

COMPANY REGISTRATION NUMBER 01877695

**MEGGITT DEFENCE SYSTEMS LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**31 DECEMBER 2013**

TUESDAY



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**MEGGITT DEFENCE SYSTEMS LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**YEAR ENDED 31 DECEMBER 2013**

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

**The board of directors**

D R Webb  
M L Thomas  
C J Andrews  
I K Pargeter  
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  
Savannah House  
3 Ocean Way  
Ocean Village  
Southampton  
Hampshire  
SO14 3TJ

# **MEGGITT DEFENCE SYSTEMS LIMITED**

## **STRATEGIC REPORT**

**YEAR ENDED 31 DECEMBER 2013**

### **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 £1,800,000 (2012: £2,362,000) for the year and sales of £22,253,000 (2012: £16,858,000). 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.

### **PRINCIPAL RISKS AND UNCERTAINTIES**

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.

### **FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

#### **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

## STRATEGIC REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2013

### KEY PERFORMANCE INDICATORS "KPIS"

The directors of Meggitt PLC manage the group's operations on a divisional basis. For this reason, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business of Meggitt Defence Systems Limited. The development, performance and position of the Meggitt Equipment Group which includes the company, are discussed on page 14 and 27 of the Group's annual report which does not form part of this report.

### 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 2013 on research and development amounted to £830,000 (2012: £687,000), of which £Nil (2012: £Nil) was capitalised in accordance with the Company's accounting policy.

Signed on behalf of the directors



M L Thomas  
Company Secretary

Approved by the directors on 30 June 2014

# MEGGITT DEFENCE SYSTEMS LIMITED

## DIRECTORS' REPORT

### YEAR ENDED 31 DECEMBER 2013

The directors have pleasure in presenting their annual report and the financial statements of the company for the year ended 31 December 2013.

#### RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £1,348,000 (2012: profit £1,534,000). Particulars of dividends paid are detailed in note 8 to 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:

C J Andrews

I K Pargeter

P E Green

S G Young

D J O'Neill

D R Webb

(Appointed 25 June 2013)

M L Thomas

(Appointed 2 December 2013)

T Twigger

(Resigned 1 May 2013)

M L Young

(Resigned 2 December 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.

#### STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, 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 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 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping 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.

# MEGGITT DEFENCE SYSTEMS LIMITED

## DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2013

### STRATEGIC REPORT

Certain laws and regulations require that specific information should be included in the Directors' report; the following is included in the Strategic report and is incorporated into this Directors' report by reference:

- Principal activities and business review.
- Research and development activities.
- Policies on financial risk management.

### 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 30 June 2014 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 2013**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Our opinion**

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 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.

This opinion is to be read in the context of what we say in the remainder of this report.

#### **What we have audited**

The financial statements, which are prepared by Meggitt Defence Systems Limited, comprise:

- Balance sheet as at 31 December 2013;
- Profit and loss account 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 their preparation is applicable law and United Kingdom Accounting Standards (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.

#### **What an audit of financial statements involves**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("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.

In addition, we read all the financial and non-financial information in the Annual Report and financial statements (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.

#### **OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006**

In our opinion 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.



# MEGGITT DEFENCE SYSTEMS LIMITED

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

YEAR ENDED 31 DECEMBER 2013

### 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.

#### 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, 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 ISAs (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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



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

1 July 2014

# MEGGITT DEFENCE SYSTEMS LIMITED

## PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2013

	Note	2013 £000	2012 £000
<b>TURNOVER</b>	<b>2</b>	<b>22,253</b>	16,858
Cost of sales		(16,596)	(11,126)
<b>GROSS PROFIT</b>		<b>5,657</b>	5,732
Distribution costs		(1,370)	(1,150)
Administrative expenses		(2,375)	(2,106)
<b>OPERATING PROFIT</b>	<b>3</b>	<b>1,912</b>	2,476
Interest receivable and similar income	5	—	3
Interest payable and similar charges	6	(112)	(117)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>1,800</b>	2,362
Tax on profit on ordinary activities	7	(452)	(828)
<b>PROFIT FOR THE FINANCIAL YEAR</b>	<b>21</b>	<b>1,348</b>	1,534

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 10 to 23 form part of these financial statements.

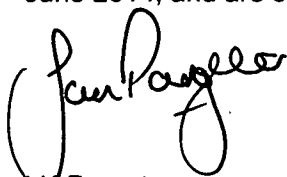
# MEGGITT DEFENCE SYSTEMS LIMITED

## BALANCE SHEET

AS AT 31 DECEMBER 2013

	Note	2013 £000	2012 £000
<b>FIXED ASSETS</b>			
Intangible assets	9	2,176	2,404
Tangible assets	10	678	940
		<u>2,854</u>	<u>3,344</u>
<b>CURRENT ASSETS</b>			
Stocks	11	3,517	3,252
Debtors	12	4,265	2,960
Cash in hand		7	9
		<u>7,789</u>	<u>6,221</u>
<b>CREDITORS: Amounts falling due within one year</b>	14	<u>(7,137)</u>	<u>(6,189)</u>
<b>NET CURRENT ASSETS</b>		<u>652</u>	<u>32</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>3,506</u>	<u>3,376</u>
<b>PROVISIONS FOR LIABILITIES</b>			
Provisions for liabilities	16	<u>(26)</u>	<u>(17)</u>
<b>NET ASSETS</b>		<u>3,480</u>	<u>3,359</u>
<b>CAPITAL AND RESERVES</b>			
Called-up equity share capital	20	5	5
Share based payments reserve	21	878	828
Profit and loss account	21	2,597	2,526
<b>TOTAL SHAREHOLDER'S FUNDS</b>	22	<u>3,480</u>	<u>3,359</u>

These financial statements on pages 8 to 23 were approved by the board of directors on 30 June 2014, and are signed on its behalf by:



Nick Pargeter  
Director

Company Registration Number: 01877695

The notes on pages 10 to 23 form part of these financial statements.

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2013

### 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.

#### 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.

#### Amortisation

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

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

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2013

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

#### **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.

#### **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.

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2013

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

#### **Warranty provisions**

Provision is made for product warranty claims when the company has a present obligation as a result of past events, it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. This is based on past experience.

#### **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.

#### **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.

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2013

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

#### 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:

	2013 £000	2012 £000
United Kingdom	14,616	7,121
Rest of Europe	4,107	7,181
North America	51	113
Rest of World	3,479	2,443
	<u>22,253</u>	<u>16,858</u>

### 3. OPERATING PROFIT

Operating profit is stated after charging:

	2013 £000	2012 £000
Research and development expenditure written off	830	687
Amortisation of deferred development expenditure (note 9)	68	43
Depreciation of owned fixed assets (note 10)	362	379
Amortisation of goodwill (note 9)	160	160
Services provided by the company's auditor:		
- Fees payable for the audit	28	28
Operating lease costs:		
- Other	258	258
Net loss on foreign currency translation	<u>254</u>	<u>10</u>

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2013

### 4. EMPLOYEE INFORMATION

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

	2013 No	2012 No
Selling and distribution	8	10
Administration	9	11
Production	72	73
	<u>89</u>	<u>94</u>

The aggregate payroll costs of the above were:

	2013 £000	2012 £000
Wages and salaries	3,219	3,188
Social security costs	333	331
Other pension costs	304	255
Equity-settled share-based payments	50	70
	<u>3,906</u>	<u>3,844</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.

Seven of the directors exercised options in the shares of the ultimate holding company, Meggitt PLC, during the year (2012: five).

### 5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2013 £000	2012 £000
Interest from group undertakings	<u>—</u>	<u>3</u>

### 6. INTEREST PAYABLE AND SIMILAR CHARGES

	2013 £000	2012 £000
Interest payable on loans from group undertakings	<u>112</u>	<u>117</u>



# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2013

### 7. TAX ON PROFIT ON ORDINARY ACTIVITIES

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

	2013 £000	2012 £000
<b>Current tax:</b>		
Corporation tax	-	-
Under provision in prior year	6	66
Group relief	442	648
Total current tax	448	714
<b>Deferred tax:</b>		
Origination and reversal of timing differences	4	114
Tax on profit on ordinary activities	452	828

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

The tax assessed on the profit on ordinary activities for the year is higher than (2012: higher than) the standard rate of corporation tax in the UK for the year ended 31 December 2013 of 23.25% (2012 - 24.50%).

	2013 £000	2012 £000
<b>Profit on ordinary activities before taxation</b>	<b>1,800</b>	<b>2,362</b>
Profit on ordinary activities multiplied by the standard rate in the UK of 23.25% (2012: 24.50%)	419	579
Permanent differences	7	132
Accelerated capital allowances and other timing differences	16	(63)
Adjustments in respect of prior years	6	66
Total current tax (note 7(a))	448	714

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

The Finance Act 2012, included legislation to reduce the main rate of corporation tax in the UK to 23% with effect from 1 April 2013. The Finance Act 2013, included legislation to further reduce the main rate of corporation tax in the UK to 21% with effect from 1 April 2014 and to 20% with effect from 1 April 2015. As these changes were substantively enacted during the year, they have been reflected in the financial statements.

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2013

### 8. DIVIDENDS

	2013 £000	2012 £000
Paid during the year:		
Equity dividends on ordinary shares	<u>1,277</u>	<u>256</u>

On 6 December 2013 the directors approved the payment of an interim dividend of £255.40 per £1 ordinary share totalling £1,277,000 (2012: £51.20 per £1 ordinary share totalling £256,000).

### 9. INTANGIBLE FIXED ASSETS

	Goodwill £000	Development expenditure £000	Total £000
<b>COST</b>			
At 1 January 2013 and 31 December 2013	<u>3,203</u>	<u>430</u>	<u>3,633</u>
<b>AMORTISATION</b>			
At 1 January 2013	867	362	1,229
Charge for the year	<u>160</u>	<u>68</u>	<u>228</u>
At 31 December 2013	<u>1,027</u>	<u>430</u>	<u>1,457</u>
<b>NET BOOK VALUE</b>			
At 31 December 2013	<u>2,176</u>	<u>–</u>	<u>2,176</u>
At 31 December 2012	<u>2,336</u>	<u>68</u>	<u>2,404</u>

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2013

### 10. TANGIBLE FIXED ASSETS

	Plant, equipment and vehicles £000	Leasehold property £000	Total £000
<b>COST</b>			
At 1 January 2013	2,401	1,555	3,956
Additions	100	–	100
Disposals	(100)	–	(100)
<b>At 31 December 2013</b>	<b>2,401</b>	<b>1,555</b>	<b>3,956</b>
<b>ACCUMULATED DEPRECIATION</b>			
At 1 January 2013	1,836	1,180	3,016
Charge for the year	186	176	362
On disposals	(100)	–	(100)
<b>At 31 December 2013</b>	<b>1,922</b>	<b>1,356</b>	<b>3,278</b>
<b>NET BOOK VALUE</b>			
<b>At 31 December 2013</b>	<b>479</b>	<b>199</b>	<b>678</b>
At 31 December 2012	565	375	940

### 11. STOCKS

	2013 £000	2012 £000
Raw materials	1,003	1,261
Work in progress	1,437	486
Finished goods	1,077	1,505
	<b>3,517</b>	<b>3,252</b>

### 12. DEBTORS

	2013 £000	2012 £000
Trade debtors	3,978	2,717
Amounts owed by group undertakings	–	4
Prepayments and accrued income	111	59
Deferred taxation (note 13)	176	180
	<b>4,265</b>	<b>2,960</b>

The deferred tax asset primarily represents the benefit of capital allowances and other timing differences 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 2013

### 13. DEFERRED TAXATION

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

	2013 £000	2012 £000
Included in debtors (note 12)	176	180

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

	2013 £000	2012 £000
Balance at 1 January 2013	180	294
Profit and loss account movement arising during the year (note 7)	(4)	(114)
Balance at 31 December 2013	176	180

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

	2013 £000	2012 £000
Excess of depreciation over taxation allowances	47	82
Other timing differences	129	98
	176	180

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

	2013 £000	2012 £000
Trade creditors	736	562
Amounts owed to group undertakings	4,408	4,025
Other taxation and social security	66	68
Group relief receivable	282	412
Other creditors	1,158	376
Accruals and deferred income	487	746
	7,137	6,189

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 2013

### 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 2013.

For the defined contribution scheme, the pension cost charged to the profit and loss account, representing employer's contributions, was £142,000 (2012: £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 £162,000 (2012: £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 2013 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 2013	17
Profit and Loss Account movement arising during the year	40
Utilised during the year	(31)
Balance at 31 December 2013	<u>26</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 £50,000 (2012: £70,000). 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 2013

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

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

Share awards 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 awards are generally exercisable at the earliest three years after the grant is made. Awards can only be exercised if the Group meets an earnings per share performance condition. There is no obligation, legal or constructive, to settle the awards 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 award price and the market price on the date of exercise. An expense of £14,000 (2012: £24,000) was recorded in the year. Movements in the number of outstanding share awards and their weighted average exercise prices ('WAEP') are as follows:

	2013		2012	
	No	WAEP Pence	No	WAEP Pence
Balance at 1 January	207,892	285.90	241,067	271.12
Granted	22,250	526.50	28,384	397.20
Lapsed	(2,481)	169.50	-	-
Transferred in/(out)	52,759	247.28	(41,994)	330.49
Exercised	(78,432)	262.74	(19,565)	169.50
Balance at 31 December	201,988	312.74	207,892	285.90

The fair value of the awards was determined using the Black-Scholes option pricing model. The fair value of awards granted during the year was 121.37 pence for the award in September 2013 and 120.54 pence for the modification in April 2013 (April 2012: 98.25 pence). The significant assumptions used in the model were:

	2013 Award in September	2013 Modification in April	2012 Award in April
Share price at date of grant(pence)	526.50	468.60	397.20
Exercise price (pence)	526.50	351.70	397.20
Vesting period (years)	3	1	3
Expected volatility	35%	27%	38%
Expected life of option (years)	5	3	5
Risk free rate	1.56%	0.73%	1.07%
Expected dividend yield	3.24%	2.65%	3.31%

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2013

### 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 award 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 2013 and 2012, 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 in 2009 and 2010, 50% of the award was based on an EPS measure and 50% on a TSR condition. An expense of £16,000 (2012: £31,000) was recorded in the year. Movements in the number of outstanding shares that may potentially be released to employees are as follows:

	<b>2013</b>	<b>2012</b>
	<b>No. of</b>	<b>No. of</b>
	<b>Options</b>	<b>Options</b>
Balance at 1 January	<b>34,014</b>	15,876
Granted	<b>6,742</b>	7,029
Lapsed	<b>(1,025)</b>	(4,898)
Exercised	-	-
Transferred in	-	16,007
Balance at 31 December	<b>39,731</b>	<b>34,014</b>

The fair value of the award is measured using a Monte Carlo model. The fair value of the awards made in 2013 was 478.00 pence. The fair value of the awards made in 2012 was 392.97 pence. The significant assumptions used in the model were:

	<b>2013</b>	<b>2012</b>
	<b>Award in</b>	<b>Award in</b>
	<b>March</b>	<b>August</b>
Share price at date of grant (pence)	<b>478.00</b>	392.97
Vesting period (years)	<b>3</b>	3
Expected volatility	<b>26%</b>	29%
Expected life of award (years)	<b>3</b>	3
Risk free rate	<b>0.26%</b>	0.26%
Fair value at date of award (pence)	<b>248.00</b>	<b>240.00</b>

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 £20,000 (2012: £15,000).

# MEGGITT DEFENCE SYSTEMS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2013

### 18. FINANCIAL COMMITMENTS

At 31 December 2013 the company had annual commitments under non-cancellable operating leases as set out below.

	<b>Land and buildings</b>	
	<b>2013</b>	<b>2012</b>
	<b>£000</b>	<b>£000</b>
Operating leases which expire:		
Within 2 to 5 years	<b>258</b>	<b>258</b>

### 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. CALLED-UP SHARE CAPITAL

Allotted, called up and fully paid:

	<b>2013</b>		<b>2012</b>	
	<b>No</b>	<b>£000</b>	<b>No</b>	<b>£000</b>
Ordinary shares of £1 each	<b>5,000</b>	<b>5</b>	<b>5,000</b>	<b>5</b>

### 21. RESERVES

	<b>Share based payments reserve</b>	<b>Profit and loss account</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 January 2013	<b>828</b>	<b>2,526</b>
Profit for the year	<b>—</b>	<b>1,348</b>
Equity dividends	<b>—</b>	<b>(1,277)</b>
Recognition of equity-settled share-based payments in the year	<b>50</b>	<b>—</b>
Balance at 31 December 2013	<b>878</b>	<b>2,597</b>

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

	<b>2013</b>	<b>2012</b>
	<b>£000</b>	<b>£000</b>
Profit for the financial year	<b>1,348</b>	<b>1,534</b>
Equity dividends	<b>(1,277)</b>	<b>(256)</b>
Recognition of equity-settled share-based payments in the year	<b>50</b>	<b>70</b>
Net addition to shareholder's funds	<b>121</b>	<b>1,348</b>
Opening shareholder's funds	<b>3,359</b>	<b>2,011</b>
Closing shareholder's funds	<b>3,480</b>	<b>3,359</b>



# **MEGGITT DEFENCE SYSTEMS LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2013**

### **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 2013. The consolidated financial statements of Meggitt PLC are available from Atlantic House, Aviation Park West, Bournemouth International Airport, Christchurch, Dorset, BH23 6EW.