

COMPANY REGISTRATION NUMBER 01877695

**MEGGITT DEFENCE SYSTEMS LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**31 DECEMBER 2012**

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**MEGGITT DEFENCE SYSTEMS LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2012**

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

**The board of directors**

C J Andrews  
I K Pargeter  
M L Young  
P E Green  
S G Young  
D J O'Neill

**Company secretary**

M L Thomas

**Registered office**

Atlantic House  
Aviation Park West  
Bournemouth International Airport  
Christchurch  
Dorset  
BH23 6EW

**Independent auditor**

PricewaterhouseCoopers LLP  
Chartered Accountants  
and Statutory Auditors  
9 Greyfriars Road  
Reading  
Berkshire  
RG1 1JG

# **MEGGITT DEFENCE SYSTEMS LIMITED**

## **THE DIRECTORS' REPORT**

### **YEAR ENDED 31 DECEMBER 2012**

The directors have pleasure in presenting their annual report and the financial statements of the company for the year ended 31 December 2012

#### **PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The principal activity of the company during the year was the manufacture of target drones for the armed forces and 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 £2,362,000 (2011 £428,000) for the year and sales of £16,858,000 (2011 £11,387,000). 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 £1,534,000 (2011: profit £259,000). Particulars of dividends paid are detailed in note 8 to the financial statements.

#### **GOING CONCERN**

The directors believe that preparing the accounts on the going concern basis is appropriate due to the continued financial support of the ultimate parent company Meggitt PLC.

#### **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 risk on future commercial transactions with the principal exposure being in respect of 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 profit and loss account and hedge accounting is not applied.

##### **Credit risk**

The company is not subject to a significant concentration of credit risk with exposure spread across a large number of customers around 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 2012

### 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 2012 on research and development amounted to £687,000 (2011 £739,000), of which £Nil (2011 £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  
C J Andrews  
I K Pargeter  
M L Young  
P E Green  
S G Young  
D J O'Neill

T Twigger resigned as a director on 1 May 2013.

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 of Association of the Company approved by the shareholders on 4 June 2010.

### 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 2012 were 38 days (2011 65 days).

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' 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). 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 company and of the profit or loss of the company for that year.

In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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.

# MEGGITT DEFENCE SYSTEMS LIMITED

## THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2012

### STATEMENT OF DIRECTORS' RESPONSIBILITIES *(continued)*

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 enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

### DISCLOSURE OF INFORMATION TO AUDITORS

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 8 July 2013 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 2012**

We have audited the financial statements of Meggitt Defence Systems Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, 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 pages 3 to 4, the directors are responsible for the preparation of the 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 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 member 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 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**OPINION ON FINANCIAL STATEMENTS**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the Companies Act 2006.

**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 financial statements are prepared is consistent with the financial statements.

**MEGGITT DEFENCE SYSTEMS LIMITED**

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

**YEAR ENDED 31 DECEMBER 2012**

**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, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements 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



Matthew Hall (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Reading

9 July 2013



# MEGGITT DEFENCE SYSTEMS LIMITED

## PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2012

	Note	2012 £000	2011 £000
<b>TURNOVER</b>	<b>2</b>	<b>16,858</b>	11,387
Cost of sales		(11,126)	(7,207)
<b>GROSS PROFIT</b>		<b>5,732</b>	4,180
Distribution costs		(1,150)	(1,317)
Administrative expenses		(2,106)	(2,314)
<b>OPERATING PROFIT</b>	<b>3</b>	<b>2,476</b>	549
Interest receivable and similar income	5	3	1
Interest payable and similar charges	6	(117)	(122)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>2,362</b>	428
Tax on profit on ordinary activities	7	(828)	(169)
<b>PROFIT FOR THE FINANCIAL YEAR</b>	<b>21</b>	<b>1,534</b>	259

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 years 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

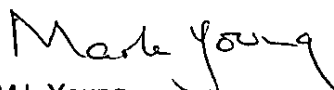
# MEGGITT DEFENCE SYSTEMS LIMITED

## BALANCE SHEET

AS AT 31 DECEMBER 2012

	Note	2012 £000	2011 £000
<b>FIXED ASSETS</b>			
Intangible assets	9	2,404	2,607
Tangible assets	10	940	1,142
		<u>3,344</u>	<u>3,749</u>
<b>CURRENT ASSETS</b>			
Stocks	11	3,252	3,509
Debtors	12	2,960	2,059
Cash in hand		9	7
		<u>6,221</u>	<u>5,575</u>
<b>CREDITORS: Amounts falling due within one year</b>	14	(6,189)	(7,301)
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<u>32</u>	<u>(1,726)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>3,376</u>	<u>2,023</u>
<b>PROVISIONS FOR LIABILITIES</b>			
Provisions for liabilities	16	(17)	(12)
<b>NET ASSETS</b>		<u>3,359</u>	<u>2,011</u>
<b>CAPITAL AND RESERVES</b>			
Called-up equity share capital	20	5	5
Share based payments reserve	21	828	758
Profit and loss account	21	2,526	1,248
<b>TOTAL SHAREHOLDER'S FUNDS</b>	22	<u>3,359</u>	<u>2,011</u>

These financial statements on pages 7 to 22 were approved by the board of directors on 8 July 2013, and are signed on its behalf by



M L Young  
Director

Company Registration Number 01877695

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 2012**

### **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 2006 and applicable United Kingdom accounting standards. The principal accounting policies, which have been consistently applied during the year, are set out below.

#### **Going Concern**

The directors believe that preparing the accounts on the going concern basis is appropriate due to the continued financial support of the ultimate parent company Meggitt PLC.

#### **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.

#### **Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the company's share of the net assets of the acquired business and has arisen on acquisitions after 1 January 1998. Goodwill is amortised over its original estimated useful economic life on a straight line basis over a maximum period of 20 years.

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

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

#### **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

#### **Tangible fixed assets**

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

#### **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.

# **MEGGITT DEFENCE SYSTEMS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2012**

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

#### **Pension costs**

The company is a subsidiary of Meggitt PLC and certain employees of the company are members of group pension schemes, which are both defined benefit and defined contribution schemes funded by both employer's and employees' contributions

For the defined contribution scheme, the annual contributions payable are charged to the profit and loss account

With regard to the defined benefit scheme, as 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**

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.

#### **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**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date and 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.

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

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

#### 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.

#### Share-based payments

The Company operates a number of equity-settled share-based compensation 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 income statement 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 income statement to reflect the revised estimate.

#### Intercompany

Intercompany balances are initially recognised at historical cost. Intercompany balances are reviewed for recoverability on an annual basis with impairment recognised where the recoverability of an intercompany balance is deemed unlikely.

### 2. TURNOVER

The turnover and profit before tax are attributable to the one principal activity of the company. A geographical analysis of turnover is given below.

	2012 £000	2011 £000
United Kingdom	7,121	4,779
Rest of Europe	7,181	5,174
North America	113	12
Rest of World	2,443	1,422
	<u>16,858</u>	<u>11,387</u>

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

### 3. OPERATING PROFIT

Operating profit is stated after charging

	2012 £000	2011 £000
Research and development expenditure written off	687	739
Amortisation of deferred development expenditure (note 9)	43	43
Depreciation of owned fixed assets (note 10)	379	392
Amortisation of goodwill (note 9)	160	160
<b>Services provided by the company's auditor</b>		
Fees payable for the audit	28	27
Operating lease costs		
- Other	258	258
Net loss on foreign currency translation	10	105

### 4. EMPLOYEE INFORMATION

The monthly average number of staff employed by the company (excluding directors) during the financial year amounted to

	2012 No	2011 No
Selling and distribution	10	10
Administration	11	11
Production	73	76
	<u>94</u>	<u>97</u>

The aggregate payroll costs of the above were

	2012 £000	2011 £000
Wages and salaries	3,188	2,956
Social security costs	331	300
Other pension costs	255	255
Equity-settled share-based payments	70	58
	<u>3,844</u>	<u>3,569</u>

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.

Five of the directors exercised options in the shares of the ultimate holding company, Meggitt PLC, during the year (2011: seven).

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

### 5 INTEREST RECEIVABLE AND SIMILAR INCOME

	2012 £000	2011 £000
Interest from group undertakings	<u>3</u>	<u>1</u>

### 6 INTEREST PAYABLE AND SIMILAR CHARGES

	2012 £000	2011 £000
Interest payable on loans from group undertakings	<u>117</u>	<u>122</u>

### 7. TAX ON PROFIT ON ORDINARY ACTIVITIES

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

	2012 £000	2011 £000
<b>Current tax:</b>		
Under provision in prior year	66	-
Group relief	<u>648</u>	<u>159</u>
Total current tax	<u>714</u>	<u>159</u>
<b>Deferred tax:</b>		
Origination and reversal of timing differences	<u>114</u>	<u>10</u>
Tax on profit on ordinary activities	<u>828</u>	<u>169</u>

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

The tax assessed on the profit on ordinary activities for the year is higher than (2011 higher than) the standard rate of corporation tax in the UK for the year ended 31 December 2012 of 24 50% (2011 - 26 50%)

	2012 £000	2011 £000
<b>Profit on ordinary activities before taxation</b>	<u>2,362</u>	<u>428</u>
Profit on ordinary activities multiplied by the standard rate in the UK of 24 50% (2011 26 50%)	579	113
Permanent differences	132	36
Accelerated capital allowances and other timing differences	(63)	10
Adjustments in respect of prior years	<u>66</u>	<u>-</u>
Total current tax (note 7(a))	<u>714</u>	<u>159</u>



# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

### 7. TAX ON PROFIT ON ORDINARY ACTIVITIES *(continued)*

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

The Finance Act 2011 included legislation to reduce the main rate of corporation tax in the UK from 26% to 25% with effect from 1 April 2012. The Finance Act 2012 included legislation to further reduce the main rate of corporation tax in the UK to 24% with effect from 1 April 2012 and to 23% with effect from 1 April 2013. The reduction in the main UK tax rate to 23% is reflected in the financial statements for the year ended 31 December 2012. A further reduction to 21%, effective from 1 April 2014, has been announced but not substantively enacted at the balance sheet date.

### 8. DIVIDENDS

	2012 £000	2011 £000
Paid during the year		
Equity dividends on ordinary shares	<u>256</u>	<u>1,105</u>

On 7 December 2012 the directors approved the payment of an interim dividend of £51.20 per £1 ordinary share totalling £256,000 (2011: £221.00 per £1 ordinary share totalling £1,105,000).

### 9. INTANGIBLE FIXED ASSETS

	Goodwill £000	Development expenditure £000	Total £000
<b>COST</b>			
At 1 January 2012 and 31 December 2012	<u>3,203</u>	<u>430</u>	<u>3,633</u>
<b>AMORTISATION</b>			
At 1 January 2012	707	319	1,026
Charge for the year	<u>160</u>	<u>43</u>	<u>203</u>
At 31 December 2012	<u>867</u>	<u>362</u>	<u>1,229</u>
<b>NET BOOK VALUE</b>			
At 31 December 2012	<u>2,336</u>	<u>68</u>	<u>2,404</u>
At 31 December 2011	<u>2,496</u>	<u>111</u>	<u>2,607</u>

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

### 10 TANGIBLE FIXED ASSETS

	Plant, equipment and vehicles £000	Leasehold property £000	Total £000
<b>COST</b>			
At 1 January 2012	2,242	1,554	3,796
Additions	176	1	177
Disposals	(17)	—	(17)
<b>At 31 December 2012</b>	<b>2,401</b>	<b>1,555</b>	<b>3,956</b>
<b>ACCUMULATED DEPRECIATION</b>			
At 1 January 2012	1,650	1,004	2,654
Charge for the year	203	176	379
On disposals	(17)	—	(17)
<b>At 31 December 2012</b>	<b>1,836</b>	<b>1,180</b>	<b>3,016</b>
<b>NET BOOK VALUE</b>			
<b>At 31 December 2012</b>	<b>565</b>	<b>375</b>	<b>940</b>
At 31 December 2011	592	550	1,142

### 11. STOCKS

	2012 £000	2011 £000
Raw materials	1,261	1,691
Work in progress	486	538
Finished goods	1,505	1,280
	<b>3,252</b>	<b>3,509</b>

### 12. DEBTORS

	2012 £000	2011 £000
Trade debtors	2,717	1,467
Amounts owed by group undertakings	4	—
Group relief receivable	—	207
Prepayments and accrued income	59	91
Deferred taxation (note 13)	180	294
	<b>2,960</b>	<b>2,059</b>

The deferred tax asset primarily represents the benefit of capital allowances which are expected to be recoverable against trading profits in future years

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

### 13. DEFERRED TAXATION

The deferred tax included in the Balance sheet is as follows

	2012 £000	2011 £000
Included in debtors (note 12)	180	294

The movement in the deferred taxation account during the year was

	2012 £000	2011 £000
Balance at 1 January 2012	294	304
Profit and loss account movement arising during the year (note 7)	(114)	(10)
Balance at 31 December 2012	180	294

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

	2012 £000	2011 £000
Excess of depreciation over taxation allowances	82	98
Other timing differences	98	196
	180	294

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

	2012 £000	2011 £000
Trade creditors	562	904
Amounts owed to group undertakings	4,025	6,135
Other taxation and social security	68	66
Group relief receivable	412	—
Other creditors	376	167
Accruals and deferred income	746	29
	6,189	7,301

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.

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

### 15 PENSION COSTS

The company is a subsidiary of Meggitt PLC and certain employees of the company are members of group pension schemes, which are both defined benefit and defined contribution schemes. Particulars of the defined benefit scheme most recent actuarial valuation are disclosed in the financial statements of Meggitt PLC for the year ended 31 December 2012.

For the defined contribution scheme, the pension cost charged to the profit and loss account, representing employer's contributions, was £120,000 (2011 £120,000).

For the defined benefit scheme, 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 £135,000 (2011 £135,000).

For the purposes of FRS17, the company has been unable to identify its share of the underlying assets and liabilities in the main group scheme, on a consistent and reasonable basis. Therefore, following full implementation of FRS17, the company has accounted for contributions to the scheme as if it were a defined contribution scheme. At 31 December 2012 the valuation of the scheme for the purposes of FRS17 showed a net pension liability as set out in the report and accounts of Meggitt PLC.

### 16. PROVISIONS FOR LIABILITIES

	Warranty Costs £000
Balance at 1 January 2012	12
Profit and Loss Account movement arising during the year	20
Utilised during the year	(15)
Balance at 31 December 2012	<u>17</u>

Provision has been made for product warranty claims which are expected to be utilised over the next three years.

### 17. SHARE-BASED PAYMENTS

The Meggitt Group operates a number of equity settled 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 £70,000 (2011 £58,000). The nature of each scheme which has a significant impact on the expense recorded in the income statement is set out below.

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

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

#### Executive Share Option Scheme 2005 ("ESOS 2005")

Share options are granted under the ESOS 2005 scheme 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 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. There is no obligation, legal or constructive, to settle the options in cash. Awards under Part A of the scheme 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 scheme 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 £24,000 (2011: £22,000) was recorded in the year. Movements in the number of outstanding share options and their weighted average exercise prices ('WAEP') are as follows:

	2012		2011	
	No	WAEP Pence	No	WAEP Pence
Balance at 1 January	241,067	271.12	342,251	247.17
Granted	28,384	397.20	30,422	352.50
Transferred (out)/in	(41,994)	330.49	(102,547)	217.84
Exercised	(19,565)	169.50	(29,059)	262.25
Balance at 31 December	<u>207,892</u>	<u>285.90</u>	<u>241,067</u>	<u>271.12</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 98.25 pence for the award in April 2012 (March 2011: 92.98 pence). The significant assumptions used in the model were:

	2012 Award in April	2011 Award in March
Share price at date of grant(pence)	397.20	351.70
Exercise price (pence)	397.20	351.70
Vesting period (years)	3	3
Expected volatility	38%	38%
Expected life of option (years)	5	5
Risk free rate	1.07%	2.45%
Expected dividend yield	<u>3.31%</u>	<u>3.29%</u>

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

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

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 this plan. For awards made in 2012 and 2011, the number of shares, if any that an executive ultimately receives, depends on three performance conditions:

- An earnings per share (EPS) measure (50% of the award),
- A cash flow measure (25% of the award), and
- Total Shareholder Return (TSR) achieved by the Group as measured against a comparator group selected by the Remuneration Committee (25% of the award)

Each of the conditions is measured over a three year performance period. For awards made between 2008 and 2010, 50% of the award was based on an EPS measure and 50% on a TSR condition. An expense of £31,000 (2011: £15,000) was recorded in the year. Movements in the number of outstanding shares that may potentially be released to employees are as follows:

	2012 No. of Options	2011 No. of Options
Balance at 1 January	15,876	16,007
Granted	7,029	15,876
Lapsed	(4,898)	-
Exercised	-	-
Transferred in/(out)	16,007	(16,007)
Balance at 31 December	<u>34,014</u>	<u>15,876</u>

The fair value of the award is measured using a Monte Carlo model. The fair value of the awards made in 2012 was 392.97 pence. The fair value of the awards made in 2011 were 345.00 pence and 351.50 pence respectively. The significant assumptions used in the model were:

	2012 Award in August	2011 Award in August	2011 Award in April
Share price at date of grant (pence)	392.97	345.00	351.50
Vesting period (years)	3	3	2.3
Expected volatility	29%	41%	36%
Expected life of award (years)	3	3	3
Risk free rate	0.26%	0.82%	1.30%
Fair value at date of award (pence)	<u>240.00</u>	<u>241.00</u>	<u>217.00</u>

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

#### Meggitt Sharesave Schemes (SAYE)

The expense recorded in respect of Meggitt Sharesave Schemes (SAYE) was £15,000 (2011: £21,000).

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

### 18 FINANCIAL COMMITMENTS

At 31 December 2012 the company had annual commitments under non-cancellable operating leases as set out below

	Land and buildings	
	2012	2011
	£000	£000
Operating leases which expire		
Within 2 to 5 years	258	-
After more than 5 years	-	258
	<u>258</u>	<u>258</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

### 20. SHARE CAPITAL

Allotted, called up and fully paid:

	2012		2011	
	No	£000	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 2012	758	1,248
Profit for the year	-	1,534
Equity dividends	-	(256)
Recognition of equity-settled share-based payments in the year	70	-
Balance at 31 December 2012	<u>828</u>	<u>2,526</u>

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2012

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

	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Profit for the financial year	<b>1,534</b>	259
Equity dividends	<b>(256)</b>	(1,105)
Recognition of equity-settled share-based payments in the year	<b>70</b>	58
Net addition/(reduction) to shareholder's funds	<b>1,348</b>	(788)
Opening shareholder's funds	<b>2,011</b>	2,799
Closing shareholder's funds	<b>3,359</b>	2,011

### 23. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent undertaking is Meggitt Properties PLC. The ultimate parent undertaking and controlling party is Meggitt PLC, a company incorporated in the United Kingdom. Meggitt PLC is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements at 31 December 2012. The consolidated financial statements of Meggitt PLC are available from Atlantic House, Aviation Park West, Bournemouth International Airport, Christchurch, Dorset, BH23 6EW.