ANNUAL REPORT AND ACCOUNTS | 2010

MEGGITT

smart engineering for
extreme environments

Contents

The Meggitt PLC annual report and accounts 2010 can be downloaded from www.meggitt.com

A new chapter

In 2010, after more than 150 years of delivering *smart engineering for extreme environments*, we ushered in a new chapter in Meggitt's history.

We engaged in one of the most significant reorganisations we have ever undertaken.

Each of the distinguished companies that make up the group is now becoming a dedicated manufacturing facility, managed under five Meggitt divisions focusing on common technologies and key markets.

At the same time, we launched a radical overhaul of our business processes, standardising our approach across the group.

Together, these initiatives will provide customers with a common experience of Meggitt that enables them to do business with us more easily.

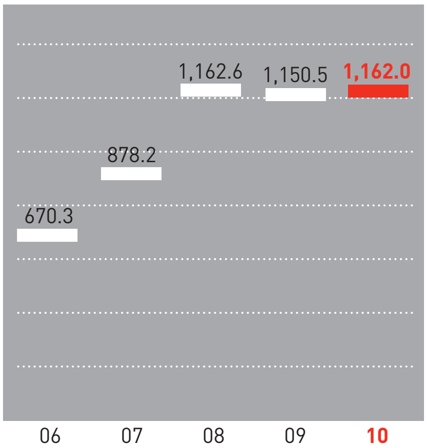
We are equipped as never before to succeed in our fiercely competitive and increasingly dynamic global markets, ensuring that many more chapters will be written in Meggitt's history of engineering excellence.

Financial highlights

In a challenging year, the group achieved underlying profit before tax growth of 9% and we anticipate further growth in 2011 and beyond, enhanced by the proposed acquisition of Pacific Scientific Aerospace (PSA), which is subject to normal completion requirements. We also delivered a second consecutive year of record net cash generation, underlining the robustness of Meggitt's business.

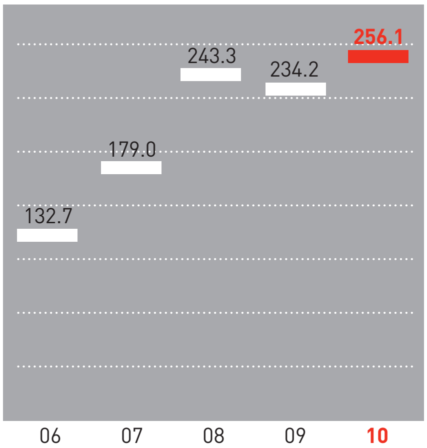
Revenue (£ millions)

1,162.0



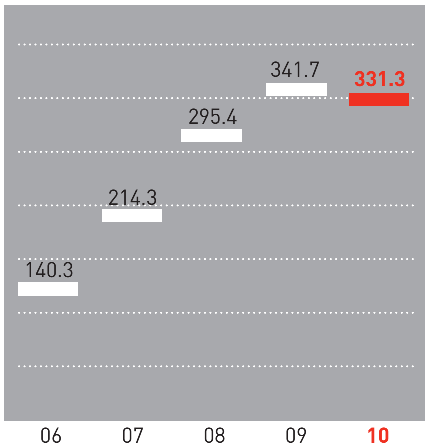
Underlying profit before tax (£ millions)

256.1



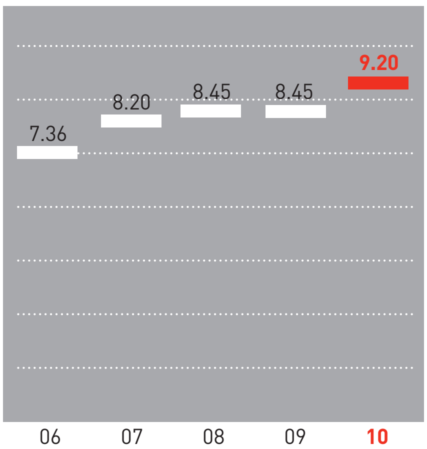
Cash inflow from operations before exceptional operating items (£ millions)

331.3



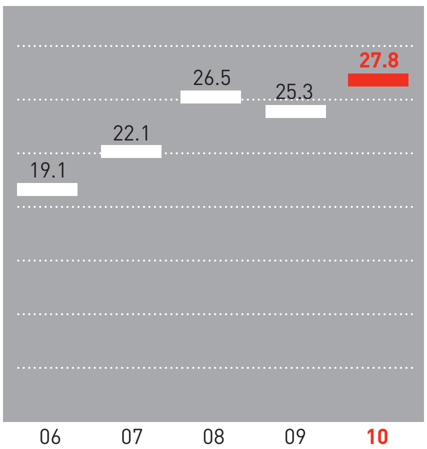
Dividends per share (pence)[1]

9.20



Underlying earnings per share (pence)[1]

27.8



The definition of "underlying" is provided in notes 10 and 16 to the financial statements on pages 71 and 73 respectively.

[1] Comparative data for 2006 has been adjusted for the bonus element of the rights issue approved by shareholders in 2007.

Group overview

Meggitt PLC, headquartered in the United Kingdom, is an international group employing about 7,400 people worldwide. We specialise in high performance components and sub-systems 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.

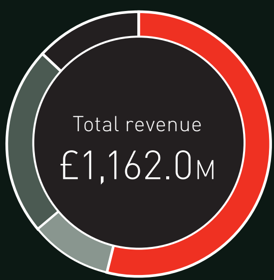
Our consistent record of strong financial performance comes from businesses balanced across markets. We offset variation in demand, balancing exposure to civil with military and energy markets; and sales to original equipment manufacturers with sales of aftermarket products and services. We have product 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.

Global footprint

Percentage of employees by region

North America	4,081	**55%**
UK	1,963	**27%**
Mainland Europe	1,063	**14%**
Rest of World	263	**4%**

Percentage of group revenue by destination



North America	£631.2M	**54%**
UK	£117.9M	**10%**
Mainland Europe	£261.2M	**23%**
Rest of world	£151.7M	**13%**

Meggitt divisions

Meggitt Aircraft Braking Systems
is the number one producer of wheels, brakes and brake control systems for regional and business jets and fixed and rotary wing military aircraft, with products on an active fleet of over 30,000 aircraft. Its capabilities include control and monitoring sub-systems.

READ MORE p10

Meggitt Control Systems
is a leading supplier of aerospace valves, heat exchangers, environmental control systems, high performance electro-mechanical fans, motors, compressors, controllers and specialist pumps, industrial fuel and bleed air control valves and ground fuelling products.

READ MORE p12

Meggitt Polymers & Composites
excels in the design and development of aircraft seals, flexible fuel tanks and coatings, complex composite structures, smart ice protection systems and sub-assemblies and interior panels and accessories.

READ MORE p14

Meggitt Sensing Systems
excels in high performance sensing and monitoring systems for applications in aerospace, energy, industrial and laboratory test.

READ MORE p16

Meggitt Equipment Group
was created to enable a set of strong, yet technologically-distinct businesses market their offerings to specialist customers and yet benefit from the wider Meggitt group's investment in shared services and common processes. Its capabilities include training systems (live and virtual fire) and combat support (ammunition-handling, military electronics cooling and countermeasure launch and recovery systems), avionics, automotive and industrial control electronics, unique heat transfer equipment for hydrocarbon processing and aircraft fire protection systems.

READ MORE p18

Chairman's statement

Sir Colin Terry
Chairman

May I take this opportunity to thank all Meggitt employees for another outstanding year of hard work in a tough economic environment.

The first half of 2010 marked the end of a significant downturn in civil aerospace markets, whilst the second half saw a strong recovery, with a 19% increase in total orders and a 9% increase in total revenues compared to 2009's second half.

Our order book grew by 8%, with orders for 2011 delivery up 12%. Revenues rose by 1% to £1,162.0 million and underlying earnings per share were up 10% to 27.8 pence. With record net cash generation of £137.1 million (2009: £126.0 million), net debt reduced by 11% to £721.4 million (2009: £808.6 million). As a result, the Board is proposing an increase to the full-year dividend of 9% to 9.20 pence.

Transforming our business

The year saw significant progress in our transformation programme. We strengthened the business by implementing a new divisional structure and concentrated key resources such as engineering and sales and marketing teams at a divisional level to improve customer responsiveness; embedded common processes and systems across the group; invested in new technologies and drove through operational excellence. We exceeded our original savings target of £50 million per annum by the end of 2010 and have increased the target to £57 million by the end of 2011.

Investing for growth

Cutting-edge technology investment continues to add capabilities to our offering. We continued to spend in excess of 7% of revenues on R&D. We invested £28.4 million (2009: £23.9 million) in supplying equipment free of charge to new aircraft and in making programme participation contributions, mostly in the braking systems business, securing future aftermarket revenues. Capital expenditure on property, plant and equipment and other intangible assets increased to £27.7 million (2009: £25.6 million), including investment in a group-wide ERP system.

Growing by acquisition

The proposed purchase of Pacific Scientific Aerospace (PSA), which is subject to normal completion requirements, is a further step in the development of the group's products. PSA is a leading supplier of fire suppression, electric power, electric actuation, sensing and security products and will be highly complementary to Meggitt's existing businesses.

Board of directors

After nearly 15 years' inspired service, Sir Alan Cox retired from the Board in February. Sir Alan has provided robust challenge and outstanding support for the executive team in equal measure and his sense of humour and team spirit contributed to the cohesiveness of the Board. Whilst greatly missed he will continue to make an important contribution as chairman of our UK pension plan trustees.

We welcome Paul Heiden who joined the Board in June last year. A chartered accountant, Paul was Chief Executive of FKI Plc from 2003 to 2008. He is Chairman of Talaris Topco Limited and a non-executive director of UU Plc and the London Stock Exchange Group plc.

Our people

May I take this opportunity to thank all Meggitt employees for another outstanding year of hard work in a tough economic environment. They always rise to the challenge and this year was no different, with many having dual roles combining transformation activity with business as usual. We are highly indebted to them.

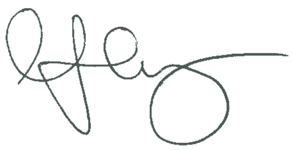
Group outlook

Our energy market is expected to be a source of healthy growth as our heat exchanger sales recover and sales to power generation customers continue to grow on the back of new product launches and our expanded global network.

Delays in approving the US Department of Defence's 2011 budget are likely to have an impact on new military programme awards but should have little effect on existing delivery contracts and the regular aftermarket demand at the heart of our military revenues.

The outlook for our civil markets continues to improve. Production of large jets is likely to remain strong in 2011 and air traffic growth is expected to continue to grow on the back of the recovery in 2010.

We look forward to further good progress in 2011.



Group strategy

Terry Twigger
Chief Executive

Today, boosted by transformation, we are stronger and fitter than ever. In the short-term we should benefit from the strong upturn in our civil aerospace and energy markets which began in the last half of 2010. In the longer-term, we are well-positioned to succeed in highly competitive global markets, with organic growth prospects of between 6 and 7%.

Meggitt aims to deliver superior returns to shareholders through *smart engineering for extreme environments* - high performance, highly reliable products that meet the demands of critical applications in aerospace, defence and energy. Our highly successful business model delivers fundamental strength and stability throughout the economic cycle.

Strategy

We win positions on new platforms, preferably as sole-source suppliers in markets where our products must operate without fail in harsh environments and certification requirements are demanding. This delivers aftermarket revenue streams for up to 40 years.

Our portfolio balances revenues from original equipment manufacturers with the aftermarket, civil with military business and growing interests in the energy sector.

We fund innovation aligned with our customers' technology roadmaps and acquire companies to extend capabilities and fast-track product and market development.

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

We strive for excellence across all functions, at all levels. We maintain a high performance culture, based on meeting customer needs, financial rigour, ethical practice and customised training.

Equipped for the upturn

The tremendous efforts of our employees over the last eighteen months of transformation have positioned us to meet the rise in demand which began in the last half of 2010.

We responded swiftly to the downturn, cutting costs and positioning ourselves for growth. Our results demonstrate the robustness of our business model. Our transformation programme is integrating a set of strong, individual businesses into five new divisions. Marketing and engineering are coordinated across divisions and we are sharing services in IT, human resources and finance, assisted by the implementation of a group-wide ERP system. All processes are being standardised, defining a Meggitt way of doing things - efficient, lean and integrated. In 2011, these processes will be handed over to the divisions to become embedded in the thinking and practice of every function at every division.

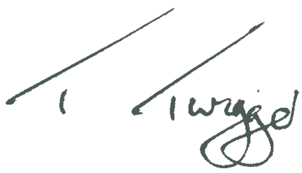
Our cost-reduction programme, which comprised three main elements - transformation, global procurement and the K&F integration - comfortably exceeded targets and enabled us to continue investing in our business: we boosted our international sales network with our new Shanghai office; our low-cost facilities in Singapore, China and Mexico increased in capacity and capability; we maintained R&D at 7% of revenue; and, we continued to invest in proprietary technologies including turbine tip clearance measurement to help reduce fuel burn, highly reliable, state-of-the-art smoke detection with particle discrimination, low maintenance, self-diagnostic digital fluid gauging, energy-saving electro-thermal ice protection and tyre pressure monitoring.

Another significant acquisition

Meggitt aims to achieve an even mix of organic growth, building on existing capabilities and markets and growth by acquisition. In January 2011, we proposed the acquisition of Pacific Scientific Aerospace (PSA). Subject to normal completion requirements, PSA will enable us to offer a complete fire protection system to aerospace customers. Its capability in electrical power generation and management complements Meggitt's motor control technology, significantly strengthening our ability to offer aircraft more electric systems. PSA's factories in Mexico and Vietnam enhance Meggitt's existing low-cost manufacturing footprint.

Actively growing our business

Today, boosted by transformation, we are stronger, leaner and fitter than ever. In the short-term, we are poised to meet the upturn evidenced in the last half of 2010. In the long-term, we are well-positioned to succeed in fiercely competitive global markets with organic growth prospects of between 6 and 7%.



Strategy implementation

1. Innovation

Focus

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

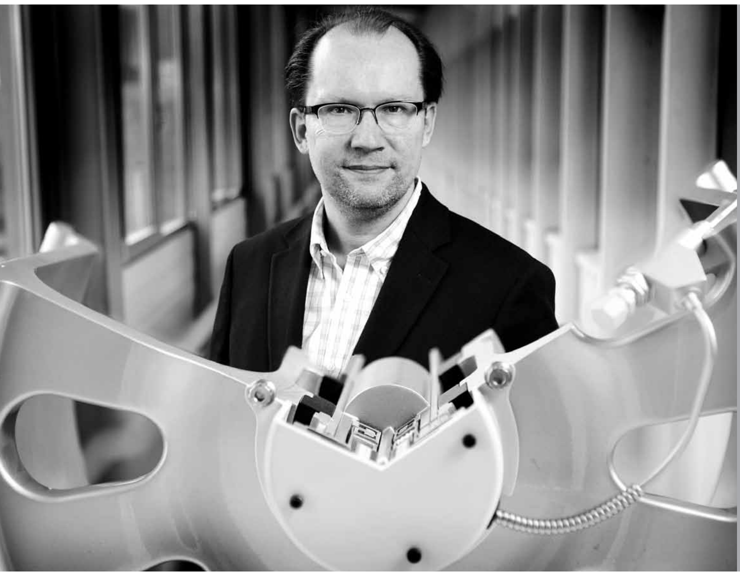
Our approach

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

Achievements

Meggitt's technology investments continue apace.

- Meggitt Sensing Systems continues to pioneer turbine tip clearance technology in response to the identification by every aircraft engine manufacturer of rotor blade measurement and monitoring as critical to reducing greenhouse gas emissions and fuel consumption.
- Meggitt Sensing Systems continues to advance next generation aircraft digital fluid gauging. Accurate, reliable and easy to calibrate, Meggitt's smart fuel probes come with built-in test and self-diagnostic features that reduce trouble-shooting time and maintenance costs and boost dispatchability dramatically.
- Meggitt Aircraft Braking Systems continues to leverage its expertise in total braking system integration and was selected by a major business jet manufacturer for brake, landing gear, nose wheel steering and hydraulic control and monitoring. The division joined forces with Meggitt Sensing Systems to move our health management expertise beyond aero-engine programmes to landing systems with a new tyre pressure monitoring system. Bombardier selected it for the CSeries family of 110 to 130-seat jetliners. Both developments grew the scope of our work within Air Transport Association Chapter 32 to include nose wheel steering and aircraft landing gear control.
- Meggitt Aircraft Braking Systems signed a memorandum of understanding with Irkut Corporation to develop the entire digital brake-by-wire braking system for all variants of its new commercial aircraft programme, the MS21, representing an exceptional opportunity to expand the group's presence in the Russian market and add to our portfolio of commercial programmes.
- Meggitt Polymers & Composites continues to work with a major North American aircraft manufacturer on next generation electro-thermal ice protection systems based on energy-saving proportional control.
- Boeing approved the production of Meggitt Polymers & Composites' new lightweight seal material in our Chinese facility (approvals are in process with Airbus and Rolls-Royce) and we won a contract from Eurocopter to supply lightweight, high performance door seals for the Airbus A350.
- Meggitt Safety Systems has developed state-of-the-art smoke detection with a particle discrimination capability that will significantly improve the safety and reliability of aircraft cargo smoke detection systems.
- Meggitt Safety Systems was selected by EADS Military Air Systems to supply fire and overheat detectors for the ATLANTE long-endurance unmanned aerial vehicle (UAV) for intelligence, surveillance, target acquisition and reconnaissance missions. UAVs are a critical element of maritime and terrestrial surveillance worldwide and this development represents a very promising marketing opportunity for the group's virtually indestructible detectors.
- The proposed acquisition of Pacific Scientific Aerospace, which is subject to normal completion requirements, will enable Meggitt Safety Systems to provide aircraft fire detection and suppression in a single package. Its capability in electrical power generation, storage, conversion, distribution and interconnect and management systems



Delivering organic growth

Dr Peter Kupferschmied
Vice President, Engineering
Meggitt Sensing Systems

Our new tyre pressure monitoring system not only enhances safety, it unleashes significant potential to cut the cost of ownership by optimising tyre condition, keeping it at the right pressure to minimise wear and tear and avoid unscheduled maintenance.

For Meggitt, it is a transformation triumph in which we combined the experience and market positions of two Meggitt divisions into a brand-new product offering, expanding our level of integration and scope of work within aircraft landing gear – in line with our fully integrated vehicle health management vision.

will strengthen the Meggitt group's offer to future aircraft and military ground vehicles moving from hydraulic and pneumatic technology towards more electric power.

- Meggitt Avionics' third generation solid-state secondary display, designed to meet the requirements of any modern aircraft avionics architecture, was fully certified on both sides of the Atlantic and enabled several key programmes to move forward. iSFD has already been selected by seven customers, a mix of military and commercial programmes which included the Boeing Apache, HondaJet, LearJet 85 and the Korean medium-weight utility helicopter, KAI Surion.
- Meggitt Training Systems installed the training industry's first wireless, indoor 360-degree turning target retrieval system in a US shooting range. It continued to work with the Singapore Police Coast Guard on enhancements to its world-class simulator training centre.
- Meggitt Training Systems Canada conducted the world's first large-scale 'swarmex' demonstration, the simulation of a real-world threat of swarming fast in-shore attack craft (FIACs). The Canadian Navy has now asked Meggitt to support a major multi-national live-fire naval exercise using the system in 2011.
- Meggitt Defence Systems won multiple development programmes with the potential for lengthy production including electronic cooling solutions for the P-8 Poseidon, ammunition-handling systems for the UK Scout programme, Doppler radar scoring system for the QF-16 aerial target and state-of-the-art airborne countermeasure programmes.
- Meggitt Sensing Systems' monitoring equipment for critical machinery is now on three of the world's largest hydro, nuclear and gas powered turbines.
- Meggitt Control Systems (MCS) has expanded its strategic focus in the industrial gas turbine market to include heavy-duty frame engines for the power generation market. MCS is developing a range of larger control valves for original equipment and retrofit. This new product range will provide the same precision control for fuel and bleed air as we have demonstrated on smaller aero-derivative turbines.
- Heatric, the manufacturer of compact, high-duty printed circuit heat exchangers, is working with a number of developers in supercritical CO_2 liquid high-pressure systems within the power generation and heat recovery sectors. Our first sale of a demonstrator for this application operated successfully in 2010.

2. Achieve operational excellence

Focus

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

Our approach

We continue to integrate our businesses, accelerated through our transformation initiative, resulting in five capability-based divisions. 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 optimise further Meggitt's ability to meet our customers' cost, quality and delivery targets.

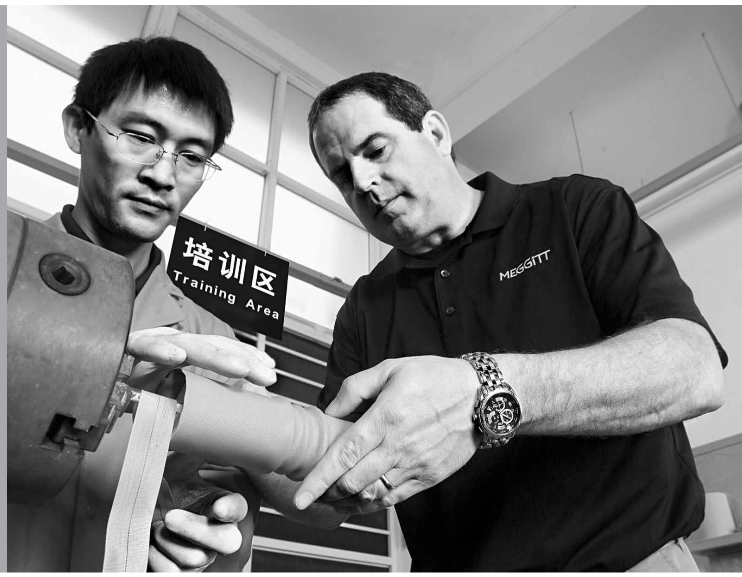
Achievements

- Our transformation programme delivered savings of £54 million in 2010, ahead of target.
- We completed the K&F integration with synergy savings beating the original target of £16 million by £6 million.
- Our global procurement team followed a solid analytical approach to our supply chain, delivering significant savings (around £15 million in 2010), sharpening processes and strengthening our local teams.
- An ERP system (SAP) has gone live at seven sites based on a Meggitt global template.

Low-cost options for customers on critical programmes

Andrew Smith
Director, Engineering Projects
Meggitt Polymers & Composites

With selective product transfer into our polymers factory in China, customers are getting increased capacity, lower cost and more options for critical programmes. The difference between success and failure is not just about the fact we can capitalise our factory for a fraction of the price we can in Europe. It is also about recognising our people are craftsmen, not assemblers. They are not putting bolts on bumpers – making a rubber seal is like sculpting a maquette. We engage in rigorous training programmes, minimising turnover, building experience and creating a workforce with initiative. And we have changed our employees' sense of who we are. They see the investment and know we respect them.



Strategy implementation

2. Achieve operational excellence continued

Achievements continued

- We are rolling out the engineering project management processes needed to standardise and improve the way we engineer our products and address the fundamentals of Meggitt's 'smart engineering'.
- We have streamlined all engineering outsourcing activity and created an off-shore development centre in India comprising nearly 100 engineers. We plan to double this resource by 2012.
- After building up our employee skill base and gaining key customer approvals, we significantly increased the output of our polymers lines in our Chinese factory. This has led to further product transfers and the opportunity to bid on additional low-cost programmes.
- Our new facility in Querétaro, Mexico has started production, machining commercial wheel and structural brake components with increasing effectiveness. Additional processes that extend the value stream for this product line are coming on line in 2011. Our other plant in Mexico (Fresnillo) is also taking on a larger scope of work.
- Our Singapore maintenance facility expanded its support for Meggitt products across Asia Pacific, exceeding sales targets in 2010. After successfully embedding the heat exchanger facility in 2009, 2010 saw the distribution of fire detection equipment and agreement to implement a maintenance, repair and overhaul cell for hydraulic valves for the power generation sector.
- Shared human resource services are running in the UK and the Americas with new tools to improve service levels. Shared information technology services, which were launched in Southern California, expanded into the UK and are now being rolled out worldwide. Finance is working to establish shared service centres in the UK and the US which will follow the implementation of SAP.
- 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.

3. Satisfy our customers

Focus

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

Our approach

We aim to give customers what they need, 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 customer technology roadmaps, making procurement for customers easier and adding value with more integrated sub-systems and larger packages.

Achievements

- During transformation, we restructured our capabilities into five divisions focused on customer and market demand, simplified access to key contacts within divisions and expanded our key customer relationship management team at group level.
- We are ensuring Meggitt thinking meets customer thinking. We have renewed our focus on customers by strengthening our approach to managing key relationships. The appointment of a group level director of engineering and technology continues to ensure our R & D investment aligns with customer technology road maps.
- We achieved critical mass in core technology areas, attracting invitations to partnership discussions and tenders for substantial programmes which former business units could not have entertained under the old structure.

In tune with our customers

Vin Lefante
Key Customer Relationship Manager
for United Technologies Corporation

My customer faces the same challenges as Meggitt – managing risk while investing in the right opportunities amidst ever-increasing pressures to reduce cost.

UTC's game-changing products will have a huge impact on its target markets, driving revenue growth for Meggitt well into the future. As a key customer relationship manager, I play a vital role in ensuring our two companies work hand in glove – aligning business practices, technology roadmaps and economic assumptions – so we are both equipped to address emerging opportunities.

- We are improving our ability to deliver programmes on time and to budget with a standardised cross-functional programme management process.
- Meggitt continues to internationalise its sales activity. A year after opening in India, we opened our Shanghai office in 2010 to boost the promotion of discrete sensors and sensing systems across Meggitt's key test and measurement (automotive and flight test), energy and OEM aerospace markets. We plan to establish a presence in Brazil in 2011.
- Our numerous customer awards in 2010 included Lockheed Martin recognising our sensing facilities in San Juan Capistrano, California and Londonderry, New Hampshire for "100% quality performance", Meggitt Aircraft Braking Systems winning its fourth consecutive Supplier of the Year award from Gulfstream and our automatic ammunition-handling and military electronics facility in Irvine receiving awards from Northrop Grumman (Platinum), Boeing (Gold) and Raytheon (Purple) for excellent quality and on-time delivery.

4. Maintain a culture of strong performance

Focus

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

Our approach

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.

Achievements

- Our integrated divisions are structured for performance. Centralised divisional teams are responsible for business results and control the resources needed to deliver them. Removing a layer of management during the group's transformation phase continues to bear dividends in terms of decision-making and overhead reduction.
- We launched a new leadership development programme aimed at 300-plus managers designed to grow their skills as leaders of change in an increasingly complex and fast moving industry. In partnership with Oxford University, we continued our senior leadership programme aimed at engaging 24 high-potential staff in long-term strategic thinking about the group. This is the second iteration of 2008's highly successful pilot which helped shape the current transformation programme.
- We exceeded our transformation cost-reduction target, achieving £54 million in 2010, and raised our run-rate target to £57 million by the end of 2011.
- We continued to invest heavily across the group in our best practice compliance programme and in 2011 will add a new global trade management system.
- Our Ethics and Business Conduct programme provides regular training to employees, promotes management policies and procedures to address specific risk areas and sponsors an independently operated Ethics Line. This is overseen by the Ethics and Trade Compliance Committee of the Board which meets regularly under the chairmanship of Meggitt Chairman, Sir Colin Terry. During 2010 we adopted a comprehensive anti-corruption policy. Published with our ethics and business conduct policy and code of conduct, a comprehensive ethics guide was delivered to all employees in a choice of six languages. Printed materials were reinforced with on-line and live training.

Leading change

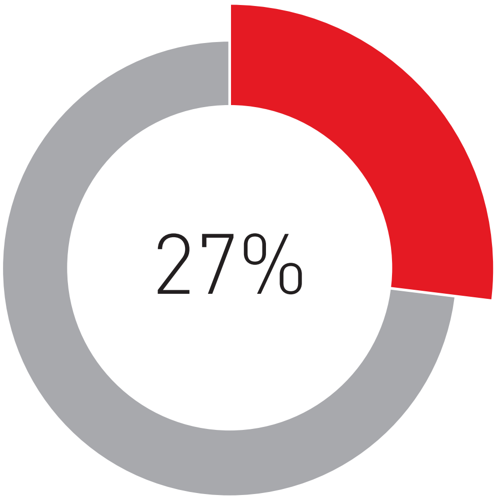
Diana Fox
Director, Human Resources

I was privileged to take part in the group's change leadership training pilot last year, which will be rolled out for hundreds of Meggitt leaders in 2011. We are being equipped to respond to an environment in which reporting relationships have been radically altered by structure realignment, extending geographical boundaries and divisional integrations that have seen market opportunities rise and operating costs reduce. We are moving towards a less hierarchical structure, providing greater flexibility and more responsiveness; and moving away from the silo-based thinking of individual business units to the more inclusive, collaborative and cooperative approach needed to advance in fiercely competitive global markets.

Meggitt Aircraft Braking Systems

A leading supplier of aircraft wheels, brakes and brake control systems.

Percentage of group revenue

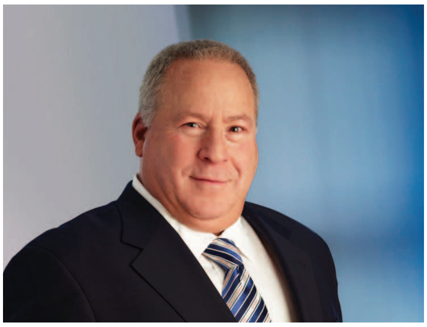


Revenue

£309.7M

Underlying operating profit

£120.7M



Ken Schwartz,
President, Meggitt Aircraft Braking Systems

Every Gulfstream aircraft lands on Meggitt wheels and brakes including the long-range Gulfstream G650 which carries wheels, brakes, integrated brake-by-wire systems with deceleration feedback control and brake temperature monitoring.

Markets

- Commercial transport
- Business jets
- Fixed and rotary wing military aerospace

Capabilities

- Wheels and brakes
- Control—brake, nose wheel steering and landing gear
- Monitoring

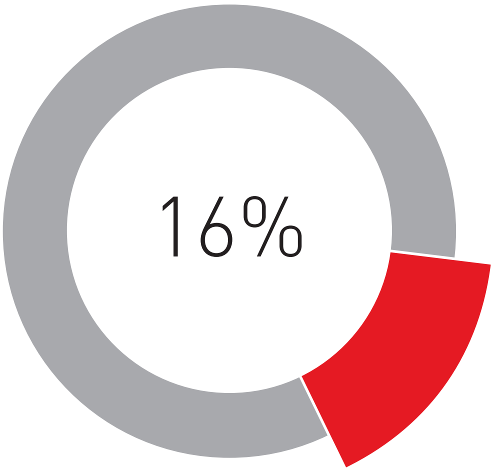
Growth strategy

- Secure positions, sole source where possible, on new aircraft programmes
- Develop market-leading technologies—electric braking and innovative, long-life carbon heat sink materials
- Expand our landing gear sub-systems control and monitoring capability
- Leverage low-cost manufacturing capability

Meggitt Control Systems

A leading supplier of pneumatic, fluid control, thermal management and electro-mechanical equipment and sub-systems.

Percentage of group revenue



Revenue

£182.8M

Underlying operating profit

£44.7M

Jim Simpkins,
President, Meggitt Control Systems

Markets

- Commercial, military, regional, business and general aviation
- Military ground vehicles
- Marine and industrial energy
- Ground fuelling

Capabilities

- Heat management
- Control valves and sub-systems
- Electro-mechanical controls
- Environmental control
- Fuel handling

Growth strategy

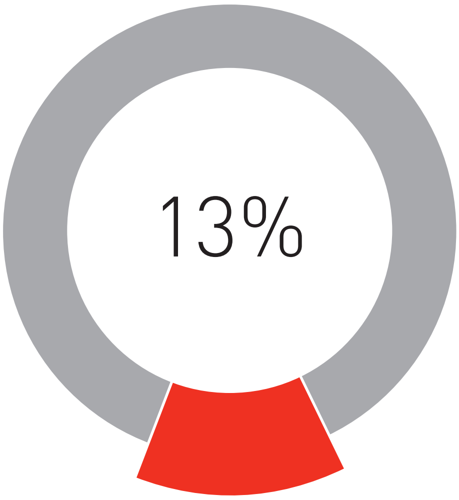
- Deliver weight-saving aerospace products with more accurate control that can withstand higher engine temperatures
- Develop products that enable customers to meet low emission regulations
- Create products that optimise industrial power generation plant efficiency
- Support developing global infrastructures—new airport construction and expansion and pipeline construction in particular
- Advance weight-saving, high-reliability electro-mechanical devices to replace hydraulics in military ground vehicles
- Implement low-cost manufacturing and optimise sourcing

Meggitt Polymers & Composites

A leading specialist in fuel containment, engineered aircraft sealing solutions and technical polymers, electro-thermal ice protection and complex composite structures and assemblies.


Credit:AR/Press Association

Percentage of group revenue



Revenue

£156.0M

Underlying operating profit

£28.4M

Ian Joesbury,
President, Meggitt Polymers & Composites

Markets

- Civil and military, fixed and rotary wing aircraft
- Military fighting vehicles
- Nuclear, marine, heavy transportation and oil and gas sectors requiring our specialist technical polymers

Capabilities

- Flexible, ballistically-resistant and crashworthy fuel cells
- Wet wing fuel storage
- Engineered lightweight, high performance seals and specialist technical polymers
- Smart electro-thermal ice protection with energy-saving proportional control
- Complex composite structures

Growth strategy

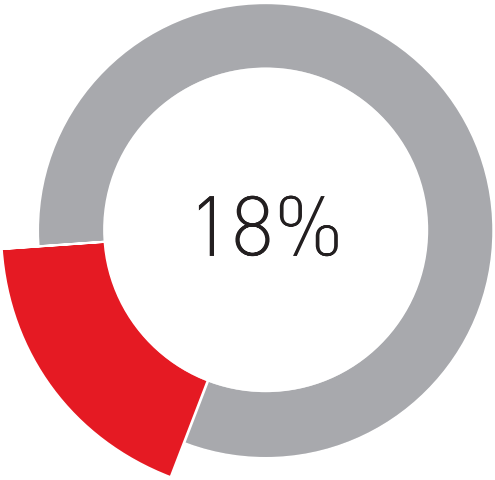
- Retain number one position in military aircraft fuel cells
- Attract more civil and ground vehicle fuel cell contracts
- Become a leading supplier of wet wing fuel storage
- Become the supplier of choice for engineered aircraft sealing solutions, increasing our military share in particular
- Exploit the combined division's capability in specialist technical polymers
- Become a leading supplier of energy-conscious electro-thermal ice protection for fixed wing aircraft
- Grow our composites and assemblies business targeting small aircraft structures, often highly complex ones

Meggitt Sensing Systems

A leading provider of high performance sensing and condition-monitoring solutions for high-value rotating machinery and other assets.


Credit: Siemens press picture

Percentage of group revenue



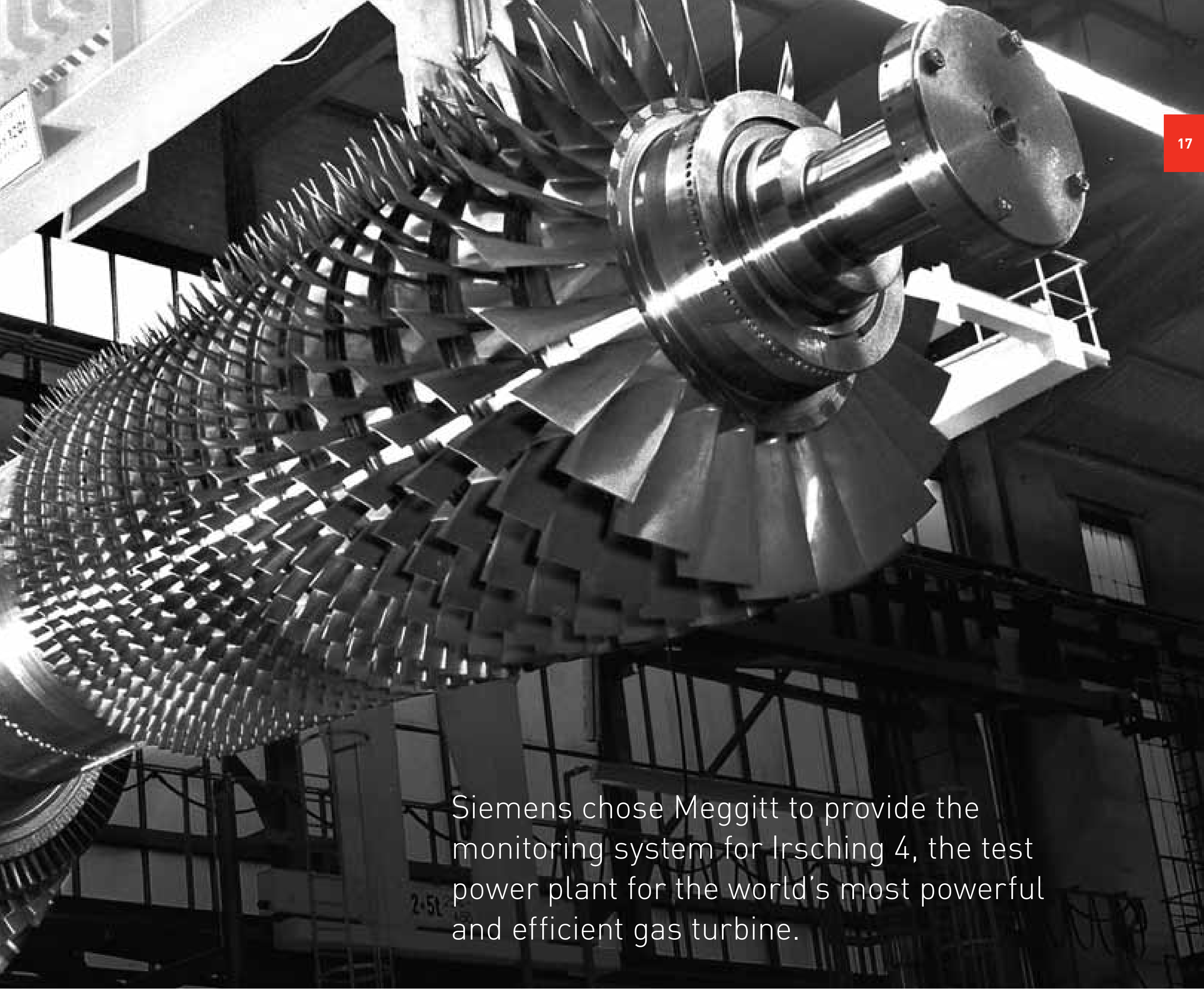
Revenue

£208.4M

Underlying operating profit

£39.5M

Peter Huber,
President, Meggitt Sensing Systems



Siemens chose Meggitt to provide the monitoring system for Irsching 4, the test power plant for the world's most powerful and efficient gas turbine.

Markets

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

Capabilities

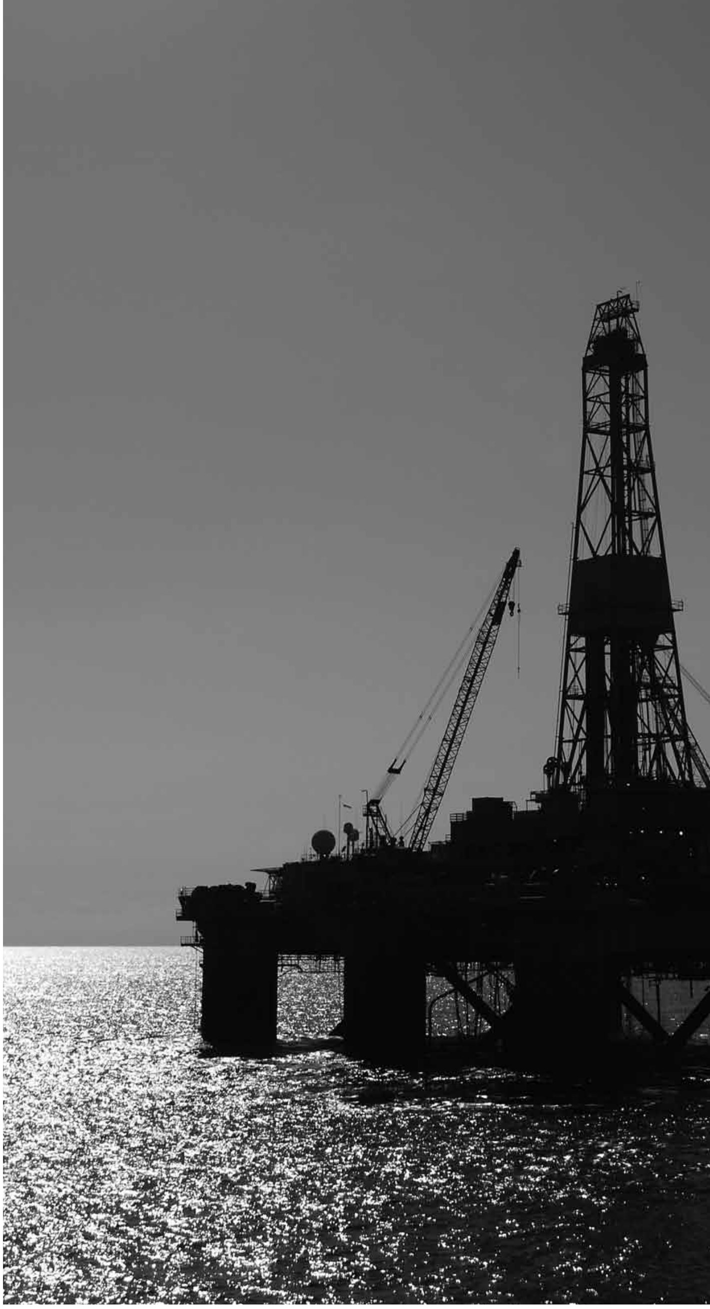
- High-performance sensing in extreme environments
- Condition-monitoring for air and land-based machinery

Growth strategy

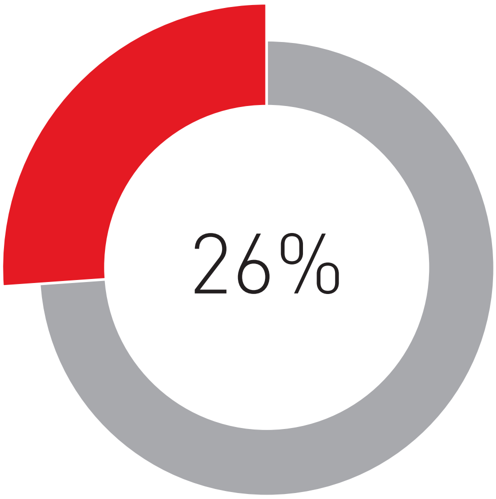
- Continue to invest in high-performance sensing technologies
- Combine them with advanced condition-monitoring systems that reduce aircraft operating costs, optimise maintenance regimes and reduce pollution
- Apply our expertise beyond aero-engines to other applications across the airframe such as tyre pressure and landing gear monitoring to support next generation integrated vehicle health management solutions
- Focus on our growing energy market through targeted solution-selling and expanded geographical presence
- Re-establish market leadership in test and measurement, leveraging our technology advantages and combining them with premium service levels

Meggitt Equipment Group

Meggitt Equipment Group was created to enable a set of strong, technologically-distinct businesses in safety systems, avionics, live-fire and simulation training and combat support to market their offerings to specialist customers, while benefiting from the wider Meggitt group's investment in shared services and common processes.



Percentage of group revenue



Revenue

£305.1M

Underlying operating profit

£70.4M

Dave Johnson,
President, Meggitt Equipment Group

Markets

- Military and civil aerospace
- Defence and security
- Energy
- Automotive and industrial

Capabilities

- Aircraft fire protection and control systems
- Avionics
- Combat systems (ammunition-handling, military electronics cooling and countermeasure launch and recovery systems)
- Live-fire and simulation training
- Heat transfer equipment for off-shore oil and gas
- Automotive and industrial control electronics

Growth strategy

Fire protection

- Integrate fire detection with fire suppression to deliver a complete fire protection capability

Avionics

- Continue to build our position in state-of-the-art secondary flight displays

Combat systems

- Provide smart thermal management solutions to military electronics cooling problems
- Extend our automatic handling capability into larger calibre weapons
- Continue to develop countermeasure launch and recovery systems to address emerging threats
- Advance Doppler radar sensing for combat and situational awareness

Live-fire and simulation training

- Become a preferred supplier for integrated and networked live and virtual training packages
- Build on our specialist simulation capability from tactical boat targetry to convoy training
- Continue to respond to homeland security requirements and the training needs of police forces and security organisations worldwide

Heat transfer

- Continue to drive the market to use our compact, high-pressure, high-duty heat exchangers and to maintain our market lead in this unique technology
- Explore options in chemical reformer and nuclear markets

Automotive and industrial control

- Grow our bespoke position sensing capability and extend into adjacent markets with our contact-less sensor technology

Market review

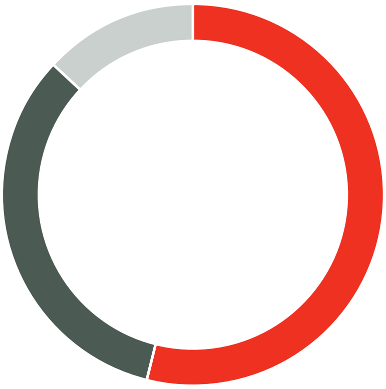
Meggitt provides a broad range of smart engineering capabilities and products for extreme environments. Our three core international markets – civil aerospace (42%), military (44%) and energy/other (14%) give our business the diversity to mitigate negative conditions in individual sectors and geographic regions. This approach held good through the challenging economic climate that began in 2008.

Further challenges lie ahead in 2011 but with global GDP growth likely to bounce back to around 4% and the recovery in our civil aerospace and energy markets strengthening, subject to any further economic shocks Meggitt is well-placed to deliver annual organic growth of around 6 to 7% over the next five years.

Total revenue by market

Civil aerospace	42%
Military	44%
Energy and other	14%

Total revenue by destination



North America	54%
Europe	33%
Rest of world	13%

Civil aerospace

Our civil aerospace revenues stem from almost every modern, large jet airliner, regional aircraft and business jet in the world. Meggitt expects aircraft deliveries and its own installed base to grow strongly between 2010 and 2015, particularly in the large jet and business jet sectors.

Civil aerospace revenue by sector

Large jet	53%
Regional	25%
Business jet	14%
Other	8%

Established aircraft like the Boeing 777, Airbus A320, Embraer E170/190 and Dassault Falcon 7X continue to see strong build rates, with excellent additional growth on new planes like the Boeing 787, Bombardier CSeries, Gulfstream G650 and Embraer Phenom. These promising markets should help Meggitt achieve an estimated OE revenue growth of 7 to 8% per annum over the next five years.

Civil aerospace revenue by OE and aftermarket

Aftermarket	70%
OE	30%

Typically, Meggitt's products are located in the more demanding areas of an aircraft, like the engine, undercarriage and external structures which experience extreme temperatures and vibration.

All pumped up

In 2009, Meggitt Aircraft Braking Systems' total braking system, which included its pioneering electric braking technology, was selected by Bombardier for its C-Series large jet. In 2010, the value of the contract was extended when Bombardier selected Meggitt Sensing Systems' next generation tyre pressure indicating system. The product is the result of a divisional collaboration that responds to the aerospace industry's increasing concerns about several high profile accidents relating to incorrect tyre pressure inflation and furthers Meggitt's strategy to expand its landing gear sub-systems control and monitoring capability. The C-Series has attracted 90 firm orders and booked options for an additional 90 aircraft.

This leads to a dependable, ongoing demand for aftermarket spares and repairs. 70% of Meggitt's civil aerospace revenues come from this market.

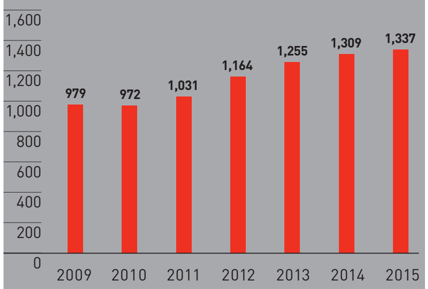
Passenger air travel is a key driver of the aftermarket and continues to recover well after the 2008/9 decline. 2010 saw demand (expressed in Revenue Passenger Kilometres, RPK) increase by over 8%, with capacity growth (expressed in Available Seat Kilometres, ASK) accelerating as the year progressed and airline confidence rose. It is widely expected that capacity will grow by at least 5% in 2011 and beyond which, with our growing fleet, should drive our aftermarket sales by some 8 to 9% per annum. The industry could also benefit from restocking as airlines rebuild the maintenance stocks cut back in the recession.

Large jets

Airbus and Boeing have maintained high delivery rates throughout the economic downturn, aided by extensive order backlogs - Airbus 3,552 and Boeing 3,443 aircraft at January 2011 - and proactive customer management. Government agencies, such as the EXIM bank, have supplemented aircraft financing but Meggitt was reassured to see established lessors like CIT, RBS and GECAS participating in the market in 2010. Returning airline profits are a positive sign that finance availability will strengthen again in 2011, enabling further growth in large jet deliveries.

Some 972 large jets were delivered in 2010, nearly identical to 2009. Most encouragingly, 2010 saw orders recover well, with 1,104 net orders awarded (Airbus 574 and Boeing 530), 167% more than 2009. Manufacturers are openly planning to increase narrow and wide body build rates between 2010 and 2015 and we will benefit from the highly desirable, fuel-efficient Boeing 787 entering production in the near-term after a series of delays.

Large jet delivery forecast



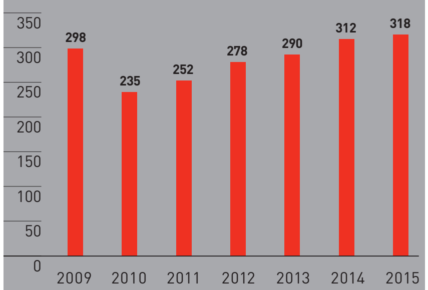
Source: Meggitt management estimates

The large jet duopoly between Airbus and Boeing is being challenged as new entrants invest in development programmes, most notably single aisle jets from Bombardier, COMAC and Irkut. These, not to mention Airbus' recently launched A320NEO, represent a solid indicator of the positive outlook for the sector.

Regional aircraft

Fewer regional jets were delivered in 2010, principally due to the CRJ700/900 build rate decrease announced by Bombardier in November 2009. We expect to see gradual production recovery, led by aircraft like the Embraer 190 and Bombardier CRJ1000, as confidence returns at smaller regional airlines.

Regional aircraft delivery forecast



Source: Meggitt management estimates

Utilisation has remained strong and the US operations of our 70 to 90 passenger regional jet fleet customers (CRJ700/900/1000, E170/190) grew by

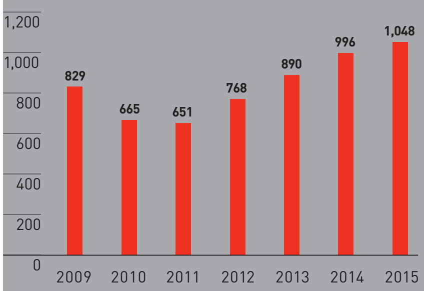
Market review

7% in 2010. Meggitt is exceptionally well-positioned to take advantage of this positive trend in the aftermarket, where our carbon brakes are common on these larger, high-cycle aircraft.

Further opportunity exists with imminent Sukhoi SJ100 and COMAC ARJ21 service entries and a good start to the Mitsubishi MRJ70/90 programme.

Business jets
The business jet sector had a difficult 2010, with about half the number of aircraft being delivered compared to the 2008 peak. There continues to be a clear divide between larger and smaller platforms, with the larger models proving to be more resilient to the economic climate. In 2008, some 52% of Meggitt's business jet sales were made to larger aircraft, which afforded us some protection from the sector's subsequent fall. Larger aircraft will become even more important to Meggitt with the approaching first delivery of the Gulfstream G650, which hosts a wide array of our products.

Business jet delivery forecast



Source: Meggitt Management Estimates

In smaller business jets, Embraer gained traction with a breakthrough NetJets order for 50 Phenom 300s. Most forecasters expect Embraer to win a significant share of this market, where Phenom 100/300 and Legacy 450/500 use our braking systems.

2011 is perhaps too soon to expect overall OEM build rates to increase but fleet utilisation is well along the road to recovery, up 12% in the US in 2010, supporting our aftermarket-biased business model. In the mid-term (2012-2015), we expect business jet deliveries to return strongly, driven by a host of new jets with high Meggitt content, such as Gulfstream G250/G650, Learjet 85 and Cessna CJ4.

Fighting fit

Eurofighter Typhoon, the world's most advanced swing-role combat aircraft and Europe's largest collaborative military programme, supports over 100,000 jobs across 400 companies. In service with the RAF and the air forces of Germany, Italy, Spain and Austria, it has been ordered by the Kingdom of Saudi Arabia. Its landing gear sub-systems, including control and comprehensive monitoring, were integrated by Meggitt and the aircraft carries our air data transducer and crash survivable memory unit. Production continues until 2015 with opportunities for additional orders from its home nations and potential in the export market.

Military aerospace and defence

Meggitt's military revenues account for 44% of our business, comprising fixed wing aircraft at 46%, rotary wing at 24%, land vehicles at 6% and other sectors, including training, at 24%. This diverse base is spread across a wide variety of platforms and our mix of OE (57%) and aftermarket (43%) is expected to give a strong revenue source in a challenging defence budget environment.

Defence budgets around the world are under pressure, as governments rebalance spending to compensate for increased national debt. However, with active operational commitments in Afghanistan, policies are being implemented to mitigate any adverse impact on the front line, whilst modernising with new and updated existing equipment as a long-term operating solution. Meggitt estimates this market will yield organic revenue growth in the region of 2% over the medium-term due to our positions on key workhorses (e.g. Black Hawk), incoming platforms (e.g. Typhoon, F-35 JSF) and potential retrofits.

Military revenue by OE and aftermarket

Aftermarket	43%
OE	57%

US Department of Defense (DoD)
For the US, which is by far the most important military market for Meggitt, projections continue to show a growth in spending for the next couple of years followed by reductions once the drawdown of forces from Afghanistan has taken place. The precise impact of these future spending reductions are still being determined but, in addition to the requirement for cost savings, there is a continuing requirement to adapt tools, equipment and training to

Military revenue by sector and geography

Fixed wing	46%
Rotary wing	24%
Land vehicles	6%
Other	24%

North America	65%
UK	8%
Rest of Europe	15%
Rest of world	12%

meet the increasingly asymmetric threats of international terrorism. We believe that the focus on modernising and extending the life of existing platforms where Meggitt has an established aftermarket – as well as new platforms addressing new threats - should lead to more opportunities for the group.

International military
The UK Ministry of Defence (MoD) undertook a Strategic Defence and Security Review (SDSR) in 2010, which detailed an 8% budget reduction and brought forward the retirement of some aircraft. This had a minimal effect on Meggitt, as retiring platforms such as Harrier and Nimrod generated very modest sales compared to the rapidly growing Typhoon programme. Other European militaries face similar budget pressures but continue to look to new platforms as a long-term operating solution.

Military fixed wing
By market share, Meggitt is the number one supplier of wheels and brakes to fixed wing military aircraft, with sole-source positions on the key platforms including F-35 (in partnership with Honeywell), Typhoon and Gripen. These programmes, despite current economic pressures, will drive our brakes aftermarket for the next 30-plus years. Growth will be strong until 2015, with potential follow-on prospects for Typhoon if home nations commit to further procurements and export targets are secured.

Military rotary wing, land and sea
Military helicopters have proven an invaluable operational asset in Iraq and Afghanistan, demonstrated by the DoD's ongoing commitment to multi-year Black Hawk, Chinook, Osprey and Apache procurements. Similarly, the UK MoD will increase its Chinook fleet by 25% and move ahead with its purchase of Lynx Wildcat. Meggitt has large shipsets on these helicopters, which provide us with stable and robust OE revenues. The smaller part of our rotary wing revenues come from the aftermarket, where a reduction in operational hours may soften demand.

Our position as the leading supplier of 30mm linkless ammunition-handling and environmental control systems means we continue to prosper in the land vehicle market, which also offers significant potential for Meggitt's unique blast-resistant fuel tanks.

Military training
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. We continue to develop our training businesses internationally and are positioned well for any post-conflict revival in training budgets.

Our training systems business in Canada conducted the world's first large-scale "swarmex" demonstration, the simulation of a real-world threat of swarming fast in-shore attack craft. The Canadian Navy has now asked Meggitt to support a major multi-national live-fire naval exercise using the system in 2011.

Other markets

Other revenues (14%) come from various end markets such as energy at approximately 50%, automotive, test, consumer goods and medical.

Within the energy market, demand for new power generation equipment in 2010 was subdued but existing operators continued to spend money maintaining and upgrading their plants. We expect the OE energy market to return to growth in 2011, with aftermarket demand likely to continue to grow faster. Meggitt also aims to increase its market share on the back of new product launches and improved overseas sales representation.

In the offshore gas market, bid and proposal activity has been growing significantly during the year, which will drive growth in 2011 and beyond for our compact printed circuit heat exchangers. We expect our energy revenues to grow at double-digit percentages in the medium-term. Demand in automotive, test equipment, consumer goods and medical was mixed in 2010 and this is expected to continue in the short-term.

Summary

Based on current market indicators and at constant exchange rates, the group expects to deliver strong organic revenue growth of around 6 to 7% over the medium-term and in 2011.

Performance review

As expected, our civil and energy markets recovered strongly in the second half of 2010 and this momentum is continuing into 2011. Our cost-cutting and transformation programmes ensured the group came through the downturn with higher margins and a stronger organisation better able to generate organic growth.

Financial highlights (Table 1)

	2010 £'m	2009 £'m	% change
Revenue	**1,162.0**	1,150.5	+1
Underlying[1]:			
EBITDA[2]	**364.4**	343.4	+6
Operating profit	**303.7**	286.2	+6
Profit before tax	**256.1**	234.2	+9
Earnings per share ("EPS")	**27.8p**	25.3p	+10
Statutory:			
Operating profit	**220.1**	232.8	-5
Profit before tax	**172.5**	180.8	-5
Earnings per share ("EPS")	**20.1p**	20.5p	-2
Cash inflow from operations before exceptionals	**331.3**	341.7	-3
Cash conversion[3]	**109%**	119%	

[1] Underlying profit and EPS are defined and reconciled to statutory measures in notes 10 and 16 respectively of the group financial statements.
[2] Underlying EBITDA represents underlying operating profit adjusted to add back amortisation and depreciation.
[3] Cash conversion is the ratio of cash inflow from operations to underlying operating profit. Cash inflow from operations is before exceptional items, interest, tax and investing activities.

Key Performance Indicators (KPIs)

Revenue growth
Percentage change in group revenue from previous financial year. Target compound organic growth: 6-7% across the cycle

Achieved: 1% in 2010 due to economic downturn; expect to achieve target over the cycle

Underlying PBT growth
Percentage change in group underlying profit before tax from previous financial year. Target compound organic growth: 8-9% across the cycle

Achieved: 9% in 2010

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

Achieved: 10% in 2010

Return on sales
Underlying operating profit as a percentage of revenue. Target growth in line with revenue and PBT growth

Achieved: 26.1% – up from 24.9% in 2009 and 25.5% in 2008

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

Achieved: 7% in 2010

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

Achieved: 109% in 2010

Overall performance

The expected recovery in our civil and energy markets took hold during the second half of 2010. Order intake grew by over 20% compared to the second half of 2009. Second half revenue growth was also strong with civil revenues up 18%, energy revenues up 19% and military revenues recovering to report growth of 1%. Overall group revenue grew by 9%. With an order book of over £750 million and a 12% jump in orders for 2011 delivery compared to the previous year, we created good momentum for 2011.

Through our transformation programme and other cost-saving initiatives, we improved our return on sales from 24.9% to 26.1% and delivered a second consecutive year of record net cash generation at £137.1 million.

Revenues and orders

The challenging trading conditions of 2009 persisted into the first half of 2010 when revenues were down 6% year-on-year. As the recovery took hold in the second half, revenues increased by 9% on the prior year, to give an increase of 1% for the year as a whole. The split of revenue growth between the first (H1) and second (H2) halves by market is shown in table 2.

Civil aerospace revenues grew 5%, heavily skewed towards the second half when growth rose to 18% as a result of the recovery in air traffic. The recovery in the aftermarket, particularly for business jets where utilisation started to recover in late 2009, was a key driver.

Military revenues returned to growth in the second half, albeit modestly, and full-year revenues were 2% below last year. The year-on-year decline arose mainly in our Braking Systems and Equipment divisions, both of which recorded significant non-recurring revenue in 2009 for the re-supply of products for the B1 Bomber and the Abrams tank respectively. Excluding these items, military revenues from our other platforms increased year-on-year. In Europe, the Eurofighter programme revenues grew through a combination of fleet increases and growing aftermarket revenues.

Energy revenues increased 2%. Within this, industrial revenues grew healthily, particularly sales to end-users, but this

Growth through emerging markets

Lizzie Li
Regional Sales Manager, China, Meggitt Sensing Systems

In China, airports and airliners are being substantially upgraded. The automotive sector is burgeoning. Power, nuclear, renewable and oil and gas markets are all benefiting from government stimulus packages to build the infrastructure needed for its next growth surge. That's why the opening of Meggitt's second Chinese base, in Shanghai, couldn't be more timely. From here, we are promoting discrete sensors and sensing systems across our key test and measurement, energy and aerospace markets and guiding customers to Meggitt's products and services across the group. We are also building our business by building relationships. That is as critical to doing business here as the quality of the products themselves.

Revenue growth (Table 2)

	2010 Revenues (£'m)	2010 Growth	H1 Growth	H2 Growth
Civil OE	**150.3**	**2%**	(6%)	12%
Civil AM	**343.9**	**6%**	(6%)	21%
Total civil	**494.2**	**5%**	(6%)	18%
Military	**507.5**	**(2%)**	(6%)	1%
Energy	**84.5**	**2%**	(14%)	19%
Other	**75.8**	**(2%)**	(6%)	1%
Total	**1,162.0**	**1%**	(6%)	9%

was partly offset, as expected, by reduced revenues from our compact printed circuit heat exchangers (PCHEs). Encouragingly, order intake for PCHEs was more than three times the level in 2009, a product range that returned to good growth in the second half of 2010.

Meggitt's other specialist markets had a mixed year reflecting the general economic situation. Sales for these markets were down 2%.

Our order book grew by 8% during the year, with orders for 2011 delivery up 12%. Our closing order book is over £750 million, giving a solid base for our expected revenue growth in 2011.

Profit and dividends

The Board's preferred measure of the group's trading performance is underlying profit. Underlying operating profit grew by 6% to £303.7 million and, driven by cost reductions, underlying operating margin increased from 24.9% to 26.1%.

Net finance costs decreased by £4.4 million to £47.6 million as a result of our strong cash generation and lower interest rates. Within this, post-retirement finance charges decreased to £9.8 million (2009: £12.2 million). Underlying profit before tax increased by 9% to £256.1 million.

After a tax charge of 25.0% (2009: 27.0%), and after taking account of the increased share count due to strong take-up of scrip dividends during the year, underlying earnings per share increased by 10% to 27.8 pence (2009: 25.3 pence).

On a statutory basis, profit before tax decreased by 5% to £172.5 million and earnings per share decreased by 2% to 20.1 pence due mainly to the impact of the marking to market of foreign currency forward contracts.

The recommended final dividend is increased by 10% to 6.35 pence and represents a total dividend for the year of 9.20 pence, an increase of 9%.

Operational highlights (table 3)

Meggitt Aircraft Braking Systems (MABS)
The division generated 88% of its revenues from the aftermarket and 12% from the OE market. MABS' profitable civil aftermarket (circa 67% of revenues) has recovered well from the downturn, growing 8% in 2010. The recovery has been strongest in business jets, following on from the increase in utilisation which began in the second half of 2009. Military revenues were down 20%, largely due to the completion of a substantial resupply campaign on the B1 bomber which generated strong revenues in 2009. Operating margins strengthened further during the year, reflecting continued cost reduction efforts and final K & F integration savings as well as an unusually favourable mix.

Meggitt Control Systems (MCS)
The division generated 54% of its revenues from the OE market and 46% from the aftermarket. For MCS, civil aerospace and energy revenues were broadly flat whilst growing military sales, particularly parts for aircraft in service in Afghanistan, were largely offset by a small decline in other specialist markets. Despite almost flat revenue, continued progress in cost reductions helped to improve operating margins from 23.9% to 24.5%.

Meggitt Polymers & Composites (MPC)
MPC generated approximately two thirds of its revenues from the OE market and one third from the aftermarket. Revenues in MPC were up 5% in the year on the back of continued growth in military sales, in particular the contract to supply ballistically-resistant fuel tanks for the Bradley Fighting Vehicle. Civil aerospace sales showed modest growth, mainly in large jets, reflecting additional packages of seals which went into production during the year. Operating margins declined from 20.3% to 18.2%, as a result of a combination of poor mix and one-off rework costs incurred on one of our long-standing military contracts.

Meggitt Sensing Systems (MSS)
MSS generated 77% of its revenues from the OE market and 23% from the

Performance review

Operational highlights £'m (Table 3)

Revenue 2010	Revenue 2009	Revenue % change		Underlying Operating Profit 2010	Underlying Operating Profit 2009	Underlying Operating Profit % change	Return on Sales 2010	Return on Sales 2009
309.7	318.8	(3%)	Meggitt Aircraft Braking Systems	**120.7**	116.2	4%	**39.0%**	36.4%
182.8	181.9	0%	Meggitt Control Systems	**44.7**	43.4	3%	**24.5%**	23.9%
156.0	147.9	5%	Meggitt Polymers & Composites	**28.4**	30.0	(5%)	**18.2%**	20.3%
208.4	192.6	8%	Meggitt Sensing Systems	**39.5**	32.5	22%	**19.0%**	16.9%
305.1	309.3	(1%)	Meggitt Equipment Group	**70.4**	64.1	10%	**23.1%**	20.7%
1,162.0	1,150.5	1%	Total	**303.7**	286.2	6%	**26.1%**	24.9%

aftermarket. MSS reported good growth in civil, military and energy revenues offset by weakness in its other specialist markets. Growth in civil markets included continuing healthy demand for the retrofit of its advanced vibration monitoring equipment on the Boeing 737 aircraft. Military sales grew on the back of continued strong demand for our military helicopter health and usage monitoring products, particularly the Black Hawk platform. Energy revenues grew as we improved our penetration of end-user customers through our expanding office network in target countries. The improvement in operating margins reflects incremental cost reduction activity as well as favourable exchange rate benefits.

Meggitt Equipment Group (MEG)
The division generated approximately two thirds of its revenues from the OE market and one third from the aftermarket. Revenues in MEG were down 1% on last year as a result of the expected weak sales of PCHEs at Heatric and the completion of certain military contracts, combined with delays in receiving follow-on orders. Although Heatric's PCHE business declined in the first half of 2010, strong order intake helped it to return to growth in the second half. The military business is experiencing some delays in new contracts, particularly at the Irvine, California facility, which has persisted into 2011, not helped by the delay in approving the DoD's FY 2011 budget. Operating margins improved to 23.1%, helped by a favourable mix of product sales in the second half.

Transformation programme

In addition to our ongoing procurement and low-cost manufacturing programmes, the group responded to the economic downturn by accelerating our initiative to position the business for the future.

We targeted a run-rate of £50 million per annum of incremental cost savings by the end of 2010. This target has now been raised to £57 million by the end of 2011.

Approximately half these savings are expected to be permanent. The balance is volume-related and will return as sales volumes come back. Savings in the year were £54 million and, although we expect to increase resources in 2011 in engineering, sales and marketing and programme management, we are confident of achieving the £57 million run-rate by the end of the year. The operating exceptional cost of achieving the additional savings in 2010 was £13.2 million.

Positioning the business for the future is not primarily about cost-saving. It is about strengthening the organisation by embedding common processes and increasing customer focus. Concentrating key resources such as engineering and sales and marketing teams at divisional level and enhancing the cooperation between divisions will improve customer responsiveness and help us to win new business. We are already seeing positive results and expect to see more.

During the year, we appointed a Group Technology and Engineering Director, Dr Richard Greaves, formerly President of Sensing Systems, giving him a broad remit to focus on emerging technology trends and provide group-wide support to our divisional engineering teams. Our factories increased their focus on delivering high-quality product on time and at a competitive cost, supported by strategic sourcing and low-cost manufacturing initiatives.

Cash flow and borrowings

Cash inflow from operations before exceptional operating items was a very healthy £331.3 million, which was 109% of underlying operating profit.

The business generated £137.1 million of net cash (table 5), an £11.1 million increase on the record 2009 performance, whilst continuing to invest significant amounts in our development programmes and the deployment of our common ERP solution. As a result, net debt decreased from £808.6 million at 31 December 2009 to £721.4 million at 31 December 2010, despite an adverse translation impact of £36.3 million on our mainly US dollar denominated debt.

The group received strong support for the $600 million private placement completed in June.

Investing for the future

Developing and owning intellectual property is a critical part of Meggitt's successful strategy. Total product development expenditure in 2010 was £84.2 million, of which 20% was funded by customers. The largest relative investment was in MSS at around 15% of segment revenues.

Analysis of R&D costs (Table 4)

	2010 Group £'m	2009 Group £'m
Total R&D expenditure	**84.2**	85.2
% of revenue	**7%**	7%
Customer-funded R&D	**(16.7)**	(19.2)
Capitalised	**(33.5)**	(35.1)
Amortisation	**8.2**	6.5
Charge to income statement	**42.2**	37.4

Meggitt invested £28.4 million in supplying equipment free of charge to new aircraft coming into the fleet and in making programme participation contributions, mostly in MABS.

Capital expenditure on property, plant and equipment and other intangible assets increased to £27.7 million, including investment in the deployment of a common ERP system across the group.

As part of Meggitt's low-cost manufacturing strategy, we continued to expand the range of products manufactured at our facility in Xiamen, China. We also opened and began to transfer certain production activities to our second Mexican factory at Querétaro. This is part of a continuing process of seeking out opportunities to reduce our cost base and win new business.

Capital structure

Meggitt's operations are financed by a combination of equity 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 8.0%.

On 21 January 2011, the group successfully completed the raising of £246.2 million through an equity placing to part finance the proposed acquisition of Pacific Scientific Aerospace (PSA), which is subject to normal completion requirements.

Debt structure

During the year, Meggitt successfully raised $600 million through a new US private placement with maturities ranging from 2017 through 2022. These new funds have extended the average maturity of the group's facilities to 3.7 years and reduced our medium-term refinancing needs significantly.

As at 31 December 2010, we had undrawn, committed credit facilities of £728.4 million after taking account of surplus cash.

Covenants

Meggitt's committed credit facilities contain two financial ratio covenants – interest cover and net debt to EBITDA. As can be seen from table 7 there is considerable headroom on both measures. The sensitivity of the key

Covenants (Table 7)

	Covenant	**Actual***
Net debt/EBITDA	≤3.5x	**1.9x**
Interest cover	≥3.0x	**9.1x**

*As calculated in accordance with banking agreements.

Taking off again

Dassault's Falcon 7X is the first fully fly-by-wire business jet and carries Meggitt Aircraft Braking Systems' wheels and carbon brakes. The next generation jet characterises one of the fastest growing segments of the division's markets as demand grows for flexible, independent air travel in the developed and developing world. After the economic slowdown, use of these aircraft in the US reasserted itself from the end of 2009, increasing demand for spares and repairs for the Meggitt high-performance carbon heatsinks installed on these aircraft. This continued throughout 2010 with a net increase in US business jet utilisation of 12%.

Movement in net debt (£'m) (Table 5)

Opening net debt		(808.6)
Cash inflow from operations before exceptional operating items		331.3
Exceptional operating costs paid		(15.5)
Net interest/tax paid		(63.8)
Capitalised development costs/programme participation costs		(61.9)
Net capital expenditure		(27.5)
Net amounts payable to shareholders	(55.0)	
Add back scrip dividend	29.5	
Net cash amounts paid to shareholders		(25.5)
Net cash generated		**137.1**
Currency translation differences		(36.3)
Other non-cash movements		(13.6)
Closing net debt		**(721.4)**

Analysis of total committed credit facilities (US$m) (Table 6)

Syndicated credit facility	920 maturing in 2012
Syndicated credit facility	500 maturing in 2013
Private placement notes	250 maturing in 2013 and 2015
Private placement notes	600 maturing in 2017, 2020 and 2022
Total	**2,270**

Good covenant (net debt/EBITDA) headroom (Table 8)

		EBITDA (before exceptionals)			
		-10%	-20%	-30%	-40%
Average $1.60	1.6	1.8	2.2	2.6	3.2
Average $1.40	1.6	1.9	2.2	2.7	3.2
Average $1.20	1.7	1.9	2.3	2.7	3.3

Calculations assume 2010 profit and cash (in currency) repeated in 2011. This is for illustrative purposes only and is not a forecast.

Performance review

net debt to EBITDA ratio to changes in EBITDA and exchange rates is shown in table 8 on page 27.

Minimising debt financing risks

We seek to minimise debt financing risk as follows:

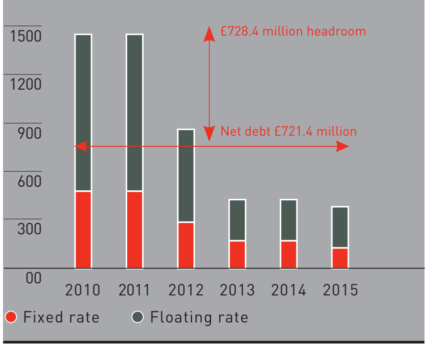
a. Concentration of risk
We raise funds through private placement issuances and bank loans to reduce reliance on any one market. Bank financing is sourced from over 20 international institutions spread across North America, Europe and Asia. No single bank accounts for more than 10% of the group's total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

b. Set-off arrangements
The group utilises set-off and netting arrangements where possible to reduce the potential effect of counterparty defaults. All treasury transactions are settled on a net basis where possible and surplus cash is generally deposited with our lenders up to the level of their current exposure to us.

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

d. Headroom risk
To ensure we mitigate headroom erosion due to currency movements, our credit facilities are denominated in US dollars, the currency in which most of our borrowings are held.

Facility headroom (£'m) (Table 9)



e. Covenant risk
The covenant calculations are drafted to protect the group from potential volatility caused by accounting standard changes, sudden movements in exchange rates and exceptional items. This is achieved by measuring EBITDA on a frozen UK GAAP basis, retranslating net debt and EBITDA at similar average exchange rates and excluding exceptional items from the definition of EBITDA. The ratio is relatively insensitive to currency movements and there is considerable headroom on EBITDA which would need to fall by more than 40%, without mitigation, before this measure is breached. The proposed acquisition of PSA announced on 18 January 2011 would, on successful completion, cause a small initial increase in this ratio. We estimate that had PSA been acquired on 31 December 2010, based on unaudited PSA results for 2010, the net debt to EBITDA ratio would have been approximately 2.1x after taking account of the 21 January 2011 equity placing.

Interest charge

Meggitt seeks to reduce the volatility caused by interest rate fluctuations. Our US private placements are subject to fixed interest rates whereas borrowings under our syndicated bank credit facilities are at floating rates. To manage interest rate volatility, we use interest rate derivatives to either convert floating rate interest into fixed rate or vice versa. Our 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 2010, the percentage of net debt at fixed rates was 66% and the weighted average period to maturity of the first 25% was 7.1 years.

Exchange rates

The net assets of overseas subsidiaries are translated into sterling at year end exchange rates (Table 11). To mitigate the exchange rate exposure this causes we hold our net debt, where cost-effective and practical, in the currencies of those subsidiaries (Table 10).

Currency profile of net debt (£'m) (Table 10)

	2010	2009
Sterling	**0.3**	(23.3)
US dollars	**634.2**	736.4
Euro	**(5.2)**	1.8
Swiss franc	**92.0**	93.5
Other	**0.1**	0.2
Total net debt	**721.4**	808.6

The results of overseas subsidiaries are translated into sterling at weighted average exchange rates (Table 11).

Exchange rates (Table 11)

	2010	2009
Average translation rates		
US dollars	**1.54**	1.58
Euro	**1.17**	1.12
Year end rates		
US dollars	**1.57**	1.61
Euro	**1.17**	1.13
Transaction rates		
US dollar/£	**1.65**	1.80
US dollar/Euro	**1.50**	1.40
Swiss franc/US dollar	**1.13**	1.06

Compared to 2009, the group's underlying profit before tax for the year was positively affected by £4.8 million as a result of currency translation. Each one cent movement of the US dollar versus the 2010 rate used of £1 = $1.54 impacts underlying profit before tax by approximately £1.2 million.

The group hedges known and some anticipated transaction currency exposures based on historical experience and projections. Our policy is to hedge at least 70% of the next 12 months' anticipated exposure and to permit the placing of cover up to five years ahead. Compared to 2009, the group's underlying profit before tax for the year was positively affected by £6.9 million as a result of currency transaction. Each one cent movement of the US dollar versus the 2010 rate used of £1 = $1.65 impacts underlying profit before tax by approximately £0.4 million. At 31 December 2010, cover for 2011 was 74% (at a rate of $1.65) and we have covered approximately 50% of our exposures for the subsequent four years at an average rate of $1.65.

Taxation

Meggitt's underlying tax rate reduced to 25.0% (2009: 27.0%) reflecting the tax impact of previous acquisitions.

Dividends

With the strong recovery in civil markets in the second half of 2010 and the transformation programme delivering more than our targeted savings, we are positioned well for growth. Accordingly, we have increased the recommended final dividend to 6.35 pence (2009: 5.75 pence) which would result in a 9% increase in the full-year dividend to 9.20 pence (2009: 8.45 pence).

Retirement benefit schemes

The group's defined benefit pension schemes in the UK and the US are closed to new members.

During the year we saw another strong asset performance, particularly in equity markets which, with company cash contributions, resulted in scheme assets increasing by £63.7 million to £567.9 million. Assets are now 20% higher than those before the market crash in 2008. However, a further tightening of the yields on AA corporate bonds (the rates used to discount scheme liabilities), offset much of the assets' gains. Overall the scheme deficits reduced modestly to £210.5 million (2009: £219.5 million).

Regulations in the UK and US require repayment of deficits over time. Net deficit payments in the year were £20.7 million (2009: £20.0 million). Following a recent actuarial valuation of the UK plan, agreement was reached with the trustees on the level of future funding. This will see increases in deficit payments gradually being phased in over the next 15 years. In the US, there is likely to be a short-term modest increase in funding as legislation, introduced during 2008 and 2009 to alleviate the impact of the economic downturn on funding requirements, starts to unwind.

Meggitt has two other principal post-retirement benefit schemes providing medical and life assurance benefits to certain US employees. These schemes are unfunded and have a combined deficit of £54.6 million (2009: £61.0 million). During 2010 the group reached agreement to contain its exposure to further increases in medical costs by capping the contribution we are responsible for at 2011 levels. Deficit payments during the year were £2.4 million (2009: £1.8 million).

Accounting standards

Meggitt's results were not significantly affected by changes in financial reporting standards in 2010.

Defined benefit pension schemes summary (£'m) (Table 12)

	2010	2009
Opening net deficits	**219.5**	172.0
Service cost	**10.5**	9.6
Employer contributions	**(31.2)**	(29.6)
Net deficit reduction payments	**(20.7)**	(20.0)
Prior year service cost	**1.3**	-
Net finance cost	**6.5**	8.6
Actuarial gains – schemes' assets	**(21.7)**	(46.1)
Actuarial losses – schemes' liabilities	**23.1**	116.0
Currency movements	**2.5**	(11.0)
Closing net deficits	**210.5**	219.5
Assets	**567.9**	504.2
Liabilities	**778.4**	723.7
Closing net deficits	**210.5**	219.5
Funding status	**73%**	70%

This analysis excludes post-retirement healthcare schemes which have a deficit at 31 December 2010 of £54.6 million (2009: £61.0 million).

Ice breaker

Meggitt Polymers & Composites' facility in Rockmart saw double-digit growth in its composite interiors and ice protection business in 2010. This was driven by Sikorsky Aircraft's H-60 family of Black Hawk and Seahawk helicopters and (above) Bell-Boeing's innovative V-22 Osprey vertical take-off plane. Meggitt as a whole saw a dramatic rise in the demand for spares after the aircraft was deployed in Afghanistan. All divisions are represented on this significant rotary programme with extreme environment hydraulic control valves and lubricating pumps, aerodynamic seals, crashworthy and ballistically-resistant fuel cells, electro-thermal ice protection for rotary blades and spinners, sensors, engine anti-ice valves and threat warning indicators.

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

→ ensuring financial probity

→ effective risk identification

→ robust internal and external reporting and controls

→ dynamic business continuity plans

→ providing safe working environments

→ conducting independent audits

→ maintaining 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 employees, supply chain and health, safety and environment (HSE) performance for analysis by the group, which is available on the CR page of our website.

CR is overseen by our Group Corporate Affairs Director. HSE matters, trade compliance and ethics and business conduct 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. The Board receives HSE reports on a quarterly basis. Divisional presidents and site directors are responsible for the implementation of our policies on these matters at a local level.

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, is used to review compliance standards, reveal shortfalls in performance, recommend remedial action and share best practice. In 2010, nearly one third of Meggitt sites were audited. Over two thirds have attained environmental management standard ISO14001, with the remainder working towards certification.

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

We continued to enhance our information-gathering and sharing through intra-group HSE conferences and our intranet, where we post environmental bulletins and initiatives.

In 2010, despite unseasonably cold weather and the associated increase in heating requirements, energy-reduction initiatives resulted in a moderate absolute reduction in all our key energy performance measures:

- Carbon emissions decreased by 3.8% to 115,638 (2009: 120,161 tonnes as restated)[1]
- Electricity usage decreased by 0.2% to 148.0 GWH (2009: 148.3 GWH)
- Gas usage declined by 2.1% to 191 GWH (2009: 195 GWH)

Meggitt provides emissions data to the Carbon Disclosure Project (CDP), a non-governmental initiative that measures and discloses the greenhouse gas emissions and climate change strategies of 2,500 organisations around the world.

In 2010, the Meggitt Energy Reduction Programme (MERP) was launched. This is a group-led forum that shares information and drives performance on energy-related initiatives. MERP incorporates all levels of employees when evaluating energy-reduction opportunities. Energy management teams and energy champions have been appointed at sites, tasked with continually assessing such opportunities. The MERP steering group comprises key operations leaders from each division and representation from group operations, company secretarial, HSE and finance functions. Energy and emissions performance are shared and reviewed, with targets set as appropriate. MERP also drives our compliance strategy on the impact of emissions legislation such as the UK's CRC Energy Efficiency Scheme, of which Meggitt is a registered participant.

Some of our engineering processes cannot be substituted for those with less impact because of performance demands on our defence and aerospace products. However, we are committed to minimising the environmental impact of our sites and have implemented programmes across the group to achieve that goal:

- At MPC Loughborough, energy champions were appointed in key energy intensive areas, trained on site specific energy factors, forming work groups to monitor and discuss energy-related ideas and behaviours. Energy-saving ideas, such as maximising the volume of parts being put into ovens (thereby reducing volume of cures and associated energy usage), are shared at monthly site reviews and teams are empowered to experiment with new ideas.
- MPC Rockmart was recognised by the United States Department of Energy as an "Energy Saver in 2010" for "exceptional leadership in industrial energy efficiency". The energy management team, led by the energy champion implemented several initiatives. These included an overhaul of plaster ovens, allowing the site to reduce cure times from 48 to 30 hours, saving energy to power the fans and steam to heat the oven.
- MSS San Juan Capistrano's energy team had a simple idea to change building cleaning services from night to day time. This resulted in a reduction in after-hours energy use of 10% by eliminating lighting and heating and air conditioning requirements.

Performance in other key environmental metrics improved. This included:

- Water consumption decreased by 1.3% to 631,508 m^3 (2009: 639,807m^3)
- Hazardous waste recycled has increased by 10.4 % to 1,304 tonnes (2009: 1,181 tonnes)
- Hazardous waste to landfill as a percentage of total hazardous waste has decreased to 8% (2009: 28%)

Our environmental metrics are reported in full on the CR page of our website.

[1] Meggitt's carbon emissions data is derived from electricity, gas and fuel oils usage which is converted using the 2010 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 2009 have been restated.

Corporate responsibility

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 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 2010, we continued to work toward improving our health and safety performance by applying the key principles of our Health and Safety Policy. This is achieved by ensuring effective leadership and organisational arrangements are in place throughout our global operations, led by the Group Health and Safety Steering Committee and the Vice-President of Health, Safety and Environment. Our global health and safety 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 2010, nearly one third of Meggitt sites were audited.

We improved the way we measure and collect our health and safety data during 2010 to include trend analysis of the types and causes of workplace injuries to identify key areas of risk. We seek to achieve *continuous improvement* in all areas of workplace risk by driving sustainable workplace safety behaviour and practices through exemplary leadership of ongoing health and safety initiatives. This includes integrating health and safety performance into business operations as part of overall site management reviews.

The on-line health and safety training programme for all UK employees continued in 2010 and on-line training is being implemented for all US employees in the first quarter of 2011. We are in the process of evaluating similar training programmes for other group sites. We continue to disseminate information and best practice through our intra-group conferences and health and safety alerts and bulletins which include information on the implementation status of our global health and safety procedures, group health and safety performance data and on health and safety initiatives.

There were no fatalities at Meggitt sites in 2010 (2009: none). In 2010, the number of reported injuries* declined to 53 (2009: 60). The accident incident rate** declined 7% to 737 (2009: 795). While group standards rose in 2010, we remain committed to improving our health and safety performance in all of our operations, every year.

Compliance with the European Community Regulation on Registration, Evaluation Authorisation and Restriction of Chemicals (REACH) is managed by the Group REACH Steering Committee which has been active in completing due diligence and dealing with the risks associated with the discontinuation of supply of chemicals used by aerospace manufacturers. Our HSE Director for MSS is a member of the Aerospace and Defence Industries Association of Europe's REACH Implementation Working Group which enables us to source and compare information about REACH compliance across the industry.

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 group-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 36 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.

In 2010 we selected a global trade management software solution to automate, in part, and enhance our trade compliance programme. Following a design phase, we expect to start implementation towards the end of 2011.

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, 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. We are a signatory to the Statement of Adherence to the Global Principles of Business Ethics for the Aerospace and Defence Industry.

* We define reported injuries as those which are reportable under local laws/regulations.
** The accident incident rate is calculated by taking the number of reported injuries, multiplied by 100,000 and dividing it by the average employee headcount during 2010.

Quality assurance with teeth

Ian McMurray
Group Head of Operations and Quality

As Meggitt's first Group Head of Operations and Quality, I have initiated a quality assurance group – with teeth. It's a taskforce of 30-plus senior quality professionals improving performance, reducing costly duplication and developing frameworks to address problems at a systemic level. One of our biggest challenges is interpreting constantly evolving regulations and standards around the world. To avoid becoming mired in the minutiae of a regulatory position, we iterate a single Meggitt point of view, moving forward with confidence on implementation and working directly with regulators where conflicts arise. Uniquely, my role brings quality and operational disciplines together so problem-solving becomes the responsibility of a cross-functional team, with checks and balances between cost imperatives and regulatory compliance built in.

During 2010, Meggitt adopted a formal Anti-Corruption Policy and provided global anti-corruption training to all employees and the Board of Directors. A new Ethics Guide outlining the core elements of our ethics programme – the Ethics and Business Conduct Policy, the Code of Conduct and Anti-Corruption Policy – was published in 2010 and distributed to all employees.

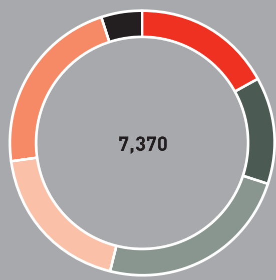
Our people, local communities and charitable donations

At the end of 2010, Meggitt employed over 7,300 people, a diverse workforce which enjoys 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 £375 million in 2010 (32% of revenue).

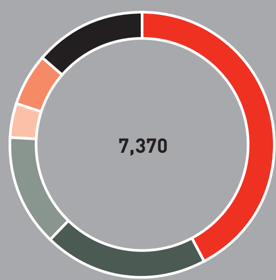
Individual Meggitt facilities work with the local community and support charities at their discretion. Yearly reports reveal the exceptional generosity of many employees who give time and money to a wide range of national and local initiatives. Meggitt's headquarters, which are based in Dorset, UK, continued 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. A number of our sites in California have supported the Royal High School Vocational Education Programme for Simi Valley. Several of our senior employees have assisted students in developing their core business skills and our Control Systems and Safety Systems sites have hosted internships under this programme.

Employees by division



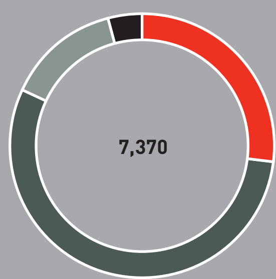
Aircraft Braking Systems	1,194	**17%**
Control Systems	956	**13%**
Polymers & Composites	1,798	**24%**
Sensing Systems	1,403	**19%**
Equipment Group	1,644	**22%**
Cross-group facilities	375	**5%**

Employees length of service (years)



Less than 5	**3,116**
Between 5 and 10	**1,488**
Between 10 and 15	**993**
Between 15 and 20	**312**
Between 20 and 25	**459**
Over 25	**1,002**

Employees by region



UK	1,963	**27%**
North America	4,081	**55%**
Mainland Europe	1,063	**14%**
Rest of world	263	**4%**

Principal 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 44).

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
- IT security

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

Change in risk in year

No change	←→
Higher risk	↑
Lower risk	↓

Risk description	Potential impact	Mitigation action
Markets		
Competition ←→	We operate in a highly competitive global market that has experienced significant consolidation in recent years. Losing contracts to competitors, many 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. The group's competitive position would suffer were it unable to meet future investment requirements, continue research and development or provide cash and equipment incentives to original equipment manufacturers. Such investments, which decrease our cash flow in the short-term, need to be recovered through future revenues. Losing key intellectual property or failing to enforce its rights could hinder our development and provide competitor advantage.	• 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. • Maintaining the highest manufacturing and quality standards and adhering to individual customer certification requirements. • 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. • Ensuring good operational cash flow and available finance.
Product demand ←→	Military markets currently account for 44% of group revenues. Any reduction in military spending or reordering of priorities, particularly by the US government (Meggitt's largest customer), could adversely affect our revenues. 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, which account for 42% of group 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.
IT security ↑	Intellectual property and other business data is stored and transmitted electronically. Accordingly, the group is exposed to the risk of data loss either through third-party breach of our systems or the unintentional loss of data by employees.	• Established a senior management IT security committee to monitor risks and prioritise mitigation actions. • Appointed a group head of IT security. • Enhancing IT security policies and continually upgrading and standardising security tools.
Operations		
Acquisitions ←→	Meggitt continues to pursue acquisitions as part of our growth strategy. Such acquisitions may not realise expected benefits.	• Undertaking due diligence. • Obtaining representations, warranties and indemnities from vendors where possible. • Implementing comprehensive business integration processes.
Contracts ←→	Multi-year, fixed price contracts with original equipment manufacturing customers expose us to variations in production costs. The group is subject to the contracting regulations of our government customers, particularly those of the US government, our largest customer, which can impose a range of sanctions in response to violations.	• Ensuring estimates of cost are based on reliable historic data, future productivity improvements and, where possible, by entry into multi-year, fixed price contracts with major suppliers. • Maintaining a comprehensive ethics and business conduct programme, including guidelines for doing business with the US Government and an anti-corruption policy.
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.

Risk description	Potential impact	Mitigation action
Operations continued		
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.
Transformation programme ↓	The group is well-advanced in 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 and resourcing the programme effectively, helping to deliver savings in excess of original estimates to date. • Phasing in systems changes and introducing shared services in a controlled manner.
Finance		
Credit ←→	Credit risk exists in relation to customers, banks and insurers.	• Maintaining a wide customer base and rigorous credit control procedures. • Maintaining a wide bank group and monitoring relationships with banks and other counterparty risks through our treasury function. • Diversifying funding through US private placement issues. • 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. Risk arises on the translation into sterling of income statements and net assets of overseas subsidiaries.	• Addressing longer-term risk of exposure to exchange rate fluctuations by sourcing goods and services in currencies matching the revenue exposure where cost-effective. • Hedging short-term transaction risk. • Managing translation risk where possible by the 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. The ability to raise additional equity finance is dependent on general market conditions and being able to convince potential investors of the strategic case for investing in Meggitt. Debt facilities are provided for finite periods of time and need to be renewed periodically, unless repaid from cash generated. 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.	• Maintaining good relationships with major shareholders as evidenced by the successful raising of £246 million through an equity placing in January 2011 to support the proposed acquisition of Pacific Scientific Aerospace. • Negotiating debt facility extensions. During the year the group successfully negotiated the raising of an additional USD600 million funds through a private placement. • Basing covenant calculations on frozen GAAP to reduce volatility arising from certain fair value measurements and any future accounting standard 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.

Risk description	Potential impact	Mitigation action
Finance continued		
Interest rates ←→	Fluctuations in rates affect the interest the group pays on its external borrowings.	• Using the underlying character of the debt instruments and interest rate derivatives such as interest rate swaps.
Retirement benefits funding ←→	The group's post-retirement benefit schemes are currently in deficit (£265.1 million at 31 December 2010). The level of future funding may be adversely affected by poor investment performance, changes in corporate bond yields and inflation rates, greater than anticipated improvements in life expectancy and changes in the regulatory environment. This in turn would have an adverse affect on amounts recorded in the income statement and the level of future cash contributions required to be made.	• Closed all defined benefit pension schemes in the UK and USA to new members. • Agreeing deficit recovery plans with the trustees based on actuarial advice and the results of scheme valuations. • Reducing 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, export 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 and the appropriate response to any issues as they arise. • Providing for claims which cannot be recovered from insurers. • Maintaining 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 the efforts, abilities, experience and expertise of certain senior and specialist employees. Failure to retain them or recruit alternatives would have an adverse effect. The group would be adversely 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

Sir Colin Terry KBE CB FREng DL
Non-Executive Chairman + §

Sir Colin, a Chartered Engineer, 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. Sir Colin has recently been appointed to the UK Military Aviation Authority Safety Advisory Committee and as a member of the Advisory Board of Horton International.

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.

Philip Green
Group Corporate Affairs Director §

Philip joined Meggitt in 1994 as Group Company Secretary and was appointed to the Board in January 2001, with responsibility 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.

Paul Heiden
Non-Executive Director * + ‡

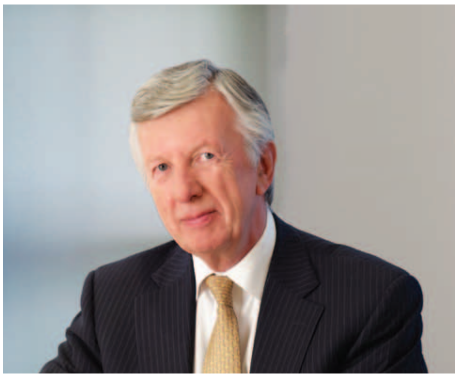
Paul, a Chartered Accountant, was appointed to the Board in June 2010. He was Chief Executive of FKI Plc from 2003 to 2008, having previously held a number of senior positions, including Director, Industrial Business and Finance Director of Rolls-Royce plc and senior financial positions with Peat Marwick, Mitchell and Co, Hanson Plc and Mercury Communications. Paul is also Chairman of Talaris Topco Limited and a non-executive director and Chairman of the audit committee of both UU Plc and the London Stock Exchange Group plc.

Stephen Young
Group Finance Director §

Stephen, a Chartered Management Accountant, 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. On 2 August 2010, Stephen was appointed as a non-executive director of Derwent London plc and serves as a member of the audit, remuneration and nominations committees.

David Williams
Non-Executive Director * + ‡

David, a Chartered Accountant, was appointed to the Board on 13 December 2006, and became Senior Independent Director in February 2011. 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.



David Robins
Non-Executive Director * + ‡

David was appointed to the Board in January 2002. He was, until December 2000, Chairman and Chief Executive of ING Barings, before which he spent 18 years at Phillips & Drew and UBS, becoming Executive Vice President and Regional Head of UBS Europe. He is Chairman of Henderson TR Pacific Investment Trust PLC and Oriel Securities Ltd, a director of a venture capital-backed company and chairman of two charities. On 1 February 2011 David was appointed as a non-executive director of Fidelity Japanese Values PLC.

Membership of committees
* **Audit:** David Williams (Chairman), Paul Heiden, David Robins
+ **Nominations:** Sir Colin Terry (Chairman), Terry Twigger, Paul Heiden, David Williams, David Robins
‡ **Remuneration:** David Robins (Chairman), Paul Heiden, 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 2010. The Group financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") adopted by the EU, International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Act 2006, applicable to companies reporting under IFRSs. 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 4 to 37) 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 transportation.

Dividends

The directors recommend the payment of a final dividend of 6.35p net per ordinary 5p share (2009: 5.75p), to be paid on 6 May 2011 to those members on the register at close of business on 11 March 2011.

An interim dividend of 2.85p (2009: 2.70p) was paid on 1 October 2010. If the final dividend as recommended is approved the total ordinary dividend for the year will amount to 9.20p net per share (2009: 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 2010, the Company made the Meggitt PLC share dividend plan available for the dividends paid in May 2010 (the final dividend for 2009) and in October 2010 (the interim dividend for 2010). The cash dividend necessary to give an entitlement to one new ordinary share was fixed at 290.72p and 268.88p respectively.

Acquisitions and disposals

There were no acquisitions or disposals during the year.

Post balance sheet event

On 18 January 2011, the Company announced the proposed acquisition of Pacific Scientific Aerospace ("PSA") from Danaher Corporation for a total cash consideration of $685.0 million (the "Proposed Acquisition"). PSA is a leading supplier of components to the global civil aerospace and military markets. Organised in six businesses, PSA offers fire suppression, sensing, electric power, electric actuation and security products, with a balanced presence between civil aerospace (57% of revenues) and military (43% of revenues) markets. The Proposed Acquisition, which is dependent upon the satisfaction of customary conditions and regulatory clearances, will be funded in part by an equity placing of 69.8 million new ordinary shares (representing less than 10% of issued share capital as at the date of the placing) ("the Equity Placing") with the balance funded from the Group's existing debt facilities. The equity placing was successfully completed on 21 January 2011 and raised £246.2 million.

Share capital and control

The authorised share capital of the Company at 31 December 2010 and details of shares issued during the financial year is shown in note 35 on page 90. On 31 December 2010 there were 698,034,635 ordinary shares in issue. A further 69,849,333 ordinary shares were issued between 31 December 2010 and 25 February 2011, of which 69,800,000 shares were issued as a result of the Equity Placing in connection with the Proposed Acquisition and 49,333 shares were issued as a result of the exercise of share options. The ordinary shares are listed on the London Stock Exchange.

The rights and obligations attaching to the Company's ordinary shares are set out in the 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 to exercise full voting rights and to participate in any distribution of income or capital.

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 by way of special resolution. The powers of directors are set out in the 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 financing agreements which include change of control provisions which, should there be a change of ownership of the Company, could result in renegotiation, withdrawal or early repayment of these financing agreements. These are a USD 1,420 million revolving credit agreement dated March 2007, a USD 500 million revolving credit agreement dated July 2008, a USD 250 million note purchase agreement dated June 2003 and a USD 600 million note purchase agreement dated June 2010. 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

The Company has a 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 procedure which 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 its introduction in 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 25 February 2011 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:

	Direct voting rights*	Indirect voting rights*	Percentage of total voting rights attaching to the issued ordinary share capital of the Company
Prudential plc	65,492,495	–	8.53
Baillie Gifford & Co	–	34,138,890	4.45
Deutsche Bank AG	31,889,843	1,056,471	4.29
Legal & General Group plc	25,966,967	–	3.38
Standard Life Investments Ltd	22,153,694	3,769,560	3.38

*One voting right per ordinary share.

Share Incentive Plan

The Trustee of the Share Incentive Plan has been allocated £0.7 million from 2010 profits to acquire ordinary shares in Meggitt PLC for eligible employees (2009: £0.6 million).

Directors and their interests

The directors who served during the year were: Sir Colin Terry, Mr T Twigger, Sir Alan Cox, Mr P E Green, Mr P J Hill (resigned 31 March 2010), Mr P Heiden (appointed 3 June 2010), Mr D A Robins, Mr D M Williams and Mr S G Young.

Sir Alan Cox resigned from the Board of Directors on 24 February 2011. The recruitment process for a replacement has begun, and the Board intends to appoint a new non-executive director as soon as possible.

In accordance with Article 72 of the Articles, Mr P E Green and Mr S G Young retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election. Mr D A Robins is retiring in accordance with Article 72 of the Articles and also 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. Mr P Heiden retires at the forthcoming AGM in accordance with Article 68 and being eligible, offers himself for election.

Details of directors' contracts and their interests in the ordinary shares of the Company are shown in the Remuneration Report on pages 46 to 52. 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. Our Corporate Responsibility Report gives a full update on activities and achievements during 2010 and can be found on pages 30 to 33. 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 all employee "Town Hall" functions, team briefings and works councils. We 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. In 2010 we created an interactive history of the Group spanning 150 years, with an engaging audio-visual and a range of associated promotional items which were made available to all employees. This celebration will be reinforced throughout 2011.

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. As at the year end, approximately 89% of UK employees held shares under our Share Incentive Plan and 45% of UK employees were contributing monthly to one or more Sharesave accounts.

Details of share schemes available to directors and senior executives across the Group can be found in the Remuneration Report on pages 46 to 52.

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. There is a Group Health and Safety Policy which is overseen by the Vice-President of Health, Safety and Environment. Further details of our approach to health and safety can be found in the Corporate Responsibility Report on pages 30 to 33.

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 are overseen by the Vice-President of Ethics and Business Conduct. 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. Further details of our approach to ethics and business conduct can be found in the Corporate Responsibility Report on pages 30 to 33.

Directors' report continued

Corporate responsibility continued

Community relations and charitable donations

Charitable donations made by the Group during the year amounted to £0.1 million (2009: £0.1 million). The Company made charitable donations of £8,000 (2009: £19,000). 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 2010 were 49 (2009: 24).

Political contributions

In accordance with the Group's policy, no contributions were made to EU political parties or EU political organisations (2009: £Nil) and no EU political expenditure exceeding £2,000 was incurred in the year by the Company or any of its subsidiaries (2009: none above £2,000).

No contributions to non-EU organisations with political objectives were made during the year (2009: £Nil).

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 £84.2 million (2009: £85.2 million). Excluding amounts funded by customers, it was £67.5 million (2009: £66.0 million), of which £33.5 million (2009: £35.1 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.

2011 Annual General Meeting

Details of the AGM to be held on 20 April 2011 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 routine 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 of the Articles;

(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) increase the maximum aggregate amount of directors' fees;

(v) approve the convening of general meetings on 14 clear days notice in accordance with the Articles; and

(vi) amend the Meggitt 2005 Equity Participation Plan.

Auditors

PricewaterhouseCoopers LLP has expressed its willingness to continue as auditors and a resolution to reappoint them will be proposed at the 2011 AGM. PricewaterhouseCoopers LLP have been the auditors of the Group since 2 October 2003. The lead audit partner is Mr J Maitland whose appointment in this role commenced with effect from the audit for the financial year ended 31 December 2008.

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 IFRSs adopted by the EU, and the Company financial statements in accordance with UK GAAP. 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 IFRSs adopted by the EU and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and 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 38 and 39 confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs adopted by the EU, 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 4 to 37 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

Mark Young

M L Young
Company Secretary
28 February 2011

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 45. Further explanation of how the principles have been applied is set out below and, in connection with Directors' remuneration policies and total packages, is contained in the Remuneration Report on pages 46 to 52.

Board composition

The Board considers it has a good balance of executive and non-executive directors, is of an appropriate size and includes the skills and experience required by the business. As at the date of this report, the Board comprises a non-executive Chairman, Sir Colin Terry, a Chief Executive, Mr T Twigger, two other executive directors and three non-executive directors. Mr P J Hill resigned from the Board on 31 March 2010 and Mr P Heiden was appointed on 3 June 2010. Since the end of the financial year, Sir Alan Cox resigned as a director on 24 February 2011. The recruitment process for a replacement has begun using an external search consultancy, and the Board will appoint a new non-executive director as soon as possible.

During 2010, the senior independent non-executive director was Mr D A Robins. By virtue of his being a director for over nine years, Mr D A Robins stepped down from his position as senior independent non-executive director and has been replaced by Mr D M Williams with effect from 24 February 2011. 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 Heiden and Mr D M Williams. Mr D A Robins is no longer judged to be independent under the Combined Code by virtue of his having recently completed nine years as a member of the Board. However, the Board considers that his extensive business experience continues to make 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 are met.

The Chairman is responsible for leading the Board and for ensuring its effectiveness. Accurate, timely and clear information is provided to all directors and the Chairman 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), Mr P Heiden (appointed 3 June 2010), Mr D A Robins, Mr D M Williams and Mr T Twigger. Mr P J Hill served on the Committee until his resignation on 31 March 2010 and Sir Alan Cox served on the Committee until his resignation on 24 February 2011.

The Committee considers new appointments to the Board, but all directors are consulted and decisions on Board changes are taken by the Board as a whole. During 2010, the Committee reviewed the structure, size and composition of the Board and in the light of these reviews, made recommendations in respect of the role and capabilities required for the appointment of a new non-executive director. Mr P Heiden was appointed in June 2010 using the services of an external search consultancy. Mr Heiden, a Chartered Accountant, was appointed as a result of his wealth of experience of financial, engineering and manufacturing matters across a range of different commercial markets.

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, Mr D A Robins will be subject to re-election in 2011 as he has been appointed as a director for over nine years. The Board has approved written terms of reference for the Committee which are available on the Company's website.

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.

The Board, its committees and proceedings

The Board met eight times during the year, and these meetings were attended by all directors, except that Mr D M Williams was excused from one meeting and from one meeting of the Remuneration Committee and one meeting of the Nominations Committee. Mr D A Robins was excused from two meetings. 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. The Chairman talks with and holds informal meetings with the other non-executive directors without the executives present.

Corporate governance report continued

The Board, its committees and proceedings continued

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.

Committee membership and attendance during 2010 was as follows:

	Meetings during year*	Meetings attended
Audit		
Mr D M Williams (Chairman)	3	3
Mr P J Hill	1	1
Mr D A Robins	3	3
Mr P Heiden	2	2
Remuneration		
Mr D A Robins (Chairman)	5	5
Mr P J Hill	2	2
Mr D M Williams	5	4
Mr P Heiden	3	3
Nominations**		
Sir Colin Terry (Chairman)	2	2
Sir Alan Cox	2	2
Mr P J Hill	1	1
Mr P Heiden	1	1
Mr D A Robins	2	2
Mr D M Williams	2	1
Mr T Twigger	1	1

* This is the number of meetings directors were eligible to attend.
** In addition to the meeting of the nominations committee, the committee also recommended by written resolution that the Board of Directors appoint Mr P Heiden as a director of the Company

Performance evaluation

In January 2011, 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 which it agreed to update. A revised form of terms of reference was approved by the Board at its meeting in February 2011. The Board was satisfied with its effectiveness. The Audit, Remuneration and Nominations 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.

The Company has in place internal control and risk management systems in relation to the Company's financial reporting process and the Group's process for preparation of consolidated accounts. Consolidated Group financial information is derived from the underlying financial systems of the business units. Business unit financial processes are integrated into these financial systems and are monitored and managed through regular monthly reporting. The finance policies and procedures followed in business unit reporting are set out in the Meggitt Finance Policies and Procedures Manual. These polices are reviewed regularly by management and compliance is monitored by management and internal audit.

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 or site directors/general managers (as appropriate) provide annual written confirmation that the business for which they are responsible has complied with Group policies; and
- 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 reviews the lists of key risks and mitigation plans which have 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 Meggitt Finance Policies and 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 Meggitt Finance Policies and 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 ongoing programme of assurance activities including internal and external audit, external tax compliance reviews, environmental and health and safety audits, property risk reviews and export law 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 109% (2009: 119%) of underlying operating profit in 2010.

Audit Committee and auditors

The Audit Committee ("the Committee"), appointed by the Board, currently has two independent members, although it had three independent members throughout the year. 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 2010 the Committee met three times. The external auditors attended these meetings to discuss the scope and the final results of the 2009 audit in detail (which included the main risks facing the Group), the strategy for the 2010 audit and the "hard close" results of the 2010 audit. During the year, the Committee monitored the integrity of the Group's financial statements and reviewed the Group's internal controls and the effectiveness of the internal audit function. The Committee also reviewed 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 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 Notice of AGM and related papers are sent to shareholders at least 20 working days before the meeting.

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.

Share capital

This report includes the information required by the Disclosure and Transparency Rules (DTR) 7.2 to be contained in the Company's corporate governance statement, with the exception of the information required under DTR 7.2.6 which is located in the Directors Report on page 40.

Compliance with the Combined Code

As an English incorporated company with a premium listing on the London Stock Exchange, the Company is, for the year under review, subject to the Combined Code. The Board confirms that throughout the year ended 31 December 2010 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, did not comprise independent non-executive directors. Whilst Sir Alan Cox was no longer regarded as independent owing to his appointment as a non-executive director for more than nine years, the Board considered that his extensive experience in industry and other organisations made him a valuable member of the Board. Sir Alan Cox resigned on 24 February 2011; 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 2010. Sir Alan Cox was no longer regarded as independent owing to his appointment as a non-executive director for more than nine years. As a result, the Committee was made up of six members, of whom three were independent non-executive directors. The Board considered that Sir Alan Cox's extensive experience in industry and other organisations made him a valuable member of the Committee. Sir Alan Cox resigned on 24 February 2011.

In June 2010, the Financial Reporting Council published the UK Corporate Governance Code (the revised Code) which supersedes the Combined Code and is applicable for companies with accounting periods beginning on or after 29 June 2010. The Board has reviewed the provisions of the revised Code and confirms that it intends to comply with the revised Code during the year ended 31 December 2011 and when such compliance is not practical, to make the appropriate disclosures.

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 4 to 37.

By order of the Board

Mark Young

M L Young
Company Secretary
28 February 2011

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 ("AGM") 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 Mr D A Robins (Chairman) and two independent non-executive directors: Mr P Heiden (since his appointment to the Board on 3 June 2010) and Mr D M Williams. Mr P J Hill served on the committee until his resignation as a director of the Company on 31 March 2010. As at January 2011, Mr D A Robins had been a director for longer than nine years. Although this means that the Remuneration Committee is not currently comprised of at least three independent non-executive directors, it is proposed that any new independent non-executive director appointed to the Board during 2011 should also serve on the Committee. None of the directors 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. Towers Watson were appointed as advisors to the Committee between 2004 and July 2010. In July 2010, after a formal review by the Committee, Kepler Associates were appointed by the Committee as remuneration advisors. As far as the Committee is aware, neither Towers Watson nor Kepler Associates has any other relationship with the Company. Appointed advisors provide guidance on remuneration matters at Board level and below.

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. 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 Kepler Associates.

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. Key features of executive director remuneration for 2011 include:

- basic annual salary;
- annual bonus relating to individual and Group performance;
- eligibility for an award of shares under the Equity Participation Plan. Matching awards under the Equity Participation Plan are based on significant co-investment by executives;
- eligibility for a grant of market value options under the Executive Share Option Scheme; 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.

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 executive's basic salary is reviewed by the Committee to take effect from 1 January of each year and for any significant change of responsibility. In deciding salary levels, the Committee has taken advice for 2011 from Kepler Associates, and considers data from appropriate third-party surveys, general market conditions, employment conditions and salary levels and salary level increases across the Group.

In January 2009, salaries for the majority of the Group's top 200 managers were frozen at 2008 levels and this freeze continued throughout 2010. Market conditions for 2011 remain uncertain and challenging, and as such wage restraint across the Group remains a key goal. Against this background, a benchmarking review of executive salary levels was undertaken in 2010. The salaries of Mr T Twigger and Mr S G Young were found to be close to median and the Committee agreed to apply increases of circa 3% (broadly in line with UK inflation) with effect from 1 January 2011. Mr Green's salary was found to be significantly below median and it was agreed to increase his salary by circa 5% with effect from 1 January 2011. At 1 January 2011, the basic salaries of the executive directors were therefore as follows:

T Twigger	£620,000
P E Green	£289,000
S G Young	£371,000

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 2010 are 128% of basic salary as at 31 December 2010 and will be paid in cash. The total bonus pool generated in 2010 was fractionally larger than 2009 reflecting another year of excellent performance in extremely difficult conditions. Profit and cash flow performance was again very strong with underlying profit before tax up 9% to £256.1 million and cash generated up 9% to £137.1 million. Strategic objectives were also met in critical areas; the benefits from the transformation programme continued to flow with savings of £54 million achieved in the year – greater than the targets set. In addition, important progress was made with infrastructure projects, notably the successful implementation of a group-wide ERP system at our initial go-live sites. As aerospace volumes continue to recover, the Company is strongly placed to take advantage of growth opportunities with a set of powerful divisions in each of their fields, good customer relations and a competitive cost base.

The size of the bonus award recognises these achievements and also underlines the Committee's confidence in the executive directors' experience and their ability to manage the business through further challenges in 2011, which we hope will include the successful integration of Pacific Scientific Aerospace (the proposed acquisition of Pacific Scientific Aerospace is described in further detail in the Directors' Report).

For 2011, any bonus payments will continue to be based on a blend of Group profit, cash and strategic targets.

Policy on share schemes

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

The executive share schemes encourage executive directors to contribute towards Meggitt's performance and continuing growth by sharing in the Company's success along with other shareholders. An annual award is normally made under the EPP and the ESOS, 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.

The earnings per share ("EPS") performance condition for the executive share schemes is based on underlying earnings per share as defined in note 16 of the Group's financial statements.

Meggitt Equity Participation Plan 2005

An annual basic award of shares of up to 125% of basic salary may be granted to executive directors under the EPP. The number of shares subject to these awards is calculated in accordance with the rules of the EPP. Historically, basic awards have normally been made at 75% of basic salary. Performance conditions for EPP awards have developed over recent years in consultation with shareholders, as follows:

- 2007 EPP award: single measure, TSR ranking. Zero vesting below median, 30% at median, 100% at upper quartile and pro rata between median and upper quartile;
- 2008 and 2009 EPP awards: 50% TSR ranking (as above), 50% EPS growth (see table below for EPS targets):

Award year	Minimum vesting (30%)	Maximum vesting (100%)
2008 (3-year growth rate)	RPI + 5%	RPI + 8%
2009 (3-year cumulative)	79.5 pence	86.0 pence

Below minimum levels, vesting is zero.
Between minimum and maximum performance, vesting is pro rata.

2010 Award

Despite the Committee approving an award in July 2010, no EPP award was made in 2010 because the Company was in an extended prohibited period in connection with the proposed acquisition of Pacific Scientific Aerospace during the period in which the 2010 EPP award was scheduled to have been made. The prohibited period extended beyond 31 December 2010, meaning it was not possible for the Committee to execute the agreed 2010 EPP award.

It is proposed to seek shareholder approval to make a special award in 2011, which would replicate the structure and economics of the EPP award had it been made in 2010. To achieve this, the Committee is requesting approval at the 2011 AGM to make amendments to the EPP so that EPP awards can be granted as soon as possible after the AGM as follows:

- A basic award of shares worth 75% of salary for executive directors, and up to 50% of salary for the matching award;
- The number of shares to be awarded will be based on the relevant share price immediately before 16 August 2010 being the date at which the prohibited period started;
- 50% of an award will vest based on the same EPS targets as set for the 2010 ESOS award;
- The remaining 50% will vest on Meggitt's TSR ranking against the newly proposed and more relevant TSR peer group (see below), based on TSR over the 3-year period commencing 16 August 2010;
- Awards to vest as soon as practicable after 16 August 2013.

2011 Award

A regular 2011 award is intended to be made in addition to the one-off award described above.

Major shareholders have been consulted on further amendments to these awards for 2011. The amendments are designed to improve participant line-of-sight whilst maintaining an appropriate balance between internal and external measures of performance and to improve the relevance of the TSR comparator group. In summary, these amendments are:

- Change the TSR comparator group to comprise international aerospace and defence companies (see below). The former comparator group comprised a broad-based engineering group including only UK companies. We have observed that despite delivering EPS targets at the top end of expectations (and TSR performance ahead of international aerospace and defence comparators) our TSR performance against this broad group has not been able to overcome narrow aerospace sector sentiment. We have therefore revised the peer group to be more tailored to Meggitt's business and geographic mix;

2009 Comparator Group	2011 Comparator Group
Babcock (replacing VT Group)	**BAE Systems**
BAE Systems	**BBA Aviation**
BBA Aviation	Boeing (USA)
Bodycote International	**Cobham**
Cobham	Curtiss Wright (USA)
IMI	EADS (France)
Invensys	Esterline Technologies (USA)
Melrose	Finmeccanica (Italy)
Rolls-Royce Group	Goodrich (USA)
Smiths Group	Honeywell (USA)
Spectris	Moog Inc (USA)
Spirent	Rockwell Collins (USA)
Tomkins (since removed)	**Rolls-Royce Group**
Ultra Electronics Holdings	Safran (France)
Weir Group	Senior
	Ultra Electronic Holdings
	Woodward Governor (USA)
	Zodiac Aerospace (France)

- Measure TSR of this peer group in common currency;
- Median TSR will achieve 30% vesting. 100% vesting will be at 8% outperformance over median;
- Introduce a cash flow measure with respect to 25% of the award, reducing the TSR weighting to 25%. The measure for this purpose is cash conversion for the three year period, based on cash flow as a percentage of underlying profit after taxation. Cash will be measured before dividends, merger and acquisition costs and capital expenditure. Conversion targets range from 87% (30% vesting) to 95% (100% vesting);
- Aggregate EPS will continue as the measure with respect to 50% of the award. EPS minimum to maximum vesting range for the 2011 awards will be 97.0 pence to 111.0 pence;

Awards under the scheme have not yet been approved for 2011, but are currently intended to be made in the autumn at normal award levels.

Remuneration report continued

Meggitt Equity Participation Plan 2005 continued

Since the last report, the following results are confirmed by the Committee:

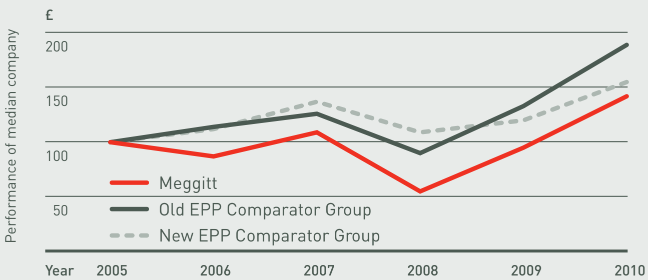
- 2007 EPP award: this award lapsed in August 2010, as the TSR performance condition governing 100% of that award had not been satisfied.
- 2008 EPP award: this award vested at 50% of maximum. This result is the average of zero vesting under the TSR condition for that year and 100% vesting under the EPS growth measure which exceeded the maximum hurdle for that year's award of aggregate growth in excess of RPI plus 8%.

TSR five-year performance

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

The first chart (above) shows the Company's TSR performance against the FTSE 250 as the relevant comparator index. Against this index, the Company's share price has been subject to particular volatility in the face of sector sentiment in the recent macro-economic climate.

The second chart (below) compares the Company's TSR performance against that of both the former broad based UK TSR group and the new sector specific international TSR group described above. This chart supports the view that the new comparator group correlates well with Meggitt. A review of the three year TSR relative to the sector peer group reflects the market's reaction to Meggitt's management throughout the recent volatility and supports the Board's confidence in the Company's sound long-term strategy.



Meggitt Executive Share Option Scheme 2005

An annual grant of options under the ESOS may be made to executive directors. The aggregate market value of shares put under option each year may be up to three times salary.

ESOS awards vest subject to Meggitt's 3-year EPS performance. Targets attached to outstanding awards are as follows:

Award year	Minimum vesting (30%)	Maximum vesting (100%)
2008 (3-year growth rate)	RPI + 5%	RPI + 8%
2009 (3-year cumulative)	79.5 pence	86.0 pence
2010 (3-year cumulative)	79.5 pence	86.0 pence

Below minimum levels, vesting is zero.
Between minimum and maximum performance, vesting is pro rata.

2010 Award

For 2010, awards equivalent to 200% of basic salary were made to executive directors. The price payable for each share under option was calculated in accordance with the ESOS rules as the mid-market value of an ordinary share of the Company on the last dealing day prior to the date of grant. The vesting conditions are set out in the table above.

2011 Award

The Committee has approved awards under the ESOS to executive directors in 2011. The awards will be at 200% of basic salary, calculated under the rules.

The vesting schedule will be unchanged and the performance range has been set at 97.0 pence to 111.0 pence (as per the EPP award). The Committee believes this range to be appropriately demanding within the wider economic environment. The Committee confirms that, both for the EPP and the ESOS, an absolute EPS range remains more appropriate than one expressed relative to RPI.

Since the last report, the Committee confirms that 2008 ESOS awards will vest at 100% as Meggitt's EPS growth from 2007 to 2010 exceeded the maximum hurdle of RPI +8%.

Directors' pension arrangements

During 2010, the executive directors were members of the executive section of the 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 of £135,000 (2010/11 tax year) 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.

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 Limited . Details of any changes in pension entitlements arising in 2010 are shown on page 50. Bonus payments to executive directors are not pensionable. There are no unfunded pension promises or similar arrangements for directors.

The Committee has made the following changes to pension arrangements for executive directors in response to the Government's new rules on tax treatment of pensions:

- Accruals are restricted to a maximum of the new annual allowance. This has the effect of reducing the scheme cap for the executive directors to £104,160;
- The pensions allowance continues to be paid at 50% of salary over the cap;
- As and when any pension fund member reaches the Life Time Allowance and can no longer accrue tax efficient pension benefit, that member will cease to accrue any pension benefit and will receive the pensions allowance with respect to their full salary. This will apply to Mr T Twigger with effect from April 2011.

Directors' share interests

The beneficial interests of the directors and their connected persons in the ordinary shares of the Company at 31 December 2010 were as follows:

	Shareholding Ordinary shares of 5p each 2010	2009
Sir Colin Terry	**11,389**	10,425
T Twigger	**970,743**	895,578
Sir Alan Cox	**22,113**	21,457
P E Green	**498,676**	460,741
P Heiden	**–**	–
D A Robins	**67,464**	65,462
D M Williams	**5,000**	5,000
S G Young	**310,325**	223,220

The share interests shown in the table above include:

(i) Allocations to each of the executive directors of 956 free shares under the Share Incentive Plan on 28 April 2010 at an award price of 313.66p.

(ii) Awards to each of the executive directors under the Deferred Share Bonus Plan on 11 March 2010 at an award price of 290.70p as detailed below:

T Twigger: 36,532 shares. Of the 61,919 shares initially awarded, 25,387 shares were sold at 285.54p per share to cover tax liabilities. Of the remaining 36,532 shares, 18,266 shares will vest in March 2011 with the remaining 18,266 shares vesting in March 2012.

S Young: 21,919 shares. Of the 37,151 shares initially awarded, 15,232 shares were sold at 285.54p per share to cover tax liabilities. Of the remaining 21,919 shares, 10,959 shares will vest in March 2011 with the remaining 10,960 shares vesting in March 2012.

P Green: 16,743 shares. Of the 28,379 shares initially awarded, 11,636 shares were sold at 285.54p per share to cover tax liabilities. Of the remaining 16,743 shares, 8,371 shares will vest in March 2011 with the remaining 8,372 shares vesting in March 2012.

Between 1 January 2011 and 25 February 2011 (the latest date for which it was practical to obtain the information), the only changes to the beneficial interests of the directors in the ordinary shares of the Company are that Mr T Twigger, Mr S G Young and Mr P E Green each acquired 69 shares through the Meggitt PLC Share Incentive Plan.

Executive 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 directors 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 2010 are shown on page 50.

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 2 August 2010 Mr S G Young was appointed as a non-executive director of Derwent London plc, a central London focussed real estate investment trust. Mr T Twigger has been a non-executive director of Filtrona plc since 1 June 2009. Mr P E Green, the remaining executive director, is not a director of any other public company.

Remuneration report continued

Audited information

Details of directors' remuneration

	Basic salary[1] 2010 £	Fees 2010 £	Taxable benefits[2] 2010 £	Bonus payments 2010 £	Other[3] 2010 £	Total emoluments excluding pension 2010 £	Total emoluments excluding pension 2009 £
Executive directors							
T Twigger[4]	**600,000**	**–**	**29,858**	**770,000**	**230,625**	**1,630,483**	1,632,281
P E Green	**275,000**	**–**	**16,934**	**350,000**	**68,125**	**710,059**	714,775
S G Young[5]	**360,000**	**–**	**18,131**	**460,000**	**110,625**	**948,756**	956,327
Non-executive directors							
Sir Colin Terry	**–**	**150,000**	**–**	**–**	**–**	**150,000**	150,000
Sir Alan Cox	**–**	**63,000**	**3,020**	**–**	**–**	**66,020**	65,383
P Heiden[6]	**–**	**25,952**	**–**	**–**	**–**	**25,952**	–
P J Hill[6]	**–**	**11,250**	**–**	**–**	**–**	**11,250**	45,000
D A Robins	**–**	**52,000**	**–**	**–**	**–**	**52,000**	52,000
D M Williams	**–**	**52,000**	**–**	**–**	**–**	**52,000**	52,000
Total	**1,235,000**	**354,202**	**67,943**	**1,580,000**	**409,375**	**3,646,520**	3,667,766

1 Basic salary is shown gross of a salary sacrifice arrangement entered into on 1 April 2009 relating to pension contributions.
2 Taxable benefits include company car, private medical insurance, fuel and telephone.
3 The executive directors receive a pension allowance as detailed on pages 48 to 49.
4 Mr Twigger is a non-executive director and Chairman of the Audit Committee of Filtrona plc. During 2010, he was entitled to retain fees of £37,740 (June – December 2009: £18,500) and £8,874 (June - December 2009: £4,350) respectively for these appointments.
5 On 2 August 2010, Mr Young was appointed as a non-executive director of Derwent London plc. During 2010, he was entitled to retain fees of £18,333 (2009: £Nil).
6 Mr P J Hill resigned as a director on 31 March 2010, and Mr P Heiden was appointed as a director on 3 June 2010.

Directors' pension benefits

	T Twigger £	P E Green £	S G Young £
Meggitt Pension Plan			
Accumulated total accrued pension at 31 December 2009	49,368	67,341	25,966
Real increase in accrued pension in year excluding inflation	(212)	3,887	3,987
Total increase in accrued pension in year	1,318	5,974	4,792
Accumulated total accrued pension at 31 December 2010	50,686	73,315	30,758
Transfer value basis at 31 December 2009*	1,115,757	1,178,239	453,798
Increase in transfer value excluding directors' contributions	70,808	111,339	77,508
Directors' contributions**	–	–	–
Transfer value basis at 31 December 2010*	1,186,565	1,289,578	531,306

* Transfer values do not represent a sum payable to the individual director, but represent a potential liability of the pension scheme.
** Although there are no direct member contributions, the directors all contribute 7% of their capped pensionable salary (amounting to £9,384) through a salary sacrifice arrangement in the same way as all other members of the plan.

Directors' share scheme participation

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

	Date of award	Value of award £	Number of shares at 1 Jan 2010	Lapsed	at 31 Dec 2010	Market price at date of transfer	First date for transfer to director
T Twigger							
Basic Award	17.08.07	374,997	118,252	118,252	–	–	–
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	04.09.07	252,374	79,114	79,114	–	–	–
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	17.08.07	166,125	52,386	52,386	–	–	–
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	04.09.07	111,800	35,047	35,047	–	–	–
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	17.08.07	215,998	68,113	68,113	–	–	–
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	04.09.07	145,368	45,570	45,570	–	–	–
Matching Award	18.08.08	180,000	79,283	–	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 Executive Share Option Scheme, Sharesave 1998 and Sharesave 2008:

	Date of grant	Number of shares under option/award at 1 Jan 2010	Granted/ (exercised)	at 31 Dec 2010	Option/base price	Market price at date of exercise	Date exercisable from	Expiry date
T Twigger								
1996 No 2	02.10.03	172,950	(172,950)	–	179.24p	285.56p	–	–
	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
	12.03.10	–	419,434	419,434	286.10p	–	12.03.13	11.03.20
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
		2,351,403	246,484	2,597,887				

Remuneration report continued

		Number of shares under option/award						
	Date of grant	at 1 Jan 2010	Granted/ (exercised)	at 31 Dec 2010	Option/base price	Market price at date of exercise	Date exercisable from	Expiry date
P E Green								
1996 No 2	02.10.03	83,685	(83,685)	–	179.24p	285.56p	–	–
	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
	12.03.10	–	192,240	192,240	286.10p	–	12.03.13	11.03.20
Sharesave	07.04.05	1,749	(1,749)	–	188.76p	300.00p	–	–
	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
	06.09.10	–	1,389	1,389	222.35p	–	01.11.15	01.05.16
		1,074,549	108,195	1,182,744				

		Number of shares under option/award						
	Date of grant	at 1 Jan 2010	Granted/ (exercised)	at 31 Dec 2010	Option/base price	Market price at date of exercise	Date exercisable from	Expiry 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	285.56p	–	–
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
	12.03.10	–	251,660	251,660	286.10p	–	12.03.13	11.03.20
Sharesave	07.04.05	9,468	–	9,468	188.76p	–	01.06.12	30.11.12
	06.09.10	–	4,047	4,047	222.35p	–	01.11.13	01.05.14
		1,445,854	9,143	1,454,997				

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 2010 was 370.00p and the range during the year was 251.40p to 375.50p. Options and stock-settled share appreciation rights may, in certain circumstances, be exercised or lapse earlier than the dates shown on page 51 and above.

Gains made on exercise of directors' share options

		2010 options exercised			
	Option	Exercise date	Options exercised	Gain 2010 £'000	Gain 2009 £'000
T Twigger	1996 No 2 Executive Share Option Scheme	03.03.10	172,950	**184**	–
	1996 No 2 Executive Share Option Scheme	–	–	**–**	120
P E Green	1996 No 2 Executive Share Option Scheme	03.03.10	83,685	**89**	–
	1996 No 2 Executive Share Option Scheme	–	–	**–**	55
	Sharesave	01.06.10	1,749	**2**	–
S G Young	1996 No 2 Executive Share Option Scheme	03.03.10	246,564	**274**	–
				549	175

Gains in 2010 were made on options granted under the rules of the 1996 Number 2 Executive Share Option Scheme and the 1998 Sharesave Scheme, as detailed in directors' share interests above.

During 2010, 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

D A Robins
Chairman, Remuneration Committee
28 February 2011

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 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes 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 42, 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 and express an opinion on 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 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 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 2010 and of its profit and cash flows for the year then ended;
- 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 43 to 45 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 directors' remuneration 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 parent company.

Under the Listing Rules we are required to review:

- the Directors' Statement, set out on page 45, in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter

We have reported separately on the parent company financial statements of Meggitt PLC for the year ended 31 December 2010 and on the information in the Directors' Remuneration Report that is described as having been audited.

John Maitland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
28 February 2011

Consolidated income statement
For the year ended 31 December 2010

	Notes	2010 £'m	2009 £'m
Continuing operations			
Revenue	5	**1,162.0**	1,150.5
Cost of sales	7	**(639.8)**	(656.3)
Gross profit		**522.2**	494.2
Net operating costs	7	**(302.1)**	(261.4)
Operating profit*	6	**220.1**	232.8
Finance income	12	**33.6**	28.1
Finance costs	13	**(81.2)**	(80.1)
Net finance costs		**(47.6)**	(52.0)
Profit before tax**		**172.5**	180.8
Tax	14	**(33.7)**	(42.0)
Profit for the year from continuing operations attributable to equity holders		**138.8**	138.8
Earnings per share:			
Basic	16	**20.1p**	20.5p
Diluted	16	**19.9p**	20.5p

* Underlying operating profit	10	**303.7**	286.2
** Underlying profit before tax	10	**256.1**	234.2

Consolidated statement of comprehensive income

For the year ended 31 December 2010

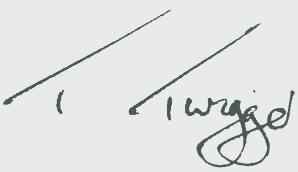
	Notes	2010 £'m	2009 £'m
Profit for the year		**138.8**	138.8
Other comprehensive income/(expense) for the year:			
Actuarial losses	34	**(1.5)**	(67.6)
Currency translation differences		**29.3**	(81.4)
Cash flow hedge movements		**20.6**	10.7
Other comprehensive income/(expense) before tax		**48.4**	(138.3)
Related tax movements	14	**(7.5)**	11.2
Other comprehensive income/(expense) for the year		**40.9**	(127.1)
Total comprehensive income for the year attributable to equity holders		**179.7**	11.7

Consolidated balance sheet

As at 31 December 2010

	Notes	2010 £'m	2009 £'m
Non-current assets			
Goodwill	19	**1,295.5**	1,261.9
Development costs	20	**151.3**	119.0
Programme participation costs	20	**183.8**	174.9
Other intangible assets	21	**722.1**	754.5
Property, plant and equipment	22	**207.1**	215.9
Trade and other receivables	24	**88.6**	36.2
Derivative financial instruments	31	**12.0**	1.9
Deferred tax assets	33	**105.0**	170.6
		2,765.4	2,734.9
Current assets			
Inventories	23	**239.1**	236.5
Trade and other receivables	24	**238.4**	211.3
Derivative financial instruments	31	**6.2**	4.5
Current tax recoverable		**0.8**	0.2
Cash and cash equivalents	25	**51.9**	62.9
		536.4	515.4
Total assets	6	**3,301.8**	3,250.3
Current liabilities			
Trade and other payables	26	**(249.9)**	(239.2)
Derivative financial instruments	31	**(4.0)**	(17.2)
Current tax liabilities		**(60.8)**	(34.6)
Obligations under finance leases	28	**(0.8)**	(0.8)
Bank and other borrowings	29	**(12.7)**	(9.7)
Provisions	32	**(40.7)**	(35.8)
		(368.9)	(337.3)
Net current assets		**167.5**	178.1
Non-current liabilities			
Trade and other payables	27	**(7.8)**	(9.2)
Derivative financial instruments	31	**(17.1)**	(24.5)
Deferred tax liabilities	33	**(329.6)**	(393.2)
Obligations under finance leases	28	**(3.9)**	(4.6)
Bank and other borrowings	29	**(755.9)**	(856.4)
Provisions	32	**(115.3)**	(71.0)
Retirement benefit obligations	34	**(265.1)**	(280.5)
		(1,494.7)	(1,639.4)
Total liabilities		**(1,863.6)**	(1,976.7)
Net assets		**1,438.2**	1,273.6
Equity			
Share capital	35	**34.9**	34.3
Share premium		**859.4**	825.9
Other reserves		**14.1**	14.1
Hedging and translation reserves		**159.1**	117.3
Retained earnings		**370.7**	282.0
Total equity attributable to equity holders		**1,438.2**	1,273.6

The financial statements were approved by the Board of Directors on 28 February 2011 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 2010

	Share capital £'m	Share premium £'m	Other reserves* £'m	Hedging and translation reserves** £'m	Retained earnings £'m	Total equity £'m
At 1 January 2009	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 arising in the year	–	–	–	(81.4)	–	(81.4)
Cash flow hedge movements:						
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)
Related tax movements	–	–	–	(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
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
Profit for the year	**–**	**–**	**–**	**–**	**138.8**	**138.8**
Other comprehensive income/(expense) for the year:						
Actuarial losses	–	–	–	–	(1.5)	(1.5)
Currency translation differences arising in the year	–	–	–	29.3	–	29.3
Cash flow hedge movements:						
Movement in fair value	–	–	–	(3.0)	–	(3.0)
Transferred to income statement	–	–	–	23.6	–	23.6
Other comprehensive income/(expense) before tax	–	–	–	49.9	(1.5)	48.4
Related tax movements	–	–	–	(8.1)	0.6	(7.5)
Other comprehensive income/(expense) for the year	**–**	**–**	**–**	**41.8**	**(0.9)**	**40.9**
Total comprehensive income for the year	**–**	**–**	**–**	**41.8**	**137.9**	**179.7**
Employee share option schemes:						
Value of services provided	–	–	–	–	10.4	10.4
Shares issued	0.1	4.5	–	–	(0.4)	4.2
Dividends	0.5	29.0	–	–	(59.2)	(29.7)
At 31 December 2010	**34.9**	**859.4**	**14.1**	**159.1**	**370.7**	**1,438.2**

* Other reserves relate to capital reserves arising on the acquisitions of businesses in 1985 and 1986 where merger accounting was applied.

** The hedging and translation reserves at 31 December 2010 were made up of a credit balance on the translation reserve of £157.2 million (2009: £130.2 million) and a credit balance on the hedging reserve of £1.9 million (2009: debit balance of £12.9 million). The amounts recycled from the hedging reserve to the income statement have affected finance costs in the case of cash flow hedge movements.

Consolidated cash flow statement

For the year ended 31 December 2010

	Notes	2010 £'m	2009 £'m
Cash inflow from operations before exceptional operating items		**331.3**	341.7
Cash outflow from exceptional operating items	11	**(15.5)**	(21.9)
Cash inflow from operations	40	**315.8**	319.8
Interest received		**0.4**	0.9
Interest paid		**(38.5)**	(42.9)
Tax paid		**(29.9)**	(27.1)
Tax equalisation swap received/(paid)*		**4.2**	(11.8)
Cash inflow from operating activities		**252.0**	238.9
Purchase of subsidiaries	42	**-**	(1.0)
Proceeds from disposal of subsidiaries		**-**	0.3
Capitalised development costs	20	**(33.5)**	(35.1)
Capitalised programme participation costs		**(28.4)**	(23.9)
Purchase of other intangible assets		**(13.7)**	(7.1)
Purchase of property, plant and equipment		**(14.0)**	(18.5)
Proceeds from disposal of property, plant and equipment		**0.2**	0.7
Cash outflow from investing activities		**(89.4)**	(84.6)
Dividends paid to Company's shareholders	17	**(29.7)**	(29.6)
Issue of equity share capital		**4.2**	1.3
Proceeds from borrowings		**395.4**	256.2
Debt issue costs		**(1.7)**	–
Repayments of borrowings		**(542.3)**	(382.4)
Cash outflow from financing activities		**(174.1)**	(154.5)
Net decrease in cash and cash equivalents		**(11.5)**	(0.2)
Cash and cash equivalents at start of year		**62.9**	67.3
Exchange gains/(losses) on cash and cash equivalents		**0.5**	(4.2)
Cash and cash equivalents at end of year	25	**51.9**	62.9

* Represents settlements under tax equalisation swaps designed to hedge the Group's tax exposure on foreign exchange movements.

Notes to the financial statements

1. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted by the EU, 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 certain 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, for acquisitions completed prior to 1 January 2010, costs directly attributable to the acquisition. For acquisitions completed on, or after, 1 January 2010 costs directly attributable to the acquisition are expensed as an exceptional operating item. Identifiable assets and liabilities of the acquired business that meet the conditions for recognition under IFRS 3 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. 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 prevailing 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 CODM has been identified as the Board. The Group has determined that its current segments are Aircraft Braking Systems, Control Systems, Polymers & Composites, Sensing Systems and the Equipment Group.

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 "trading assets" which are defined to exclude from total assets amounts which the CODM does not review on a segmental level. Excluded assets comprise goodwill, other intangible assets, 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.

Notes to the financial statements 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. They include for instance costs directly attributable to an acquisition where the acquisition is completed on or after 1 January 2010 and where the costs are therefore required to be recorded in the income statement, the costs of integrating significant acquisitions, significant restructuring costs and profits or losses made on the disposal of businesses. Exceptional operating items are included within the appropriate consolidated income statement category but are highlighted separately in the notes to the financial statements. They 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", typically over periods 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 straight-line basis over the estimated useful lives of the assets as follows:

Freehold buildings	40 to 50 years
Long and short leasehold property	Over period of lease
Plant and machinery	3 to 10 years
Furnaces	Up to 20 years
Fixtures and fittings	3 to 10 years
Motor vehicles	4 to 5 years

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

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 incurred.

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 at least annually and 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.

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 and deposits held at call with banks. 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 approved by the Board. 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.

Notes to the financial statements 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 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 liability.

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

To the extent 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. Any difference between the movement in the fair value of the derivatives and the hedged 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). 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.

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. 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 amendment to an existing accounting standard became effective during the current period. It has had no significant impact on the current period but is likely to impact future financial statements:

- 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 requires 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 is also required to expense certain transaction costs rather than include them as part of the consideration paid. These changes are applicable to business combinations occurring in accounting periods beginning on or after 1 July 2009.

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:

- 'Improvements to International Financial Reporting Standards 2009';
- IFRS 2 (Amendment), 'Share-based payment';
- IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations';
- IAS 1 (Amendment), 'Presentation of financial statements';
- IAS 27 (Revised), 'Consolidated and separate financial statements';
- IAS 36 (Amendment), 'Impairment of assets';
- IFRIC 15, 'Agreements for the construction of real estate';
- IFRIC 17, 'Distributions of non-cash assets to owners';
- IFRIC 18, 'Transfers of assets from customers'.

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:

- 'Improvements to International Financial Reporting Standards 2010' (Effective for annual periods beginning on or after 1 January 2011);
- IAS 24 (Revised), 'Related party disclosures' (Effective for annual periods beginning on or after 1 January 2011);
- IAS 32 (Amendment), 'Financial instruments: Presentation on classification of rights issues' (Effective for annual periods beginning on or after 1 February 2010);
- IFRS 9, 'Financial Instruments' (Effective for annual periods beginning on or after 1 January 2013 subject to endorsement by the European Union);
- IFRIC 14 (Amendment), 'IAS 19 – Prepayments of a minimum funding requirement' (Effective for annual periods beginning on or after 1 January 2011);
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments' (Effective for annual periods beginning on or after 1 July 2010).

Notes to the financial statements continued

3. Financial risk management

Financial risk factors

The Group's operations expose it to a number of financial risks including market risk (principally foreign exchange risk and 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:

	2010				
	Less than 1 year £'m	**1-2 years £'m**	**2-5 years £'m**	**Greater than 5 years £'m**	**Total £'m**
Trade and other payables	**249.9**	**1.4**	**5.7**	**0.7**	**257.7**
Bank and other borrowings	**9.1**	**204.2**	**161.1**	**384.0**	**758.4**
Interest payments on borrowings	**27.9**	**27.6**	**66.0**	**81.2**	**202.7**
Obligations under finance leases (see note 28)	**0.8**	**1.4**	**2.5**	**–**	**4.7**
Derivative financial instruments:					
Inflows*	**(8.8)**	**(8.9)**	**(26.9)**	**(41.8)**	**(86.4)**
Outflows*	**8.9**	**5.0**	**–**	**–**	**13.9**
Total	**287.8**	**230.7**	**208.4**	**424.1**	**1,151.0**

	2009				
	Less than 1 year £'m	1-2 years £'m	2-5 years £'m	Greater than 5 years £'m	Total £'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

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

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.

	2010		2009	
	Income statement £'m	**Equity £'m**	Income statement £'m	Equity £'m
USD/GBP exchange rate +/- 5%	**9.3**	**27.4**	8.8	35.5
US yield curve +/- 1%	**4.8**	**21.6**	4.6	6.8

Of the impact on equity from movements in the exchange rate, £31.0 million (2009: £36.7 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 Group's committed credit facilities contain two principal financial covenants. The Group has complied with these covenant requirements for the year ended 31 December 2010. Further details on the covenant requirements and the Group's performance against these can be found on pages 27 and 28 of the Performance Review. The capital structure of the Group at the balance sheet date is as follows:

	2010 £'m	2009 £'m
Obligations under finance leases – current (see note 28)	**0.8**	0.8
Bank and other borrowings – current (see note 29)	**12.7**	9.7
Obligations under finance leases – non-current (see note 28)	**3.9**	4.6
Bank and other borrowings – non-current (see note 29)	**755.9**	856.4
Less cash and cash equivalents (see note 25)	**(51.9)**	(62.9)
Total net debt	**721.4**	808.6
Total equity	**1,438.2**	1,273.6
Debt/equity %	**50.2%**	63.5%

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 relate.

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.

Notes to the financial statements continued

4. Critical accounting estimates and judgements continued

Environmental matters

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

	2010 £'m	2009 £'m
Sale of goods	**1,065.0**	1,040.5
Contract accounting revenue	**38.8**	48.8
Revenue from services	**41.5**	42.0
Revenue from funded research and development	**16.7**	19.2
Total	**1,162.0**	1,150.5

6. Segmental analysis

As part of the transformation programme (see note 11), the Group has created five new divisions. Results are reported in 2010 under this new segmental structure, in line with the format now reviewed by the Group's Chief Operating Decision Maker. Comparative segmental information for 2009 has been restated in line with the new segmental structure. The key performance measure reviewed by the Group's Chief Operating Decision Maker ("CODM") is underlying operating profit.

The Group now manages its businesses under the key segments of Aircraft Braking Systems, Control Systems, Polymers & Composites, Sensing Systems and the Equipment Group.

Aircraft Braking Systems is a leading supplier of aircraft wheels, brakes and brake control systems.

Control Systems is a leading supplier of pneumatic, fluid control, thermal management and electro-mechanical equipment and sub-systems.

Polymers & Composites is a leading specialist in fuel containment, engineered aircraft sealing solutions and technical polymers, electro-thermal ice protection and complex composite structures and assemblies.

Sensing Systems is a leading provider of high-performance sensing and condition-monitoring solutions for high-value rotating machinery and other assets.

The Equipment Group division was created to enable a set of strong technologically distinct businesses in safety systems, avionics, live-fire and simulation training and combat support to market their offerings to specialist customers, while benefiting from the Group's investment in shared services and common processes.

6. Segmental analysis continued

Year ended 31 December 2010

	Aircraft Braking Systems £'m	Control Systems £'m	Polymers & Composites £'m	Sensing Systems £'m	Equipment Group £'m	Total £'m
Gross segment revenue	309.7	183.3	156.9	213.7	305.4	1,169.0
Inter-segment revenue	–	(0.5)	(0.9)	(5.3)	(0.3)	(7.0)
Revenue from external customers	**309.7**	**182.8**	**156.0**	**208.4**	**305.1**	**1,162.0**
Underlying operating profit (see note 10)*	**120.7**	**44.7**	**28.4**	**39.5**	**70.4**	**303.7**
Exceptional operating items (see note 11)	(3.4)	(2.0)	(3.0)	(2.3)	(5.0)	(15.7)
Amortisation of intangibles acquired in business combinations (see note 10)	(44.2)	(3.2)	(7.6)	(1.1)	(8.6)	(64.7)
Financial instruments (see note 10)	(3.6)	(1.2)	(0.3)	2.5	(0.6)	(3.2)
Operating profit	69.5	38.3	17.5	38.6	56.2	220.1
Finance income						33.6
Finance costs						(81.2)
Net finance costs						(47.6)
Profit before tax						**172.5**
Tax						(33.7)
Profit for the year						**138.8**
Depreciation (see note 22)	11.0	3.3	3.1	5.8	5.6	**28.8**
Amortisation of intangible assets (see notes 20 and 21)**	67.5	4.1	8.1	4.5	12.4	**96.6**

* 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.

** Of the total amortisation in the year £31.9 million has been charged to underlying profit as defined in note 10.

The Group's largest customer accounts for 10.6% of revenues (£123.1 million). Revenues from this customer arise across all five segments.

	Aircraft Braking Systems £'m	Control Systems £'m	Polymers & Composites £'m	Sensing Systems £'m	Equipment Group £'m	Total £'m
Additions to non-current assets						
Development costs (see note 20)	10.2	4.9	–	11.3	7.1	**33.5**
Programme participation costs (see note 20)	24.6	–	–	–	–	**24.6**
Other intangible assets (see note 21)	4.4	1.0	2.4	5.8	2.2	**15.8**
Property, plant and equipment (see note 22)	3.0	1.6	2.1	4.0	3.5	**14.2**
Total	**42.2**	**7.5**	**4.5**	**21.1**	**12.8**	**88.1**

As at 31 December 2010

	Segment assets £'m
Aircraft Braking Systems	454.6
Control Systems	114.5
Polymers & Composites	69.4
Sensing Systems	176.4
Equipment Group	179.6
Total segmental trading assets	994.5
Centrally managed trading assets	113.8
Goodwill (see note 19)	1,295.5
Other intangible assets (see note 21)	722.1
Derivative financial instruments – non-current (see note 31)	12.0
Deferred tax assets (see note 33)	105.0
Derivative financial instruments – current (see note 31)	6.2
Current tax recoverable	0.8
Cash and cash equivalents (see note 25)	51.9
Total assets	**3,301.8**

Centrally managed trading assets principally include amounts recoverable from insurers in respect of environmental issues relating to former sites and trade and other receivables and property, plant and equipment of central companies.

Notes to the financial statements continued

6. Segmental analysis continued

Year ended 31 December 2009 (Restated)

	Aircraft Braking Systems £'m	Control Systems £'m	Polymers & Composites £'m	Sensing Systems £'m	Equipment Group £'m	Total £'m
Gross segment revenue	319.0	184.0	147.9	196.7	309.7	1,157.3
Inter-segment revenue	(0.2)	(2.1)	–	(4.1)	(0.4)	(6.8)
Revenue from external customers	318.8	181.9	147.9	192.6	309.3	1,150.5
Underlying operating profit (see note 10)*	116.2	43.4	30.0	32.5	64.1	286.2
Exceptional operating items (see note 11)	(6.7)	(1.3)	(2.1)	(3.5)	(7.2)	(20.8)
Amortisation of intangibles acquired in business combinations (see note 10)	(45.4)	(4.3)	(9.3)	(1.1)	(9.1)	(69.2)
Financial instruments (see note 10)	11.3	9.4	4.8	4.5	6.6	36.6
Operating profit	75.4	47.2	23.4	32.4	54.4	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)	10.9	4.0	3.1	5.7	5.8	29.5
Amortisation of intangible assets (see notes 20 and 21)**	65.5	5.4	9.5	4.5	12.0	96.9

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

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

	Aircraft Braking Systems £'m	Control Systems £'m	Polymers & Composites £'m	Sensing Systems £'m	Equipment Group £'m	Total £'m
Additions to non-current assets						
Development costs (see note 20)	11.1	5.7	–	8.7	9.6	35.1
Programme participation costs (see note 20)	27.6	–	–	–	–	27.6
Other intangible assets (see note 21)	3.0	0.9	0.4	1.7	1.1	7.1
Property, plant and equipment (see note 22)	5.3	4.4	2.1	2.9	2.7	17.4
Total	47.0	11.0	2.5	13.3	13.4	87.2

As at 31 December 2009 (Restated)

	Segment assets £'m
Aircraft Braking Systems	434.8
Control Systems	114.3
Polymers & Composites	71.7
Sensing Systems	151.2
Equipment Group	165.2
Total segmental trading assets	937.2
Centrally managed trading assets	56.6
Goodwill (see note 19)	1,261.9
Other intangible assets (see note 21)	754.5
Derivative financial instruments – non-current (see note 31)	1.9
Deferred tax assets (see note 33)	170.6
Derivative financial instruments – current (see note 31)	4.5
Current tax recoverable	0.2
Cash and cash equivalents (see note 25)	62.9
Total assets	3,250.3

Centrally managed trading assets principally include amounts recoverable from insurers in respect of environmental issues relating to former sites and amounts recoverable under tax equalisation swaps, trade and other receivables and property, plant and equipment of central companies.

6. Segmental analysis continued

Geographical information

	2010 £'m	2009 £'m
Revenue		
UK	**117.9**	132.9
Rest of Europe	**261.2**	261.6
North America	**631.2**	600.3
Rest of World	**151.7**	155.7
Total	**1,162.0**	1,150.5

Revenues are based on the location of the customer.

	2010 £'m	2009 £'m
Segment non-current assets		
UK	**564.3**	569.7
Rest of Europe	**129.5**	108.1
North America	**1,863.5**	1,846.0
Rest of World	**2.5**	2.4
Total	**2,559.8**	2,526.2

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

7. Expenses by nature

	2010 £'m	2009 £'m
Raw materials and consumables used	**302.5**	278.8
Changes in inventories of finished goods and work in progress	**(12.9)**	30.4
Employee costs (see note 9)	**370.2**	357.8
Depreciation (see note 22)	**28.8**	29.5
Research and development costs expensed as incurred	**34.0**	30.9
Amortisation of capitalised development costs (see note 20)	**8.2**	6.5
Amortisation of programme participation costs (see note 20)	**19.7**	17.8
Amortisation of other purchased intangible assets (see note 21)	**4.0**	3.4
Amortisation of intangibles acquired in business combinations (see note 10)	**64.7**	69.2
Net foreign exchange losses/(gains)	**1.3**	(0.7)
Operating lease rentals – land and buildings	**10.9**	11.2
Operating lease rentals – plant, equipment and vehicles	**0.8**	0.9
Exceptional operating items (see note 11)	**15.7**	20.8
Financial instruments (see note 10)	**3.2**	(36.6)
Other administration costs	**94.0**	100.9
	945.1	920.8
Other operating income	**(3.2)**	(3.1)
Total	**941.9**	917.7
Analysed in the income statement:		
Cost of sales	**639.8**	656.3
Net operating costs	**302.1**	261.4
Total	**941.9**	917.7

Notes to the financial statements continued

8. Auditor remuneration

		2010 £'m	2009 £'m
Payable to PricewaterhouseCoopers LLP and network firms:			
Audit services	: Fees payable for the audit of the Company and the consolidated financial statements	**0.2**	0.2
	: Fees payable for the audit of the Company's subsidiaries pursuant to legislation	**1.2**	1.1
Non-audit service	: All other services	**0.5**	1.1
Total		**1.9**	2.4

"All other services" primarily relates to fees in respect of cost saving advice on procurement and in 2009 also included 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) during 2009. The aggregate fees paid to the Group's auditor for audit services to these pension schemes in 2009 was £31,000. During 2010 PricewaterhouseCoopers LLP resigned as auditor to these pension schemes and KPMG LLP was appointed. The appointment of auditors to 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 Group engages PricewaterhouseCoopers LLP to undertake those non-audit related activities which they are required to, and most suited to, perform. Further details on the Group's policy in respect of non-audit fees is contained in the Directors' statement on corporate governance on page 45.

9. Employee information

	2010 £'m	2009 £'m
Employee costs including executive directors:		
Wages and salaries	**289.7**	284.6
Social security costs	**51.9**	45.6
Pension and other post-retirement benefit costs (see note 34)	**14.3**	22.2
Share-based payment expense (see note 36)	**14.3**	5.4
Total	**370.2**	357.8

Details of directors' remuneration can be found in the Remuneration Report on pages 46 to 52, which constitutes part of these financial statements.

	2010 No.	2009 No.
Average monthly number of persons employed including executive directors:		
Aircraft Braking Systems	**1,170**	1,288
Control Systems	**945**	1,013
Polymers & Composites	**1,741**	1,765
Sensing Systems	**1,371**	1,422
Equipment Group	**1,638**	1,804
Corporate including shared services and centres of excellence	**323**	254
Total	**7,188**	7,546

Employee numbers have been reported in line with the Group's new segmental structure. Comparatives have been restated in line with this new structure.

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 described below:

	Note	2010 £'m	2009 £'m
Operating profit		**220.1**	232.8
Exceptional operating items (see note 11)		**15.7**	20.8
Amortisation of intangibles acquired in business combinations	a	**64.7**	69.2
Financial instruments	b	**3.2**	(36.6)
Adjustments to operating profit*		**83.6**	53.4
Underlying operating profit		**303.7**	286.2
Profit before tax		**172.5**	180.8
Adjustments to operating profit per above		**83.6**	53.4
Underlying profit before tax		**256.1**	234.2
Profit for the year		**138.8**	138.8
Adjustments to operating profit per above		**83.6**	53.4
Tax effect of adjustments to operating profit		**(30.3)**	(21.2)
Adjustments to profit for the year		**53.3**	32.2
Underlying profit for the year		**192.1**	171.0

* Of the adjustments to operating profit, £4.9 million (2009: £10.0 million) relating to exceptional operating items has been charged to cost of sales with the balance of £78.7 million (2009: £43.4 million) included within net operating costs.

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

	2010 £'m	2009 £'m
Amortisation of other intangible assets (see note 21)	**68.7**	72.6
Less amortisation of purchased intangible assets (see note 21)	**(4.0)**	(3.4)
Amortisation of intangibles acquired in business combinations	**64.7**	69.2

b. 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.

	2010 £'m	2009 £'m
Movement in the fair value of foreign currency forward contracts	**(0.3)**	(41.1)
Impact of retranslating net foreign currency assets and liabilities at spot rate	**0.7**	3.7
Movement in the fair value of interest rate derivatives	**(6.1)**	(2.9)
Movement in the fair value of fixed rate borrowings	**8.9**	3.7
Financial instruments – loss/(gain)	**3.2**	(36.6)

Notes to the financial statements continued

11. Exceptional operating items

	Note	2010 £'m	2009 £'m
Transformation programme	a	**13.2**	16.9
Integration of K & F Industries Holdings, Inc. ("K & F")	b	**1.2**	3.7
Acquisition costs incurred	c	**1.3**	-
Integration of other businesses		**-**	0.3
Profit on disposal of businesses		**-**	(0.1)
Exceptional operating items		**15.7**	20.8

a. In 2009, in response to the economic downturn, the Group commenced a transformation programme involving 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 continued to make good progress during 2010 exceeding the targeted annual run-rate savings of £50.0 million by the end of the year. Further savings have been identified in 2011 with an increased annual run-rate target of £57.0 million set for the end of 2011. Total costs of achieving the £57.0 million savings are expected to be approximately £35.0 million. Costs associated with the programme are treated as an exceptional operating item.

b. Costs were incurred during 2010 in completing the integration of K & F, with final savings of £22.1 million delivered.

c. Costs were incurred during 2010 in respect of the proposed acquisition of Pacific Scientific Aerospace which was announced on 18 January 2011 (see note 44).

Cash expenditure on exceptional operating items was £15.5 million (2009: £21.9 million), including £13.7 million in respect of the transformation programme (2009: £14.6 million), £1.1 million in respect of K & F (2009: £6.4 million) and £0.7 million in respect of acquisition costs (2009: £Nil). The tax credit in respect of exceptional operating items was £4.9 million (2009: £6.4 million).

12. Finance income

	2010 £'m	2009 £'m
Interest on bank deposits	**0.2**	0.4
Unwinding of interest on other receivables	**1.2**	1.1
Expected return on retirement benefit scheme assets (see note 34)	**32.0**	26.1
Other finance income	**0.2**	0.5
Finance income	**33.6**	28.1

13. Finance costs

	2010 £'m	2009 £'m
Interest on bank borrowings	**24.6**	30.5
Interest on senior notes	**12.2**	8.6
Interest on finance lease obligations	**0.3**	0.3
Unwinding of interest on provisions (see note 32)	**1.3**	1.2
Unwinding of interest on retirement benefit scheme liabilities (see note 34)	**41.8**	38.3
Amortisation of debt issue costs	**1.5**	1.5
Less: amounts included in the cost of qualifying assets	**(0.5)**	(0.3)
Finance costs	**81.2**	80.1

14. Tax

	2010 £'m	2009 £'m
Current tax – current year	**45.0**	27.5
Current tax – adjustment in respect of prior years	**0.7**	(3.9)
Deferred tax – current year	**(11.2)**	12.6
Deferred tax – adjustment in respect of prior years	**(0.8)**	5.8
Total taxation	**33.7**	42.0

The Finance (No. 2) Act 2010 included legislation to reduce the main rate of corporation tax in the UK from 28% to 27% with effect from 1 April 2011. Further reductions are proposed to reduce the main rate by 1% per annum to 24% by 1 April 2014.

The legislation to reduce the main tax rate to 27% is reflected in the financial statements for the year ended 31 December 2010. The impact on net deferred tax liabilities as at 31 December 2010, profit for the year (underlying and statutory) and other comprehensive income for the year has not been significant. As the further reductions to the main rate of UK corporation tax have not been substantially enacted at the balance sheet date, their impact is not reflected in these financial statements.

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:

	2010 £'m	2009 £'m
Profit on ordinary activities before taxation at weighted average standard tax rate of 30.8%* (2009: 27.5%)	**53.1**	49.7
Effects of:		
Permanent differences	**(11.2)**	(7.3)
Timing differences	**0.1**	0.8
Effect of changes in statutory tax rates	**(2.2)**	–
Tax credits and incentives	**(6.0)**	(3.1)
Prior year (credit)/charge	**(0.1)**	1.9
Total taxation	**33.7**	42.0

Tax relating to components of other comprehensive income

	2010			2009		
	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	**28.3**	**(2.0)**	**26.3**	(83.2)	(4.2)	(87.4)
Deferred tax on currency translation movements	**1.0**	**(0.3)**	**0.7**	1.8	(0.5)	1.3
Deferred tax on actuarial losses	**(1.5)**	**0.6**	**(0.9)**	(67.6)	18.9	(48.7)
Deferred tax on cash flow hedge movements	**20.6**	**(5.8)**	**14.8**	10.7	(3.0)	7.7
Other comprehensive income	**48.4**	**(7.5)**	**40.9**	(138.3)	11.2	(127.1)
Current tax		**(2.0)**			(4.2)	
Deferred tax		**(5.5)**			15.4	
Total		**(7.5)**			11.2	

Tax relating to items recognised directly in equity

	2010 £'m	2009 £'m
Deferred tax credit relating to share-based payment	**2.6**	1.1
Total	**2.6**	1.1

*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 2010 to increase or reduce respectively by approximately £1.7 million.

15. Profit of parent company

The profit attributable to the shareholders of Meggitt PLC includes a profit, after dividends received, of £86.5 million (2009: £132.0 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 0.6 million shares (2009: Nil) being the weighted average number of own shares bought by the Group and held during the year by an independently managed Employee Share Ownership Plan Trust (see note 37). 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.

	2010 Profit* £'m	2010 Shares No. 'm	2010 EPS Pence	2009 Profit* £'m	2009 Shares No. 'm	2009 EPS Pence
Basic EPS	**138.8**	**691.5**	**20.1**	138.8	676.4	20.5
Potential effect of dilutive ordinary shares	**–**	**7.9**	**(0.2)**	–	0.5	–
Diluted EPS	**138.8**	**699.4**	**19.9**	138.8	676.9	20.5

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

Notes to the financial statements continued

16. Earnings per ordinary share continued

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

	2010 Pence	2009 Pence
Basic EPS	**20.1**	20.5
Add back effects of:		
Exceptional operating items	**1.6**	2.1
Amortisation of intangibles acquired in business combinations	**5.8**	6.5
Financial instruments	**0.3**	(3.8)
Underlying EPS	**27.8**	25.3

17. Dividends

	2010 £'m	2009 £'m
In respect of earlier years	**–**	38.0
In respect of 2009:		
Interim of 2.70p per share	**–**	18.4
Final of 5.75p per share	**39.4**	–
In respect of 2010:		
Interim of 2.85p per share	**19.8**	–
Dividends paid	**59.2**	56.4
Less paid as scrip dividend (see note 41)	**(29.5)**	(26.8)
Dividends paid in cash	**29.7**	29.6

A final dividend in respect of 2010 of 6.35p per share (2009: 5.75p), amounting to an estimated total final dividend of £48.8 million (2009: £39.4 million) after taking account of the additional shares raised through the successful share placing completed on 18 January 2011 (see note 44,) is to be proposed at the Annual General Meeting on 20 April 2011. 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:

	2010 £'m	2009 £'m
Wages and salaries	**7.1**	7.4
Social security costs	**0.8**	0.9
Pension and other post-retirement benefit costs	**0.5**	0.5
Share-based payment expense	**4.8**	1.6
Total	**13.2**	10.4

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

	2010 Average option/base price Pence	2010 Number outstanding 'm	2009 Average option/base price Pence	2009 Number outstanding 'm
Share options	**209.39**	**0.5**	195.01	1.0
Share appreciation rights – equity-settled	**250.39**	**9.2**	240.92	7.2
Share appreciation rights – cash-settled	**264.70**	**0.6**	264.70	0.6
Equity Participation Plan shares	**N/A**	**4.2**	N/A	4.6
Deferred Share Bonus Plan shares	**N/A**	**0.2**	–	–

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 46 to 52 which constitutes part of these financial statements.

19. Goodwill

	Total £'m
Year ended 31 December 2009	
Opening cost	1,382.7
Exchange rate adjustments	(120.8)
Closing cost	1,261.9
Year ended 31 December 2010	
Opening cost	1,261.9
Exchange rate adjustments	33.6
Closing cost	**1,295.5**

Goodwill is tested for impairment annually or more frequently if there is any indication of impairment. No impairment charge was required in the year (2009: £Nil) and the cumulative impairment charge recognised to date is £Nil (2009: £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. An analysis of goodwill by principal CGU is shown below:

	2010 £'m	2009 £'m
Meggitt Aircraft Braking Systems ("MABS")	**697.5**	679.6
Meggitt (North Hollywood) Inc (formerly Whittaker Controls Inc)	**171.7**	166.5
Meggitt (Rockmart) Inc (formerly Engineering Fabrics Corporation)	**72.5**	70.3
Meggitt Training Systems Inc	**66.6**	64.6
Other	**287.2**	280.9
Total	**1,295.5**	1,261.9

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, as approved by management in December 2010. 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. 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 Meggitt (North Hollywood) Inc are broadly spread across both civil aerospace and military platforms with Meggitt (North Hollywood) 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 Meggitt (North Hollywood) 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. Meggitt (Rockmart) Inc and Meggitt Training Systems Inc both operate in the military sectors. The principal customer of Meggitt (Rockmart) Inc is the US DoD to whom Meggitt (Rockmart) Inc 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.

  In civil aerospace growth in capacity terms, measured in available seat kilometres (ASKs), is forecast to grow by at least the long-term trend of 5% in 2011 and beyond which, together with the Group's growing fleet, should drive an increase in the Group's aftermarket revenues of 8-9% per annum. The continued anticipated recovery in air passenger travel has been reflected in a significant increase in orders received by Boeing and Airbus with large jet new aircraft deliveries forecast to increase at a compound annual growth rate of around 6% per annum over the next five years. Deliveries of regional aircraft, which fell in 2010, are expected to recover gradually with utilisation expected to remain strong. In the business jet market, deliveries of new aircraft are predicted to be broadly flat in 2011 although utilisation is expected to continue to recover. Thereafter deliveries of new business jets are expected to recover strongly as a number of new platforms enter the market. In military markets, defence budgets around the world are under pressure, as Government's rebalance spending to reduce national debt. However, with key positions on what are expected to be growth platforms of the future, the Group anticipates organic growth from military markets of around 2% per annum over the medium-term. The Group's energy businesses revenues are forecast to grow at double-digit percentages in the medium-term.

Notes to the financial statements 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 management's 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: 2.4% (2009: 2.2%), US: 2.5% (2009: 2.6%)), 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 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 10.5% (2009: 11.5%), Meggitt (North Hollywood) Inc, 10.9% (2009: 11.9%), Meggitt (Rockmart) Inc 10.9% (2009: 12.0%), and Meggitt Training Systems Inc 10.0% (2009: 11.7%).

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. Management has concluded that no reasonably foreseeable change in the key assumptions used in the impairment model would result in a significant impairment charge being recorded in the financial statements.

20. Development costs and programme participation costs

	Development costs £'m	Programme participation costs £'m
At 1 January 2009		
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	(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
Year ended 31 December 2010		
Opening net book amount	119.0	174.9
Exchange rate adjustments	6.7	4.0
Additions	33.5	24.6
Interest capitalised	0.3	–
Amortisation	(8.2)	(19.7)
Closing net book amount	**151.3**	**183.8**
At 31 December 2010		
Cost	184.3	266.5
Accumulated amortisation	(33.0)	(82.7)
Net book amount	**151.3**	**183.8**

Development costs include £57.2 million (2009: £43.0 million) in respect of Meggitt Sensing Systems which have an estimated weighted average remaining life of 9.6 years (2009: 9.8 years). Programme participation costs include £183.2 million (2009: £174.2 million) in respect of Meggitt Aircraft Braking Systems which have an estimated weighted average remaining life of 9.7 years (2009: 10.3 years).

21. Other intangible assets

	Customer relationships (*) £'m	Technology (*) £'m	Order backlogs (*) £'m	Trade names and trademarks (*) £'m	Other purchased £'m	Total £'m
At 1 January 2009						
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	(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
Year ended 31 December 2010						
Opening net book amount	587.6	140.0	0.4	13.4	13.1	754.5
Exchange rate adjustments	15.8	3.6	0.1	0.4	0.4	20.3
Additions	–	–	–	–	15.8	15.8
Interest capitalised	–	–	–	–	0.2	0.2
Amortisation	(46.1)	(16.6)	(0.5)	(1.5)	(4.0)	(68.7)
Closing net book amount	**557.3**	**127.0**	**–**	**12.3**	**25.5**	**722.1**
At 31 December 2010						
Cost	734.6	192.3	21.8	26.5	45.9	1,021.1
Accumulated amortisation	(177.3)	(65.3)	(21.8)	(14.2)	(20.4)	(299.0)
Net book amount	**557.3**	**127.0**	**–**	**12.3**	**25.5**	**722.1**

* Acquired in a business combination. Amortisation of these items is excluded from the Group's underlying profit figures (see note 10).

Customer relationships include £478.0 million (2009: £501.1 million) in respect of Meggitt Aircraft Braking Systems which have an estimated weighted average remaining life of 13.0 years (2009: 14.6 years). Technology includes £95.6 million (2009: £102.1 million) in respect of Meggitt Aircraft Braking Systems which have an estimated weighted average remaining life of 13.0 years (2009: 15.1 years).

Notes to the financial statements continued

22. Property, plant and equipment

	Land and buildings £'m	Plant, equipment and vehicles £'m	Total £'m
At 1 January 2009			
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)	(9.3)	(16.4)
Additions	3.5	13.9	17.4
Interest capitalised	0.1	–	0.1
Disposals	(0.8)	(0.1)	(0.9)
Depreciation	(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
Year ended 31 December 2010			
Opening net book amount	110.1	105.8	215.9
Exchange rate adjustments	3.3	3.1	6.4
Additions	1.7	12.5	14.2
Disposals	(0.6)	–	(0.6)
Depreciation	(6.1)	(22.7)	(28.8)
Closing net book amount	**108.4**	**98.7**	**207.1**
At 31 December 2010			
Cost	151.4	335.9	487.3
Accumulated depreciation	(43.0)	(237.2)	(280.2)
Net book amount	**108.4**	**98.7**	**207.1**

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 £3.2 million (2009: £4.1 million) and are included within plant, equipment and vehicles.

23. Inventories

	2010 £'m	2009 £'m
Contract costs incurred	**6.8**	8.6
Less progress billings	**(1.0)**	(5.0)
Net contract costs	**5.8**	3.6
Raw materials and bought-in components	**99.0**	109.3
Manufacturing work in progress	**93.3**	81.9
Finished goods and goods for resale	**41.0**	41.7
Total	**239.1**	236.5

The cost of inventories recognised as an expense and included in cost of sales amounted to £631.3 million (2009: £641.2 million).

24. Trade and other receivables

	2010 £'m	2009 £'m
Trade receivables	**189.3**	161.8
Amounts recoverable on contracts	**4.7**	4.6
Prepayments and accrued income	**8.9**	7.7
Other receivables	**124.1**	73.4
Total	**327.0**	247.5
Less non-current portion:		
Other receivables	**88.6**	36.2
Non-current portion	**88.6**	36.2
Current portion	**238.4**	211.3

Other receivables includes £95.3 million (2009: £38.5 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 £10.0 million (2009: £4.9 million) is shown as current.

The Group's trade receivables are stated after a provision for impairment of £3.9 million (2009: £3.5 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:

	2010 £'m	2009 £'m
At 1 January	**3.5**	5.3
Exchange movements	**0.1**	(0.3)
Charge/(credit) to income statement - net operating costs	**0.3**	(1.5)
At 31 December	**3.9**	3.5

As of 31 December 2010, trade receivables of £35.0 million (2009: £32.9 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:

	2010 £'m	2009 £'m
Up to 3 months	**28.0**	28.7
Over 3 months	**7.0**	4.2
Total	**35.0**	32.9

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:

	2010 £'m	2009 £'m
Sterling	**50.5**	55.6
US dollar	**243.2**	159.7
Euro	**28.7**	28.1
Other currencies	**4.6**	4.1
Total	**327.0**	247.5

Notes to the financial statements continued

25. Cash and cash equivalents

	2010 £'m	2009 £'m
Cash at bank and in hand	**51.9**	62.9
Total	**51.9**	62.9

Cash and cash equivalents are subject to interest at floating rates. The credit quality of cash and cash equivalents is as follows:

	2010 £'m	2009 £'m
S&P rating:		
AAA	**0.1**	0.1
AA	**24.7**	32.1
A	**26.9**	30.3
BBB	**0.2**	0.4
Total	**51.9**	62.9

26. Trade and other payables – current

	2010 £'m	2009 £'m
Payments received on account	**43.7**	48.4
Trade payables	**89.2**	69.2
Social security and other taxes	**8.1**	5.1
Accrued expenses	**33.6**	37.4
Deferred consideration relating to acquired businesses	**1.7**	0.9
Other payables	**73.6**	78.2
Total	**249.9**	239.2

27. Trade and other payables – non-current

	2010 £'m	2009 £'m
Deferred consideration relating to acquired businesses	**2.3**	3.1
Other payables	**5.5**	6.1
Total	**7.8**	9.2

28. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2010 £'m	2009 £'m	2010 £'m	2009 £'m
Amounts payable under finance leases:				
Within one year	**1.3**	1.6	**0.8**	0.8
In the second to fifth years inclusive	**4.4**	5.5	**3.9**	4.6
Total	**5.7**	7.1	**4.7**	5.4
Less: future finance charges	**(1.0)**	(1.7)		
Present value of lease obligations	**4.7**	5.4		
Less non-current portion	**3.9**	4.6		
Current portion	**0.8**	0.8		

The underlying currency of obligations under finance leases is Sterling £0.1 million (2009: £0.2 million) and US dollar £4.6 million (2009: £5.2 million). The weighted average period to maturity for these finance leases is 2.9 years (2009: 3.9 years) and the weighted average interest rate is 5.7% (2009: 5.8%).

29. Bank and other borrowings

	2010 £'m	2009 £'m
Current		
Bank loans	**8.2**	8.1
Other loans	**4.5**	1.6
Total current	**12.7**	9.7
Non-current		
Bank loans	**201.6**	696.9
Other loans	**554.3**	159.5
Total non-current	**755.9**	856.4
Total borrowings	**768.6**	866.1
Analysis of borrowings repayable:		
In one year or less	**12.7**	9.7
In more than one year but not more than two years	**203.6**	1.3
In more than two years but not more than five years	**159.8**	810.9
In more than five years	**392.5**	44.2
Total	**768.6**	866.1

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 £1.0 million (2009: £1.3 million).

The Group has the following committed facilities:

	2010			2009		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
Senior notes (2010: USD 250.0 million, 2009: USD 250.0 million)	**159.7**	**–**	**159.7**	154.8	–	154.8
Senior notes (2010: USD 600.0 million, 2009: USD Nil)	**383.2**	**–**	**383.2**	–	–	–
Syndicated credit facility (2010: USD Nil, 2009: USD 500.0 million)	**–**	**–**	**–**	96.4	213.2	309.6
Syndicated credit facility (2010: USD 500.0 million, 2009: USD Nil)	**–**	**319.3**	**319.3**	–	–	–
Syndicated credit facility (2010: USD 920.0 million, 2009:USD 1,170.0 million)	**203.1**	**384.5**	**587.6**	603.2	121.3	724.5
Total	**746.0**	**703.8**	**1,449.8**	854.4	334.5	1,188.9

The Group issued USD 250.0 million of loan notes to private placement investors in 2003. These were all drawn at 31 December 2010 and the sterling equivalent was £159.7 million. The notes are in two tranches as follows: USD 180.0 million carry an interest rate of 5.36% and are due for repayment in 2013 and USD 70.0 million carry an interest rate of 5.46% and are due for repayment in 2015.

The Group issued USD 600.0 million of loan notes to private placement investors in 2010. These were all drawn at 31 December 2010 and the sterling equivalent was £383.2 million. The notes are in four tranches as follows: USD 200.0 million carry an interest rate of 4.62% and are due for repayment in 2017, USD 125.0 million carry an interest rate of 5.02% and are due for repayment in 2020, USD 150.0 million carry an interest rate of 5.17% and are due for repayment in 2020 and USD 125.0 million carry an interest rate of 5.12% and are due for repayment in 2022.

During 2010 the USD 500.0 million credit facility which was available at 31 December 2009 matured and was replaced by a pre-arranged USD 500.0 million credit facility, which was undrawn as at 31 December 2010.

In October 2010 the USD 1,170.0 million credit facility was reduced to USD 920.0 million at the Group's request in order to reduce costs.

At 31 December 2010 the amounts drawn under our revolving credit facilities were £203.1 million (2009: £699.6 million) represented by borrowings denominated in US dollars of £112.1 million (2009: 603.2 million), in Swiss francs of £91.0 million (2009: £89.8 million) and in Euros of £Nil (2009: £6.6 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 available as at 31 December 2010 and 31 December 2009 expire as follows:

	2010			2009		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
Within one to two years	**203.1**	**384.5**	**587.6**	–	–	–
In more than two years	**542.9**	**319.3**	**862.2**	854.4	334.5	1,188.9
Total	**746.0**	**703.8**	**1,449.8**	854.4	334.5	1,188.9

Notes to the financial statements continued

29. Bank and other borrowings continued

The fair value of the Group borrowings is as follows:

	2010		2009	
	Carrying value £'m	**Fair value £'m**	Carrying value £'m	Fair value £'m
Current	**12.7**	**12.7**	9.7	9.7
Non-current	**755.9**	**769.1**	856.4	860.0
Total	**768.6**	**781.8**	866.1	869.7

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 2010:

					Fixed rate borrowings	
	Floating £'m	**Fixed £'m**	**Non-interest bearing £'m**	**Total £'m**	**Weighted average interest rate %**	**Weighted average period for which rate is fixed years**
US dollar	**192.9**	**479.0**	**–**	**671.9**	**5.1**	**3.7**
Swiss franc	**93.1**	**–**	**–**	**93.1**		
Euro	**0.6**	**0.4**	**4.2**	**5.2**	**5.9**	**1.5**
Other	**2.0**	**–**	**–**	**2.0**		
Gross borrowings	**288.6**	**479.4**	**4.2**	**772.2**		
Less unamortised debt issue costs	**(2.6)**	**(1.0)**	**–**	**(3.6)**		
Carrying value of borrowings	**286.0**	**478.4**	**4.2**	**768.6**		

As at 31 December 2009:

					Fixed rate borrowings	
	Floating £'m	Fixed £'m	Non-interest bearing £'m	Total £'m	Weighted average interest rate %	Weighted average period for which rate is fixed years
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)		
Carrying value of borrowings	210.7	650.4	5.0	866.1		

The weighted average period to maturity for non-interest bearing borrowings is 3.1 years (2009: 3.4 years).

30. Financial instruments

For cash and cash equivalents, trade and other receivables, trade and other payables, obligations under finance leases and the current portion of bank and other borrowings, the fair value of the financial instruments approximate to their carrying values 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.

IFRS 7 "Financial Instruments: Disclosures" requires the disclosure of financial assets and liabilities held at fair value using a hierarchy that reflects the significance of the inputs used in making the measurements. Derivative financial instruments measured at fair value in the following table are classified as level 2 in the fair value measurement hierarchy, as they have been determined using significant inputs which are based on observable market data. The fair value of the non-current portion of bank and other borrowings has been determined using significant inputs which are a mixture of those based on observable market data, being interest rate risk and those which are not based on observable market data, being credit risk, for which the Group takes advice from a third party. The non-current portion of bank and other borrowings in the following table is therefore classified as level 3 in the fair value measurement hierarchy.

30. Financial instruments continued

As at 31 December 2010:

	Held at fair value		Held at amortised cost			
	Through profit & loss £'m	Cash flow hedges £'m	Loans & receivables £'m	Other liabilities £'m	Total carrying value £'m	Total fair value £'m
Financial assets						
Non-current:						
Trade and other receivables (see note 24)	–	–	88.6	–	88.6	88.6
Derivative financial instruments (see note 31)	12.0	–	–	–	12.0	12.0
Current:						
Trade and other receivables*	–	–	229.5	–	229.5	229.5
Derivative financial instruments (see note 31)	6.2	–	–	–	6.2	6.2
Cash and cash equivalents (see note 25)	–	–	51.9	–	51.9	51.9
	18.2	–	370.0	–	388.2	388.2
Financial liabilities						
Current:						
Trade and other payables**	–	–	–	(241.8)	(241.8)	(241.8)
Derivative financial instruments (see note 31)	(4.0)	–	–	–	(4.0)	(4.0)
Obligations under finance leases (see note 28)	–	–	–	(0.8)	(0.8)	(0.8)
Bank and other borrowings (see note 29)	–	–	–	(12.7)	(12.7)	(12.7)
Non-current:						
Trade and other payables (see note 27)	–	–	–	(7.8)	(7.8)	(7.8)
Derivative financial instruments (see note 31)	(12.3)	(4.8)	–	–	(17.1)	(17.1)
Obligations under finance leases (see note 28)	–	–	–	(3.9)	(3.9)	(3.9)
Bank and other borrowings (see note 29)	(265.6)	–	–	(490.3)	(755.9)	(769.1)
	(281.9)	(4.8)	–	(757.3)	(1,044.0)	(1,057.2)
Total	(263.7)	(4.8)	370.0	(757.3)	(655.8)	(669.0)

* Excludes prepayments and accrued income of £8.9 million (see note 24).
** Excludes social security and other taxes of £8.1 million (see note 26).

As at 31 December 2009:

	Held at fair value		Held at amortised cost			
	Through profit & loss £'m	Cash flow hedges £'m	Loans & receivables £'m	Other liabilities £'m	Total carrying value £'m	Total fair value £'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	–	–	–	4.5	4.5
Cash and cash equivalents (see note 25)	–	–	62.9	–	62.9	62.9
	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)	–	–	(17.2)	(17.2)
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)

Notes to the financial statements continued

31. Derivative financial instruments

As at 31 December 2010:

	Contract or underlying principal amount		Fair value	
	Assets £'m	Liabilities £'m	Assets £'m	Liabilities £'m
Interest rate swaps	**255.5**	**(191.6)**	**10.9**	**(8.2)**
Foreign currency forward contracts	**79.0**	**(137.2)**	**7.3**	**(12.9)**
Total	**334.5**	**(328.8)**	**18.2**	**(21.1)**
Less non-current portion:				
Interest rate swaps	**255.5**	**(191.6)**	**10.9**	**(8.2)**
Foreign currency forward contracts	**27.2**	**(102.2)**	**1.1**	**(8.9)**
Non-current portion	**282.7**	**(293.8)**	**12.0**	**(17.1)**
Current portion	**51.8**	**(35.0)**	**6.2**	**(4.0)**

As at 31 December 2009:

	Contract or underlying principal amount		Fair value	
	Assets £'m	Liabilities £'m	Assets £'m	Liabilities £'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)

Interest rate swaps

The total notional principal amount of the outstanding interest rate swap contracts at 31 December 2010 is £447.1 million, of which £191.6 million will expire in 2012, £63.9 million will expire in 2017, £111.8 million will expire in 2020 and £79.8 million will expire in 2022. The swap contracts are all denominated in USD.

Of the swap contracts, £191.6 million has the economic effect of converting floating rate US dollar borrowings into fixed rate US dollar borrowings and £255.5 million has the economic effect of converting fixed rate US dollar borrowings into floating rate US dollar borrowings. To the extent they meet the criteria for hedge accounting, the floating rate to fixed rate swap contracts are accounted for as cash flow hedges and the fixed to floating rate contracts as fair value hedges.

The total notional principal amount of outstanding interest rate swap contracts at 31 December 2009 was £495.4 million all of which were denominated in USD and had the economic effect of converting floating rate US dollar borrowings into fixed rate US dollar borrowings.

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 Measurement") are not merited.

	2010 Assets £'m	2010 Liabilities £'m	2009 Assets £'m	2009 Liabilities £'m
Fair value:				
US dollar forward sales (USD/£)	**1.5**	**(12.8)**	3.8	(12.1)
Forward sales denominated in other currencies	**5.8**	**(0.1)**	2.6	(0.2)
Total	**7.3**	**(12.9)**	6.4	(12.3)

Credit quality of derivative financial assets

The credit quality of derivative financial assets is as follows:.

	2010 £'m	2009 £'m
AA	**7.8**	2.7
A	**10.4**	3.7
Total	**18.2**	6.4

32. Provisions

	Environmental legal & regulatory (a) £'m	Onerous contracts (b) £'m	Warranty costs (c) £'m	Total £'m
At 1 January 2010	81.3	9.5	16.0	106.8
Exchange rate adjustments	2.1	0.1	0.5	2.7
Transfers from/(to) trade and other payables – non-current	–	0.1	(0.2)	(0.1)
(Credit)/charge to income statement – cost of sales	–	(0.1)	2.4	2.3
Charge/(credit) to income statement – net operating costs	67.5	(1.8)	–	65.7
Charge to income statement – finance costs (see note 13)	1.2	0.1	–	1.3
Utilised	(15.9)	(1.2)	(5.6)	(22.7)
At 31 December 2010	**136.2**	**6.7**	**13.1**	**156.0**

	2010 £'m	2009 £'m
Current	**40.7**	35.8
Non-current	**115.3**	71.0
At 31 December 2010	**156.0**	106.8

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. A receivable has been established to the extent these costs are recoverable under the Group's environmental insurance policies. During the year an increase of £66.3 million in amounts recoverable from insurers was recognised (2009: £19.6 million). 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 five 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.

Notes to the financial statements continued

33. Deferred tax

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

Deferred tax assets

	Retirement benefit obligations £'m	Other £'m	Total £'m
At 1 January 2009	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
Exchange rate adjustments	1.8	(0.2)	1.6
Reclassifications	–	(4.3)	(4.3)
(Charged)/credited to income statement (see note 14)	(7.0)	4.6	(2.4)
Credited/(charged) to other comprehensive income (see note 14)	0.6	(6.1)	(5.5)
Credited to equity (see note 14)	–	2.6	2.6
At 31 December 2010	**89.0**	**3.2**	**92.2**

Deferred tax liabilities

	Accelerated tax depreciation £'m	Intangible assets (*) £'m	Total £'m
At 1 January 2009	(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)
Exchange rate adjustments	(0.2)	(8.2)	(8.4)
(Charged)/credited to income statement (see note 14)	(0.1)	14.5	14.4
At 31 December 2010	**(11.4)**	**(305.4)**	**(316.8)**

*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:

	2010 £'m	2009 £'m
Deferred tax assets	**105.0**	170.6
Deferred tax liabilities	**(329.6)**	(393.2)
Net balance at 31 December	**(224.6)**	(222.6)

Deferred tax assets are analysed as follows:

	2010 £'m	2009 £'m
To be recovered within 12 months	**2.9**	28.8
To be recovered after more than 12 months	**102.1**	141.8
Total	**105.0**	170.6

Deferred tax liabilities are analysed as follows:

	2010 £'m	2009 £'m
Falling due within 12 months	**(3.7)**	(4.1)
Falling due after more than 12 months	**(325.9)**	(389.1)
Total	**(329.6)**	(393.2)

The Group has unrecognised deferred tax assets of £20.9 million (2009: £20.5 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 (2009: £Nil million).

34. Retirement benefit obligations

Pension schemes

The Group operates one UK defined benefit scheme which is funded and closed to new members. In the USA, the Group operates a number of defined benefit schemes, all of which 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

	2010 £'m	2009 £'m
In respect of:		
Defined contribution pension schemes	11.0	11.7
Defined benefit pension schemes		
Service cost	10.5	9.6
Past service cost	1.3	-
Expected return on scheme assets	(32.0)	(26.1)
Interest cost	38.5	34.7
Total cost of defined benefit pension schemes	18.3	18.2
Healthcare schemes		
Service cost	1.0	0.9
Past service credit*	(9.5)	-
Interest cost	3.3	3.6
Total (credit)/cost of healthcare schemes	(5.2)	4.5
Total charge	**24.1**	34.4

* During the year the Group reached agreement with certain employees in the US whereby the Group will freeze its contribution to medical costs at 2011 levels. Prior to this the Group had been exposed to the risk of future healthcare trend rates. The reduction in scheme liabilities arising from the agreement has been recorded as a past service credit.

Of the total charge, £14.3 million (2009: £22.2 million) has been charged to operating profit (see note 9), of which £10.3 million (2009: £10.1 million) has been included in cost of sales and £4.0 million (2009: £12.1 million) in net operating expenses. The remaining £9.8 million (2009: £12.2 million) is included in net finance costs (see notes 12 and 13).

Amounts recognised in the balance sheet

	2010			
	UK pension scheme £'m	Overseas pension schemes £'m	Overseas healthcare schemes £'m	Total £'m
Fair value of scheme assets	370.6	197.3	–	567.9
Present value of scheme liabilities	(481.4)	(297.0)	(54.6)	(833.0)
Retirement benefit obligations	**(110.8)**	**(99.7)**	**(54.6)**	**(265.1)**

Of the total deficit of £265.1 million, £69.8 million is in respect of unfunded schemes.

	2009			
	UK pension scheme £'m	Overseas pension schemes £'m	Overseas healthcare schemes £'m	Total £'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.

Notes to the financial statements continued

34. Retirement benefit obligations continued

Analysis of scheme assets

	2010							
	UK pension scheme			Overseas pension schemes			Total	
	£'m	%	Expected return %	£'m	%	Expected return %	£'m	%
Equities	**189.3**	**51.1**	**7.70**	**96.6**	**49.0**	**9.75**	**285.9**	**50.3**
Hedge funds	**33.0**	**8.9**	**7.70**	**2.7**	**1.4**	**7.70**	**35.7**	**6.3**
Commodities	**20.1**	**5.4**	**7.70**	**2.2**	**1.1**	**7.70**	**22.3**	**3.9**
Property	**–**	**–**	**N/A**	**8.4**	**4.2**	**7.70**	**8.4**	**1.5**
Corporate bonds	**41.2**	**11.1**	**5.40**	**45.2**	**22.9**	**5.50**	**86.4**	**15.2**
Government bonds	**81.1**	**21.9**	**4.20**	**35.3**	**17.9**	**4.25**	**116.4**	**20.5**
Other assets	**5.9**	**1.6**	**3.40**	**6.9**	**3.5**	**3.30**	**12.8**	**2.3**
Total	**370.6**	**100.0**	**6.61**	**197.3**	**100.0**	**7.43**	**567.9**	**100.0**

	2009							
	UK pension scheme			Overseas pension schemes			Total	
	£'m	%	Expected return %	£'m	%	Expected return %	£'m	%
Equities	210.1	63.7	8.00	79.1	45.4	9.50	289.2	57.4
Property	–	–	N/A	10.5	6.0	7.50	10.5	2.1
Corporate bonds	36.4	11.1	5.70	43.3	24.8	6.00	79.7	15.8
Government bonds	76.0	23.0	4.50	32.9	18.9	4.00	108.9	21.6
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

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

	2010 £'m	2009 £'m
Fair value of scheme assets at 1 January	**504.2**	451.9
Exchange rate adjustments	**11.4**	(17.6)
Expected return on scheme assets	**32.0**	26.1
Contributions – Group	**34.6**	32.3
Contributions – Members	**3.3**	4.0
Benefits paid	**(39.3)**	(38.6)
Actuarial gains	**21.7**	46.1
Fair value of scheme assets at 31 December	**567.9**	504.2

The actual return on scheme assets was a gain of £53.7 million (2009: Gain of £72.2 million).

Financial assumptions used to calculate scheme liabilities

	2010			2009		
	UK pension scheme	**Overseas pension schemes**	**Overseas healthcare schemes**	UK pension scheme	Overseas pension schemes	Overseas healthcare schemes
Discount rate	**5.40%**	**5.25%**	**5.25%**	5.70%	5.65-5.85%	5.85%
Inflation rate	**3.30%**	**N/A**	**N/A**	3.50%	N/A	N/A
Increases to deferred benefits during deferment*	**2.80%**	**N/A**	**N/A**	3.50%	N/A	N/A
Increases to pensions in payment*	**3.30%**	**N/A**	**N/A**	3.50%	N/A	N/A
Salary increases	**4.30%**	**4.00%**	**N/A**	4.50%	4.00%	N/A
Healthcare cost increases	**N/A**	**N/A**	**	N/A	N/A	**

* To the extent not overridden by specific scheme rules.

** Healthcare cost increases are no longer a significant variable in determining scheme liabilities following the agreement reached by the Group with certain employees in the US in 2010 whereby the Group will freeze its contributions to medical costs at 2011 levels (2009: 8.5% for 2010 trending down to 5.0% by 2017).

34. Retirement benefit obligations continued

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 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.

	2010		2009	
	UK scheme years	**Overseas schemes years**	UK scheme years	Overseas schemes years
Member age 45 (life expectancy at age 65) – male	**23.8-26.3**	**19.0**	23.7-26.2	18.9
Member age 45 (life expectancy at age 65) – female	**26.6-27.9**	**20.9**	26.5-27.8	20.8
Member age 65 (current life expectancy) – male	**21.9-24.5**	**19.0**	21.8-24.4	18.9
Member age 65 (current life expectancy) – female	**24.7-25.9**	**20.9**	24.6-25.8	20.8

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 2010 to increase by approximately £12.1 million;
- The impact of a 10 basis point increase in inflation rate would cause scheme liabilities at 31 December 2010 to increase by approximately £7.8 million;
- The impact of a 10 basis point increase in medical trend rates would cause scheme liabilities at 31 December 2010 to increase by approximately £0.1 million;
- The impact of assuming every scheme member were to live for an additional year would cause scheme liabilities at 31 December 2010 to increase by approximately £21.0 million.

Changes in the present value of scheme liabilities

	2010 £'m	2009 £'m
Present value of scheme liabilities at 1 January	**784.7**	693.1
Exchange rate adjustments	**16.0**	(36.3)
Service cost	**11.5**	10.5
Past service credit	**(8.2)**	-
Interest cost	**41.8**	38.3
Contributions – Members	**3.3**	4.0
Benefits paid	**(39.3)**	(38.6)
Actuarial losses	**23.2**	113.7
Present value of scheme liabilities at 31 December	**833.0**	784.7

Cumulative losses recognised in other comprehensive income

	2010 £'m	2009 £'m
As at 1 January	**(87.0)**	(38.3)
Actuarial losses	**(1.5)**	(67.6)
Deferred tax credit	**0.6**	18.9
Net actuarial losses	**(0.9)**	(48.7)
As at 31 December	**(87.9)**	(87.0)

History of experience gains and losses and retirement benefit obligations

	2010 £'m	2009 £'m	2008 £'m	2007 £'m	2006 £'m
Experience adjustments on scheme assets:					
Gain/(loss)	**21.7**	46.1	(115.0)	(8.7)	5.3
Percentage of scheme assets	**3.8%**	9.1%	(25.4%)	(1.8%)	1.3%
Experience adjustments on scheme liabilities:					
(Loss)/gain	**(5.0)**	3.0	(4.9)	22.1	(7.1)
Percentage of scheme liabilities	**(0.6)%**	0.4%	(0.7%)	3.5%	(1.4%)
Fair value of scheme assets	**567.9**	504.2	451.9	471.4	395.8
Present value of scheme liabilities	**(833.0)**	(784.7)	(693.1)	(624.7)	(493.0)
Scheme deficits	**(265.1)**	(280.5)	(241.2)	(153.3)	(97.2)

The estimated amounts of contributions expected to be paid to the schemes during 2011 is £38.7 million.

Notes to the financial statements continued

35. Share capital and share schemes

Issued share capital

	No. of shares 'm	Nominal value £'m	Net consideration £'m
Allotted and fully paid:			
At 1 January 2010	685.3	34.3	
Issued on exercise of executive share options	1.7	0.1	3.6
Issued on exercise of sharesave options	0.6	-	1.0
Scrip dividends	10.4	0.5	29.5
At 31 December 2010	**698.0**	**34.9**	

From 1 October 2009, the Companies Act 2006 abolished the requirement for a company to have an authorised share capital. On 21 April 2010 the Company adopted new Articles of Association by special resolution, which had the effect of removing the authorised share capital of the Company.

Share Options

Year of grant	No. of ordinary shares under option	Option price per share	Exercise period From	Exercise period To
i) Meggitt 1998 Sharesave Scheme				
2005	166,624	188.76p	01.06.12	30.11.12
2006	259,799	203.18p	01.12.11	31.05.12
2006	50,669	203.18p	01.12.13	31.05.14
ii) Meggitt 2008 Sharesave Scheme				
2008	853,933	171.40p	01.11.11	30.04.12
2008	603,484	171.40p	01.11.13	30.04.14
2008	95,077	171.40p	01.11.15	30.04.16
2010	485,421	222.35p	01.11.13	30.04.14
2010	510,879	222.35p	01.11.15	30.04.16
2010	60,120	222.35p	01.11.17	30.04.18
iii) Meggitt 1996 No 1 Executive Share Option Scheme				
2004	17,200	174.40p	01.04.07	31.03.14
iv) Meggitt 1996 No 2 Executive Share Option Scheme				
2004	525,838	210.59p	06.10.07	05.10.11
v) Meggitt Executive Share Option Scheme 2005 Part A				
2005	355,257	278.65p	10.10.08	09.10.15
2006	62,922	263.67p	27.09.09	26.09.16
2006	11,141	269.23p	09.10.09	08.10.16
2007	41,838	299.00p	29.03.10	28.03.17
2007	10,152	295.50p	16.04.10	15.04.17
2008	88,625	252.50p	25.03.11	24.03.18
2008	14,705	204.00p	07.08.11	06.08.18
2009	76,416	169.50p	30.04.12	29.04.19
2010	80,197	286.10p	12.03.13	11.03.20

All the above options which were granted for nil consideration, may in certain circumstances, be exercised earlier than the dates given. The weighted average remaining contractual life of outstanding options is 3.2 years (2009: 2.9 years).

Share Appreciation Rights – Equity-settled

Year of grant	Indicative number of shares to be released*	Number of ordinary shares under award	Base price per share	Exercise period From	Exercise period To
i) Meggitt Executive Share Option Scheme 2005 Part B					
2005	334,185	1,353,569	278.65p	10.10.08	09.10.15
2006	562,220	1,956,374	263.67p	27.09.09	26.09.16
2006	16,643	61,108	269.23p	09.10.09	08.10.16
2007	388,454	2,024,336	299.00p	29.03.10	28.03.17
2007	7,155	35,533	295.50p	16.04.10	15.04.17
2008	961,286	3,027,027	252.50p	25.03.11	24.03.18
2008	885	3,660	280.50p	08.04.11	07.04.18
2008	460,596	1,026,629	204.00p	07.08.11	06.08.18
2009	2,252,011	4,155,830	169.50p	30.04.12	29.04.19
2010	1,046,804	4,616,418	286.10p	12.03.13	11.03.20

*Based on indicative share price of 370.00p, being the share price as at 31 December 2010.

All the above share appreciation rights which were granted for nil consideration, may in certain circumstances, be exercised earlier than the dates given. The weighted average remaining contractual life of outstanding share appreciation rights is 7.5 years (2009: 7.9 years).

36. 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 £14.3 million (2009: £5.4 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. Awards under Part A of the schemes provide for the executive on exercise to be entitled, on payment of the option price, to the number of shares under option. Awards under Part B of the schemes are in the form of equity-settled share appreciation rights (SAR's) and provide for the executive on exercise to be entitled to receive equity equivalent to the gain in value between the option price and the market price on the date of exercise.

An expense of £3.2 million (2009: £1.0 million) was recorded in the year. Movements in the number of outstanding awards and their related weighted average option prices are as follows:

	2010 Average option price Pence	**2010 Number of awards outstanding 'm**	2009 Average option price Pence	2009 Number of awards outstanding 'm
At 1 January	**232.91**	**17.5**	249.75	14.1
Granted	**286.10**	**4.9**	169.50	4.5
Lapsed	**227.15**	**(0.6)**	249.88	(0.5)
Exercised	**224.73**	**(2.3)**	138.07	(0.6)
At 31 December	**247.34**	**19.5**	232.91	17.5

As at 31 December 2010, of the total number of awards outstanding, 6.5 million (2009: 6.4 million) are exercisable. 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:

	2010 Award in March	2009 Award in April
Share price at date of grant (pence)	**286.10**	169.50
Option price (pence)	**286.10**	169.50
Vesting period (years)	**3**	3
Expected volatility	**36%**	35%
Expected life of option (years)	**5**	5
Risk free rate	**2.75%**	2.60%
Expected dividend yield	**3.20%**	3.10%
Fair value at date of award (pence)	**74.74**	42.30

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.

Cash-settled

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 £6.4 million (2009: £2.4 million) was recorded in the year. The Group has recorded a liability at the balance sheet date of £8.4 million (2009: £2.6 million). The total intrinsic value at the balance sheet date was £10.1 million (2009: £0.4 million).

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

	2010 Average option price Pence	**2010 Number of SAR's outstanding 'm**	2009 Average option price Pence	2009 Number of SAR's outstanding 'm
At 1 January	**242.70**	**9.2**	258.72	8.8
Granted	**286.10**	**0.6**	169.50	1.6
Lapsed	**221.91**	**(0.4)**	259.80	(1.2)
Exercised	**269.38**	**(1.2)**	N/A	-
At 31 December	**243.05**	**8.2**	242.70	9.2

As at 31 December 2010, of the total number of awards outstanding, 2.9 million (2009: 2.3 million) are exercisable. 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.

Notes to the financial statements continued

36. 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 ultimately received, depended on the Group's performance during a three year period commencing at the beginning of the financial year in which the award was made. Performance was 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 and subsequent awards. In line with what is now common market practice, the vesting of 50% of the awards is based on TSR performance and 50% on an earnings per share condition (EPS). The three year performance period for awards made in 2009 and subsequent awards, which are subject to the TSR performance condition, was also amended to commence on the date of award.

An expense of £4.3 million (2009: £1.7 million) was recorded in the year. Movements in the number of outstanding shares that may potentially be released to employees are as follows:

	2010 No. of shares under award outstanding 'm	2009 No. of shares under award outstanding 'm
At 1 January	**7.7**	5.9
Awarded	**-**	3.8
Lapsed	**(1.8)**	(1.9)
Released to employees	**-**	(0.1)
At 31 December	**5.9**	7.7

No award was made in 2010. As at 31 December 2010, none of the shares under award are eligible for release (2009: Nil).

The fair value of the award made in 2009 and which is subject to the EPS condition was 193.90 pence. The fair value of the award made in 2009 which is subject to the TSR performance condition was 117.90 pence and was measured using a Monte Carlo model. The significant assumptions used in the model and the fair values determined were:

	2009 Award in September
Share price at date of award (pence)	193.90
Vesting period (years)	3
Expected volatility	45%
Expected life of award (years)	3
Risk free rate	2.50%
Expected dividend yield	3.70%
Fair value at date of award (pence)	117.90

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

37. Own shares

Own shares represents shares in the Company that are held by an independently managed Employee Share Ownership Plan Trust ("the trust") 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 46 to 52.

At 31 December 2010 the trust held 727,247 ordinary shares (2009: Nil) of which 718,027 were allocated to the Deferred Share Bonus Plan and 9,220 were unallocated, being retained by the trust for future use. The shares were purchased during the year and have a cost of £2.1 million at 31 December 2010.

The market value of the shares at 31 December 2010 was £2.7 million representing 0.1% of the issued share capital of the Company. The Group retains the full benefit of the unallocated shares. The Group also retains the full benefit of 135,909 of the shares in the Deferred Share Bonus Plan until such time as awards are released to participating employees. The Group has no benefit accruing to it over the remaining 582,118 shares in the Deferred Share Bonus Plan.

38. 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 guarantees is not considered to be significant.

The Company and various of its subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the ordinary course of business. The directors do not anticipate that the outcome of these proceedings, actions and claims, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.

39. Contractual commitments

Capital commitments

	2010 £'m	2009 £'m
Contracted for but not incurred:		
Intangible assets	**0.5**	1.2
Property, plant & equipment	**4.3**	3.4
Total	**4.8**	4.6

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:

	2010 £'m	2009 £'m
Not later than one year	**11.0**	11.6
Later than one year and not later than five years	**27.1**	29.7
Later than five years	**16.4**	17.5
Total	**54.5**	58.8

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 contingent liabilities arising from these commitments.

40. Cash inflow from operations

	2010 £'m	2009 £'m
Profit for the year	**138.8**	138.8
Adjustments for:		
Tax (see note 14)	**33.7**	42.0
Depreciation (see note 22)	**28.8**	29.5
Amortisation (see notes 20 and 21)	**96.6**	96.9
Loss on disposal of property, plant & equipment	**0.2**	0.1
Loss on disposal of intangible assets	**-**	0.1
Profit on disposal of businesses (see note 11)	**-**	(0.1)
Finance income (see note 12)	**(33.6)**	(28.1)
Finance costs (see note 13)	**81.2**	80.1
Financial instruments (see note 10)	**3.2**	(36.6)
Retirement benefit obligation deficit payments	**(23.1)**	(21.8)
Share-based payment expense (see note 36)	**14.3**	5.4
Changes in working capital:		
Inventories	**4.7**	14.2
Trade and other receivables	**(77.7)**	40.0
Trade and other payables	**3.4**	(46.1)
Provisions	**45.3**	5.4
Cash inflow from operations	**315.8**	319.8

41. Major non-cash transactions

During the year Meggitt PLC issued 10.4 million shares worth £29.5 million (see note 17) in respect of scrip dividends (2009: 18.9 million shares worth £26.8 million).

Notes to the financial statements continued

42. Business combinations

Total consideration paid in respect of acquisitions is as follows:

	2010 £'m	2009 £'m
Businesses acquired in earlier years	–	1.0
Total consideration paid	–	1.0

43. Restatement of prior year comparatives

As part of the transformation programme (see note 11), the Group has created five new divisions. Results are reported in 2010 under this new segmental structure, in line with the format now reviewed by the Group's Chief Operating Decision Maker. Comparative segmental information for 2009 has been restated in line with the new segmental structure (see note 6).

44. Post balance sheet events

On 18 January 2011, the Company announced the proposed acquisition of Pacific Scientific Aerospace ("PSA") from Danaher Corporation for a total cash consideration of $685.0 million. PSA is a leading supplier of components to the global civil aerospace and military markets. Organised in six businesses, PSA offers fire suppression, sensing, electric power, electric actuation and security products, with a balanced presence between civil aerospace (57% of revenues) and military (43% of revenues) markets. The proposed acquisition, which is subject to normal completion requirements, will be funded in part by an equity placing of 69.8 million new ordinary shares (representing less than 10% of Meggitt's current issued share capital) with the balance being funded from the Group's existing debt facilities. The equity placing was successfully completed on 21 January 2011 and raised £246.2 million.

45. Group companies

The following information is not a complete listing of all subsidiary companies at 31 December 2010 and relates only to those subsidiaries principally affecting the profits or assets of the Group.

United Kingdom

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

Continental Europe

Navarra de Componentes Electronicos SA – Spain
Meggitt (France) SAS – France
Meggitt (Sensorex) SAS – France
Meggitt SA – Switzerland

North America

Meggitt (San Juan Capistrano), Inc – USA
Meggitt (Addison), Inc – USA
Meggitt Defense Systems, Inc – USA
Meggitt Holdings (California) Inc – USA‡
Meggitt Oregon, Inc – USA
Meggitt (Simi Valley), Inc – USA
Meggitt-USA, Inc – USA‡
Meggitt (Troy), Inc – USA
Meggitt (North Hollywood), Inc – USA
Wilcoxon Research Inc – USA
Meggitt (Rockmart), Inc – USA
Meggitt Aircraft Braking Systems Corporation – USA
Meggitt GP Inc – USA‡
Meggitt Holdings (USA) Inc – USA‡
Meggitt Safety Systems Inc – USA
Meggitt Training Systems Inc – USA
Meggitt-USA Holdings LLC – USA ‡
NASCO Aircraft Brake Inc – USA
Meggitt (New Hampshire), 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 2010.
iii) All companies are included in the consolidation.
iv) Companies marked * are direct subsidiaries of Meggitt PLC.
v) Companies marked ‡ are management companies. Otherwise all companies are operating companies engaged in the Group's principal activities as described in the Report of the Directors on page 40.

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 2010 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 42, 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 2010;
- 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 Directors' 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 Directors' 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 2010.

John Maitland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
28 February 2011

Company balance sheet

As at 31 December 2010

	Notes	2010 £'m	2009 £'m
Fixed assets			
Tangible fixed assets	4	**9.6**	5.8
Derivative financial instruments	10	**12.0**	1.9
Investments	5	**187.1**	176.6
		208.7	184.3
Current assets			
Debtors	6	**2,298.8**	2,192.2
Derivative financial instruments	10	**6.2**	5.5
Cash at bank and in hand		**14.8**	25.1
		2,319.8	2,222.8
Creditors – amounts falling due within one year	7	**(561.1)**	(413.0)
Derivative financial instruments	10	**(9.3)**	(20.3)
Net current assets		**1,749.4**	1,789.5
Total assets less current liabilities		**1,958.1**	1,973.8
Creditors – amounts falling due after more than one year	8	**(752.6)**	(852.2)
Provision for liabilities and charges	9	**(0.3)**	(0.3)
Derivative financial instruments	10	**(17.6)**	(24.5)
Net assets		**1,187.6**	1,096.8
Capital and reserves			
Called up share capital	13	**34.9**	34.3
Share premium account	15	**859.4**	825.9
Other reserves	15	**17.5**	17.5
Profit and loss reserve	14	**275.8**	219.1
Total shareholders' funds	15	**1,187.6**	1,096.8

The financial statements were approved by the Board of Directors on 28 February 2011 and signed on its behalf by:

T Twigger
Director

S G Young
Director

Notes to the financial statements of the Company

1. Basis of preparation

These financial statements have been prepared under the historical cost accounting convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial 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

Investments 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	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 held at fair value where a hedge relationship is in place. Any related interest accruals are included within 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 functional currency of the Company.

Transactions and balances
Transactions in foreign currencies are recorded at the rate of exchange prevailing 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

As the Company is unable to identify its share of the underlying assets and liabilities of the Meggitt Pension Plan on a consistent and reasonable basis, the Company accounts for the scheme as though it were a defined contribution scheme. Accordingly the amount charged to the profit and loss account is the contribution payable in the period. Differences between contributions payable in the period and contributions 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 straight-line 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.

Notes to the financial statements of the Company continued

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, otherwise they 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 approved by the Board. 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.

3. Employee costs

	2010 £'m	2009 £'m
Employee costs including executive directors:		
Wages and salaries	**10.7**	8.4
Social security costs	**3.8**	1.3
Other pension costs	**1.1**	1.0
Share-based payment expense (see note 15)	**3.8**	1.2
Total	**19.4**	11.9

Of the share-based payment expense, £1.6 million (2009: £0.5 million) relates to equity-settled awards made under the 1996 No 1 & No 2 Executive Share Option Schemes and Executive Share Option Scheme 2005 and £2.2 million (2009: £0.7 million) relates to awards made under the Meggitt Equity Participation Plan 2005. Details of the fair values of awards made during the year, together with further information on the Group's employee share schemes are included in note 36 of the Meggitt PLC Group accounts.

	2010 No.	2009 No.
Average monthly number of persons employed including executive directors:		
Administration	**90**	50
Total	**90**	50

4. Tangible fixed assets

	Land and buildings £'m	Plant, equipment and vehicles £'m	Total £'m
Cost at 1 January 2010	0.8	7.3	8.1
Additions	–	5.2	5.2
Disposals	–	(0.1)	(0.1)
Cost at 31 December 2010	**0.8**	**12.4**	**13.2**
Accumulated depreciation at 1 January 2010	0.3	2.0	2.3
Charge for year	–	1.4	1.4
Disposals	–	(0.1)	(0.1)
Accumulated depreciation at 31 December 2010	**0.3**	**3.3**	**3.6**
Net book amount at 31 December 2010	**0.5**	**9.1**	**9.6**
Net book amount at 31 December 2009	0.5	5.3	5.8

	2010 £'m	2009 £'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

	2010 £'m	2009 £'m
Shares in subsidiaries:		
At 1 January	**176.6**	172.5
Additions – capital contribution arising from share-based payments (see note 15)	**10.5**	4.1
At 31 December	**187.1**	176.6

A list of principal subsidiaries is included in note 45 of the Meggitt PLC Group accounts.

Notes to the financial statements of the Company continued

6. Debtors

	2010 £'m	2009 £'m
Amounts owed by Group undertakings	**2,296.8**	2,185.4
Other debtors	**0.1**	0.2
Prepayments and accrued income	**0.9**	1.0
Deferred tax assets	**1.0**	5.6
Total	**2,298.8**	2,192.2

Amounts owed by Group undertakings include £200.0 million (2009: £200.0 million) due after more than one year. Deferred tax assets include £0.5 million (2009: £5.3 million) due after one year. All other debtors fall due within 1 year.

7. Creditors – amounts falling due within one year

	2010 £'m	2009 £'m
Bank loans and overdrafts	**0.2**	0.3
Other loans	**3.4**	0.5
Trade creditors	**4.0**	1.5
Amounts owed to Group undertakings	**533.1**	387.3
UK corporation tax payable	**10.2**	16.4
Taxation and social security	**3.9**	1.1
Other creditors	**1.4**	0.6
Accruals	**4.9**	5.3
Total	**561.1**	413.0

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

	2010 £'m	2009 £'m
Bank loans	**201.4**	696.5
Other loans	**551.2**	155.7
Total	**752.6**	852.2

	2010 £'m	2009 £'m
Analysis of bank loans and overdrafts repayable:		
In one year or less	**0.2**	0.3
In more than one year but not more than two years	**201.4**	–
In more than two years but not more than five years	**–**	696.5
Total	**201.6**	696.8

	2010 £'m	2009 £'m
Analysis of other loans repayable:		
In one year or less	**3.4**	0.5
In more than two years but not more than five years	**159.5**	112.4
In more than five years	**391.7**	43.3
Total	**554.6**	156.2

9. Provisions for liabilities and charges

	2010 £'m	2009 £'m
Onerous lease costs	**0.3**	0.3
Total	**0.3**	0.3

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 four years.

10. Derivative financial instruments

	2010 Assets £'m	2010 Liabilities £'m	2009 Assets £'m	2009 Liabilities £'m
Interest rate swaps	**10.9**	**(8.2)**	–	(29.4)
Foreign currency forward contracts	**7.3**	**(18.7)**	7.4	(15.4)
Total	**18.2**	**(26.9)**	7.4	(44.8)
Less non-current portion:				
Interest rate swaps	**10.9**	**(8.2)**	–	(16.0)
Foreign currency forward contracts	**1.1**	**(9.4)**	1.9	(8.5)
Non-current portion	**12.0**	**(17.6)**	1.9	(24.5)
Current portion	**6.2**	**(9.3)**	5.5	(20.3)

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 believe that the FRS 17 deficit for the schemes in which the Company participates would be consistent with the IAS 19 deficits reported in note 34 to the Meggitt PLC Group accounts.

12. Commitments

Capital commitments

	2010 £'m	2009 £'m
Contracted for but not incurred:		
Intangible assets	**0.3**	1.1
Property, plant & equipment	**0.2**	–
Total	**0.5**	1.1

Operating lease commitments

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

	2010 £'m	2009 £'m
Not later than one year	**0.2**	0.2
Later than one year and not later than five years	**0.6**	0.7
Later than five years	**0.9**	1.0
Total	**1.7**	1.9

13. Issued share capital

	No. of shares 'm	Nominal value £'m	Net consideration £'m
Allotted and fully paid:			
At 1 January 2010	685.3	34.3	
Issued on exercise of executive share options	1.7	0.1	3.6
Issued on exercise of sharesave options	0.6	–	1.0
Scrip dividends	10.4	0.5	29.5
At 31 December 2010	**698.0**	**34.9**	

From 1 October 2009, the Companies Act 2006 abolished the requirement for a company to have an authorised share capital. On 21 April 2010 the Company adopted new Articles of Association by special resolution, which had the effect of removing the authorised share capital of the Company.

Notes to the financial statements of the Company continued

14. Profit and loss reserve

	£'m
At 1 January 2010	219.1
Profit for the financial year	86.5
Dividends	(59.2)
Cash flow hedge movements	14.8
Currency translation differences	0.7
Employee share option schemes:	
Value of subsidiary employee services (see note 5)	10.5
Value of services provided (see note 3)	3.8
Shares issued	(0.4)
At 31 December 2010	**275.8**

15. Reconciliation of movement in shareholders funds

	Share capital £'m	Share premium £'m	Other reserves £'m	Profit and loss reserve £'m	Total 2010 £'m	Total 2009 £'m
At 1 January 2010	34.3	825.9	17.5	219.1	1,096.8	977.4
Profit for the financial year	–	–	–	86.5	86.5	132.0
Dividends	–	–	–	(59.2)	(59.2)	(56.6)
Cash flow hedge movements	–	–	–	14.8	14.8	7.7
Currency translation differences	–	–	–	0.7	0.7	2.9
Employee share option schemes:						
Value of subsidiary employee services (see note 5)	–	–	–	10.5	10.5	4.1
Value of services provided (see note 3)	–	–	–	3.8	3.8	1.2
Shares issued	0.1	4.5	–	(0.4)	4.2	1.3
Scrip dividends	0.5	29.0	–	–	29.5	26.8
At 31 December 2010	**34.9**	**859.4**	**17.5**	**275.8**	**1,187.6**	1,096.8

Details of the Group's employee share schemes are included in note 36 of the Meggitt PLC Group accounts.

16. Post balance sheet events

On 18 January 2011, the Company announced the proposed acquisition, by the Group, of Pacific Scientific Aerospace ("PSA") from Danaher Corporation for a total cash consideration of $685.0 million (see note 44 of the Meggitt PLC Group accounts). The proposed acquisition, which is subject to normal completion requirements, will be funded in part by an equity placing of 69.8 million new ordinary shares (representing less than 10% of Meggitt's current issued share capital) with the balance being funded from the Group's existing debt facilities. The equity placing was successfully completed on 21 January 2011 and raised £246.2 million.

Five-year record

	2010 £'m	2009 £'m	2008 £'m	2007 £'m	2006 £'m
Revenue and profit					
Revenue	**1,162.0**	1,150.5	1,162.6	878.2	670.3
Underlying profit before tax	**256.1**	234.2	243.3	179.0	132.7
Exceptional operating items	**(15.7)**	(20.8)	(15.8)	(5.4)	(1.5)
Amortisation of intangibles acquired in business combinations	**(64.7)**	(69.2)	(61.8)	(38.4)	(12.9)
Disposal of inventory revalued in business combinations	**–**	–	(0.3)	(21.3)	(1.3)
Financial instruments	**(3.2)**	36.6	(46.1)	(5.3)	12.1
Goodwill adjustment arising from recognition of tax losses	**–**	–	–	(3.2)	(2.4)
Profit before tax	**172.5**	180.8	119.3	105.4	126.7
Earnings and dividends					
Earnings per share – basic	**20.1p**	20.5p	15.0p	14.6p	18.6p
Earnings per share – underlying	**27.8p**	25.3p	26.5p	22.1p	19.1p
Dividends per ordinary share (paid or proposed in respect of the year)	**9.20p**	8.45p	8.45p	8.20p	7.36p
Gearing ratio					
Year end net cash/borrowings as a percentage of capital employed	**50.2%**	63.5%	81.5%	76.7%	63.0%

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 2006 has been adjusted for the bonus element of the rights issue approved by shareholders in 2007.

Investor Information

Dividends

The proposed 2010 final dividend of 6.35p per share, if approved, will be paid on 6 May 2011 to shareholders on the register on 11 March 2011. The expected payment date for the 2011 interim dividend is 30 September 2011.

Shareholder enquiries

Registrar:
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

T: 0870 703 6210
E: www.investorcentre.co.uk/contactus

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

- Change of address notification
- Lost share certificates
- Dividend payment enquiries
- Dividend mandate instructions. Shareholders may have their dividends paid directly into their bank or building society accounts by completing a dividend mandate form. Tax vouchers are sent directly to shareholders' registered addresses
- Amalgamation of shareholdings. Shareholders who receive more than one copy of the annual report are invited to amalgamate their accounts on the share register.

Shareholders can check their shareholdings at www.computershare.com. The website includes information on recent trends in the Company's share price. Shareholders can view and manage their shareholdings online at www.investorcentre.co.uk. This includes change of address, dividend payment enquiries and dividend mandate updates. Shareholders will need their Shareholder Reference Number (SRN), which can be found on their share certificate and recent dividend tax voucher, to access this site.

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 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. Electronic copies of the Annual Report and Accounts 2010 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.

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. 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 www.ShareGift.org.

Analysis of ordinary shareholders as at 31 December 2010

	Number of shareholders	% of total shares
Size of holdings		
1–999	5,629	0.19
1,000–9,999	2,497	1.12
10,000–99,999	428	1.75
100,000–249,999	99	2.24
250,000–499,999	58	2.90
500,000–999,999	54	5.46
1,000,000 and over	114	86.34
	8,879	100.00

	Number of shareholders	% of total shares
Types of shareholder		
Individuals	7,729	2.83
Banks and nominees	1,045	96.34
Investment and insurance companies	30	0.03
Other	75	0.80
	8,879	100.00

2011 provisional financial calendar

Preliminary announcement for year ended 31 December 2010	**1 March**
Final dividend ex-dividend date	9 March
Final dividend record date	11 March
Report and accounts for year ended 31 December 2010 despatched	18 March
Deadline for receipt of scrip dividend elections	19 April
AGM and interim management statement	**20 April**
Final dividend for year ended 31 December 2010 – payment date	6 May
Interim announcement for period ended 30 June 2011	**2 August**
Interim dividend ex-dividend date	10 August
Interim dividend record date	12 August
Deadline for receipt of scrip dividend elections	16 September
Interim dividend for period ended 30 June 2011 – payment date	30 September
Interim management statement	**4 November**

Key dates

MARCH
1
Preliminary results

APRIL
20
AGM & interim management statement

AUGUST
2
Interim results

NOVEMBER
4
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

Brokers
Bank of America Merrill Lynch

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Information on Meggitt PLC, including the latest share price: **www.meggitt.com**

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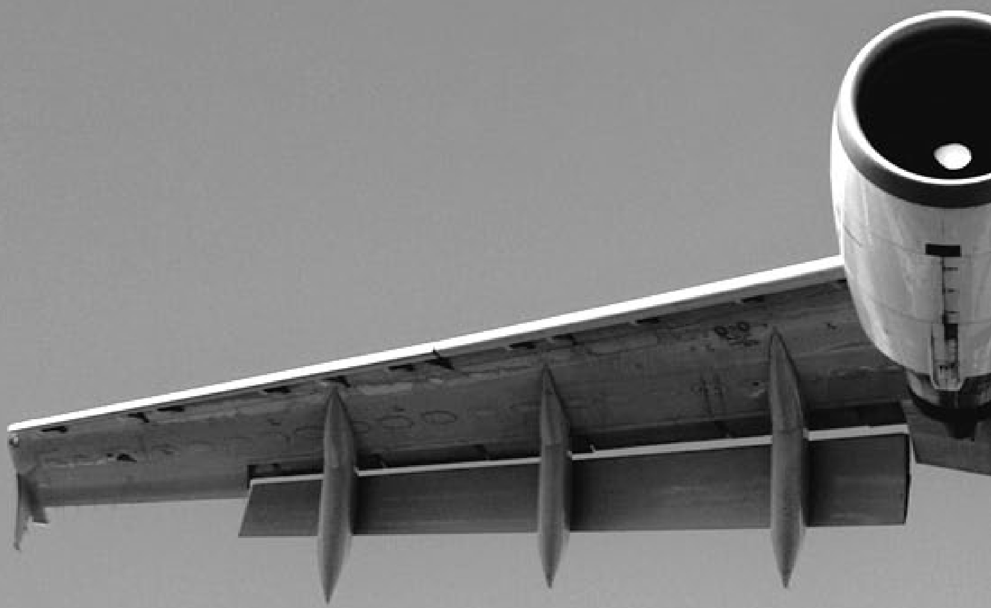

Front cover image: The Airbus A320, a best-selling narrowbody aircraft, is one of Meggitt's highest revenue platforms and carries our seals and sensors and a wide range of system components covering fire detection and thermal management and fluid control.