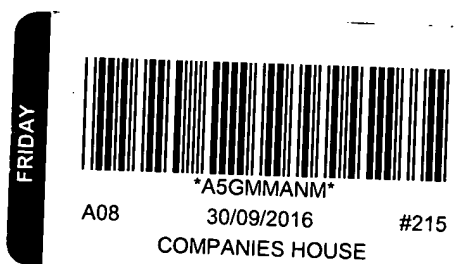


Company Registration No. 01877695 (England and Wales)

MEGGITT DEFENCE SYSTEMS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015



MEGGITT DEFENCE SYSTEMS LIMITED

COMPANY INFORMATION

Directors

D R Webb
M L Thomas
I K Pargeter
P E Green
S G Young
D J O'Neill

Secretary

M L Thomas

Company number

01877695

Registered office

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

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Oceana House
39 - 49 Commercial Road
Southampton
Hampshire
England
SO15 1GA

MEGGITT DEFENCE SYSTEMS LIMITED

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MEGGITT DEFENCE SYSTEMS LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

The directors present the strategic report for the year ended 31 December 2015.

Review of the business

Results for the year

The company made a profit of £3,089,000 during the financial year (2014: £1,745,000) and has net assets of £5,902,000 as at 31 December 2015 (2014: £4,116,000).

Principal activities

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 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.

Key performance indicators

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 Defence Systems Limited. The development, performance and position of the Meggitt Equipment Group, which includes the company, are discussed on page 17 and 36 of the Group's annual report which does not form part of this report.

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 as a whole, on pages 26 to 29 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.

Financial risk management objectives and policies

Financial risk management

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. The key financial risk objectives and policies are fully discussed in context of the Meggitt PLC group as a whole, on note 3, pages 102 to 104 of the the group's annual report which does not form part of this report.

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 income statement and hedge accounting is not applied.

MEGGITT DEFENCE SYSTEMS LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

Credit risk

The company is not subject to a significant concentration of credit risk with exposure spread across a 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.

Exceptional items

During the financial year, the company incurred exceptional costs of £299,000 (2014: £nil). This principally related to costs incurred as part of a Group-wide initiative to structurally reduce its cost base announced on 28 October 2015.

Future prospects

The directors feel that the company is well placed to continue progress during 2016.

Approved by the Board of Directors:

By order of the Board:

A handwritten signature in black ink, appearing to read 'M L Thomas', written over a horizontal line.

M L Thomas

Secretary

26 September 2016

MEGGITT DEFENCE SYSTEMS LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

The directors present their annual report and audited financial statements for the year ended 31 December 2015.

Results and dividends

The results for the year are set out on page 8. Particulars of dividends paid are detailed in note 10 of the financial statements.

Directors

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

D R Webb
M L Thomas
I K Pargeter
P E Green
S G Young
D J O'Neill

The company is a wholly owned subsidiary and the interests of the group directors are disclosed in the financial statements of the ultimate parent company.

Directors' indemnities

The directors have the benefit of qualifying third-party indemnity provisions for the purposes of Section 234 of the Companies Act 2006. This remained in force at the date of approval of these financial statements.

Financial risk management objectives and policies

The key financial risk management objectives and policies are fully discussed in context of the Meggitt PLC group as a whole, in note 3, pages 102 to 104 of the group's annual report which does not form part of this report.

Supplier payment policy

The company's current policy concerning the payment of trade creditors is to follow the CBI's Prompt Payers Code (copies are available from the CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU).

The company's current policy concerning the payment of trade creditors is to:

- settle the terms of payment with suppliers when agreeing the terms of each transaction;
- ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- pay in accordance with the company's contractual and other legal obligations.

Auditors

PricewaterhouseCoopers LLP act as independent auditors and have indicated their willingness to continue in office.

MEGGITT DEFENCE SYSTEMS LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report and 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 prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

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 period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- 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 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.

Statement of disclosure to auditors

Each director in office at the date of approval of this annual report confirms that:

- so far as they 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 a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Strategic Report

Certain laws and regulations require that specific information should be included in the Directors' report. The Future prospects are set out in the Strategic Report on page 2.

MEGGITT DEFENCE SYSTEMS LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

Approved by the Board of Directors:

By order of the Board:

A handwritten signature in dark ink, appearing to read 'M L Thomas', written in a cursive style.

M L Thomas

Secretary

26 September 2016

MEGGITT DEFENCE SYSTEMS LIMITED

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF MEGGITT DEFENCE SYSTEMS LIMITED

Report on the financial statements

Our opinion

In our opinion, Meggitt Defence Systems Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 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 requirements of the Companies Act 2006.
-

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Statement of Financial Position as at 31 December 2015;
- the Income Statement for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

MEGGITT DEFENCE SYSTEMS LIMITED

INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE MEMBERS OF MEGGITT DEFENCE SYSTEMS LIMITED

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Trevor Smith (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

Southampton, UK

28 September 2016

MEGGITT DEFENCE SYSTEMS LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	2015 £000	2014 £000
Revenue	4	23,593	16,340
Cost of sales		(15,525)	(10,806)
Gross profit		8,068	5,534
Distribution costs		(1,101)	(1,272)
Administrative expenses		(3,021)	(1,863)
Operating profit	6	3,946	2,399
Finance costs	8	(31)	(103)
Profit on ordinary activities before taxation		3,915	2,296
Tax on profit on ordinary activities	9	(826)	(551)
Profit for the financial year	23	3,089	1,745

The income statement has been prepared on the basis that all operations are continuing operations.

The company has no other comprehensive income or expenses other than the results for the years as set out above, and therefore no separate statement of comprehensive income has been presented.

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

MEGGITT DEFENCE SYSTEMS LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

	Notes	2015 £000	2014 £000
Non-current assets			
Intangible assets - goodwill	11	2,176	2,176
Other intangible assets	11	24	2
Property, plant and equipment	12	581	540
		<u>2,781</u>	<u>2,718</u>
Current assets			
Inventories	13	4,521	4,317
Deferred tax asset	14	129	174
Trade and other receivables	15	5,122	1,820
Cash at bank and in hand		6	8
		<u>9,778</u>	<u>6,319</u>
Creditors: amounts falling due within one year			
Trade and other payables	16	(6,369)	(4,787)
Derivative financial instruments	17	(98)	(24)
		<u>(6,467)</u>	<u>(4,811)</u>
Net current assets		<u>3,311</u>	<u>1,508</u>
Total assets less current liabilities		<u>6,092</u>	<u>4,226</u>
Provisions for liabilities			
Provisions	19	(190)	(110)
Net assets		<u>5,902</u>	<u>4,116</u>
Capital and reserves			
Called-up share capital	22	5	5
Share based payment reserve		962	909
Profit and loss account	23	4,935	3,202
Total equity		<u>5,902</u>	<u>4,116</u>

MEGGITT DEFENCE SYSTEMS LIMITED

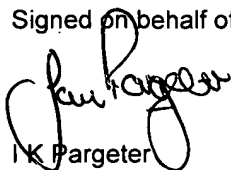
STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 31 DECEMBER 2015

The notes on pages 12 to 34 are an integral part of these financial statements.

The financial statements on pages 8 to 34 were approved by the Board of Directors and authorised for issue on 26 September 2016.

Signed on behalf of the directors:



I K Pargeter

Director

Company Registration No. 01877695

MEGGITT DEFENCE SYSTEMS LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

	Called-up share capital	Share based payment reserve*	Profit and loss account	Total
	£000	£000	£000	£000
Balance at 1 January 2014	5	878	2,597	3,480
Profit for the financial year	-	-	1,745	1,745
Total comprehensive income for the year	-	-	1,745	1,745
Dividends	-	-	(1,140)	(1,140)
Recognition of equity-settled share-based payments in the year	-	31	-	31
Balance at 31 December 2014	5	909	3,202	4,116
Profit for the financial year	-	-	3,089	3,089
Total comprehensive income for the year	-	-	3,089	3,089
Dividends	-	-	(1,356)	(1,356)
Recognition of equity-settled share-based payments in the year	-	53	-	53
Balance at 31 December 2015	5	962	4,935	5,902

* Relates to share based transactions

MEGGITT DEFENCE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1 Accounting policies

General Information

The company is a manufacturer of target drones and provides related services for simulation and training systems. The company is limited by shares, incorporated and domiciled in the UK. The address of its registered office is Atlantic House, Aviation Park West, Bournemouth International Airport, Christchurch, Dorset, BH23 6EW.

1.1 Accounting convention

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The financial statements have been prepared on the historical cost basis, modified by financial assets and liabilities held at fair value through profit and loss and in accordance with the Companies Act 2006.

The true and fair override provisions of the Companies Act 2006 have been invoked - see Intangible assets - Goodwill in paragraph 1.6.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas requiring a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are discussed in note 3.

These policies have been applied consistently to all periods presented unless otherwise stated. The company has early adopted SI 2015/980 and amendments to FRS 101, effective from 1 January 2016. Information of the effect of first time adoption of FRS 101 is given in note 2.

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based Payment;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of: (i) paragraph 79(a) (iv) of IAS 1, (ii) paragraph 73(e) of IAS 16 Property Plant and Equipment (iii) paragraph 118 (e) of IAS 38 Intangibles Assets, and (iv) paragraphs 76 and 79(d) of IAS 40 Investment Property;
- the requirements of paragraphs 10(d), 10(f), 16, 38A to 38D, 39 to 40, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

Meggitt Defence Systems Limited is a wholly owned subsidiary of Meggitt PLC and the results of Meggitt Defence Systems Limited are included in the consolidated financial statements of Meggitt PLC which are publicly available, as set out in note 25.

1.2 Going concern

The company's forecasts and projections, taking account of possible changes in trading performance, show the company should be able to operate within its current cash reserves.

MEGGITT DEFENCE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

1 Accounting policies

(Continued)

1.3 Revenue

Revenue 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. On contracts where the Company fulfils its obligations with input from other Group entities, the Company recognises revenue on a gross basis where it is the primary obligator in the arrangement and maintains the credit risk.

Contract accounting revenue

The Company is usually able to reliably estimate the outcome of a contract at inception and accordingly recognises revenue and cost of sales by reference to the stage of completion of the contract. Revenue is typically measured by applying to total contract revenue, the proportion costs incurred for work performed in the period bear to total estimated contract costs. Where it is not possible to reliably estimate the outcome of a contract, revenue is recognised equal to costs incurred, provided recovery of such costs is probable. If total contract costs are forecast to exceed total contract revenue then the expected loss is recorded immediately in the income statement.

Revenue from services

Revenue is recognised by reference to the stage of completion of the contract. For 'cost-plus fixed fee' contracts, revenue is recognised equal to the costs incurred plus an appropriate proportion of the fee agreed with the customer. For other contracts, the stage of completion is typically measured by reference to contractual milestones achieved, number of aircraft flying hours or number of aircraft landings.

1.4 Property, plant and equipment

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. There have been no impairments to date.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Plant, equipment and vehicles	Over 3-10 years
Leasehold Property	Over the term of the lease

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is recognised in the income statement.

1.5 Intangible assets

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 15 years, commencing with the launch of the project. Development expenditure is reviewed annually for impairment.

Amortisation

Development costs	-	Over period expected to benefit, typically to 15 years
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MEGGITT DEFENCE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

1 Accounting policies

(Continued)

1.6 Goodwill

The purchased goodwill of the Company is regarded as having an indefinite useful economic life and in accordance with FRS101, is not amortised but is subject to annual tests for impairment. This represents a departure, for the purpose of giving a true and fair view, from the requirements of schedule 4:21 of the Companies Act 2006, which requires goodwill to be amortised.

In the opinion of the directors, it is not possible to determine a finite useful economic life for goodwill, due to the inherent durability of the corporate profile, and the continued position of market leadership. This is supported by the high profitability of the business. Since it is not possible to identify any finite useful economic life, it is not possible to quantify any amortisation which would be charged. In reviewing the carrying value of goodwill of the business, the Board has considered the separate plans and cashflows of these businesses consistent with the requirements of FRS101, and is satisfied that these demonstrate that no impairment has occurred. Accordingly no charge for impairment is required.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

1.7 Impairment of tangible and intangible assets

At each reporting end date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried in at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

MEGGITT DEFENCE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

1 Accounting policies

(Continued)

1.8 Inventories

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.

1.9 Fair value measurement

IFRS 13 establishes a single source of guidance for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The company is exempt under FRS 101 from the disclosure requirements of IFRS 13. There was no impact on the company from the adoption of IFRS 13.

1.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities. The bank account of Meggitt Defence Systems Limited is in the name of 'Meggitt PLC - Re Meggitt Defence Systems Limited'.

1.11 Financial assets

Financial assets are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

Financial assets are classified into specified categories. The classification depends on the nature and purpose of the financial assets and is determined at the time of recognition.

Financial assets are initially measured at fair value other than Investments which are held at fair value plus transaction costs. For items classified as fair value through profit and loss, transaction costs are expensed when incurred.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument to the net carrying amount on initial recognition.

Impairment of financial assets

Financial assets, other than those at FVTPL (fair value through profit or loss), are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

MEGGITT DEFENCE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015

1 Accounting policies

(Continued)

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

1.12 Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

Derecognition of financial liabilities

Financial liabilities are derecognised when, and only when, the company's obligations are discharged, cancelled, or they expire.

1.13 Derivatives

The company uses derivative financial instruments to hedge its exposure to foreign currency transactional risk. Derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value each balance sheet date using values determined indirectly from quoted prices that are observable for the asset or liability.

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

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

The company utilises foreign currency forward contracts to mitigate against currency fluctuations. The company has determined the additional costs of meeting the extensive documentation requirements in order to apply hedge accounting under IAS 39 are not merited.

Further details of derivative financial instruments are disclosed in note 17.

1.14 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

MEGGITT DEFENCE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

1 Accounting policies

(Continued)

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.15 Provisions

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.

1.16 Employee benefits

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.

The company operates a defined contribution scheme, the Meggitt Workplace Savings Plan. The assets of the scheme are held separately from those of the company independently administered funds. The minimum level of employee contribution is 3% and the minimum level of employer contributions is 5%. The amounts charged to the profit and account is the contribution payable in the year.

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 income statement. The overall position of the schemes is disclosed in the financial statements of Meggitt PLC.

MEGGITT DEFENCE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

1 Accounting policies

(Continued)

1.17 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 the 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 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.

1.18 Leases

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.

1.19 Foreign exchange

The financial statements are presented in 'pounds sterling' (£), which is also the company's functional currency. Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation are included in the income statement for the period.

1.20 Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the company. They are material items of income or expense that have been shown separately due to the significance of their nature or amount. Further details of exceptional items are disclosed in note 5.

1.21 Dividends recognition and distribution

Dividend income is recognised when the right to receive payment is established. Dividends are approved and paid within the financial year.

2 Adoption of new and revised standards and changes in accounting policies

Transition to FRS 101

For all periods up to and including the year ended 31 December 2014, the company prepared its financial statements in accordance with the previously extant United Kingdom Generally Accepted Accounting Practice (UK GAAP).

These financial statements, for the year ended 31 December 2015, are the first the company has prepared in accordance with FRS 101 applicable for periods beginning on or after 1 January 2015 and the significant accounting policies meeting those requirements are described in the relevant notes.

On transition to FRS 101, the company has applied the requirements of paragraphs 6-33 of IFRS 1 'First time adoption of International Financial Reporting Standards'.

Restatements to comparatives were required and impact on the company's reported position is detailed in note 24 - Reconciliation on adoption of FRS 101.

MEGGITT DEFENCE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

3 Critical accounting estimates and judgements

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are outlined below.

Critical judgements

Estimated useful lives of PPE

The estimated useful economic lives of PPE are based on the company's judgement and experience. When the company identifies that actual useful economic lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Variations between actual and estimated useful economic lives could impact operating results both positively and negatively, although historically no changes to estimated useful lives have been required.

Inventory provisioning

The company is a manufacturer of target drones and associated training systems. As a result, it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory as well as applying assumptions around associated saleability of finished goods and future usage of raw materials. Details on the net carrying amount of the inventory and associated provision are shown on note 13.

Goodwill carrying value

The company test annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1.6. The recoverable amounts of cash generating units (CGUs) have been determined based on value-in-use calculations. These calculations are prepared using future cashflows and discount rates which require the use of estimates.

MEGGITT DEFENCE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

4 Revenue

The revenue and profit before tax are attributable to the one principal activity of the company.

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

Geographical market

	2015 £000	2014 £000
United Kingdom	8,884	6,675
Rest of Europe	5,749	5,002
North America	481	49
Rest of World	8,479	4,614
	<u>23,593</u>	<u>16,340</u>

5 Exceptional items

	2015 £000	2014 £000
Exceptional costs	(299)	-
	<u></u>	<u></u>

Items that are material either because of their size or their nature, or that are non-recurring are considered as exceptional items. During the year, the exceptional item as detailed above has been included within the income statement.

This principally relates to costs incurred as part of a Group-wide initiative to structurally reduce its cost base announced on 28 October 2015.

6 Operating Profit

	2015 £000	2014 £000
Operating profit is stated after charging:		
Movement in fair value of foreign currency forward contracts	74	24
Research and development costs	760	655
Fees payable to the company's auditors for the audit of the company's financial statements	29	28
Depreciation of property, plant and equipment	344	357
Amortisation of intangible assets	2	5
Raw materials and consumables used	8,219	11,561
Change in inventories of finished goods and work in progress	(227)	(267)
Staff costs	4,286	4,053
Operating lease costs - land and buildings	269	258
Exceptional item	299	-
	<u></u>	<u></u>

MEGGITT DEFENCE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015

7 Employees

The average monthly number of employees (excluding directors) were:

	2015 Number	2014 Number
Selling and Distribution	9	9
Administration	9	9
Production	79	75
	<u>97</u>	<u>93</u>

Their aggregate remuneration comprised:

Employment costs	2015 £000	2014 £000
Wages and salaries	3,562	3,324
Social security costs	318	341
Other pension costs	367	357
Share based payment costs	39	31
	<u>4,286</u>	<u>4,053</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, as their services to the company were incidental to their services to the group.

Three of the directors exercised options in the shares of the ultimate holding company, Meggitt PLC, during the year (2014: two). No options were issued in regards to services for Meggitt Defence Systems Limited.

8 Finance costs

	2015 £000	2014 £000
Interest payable to group undertakings	<u>31</u>	<u>103</u>

MEGGITT DEFENCE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015

9 Tax on profit on ordinary activities

	2015 £000	2014 £000
Current tax		
Current year taxation	808	522
Adjustments in respect of prior periods	(24)	27
	<u>784</u>	<u>549</u>
Deferred tax		
Origination and reversal of temporary differences	55	10
Adjustment in respect of prior periods	(13)	(8)
	<u>42</u>	<u>2</u>
Total tax charge	<u>826</u>	<u>551</u>

Tax expense for the year is higher (2014: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2015 of 20.25% (2014: 21.50%). The difference is explained below:

	2015 £000	2014 £000
Profit before taxation	<u>3,915</u>	<u>2,296</u>
Effects of:		
Profit multiplied by the standard rate of tax in the UK of 20.25%, (2014: 21.50%)	793	494
Expenses not deductible in determining taxable profit	70	38
Adjustments in respect of prior periods	(37)	19
Tax charge for the year	<u>826</u>	<u>551</u>

Factors that may affect future tax charges

The Finance (No. 2) Act 2015, included legislation to reduce the main rate of corporation tax in the UK from 20% to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

MEGGITT DEFENCE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

10	Dividends	2015 per share £	2014 per share £	2015 £000	2014 £000
	Amounts recognised as distributions to equity holders:				
	Ordinary shares				
	Paid during the year	271.20	228.00	1,356	1,140

On 14 December the directors approved the payment of an interim dividend of £271.20 per £1 ordinary share totalling £1,356,000 (2014: £228.00 per £1 ordinary share totalling £1,140,000). All dividends were approved and paid during the financial year.

11	Intangible fixed assets	Goodwill £000	Software £000	Development Costs £000	Total £000
	Cost				
	At 1 January 2015	3,203	39	430	3,672
	Additions - purchased	-	24	-	24
	At 31 December 2015	3,203	63	430	3,696
	Amortisation				
	At 1 January 2015	1,027	37	430	1,494
	Charge for the year	-	2	-	2
	At 31 December 2015	1,027	39	430	1,496
	Carrying amount				
	At 31 December 2015	2,176	24	-	2,200
	At 31 December 2014	2,176	2	-	2,178

MEGGITT DEFENCE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

12 Property, plant and equipment

	Plant, equipment and vehicles	Leasehold Property	Total
	£000	£000	£000
Cost			
At 1 January 2015	2,529	1,564	4,093
Additions	385	-	385
Disposals	(24)	-	(24)
	<u>2,890</u>	<u>1,564</u>	<u>4,454</u>
At 31 December 2015			
Accumulated depreciation			
At 1 January 2015	2,139	1,414	3,553
Charge for the year	210	134	344
Eliminated on disposal	(24)	-	(24)
	<u>2,325</u>	<u>1,548</u>	<u>3,873</u>
At 31 December 2015			
Carrying amount			
At 31 December 2015	<u>565</u>	<u>16</u>	<u>581</u>
At 31 December 2014	<u>390</u>	<u>150</u>	<u>540</u>

13 Inventories

	2015 £000	2014 £000
Raw materials	1,513	1,536
Work in progress	1,497	1,676
Finished goods	1,511	1,105
	<u>4,521</u>	<u>4,317</u>

Inventories are stated after provisions for impairment of £2,128,000 (2014: £2,210,000).

MEGGITT DEFENCE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

14 Deferred tax assets

	ACAs £000
Deferred tax liability at 1 January 2014	-
Deferred tax asset at 1 January 2014	176
Deferred tax movements in prior year	
Charge to profit or loss	(10)
Adjustment in respect of prior years	8
	<hr/>
Deferred tax liability at 1 January 2015	-
Deferred tax asset at 1 January 2015	174
Deferred tax movements in current year	
Charge to profit or loss	(55)
Adjustment in respect of prior years	10
	<hr/>
Deferred tax liability at 31 December 2015	-
Deferred tax asset at 31 December 2015	129
	<hr/> <hr/>

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2015 £000	2014 £000
Deferred tax assets relating to capital allowances	129	174
	<hr/> <hr/>	<hr/> <hr/>

15 Trade and other receivables

	2015 £000	2014 £000
Trade receivables	3,944	1,671
Other receivables	61	8
Prepayments and accrued income	1,117	141
	<hr/>	<hr/>
	5,122	1,820
	<hr/> <hr/>	<hr/> <hr/>

MEGGITT DEFENCE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

16 Trade and other payables

	2015 £000	2014 £000
Trade payables	2,712	658
Amounts due to fellow group undertakings	1,561	2,796
Accruals and deferred income	970	1,015
Social security and other taxation	803	301
Other payables	323	17
	<u>6,369</u>	<u>4,787</u>

The bank account of Meggitt Defence Systems Limited is in the name of '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 it is shown as an inter company trading balance.

Amounts due to fellow group undertakings are unsecured, non interest bearing and are repayable on demand.

17 Derivative financial instruments

	2015				2014			
	Assets		Liabilities		Assets		Liabilities	
	Current	Non Current	Current	Non Current	Current	Non Current	Current	Non Current
	£000	£000	£000	£000	£000	£000	£000	£000
Fair value:								
US dollars forward purchases (\$/£):	-	-	(98)	-	-	-	(24)	-
Nominal value:								
US dollars forward purchases (\$/£):	-	-	(1,831)	-	-	-	(2,822)	-

Although the company uses foreign currency forward contracts to hedge against foreign currency exposures, it has decided that the costs of meeting the extensive documentation requirements to be able to apply hedge accounting under IAS 39 'Financial Instruments: Recognition and Measurement' are not merited.

MEGGITT DEFENCE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

18 Retirement benefit schemes

Defined contribution schemes

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 the Meggitt PLC for the year ended 31 December 2015.

For the defined contribution scheme, the pension cost charged to the income statement, representing employer's contributions, was £218,000 (2014: £199,000).

For the defined benefit scheme, the pension cost charged to the income statement 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 £149,000 (2014: £158,000).

With regard to the defined benefit scheme, the full deficit is recorded in the books of Meggitt PLC as the sponsoring employer following its transition to FRS 101. The company is therefore accounting for its contributions to the schemes as if they were defined contribution schemes. At 31 December 2015, the valuation of the scheme showed a net pension liability as disclosed on pages 128 to 132 of Meggitt PLC's annual report, which does not form part of this report.

19 Provisions	2015 £000	2014 £000
	190	110
		£000
At 1 January 2015		110
Additional provisions in the year		204
Utilisation of provision		(124)
At 31 December 2015		190

20 Operating leases commitments

Lessee

Amounts recognised in profit or loss as an expense during the year in respect of operating lease arrangements are as follows:

	2015 £000	2014 £000
Minimum lease payments under operating leases	(269)	(258)

MEGGITT DEFENCE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

20 Operating leases commitments

(Continued)

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Land and buildings	
	2015 £000	2014 £000
Within one year	264	258
Between two and five years	71	387
	<hr/>	<hr/>
	335	645
	<hr/>	<hr/>

MEGGITT DEFENCE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

21 Share-based payment transactions

The Group operates a number of equity settled 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 £39,000 (2014: £31,000). The nature of each scheme which has a significant impact on the expense recorded in the income statement is set out below.

Meggitt Long Term Incentive Plan 2014 **Equity-settled**

Under the Meggitt Long Term Incentive Plan 2014, an annual award of shares may be made to certain senior executives. The number of shares, if any that an executive ultimately receives, depends on three performance conditions:

- An earnings per share (EPS) measure (33% of the award);
- A return on trading assets (ROTA) measure (33% of the award); and
- A strategic goals measure (33% of the award).

Each of the conditions is measured over a three year performance period. An expense of £9,000 (2014: £6,000) was recorded in the year. Awards are made as nil cost options. An employee is generally entitled to a payment at the end of the vesting period, equivalent to dividends that would have been paid during the vesting period, on any shares that vest. The fair value of the award made in 2015 has been estimated at the market price of the share on the date of grant, which was 559.10 pence (2014: 467.54 pence).

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

	No of Shares under award outstanding
At 1 January 2015	19,237
Awarded	17,332
Transferred	5,339
At 31 December 2015	41,908

At 31 December 2015, none of the shares under award are eligible for release.

Meggitt Executive Share Option Scheme 2005

Awards are no longer made under this scheme. Share awards were granted under the 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 awards are generally exercisable at the earliest three years after the grant date. Awards 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 awards in cash. Awards under Part A of the scheme provide for the executive to be entitled, on payment of the exercise 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 exercise price and the market price on the date of exercise. Awards may be exercised at any point between the vesting date and ten years after the date the award was made.

No expense was recorded in the year (2014: £4,000).

MEGGITT DEFENCE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015

21 Share-based payment transactions

(Continued)

Share options outstanding at the end of the year have the following exercise prices and expiry dates:

	Indicative number of shares to be released*	Number of shares under award	Exercise price under award	Exercise period	
				From	To
2006	5,338	18,015	263.67p	27.09.09	26.09.16
2007	5,344	16,555	299.00p	29.03.10	28.03.17
2008	6,713	20,584	252.50p	25.03.11	24.03.18
2008	9,377	20,584	204.00p	07.08.11	06.08.18
2009	11,755	21,465	169.50p	30.04.12	29.04.19
2010	4,295	18,167	286.10p	12.03.13	11.03.20
2011	709	11,561	351.17p	02.03.14	01.03.21
2013	-	14,901	526.50p	05.09.16	04.09.23

* Based on an indicative share price of 374.70p, the share price at 31 December 2015.

Of the 141,832 outstanding options (2014: 148,984 options), 126,931 options were exercisable (2014: 41,838). Options exercised in 2015 resulted in 5,562 shares being issued at a weighted average price of £2.7865 per share (2014: 5,780 shares were issued at a weighted average price of £2.7451 per share).

All of the above awards, which were granted for nil consideration, may in certain circumstances, be exercised earlier than the dates given.

Meggitt Equity Participation Plan 2005

Awards are no longer made under this scheme. Under this scheme an annual award of shares was made to certain senior executives. Awards are made as nil cost options. An employee is generally entitled to a payment at the end of the vesting period equivalent to dividends that would have been paid during the vesting period on any shares that vest. For awards made in 2013 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. No expense was recorded in the year (2014: £1,000).

Share options outstanding at the end of the year have the following exercise dates:

	Number of shares under award	Exercise period	
		From	To
2009	11,109	05.08.12	04.08.19
2011	7,481	21.04.13	20.04.21
2011	2,800	17.08.14	16.08.21

At 31 December 2015, of the 21,390 shares under award outstanding, 21,390 were exercisable. No awards were exercised in 2015.

MEGGITT DEFENCE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

21 Share-based payment transactions

(Continued)

Meggitt Sharesave scheme (SAYE)

This scheme is open to all group UK employees (including executive directors) on identical terms. Employees may save up to the maximum monthly savings limit (as determined by legislation) over a period of three or five years under a savings contract. Options under the scheme are granted at a discount of 20% to the mid-market value of a share in the three dealing days prior to the application period. The expense recorded in respect of the scheme was £30,000 (2014: £20,000).

Further details of the scheme, in the context of Meggitt PLC group as a whole, can be found on page 133 of the group's annual report which does not form part of this report.

22 Called-up share capital	2015 No.	2014 No.	2015 £000	2014 £000
Ordinary share capital				
Authorised, issued and fully paid				
Ordinary shares of £1 each	5,000	5,000	5	5
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
23 Profit and loss account				£000
At 1 January 2014				2,597
Profit for the financial year				1,745
Dividends				(1,140)
				<u> </u>
At 31 December 2014				3,202
Profit for the financial year				3,089
Dividends				(1,356)
				<u> </u>
At 31 December 2015				<u> </u> <u> </u>

MEGGITT DEFENCE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

24 Transition to FRS 101

Reconciliation of equity

		At 1 January 2014			At 31 December 2014		
		Previous UK GAAP £000	Effect of transition £000	FRS 101 £000	Previous UK GAAP £000	Effect of transition £000	FRS 101 £000
Notes							
Non-current assets							
Intangible assets -							
Goodwill	a	2,176	-	2,176	2,016	160	2,176
Other intangibles	b	-	5	5	-	2	2
Property, plant and equipment	b	678	(5)	673	542	(2)	540
		<u>2,854</u>	<u>-</u>	<u>2,854</u>	<u>2,558</u>	<u>160</u>	<u>2,718</u>
Current assets							
Inventories		3,517	-	3,517	4,317	-	4,317
Deferred tax asset		-	-	-	169	5	174
Trade and other receivables		4,265	-	4,265	1,820	-	1,820
Cash at bank and in hand		7	-	7	8	-	8
		<u>7,789</u>	<u>-</u>	<u>7,789</u>	<u>6,314</u>	<u>5</u>	<u>6,319</u>
Creditors due within one year							
Derivative financial instruments	d	-	-	-	-	(24)	(24)
Trade and other payables		(7,137)	-	(7,137)	(4,787)	-	(4,787)
		<u>(7,137)</u>	<u>-</u>	<u>(7,137)</u>	<u>(4,787)</u>	<u>(24)</u>	<u>(4,811)</u>
Net current assets		<u>652</u>	<u>-</u>	<u>652</u>	<u>1,527</u>	<u>(19)</u>	<u>1,508</u>
Total assets less current liabilities		<u>3,506</u>	<u>-</u>	<u>3,506</u>	<u>4,085</u>	<u>141</u>	<u>4,226</u>
Provisions for liabilities							
Provisions		(26)	-	(26)	(110)	-	(110)
Net assets		<u>3,480</u>	<u>-</u>	<u>3,480</u>	<u>3,975</u>	<u>141</u>	<u>4,116</u>

MEGGITT DEFENCE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015

24 Transition to FRS 101

(Continued)

	Notes	At 1 January 2014			At 31 December 2014		
		Previous UK GAAP £000	Effect of transition £000	FRS 101 £000	Previous UK GAAP £000	Effect of transition £000	FRS 101 £000
Equity							
Called-up share capital		5	-	5	5	-	5
Share based payment reserve		878	-	878	909	-	909
Profit and loss account		2,597	-	2,597	3,061	141	3,202
Total equity		<u>3,480</u>	<u>-</u>	<u>3,480</u>	<u>3,975</u>	<u>141</u>	<u>4,116</u>

Reconciliation of profit or loss for the year

	Notes	Year ended 31 December 2014		
		Previous UK GAAP £000	Effect of transition £000	FRS 101 £000
Revenue		16,340	-	16,340
Cost of sales		(10,806)	-	(10,806)
Gross profit		<u>5,534</u>	<u>-</u>	<u>5,534</u>
Distribution costs		(1,272)	-	(1,272)
Administrative expenses	a/d	(1,999)	136	(1,863)
Operating profit		<u>2,263</u>	<u>136</u>	<u>2,399</u>
Finance costs		(103)	-	(103)
Taxation	c	(556)	5	(551)
Profit for the financial year		<u>1,604</u>	<u>141</u>	<u>1,745</u>

Notes to reconciliations on adoption of FRS 101

- a Reversal of goodwill amortisation charge for the year
- b Re-classification of software from tangible to intangible assets
- c Deferred tax liability resulting from recognition of foreign currency forward contracts
- d Recognition of foreign currency forward contracts

MEGGITT DEFENCE SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

25 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 2015. The consolidated financial statements of Meggitt PLC are available from its registered office; Atlantic House, Aviation Park West, Bournemouth International Airport, Christchurch, Dorset, BH23 6EW.