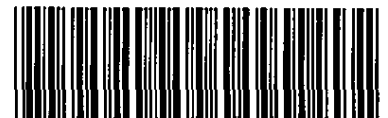


COMPANY REGISTRATION NUMBER 01877695

**MEGGITT DEFENCE SYSTEMS LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**31 DECEMBER 2008**

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**MEGGITT DEFENCE SYSTEMS LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2008**

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**MEGGITT DEFENCE SYSTEMS LIMITED**  
**OFFICERS AND PROFESSIONAL ADVISERS**

**The board of 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 DEFENCE SYSTEMS LIMITED

## THE DIRECTORS' REPORT

### YEAR ENDED 31 DECEMBER 2008

The directors have pleasure in presenting their report and the financial statements of the company for the year ended 31 December 2008.

#### PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company during the year was the manufacture of target drones for the armed forces, the performance of related services and the assembly and distribution of converted electro mechanical weapons for simulation and training systems.

The results for the company show a pre-tax profit of £2,042,000 (2007: £1,619,000) for the year and sales of £20,434,000 (2007: £14,301,000).

The directors consider the state of affairs of the company to be satisfactory and there has been no material change since the date of the balance sheet. The company's current level of profitability is expected to continue.

#### RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £1,306,000 (2007: profit £1,116,000). Particulars of dividends paid are detailed in note 8 to the financial statements.

#### FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's operations expose it to a variety of financial risks including foreign exchange 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, coverage of 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 of hedge accounting 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 DEFENCE SYSTEMS LIMITED

## THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2008

### 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 2008 on research and development amounted to £628,000 (2007: £664,000), of which £Nil (2007: £Nil) was capitalised in accordance with the Company's accounting policy.

### DIRECTORS

The directors who served the company during the year and up to the date of signing the financial statements were as follows:

T Twigger  
M L Young  
P E Green  
S G Young

### 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 2008 were 59 days (2007: 89 days).

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual 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 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;
- 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, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the 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 DEFENCE SYSTEMS LIMITED

## THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2008

### 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. Each of the persons who is a director at the date of approval of these financial statements confirms that in so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware and they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Approved by the Board of directors on 2 September 2009 and signed by order of the board:



M L Thomas  
Company Secretary

# **MEGGITT DEFENCE SYSTEMS LIMITED**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF MEGGITT DEFENCE SYSTEMS LIMITED**

**YEAR ENDED 31 DECEMBER 2008**

We have audited the financial statements of Meggitt Defence Systems Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The directors' responsibilities for preparing the Annual Report and 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 member 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 other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' report, the Officers and Professional Advisers and all of the other information listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **BASIS OF AUDIT OPINION**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 DEFENCE SYSTEMS LIMITED

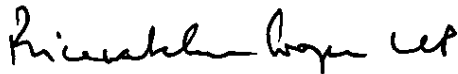
## INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF MEGGITT DEFENCE SYSTEMS LIMITED *(continued)*

YEAR ENDED 31 DECEMBER 2008

### 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 2008 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

4 September 2009



# MEGGITT DEFENCE SYSTEMS LIMITED

## PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2008

	Note	2008 £000	2007 £000
<b>TURNOVER</b>	2	20,434	14,301
Cost of sales		(13,750)	(8,618)
<b>GROSS PROFIT</b>		6,684	5,683
Distribution costs		(1,851)	(1,539)
Administrative expenses		(2,473)	(2,275)
<b>OPERATING PROFIT</b>	3	2,360	1,869
Profit on disposal of fixed asset investment	4	—	96
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST</b>		2,360	1,965
Interest payable and similar charges	6	(318)	(346)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		2,042	1,619
Tax on profit on ordinary activities	7	(736)	(503)
<b>PROFIT FOR THE FINANCIAL YEAR</b>	21	<u>1,306</u>	<u>1,116</u>

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, and therefore no separate statement of total recognised gains and losses has been presented.

There is no material difference between the profit on ordinary activity before tax and the profit for the financial year stated above and their historical cost equivalents.

The notes on pages 9 to 22 form part of these financial statements.

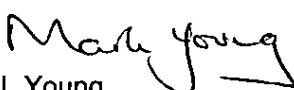
# MEGGITT DEFENCE SYSTEMS LIMITED

## BALANCE SHEET

31 DECEMBER 2008

	Note	2008 £000	2007 £000
<b>FIXED ASSETS</b>			
Intangible assets	9	3,214	3,418
Tangible assets	10	2,021	1,630
		<u>5,235</u>	<u>5,048</u>
<b>CURRENT ASSETS</b>			
Stocks	11	4,097	3,253
Debtors	12	5,022	5,561
Cash in hand		7	6
		<u>9,126</u>	<u>8,820</u>
<b>CREDITORS: Amounts falling due within one year</b>	14	(11,923)	(11,885)
<b>NET CURRENT LIABILITIES</b>		<u>(2,797)</u>	<u>(3,065)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>2,438</u>	<u>1,983</u>
<b>PROVISIONS FOR LIABILITIES</b>			
Provisions for liabilities	16	(131)	(134)
<b>NET ASSETS</b>		<u>2,307</u>	<u>1,849</u>
<b>CAPITAL AND RESERVES</b>			
Called-up equity share capital	20	5	5
Share based payments reserve	21	526	314
Profit and loss account	21	1,776	1,530
<b>TOTAL SHAREHOLDERS' FUNDS</b>	22	<u>2,307</u>	<u>1,849</u>

The financial statements on pages 7 to 22 were approved by the board of directors on 2 September 2009, and were signed on its behalf by:

  
M L Young  
Director

The notes on pages 9 to 22 form part of these financial statements.

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

### 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, which have been consistently applied during the year, are set out below.

#### Cash flow statement

The company is a wholly owned subsidiary company of a group headed by Meggitt PLC, a UK registered company, and is included in the consolidated accounts of that company, which are publicly available. Consequently, the company has taken advantage of the exemption within FRS 1 (revised 1996) 'Cash flow statements' from preparing a cash flow statement.

#### 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 in accordance with SSAP 9.

#### 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.

#### Intangible assets

Goodwill is stated at cost, net of accumulated amortisation. Goodwill has arisen on acquisitions after 1 January 1998 and is amortised over its original estimated useful economic life on a straight line basis over a period of 20 years.

#### 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 DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

### 1. ACCOUNTING POLICIES *(continued)*

#### **Tangible fixed assets**

Tangible fixed assets are stated at historic purchase cost, net of accumulated depreciation and any provision for impairment.

Depreciation is provided on all tangible fixed assets on cost, less residual value, net of depreciation in equal annual instalments over the estimated useful economic lives of the assets.

#### **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, equipment & vehicles	- over 3-10 years
Leasehold property	- over the term of the lease

#### **Stocks**

Stocks 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.

#### **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.

#### **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.

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

### 1. ACCOUNTING POLICIES *(continued)*

#### **Warranty provisions**

Provision is made for product warranty claims when the company 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. This is based on past experience.

#### **Empty property provisions**

Provision is made for onerous property leases, when the company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

#### **Deferred taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

#### **Foreign currencies**

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated into sterling at the exchange rates ruling at the balance sheet date. All differences are dealt with through the profit and loss account.

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

### 1. ACCOUNTING POLICIES *(continued)*

#### Share-based payments

The company issues equity-settled and cash-settled share-based payments to certain employees (including directors). 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 one principal activity of the company.

An analysis of turnover is given below:

	2008 £000	2007 £000
United Kingdom	11,064	7,204
Rest of Europe	5,633	5,200
North America	512	184
Rest of World	3,225	1,713
	<u>20,434</u>	<u>14,301</u>

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

### 3. OPERATING PROFIT

Operating profit is stated after charging:

	2008 £000	2007 £000
Research and development expenditure written off	628	664
Amortisation of deferred research and development expenditure (note 9)	44	43
Depreciation of owned fixed assets (note 10)	427	335
Auditor's remuneration		
- as auditor	38	27
Operating lease costs:		
- Other	258	216
Amortisation of goodwill (note 9)	<u>160</u>	<u>67</u>

### 4. PROFIT ON DISPOSAL OF FIXED ASSET INVESTMENTS

The profit on disposal of fixed asset investments in the prior year of £96,000 relates to the disposal of shares in a subsidiary Target Technology France SARL. The tax impact of this was £nil.

### 5. PARTICULARS OF EMPLOYEES

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

	2008 No.	2007 No.
Selling and distribution	9	8
Administration	14	13
Production	83	74
	<u>106</u>	<u>95</u>

The aggregate payroll costs of the above were:

	2008 £000	2007 £000
Wages and salaries	3,575	2,972
Social security costs	329	277
Other pension costs	330	263
Equity-settled share-based payments (note 17)	212	173
	<u>4,446</u>	<u>3,685</u>

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

### 5. PARTICULARS OF EMPLOYEES *(continued)*

All the directors who served during the year were employees of the ultimate parent company, Meggitt PLC, and were 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 Defence Systems Limited.

Two of the directors exercised options in the shares of the ultimate holding company, Meggitt PLC, during the year (2007: Three).

### 6. INTEREST PAYABLE AND SIMILAR CHARGES

	2008 £000	2007 £000
Loans from group undertakings	<u>318</u>	<u>346</u>

### 7. TAXATION ON ORDINARY ACTIVITIES

#### (a) Analysis of tax charge in the year

	2008 £000	2007 £000
Current tax:		
Group relief	<u>698</u>	<u>567</u>
Total current tax	<u>698</u>	<u>567</u>
Deferred tax:		
Origination and reversal of timing differences	41	(35)
Rate adjustment	—	16
Adjustment in respect of previous years:		
Deferred tax	<u>(3)</u>	<u>(45)</u>
Total deferred tax (note 13)	<u>38</u>	<u>(64)</u>
Tax on profit on ordinary activities	<u>736</u>	<u>503</u>



# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

### 7. TAXATION ON ORDINARY ACTIVITIES *(continued)*

#### (b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than (2007: higher) the standard rate of corporation tax in the UK of 28.50% (2007: 30%).

	2008 £000	2007 £000
Profit on ordinary activities before taxation	<u>2,042</u>	<u>1,619</u>
Profit on ordinary activities multiplied by the standard rate in the UK of 28.50% (2007 - 30%)	582	486
Permanent differences	157	54
Timing differences	(41)	27
Total current tax (note 7(a))	<u>698</u>	<u>567</u>

#### (c) Factors that may affect future tax charges

The standard rate of Corporation Tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly, the company's profits for this accounting period are taxed at an effective rate of 28.5% and will be taxed at 28% in the future.

### 8. DIVIDENDS

	2008 £000	2007 £000
Paid during the year:		
Equity dividends on ordinary shares	<u>1,060</u>	<u>207</u>

On 17 December 2008 the directors approved the payment of an interim dividend of £212 per £1 ordinary share totalling £1,060,000 (2007: £41.40 per £1 ordinary share totalling £207,000).

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

### 9. INTANGIBLE FIXED ASSETS

	Goodwill £000	Development Expenditure £000	Total £000
<b>COST</b>			
At 1 January 2008 and 31 December 2008	<u>3,203</u>	<u>430</u>	<u>3,633</u>
<b>AMORTISATION</b>			
At 1 January 2008	67	148	215
Charge for the year	160	44	204
At 31 December 2008	<u>227</u>	<u>192</u>	<u>419</u>
<b>NET BOOK VALUE</b>			
At 31 December 2008	<u>2,976</u>	<u>238</u>	<u>3,214</u>
At 31 December 2007	<u>3,136</u>	<u>282</u>	<u>3,418</u>

### 10. TANGIBLE FIXED ASSETS

	Plant, equipment and vehicles £000	Leasehold property £000	Total £000
<b>COST</b>			
At 1 January 2008	3,159	1,695	4,854
Additions	694	133	827
Disposals	(477)	(239)	(716)
At 31 December 2008	<u>3,376</u>	<u>1,589</u>	<u>4,965</u>
<b>ACCUMULATED DEPRECIATION</b>			
At 1 January 2008	2,690	534	3,224
Charge for the year	186	241	427
On disposals	(468)	(239)	(707)
At 31 December 2008	<u>2,408</u>	<u>536</u>	<u>2,944</u>
<b>NET BOOK VALUE</b>			
At 31 December 2008	<u>968</u>	<u>1,053</u>	<u>2,021</u>
At 31 December 2007	<u>469</u>	<u>1,161</u>	<u>1,630</u>

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

### 11. STOCKS

	2008 £000	2007 £000
Raw materials	2,001	1,570
Work in progress	990	888
Finished goods	1,106	795
	<u>4,097</u>	<u>3,253</u>

### 12. DEBTORS

	2008 £000	2007 £000
Trade debtors	4,740	5,013
Amounts owed by group undertakings	27	239
Prepayments and accrued income	81	97
Deferred taxation (note 13)	174	212
	<u>5,022</u>	<u>5,561</u>

Amounts owed by group undertakings are unsecured, bear interest and have no fixed date for repayment. The deferred tax asset primarily represents the benefit of capital allowances which are expected to be recoverable against trading profits in future years.

### 13. DEFERRED TAXATION

The deferred tax included in the Balance sheet is as follows:

	2008 £000	2007 £000
Included in debtors (note 12)	<u>174</u>	<u>212</u>

The movement in the deferred taxation account during the year was:

	2008 £000	2007 £000
Balance brought forward	212	148
Profit and loss account movement arising during the year	(38)	64
Balance carried forward	<u>174</u>	<u>212</u>

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

	2008 £000	2007 £000
Excess of depreciation over capital allowances	91	128
Other timing differences	83	84
	<u>174</u>	<u>212</u>

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

### 14. CREDITORS: Amounts falling due within one year

	2008 £000	2007 £000
Trade creditors	1,546	1,589
Amounts owed to group undertakings	9,184	8,153
Corporation tax	364	249
Other taxation and social security	71	100
Other creditors	710	1,621
Accruals and deferred income	48	173
	<u>11,923</u>	<u>11,885</u>

The principal bank account of Meggitt Defence Systems Limited is in the name Meggitt PLC - Re Meggitt Defence Systems Limited. The legal title to this account rests with Meggitt PLC and thus rather than show a cash or overdraft balance at the year end this account is shown as an inter company trading balance. Amounts owed to group undertakings are interest bearing, unsecured and have no fixed date for repayment.

### 15. PENSION COSTS

The company is a subsidiary of Meggitt PLC and certain employees of the company are members of group pension schemes. These schemes are of the defined benefit funded type and particulars of the most recent actuarial valuation are disclosed in the financial statements of Meggitt PLC for the period ended 31 December 2008.

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 £330,000 (2007: £263,000). There were no prepayments or accruals at the year end for the pension schemes (2007: Nil).

For the purposes of FRS 17, 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 FRS 17, the company will account for contributions to the scheme as if it were a defined contribution scheme. At 31 December 2008 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.

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

### 16. PROVISIONS FOR LIABILITIES

	Empty properties £000	Warranty £000	Total £000
Balance at 1 January 2008	58	76	134
Profit and Loss Account movement arising during the year – charged to operating profit	-	181	181
Utilised	(58)	(126)	(184)
Balance at 31 December 2008	-	131	131

Provision had been set up for the estimated rental shortfall in respect of a property with an onerous lease and was utilised over the remaining lease term. Provision has been made for product warranty claims which are expected to be utilised over the next three years.

### 17. SHARE-BASED PAYMENTS

#### *Equity-settled share-based payments*

The Meggitt Group operates a number of share schemes for the benefit of its employees. The total expense recorded in the profit and loss account for the year in respect of such schemes was £212,000 (2007: £173,000). The nature of each scheme which has a significant impact on the expense recorded in the income statement is set out below:

#### **Meggitt PLC 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 company meets an earnings per share performance condition. The Group has no obligation, legal or constructive, to settle the options in cash. An expense of £108,000 (2007: £82,000) was recorded in the year.

Movements in the number of outstanding share options and their weighted average exercise prices ('WAEP') are as follows:

	2008		2007	
	No	WAEP Pence	No	WAEP Pence
Balance at 1 January	436,411	271.31	353,199	249.20
Granted	200,093	243.06	142,558	299.00
Lapsed	(12,040)	299.00	-	-
Transfer in	73,746	256.29	-	-
Exercised	(23,362)	210.59	(59,346)	125.22
Balance at 31 December	674,848	262.90	436,411	271.31

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

### 17. SHARE-BASED PAYMENTS *continued*

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 52.7 pence for the award in March 2008 and 48.0 pence for the award in August 2008 (September 2007: 68.9 pence). The significant assumptions used in the model were:

	2008 Award in August	2008 Award in March	2007 Award in September
Share price at date of grant (pence)	204.00	252.50	299.00
Exercise price (pence)	204.00	252.50	299.00
Vesting period (years)	3	3	3
Expected volatility	27%	24%	25%
Expected life of option (years)	5	5	5
Risk free rate	4.40%	4.00%	5.10%
Expected dividend yield	2.60%	2.60%	2.85%

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

#### 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 £67,000 (2007: £66,000) was recorded in the year.

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

	2008 No. of options	2007 No. of options
Balance at 1 January	178,600	133,784
Granted	-	64,455
Lapsed	(31,324)	-
Exercised	(24,610)	(19,639)
Transferred	19,566	-
Balance at 31 December	142,232	178,600

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

### 17. SHARE-BASED PAYMENTS *continued*

The fair value of the award is measured using a Monte Carlo model. The fair value of awards during the year was 120.8 pence (2007: 180.8 pence). The significant assumptions used in the model were:

	2008 Award in September	2007 Award in September
Share price at date of grant (pence)	200.98	317.12
Vesting period (years)	3	3
Expected volatility	30%	23%
Expected life of award (years)	3	3
Risk free rate	4.62%	5.26%
Expected dividend yield	2.96%	2.47%

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

#### Meggitt 1998 Sharesave Scheme (SAYE)

The expense recorded in respect of Meggitt 1998 Sharesave Scheme (SAYE) was £37,000 (2007: £24,000).

### 18. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2008 the company had annual commitments under non-cancellable operating leases as set out below.

	Land and buildings	
	2008 £000	2007 £000
Operating leases which expire:		
After more than 5 years	<u>258</u>	<u>301</u>

### 19. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption under paragraph 3(c) from the provisions of FRS 8, 'Related Party Disclosures', on the grounds that it is a wholly owned subsidiary of a group headed by Meggitt PLC, whose accounts are publicly available.

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

### 20. SHARE CAPITAL

Authorised share capital:

	2008 £000	2007 £000
100,000 Ordinary shares of £1 each	<u>100</u>	<u>100</u>

Allotted, called up and fully paid:

	2008 No.	£000	2007 No.	£000
Ordinary shares of £1 each	<u>5,000</u>	<u>5</u>	<u>5,000</u>	<u>5</u>

### 21. RESERVES

	Share based payments reserve £000	Profit and loss account £000
Balance at 1 January 2008	314	1,530
Profit for the year	–	1,306
Equity dividends	–	(1,060)
Recognition of equity-settled share-based payments in the year	<u>212</u>	<u>–</u>
Balance at 31 December 2008	<u>526</u>	<u>1,776</u>

### 22. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	2008 £000	2007 £000
Profit for the financial year	1,306	1,116
Equity dividends	(1,060)	(207)
Recognition of equity-settled share-based payments in the year	<u>212</u>	<u>173</u>
Net addition to shareholder's funds	<u>458</u>	<u>1,082</u>
Opening shareholder's funds	<u>1,849</u>	<u>767</u>
Closing shareholder's funds	<u>2,307</u>	<u>1,849</u>

### 23. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent undertaking is Meggitt Properties PLC and the ultimate parent undertaking and controlling party is Meggitt PLC. Both companies are registered in England and Wales. Copies of the group financial statements of Meggitt PLC are publicly available from Meggitt PLC, Atlantic House, Aviation Park West, Bournemouth International Airport, Christchurch, Dorset, BH23 6EW.