

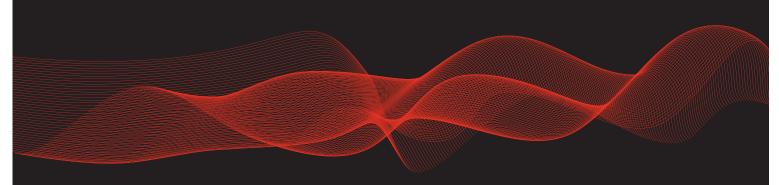
Our vision

Leading in smart engineering for extreme environments

With smart engineering for extreme environments, we create value for our shareholders, advantage for our customers and security and opportunity for our people.

Our sophisticated components and sub-systems perform critical functions in severe conditions, meeting the economic and environmental challenges of our primary aerospace, defence and energy markets.

We have a strong heritage, yet we move with the times. We stay relevant to our customers, so we can leave a bigger legacy for those who succeed us.



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Taking the long view

In 2009, Meggitt responded decisively to the challenging economic climate and continued to invest for the long term.

We delivered another set of very strong financial results.

At the same time, we accelerated our transformation programme, creating the infrastructure needed to support one cost-effective group.

We developed a new leadership structure.

We prepared to work as a global team centred on common technologies and specific markets.

And we continued to strengthen our group functions, improving our business processes and launching shared services.

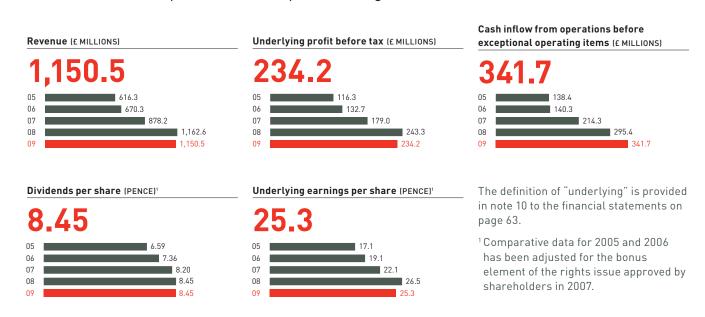
Our goal is to become one streamlined group, equipped to perform in dynamic and increasingly competitive markets based on smart engineering for extreme environments.

As we transform our business, we remain intensely proud of our heritage. It is the foundation of our capabilities today.

Now we are dedicated to creating a new legacy - Meggitt engineering excellence in the 21st century.

Financial highlights

Higher military sales and currency effects offset the impact of the economic downturn on civil aerospace revenues. Through prompt action to reduce costs, EBITDA remained flat and the EBITDA margin improved. Net cash generation was up 68% despite continued investment in R&D. All this positions Meggitt to benefit from a civil upturn which is expected to begin in 2010.



At a glance

Meggitt PLC, headquartered in the United Kingdom, is an international group employing about 7,200 people worldwide. We specialise in high performance components and subsystems for aerospace, defence and energy markets primarily but apply our core sensing and controls technologies to land and marine-based gas turbines and the medical, mainstream industrial, test engineering and transportation sectors.

Our consistent record of strong financial performance comes from businesses balanced across market segments. We offset variation in demand, balancing exposure to civil with military and energy markets; and sales to original equipment manufacturers with sales of aftermarket products and services. We have product on virtually every western aircraft and have a growing presence in combat vehicles. We transfer aero-engine technology to land-based gas and steam power plants. Our revenues are spread across North America, Europe and Asia and our manufacturing capability is global, including low-cost facilities in China and Mexico.

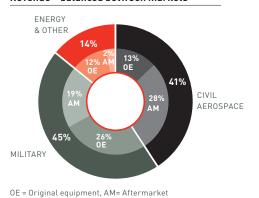
Our facilities

Location of Meggitt facilities

North America Mainland Europe Percentage of group revenue by destination 4.026 1.016 Employees Employees £712_M £124_M Revenue by origin Revenue by origin REST OF WORLD MAINLAND 23% NORTH AMERICA UK Rest of world Percentage of employees by region 1,957 205 Employees Employees £297_M £18_M Revenue by origin Revenue by origin REST OF WORLD 3% MAINLAND EUROPE 56% NORTH 27% AMERICA UK

Group structure

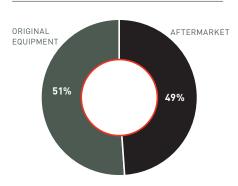
Revenue - balanced between markets



Total revenue

£1,150.5_M

Revenue - balanced within markets



Aerospace Equipment

Total revenue

£745.3м

Percentage of group revenue

65%

Sensing Systems

Total revenue

£258.1_M

Percentage of group revenue

22%

Defence Systems

Total revenue

£147.1_M

Percentage of group revenue

13%

A group of leading electro-mechanical engineering businesses whose products are on virtually every western aircraft in service, ensuring stable aftermarket revenues over the long term.

Capabilities

- Wheels, brakes and brake control systems
- Thermal management and fluid control
- Fire protection and control
- Polymers and composites

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

Capabilities

- High performance sensing in extreme environments
- Condition-monitoring for air and land-based machinery

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

Capabilities

- Integrated training systems
- Precision-mechanical combat systems
- Integrated environmental control systems

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Chairman's statement

Meggitt's response to challenging circumstances has been swift and decisive. We have significantly accelerated our "Transformation" programme. These changes will enable Meggitt to respond to our customers' requirements much more effectively and at the same time to reduce our costs.



It was a challenging year for our industry. While military markets remained generally healthy, civil markets were hard hit. Deliveries of new aircraft, except very large jets, declined significantly and air traffic, which drives our spares business, contracted by nearly 5%. Revenues were affected further by customers cancelling orders and reducing their inventories.

Revenues declined by 1% to £1,150.5 million and underlying profit before tax was down 4% to £234.2 million. That said, we generated record net cash of £126.0 million, up 68% on the previous year, whilst increasing investment in R&D. The order book at 31 December 2009 closed at over £700 million. As a result of this performance, the Board is proposing to maintain the final dividend at 5.75 pence taking the full year payment to 8.45 pence, again in line with 2008.

Meggitt's response to these challenging circumstances has been swift and decisive. We have significantly accelerated our "Transformation" programme, through which Meggitt is evolving from a set of strategicallymanaged independent businesses into a much more integrated and streamlined group. These changes will enable Meggitt to improve customer service and reduce our costs at the same time. Complemented by our ongoing operational improvement programme, transformation enabled us to deliver another healthy set of financial results.

Investment continues

Despite the difficult economic environment, Meggitt continues to look to the long term future of the business, investing £115.5 million in facilities,

intellectual property and programme participation. This investment included a major expansion of our high pressure testing facilities in California.

In response to the requirements of customers' global sourcing strategies, Meggitt Aircraft Braking Systems (MABS) completed its facility in Querétaro, Mexico. Meggitt's Chinese operation in Xiamen opened a third facility, adding polymers and composites to its control valve and sensor lines.

In 2008 Meggitt became the first company to fly an all-electric braking system with no hydraulic back-up on a commercial demonstrator aircraft. A contract from Bombardier for the CSeries aircraft followed in 2009.

Meggitt's aerospace equipment and sensing systems divisions collaborated successfully, extending the reach of the group's condition-monitoring capability with the launch of a new tyre pressure monitoring system that responds to the aviation industry's requirement for more performance data.

Airbus accredited our new lightweight polymer for airframe seals. Offering weight savings of up to 20%, this could amount to savings of up to half a tonne of elastomer on a large jet.

Extreme performance

Meggitt's performance in a difficult 2009 was excellent. We met financial targets and pursued transformation goals with great tenacity. As always, we could not have achieved this without the dedication and hard work of our employees. May I take this opportunity to extend my thanks to them all for another outstanding year.

Peter Hill will be stepping down from the Board on 31 March 2010 after six years. It has been a pleasure and privilege working with Peter and I would like to take this opportunity to thank him for his support and contribution to the development of the group.

Outlook

The outlook for our civil markets remains mixed. Civil OE production is expected to decline, modestly for large jets and by larger amounts for regional and business jets. Air traffic growth is expected to become positive in 2010 and the utilisation of business jets to increase. This combined with an end to destocking should return our civil aftermarket to growth in the second half of 2010. We expect our military business to continue to grow and our energy and specialist markets to remain broadly flat.

Meggitt has already taken significant action to cut costs, achieving savings of £34 million in 2009. We expect this to increase to an annual run rate of at least £50 million by the end of 2010. Cash conversion and the balance sheet should remain strong.

As a consequence, based on current market indicators, and at constant exchange rates the group expects a relatively flat first half outcome and to return to growth in the second half of 2010.

Sir Colin Terry

Group strategy

The strategy that underpins our highly successful business continues to hold good - sustaining leading positions in our core aerospace, defence and energy markets with smart engineering for extreme environments. Now we are accelerating the transformation of our group, creating one costeffective global team positioned for long-term growth.



Meggitt's future continues to lie in smart engineering for extreme environments our offer across our core aerospace, defence and energy markets. The strategy that underpins it continues to hold good, enabling us to deliver another strong set of results in a difficult economic environment.

Strategy

We aim to win positions on new platforms, preferably as the sole-source supplier, in markets where our products operate in harsh environments and where certification requirements are demanding and track records important. This leads to recurring revenue streams from spares and repairs that last between 20 and 40 years.

Our tried-and-tested business model is manifested in our balanced portfolio. By balancing revenues from original equipment manufacturers with revenues from the aftermarket and revenues from civil aerospace markets with military and energy business, we limit exposure to single market segments and platforms.

We invest in the technologies our customers want and we acquire companies to extend our capabilities and fast-track product and market development.

We develop facilities in key locations around the world, supporting our customers locally and addressing opportunities in emerging markets.

Transformation

Today, we are managing Meggitt through a time of great economic challenge and uncertainty. We must maintain the investments our businesses need and meet the expectations of

our stakeholders. This is why, under the banner of 'Transformation', we accelerated the restructuring of our group in 2009, cutting cost in the downturn, while laying the foundations for Meggitt's future success.

We are creating five new divisions to align our core capabilities and provide the management focus required to optimise performance and deliver long-term growth. Four fully-integrated divisions will manage our polymers and composites, thermal management and fluid control, aircraft braking systems and sensing systems capabilities. A fifth division will enable our smaller capabilities to maintain their strategic focus, develop the capabilities they need to retain their leading market positions and benefit from the wider Meggitt group's investment in shared services and common processes.

Standalone business units within the divisions will increasingly become production facilities – their primary aim will be to optimise cost, quality and delivery - and we are removing a layer of management. Our facilities will be supported by strong divisional management who will develop and manage the interaction between key functions and the vital business processes needed to meet our integration goals.

The whole organisation will be supported by stronger functions at group level as we invest in the infrastructure, shared services and common processes our facilities need to become more competitive.

In summary, we are transforming ourselves from a set of strong, individual businesses into one high performance engineering group. This will equip us to operate cost-effectively as the global

team our markets demand and enable us to create even greater cost synergies when we integrate future acquisitions.

Balanced portfolio

All this flows from a position of strength. Meggitt is a stable and robust business whose balanced portfolio continues to serve it well. While commercial aircraft build rates may slow in times of recession, aircraft continue to fly with Meggitt components and systems onboard, requiring Meggitt spares and repair services. Our products are on a wide range of military aircraft and land vehicles which also require support. While energy markets are volatile, demand for the monitoring and diagnostic systems designed by us to cut emissions and optimise performance on large rotating machines, continues to grow.

Poised for growth

With our business balanced between and within our markets and our transformation in process, I confidently expect Meggitt to continue to cope with the current economic climate and build a business equipped to meet the increasingly demanding requirements of our customers in the years ahead.

Terry Twigger Chief Executive

Strategy implementation

Focus

Our approach

Achievements

1. Focused investment

- → Components and value-added sub-systems
- → High technology content
- → Aftermarket value
- → Growth by organic investment and acquisition

We invest in highly engineered components and sub-systems, designed with safety and reliability in mind, for aerospace, defence and energy markets. We compete in all of them with strong intellectual property, securing aftermarket revenuegenerating positions in particular on aircraft and military vehicles. We grow organically, expanding our markets and developing products internally and by acquisition securing new technology, fast-tracking product development and strengthening market positions.

2. Achieve operational excellence

- → Optimising our manufacturing footprint
- → Improving our cost, quality and delivery performance
- → Strengthening central functions
- → Sharing services and best practice

We continue to integrate our businesses, accelerated through a transformation initiative which started in 2009. Strong central functions help them work together, standardising processes and sharing expertise, services and best practice. Lean manufacturing, continuous improvement initiatives, strategic sourcing and low-cost manufacturing facilities further optimise Meggitt's ability to meet our customers' cost, quality and delivery targets.

3. Satisfy our customers

- → Strengthen our partnerships with customers
- → Become easier to do business with
- → Improve our delivery

We give customers what they want, conducting our relationships with them strategically, for the long term. We combine the design and development capabilities and product portfolios of complementary Meggitt business units, aligning them strongly with key customer roadmaps, making procurement for customers easier and adding value with more integrated sub-systems and larger packages.

4. Maintain a culture of strong performance

- → Delivering against targets
- → Leadership development
- → Financial rigour
- → High standards of compliance

We define strong performance as delivery against targets, conditioned by rigorous financial discipline and sound ethical practice at every level of our organisation. We develop our leaders through professional development reviews and provide reward and incentive schemes for top performance.

1. Focused investment

- We reinforced our position in integrated sensing and ignition packages, becoming one of the primary suppliers supporting performance and reliability on Pratt & Whitney's PurePower® geared turbofan engine.
- We moved our health management expertise beyond aero-engine programmes to landing systems, developing a new tyre pressure monitoring system in a cross-group partnership between our sensing and aircraft braking systems businesses.
- We advanced our probe-based, low-maintenance digital fuel and oil gauging system, enhancing its architecture for use beyond general aviation into large aircraft engines and transport aircraft.
- We launched iSFD, an integrated standby flight display designed to meet the requirements of any modern aircraft avionics architecture.
- Our pioneering electric brakes and control system were selected for Bombardier's CSeries family of business jets after testing on a commercial demonstrator aircraft with no hydraulic back-up - a world
- Our heated and unheated composite capabilities delivered contracts for the complex composite engine inlets and acoustic interiors of the US Navy's CH53K Super Stallion heavy lift helicopter.
- Meggitt completed the design and development of a gearbox and brake assembly for next generation unmanned ground vehicles based on its modular, high-performance, lowpower smart control technology.
- We continued to work with a major North American aircraft manufacturer on next generation ice protection systems based on smart control.
- We won the contract for the newgeneration integrated fire detection and extinguishing system on the Learjet 85 aircraft, Bombardier's new all-composite business jet.

The common denominator of all Meggitt's products and technologies is smart engineering for extreme environments. Our capabilities and strategies are described in the divisional reviews on pages 16 to 21.

- Meggitt's engine condition-monitoring capability continues to benefit from sponsoring Cranfield University's Integrated Vehicle Health Management (IVHM) research centre with Boeing, BAE Systems and Rolls-Royce. Research phases will address the evidence for IVHM's economic viability; the value of integration and the level at which it is advantageous; and how maintenance should be financed.
- Across the group, we won important civil and military contracts on a wide range of platforms that will deliver substantial aftermarket revenues (see our divisional reviews on pages 16 to 21).

2.Achieve operational excellence

- Group sourcing initiatives saved around £15 million in 2009 by increasing procurement in low-cost economies and developing category strategies which enable us to negotiate significant discounts on higher volumes.
- We continued to simplify relationships with suppliers, developing global purchasing conditions to ensure that doing business with Meggitt is the same at every facility.
- We leased a third building at our low-cost facility in Xiamen, China, to manufacture competitive polymer products that would enable us to win selected contracts. The plant is an established manufacturer of sensors and valves.
- We completed our 200,000 square foot building in Querétaro, Mexico where we successfully produced wheel and structural brake components.
- Our Singapore maintenance facility expanded its support for Meggitt products across Asia Pacific, adding heat exchangers to its capability.
- We are outsourcing routine engineering. Our exclusive contract with HCL, a major player in global engineering and IT services and a trusted supplier to our aircraft braking systems business, is expected to produce savings of over \$15 million in the next five years. This valuable resource will help us to respond to

- the current economic environment and supplement critical skills when required.
- To support the group's new operating structure launched in 2010, we made senior appointments in key functional areas - operations, procurement, engineering and sales and marketing - and are rolling out shared services in IT finance and HR.

3. Satisfy our customers

- We are restructuring our capabilities into five divisions focused on customer and market demand. These include polymers and composites, thermal management and fluid control, aircraft braking systems and sensing. We will manage smaller capabilities within a single division, enabling them to focus on their specialist markets while benefiting from the wider Meggitt group's investment in shared services and common processes.
- We centralised management of our key customer accounts to improve our responsiveness and develop longterm strategic partnerships.
- We are aligning our processes to ensure our response to customers is consistent, timely and effective; strengthening programme management to improve delivery, quality and cost; and rolling out a new sales, inventory and operations planning process that will connect market demand to our manufacturing capacity and supply chain.
- We are investing in new sales offices in India and China, providing the local support needed to win new business and develop long-term partnerships.
- We appointed our first Group Director of Technology & Engineering. Dr Richard Greaves, formerly managing director of our sensing systems division, will advise on programme strategy at the earliest stage, support execution through design reviews, strengthen development processes and align R&D activity with customers' most important technology needs.

4. Maintain a culture of strong performance

- The transformation programme's leadership structure focuses on performance. Responsibility for business results and control of resources will lie with new divisional teams. We removed a layer of management from the operating sites, clarifying decision making and reducing overheads.
- In 2009, we reduced costs by £34 million and are on target for a £50 million annual run-rate by the end of 2010.
- We tied incentives for the top 200 managers more closely to group results to encourage team cohesion within and between our divisions.
- We identified values critical to performance in our changing industry: operating as a global team, investing in continued longterm growth, delivering operational excellence and acting with integrity. The transformation programme is ensuring that we will continue to focus on these values.
- We have implemented an effective Export Compliance programme across all of our businesses. This is based on best practice principles with top-down management commitment demonstrated by the monitoring role of the Ethics and Trade Compliance Committee of the Board.
- We are committed to honesty and integrity in our business. Our Ethics and Business Conduct Policy and Code of Conduct, which are also overseen by the Ethics and Trade Compliance Committee, must be followed by all employees and advisers. All employees have received Code of Conduct training and are required to view the Ethical Moments training videos which are released regularly. Recently, we signed the Statement of Adherence to the Global Principles of Business Ethics for the Aerospace and Defence Industry.

Market review

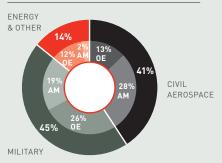
Meggitt applies *smart* engineering for extreme environments to civil aerospace, military and, increasingly, energy markets, where our core capabilities are deployed in innovative applications.

In 2009, our focused strategy and balanced portfolio once again proved their worth, balancing market cycles and mitigating economic uncertainty. Growth in military revenues offset the impact of a decline in civil revenues and other markets due to the economic downturn. Military revenues, our single largest market, now account for 45% of our portfolio, with civil revenues accounting for 41% and other revenues, primarily energy, accounting for 14%.

We aim to win positions with leading-edge technologies on new platforms, preferably as the sole-source supplier, in markets where certification requirements are demanding and track records important. This ensures the benefits of a 20 to 40-year recurring spares and repairs revenue stream. Our business model, manifested in our balanced portfolio, is tried-andtested. We limit exposure to single platforms and markets by balancing original equipment (OE) revenues against those of our aftermarket (AM) and we have positions on multiple platforms across all key aerospace and defence markets.

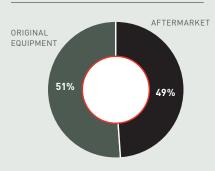
The strength of our balanced portfolio is reinforced further by a good geographic spread, making revenues resilient to variations in regional trends.

Revenue - balanced between markets



OE = Original equipment, AM = Aftermarket

Revenue - balanced within markets



Civil aerospace

Meggitt's civil aerospace revenues are distributed across all platform segments - large jets, regional aircraft, business jets and general aviation - with 31% of sales to OE customers and 69% to the aftermarket.

Excluding general aviation, we have content on every major western aircraft in service - over 16,000 large jets, 6,000 regional aircraft and 13,000 business jets - and every major new aircraft in development. This ensures a strong and sustainable revenue stream for years to come.

The economic downturn in 2009 resulted in a difficult year for our civil aerospace businesses. The contraction in GDP and reduction in consumer spending led to a significant reduction in passenger air travel, a collapse of the business jet market and reduced orders. Despite market expectations, however, production deliveries for large jets remained strong.

Overall, civil aerospace revenues declined by 11% in 2009 but the impact on profits was substantially mitigated through continued cost savings and our transformation programme.

Aftermarket

Civil air traffic, a strong proxy for aftermarket revenues measured in available seat kilometres (ASKs), declined by nearly 5% for large jets and regional aircraft. Similarly, the number of landings made by the business jet fleet in the US declined by 17%. Global airline losses, reaching an all-time high at around \$11 billion, led to significant destocking along the value chain, further intensifying the impact on our spares sales.

In the second half of 2009, Meggitt saw signs of stabilisation in air traffic as the rate of decline reduced across the period from a low of minus 8% in February 2009 (versus February 2008) to minus 2% in December 2009. For 2010, Meggitt assumes a conservative increase in ASKs of 1%, ensuring a continued focus on cost reduction. Destocking continued in the second half but at a reduced level and is expected to continue into the first half of 2010.

Civil aerospace revenue



OE = Original equipment, AM= Aftermarket

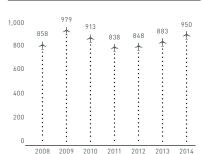
Large jets

In 2009, production deliveries for large jets were sustained at higher levels than many had anticipated. Indeed, Airbus and Boeing deliveries grew by 14% to 979 jets (from 858 in 2008), an all-time record partially as a result of the Boeing strike in 2008. Underlying growth across the period excluding the Boeing strike remained strong at circa 5%. Excellent order books and backlogs of more than 7,000 aircraft at the beginning of 2009 mitigated the impact of any cancellations and deferrals. Despite continued strong backlogs, deliveries may come under pressure in 2010 due to concerns of over-capacity and airline financing.

2009 saw some highly motivated new players enter the large jet sector. Bombardier's CSeries secured orders from Lufthansa and LCI. Russia and China also declared serious intentions with the MC21 and COMAC-919 programmes.

The year ended on a positive note, with Boeing's long anticipated 787 wide-body aircraft completing two successful flight tests. Aircraft certification activities will continue apace through 2010, paving the way for an important new OE revenue stream for Meggitt.

Large jet deliveries



Source: Meggitt consensus

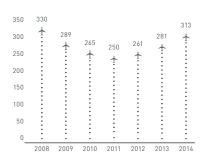
Regional aircraft

Overall, aircraft deliveries in this sector declined by 12% in 2009. Regional jets declined by close to 22% and turboprops showed a modest increase, primarily due to their better fuel efficiency.

Embraer cut production rates by close to 30% in early 2009 and Bombardier announced production cuts in November to manage their slowing order books. Meggitt's sales in this sector are biased towards aftermarket and fleet utilisation due to our high wheel and brake content, so lower build rates have limited impact on short- to mid-term revenues.

Meggitt is very well positioned within this market. It is on every aircraft in the growing 70 to 90-seat segment, which has remained in the active fleet because of better fuel efficiency. So far, the 30 to 50-seaters have borne the brunt of the regional aircraft park-ups, where Meggitt has lower exposure.

Regional aircraft deliveries



Source: Meggitt consensus

Business jets

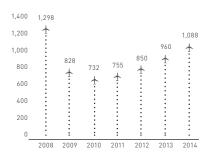
2009 was a disappointing year for business jet OE sales and new model launches, with total deliveries declining by nearly 40%. The aftermarket was particularly hit in the US where sentiment was badly affected by the public response to the use of corporate jets when requesting public financial support.

The market is also seeing a fundamental change in the pattern of future demand. The US accounts for about 70% of the world fleet today but only 30% of the future order book. Business jet utilisation is becoming increasingly linked to global, rather than US, GDP.

Despite a difficult backdrop, Gulfstream's G650 achieved its maiden flight in November, with an extensive Meggitt shipset onboard. Notably, the impressive order book for this flagship platform remained largely unaffected

by the sector's downturn. Bombardier pushed ahead with the new technologyladen Learjet 85 development, including displays and fire protection systems from Meggitt.

Business jet deliveries

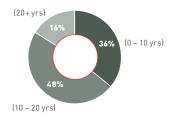


Source: Meggitt consensus

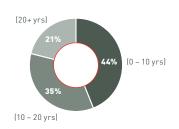
Maturity profile

Following on from its successful new platform win rate over the last few years, Meggitt has a significant civil pipeline with a relatively young and growing fleet. Approximately 44% of the aircraft featuring Meggitt products are on average under 10 years old and account for 36% of sales. Another 35% using Meggitt products are on average between 10 and 20 years old and account for 48% of sales. With 84% of revenues on aircraft under 20 years old, compared to the average retirement age of an aircraft of between 25 and 30 years, Meggitt remains well positioned to benefit from a long-term and growing aftermarket revenue stream.

Total revenue by age



Total fleet by age



Market review

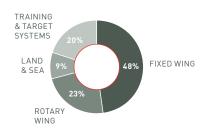
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Military

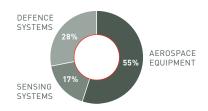
Meggitt's military business, which accounts for 45% of group revenues, is significant, secure and growing. Of this, 57% comes from OE sales and 43% from the aftermarket. By platform, 48% comes from fixed wing, 23% from rotary, 9% from land and sea; and 20% from training and target systems.

The US Department of Defense (DoD) and its prime contractors are Meggitt's largest defence customers. This is particularly important since the global military market is dominated by the US with 48% of total market spend.

Meggitt military revenue by platform



Meggitt military revenue by division



Global military revenues by destination



Source: Congressional Budget Office, DoD, International Institute for Military Studies

Military funding continues to remain firm in the near to medium term. While the fiscal deficit will continue to put pressure on investment accounts and Overseas Contingency Operations (OCO), previously Supplementals, and funding will decline with reduced overseas troop deployment, Meggitt is well positioned to capture future spending. Meggitt's revenues come from a broad range of platforms with a long service life ahead of them. 76% of our platform revenues (excluding training) come from younger, growing and stable platforms and revenues are well halanced between OF and aftermarket sales.

The US DoD base budget (excluding military construction was up circa 3% year-on-year in the fiscal year (FY) 2009 to \$487 billion and, despite fiscal deficit pressure, has continued to show modest growth. \$508 billion was appropriated in December 2009 for FY2010, reflecting a 4.3% year-on-year increase and the President's budget, issued on 1 February 2010, requested a further \$527 billion for FY2011 - 3.7% growth.

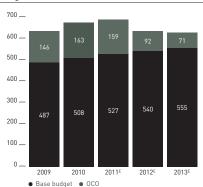
OCO funding levels have been maintained to support the 30,000 troop surge in Afghanistan. An additional \$33 billion was requested in the President's budget, taking the FY2010 total to \$163 billion (up from \$146 billion in FY2009). A further \$159 billion was requested for FY2011 and a placeholder was built in for FY2012 to 2015. Even when current conflicts result in a gradual drawdown in troops and OCO funding levels reduce overall, a significant amount of worn and damaged equipment will need repairing and resetting and demand will increase for training to reinforce lessons learned from active service.

The Quadrennial Defence Review released on 1 February 2010 outlines Secretary Gates' plans for reshaping the US defence budgets. This reflects the changing requirements in modern warfare, including an emphasis to 'prevail in today's wars', a better balance between irregular and conventional warfare and a reform of the way the US DoD does business. These were reflected in the President's budget request through continued OCO funding, a growing base budget and greater emphasis on intelligence, surveillance and reconnaissance, unmanned air vehicles, cyber warfare, helicopters and vehicles. Annual growth of 3% (1% real) has been built into the plan to 2015.

Many of Meggitt's technology developments can be applied to new, or retrofitted to existing, platforms. As continued pressure is expected on investment accounts, this leaves us well-positioned to capture funding from a focus on upgrading and extending the life of existing platforms.

Defence spending in the UK grew by 4% in FY2008/09 and FY2009/10 and is projected to grow by a further 4% in FY2010/11. In future, pressure from the fiscal deficit is likely to affect spending. The recent Green Paper issued by the Ministry of Defence on 3 February 2010 calls for a Strategic Defence Review after the election in 2010 to review priorities and funding levels. Any impact on procurement is unlikely to arise until early 2011.

US Department of Defense (US\$ billion) Budget outlook



Source: TechAmerica

Fixed wing

Meggitt's components and subsystems are installed on virtually every western military aircraft in service. Fighter aircraft are a major driver of medium-term DoD spending, led by the Super Hornets (F18 E/F). This balance is starting to shift towards Joint Strike Fighter (F35), whilst in Europe, Eurofighter Typhoon continues to be the major programme with fast-growing Meggitt revenues.

Meggitt is the number one wheels and brakes supplier for the global military aircraft market and has strong positions in secondary flight displays, fuel tanks, seals, fire protection and control systems, towed countermeasures, pneumatic controls, air data transducers and speed probes. Its military aftermarket is an important and profitable business, especially since key aircraft fleets such as the F35 and Eurofighter Typhoon are predicted to grow to around 1,200 aircraft by 2017.

Rotary, land and sea

Helicopters continue to play a key role on active service, with funding levels projected to remain strong over the next few years - 15% growth in 2009 and 15% in 2010. The Black Hawk (H60). Osprev (V22) and Apache (AH 64) are particularly important to Meggitt and underpinned by high-volume multi-year contracts from the US DoD.

Meggitt products on helicopters include, typically, air data sensors, ammunitionhandling equipment, ice protection systems for engine air intakes, health and usage monitoring systems and ballistically-resistant and crashworthy fuel tanks.

Meggitt's revenues in the land and sea segment are primarily from combat support systems involving sensors. targetry, linkless ammunition-handling equipment and mission-critical cooling systems for high-density electronics.

Many of our products are deployed on active service on platforms such as the Abrams tank and the Stryker armoured combat vehicle and in-theatre aircraft such as the Black Hawk and Apache helicopter. This positions Meggitt strongly for future reset programmes.

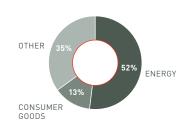
Training systems

Meggitt's live-fire and virtual simulation training products are market leaders, with over 10,000 Meggitt-supplied live-fire ranges and 5,200 virtual systems providing training to the armed forces, law enforcement and security organisations. Meggitt is focused on developing its international training business and is well positioned for any post-conflict revival in training budgets.

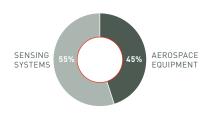
Other markets

These markets comprise 14% of Meggitt's total revenues, with energy being the largest element at 7% of total revenues. The remainder come from various end markets such as automotive, test and measurement, consumer goods and medical.

Other revenue



Energy revenue by division



Revenues from total other markets were down 11%. Demand for our energy products was mixed, with industrial and power generation markets remaining relatively robust. This was based on continued growth, particularly in the power generation market in Asia. We built on recent retrofit successes in China, Korea and India, validating the recent opening of regional bases in India and Abu Dhabi. Offshore gas-related demand remained weak, however, due to depressed gas prices resulting in cuts in capital expenditure by major customers.

Sensor demand in automotive, medical test equipment and consumer goods was significantly down in the first half of 2009. While it started to recover in the second half, particularly in the automotive market, market conditions are still expected to be tough in 2010.

Outlook

The outlook for our civil markets remains mixed. Civil OE production is expected to decline, modestly for large jets and by larger amounts for regional and business jets. Air traffic growth is expected to become positive in 2010 and the utilisation of business jets to increase. This combined with an end to destocking should return our civil aftermarket to growth in the second half of 2010. We expect our military business to continue to grow and our energy and specialist markets to remain broadly flat.

Meggitt has already taken significant action to cut costs, achieving savings of £34 million in 2009. We expect this to increase to an annual run rate of at least £50 million by the end of 2010. Cash conversion and the balance sheet should remain strong.

As a consequence, based on current market indicators, and at constant exchange rates the group expects a relatively flat first half outcome and to return to growth in the second half of 2010.

Performance review

Meggitt's robust business model and strong track record of managing through a downturn, stood us in good stead in 2009 when we delivered a strong set of results and generated record levels of net cash. On top of this, cost saving initiatives and the acceleration of the group's transformation programme during the year, leave us ready for the civil aerospace upturn.

Key performance indicators (KPIs)

Revenue growth

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

Achieved: 6% despite 2009 downturn

Underlying PBT growth

Percentage change in group underlying profit before tax from previous financial year. Target compound organic growth: 9% across the cycle Achieved: 10%

Underlying EPS growth

Percentage change in group underlying earnings per share from previous financial year. Target compound organic growth: 8% across the cycle Achieved: 8%

Return on sales

Underlying operating profit as a percentage of revenue. Target growth in line with revenue and PBT growth Achieved: 24.9% – down only 0.6%

despite downturn

R&D as percentage of revenue

Research and development expenditure as a percentage of revenue. Target gross spend: 6-8% across the cycle Achieved: 8%

Cash conversion

Cash inflow from operations before exceptional operating costs as a percentage of underlying operating profit. Target conversion: 100% Achieved: 119% in 2009

Financial highlights (Table 1)

	2009	2008	%
	£m	£m	change
Revenue	1,150.5	1,162.6	-1
Underlying ¹ :			
EBITDA ²	343.4	343.4	-
Operating profit	286.2	296.4	-3
Profit before tax	234.2	243.3	-4
Earnings per share ("EPS")	25.3p	26.5p	-5
Statutory			
Operating profit	232.8	172.4	+35
Profit before tax	180.8	119.3	+52
Earnings per share ("EPS")	20.5p	15.0p	+37
Cash flow from operations before exceptionals	341.7	295.4	+16
Cash conversion ³	119%	100%	

¹ Underlying profit and EPS are defined and reconciled to statutory measures in notes 10 and 16 respectively of the group financial statements.

Overall performance

The group delivered a robust financial performance in challenging circumstances. Out transformation programme delivered £34 million of savings and we are on track to achieve or exceed the targeted run rate of £50 million per annum by the end of 2010. This prompt response to the downturn in civil markets enabled us to actually increase EBITDA margins and to generate record net cash, whilst maintaining the investment required for the future development of the business.

This leaves Meggitt well-placed to respond to an upturn in air traffic, which is expected to begin in 2010.

Revenues and orders

Increased military sales and currency effects largely offset the decline in civil market revenues, leaving the group total 1% lower at £1,150.5 million.

In the military market, the US
Department of Defense (DoD) – our
largest customer – continued to spend
significantly on new equipment and
upgrading and replacing products used
heavily in active service. In Europe,
Eurofighter programme revenues grew
through a combination of fleet increases
and growing aftermarket revenues.
Meggitt's military revenues increased
by 14% (2% excluding the favourable
currency impact).

Civil aerospace revenues declined by 11%, following the global economic downturn. Excluding the favourable impact of exchange rates, civil revenues decreased by 21%. We estimate that two thirds of the decline was due to cancellations and destocking, affecting OE and aftermarket revenues.

Energy revenues decreased 3% (11% at constant exchange rates). Within this, industrial revenues rose but this was more than offset by reduced demand for our compact printed circuit heat exchangers due to the impact of the depressed gas price on customers' capital spending.

Meggitt's other specialist markets had a difficult year, reflecting the economic downturn. Sales were down 18% (26% at constant exchange rates). Businesses which sell to the automotive and consumer goods sectors found trading particularly tough.

 $^{^{\}rm 2}$ EBITDA represents underlying operating profit adjusted to add back amortisation and depreciation.

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

Movement in net debt (£'m) (Table 2)

Closing net debt	(808.6)
Other non-cash movements	(2.2)
Currency translation differences	115.5
Reduction in net debt	126.0
Net amounts paid to shareholders	(28.3)
Add back scrip dividend	26.8
Net amounts payable to shareholders	(55.1)
Net capital expenditure Businesses disposed/acquired	(24.9)
Capitalised development costs/programme participation costs	(59.0) (24.9)
Net interest/tax paid	(80.9)
Exceptional operating items paid	(21.9)
Cash flow from operations before exceptional operating items	341.7
Opening net debt	(1,047.9)

Our order book declined in the first six months as a result of exchange rate movements and order cancellations but remained relatively stable for the rest of the year. Our closing order book was over £700 million. Adjusting for cancelled orders at the start of 2009, order intake was 2% lower year on year.

Profit and dividends

The Board's preferred measure of Meggitt's trading performance is underlying profit. Underlying operating profit fell by 3% to £286.2 million, reflecting the impact of a growing amortisation charge on capitalised R&D and programme participation costs, with currency impacts and significant cost reductions offsetting the decline in civil aerospace sales.

Net finance costs excluding pension costs decreased by £8.6 million to £39.8 million as a result of strong cash generation and lower interest rates. Pension interest charges increased to £12.2 million. Underlying profit before tax decreased by 4% to £234.2 million.

After a tax charge of 27.0% (2008: 28.0%) and after taking account of the increased share count due to strong take-up of scrip dividends, underlying earnings per share decreased by 5% to 25.3 pence.

On a statutory basis, profit before tax increased by 52% to £180.8 million and earnings per share increased by 37% to 20.5p.

The recommended final dividend is maintained at 5.75p and represents a total dividend for the year of 8.45p, unchanged on last year.

Cash flow and borrowings

Cash inflow from operations before exceptional operating costs was a very healthy £341.7 million, which was 119% of underlying operating profit. Net cash generation increased by 68% to a record £126.0 million (Table 2).

As a result, net borrowings decreased by £239.3 million in the year to £808.6 million at 31 December 2009, helped by a favourable translation impact of £115.5 million.

The group's financial position is strong and no new bank financing will be required before March 2012.

Profile of net debt (Table 3)

£'m	2009	2008
Sterling	(23.3)	(23.5)
US dollar	736.4	993.4
Euro	1.8	22.3
Swiss franc	93.5	58.8
Other	0.2	(3.1)
Total net debt	808.6	1,047.9

K&F integration

Meggitt has continued to realise the synergies of K&F, our largest acquisition. We outperformed our 2009 target of £18 million with total synergies of £19.5 million. We will deliver the remaining £2.5 million of synergies in 2010 and achieve the revised 2010 synergy target of £22.0 million per annum at less than the target one-off cost of £29 million.

Transformation programme

On top of its existing procurement and low cost manufacturing programmes, Meggitt responded to the economic downturn by targeting a further £50 million per annum of cost savings – £20 million in 2009, with the full £50 million run rate to be achieved by the end of 2010.

The £50 million identified savings comprised three elements:

- £25 million is volume-related and will be achieved through reductions in factory direct and indirect headcount and related costs.
- £20 million is permanent and will be achieved by removing a laver of management through our transformation programme.
- £5 million saved through freezing executive pay and reducing pension and other benefits.

Cost saving is just one benefit of transformation. Others include standard business processes, common IT platforms, improved engineering capability and shared services, all of which will lead to improved customer relationships and maintenance of our leading market positions.

The £34 million saved during the year significantly exceeded our initial £20 million target for 2009. We expect to achieve or exceed our targeted £50 million per annum run rate by the end of 2010.

The operating exceptional cost of these savings was estimated to be £25 million, of which £16.9 million was charged in 2009. This figure will probably increase if savings exceed the targeted £50 million.

To date, our cost reduction initiatives (including the K&F integration) have reduced our workforce by 1,058 from July 2008 and put more than 100 full-time equivalent staff on temporary short-time working during the year. This resulted in an effective 14% reduction in headcount.

Investing for the future (Table 4)

Developing and owning intellectual property is key to Meggitt's strategy. Total product development expenditure in 2009 increased by 8% to £85.2 million, of which 23% was funded by customers.

As a proportion of revenues, the largest relative investment was in sensing systems at £31.7 million (12% of segment revenues), followed by defence systems

Performance review

continued

Analysis of R&D costs (Table 4)

	2009	2009	2009	2009	2008
	Aerospace	Sensing	Defence	Group	Group
	equipment	systems	systems		
	£'m	£'m	£'m	£'m	£'m
Total R&D expenditure	42.3	31.7	11.2	85.2	78.8
% of revenue	6%	12%	8%	7 %	7%
Customer funded R&D	(5.4)	(7.9)	(5.9)	(19.2)	(19.4)
Capitalised	(20.2)	[12.4]	(2.5)	(35.1)	(23.7)
Amortisation	2.3	3.6	0.6	6.5	3.5
Charge to income statement	19.0	15.0	3.4	37.4	39.2

at £11.2 million (8% of segment revenue) and aerospace equipment at £42.3 million (6% of segment revenues).

Meggitt invested £23.9 million (2008: £35.7 million) in supplying equipment free of charge to new aircraft coming into the fleet and in making programme participation contributions, mostly from our braking systems business.

Capital expenditure on property, plant and equipment and other intangible assets reduced to £25.6 million (2008: £40.9 million).

Meggitt continued to expand the range of products manufactured at its facility in Xiamen, China and began to transfer some production to our second Mexican factory at Querétaro.

Capital structure

Meggitt's operations are financed by a combination of equity (share capital and retained earnings) and debt. We seek to minimise the cost of capital while recognising the constraints of the debt and equity markets and the risks associated with high levels of gearing. Our current post-tax average cost of capital is approximately 8.5%.

Debt structure

Profile of total committed credit (Table 5)

\$'m	2009
2010	1,920
2011	1,920
2012	750
2013	70
2014	70

Meggitt has committed credit facilities totalling \$1.9 billion comprising \$250 million of private placement notes with maturities in 2013 and 2015, and two multi-currency revolving bank credit facilities - \$500 million maturing in July 2013 and \$1,170 million maturing in March 2012.

Interest charge

Meggitt seeks to reduce the volatility in interest expense from rate fluctuations. Our US private placement is at fixed rates whereas drawings under the bank credit facilities are at floating rates. To reduce our exposure to interest rate movements, we have interest rate swaps to fix a proportion of our bank borrowings. Our treasury policy is to maintain at least 25% of net debt at fixed rates with a weighted average maturity of two years or more. At 31 December 2009, the percentage of net debt at fixed rates was 80% and the weighted average period to maturity of the first 25% was 3.6 years.

£12.2 million (2008: £4.7 million) of our total interest charge relates to the difference between the expected return on retirement benefit scheme assets and the interest rate applied to scheme liabilities. This is not a cash charge but the amount is subject to a degree of volatility.

Exchange rates - balance sheet

Currency denominated net assets are translated at year end rates (Table 6). To mitigate exchange rate exposures arising from the retranslation of net assets of our overseas subsidiaries, net debt is held where cost effective and practicable in the currencies of those subsidiaries.

Exchange rates - income statement

Effective translation rates (Table 6)

	2009	2008
Average rates		
US dollar	1.58	1.83
Euro	1.12	1.23
Year end rates		
US dollar	1.61	1.44
Euro	1.13	1.03

The results of our overseas operations are translated into sterling at weighted average exchange rates. Compared

to 2008, the group's underlying profit before tax for the year was positively affected by £25.8 million as a result of currency translation. Each one cent strengthening of the US dollar versus the 2009 average rate of £1 = \$1.58improves underlying profit before tax by approximately £1.0 million.

Effective transaction rates (Table 7)

	2009	2008
US dollar/£	1.80	1.84
US dollar/Euro	1.40	1.48
Swiss franc/US dollar	1.06	1.11

Our policy on transactional currency exposure is to hedge known, and some anticipated, exposures based on historical experience and projections. At least 70% of the next 12 months anticipated exposure must be hedged at any time and we can place cover up to five years ahead. At 31 December 2009, cover for the next 12 months was 77% (\$/£ rate of 1.68) and we have covered roughly half our anticipated exposures for the following three years at a \$/£ rate of around 1.72. Hedging in 2009 for \$/£ was at a rate of 1.80, similar to that achieved in 2008.

Covenants

Covenants (Table 8)

Covenant	Actual*
≤3.5x	2.4x
≥3.0x	8.0x
	≤3.5x

*As calculated in accordance with agreements.

Meggitt's committed credit facilities contain two financial ratio covenants interest cover and net debt to EBITDA. The covenant calculations are drafted to protect Meggitt from the effects of accounting standard changes, sudden exchange rate movements and exceptional items. As defined in the credit agreements, interest cover at 31 December 2009 was 8.0 times (must exceed or equal 3.0) and net debt to EBITDA was 2.4 times (must not exceed 3.5). There is therefore considerable headroom on both measures. Table 9 shows the sensitivity of the key net debt/EBITDA ratio to changes in profit and average exchange rates. The ratio is relatively insensitive to currency movements and there is considerable profit headroom. At 2009 exchange rates, EBITDA would have to fall by close to 35%, without mitigation, before this covenant measure is breached.

Covenant (Net debt/EBITDA) headroom (Table 9)

		EBITDA (before exceptionals)		
		-10%	-20%	-30%
Avge \$1.60	2.1	2.4	2.7	3.2
Avge \$1.40	2.1	2.4	2.8	3.3
Avge \$1.20	2.2	2.5	2.9	3.4

Calculations assume 2009 profit and cash (in currency) repeated in 2010. This is for illustrative purposes only and is not a forecast.

Minimising debt financing risks

We seek to minimise debt financing risk as follows.

a. Concentration of risk

We raise funds through private placement issuances and bank loans to reduce reliance on any one market. Bank financing is sourced from over 20 major international institutions spread across North America, Europe and Asia. No one bank accounts for more than 10% of the group's total credit facilities and our largest five lenders are Bank of America, Barclays, BNP Paribas, HSBC and Lloyds.

b. Set-off arrangements

We seek to use set-off and netting arrangements where possible to reduce the effect of counterparty defaults. All treasury transactions are settled on a net basis where possible and surplus cash is deposited with our lenders up to the level of their current exposure to us.

c. Refinancing risk

We ensure that the maturity of our facilities is staggered and refinancings are concluded in good time.

d. Headroom risk

Maturity profile of credit facilities (£'m) (Table 10)

1200 _ 380 million headroom let debt Dec 09 - £809 milllio 600 . 300 _

As our borrowings are principally in US dollars, our credit facilities are denominated in this currency to avoid headroom erosion due to foreign exchange movements. As at 31 December 2009, we had undrawn, committed credit

Committed facilities: • Fixed rate • Floating rate

Defined benefit pension schemes summary (£'m) [Table 11]

	2009	2008
Opening net deficits	172.0	102.1
Service cost	9.6	12.3
Employer contributions	(29.6)	(33.4)
Net deficit reduction payments	(20.0)	(21.1)
Net finance cost	8.6	1.3
Actuarial (gains)/losses – schemes' assets	(46.1)	115.0
Actuarial losses/(gains) – schemes' liabilities	116.0	(50.9)
Currency movements	(11.0)	25.6
Closing net deficits	219.5	172.0
Assets	504.2	451.9
Liabilities	723.7	623.9
Closing net deficits	219.5	172.0
Funding status	70%	72%

The above analysis excludes post-retirement healthcare schemes which have a deficit at 31 December 2009 of £61.0 million (2008: £69.2 million).

facilities of £380 million after taking account of surplus cash.

e. Covenant risk

We reduce the risk of covenant breach using frozen UK GAAP to insulate against accounting rule changes, inclusion of pre-acquisition profits in the year of acquisition, exclusion of exceptional items in calculations and use of average exchange rates for net debt calculations (to match rates used for profit translation).

As a result Meggitt believes it has credit facilities sufficient for its ongoing operations until at least 2012 when the next significant bank facility renewal is due and from lenders highly likely to meet their obligations to us.

Taxation

Meggitt's underlying tax rate reduced to 27.0% (2008: 28.0%) reflecting a change in the profile of taxable profits by jurisdiction.

Dividends

A strong 2009 performance together with changes to our structure and cost base will leave us well-placed to take advantage of future growth opportunities. Accordingly, we have retained the dividend at 2008 levels with a recommended final dividend of 5.75 pence and a full year dividend of 8.45 pence.

Retirement benefit schemes

Meggitt has a number of defined benefit pension schemes. The principal schemes are closed to new members with the exception of one scheme arising from the acquisition of K&F.

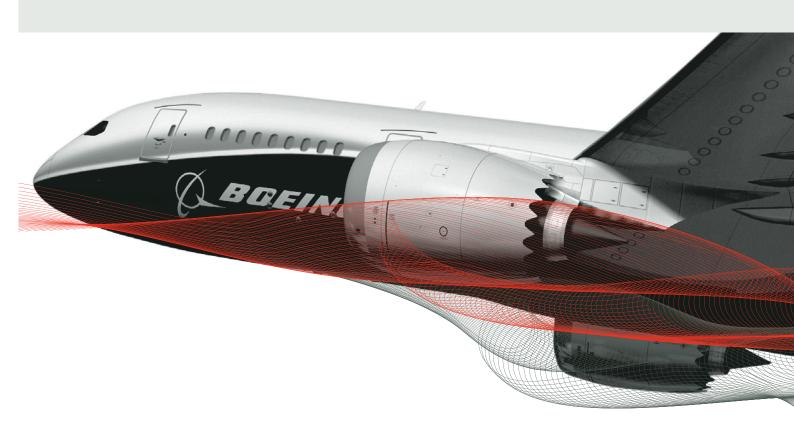
Increases in long-term inflation assumptions, lower returns on AA corporate bonds used to discount liabilities and improvements in life expectancy assumptions have all had a significant adverse impact on scheme liabilities in 2009. The increase in scheme liabilities arising from these changes in actuarial assumptions more than offset the impact of strong asset returns, deficit reduction payments and currency translation gains. Overall the schemes' deficits increased to £219.5 million (2008: £172.0 million) (Table 11).

Regulations in the UK and US require repayment of deficits over time. Net deficit payments in the year were £20.0 million (2008: £21.1 million). The next actuarial valuation in the UK is underway and is due to be finalised in 2010. It is likely that deficit repayments will need to rise over time, modestly in the short term.

Meggitt's two other principal postretirement benefit schemes provide medical and life assurance benefits to certain overseas employees. These schemes are unfunded and have a combined deficit of £61.0 million (2008: £69.2 million). Deficit reduction payments in the year were £1.8 million (2008: £1.4 million).

Accounting standards

Meggitt's results were not significantly affected by changes to financial reporting standards in 2009.



Aerospace Equipment

A group of leading electro-mechanical engineering businesses whose products are on virtually every western aircraft in service, ensuring stable aftermarket revenues over the long term.

Above: The Boeing 787 Dreamliner, a newgeneration, fuel-efficient, composites-rich aircraft, features Meggitt's high performance airframe and engine seals, thermal management and fluid control components and engine condition monitoring systems.

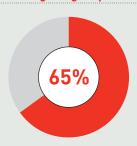
Revenue

£745.3_M

Underlying operating profit

£220.8_M

Percentage of group revenue



Markets

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

Capabilities

- Wheels, brakes and brake control systems
- Thermal management and fluid control
- Fire protection and control
- Polymers and composites

Growth strategy

- Invest in component design and technology to meet next generation platform requirements
- Move up the value chain with integrated solutions and sub-systems
- Acquire complementary businesses that reinforce capability and expand markets
- Optimise product cost base through supply chain management
- Continually improve operations to deliver efficiencies, developing critical mass in programme management and engineering resources

Operational highlights

Meggitt's aerospace equipment division represents 65% of total revenues, generating 62% from the aftermarket and 38% from original equipment (OE). The decline in air traffic, parking of older aircraft, cancellations and destocking, affected its profitable civil aftermarket and OE business. However, with growth in our military segment, significant cost cutting and the stronger dollar, revenue and profit declined by only 2% and 4% respectively.

In civil aerospace, we continued our successful relationship with Bombardier, concluding agreements to supply the all-electric braking system for Bombardier's CSeries family of 110 to 149-seat aircraft and Meggitt's longer-life NuCarb® carbon brakes for the CRJ 1000 NextGen regional aircraft.

In the military segment, we won the wheels, brakes, brake control and landing gear control system for Tranche 3 of the Eurofighter Typhoon programme and the new braking system for the next generation Saab Gripen. Engineered Fabrics Corporation, which we acquired with K&F, continues to exceed expectations, booking orders

of over \$100 million for the fourth year running. This included orders for ballistically-resistant and crashworthy fuel tanks and ice guards for the V22 Osprey and the UH60M Black Hawk as well as for composite interiors and ice protection equipment for the CH53K Super Stallion heavy lift helicopter. Deliveries of fuel bladders for the KC-135 air-to-air refuelling tanker were at record levels.

Our controls businesses won contracts for electro-mechanical fans on the Stryker platform, additional content on the V-22 aircraft and follow-on production contracts worth around £15 million for engine components on the Ariane 5 space launcher. Targeting the more electric vehicles of the future, we continued to develop highperformance, low power motors and motor controllers for future ground and airborne military vehicles.

Our safety systems business won a contract for the integrated fire detection and extinguishing system on Bombardier's Learjet 85 aircraft and orders from US and international customers worth over \$17 million for an F-16 fighter jet canopy actuator upgrade. Airbus accredited our new polymer for interior seals on new and existing aircraft programmes. 20% lighter than existing materials, it helps fuel efficiency and significantly enhances Meggitt's competitive position.

Previous contract wins progressed well. The Phenom 300 business jet was certified in Brazil and the US. Flight testing continued on the ARJ-21, China's new regional aircraft, which should enter service later this year. Initial flight testing activity took place on Gulfstream's G250 and the G650 business jets which carry Meggitt wheels and brakes. The G650's Rolls-Royce BR725 engine carries multiple Meggitt engine components.

The division had a difficult year in other specialist markets. Meggitt's compact printed circuit heat exchangers business struggled to win new orders as new development projects were postponed due to the downturn and low gas price forecasts. However, it proved it could make its products from tougher alloys, extending gas extraction business opportunities when demand recovers.

Meggitt Aerospace Equipment

Material girl



Above: **Velma Brooks**, Vice President, Engineering of Meggitt's Polymers & Composites businesses - polymer fuel tanks, seals and sealants and composites for ice protection and aircraft interiors.

have been climbing in and out of aircraft fuel tanks for 32 years – the products that Engineered Fabrics Corporation is most famous for. However, it is our capability in heated and unheated composites that is responsible for our fastest growing lines – helicopter interiors and ice protection for rotor blades.

In aerospace today, you have to increase product performance and keep weight down. That is why we are investing in original engineering, complementing valuable experience in manufacturing our specialist products to customers' designs. The new approach has already delivered two ground-breaking contracts on the heavily-funded CH53K Super Stallion helicopter for complex composite engine inlets and noise-suppressing panels for its cabin interior.

Today, I am leading engineering within all Meggitt's polymers and composites businesses, managing the talent and tools that reside across five transatlantic facilities. That is how we will create a knowledge base in materials science that is the envy of the industry and how we will scale up our engineering function to win the programmes that will grow our business.



Sensing Systems

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

Above: Meggitt's sensors and condition-monitoring systems help reduce emissions and improve the fuel efficiency of GE Aviation's GEnx advanced turbofan engine. GEnx, which powers the Boeing 787 and 747-8 aircraft, also carries Meggitt control valves, heat exchangers and seals.

Revenue

£258.1_M

Underlying operating profit

£45.0_M

Percentage of group revenue



Markets

- Civil aerospace: large, regional and business jets, general aviation and space
- Military: fixed wing and rotary aircraft, ships
- Energy
- Medical, automotive, test and measurement

Capabilities

- High performance sensing in extreme environments
- Condition-monitoring for air and landbased machinery

Growth strategy

- Continue to invest in high performance sensing technologies
- 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 beyond aero-engines to wider applications across the airframe and next-generation integrated vehicle health management solutions
- Develop energy segment business through continued innovation and expanded geographical presence
- Optimise product cost base through supply chain management
- Continually improve operations to deliver efficiencies, developing critical mass in programme management and engineering resources

Operational highlights

Meggitt sensing systems represents 22% of total revenues, of which 72% come from original equipment and 28% from the aftermarket. Its civil aerospace markets were affected by the same factors influencing Meggitt's aerospace equipment division, while this was partly offset by continued growth in military sales. Meggitt businesses serving the consumer goods and automotive sectors were particularly hard hit by the global downturn, with revenues in these sectors down 26% (35% at constant exchange rates). However, significant cost cutting combined with currency benefits saw revenues and underlying operating profits fall by only 4%.

We won a contract to supply Rolls Royce with the engine health-monitoring system on the Airbus A350 XWB programme, maintaining our record of all western large passenger aircraft in production specifying Meggitt's engine condition-monitoring systems. Our presence in helicopter health monitoring continued with strong sales for Black Hawk and new contracts for sensors on the CH53K Super Stallion and mid-size Sikorsky S-76D and Eurocopter UH-72A.

Meggitt sensing systems and Meggitt aerospace equipment created a tyre pressure monitoring system for integration into Meggitt wheels and brakes. This responds to operators' growing interest in performance data and represents an important step forward in extending Meggitt's condition monitoring technology from engines to the airframe.

The package of multiple Meggitt sensors to Hamilton Sundstrand for the Pratt & Whitney revolutionary PurePower™ PW1000G geared turbofan engine for the Bombardier CSeries, the Mitsubishi Regional Jet and the Russian Irkut MC-21 aircraft, secures a key position on an engine platform being considered for next generation single aisle aircraft. We won a package of smart sensors on the Airbus A350 XWB, providing primary data for the flight, motion control and back-up of the fly-by-wire control systems. This contract is expected to generate revenues exceeding £100 million over the life of the programme.

Previous contract wins moved forward. We delivered our first integrated sensor and ignition package for the Rolls-Royce BR725 engine which performed

flawlessly on the Gulfstream G650's maiden flight. We launched iSFD, an integrated secondary flight display, quickly securing contracts from Bombardier for the LearJet 85 business iets, several new helicopter build programmes, including Korea Aerospace Industries' Surion helicopter and Boeing's Apache AH-64 Block 3 upgrade. iSFD will be installed in the HondaJet type certification aircraft.

Sales from our energy markets grew despite the global downturn, helped by our growing presence in India, which led to approved supplier status from key partners and condition-monitoring contracts with several power projects. The superior performance and unique combustion analysis capabilities of InSight®, a condition-monitoring system upgrade for land-based turbines, resulted in positive customer feedback.

Although the automotive and consumer goods sectors experienced extremely tough trading conditions through 2009, there were some signs of improvement in the automotive sector towards the end of the year.

Meggitt Sensing Systems

Diagnostics check for world's most powerful turbines



Above: **Henry Reinmann**, Director, Energy, with a Pelton wheel from the Bieudron hydro-electric power station. In a cavern in the Swiss Alps, the 1,269 MW plant is a spectacular application for Meggitt's Insight® conditionmonitoring systems.

witzerland's Bieudron hydro-electric power station is In the world's highest pressure, most powerful Pelton turbine. We are monitoring its condition – just as we monitor the world's largest steam and gas turbines.

When the water flow is turned on, the turbine takes about one minute to get up to speed. Three Pelton wheels resonate like guitar strings and deliver a massive 423 MW each – the power of around 4,000 family cars. The characteristics of these resonances reveal important information about turbine health - the key to planning maintenance and sustaining the reliability of these critical machines.

InSight®, a development of Meggitt's VM600 engine monitoring system, records these resonances, extracting extremely high resolution data in the short spin-up cycle. It integrates multiple sensor modules, including our combustion monitoring and blade tip clearance tools, and interfaces with other control and information systems. This makes it the world's most powerful diagnostic solution for the world's most powerful machines.



Defence Systems

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

Above: The M1 Abrams main battle tank carries Meggitt's advanced automatic ammunition-handling equipment and specialist thermal management systems that cool the crew and enhance the reliability of the vehicle's sophisticated electronic systems.

Revenue

£147.1_M

Underlying operating profit

£20.4_M

Percentage of group revenue



Markets

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

Capabilities

- Integrated training systems
- Precision-mechanical combat systems
- Integrated environmental control systems

Growth strategy

- Become a preferred supplier worldwide for integrated and networked live and virtual training packages
 - supporting the lead systems integrators
 - fulfilling the training needs of police forces and security organisations
 - responding to homeland security requirements
- Become the preferred supplier worldwide for electronics cooling ammunition-handling and specialist precision-mechanical combat systems
- Continue to optimise operations

Operational highlights

Meggitt's defence systems division represents 13% of group revenues and 28% of group military revenues. 77% of total business comes from original equipment and 23% from the aftermarket. Revenues in constant currency declined by less than 1%, largely due to reduced revenue from the Singapore Coastguard's integrated tactical training centre. Operating margins fell slightly in line with the constant currency revenue decline.

The division, which represents the group's non-aerospace defencerelated businesses, continued to lead its market segments in specialpurpose military electronics cooling, automatic ammunition-handling and live and simulated training for weaponshandling, convoy movement, forward air control and coastquard and other patrol disciplines.

The division's 'linkless feed' system continued to reinforce its position at the top of the market in mediumcalibre weapons for land vehicles and helicopters as it delivered and successfully tested a 35mm ammunition handling system for a next generation

ground combat vehicle. New contract wins in 2009 included the ammunition feed system and supporting ammunition loader for the AH-1W/Z Cobra attack helicopter. The initial contract, worth \$5 million, will begin deliveries in the final quarter of 2010. Follow-on orders could reach \$35 million over five years.

New electronic cooling contract wins included an initial contract for the forward array cooling system on the P-8 Poseidon, Boeing's multi mission maritime aircraft. We continued to deliver against the \$45 million contract for new and repaired M1A2 SEP Abrams main battle tanks and the thermal management system for the infrared search and track capability on the F-18 Hornet fighter jet. Customer-funded development activity enabled us to progress a lightweight yet powerful electronics cooling system for a next generation unmanned ground vehicle platform.

Our training systems business concluded its largest single integration project in 2009 with the commissioning of a \$19 million integrated tactical training centre for the Singapore police coast guard. This was followed by a contract, worth \$7 million, with the

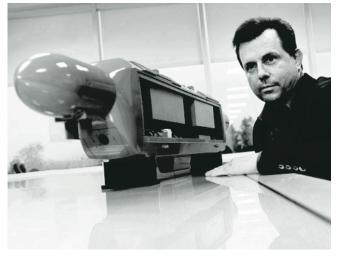
Singapore Armed Forces to upgrade existing marksmanship trainers and provide additional simulated weaponry for their training centre.

We continued to support Lockheed Martin's reconfigurable vehicle system simulator, the US Army standard for virtual convoy training, and received orders worth \$4 million to develop key weapons training modules for the system's convoy training scenarios. These modules can support a simulation of up to six military ground vehicles, developing leadership and teamwork, while instilling a set of procedural responses to convoy situations such as ambush and IEDs.

Training systems launched and sold an innovative next generation portable simulator targeting, initially, the US law enforcement market. The simulator, which can be transported to training locations in the back of US police department cruisers, supports a wide range of firearms training, is around 50% lighter than standard simulators and features fully-immersive, high definition interactive video scenarios to enhance students' judgemental skills, reaction times and response techniques.

Meggitt Defense Systems

Standalone cooling for the heat of battle



Above: Gerry Janicki, Senior Business Development Director, with a model of an integrally-cooled Meggitt pod for electronic countermeasures.

onsider this: no cooling, no combat. The exponential growth in military electronics – and the heat they generate – are the problem. Reagan-era aircraft and ground vehicles are being upgraded with the latest avionics and advanced braking systems and powerful devices for command, control and communications on the networkcentric battlefield. All this emits heat in spaces that weren't designed for them. Unmanned vehicles, of course, depend on electronics for all functions, requiring integrated thermal management solutions today that can support the electronics of tomorrow.

At half the size and half the price of competing technologies, our vapour cycle systems with liquid flow-through enclosures dissipate the extra heat in any environment. And where mission payloads extend beyond the confines of land vehicles and aircraft, our complete pod systems are ready for our users' chosen electronics. Complete with vapour cycle and advanced surface coolers, integrated controllers and aircraft interfaces, antennae and radar, we minimise integration risk for our customers and ensure densely-packed electronics do not malfunction when needed most.

Corporate responsibility

At Meggitt, we recognise our responsibility to shareholders, employees, customers, suppliers and the wider community. We will comply with all relevant national laws and regulations and aim to improve our financial, social and environmental performance continually.

Policy

Meggitt is committed to

- upholding sound corporate governance principles
- providing a supportive, rewarding and safe working environment
- conducting business relationships in an ethical manner
- minimising the environmental impact of products and processes
- acting as a responsible supplier and encouraging our contractors and suppliers to do the same
- supporting our local communities

Action

For our stakeholders, this means

- → financial probity
- → effective risk identification
- → robust internal and external reporting and controls
- → dynamic business continuity plans
- → safe working environments
- → independent audits
- → internationally-accredited environmental management systems
- → professional and comprehensive employee training programmes
- → modern operational practices
- → the social and economic enrichment of local communities

Governance and compliance

Meggitt's Corporate Responsibility (CR) Policy – published on www.meggitt.com - underpins the way we manage social, ethical and environmental issues and we devote significant internal resources to implementing it across Meggitt facilities worldwide. Every site records important data on environmental, health and safety, employees and supply chain performance for analysis by the group.

CR is overseen by our Group Corporate Affairs Director. Health, Safety and Environmental matters, Trade Compliance and Ethics are managed by a highly experienced team of professionals. The Board has appointed an Ethics and Trade Compliance Committee to ensure we have effective programmes in these two areas and to oversee their management. Divisional presidents and site directors are responsible for the implementation of our policies on these matters at a local level.

Corporate responsibility in action

Environment

Meggitt's Group Environmental Policy commits us to

- complying with applicable environmental legislation
- reducing the environmental impact of our own and our suppliers' products and operations

Our global environmental audit programme, supported by external consultants, operates according to the same *continuous improvement* philosophy as our production facilities. We use it to review compliance standards, reveal shortfalls in performance, recommend remedial action and share best practice. In 2009, we audited nearly one third of Meggitt sites. Over two thirds have now attained environmental management standard ISO14001, with the remainder working towards certification, which is mandatory at Meggitt, in 2010 and 2011.

In 2009, we boosted information gathering and sharing through our global Meggitt conferences and our intranet, where we posted new halfyearly environmental bulletins.

Meggitt is a signatory to the Sustainable Aviation Strategy of the AIDIS Group (the UK's primary aerospace, defence and security trade association) and is represented on its environmental working group.

We provide data to the Carbon Disclosure Project (CDP), a nongovernmental initiative that measures and discloses the greenhouse gas emissions and climate change strategies of 2,500 organisations around the world.

Our UK sites will participate in the Carbon Reduction Commitment Energy Efficiency Scheme (CRC). We are currently developing systems and strategies to manage CRC requirements, whilst minimising any financial impact.

While we are committed to minimising the environmental impact of all our sites, some of our engineering processes cannot be substituted for those with less impact because of performance demands on our defence and aerospace products. However, in 2009, nearly all Meggitt's key environmental measures decreased in absolute terms. While some of this occurred because of lower production, a significant proportion arose from active initiatives.

- Electricity usage decreased by 11% to 148 GWH (2008: 167 GWH)
- Gas usage declined by 6% to 195 GWH (2008: 207 GWH)
- Carbon emissions decreased by 10% to 114,932 tonnes (2008: 127,378 tonnes as restated)1
- Water consumption decreased by 9% to 639,807 m³ (2008: 704,438 m³)
- Waste decreased by 5% to 9,804 tonnes (2008: 10,370 tonnes)

In 2009, Meggitt sites continued to reduce their environmental impact:

Our Swiss facility reduced emissions to air by decommissioning its gasfired heating system and connecting to its local authority's biogas system. This will save around 27,000 tonnes of CO₂ emissions and 100,000 Swiss Francs in carbon taxes annually.

- Our US facility in Rockmart, Georgia installed an efficient compressed air system with a variable speed drive. This saves approximately \$1,000 per month in electricity costs and, because it recovers and recirculates air for heating, conserves gas. The site's newly-installed water cooling tower, reduces waste water and cooling time. Fluorescent lights have replaced a metal halide lighting system, halving energy consumption.
- Meggitt's aircraft braking systems site in the UK implemented significant environmental improvements in its carbon vapour deposition (CVD) process, reducing waste carbon and gas. These included technical alterations to the CVD waste gas system, resulting in a rise in gas reusage from 30% to 95%.
- Meggitt's Danish piezoceramics facility installed a new waste water treatment plant, reducing the waste water for deposit at government treatment plants by 40% and generating significant operational efficiencies.

Many of Meggitt's products respond to the requirements of environmental regulation. Products that weigh less, for example, save fuel.

- Weighing up to 20% less than the current standard, Airbus accredited Meggitt's new interior seal polymers in 2009.
- We continue to work with a major airframer on energy-conscious electro-thermal ice protection systems using a smart control feature that, based on flight conditions, applies heat selectively to wing surfaces.
- Meggitt's electric brake control system is responding to the airframer's requirement for electrically-powered services that result in less drag on engine power.
- Our engine condition-monitoring enables airline operators and engine power providers to plan costeffective maintenance and manage emissions.

¹ Meggitt's carbon emissions data is derived from electricity, gas and fuel oils usage which is converted using the 2009 greenhouse gas conversion factors of the UK Department for Environment and Rural Affairs (DEFRA). For electricity only, DEFRA update prior years' conversion factors annually and so Meggitt's carbon emissions arising from electricity usage in 2008 have been restated.

Corporate responsibility

continued

• Under the EU Seventh Framework Programme (FP7), which funds projects that fall into its 'Strategic Priorities for Research, Technological Development and Demonstration Activities for 2007 to 2013', Meggitt's Swiss facility has received funding for the development of its pioneering turbine tip blade measurement technology. While this technology can be used to prevent unnecessary hotsection overhauls and the destruction of engines by loose blades, every aircraft engine manufacturer has identified rotor blade measurement and monitoring as critical to reducing greenhouse gas emissions and fuel consumption. The technology will extend the life of aero-engines by enabling clearance control systems to reduce the gap between the engine case and the tip of a turbine blade to within 0.25 of a millimetre. This improves fuel efficiency by 1%, reduces noxious emissions by 10% and decreases exhaust gas temperature by six degrees celcius. Across large fleets of aircraft and industrial gas turbines, such gains would be significant.

Health and safety

Meggitt's Group Health and Safety Policy outlines our commitment to

- formal management systems for regulatory and legislative compliance and guidance on best practice
- integrating the identification, assessment and control of health and safety risks into operational management
- incorporating health and safety thinking into business plans
- instilling the importance of health and safety in employees at all levels and providing all employees and temporary workers with appropriate health and safety information and training
- delivering products and services that can be installed, operated and maintained without risk to health and safety as far as possible
- consulting stakeholders on health and safety risk management

In 2009, we enhanced our health and safety programme, rolling out a training module for senior managers throughout the group and on-line health and safety training for all UK employees. We are piloting a similar programme in the US and aim to provide it at all our facilities worldwide. We introduced quarterly health and safety bulletins for all employees, a manual of health and safety procedures and a graphic device to brand safety communications and promote our safety ethos throughout the group (see below).









Meggitt Sensing Systems

Keeping track of chemical obsolescence



Above: Kerrill Grealy, divisional HSE director, with a user-friendly Meggitt chemicals safe containing a new EU-compliant cleaning agent.

fter several years at Meggitt Avionics, I have Assumed Meggitt's first divisional health, safety and environment (HSE) function. I'm no longer hands-on. Instead of analysing chemicals, I analyse data, sourcing and coordinating information from our highly professional site specialists. This is all part of Meggitt's maturing HSE organisation, a global team that is standardising metrics and establishing generic procedures. This will enable us to assess where our capabilities can be strengthened as we maintain safe working environments for our employees around the world.

REACH, the EU's chemicals legislation, presents a major challenge to HSE professionals in any industry, worldwide. In aerospace, phasing out hazardous substances may require design changes to safety-critical equipment and recertification by industry regulators. That's where effective due diligence comes in. My role includes making sure Meggitt sees what is on the horizon in terms of chemical obsolescence. We need to take steps in good time to comply with the law, without disrupting our businesses and disappointing our customers.

We continue to disseminate information and best practice through the intranet and intra-group conferences. We form project teams to manage complex new legislation such as the Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH).

There were no fatalities at Meggitt sites in 2009 (2008: none). In 2009, the number of reported injuries² declined to 60 (2008: 74) and our accident incident rate (AIR3) decreased to 832 (2008: 908).

Trade compliance

Meggitt's Trade Compliance Policy outlines our commitment to comply fully with the laws and regulations governing trade controls in the jurisdictions in which we operate.

Meggitt's company-wide trade compliance programme is based on the model of excellence outlined in the Nunn-Wolfowitz Task Force Report of 2000 – the influential report on export compliance best practice – and US Government guidelines. We achieve multiple levels of accountability using five key process tools - assessment, compliance improvement, verification, corrective action and audit – which are applied in a continuum. Plans arising from the review elements enable 16 sub-processes for 39 businesses to be tracked by managers at all levels, including the executive leadership team.

Meggitt's trade compliance teams receive training and access to key subject matter experts inside the group and from global trade compliance advisors, JP Morgan Trade Management Consulting. Meggitt's trade compliance website, a customised database of training modules, forms, templates, regulations, editorial and company policy and procedures, is comprehensive and well-respected by experts in the field.

Business ethics

Meggitt's Ethics and Business Conduct Policy commits us to:

- conducting business fairly, impartially and in full compliance with applicable laws and regulations
- integrity and honesty in all our business relationships internally and externally

Our Ethics and Business Conduct Policy and Code of Conduct, which are overseen by the Ethics and Trade Compliance Committee, must be followed by all employees and advisers. All employees have received Code of Conduct training and are required to view the Ethical Moments training videos which are released regularly. Recently, we signed the Statement of Adherence to the Global Principles of Business Ethics for the Aerospace and Defence Industry.

During 2009, Meggitt published its comprehensive manual on doing business with the US government and launched five on-line courses dealing with government contracting laws and regulations. Sites are measured against the standards described in it.

Our people, local communities and charitable donations

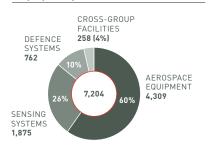
At the end of 2009, Meggitt employed over 7,000 people, a diverse workforce who enjoy our equal opportunity policy and access to educational opportunities worldwide from apprenticeships and MBAs to graduate courses and leadership development initiatives.

Meggitt makes an important economic contribution to our local communities, with salaries, tax and social security contributions across the group amounting to approximately £370 million in 2009 (32% of revenue).

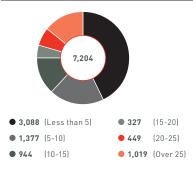
Individual Meggitt facilities work with the local community and for charities at their discretion. Yearly reports reveal the exceptional generosity of many employees who give time and money to a wide range of national and local initiatives. Meggitt's headquarters, which are based in Dorset, UK, continued to sponsor the Arkwright Scholarship Trust, the

Institute of Mechanical Engineers' Schools Aerospace Challenge, the local Community Foundation and the Poole Hospital Staff Excellence Awards. Meggitt PLC and individual staff support Julia's House, Dorset's only hospice dedicated to children with life-limiting conditions.

Employees by division



Employees length of service (years)



Employees by region



² We define reported injuries as those which are reportable under local laws/regulations at each facility.

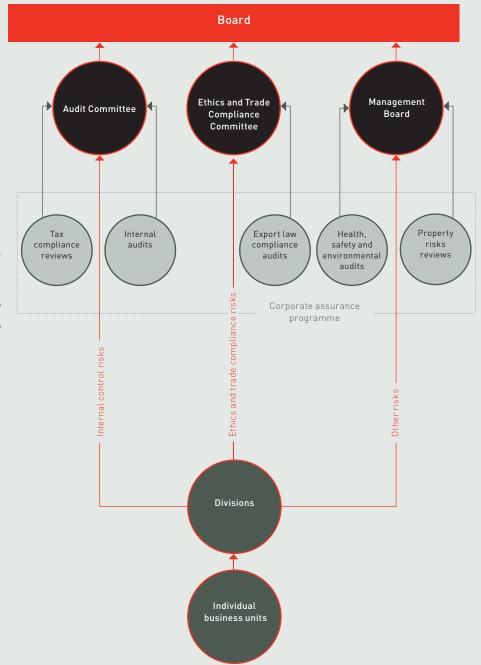
³ The AIR is calculated by taking the number of reported injuries multiplied by 100,000 and dividing it by our total staff figure as at 31 December.

Risks and uncertainties

Meggitt's risk management framework includes a formal process for identifying, assessing and responding to risk in relation to the group's strategy and business objectives.

Risk management operates at all levels throughout Meggitt, across business lines, geographies and functions. The Board is responsible for risk management including maintaining the group's risk governance structure and an appropriate internal control framework (see page 36).

Governance structure



Types of risk

We monitor risk across four broad categories - markets, operations, finance and corporate. The risks outlined below, which are not presented in any order of priority, are those the group believes are the principal ones it faces. However, additional risks, of which the group is unaware, or risks the group does not consider material, could have an adverse impact.

Markets

- Competition
- Product demand

Operations

- Acquisitions
- Contracts
- Equipment fault
- Supply chain
- Transformation programme

Finance

- Credit
- Exchange rates
- Financing
- Interest rates
- Retirement benefits funding

Corporate

- Environmental
- Legal and regulatory
- People

Risk description

Potential impact

Mitigation action

Markets

Competition

We compete in a highly competitive global market that has experienced significant consolidation in recent years. Losing contracts to competitors, some of whom have greater financial, technological and marketing resources, or being forced to accept lower margins, would have an adverse effect on Meggitt's results.

Losing key intellectual property or failing to enforce its rights could hinder our development and provide competitor advantage.

Meggitt's competitive position would suffer were it unable to invest in R&D and provide cash and equipment incentives to original equipment manufacturers. Such investments, especially in aerospace, decrease cash flow in the shortterm, which is recovered only through revenue streams that arise over many years.

- · Protecting our positions by maintaining a broad customer base.
- Maintaining diverse products and operations to reduce the effect of action by any single competitor.
- Maintaining a competitive manufacturing base.
- Developing proprietary intellectual property and products in markets that demand high levels of technology, quality and service and strong, long-term relationships with customers.
- Maintaining a robust intellectual property protection programme.
- Maintaining the highest manufacturing and quality standards and attending to individual customer certification requirements.
- Ensuring good operational cash flow and available finance.

Product demand

Any reduction in military spending or reordering of priorities, particularly by Meggitt's largest customer, the US Government, could affect our revenues adversely.

A significant or prolonged downturn due to recession, commodity prices, terrorist attack or aerospace regulations would decrease demand for the group's products from civil aerospace customers.

Since the start of the recession, several airlines and business jet operators have parked a number of aircraft and deferred new deliveries. This will adversely affect our revenues.

- Spreading our activities across the civil aerospace, military and energy markets.
- Generating revenues from original equipment manufacturers and aftermarket services.
- · Operating across different geographical regions.
- Maintaining, where practical, a flexible cost base.
- · Reducing costs to partially mitigate any reduction in demand.

Operations

- Acquisitions

Meggitt continues to pursue acquisitions as part of its growth strategy. Such acquisitions may not realise expected benefits.

- Undertaking due diligence.
- Implementing comprehensive business integration processes.
- Obtaining representations, warranties and $in demnities \ from \ vendors \ where \ possible.$

- Contracts

Multi-year, fixed price contracts with original equipment manufacturing customers expose us to variations in production costs.

The group is subject to contracting risks with the US Government which can impose a range of sanctions in response to violations.

- Ensuring estimates of cost are based on reliable historic data and, where possible, by entry into multi-year, fixed price contracts with major suppliers.
- Maintaining guidelines for doing business with the US Government as part of the group's Ethics and Business Conduct Programme.

Equipment fault

Meggitt's products generally operate in extreme environments where a serious incident arising from failure could result in liabilities for personal injury or death and damage to our reputation. The group may also be subject to material product warranty obligations to third parties for equipment it manufactures and services.

- Designing manufacturing processes that ensure stringent quality and reliability standards.
- Protecting the group from future product liability claims subject to coverage limits with liability insurance.

Supply chain

We rely on our own manufacturing operations and independent suppliers for key raw materials and components, some of which may be available from a limited number of suppliers. Any disruption to the supply chain could have an impact on our ability to meet customer requirements and adversely affect the group's results.

- Maintaining significant investment in modernising facilities and improving production processes to develop leading manufacturing operations.
- Maintaining a supplier risk assessment programme.
- Subjecting robust business continuity plans to regular testing to manage the risk of a loss of a major facility or supplier.

Risk des	cription
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Potential impact

Mitigation action

Operations continued

Transformation programme

The group is in the process of a major reorganisation to ensure it emerges from the recession leaner, more competitive and better placed to respond to customers' requirements. This is being achieved by adjusting headcount in line with volumes, removing a layer of management, implementing common IT solutions to enable shared services, streamlining other back office and administrative activity and reviewing discretionary expenditure.

Risks associated with such reorganisations include changes being adversely received by customers, new internal processes including common IT solutions not being implemented effectively and anticipated costs savings not being realised.

- Monitoring and responding to feedback from customers, which has been positive to date.
- Implementing proven programme management processes used in previous transformational initiatives, such as the integration of the Dunlop Aerospace and K&F businesses.
- Resourcing the programme effectively with a full-time team of senior Meggitt managers working across functions and facilities, supported by third-party specialists where appropriate.
- Phasing in systems changes and introducing shared services in a controlled manner.
- Realising run-rate savings equal to or exceeding targets.

Finance

Credit

Credit risk exists in relation to customers, banks and insurers.

- Maintaining rigorous credit control procedures.
- Maintaining a wide customer base.
- Maintaining a wide bank group.
- Monitoring relationships with banks and other counterparty risks through our treasury function.
- Selecting insurers with good credit ratings.

Exchange rates

We operate in, and sell products to, a range of countries with different currencies, resulting in exchange rate exposure

Transaction risk arises where revenues are denominated in currencies different from those of the costs of manufacture.

Translation risk arises on the translation of net assets and income statements of overseas subsidiaries.

- Addressing longer-term risk of exposure to exchange rate fluctuations by sourcing goods and services in currencies which match the revenue exposure where cost-effective.
- · Hedging short-term transaction risk.
- Managing translation risk where possible by the partial currency matching of borrowings with the net assets of overseas subsidiaries.

Financing

Meggitt's long-term financing is provided by shareholders in the form of equity and by banks and other institutions in the form of debt.

Debt facilities are provided for finite periods of time and need to be renewed periodically, unless repaid from generated cash. Such renewal could be affected by any structural issues in the credit markets.

Debt facilities contain covenants which, if breached, could result in the facilities being withdrawn.

- · Negotiating debt facility extensions. The group believes it has credit facilities sufficient for our ongoing operations until at least March 2012.
- Basing covenant calculations on frozen ${\sf UK\ GAAP\ to\ reduce\ volatility\ arising\ from}$ certain fair value measurements and future accounting rule changes.
- Including covenant clauses that enable net debt and EBITDA to be retranslated to sterling at similar exchange rates to reduce exchange movement volatility.
- · Monitoring actual and forecast results against covenant ratios regularly.

Interest rates

Fluctuations in rates affect the interest the group pays on its external borrowings.

• Using the underlying character of debt instruments and interest rate derivatives such as interest rate swaps.

Finance continued

Retirement benefits funding

The funding position of the group's post-retirement benefit schemes may be affected adversely by poor investment performance, changes in interest and inflation rates, greater than anticipated improvements in life expectancy and changes in the regulatory environment. The income statement and the level of cash contributions that must be made to the schemes may be positively or negatively affected by the amounts we are required to record for our retirement benefit obligations. See note 34 to the Financial Statements and page 15 of the Performance Review.

- Closing the defined benefit schemes in the UK and US to new members, with the exception of one scheme inherited with the K&F acquisition.
- · Agreeing deficit recovery plans with the trustees based on actuarial advice and scheme valuation results.
- Changing future service benefits to contain cost.

Corporate

- Environmental

Meggitt's 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. Failing to comply with our obligations potentially exposes the group to serious consequences, including fines, other sanctions and operational limitations.

We are involved in the investigation and remediation of current and former sites for which we have been identified as a potentially responsible party under US law.

- · Designing processes that minimise the effect of the group's operations on the environment
- · Commissioning independent third-party audits of our sites.
- Carrying out extensive environmental due diligence on potential acquisitions and purchasing environmental insurance for all new sites.
- Providing for the expected costs arising from these sites based on available information and establishing a receivable to the extent these costs are recoverable under the group's environmental insurance policies.

- Legal and regulatory

We are subject to litigation in the ordinary course of business and provide for such costs. However, there is a risk that successful claims or costs could exceed the provisions made. For example, a number of asbestos-related claims have been made against subsidiary companies. To date, the amount connected with such claims in any year has not been material and many claims are covered fully or partly by existing insurance and indemnities.

The group is subject to the laws and regulations of the countries in which it operates, including health and safety, environmental, trade compliance and government contracting regulations. In the US, there is a system of voluntary disclosure to the relevant authorities to deal with any breach of export laws. Any reported or unreported breach may be investigated and, depending upon its seriousness, result in criminal, civil or administrative penalties, including suspension or debarment. The US authorities are investigating alleged violations of US export control laws by four US Meggitt subsidiaries and a UK business. These investigations are likely to lead to financial penalties for which provision has been made and the imposition of corrective measures. Suspension or debarment and denial of export privileges are also possible.

The aerospace industry is highly regulated so the group would be adversely affected if a material certification, authorisation or approval were revoked or suspended.

- · Maintaining a legal and compliance function to oversee the management of these risks.
- Providing for claims which cannot be recovered from insurers.
- Introducing a health and safety programme across all of our businesses.
- · Investing significant resources in implementing best practice trade compliance and ethics programmes which are reviewed quarterly by the Board's Ethics and Trade Compliance Committee.

People

Meggitt's success depends upon certain senior and specialist employees. Failure to retain them or recruit replacements would have an adverse effect.

The group would be affected by work stoppages or slowdowns at its facilities and those of key customers or suppliers.

• Maintaining development and succession programmes, competitive remuneration packages and good communications at all levels.

Board of directors

1. 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. 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.

2. 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. On 1 June 2009, Terry was appointed as a non-executive director and as the Chairman of the audit committee of Filtrona plc, an international speciality plastic and fibre products supplier.

3. 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.

4. Peter Hill CBE

Non-Executive Director * + ‡

Peter was appointed to the Board in January 2004. He is Chief Executive of Laird PLC and has previously held senior management positions with Invensys plc and BTR plc, was a non-executive board member of United Kingdom Trade & Investment and a nonexecutive director of Oxford Instruments plc. He is a Chartered Engineer and holds an MBA. Having regard to his recent appointment as a non-executive director of the Cookson Group plc on 1 February 2010, Peter has confirmed to the Board that he will be standing down as an independent non-executive director on 31 March 2010.

5. 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.

6. David Williams Non-Executive Director * + ‡

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. He is currently the Joint Chairman of Mondi plc and Mondi Limited and is a non-executive director of Tullow Oil plc and DP World Limited, chairing the audit committee at both. On 31 March 2010, David will resign from his appointment as non-executive director of Taylor Wimpey plc. David is a Chartered Accountant.

7. Sir Alan Cox CBE Non-Executive Director +

Sir Alan was appointed to the Board in May 1996. He was previously Chief Executive of ASW Holdings PLC and a director of The Morgan Crucible Company plc from 1995 until April 2004. A member of the Financial Reporting Council from 1995 to 1999, Sir Alan is a Chartered Accountant and Chartered Management Accountant.

8. David Robins Non-Executive Director * + ‡

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 a venture capital-backed company and chairman of two charities.

Membership of committees

* Audit David Williams (Chairman) Peter Hill David Robins

+ Nominations Sir Colin Terry (Chairman) Terry Twigger Sir Alan Cox Peter Hill David Williams David Robins

‡ Remuneration David Robins (Chairman) Peter Hill David Williams

§ Ethics and trade compliance Sir Colin Terry (Chairman) Terry Twigger Philip Green Stephen Young

















Directors' report

The directors hereby submit their annual report and the audited financial statements for the year ended 31 December 2009. Group financial statements have been prepared in accordance with EU-adopted International Financial Reporting Standards ("IFRSs"), International Financial Reporting Interpretations Committee interpretations and the Companies Act 2006, as applicable to companies reporting under IFRS. The Company financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) and the Companies Act 2006.

Section 417 Companies Act 2006 requires that certain information be included in the Directors' Report. The information contained in the Business Review (pages 1 to 29) which fulfils this requirement is therefore incorporated by reference into this Directors' Report.

Principal activities

Meggitt PLC is a public limited company listed on the London Stock Exchange, incorporated in England and Wales with the registered number 432989. Its registered office is 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 energy, medical, industrial, test and automotive.

Dividends

The directors recommend the payment of a final dividend of 5.75p net per ordinary 5p share (2008: 5.75p), to be paid on 7 May 2010 to those members on the register at close of business on 12 March 2010.

An interim dividend of 2.70p (2008: 2.70p) was paid on 2 October 2009. If the final dividend as recommended is approved the total ordinary dividend for the year will amount to 8.45p net per share (2008: 8.45p).

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 2009, the Company made the Meggitt PLC share dividend plan available for the dividends paid in May 2009 (the final dividend for 2008) and in October 2009 (the interim dividend for 2009). The cash dividend necessary to give an entitlement to one new ordinary share was fixed at 124.70p and 202.26p respectively.

Acquisitions and disposals

There were no acquisitions or significant disposals during the year.

Share capital and control

The authorised share capital of the Company at 31 December 2009 plus details of shares issued during the financial year is shown in note 36 on page 82. On 31 December 2009 there were 685,332,586 ordinary shares in issue. A further 66,240 ordinary shares were issued between 31 December 2009 and 24 February 2010 as a result of the exercise of share options. The ordinary shares are listed on the London Stock

The rights and obligations attaching to the Company's ordinary shares are set out in the Articles of Association ("the Articles"). A copy of the Articles is available for inspection at the registered office. The holders of ordinary shares are entitled to receive the Company's report 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 holding ordinary shares and no requirements for prior approval of any transfers. There are no known arrangements under which financial rights are held by persons other than holders of the shares and no known agreements on restrictions on share transfers or on voting rights. Shares acquired through Company share plans rank pari passu (on an equal footing) with the shares in issue and have no special rights.

The Company has disclosed significant direct or indirect holdings, which are published on a Regulatory Information Service and on the Company's website.

Rules about the appointment and replacement of Company directors are contained in the Articles. Changes to the Articles must be submitted to the shareholders for approval. The powers of directors are set out in the Memorandum and Articles and are governed by applicable legislation. At each Annual General Meeting ("AGM") of the Company, the shareholders are requested to renew the directors' powers to allot securities in the Company up to the value specified in the notice of meeting and to renew the directors' powers to allot securities without the application of pre-emption rights up to the value specified in the notice of meeting in accordance with Article 4 of the Articles. The Company can seek authority from the shareholders at the AGM to purchase its own shares.

The Group has the following significant facility agreements that include change of control provisions which, should there be a change of ownership of the Company, could result in renegotiation or withdrawal of these facilities. These are a USD 680 million revolving credit agreement dated July 2004, a USD 1,420 million revolving credit agreement dated March 2007 and a USD 500 million revolving credit agreement dated July 2008. There are a number of other long-term commercial agreements that may alter or terminate upon a change of control of the Company following a takeover bid. None is considered to be significant in terms of potential impact on the Group's business as a whole.

The service contracts for the executive directors state that if there is a change of control in the Company, executive directors may terminate their employment within six months and would be entitled to compensation from the Company for loss of office. The compensation would be 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 in the Company's share plans may cause options and/or awards granted to employees under such plans to vest on a takeover.

Conflicts of interest

Following the amendment of the Articles by a special resolution passed at the AGM held in 2008, the Company adopted a new procedure for the disclosure, review, authorisation and management of directors' conflicts of interest and potential conflicts of interest, in accordance with the provisions of the Companies Act 2006. The new procedure was summarised in the explanatory notes to the Notice of AGM in 2008, is included in the Articles and has been adhered to by the Board since 1 October 2008. In deciding whether to authorise a conflict or potential conflict the directors must have regard to their general duties under the Companies Act 2006. The authorisation of any conflict matter, and the terms of authorisation are reviewed by the Board as appropriate and as a minimum, on an annual basis.

Substantial shareholdings

At 24 February 2010 the Company had been notified under the Disclosure and Transparency Rules of the Financial Services Authority ("FSA") of the following substantial interests in the issued ordinary shares of the Company requiring disclosure:

			Percentage of
			total voting
			rights attaching
			to the issued
			ordinary share
	Direct voting	Indirect voting	capital of the
	rights*	rights*	Company
Prudential plc	68,324,039	_	9.97
Baillie Gifford & Co	-	34,138,890	4.98
Legal & General Group plc	25,966,967	-	3.79
Standard Life Investments Ltd	22,153,694	3,769,560	3.78

^{*}One voting right per ordinary share.

Share Incentive Plan

The Trustee of the Share Incentive Plan has been allocated £0.6 million from 2009 profits to acquire ordinary shares in Meggitt PLC for eligible employees (2008: £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 Articles, Sir Colin Terry, Mr T Twigger and Mr D M Williams retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election. Sir Alan Cox retires at the forthcoming AGM in compliance with A.7.2 of the Combined Code (2008), having served as a director for more than nine years and, being eligible, offers himself for re-election. Having regard to his appointment as a non-executive director of Cookson Group plc on 1 February 2010, Mr P J Hill has confirmed to the Board that he will be standing down as an independent non-executive director on 31 March 2010. The recruitment process for a replacement has begun, and the Board will appoint a new non-executive director as soon as possible.

Details of directors' contracts and their interests in the ordinary shares of the Company are shown in the Remuneration Report on pages 38 to 44. 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 Section 236 of the Companies Act 2006 pursuant to the Articles.

Corporate responsibility

The Board takes regular account of social, environmental and ethical matters. A report giving a full update on activities and achievements during 2009 is found on pages 22 to 25. The following matters fall under the broad definition of corporate responsibility:

People

The Company regards employee communication as a vital business function. Communication is carried out at facilities by operations directors and other line managers using a variety of forums from daily standing meetings on shop-floors to monthly "Town Hall" functions, team briefings and works councils. We have good working relationships with our trade unions and ensure that all employee relations regulations are respected. Corporate communications take a variety of forms, including presentations from the Chief Executive via audio-visual, global web-enabled conferences, publications such as the Meggitt Review and a variety of electronically distributed newsletters.

The directors encourage employees to become shareholders to improve active participation in and commitment to the Group's success. This policy has been pursued for all UK employees through the Share Incentive Plan and the Sharesave Scheme. It is estimated that when the current year's allocation of free shares has been made under the Share Incentive Plan, approximately 80% of our UK employees will hold shares in the Company. As at the year end, 40% of our UK employees were contributing monthly to one or more Sharesave accounts.

Senior executives across the Group are granted awards under the Executive Share Option Scheme and the Equity Participation Plan (details of which can be found in the Remuneration Report on pages 38

Health and safety at work

The Company continues to carry out its responsibilities for securing the health, safety and welfare at work of employees and for protecting others against risks to health and safety relating to the activities at work of those employees. Every reasonable effort is made to provide safe working conditions. Protective equipment is provided and safety training takes place regularly. The Board has approved a Group Health and Safety Policy, and appointed a Group manager of Health, Safety and Environment. In 2009, we improved our health and safety programme by rolling out on-line training for all UK employees. We are piloting a similar programme in the US and aim to provide such training at all our facilities worldwide. In addition, a specific Groupwide training module was released for senior managers and we introduced quarterly health and safety bulletins for all employees and a manual of health and safety procedures.

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 from disabled people, to continue wherever possible to employ 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, supplemented by follow-up training, which is refreshed regularly. Ethics and business conduct is reviewed regularly by a Board committee.

Community relations and charitable donations

Charitable donations made by the Group during the year amounted to £0.1 million (2008: £0.1 million). The Company made charitable donations of £19,000 (2008: £14,000). Throughout the Group non-financial assistance was provided to a wide range of local organisations.

Payment policy

The Company's policy is to seek 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. The Company's creditor days at 31 December 2009 were 24 (2008: 27).

Directors' report

continued

Corporate responsibility continued

Political contributions

In accordance with the Group's policy, no contributions were made to EU political parties or EU political organisations (2008: £Nil) and no EU political expenditure exceeding £2,000 was incurred in the year by the Company or any of its subsidiaries (2008: none above £2,000).

No contributions to non-EU organisations with political objectives were made during the year (2008: £15,300).

Research and development

The Group recognises the importance of investing in research and development programmes which enhance the Group's products and the way they are made. Including amounts funded by customers, expenditure on research and development amounted to £85.2 million (2008: £78.8 million). Excluding amounts funded by customers, it was £66.0 million (2008: £59.4 million), of which £35.1 million (2008: £23.7 million) was capitalised in accordance with the Group's accounting policy (see note 2 of the Group's financial statements).

Financial risk management

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

2010 Annual General Meeting

Details of the AGM on 21 April 2010 and explanations of the proposed resolutions appear in the separate Notice of AGM which is provided to shareholders in their elected format at least 20 working days before the date of the AGM, and can be viewed on the e-communications page of our website (www.meggitt.com). In addition to ordinary business, shareholders' consent will be sought to:

- (i) approve the Remuneration Report;
- (ii) renew the authority of the directors to issue shares under Article 4
- (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). It is not the policy of the Company to make donations to political parties and the directors have no intention of changing that policy;
- (iv) approve the convening of general meetings on 14 clear days notice in accordance with the Articles, notwithstanding the changes made to the Companies Act 2006 by the Companies (Shareholders' Rights) Regulations 2009;
- (v) renew the Share Dividend Plan; and
- (vi) approve amendments to the Articles to take account of the coming into force of the Companies (Shareholders' Rights) Regulations 2009, the implementation of the final parts of the Companies Act 2006 and amendments to the Uncertified Securities Regulations 2001.

Auditors

PricewaterhouseCoopers LLP has expressed its willingness to continue as auditors and a resolution to reappoint them will be proposed at the 2010 AGM.

Disclosure of information to auditors

At the date of this report, as far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware. Each director has taken all the necessary steps 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 Remuneration Report and the 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 elected to prepare the Group financial statements in accordance with EU-adopted IFRSs, and the parent Company financial statements in accordance with UK GAAP (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- · make judgements and accounting estimates that are reasonable and prudent;
- state whether EU-adopted IFRSs and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent Company financial statements respectively.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the International Accounting Standards Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 jurisdictions.

Each of the directors, whose names and functions are listed in the Board of directors on pages 30 and 31 confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with EU-adopted IFRSs, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report and Business Review on pages 1 to 29 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

Marle you -a

Company Secretary 1 March 2010

Corporate governance report

Application 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 2008 and available on the website of the Financial Reporting Council (www.frc.org.uk), the "Combined Code") as reported in the Statement of Compliance on page 37. 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 pages 38 to 44.

Board composition

The Board considers it has a good balance of executive and nonexecutive directors, is of an appropriate size and includes the skills and experience required by the business. The Board comprises a nonexecutive 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. 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.

Having regard to his appointment as a non-executive director of Cookson Group plc on 1 February 2010, Mr P J Hill has confirmed to the Board that he will be standing down as an independent non-executive director on 31 March 2010. The recruitment process for a replacement has begun, and the Board will appoint a new non-executive director as soon as possible.

Sir Alan Cox is not judged to be independent under the Combined Code by virtue of his having been appointed for longer than nine years. However, the Board considers that his extensive experience in industry and other organisations makes him a valuable member. Biographical and other relevant information on directors submitted for re-election is provided in the Notice of 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

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 must be 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 oversees 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, the integrity of financial information and the effectiveness of financial controls and risk management systems are monitored. The non-executive directors are responsible for determining appropriate levels of remuneration for the executive directors and have an important role in appointing 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. On appointment, their other significant commitments were disclosed, including the time involved.

Nominations Committee

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 ("AGM") 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 2010 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 Board met nine times during the year, and these meetings were attended by all directors, except that Mr D M Williams was excused from one meeting. 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 matters (including 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, presidents, site directors/ general managers (as appropriate). During the year, no unresolved concerns were recorded in the Board's minutes.

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

Committee membership, numbers of formal meetings held during 2009 and attendance were as follows:

	Number of	
	meetings	Number of
	during	meetings
	year	attended
Audit		
Mr D M Williams (Chairman)	3	3
Mr P J Hill	3	3
Mr D A Robins	3	3
Remuneration		
Mr D A Robins (Chairman)	4	4
Mr P J Hill	4	4
Mr D M Williams	4	4
Nominations		
Sir Colin Terry (Chairman)	1	1
Sir Alan Cox	1	1
Mr P J Hill	1	1
Mr D A Robins	1	1
Mr D M Williams	1	1
Mr T Twigger	1	1

Corporate governance report

continued

Information and professional development

The Board is supplied with the information it needs to discharge its duties.

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. Their knowledge and familiarity with the Group is facilitated by access to senior management, 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 allows all directors to take independent professional advice at the Company's expense. 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 insurance for directors and officers.

Performance evaluation

In January 2010, the Board conducted a self-evaluation. The Chairman led a review and discussion to consider the Board's performance against some high level objectives and its own terms of reference. The Board was satisfied with its effectiveness. The Audit and Remuneration Committees have 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

The 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 Group maintains a sound system of internal control to safeguard shareholders' investment and the Group's assets. The system is designed to manage 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).

The Board reviews the effectiveness of the system of internal control via the following procedures:

- Regular reports at Board meetings on the state of the business from the Chief Executive and the Group Finance Director and on legal and compliance activities from the Group Corporate Affairs Director;
- Regular reviews by the Audit Committee on the effectiveness of the Group's internal controls and of the reports from the external auditors and internal audit. Internal audit visits to operating units are carried out using a risk model which is approved by the Audit Committee;

- The Ethics and Trade Compliance Committee reviews these areas of compliance quarterly;
- A review of the Group's key risks and the general risks environment is presented annually to the Board;
- Every month, each business submits detailed operating and financial reports covering all aspects of their performance. Issues are communicated to the Management Board and the Board;
- Presidents, site directors/general managers (as appropriate) provide annual written confirmation that the business for which they are responsible has complied with the Group Procedures Manual;
- The Board receives an annual report on its insurance coverage and its uninsured risks.

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

- Following risk workshops at business, division and Group level, the Board reviewed the lists of key risks and mitigation plans which had been identified. These risks are regularly reviewed by the businesses, divisional management and, by exception, the Management Board;
- A regular review of the performance of each business is undertaken by the executive directors and senior Group management;
- The Group Procedures Manual establishes appropriate authority levels throughout the Group to cover certain items of expenditure, financial commitments and other matters to ensure overall financial control is maintained throughout the Group. The Group Procedures Manual is reviewed and updated regularly;
- There is a comprehensive insurance programme;
- There are programmes for business continuity, health and safety, environment, trade compliance and ethics; and
- There is an on-going programme of assurance activities including internal and external audit, external tax compliance reviews, environmental and health and safety audits, property risk reviews and export regulation compliance reviews.

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

The Board considers that there is considerable comfort in the fact that the Group's cash inflow from operating activities represented 119% (2008: 100%) of underlying operating profit in 2009.

Audit Committee and auditors

The Audit Committee ("the Committee"), appointed by the Board, has three independent members. The Chairman of the Committee is Mr D M Williams. The Board has approved written terms of reference for the Committee which were updated in January 2009 and are available on the Company's website. The Board is satisfied that the Committee's members have recent and relevant financial experience.

During 2009 the Committee met three times. The external auditors attended these meetings to discuss the scope and the final results of the 2008 audit in detail (which included the main risks facing the Group), the strategy for the 2009 audit and the "hard close" results of the 2009 audit. The Committee monitors the integrity of the Group's financial statements and reviews the Group's internal controls and the effectiveness of the internal audit function. The Committee also reviews formal announcements relating to the Group's financial performance and any significant financial reporting statements contained in those announcements.

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 is careful to ensure their objectivity is not compromised. The Committee agrees the fees paid to external auditors for their services as auditors and is required to approve any fees to the external auditors for non-audit services in excess of £0.1 million. The Group's policies on professional accounting services are as follows:

- 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 Group's policy is not to employ its external auditors for taxation work. The Group's principal tax advisor is Deloitte LLP; and
- consulting: the Group's policy is not to employ its external auditors for general consulting work where this could impair their independence or objectivity.

The Group Ethics Line enables employees to raise any concerns about possible improprieties in matters of financial reporting or otherwise. This allows for proportionate and independent investigation and appropriate follow-up action.

Dialogue with institutional shareholders

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

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. Directors' understanding of major shareholders' views are enhanced by reports from the Company's brokers and attendance at analysts' briefings. Analysts' notes on the Company are made available to all directors.

The Annual General Meeting

The Board uses the AGM to communicate with its shareholders. Proxy appointment forms for each resolution provide shareholders with the option to direct their proxy to vote for or against resolutions 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 after the meeting and on the Company's website. The proxy form and the announcement $% \left(x\right) =\left(x\right) +\left(x\right) +$ 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 AGM 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 AGM to respond to questions. It is usual for all other directors to attend.

The Notice of AGM and related papers should be sent to shareholders at least 20 working days before the meeting.

Compliance with the Combined Code

The Board confirms that throughout the year ended 31 December 2009 the Company has complied with Section 1 of the Combined Code, with the following exceptions:

- (i) 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 makes him a valuable member of the Board; and
- (ii) A.4.1 A majority of members of the Nominations Committee should be independent non executive directors and this was not the case during 2009. 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 makes 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 and the Group have 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 of going concern also constitutes part of the Business Review on pages 1 to 29.

By order of the Board

Mare you-

M L Young

Company Secretary 1 March 2010

Remuneration report

This report has been prepared in accordance with Schedule 8 (Quoted Companies: Directors' Remuneration Report) to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the "Regulations"), the Combined Code on Corporate Governance (2008) and the Financial Services Authority's Listing Rules. 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 in the Remuneration Report and to state whether in their opinion that part of the report has been properly prepared in accordance with company law (as implemented by the Regulations). This report has therefore been divided into separate sections for unaudited and audited information.

Unaudited information

Remuneration Committee

The Remuneration Committee ("the 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. The Board has approved written terms of reference for the Committee which are available on the Company's website.

The Committee consists of three independent non-executive directors: Mr D A Robins (Committee Chairman), Mr P J Hill and Mr D M Williams. None of them 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 Watson (previously known as Towers Perrin) was appointed as advisor to the Committee; its advice on long-term incentives is also applied below Board level. The Committee agreed to retain Towers Watson as an advisor having carried out a formal review in 2009. Following the merger of Watson Wyatt and Towers Perrin at the end of 2009 to form Towers Watson, the Committee has agreed to carry out a further review in 2010. As far as the Committee is aware, Towers Watson has no other relationship with the Company.

All new long-term incentive schemes are submitted to shareholders for approval. The Finance Committee of the Board sets the fees of the non-executive directors within the limits set in the Articles of Association ("the Articles"). No director is involved in deciding his own remuneration.

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 nature of the Group's business and to reward the directors 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 with advice from Towers Watson.

The remuneration package for executive directors and senior management targets median levels of fixed pay, supplemented by performance related annual bonuses and share-based long term incentive plans. The Company's incentive schemes are intended to reward and incentivise growth, provide a strong link to Group and individual performance and to take account of corporate governance best practice. Changes were made in 2009 to the operation of the executive share schemes, after consultation and approval as appropriate. These are noted in the relevant sections.

Key features of the remuneration plan for 2010 include:

- basic annual salary which, as of January 2010 remains frozen for a second year at 2008 levels;
- annual bonus relating to individual and Group performance. For 2010, the Committee has elected to defer a proportion of annual bonus into Meggitt shares, the rationale for which is detailed below. The Committee may at its discretion repeat this in future if appropriate:
- eligibility for an award of shares under the Equity Participation Plan. Matching awards under the Equity Participation Plan are based on significant co-investment;
- eligibility for a grant of options under the Executive Share Option Scheme, under which options are granted at market value; and
- benefits which include membership of the Meggitt Pension Plan (executive section), a pensions allowance, a fully expensed car and free medical insurance for the individual and their immediate family.

Following the consecutive pay freezes implemented in January 2009 and 2010, a formal review of senior pay will be carried out in the second half of 2010 to ensure packages remain competitive.

The policy of the 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 at any significant change of responsibility. In deciding salary levels, the Committee takes advice from Towers Watson, data from appropriate third-party surveys, general market conditions and salary increases elsewhere in the Group.

Market conditions for 2010 remain challenging and cost control continues to be of the utmost importance. In January 2009, salaries for the majority of Meggitt's top 200 managers were frozen at 2008 levels. This freeze was repeated in January 2010, pending a further review later in 2010. In the light of this, the Committee accepted the company's recommendation that executive directors' base salaries also continue to be frozen at 2008 levels. At 1 January 2010, the basic salaries of the executive directors remain as follows:

Т	Twigger	£600,000
Ρ	E Green	£275,000
S	G Young	£360,000

Annual bonus payments

The annual bonus payments for Mr T Twigger, Mr P E Green and Mr S G Young are awarded following consideration of the Group's performance 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. Performance criteria include Group profit and cash targets and the individual's personal performance.

Bonus payments awarded to the executive directors in respect of 2009 are 128% of basic salary at 31 December 2009, to be paid in cash and deferred shares. This bonus reflects another year of excellent performance in extremely difficult conditions. The decline in aerospace markets is well documented, and contributed to a 13% reduction in Meggitt revenues at constant currency, with much of the reduction coming in the highly profitable aftermarket. Despite this, earnings before interest, tax, depreciation and amortisation margins actually increased and (adjusting for the impact of a large scrip dividend) EPS was held within 3% of 2008 levels. Cash conversion, typically a strength for Meggitt, was outstanding at 119% of operating profit (2008: 100%). Net cash generated was a record £126 million, up from £75 million. Adjusting for the scrip dividend effect, cash generated during 2009 was up 67% from 2008.

These results were made possible by a decisive and timely response to the economic downturn. In particular, the Committee considered progress made under the business transformation programme. This programme of fundamental organisation re-alignment has significantly exceeded its expectations to date. The company is adapting its organisation for long-term success, investing in infrastructure and achieving cost savings in the process. The cost savings achieved in 2009 specifically related to transformation were more than double target. Total cost savings achieved during the year (including those related to volume decline) were £34 million, also significantly ahead of original projections.

The size of the bonus award recognises these achievements and also underlines the Committee's confidence in this team's experience and its ability to manage the business through further challenges in 2010.

Of this bonus, a sum equivalent to 30% of basic salary has been designated as Company shares and deferred without further performance conditions under a new Deferred Share Bonus Plan. This is a one-off action recognising that the full impact of the transformation programme will be delivered over the medium term, and it seeks to align the team further to the growth we expect to result. The Committee has decided that for the directors and a small number of other key senior executives, 50% of the deferred amount will vest in March 2011, the balance in March 2012. For the remaining senior executives, 100% of the deferred amount will vest in March 2011. All shares subject to the Deferred Share Bonus Plan will be market-purchased.

For 2010, bonus payments will continue to be based on the achievement of Group profit and cash targets and the individual's personal performance.

Policy on share schemes

The Meggitt Equity Participation Plan 2005 and Executive Share Option Scheme 2005 (together, "the executive share schemes") were introduced during 2005 following shareholder approval.

The executive share schemes encourage executive directors to contribute towards the Group's performance and continuing growth by sharing in the Company's success along with other shareholders. An annual award is made under the Equity Participation Plan 2005 and the Executive Share Option Scheme 2005, subject to regulatory and scheme limits.

Directors and senior executives are required to build and retain a shareholding amounting to at least one year's salary in order to continue to be considered for awards under the executive share schemes.

Meggitt Equity Participation Plan 2005

An annual basic award of shares may be made to executive directors of up to 125% of basic salary under the Meggitt Equity Participation Plan 2005 (the "EPP"). The number of shares subject to these awards is calculated consistent with the rules of the EPP.

In 2009, the Committee took into account guidance from shareholders relating to size of award, given the unusual share price conditions, and reduced the basic award from 125% (2008) to 75% of salary. Executive directors may also receive a further 'matching award' under the EPP in return for co-investment. Up to a maximum of 25% of net basic salary may be invested in ordinary shares, attracting an award under the EPP of up to 50% of basic salary. All three executive directors chose to participate at the maximum level in 2009.

The Committee has not yet considered the quantum of awards appropriate for 2010.

The proportion of awards, if any, that an executive director will ultimately receive, depends on Group performance during a three-year performance period, as defined in the EPP rules.

Following consultation with our largest shareholders, changes were made to the performance condition for EPP awards made in 2009. These changes are described below. Awards made in earlier years remain subject to the rules in force at the time the awards were made. To counteract the volatility of Total Shareholder Return (TSR) as a measure, and in line with common practice, 50% of an EPP award is now subject to comparative TSR achieved by the Group, and 50% to aggregate earnings per share (EPS). The Committee plans to retain this approach for 2010.

For the part of the award subject to TSR, the comparator group of companies was updated in 2009 by the Committee. The group consists of companies in similar sectors and with a similar international spread:

BAE Systems Smiths Group BBA Aviation Spectris Bodycote International Spirent Tomkins Cobham

IMI Ultra Electronics Holdings

Invensys VT Group Melrose Weir Group

Rolls-Royce Group

None of the shares subject to this part of the performance condition will vest if the Group's TSR performance is below the 50th percentile. At the 50th percentile, 15% of the total award will vest, rising on a straight-line basis to 50% of the total award at 75th percentile and above.

The EPS condition was also amended as detailed below, following consultation with our largest shareholders.

EPS condition for EPP awards made in 2009:

Aggregate EPS over performance period	% of basic award that vests	% of matching award that vests
Not less than 86.0 pence	50%	100%
Between 79.5 pence and 86.0 pence	Straight line basis between 15% and 50%	Straight line basis between 30% and 100%
Not less than 79.5 pence	15%	30%
Less than 79.5 pence	0%	0%

Other changes made during 2009 were:

- Reducing maximum award levels to US participants in line with awards to all other participants; and
- Allowing the Committee sufficient discretion to be able to modify levels of vesting to ensure that it fairly reflects underlying performance.

At present, there are no proposals to amend the EPP in 2010.

In April 2009, the award made under the Plan in April 2006 lapsed, as the TSR performance condition for that award had not been satisfied. The performance period for the award made in 2007 has also expired. Once again, despite excellent results, Meggitt's TSR at 31 December 2009 was below the median for the custom comparator group. This award will therefore also lapse in August 2010.

Meggitt Executive Share Option Scheme 2005

An annual grant of options under the Executive Share Option Scheme 2005 (ESOS) 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.

Remuneration report

continued

Meggitt Executive Share Option Scheme 2005 continued

For awards made up to and including 2008, the performance condition for the grant of options to executive directors is linked to the aggregate increase in EPS over the three year period following the financial year ending immediately before the date of grant. An option can be exercised for 30% of the shares under 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 for all of the shares under 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 for 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 Committee has considered the impact of changes to accounting standards and will endeavour to compare EPS consistently.

Under the above conditions, the Committee has confirmed that the ESOS award made in 2007 will vest at 100%

For the 2009 award, the Committee consulted with our largest shareholders on both quantum and performance conditions. In line with guidance, awards made in April 2009 were reduced from 200% to 140% of basic salary. The price payable for each share under option was calculated in accordance with the ESOS rules as the mid-market value of the share on the last dealing day prior to the grant date.

EPS targets for ESOS awards made in 2009 were also amended. The EPS targets for the ESOS are as for the EPP shown above, save that, since the performance condition is not split, 30% (rather than 15%) of shares under option will become exercisable if the Company's aggregate EPS over the performance period is not less than 79.5 pence, and 100% (rather than 50%) of the shares under option will become exercisable if the aggregate EPS over the performance period is not less than 86.0 pence. The Company's EPS performance during the last five years is shown on page 95. EPS growth targets for awards prior to 2009 have not been altered retrospectively.

The Committee plans to continue to use its discretion to ensure that EPS ranges are appropriately demanding within the wider economic environment. Given the current conditions, the Committee confirms that an absolute EPS range is still more appropriate rather than one expressed relative to RPI both for the EPP and the ESOS.

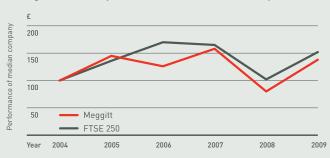
For 2010, the performance range will be unchanged at 79.5-86.0 pence. The quantum of the ESOS award, given the recovery in share price, will revert to 200% of salary.

During 2009, the shareholders approved an amendment to the ESOS to extend from 6 months to 2 years the option exercise period that the ESOS rules already allow for certain employees who cease employment. The amendment applied to options outstanding under Part B of ESOS at the date of the AGM and to options granted in the future under Part B (Part B being the part of the scheme that is not approved by HM Revenue & Customs ("HMRC")). The amendment did not apply to existing or future option grants under Part A of the ESOS which have been approved by HMRC, since UK tax relief that is available under Part A would not be obtained if those options were exercised more than 6 months after an employee ceased employment.

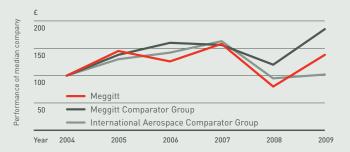
As well as the changes to EPS and the Part B exercise period, during 2009 all options outstanding under Part B of the ESOS were converted to stock-settled share appreciation rights. This means that instead of having an option to acquire a set number of shares, the executive directors and all other senior executives who have been granted options under ESOS Part B now have the right to receive stock equivalent to the gain in value between the base price and the market price on the date the right is exercised.

TSR five-year performance

The chart below shows the growth in the value of a hypothetical £100 holding from 1 January to 31 December in each of the five years:



Consistent with previous years, the FTSE 250 has been chosen as the most relevant comparator index. Meggitt's share price has been volatile in the face of macro-economic factors and TSR for the five year period is slightly below the index. However, Meggitt TSR for the three years to December 2009 outperforms the FTSE 250, justifying the Board's confidence in the Company's sound long-term strategy.



The above graph shows the Company, our comparator group and an international aerospace comparator group. The Board selected our comparator group of (UK) companies as a robust set of alternative investment options in the engineering and technology related sectors. The median performer in our comparator group far outperforms the FTSE 250 index. This group is designed to be a tough comparator, and it has proved to be so. It is the view of the Committee that Meggitt's share price suffered disproportionately in 2008 and 2009 due to its exposure to civil aerospace and its perceived level of gearing. We have also chosen to display the performance of a selection of 16 international aerospace companies¹. Against this peer group, Meggitt's performance is upper quartile which the Committee believes demonstrates the robustness of Meggitt's portfolio in the current climate.

¹ BBA Aviation plc, The Boeing Company, Curtiss-Wright Corporation, European Aeronautic Defence and Space Company EADS N.V., Embraer-Empresa Brasileira de Aeronautica S.A., Esterline Technologies Corporation, Finmeccanica SpA, Goodrich Corporation, Hampson Industries Plc, Moog Inc., Rolls-Royce Group, Safran, Senior plc, Umeco plc and Woodward Governor Company. Comparator group is used only for the purpose of this report.

Directors' pension arrangements

During 2009, the pension plan of which the executive directors were members merged into the executive section of the Group's newly created Meggitt Pension Plan ("MPP"). 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 HMRC 'pensions cap' from 6 April 2006.

As the executive directors' benefits from, and contributions to, the MPP are restricted, additional contributions are made through a pensions allowance paid instead to the executive directors so they can 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 MPP scheme cap of £131,250. The cap increases 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 2009 are shown on page 42. Bonus payments to executive directors are not pensionable. There are no unfunded pension promises or similar arrangements for directors.

The Committee has noted the Government's proposals to change the tax treatment of pensions and plans to review the provision of the benefit once specific changes are clarified.

Directors' share interests

The beneficial interests of the directors in the ordinary shares of the Company at 31 December were as follows:

	•	Shareholding ares of 5p each
	2009	2008
Sir Colin Terry	10,425	10,011
T Twigger*	895,578	820,856
Sir Alan Cox	21,457	20,000
P E Green*	460,741	442,148
P J Hill	9,000	9,000
D A Robins	65,462	61,753
D M Williams	5,000	5,000
S G Young*	223,220	210,270

^{*}Each of the executive directors was allocated 1.834 free shares under the Share Incentive Plan in 2009. The award price, calculated in accordance with the Rules of the Share Incentive Plan, was £1.6353. These shares are included in the share interests shown in the table above. Details of directors' share options are shown on pages 43 and 44.

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. 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 2009 are shown on page 42.

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 schemes 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.

In accordance with this policy, on 1 June 2009 Mr T Twigger was appointed as a non-executive director and Chairman of the Audit Committee of Filtrona plc, an international speciality plastic and fibre products supplier. No other executive director was a director of another public company.

Remuneration report

continued

Audited information

Details of directors' remuneration

	Basic salary*	Fees	Benefits	Bonus payments	Other**		moluments ing pension
	2009	2009	2009	2009	2009	2009	2008
	£	£	£	£	£	£	£
Executive directors							
T Twigger***	600,000	-	29,781	770,000	232,500	1,632,281	1,679,005
P E Green	275,000	-	16,775	353,000	70,000	714,775	738,349
S G Young	360,000	-	20,827	463,000	112,500	956,327	985,252
Non-executive directors							
Sir Colin Terry	_	150,000	-	-	-	150,000	150,000
Sir Alan Cox	-	63,000	2,383	-	-	65,383	68,536
P J Hill	-	45,000	-	-	-	45,000	45,000
D A Robins	-	52,000	-	-	-	52,000	52,000
D M Williams	-	52,000	_	-	_	52,000	52,000
Total	1,235,000	362,000	69,766	1,586,000	415,000	3,667,766	3,770,142

^{*} Basic salary is shown gross of a salary sacrifice arrangement entered into on 1 April 2009 relating to pension contributions.

Directors' pension benefits

	T Twigger	P E Green	S G Young
Meggitt Pension Plan			
Accumulated total accrued pension at 31 December 2008	44,363	59,469	20,625
Real increase in accrued pension in year excluding inflation	3,941	6,445	4,846
Total increase in accrued pension in year	5,005	7,872	5,341
Accumulated total accrued pension at 31 December 2009	49,368	67,341	25,966
Transfer value (GN11 basis) at 31 December 2008	930,765	939,590	334,322
Increase in transfer value excluding directors' contributions	182,826	236,483	117,310
Directors' contributions	2,166	2,166	2,166
Transfer value (GN11 basis) at 31 December 2009	1,115,757	1,178,239	453,798

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

^{**} The executive directors receive a pension allowance as detailed on page 41.

^{***}On 1 June 2009, Mr Twigger was appointed as a non-executive director and Chairman of the Audit Committee of Filtrona plc. During 2009, he was entitled to retain the fees of £18,500 and £4,350 respectively for these appointments (2008: £Nil).

Directors' share scheme participation

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

				Number of shares				First date
	Date of award	Value of award £	at 1 Jan 2009	Awarded/ (transferred)	Lapsed	at 31 Dec 2009	at date of transfer	for transfer to director
T Twigger								
Basic Award	04.04.06	361,500	117,540	-	(117,540)	-	-	-
Basic Award	17.08.07	374,997	118,252	-	-	118,252	-	17.08.10
Basic Award	07.08.08	750,000	389,388	-	-	389,388	-	07.08.11
Basic Award	05.08.09	450,000	-	277,180	_	277,180	-	05.08.12
Matching Award	04.04.06	241,000	80,205	-	(80,205)	-	-	-
Matching Award	04.09.07	252,374	79,114	-	-	79,114	-	04.09.10
Matching Award	18.08.08	300,000	133,038	_	-	133,038		18.08.11
Matching Award	12.08.09	300,000	-	154,560	-	154,560	-	12.08.12
P E Green								
Basic Award	04.04.06	160,500	52,185	-	(52,185)	-	-	_
Basic Award	17.08.07	166,125	52,386	-	-	52,386	-	17.08.10
Basic Award	07.08.08	343,749	178,469	-	-	178,469	-	07.08.11
Basic Award	05.08.09	206,250	-	127,041	-	127,041	-	05.08.12
Matching Award	04.04.06	107,000	35,609	-	(35,609)	-	-	-
Matching Award	04.09.07	111,800	35,047	-	-	35,047	-	04.09.10
Matching Award	18.08.08	137,500	60,976	-	-	60,976	-	18.08.11
Matching Award	12.08.09	137,500	-	70,840	-	70,840	-	12.08.12
S G Young								
Basic Award	04.04.06	208,500	67,793	_	(67,793)	-	-	_
Basic Award	17.08.07	215,998	68,113	-	_	68,113	-	17.08.10
Basic Award	07.08.08	450,000	233,633	-	_	233,633	-	07.08.11
Basic Award	05.08.09	270,000	-	166,308	-	166,308	-	05.08.12
Matching Award	04.04.06	139,000	46,259	_	(46,259)	-	-	_
Matching Award	04.09.07	145,368	45,570	-	_	45,570	_	04.09.10
Matching Award	18.08.08	180,000	79,823	_	-	79,283	-	18.08.11
Matching Award	12.08.09	180,000	_	92,736	_	92,736	-	12.08.12

 $The \ directors \ held \ the \ following \ options \ and \ stock-settled \ share \ appreciation \ rights \ under \ the \ 1996 \ Executive \ Share \ Option \ Scheme, \ 2005 \ and \ share \ appreciation \ rights \ under \ the \ 1996 \ Executive \ Share \ Option \ Scheme, \ 2005 \ and \ share \ appreciation \ rights \ under \ the \ 1996 \ Executive \ Share \ Option \ Scheme, \ 2005 \ and \ share \ appreciation \ rights \ under \ the \ 1996 \ Executive \ Share \ Option \ Scheme, \ 2005 \ and \ share \ appreciation \ rights \ under \ the \ 1996 \ Executive \ Share \ Option \ Scheme, \ 2005 \ and \ share \ appreciation \ rights \ under \ the \ 1996 \ Executive \ Share \ Option \ Scheme, \ 2005 \ and \ share \ appreciation \ rights \ under \ the \ 1996 \ Executive \ Share \ Option \ Scheme, \ 2005 \ and \ share \ appreciation \ rights \ and \ share \ appreciation \ rights \ appreciation$ Executive Share Option Scheme, Sharesave 1998 and Sharesave 2008:

		Number of	shares under o	ption/award		Market price	Date	
	Date of grant	at 1 Jan 2009	Granted/ (exercised)	at 31 Dec 2009	Option/base price	at date of exercise	exercisable from	Expiry date
T Twigger								
1996 No 2	17.10.02	201,074	(201,074)	-	136.76р	196.38p	17.10.05	-
	02.10.03	172,950	_	172,950	179.24p	_	02.10.06	01.10.10
	06.10.04	178,070	-	178,070	210.59p	_	06.10.07	05.10.11
2005, Part A	30.04.09	_	17,699	17,699	169.50p	_	30.04.12	29.04.19
2005, Part B*	10.10.05	322,987	_	322,987	278.65p	_	10.10.08	09.10.15
	27.09.06	365,613	-	365,613	263.67p	_	27.09.09	26.09.16
	29.03.07	334,448	-	334,448	299.00p	_	29.03.10	28.03.17
	25.03.08	475,248	_	475,248	252.50p	_	25.03.11	24.03.18
	30.04.09	-	477,876	477,876	169.50p	_	30.04.12	29.04.19
Sharesave	05.10.06	3,222	-	3,222	203.18p	_	01.12.11	31.05.12
	04.09.08	3,290	_	3,290	171.40p	_	01.11.11	01.05.12
		2,056,902	294,501	2,351,403				

^{*}During 2009, all options granted to executive directors under Part B of the ESOS were converted to stock-settled share appreciation rights.

Remuneration report

continued

	Number of shares under option/award			Market price	Date			
	Date of grant	at 1 Jan 2009	Granted/ (exercised)	at 31 Dec 2009	Option/base price	at date of exercise	exercisable from	Expiry date
P E Green								
1996 No 2	17.10.02	91,396	(91,396)	_	136.76p	196.38p	17.10.05	-
	02.10.03	83,685	-	83,685	179.24p	_	02.10.06	01.10.10
	06.10.04	83,099	-	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	28.03.17
	30.04.09	-	12,832	12,832	169.50p	_	30.04.12	29.04.19
2005, Part B*	10.10.05	143,549	-	143,549	278.65p	-	10.10.08	09.10.15
	27.09.06	162,326	-	162,326	263.67p	_	27.09.09	26.09.16
	29.03.07	145,402	-	145,402	299.00p	-	29.03.10	28.03.17
	25.03.08	217,822	-	217,822	252.50p	-	25.03.11	24.03.18
	30.04.09	-	214,306	214,306	169.50p	_	30.04.12	29.04.19
Sharesave	07.04.05	1,749	_	1,749	188.76p	_	01.06.10	30.11.10
	05.10.06	3,222	-	3,222	203.18p	-	01.12.11	31.05.12
	04.09.08	3,798	_	3,798	171.40p	_	01.11.13	01.05.14
		938,807	135,742	1,074,549				

		Number of	f shares under o	ption/award		Market price	Date	
		at 1 Jan	Granted/	at 31 Dec	Option/base	at date of	exercisable	Expiry
	Date of grant	2009	(exercised)	2009	price	exercise	from	date
S G Young								
1996 No1	01.04.04	17,200	-	17,200	174.40p	-	01.04.07	31.03.14
1996 No2	01.04.04	246,564	_	246,564	174.40p	_	01.04.07	31.03.11
2005, Part B*	10.10.05	186,615	-	186,615	278.65p	-	10.10.08	09.10.15
	27.09.06	210,871	_	210,871	263.67p	_	27.09.09	26.09.16
	29.03.07	192,642	-	192,642	299.00p	-	29.03.10	28.03.17
	25.03.08	285,149	-	285,149	252.50p	-	25.03.11	24.03.18
	30.04.09	-	297,345	297,345	169.50p	_	30.04.12	29.04.19
Sharesave	07.04.05	9,468	-	9,468	188.76p	_	01.06.12	30.11.12
		1,148,509	297,345	1,445,854				

^{*}During 2009, all options granted to executive directors under Part B of the ESOS were converted to stock-settled share appreciation rights.

Between 1 January 2010 and 24 February 2010 (the latest date for which it was practical to obtain the information), Mr T Twigger, Mr P E Green and Mr S G Young each acquired 94 shares through the Meggitt PLC Share Incentive Plan.

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

The market price of the shares at 31 December 2009 was 260.00p and the range during the year was 113.00p to 264.20p. Options and stock-settled share appreciation rights may, in certain circumstances, be exercised or lapse earlier than the dates shown on page 43 and above.

Gains made on exercise of directors' share options

	2009 options exercised Gain		2009 options exercised Exercise Options date exercised		Gain
	Option		•	2009 £'000	2008 €'000
T Twigger	1996 No 2 Executive Share Option Scheme	10.08.09	201,074	120	_
	1996 No 1 Executive Share Option Scheme	-	-	-	32
	Sharesave	-	-	-	2
P E Green	1996 No 2 Executive Share Option Scheme	10.08.09	91,396	55	112
	1996 No 1 Executive Share Option Scheme	_	_	-	23
	Sharesave	_	_	-	13
				175	182

Gains in 2009 were made on options granted under the rules of the 1996 Number 2 Executive Share Option Scheme, as detailed in directors' share

During 2009, there were 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

DARobins Chairman, Remuneration Committee 1 March 2010

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 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance sheet, the Consolidated Statement of Change in Equity, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 34, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2009 and of its profit and cash flows for the year then
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements; and
- the information given in the Corporate Governance Statement set out on pages 35 to 37 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of the Remuneration Report specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance statement has not been prepared by the

Under the Listing Rules we are required to review:

- the Directors' Statement, set out on page 37, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the 2008 Combined Code specified for our review.

Other matter

We have reported separately on the parent company financial statements of Meggitt PLC for the year ended 31 December 2009 and on the information in the Remuneration Report that is described as having been audited.

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John Maitland (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Reading

1 March 2010

Consolidated income statement For the year ended 31 December 2009

	Notes	2009 £'m	2008 £'m
Continuing operations			
Revenue Cost of sales	5 7	1,150.5 (656.3)	1,162.6 (637.8)
Gross profit		494.2	524.8
Net operating costs	7	(261.4)	(352.4)
Operating profit*	6	232.8	172.4
Finance income Finance costs	12 13	28.1 (80.1)	33.9 (87.0)
Net finance costs		(52.0)	(53.1)
Profit before tax**		180.8	119.3
<u>Tax</u>	14	(42.0)	(20.2)
Profit for the year from continuing operations attributable to equity holders		138.8	99.1
Earnings per share – basic Earnings per share – diluted	16 16	20.5p 20.5p	15.0p 15.0p
* Underlying operating profit ** Underlying profit before tax	10 10	286.2 234.2	296.4 243.3

Consolidated statement of comprehensive income For the year ended 31 December 2009

		2009	2008
	Notes	£'m	£'m
Profit for the year		138.8	99.1
Other comprehensive (expense)/income for the year:			
Actuarial losses	34	(67.6)	(60.9
Currency translation differences		(81.4)	201.2
Cash flow hedge movements		10.7	(18.5
Other comprehensive (expense)/income before tax		(138.3)	121.8
Tax relating to components of other comprehensive (expense)/income	14	11.2	38.5
Other comprehensive (expense)/income for the year		(127.1)	160.3
Total comprehensive income for the year attributable to equity holders		11.7	259.4

Consolidated balance sheet

As at 31 December 2009

	Notes	2009 £'m	2008 £'m
Non-current assets			
Goodwill	19	1,261.9	1,382.7
Development costs	20	119.0	97.8
Programme participation costs	20	174.9	180.4
Other intangible assets	21	754.5	901.6
Property, plant and equipment	22	215.9	245.2
Trade and other receivables	24	36.2	19.3
Derivative financial instruments	31	1.9	1.6
Deferred tax assets	33	170.6	112.4
		2,734.9	2,941.0
Current assets		22/ 5	070.1
Inventories	23	236.5	273.1
Trade and other receivables	24	211.3	286.9
Derivative financial instruments	31	4.5	1.0
Current tax recoverable Cash and cash equivalents	25	0.2 62.9	0.7 67.3
		515.4	629.0
Total assets	6	3,250.3	3,570.0
Current liabilities			
Trade and other payables	26	(239.2)	(314.6
Derivative financial instruments	31	(17.2)	(26.4
Current tax liabilities		(34.6)	(37.1
Obligations under finance leases	28	(0.8)	(1.0)
Bank and other borrowings	29	(9.7)	(13.5)
Provisions	32	(35.8)	[45.3]
		(337.3)	[437.9]
Net current assets		178.1	191.1
Non-current liabilities			
Trade and other payables	27	(9.2)	(9.3)
Derivative financial instruments	31	(24.5)	(7.6
Deferred tax liabilities	33	(393.2)	(359.9
Obligations under finance leases	28	(4.6)	(6.2
Bank and other borrowings	29	(856.4)	(1,094.5
Provisions	32	(71.0)	(64.0
Retirement benefit obligations	34	(280.5)	(241.2
		(1,639.4)	(1,845.7
Total liabilities		(1,976.7)	(2,283.6)
Net assets		1,273.6	1,286.4
Equity			
Share capital	36	34.3	33.3
Share premium		825.9	798.8
Other reserves		14.1	14.1
Hedging and translation reserves		117.3	195.7
Retained earnings		282.0	244.5
Total equity attributable to equity holders		1,273.6	1,286.4

The financial statements were approved by the Board of Directors on 1 March 2010 and signed on its behalf by:

T Twigger Director S G Young Director

Consolidated statement of changes in equity For the year ended 31 December 2009

	Share capital	Share premium	Other reserves	Hedging and translation reserves*	Retained earnings	Total equity
	£'m	£'m	£'m	£'m	£'m	£'m
At 1 January 2008	32.9	781.6	14.1	(6.8)	241.6	1,063.4
Profit for the year	-	-	-	-	99.1	99.1
Other comprehensive income/(expense) for the year:						
Actuarial losses Currency translation differences:	-	_	-	_	(60.9)	(60.9)
Arising in the year	-	-	-	200.2	-	200.2
Transferred to income statement	-	-	-	1.0	-	1.0
Cash flow hedge movements:						
Movement in fair value	-	-	-	(23.9)	-	(23.9)
Transferred to income statement				5.4		5.4
Other comprehensive income/(expense) before tax Tax relating to components of other comprehensive income/(expense)	- -	-	-	182.7 19.8	(60.9) 18.7	121.8 38.5
Other comprehensive income/(expense) for the year	_	_	_	202.5	[42.2]	160.3
Total comprehensive income for the year	-	-	-	202.5	56.9	259.4
Employee share option schemes:						
Value of services provided	_	_	_	_	3.1	3.1
Own shares purchased	_	-	-	-	(1.3)	(1.3)
Proceeds from shares issued	0.1	2.0	-	_	-	2.1
Dividends	0.3	15.2	_	_	(55.8)	(40.3)
At 31 December 2008	33.3	798.8	14.1	195.7	244.5	1,286.4
Profit for the year	-	-	-	-	138.8	138.8
Other comprehensive income/(expense) for the year:					((
Actuarial losses	_	-	-	_	(67.6)	(67.6)
Currency translation differences:				(01 /)		(01 /)
Arising in the year Cash flow hedge movements:	_	_	_	(81.4)	_	(81.4)
Movement in fair value				(5.6)		(5.6)
Transferred to income statement	_	_	_	16.3	_	16.3
					(/= /)	
Other comprehensive expense before tax	_	-	-	(70.7)	(67.6)	(138.3)
Tax relating to components of other comprehensive expense				(7.7)	18.9	11.2
Other comprehensive expense for the year	_		_	(78.4)	(48.7)	(127.1)
Total comprehensive (expense)/income for the year	-	-	-	(78.4)	90.1	11.7
Employee share option schemes:						
Value of services provided	-	-	-	_	4.0	4.0
Proceeds from shares issued	0.1	1.2	-	_	-	1.3
Dividends	0.9	25.9	_		(56.6)	(29.8)
At 31 December 2009	34.3	825.9	14.1	117.3	282.0	1,273.6

^{*}The hedging and translation reserves at 31 December 2009 were made up of a credit balance on the translation reserve of £130.2 million (2008: £216.3 million) and a debit balance on the hedging reserve of £12.9 million (2008: £20.6 million). The amounts recycled from the hedging reserves to the income statement have affected net operating expenses in the case of currency translation differences and net finance costs in the case of cash flow hedge movements.

Consolidated cash flow statement

For the year ended 31 December 2009

	Notes	2009 £'m	2008 £'m
Cash inflow from operations before exceptional operating items		341.7	295.4
Cash outflow from exceptional operating items	11	(21.9)	(16.5)
Cash inflow from operations	40	319.8	278.9
Interest received		0.9	1.6
Interest paid		(42.9)	(47.8)
Tax paid		(27.1)	(30.3)
Tax equalisation swap paid*		(11.8)	
Cash inflow from operating activities		238.9	202.4
Purchase of subsidiaries	42	(1.0)	(9.2)
Proceeds from disposal of subsidiaries		0.3	19.9
Capitalised internal development costs	20	(35.1)	(23.7)
Capitalised programme participation costs		(23.9)	(35.7)
Purchase of other intangible assets	21	(7.1)	(5.8)
Purchase of property, plant and equipment		(18.5)	(35.1)
Proceeds from disposal of property, plant and equipment		0.7	0.4
Cash outflow from investing activities		(84.6)	(89.2)
Dividends paid to Company's shareholders	17	(29.6)	[40.3]
Issue of equity share capital		1.3	2.1
Proceeds from borrowings		256.2	10.2
Debt issue costs		_	(2.1)
Repayments of borrowings		(382.4)	(82.1)
Cash outflow from financing activities		(154.5)	(112.2)
Net (decrease)/increase in cash and cash equivalents		(0.2)	1.0
Cash and cash equivalents at start of year		67.3	64.9
Exchange (losses)/gains on cash and cash equivalents		(4.2)	1.4
Cash and cash equivalents at end of year	25	62.9	67.3

^{*}Represents the settlement paid under a tax equalisation swap designed to hedge the Group's tax exposure on foreign exchange movements.

1. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with EU-adopted International Financial Reporting Standards (IFRSs), International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Act 2006 applicable to companies reporting under IFRSs. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value.

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.

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 recognised in other comprehensive income.

Foreign subsidiaries

The results of foreign subsidiaries are translated at the average rates of exchange for the period. 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 in the hedging and translation reserves. 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 the 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 the 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 products are delivered, or services 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 the estimated percentage completion of contractual obligations provided the final outcome can be reliably assessed.

Segment reporting

Operating segments are those segments for which results are reviewed by the Group's Chief Operating Decision Maker ("CODM") to assess performance and make decisions about resources to be allocated. The Group has determined that its current segments are Aerospace Equipment, Sensing Systems and Defence Systems

The principal profit measure reviewed by the CODM is "underlying operating profit" as defined in note 10. A segmental analysis of underlying operating profit is accordingly provided in the notes to the financial statements.

Segmental information on assets is provided in respect of "operating assets" which are defined to exclude from total assets amounts which the CODM does not review on a segmental level. Excluded assets comprise deferred tax, current tax, derivative financial instruments and cash and cash equivalents.

No segmental information is reported in respect of liabilities as no such measure is reported to the CODM.

continued

2. Summary of significant accounting policies continued

Exceptional operating items

Items which are significant by virtue of their size or nature and which are considered non-recurring are classified as exceptional operating items. Such items, which include for instance the costs of integrating significant acquisitions, significant restructuring costs and profits or losses made on the disposal of businesses, are included within the appropriate consolidated income statement category but are highlighted separately in the notes to the financial statements. Exceptional operating items are excluded from the 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.

Research and development

Research expenditure is recognised as an expense in the income statement as incurred. Costs incurred on development projects 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 initial 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 periods ranging up to 15 years.

Other intangible assets

a) Licences, trademarks, patents and software

Purchased licences, trademarks, patents and software are included at cost and are amortised on a straight-line basis over their estimated useful economic life, typically over periods up to 7 years.

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 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
Trade names and trademarks	Up to 25 years

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 straightline 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.

Borrowing costs

Borrowing costs directly attributable to the construction or production of qualifying assets, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use. Qualifying assets are those that necessarily take a substantial period of time to get ready for their intended use, which would generally be at least twelve months. All other borrowing costs are recognised in the income statement in the period in which they are

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.

continued

2. Summary of significant accounting policies continued

Taxation

Tax payable is based on the taxable profit for the period 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 substantially enacted at the balance sheet date.

Impairment of non-current non-financial assets

Assets with indefinite lives are tested for impairment annually. Assets subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. To the extent the carrying value exceeds the recoverable amount the difference is recorded as an expense in the income statement. The recoverable amount used for impairment testing is the higher of the value in use and 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

When 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 estimated selling price less the costs of disposal and a reasonable profit allowance for the selling effort. Work in progress is valued at estimated selling price 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 inter-group manufacture. Provision is made for the full amount of foreseeable losses on contracts.

Trade receivables

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

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. 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. Borrowings are held at fair value where a hedge relationship is in place. 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.

continued

2. Summary of significant accounting policies continued

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 bond rate. The impact of the unwinding of discounting is recognised as a finance cost.

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 other comprehensive income.

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 equity-settled schemes the fair value of an award is measured at the date of grant and reflects any market-based vesting conditions. Non market-based vesting conditions are excluded from the fair value of the award. At the date of grant the Group estimates the number of awards expected to vest as a result of non market-based vesting conditions and the fair value of this estimated number of awards is recognised as an expense in the income statement on a straight-line basis over the period for which services are received. At each balance sheet date the Group revises its estimate of the number of awards expected to vest as a result of non market-based vesting conditions and adjusts the amount recognised cumulatively in the income statement to reflect the revised estimate.

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 period.

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 using values determined indirectly from quoted prices that are observable for the asset or

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 on-going basis, to be highly effective in offsetting changes in fair values or cash flows of hedged items.

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

Fair value hedges

Changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges are recognised in the income statement together with changes in the fair value of the hedged item. The Group currently only applies fair value hedge accounting for hedging fixed interest rate 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 recognised in other comprehensive income. Changes in the fair value of the ineffective portion are recognised immediately in the income statement.

To the extent changes in the fair value are recognised in other comprehensive income they are recycled to the income statement in the periods in which the hedged item affects the income statement. The Group currently only applies cash flow value hedge accounting for hedging floating interest rate risk on borrowings.

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 other comprehensive income 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 other comprehensive income 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 other comprehensive income. Changes in the fair value of any ineffective portion are recognised in the income statement. Cumulative gains and losses previously recognised in other comprehensive income are transferred to the income statement if the foreign subsidiary to which they relate is disposed of.

continued

2. Summary of significant accounting policies continued

Derivatives that do not meet the criteria for hedge accounting

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

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.

Adoption of new and revised accounting standards

The following accounting standard became effective during the current period:

• IFRS 8, 'Operating segments' (effective from 1 January 2009). IFRS 8 replaces IAS 14 and requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. Management has reassessed the operating segments in the light of IFRS 8 and concluded that the existing segments reported reflect those reviewed by the CODM and accordingly remain appropriate. The adoption of the standard has, however, resulted in additional disclosures in these financial statements

The following amendment to an existing accounting standard became effective during the current period:

• IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard prohibits the presentation of items of income and expense (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from 'owner changes' in equity. All 'non-owner changes in equity' are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has elected to present two statements: an income statement and a statement of comprehensive income. These financial statements have been prepared under the revised disclosure requirements.

Recent accounting developments

The following amendments to existing standards and new interpretations became effective during the current period, but have had no significant impact on the Group's financial statements:

- IFRS 1 (Revised), 'First time adoption of IFRS';
- IFRS 2 (Revised), 'Share-based payment';
- IFRS 7 (Revised), 'Financial Instruments: Disclosures';
- IAS 23 (Revised), 'Borrowing costs';
- IAS 32 (Revised), 'Financial instruments: Presentation';
- IAS 39 (Revised), 'Financial instruments: Recognition and measurement':
- IFRIC 13, 'Customer loyalty programmes';
- IFRIC 14, 'IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction';
- IFRIC 15, 'Agreements for construction of real estates';
- IFRIC 16, 'Hedges of a net investment in a foreign operation'.

The following amendment to an existing standard has been published and is mandatory for the Group's future accounting periods. It has not been early adopted in these financial statements, but is likely to have an impact on future financial statements when adopted:

• IFRS 3 (Revised), 'Business combinations' and consequential amendments to IAS 27 'Consolidated and separate financial statements', IAS 28, 'Investments in associates' and IAS 31 'Interests in joint ventures'. The revision to IFRS 3 will require the Group to record contingent consideration at fair value at the acquisition date and in subsequent periods remeasure such consideration at fair value through the income statement. The Group will also be required to expense certain transaction costs rather than include them as part of the consideration paid. The standard is applicable to business combinations occurring in accounting periods beginning on or after 1 July 2009.

The following amendments to existing standards and new 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:

- IFRS 2 (Amendment), 'Share-based payment' (Effective for annual periods beginning on or after 1 January 2010);
- IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (Effective for annual periods beginning on or after 1 January 2010);
- IAS 1 (Amendment), 'Presentation of financial statements' (Effective for annual periods beginning on or after 1 January 2010);
- IAS 24 (Amendment), 'Related party disclosures'. The amendment to this standard is still subject to endorsement by the European Union;
- IAS 27 (Revised), 'Consolidated and separate financial statements' (Effective for annual periods beginning on or after 1 July 2009);
- IAS 32 (Amendment), 'Financial instruments: Presentation on classification of rights issues' (Effective for annual periods beginning on or after 1 February 2010);
- IAS 38 (Amendment), 'Intangible assets' (Effective for annual periods beginning on or after 1 July 2009);
- IAS 39 (Revised), 'Financial instruments: Recognition and measurement on eligible hedged items' and 'Transition and initial recognition of financial assets and financial liabilities' (Effective for annual periods beginning on or after 1 July 2009);
- IFRIC 17, 'Distributions of non-cash assets to owners' (Effective for annual periods beginning on or after 1 July 2009);
- IFRIC 18, 'Transfers of assets from customers' (Effective prospectively to transfers of assets from customers received on or after 1 July 2009);
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'. This IFRIC is still subject to endorsement by the European Union.

continued

3. Financial risk management

Financial risk factors

The Group's operations expose it to a number of financial risks including foreign exchange risk, interest rate risk, credit 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.

Market Risk

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. Details of the hedges in place can be found in note 31.

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. Details of the hedges in place can be found in note 31.

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.

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:

			2009		
	Less than 1 year		Greater than 5 years	Total	
	£'m	£'m	£'m	£'m	£'m
Trade and other payables	239.2	1.8	6.7	0.7	248.4
Bank and other borrowings	8.2	1.3	813.2	44.7	867.4
Interest payments on borrowings	8.9	8.4	16.1	1.2	34.6
Obligations under finance leases (see note 28)	0.8	1.4	3.2	-	5.4
Derivative financial instruments:					
Inflows*	(0.2)	-	-	-	(0.2)
Outflows*	22.7	8.8	4.9	-	36.4
Total	279.6	21.7	844.1	46.6	1,192.0
			2008		
	Less than 1 year	1-2 years	2-5 years	Greater than 5 years	Total
	f'm	f'm	f'm	f'm	f'm

		2008			
	Less than 1 year	1-2 years	2-5 years Greater t 5 ye		Total
	£'m	£'m	£'m	£'m	£'m
Trade and other payables	314.6	3.4	5.9	_	323.9
Bank and other borrowings	8.7	1.5	1,051.3	50.0	1,111.5
Interest payments on borrowings	16.4	9.4	24.8	4.0	54.6
Obligations under finance leases (see note 28)	1.0	1.6	4.6	-	7.2
Derivative financial instruments:					
Inflows*	(0.8)	_	_	-	(0.8)
Outflows*	21.2	18.0	11.2	-	50.4
Total	361.1	33.9	1,097.8	54.0	1,546.8

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

continued

3. Financial risk management continued

Sensitivity analysis

The Group's principal exposures in relation to market risks are to changes in the exchange rate between the US dollar and Pound sterling 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.

	200	2009		2008	
	Income	Equity	Income	Equity	
	statement		statement		
	£'m	£'m	£'m	£'m	
USD/GBP exchange rate +/- 5%	8.8	35.5	13.9	48.4	
US yield curve +/- 1%	4.6	6.8	7.2	13.4	

Of the impact on equity from movements in the exchange rate, £36.7 million (2008: £50.0 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 is as follows:

	£'m	2008 £'m
Obligations under finance leases – current (see note 28)	0.8	1.0
Bank and other borrowings – current (see note 29)	9.7	13.5
Obligations under finance leases – non-current (see note 28)	4.6	6.2
Bank and other borrowings – non-current (see note 29)	856.4	1,094.5
Less cash and cash equivalents (see note 25)	(62.9)	(67.3)
Total net debt	808.6	1,047.9
Total equity	1,273.6	1,286.4
Debt/equity %	63%	81%

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:

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. 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, margins and cash flows which are dependent on a number of factors including the size, utilisation and life of the aircraft fleet to which the capitalised costs

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.

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.

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 law. Advice is received by the Group from its environmental consultants and legal advisors to assist in the determination of the timing and estimation of the costs that the Group may incur in respect of such claims and an appropriate provision is made. To the extent 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.

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 34.

5. Revenue

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

Revenue from funded research and development Total	19.2	19.4
Revenue from services	42.0	49.4
Contract accounting revenue	48.8	59.8
Sale of goods	1,040.5	1,034.0
	2009 £'m	2008 £'m

6. Segmental analysis

The Group manages its businesses under the key segments of Aerospace Equipment, Sensing Systems and Defence Systems. The key performance measure reviewed by the Group's Chief Operating Decision Maker ("CODM") is underlying operating profit.

Aerospace Equipment consists of a group of leading electro-mechanical engineering businesses whose products are on virtually every western aircraft in service. The key capabilities of this segment are wheels, brakes and brake control systems, thermal management and fluid control, fire protection and control and polymers and composites.

Sensing Systems provides high performance sensing and condition-monitoring solutions for high value rotating machinery and other assets. The key capabilities of this segment are high performance sensing in extreme environments and condition-monitoring for air and land-based machinery.

Defence Systems is an international live-fire and simulation training and combat systems business. The key capabilities of this segment are integrated training systems, precision-mechanical combat systems and integrated environmental control systems.

continued

6. Segmental analysis continued

Year ended 31 December 2009

	Aerospace Equipment £'m	Sensing Systems £'m	Defence Systems £'m	Total £'m
Gross segment revenue	747.6	262.6	147.1	1,157.3
Inter-segment revenue	(2.3)	(4.5)	-	(6.8)
Revenue from external customers	745.3	258.1	147.1	1,150.5
Underlying operating profit (see note 10)*	220.8	45.0	20.4	286.2
Exceptional operating items (see note 11)	(12.1)	(7.4)	(1.3)	(20.8)
Amortisation of intangibles acquired in business combinations (see note 21)	(59.6)	(1.1)	(8.5)	(69.2)
Financial instruments (see note 10)	27.9	8.6	0.1	36.6
Operating profit	177.0	45.1	10.7	232.8
Finance income				28.1
Finance costs				(80.1)
Net finance costs				(52.0)
Profit before tax				180.8
Tax				(42.0)
Profit for the year				138.8
Depreciation (see note 22)	19.8	8.2	1.5	29.5
Amortisation of intangible assets** (see notes 20 and 21)	82.0	5.6	9.3	96.9
Amortisation of intangible assets (see flutes 20 and 21)	02.0	5.0	7.3	70.7

^{*} Central costs are allocated using a variety of bases designed to reflect the beneficial relationship between the costs and the segments. Bases include headcount, payroll costs, gross assets and revenue.

The Group's largest customer accounts for 11.8% of revenues (£136.1 million). Revenues from this customer arise across all three segments.

	Aerospace Sensir Equipment System		Defence Systems	Total
	£'m		£'m	£'m
Additions to non-current assets				
Development costs (see note 20)	20.2	12.4	2.5	35.1
Programme participation costs (see note 20)	27.6	_	-	27.6
Other intangible assets (see note 21)	4.7	2.0	0.4	7.1
Property, plant and equipment (see note 22)	12.8	3.9	0.7	17.4
Total	65.3	18.3	3.6	87.2

As at 31 December 2009

	Segment assets £'m
Aerospace Equipment	2,513.1
Sensing Systems	324.6
Defence Systems	165.8
Total segmental operating assets	3,003.5
Centrally managed operating assets	6.7
Derivative financial instruments – non-current	1.9
Deferred tax assets	170.6
Derivative financial instruments – current	4.5
Current tax recoverable	0.2
Cash and cash equivalents	62.9
Total assets	3,250.3

Centrally managed operating assets include amounts recoverable under tax equalisation swaps and property, plant and equipment of central companies.

^{**} Of the total amortisation in the year £27.7 million has been charged to underlying profit as defined in note 10.

continued

6. Segmental analysis continued

Year ended 31 December 2008

real ended 31 December 2006				
	Aerospace	Sensing Systems	Defence Systems	Total
	Equipment £'m	E'm	£'m	£'m
Gross segment revenue	765.9	271.0	131.1	1,168.0
Inter-segment revenue	(2.2)	(3.2)	-	(5.4)
Revenue from external customers	763.7	267.8	131.1	1,162.6
Underlying operating profit (see note 10)*	230.6	46.7	19.1	296.4
Exceptional operating items (see note 11)	(12.8)	(0.1)	(2.9)	(15.8)
Amortisation of intangibles acquired in business combinations (see note 21)	(52.7)	(1.0)	(8.1)	(61.8)
Disposal of inventory revalued in business combinations (see note 10)	-	(0.3)	-	(0.3)
Financial instruments (see note 10)	(37.9)	(8.2)	-	(46.1)
Operating profit	127.2	37.1	8.1	172.4
Finance income				33.9
Finance costs				(87.0)
Net finance costs				(53.1)
Profit before tax				119.3
Tax				(20.2)
Profit for the year				99.1
Depreciation (see note 22)	17.5	7.7	1.4	26.6
Amortisation of intangible assets** (see notes 20 and 21)	69.8	3.7	8.7	82.2

^{*} Central costs are allocated using a variety of bases designed to reflect the beneficial relationship between the costs and the segments. Bases include headcount, payroll costs, gross assets and revenue.

The Group's largest customer accounts for 10.5% of revenues (£122.5 million). Revenues from this customer arise across all three segments.

	Aerospace Equipment	Sensing Systems	Defence Systems	Total
	£'m	£'m	£'m	£'m
Additions to non-current assets*				
Development costs (see note 20)	12.6	9.6	1.5	23.7
Programme participation costs (see note 20)	35.7	_	_	35.7
Other intangible assets (see note 21)	4.5	1.0	0.3	5.8
Property, plant and equipment (see note 22)	25.5	7.1	3.3	35.9
Total	78.3	17.7	5.1	101.1

 $^{^*}$ Additions to non-current assets exclude additions arising from the acquisition of businesses.

As at 31 December 2008

	Segment assets
	£'m
Aerospace Equipment	2,813.9
Sensing Systems	364.3
Defence Systems	206.1
Total segmental operating assets	3,384.3
Centrally managed operating assets	2.7
Derivative financial instruments – non-current	1.6
Deferred tax assets	112.4
Derivative financial instruments – current	1.0
Current tax recoverable	0.7
Cash and cash equivalents	67.3
Total assets	3,570.0

Centrally managed operating assets mainly comprise property, plant and equipment of central companies.

^{**} Of the total amortisation in the year £20.4 million has been charged to underlying profit as defined in note 10.

continued

6. Segmental analysis continued

Geographical information

	2009	2000
	2009 £'m	2008 £'m
Revenue	<u> </u>	
UK	132.9	149.8
Rest of Europe	261.6	260.9
North America	600.3	599.9
Rest of World	155.7	152.0
Total	1,150.5	1,162.6
Revenues are based on the location of the customer.	2009 £'m	2008 £'m
	2111	LIII
Total common non-current accets		
Total segment non-current assets UK	569.7	576.4
UK	569.7 108.1	576.4 116.9
UK Rest of Europe	108.1	116.9

Total segment assets are based on the location of the assets. Total segment non-current assets exclude deferred tax assets, derivative financial instruments and trade and other receivables.

Impact of transformation programme

At the date of these financial statements, the information provided internally to the CODM continues to reflect the current divisional structure (Aerospace Equipment, Sensing Systems and Defence Systems) reported above. As part of the transformation programme the Group is in the process however, of re-organising its businesses into five new divisions. During 2010 the information reported to the CODM is expected to change to reflect this new structure. Accordingly the Group expects its operating segment reporting in 2010 to be on the basis of the five new divisions and reconciliations to the current segments reported will be provided at that time.

7. Expenses by nature

	2009 £'m	2008 £'m
Raw materials and consumables used	278.8	344.6
Changes in inventories of finished goods and work in progress	30.4	(35.8)
Disposal of inventory revalued in business combinations (see note 10)	_	0.3
Employee costs (see note 9)	357.8	352.5
Depreciation of property, plant & equipment (see note 22)	29.5	26.6
Research and development costs expensed as incurred	30.9	35.7
Amortisation of capitalised development costs (see note 20)	6.5	3.5
Amortisation of programme participation costs (see note 20)	17.8	14.1
Amortisation of other purchased intangible assets (see note 21)	3.4	2.8
Amortisation of intangibles acquired in business combinations (see note 10)	69.2	61.8
Net foreign exchange gains	(0.7)	(6.9)
Operating lease rentals – land and buildings	11.2	9.3
Operating lease rentals – plant, equipment and vehicles	0.9	0.8
Exceptional operating items (see note 11)	20.8	15.8
Financial instruments (see note 10)	(36.6)	46.1
Other administration costs	100.9	121.1
	920.8	992.3
Other operating income	(3.1)	(2.1)
Total	917.7	990.2
Analysed in the income statement:		
Cost of sales	656.3	637.8
Net operating costs	261.4	352.4
Total	917.7	990.2

continued

8. Auditor remuneration

		2009 £'m	2008 £'m
Payable to Pricewat	erhouseCoopers 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 : All other services	1.1 1.1	1.1 0.9
Total		2.4	2.2

[&]quot;All other services" primarily relates to fees in respect of cost saving advice on procurement and pension advice principally in connection with the merger of the three UK defined benefit schemes.

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 £31,000 (2008: £27,000).

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 pages 36 and 37.

9. Employee costs

	2009 £'m	2008 £'m
Employee costs during the year including executive directors:		
Wages and salaries	284.6	285.0
Social security costs	45.6	40.7
Pension costs – defined contribution schemes (see note 34)	11.7	9.9
Pension costs – defined benefit schemes (see note 34)	9.6	12.3
Other post-retirement costs – healthcare schemes (see note 34)	0.9	1.0
Share-based payment (see note 37)	5.4	3.6
Total	357.8	352.5
	2009 No.	2008 No.
Average monthly number of persons employed including executive directors:		
Production	6,239	6,802
Selling and distribution	596	619
Administration	711	790
Total	7,546	8,211

Details of directors' remuneration can be found in the Remuneration Report on pages 38 to 44, which constitutes part of these financial statements.

continued

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	2009 £'m	2008 £'m
Operating profit		232.8	172.4
Exceptional operating items (see note 11)		20.8	15.8
Amortisation of intangibles acquired in business combinations	а	69.2	61.8
Disposal of inventory revalued in business combinations	b	-	0.3
Financial instruments	С	(36.6)	46.1
Adjustments to operating profit		53.4	124.0
Underlying operating profit		286.2	296.4
Profit before tax		180.8	119.3
Adjustments to operating profit per above		53.4	124.0
Underlying profit before tax		234.2	243.3
Profit for the year		138.8	99.1
Adjustments to operating profit per above		53.4	124.0
Tax effect of adjustments to operating profit		(21.2)	(47.9
Adjustments to profit for the year		32.2	76.1
Underlying profit for the year		171.0	175.2
a. The Group excludes from its underlying profit figures the amortisation of intangibles acquired in business com	nbinations.		
		2009 £'m	2008 £'m
Amortisation of other intangible assets (see note 21)		72.6	64.6
Less amortisation of purchased intangible assets (see note 21)		(3.4)	(2.8
Amortisation of intangibles acquired in business combinations		69.2	61.8

- b. IFRS 3 requires finished goods acquired through a business combination to be valued at estimated selling price less costs of disposal and a reasonable profit allowance for the selling effort. Work in progress acquired in a business combination is valued at estimated selling price 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.
- 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 requirements 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 those derivatives are excluded from underlying profit. Where interest rate derivatives do qualify to be accounted for as fair value hedges, any 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.

	2009	2008
	£'m	£'m
Movement in the fair value of foreign currency forward contracts	(41.1)	49.6
Impact of retranslating net foreign currency assets and liabilities at spot rate	3.7	(4.2)
Movement in the fair value of interest rate derivatives not hedge accounted	(2.9)	2.9
Movement in the fair value of fixed rate borrowings	3.7	(2.2)
Financial instruments – (gain)/loss	(36.6)	46.1

continued

11. Exceptional operating items

		2009	2008
	Note	£'m	£'m
Transformation programme	а	16.9	-
Integration of K & F Industries Holdings, Inc. ("K & F")	b	3.7	10.2
Integration of Firearms Training Systems Inc. ("FATS")	С	-	2.9
Integration of other businesses	d	0.3	4.6
Profit on disposal of businesses	е	(0.1)	[1.9]
Exceptional operating items		20.8	15.8

- a. The Group announced as part of its 2008 annual results that, in response to the economic downturn, it would take appropriate action to reduce costs. The actions involve reductions in factory direct and indirect headcount and related costs arising from volume reductions, transforming the way the business is managed, effectively removing a layer of management, freezing executive pay and reducing pension and other benefits. The programme is progressing well and is on track to deliver the expected savings of £50 million annually by the end of 2010 at a one off cost of £25 million.
- b. Costs incurred during the year include rationalisation costs and the transfer of certain production processes into our Mexico facility. Further exceptional operating costs of £2.7 million are expected to arise over the next year as the integration is completed.
- c. During the prior year the consolidation of our two US training systems facilities at a new site in Atlanta was completed.
- d. During the year other business integration costs were also incurred, principally the completion of the integration of the Avery Hardoll business, commenced in 2008, into other businesses in the Group.
- e. In January 2009 the Group sold a small product line from its Aerospace Equipment segment and recorded a profit of £0.1 million. On 3 January 2008 the Group completed the disposal of S-Tec Corporation for a net consideration of £17.2 million.

Cash expenditure on all exceptional operating items above was £21.9 million (2008: £16.5 million), including £14.6 million in respect of the transformation programme (2008: £Nil) and £6.4 million in respect of K & F (2008: £9.5 million). The tax credit in respect of the exceptional operating items was £6.4 million (2008: £4.0 million).

12. Finance income

	2009	2008
	£'m	£'m
Interest on bank deposits	0.4	0.6
Unwinding of interest on other receivables	1.1	1.0
Expected return on retirement benefit scheme assets (see note 34)	26.1	31.3
Other finance income	0.5	1.0
Finance income	28.1	33.9

13. Finance costs

	2009	2008
	£'m	£'m
Interest on bank borrowings	30.5	39.0
Interest on USD 250 million senior notes	8.6	7.4
Interest on finance lease obligations	0.3	0.3
Unwinding of interest on provisions (see note 32)	1.2	1.9
Unwinding of interest on retirement benefit scheme liabilities (see note 34)	38.3	36.0
Other finance costs	1.2	2.4
Finance costs	80.1	87.0

14. Tax

	2009 £'m	2008 £'m
Current tax – current year	27.5	40.9
Current tax – adjustment in respect of prior years	(3.9)	2.0
Deferred tax – current year	12.6	(15.0)
Deferred tax – adjustment in respect of prior years	5.8	(7.7)
Total taxation	42.0	20.2

continued

14. Tax continued

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:

	2009 £'m	2008 £'m
Profit on ordinary activities before taxation at weighted average standard tax rate of 27.5%* (2008: 29.0%)	49.7	34.6
Effects of:		
Permanent differences	(7.3)	(1.2)
Timing differences	0.8	(8.0)
Tax credits and incentives	(3.1)	(6.7)
Prior year credit	1.9	(5.7)
Total taxation	42.0	20.2

Tax credit/(charge) relating to components of other comprehensive income

	2009		2008			
	Before tax £'m	Tax (charge) /credit £'m	After tax £'m	Before tax £'m	Tax (charge) /credit £'m	After tax £'m
Current tax on currency translation movements	(83.2)	(4.2)	(87.4)	197.6	15.6	213.2
Deferred tax on currency translation movements	1.8	(0.5)	1.3	3.6	(1.0)	2.6
Deferred tax on actuarial losses	(67.6)	18.9	(48.7)	(60.9)	18.7	(42.2)
Deferred tax on cash flow hedge movements	10.7	(3.0)	7.7	(18.5)	5.2	(13.3)
Other comprehensive income	(138.3)	11.2	(127.1)	121.8	38.5	160.3
Current tax		(4.2)			15.6	
Deferred tax		15.4			22.9	
		11.2			38.5	

Tax credit/(charge)	relating to iten	ns recognised dir	ectly in equity

	2009 £'m	2008 £'m
Deferred tax on share-based payment	1.1	(1.9)
Total	1.1	(1.9)

^{*}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 2009 to increase or reduce respectively by approximately £1.8 million.

15. Profit of parent company

The profit attributable to the shareholders of Meggitt PLC includes a profit, after dividends received, of £132.0 million (2008: £104.6 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 408 of the Companies Act 2006 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 holders by the weighted average number of shares in issue during the year. The weighted average number of shares used excludes any shares bought by the Group and held as own shares (see note 38). The calculation of diluted EPS 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 and equity-settled share appreciation rights in issue are exercised.

	2009 Profit* £'m	2009 Shares No. 'm	2009 EPS Pence	2008 Profit* £'m	2008 Shares No. 'm	2008 EPS Pence
Basic EPS	138.8	676.4	20.5	99.1	661.9	15.0
Potential effect of dilutive ordinary shares	-	0.5	-	-	1.1	-
Diluted EPS	138.8	676.9	20.5	99.1	663.0	15.0

^{*}Profit for the year from continuing operations attributable to equity holders.

continued

16. Earnings per ordinary share continued

Underlying EPS is based on underlying profit (see note 10) and is calculated below:

	2009	2008
	Pence	Pence
Basic EPS	20.5	15.0
Add back effects of:		
Exceptional operating items	2.1	1.8
Amortisation of intangibles acquired in business combinations	6.5	4.7
Financial instruments	(3.8)	5.0
Underlying EPS	25.3	26.5

17. Dividends

	2009 £'m	2008 £'m
In respect of earlier years	(0.2)	37.9
In respect of 2008:		
Interim of 2.70p per share	-	17.9
Final of 5.75p per share	38.2	-
In respect of 2009:		
Interim of 2.70p per share	18.4	-
Dividends paid	56.4	55.8
Less paid as scrip dividend (see note 41)	(26.8)	(15.5)
Dividends paid in cash	29.6	40.3

A final dividend in respect of 2009 of 5.75p per share (2008: 5.75p), amounting to a total final dividend of £39.4 million (2008: £38.2 million) is to be proposed at the Annual General Meeting on 21 April 2010. 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:

	2009 £'m	2008 £'m
Wages and salaries	7.4	7.3
Social security costs	0.9	1.2
Pension costs – defined contribution schemes	0.1	-
Pension costs – defined benefit schemes	0.4	0.3
Share-based payment	1.6	2.1
Total	10.4	10.9

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

	2009 Average option/base	2009 Number outstanding	2008 Average option/base	2008 Number outstanding
	price		price	
	Pence	No. 'm	Pence	No. 'm
Share options	195.01	1.0	252.69	6.5
Share appreciation rights – equity-settled	240.92	7.2	-	-
Share appreciation rights – cash-settled	264.70	0.6	271.09	1.1
Equity Participation Plan shares	N/A	4.6	N/A	4.2

Full details of all elements in the remuneration package of each director together with directors' share interests and share options are given in the Remuneration Report on pages 38 to 44 which constitutes part of these financial statements.

continued

19. Goodwill

	Total €'m
Year ended 31 December 2008	
Opening cost	1,067.8
Exchange rate adjustments	309.3
Businesses acquired	5.6
Closing cost	1,382.7
Year ended 31 December 2009	
Opening cost	1,382.7
Exchange rate adjustments	(120.8)
Closing cost	1,261.9

Goodwill is tested for impairment annually or more frequently if there is any indication of impairment. No impairment charge was required in the year (2008: £Nil) and the cumulative impairment charge recognised to date is £Nil (2008: £Nil).

For the purposes of testing goodwill for impairment, goodwill is allocated to the Group's cash generating units (CGUs) which principally comprise its individual business operations. The allocation of goodwill to CGUs is initially carried out in the year a business is acquired according to those CGUs which are expected to benefit from the acquisition. Subsequent adjustments are made to this allocation to the extent operations to which goodwill relates are transferred between CGUs or disposed of outside the Group. An analysis of goodwill by principal CGU is shown below:

	2009	2008
	£'m	£'m
Meggitt Aircraft Braking Systems ("MABS")	679.6	749.6
Whittaker Controls Inc	166.5	183.3
Engineering Fabrics Corporation ("EFC")	70.3	79.0
Meggitt Training Systems Inc	64.6	72.5
Other	280.9	298.3
Total	1,261.9	1,382.7

For each acquired CGU the Group has determined its recoverable amount from value in use calculations. The value in use calculations are based on cash flow forecasts derived from the most recent budgets and plans for the next five years approved by management in December 2009. Cash flows for periods beyond five years are extrapolated using estimated growth rates. The resultant cash flows are discounted using a pre-tax discount rate appropriate for the relevant CGU.

The key assumptions for the value in use calculations are shown below:

• Sales volumes, selling prices and cost increases over the five years covered by management's detailed plans. Sales volumes are based on industry forecasts and management estimates for the businesses in which each CGU operates including forecasts for OEM deliveries of large jets, regional aircraft and business jets; air traffic growth and military spending by the US DoD and other major governments. Sales prices and cost increases are based on past experience and management expectations of future changes in the market. The Group has examined the effects of other past shock events on air traffic growth both in the short term and the medium/long term. These included the effects of the 1973 and 1979 oil crises, the first Gulf War in 1991 and impact of 9/11, SARS and the second Gulf War in 2001. Past experience has shown that these events only had a short term negative impact on air traffic growth. Overall a cautious approach to volume levels, selling prices and cost increases has been taken given the current global economic uncertainty. The extent to which these assumptions affect each CGU with a significant level of goodwill are described below.

MABS and Whittaker Controls Inc are broadly spread across both civil aerospace and military platforms with Whittaker Controls Inc also operating in the energy sector. Within the civil aerospace sector MABS is a world leader in the supply of braking systems for regional aircraft and business jets, whilst the Whittaker Controls business, which designs and manufactures fluid control devices and systems, has a higher content on large jets. Both businesses have significant OEM and aftermarket revenues derived from sole source positions with the aftermarket, where platform lives can be up to thirty years for civil aircraft and longer for military, representing the greater proportion of revenues. In civil aerospace external forecasts suggest air traffic demand, measured in revenue passenger kilometres (RPKs), will grow by 3% to 5% in 2010. However, recovery will be more modest in capacity terms, measured in available seat kilometres (ASKs). On large jets and regional aircraft this is expected to translate into increased use of existing aircraft although deliveries of new aircraft are expected to decline in 2010 and 2011 before recovering in 2012. Usage of business jets is expected to increase from 2010 with deliveries of new aircraft increasing from 2011. In military markets, the US DoD base budget is predicted to grow by around 4% in 2010 and by 3% thereafter until 2015. The Group's energy businesses are also forecast to remain robust over the coming years.

EFC and Meggitt Training Systems Inc both operate in the military sectors. The principal customer of EFC is the US DoD to whom EFC are a leading supplier of flexible fuel tanks. Meggitt Training Systems Inc supplies integrated live and virtual training packages for armed forces and law enforcement agencies across the world. The forecasts used for military markets are as outlined above;

continued

19. Goodwill continued

- Growth rates used for periods beyond those covered by management's detailed budgets and plans. Growth rates are derived based on managements estimates which take into account the long-term nature of the industry in which each CGU operates, external industry forecasts of long-term growth in the aerospace and defence sectors, the extent to which a CGU has sole source position on platforms where it is able to share in a continuing stream of highly profitable aftermarket revenues, the maturity of the platforms supplied by the CGU and the technological content of the CGUs products. For the purpose of impairment testing a conservative approach has been used and where the derived rate is higher than the long-term GDP growth rates for the countries in which the CGU operates (UK: 2.2% [2008: 2.4%], US: 2.6% [2008: 2.9%]], the latter has been used;
- Discount rates applied to future cash flows. The Group's pre-tax weighted average cost of capital (WACC) was used as the foundation for determining the discount rates to be applied. The Group WACC was then adjusted to reflect risks specific to the CGU that are not already reflected in the future cash flows for that CGU. The discount rates used were as follows: MABS 11.5% (2008: 11.8%), Whittaker Controls Inc, 11.9% (2008: 12.0%), EFC 12.0% (2008: 12.3%), and Meggitt Training Systems Inc 11.7% (2008: 12.6%).

The principal CGU for which least headroom between the calculated recoverable value in use and the carrying value of goodwill exists is Meggitt Training Systems Inc where headroom is £9.7 million. The Group has carried out a sensitivity analysis to determine the extent to which its assumptions would need to change for the calculated recoverable amounts from value in use to equal the carrying value of goodwill of the CGU and the results of the analysis are shown below:

- Estimates of cash flows during the five year period for which management estimates have been used would need to reduce by 9% or
- Estimates of long term growth rates would need to reduce by 47% or
- The discount rate applied to future cash flows would need to increase to 12.4%

20. Development costs and programme participation costs

	Development costs	participation
	£'m	costs £'m
At 1 January 2008		
Cost	74.0	150.4
Accumulated amortisation	(16.3)	(28.6)
Net book amount	57.7	121.8
Year ended 31 December 2008		
Opening net book amount	57.7	121.8
Exchange rate adjustments	19.9	37.0
Additions	23.7	35.7
Amortisation charge	(3.5)	[14.1]
Closing net book amount	97.8	180.4
At 31 December 2008		
Cost	120.7	227.3
Accumulated amortisation	(22.9)	[46.9]
Net book amount	97.8	180.4
Year ended 31 December 2009		
Opening net book amount	97.8	180.4
Exchange rate adjustments	(7.5)	(15.3)
Additions	35.1	27.6
Interest capitalised	0.1	_
Amortisation charge	(6.5)	(17.8)
Closing net book amount	119.0	174.9
At 31 December 2009		
Cost	147.2	237.3
Accumulated amortisation	(28.2)	(62.4)
Net book amount	119.0	174.9

continued

21. Other intangible assets

21. Other intangible assets	Customer relationships (*) £'m	Technology	backlogs (*) (*)	Trade names and trademarks (*) £'m	Other purchased £'m	Total £'m
		(*) £'m				
At 1 January 2008						
Cost	603.8	157.6	18.3	22.2	15.0	816.9
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	5.8	741.7
Year ended 31 December 2008						
Opening net book amount	566.0	143.1	8.7	18.1	5.8	741.7
Exchange rate adjustments	166.1	40.5	2.0	4.8	1.4	214.8
Businesses acquired	2.4	1.3	0.3	0.2	0.1	4.3
Additions	-	-	-	-	5.8	5.8
Disposals	-	-	-	_	(0.4)	(0.4)
Amortisation charge	(38.7)	(13.6)	(5.1)	[4.4]	(2.8)	(64.6)
Closing net book amount	695.8	171.3	5.9	18.7	9.9	901.6
At 31 December 2008						
Cost	788.1	206.2	23.3	28.2	24.7	1,070.5
Accumulated amortisation	(92.3)	(34.9)	[17.4]	(9.5)	(14.8)	(168.9)
Net book amount**	695.8	171.3	5.9	18.7	9.9	901.6
Year ended 31 December 2009						
Opening net book amount	695.8	171.3	5.9	18.7	9.9	901.6
Exchange rate adjustments	(63.6)	(15.2)	(0.6)	(1.7)	(0.5)	(81.6)
Additions	_	-	-	_	7.1	7.1
Interest capitalised	-	-	-	-	0.1	0.1
Disposals	-	-	-	-	(0.1)	(0.1)
Amortisation charge	(44.6)	(16.1)	(4.9)	(3.6)	(3.4)	(72.6)
Closing net book amount	587.6	140.0	0.4	13.4	13.1	754.5
At 31 December 2009						
Cost	716.4	187.6	21.4	26.0	29.2	980.6
Accumulated amortisation	(128.8)	(47.6)	(21.0)	(12.6)	(16.1)	(226.1)
Net book amount**	587.6	140.0	0.4	13.4	13.1	754.5

^{*} Acquired in a business combination. The amortisation of these items are excluded from the Group's underlying profit figures (see note 10).

 $^{^{\}star\star}$ Includes ENil million (2008: £4.4 million) of assets not subject to amortisation.

continued

22. Property, plant and equipment

	Land and buildings \mathfrak{E}' m	Plant, equipment and vehicles £'m	Total £'m
At 1 January 2008			
Cost	118.1	293.5	411.6
Accumulated depreciation	[24.2]	(196.2)	(220.4)
Net book amount	93.9	97.3	191.2
Year ended 31 December 2008			
Opening net book amount	93.9	97.3	191.2
Exchange rate adjustments	19.6	25.3	44.9
Businesses acquired	0.5	0.2	0.7
Additions	11.1	24.8	35.9
Disposals	(0.1)	(0.8)	(0.9)
Depreciation charge	[4.9]	(21.7)	(26.6)
Closing net book amount	120.1	125.1	245.2
At 31 December 2008			
Cost	154.8	349.1	503.9
Accumulated depreciation	(34.7)	(224.0)	(258.7)
Net book amount	120.1	125.1	245.2
Year ended 31 December 2009			
Opening net book amount	120.1	125.1	245.2
Exchange rate adjustments	(7.1)		(16.4)
Additions	3.5	13.9	17.4
Interest capitalised	0.1	-	0.1
Disposals	(0.8)	(0.1)	(0.9)
Depreciation charge	(5.7)	(23.8)	(29.5)
Closing net book amount	110.1	105.8	215.9
At 31 December 2009			
Cost	145.3	328.4	473.7
Accumulated depreciation	[35.2]	(222.6)	(257.8)
Net book amount	110.1	105.8	215.9

The Group's obligations under finance leases (see note 28) are secured by the lessors' title to the leased assets, which have a carrying amount of £4.1 million (2008: £6.1 million) and are included within plant, equipment and vehicles.

23. Inventories

	2009	2008
	£'m	£'m
Contract costs incurred	8.6	10.2
Less progress billings	(5.0)	(5.8)
Net contract costs	3.6	4.4
Raw materials and bought-in components	109.3	115.5
Manufacturing work in progress	81.9	105.4
Finished goods and goods for resale	41.7	47.8
Total	236.5	273.1

The cost of inventories recognised as an expense and included in cost of sales amounted to £309.2 million (2008: £309.1 million).

continued

24. Trade and other receivables

	2009 £'m	2008 £'m
Trade receivables	161.8	223.6
Amounts recoverable on contracts	4.6	12.7
Prepayments and accrued income	7.7	7.8
Other receivables	73.4	62.1
Total	247.5	306.2
Less non-current portion:		
Other receivables .	36.2	19.3
Non-current portion	36.2	19.3
Current portion	211.3	286.9

Other receivables includes £38.5 million (2008: £22.6 million) in respect of insurance receivables arising on environmental issues pertaining to businesses sold by Whittaker Corporation prior to its acquisition by the Group (see note 32) of which £4.9 million (2008: £5.5 million) is shown as

The Group's trade receivables are stated after a provision for impairment of £3.5 million (2008: £5.3 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:

	2009	2008
	£'m	£'m
At 1 January	5.3	2.9
Exchange movements	(0.3)	0.8
[Credit]/charge to income statement - net operating costs	(1.5)	1.6
At 31 December	3.5	5.3

As of 31 December 2009, trade receivables of £32.9 million (2008: £45.6 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:

	2009	2008
	£'m	£'m
Up to 3 months	28.7	41.6
Over 3 months	4.2	4.0
Total	32.9	45.6

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:

	2009	2008
	£'m	£'m
Sterling	55.6	77.4
US dollar	159.7	187.0
Euro	28.1	34.6
Other currencies	4.1	7.2
Total	247.5	306.2

continued

25. Cash and cash equivalents

	2009	2008
	£'m	£'m
Cash at bank and in hand	62.9	67.3
Total	62.9	67.3
Cash and cash equivalents are subject to interest at floating rates. The credit quality of cash and cash equivalents is as foll	lows:	
	2009	2008
	£'m	£'m
S&P rating:		
AAA	0.1	0.9
AA	32.1	35.8
A	30.3	30.6
BBB	0.4	-
Total	62.9	67.3

26. Trade and other payables - current

	2009	2008
	£'m	£'m
Payments received on account	48.4	53.0
Trade payables	69.2	101.9
Social security and other taxes	5.1	5.4
Accrued expenses	37.4	39.2
Deferred consideration relating to acquired businesses	0.9	5.4
Other payables	78.2	109.7
Total	239.2	314.6

27. Trade and other payables - non-current

	2009 £'m	2008 £'m
Deferred consideration relating to acquired businesses	3.1	_
Other payables	6.1	9.3
Total	9.2	9.3

28. Obligations under finance leases

		Minimum lease payments		Present value of minimum lease payments	
	2009	2008	2009	2008	
	£'m	£'m	£'m	£'m	
Amounts payable under finance leases:					
Within one year	1.6	1.7	0.8	1.0	
In the second to fifth years inclusive	5.5	8.0	4.6	6.2	
Total	7.1	9.7	5.4	7.2	
Less: future finance charges	(1.7)	(2.5)			
Present value of lease obligations	5.4	7.2			
Less non-current portion	4.6	6.2			
Current portion	0.8	1.0			

The underlying currency of obligations under finance leases is Sterling £0.2 million (2008: £0.4 million) and US dollar £5.2 million (2008: £6.8 million). The weighted average period to maturity for these finance leases is 3.9 years (2008: 4.8 years) and the weighted average interest rate is 5.8% (2008: 5.9%).

continued

29. Bank and other borrowings

	2009 £'m	2008 £'m
Current	E 111	
Bank loans	8.1	8.9
Other loans	1.6	4.6
Total current	9.7	13.5
Non-current		
Bank loans	696.9	918.6
Other loans	159.5	175.9
Total non-current	856.4	1,094.5
Total borrowings	866.1	1,108.0
Analysis of borrowings repayable:		
In one year or less	9.7	13.5
In more than one year but not more than two years	1.3	1.4
In more than two years but not more than five years	810.9	1,043.7
In more than five years	44.2	49.4
Total	866.1	1,108.0

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 £1.3 million (2008: £0.7 million).

The Group has the following committed facilities:

	2009				2008	
	Drawn	Undrawn	Total	Drawn	Undrawn	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Senior notes (USD 250.0 million)	154.8	-	154.8	173.9	-	173.9
Syndicated credit facility (2009: USD 500.0 million, 2008: USD 680.0 million)	96.4	213.2	309.6	314.0	159.0	473.0
Syndicated credit facility (USD 1,170.0 million)	603.2	121.3	724.5	608.6	205.1	813.7
Total	854.4	334.5	1,188.9	1,096.5	364.1	1,460.6

The Group issued USD 250.0 million of loan notes to private investors in 2003. These were all drawn at 31 December 2009 and the sterling equivalent was £154.8 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 500.0 million, five year, unsecured multi-currency revolving credit facility during 2008 available to be drawn down on maturity or early cancellation of our existing USD 680.0 million facility. During 2009 the USD 680.0 million facility was reduced to USD 500.0 million (at the Group's request in order to reduce costs). At 31 December 2009 the amounts drawn under our revolving credit facilities were £699.6 million (2008: £922.6 million) represented by borrowings denominated in US dollars of £603.2 million (USD 974.1 million), in Euros of £6.6 million (Euros 7.4 million), and in Swiss francs of £89.8 million (Swiss francs 150.0 million). Borrowings under the facilities are subject to interest at floating rates. The Group also has various uncommitted facilities with its relationship banks.

The committed facilities outstanding as at 31 December 2009 and 31 December 2008 expire as follows:

	2009			2008		
	Drawn	Undrawn	Total	Drawn	Undrawn	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Within one to two years	-	-	-	-	125.2	125.2
In more than two years	854.4	334.5	1,188.9	1,096.5	238.9	1,335.4
Total	854.4	334.5	1,188.9	1,096.5	364.1	1,460.6

The fair value of the Group borrowings is as follows:

	200	2009		2008	
	Carrying	Fair	Carrying	Fair	
	value	value	value	value	
	£'m	£'m	£'m	£'m	
Current	9.7	9.7	13.5	13.5	
Non-current	856.4	860.0	1,094.5	1,080.5	
Total	866.1	869.7	1,108.0	1,094.0	

continued

29. Bank and other borrowings continued

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

As at 31 December 2009:

					Fixed rate	borrowings
					Weighted average	Weighted average
					interest rate	period
			Non-interest			for which
	Floating	Fixed	bearing	Total		rate is fixed
	£'m	£'m	£'m	£'m	%	years
US dollar	109.8	650.2	-	760.0	5.4	2.0
Swiss franc	94.2	-	-	94.2		
Euro	7.3	0.5	5.0	12.8	5.9	2.0
Other	2.5	-	-	2.5		
Gross borrowings	213.8	650.7	5.0	869.5		
Less unamortised debt issue costs	(3.1)	(0.3)	-	(3.4)		
Committee value of homeonings	240.7	/F0 /	F 0	0// 1		
Carrying value of borrowings	210.7	650.4	5.0	866.1		

As at 31 December 2008:

					Fixed rate	borrowings
					Weighted	Weighted
					average	average
					interest rate	period
			Non-interest			for which
	Floating	Fixed	bearing	Total		rate is fixed
	£'m	£'m	£'m	£'m	%	years
US dollar	285.0	730.3	-	1,015.3	5.4	3.0
Swiss franc	59.7	_	_	59.7		
Euro	24.8	0.7	7.0	32.5	5.9	2.5
Other	5.3	-	-	5.3		
Gross borrowings	374.8	731.0	7.0	1,112.8		
Less unamortised debt issue costs	(4.5)	(0.3)	-	[4.8]		
Carrying value of borrowings	370.3	730.7	7.0	1,108.0		
				,		

The weighted average period to maturity for non-interest bearing borrowings is 3.4 years (2008: 2.8 years).

30. Financial instruments

For cash and cash equivalents, trade and other receivables and current borrowings the fair value of the financial instruments approximates to their carrying value due to the short maturity periods of these financial instruments. For trade and other receivables, allowances are made within the carrying value for credit risk. For other financial instruments, 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.

continued

30. Financial instruments continued

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

	Held at	fair value	Held at amo	rtised cost		
	2009	2009	2009	2009	2009	2009
	Through	Derivatives	Loans &	Other	Total	Total
	profit	used	receivables	liabilities	carrying	fair
	& loss	as hedges			value	value
	£'m	£'m	£'m	£'m	£'m	£'m
Financial assets						
Non-current:						
Trade and other receivables (see note 24)	_	-	36.2	-	36.2	36.2
Derivative financial instruments (see note 31)	1.9	_	_	_	1.9	1.9
,						
Current:						
Trade and other receivables (see note 24)	_	_	211.3	_	211.3	211.3
Derivative financial instruments (see note 31)	4.5		211.5		4.5	4.5
	4.5	_	62.9	_	62.9	62.9
Cash and cash equivalents (see note 25)						
	6.4		310.4		316.8	316.8
Financial liabilities						
Current:						
Trade and other payables (see note 26)	_	_	_	(239.2)	(239.2)	(239.2)
Derivative financial instruments (see note 31)	(4.0)	(13.2)		(237.2)	(17.2)	(17.2)
	(4.0)	(13.2)	_			
Obligations under finance leases (see note 28)	-	-	_	(0.8)	(0.8)	(0.8)
Bank and other borrowings (see note 29)	-	-	-	(9.7)	(9.7)	(9.7)
Non-current:						
Trade and other payables (see note 27)	-	-	-	(9.2)	(9.2)	(9.2)
Derivative financial instruments (see note 31)	(8.5)	(16.0)	-	-	(24.5)	(24.5)
Obligations under finance leases (see note 28)	_	-	_	(4.6)	(4.6)	(4.6)
Bank and other borrowings (see note 29)	(35.2)	_	_	(821.2)	(856.4)	(860.0)
	(47.7)	(29.2)	_	(1,084.7)	(1,161.6)	(1,165.2)
Total	(41.3)	(29.2)	310.4	(1,084.7)	(844.8)	(848.4)
	Held at	fair value	Held at amo	ortised cost		
	2008	2008	2008	2008	2008	2008
	Through	Derivatives	Loans &	Other	Total	Total
	profit	used	receivables	liabilities	carrying	fair
	& loss £'m	as hedges £'m	£'m	£'m	value	value
	EIII	EIII	EIII	EIII	£'m	£'m
Financial assets						
Non-current:						
Trade and other receivables (see note 24)	-	-	19.3	-	19.3	19.3
Derivative financial instruments (see note 31)	1.6	-	-	_	1.6	1.6
Current:						
Trade and other receivables (see note 24)	_	_	286.9	_	286.9	286.9
Derivative financial instruments (see note 31)	1.0	_	_	_	1.0	1.0
Cash and cash equivalents (see note 25)	_	_	67.3			
- Cush and cash equivalents (see note 20)						
					67.3	67.3
·	2.6	_	373.5		376.1	376.1
Financial liabilities	2.6	-				
	2.6	-				
Current:		-		- (314.4)	376.1	376.1
Current: Trade and other payables (see note 26)	-	-		(314.6)	376.1	376.1
Current: Trade and other payables (see note 26) Derivative financial instruments (see note 31)		- - -		-	(314.6) (26.4)	(314.6) (26.4)
Current: Trade and other payables (see note 26) Derivative financial instruments (see note 31) Obligations under finance leases (see note 28)	-	- - - -		(1.0)	376.1 (314.6) (26.4) (1.0)	(314.6) (26.4) (1.0)
Current: Trade and other payables (see note 26) Derivative financial instruments (see note 31)	-	- - - -		-	(314.6) (26.4)	(314.6) (26.4)
Current: Trade and other payables (see note 26) Derivative financial instruments (see note 31) Obligations under finance leases (see note 28) Bank and other borrowings (see note 29)	-	-		(1.0)	376.1 (314.6) (26.4) (1.0)	(314.6) (26.4) (1.0)
Current: Trade and other payables (see note 26) Derivative financial instruments (see note 31) Obligations under finance leases (see note 28) Bank and other borrowings (see note 29) Non-current:	-	-		(1.0) (13.5)	376.1 (314.6) (26.4) (1.0) (13.5)	376.1 (314.6) (26.4) (1.0) (13.5)
Current: Trade and other payables (see note 26) Derivative financial instruments (see note 31) Obligations under finance leases (see note 28) Bank and other borrowings (see note 29)	-	-		(1.0)	376.1 [314.6] [26.4] [1.0] [13.5]	(314.6) (26.4) (1.0)
Current: Trade and other payables (see note 26) Derivative financial instruments (see note 31) Obligations under finance leases (see note 28) Bank and other borrowings (see note 29) Non-current:	-	- - - - - (39.9)		(1.0) (13.5)	376.1 (314.6) (26.4) (1.0) (13.5)	376.1 (314.6) (26.4) (1.0) (13.5)
Current: Trade and other payables (see note 26) Derivative financial instruments (see note 31) Obligations under finance leases (see note 28) Bank and other borrowings (see note 29) Non-current: Trade and other payables (see note 27)	- (26.4) - -	- - - - - (39.9)		(1.0) (13.5) (9.3)	376.1 [314.6] [26.4] [1.0] [13.5]	376.1 (314.6) (26.4) (1.0) (13.5)
Current: Trade and other payables (see note 26) Derivative financial instruments (see note 31) Obligations under finance leases (see note 28) Bank and other borrowings (see note 29) Non-current: Trade and other payables (see note 27) Derivative financial instruments (see note 31) Obligations under finance leases (see note 28)	- (26.4) - -	- - - - (39.9)		(1.0) (13.5) (9.3) (6.2)	(314.6) (26.4) (1.0) (13.5) (9.3) (70.6) (6.2)	(314.6) (26.4) (1.0) (13.5) (9.3) (70.6) (6.2)
Current: Trade and other payables (see note 26) Derivative financial instruments (see note 31) Obligations under finance leases (see note 28) Bank and other borrowings (see note 29) Non-current: Trade and other payables (see note 27) Derivative financial instruments (see note 31)	- [26.4] - - (30.7) - (35.6)	-	373.5 - - - - - -	(1.0) (13.5) (9.3) (6.2) (1,058.9)	(314.6) (26.4) (1.0) (13.5) (9.3) (70.6) (6.2) (1,094.5)	376.1 (314.6) (26.4) (1.0) (13.5) (9.3) (70.6) (6.2) (1,080.5)
Current: Trade and other payables (see note 26) Derivative financial instruments (see note 31) Obligations under finance leases (see note 28) Bank and other borrowings (see note 29) Non-current: Trade and other payables (see note 27) Derivative financial instruments (see note 31) Obligations under finance leases (see note 28)	- (26.4) - - - (30.7)	- - - - (39.9) - - (39.9)		(1.0) (13.5) (9.3) (6.2)	(314.6) (26.4) (1.0) (13.5) (9.3) (70.6) (6.2)	(314.6) (26.4) (1.0) (13.5) (9.3) (70.6) (6.2)
Current: Trade and other payables (see note 26) Derivative financial instruments (see note 31) Obligations under finance leases (see note 28) Bank and other borrowings (see note 29) Non-current: Trade and other payables (see note 27) Derivative financial instruments (see note 31) Obligations under finance leases (see note 28)	- [26.4] - - (30.7) - (35.6)	-	373.5 - - - - - -	(1.0) (13.5) (9.3) (6.2) (1,058.9)	(314.6) (26.4) (1.0) (13.5) (9.3) (70.6) (6.2) (1,094.5)	376.1 (314.6) (26.4) (1.0) (13.5) (9.3) (70.6) (6.2) (1,080.5)

continued

31. Derivative financial instruments

		or underlying oal amount	Fair value	
	2009	009 2009	2009	2009
	Assets	Liabilities	Assets	Liabilities
	£'m	£'m	£'m	£'m
Interest rate swaps	-	(495.4)	-	(29.4)
Foreign currency forward contracts	60.0	(139.6)	6.4	(12.3)
Total	60.0	(635.0)	6.4	(41.7)
Less non-current portion:				
Interest rate swaps	-	(185.8)	-	(16.0)
Foreign currency forward contracts	19.6	(93.1)	1.9	(8.5)
Non-current portion	19.6	(278.9)	1.9	(24.5)
Current portion	40.4	(356.1)	4.5	(17.2)

		or underlying pal amount	Fair value	
	2008		2008	2008
	Assets	Liabilities	Assets	Liabilities
	£'m	£'m	£'m	£'m
Interest rate swaps	-	(556.4)	-	(47.4)
Foreign currency forward contracts	40.3	(291.1)	2.6	(49.6)
Total	40.3	(847.5)	2.6	(97.0)
Less non-current portion:				
Interest rate swaps	-	(556.4)	_	(39.9)
Foreign currency forward contracts	21.1	(174.6)	1.6	(30.7)
Non-current portion	21.1	(731.0)	1.6	(70.6)
Current portion	19.2	(116.5)	1.0	(26.4)

Interest rate swaps

The total notional principal amount of the outstanding interest rate swap contracts at 31 December 2009 is £495.4 million (USD 800.0 million) of which £309.6 million (USD 500.0 million) expire within 12 months and £185.8 million (USD 300.0 million) will expire in 2012. The swaps have the economic effect of converting floating rate US dollar borrowings into fixed rate US dollar borrowings and are accounted for as cash flow hedges. The total notional principal amount of the outstanding interest rate swap contracts at 31 December 2008 was £556.4 million (USD 800.0 million).

Foreign currency forward contracts

Although the Group uses foreign currency forward contracts to hedge against foreign currency exposures, it has decided that the costs of $meeting \ the \ extensive \ documentation \ requirements \ to \ be \ able \ to \ apply \ hedge \ accounting \ under IAS \ 39 \ ("Financial Instruments: Recognition \ and \ apply \ hedge \ accounting \ under IAS \ 30 \ ("Financial Instruments: Recognition \ and \ apply \ hedge \ accounting \ under IAS \ 30 \ ("Financial Instruments: Recognition \ and \ apply \ hedge \ accounting \ under IAS \ 30 \ ("Financial Instruments: Recognition \ and \ apply \ hedge \ accounting \ under IAS \ 30 \ ("Financial Instruments: Recognition \ and \ apply \ hedge \ accounting \ under IAS \ 30 \ ("Financial Instruments: Recognition \ and \ apply \ hedge \ accounting \ under IAS \ 30 \ ("Financial Instruments: Recognition \ and \ apply \ hedge \ accounting \ under IAS \ 30 \ ("Financial Instruments: Recognition \ and \ apply \ hedge \ accounting \ under IAS \ 30 \ ("Financial Instruments: Recognition \ and \ apply \ hedge \ accounting \ under IAS \ 30 \ ("Financial Instruments: Recognition \ apply \ hedge \ accounting \ under IAS \ 30 \ ("Financial Instruments: Recognition \ apply \ hedge \ accounting \ under IAS \ 30 \ ("Financial Instruments: Recognition \ apply \ hedge \ accounting \ under IAS \ 30 \ ("Financial Instruments: Recognition \ apply \ hedge \ accounting \ under IAS \ 30 \ ("Financial Instruments: Recognition \ apply \ hedge \ accounting \ under IAS \ apply \ accounting \ under IAS \ apply \ accounting \ under IAS \ apply \ apply \ accounting \ apply \ accounting \ apply \ ap$ Measurement") are not merited.

Measurement) are not mented.				
	2009	2009	2008	2008
	Assets	Liabilities	Assets	Liabilities
	£'m	£'m	£'m	£'m
Fair value:				
US dollar forward sales (USD/£)	3.8	(12.1)	0.6	(49.0)
Forward sales denominated in other currencies	2.6	(0.2)	2.0	(0.6)
Total	6.4	(12.3)	2.6	(49.6)
The credit quality of derivative financial assets is as follows:				
'			2009	2008
			£'m	£'m
AA			2.7	2.6
A			3.7	
Total			6.4	2.6

continued

32. Provisions

	Environmental legal & regulatory (a) £'m	Onerous contracts (b) £'m	Warranty costs (c) £'m	Total £'m
At 1 January 2009	81.0	12.9	15.4	109.3
Exchange rate adjustments	(7.7)	(0.5)	(1.4)	(9.6)
Transfer from trade and other payables – non current	-	-	0.5	0.5
(Credit)/charge to income statement – cost of sales	(4.2)	(0.8)	5.5	0.5
Charge to income statement – net operating costs	20.7	-	_	20.7
Charge to income statement – finance costs (see note 13)	1.2	-	-	1.2
Utilised	(9.7)	(2.1)	(4.0)	(15.8)
At 31 December 2009	81.3	9.5	16.0	106.8
			2009 £'m	2008 £'m
Current			35.8	45.3
Non-current			71.0	64.0
At 31 December 2009			106.8	109.3

- a) Provision has been made for known exposures arising from environmental, health and safety, product liability matters, legal proceedings and contractual disputes in a number of businesses. Meggitt's operations and facilities are subject to laws and regulations that govern the discharge of pollutants and hazardous substances into the ground, air and water as well as the handling, storage and disposal of such materials and other environmental matters. Failure to comply with its obligations potentially exposes the Group to serious consequences, including fines, other sanctions and limitations on operations. The Group is involved in the investigation and remediation of current and former sites for which it has been identified as a potentially responsible party under US law. Provision has been made for the expected costs arising from these sites based on information currently available and a receivable established to the extent these costs are recoverable under the Group's environmental insurance policies. A number of asbestos-related claims have been made against subsidiary companies of the Group. To date, the amount connected with such claims in any year has not been material and many claims are covered fully or partly by existing insurance and indemnities. There is a provision for claims which cannot be recovered from insurers. The US Government is investigating alleged violations of US export control laws by four US subsidiaries and one UK subsidiary of the Group. These investigations are likely to lead to financial penalties and the imposition of corrective measures for which 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 five years.
- c) Provision has been made for product warranty claims. These provisions are expected to be utilised over the next three years.

continued

33. Deferred tax

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

Deferred tax assets

	Tax losses	Retirement benefit	Other	Total
	£'m	obligations £'m		C'm
1.4.1			£'m	£'m
At 1 January 2008	2.7	52.8	0.1	55.6
Exchange rate adjustments	-	16.5	0.1	16.6
(Charged)/credited to income statement (see note 14)	(2.7)	(5.6)	9.8	1.5
Credited to other comprehensive income (see note 14)	-	18.7	5.2	23.9
Charged to equity (see note 14)	-	-	(1.9)	(1.9)
At 31 December 2008	_	82.4	13.3	95.7
Exchange rate adjustments	_	(6.9)	0.7	(6.2)
Reclassifications	_	(0.3)	20.3	20.0
Charged to income statement (see note 14)	_	(0.5)	(24.9)	(25.4)
Credited/(charged) to other comprehensive income (see note 14)	-	18.9	(3.9)	15.0
Credited to equity (see note 14)	_	_	1.1	1.1
At 31 December 2009	-	93.6	6.6	100.2

Deferred tax liabilities

	Accelerated tax depreciation	Intangible assets (*)	Total
	£'m	£'m	£'m
At 1 January 2008	(7.4)	(272.3)	(279.7)
Exchange rate adjustments	(1.8)	(79.9)	(81.7)
Businesses acquired	-	(1.1)	(1.1)
Reclassifications	-	(0.9)	(0.9)
(Charged)/credited to income statement (see note 14)	(1.6)	22.8	21.2
Charged to other comprehensive income (see note 14)	-	(1.0)	(1.0)
At 31 December 2008	(10.8)	(332.4)	(343.2)
Exchange rate adjustments	0.8	31.1	31.9
Reclassifications	0.1	(19.0)	(18.9)
(Charged)/credited to income statement (see note 14)	(1.2)	8.2	7.0
Credited to other comprehensive income (see note 14)	-	0.4	0.4
At 31 December 2009	(11.1)	(311.7)	(322.8)

^{*}Acquired in business combinations

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

and when the deferred income taxes retate to the same tax authority. The batances after attownly for such offsets are a	13 TULLUWS.	
	2009	2008
	£'m	£'m
Deferred tax assets	170.6	112.4
Deferred tax liabilities	(393.2)	[359.9]
Net balance at 31 December	(222.6)	[247.5]
Deferred tax assets are analysed as follows:		
	2009	2008
	£'m	£'m
To be recovered within 12 months	28.8	10.1
To be recovered after more than 12 months	141.8	102.3
Total	170.6	112.4
Deferred tax liabilities are analysed as follows:		
	2009	2008
	£'m	£'m
To be recovered within 12 months	(4.1)	(25.9)
To be recovered after more than 12 months	(389.1)	(334.0)
Total	(393.2)	[359.9]

The Group has unrecognised deferred tax assets of £20.5 million [2008: £11.8 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 £Nil million [2008: £36.0 million].

continued

34. Retirement benefit obligations

Pension schemes

During the year the Group's three UK defined benefit schemes were merged into one surviving scheme which is funded and closed to new members. In the USA, the Group operates five defined benefit schemes, of which four are closed to new members. The US schemes are a mixture of funded and unfunded plans. In Switzerland the Group operates a defined benefit scheme which is a funded scheme. The assets of all of the defined benefit schemes are held in trust funds separate from the Group's finances. 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

	2009	2008
	£'m	£'m
In respect of:		
Defined contribution schemes (see note 9)	11.7	9.9
Defined benefit schemes		
Service cost (see note 9)	9.6	12.3
Expected return on scheme assets (see note 12)	(26.1)	(31.3
Interest cost (see note 13)	34.7	32.6
Total cost of defined benefit schemes	18.2	13.6
Healthcare schemes		
Service cost (see note 9)	0.9	1.0
Interest cost (see note 13)	3.6	3.4
Total cost of healthcare schemes	4.5	4.4
Total charge	34.4	27.9

Of the total charge £10.1 million (2008: £10.8 million) has been included in cost of sales, £12.1 million (2008: £12.4 million) in net operating expenses and £12.2 million (2008: £4.7 million) in net finance costs.

Amounts recognised in the balance sheet

		2009			
	UK pension	Overseas pension	Overseas healthcare	Total	
	schemes	schemes	schemes		
	£'m	£'m	£'m	£'m	
Fair value of scheme assets	329.8	174.4	-	504.2	
Present value of scheme liabilities	(462.8)	(260.9)	(61.0)	(784.7)	
Retirement benefit obligations	(133.0)	(86.5)	(61.0)	(280.5)	

Of the total deficit of £280.5 million, £71.9 million is in respect of unfunded schemes.

	2008			
	UK	Overseas	Overseas	Total
	pension	pension	healthcare	
	schemes	schemes	schemes	
	£'m	£'m	£'m	£'m
Fair value of scheme assets	283.7	168.2	_	451.9
Present value of scheme liabilities	(354.8)	(269.1)	(69.2)	(693.1)
Retirement benefit obligations	(71.1)	(100.9)	(69.2)	[241.2]

Of the total deficit of £241.2 million, £80.3 million is in respect of unfunded schemes.

Analysis of scheme assets

		2009						
	UK	pension schem	nes	Overseas pension schemes			Total	
		Expected			Expected			
	£'m	%	return %	£'m	%	return %	£'m	%
Equities	210.1	63.7	8.00	79.1	45.4	9.50	289.2	57.4
Government bonds	76.0	23.0	4.50	32.9	18.9	4.00	108.9	21.6
Corporate bonds	36.4	11.1	5.70	43.3	24.8	6.00	79.7	15.8
Property	_	-	N/A	10.5	6.0	7.50	10.5	2.1
Other assets	7.3	2.2	0.50	8.6	4.9	3.50	15.9	3.1
Total	329.8	100.0	6.77	174.4	100.0	7.18	504.2	100.0

continued

34. Retirement benefit obligations continued

		2008							
	UK	pension schem	es	Overse	Overseas pension schemes			Total	
			Expected			Expected			
	£'m	%	return %	£'m	%	return %	£'m	%	
Equities	165.6	58.4	7.75	69.9	41.6	9.50	235.5	52.1	
Government bonds	74.0	26.1	3.75	34.0	20.2	5.70	108.0	23.9	
Corporate bonds	28.6	10.1	6.30	47.0	27.9	6.50	75.6	16.7	
Property	-	_	N/A	7.6	4.5	7.50	7.6	1.7	
Other assets	15.5	5.4	4.00	9.7	5.8	1.00	25.2	5.6	
Total	283.7	100.0	6.36	168.2	100.0	7.31	451.9	100.0	

The schemes have no investments in the Group's 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

	2009	2008
	£'m	£'m
Fair value of scheme assets at 1 January	451.9	471.4
Exchange rate adjustments	(17.6)	51.0
Expected return on scheme assets	26.1	31.3
Contributions – Group	32.3	35.8
Contributions - Members	4.0	5.6
Benefits paid	(38.6)	(28.2)
Actuarial gains/(losses)	46.1	(115.0)
Fair value of scheme assets at 31 December	504.2	451.9

The actual return on scheme assets was a gain of £72.2 million (2008: Loss of £83.7 million).

Financial assumptions used to calculate scheme liabilities

	2009			2008		
	UK	Overseas	Overseas	UK	Overseas	Overseas
	pension	pension	healthcare	pension	pension	healthcare
	schemes	schemes	schemes	schemes	schemes	schemes
Discount rate Inflation rate	5.70%	5.65-5.85%	5.85%	6.30%	6.50%	6.50%
	3.50%	N/A	N/A	3.00%	N/A	N/A
Increase to deferred benefits during deferment* Increases to pensions in payment*	3.50%	N/A	N/A	3.00%	N/A	N/A
	3.50%	N/A	N/A	3.00%	N/A	N/A
Salary increases	4.50%	4.00%	N/A	4.00%	4.00%	N/A
Healthcare cost increases	N/A	N/A	**	N/A	N/A	**

^{*} To the extent not overridden by specific scheme rules.

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 in the UK were updated during the year and are based on recent mortality investigations of Self Administered Pension Schemes adjusted to reflect the profile of the membership of the Plan. Allowance has also been made for rates of mortality to continue to fall in the medium term and that in the long term, rates of mortality will continue to fall at the rate of 1% per annum. In the US mortality assumptions are based on the RP2000 IRS RPA tables.

	20	2009		108
	UK Overseas		UK	Overseas
	schemes	schemes	schemes	schemes
	years	years	years	years
Member age 45 (life expectancy at age 65) – male	23.7-26.2	18.9	21.2-22.8	19.2
Member age 45 (life expectancy at age 65) – female	26.5-27.8	20.8	24.0-25.6	21.1
Member age 65 (current life expectancy) – male	21.8-24.4	18.9	20.1-21.5	18.8
Member age 65 (current life expectancy) – female	24.6-25.8	20.8	23.0-24.4	20.8

^{**}Healthcare cost increases are assumed to be 8.5% for 2010 trending down to 5.0% by 2017 (2008: 8.5% for 2009 trending down to 5.0% by 2016).

continued

34. Retirement benefit obligations continued

Details on the sensitivity of scheme liabilities to changes in assumptions are provided below:

- The impact of a 10 basis point reduction in discount rate would cause scheme liabilities at 31 December 2009 to increase by approximately f 11.6 million:
- The impact of a 10 basis point increase in inflation rate would cause scheme liabilities at 31 December 2009 to increase by approximately £7.7 million;
- The impact of a 10 basis point increase in medical trend rates would cause scheme liabilities at 31 December 2009 to increase by approximately
- The impact of assuming every scheme member were to live for an additional year would cause scheme liabilities at 31 December 2009 to increase by approximately £19.1 million.

Changes in the present value of scheme liabilities

	2009 £'m	2008 £'m
Present value of scheme liabilities at 1 January	693.1	624.7
Exchange rate adjustments	(36.3)	95.8
Service cost	10.5	13.3
Interest cost	38.3	36.0
Contributions – Members	4.0	5.6
Benefits paid	(38.6)	(28.2)
Actuarial losses/(gains)	113.7	(54.1
Present value of scheme liabilities at 31 December	784.7	693.1

Cumulative (losses)/gains recognised in other comprehensive income

	2009 £'m	2008 £'m
As at 1 January	(38.3)	3.9
Actuarial losses	(67.6)	(60.9)
Deferred tax credit	18.9	18.7
Net actuarial losses	(48.7)	[42.2]
As at 31 December	(87.0)	(38.3)

History of experience gains and losses and retirement benefit obligations

	2009 £'m	2008 £'m	2007 £'m	2006 £'m	2005 £'m
Experience adjustments on scheme assets:					
Gain/(loss)	46.1	(115.0)	(8.7)	5.3	25.7
Percentage of scheme assets	9.1%	(25.4%)	(1.8%)	1.3%	7.4%
Experience adjustments on scheme liabilities:					
Gain/(loss)	3.0	(4.9)	22.1	(7.1)	(13.4)
Percentage of scheme liabilities	0.4%	(0.7%)	3.5%	(1.4%)	(3.0%)
Fair value of scheme assets	504.2	451.9	471.4	395.8	349.1
Present value of scheme liabilities	784.7	693.1	624.7	493.0	447.3
Scheme deficits	280.5	241.2	153.3	97.2	98.2

The estimated amounts of contributions expected to be paid to the schemes during 2010 is £33.8 million.

35. Contingent liabilities

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

continued

36. Share capital

		2009 £'m	2008 £'m
Ordinary shares of 5p each Authorised: 885.0 million shares (2008: 885.0 million)		44.3	44.3
	No. of shares 'm	Nominal value £'m	Net consideration £'m
Allotted and fully paid:			
At 1 January 2009	665.6	33.3	
Issued on exercise of executive share options	0.5	_	0.7
Issued on exercise of sharesave options	0.3	_	0.6
Scrip dividends	18.9	1.0	26.8
At 31 December 2009	685.3	34.3	

Share Options

	No. of ordinary shares	Option price	Exercise period	
Year of grant	under option	per share	From	То
i) Meggitt 1998 Sharesave Scheme				
2002	22,670	109.56p	01.01.10	30.06.10
2005	506,494	188.76p	01.06.10	30.11.10
2005	178,931	188.76p	01.06.12	30.11.12
2006	23,980	203.18p	01.12.09	31.05.10
2006	283,959	203.18p	01.12.11	31.05.12
2006	54,125	203.18p	01.12.13	31.05.14
ii) Meggitt 2008 Sharesave Scheme				
2008	960,191	171.40p	01.11.11	30.04.12
2008	664,630	171.40p	01.11.13	30.04.14
2008	101,185	171.40p	01.11.15	30.04.16
iii) Meggitt 1996 No 1 Executive Share Option Scheme				
2000	3,512	162.10p	14.12.03	13.12.10
2003	18,883	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
iv) Meggitt 1996 No 2 Executive Share Option Scheme				
2003	575,715	179.24p	02.10.06	01.10.10
2004	246,564	174.40p	01.04.07	31.03.11
2004	1,071,779	210.59p	06.10.07	05.10.11
v) Meggitt Executive Share Option Scheme 2005 Part A				
2005	467,389	278.65p	10.10.08	09.10.15
2006	102,282	263.67p	27.09.09	26.09.16
2006	11,141	269.23p	09.10.09	08.10.16
2007	76,071	299.00p	29.03.10	28.03.17
2007	10,152	295.50p	16.04.10	15.04.17
2008	112,387	252.50p	25.03.11	24.03.18
2008	10,695	280.50p	08.04.11	07.04.18
2008	14,705	204.00p	07.08.11	06.08.18
2009	76,416	169.50p	30.04.12	29.04.19
-				

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 2.9 years (2008: 6.4 years). As discussed in the Remuneration Report on page 40, during 2009 all options outstanding under Part B of the Meggitt Executive Share Option Scheme were converted into equity-settled share appreciation rights.

Share	Appreciation	Rights -	Equity-settled
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Share Appreciation Rights - Equity-settled	Indicative number of shares	Number of ordinary shares	Base price	Exercis	se period
Year of grant	to be released*	under award	per share	From	То
i) Meggitt Executive Share Option Scheme 2005 Part B					
2005	_	1,516,802	278.65p	10.10.08	09.10.15
2006	_	2,261,063	263.67p	27.09.09	26.09.16
2006	_	61,108	269.23p	09.10.09	08.10.16
2007	_	2,244,170	299.00p	29.03.10	28.03.17
2007	_	35,533	295.50p	16.04.10	15.04.17
2008	89,271	3,094,718	252.50p	25.03.11	24.03.18
2008	_	7,130	280.50p	08.04.11	07.04.18
2008	236,230	1,096,780	204.00p	07.08.11	06.08.18
2009	1,521,010	4,369,752	169.50p	30.04.12	29.04.19

^{*}Based on indicative share price of 260.00p, being the share price as at 31 December 2009.

All the above share appreciation rights which were granted for nil consideration, may in certain circumstances, be exercised earlier than the dates given. The average remaining contractual life of outstanding share appreciation rights is 7.9 years (2008: N/A).

continued

37. Share-based payment

The Group operates a number of share schemes for the benefit of its employees. The total expense recorded in the income statement for the year in respect of such schemes was £5.4 million (2008: £3.6 million). The nature of each scheme which has a significant impact on the expense recorded in the income statement is set out below.

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

Equity-settled

Share options are granted to certain senior executives at an option price equal to the market price of the shares on the date the grant is made. The options are generally 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. During 2009 all options granted under Part B of the schemes were converted to equity settled share appreciation rights (SAR's) whereby the executive on exercise is entitled to receive equity equivalent to the gain in value between the option price and the market price on the date of exercise. Awards under Part A of the schemes remain as options whereby the executive on exercise is entitled, on payment of the option price, to the number of shares under option.

An expense of £1.0 million (2008: £2.1 million) was recorded in the year. Movements in the number of outstanding awards and their related weighted average option prices are as follows:

	2009	2009	2008	2008
	Average	Number of	Average	Number of
	option	options	option	options
	price	outstanding	price	outstanding
	Pence	No. 'm	Pence	No. 'm
At 1 January	249.75	14.1	250.28	10.1
Granted	169.50	4.5	240.01	4.5
Lapsed	249.88	(0.5)	275.35	(0.1)
Exercised	138.07	(0.6)	149.55	(0.4)
At 31 December	232.91	17.5	249.75	14.1

The fair value of the awards made in the year were determined using the Black-Scholes option pricing model. The significant assumptions used in the model and the fair values determined were:

	2009 Award in April	2008	2008
		Award in	Award in
		August	March
Share price at date of grant (pence)	169.50	204.00	252.50
Option price (pence)	169.50	204.00	252.50
Vesting period (years)	3	3	3
Expected volatility	35%	27%	24%
Expected life of option (years)	5	5	5
Risk free rate	2.60%	4.40%	4.00%
Expected dividend yield	3.10%	2.60%	2.60%
Fair value at date of award (pence)	42.30	48.00	52.70

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

Under the terms of the Meggitt Executive Share Option Scheme 2005 the Group may grant cash-settled 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. A charge of £2.4 million (2008: Credit of £1.4 million) was recorded in the year. The Group has recorded a liability at the balance sheet date of £2.6 million (2008: £0.1 million). The total intrinsic value at the balance sheet date was £0.4 million (2008: £Nil).

Movements in the number of outstanding cash-settled SAR's and their related weighted average option prices are as follows:

	2009	2009	2008	2008
	Average	Number of	Average	Number of
	option	SAR's	option	SAR's
	price	outstanding	price	outstanding
	Pence	No. 'm	Pence	No. 'm
At 1 January	258.72	8.8	281.55	5.2
Granted	169.50	1.6	234.29	4.3
Lapsed	259.80	(1.2)	276.11	(0.7)
At 31 December	242.70	9.2	258.72	8.8

The fair value of each cash-settled SAR was determined at the grant date using the Black-Scholes model and reflects the same assumptions used for equity-settled awards as disclosed above. As a cash-settled award the fair value of outstanding SAR's is reassessed at each balance sheet date.

continued

37. Share-based payment continued

Meggitt Equity Participation Plan 2005

Under the Meggitt Equity Participation Plan 2005 an annual award of shares may be made to certain senior executives. For awards made in 2007 and earlier years 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. 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. Changes to the performance condition were made for the 2008 award. In line with what is now common market practice, 50% of the awards vesting are based on TSR performance and 50% on an earnings per share condition (EPS). The three year performance period for awards made in 2009 which are subject to the TSR performance condition was also amended to commence on the date of award.

An expense of £1.7 million (2008: £2.4 million) was recorded in the year. Movements in the number of outstanding shares that may potentially be released to employees are as follows:

200	2008
No.	f No. of
share	s shares
under awa	d under award
outstandir	g outstanding
1	n 'm
At 1 January 5.	7 5.5
Awarded 3.	3 2.5
Lapsed (1.	?) (1.1)
Released to employees	1) (1.0)
At 31 December 7.	5.9

The fair value of the award made in the year and which is subject to the EPS condition is the share price at the date of award of 193.90 pence (2008: 200.48 pence). The fair value of the award made in the year which is subject to the TSR peformance condition is measured using a Monte Carlo model. The significant assumptions used in the model and the fair values determined were:

	2007	2000
	Award in	Award in
	September	September
Share price at date of award (pence)	193.90	200.98
Vesting period (years)	3	3
Expected volatility	45%	30%
Expected life of award (years)	3	3
Risk free rate	2.50%	4.62%
Expected dividend yield	3.70%	2.96%
Fair value at date of award (pence)	117.90	120.80

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

38. Own shares

Own shares represented shares in the Company that were 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 pages 38 to 44. At 31 December 2009 the trust held no ordinary shares (2008: 25,453 shares).

continued

39. Contractual commitments

Capital commitments

	2009 £'m	2008 £'m
Contracted for but not incurred:		
Intangible assets	1.2	0.3
Property, plant & equipment	3.4	6.1
Total	4.6	6.4

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:

	2009	2008
	£'m	£'m
Not later than one year	11.6	11.8
Later than one year and not later than five years	29.7	36.6
Later than five years	17.5	20.5
Total	58.8	68.9

Other financial commitments

The Group enters into long-term arrangements with Aircraft and/or Original Equipment Manufacturers 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 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.

40. Cash inflow from operations

	2009 €'m	2008 £'m
Profit for the year	138.8	99.1
Adjustments for:		
Tax (see note 14)	42.0	20.2
Depreciation (see note 22)	29.5	26.6
Amortisation (see notes 20 and 21)	96.9	82.2
Loss on disposal of property, plant & equipment	0.1	0.5
Loss on disposal of intangible assets	0.1	0.4
Profit on disposal of subsidiaries	(0.1)	(1.9)
Finance income (see note 12)	(28.1)	(33.9)
Finance costs (see note 13)	80.1	87.0
Financial instruments (see note 10)	(36.6)	46.1
Retirement benefit obligation deficit payments	(21.8)	(22.5)
Share-based payment expense (see note 37)	5.4	3.6
Changes in working capital:		
Inventories	14.2	(9.6)
Trade and other receivables	40.0	(18.3)
Trade and other payables	(46.1)	12.1
Provisions	5.4	[12.7]
Cash inflow from operations	319.8	278.9

41. Major non-cash transactions

During the year Meggitt PLC issued 18.9 million shares worth £26.8 million in respect of scrip dividends (2008: 6.0 million shares worth £15.5 million).

continued

42. Business combinations

Total consideration paid in respect of acquisitions is as follows:

	2009	2008
	£'m	£'m
Businesses acquired in 2008	0.9	7.8
Businesses acquired in 2007	-	0.3
Businesses acquired in earlier years	0.1	1.1
Total consideration paid	1.0	9.2
Total goodwill arising in respect of acquisitions is as follows:		
3	2009	2008
	£'m	£'m
Businesses acquired in 2008	-	5.6
Total goodwill arising	-	5.6

43. Group companies

The following information is not a complete listing of all subsidiary companies at 31 December 2009 and relates only to those subsidiaries principally affecting the profits or assets of the Group.

United Kingdom

Dunlop Limited‡
Dunlop Aerospace (UK) Limited‡
Dunlop Aerospace Group Limited‡
Dunlop Aerospace Group Limited‡
Dunlop Aerospace Holdings Limited‡
Meggitt Aerospace Limited
Meggitt International Limited*‡
Meggitt (UK) Limited

Dunlop Aerospace Overseas Limited‡
Meggitt Defence Systems Limited
Meggitt Properties PLC*‡

Continental Europe

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

North America

Engineered Fabrics Corporation – USA Endevco Corporation - USA Keith Products LLP - USA Meggitt Aircraft Braking Systems Corporation - USA Meggitt Defense Systems, Inc – USA Meggitt GP Inc - USA‡ Meggitt Holdings (USA) Inc - USA‡ Meggitt Holdings (California) Inc - USA‡ Meggitt Safety Systems Inc - USA Meggitt Oregon, Inc - USA Meggitt Thermal Systems, Inc - USA Meggitt Training Systems Inc - USA Meggitt-USA, Inc - USA‡ Meggitt-USA Holdings LLC - USA ‡ Stewart Warner South Wind Corporation – USA NASCO Aircraft Brake Inc - USA Whittaker Controls Inc - USA Vibro-Meter Inc - USA Wilcoxon Research Inc - USA Whittaker Corporation - USA‡

Rest of World

Meggitt Aerospace Asia Pacific Pte Limited – Singapore Meggitt (Xiamen) Sensors & Controls Co Limited – China

- i) United Kingdom companies listed above 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 2009.
- iii) All companies are included in the consolidation.
- iv) Companies marked $\mbox{*}$ 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 32.

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 2009 which comprise the Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 34, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the group financial statements of Meggitt PLC for the year ended 31 December 2009.

Amstarth

John Maitland (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Reading

1 March 2010

Company balance sheet As at 31 December 2009

		2009	2008
	Notes	£'m	£'m
Fixed assets			
Tangible fixed assets	4	5.8	4.7
Derivative financial instruments	10	1.9	32.3
Investments	5	176.6	172.5
		184.3	209.5
Current assets			
Debtors	6	2,192.2	2,480.4
Derivative financial instruments	10	5.5	19.9
Cash at bank and in hand		25.1	26.8
		2,222.8	2,527.1
Creditors – amounts falling due within one year	7	(413.0)	(570.5
Derivative financial instruments	10	(20.3)	(27.4
Net current assets		1,789.5	1,929.2
Total assets less current liabilities		1,973.8	2,138.7
Creditors – amounts falling due after more than one year	8	(852.2)	[1,088.9]
Provision for liabilities and charges	9	(0.3)	(0.2)
Derivative financial instruments	10	(24.5)	[72.2]
Net assets		1,096.8	977.4
Capital and reserves			
Called up share capital	13	34.3	33.3
Share premium account	15	825.9	798.8
Other reserves	15	17.5	17.5
Profit and loss reserve	14	219.1	127.8
Total shareholders' funds	15	1,096.8	977.4

The financial statements were approved by the Board of Directors on 1 March 2010 and signed on its behalf by:

T Twigger Director

S G Young Director

1. Basis of preparation

These financial statements have been prepared under the historical cost accounting convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value, in accordance with the Companies Act 2006. 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 612 merger relief has been taken and investments are stated at the nominal value of the shares issued in consideration.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is not provided on freehold land. On other assets it is provided on cost 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
Plant and equipment	3 to 7 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 period 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 hedges in which case the exchange differences are recognised in equity.

Pension scheme arrangements

During the period the three defined benefit schemes operated by the Company were merged into a single scheme, the Meggitt Pension Plan. As the Company is unable to identify its share of the underlying assets and liabilities of the three schemes prior to the merger or, post merger, the Meggitt Pension Plan on a consistent and reasonable basis the Company accounts for all schemes as though they were defined contribution schemes. Accordingly the amount charged to the profit and loss account is the contribution payable in the period. 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 schemes the fair value of an award is measured at the date of grant and reflects any market-based vesting conditions. Non market-based vesting conditions are excluded from the fair value of the award. At the date of grant the Company estimates the number of awards expected to vest as a result of non market-based vesting conditions and the fair value of this estimated number of awards is recognised as an expense in the profit and loss account on a straightline basis over the period for which services are received. At each balance sheet date the Company revises its estimate of the number of awards expected to vest as a result of non market-based vesting conditions and adjusts the amount recognised cumulatively in the profit and loss account to reflect the revised estimate. 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 shareholders' funds.

2. Summary of significant accounting policies continued

Derivative financial instruments and hedging

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

Fair value hedges

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

Cash flow hedges

Cash flow hedges are hedges of highly probable forecast transactions. Interest rate swaps that change variable rate interest to fixed rate interest are an example of an instrument that would be treated as a cash flow hedge assuming it meets the hedge criteria. Changes in the fair value of the effective portion of derivative financial instruments that are designated as cash flow hedges are initially recorded in a separate reserve within equity. To the extent that changes in fair value are recorded in equity they are recycled to the profit and loss account in the periods in which the hedged item affects the profit and loss account. However, when the transaction to which the hedge relates results in the recognition of a non-monetary asset 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.

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 408 of the Companies Act 2006 allowing it not to publish a separate profit and loss account and related notes (see Meggitt PLC Group accounts note 15). The Company has also taken advantage of the legal dispensation contained in Section 408 of the Companies Act 2006 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.

continued

5. I	2009	2008
	£'m	£'m
Employee costs during the year including executive directors:		
Wages and salaries	8.4	8.8
Social security costs	1.3	1.2
Other pension costs	1.0	0.7
Share-based payment (see note 15)	1.2	1.9
Total	11.9	12.6
Details of the Group's employee share schemes are included in note 37 of the Meggitt PLC Group accounts.		
· · · · · · · · · · · · · · · · · · ·	2009	2008
	No.	No.
Average monthly number of persons employed including executive directors:		
Administration	50	42
Total	50	42

4. Tangible fixed assets

4. langible fixed assets		Plant,	
	Land and	equipment	
	buildings £'m	and vehicles £'m	Total £'m
Cost at 1 January 2009	0.8	5.4	6.2
Additions	-	1.9	1.9
Cost at 31 December 2009	0.8	7.3	8.1
Accumulated depreciation at 1 January 2009	0.3	1.2	1.5
Charge for year	-	0.8	0.8
Accumulated depreciation at 31 December 2009	0.3	2.0	2.3
Net book amount at 31 December 2009	0.5	5.3	5.8
Net book amount at 31 December 2008	0.5	4.2	4.7
		2009 £'m	2008 £'m
Net book amount of land and buildings:			
Freehold		0.1	0.1
Short leasehold		0.4	0.4
Total		0.5	0.5
5. Investments			
		2009 £'m	2008 £'m
Shares in subsidiaries:			
At 1 January		172.5	171.2
Additions – capital contribution arising from share-based payments (see note 15) Provision for impairment in value		4.1 -	1.7 (0.4
At 31 December		176.6	172.5

A list of principal subsidiaries is included in note 43 of the Meggitt PLC Group accounts.

continued

6. Debtors

	2009	2008
	£'m	£'m
Amounts owed by Group undertakings	2,185.4	2,469.3
Other debtors	0.2	-
Prepayments and accrued income	1.0	0.5
Deferred tax assets	5.6	10.6
Total	2,192.2	2,480.4

 $Deferred \ tax\ assets\ include\ £5.3\ million\ (2008:\ £10.6\ million)\ due\ after\ one\ year.\ All\ other\ debtors\ fall\ due\ within\ 1\ year.$

7. Creditors – amounts falling due within one year

	2009	2008
	£'m	£'m
Bank loans and overdrafts	0.3	3.4
Other loans	0.5	0.5
Trade creditors	1.5	1.4
Amounts owed to Group undertakings	387.3	551.8
UK corporation tax payable	16.4	5.4
Taxation and social security	1.1	1.0
Other creditors	0.6	1.9
Accruals	5.3	5.1
Total	413.0	570.5

8. Creditors - amounts falling due after more than one year

	2009	2008
	£'m	£'m
Bank loans	696.5	918.1
Other loans	155.7	170.8
Total	852.2	1,088.9
	2009	2008
	£'m	£'m
Analysis of bank loans and overdrafts repayable:		
In one year or less	0.3	3.4
In more than two years but not more than five years	696.5	918.1
Total	696.8	921.5
	2009	2008
	£'m	£'m
Analysis of other loans repayable:		
In one year or less	0.5	0.5
In more than two years but not more than five years	112.4	122.3
In more than five years	43.3	48.5
Total	156.2	171.3

9. Provisions for liabilities and charges

	2009 £'m	2008 £'m
Onerous lease costs	0.3	0.2
Total	0.3	0.2

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 five years.

continued

10. Derivative financial instruments

	2009	2009	2008	2008
	Assets	Liabilities	Assets	Liabilities
	£'m	£'m	£'m	£'m
Interest rate swaps	-	(29.4)	-	(47.4)
Foreign currency forward contracts	7.4	(15.4)	52.2	(52.2)
Total	7.4	(44.8)	52.2	(99.6)
Less non-current portion:				
Interest rate swaps	-	(16.0)	-	(39.9)
Foreign currency forward contracts	1.9	(8.5)	32.3	(32.3)
Non-current portion	1.9	(24.5)	32.3	(72.2)
Current portion	5.5	(20.3)	19.9	(27.4)

The Company is exempt from the FRS 29 disclosures as the consolidated financial statements of Meggitt PLC give the disclosures required by IFRS 7 (see Meggitt PLC Group accounts notes 30 and 31).

11. Pensions

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

12. Commitments

Capital commitments

	2009 £'m	2008 £'m
Contracted for but not incurred:		
Intangible assets	1.1	-
Property, plant & equipment	-	0.1
Total	1.1	0.1

Operating lease commitments

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

	2009	2008
	£'m	£'m
Not later than one year	0.2	0.1
Later than one year and not later than five years	0.7	0.5
Later than five years	1.0	1.2
Total	1.9	1.8

13. Share capital

	£'m	£'m
Ordinary shares of 5p each		
Authorised: 885.0 million shares (2008: 885.0 million)	44.3	44.3

	Number of shares No. 'm	Nominal value £'m	Net consideration £'m
Allotted and fully paid:	NO. M	Ł M	£ m
	//5 /	00.0	
Balance at 1 January 2009	665.6	33.3	
Issued on exercise of executive share options	0.5	-	0.7
Issued on exercise of sharesave options	0.3	-	0.6
Scrip dividends	18.9	1.0	26.8
Balance at 31 December 2009	685.3	34.3	

14. Profit and loss reserve

	£'m
Balance at 1 January 2009	127.8
Profit for the financial year	132.0
Dividends	(56.6)
Cash flow hedge movements	7.7
Currency translation differences	2.9
Employee share option schemes:	
Value of subsidiary employee services (see note 5)	4.1
Value of services provided (see note 3)	1.2
Balance at 31 December 2009	219.1

15. Reconciliation of movement in shareholders funds

	Share capital £'m	Share premium £'m	Other reserves £'m	Profit and loss reserve £'m	Total 2009 £'m	Total 2008 £'m
Balance at 1 January 2009	33.3	798.8	17.5	127.8	977.4	932.3
Profit for the financial year	-	-	-	132.0	132.0	104.6
Dividends	-	_	_	(56.6)	(56.6)	(55.8)
Cash flow hedge movements	-	-	-	7.7	7.7	(13.3)
Currency translation differences	-	-	-	2.9	2.9	(10.3)
Employee share option schemes:						
Value of subsidiary employee services (see note 5)	-	_	_	4.1	4.1	1.7
Value of services provided (see note 3)	-	_	_	1.2	1.2	1.9
Own shares purchased	-	-	-	-	-	(1.3)
Issued on exercise of sharesave and executive share options	0.1	1.2	_	_	1.3	2.1
Scrip dividends	0.9	25.9	_	_	26.8	15.5
Balance at 31 December 2009	34.3	825.9	17.5	219.1	1,096.8	977.4

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

Five-year record

	2009	2008	2007	2006	2005
	£'m	£'m	£'m	£'m	£'m
Revenue and profit					
Revenue	1,150.5	1,162.6	878.2	670.3	616.3
Underlying profit before tax	234.2	243.3	179.0	132.7	116.3
Exceptional operating items	(20.8)	(15.8)	(5.4)	(1.5)	(7.0)
Amortisation of intangibles acquired in business combinations	(69.2)	(61.8)	(38.4)	(12.9)	(11.2)
Disposal of inventory revalued in business combinations	-	(0.3)	(21.3)	(1.3)	(0.9)
Financial instruments	36.6	(46.1)	(5.3)	12.1	(10.1)
Goodwill adjustment arising from recognition of tax losses	_	-	(3.2)	(2.4)	-
Profit before tax	180.8	119.3	105.4	126.7	87.1
Earnings and dividends					
Earnings per share – basic	20.5p	15.0p	14.6p	18.6p	13.0p
Earnings per share – underlying	25.3p	26.5p	22.1p	19.1p	17.1p
Dividends per ordinary share (paid or proposed in respect of the year)	8.45p	8.45p	8.20p	7.36p	6.59p
Gearing ratio					
Year end net cash/borrowings as a percentage of capital employed	63.5%	81.5%	76.7%	63.0%	63.3%

Profit figures have been restated for the effects of finalising the fair values of acquired businesses in subsequent financial periods. Comparative data for earnings and dividends for 2005 and 2006 has been adjusted for the bonus element of the rights issue approved by shareholders in 2007.

Investor Information

Dividends

The proposed 2009 final dividend of 5.75p per share, if approved, will be paid on 7 May 2010 to shareholders on the register on 12 March 2010. The expected payment date for the 2010 interim dividend is 1 October 2010.

Shareholder enquiries

Enquiries about the following administrative matters should be addressed to Meggitt PLC's registrar:

- Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS99 6ZZ
- Lost share certificates

Company's share price.

• Dividend payment enquiries

· Change of address notification

- · 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 can check their shareholdings via the internet at www.computershare.com. Shareholders will need their Shareholder Reference Number (SRN) for site registration, which can be found on their share certificate or recent dividend tax voucher. The website includes information on recent trends in the

T: 0870 703 6210

E: www.investorcentre.co.uk/contactus

Electronic communications and electronic proxy voting

Meggitt encourages shareholders to vote at the Annual General Meeting and provides a facility for electronic proxy voting. Shareholders who are not Crest members can vote online on resolutions to be proposed at the Annual General Meeting via our website after voting has opened. Proxy cards contain further details on how and when to vote and further information for Crest members.

We provide annual reports and other documents to shareholders in their elected format under the 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 contains provisions that allow companies to communicate with shareholders electronically unless they elect to continue to receive paper documents. The Board also wishes to protect the environment by reducing the volume of documents produced. Electronic copies of the Annual Report and Accounts 2009 and the Notice of Annual General Meeting will be posted on our website where Meggitt PLC's announcements to the Stock Exchange and press releases are also published.

Share dealing services

8.00am - 4.30pm Monday - Friday

T: 0870 703 0084

We have established share dealing services with the Group's registrar, Computershare Investor Services PLC, which provides 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 0.5%, subject to a minimum charge of £15. Stamp duty, currently 0.5%, is payable on purchases. There is no need to open an account to deal. Real-time dealing is available during market hours. There is a facility to place orders outside market hours. Up to 90-day limit orders are available for sales. To access the service, shareholders should have their SRN to hand and log onto www.computershare.com/dealing/uk. A bank debit card will be required for purchases.

The telephone share dealing service commission is 1%, subject to a minimum charge of £25. Stamp duty, currently 0.5%, is payable on purchases. The service is available from 8 a.m. to 4.30 p.m. Monday to Friday, excluding bank holidays, on telephone number 0870 703 0084. Shareholders should have their SRN ready when making the call. 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 shareholders receiving less than they originally invested.

Insofar 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 providing such a service would be contrary to local laws or regulations, this should be treated as information only.

ShareGift

17 Carlton House Terrace London SW1Y 5AH

T: 0207 930 3737

ShareGift (registered charity number 1052686), the independent share donation charity, 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 registered charities. Further details about ShareGift can be obtained from its website at www.ShareGift.org.

Analysis of ordinary shareholders as at 31 December 2009

	Number of shareholders	% of total shares
Size of holdings		
1-999	5,767	0.21
1,000-9,999	3,014	1.40
10,000-99,999	486	1.96
100,000-249,999	118	2.76
250,000-499,999	71	3.81
500,000-999,999	45	4.63
1,000,000 and over	117	85.23
	9,618	100.00

	Number of shareholders	% of total shares
Types of shareholder		
Individuals	8,096	2.49
Banks and nominees	1,404	94.96
Investment and insurance companies	35	0.15
Other	83	2.4
	9,618	100.00

2010 provisional financial calendar

Preliminary	announcement	for year
anded 21 De	combor 2000	

2 March ended 31 December 2009 Final dividend ex-dividend date 10 March Final dividend record date 12 March Report and accounts for year ended 31 December 2009 published 23 March Deadline for receipt of scrip dividend elections 20 April 21 April AGM & interim management statement Final dividend for year ended 31 December 2009 – payment date 7 May Interim announcement for period ended 30 June 2010 3 August

Interim dividend ex-dividend date 11 August Interim dividend record date 13 August Deadline for receipt of scrip dividend elections 17 September Interim dividend for period ended

30 June 2010 – payment date 1 October Interim management statement 29 October

Key dates



APRIL AGM & interim management statement



OCTOBER Interim management statement

Advisors

Registrars

Computershare Investor Services PLC

Principal clearing bankers

HSBC Bank plc Barclays Bank PLC Bank of America

Merchant bankers

N M Rothschild & Sons Limited

Auditors

PricewaterhouseCoopers LLP

Solicitors

Clifford Chance LLP

Bank of America Merrill Lynch

Contact us

Investor Relations:

T: 01202 597 597

investors@meggitt.com

Information on Meggitt PLC, including the latest share price, is available via the internet at:

www.meggitt.com

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Company information

Meggitt PLC Atlantic House Aviation Park West Bournemouth International Airport Christchurch Dorset BH23 6EW United Kingdom

Registered in England and Wales Company number 432989 T +44 (0) 1202 597 597 F +44 (0) 1202 597 555

www.meggitt.com