

MEGGITT (UK) LIMITED
DIRECTORS' REPORT AND FINANCIAL
STATEMENTS
31 DECEMBER 2006

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MEGGITT (UK) LIMITED
DIRECTORS' REPORT & FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2006

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MEGGITT (UK) LIMITED
OFFICERS AND PROFESSIONAL ADVISERS

Directors	T Twigger M L Young P E Green S G Young
Company secretary	M L Thomas
Registered office	Atlantic House Aviation Park West Bournemouth International Airport Christchurch Dorset BH23 6EW
Auditor	PricewaterhouseCoopers LLP Chartered Accountants & Registered Auditors 9 Greyfriars Road Reading Berkshire RG1 1JG

MEGGITT (UK) LIMITED

DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2006

The directors have pleasure in presenting their report and the financial statements of the company for the year ended 31 December 2006

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the company are carried out by its operating divisions as follows

MEGGITT THERMAL SYSTEMS	are manufacturers specialising in rigid and flexible metallic ducting systems and components for aerospace, space vehicle, marine, nuclear and industrial applications
HEATRIC	are designers and manufacturers of compact printed circuit heat exchangers
MEGGITT AVIONICS	are designers of, manufacturers in and carry out in service support of avionics, life support equipment, marine navigation instrumentation systems and related test equipment
VIBRO-METER UK	are designers, developers and manufacturers of ignition products and temperature, speed, rotation, pressure and proximity/position sensors primarily for gas turbine engines and airframes
AVERY-HARDOLL	are designers and manufacturers of fluid management products and services

Financial position

The position of the company at the end of the year is set out in the balance sheet on page 9 and the notes on pages 10 to 27

Future prospects

The directors consider that the company is well placed to continue progress during 2007

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £1,378,000 (2005 £11,851,000) Particulars of dividends paid are detailed in note 10 to the financial statements

No interim dividends (2005 £nil) have been paid A final dividend of 5 10p (2005 10 18p) per ordinary share amounting to £1,157,000 (2005 £2,310,000) is proposed and, if approved, will be paid in 2007 The aggregate dividends on the ordinary shares recognised as an expense during the year amounts to £2,310,000 (2005 £3,802,000) excluding proposed dividends that have yet to be approved by the balance sheet date

FUTURE OUTLOOK

The directors consider that the company is well placed to make progress during 2007

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and the execution of the company's strategy are subject to a number of risks

The key business risks and uncertainties which the business is subject to, both external and internal, are fully discussed, in the context of the Meggitt PLC group ("the group") as a whole, is provided on pages 25 and 26 of the group's annual report which does not form part of this report The key financial risk management objectives and policies are discussed further below

MEGGITT (UK) LIMITED

DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2006

KEY PERFORMANCE INDICATORS "KPIs"

The directors of Meggitt PLC manage the group's operations on a divisional basis. For this reason, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business of Meggitt (UK) Limited. The development, performance and position of the Aerospace division of Meggitt PLC, which includes the company, is discussed on pages 19 to 22 of the group's annual report which does not form part of this report.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's operations expose it to a variety of financial risks including foreign currency risk and credit risk. As the company's operations are principally funded through group loan arrangements it is not exposed directly to external risk factors such as liquidity risk. As these group loan arrangements carry interest on a floating rate basis there is an element of interest rate risk. However any impact will be offset by an equal and opposite amount at the group level. These risks are managed on a group-wide basis by the company's ultimate parent undertaking, Meggitt PLC.

Foreign exchange risk

The company operates internationally and is subject to foreign exchange risks on future commercial transactions with the principal exposure being in respect to the Euro against the Pound Sterling. To mitigate risks associated with future commercial transactions the policy is to hedge known and certain forecast transaction exposures based on historical experience and projections. These hedges are taken out centrally by Meggitt PLC and then amounts are allocated to individual business operations. The overall aim of hedging is to achieve, on a group-wide basis, at least 70% of the next 12 months anticipated exposure with additional cover to hedge up to five years ahead. The amount of hedging cover achieved per business unit will therefore not necessarily always be 70% as it may fluctuate as circumstances necessitate within the overall group-wide policy parameters. The Group has determined that the additional costs of meeting the extensive documentation requirements for the Group's large number of foreign currency forward contracts is not merited. Accordingly gains and losses arising from measuring the contracts at fair value are recorded immediately in the income statement and hedge accounting is not applied.

Credit risk

The company is not subject to significant concentration of credit risk with exposure spread across a large number of companies across the world. Policies are maintained to ensure the company 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.

MEGGITT (UK) LIMITED

DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2006

RESEARCH AND DEVELOPMENT

The directors recognise the importance of investing in research and development programmes which bring innovative improvements to the company both in the products supplied to the consumer and in production techniques. Expenditure in 2006 on research and development amounted to £2,858,000 (2005 £3,753,000), of which £809,000 (2005 £1,262,000) was capitalised in accordance with the Group's accounting policy.

DIRECTORS

The directors who served the company during the year were as follows

T Twigger
D H Clark
M L Young
P E Green
S G Young

M L Young was appointed as a director on 26 July 2006

D H Clark resigned as a director on 31 May 2007

POLICY ON THE PAYMENT OF CREDITORS

It is the company's policy 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. Creditor days at 31 December 2006 were 90 days (2005 100 days).

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing 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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently, with the exception of the changes arising on the adoption of new accounting standards in the year as explained on page 10 under note 1 Accounting Policies,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

MEGGITT (UK) LIMITED

DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2006

DISABLED EMPLOYEES

It is the company's policy to give full and fair consideration to applications for employment made by disabled people, to continue wherever possible the employment of staff who become disabled and to provide opportunities for the training and career development of disabled employees

EMPLOYEE INVOLVEMENT

It is the company's policy to ensure that all employees are kept informed of the progress of their business. During the year employees were provided with information regarding the financial and economic factors affecting the performance of the company and on other matters of concern to them as employees. In addition employees receive copies of the Meggitt Review, a newsletter providing details of notable events and achievements in all companies of the Meggitt Group

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

The Company has dispensed with the requirement to appoint auditors annually under s386 of the Companies Act 1985

In so far as the directors are aware

- there is no relevant audit information of which the company's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

Approved by the Board of Directors on 29 October 2007 and signed on its behalf by



M L THOMAS
Company Secretary

MEGGITT (UK) LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF MEGGITT (UK) LIMITED

YEAR ENDED 31 DECEMBER 2006

We have audited the financial statements of Meggitt (UK) Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared on the basis of the accounting policies set out therein.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

BASIS OF AUDIT OPINION

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

MEGGITT (UK) LIMITED

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF
MEGGITT (UK) LIMITED *(continued)***

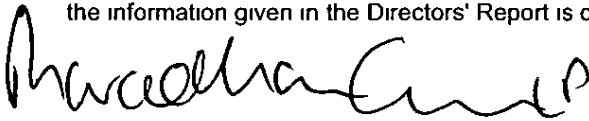
YEAR ENDED 31 DECEMBER 2006

OPINION

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and

the information given in the Directors' Report is consistent with the financial statements



PricewaterhouseCoopers LLP
Chartered Accountants & Registered Auditors
Reading

30/10/2007

MEGGITT (UK) LIMITED
PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 DECEMBER 2006

	Note	2006 £000	2005 (restated) £000
TURNOVER	2	86,009	77,137
Cost of sales		(57,579)	(53,778)
GROSS PROFIT		28,430	23,359
Administrative expenses		(21,352)	(17,538)
Other operating income	3	75	76
OPERATING PROFIT	4	7,153	5,897
Profit on disposal of discontinued operations	6	200	15,000
Cost of restructuring the company	6	644	(5,737)
		7,997	15,160
Interest receivable and similar income	7	512	581
Interest payable and similar charges	8	(4,136)	(3,896)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		4,373	11,845
Tax on profit on ordinary activities	9	(2,995)	6
PROFIT FOR THE FINANCIAL YEAR	26	1,378	11,851

All of the activities of the company are classed as continuing

The company has no recognised gains or losses other than the results for the year as set out above

There is no material difference between the profit on ordinary activities before tax and the profit for the year stated above and their historic cost equivalents

The notes on page 8 form part of these financial statements

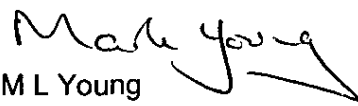
MEGGITT (UK) LIMITED

BALANCE SHEET

31 DECEMBER 2006

	Note	2006 £000	2005 (restated) £000
FIXED ASSETS			
Intangible assets	12	71,172	75,203
Tangible assets	13	12,938	9,022
Investments	14	—	—
		<u>84,110</u>	<u>84,225</u>
CURRENT ASSETS			
Stocks	15	24,837	20,575
Debtors	16	61,257	51,822
Cash in hand		7	9
		<u>86,101</u>	<u>72,406</u>
CREDITORS: Amounts falling due within one year	17	<u>(71,411)</u>	<u>(55,379)</u>
NET CURRENT ASSETS		<u>14,690</u>	<u>17,027</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>98,800</u>	<u>101,252</u>
CREDITORS: Amounts falling due after more than one year	18	<u>(48,911)</u>	<u>(48,911)</u>
		<u>49,889</u>	<u>52,341</u>
PROVISIONS FOR LIABILITIES			
Other provisions	21	<u>(4,918)</u>	<u>(6,816)</u>
		<u>44,971</u>	<u>45,525</u>
CAPITAL AND RESERVES			
Called-up equity share capital	25	22,700	22,700
Share options reserve	26	709	331
Profit and loss account	26	21,562	22,494
TOTAL SHAREHOLDER'S FUNDS	27	<u>44,971</u>	<u>45,525</u>

These financial statements on pages 8 to 27 were approved by the Board of Directors on the 29 October 2007 and are signed on its behalf by


 M L Young
 Director

The notes on page 9 form part of these financial statements

MEGGITT (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2006

1 ACCOUNTING POLICIES

Basis of accounting

The financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable United Kingdom accounting standards. The principal accounting policies have been consistently applied except for any changes arising on the adoption of the new accounting standards as set out below.

Changes in accounting policies

In preparing the financial statements for the current year, the company has adopted the following Financial Reporting Standards:

FRS 20 'Share-based payment (IFRS 2)'

FRS 20 'Share-Based Payment (IFRS 2)' requires the recognition of equity-settled share-based payments at fair value at the date of the grant and the recognition of liabilities for cash-settled share-based payments at the current fair value at each balance sheet date. Prior to the adoption of FRS 20, the company did not recognise the financial effect of share-based payments until such payments were settled.

In accordance with the transitional provisions of FRS 20, the Standard has been applied retrospectively to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

For year ended 31 December 2005, the change in accounting policy has resulted in a net decrease in the profit for the year of £216,000. The balance sheet at 31 December 2005 has been restated to reflect a share based payment reserve of £331,000.

For the year ended 31 December 2006 the change in accounting policy has resulted in a net charge to the profit and loss account of £378,000. At 31 December 2006, the share based payment reserve amounted to £709,000.

Upon adoption of the standard on 1 January 2005 a transfer of £115,000 was made from the profit and loss reserve to credit the newly created share option reserve.

Cash flow statement

As a wholly owned subsidiary of a UK registered company, Meggitt (UK) Limited 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 which are publicly available.

MEGGITT (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2006

1 ACCOUNTING POLICIES *(continued)*

Turnover

Turnover represents amounts receivable for 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 earnings process is complete which occurs when the products are shipped to the customer, title and risk of loss have been transferred and collection is probable.

An appropriate proportion of total long-term contract value is included in turnover and a prudent level of profit is taken based on estimated percentage completion if the final outcome can be reliably assessed.

Research and development

Research and development expenditure is expensed as incurred, with the exception of development expenditure on projects that are undertaken where the related expenditure is separately identifiable and management are satisfied as to the ultimate commercial viability of the project based on all relevant available information. In such cases, the expenditure is capitalised as development costs within intangible fixed assets and written off over the periods expected to benefit, typically up to 10 years, commencing with the launch of the product. Development expenditure is reviewed annually for impairment.

Goodwill

Under the accounting standard FRS10 goodwill arising on the acquisition of subsidiaries after 1 January 1998 has been capitalised and is being amortised over its useful life with a maximum of 20 years. Provision is made for any impairment. In accordance with the Group's accounting policy prior to FRS10, goodwill arising on acquisitions prior to 1 January 1998 has been written off to reserves, and is not significant. Such goodwill will be charged to the profit and loss account on any subsequent disposals of the businesses to which it relates.

Intangible assets

The costs of licences, patents and trademarks are being written off over the periods of the agreements which is their estimated useful life.

Amortisation

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Goodwill	- over useful life (max 20 years)
Development costs	- over period expected to benefit, typically up to 10 years

MEGGITT (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2006

1 ACCOUNTING POLICIES *(continued)*

Fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment

Computer software costs are capitalised only to the extent that they relate to new and proven projects, the costs of which exceed £10,000

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Plant & Machinery	- 10-20%
Leasehold Property	- over the term of the lease

Stocks

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost represents materials, direct labour and production overheads. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

Long-term contracts are dealt with in accordance with SSAP 9 (revised). Provision is made for the full amount of foreseeable losses on contracts.

Work in progress

Work in progress is valued on the basis of direct costs plus attributable overheads based on normal level of activity. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

MEGGITT (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2006

1 ACCOUNTING POLICIES *(continued)*

Pension costs

The company's employees are covered under the Meggitt PLC group defined benefit pension schemes funded by both employer's and employees' contributions. More than one employer participates in the Meggitt PLC group pension schemes and because each company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis, the company is accounting for its contributions to the schemes as if they were defined contribution schemes. Accordingly, the cost of the company's contributions to the schemes are equal to the contributions payable to the schemes during the year, and this cost has been recognised within operating profit in the profit and loss account. The overall position of the schemes is disclosed in the accounts of Meggitt PLC.

Warranty provisions

In accordance with FRS12 the Company provides for the cost of making good under warranty products sold prior to the balance sheet date.

Deferred taxation

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. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. 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.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

MEGGITT (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2006

1 ACCOUNTING POLICIES *(continued)*

Share-based payments

The company issues equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, together with a corresponding increase in equity, based upon the company's estimate of the shares that will eventually vest.

Fair value is measured using the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Where the terms of an equity-settled transaction are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled transaction is cancelled, it is treated as if it had vested on the date of the cancellation, and any expense not yet recognised for the transaction is recognised immediately. However, if a new transaction is substituted for the cancelled transaction, and designated as a replacement transaction on the date that it is granted, the cancelled and new transactions are treated as if they were a modification of the original transaction, as described in the previous paragraph.

For cash-settled share-based payments, a liability equal to the portion of the goods and services received is recognised at the current fair value determined at each balance sheet date.

2 TURNOVER

The turnover and profit before tax are attributable to the principal activities of the company as detailed in the Directors' Report on page 2.

An analysis of turnover is given below:

	2006	2005
	£000	£000
United Kingdom	28,041	28,091
Rest of Europe	23,476	21,468
North America	15,484	16,267
Rest of World	19,008	11,311
	<u>86,009</u>	<u>77,137</u>

The company operates divisionally as described in the Directors' Report on page 2. In the opinion of the directors, the disclosure of separate segmental information for these divisions would be prejudicial to the interests of the company.

MEGGITT (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2006

3 OTHER OPERATING INCOME

	2006	2005
	£000	£000
Rent receivable	<u>75</u>	<u>76</u>

4 OPERATING PROFIT

Operating profit is stated after charging/(crediting)

	2006	2005
	£000	£000
Amortisation	4,529	4,328
Research and development expenditure written off	2,049	2,491
Amortisation of deferred development expenditure	351	337
Depreciation of owned fixed assets	2,474	2,584
Profit on disposal of fixed assets	(17)	(1)
Auditor's remuneration		
- as auditor	68	66
Operating lease costs		
- Plant and equipment	33	77
- Other	1,655	1,392
Net loss/(profit) on foreign currency translation	<u>199</u>	<u>(248)</u>

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

5 PARTICULARS OF EMPLOYEES

The average number of staff employed by the company during the financial year amounted to

	2006 No	2005 No
Manufacturing	520	526
Sales and distribution	74	70
Administration	63	58
	<u>657</u>	<u>654</u>

The aggregate payroll costs of the above were

	2006 £000	2005 (restated) £000
Wages and salaries	21,307	20,179
Social security costs	1,583	1,673
Other pension costs	3,219	3,955
Equity-settled share-based payments	387	230
	<u>26,496</u>	<u>26,037</u>

All of the directors are employees of the ultimate parent company, Meggitt PLC, and are remunerated by that company for their services to the group as a whole. The directors do not receive any remuneration in their capacity as directors of Meggitt (UK) Limited.

Three of the directors exercised options in the shares of the ultimate holding company, Meggitt PLC, during the year (2005 - three)

6 EXCEPTIONAL ITEMS

The exceptional credit in 2006 of £644,000 relates to the release of part of the provision created in 2005 in respect of the Avica facility in Hemel Hempstead following the explosion at the Buncefield Fuel Distribution Depot. Further, the net profit on the disposal of discontinued operations represents the profit on disposal of the investment in Silicone Engineering Limited (note 14).

The exceptional charge in 2005 of £5,737,000 includes £737,000 in preparation for the transfer of the Bestobell Aviation and Meggitt Armour Systems businesses to Dunlop Aerospace Limited, a fellow group company and £5,000,000 arising from the requirement to move the Meggitt Thermal Systems facility in Hemel Hempstead following the explosion at the Buncefield Fuel Distribution Depot. Further, the net profit on the disposal of discontinued operations represents the profit on disposal in respect of the transfer of the Bestobell Aviation and Meggitt Armour Systems businesses to Dunlop Aerospace Limited.

The tax charge in respect of the exceptional operating costs was £253,000 (2005 tax credit £1,721,000).

MEGGITT (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2006

7 INTEREST RECEIVABLE

	2006 £000	2005 £000
Other interest	5	—
Interest from group undertakings	507	581
	<u>512</u>	<u>581</u>

8 INTEREST PAYABLE AND SIMILAR CHARGES

	2006 £000	2005 £000
Other similar charges payable	<u>4,136</u>	<u>3,896</u>

9 TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of charge/(credit) in the year

	2006 £000	2005 (restated) £000
Current tax		
In respect of the year		
UK Corporation tax based on the results for the year at 30% (2005 - 30%)	969	1,388
Under provision in prior year	—	1,107
Total current tax	<u>969</u>	<u>2,495</u>
Deferred tax		
Origination and reversal of timing differences	705	(2,105)
Adjustment in respect of previous years		
Deferred tax	1,321	(396)
Total deferred tax (note 20)	<u>2,026</u>	<u>(2,501)</u>
Tax on profit on ordinary activities	<u>2,995</u>	<u>(6)</u>

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

9 TAXATION ON ORDINARY ACTIVITIES *(continued)*

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower (2005 lower) than the standard rate of corporation tax in the UK of 30% (2005 - 30%) The differences are explained below

	2006 £000	2005 (restated) £000
Profit on ordinary activities before taxation	<u>4,373</u>	<u>11,845</u>
Profit on ordinary activities multiplied by standard rate in the UK	1,312	3,554
Permanent differences	24	(4,306)
Timing differences	(705)	2,107
Adjustments to tax charge in respect of previous periods	-	1,107
Goodwill amortisation	338	33
Total current tax (note 9(a))	<u>969</u>	<u>2,495</u>

A tax charge of £253,000 (2005 tax credit £1,721,000) was recognised in the year in respect of the exceptional costs

10 DIVIDENDS

Equity dividends

	2006 £000	2005 £000
Paid during the year		
Equity dividends on ordinary shares	<u>2,310</u>	<u>3,802</u>

The directors have proposed a final dividend for the year ended 31 December 2006 of 5 10p per share that is a total of £1,157,000 This dividend has not been accounted for within these financial statements as it has yet to be approved

11 PRIOR YEAR ADJUSTMENT

During the year the company has adopted the requirements of FRS 20 ('Share-based Payment') This requires an expense to be recognised in the income statement for all forms of share based payment including options, long term incentive plans and sharesave schemes Previously an expense was only recognised under UK GAAP where there was a cash cost to the Group of providing the share scheme Accordingly an additional expense has been recorded in the income statement of £216,000 on transition to FRS 20 and the prior years results restated accordingly

MEGGITT (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2006

12 INTANGIBLE FIXED ASSETS

	Development expenditure £000	Goodwill £000	Licences, patents and trademarks £000	Total £000
COST				
At 1 January 2006	6,474	80,695	9,705	96,874
Additions	809	—	40	849
Disposals	—	—	(122)	(122)
At 31 December 2006	7,283	80,695	9,623	97,601
AMORTISATION				
At 1 January 2006	590	17,039	4,042	21,671
Charge for the year	351	4,066	463	4,880
On disposals	—	—	(122)	(122)
At 31 December 2006	941	21,105	4,383	26,429
NET BOOK VALUE				
At 31 December 2006	6,342	59,590	5,240	71,172
At 31 December 2005	5,884	63,656	5,663	75,203

13 TANGIBLE FIXED ASSETS

	Freehold property £000	Long leases £000	Plant, equipment and vehicles £000	Short leases £000	Total £000
COST					
At 1 January 2006	—	151	31,871	3,630	35,652
Additions	877	3,282	2,062	403	6,624
Disposals	—	—	(4,071)	(582)	(4,653)
Transfers	—	—	(251)	—	(251)
At 31 December 2006	877	3,433	29,611	3,451	37,372
DEPRECIATION					
At 1 January 2006	—	—	24,673	1,957	26,630
Charge for the year	—	—	2,199	275	2,474
On disposals	—	—	(3,895)	(562)	(4,457)
Transfers	—	—	(213)	—	(213)
At 31 December 2006	—	—	22,764	1,670	24,434
NET BOOK VALUE					
At 31 December 2006	877	3,433	6,847	1,781	12,938
At 31 December 2005	—	151	7,198	1,673	9,022

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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14 INVESTMENTS

	Investments £000
Cost	
Balance brought forward	200
Disposal of investment	(200)
Balance carried forward	—
Amounts provided	
Balance brought forward	200
Disposals for the year	(200)
Balance carried forward	—
Net book amount at 31 December 2006 and 31 December 2005	—

Investments represent 200,000 redeemable shares of £1 each in Silicone Engineering Limited arising from the sale of the Silicone Engineering business to Silicone Engineering Limited in 2002. The investment was sold during the year (see note 6)

15 STOCKS

	2006 £000	2005 £000
Raw materials	17,260	14,800
Work in progress	4,397	4,026
Finished goods	2,109	1,736
Contract work in progress less provision for losses	1,071	13
	<u>24,837</u>	<u>20,575</u>

16 DEBTORS

	2006 £000	2005 £000
Trade debtors	18,971	14,974
Amounts owed by group undertakings	18,498	23,135
Group relief receivable	1,330	—
Other debtors	12,540	5,055
Amounts recoverable on contracts	—	6,349
Prepayments and accrued income	9,918	516
Deferred taxation (note 20)	—	1,793
	<u>61,257</u>	<u>51,822</u>

MEGGITT (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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16 DEBTORS *(continued)*

The debtors above include the following amounts falling due after more than one year

	2006	2005
	£000	£000
Deferred taxation	<u>—</u>	<u>1,793</u>

The bank accounts of Meggitt (UK) Limited are in the name of Meggitt PLC - Re Meggitt (UK) Limited. The legal title of these accounts rests with Meggitt PLC and thus rather than show a cash or overdraft balance at the year end it is shown as an inter company trading balance. Amounts owed by group undertakings are unsecured, interest bearing and have no fixed date for repayment.

17 CREDITORS Amounts falling due within one year

	2006	2005
	£000	£000
Payments received on account	18,970	8,407
Trade creditors	11,778	9,656
Amounts owed to group undertakings	35,067	30,829
Group relief payable	—	895
Other taxation and social security	422	418
Other creditors	2,949	3,858
Accruals and deferred income	2,225	1,316
	<u>71,411</u>	<u>55,379</u>

Amounts owed to group undertakings are unsecured, interest bearing and have no fixed date for repayment.

18 CREDITORS Amounts falling due after more than one year

	2006	2005
	£000	£000
Amounts owed to group undertakings	<u>48,911</u>	<u>48,911</u>

There is no fixed date for repayment of the amounts owed to group companies which are shown as amounts falling due after more than one year. The directors of the company concerned have indicated that repayment will not be demanded within 12 months of the approval of the financial statements.

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

19 PENSION COSTS

The company is a subsidiary of Meggitt PLC and certain employees of the company are members of group pension schemes. Certain of these schemes are of the defined benefit type and particulars of the most recent actuarial valuations are disclosed in the financial statements of Meggitt PLC for the year ended 31 December 2006.

The pension cost charged to the profit and loss account consists of employer's contributions payable which are similar across the group as a whole as a percentage of pensionable earnings. Based on advice from a qualified actuary, the company contribution for the year was £3,219,000 (2005 - £3,955,000).

For the purposes of FRS17, the company has been unable to identify its share of the underlying assets and liabilities in the main group schemes, on a consistent and reasonable basis. Therefore, following full implementation of FRS17, the company will account for contributions to the scheme as if it were a defined contribution scheme. At 31 December 2006 the valuation of the scheme for the purposes of FRS 17 showed a net pension liability as set out in the report and accounts of Meggitt PLC.

20 DEFERRED TAXATION

The deferred tax included in the Balance sheet is as follows

	2006 £000	2005 £000
Included in debtors (note 16)	-	(1,793)
Included in provisions	233	-
	<u>233</u>	<u>(1,793)</u>

The movement in the deferred taxation account during the year was

	2006 £000	2005 £000
Balance brought forward	(1,793)	708
Profit and loss account movement arising during the year	2,026	(2,501)
Balance carried forward	<u>233</u>	<u>(1,793)</u>

The balance of the deferred taxation account consists of the tax effect of timing differences in respect of

	2006 £000	2005 £000
Excess of taxation allowances over depreciation on fixed assets	1,592	(293)
Other timing differences	<u>(1,359)</u>	<u>(1,500)</u>
	<u>233</u>	<u>(1,793)</u>

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

21 OTHER PROVISIONS

	Warranty Costs (note b) £000	Re-organisation provision (note c) £000	Deferred taxation (note a) £000	Total (restated) £000
Balance brought forward	1,769	5,047	-	6,816
Charged to the profit and loss account	111	-	-	111
Profit and Loss Account movement arising during the year	(303)	(644)	2,026	1,079
Deferred tax asset utilised	-	-	(1,793)	(1,793)
Utilised during the year	(117)	(1,178)	-	(1,295)
Balance carried forward	<u>1,460</u>	<u>3,225</u>	<u>233</u>	<u>4,918</u>

- (a) The balance of the deferred taxation account consists of the tax effect of timing differences in respect of

	2006 £000	2005 £000
Excess of taxation allowances over depreciation on fixed assets	1,592	(293)
Other timing differences	<u>(1,359)</u>	<u>(1,500)</u>
	<u>233</u>	<u>(1,793)</u>

- (b) Provision has been made for product warranty claims. These provisions are expected to be utilised over the next three years.
- (c) The reorganisation provision is for the requirement to move the Meggitt Thermal Systems facility in Hemel Hempstead following the explosion at the Buncefield Fuel Distribution Depot. This provision is expected to be utilised over the period up to the end of the property commitment in 2013.

22. SHARE-BASED PAYMENTS

Equity-settled share-based payments

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 £387,000 (2005 £230,000). 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

The 1996 ESOS No 1 & No 2 schemes are both in run out and the last grants were made in 2004. Share options are granted under the ESOS 2005 to certain senior executives at an exercise price equal to the mid-market value of a share on the first dealing day prior to the grant date. The options are exercisable at the earliest three years after the grant is made. Options can only be exercised if the Group meets an earnings per share performance condition. The Group has no obligation, legal or constructive, to settle the options in cash. An expense of £191,000 (2005 £148,000) was recorded in the year.

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

22 SHARE-BASED PAYMENTS (continued)

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

	2006 Average price pence	2006 No of options	2005 Average price pence	2005 No of options
Balance at 1 January	235 76	464,550	196 98	391,809
Granted	308 00	158,980	325 50	146,344
Lapsed	313 29	(11,451)	159 35	(29,165)
Exercised	209 38	(22,972)	189 36	(44,438)
Balance at 31 December	<u>258 56</u>	<u>589,107</u>	<u>235 76</u>	<u>464,550</u>

The fair value of the options was determined using the Black-Scholes option pricing model. The fair value of options granted during the year was 77.90 pence (2005: 89.70 pence). The significant assumptions used in the model were

	2006 Award in September	2005 Award in October
Share price at date of grant (pence)	308 00	325 5
Exercise price (pence)	308 00	325 5
Vesting period (years)	3	3
Expected volatility	30%	35%
Expected life of option (years)	5	5
Risk free rate	4.465%	4.1%
Expected dividend yield	3.00%	3.1%

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

1996 Meggitt Equity Participation Scheme and Meggitt Equity Participation Plan 2005

Under the 1996 Meggitt Equity Participation Scheme the number of shares, if any, that an executive would ultimately have received was dependent on the Group's performance during a one year period commencing at the beginning of the financial year preceding that in which the award was made (the "measurement period"). Performance was measured by comparing the Total Shareholder Return ("TSR") achieved by Meggitt PLC with that of other companies in a comparator group chosen by the Remuneration Committee. The Meggitt Equity Participation Scheme was replaced during 2005 by the Meggitt Equity Participation Plan 2005.

Under the Meggitt Equity Participation Plan 2005 an annual award of shares may be made to certain senior executives under the Plan. The number of shares, if any, that an executive will ultimately receive, will depend on the Group's performance during a three year period commencing at the beginning of the financial year in which the award is made (the "measurement period"). Performance is measured by comparing the Total Shareholder Return ("TSR") achieved by the Group with that of other companies in a comparator group chosen by the Remuneration Committee. An expense of £53,000 (2005: £44,000) was recorded in the year.

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

22 SHARE-BASED PAYMENTS (continued)

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

	2006 No of options	2005 No of options
Balance at 1 January	33,001	-
Granted	25,392	33,001
Lapsed	-	-
Released to employees	-	-
Balance at 31 December	<u>58,393</u>	<u>33,001</u>

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

	2006 Award in March	2005 Award in October
Share price at date of grant (pence)	352.00	318.5
Vesting period (years)	3	3
Expected volatility	20%	25%
Expected life of award (years)	3	3
Risk free rate	4.48%	4.10%
Expected dividend yield	2.4%	3.00%

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

23 COMMITMENTS UNDER OPERATING LEASES

At 31 December 2006 the company had annual commitments under non-cancellable operating leases as set out below:

	2006		2005	
	Land & Buildings £000	Other Items £000	Land & Buildings £000	Other Items £000
Operating leases which expire				
Within 1 year	-	1	132	3
Within 2 to 5 years	831	36	135	30
After more than 5 years	813	-	1,211	-
	<u>1,644</u>	<u>37</u>	<u>1,478</u>	<u>33</u>

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

24 RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption under paragraph 3(c) from the provisions of FRS8, 'Related Party Disclosures', on the grounds that it is a wholly owned subsidiary of a group headed by Meggit PLC, whose accounts are publicly available

25 SHARE CAPITAL

Authorised share capital

	2006 £000	2005 £000
22,700,000 Ordinary shares of £1 each	<u>22,700</u>	<u>22,700</u>

Allotted, called up and fully paid

	2006 £000	2005 £000
22,700,000 Ordinary shares of £1 each	<u>22,700</u>	<u>22,700</u>

26 RESERVES

	Share options reserve (restated) £000	Profit and loss account (restated) £000
Balance brought forward as previously reported	-	22,825
Prior year adjustment (note 11)	<u>331</u>	<u>(331)</u>
Restated balance as at 1 January 2006	331	22,494
Profit for the year	-	1,378
Equity dividends	-	(2,310)
Recognition of equity-settled share-based payments in the year	<u>378</u>	<u>-</u>
Balance at 31 December 2006	<u>709</u>	<u>21,562</u>

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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27 RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	2006	2005 (restated)
	£000	£000
Profit for the financial year	1,378	11,851
Equity dividends paid	(2,310)	(3,802)
Recognition of equity-settled share-based payments in the year	378	216
Net (reduction)/addition to shareholder's funds	(554)	8,265
Opening shareholder's funds	45,525	37,260
Closing shareholder's funds	44,971	45,525

28 CAPITAL COMMITMENTS

Amounts contracted for but not provided in the financial statements amounted to £1,442,000 (2005 - £667,000)

29 ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

Meggitt Properties PLC is the immediate parent undertaking of Meggitt (UK) Limited. The company's ultimate parent undertaking and controlling party is Meggitt PLC, a company registered in England and Wales. Copies of the group financial statements of Meggitt PLC are available from Meggitt PLC, Atlantic House, Aviation Park West, Bournemouth International Airport, Christchurch, Dorset, BH23 6EW.

30 POST BALANCE SHEET EVENTS

A number of changes to the UK Corporation tax system were announced in the March 2007 Budget Statement and are expected to be enacted in the 2007 and 2008 Finance Acts. The changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

The effect of the changes to be enacted in the Finance Act 2007 would be to reduce the deferred tax liability provided at 31 December 2006 by £15,000 in 2007. This £15,000 decrease in deferred tax would increase profit for the year by £15,000. This decrease in deferred tax is due to the reduction in the corporation tax rate from 30 per cent to 28 per cent with effect from 1 April 2008 and to the abolition of balancing adjustments for industrial buildings allowances.

The other changes to be enacted would have no further effects on the deferred tax provided at 31 December 2006.