3
Balance at 31 December 2007	**32.9**	**781.6**	**17.5**	**100.3**	**932.3**	499.1

Financial calendar and supplementary information

Dividends

The proposed 2008 final dividend of 5.75p per share, if approved, will be paid on 4 July 2008 to shareholders on the register on 14 March 2008. The expected dividend payment date for the 2008 interim dividend is 3 October 2008, and confirmation of this and other dates will appear on the financial calendar page on our website nearer the time.

Results announcements (provisional)

2008 interim results announcement	– August 2008
2008 full year results	– Preliminary announcement March 2009
	– Report and accounts March 2009

Shareholder enquiries

Enquiries in respect of the following administrative matters should be addressed to the Company's registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ. 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 2007:

	No. of shareholders	% of total shares		No. of shareholders	% of total shares
Size of holdings:			Types of shareholder:		
1–999	5,793	0.21	Individuals	7,938	2.20
1,000–9,999	3,025	1.47	Banks and nominees	1,684	96.41
10,000–99,999	566	2.56	Investment and insurance companies	38	0.04
100,000–249,999	135	3.23	Other	113	1.35
250,000–499,999	83	4.37			
500,000–999,999	68	7.02			
1,000,000 and over	103	81.14			
	9,773	100.00		9,773	100.00

Electronic communications & electronic proxy voting

The Company continues to encourage shareholders to vote at the Annual General Meeting by providing the facility for electronic proxy voting. Shareholders who are not Crest members can vote online in respect of the resolutions to be proposed at the Annual General Meeting by visiting our website, after voting has opened. Proxy cards contain further details on how and by when to vote and further information for Crest members voting.

In addition to providing the facility to vote online at the forthcoming Annual General Meeting, the Company will also be providing annual reports and other documents to shareholders in their elected format under the new electronic communications provisions which were approved by the shareholders at the Annual General Meeting in 2007. The Companies Act 2006 recognises the growing importance of electronic communication and contained electronic communications provisions that allow companies to communicate with shareholders electronically instead of sending paper documents through the post, unless the shareholders elect to continue to receive paper documents from the Company. The Board wishes to benefit the environment by reducing the volume of documents produced, and also to enhance communications with shareholders by providing documents in their elected format. Electronic copies of the Annual Report and Accounts 2007 and the Notice of Annual General Meeting will be posted on the Company's website. The Company's announcements to the Stock Exchange and press releases are also available on the website.

Financial calendar and supplementary information
continued

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.

ShareGift

ShareGift is a charity share donation scheme for shareholders administered by The Orr Mackintosh Foundation (registered charity number 1052686), and is especially useful for those who may want to dispose of a small number of shares which are uneconomic to sell on their own. Shares which have been donated to ShareGift are aggregated and sold when practicable, with the proceeds passed on to a wide range of UK charities. Further details about ShareGift can be obtained from its website at www.ShareGift.org or by writing to ShareGift at 17 Carlton House Terrace, London SW1Y 5AH (telephone: +44 (0) 207 930 3737).

Company information

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

Five-year record

	2007 IFRS £'m	2006 IFRS £'m	2005 IFRS £'m	2004 IFRS £'m	2003 UK GAAP £'m
Revenue and profit					
Revenue	**878.2**	670.3	616.3	476.6	402.4
Underlying profit before taxation	**179.0**	132.7	116.3	90.3	77.8
Exceptional operating costs	**(5.4)**	(1.5)	(7.0)	(7.9)	(13.3)
Amortisation of goodwill	**–**	–	–	–	(20.2)
Amortisation of intangibles acquired in business combinations	**(38.4)**	(12.9)	(11.2)	(3.2)	–
Disposal of inventory revalued in business combinations	**(21.3)**	(1.3)	(0.9)	(8.5)	–
Financial instruments	**(5.3)**	12.1	(10.1)	–	–
Goodwill adjustment arising from recognition of tax losses	**(3.2)**	(2.4)	–	–	–
Profit before taxation	**105.4**	126.7	87.1	70.7	44.3
Earnings and dividends*					
Earnings per share – basic	**14.6p**	18.6p	13.0p	11.9p	5.7p
Earnings per share – underlying	**22.1p**	19.1p	17.1p	14.9p	14.0p
Dividends per ordinary share (paid or proposed in respect of the year)	**8.2p**	7.4p	6.6p	6.0p	5.6p
Gearing ratio					
Year end net cash/borrowings as a percentage of capital employed	**77.0%**	63.0%	63.3%	71.2%	51.8%

* All comparative data for earnings and dividends has been adjusted for the bonus element of the rights issues approved by shareholders in 2004 and 2007.

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.

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

Brokers
Merrill Lynch International

Registrars
Computershare Investor Services PLC

Company Registered No.
432989

Design: sasdesign.co.uk
Print: St Ives Westerham Press
Front cover photograph: courtesy of Lockheed Martin

Registered office
Meggitt PLC
Atlantic House
Aviation Park West
Bournemouth International Airport
Christchurch
Dorset BH23 6EW
UK
T +44 (0) 1202 597597
F +44 (0) 1202 597555
www.meggitt.com

MEGGITT
smart engineering for
extreme environments