ANNUAL REPORT
AND ACCOUNTS
2011

MEGGITT
smart engineering for
extreme environments

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The Meggitt PLC annual report and accounts 2011 can be downloaded from www.meggitt.com

Group overview

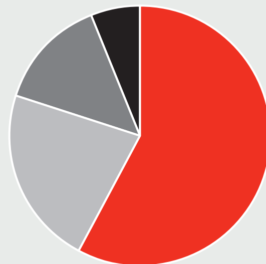
Meggitt PLC, headquartered in the United Kingdom, is an international group with 10,500 employees worldwide. We specialise in high performance components and sub-systems for primarily aerospace, defence and energy markets.

Our consistent record of strong financial performance comes from businesses balanced across markets. We offset variation in demand, balancing exposure to civil with military and energy markets; and sales to original equipment manufacturers with sales of aftermarket products and services. Our revenues are spread across North America, Europe and Asia. We have an installed base in excess of 57,000 aircraft which will generate aftermarket revenues over many years to come, and an increasing presence in military ground vehicles and energy installations.

Employees by region

Number of employees

10,538

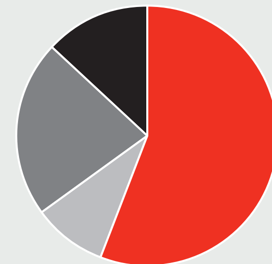


Region	Employees	%
North America	6,105	58%
UK	2,283	22%
Mainland Europe	1,484	14%
Rest of World	666	6%

Revenue by destination

Total revenue (£ millions)

1,455.3



Destination	£ millions	%
North America	805.2	56%
UK	134.0	9%
Mainland Europe	324.7	22%
Rest of World	191.4	13%

Revenue by market

Total revenue (£ millions)

1,455.3

Market	£ millions	%
Civil aerospace	665.6	46%
Military	585.3	40%
Energy and other	204.4	14%

R&D as a % of revenue

Financial highlights

Our business grew strongly in 2011 across all market segments, driven by the ongoing recovery in the civil aerospace and energy markets, our enhanced product offerings and high-value contract wins on new programmes. The acquisition of Pacific Scientific Aerospace has proven to be more complementary to our existing business than expected, enhancing our prospects for further growth in 2012 and beyond.

Revenue
(£ millions)

1,455.3

Year	Revenue
11	**1,455.3**
10	1,162.0
09	1,150.5
08	1,162.6
07	878.2

Underlying profit before tax
(£ millions)[1]

323.0

Year	Underlying profit before tax
11	**323.0**
10	256.1
09	234.2
08	243.3
07	179.0

Cash inflow from operations before exceptional operating items
(£ millions)

395.8

Year	Cash inflow
11	**395.8**
10	331.3
09	341.7
08	295.4
07	214.3

Dividends per share
(pence)

10.50

Year	Dividends per share
11	**10.50**
10	9.20
09	8.45
08	8.45
07	8.20

Underlying earnings per share
(pence)[1]

31.9

Year	Underlying earnings per share
11	**31.9**
10	27.8
09	25.3
08	26.5
07	22.1

Order intake
(£ millions)

1,524.8

Year	Order intake
11	**1,524.8**
10	1,212.4
09	1,096.2
08	1,152.9
07	912.1

[1] The definition of "underlying" is provided in notes 10 and 16 to the financial statements on pages 73 and 75 respectively.

Chairman's statement

While we extend market positions, acquire capabilities and accelerate routes to market through acquisition, we continually seek to grow our existing business by investing in people, technologies and facilities.

During 2011, Meggitt enjoyed exceptional growth. Total orders rose by 26% and total revenues by 25% compared to 2010. Organic[1] revenue grew by a healthy 12% before the effect of the Pacific Scientific Aerospace (PacSci) acquisition, which completed in April 2011. Underlying earnings per share were up 15% to 31.9 pence. Net cash generation excluding the cost of acquisitions was £141.5 million (2010: £137.1 million). Net debt increased modestly to £788.4 million (2010: £721.4 million) following the acquisition of PacSci but net debt to EBITDA reduced to 1.7 times (2010: 1.9 times). In consequence, the Board is proposing an increase to the full-year dividend of 14% to 10.50 pence.

Investing for growth

While we extend market positions, acquire capabilities and accelerate routes to market through acquisition, we continually seek to grow our existing business by investing in people, technologies and facilities.

We are investing in long-term aircraft programmes; and we are extending existing technology into new products such as tyre pressure monitoring. We spent 7.6% of revenues, or £110.5 million (2010: £84.2 million) on R&D in the year. We also invested £33.2 million (2010: £28.4 million) on supplying equipment free of charge to new aircraft and programme participation contributions. This grows our base of installed equipment and secures future aftermarket revenues.

Capital expenditure on property, plant and equipment and other intangible assets increased to £52.1 million (2010: £27.7 million). We have invested in new capital equipment in our aircraft braking systems and polymers and composites facilities in the USA; we are doubling the capacity of our innovative heat exchanger business in Poole, UK; we are co-locating our North American sensing businesses onto one campus in California; we continue to implement common ERP systems. These combined investments have yielded notable programme successes, including thermal management products for Hamilton Sundstrand on Pratt & Whitney's geared turbofan™ engines; cooling systems for the Boeing 787; sensor packages for CFM International and General Electric's Leap-X® engine; braking systems for Bombardier's Global 7000 and 8000 business aircraft; and contracts from oil and gas customers for printed circuit heat exchangers for floating liquefied natural gas installations.

PacSci

The PacSci acquisition brought a team of 2,400 employees with extensive capabilities in aircraft electrical power, fire suppression and low cost manufacturing, with centres in Mexico and Vietnam. Integration is progressing very well and will be largely complete in 2013. We have raised our synergy target by 25% to a $22.5 million run-rate by the end of 2014, reflecting a better-than-anticipated fit with existing Meggitt businesses.

Board of directors

In June, Brenda Reichelderfer joined the Board as a non-executive director bringing experience in engineering and manufacturing across different commercial markets. Until her retirement from ITT Industries in 2008, Brenda was Senior Vice President, Director of Engineering and Chief Technology Officer.

Our people

May I take this opportunity to thank all Meggitt employees for their tenacious efforts as they continue to transform our group, integrate businesses and seize growth opportunities at the same time.

Group outlook

We will continue to focus on organic growth. Our energy markets are buoyant, with sensing and monitoring, fluid control and heat exchangers seeing increasing demand. Sales of new civil aircraft remain strong. Air traffic growth continues to rise as the economic recovery continues, boosting demand for aftermarket products and services. R&D is meeting the requirements of new aircraft programmes and replenishing aftermarket revenue streams.

Defence budget deliberations continue to cause uncertainty, particularly in the USA. However, given the depth and breadth of our military offering, we expect to achieve modest growth in this market. Our balanced portfolio, with its lack of dependence on any one sector, platform or customer, continues to show its worth.

We look forward to further good progress in 2012.

Sir Colin Terry Chairman

[1] Organic growth numbers exclude foreign exchange movements and M&A.

Group strategy

We strive for excellence across all functions, at all levels. We maintain a high-performance culture based on meeting customer needs, financial rigour and ethical practice.

Delivering superior shareholder returns through *smart engineering for extreme environments* remains at the heart of everything we do. By continuing to focus on innovative, high performance and highly reliable products that meet the demands of critical applications in aerospace, defence and energy, we delivered another strong set of results in 2011. The robustness of our business model has been validated further as we took advantage of the recovery in our aerospace and energy markets.

Strategy

We create intellectual property in applications where our products must perform in extreme environments and where certification requirements are demanding. Our ability to deliver according to these criteria enables us to continue to win orders for original equipment on new platforms, preferably on a sole-source basis, across our core market segments. This generates follow-on aftermarket revenues for the life of these platforms, which can be up to 40 years in many cases.

We have a well-balanced portfolio. With revenues coming from original equipment and the aftermarket across our core civil, military and energy markets, we continue to deliver financial strength and stability through the cycle.

We align our investment decisions with the requirements of our customers by investing in research and development, additional manufacturing capacity and new regions to better serve original equipment manufacturers and operators across our markets. Where appropriate, we seek to acquire companies that enhance our capabilities and fast-track product and market development.

Our strategy

Focus on components and sub-systems operating in harsh environments

Invest in products with high technology content and aftermarket value

Deliver growth through organic investment and acquisition

We strive for excellence across all functions, at all levels. We maintain a high-performance culture based on meeting customer needs, financial rigour and ethical practice.

Driving further growth

We seek to grow organically as well as through acquisition. Meggitt saw very strong organic growth in 2011 and recent success winning content on new programmes gives us confidence this trend will continue. The *Transformation* initiative, launched in 2009, has delivered substantial improvements across the group including a leaner, more flexible manufacturing footprint. During 2012 we will drive further improvements in operational excellence, developing a common Meggitt approach to lean tools and quality management. Our centralised customer relationship teams and strengthened technology and engineering organisation are enabling us to engage with customers earlier in the technology development process, at a higher level, making us more responsive to changing customer demands.

Our ability to transfer technologies into adjacent markets remains a key area of focus. Our interests in the energy sector, for example, have been boosted by applying an enhanced condition monitoring capability to industrial gas turbines and developing our compact, diffusion-bonded heat exchanger technology beyond its established oil and gas markets to floating liquefied natural gas technology platforms and waste heat recovery. We are also concentrating on the military retrofit market. An excellent example of this is our blastproof fuel tank technology for military ground vehicles.

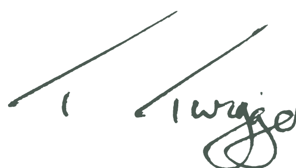
Pacific Scientific Aerospace

The acquisition of Pacific Scientific Aerospace (PacSci) has left us even better placed to serve the trend for more electric capability on aircraft. Hydraulic systems are inherently heavy and as operators demand greater fuel efficiency from their equipment, manufacturers are looking to replace hydraulic systems with lighter, high-integrity electrical alternatives. The addition of PacSci to Meggitt's established capabilities now leaves us very well placed to address opportunities in many areas including electrical anti-ice, power conversion and power storage.

PacSci also makes us one of only two companies worldwide offering an integrated fire protection system for aircraft and has enhanced our low-cost manufacturing base with facilities in Mexico and Vietnam.

Well positioned for the future

As reported last year, *Transformation* has left us stronger, leaner and fitter than ever. This, with our focused investments in technologies and capacity, the additional capabilities acquired with PacSci, and our ongoing focus on customers, leaves us in an excellent position to continue to drive growth and deliver value for shareholders.



Terry Twigger Chief Executive

How we achieve our strategy

1 Deliver smart engineering for extreme environments

2 Continue to strengthen our technology roadmaps and our partnerships with customers

3 Achieve operational excellence by continually improving our cost, quality and delivery

4 Expand our global reach to meet the requirements of our global customer base

5 Maintain a culture of strong ethical and financial rigour

To see how Meggitt's strategy fundamentals are reflected at divisional level, see over.

The results of strategy implementation are outlined in our performance review on pages 17 to 26.

Meggitt divisions

	Revenue	Percentage of group revenue	Underlying operating profit
Meggitt Aircraft Braking Systems	£320.5M	22.0%	£119.9M
Meggitt Control Systems	£201.6M	13.8%	£47.9M
Meggitt Polymers & Composites	£171.2M	11.8%	£31.7M
Meggitt Sensing Systems	£233.9M	16.1%	£43.2M
Meggitt Equipment Group (including PacSci)	£528.1M	36.3%	£116.8M

Meggitt Aircraft Braking Systems

A leading supplier of aircraft wheels, brakes and brake control systems.

Markets

- Commercial transport
- Business jets
- Fixed and rotary wing military aircraft

Capabilities

- Wheels and brakes
- Control—brake, nose wheel steering and landing gear
- Monitoring

>> Growth strategy

- Secure positions, sole source where possible, on new aircraft programmes
- Develop market-leading technologies—electric braking and innovative, long-life carbon heat sink materials
- Expand our landing gear sub-systems control and monitoring capability
- Leverage low-cost manufacturing capability

Meggitt Control Systems

A leading supplier of pneumatic, fluid control, thermal management and electro-mechanical equipment and sub-systems.

Markets

- Commercial, military, regional, business and general aviation
- Military ground vehicles
- Marine and industrial energy
- Ground fuelling

Capabilities

- Heat management
- Control valves and sub-systems
- Electro-mechanical controls
- Environmental control
- Fuel handling

>> Growth strategy

- Deliver weight-saving aerospace products with more accurate control that can withstand higher engine temperatures
- Develop products that enable customers to meet low emission regulations
- Create products that optimise industrial power generation plant efficiency
- Support developing global infrastructures—e.g. airport construction and expansion and pipeline construction
- Advance weight-saving, high-reliability electro-mechanical devices to replace hydraulics in military ground vehicles
- Leverage low-cost manufacturing capability

Meggitt divisions

Meggitt Polymers & Composites

A leading specialist in fuel containment, engineered aircraft sealing solutions and technical polymers, electro-thermal ice protection and complex composite structures and assemblies.

Markets

- Civil and military, fixed and rotary wing aircraft
- Military fighting vehicles
- Nuclear, marine, heavy transportation and oil and gas sectors

Capabilities

- Flexible, ballistically-resistant and crashworthy fuel cells
- Wet wing fuel storage
- Engineered lightweight, high performance seals and specialist technical polymers
- Smart electro-thermal ice protection with energy-saving proportional control
- Complex composite structures

Growth strategy

- Retain number one position in military aircraft fuel cells
- Attract more civil and ground vehicle fuel cell contracts
- Become a leading supplier of wet wing fuel storage
- Become the supplier of choice for engineered aircraft sealing solutions, increasing our military share in particular
- Exploit the combined division's capability in specialist technical polymers
- Become a leading supplier of energy-conscious electro-thermal ice protection for fixed wing aircraft
- Grow our composites and assemblies business targeting small aircraft structures, often highly complex ones
- Leverage low-cost manufacturing capability

Meggitt Sensing Systems

A leading provider of high performance sensing and condition-monitoring solutions for high-value rotating machinery and other assets.

Markets

- Civil aerospace: large, regional and business jets, general aviation and space
- Military: fixed wing and rotary aircraft, ships, missiles
- Energy
- Test and measurement

Capabilities

- High-performance sensing in extreme environments
- Condition-monitoring for air and land-based machinery

Growth strategy

- Continue to invest in high-performance sensing and advanced condition-monitoring systems that reduce aircraft operating costs, optimise maintenance and reduce pollution
- Apply our expertise beyond aero-engines across the airframe such as tyre pressure and landing gear monitoring to support integrated vehicle health management solutions
- Focus on energy markets through targeted solution-selling and an expanding regional presence
- Leverage our test and measurement technology advantages in combination with premium service levels
- Leverage low-cost manufacturing capability

Meggitt Equipment Group

Created to enable a set of strong, technologically-distinct businesses to market their offerings to specialist customers, while benefiting from the wider Meggitt group's investment in shared services and common processes. In April 2011, Pacific Scientific Aerospace joined the Meggitt Equipment Group, bringing capabilities in power generation, linear motion control, fire suppression, safety and security and associated repair and overhaul services.

Markets

- Military and civil aerospace
- Defence and security
- Energy
- Automotive and industrial

Capabilities

- Aircraft fire protection and control systems
- Avionics
- Combat systems (ammunition-handling, military electronics cooling and countermeasure launch and recovery systems)
- Live-fire and simulation training
- Heat transfer equipment for off-shore oil and gas
- Power generation
- Linear motion control
- Aircraft safety and security
- Automotive and industrial control electronics

>> Growth strategy

Fire protection
- Integrate fire detection with fire suppression to deliver a complete fire protection capability

Power
- Leveraging our assets in power generation, conversion and storage to add value to the more electric aircraft

Heat transfer
- Continue to drive the market to use our compact, high-pressure, high-duty heat exchangers and to maintain our market lead in this unique technology
- Explore options in chemical reformer, waste heat management and nuclear markets

Live-fire and simulation training
- Become a preferred supplier for integrated and networked live and virtual training packages for the armed services and security and law enforcement organisations worldwide

Combat systems
- Provide smart thermal management solutions to military electronics cooling problems
- Extend our automatic handling capability into larger calibre weapons
- Continue to develop countermeasure launch and recovery systems to address emerging threats
- Advance Doppler radar sensing for combat and situational awareness

Avionics
- Continue to build our position in state-of-the-art secondary flight displays

Automotive and industrial control
- Grow our bespoke position sensing capability and extend into adjacent markets with our contact-less sensor technology

Market review

Meggitt's broad range of smart engineering capabilities and products for extreme environments was expanded further in 2011 with the acquisition of Pacific Scientific Aerospace. Our three core international markets – civil aerospace (46%), military (40%) and energy and other markets (14%) – give our business the broad base and diversity required to mitigate negative conditions in individual sectors and geographic regions. This business model held good through the recent economic downturn and, as the 2011 results demonstrate, Meggitt performed well as markets recovered.

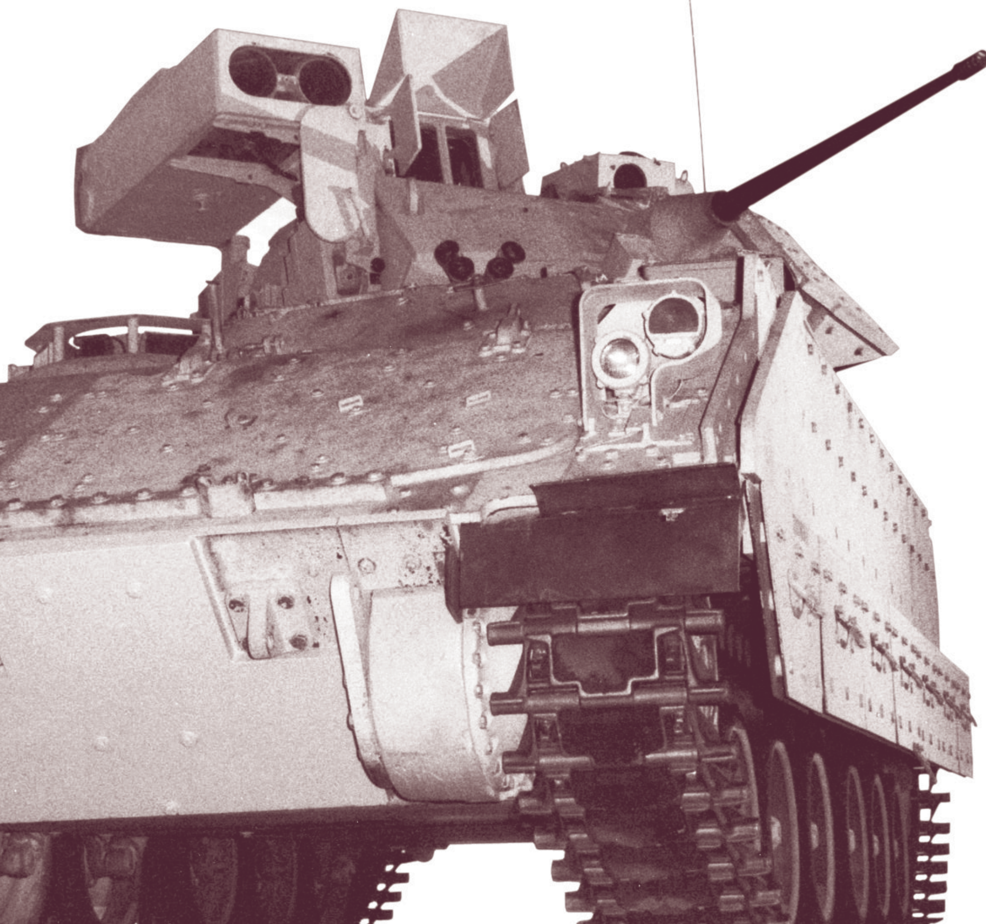
Summary

Based on current market indicators and at constant exchange rates, the group expects to deliver strong organic revenue growth averaging 6 to 7% over the medium-term.

40%

Military

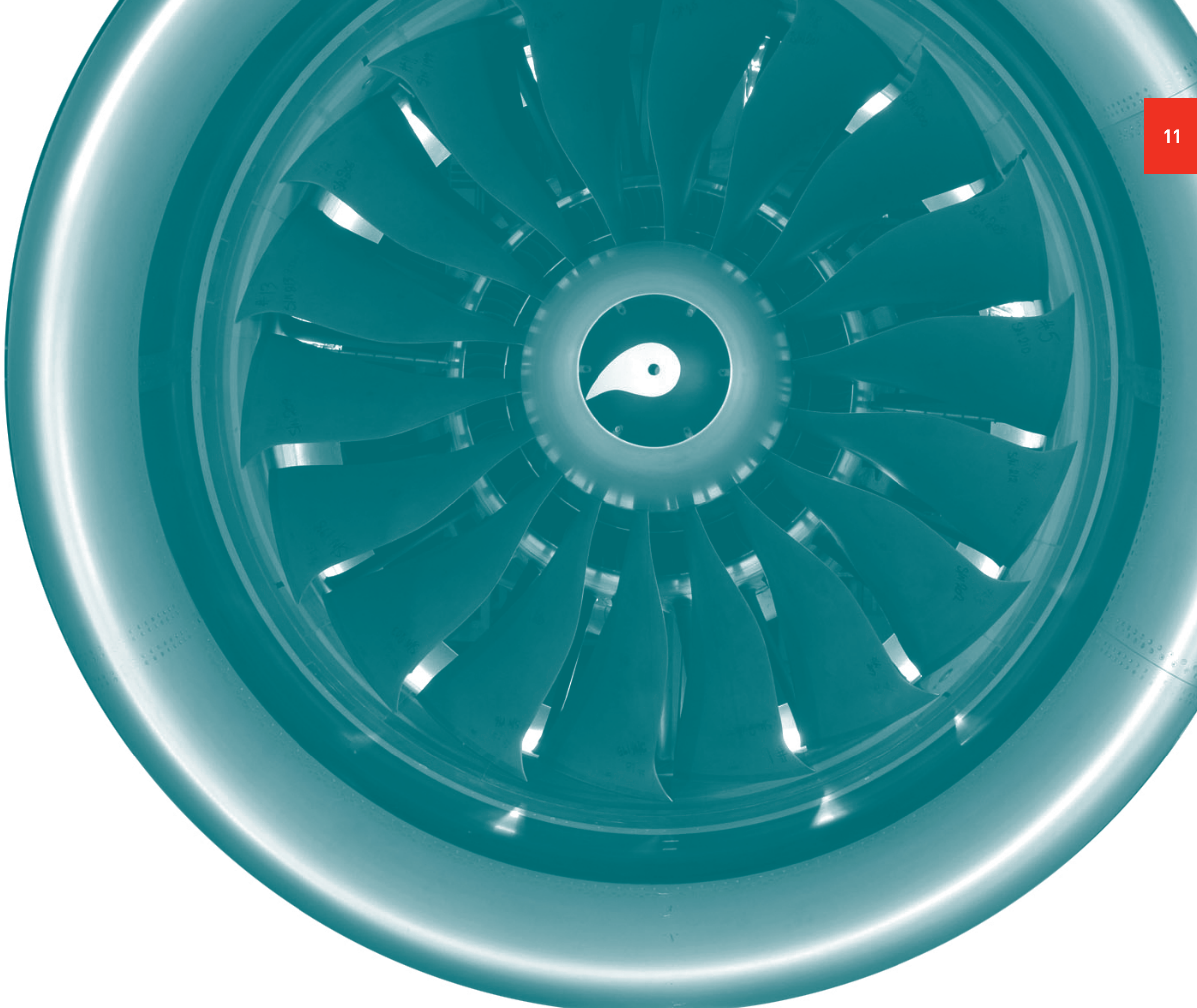
Meggitt delivered its first contract for flexible blast-resistant fuel bladders in a ground vehicle – BAE Systems' Bradley Fighting Vehicle. The technology is effective against metal fragments resulting from the detonation of improvised explosive devices. Holes are sealed with a proprietary sealant, which suppresses the ignition source and stops fuel leakage.



14%

Energy and other markets

Heatric, our innovative diffusion-bonded heat exchanger specialist, received its largest order ever last year from Shell for high duty, high pressure systems for Prelude—the world's largest floating liquefied natural gas facility designed to provide access to gas fields that would otherwise be too costly or difficult to develop.

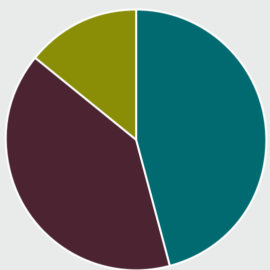


46%

Civil aerospace

Meggitt Control Systems won multiple components for seven Hamilton Sundstrand thermal management packages on Pratt & Whitney PurePower® geared turbofan™ (GTF) engines in 2011. The contract is estimated to be worth around $1 billion over the lifetime of the engine and aircraft programmes. Meggitt Sensing Systems is already a primary sensor supplier for this innovative platform.

Total revenue by market



Market	%
Civil aerospace	46%
Military	40%
Energy and other	14%

Revenue by destination

Destination	%
North America	56%
UK	9%
Mainland Europe	22%
Rest of World	13%

Market review – Civil aerospace

Our civil aerospace revenues stem from almost every modern jet airliner, regional aircraft and business jet in the world. Meggitt expects aircraft deliveries and its own installed base, currently estimated to be around 39,000 civil aircraft, to grow strongly between 2011 and 2016, particularly in the large jet and business jet sectors.

Established aircraft such as the Boeing 737/777, Airbus A320/A330, Embraer E170/190 and a number of business jet programmes continue to see strong build rates, with excellent additional growth on new aircraft such as the Boeing 787, Gulfstream G650 and Embraer Phenom. These promising markets should help Meggitt achieve an estimated original equipment (OE) revenue growth of 7 to 8% per annum over the next five years.

Typically, Meggitt's products are located in the more demanding areas of an aircraft such as the engine, undercarriage and external structures, which experience extremes of temperature and vibration. We have significant sole-source positions on aircraft that can be in service for many decades. This leads to dependable, ongoing demand for aftermarket spares and repairs. Roughly two thirds of Meggitt's civil aerospace revenues come from this market.

Passenger air travel is a key driver of the large jet and regional aircraft aftermarket and continues to recover following the downturn in 2008/9. In 2011 demand, expressed in Revenue Passenger Kilometres, increased by nearly 6%, with capacity growth, expressed in Available Seat Kilometres, also growing at approximately 6%. Capacity is expected to grow by about 5% on average over the course of the next five years. Business jet utilisation will also continue to increase. With our growing installed base, this should drive aftermarket revenue growth of 8 to 9% per annum. We could also benefit from restocking as airlines rebuild maintenance stocks cut back in the recession.

55%

Large jet

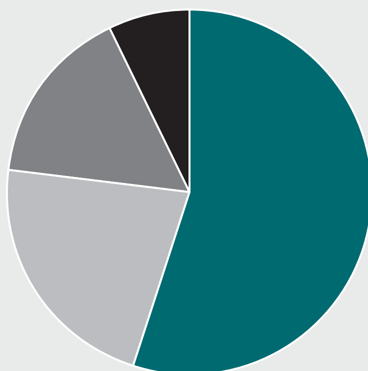
22%

Regional aircraft

16%

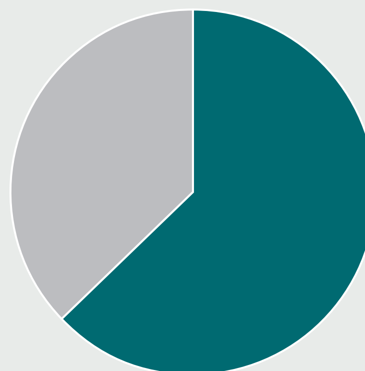
Business jet

Civil aerospace revenue by sector



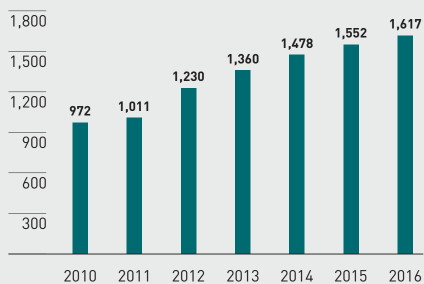
Large jet	55%
Regional aircraft	22%
Business jet	16%
Other	7%

Civil aerospace revenue by OE and aftermarket



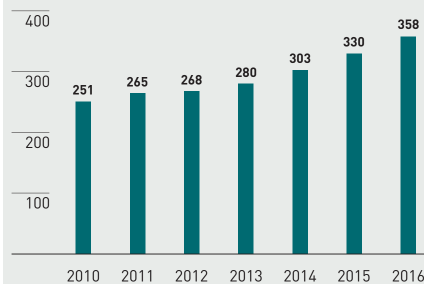
Aftermarket	63%
OE	37%

Large jet delivery forecast



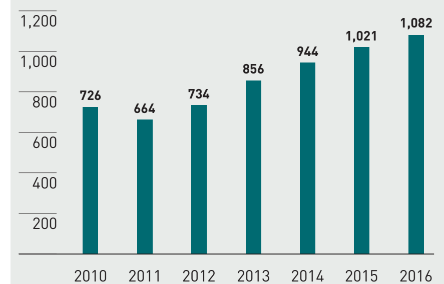
Source: Meggitt management estimates

Regional aircraft delivery forecast



Source: Meggitt management estimates

Business jet delivery forecast



Source: Meggitt management estimates

Large jets

Airbus and Boeing have maintained high delivery rates throughout the economic downturn, aided by extensive order backlogs totalling over 8,200 as at the end of December 2011 and proactive customer management. As confidence returned to the industry during the course of 2011 and new models were announced, order rates started to increase. Backlogs now stand at almost eight years' production at current rates. Boeing and Airbus have both responded to this by announcing build rate increases on a number of platforms.

Some 1,011 large jets were delivered in 2011, a 4% increase on 2010, with orders received of over 2,200 aircraft giving a book-to-bill ratio of greater than two. This encouraging order trend should be sustained by growth in emerging markets and the need to replace ageing fleets with more fuel efficient aircraft. Delivery rates are forecast to increase by double digit percentage points in 2012 and continue to trend upwards over the medium-term, underpinned by the Boeing and Airbus delivery rate increases and production ramp-ups for new programmes such as the Boeing 737MAX/787 and Airbus A320neo/A380/A350XWB.

The large jet duopoly between Airbus and Boeing is being challenged as new entrants invest in development programmes, notably single aisle jets from Bombardier, COMAC and UAC. These, with the programmes mentioned above, represent a good opportunity for Meggitt and a solid indicator of the positive outlook for the sector.

Regional aircraft

Regional aircraft deliveries of 265 in 2011 represented a 6% increase on 2010, principally due to the CRJ1000 ramp-up and increased delivery rates of Embraer 190/195 aircraft, partially offset by the previously announced production rate reduction in CRJ700/900. We expect to see continued gradual production recovery, led by aircraft such as the ATR 72 and Embraer 170/175, coupled with the entry into service of the Sukhoi SJ100.

Utilisation has remained strong and the global operations of our 70-to-90 passenger regional jet customers (CRJ700/900/1000, E170/190) grew by 6% in 2011. Meggitt is exceptionally well-positioned to take advantage of this positive trend in the aftermarket, where our carbon brakes are common on these larger, high-cycle aircraft.

Business jets

Deliveries of new business aircraft in 2011 totalled 664, down roughly 50% from the peak in 2008 and down 8% on 2010. However, inventories of used aircraft are now returning to more normal levels and demand is showing signs of recovery, particularly in emerging international regions. Customers outside the US now account for over 40% of the total business jet order backlog. Based on manufacturer data and incorporating our view of the macro drivers of the business jet market, we expect deliveries to recover to above 2010 levels during the course of 2012. In the medium-term, we expect business jet deliveries to continue to recover, driven by a host of new jets with high Meggitt content, such as Gulfstream G250 and G650, Bombardier 7000 and 8000, Learjet 85 and Cessna CJ4.

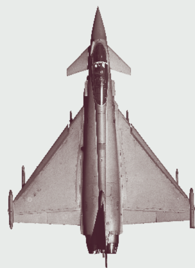
Meggitt sales to business jets are biased towards larger aircraft, where demand was more resilient through the downturn than from smaller aircraft. Larger aircraft will become even more important to us over the course of the next few years as key Gulfstream and Bombardier programmes enter service.

Business jet utilisation in the US continued on an upward trend following the 12% increase in 2010, although at more muted levels, reflecting ongoing macro-economic concerns. European business jet utilisation also showed further growth over 2010. Increasing market share and higher content, principally the increasing penetration of carbon brakes, should drive our aftermarket ahead of utilisation.

Market review – Military aerospace and defence

Meggitt's military revenues account for 40% of our business, comprising fixed wing aircraft at 41%, rotary wing at 25%, land vehicles at 6% and other sectors including training at 28%. While our installed base incorporates some 18,000 aircraft, it is spread across a wide variety of platforms including ground vehicles and training facilities. Our mix of OE (61%) and aftermarket (39%) is expected to give a resilient revenue source in a challenging defence budget environment.

Defence budgets around the world are under pressure as governments rebalance spending to compensate for increased national debt. However, as active operational commitments in Iraq and Afghanistan wind down, there is likely to be a significant appetite for re-set and retrofit of existing equipment to ensure continued force readiness. Meggitt estimates this market will continue to yield organic revenue growth of around 2% over the medium-term due to our positions on key platforms in service (e.g. Black Hawk, Apache, Rafale), incoming platforms (e.g. F-35 JSF) and potential retrofits. This growth rate assumes that proposed sequestration (additional budget cuts from 2013) does not have a material impact on programmes with high Meggitt content.

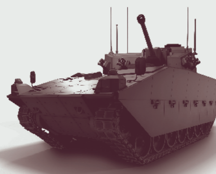


41%

Fixed wing

25%

Rotary wing



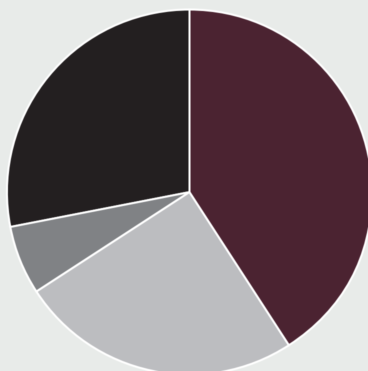
6%

Land vehicles

28%

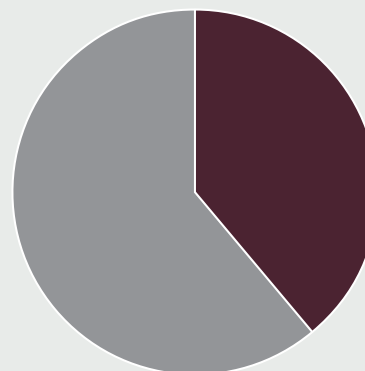
Training and other

Military revenue by sector

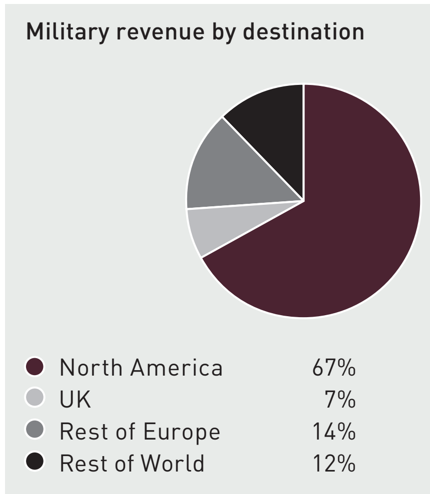


Fixed wing	41%
Rotary wing	25%
Land vehicles	6%
Training and other	28%

Military revenue by OE and aftermarket



Aftermarket	39%
OE	61%



Military fixed wing

Meggitt has a significant installed base of fixed wing aircraft and we are the number one provider of wheels and brakes in this market. With good positions on current platforms, such as the F-15 Eagle, F-16 Falcon, F-18 E/F Hornet, Rafale, Hawk and Eurofighter Typhoon and good content on new programmes such as the F-35 JSF, our fleet and revenues are set to continue to grow.

As new programme development and acquisition funds are cut back and delivery schedules pushed out, funding has been diverted to production of current platforms until alternative solutions are available. Programmes that were to be replaced by the F-35 JSF are now in favour as deliveries of this new platform are deferred. This includes production-run extensions and upgrades to platforms such as the F-15, F-16 and F-18 E/F, which are regarded as cost-effective solutions to governments' force and capability maintenance and expansion plans.

Military rotary wing, land and sea

Military helicopters have proven an invaluable operational asset in Iraq and Afghanistan, demonstrated by the DoD's ongoing commitment to multi-year Black Hawk, Chinook, Osprey and Apache procurements. As key contributors to operational effectiveness, their systems continue to require significant maintenance, retrofit and upgrade to maintain combat operation readiness. Similarly, the UK MoD will continue to increase its Chinook fleet and move ahead with the purchase of Lynx Wildcat. Meggitt has large shipsets on these helicopters, providing us with a robust revenue outlook. The smaller part of our rotary wing revenues come from the aftermarket, where a reduction in operational hours may soften demand.

Meggitt produces next-generation environmental control systems for electronic equipment and personnel cabins. Ground-based systems are retrofitted to front line fighting vehicles including the Bradley Fighting Vehicle and M1A2 Abrams. These mission-critical capabilities and our position as the leading supplier of 30mm linkless ammunition-handling systems, mean we will continue to prosper in the land vehicle market, which also offers significant potential for Meggitt's blast-resistant fuel tanks.

Military training

Meggitt's live-fire and virtual simulation training products are market leaders, with over 10,000 Meggitt-supplied live-fire ranges and 5,200 virtual systems providing training to the armed forces, law enforcement and security organisations. This installed base provides regular replacement revenues.

Meggitt Training Systems was selected in October 2011 as one of five suppliers to provide equipment for live-fire training ranges at US Army installations worldwide in a fixed price contract worth up to $475 million over the next five years. Meggitt will manufacture and install stationary and moving infantry and armour target mechanisms and control systems and provide product support.

We also secured a £13 million order for modification of UK MoD small arms simulators. The Dismounted Close Combat Trainer (DCCT) upgrade adds features that will support Future Integrated Soldier Technology (FIST) enhancements. Similar systems are in service with forces in the US, Canada, Australia, New Zealand and many countries in the Far and Middle East.

We continue to develop our training businesses internationally and are positioned well for post-conflict revival in training budgets.

Market review – Energy and other markets

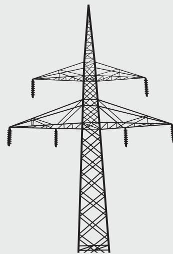
Energy and other markets comprise 14% of group revenues, of which 56% comes from energy markets (analysed below) and the remainder from products supplied to the automotive, test, space, consumer goods and medical sectors.

Within the energy market, demand for our unique printed circuit heat exchanger technology increased significantly on the back of production of new Floating Liquefied Natural Gas (FLNG) facilities. We won a significant contract to equip Shell's first FLNG installation with our equipment.

Demand for our ground-based condition monitoring equipment was very healthy and, following investment in product upgrades and new sales and technical support offices in a number of regions, we continue to expect good growth in this area.

We believe energy revenues will continue to grow at double-digit percentages over the medium-term, with ongoing modest growth in the other markets.

Energy breakdown by key market



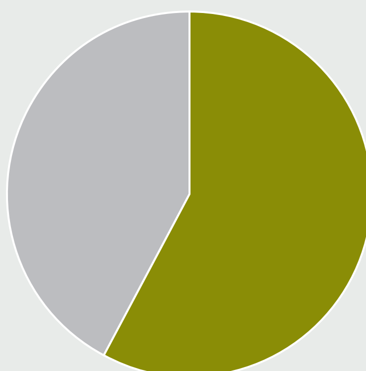
58%

Power generation

42%

Oil and gas

Revenue by market



Power generation	58%
Oil and gas	42%

Energy revenues £m

Year	£m
11	**113.1**
10	84.4
09	82.7
08	85.4
07	70.3

Performance review

Our business grew strongly in 2011 across all market segments, with revenues up 25% and underlying profit before tax up 26%. Good organic[1] growth was augmented by the acquisition of Pacific Scientific Aerospace (PacSci) which is very complementary to our existing business and trading in line with our expectations.

With targeted investments in technologies and capacity expansion, the new capabilities acquired with PacSci and an ongoing focus on customer satisfaction, we are confident in achieving good growth in 2012 and beyond.

Financial highlights (Table 1)

	2011 £'m	2010 £'m	% change
Revenue	**1,455.3**	1,162.0	+25
Underlying[2]:			
EBITDA[3]	**428.5**	364.4	+18
Operating profit	**359.5**	303.7	+18
Profit before tax	**323.0**	256.1	+26
Earnings per share ('EPS')	**31.9p**	27.8p	+15
Statutory			
Operating profit	**262.5**	220.1	+19
Profit before tax	**226.0**	172.5	+31
Earnings per share ('EPS')	**24.0p**	20.1p	+19
Cash inflow from operations before exceptional items	**395.8**	331.3	+19
Cash conversion[4]	**110%**	109%	

[1] Organic growth numbers exclude foreign exchange movements and M&A.
[2] Underlying profit and EPS are defined and reconciled to statutory measures in notes 10 and 16 respectively of the group financial statements.
[3] Underlying EBITDA represents underlying operating profit adjusted to add back amortisation and depreciation.
[4] Cash conversion is the ratio of cash inflow from operations to underlying operating profit. Cash inflow from operations excludes exceptional items, interest, tax and investing activities.

Key Performance Indicators (KPIs)

Revenue growth
Percentage change in group revenue from previous financial year. Target compound organic growth: 6-7% across the cycle

Achieved: 12% in 2011 due to the recovery in our civil and energy markets. We continue to expect to achieve target over the cycle

Underlying EPS growth
Percentage change in group underlying earnings per share from previous financial year. Target compound organic growth: 8% across the cycle

Achieved: 15% in 2011

R&D as percentage of revenue
Target gross spend: 6-8% across the cycle

Achieved: 7.6% in 2011

Underlying PBT growth
Percentage change in group underlying profit before tax from previous financial year. Target compound organic growth: 8-9% across the cycle

Achieved: 14% in 2011

Return on sales
Underlying operating profit as a percentage of revenue. Target growth in line with revenue and PBT growth across the cycle

Achieved: 25.4% organic, 24.7% total

Cash conversion
Cash inflow from operations before exceptional operating items as a percentage of underlying operating profit. Target conversion: 100%

Achieved: 110% in 2011

Performance review

Revenue growth (Table 2)

	2011 revenue £'m	2011 growth %	PacSci £'m	Organic growth %
Civil OE	**245.2**	**+63**	58.3	+26
Civil AM	**420.4**	**+22**	46.3	+12
Total civil aerospace	**665.6**	**+35**	104.6	+16
Military	**585.3**	**+15**	68.2	+5
Energy	**113.1**	**+34**	3.8	+28
Other	**91.3**	**+21**	13.0	+5
Total	**1,455.3**	**+25**	189.6	+12

Overall performance

The continued recovery in civil aerospace and energy markets, combined with a robust performance from our military businesses, enabled us to deliver very strong growth in 2011. Organic revenue growth of 12% was broadly evenly split between the first and second halves, and organic underlying profit before tax growth of 14% drove a 15% increase in underlying EPS to 31.9 pence. With an order book of approximately £950 million and a 32% jump in orders for 2012 delivery compared to the previous year (of which 13% was organic), we have good momentum going into 2012.

Revenues and orders

The recovery reported in the second half of 2010 continued into 2011, resulting in total revenues increasing to £1,455.3 million. As Table 2 demonstrates, civil OE and energy markets were particularly strong during the year, while all end markets contributed positively to our growth.

Total civil aerospace revenues grew 16% organically. Growth in civil OE across all sub-segments remained very strong in the second half, with the civil aftermarket continuing to grow strongly despite tougher prior year comparatives.

Military revenues grew by 5% organically. As predicted, we saw particular strength in the training businesses and growing content on ground vehicle retrofits.

Energy revenues increased by a very impressive 34%, with a 28% growth in organic revenues. The buoyant oil and gas market saw good demand for our unique printed circuit heat exchanger products, and our condition monitoring businesses performed well following our investment in product upgrades and enhanced routes to market.

Meggitt's other specialist markets saw organic growth of 5% with laboratory test equipment and products for the space market performing particularly well.

Profit and dividends

The Board's preferred measure of the group's trading performance is underlying profit. Underlying operating profit for the year grew 18% to £359.5 million, with an underlying operating margin of 24.7%. Excluding PacSci, underlying operating margin was 25.4%.

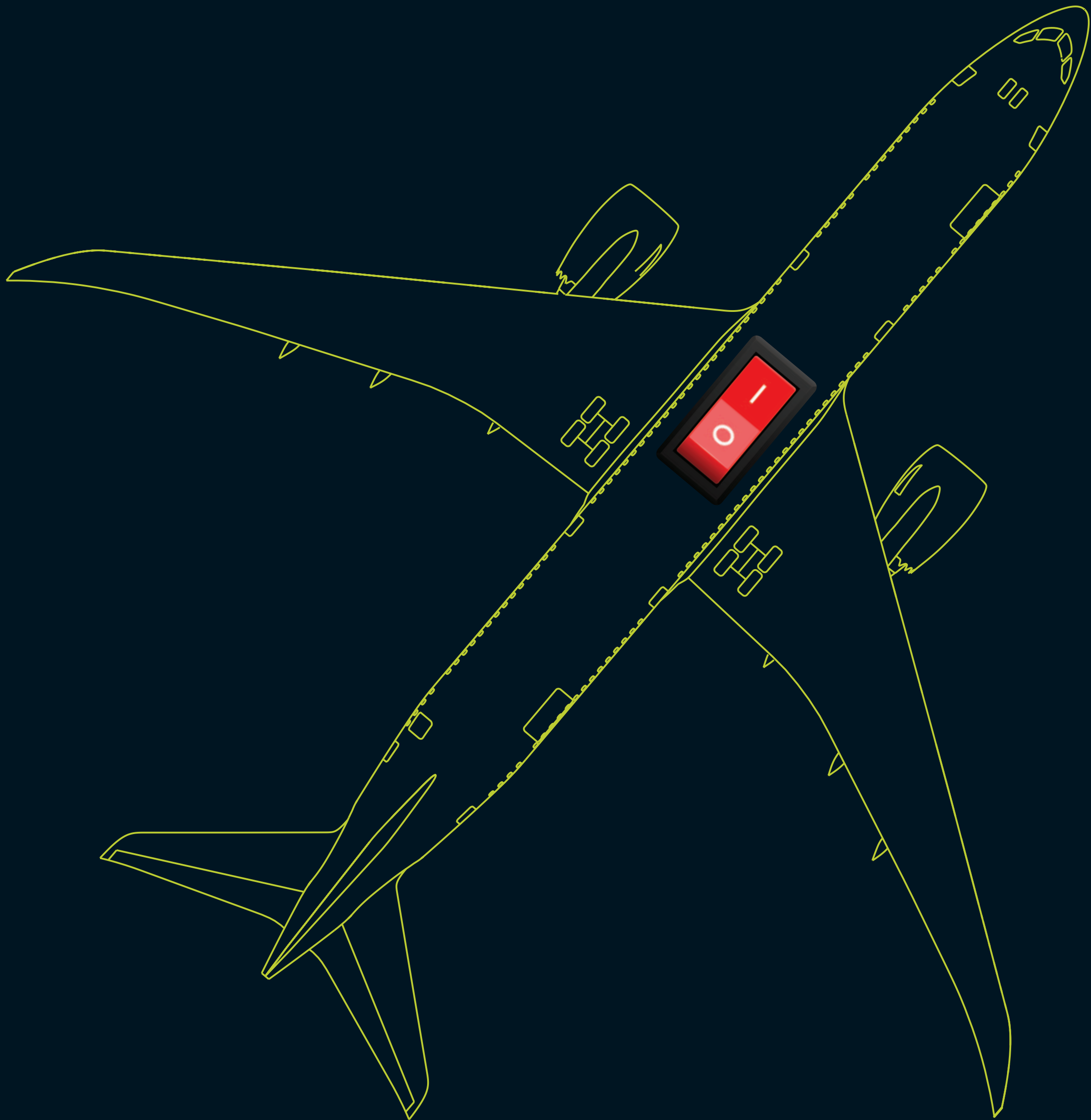
Net finance costs decreased to £36.5 million as a result of our strong cash generation and lower interest rates and despite additional debt financing for the PacSci acquisition. Within this, post-retirement net finance costs decreased to £4.5 million (2010: £9.8 million). Underlying profit before tax increased by 26% to £323.0 million.

With an underlying tax rate of 24% and, after taking account of the increased share count following an equity placing to part fund the acquisition of PacSci, underlying earnings per share increased by 15% to 31.9 pence.

On a statutory basis, profit before tax increased by 31% to £226.0 million and earnings per share increased by 19% to 24.0 pence. A reconciliation between underlying profit and statutory profit is provided in note 10 of the financial statements.

The recommended final dividend is increased by 15% to 7.30 pence and represents a total dividend for the year of 10.50 pence, up 14%.

More electric



The Pacific Scientific Aerospace acquisition has positioned us for power—the lighter weight more electric power systems that allow propulsion engines to perform optimally and consume less fuel.

We manage electric power, delivering it to networks at the right voltage, current and frequency. We make the motor controllers, motors and associated electro-mechanical actuators that consume it in safety-critical systems and utilitarian functions. When not consumed, we store power.

Our permanent magnet alternators provide hyper-reliable and redundant power for some of the world's most advanced digital engine controls. Likewise, we power safety critical fly-by-wire systems. Our generators are trusted to feed aircraft propulsion, auxiliary power unit, anti-icing and emergency systems without fail. The lightweight main rotor blade-folding actuators on the NH90 naval helicopter exemplify our capability in extreme environment power applications. Meggitt's pioneering high power-density lithium batteries will reduce aircraft weight by the equivalent of one passenger on the Gulfstream G650.

The demand for electric power has tripled in the last 20 years. Our enhanced capability provides the perfect counterpoint to our expertise in the pneumatic and hydraulic controls installed on thousands of aircraft in service—positioning us strongly to deploy hybrid solutions on the industry's journey towards the all-electric vehicle.

Performance review

Operational highlights £'m (Table 3)

Revenue 2011	Revenue 2010	Revenue Organic growth[1] %		Underlying operating profit 2011	Underlying operating profit 2010	Underlying operating profit Organic growth[1] %	Return on sales % 2011	Return on sales % 2010
320.5	309.7	+7%	Aircraft Braking Systems	**119.9**	120.7	+3%	**37.4**	39.0
201.6	182.8	+14%	Control Systems	**47.9**	44.7	+11%	**23.8**	24.5
171.2	156.0	+14%	Polymers & Composites	**31.7**	28.4	+15%	**18.5**	18.2
233.9	208.4	+14%	Sensing Systems	**43.2**	39.5	+9%	**18.5**	19.0
528.1	305.1	+14%	Equipment Group	**116.8**	70.4	+14%	**22.1**	23.1
1,455.3	1,162.0	+12%	Total Group	**359.5**	303.7	+8%	**24.7**	26.1
189.6	n/a		PacSci[2]	**38.2**	n/a		**20.1**	n/a

[1] Organic growth numbers, which exclude foreign exchange movements and M&A, are provided to give a better like-for-like comparison.
[2] Included in Equipment Group.

Operational highlights (Table 3)

Meggitt Aircraft Braking Systems (MABS)
The division represents 22% of total group revenue, generating 87% of sales from the aftermarket and 13% from OE. MABS' civil aftermarket revenues (circa 68% of divisional total) grew 9% in 2011, with very strong growth in business jets and regional aircraft more than offsetting the expected decline in large jets as DC9/MD80 fleets reduce. Civil OE grew 34%, with growth in all sub-segments. Military revenues were down 1%, in part due to the completion of a large B-1B order in 2010. Operating margins moved from 39.0% to 37.4%, reflecting the strong growth in the less profitable OE business and the temporary parking of a large number of MD90s, which are being refurbished before returning to service with Delta Airlines.

Meggitt Control Systems (MCS)
The division represents 14% of total group revenue and generated 53% of sales from OE and 47% from the aftermarket. Its civil aerospace business grew 23% and military grew by 6%, partially offset by a slight decline in other markets, including lower demand for ground refuelling equipment. Operating margins moved from 24.5% to 23.8% driven by the strong relative OE growth and increasing spend on R&D.

Meggitt Polymers & Composites (MPC)
MPC represents 12% of total group revenue and generated 60% of sales from OE and 40% from the aftermarket. Organic growth in revenues in MPC of 14% in the year was driven by strong large jet and regional aircraft demand resulting in civil growth of 25%. Military sales grew 10% across a range of platforms, including increasing content on ground vehicle retrofits. Operating margins improved from 18.2% to 18.5% despite production ramp-up difficulties experienced in its Loughborough, UK site in the first half of 2011 as referenced at the interim results in August.

Meggitt Sensing Systems (MSS)
MSS represents 16% of total group revenue, generating 79% of sales from OE and 21% from the aftermarket. MSS organic revenues were up 14%, with the strongest growth in civil OE (31%). Growth in civil markets included production rate increases in Airbus A380 and Boeing 787, both of which are equipped with MSS engine condition monitoring units. The modest reduction in operating margins is attributable to the relative strength of OE and an adverse exchange rate effect, offset by further cost reduction measures.

Meggitt Equipment Group (MEG)
The division represents 36% of total group revenue and generates approximately two thirds of sales from OE and one third from the aftermarket. Revenues in MEG were up 73% on last year including eight months of PacSci contribution, or up 14% on an organic basis. On an organic basis, civil revenues grew by 9%, mainly driven by OE, and military revenues grew by 7%. Our energy businesses grew very strongly, largely due to an excellent performance from Heatric, our printed circuit heat exchanger business. Heatric's core offshore oil and gas market was very strong in 2011 and it has also been successful in securing contracts in adjacent markets including on floating liquefied natural gas (FLNG) facilities. Order intake in 2011 was boosted by a significant order from Shell for the supply of heat exchangers to its Prelude FLNG facility. Operating margins on an organic basis were 23.1% (2010: 23.1%).

Cash flow and borrowings

Cash inflow from operations before exceptional operating items was a very healthy £395.8 million, (110% of underlying operating profit). As these numbers demonstrate, our strong focus on cash generation continued to deliver excellent results in 2011.

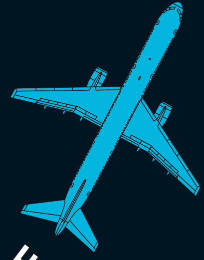
Net cash generated of £141.5 million excluding M&A (Table 5) was impressive given a lower take-up of the scrip dividend and continued investment in development programmes and IT infrastructure. After taking account of the acquisition of PacSci, net debt increased to £788.4 million. No further refinancing is required before 2013.

Investing for the future

Developing and owning intellectual property is a core part of Meggitt's successful strategy. Total product development expenditure in 2011 was 7.6% of revenues, or £110.5 million (2010: 7.2%, £84.2 million), of which 25% was funded by customers (Table 4). The largest relative investment was in Sensing Systems at around 15% of segment revenues.

Targeted organic investment in technology development remains a critical part of our long-term growth strategy, with new capabilities being added to our portfolio in response to the requirements of our customers. We typically aim to spend between 6-8% of revenue on R&D, most of which is spent on development activity after a position on a programme has been won. Highlights from 2011 include further development of electro-thermal anti-ice systems and tyre pressure monitoring systems for aircraft, enhancement of our energy condition monitoring products and the development of new lightweight lithium-ion batteries for aircraft.

FIRE DETECTION AND FIRE SUPPRESSION NOW UNDER ONE ROOF



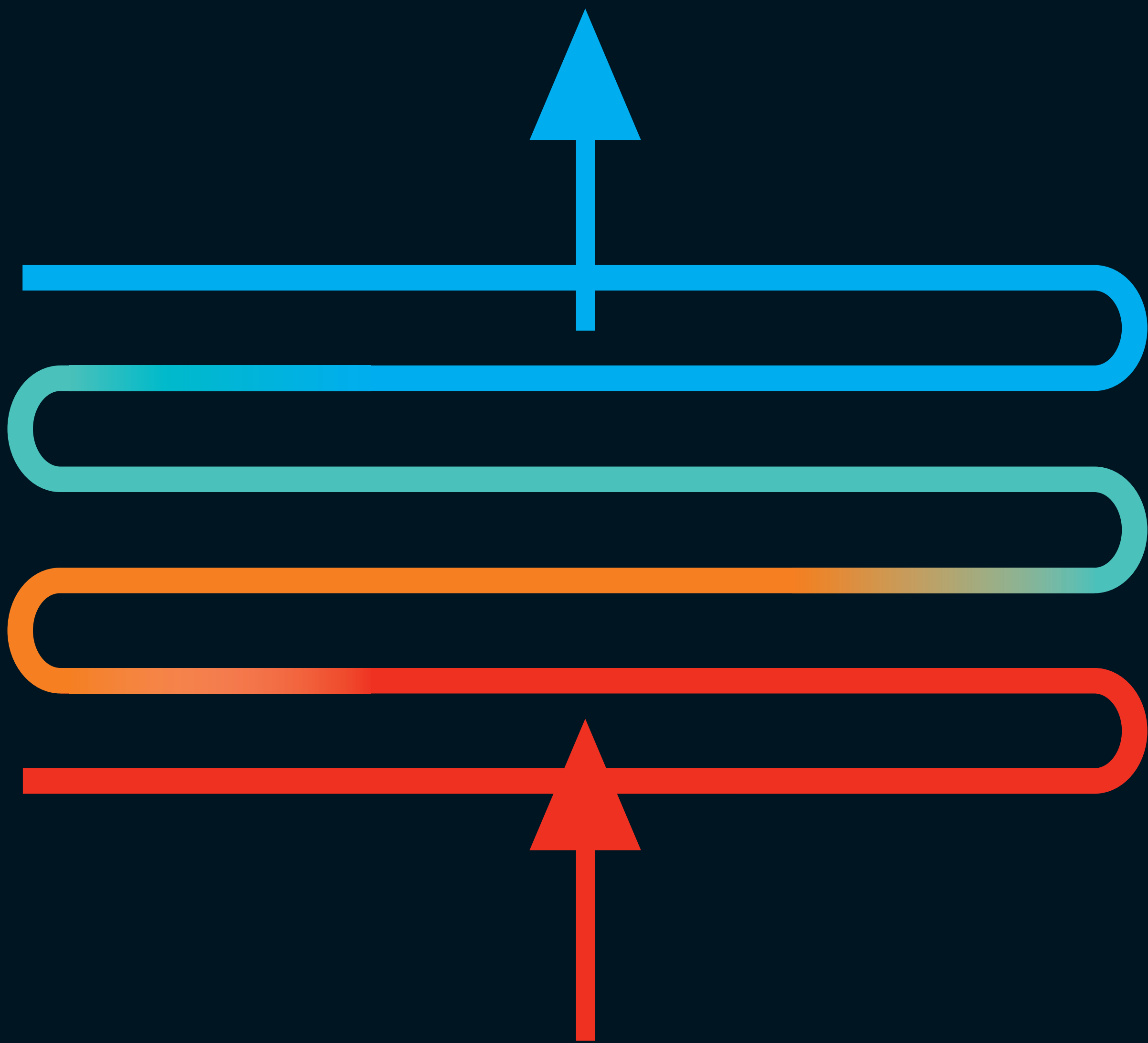
Giving customers something to smile about

With the Pacific Scientific Aerospace acquisition, we've turned the page on a new chapter in the history of fire protection at Meggitt.

By adding PacSci's fire suppression equipment to Meggitt's established fire detection and control capability, we can now offer the fully integrated fire protection and systems customers want.

We are simplifying procurement for them, minimising risk and cutting cost—and expanding the competitive landscape with a brand-new aerospace business.

Small wonder we are giving customers something to smile about.



Exchange rates going up

As a leading supplier of highly compact and efficient diffusion-bonded heat exchangers, Meggitt's Heatric business landed substantial contracts in 2011 in expanding markets where innovative suppliers only need apply.

Shell's floating liquefied natural gas (FLNG) platform—Prelude—is a revolutionary project, allowing access to offshore gas fields that would otherwise be too costly or difficult to develop. Prelude is the world's first FLNG platform.

Heatric's advanced heat exchange technology has been selected for Prelude's gas dehydration, cold recovery, gas and refrigerant compression coolers and natural gas liquids extraction.

The high pressure capability and high efficiency of Heatric technology also attracted business in waste recovery. Echogen Power Systems' power generation system converts industrial waste into electricity using supercritical $C0_2$ as the working fluid.

Heatric's heat exchangers are integral to a highly efficient process which transfers more of the waste heat into electricity than would be possible with non-supercritical fluids.

Investing for the future (continued)

Meggitt also invested £33.2 million in supplying equipment free of charge to new aircraft coming into the fleet and in making programme participation contributions, mostly in the braking systems business.

Capital expenditure on property, plant and equipment and other intangible assets increased to £52.1 million, including investment in the deployment of a common ERP system across the group. We have now successfully rolled the system out to 15 sites, with a similar level of deployment anticipated in the next two years. There has also been substantial investment in a number of our manufacturing facilities in order to match capacity to our recent win rate on new programmes. These investments include doubling the capacity of our innovative heat exchanger business in Poole, UK, and co-locating our North American sensing businesses onto one campus in California.

As part of the group's low cost manufacturing strategy, Meggitt continued to develop the range of capabilities at its manufacturing plants in Xiamen, China and Querétaro, Mexico. The acquisition of PacSci brought additional low cost manufacturing centres of excellence in Mexico and Vietnam. These facilities are part of the long-term strategy to further enhance our cost competitiveness and develop a best-in-class operational footprint.

Analysis of R&D costs (Table 4)

	2011 £'m	2010 £'m
Total R&D expenditure	**110.5**	84.2
% of revenue	**7.6%**	7.2%
Customer-funded R&D	**(27.3)**	(16.7)
Capitalised	**(41.5)**	(33.5)
Amortisation	**11.3**	8.2
Charge to income statement	**53.0**	42.2

Movement in net debt (£'m) (Table 5)

Cash flow from operations before exceptional operating costs		**395.8**
Exceptional operating costs paid		(17.1)
Net interest/tax paid		(73.3)
Capitalised development costs/programme participation costs		(74.4)
Net capital expenditure		(44.6)
Net cash generated from operations		**186.4**
Net amounts payable to shareholders	(70.1)	
Add back scrip dividend	25.2	
Net amounts paid to shareholders		(44.9)
Net cash generated		**141.5**
Acquisition of businesses	(417.6)	
Add back effect of equity placing	246.0	
Net cash cost of acquisition of businesses		(171.6)
Increase in net debt		**(30.1)**
Currency translation differences		(13.9)
Other non-cash movements		(23.0)
Opening net debt		(721.4)
Closing net debt		**(788.4)**

Analysis of total committed credit facilities (Table 6)

	US$m
Syndicated credit facility	500 Maturing in 2013
Private placement notes	250 Maturing in 2013 and 2015
Syndicated credit facility	700 Maturing in 2016
Private placement notes	600 Maturing in 2017, 2020 and 2022
	2,050

Capital structure

Meggitt's operations are financed by a combination of equity and debt. We seek to minimise the cost of capital while recognising the constraints of the debt and equity markets and the risks associated with high levels of gearing. Our current post-tax average cost of capital is approximately 8.0%.

On 21 January 2011 the group successfully completed the raising of £246.0 million through an equity placing to part finance the acquisition of PacSci.

Debt structure

During the year Meggitt refinanced its 2007 banking facility with a new five year revolving credit facility. The new facility, which is $220 million less than its predecessor as a result of our strong cash generation, was over-subscribed. As at 31 December 2011, we had undrawn, committed credit facilities of £531 million after taking account of surplus cash. No further refinancing is required before 2013.

Covenants

Meggitt's committed credit facilities contain two financial ratio covenants – interest cover and net debt to EBITDA. As can be seen from Table 7 there is considerable headroom on both measures.

Covenant ratios (Table 7)

	Covenant	Actual*
Net debt/EBITDA	≤3.5x	**1.7x**
Interest cover	≥3.0x	**12.4x**

*As calculated in accordance with banking agreements

Performance review

Minimising debt financing risks

The group seeks to minimise debt financing risk as follows:

a. Concentration of risk
We raise funds through private placement issuances and bank loans to reduce reliance on any one market. Bank financing is sourced from around 15 international institutions spread across North America, Europe and Asia. No single bank accounts for more than 12% of the group's total credit facilities and the credit rating of lenders is monitored by our treasury department. Our largest four lenders are Bank of America, Barclays, BNP Paribas and HSBC. We also seek to maintain a reasonable level of undrawn committed facilities as a buffer.

b. Set-off arrangements
The group utilises set-off and netting arrangements where possible to reduce the potential effect of counterparty defaults. All treasury transactions are settled on a net basis where possible and surplus cash is generally deposited with our lenders up to the level of their current exposure to us.

c. Refinancing risk
We ensure the maturity of our facilities is staggered and refinancings are concluded in good time.

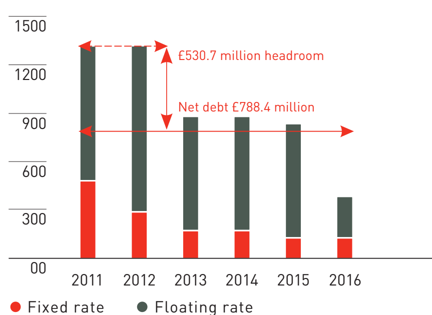
d. Headroom risk
To ensure we mitigate headroom erosion due to currency movements our credit facilities are denominated in US dollars, the currency in which most of our borrowings are held.

e. Covenant risk
The covenant calculations are drafted to protect the group from the potential volatility caused by accounting standard changes, sudden movements in exchange rates and exceptional items. This is achieved by measuring EBITDA on a frozen UK GAAP basis, retranslating net debt and EBITDA at similar average exchange rates and excluding exceptional items from the definition of EBITDA. The ratio is relatively insensitive to currency movements and there is considerable headroom on EBITDA. We continue to have considerable headroom on both key financial covenant measures (Table 7).

Interest charge

Meggitt seeks to reduce the volatility caused by interest rate fluctuations. Our US private placements are subject to fixed interest rates whereas borrowings under our syndicated bank credit facilities are at floating rates. To manage interest rate volatility, we use interest rate derivatives to either convert floating rate interest into fixed rate or vice versa. Our policy is to maintain at least 25% of net debt at fixed rates with a weighted average maturity of two years or more. At 31 December 2011, the percentage of net debt at fixed rates was 61% and the weighted average period to maturity of the first 25% was 5.7 years. Our interest charge, excluding post-retirement net finance costs, reduced to £32.0 million (2010: £37.8 million) with strong cash generation and less debt at higher fixed rates more than offsetting the impact of the PacSci acquisition. Post-retirement net finance costs reduced to £4.5 million (2010: £9.8 million) caused mainly by the strong asset performance in 2010.

Facility headroom (£'m) (Table 8)



Exchange rates (Table 10)

The net assets of overseas subsidiaries are translated into sterling at year end exchange rates. To mitigate the exchange rate exposure this causes we hold our net debt, where cost effective and practical, in the currencies of those subsidiaries.

Net debt (£'m) (Table 9)

	2011	2010
Sterling	**(30.0)**	0.3
US dollar	**747.5**	634.2
Euro	**(5.3)**	(5.2)
Swiss franc	**79.6**	92.0
Other	**(3.4)**	0.1
Total net debt	**788.4**	721.4

The results of overseas subsidiaries are translated into sterling at weighted average exchange rates (Table 10). Compared to 2010, the group's underlying profit before tax for the year was adversely affected by £3.9 million as a result of currency translation. Each five cent movement of the US dollar versus the 2011 rate used of £1 = $1.60 impacts underlying profit before tax by approximately £7.0 million.

Exchange rates (Table 10)

	2011	2010
Average translation rates		
US dollar	**1.60**	1.54
Euro	**1.16**	1.17
Swiss Franc	**1.40**	1.60
Year end rates		
US dollar	**1.55**	1.57
Euro	**1.20**	1.17
Swiss Franc	**1.45**	1.46
Transaction rates		
US dollar/£	**1.65**	1.65
US dollar/Euro	**1.42**	1.50
Swiss franc/US dollar	**1.06**	1.13

The group hedges known and some anticipated transaction currency exposures based on historical experience and projections. Our policy is to hedge at least 70% of the next 12 months' anticipated exposure and to permit the placing of cover up to five years ahead. Compared to 2010, the group's underlying profit before tax for the year was adversely affected by £2.9 million as a result of currency transaction. Each five cent movement of the US dollar versus the 2011 rate used of £1 = $1.65 impacts underlying profit before tax by approximately £2.0 million. At 31 December 2011, $/£ cover for 2011 was 87% (at a rate of $1.66) and we have covered approximately 50% of our $/£ exposures for the subsequent four years at an average rate of $1.55.

Taxation

Meggitt's underlying tax rate reduced to 24.0% (2010: 25.0%). Our statutory rate, which includes items reported below underlying operating profit is 18% (2010: 20%) and our cash rate of tax is 19% (2010: 15%) reflecting timing differences.

Attention seeking

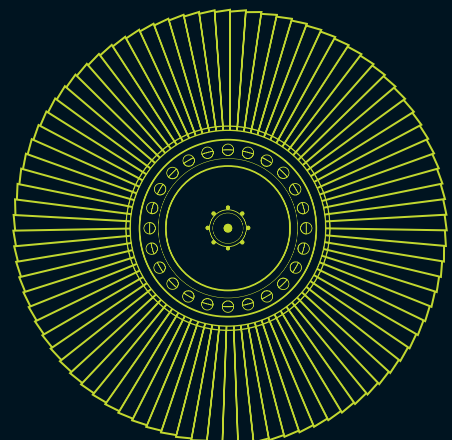
When an engine needs attention, a Meggitt health monitoring system will have told its owner where and when, long before it becomes a problem.

As effective in large land-based turbines as they are in their relatively lightweight aero-engine cousins, our systems detect incipient failure conditions, cut the cost of unscheduled maintenance and optimise performance to conserve energy and minimise emissions.

Our strength lies in the integration of powerful sensors, sophisticated control algorithms and process electronics.

With boots on the ground in key power generation markets, we are developing highly responsive relationships with customers, exploiting our know-how and innovating quickly in response to their requirements.

With dedicated sales and support facilities in India and China running as smoothly as the industrial, land-based and hydro turbines we look after there, Meggitt Sensing Systems is now poised to capitalise on the energy markets in South America, directly engaging with customers through our new base in Brazil, which opened at the end of 2011.



Performance review

Dividends

The group has recorded excellent growth in underlying profit and earnings per share in 2011 and remains well-positioned for further growth. Accordingly we have increased the recommended final dividend to 7.30 pence (2010: 6.35 pence) which would result in a 14% increase in the full-year dividend to 10.50 pence (2010: 9.20 pence).

Retirement benefit schemes

The group's defined benefit pension schemes in the UK and the US are closed to new members.

The impacts of global economic uncertainty together with the eurozone debt crisis and the UK's quantitative easing programme contributed to an increase in the level of the group's scheme deficits. Overall pension scheme deficits increased to £265.4 million (2010: £210.5 million). Scheme assets saw modest increases, helped by a partial rebound in equity markets in the latter part of the year together with company cash contributions. The yields on AA corporate bonds however, the rates used to discount scheme liabilities, have fallen significantly during the year. The rates, which have now fallen for three successive years, affect the values at which the liabilities are recorded in the financial statements.

Regulations in the UK and US require repayment of deficits over time. Deficit payments in the year were £23.9 million (2010: £20.7 million). In the UK, the current agreement with the trustees provides for increases in deficit payments gradually being phased in over the next 15 years. The next triennial valuation of the UK scheme is due in 2012 and will impact the deficit reduction payments from 2013. In the US there will likely be a short-term modest increase in funding as legislation introduced in prior years to alleviate the impact of the economic downturn on funding requirements starts to unwind.

Meggitt has two other principal post-retirement benefit schemes providing medical and life assurance benefits to certain US employees. The group's exposure to increases in future medical costs provided under these plans has been capped. Both schemes are unfunded and have a combined deficit of £54.5 million (2010: £54.6 million). Deficit payments during the year were £2.3 million (2010: £2.4 million).

Accounting standards

Meggitt's results were not significantly affected by changes in financial reporting standards in 2011.

Defined benefit pension schemes summary (£'m) (Table 11)

	2011	2010
Opening net deficits	**210.5**	219.5
Service cost	**11.4**	10.5
Group cash contributions	**(35.3)**	(31.2)
Net deficit reduction payments	**(23.9)**	(20.7)
Prior year service cost	**0.5**	1.3
Net finance cost	**2.0**	6.5
Actuarial losses/(gains) – schemes' assets	**25.2**	(21.7)
Actuarial losses – schemes' liabilities	**48.7**	23.1
Acquisition of businesses	**1.7**	–
Currency movements	**0.7**	2.5
Closing net deficits	**265.4**	210.5
Assets	**584.9**	567.9
Liabilities	**850.3**	778.4
Closing net deficits	**265.4**	210.5
Funding status	**69%**	73%

The above analysis excludes post-retirement healthcare schemes which have a deficit at 31 December 2011 of £54.5 million (2010: £54.6 million).

Corporate responsibility

At Meggitt, we recognise our responsibility to shareholders, employees, customers, suppliers and the wider community. We will comply with all relevant national laws and regulations and aim to continually improve our financial, social and environmental performance.

Policy

Meggitt is committed to

- upholding sound corporate governance principles
- providing a supportive, rewarding and safe working environment
- conducting business relationships in an ethical manner
- minimising the environmental impact of products and processes
- acting as a responsible supplier and encouraging our contractors and suppliers to do the same
- supporting our local communities

Action

For our stakeholders, this means

→ providing safe working environments

→ modern operational practices

→ effective risk identification and mitigation

→ dynamic business continuity plans

→ maintaining internationally-accredited environmental management systems

→ conducting independent audits

→ professional and comprehensive employee training programmes

→ the social and economic enrichment of local communities

→ robust internal and external reporting and controls

→ ensuring financial probity

Corporate responsibility

Environmental metrics

	2011 Including PacSci	Change Including PacSci	2011 Excluding PacSci	2010	Change Excluding PacSci
Utilities					
Electricity – gWh	**175**		**156**	148	
MWh per £m	**115**	-12%	**123**	131	-6%
Natural gas – gWh	**204**		**187**	191	
MWh per £m	**134**	-20%	**148**	168	-12%
Carbon Dioxide (CO_2) – tonnes @ 2011 rates[1]	**129,333**		**116,398**	112,941	
Tonnes per £m	**85.0**	-15%	**92.0**	99.6	-8%
Waste – tonnes	**10,160**		**8,406**	7,303	
Tonnes per £m	**6.67**	4%	**6.65**	6.44	3%
Water – cubic metres	**737,764**		**644,018**	631,508	
Cubic metres per £m	**485**	-13%	**509**	557	-9%

Our environmental metrics are reported in full on the CR page of our website.
Metrics per £m are calculated using revenue converted at constant foreign exchange rates.
Environmental metrics quoted for PacSci are for the full year 1 January 2011 to 31 December 2011.

Governance and compliance

Meggitt's Corporate Responsibility (CR) Policy – published on www.meggitt.com – underpins the way we manage social, ethical and environmental issues. We devote significant internal resources to implementing it across Meggitt facilities worldwide. Every site records important data on employees, supply chain and health, safety and environmental (HSE) performance.

CR is overseen by our Group Corporate Affairs Director. HSE matters, trade compliance and ethics and business conduct are managed by a highly experienced team of functional specialists. The Board has appointed an Ethics and Trade Compliance Committee to ensure that we have effective programmes in these areas and to oversee their management. The Board reviews HSE at each of its meetings and receives a quarterly written report from the Vice-President, Health, Safety and Environment. Divisional presidents and site directors are responsible for implementing our policies at a local level.

There is a phased integration plan for our newly acquired Pacific Scientific Aerospace (PacSci) businesses. PacSci employees have already undertaken Code of Conduct and anti-bribery training under the Ethics programme and have started to implement the Trade Compliance programme. Integration into HSE and other programmes also began in 2011.

Environment

Meggitt's Group Environmental Policy, which was reviewed and updated by the Board in January 2012, commits us to

- complying with applicable environmental legislation
- reducing the environmental impact of our own and our suppliers' products and operations

To achieve the goals of our Environmental Policy, Meggitt's environmental management programme includes setting environmental targets, communicating changing regulatory developments, training and information sharing, data analysis and internal and external auditing of environmental management systems. Meggitt is a signatory to the Sustainable Aviation Strategy of the A|D|S Group (the UK's primary aerospace, defence and security trade association) and is represented on the A|D|S environmental and carbon management working groups. We provide emissions data to the Carbon Disclosure Project (CDP), a non-governmental initiative that measures and discloses the greenhouse gas emissions and climate change strategies of organisations around the world. Meggitt is a registered participant in the UK's CRC Energy Efficiency Scheme.

Meggitt takes a proactive approach to complying with environmental regulation. Our global environmental audit programme, supported by external consultants, reviews compliance standards at all of our sites on a three-year rolling basis, and recommends best practice. As a result of this continuous audit programme, we have improved our performance on inspections conducted by external regulatory agencies, reducing the number of regulatory citations received in 2011 by 24% on 2010, excluding PacSci. All Meggitt sites, excluding PacSci, have successfully attained environmental management system ISO 14001 standard certification. The PacSci sites will start working towards ISO 14001 certification in 2012.

[1] Meggitt's carbon emissions data is derived from electricity, gas and fuel oils usage which is converted using the 2011 greenhouse gas conversion factors of the UK Department for Environment and Rural Affairs (DEFRA). For electricity only, DEFRA update prior years' conversion factors annually and so Meggitt's carbon emissions arising from electricity usage in 2010 have been restated.

We continued to enhance our information-sharing through intra-group HSE conferences and an internal website, where we post environmental bulletins and initiatives.

Our environmental metrics show that our performance relative to revenue, excluding PacSci, has improved in all key areas, except waste, which has increased:

Energy: the Meggitt Energy Reduction Programme, initiated in 2010, has improved how we share information and best practice on energy performance.

We are committed to reducing the carbon footprint of our sites. We have performed well against our five-year target to reduce CO_2 emissions by 15%[2] relative to revenue, using 2009 as the baseline year. Between 2009 and 2011 we achieved an 8% reduction in CO_2 emissions. PacSci will be incorporated into our energy programmes and targets during 2012.

As part of our commitment to minimise the environmental impact of our sites in 2011 our sites have undertaken a number of initiatives:

- In late 2011, Meggitt Aircraft Braking Systems, Akron began the conversion from central steam heat to direct fired natural gas heaters. This £900,000 energy reduction project is scheduled to conclude in mid-2012 and will result in an estimated annual saving of over 2,500 tonnes of CO_2 and an annual cost saving of £265,000.
- Meggitt Control Systems, Dunstable achieved an overall 47% reduction in gas usage by revising shut down procedures, fitting timers and installing an energy management system.
- Meggitt Safety Systems, Simi Valley realised total annual cost savings of £16,500 by replacing two cooling towers with variable frequency fan motors and existing air conditioning units with higher energy efficiency rated units that use more environmentally friendly refrigerants.
- Meggitt Polymers & Composites, Rockmart increased the efficiency of its air compressors by installing a central receiver tank to allow coordinated compressor output. The site reduced operational hours on two compressors and eliminated the need for a third. In total, these energy-saving modifications resulted in average cost savings of £75,000 per year.
- Meggitt Polymers & Composites in Oregon replaced all T12 lighting with new high-energy efficiency alternatives and installed occupancy sensors throughout the facility. This resulted in an annual cost saving of £4,400.

Waste: the 3% increase arose from several large scale projects to dispose of redundant equipment.

Water: the 9% reduction in water usage is largely attributable to water efficiency projects.

Health and safety

Meggitt's Group Health and Safety Policy, which was reviewed and updated by the Board in December 2011, outlines our commitment to

- formal management systems for regulatory and legislative compliance and guidance on best practice
- integrating identification, assessment and control of health and safety risks into operational management
- incorporating health and safety thinking into business plans
- instilling the importance of health and safety in employees at all levels and providing all employees and temporary workers with appropriate health and safety information and training
- delivering products and services that can be installed, operated and maintained without risk to health and safety as far as possible
- consulting stakeholders on health and safety risk management

Our Health and Safety Policy reinforces our belief that a well-supported, effective health and safety management programme is essential to building a sustainable workforce and business.

One of our highest priorities is to provide a safe, healthy workplace for our employees and we continue to focus on embedding a strong safety culture. We expect our employees to take individual responsibility for their health and safety and to encourage and exhibit safe work behaviour.

In 2011, we continued to work toward improving our health and safety performance, applying the key principles of our Health and Safety Policy. This is achieved by ensuring effective leadership and health and safety programmes are in place, led by the Group Health and Safety Steering Committee and the Vice-President, Health, Safety and Environment. Our global health and safety audit programme, supported by external consultants, operates according to the same continuous improvement philosophy as our production facilities. We use it to review compliance standards, recommend remedial action and share best practice. In 2011, one third of Meggitt sites were audited.

In 2011, further measures designed to improve safety in the workplace were rolled out:

- on-line health and safety training programme for all US sites;
- Weekly Safety Talk posters for all sites to raise safety awareness;
- increased health and safety internal inspection frequency; and
- improved reporting and investigation of workplace accidents.

[2] At constant exchange rates and carbon conversion rates.

Corporate responsibility

Health and safety (continued)

In all cases, Meggitt implements programmes across the group that are equivalent to or more stringent than regional regulations. In 2011, there were significant improvements and outstanding achievements at some of our sites:

- 13 manufacturing sites experienced no lost time accidents.
- For its exemplary health and safety management programmes and injury performance and safety record, Meggitt Control Systems, Dunstable was requested by the UK Health and Safety Executive to assist in their local Estates Excellence initiative, a programme to help small businesses control their health and safety risks and protect their employees by creating partnerships between companies, councils and regulators. The partners guide small businesses and improve their ability to manage health and safety.

There were no fatalities at Meggitt sites in 2011 (2010: none). In 2011, the number of reported injuries[3] rose to 69 (including PacSci) (2010: 53). The accident/incident rate[4] remained constant at 737 (including PacSci) (2010: 737).

In 2011, we continued to improve the way we measure and collect our health and safety data with the collection of UK RIDDOR[5] equivalent data across the group, trend analysis of the types and causes of workplace injuries and near-miss data to identify key risk areas. We seek to achieve continuous improvement in all areas of workplace risk, driving sustainable safety behaviour and practices through exemplary leadership of ongoing health and safety initiatives. This includes integrating health and safety performance into business operations as part of overall site and divisional management reviews.

We continue to disseminate information and best practice through intra-group conferences, health and safety alerts and all-employee bulletins.

Compliance with the European Community Regulation on Registration, Evaluation Authorisation and Restriction of Chemicals (REACH) is managed by the group's REACH Steering Committee which has been active in completing due diligence and dealing with the risks associated with the potential obsolescence of supply of chemicals used by aerospace manufacturers. In 2011, Meggitt formed a group Obsolescence Review Board (ORB) consisting of representatives from our engineering, quality, HSE, procurement, contracts and legal functions to work together to assess the impact of REACH and other regulatory and supply chain requirements affecting our operations in this area. The HSE Director for Meggitt Sensing Systems is a member of the Aerospace and Defence Industries Association of Europe's REACH Implementation Working Group which enables us to source and compare information about REACH compliance across the industry.

Trade compliance

Meggitt's Trade Compliance Policy outlines our commitment to comply fully with the laws and regulations governing trade controls in the jurisdictions in which we operate

Meggitt's group-wide trade compliance programme is based on the model of excellence outlined in the Nunn-Wolfowitz Task Force Report of 2000 – the influential report on export compliance best practice – and US Government guidelines. We achieve multiple levels of accountability using five key process tools – assessment, compliance improvement, verification, corrective action and audit – which are applied in a continuum. Plans arising from the review elements enable 16 sub-processes for 54 businesses to be tracked by managers at all levels, including the executive leadership team.

Meggitt's trade compliance teams receive training and access to key subject matter experts inside the group and from global trade compliance advisors, JP Morgan Trade Management Consulting. Meggitt's trade compliance website, a customised database of training modules, forms, templates, regulations, editorial and company policy and procedures, is comprehensive and well-respected by experts in the field.

In 2011 we started to implement our selected global trade management software solution, Global Trade Services (GTS) 8.0 with Deloitte, to enhance our trade compliance programme. We completed the design phase for North America, Europe and Asia. We also began testing the many features of the GTS programme before implementation at the pilot site in North America in the first quarter of 2012.

Business ethics

Meggitt's Ethics and Business Conduct Policy commits us to

- conducting business fairly, impartially and in full compliance with applicable laws and regulations
- integrity and honesty in all our business relationships internally and externally

Our Ethics and Business Conduct Policy and Code of Conduct, overseen by the Ethics and Trade Compliance Committee, must be followed by all employees and advisers. All employees, including those from PacSci, have received Code of Conduct and anti-corruption training and are required to view our ethics training videos which are released regularly. We are a signatory to the Statement of Adherence to the Global Principles of Business Ethics for the Aerospace and Defence Industry. In 2011, the Group Corporate Affairs Director became a member of the Business Ethics Committee of the Aerospace and Defence Industries Association of Europe and our Vice-President, Ethics and Business Conduct served on the Task Force of the International Forum on Business Ethical Conduct (IFBEC).

[3] We define reported injuries as those which are reportable under local laws/regulations.
[4] The accident/incident rate is calculated by taking the number of reported injuries, multiplied by 100,000 and dividing it by the average employee headcount during the year.
[5] Reporting of Injuries, Diseases and Dangerous Occurences Regulations 1995.

Meggitt's green machines

A balanced engine helps aircraft to run more smoothly, which leads to greater passenger comfort, better fuel efficiency in flight and lower maintenance costs due to less wear from excessive vibration. For almost 30 years, Meggitt has been making it easier, cheaper and more environmentally friendly to keep aircraft engines balanced.

Balancing an engine was an expensive and environmentally hazardous proposition until a major European airline asked Meggitt to help them find a better solution. Until the 1980s, to gather data to balance the aircraft's engine, it had to be run at high thrust whilst the aircraft was stationary. Meggitt developed the first system to take in-flight engine and rotor vibration data that could be used by technicians on the ground. Our cold fan trim balancing technology was so beneficial that, by the late 1990s, most new aircraft were built with it.

Today, many of the commercial aircraft built before our cold fan trim balancing technology was developed have been retrofitted. However, we expect retrofit orders for the next three years until virtually all older aircraft in service have the technology. The airlines are very positive about this technology because it helps them to reduce delays and cancellation and reduce labour and overtime. At the same time, Meggitt's cold fan trim balancing solution helps them minimise their impact on the environment by saving 1,500 gallons of fuel per plane per balancing operation.

For a modest fleet of 120 large jet commercial aircraft, Meggitt's technology can save over 100,000 gallons of aviation fuel per year, reducing CO_2 emissions by over 1,000 tonnes and costs by over £200,000. Since most commercial aircraft worldwide have adopted this technology to avoid traditional balancing procedures, the annual savings to our customers and to the environment are quite profound.

Corporate responsibility

Our people, local communities and charitable donations

At the end of 2011, Meggitt employed approximately 10,500 people worldwide, having welcomed around 2,400 new colleagues into the group through the acquisition of PacSci.

The engagement of our employees is key to our future success. During 2011 all Meggitt's employees were given the opportunity to participate in our global employee opinion survey. During 2012, comprehensive feedback will be shared throughout the group, leading to initiatives to build on our strengths and target improvements.

Learning, career development and strong leadership are vital components of Meggitt's drive for all employees to deliver high levels of performance in their roles. In 2011, we rolled-out a global change leadership programme to equip managers with the skills to work in a complex matrix environment and to become more effective leaders of their teams. Continued investment was made in our executive leadership programme. We focused on our processes for succession planning, recruitment, and performance management to attract, develop and motivate talented engineers and staff across all areas of the group.

All employees should have an equal opportunity to succeed in an environment free of discrimination within which the contribution of all is fairly recognised. All Meggitt employees are encouraged through our ethics programme and by adhering to our corporate values to ensure that everyone is treated fairly.

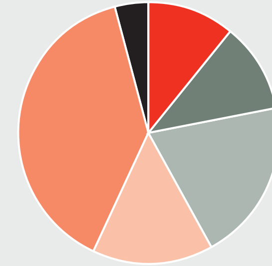
Meggitt makes an important economic contribution to our local communities, with salaries, social security contributions and taxes across the group amounting to approximately £478.3 million in 2011 (32.9% of revenue).

Individual Meggitt sites work with the local community and support charities at their discretion. Yearly reports reveal the exceptional generosity of many employees who give time and money to a wide range of national and local initiatives. Education Business Partnerships and the UK Government's STEM (Science, Technology, Engineering and Mathematics) initiative were supported locally by sites. Meggitt's headquarters, based in Dorset, UK, continued to sponsor the Arkwright Scholarship Trust, the Institute of Mechanical Engineers' Schools Aerospace Challenge, the local Community Foundation and the Poole Hospital Staff Excellence Awards.

Employees by division[6]

Number of employees

10,538

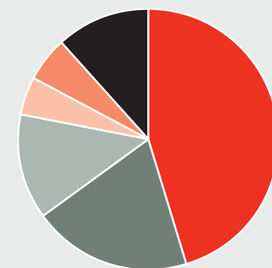


Division	Employees	%
Aircraft Braking Systems	1,194	11%
Control Systems	1,121	11%
Polymers & Composites	2,090	20%
Sensing Systems	1,528	15%
Equipment Group	4,107	39%
Cross-group facilities	498	4%

Employees by length of service (years)[6]

Number of employees

10,538

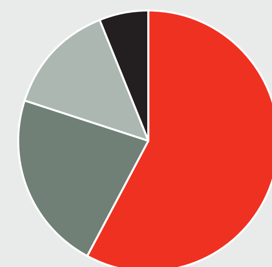


Length of service	Employees
Less than 5	4,784
Between 5 and 10	2,069
Between 10 and 15	1,375
Between 15 and 20	521
Between 20 and 25	565
Over 25	1,224

Employees by region[6]

Number of employees

10,538



Region	Employees	%
North America	6,105	58%
UK	2,283	22%
Mainland Europe	1,484	14%
Rest of World	666	6%

[6] As at 31 December 2011

Principal risks and uncertainties

Meggitt's risk management framework includes a formal process for identifying, assessing and responding to risk in relation to the group's strategy and business objectives.

Risk management operates at all levels throughout Meggitt, across business lines, geographies and functions. The Board is responsible for risk management including maintaining the group's risk governance structure and an appropriate internal control framework (see page 46).

Types of risk
We monitor risk across four broad categories – markets, operations, finance and corporate. The risks outlined below, which are not presented in any order of priority, are those the group believes are the principal ones it faces. However, additional risks, of which the group is unaware, or risks the group does not currently consider material, could have an adverse impact.

Markets
- Competition
- Product demand
- IT environment

Operations
- Acquisitions
- Contracts
- Equipment fault
- Supply chain

Finance
- Credit
- Exchange rates
- Financing
- Retirement benefits funding

Corporate
- Environmental
- Legal and regulatory
- Organisational structure

Change in risk in year

No change ←→

Higher risk ↑

Lower risk ↓

Principal risks and uncertainties

Risk description	Potential impact	Mitigation action
Markets		
Competition ←→	We operate in a highly competitive global market that has experienced significant consolidation in recent years. Losing contracts to competitors, some of whom have greater financial, technological and marketing resources, or being forced to accept lower margins, would have an adverse effect on Meggitt's results. The group's competitive position would suffer were it unable to meet future investment requirements, continue research and development or provide cash and equipment incentives to original equipment manufacturers. Such investments, which decrease our cash flow in the short-term, need to be recovered through future revenues. Losing key intellectual property or failing to enforce its rights could hinder our development and provide competitor advantage.	• Protecting our position by maintaining a broad customer base. • Maintaining diverse products and operations to reduce the effect of action by any single competitor. • Maintaining a competitive manufacturing base with low-cost operations in China, Mexico and Vietnam. • Maintaining the highest manufacturing and quality standards and adhering to individual customer certification requirements. • Developing proprietary intellectual property and products in markets that demand high levels of technology, quality and service and strong, long-term relationships with customers. • Maintaining a robust intellectual property protection programme. • Ensuring good operational cash flow and available finance. • Organisation structure aligned with customer requirements.
Product demand ←→	Military markets currently account for 40% of group revenues. Any reduction in military spending or reordering of priorities, particularly by the US government (Meggitt's largest end customer), could adversely affect our revenues. A significant or prolonged downturn due to recession, commodity prices, terrorist attack or aerospace regulations would decrease demand for the group's products from civil aerospace customers, which account for 46% of group revenues.	• Spreading our activities across the civil aerospace, military and energy markets. • Generating revenues from original equipment manufacturers and aftermarket products. • Operating across different geographical regions. • Maintaining, where practical, a flexible manufacturing cost base, maximising benefits by sourcing from lower cost markets as appropriate.
IT environment ←→	Intellectual property and other business data are stored and transmitted electronically. Accordingly, the group is exposed to the risk of data loss either through third-party breach of our systems or the unintentional loss of data by employees. The group is implementing a global IT solution (SAP) across its sites. Failure to implement the new system successfully could lead to loss of data, operational delays and unplanned increases in working capital.	• Monitoring risks and prioritising mitigation actions through an IT security committee. • Appointed a group head of IT security. • Continually enhancing IT security policies and upgrading and standardising security tools. • Progressively rolling out SAP under the governance of a dedicated steering committee. SAP has been successfully implemented at 15 group sites. • Hosting SAP in two separate locations, each with robust disaster recovery plans.
Operations		
Acquisitions ←→	Meggitt continues to pursue acquisitions as part of our growth strategy. Such acquisitions may not realise expected benefits.	• Undertaking robust due diligence procedures. • Obtaining representations, warranties and indemnities from vendors where possible. • Appointing full-time integration teams on all major acquisitions. • Implementing comprehensive business integration processes building on the success of previous acquisition integrations.
Contracts ←→	Multi-year, fixed price contracts with original equipment manufacturing customers expose us to variations in production costs. The group is subject to the contracting regulations of our government customers, particularly those of the US government, our largest end customer, which can impose a range of sanctions in response to violations.	• Ensuring estimates of cost are based on reliable historic data, future productivity improvements and, where possible, entering into multi-year, fixed price contracts with major suppliers. • Maintaining a comprehensive ethics and business conduct programme, including guidelines for doing business with the US Government and an anti-corruption policy. • Entering into commitments only after rigorous commercial and legal reviews of contract terms.

Risk description	Potential impact	Mitigation action
Operations continued **Equipment fault** ←→	Meggitt's products generally operate in extreme environments where a serious incident arising from failure could result in liabilities for personal injury or death and damage to our reputation. The group may also be subject to material product warranty obligations to third parties for equipment it manufactures and services.	• Designing manufacturing processes that ensure stringent quality and reliability standards. • Implementing best practice operational performance standards through an Operations Excellence Council. • Protecting the group from potential product liability claims with liability insurance (subject to coverage limits).
Supply chain ←→	We rely on our own manufacturing operations and independent suppliers for key raw materials and components, some of which may be available from a limited number of suppliers. Any disruption to the supply chain could have an impact on our ability to meet customer requirements and adversely affect the group's results.	• Maintaining significant investment in modernising facilities and improving production processes to develop leading manufacturing operations. • Maintaining a supplier risk assessment programme. • Subjecting robust business continuity plans to regular testing to manage the risk of a loss of a major facility or supplier.
Finance **Credit** ↑	Credit risk exists in relation to customers and insurers.	• Maintaining a wide customer base and rigorous credit control procedures. • Maintaining a broad insurer group and monitoring the credit rating of those insurers.
Exchange rates ←→	We operate in, and sell products to, a range of countries with different currencies, resulting in exchange rate exposure. Transaction risk arises where revenues are denominated in currencies different from those of the costs of manufacture. Translation risk arises on the conversion into sterling of income statements and net assets of overseas subsidiaries.	• Maintaining hedging in excess of 70% of the next 12 months' anticipated transaction exposure. • Addressing longer-term risk of exposure to exchange rate fluctuations by sourcing goods and services in currencies matching the revenue exposure where cost-effective. • Managing translation risk where possible by matching the currency of borrowings with the net assets of overseas subsidiaries.
Financing ↓	Meggitt's long-term financing is provided by shareholders in the form of equity and by banks and other institutions in the form of debt. The ability to raise additional equity finance is dependent on general market conditions and being able to convince potential investors of the strategic case for investing in Meggitt. Debt facilities are provided for finite periods of time and need to be renewed periodically, unless repaid from cash generated. Such renewal could be affected by any structural issues in the credit markets. Debt facilities contain covenants which, if breached, could result in the facilities being withdrawn.	• Maintaining good relationships with major shareholders as evidenced by the equity placing of £246 million in January 2011 to support the acquisition of Pacific Scientific Aerospace. • Negotiating debt facility extensions. During the year the group successfully refinanced a 2012 maturing bank facility with a new five-year $700 million committed revolving bank facility. No further refinancing is required before 2013. • Maintaining a broad and geographically diverse banking syndicate, with good credit ratings. • Using longer term US private placement funding to reduce reliance on banks. • Basing covenant calculations on frozen GAAP to reduce volatility arising from certain fair value measurements and any future accounting standard changes. • Including covenant clauses that enable net debt and EBITDA to be retranslated to sterling at similar exchange rates to reduce exchange movement volatility. • Monitoring actual and forecast results against covenant ratios regularly.

Principal risks and uncertainties

Risk description	Potential impact	Mitigation action
Finance continued		
Retirement benefits funding ←→	The group's post-retirement benefit schemes are currently in deficit (£319.9 million at 31 December 2011). The future deficit position may be adversely affected by poor investment performance, changes in corporate bond yields and inflation rates, greater than anticipated improvements in life expectancy and changes in the regulatory environment. This would have an adverse affect on amounts recorded in the income statement and the level of future cash contributions required to be made.	• Closed all defined benefit pension schemes in the UK and US to new members. • Reducing future service costs by basing UK future accruals on career average salaries and freezing group contributions to post-retiree healthcare schemes at 2011 levels. • Agreeing deficit recovery plans with the trustees based on actuarial advice and the results of scheme valuations.
Corporate		
Environmental ←→	Meggitt's operations and facilities are subject to laws and regulations that govern the discharge of pollutants and hazardous substances into air and water, the handling, storage and disposal of such materials, and other environmental matters. Failing to comply with our obligations potentially exposes the group to serious consequences, including fines, other sanctions and operational limitations. We are involved in the investigation and remediation of current and former sites for which we have been identified as a potentially responsible party under US law.	• Designing processes that minimise the effect of the group's operations on the environment. • Maintaining a programme of independent third-party audits of our sites. • Carrying out extensive environmental due diligence on potential acquisitions. • Purchasing environmental insurance for all new, and acquired, sites.
Legal and regulatory ←→	We are subject to litigation in the ordinary course of business and provide for such costs. However, there is a risk that successful claims or costs could exceed provisions. For example, a number of asbestos-related claims have been made against subsidiary companies. To date, the amount connected with such claims in any year has not been material and many claims are covered fully or partly by existing insurance and indemnities. The group is subject to the laws and regulations of the countries in which it operates, including health and safety, environmental, export compliance and government contracting regulations. In the US, there is a system of voluntary disclosure to the relevant authorities to deal with any breach of export laws. Any reported or unreported breach may be investigated and, depending upon its seriousness, result in criminal, civil or administrative penalties, including suspension or debarment. The US authorities are investigating alleged violations of US export control laws by four US Meggitt subsidiaries and a UK business. These investigations are likely to lead to financial penalties for which provision has been made and the imposition of corrective measures. Suspension or debarment and denial of export privileges are also possible. The aerospace industry is highly regulated so the group would be adversely affected if a material certification, authorisation or approval were revoked or suspended.	• Maintaining a legal and compliance function to oversee the management of these risks and the appropriate response to any issues as they arise. • Maintaining a comprehensive health and safety programme across all of our businesses, including third-party audits and benchmarking performance. • Investing significant resources in implementing best practice trade compliance and ethics programmes which are reviewed quarterly by the Board's Ethics and Trade Compliance Committee.
Organisational structure ←→	Meggitt's success depends upon the efforts, abilities, experience and expertise of certain senior and specialist employees. Failure to retain them or recruit alternatives would have an adverse effect. The group would be adversely affected by work stoppages or slowdowns at its facilities and those of key customers or suppliers. As the group continues to grow organically and through acquisition it risks becoming fragmented and unable to execute its strategic objectives.	• Maintaining development and succession programmes, competitive benchmarked remuneration packages and good communications at all levels. • Strengthening central sales and marketing, operational excellence, IT, legal and compliance functions. • Implemented new divisional structure. • Standardising back office functions, provided increasingly through shared service centres.

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Board of directors

Sir Colin Terry KBE CB FREng DL
Non-Executive Chairman

Chairman of the Nominations and Ethics and Trade Compliance Committees

Sir Colin, a Chartered Engineer, was appointed to the Board in February 2003, becoming non-executive Chairman on 1 July 2004. He spent 37 years in the Royal Air Force, where he reached the rank of Air Marshal. Since retiring, he has held the positions of Group Managing Director of Inflite Engineering Services, Chairman of the Engineering Council (UK), President of the Royal Aeronautical Society and the Council of European Aerospace Societies. Sir Colin is now Chairman of the UK Military Aviation Authority Safety Advisory Committee, member of the Advisory Board of Horton International and non-executive director and Chairman of the Audit Committee of Fox Marble Holdings PLC. He is President of the Soldiers, Sailors, Airmen and Families Association in Buckinghamshire where he is also a Deputy Lieutenant.

Terry Twigger
Chief Executive

Member of the Nominations and Ethics and Trade Compliance Committees

Terry, a Chartered Accountant, joined Meggitt in 1993 and was appointed to the Board as Group Finance Director in 1995, becoming Chief Executive in January 2001. Before joining Meggitt, he spent 15 years at Lucas Aerospace. Since June 2009, Terry has been non-executive director and Chairman of the Audit Committee of Filtrona plc, an international speciality plastic and fibre products supplier.

Philip Green
Group Corporate Affairs Director

Member of the Ethics and Trade Compliance Committee

Philip joined Meggitt in 1994 as Group Company Secretary and was appointed to the Board in January 2001 with responsibility for legal and compliance matters. He relinquished the role of Company Secretary during 2006. Previously, Philip spent 14 years at British Aerospace. He is a Fellow of the Institute of Chartered Secretaries and Administrators.

Paul Heiden
Non-Executive Director

Member of the Audit, Nominations and Remuneration Committees

Paul, a Chartered Accountant, was appointed to the Board in June 2010 and will become Chairman of the Remuneration Committee in April 2012. He was Chief Executive of FKI Plc from 2003 to 2008, having held a number of senior positions, including Director, Industrial Business and Finance Director of Rolls-Royce plc and senior financial positions with Peat Marwick, Mitchell and Co, Hanson Plc and Mercury Communications. Paul is Chairman of Talaris Topco Limited and non-executive director and Chairman of the Audit and Risk Committees of both UU Plc and the London Stock Exchange Group plc.

Brenda Reichelderfer
Non-Executive Director

Member of the Audit, Nominations and Remuneration Committees

Brenda was appointed to the Board in June 2011. Brenda, an engineer, was Senior Vice President, Director of Engineering and Chief Technology Officer of ITT Industries Corporation, until her retirement in 2008. She is currently Senior Vice President and Managing Director of TriVista, a boutique consulting firm working in the private equity sector, a member of the Technology Transfer Group of the Missile Defense Agency and a non-executive director of Federal Signal Corporation and Wencor Aerospace.

David Robins
Non-Executive Director

Chairman of the Remuneration Committee

David was appointed to the Board in January 2002. He was, until December 2000, Chairman and Chief Executive of ING Barings, before which he spent 18 years at Phillips & Drew and UBS, becoming Executive Vice President and Regional Head of UBS Europe. He is Chairman of Henderson TR Pacific Investment Trust PLC and Oriel Securities Ltd, a director of Fidelity Japanese Values Investment Trust, a venture capital-backed company and chairman of two charities. On 21 December 2011, David stepped down from the Audit and Nominations Committees after nine years of service, in line with the UK Corporate Governance Code. David will step down as Chairman and member of the Remuneration Committee with effect from the end of the Company's Annual General Meeting in April 2012.

David Williams
Non-Executive Director

Chairman of the Audit Committee and member of the Nominations and Remuneration Committees

David, a Chartered Accountant, was appointed to the Board in December 2006, becoming Senior Independent Director in February 2011. He has held a number of senior financial positions and in 1991 joined distribution and outsourcing group Bunzl plc as Finance Director where he worked until his retirement in January 2006. He is the Joint Chairman of Mondi plc and Mondi Limited and non-executive director and Audit Committee Chairman of both Tullow Oil plc and DP World Limited.

Stephen Young
Group Finance Director

Member of the Ethics and Trade Compliance Committee

Stephen, a Chartered Management Accountant, was appointed to the Board in January 2004. He has held a number of senior financial positions including Group Finance Director of Thistle Hotels plc, Group Finance Director of the Automobile Association and Group Financial Controller of Thorn EMI plc. Stephen was appointed a non-executive director of Derwent London plc in August 2010 and is also Chairman of its Audit and Risk Committees and a member of its Remuneration and Nominations Committees.

The directors hereby submit their annual report and the audited financial statements for the year ended 31 December 2011.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRSs as adopted by the EU') and the Companies Act 2006.

The Company financial statements have been prepared in accordance with UK Generally Accepted Accounting Practice ('UK GAAP') and the Companies Act 2006.

Section 417 of the Companies Act 2006 requires that certain information be included in the Directors' Report. The information contained in the Business Review (pages 3 to 36) which fulfils this requirement is therefore incorporated by reference into this Directors' Report.

Principal activities

Meggitt PLC is a public limited company listed on the London Stock Exchange, domiciled in the United Kingdom and incorporated in England and Wales with the registered number 432989. Its registered office is at Atlantic House, Aviation Park West, Bournemouth International Airport, Christchurch, Dorset, BH23 6EW.

Meggitt PLC is the parent company of a Group whose principal activities during the year were the design and manufacture of high technology products and systems for the aerospace, defence and other specialist markets, including energy, medical, industrial, test and transportation.

Dividends

The directors recommend the payment of a final dividend of 7.30p net per ordinary 5p share (2010: 6.35p), to be paid on 11 May 2012 to those members on the register at close of business on 16 March 2012.

An interim dividend of 3.20p (2010: 2.85p) was paid on 30 September 2011. If the final dividend as recommended is approved the total ordinary dividend for the year will amount to 10.50p net per ordinary 5p share (2010: 9.20p).

Dividends are paid to shareholders net of a non-refundable tax credit of 10%. Shareholders liable to higher rates of income tax will have additional tax to pay.

Shareholders will be offered a scrip dividend alternative under the share dividend plan in respect of the proposed final dividend.

During 2011, the Company made the Meggitt PLC share dividend plan available for the dividends paid in May 2011 (the final dividend for 2010) and in September 2011 (the interim dividend for 2011). The cash dividend necessary to give an entitlement to one new ordinary share was fixed at 336.76p and 339.66p respectively.

Acquisitions and disposals

On 21 April 2011, the Company announced the completion of the acquisition of Pacific Scientific Aerospace ('PacSci') from Danaher Corporation. The total cash consideration payable, after adjustment for the level of working capital in the business, was £414.7 million. PacSci is a leading supplier of components to the global civil aerospace and military markets. Organised in six businesses, PacSci offers fire suppression, sensing, electric power, electric actuation and security products, with a balanced presence between civil aerospace and military markets. The acquisition was funded in part by an equity placing of 69.8 million new ordinary shares (representing less than 10% of issued share capital as at the date of the placing) ('the Equity Placing') with the balance funded from the Group's existing debt facilities. The Equity Placing was completed on 21 January 2011 and raised £246.0 million.

Share capital and control

The issued share capital of the Company at 31 December 2011 and details of shares issued during the financial year are shown in note 35 on page 92. On 31 December 2011 there were 778,759,082 ordinary shares in issue. A further 41,298 ordinary shares were issued between 1 January 2012 and 23 February 2012, all of which were issued as a result of the exercise of share options. The ordinary shares are listed on the London Stock Exchange.

The rights and obligations attaching to the Company's ordinary shares are set out in the Articles of Association ('the Articles'). A copy of the Articles is available for inspection at the registered office. The holders of ordinary shares are entitled to receive the Company's report and accounts, to attend and speak at general meetings of the Company, to appoint proxies to exercise full voting rights and to participate in any distribution of income or capital.

There are no restrictions on transfer, or limitations on holding ordinary shares and no requirements for prior approval of any transfers. There are no known arrangements under which financial rights are held by persons other than holders of the shares and no known agreements on restrictions on share transfers or on voting rights. Shares acquired through Company share plans rank pari passu (on an equal footing) with the shares in issue and have no special rights.

The Company has disclosed significant direct or indirect holdings, which are published on a regulatory information service and on the Company's website.

Rules about the appointment and replacement of Company directors are contained in the Articles. Changes to the Articles must be submitted to the shareholders for approval by way of special resolution. The powers of directors are set out in the Articles and are governed by applicable legislation. At each Annual General Meeting ('AGM') of the Company, the shareholders are requested to renew the directors' powers to allot securities in the Company up to the value specified in the notice of meeting and to renew the directors' powers to allot securities without the application of pre-emption rights up to the value specified in the notice of meeting in accordance with Article 4 of the Articles. The Company can seek authority from the shareholders at the AGM to purchase its own shares.

Directors' report continued

Share capital and control continued

The Group has significant financing agreements which include change of control provisions which, should there be a change of ownership of the Company, could result in renegotiation, withdrawal or early repayment of these financing agreements. These are a USD 700 million revolving credit agreement dated April 2011, a USD 600 million note purchase agreement dated June 2010, a USD 500 million revolving credit agreement dated July 2008 and a USD 250 million note purchase agreement dated June 2003. There are a number of other long-term commercial agreements that may alter or terminate upon a change of control of the Company following a successful takeover bid. None is considered to be significant in terms of potential impact on the Group's business as a whole.

The service contracts for the executive directors state that if there is a change of control in the Company, executive directors may terminate their employment within six months and would be entitled to compensation from the Company for loss of office. The compensation would be annual remuneration plus the value of benefits for the unexpired notice period less 5%.

The Company does not have any agreements with the non-executive directors or any other employees that would provide compensation for loss of office or employment resulting from a takeover except that provisions in the Company's share plans may cause options and/or awards granted to employees under such plans to vest on a takeover.

Conflicts of interest

The Company has a procedure for the disclosure, review, authorisation and management of directors' conflicts of interest and potential conflicts of interest, in accordance with the provisions of the Companies Act 2006. The procedure, which was summarised in the explanatory notes to the Notice of AGM in 2008, is included in the Articles and has been adhered to by the Board since its introduction in 2008. In deciding whether to authorise a conflict or potential conflict the directors must have regard to their general duties under the Companies Act 2006. The authorisation of any conflict matter, and the terms of authorisation are reviewed by the Board as appropriate and, as a minimum, on an annual basis.

Substantial shareholdings

At 23 February 2012 the Company had been notified under the Disclosure and Transparency Rules of the Financial Services Authority (FSA) of the following substantial interests in the issued ordinary shares of the Company requiring disclosure:

	Direct voting rights*	Indirect voting rights*	Percentage of total voting rights attaching to the issued ordinary share capital of the Company
Prudential plc	64,753,939	–	8.31
Capital Research and Management Company	-	42,160,262	5.41
Baillie Gifford & Co	-	34,138,890	4.38
Legal & General Group plc	25,966,967	-	3.33
Standard Life Investments Ltd	22,153,694	3,769,560	3.33

*One voting right per ordinary share.

Share Incentive Plan

The Trustee of the Share Incentive Plan has been allocated £0.7 million from 2011 profits to acquire ordinary shares in Meggitt PLC for eligible employees (2010: £0.7 million).

Directors and their interests

The directors who served during the year were: Sir Colin Terry, Mr T Twigger, Sir Alan Cox (resigned 24 February 2011), Mr P E Green, Mr P Heiden, Ms B L Reichelderfer (appointed 7 June 2011), Mr D A Robins, Mr D M Williams and Mr S G Young.

Under the Articles, one-third of the directors are subject to re-election every year. However, in accordance with the UK Corporate Governance Code, at the AGM in 2012 all directors will stand for re-election.

Details of directors' contracts and their interests in the ordinary shares of the Company are shown in the Remuneration Report on pages 47 to 54. None of the directors has, or has had, at any time during the financial year a beneficial interest in any material contract relating to the business of the Group other than service contracts.

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 which were in effect throughout the financial year and up to the date of this Directors' Report.

Directors' share interests

The beneficial interests of the directors and their connected persons in the ordinary shares of the Company at 31 December 2011 were as follows:

	Shareholding Ordinary shares of 5p each 2011	2010
Sir Colin Terry	**11,603**	11,389
T Twigger	**1,103,626**	970,743
Sir Alan Cox[1]	**–**	22,113
P E Green	**552,130**	498,676
P Heiden[2]	**5,551**	–
B L Reichelderfer[3]	**6,000**	–
D A Robins	**68,918**	67,464
D M Williams	**5,000**	5,000
S G Young	**394,649**	310,325

1 Resigned on 24 February 2011.
2 Appointed on 3 June 2010.
3 Appointed on 7 June 2011.

The share interests shown in the table above include the balance of awards made to each of the executive directors under the Deferred Share Bonus Plan on 11 March 2010 at an award price of 290.70p as detailed below:

T Twigger: 18,266 shares (due to be released in March 2012).

P E Green: 8,372 shares (due to be released in March 2012).

S G Young: 10,960 shares (due to be released in March 2012).

Between 1 January 2012 and 23 February 2012 (the latest date for which it was practical to obtain the information), the only changes to the beneficial interests of the directors in the ordinary shares of the Company are that Mr T Twigger, Mr P E Green and Mr S G Young each acquired 69 shares through the Meggitt PLC Share Incentive Plan.

Corporate responsibility

The Board takes regular account of social, environmental and ethical matters. Our Corporate Responsibility Report gives a full update on activities and achievements during 2011 and can be found on pages 27 to 32. The following matters fall under the broad definition of corporate responsibility:

Health and safety at work

The Group continues to carry out its responsibilities for securing the health, safety and welfare at work of employees and for protecting others against risks to health and safety relating to the activities at work of those employees. Every reasonable effort is made to provide safe working conditions. Protective equipment is provided and safety training takes place regularly. There is a Group Health and Safety Policy, which was reviewed and updated by the Board of Directors in December 2011. Further details of our approach to health and safety can be found in the Corporate Responsibility Report on pages 27 to 32.

People

The Group regards employee communication as a vital business function. Communication and consultation is carried out at facilities by operations directors and other line managers using a variety of forums from daily standing meetings on shop floors to monthly all employee "Town Hall" meetings, team briefings and works councils. We ensure that all employee relations regulations are respected.

Corporate communications take a variety of forms, including presentations from the Chief Executive via audio-visual media, global web-enabled conferences, publications such as the Meggitt Review and a variety of electronically distributed newsletters. Results presentations are disseminated across the Group, which enhance our employees' understanding of the financial and economic factors affecting the performance of the Group.

The directors encourage employees to become shareholders to improve active participation in, and commitment to, the Group's success. This policy has been pursued for all UK employees through the Share Incentive Plan and the Sharesave Scheme. As at the year end, approximately 70% of UK employees held shares under our Share Incentive Plan and 28% of UK employees were contributing monthly to one or more Sharesave accounts.

Details of share schemes available to directors and senior executives across the Group can be found in the Remuneration Report on pages 47 to 54.

Equal opportunities

The Group has a policy supporting the principle of equal opportunities in employment and opposing all forms of unlawful or unfair discrimination.

Disabled employees

It is Group policy to give full and fair consideration to applications from disabled people, to continue wherever possible to employ staff who become disabled and to provide opportunities for the training, career development and promotion of disabled employees.

Gender diversity

On 30 September 2011, the Board issued a statement to confirm their strong support for the spirit of Lord Davies' report "Women on Boards" and that it aspires to 25% of board positions being filled by women by 2015. The Board encourages diversity in senior management positions and throughout the workforce and the Group actively seeks to attract and retain women at every level of the Group. There are specific challenges in the aerospace and defence industry, which has not traditionally attracted sufficient women into the talent pool. The following gender diversity data is provided to comply with recommendation 2 of Lord Davies' report:

	% of females
Board of Directors	13%
Management Board	9%
Senior Executives	6%
All employees	29%

Ethics and business conduct

The Group has an Ethics and Business Conduct Policy and a Code of Conduct which are overseen by the Vice-President of Ethics and Business Conduct. All employees have received a copy of the Code, supplemented by follow-up training, which is refreshed regularly. Ethics and business conduct is reviewed regularly by a Board committee. Further details of our approach to ethics and business conduct can be found in the Corporate Responsibility Report on pages 27 to 32.

Community relations and charitable donations

During the year, the Group made charitable donations of £0.1 million (2010: £0.1 million), principally to local charities serving the communities in which the group operates. The Company made charitable donations of £15,000 (2010: £8,000). Further details of our approach to community relations and charitable donations can be found in the Corporate Responsibility Report on pages 27 to 32.

Political contributions

In accordance with the Group's policy, no contributions were made to EU political parties or EU political organisations (2010: £Nil) and no EU political expenditure exceeding £2,000 was incurred in the year by the Company or any of its subsidiaries (2010: none above £2,000).

No contributions to non-EU organisations with political objectives were made during the year (2010: £Nil).

Payment policy

The Company's policy is to seek to comply with the terms of payment agreed with a supplier. Where terms are not negotiated, the Company endeavours to adhere to the supplier's standard terms. The Company's creditor days at 31 December 2011 were 39 (2010: 49).

Directors' report continued

Research and development

The Group recognises the importance of investing in research and development programmes which enhance the Group's products and the way they are made. Including amounts funded by customers, expenditure on research and development amounted to £110.5 million (2010: £84.2 million). Excluding amounts funded by customers, it was £83.2 million (2010: £67.5 million), of which £41.5 million (2010: £33.5 million) was capitalised in accordance with the Group's accounting policies (see note 2 of the Group's financial statements).

Financial risk management

Policies on financial risk management are set out in note 3 of the Group's financial statements.

2012 Annual General Meeting

Details of the AGM to be held on 26 April 2012 and explanations of the proposed resolutions appear in the separate Notice of AGM which is provided to shareholders in their elected format at least 20 working days before the date of the AGM, and can be viewed on the e-communications page of our website (www.meggitt.com). In addition to routine business, shareholders' consent will be sought to:

(i) approve the Remuneration Report;

(ii) renew the authority of the directors to issue shares under Article 4 of the Articles;

(iii) approve payments to organisations of no more than £60,000 in total, which might inadvertently be interpreted as donations to EU political organisations under the Political Parties, Elections and Referendums Act 2000 (as amended by the Electoral Administration Act 2006). It is not the policy of the Company to make donations to political parties and the directors have no intention of changing that policy;

(iv) approve the convening of general meetings on 14 clear days notice in accordance with the Articles.

Auditors

PricewaterhouseCoopers LLP has expressed its willingness to continue as auditors and a resolution to reappoint them will be proposed at the 2012 AGM.

Disclosure of information to auditors

At the date of this report, as far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware. Each of the directors has taken all the necessary steps in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and the Company financial statements in accordance with UK GAAP. 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 Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the EU and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Company financial statements respectively.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements and the Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the International Accounting Standards Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed in the Board of Directors on page 38, confirm that to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- this Directors' Report and the Business Review on pages 3 to 36 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

M L Young
Company Secretary
5 March 2012

Corporate governance report

Chairman's Introduction

The Board considers good corporate governance practice enhances the strength of our values, our reputation and our ability to implement our corporate strategy.

In 2012, one of our first corporate governance priorities will be to carry out an externally facilitated Board evaluation process. Introducing an external evaluator with specialist skills and expertise will enhance our existing Board evaluation process and we will report on the outcome of this external evaluation next year.

During 2011, we appointed Brenda Reichelderfer to the Board as an independent non-executive director. Brenda, an engineer, has already made a significant positive contribution to the Board. David Robins has completed over nine years service on the Board, and as a result stepped down from our Board Committees in 2011 (except for the Remuneration Committee, from which he will resign at the end of the Annual General Meeting in 2012). David is a highly experienced and valued non-executive director, who makes an important contribution to the Board and so continues to serve on the Board as a director. In 2012, another key governance priority will be the recruitment of a further independent non-executive director to the Board.

I can confirm that the Company has applied the Main Principles set out in the UK Corporate Governance Code, which was issued in 2010 and is available on the Financial Reporting Council website (www.frc.org.uk), ('the Code'). We have provided explanations where we have not complied with specific Code provisions in our Statement of Compliance on page 46.

In this report and the Remuneration Report on pages 47 to 54, we have provided further details about how the principles of the Code have been applied including those relating to the role and effectiveness of the Board, together with activities of the Board and its Committees in 2011.

Sir Colin Terry
Chairman of the Board of Directors
5 March 2012

Board of Directors

Board membership and attendance during 2011

Name	Title	Meetings eligible to attend	Meetings attended
Sir Colin Terry	Chairman	8	8
Mr T Twigger	Executive Director (Chief Executive)	8	8
Mr P E Green	Executive Director (Group Corporate Affairs Director)	8	8
Mr S G Young	Executive Director (Group Finance Director)	8	8
Mr D M Williams[1]	Non-Executive Director, Senior Independent Director	8	8
Sir Alan Cox[2]	Non-Executive Director	2	2
Mr P Heiden	Non-Executive Director	8	8
Ms B L Reichelderfer[3]	Non-Executive Director	5	5
Mr D A Robins[4]	Non-Executive Director	8	8

1 Appointed as Senior Independent Director on 24 February 2011.
2 Resigned on 24 February 2011.
3 Appointed on 7 June 2011.
4 Mr D A Robins is no longer judged to be independent under the Code by virtue of his having been on the Board for over nine years.

Board of Directors

The Board of Directors met eight times in 2011. The Board retains full and effective control of the Group and is collectively responsible for the Group's success through its leadership. It sets the strategy, ensures appropriate resources are in place and reviews performance on a regular basis. The Board is responsible for setting the Group's values and standards and for ensuring its obligations to shareholders, employees and others are met. The Board considers it has a good balance of executive and non-executive directors, is of an appropriate size and includes the skills and experience required by the business.

The Board regularly receives reports from the Chief Executive on the Group's activities, from the Group Finance Director on financial performance and treasury matters and from the Group Corporate Affairs Director on legal and compliance issues. Strategic issues and other matters (including capital structure, financial reporting and controls) are considered in line with a schedule of matters reserved for the decision of the Board. If a decision is not reserved for the Board, then authority lies, in accordance with an authorisation policy, with one of the Finance Committee of the Board, the Chief Executive, an executive director, divisional presidents or site directors/general managers (as appropriate).

All directors are subject to election by shareholders at the first Annual General Meeting ('AGM') after their appointment and to re-election annually from 2012 onwards in compliance with the Code. Biographical and other relevant information on directors submitted for re-election is provided in the Notice of AGM.

Chairman

- Sir Colin Terry met the independence criteria on appointment as Chairman on 1 July 2004.
- The roles of the Chairman and Chief Executive are separate and there is a clear division of responsibilities which has been approved and agreed in writing by the Board.
- The Chairman is responsible for leading the Board and for ensuring its effectiveness.
- Accurate, timely and clear information is provided to all directors and the Chairman is satisfied that effective communication, principally by the Chief Executive and Group Finance Director, is undertaken with shareholders.
- The Chairman facilitates the contribution of non-executive directors and oversees the relationship between them and the executive directors. The Chairman holds informal meetings with the other non-executive directors without executives present.

Senior Independent Director

The Senior Independent Director is available to shareholders if they have concerns which contact through the normal channels has failed to resolve or for which such contact is inappropriate.

Non-Executive Directors

- All of the non-executive directors are considered independent under the Code, with the exception of Mr D A Robins who has served on the Board for over nine years.
- The non-executive directors play a full part by constructively challenging and contributing to the development of strategy. The performance of management, the integrity of financial information and the effectiveness of financial controls and risk management systems are monitored.
- The non-executive directors are responsible for determining appropriate levels of remuneration for the executive directors and have an important role in appointing new directors.
- The terms and conditions of appointment of non-executive directors are available for inspection. Their letters of appointment set out the expected time commitment required. On appointment, their other significant commitments were disclosed, including the time involved.

Corporate governance report continued

The work of the Board in 2011

During the year, the Board approved the acquisition of Pacific Scientific Aerospace. The Board received regular reports from executive directors on business and financial performance and corporate affairs (including litigation, health, safety and environmental, trade compliance and ethics and business conduct) and received presentations on business unit updates, strategy, organisation development and succession planning, investor relations, IT, internal control and risk management. It also received reports on the activities of its committees. In 2011, the Board reviewed and updated their objectives and the following other matters were also reviewed and approved:

- The 2010 Annual report and preliminary announcement and the 2011 half yearly results;
- The final dividend payment to shareholders in respect of the year ended 31 December 2010 and the interim dividend payment for the year ending 31 December 2011;
- The appointment of Ms B L Reichelderfer;
- The budget for 2012;
- A revised Group Health and Safety Policy; and
- The reorganisation of subsidiary entities (see Note 4 to the Company accounts on page 102).

During the year, no unresolved concerns were recorded in the Board's minutes.

Board performance evaluation

In February 2012, the Board conducted a self-evaluation. The Chairman led a review and discussion to consider the Board's performance against some high level objectives and its own terms of reference. The Audit, Remuneration and Nominations Committees have considered their own performance during the year. The Board and Committees were satisfied with their effectiveness. The performance of individual directors has been reviewed by the Chairman and Chief Executive in discussion with other non-executive directors and the non-executive directors have considered the performance of the Chairman, taking into account the views of the executive directors.

An external advisor has been appointed to carry out an evaluation of Board effectiveness during 2012.

Information and professional development

The Board is supplied with the information it needs to discharge its duties. New directors receive an appropriate induction to the business. Major shareholders have the opportunity to meet new non-executive directors should they wish to do so. Directors are encouraged to update their skills regularly. Their knowledge and familiarity with the Group is facilitated by access to senior management, reports on the business and visits to the Group's operating facilities. Resources are available to directors for developing and updating their knowledge and capabilities.

The Board allows all directors to take independent professional advice at the Company's expense. Committees are provided with sufficient resources to undertake their duties. All directors have access to the advice and services of the Company Secretary who is responsible to the Board for ensuring that Board procedures are complied with and there is good information flow within the Board. The appointment and removal of the Company Secretary is a matter for the Board as a whole. The Company maintains appropriate insurance for directors and officers.

Dialogue with shareholders

The Company values its dialogue with institutional and private investors. Effective communication with fund managers, institutional investors and analysts about strategy, performance and policy is promoted by way of meetings involving the Chief Executive and Group Finance Director. The views of shareholders are reported to the Board by the Chief Executive. The Chairman and other non-executive directors are available to attend meetings with shareholders and a number of such meetings took place in 2011. Directors' understanding of major shareholders' views are enhanced by reports from the Company's brokers and attendance at analysts' briefings. Analysts' notes on the Company are made available to all directors.

Annual General Meeting

The Board uses the AGM to communicate with its shareholders. Proxy appointment forms for each resolution provide shareholders with the option to direct their proxy to vote for or against resolutions or to withhold their vote. All proxy votes for, against and withheld are counted by the Company's Registrars and the level of voting for, against and withheld on each resolution is made available after the meeting and on the Company's website. The proxy form and the announcement of the results of a vote make it clear that a vote withheld is not a vote in law and will not be counted in the calculation of the proportion of votes for and against the resolution.

Separate resolutions are proposed at the AGM on substantially separate issues and there is a resolution relating to the financial statements. The Notice of AGM and related papers are sent to shareholders at least 20 working days before the meeting.

The respective Chairmen of the Audit, Remuneration and Nominations Committees are available at the AGM to respond to questions. It is usual for all other directors to attend.

Nominations Committee

Responsibilities

The Committee reviews the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and, in consultation with all directors, makes recommendations to the Board with regard to any proposed changes. Decisions on Board changes are taken by the Board as a whole.

Terms of reference

The Committee operates within agreed Terms of Reference (last updated in August 2004) which are available at www.meggitt.com.

Committee membership and attendance during 2011

Name	Meetings eligible to attend	Meetings attended
Sir Colin Terry	4	4
Mr T Twigger	4	4
Mr D M Williams	4	4
Sir Alan Cox[1]	2	1
Mr P Heiden	4	4
Ms B L Reichelderfer[2]	1	1
Mr D A Robins[3]	4	4

1 Resigned on 24 February 2011
2 Appointed on 7 June 2011
3 Mr D A Robins is no longer judged to be independent under the Code by virtue of his having been on the Board for over nine years. Mr D A Robins stepped down from the Nominations Committee on 21 December 2011.

The work of the Committee in 2011

The Nominations Committee met four times in 2011. The Committee reviewed the structure, size, diversity and composition of the Board and in the light of these reviews, made recommendations in respect of the role and capabilities required for the appointment of a new non-executive director. Ms B L Reichelderfer was appointed in June 2011 using the services of an external search consultancy. Ms Reichelderfer, an engineer, was appointed as a result of her wealth of experience of engineering and manufacturing matters across a range of different commercial markets.

In December 2011 the Committee agreed that a further independent non-executive director should be recruited in 2012, using the services of an external search consultancy. It was noted that due care and attention would be placed on ensuring the appropriate emphasis was placed on diversity as part of the selection process.

Audit Committee

Responsibilities

- Manage the relationship with external auditors including recommending the appointment, reappointment, assessment of independence, review of performance and removal of the auditors;
- Recommend the audit fee and non-audit services policy;
- Discuss the nature and scope of the external audit and audit results;
- Review the external auditors management letter and ensure findings are appropriately acted on;
- Review the effectiveness of the internal audit function and to consider management's response to internal audit recommendations;
- Review the Group's procedures for handling allegations from whistleblowers;
- Review the reports from management and internal audit on the effectiveness of systems for internal financial control, financial reporting and risk management; and
- Review, and challenge where necessary, the actions and judgements of management, in relation to the interim and annual financial statements and to recommend approval of the financial information contained in those statements to the Board.

Terms of reference

The Committee operates within agreed Terms of Reference (last updated in March 2012) which are available at www.meggitt.com.

Committee membership and attendance during 2011

Name	Meetings eligible to attend	Meetings attended
Mr D M Williams	3	3
Mr P Heiden	3	3
Ms B L Reichelderfer[1]	2	2
Mr D A Robins[2]	3	3

1 Appointed on 7 June 2011

2 Mr D A Robins is no longer judged to be independent under the Code by virtue of his having been on the Board for over nine years. Mr D A Robins stepped down from the Audit Committee on 21 December 2011.

The Board is satisfied that the Committee's members have recent and relevant financial experience.

The work of the Committee in 2011

The Committee met three times in 2011. At these meetings, the Committee:

- Monitored the integrity of the Group's financial statements and reviewed the Group's internal controls and the effectiveness of the internal audit function. The Committee reviewed Internal Audit reports at every meeting.
- Reviewed formal announcements relating to the Groups financial performance and any significant financial reporting statements contained in those announcements.
- Received a presentation on Group taxation.
- Received technical updates of relevant changes in the governance environment and in accounting standards and other reporting matters.
- Considered and discussed its own effectiveness following an internal evaluation.

The external auditors attended these meetings to discuss the scope and the final results of the 2010 audit in detail (which included the main risks facing the Group), the strategy for the 2011 audit and the "hard close" results of the 2011 audit.

Auditors

The external auditors are PricewaterhouseCoopers LLP who were appointed as Group auditors on 2 October 2003. The lead audit partner is Mr J Maitland whose appointment in this role commenced with the audit for the financial year ended 31 December 2008.

Non-audit services

The Company places great importance on the independence of its auditors and is careful to ensure their objectivity is not compromised. The Committee agrees the fees paid to external auditors for their services as auditors and is required to approve, in advance, any fees to the external auditors for non-audit services in excess of £0.1 million. During 2011, there were no fees paid to PricewaterhouseCoopers LLP for non-audit services above £0.1 million.

The Group's policy on non-audit services is as follows:

1. The following non-audit services may be provided by the Group's external auditor:

- Assurance on the interpretation and implementation of accounting standards, financial reporting matters, tax standards and governance regulations;
- Services related to potential acquisitions or reorganisations such as working capital reports and due diligence procedures;
- Internal accounting and risk management control reviews and reviews of policy and procedure compliance; and
- Attestation and other reports as required by third parties where the information derives principally from the audited financial statements.

2. In general, the following non-audit services may not be provided by the Group's external auditor:

- Executive management of company operations and activities, including acting temporarily or permanently as a director, officer or employee of the Group;
- Provision of internal audit services;
- Tax planning services;
- Design and implementation of financial information systems;
- Actuarial consulting services;
- Valuation of assets or liabilities for inclusion in the Group's financial statements;
- Broker, investment adviser or investment banking services; and
- General consulting work, where this could impair external auditors' independence or objectivity.

3. Details of non-audit services provided by the Group's external auditor are provided to the Audit Committee annually.

Financial reporting

The financial statements contain an explanation of the directors' responsibility for the preparation of the accounts (page 42) and a statement by the auditors concerning their responsibilities (page 55). The directors also report that the business is a going concern (page 46).

The Company has in place internal control and risk management systems in relation to the Company's financial reporting process and the Group's process for preparation of consolidated accounts. Consolidated Group financial information is derived from the underlying financial systems of the business units. Business unit financial processes are integrated into these financial systems and are monitored and managed through regular monthly reporting. The finance policies and procedures followed in business unit reporting are set out in the Meggitt Finance Policies and Procedures Manual.

Corporate governance report continued

Financial reporting continued

These polices are reviewed regularly by management and compliance is monitored by management and internal audit.

The Group Ethics Line enables employees to raise any concerns about possible improprieties in matters of financial reporting or otherwise. This allows for proportionate and independent investigation and appropriate follow-up action.

Internal control

The Board is responsible for maintaining a sound system of internal control to safeguard shareholders' investments and the Group's assets and for reviewing its effectiveness. The system is designed to manage the risk of failure to achieve business objectives and can only provide reasonable assurance against material misstatement or loss. The Board confirms full implementation of the Financial Reporting Council's updated Turnbull guidance on Internal Control (2005).

The Board reviews the effectiveness of the system of internal control via the following procedures:

- Regular reports at Board meetings on the state of the business from the Chief Executive and the Group Finance Director and on legal and compliance activities from the Group Corporate Affairs Director;
- Regular reviews by the Audit Committee on the effectiveness of the Group's internal controls and of the reports from the external auditors and internal audit. Internal audit visits to operating units are carried out using a risk model approved by the Audit Committee;
- A review of the Group's key risks and the general risk environment is presented annually to the Board and the Board receives an annual report on its insurance coverage and uninsured risks;
- The Ethics and Trade Compliance Committee of the Board reviews ethics and trade compliance quarterly;
- Every month, each business submits detailed operating and financial reports covering all aspects of their performance. Issues are communicated to the Management Board and the Board; and
- The Board receives annual written confirmation from presidents, site directors/general managers (as appropriate) that Group policies have been complied with.

The process for identifying, evaluating and managing the significant risks faced by the Group is as follows:

- Key risks are identified at risk workshops held at business, division and Group level and these risks are regularly reviewed by the businesses, divisional management and, by exception, the Management Board. The Board reviews the list of key risks and mitigation plans which have been identified;
- A regular review of the performance of each business is undertaken by the executive directors and senior Group management;
- The Meggitt Finance Policies and Procedures Manual, which is reviewed and updated regularly, establishes appropriate authority levels throughout the Group to cover certain items of expenditure, financial commitments and other matters to ensure overall financial control is maintained throughout the Group;
- There is a comprehensive insurance programme;
- There are programmes for the management of business continuity and ethics; and
- There is an ongoing programme, including assurance activities, covering external tax compliance, environmental, health and safety, property risk and export law compliance.

The Board confirms this process was in place for the year under review and up to the date of approval of the financial statements.

The Board considers that there is considerable comfort in the fact that the Group's cash inflow from operating activities represented 110% (2010: 109%) of underlying operating profit in 2011.

Share capital

This report includes the information required by the Disclosure and Transparency Rules ('DTR') 7.2 to be contained in the Company's corporate governance statement, with the exception of the information required under DTR 7.2.6 which is located in the Directors Report on pages 39 and 40.

Compliance with the Code

The Board confirms that during the year the Company has complied with Sections A - E of the Code, with the exception of the following:

(i) B.1.2 At least half of the Board is not independent. Although the Company complied with provision B.1.2 after the resignation of Sir Alan Cox in February 2011, the Company has been out of compliance with the Code since 23 May 2011, when Mr D A Robins had served as a director for more than nine years since his date of first election. Although Mr D A Robins is not considered independent under the Code, the Board consider him to be a highly experienced and valued non-executive director, who makes an important contribution to the Board and therefore he has been asked to continue to serve as a non-executive director. During 2012, it is the intention of the Board to appoint a further independent non-executive director which will bring the Company into compliance with B.1.2.

(ii) C.3.1 All members of the Audit Committee were independent, except for Mr D A Robins who ceased to be independent under the Code on 23 May 2011 and stepped down from the Committee on 15 December 2011. As at the year end and the date of this report, the Company complied with this provision.

(iii) D.2.1 All members of the Remuneration Committee were independent, except for Mr D A Robins, who ceased to be independent under the Code on 23 May 2011. Mr D A Robins has continued to serve as Chairman of this Committee to maintain consistency of chairmanship during the 2011 financial reporting cycle, which will end when the shareholders vote on the Remuneration Report at the AGM in 2012. Mr D A Robins will step down as Chairman and member of the Remuneration Committee at the end of the AGM, and the Company will therefore comply with this provision from 26 April 2012.

Going concern

After making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements. This statement of going concern also constitutes part of the Business Review on pages 3 to 36.

By order of the Board

M L Young
Company Secretary
5 March 2012

Remuneration report

This report has been prepared in accordance with Schedule 8 (Quoted Companies: Directors' Remuneration Report) to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('the Regulations'), the UK Corporate Governance Code (2010) ('the Code') and the Financial Services Authority's Listing Rules. The Regulations require the auditors to report to the Company's members on the audited information in the Remuneration Report and to state whether in their opinion that part of the report has been properly prepared in accordance with company law (as implemented by the Regulations). This report has therefore been divided into separate sections for unaudited and audited information. A resolution will be put to shareholders at the Annual General Meeting on 26 April 2012 inviting them to approve this report.

Unaudited information

Remuneration Committee

Responsibilities

The Committee is responsible for determining the remuneration policy and packages for all executive directors and Management Board members and for agreeing the fees for the Chairman.

The Chairman, Chief Executive and Organisational Development Director attend meetings of the Committee by invitation; they are absent when their own remuneration is under consideration.

Terms of Reference

The Committee operates within agreed terms of reference (last updated in March 2012) which are available at www.meggitt.com.

External advisors

During the year, the Committee received advice from Kepler Associates ('Kepler'), the Committee's appointed independent remuneration adviser. Kepler, who were first appointed in July 2010, provide guidance on remuneration matters at Board level and below, and do not provide any other services to the Company.

Conflicts of interest

None of the directors has, or has had, any personal financial interests or conflicts of interests arising from cross-directorships or day-to-day involvement in running the business.

Committee members and meeting attendance

Name	Meetings eligible to attend	Meetings attended
D A Robins[1] (Chairman)	6	6
P Heiden	6	6
B L Reichelderfer[2]	3	3
D M Williams	6	6

[1] Mr D A Robins is no longer judged to be independent under the Code by virtue of his having been on the Board for over nine years. He has continued to serve as Chairman of the Committee to ensure consistency of Chairmanship throughout the 2011 reporting cycle. He will step down as Chairman and member of the Committee at the end of the AGM in April 2012. Mr D A Robins will be replaced as Chairman of the Committee by Mr P Heiden.

[2] Appointed on 7 June 2011.

The work of the Committee in 2011

The Committee met six times during 2011. At these meetings, the Committee:

- Benchmarked, reviewed and set the salaries, annual bonuses and other performance related compensation for the executive directors and key members of executive management;
- Benchmarked, reviewed and set the fee level for the Chairman;
- Determined the outcome of the 2010 annual bonus;
- Determined the outcome of the awards made in 2008 under the Meggitt Equity Participation Plan ('EPP') and the Meggitt Executive Share Option Scheme ('ESOS');
- Set the performance conditions for the 2011 awards under the EPP and ESOS;
- Reviewed the Directors' Remuneration Report for 2010, prior to approval by the Board; and
- Reviewed the effectiveness and Terms of Reference of the Committee.

The Committee also considered directors' pension arrangements and associated tax treatment and reviewed and approved a number of minor administrative amendments to the rules and operation of the executive share schemes.

Remuneration policy

Remuneration policy framework

The Group operates in a highly competitive, global market with long lead-times on complex, technologically-advanced programmes. The Group is committed to achieving sustained improvements in performance and this depends on the individual contributions made by the executive directors, other senior executives and employees at all levels of the organisation. The Board believes that an effective remuneration committee and remuneration policy play an essential part in the future success of the Group.

Remuneration policy for executive directors

The Committee ensures that executive remuneration packages are designed to attract, motivate and retain directors of a high calibre, to recognise the international nature of the Group's business and to reward the directors for enhancing value to shareholders. The performance measurement of the executive directors and the determination of their annual remuneration package is undertaken by the Committee with advice from Kepler. The remuneration package for executive directors and senior management targets median levels of fixed pay, supplemented by performance-related annual bonuses and equity-based long-term incentive plans. The Company's incentive schemes are intended to reward and incentivise growth, provide a strong link to Group and individual performance and to take account of corporate governance best practice.

Remuneration report continued

Remuneration policy for executive directors continued
The key components of executive directors' compensation are:
- Basic salary;
- Annual bonus relating to Group and individual performance;
- EPP – awards of shares vesting after 3 years subject to cumulative EPS performance, relative TSR and cash conversion. Matching awards under the EPP are based on significant co-investment by executives (normally made annually);
- ESOS – awards of market value options vesting after 3 years subject to cumulative EPS performance (normally made annually); and
- Other benefits – including membership of the Meggitt Pension Plan (executive section), a pensions allowance, a fully expensed car and medical insurance for the individual and their immediate family.

Executive directors' 2012 basic salary

Basic salary levels are reviewed annually against market practice at other FTSE 350 companies of similar size and sector to Meggitt, with changes effective 1 January.

In deciding salary levels, the Committee takes advice from Kepler, and considers data from appropriate third-party surveys, general market conditions, employment conditions, salary levels across the Group and significant changes of responsibility.

A review of executive basic salary levels was undertaken in 2011. The salaries of Mr T Twigger and Mr S G Young were found to be appropriate relative to market and the Committee agreed a salary increase of 3%, which is in line with basic salary rises across the Group. Mr Green's salary continues to be significantly below competitive levels and it was agreed to increase his salary by 7% with effect from 1 January 2012.

At 1 January 2012, the basic salaries of the executive directors were as follows:

	2012	2011
T Twigger	**£639,000**	£620,000
P E Green	**£309,000**	£289,000
S G Young	**£382,000**	£371,000

Executive directors' 2011 annual bonus payments

Annual bonus payments to the executive directors are awarded following consideration of the Group's performance and the individual's contribution to that performance. The maximum bonus which can be earned by an executive director is 150% of basic salary, other than in truly exceptional circumstances. Performance criteria include Group profit and cash targets and the individual's personal performance. Bonus awards do not form part of pensionable earnings.

Bonus payments awarded to the executive directors in respect of 2011 performance are 150% of basic salary as at 31 December 2011 and will be paid in cash. The total bonus pool generated in 2011 was 16% larger than 2010 reflecting another year of excellent performance in difficult economic conditions. Profit and cash flow performance were again very strong with underlying profit before tax up 26% to £323.0 million and cash conversion at 110%. Excluding Pacific Scientific Aerospace ('PacSci') and at constant currency, organic underlying profit before tax was up 14% to £293.2 million and cash conversion was 110%. Strategic objectives were also met in critical areas - the integration of PacSci generated $6.5 million of cost savings in 2011, ahead of target, and SAP has been successfully implemented at a further eight sites.

The size of the bonus award recognises these achievements and also underlines the Committee's confidence in the executive directors' experience and their ability to manage the business through further challenges in 2012.

For 2012, any bonus payments will continue to be based on a blend of Group profit, cash and strategic targets and the individual's personal performance.

Share schemes

Executive directors are eligible to participate in two share-based long-term incentive schemes; the EPP and ESOS (both were introduced during 2005 following shareholder approval). These schemes (under which awards are normally made annually, subject to regulatory and scheme limits) encourage executive directors to contribute towards Meggitt's performance and continuing growth by sharing in the Company's success along with other shareholders.

All new long-term incentive schemes are submitted to shareholders for approval.

Meggitt Equity Participation Plan 2005 ('EPP')
An annual basic award of shares, or, as agreed by the Committee, of nil cost options, of up to 125% of basic salary may be granted to executive directors under the EPP. Awards made in August 2009 and April 2011 to executive directors were converted to nil cost options in September 2011. The August 2011 award to executive directors was made as nil cost options. The number of shares subject to these awards is calculated in accordance with the rules of the EPP. Historically, basic awards have normally been made at 75% of basic salary and were made at this level to executive directors in 2011.

In addition to basic awards of nil cost options, executive directors are invited annually to invest in shares worth up to 25% of salary which, if retained over a 3 year holding period, will be eligible for a matching award of up to 50% of salary, depending on performance.

EPP performance conditions
The table on page 49 shows the performance conditions for EPP basic and matching awards granted since 2009.

There is no payout for below-threshold performance. Awards will vest on a straight-line basis for performance between threshold and maximum.

EPS and cashflow are considered by the Board to be the most important internal measures of Meggitt's financial performance. Both are highly visible internally and regularly monitored and reported. Maintaining relative TSR preserves alignment with shareholders.

2009 EPP – outcome
The 2009 EPP award performance condition was based on 50% TSR and 50% EPS. The Committee confirms that the EPS element of the 2009 EPP award will vest at 100%, as Meggitt achieved an aggregate 87.6p EPS (adjusted for scrip). The performance period for the TSR element of the 2009 EPP award does not end until August 2012 and so the Committee is not yet able to confirm vesting of the TSR element of the award.

2012 EPP - award
2012 EPP awards have yet to be approved by the Committee. It is intended, however, that awards to executive directors be made in the autumn at normal award levels, and that awards vest subject to the same blend of performance conditions as attached to 2011 awards (25% on TSR, 50% on EPS and 25% on cash conversion).

EPP performance conditions

Award year	Relative TSR vs tailored peer group	Underlying EPS[1]	Cash conversion[2]
2009			
Weighting	50%	50%	–
Threshold (30% of element vests)	Median ranking	79.5p	
Maximum (100% of element vests)	Upper quartile ranking	86.0p	
2010[3]			
Weighting	50%	50%	-
Threshold (30% of element vests)	Median ranking	79.5p	
Maximum (100% of element vests)	Upper quartile ranking	86.0p	
2011			
Weighting	25%	50%	25%
Threshold (30% of element vests)	Performance in line with median	97.0p	87%
Maximum (100% of element vests)	Outperformance of median by 8% per annum	111.0p	95%

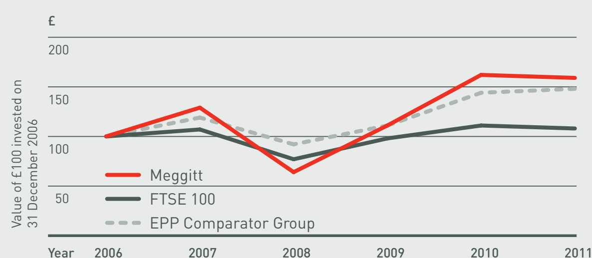
1 3-year cumulative underlying earnings per share. Underlying earnings per share is defined in note 16 of the Group's financial statements.
2 Defined as cash flow as a percentage of underlying profit after taxation. Cash will be measured before dividends, merger and acquisition costs and capital expenditure.
3 As disclosed in the 2010 report, despite the Committee approving an award in July 2010, no EPP award was made in 2010 because the Company was in an extended prohibited period in connection with the acquisition of PacSci. Shareholder approval was received in April 2011 to make a special award in 2011, replicating the structure and economics of the EPP award had it been made in August 2010.

Total shareholder return ('TSR') comparator group
TSR-based EPP awards granted in 2010 and 2011 vest on Meggitt's TSR performance against the following comparator group, selected to comprise international aerospace and defence companies that best reflect Meggitt's business and geographic mix.

BAE Systems	Honeywell (USA)
BBA Aviation	Moog Inc (USA)
Boeing (USA)	Rockwell Collins (USA)
Cobham	Rolls-Royce Group
Curtiss Wright (USA)	Safran (France)
EADS (France)	Senior
Esterline Technologies (USA)	Ultra Electronic Holdings
Finmeccanica (Italy)	Woodward Governor (USA)
Goodrich (USA)	Zodiac Aerospace (France)

The TSR of this peer group is measured in common currency.

Five-year performance
The chart below shows the growth in value over the past 5 financial years of a hypothetical £100 holding in each of Meggitt, the FTSE 100 Index and the EPP comparator group:



The FTSE 100 Index was chosen as it is a recognised broad equity market index of which Meggitt is now a member. The EPP comparator group comprises the closest sector peers for Meggitt.

Meggitt Executive Share Option Scheme 2005 ('ESOS')

An annual grant of options under the ESOS may be made to executive directors. The aggregate market value of shares under option each year may be up to three times salary. In 2011, awards equivalent to 200% of salary were made to executive directors.

ESOS awards vest subject to Meggitt's 3-year EPS performance, which is considered by the Committee to be the best internal measure of Meggitt's performance. Targets attached to outstanding awards are as follows:

ESOS performance conditions

Award year	Minimum vesting (30%)	Maximum vesting (100%)
2009 (cumulative)	79.5p	86.0p
2010 (cumulative)	79.5p	86.0p
2011 (cumulative)	97.0p	111.0p

There is no payout for below-threshold performance. Awards will vest on a straight-line basis for performance between threshold and maximum.

2009 ESOS – outcome
The Committee confirms that 2009 ESOS awards will vest at 100% as Meggitt achieved an aggregate 87.6p EPS (adjusted for scrip).

2012 ESOS - award
As a result of the review of total remuneration packages for executive directors, the Committee has approved 2012 awards of 200% of salary to Mr T Twigger and 300% of salary to Mr P E Green and Mr S G Young.

The vesting schedule will be the same for prior awards, minimum vesting of 30% and maximum vesting of 100%, with a performance range of 110.0 pence to 120.0 pence. The Committee believes this range to be appropriately demanding within the wider economic environment.

Remuneration report continued

Pensions

The Group's UK pension scheme relevant to the executive directors is the executive section of the Meggitt Pension Plan ('MPP'), a funded, registered scheme which was approved under the regime applicable until 5 April 2006. It is a defined benefit pension scheme providing, at retirement, a pension of up to two-thirds of final pensionable salary (inclusive of pensions from previous employments), subject to HM Revenue & Customs limits.

The pension contribution for the executive directors and all UK members of the scheme (after taking into account the employee contribution) is set following the receipt of actuarial advice from Mercer Limited. Details of any changes in pension entitlements arising in 2011 are shown on page 51.

The Meggitt Pension Plan ('MPP') scheme cap for the tax year 2010/11 was £135,000 ('2010/11 Scheme Cap') and for the tax year 2011/12 the scheme cap applicable to directors was £104,160 (together, the 'applicable Scheme Caps') .

Bonus payments to executive directors are not pensionable and there are no unfunded pension promises or similar arrangements for directors.

Mr P E Green and Mr S G Young
During 2011, Mr P E Green and Mr S G Young were members of the executive section of the Meggitt Pension Plan ('MPP'). Their dependents are eligible for "dependents' pensions" and the payment of a lump sum in the event of death in service.

As the contributions made by Mr P E Green and Mr S G Young are restricted, additional contributions are made through a pensions allowance paid to them, so that they can make their own arrangements for retirement savings. The pensions allowance is calculated as 50% of the amount by which the executive director's basic salary exceeds the applicable Scheme Caps.

Mr T Twigger
From 1 January to 5 April 2011, Mr T Twigger was a member of the executive section of the MPP. From 1 January 2011 to 5 April 2011, as the contributions made by Mr T T Twigger were restricted, additional contributions were made through a pensions allowance paid to him, so that he could make his own arrangements for retirement savings. The pensions allowance was calculated as 50% of the amount by which Mr Twigger's basic salary exceeds the 2010/11 Scheme Cap.

As at 6 April 2011, Mr T Twigger reached the Life Time Allowance and could no longer accrue tax efficient pension benefit, so he ceased to pay any contributions and accrue any pension benefit from that date and has received the pensions allowance calculated as 50% of his full salary. Since 6 April 2011, Mr T Twigger has been entitled to receive a full pension. During 2011, his dependents were eligible for "dependents' pensions" and the payment of a lump sum in the event of death in service.

Policies relevant to directors' remuneration

Executive directors' service contracts

The policy of the Committee is to offer executive directors contracts requiring one year's notice from the Company. Should the Company terminate the contracts in breach of the contract terms then damages would be due which are equivalent to annual remuneration plus the value of benefits for the unexpired notice period less 5%. The notice period required from the Company is twelve months and directors are required to give the Company notice of six months.

Mr T Twigger and Mr P E Green	Rolling service contract dated 26 February 2001.
Mr S G Young	Rolling service contract dated 27 February 2004.

Policies relevant to directors' remuneration continued

Share retention policy

Directors (and senior executives) are required to build and retain a shareholding amounting to at least one year's salary.

Mr T Twigger, Mr P E Green and Mr S G Young	All executive directors have shareholdings valued above the share retention policy requirements.

External directorships of executive directors

Executive directors are allowed to hold external appointments and to receive payment provided such appointments are agreed by the Board or Committee in advance, that there is no conflict of interests and the appointment does not lead to a deterioration in the individual's performance.

Mr T Twigger	Mr T Twigger is currently a non-executive director and Chairman of the Audit Committee of Filtrona plc . During 2011, he was entitled to retain fees of £40,000 (2010: £37,740) and £8,874 (2010: £8,874) respectively for these appointments.
Mr P E Green	Mr P E Green is not a director of any other public company.
Mr S G Young	Mr S G Young is currently a non-executive director of Derwent London plc (appointed August 2010). During 2011, he was entitled to retain fees of £47,000 (2 August – 31 December 2010: £18,333). On 1 April 2011, Mr Young was appointed as Chairman of the Audit Committee and was entitled to retain fees for 2011 of £4,125 (2010: £Nil).

Remuneration policy for non-executive directors

The fees paid to the Chairman for 2011 of £155,000 per annum were determined by the Committee within the limits set in the Articles. The fees paid to non-executive directors for 2011 of £46,000, and the Chairmen of the Audit and Remuneration Committees of £10,000 were determined by the Finance Committee of the Board within the limits set in the Articles. The Remuneration and Finance Committees set the level of fees for non-executive directors to reflect the time commitment and responsibilities of the role after consulting independent surveys of such fees. Fees paid to non-executive directors during 2011 are shown on page 51. Non-executive directors are appointed for a term of no longer than three years, do not have a contract of service, are not eligible to join the Company's pension schemes and cannot participate in any of the Company's share schemes.

Audited information

Details of directors' remuneration

	Basic salary[1] 2011 £	Fees 2011 £	Taxable benefits[2] 2011 £	Bonus payments 2011 £	Pension allowance[3] 2011 £	Total emoluments excluding pension 2011 £	Total emoluments excluding pension 2010 £
Executive directors							
T Twigger	**620,000**	**–**	**29,735**	**930,000**	**298,281**	**1,878,016**	1,630,483
P E Green	**289,000**	**–**	**17,479**	**433,500**	**93,721**	**833,700**	710,059
S G Young	**371,000**	**–**	**19,100**	**556,500**	**134,721**	**1,081,321**	948,756
Non-executive directors							
Sir Colin Terry	**–**	**155,000**	**–**	**–**	**–**	**155,000**	150,000
Sir Alan Cox[4]	**–**	**10,667**	**732**	**–**	**–**	**11,399**	66,020
P Heiden[4]	**–**	**46,000**	**–**	**–**	**–**	**46,000**	25,952
P J Hill[4]	**–**	**–**	**–**	**–**	**–**	**–**	11,250
B L Reichelderfer[4]	**–**	**26,025**	**–**	**–**	**–**	**26,025**	–
D A Robins	**–**	**56,000**	**–**	**–**	**–**	**56,000**	52,000
D M Williams	**–**	**56,000**	**–**	**–**	**–**	**56,000**	52,000
Total	**1,280,000**	**349,692**	**67,046**	**1,920,000**	**526,723**	**4,143,461**	3,646,520

1 Basic salary is shown gross of a salary sacrifice arrangement entered into on 1 April 2009 relating to pension contributions.
2 Taxable benefits include company car, private medical insurance, fuel and telephone.
3 The executive directors receive a pension allowance as detailed on page 50.
4 Resignations: Mr P J Hill resigned on 31 March 2010 and Sir Alan Cox resigned on 24 February 2011. Appointments: Mr P Heiden was appointed on 3 June 2010 and Ms B L Reichelderfer was appointed on 7 June 2011.

Directors' pension benefits

	T Twigger[1] £	P E Green £	S G Young £
Meggitt Pension Plan			
Accumulated total accrued pension at 31 December 2010	50,686	73,315	30,758
Real increase in accrued pension in year excluding inflation	(1,903)	(2,531)	2,868
Total increase in accrued pension in year	733	1,281	4,467
Accumulated total accrued pension at 31 December 2011	51,419	74,596	35,225
Transfer value basis at 31 December 2010[2]	1,186,565	1,289,578	531,306
Increase in transfer value excluding directors' contributions	397,945	426,102	272,088
Directors' contributions[3]	–	–	–
Transfer value basis at 31 December 2011[2]	1,584,510	1,715,680	803,394

1 Mr T Twigger opted to leave the Meggitt Pension Plan and take his pension benefits with effect from 6 April 2011. The value shown for his accrued benefits at 31 December 2011 has not changed since 6 April 2011 when his benefits ceased to accrue.
2 Transfer values do not represent a sum payable to the individual director, but represent a potential liability of the pension scheme.
3 Although there are no direct member contributions, the directors all contribute 7% of their capped pensionable salary amounting to £2,363 for T Twigger and £7,832 for P E Green and S G Young (2010: £9,384 for each director) through a salary sacrifice arrangement in the same way as all other members of the plan.

Remuneration report continued

Directors' share scheme participation

The directors' interests in the Meggitt Equity Participation Plan 2005 and movements therein during the year are set out below:

			Number of shares						
	Date of award	Value of award £	at 1 Jan 2011	Awarded	Released	Lapsed	at 31 Dec 2011	Market price at date of transfer	Date exerciseable from
T Twigger									
Basic Award	07.08.08	750,000	389,388	–	(194,694)	(194,694)	–	325.01p	-
Basic Award	05.08.09	450,000	277,180	–	–	–	277,180	–	05.08.12
Basic Award	21.04.11	450,000	–	147,299	–	–	147,299	–	16.08.13
Basic Award	17.08.11	465,000	–	128,117	–	–	128,117	–	17.08.14
Matching Award	18.08.08	300,000	133,038	–	(66,519)	(66,519)	-	325.01p	-
Matching Award	12.08.09	300,000	154,560	–	–	–	154,560	–	12.08.12
Matching Award	21.04.11	300,000	–	109,210	–	–	109,210	–	16.08.13
Matching Award	17.08.11	310,000	–	89,855	–	–	89,855	–	17.08.14
P E Green									
Basic Award	07.08.08	343,749	178,469	–	(89,234)	(89,235)	–	325.01p	-
Basic Award	05.08.09	206,250	127,041	–	–	–	127,041	–	05.08.12
Basic Award	21.04.11	206,250	–	67,512	–	–	67,512	–	16.08.13
Basic Award	17.08.11	216,750	–	59,719	–	–	59,719	-	17.08.14
Matching Award	18.08.08	137,500	60,976	–	(30,488)	(30,488)	-	325.01p	-
Matching Award	12.08.09	137,500	70,840	–	–	–	70,840	–	12.08.12
Matching Award	21.04.11	137,500	–	50,054	–	–	50,054	–	16.08.13
Matching Award	17.08.11	144,500	–	41,884	–	–	41,884	–	17.08.14
S G Young									
Basic Award	07.08.08	450,000	233,633	–	(116,816)	(116,817)	–	325.01p	-
Basic Award	05.08.09	270,000	166,308	–	–	–	166,308	–	05.08.12
Basic Award	21.04.11	269,998	–	88,379	–	–	88,379	–	16.08.13
Basic Award	17.08.11	278,248	–	76,663	–	–	76,663	–	17.08.14
Matching Award	18.08.08	180,000	79,823	–	(39,911)	(39,912)	–	325.01p	-
Matching Award	12.08.09	180,000	92,736	–	–	–	92,736	–	12.08.12
Matching Award	21.04.11	180,000	–	65,526	–	–	65,526	–	16.08.13
Matching Award	17.08.11	185,000	-	53,768	-	-	53,768	-	17.08.14

Awards made in August 2011 were made as nil cost options. Further, in September 2011 the Basic and Matching Awards dated April 2011 and August 2009 were converted to nil cost options. The expiry date for all nil cost options is 10 years from the date of grant.

The directors held the following options and stock-settled share appreciation rights ('SARs')under the 1996 Executive Share Option Scheme, 2005 Executive Share Option Scheme, Sharesave 1998 and Sharesave 2008:

		Number of shares under option/award						
	Date of grant	at 1 Jan 2011	Granted/ (exercised)	at 31 Dec 2011	Option/base price	Market price at date of exercise	Date exercisable from	Expiry date
T Twigger								
1996 No 2 (options)	06.10.04	178,070	(178,070)	–	210.59p	354.76p	-	-
2005, Part A (options)	30.04.09	17,699	–	17,699	169.50p	–	30.04.12	29.04.19
2005, Part B (stock SARs)	10.10.05	322,987	–	322,987	278.65p	–	10.10.08	09.10.15
	27.09.06	365,613	–	365,613	263.67p	–	27.09.09	26.09.16
	29.03.07	334,448	–	334,448	299.00p	–	29.03.10	28.03.17
	25.03.08	475,248	–	475,248	252.50p	–	25.03.11	24.03.18
	30.04.09	477,876	–	477,876	169.50p	–	30.04.12	29.04.19
	12.03.10	419,434	–	419,434	286.10p	–	12.03.13	11.03.20
	02.03.11	–	352,573	352,573	351.70p	–	02.03.14	01.03.21
Sharesave (options)	05.10.06	3,222	(3,222)	–	203.18p	352.50p	-	-
	04.09.08	3,290	(3,290)	–	171.40p	371.90p	-	-
		2,597,887	167,991	2,765,878				

		Number of shares under option/award						
	Date of grant	at 1 Jan 2011	Granted/ (exercised)	at 31 Dec 2011	Option/base price	Market price at date of exercise	Date exercisable from	Expiry date
P E Green								
1996 No 2 (options)	06.10.04	83,099	(83,099)	-	210.59p	354.76p	-	-
2005, Part A (options)	29.03.07	2,759	–	2,759	299.00p	–	29.03.10	28.03.17
	30.04.09	12,832	–	12,832	169.50p	–	30.04.12	29.04.19
2005, Part B (stock SARs)	10.10.05	143,549	–	143,549	278.65p	–	10.10.08	09.10.15
	27.09.06	162,326	–	162,326	263.67p	–	27.09.09	26.09.16
	29.03.07	145,402	–	145,402	299.00p	–	29.03.10	28.03.17
	25.03.08	217,822	–	217,822	252.50p	–	25.03.11	24.03.18
	30.04.09	214,306	–	214,306	169.50p	–	30.04.12	29.04.19
	12.03.10	192,240	–	192,240	286.10p	–	12.03.13	11.03.20
	02.03.11	–	164,345	164,345	351.70p	–	02.03.14	01.03.21
Sharesave (options)	05.10.06	3,222	(3,222)	-	203.18p	382.80p	-	-
	04.09.08	3,798	–	3,798	171.40p	–	01.11.13	01.05.14
	06.09.10	1,389	–	1,389	222.35p	–	01.11.15	01.05.16
		1,182,744	78,024	1,260,768				

		Number of shares under option/award						
	Date of grant	at 1 Jan 2011	Granted/ (exercised)	at 31 Dec 2011	Option/base price	Market price at date of exercise	Date exercisable from	Expiry date
S G Young								
1996 No1 (options)	01.04.04	17,200	–	17,200	174.40p	–	01.04.07	31.03.14
2005, Part B (stock SAR's)	10.10.05	186,615	–	186,615	278.65p	–	10.10.08	09.10.15
	27.09.06	210,871	–	210,871	263.67p	–	27.09.09	26.09.16
	29.03.07	192,642	–	192,642	299.00p	–	29.03.10	28.03.17
	25.03.08	285,149	–	285,149	252.50p	–	25.03.11	24.03.18
	30.04.09	297,345	–	297,345	169.50p	–	30.04.12	29.04.19
	12.03.10	251,660	-	251,660	286.10p	–	12.03.13	11.03.20
	02.03.11	-	210,975	210,975	351.70p	-	02.03.14	01.03.21
Sharesave (options)	07.04.05	9,468	–	9,468	188.76p	–	01.06.12	30.11.12
	06.09.10	4,047	-	4,047	222.35p	–	01.11.13	01.05.14
		1,454,997	210,975	1,665,972				

None of the non-executive directors held options over the Company's shares at any time during the relevant periods.

The market price of the shares at 31 December 2011 was 352.80p and the range during the year was 305.00p to 397.60p. Options and stock-settled SARs may, in certain circumstances, be exercised or lapse earlier than the dates shown on page 52 and above.

Remuneration report continued

Gains made on exercise of directors' share options

	Option	2011 options exercised Exercise date	Options exercised	Gain 2011 £'000	Gain 2010 £'000
T Twigger	1996 No 2 Executive Share Option Scheme	03.05.11	178,070	**257**	-
	1996 No 2 Executive Share Option Scheme	-	-	**-**	184
	Sharesave	08.12.11	3,222	**5**	-
	Sharesave	01.11.11	3,290	**7**	-
P E Green	1996 No 2 Executive Share Option Scheme	03.05.11	83,099	**120**	-
	1996 No 2 Executive Share Option Scheme	-	-	**-**	89
	Sharesave	01.12.11	3,222	**6**	-
	Sharesave	-	-	**-**	2
S G Young	1996 No 2 Executive Share Option Scheme	-	-	**-**	274
				395	549

Gains in 2011 were made on options granted under the rules of the 1996 No 2 Executive Share Option Scheme and the 1998 and 2008 Sharesave Schemes, as detailed in directors' share interests above. During 2011, other than the share interests held in the Share Incentive Plan and Deferred Share Bonus Plan which are included in the table of Directors' Interests in the Directors' Report on page 40, there were no other schemes to benefit directors by enabling them to acquire shares in or debentures of the Company or any other company.

By order of the Board

D A Robins
Chairman, Remuneration Committee
5 March 2012

Independent auditors' report to the members of Meggitt PLC

We have audited the group financial statements of Meggitt PLC for the year ended 31 December 2011 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated balance sheet, the Consolidated statement of changes in equity, the Consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 42, the directors are responsible for the preparation of the group 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 group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group'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 Meggitt PLC Annual report and accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2011 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements; and
- the information given in the Corporate Governance Statement set out on pages 43 to 46 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

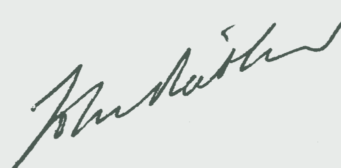
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance statement has not been prepared by the parent company.

Under the Listing Rules we are required to review:

- the Directors' Statement, set out on page 46, in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter

We have reported separately on the parent company financial statements of Meggitt PLC for the year ended 31 December 2011 and on the information in the Directors' Remuneration Report that is described as having been audited.



John Maitland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
5 March 2012

Consolidated income statement

For the year ended 31 December 2011

	Notes	**2011 £'m**	2010 £'m
Continuing operations			
Revenue	5	**1,455.3**	1,162.0
Cost of sales	7	**(839.8)**	(639.8)
Gross profit		**615.5**	522.2
Net operating costs	7	**(353.0)**	(302.1)
Operating profit*	6	**262.5**	220.1
Finance income	12	**36.9**	33.6
Finance costs	13	**(73.4)**	(81.2)
Net finance costs		**(36.5)**	(47.6)
Profit before tax**		**226.0**	172.5
Tax	14	**(41.1)**	(33.7)
Profit for the year from continuing operations attributable to owners of the parent		**184.9**	138.8
Earnings per share:			
Basic	16	**24.0p**	20.1p
Diluted	16	**23.8p**	19.9p

* Underlying operating profit	10	**359.5**	303.7
** Underlying profit before tax	10	**323.0**	256.1

Consolidated statement of comprehensive income

For the year ended 31 December 2011

	Notes	2011 £'m	2010 £'m
Profit for the year		**184.9**	138.8
Other comprehensive income for the year:			
Actuarial losses	34	**(76.6)**	(1.5)
Currency translation differences		**10.7**	29.3
Cash flow hedge movements		**5.3**	20.6
Other comprehensive (expense)/income before tax		**(60.6)**	48.4
Related tax movements	14	**21.6**	(7.5)
Other comprehensive (expense)/income for the year		**(39.0)**	40.9
Total comprehensive income for the year attributable to owners of the parent		**145.9**	179.7

Consolidated balance sheet

As at 31 December 2011

	Notes	2011 £'m	2010 £'m
Non-current assets			
Goodwill	19	**1,544.0**	1,295.5
Development costs	20	**185.8**	151.3
Programme participation costs	20	**197.5**	183.8
Other intangible assets	21	**865.8**	722.1
Property, plant and equipment	22	**229.9**	207.1
Trade and other receivables	24	**114.7**	88.6
Derivative financial instruments	31	**39.7**	12.0
Deferred tax assets	33	**112.5**	105.0
		3,289.9	2,765.4
Current assets			
Inventories	23	**277.5**	239.1
Trade and other receivables	24	**317.4**	238.4
Derivative financial instruments	31	**4.1**	6.2
Current tax recoverable		**2.6**	0.8
Cash and cash equivalents	25	**94.6**	51.9
		696.2	536.4
Total assets	6	**3,986.1**	3,301.8
Current liabilities			
Trade and other payables	26	**(349.4)**	(249.9)
Derivative financial instruments	31	**(12.8)**	(4.0)
Current tax liabilities		**(49.4)**	(60.8)
Obligations under finance leases	28	**(0.7)**	(0.8)
Bank and other borrowings	29	**(7.0)**	(12.7)
Provisions	32	**(50.6)**	(40.7)
		(469.9)	(368.9)
Net current assets		**226.3**	167.5
Non-current liabilities			
Trade and other payables	27	**(6.5)**	(7.8)
Derivative financial instruments	31	**(4.2)**	(17.1)
Deferred tax liabilities	33	**(316.8)**	(329.6)
Obligations under finance leases	28	**(8.2)**	(3.9)
Bank and other borrowings	29	**(867.1)**	(755.9)
Provisions	32	**(200.2)**	(115.3)
Retirement benefit obligations	34	**(319.9)**	(265.1)
		(1,722.9)	(1,494.7)
Total liabilities		**(2,192.8)**	(1,863.6)
Net assets		**1,793.3**	1,438.2
Equity			
Share capital	35	**38.9**	34.9
Share premium		**1,130.1**	859.4
Other reserves		**14.1**	14.1
Hedging and translation reserves		**177.8**	159.1
Retained earnings		**432.4**	370.7
Total equity attributable to owners of the parent		**1,793.3**	1,438.2

The notes on pages 61 to 97 form an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors on 5 March 2012 and signed on its behalf by:

T Twigger
Director

S G Young
Director

Consolidated statement of changes in equity

For the year ended 31 December 2011

	Notes	Share capital £'m	Share premium £'m	Other reserves* £'m	Hedging and translation reserves** £'m	Retained earnings £'m	Total equity £'m
At 1 January 2010		34.3	825.9	14.1	117.3	282.0	1,273.6
Profit for the year	6	–	–	–	–	138.8	138.8
Other comprehensive income for the year:							
Actuarial losses	34	–	–	–	–	(1.5)	(1.5)
Currency translation differences arising in the year		–	–	–	29.3	–	29.3
Cash flow hedge movements:							
Movement in fair value		–	–	–	(3.0)	–	(3.0)
Transferred to income statement		–	–	–	23.6	–	23.6
Other comprehensive income/(expense) before tax		–	–	–	49.9	(1.5)	48.4
Related tax movements		–	–	–	(8.1)	0.6	(7.5)
Other comprehensive income/(expense) for the year		–	–	–	41.8	(0.9)	40.9
Total comprehensive income for the year		–	–	–	41.8	137.9	179.7
Employee share option schemes:							
Value of services provided		–	–	–	–	10.4	10.4
Shares issued	35	0.1	4.5	–	–	(0.4)	4.2
Dividends	17	0.5	29.0	–	–	(59.2)	(29.7)
At 31 December 2010		34.9	859.4	14.1	159.1	370.7	1,438.2
Profit for the year	6	**–**	**–**	**–**	**–**	**184.9**	**184.9**
Other comprehensive income for the year:							
Actuarial losses	34	–	–	–	–	(76.6)	(76.6)
Currency translation differences arising in the year		–	–	–	10.7	–	10.7
Cash flow hedge movements:							
Movement in fair value		–	–	–	0.2	–	0.2
Transferred to income statement		–	–	–	5.1	–	5.1
Other comprehensive income/(expense) before tax		–	–	–	16.0	(76.6)	(60.6)
Related tax movements		–	–	–	2.7	18.9	21.6
Other comprehensive income/(expense) for the year		**–**	**–**	**–**	**18.7**	**(57.7)**	**(39.0)**
Total comprehensive income for the year		**–**	**–**	**–**	**18.7**	**127.2**	**145.9**
Equity placing	35	3.5	242.5	–	–	–	246.0
Employee share option schemes:							
Value of services provided		–	–	–	–	8.2	8.2
Shares issued	35	0.1	3.4	–	–	(0.1)	3.4
Dividends	17	0.4	24.8	–	–	(73.6)	(48.4)
At 31 December 2011		**38.9**	**1,130.1**	**14.1**	**177.8**	**432.4**	**1,793.3**

* Other reserves relate to capital reserves arising on the acquisition of businesses in 1985 and 1986 where merger accounting was applied.

** Hedging and translation reserves at 31 December 2011 comprise a credit balance on the hedging reserve of £5.9 million (2010: £1.9 million) and a credit balance on the translation reserve of £171.9 million (2010: £157.2 million). Amounts recycled from the hedging reserve to the income statement, in respect of cash flow hedge movements, have affected finance costs.

Consolidated cash flow statement

For the year ended 31 December 2011

	Notes	**2011 £'m**	2010 £'m
Cash inflow from operations before exceptional operating items		**395.8**	331.3
Cash outflow from exceptional operating items	11	**(17.1)**	(15.5)
Cash inflow from operations	40	**378.7**	315.8
Interest received		**0.3**	0.4
Interest paid		**(31.0)**	(38.5)
Tax paid		**(42.6)**	(29.9)
Tax equalisation swap received*		**-**	4.2
Cash inflow from operating activities		**305.4**	252.0
Businesses acquired	42	**(418.1)**	-
Net cash acquired with businesses	42	**0.5**	-
Capitalised development costs		**(41.2)**	(33.5)
Capitalised programme participation costs		**(33.2)**	(28.4)
Purchase of other intangible assets		**(25.1)**	(13.7)
Purchase of property, plant and equipment		**(27.0)**	(14.0)
Proceeds from disposal of property, plant and equipment		**7.5**	0.2
Cash outflow from investing activities		**(536.6)**	(89.4)
Dividends paid to Company's shareholders	17	**(48.4)**	(29.7)
Issue of equity share capital		**249.5**	4.2
Proceeds from borrowings		**214.3**	395.4
Debt issue costs		**(2.9)**	(1.7)
Repayments of borrowings		**(137.4)**	(542.3)
Cash inflow/(outflow) from financing activities		**275.1**	(174.1)
Net increase/(decrease) in cash and cash equivalents		**43.9**	(11.5)
Cash and cash equivalents at start of year		**51.9**	62.9
Exchange (losses)/gains on cash and cash equivalents		**(1.2)**	0.5
Cash and cash equivalents at end of year	25	**94.6**	51.9

* In 2010, a settlement was received under a tax equalisation swap designed to hedge the Group's tax exposure on foreign exchange movements.

1. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRSs as adopted by the EU') and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative instruments) at fair value.

2. Summary of significant accounting policies

The principal accounting policies adopted by the Group in the preparation of the consolidated financial statements are set out below. These policies have been applied consistently to all periods presented unless stated otherwise.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all of its subsidiaries. A subsidiary is an entity over which the Group has the power to govern the financial and operating policies. The existence and nature of potential voting rights that are currently available to the Group are considered when determining whether the entity is a subsidiary. The results of subsidiaries acquired are consolidated from the date on which control passes to the Group. The results of disposed subsidiaries are consolidated up to the date on which control passes from the Group.

The cost of an acquisition is the fair value of consideration provided, including the fair value of any contingent consideration, as measured at the acquisition date. Subsequent changes to the fair value of any contingent consideration are recorded in the income statement. Identifiable assets and liabilities of an acquired business that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the date of acquisition. To the extent the cost of an acquisition exceeds the fair value of net assets acquired the difference is recorded as goodwill. Where the fair value of the net assets acquired exceeds the cost of an acquisition the difference is recorded directly in the income statement.

Where businesses are acquired, fair values of the identifiable assets and liabilities of the acquired business are finalised within 12 months of the acquisition date. All fair value adjustments are recorded with effect from the date of acquisition and consequently may result in the restatement of previously reported financial results.

Transactions between, and balances with, Group companies are eliminated together with unrealised gains on inter-group transactions. Unrealised losses are eliminated to the extent the asset transferred is not impaired. The accounting policies of acquired businesses are changed where necessary to be consistent with those of the Group.

Foreign currencies

Functional and presentational currency
The Group's consolidated financial statements are presented in pounds sterling. Items included in the financial statements of each of the Group's subsidiaries are measured using the functional currency of the primary economic environment in which the subsidiary operates.

Transactions and balances
Transactions in foreign currencies are recorded at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are reported at the rates of exchange prevailing at the balance sheet date. Exchange differences on retranslating monetary assets and liabilities are recognised in the income statement except where they relate to qualifying cash flow hedges or net investment hedges in which case exchange differences are recognised in other comprehensive income.

Foreign subsidiaries
The results of foreign subsidiaries are translated at the average rates of exchange for the period. Assets and liabilities of foreign subsidiaries are translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising from the retranslation of the results and opening net assets of foreign subsidiaries are recognised as a separate component of equity in the hedging and translation reserves. Exchange differences on borrowings and other currency instruments designated as a net investment hedge of foreign subsidiaries are also recognised in equity.

When a foreign subsidiary is sold the cumulative exchange differences relating to the retranslation of the net investment in the foreign subsidiary are recognised in the income statement as part of the gain or loss on disposal. This applies only to exchange differences recorded in equity after 1 January 2004. Exchange differences arising prior to 1 January 2004 remain in equity on disposal as permitted by IFRS 1 ('First time Adoption of International Financial Reporting Standards').

Goodwill and fair value adjustments arising from the acquisition of a foreign subsidiary are treated as assets and liabilities of the subsidiary and are retranslated at the rates of exchange prevailing at the balance sheet date.

Revenue recognition

Revenue represents the fair value of consideration received or receivable in respect of the sale of goods and services provided in the normal course of business, net of trade discounts, returns and sales related taxes.

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, which occurs when products are delivered, or services provided, to the customer, title and risk of loss have been transferred and collection of related receivables is probable. An appropriate proportion of total long-term contract value, based on the fair value of work performed, is included in revenue and an appropriate level of profit is recognised based on the estimated percentage completion of contractual obligations provided the final outcome can be reliably assessed.

2. Summary of significant accounting policies continued

Segment reporting

Operating segments are those segments for which results are reviewed by the Group's Chief Operating Decision Maker ('CODM') to assess performance and make decisions about resources to be allocated. The CODM has been identified as the Board. The Group has determined that its current segments are Aircraft Braking Systems, Control Systems, Polymers & Composites, Sensing Systems and the Equipment Group. On April 21 2011, the Group acquired Pacific Scientific Aerospace ('PacSci') from Danaher Corporation. Although PacSci is managed within the Equipment Group, its results have been reported separately to the CODM for the period from acquisition to 31 December 2011 and accordingly PacSci is treated as a separate segment under IFRS 8 for this period.

The principal profit measure reviewed by the CODM is "underlying operating profit" as defined in note 10. A segmental analysis of underlying operating profit is accordingly provided in the notes to the financial statements.

Segmental information on assets is provided in respect of "trading assets" which are defined to exclude from total assets amounts which the CODM does not review on a segmental level. Excluded assets comprise goodwill, other intangible assets, deferred tax, current tax, derivative financial instruments and cash and cash equivalents.

No segmental information is provided in respect of liabilities as no such measure is reviewed by the CODM.

Exceptional operating items

Items which are significant by virtue of their size or nature and which are considered non-recurring are classified as exceptional operating items. They include for instance adjustments to the fair value of any contingent consideration payable in respect of an acquired business, costs directly attributable to the acquisition of businesses, the costs of integrating significant acquisitions, significant restructuring costs and profits or losses made on the disposal of businesses. Exceptional operating items are included within the appropriate consolidated income statement category but are highlighted separately in the notes to the financial statements. They are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10).

Intangible assets

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets acquired and the liabilities and contingent liabilities assumed. Goodwill is no longer amortised but is tested annually for impairment. Goodwill is carried at cost less amortisation charged prior to 1 January 2004 less accumulated impairment losses. In the event the business to which goodwill relates is disposed of, the attributable goodwill is included in the determination of the gain or loss on disposal.

Research and development
Research expenditure is recognised as an expense in the income statement as incurred. Costs incurred on development projects where the related expenditure is separately identifiable, measurable and management are satisfied as to the ultimate technical and commercial viability of the project based on all relevant available information are recognised as an intangible asset. Capitalised development costs are carried at cost less accumulated amortisation. Amortisation is charged over the periods expected to benefit, typically up to 10 years, commencing with the launch of the product. Development costs not meeting the criteria for capitalisation are expensed as incurred.

Programme participation costs
Programme participation costs consist of incentives given to Original Equipment Manufacturers in connection with their selection of the Group's products for installation onto new aircraft where the Group has obtained principal supplier status. These incentives comprise cash payments and/or the supply of initial manufactured parts on a free of charge or deeply discounted basis. Programme participation costs are carried at cost less accumulated amortisation. Amortisation is charged over the periods expected to benefit (typically through the sale of replacement parts) from receiving the status of principal supplier, typically over periods up to 15 years.

Other intangible assets
a) Licences, trademarks, patents and software
Purchased licences, trademarks, patents and software are carried at cost less accumulated amortisation. Amortisation is charged over their estimated useful economic life, typically over periods up to 10 years.

b) Intangible assets acquired as part of a business combination
For acquisitions, the Group recognises intangible assets separately from goodwill provided they are separable or arise from contractual or other legal rights and their fair value can be measured reliably. The intangible assets recognised are recorded at fair value. Where the intangible assets recognised have finite lives their fair value is amortised on a straight-line basis over those lives. The nature of intangibles recognised and their estimated useful lives are as follows:

Customer relationships	Up to 25 years
Technology	Up to 25 years
Trade names and trademarks	Up to 25 years
Order backlogs	Over period of backlog (typically up to 3 years)

Amortisation of intangible assets acquired as part of a business combination is excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10).

Property, plant and equipment

Property, plant and equipment is recorded at cost less subsequent depreciation and impairment except for land which is shown at cost less any impairment. Cost includes expenditure directly attributable to the acquisition of the asset. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Freehold buildings	40 to 50 years
Long and short leasehold property	Over period of lease
Plant and machinery	3 to 10 years
Furnaces	Up to 20 years
Fixtures and fittings	3 to 10 years
Motor vehicles	4 to 5 years

Assets' residual values and useful lives are reviewed annually and adjusted if appropriate.

Borrowing costs

Borrowing costs directly attributable to the construction or production of qualifying assets, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use. Qualifying assets are those that necessarily take a substantial period of time to get ready for their intended use, which would generally be at least twelve months. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

2. Summary of significant accounting policies continued

Taxation

Tax payable is based on taxable profit for the period, calculated using tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax is provided in full using the liability method on temporary differences between the tax bases of assets and liabilities and their corresponding book values as recorded in the Group's financial statements. Deferred tax is provided on unremitted earnings of foreign subsidiaries except where the Group can control the remittance and it is probable that the earnings will not be remitted in the foreseeable future. Deferred tax assets are recognised only to the extent it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Where deferred tax arises on the initial recognition of an asset or liability, other than in a business combination, and the recognition gives rise to no impact on taxable profit or loss, then deferred tax is not recognised. Deferred tax is calculated using tax rates enacted or substantially enacted at the balance sheet date.

Impairment of non-current non-financial assets

Assets with indefinite lives are tested for impairment annually. Assets subject to amortisation or depreciation are reviewed for impairment annually and also whenever events or changes in circumstances indicate the carrying value may not be recoverable. To the extent the carrying value exceeds the recoverable amount, the difference is recorded as an expense in the income statement. The recoverable amount used for impairment testing is the higher of the value in use and fair value less costs of disposal. For the purpose of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash Generating Units or 'CGU's').

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost represents materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) and is determined using the first-in first-out (FIFO) method. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal.

When a business is acquired, inventory of the acquired business is recorded at fair value in the Group's balance sheet. Finished goods are valued at fair value, which is typically estimated selling price less costs of disposal and a reasonable profit allowance for the selling effort. Work in progress is valued at fair value, which is typically estimated selling price less costs to complete, costs of disposal and a reasonable profit allowance for work not yet completed. When this inventory is subsequently disposed of post acquisition, the fair value is charged to the income statement. The difference between the fair value of the inventory consumed and its cost is excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10).

In all cases provision is made for obsolete, slow moving or defective items where appropriate and for unrealised profits on items of inter-group manufacture. Provision is made for the full amount of foreseeable losses on contracts.

Trade receivables

Trade receivables are stated initially at fair value, then measured at amortised cost less provisions for impairment. Provisions for impairment are recognised in the income statement, when there is objective evidence the Group will not be able to collect all amounts due according to the original terms of the receivables. The impairment recorded is the difference between the carrying value of the receivables and the estimated future cash flows discounted where appropriate.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks. Bank overdrafts are disclosed as current liabilities, within bank and other borrowings, except where the Group participates in offset arrangements with certain banks whereby cash and overdraft amounts are offset against each other.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Leases

Leases where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in liabilities. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Dividends

Interim dividends are recognised as liabilities when they are approved by the Board. Final dividends are recognised as liabilities when they are approved by the shareholders.

Borrowings

Borrowings are initially recognised at fair value being proceeds received less directly attributable transaction costs incurred. Borrowings are subsequently measured at amortised cost with any transaction costs amortised to the income statement over the period of the borrowings using the effective interest method. Borrowings are held at fair value where a hedge relationship is in place. Any related interest accruals are included within borrowings. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2. Summary of significant accounting policies continued

Provisions

Provision is made for environmental, legal and regulatory liabilities, onerous contracts and product warranty claims when the Group 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. Provisions are discounted to present value where the impact is significant, using a pre-tax rate. The discount rate used is based on current market assessments of the time value of money, adjusted to reflect any risks specific to the obligation which have not been reflected in the undiscounted provision. The impact of the unwinding of discounting is recognised as a finance cost in the income statement.

Retirement benefit schemes

For defined benefit schemes, pension costs and the costs of providing other post-retirement benefits (principally healthcare) are charged to the income statement in accordance with the advice of qualified independent actuaries. Past service costs are recognised immediately in the income statement unless the changes are dependent on the employees remaining in service for a particular period in which case the costs are recognised on a straight-line basis over that period.

Retirement benefit obligations represent, for each scheme, the difference between the fair value of the schemes' assets and the present value of the schemes' defined benefit obligations measured at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the defined benefit obligations using interest rates of high quality corporate bonds denominated in the currency in which the benefits will be paid and with terms to maturity comparable with the terms of the related defined benefit obligations.

Actuarial gains and losses are recognised in the period in which they arise in other comprehensive income.

For defined contribution schemes, payments are recognised in the income statement when they fall due.

Share-based compensation

The Group operates a number of equity-settled and cash-settled share-based compensation schemes.

For equity-settled 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 Group 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 Group 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.

For cash-settled schemes, the total amount recognised is based on the fair value of the liability incurred. The fair value of the liability is remeasured at each balance sheet date with changes in the fair value recognised in the income statement for the period.

Derivative financial instruments and hedging

The Group uses derivative financial instruments to hedge its exposure to interest rate risk and foreign currency transactional risk. Derivative financial instruments are recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value at 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 Group recognises an instrument as a hedging instrument by documenting, at the inception of the 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 then 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.

Fair value hedges
Changes in the fair value of derivative financial instruments, that are designated and qualify as fair value hedges, are recognised in the income statement together with changes in the fair value of the hedged item. Any difference between the movement in the fair value of the derivatives and the hedged items are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10). The Group currently only applies fair value hedge accounting to the hedging of fixed interest rate risk on borrowings.

Cash flow hedges
Changes in the fair value of the effective portion of derivative financial instruments, that are designated and qualify as cash flow hedges, are initially recognised in other comprehensive income. Changes in the fair value of the ineffective portion are recognised immediately in the income statement.

To the extent changes in fair value are recognised in other comprehensive income they are recycled to the income statement in the periods in which the hedged item affects the income statement. The Group currently only applies cash flow hedge accounting to the hedging of floating interest rate risk on borrowings.

If the forecast transaction to which the cash flow hedge relates is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is transferred to the income statement immediately. If the hedging instrument is sold, expires or no longer meets the criteria for hedge accounting the cumulative gains and losses previously recognised in other comprehensive income are transferred to the income statement when the forecast transaction is recognised in the income statement.

Net investment hedges
Hedges of net investments of foreign subsidiaries are accounted for in a similar way to cash flow hedges. Gains and losses relating to the effective portion of any hedge are recognised in other comprehensive income. Changes in the fair value of any ineffective portion are recognised in the income statement. Cumulative gains and losses previously recognised in other comprehensive income are transferred to the income statement if the foreign subsidiary to which they relate is disposed of.

2. Summary of significant accounting policies continued

Derivatives that do not meet the criteria for hedge accounting
Where derivatives do not meet the criteria for hedge accounting, changes in fair value are recognised immediately in the income statement. The Group utilises a number of foreign currency forward contracts to mitigate against currency fluctuations. The Group has determined the additional costs of meeting the extensive documentation requirements for the Group's large number of foreign currency forward contracts are not merited. Gains and losses arising from measuring these contracts at fair value are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10).

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are deducted from the proceeds recorded in equity.

Own shares represent shares in the Company that are held by an independently managed Employee Share Ownership Plan. The consideration paid for own shares, including any incremental directly attributable costs, is recorded as a deduction from shareholders' equity. When such shares are sold any consideration received, net of any directly attributable costs, is recorded within shareholders' equity.

Adoption of new and revised accounting standards

The following amendments to existing standards and new interpretations became effective during the current period, but have no significant impact on the Group's financial statements:

- IAS 24 (Revised), 'Related party disclosures';
- 'Annual improvements (2010)';
- IFRIC 14 (Amendment), 'IAS 19 – Prepayments of a minimum funding requirement';
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'.

Recent accounting developments

The following amendment to an existing accounting standard has been published and is mandatory for the Group's future accounting periods. It is subject to endorsement by the European Union. The amendment is effective for annual periods beginning on or after 1 January 2013 and has not been early adopted in these financial statements. The expected impact is still being assessed in detail by management:

- IAS 19 (revised 2011), 'Employee benefits'.

The following new standards, amendments to existing standards and new interpretations have been published and are mandatory for the Group's future accounting periods. They are, with the exception of the amendment to IFRS 7, subject to endorsement by the European Union. They have not been early adopted in these financial statements and are not expected to have a significant impact on future financial statements when they are adopted:

Effective for annual periods beginning on or after 1 July 2011:

- IFRS 1 (Amended), 'First-time Adoption of International Financial Reporting Standards';
- IFRS 7 (Amended), 'Financial instruments: Disclosures'.

Effective for annual periods beginning on or after 1 January 2012:

- IAS 1 (Amended), 'Separate financial statements';
- IAS 12 (Amended), 'Income taxes'.

Effective for annual periods beginning on or after 1 January 2013:

- IFRS 10, 'Consolidated financial statements';
- IFRS 11, 'Joint arrangements';
- IFRS 12, 'Disclosures of interests in other entities';
- IFRS 13, 'Fair value measurement';
- IAS 27 (revised 2011), 'Separate financial statements';
- IAS 28 (revised 2011), 'Associates and joint ventures';
- IFRIC 20, 'Stripping costs in the production phase of a surface mine'.

Effective for annual periods beginning on or after 1 January 2015:

- IFRS 9, 'Financial instruments'.

3. Financial risk management

Financial risk factors

The Group's operations expose it to a number of financial risks including market risk (principally foreign exchange risk and interest rate risk), credit risk and liquidity risk. These risks are managed by a centralised treasury department, in accordance with Board approved objectives, policies and authorities. Regular reports monitor exposures and assist in managing the associated risks.

Market risk

Foreign exchange risk
The Group operates internationally and is subject to foreign exchange risks on future commercial transactions and net investments in foreign subsidiaries. The principal exposures arise with respect to the US dollar against the Pound sterling. To mitigate risks associated with future commercial transactions the Group policy is to hedge known, and certain forecast transaction exposures based on historical experience and projections. The Group hedges at least 70% of the next 12 months anticipated exposure and can hedge up to five years ahead. The Group uses borrowings denominated in the relevant currencies to hedge its investment in foreign subsidiaries. Details of the hedges in place are provided in note 31.

Interest rate risk
The Group has borrowings issued at both fixed and floating rates of interest. Borrowings issued at fixed rates expose the Group to fair value interest rate risk whereas floating rate borrowings expose the Group to cash flow interest rate risk. The Group's policy is to maintain at least 25% of its net debt at fixed rates. The Group mitigates interest rate risks through swaps which have the economic effect of converting fixed rate borrowings into floating rate borrowings and floating rate borrowings into fixed rate borrowings. Details of the hedges in place are provided in note 31.

Credit risk

The Group is not subject to significant concentration of credit risk with exposure spread across a large number of customers across the world. In addition, many of the Group's principal customers are either government departments or large multinationals. Policies are maintained to ensure the Group 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. The Group is also subject to credit risk on the counterparties to its other financial instruments which it controls through only dealing with highly rated counterparties and netting transactions on settlement wherever possible.

Liquidity risk

The Group maintains sufficient committed facilities to meet projected borrowing requirements based on cash flow forecasts. Additional headroom is maintained to protect against the variability of cash flows and to accommodate small bolt-on acquisitions. Key ratios are monitored to ensure continued compliance with covenants contained in the Group's principal credit agreements. The following table analyses the Group's financial liabilities and derivative assets and liabilities as at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows:

	2011				
	Less than 1 year £'m	**1-2 years £'m**	**2-5 years £'m**	**Greater than 5 years £'m**	**Total £'m**
Trade and other payables*	**339.4**	**1.4**	**3.0**	**2.1**	**345.9**
Bank and other borrowings	**3.2**	**335.0**	**123.8**	**386.9**	**848.9**
Interest payments on borrowings	**28.4**	**27.8**	**66.5**	**81.8**	**204.5**
Obligations under finance leases (see note 28)	**0.7**	**1.3**	**1.6**	**5.3**	**8.9**
Derivative financial instruments:					
Inflows**	**(86.5)**	**(7.9)**	**(23.6)**	**(28.6)**	**(146.6)**
Outflows**	**79.7**	**–**	**–**	**–**	**79.7**
Total	**364.9**	**357.6**	**171.3**	**447.5**	**1,341.3**

	2010				
	Less than 1 year £'m	1-2 years £'m	2-5 years £'m	Greater than 5 years £'m	Total £'m
Trade and other payables*	241.8	1.4	5.7	0.7	249.6
Bank and other borrowings	9.1	204.2	161.1	384.0	758.4
Interest payments on borrowings	27.9	27.6	66.0	81.2	202.7
Obligations under finance leases (see note 28)	0.8	1.4	2.5	–	4.7
Derivative financial instruments:					
Inflows**	(8.8)	(8.9)	(26.9)	(41.8)	(86.4)
Outflows**	8.9	5.0	–	–	13.9
Total	279.7	230.7	208.4	424.1	1,142.9

* Excludes social security and other taxes of £10.0 million (2010: £8.1 million) (see note 26).
** Assumes no change in interest rates from those prevailing at year end.

3. Financial risk management continued

Sensitivity analysis

The Group's principal exposures in relation to market risks are to changes in the exchange rate between the US dollar and Pound sterling and to changes in US interest rates. The table below illustrates the sensitivity of the Group's results to changes in these key variables as at the balance sheet date. The analysis covers only financial assets and liabilities held at the balance sheet date and is made on the basis of the hedge designations in place on the relative dates and assuming no hedge ineffectiveness.

	2011		2010	
	Income statement £'m	**Equity £'m**	Income statement £'m	Equity £'m
USD/GBP exchange rate +/- 5%	**6.7**	**31.0**	8.7	28.0
US yield curve +/- 1%	**2.5**	**0.4**	4.8	1.5

Of the impact on equity from movements in the exchange rate, £36.3 million (2010: £31.0 million) relates to US dollar net debt. However, as all US dollar debt is designated as a net investment hedge, the impact is entirely offset by the retranslation of overseas operations.

Capital risk management

The Group's objective when managing its capital structure is to minimise the cost of capital while maintaining adequate capital to protect against volatility in earnings and net asset values. The strategy is designed to maximise shareholder return over the long-term. The relative proportion of debt to equity will be adjusted over the medium-term depending on the cost of debt compared to equity and the level of uncertainty facing the industry and the Group. The Group's committed credit facilities contain two principal financial covenants. The Group has complied with these covenant requirements for the year ended 31 December 2011. During the year the Group acquired Pacific Scientific Aerospace, which was funded by a combination of debt and an equity placing (see note 35). The equity placing ensured that the Group maintained its comfortable headroom against covenant measures. Further details on the covenant requirements and the Group's performance against these can be found on page 23 of the Performance Review. The capital structure of the Group at the balance sheet date is as follows:

	2011 £'m	2010 £'m
Obligations under finance leases – current (see note 28)	**0.7**	0.8
Bank and other borrowings – current (see note 29)	**7.0**	12.7
Obligations under finance leases – non-current (see note 28)	**8.2**	3.9
Bank and other borrowings – non-current (see note 29)	**867.1**	755.9
Less cash and cash equivalents (see note 25)	**(94.6)**	(51.9)
Total net debt	**788.4**	721.4
Total equity	**1,793.3**	1,438.2
Debt/equity %	**44.0%**	50.2%

4. Critical accounting estimates and judgements

In applying the Group's accounting policies set out in note 2, management is required to make certain estimates and judgements concerning the future. These estimates and judgements are regularly reviewed and updated as necessary. The estimates and judgements that have the most significant effect on the amounts included in these consolidated financial statements are as follows:

Goodwill

Each year the Group carries out impairment tests of its goodwill balances which requires estimates to be made of the value in use of its cash generating units ('CGUs'). These value in use calculations are dependent on estimates of the future cash flows, long-term growth rates and appropriate discount rates to be applied to the future cash flows of the CGUs. Further details on these estimates are provided in note 19.

Development costs and programme participation costs

The Group capitalises development costs and programme participation costs provided they meet certain criteria. Costs are only capitalised where management are satisfied as to the ultimate commercial viability of the project based on available information. Projects typically involve long-term relationships on aircraft platforms and, in assessing commercial viability, estimates need to be made of future revenues, margins and cash flows which are dependent on a number of factors including the size, utilisation and life of the aircraft fleet to which the capitalised costs relate.

Fair value of intangible assets acquired in a business combination

On the acquisition of a business it is necessary to attribute fair values to any intangible assets acquired (provided they meet the criteria to be recognised). The fair values of these intangible assets are dependent on estimates of attributable future revenues, margins and cash flows.

Income taxes

In determining the Group's provisions for income tax and deferred tax it is necessary to consider transactions in a small number of key tax jurisdictions for which the ultimate tax determination is uncertain. To the extent the final outcome differs from the tax that has been provided, adjustments will be made to income tax and deferred tax provisions held in the period the determination is made.

Notes to the financial statements continued

4. Critical accounting estimates and judgements continued

Environmental matters

The Group is involved in the investigation and remediation of certain sites for which we have been identified as a potentially responsible party under US law. Advice is received by the Group from its environmental consultants and legal advisors to assist in the determination of the timing and estimation of the costs the Group may incur in respect of such claims and an appropriate provision is made. To the extent these estimates change as more information becomes available, adjustments are made to the carrying value of the provision. The Group has extensive insurance arrangements in place to mitigate the impact of historical environmental events on the Group.

Legal and regulatory

The Group is subject to legal proceedings and other claims arising in the ordinary course of business. The Group is required to assess the likelihood of any adverse judgements or outcomes, as well as potential ranges of probable losses. A determination of the provisions required for these matters is based on a careful analysis of each individual issue with the assistance of outside legal counsel. However, actual claims incurred could differ from the original estimates.

Retirement benefit obligations

The liability recognised in respect of retirement benefit obligations is dependent on a number of estimates including those relating to mortality, inflation, salary increases and the rate at which liabilities are discounted. Any change in these assumptions would impact the retirement benefit obligations recognised. Further details on these estimates are provided in note 34.

5. Revenue

The Group's revenue is analysed as follows:

	2011 £'m	2010 £'m
Sale of goods	**1,325.2**	1,065.0
Contract accounting revenue	**61.1**	38.8
Revenue from services	**41.7**	41.5
Revenue from funded research and development	**27.3**	16.7
Total	**1,455.3**	1,162.0

6. Segmental analysis

The Group manages its businesses under the key segments of Aircraft Braking Systems, Control Systems, Polymers & Composites, Sensing Systems and the Equipment Group.

- Aircraft Braking Systems is a leading supplier of aircraft wheels, brakes and brake control systems.
- Control Systems is a leading supplier of pneumatic, fluid control, thermal management and electro-mechanical equipment and sub-systems.
- Polymers & Composites is a leading specialist in fuel containment, engineered aircraft sealing solutions and technical polymers, electro-thermal ice protection and complex composite structures and assemblies.
- Sensing Systems is a leading provider of high-performance sensing and condition-monitoring solutions for high-value rotating machinery and other assets.
- The Equipment Group division was created to enable a set of strong, technologically distinct businesses market their offerings to specialist customers, while benefiting from the Group's investment in shared services and common processes. The division supplies aircraft fire protection and control systems, avionics, combat systems, live-fire and simulation training, heat transfer equipment for off-shore oil and gas, power generation, linear motion control, aircraft safety and security equipment and automotive and industrial control electronics.
- Pacific Scientific Aerospace ('PacSci') is managed within the Equipment Group. However, the results of PacSci have been reported separately to the Group's Chief Operating Decision Maker ('CODM') for the period from acquisition to 31 December 2011 and accordingly PacSci is treated as a separate segment under IFRS 8 for this period.

6. Segmental analysis continued

Year ended 31 December 2011

The key performance measure reviewed by the CODM is underlying operating profit. A detailed reconciliation of operating profit to underlying operating profit is provided in note 10.

	Aircraft Braking Systems £'m	Control Systems £'m	Polymers & Composites £'m	Sensing Systems £'m	Equipment Group £'m	PacSci £'m	Total £'m
Gross segment revenue	320.5	202.9	173.2	234.6	338.6	189.6	1,459.4
Inter-segment revenue	–	(1.3)	(2.0)	(0.7)	(0.1)	–	(4.1)
Revenue from external customers	**320.5**	**201.6**	**171.2**	**233.9**	**338.5**	**189.6**	**1,455.3**
Underlying operating profit (see note 10)*	**119.9**	**47.9**	**31.7**	**43.2**	**78.6**	**38.2**	**359.5**
Items not affecting underlying operating profit (see note 10)							(97.0)
Operating profit (see note 10)							**262.5**
Finance income (see note 12)							36.9
Finance costs (see note 13)							(73.4)
Net finance costs							(36.5)
Profit before tax							**226.0**
Tax (see note 14)							(41.1)
Profit for the year							**184.9**
Exceptional operating items (see note 11)	1.6	0.4	0.8	4.6	1.0	11.9	**20.3**
Amortisation of intangible assets (see notes 20 and 21)**	76.5	3.1	0.5	6.3	7.1	18.4	**111.9**
Depreciation (see note 22)	10.0	3.0	3.0	7.5	5.6	3.1	**32.2**

* Central costs are allocated using a variety of bases designed to reflect the beneficial relationship between the costs and the segments. Bases include headcount, payroll costs, gross assets and revenue.

** Of the total amortisation in the year, £36.8 million has been charged to underlying operating profit as defined in note 10.

The Group's largest customer accounts for 9.8% of revenues (£142.2 million). Revenues from this customer arise across all segments.

	Aircraft Braking Systems £'m	Control Systems £'m	Polymers & Composites £'m	Sensing Systems £'m	Equipment Group £'m	PacSci £'m	Total £'m
Additions to non-current assets							
Development costs (see note 20)	14.9	7.4	1.8	9.2	6.3	1.9	**41.5**
Programme participation costs (see note 20)	32.1	1.1	–	–	–	–	**33.2**
Property, plant and equipment (see note 22)	10.4	2.9	3.8	5.0	6.4	3.0	**31.5**
Total	**57.4**	**11.4**	**5.6**	**14.2**	**12.7**	**4.9**	**106.2**

As at 31 December 2011	Total £'m
Aircraft Braking Systems	470.4
Control Systems	131.4
Polymers & Composites	79.1
Sensing Systems	190.2
Equipment Group	195.9
PacSci	109.9
Total segmental trading assets	**1,176.9**
Centrally managed trading assets	145.9
Goodwill (see note 19)	1,544.0
Other intangible assets (see note 21)	865.8
Derivative financial instruments – non-current (see note 31)	39.7
Deferred tax assets (see note 33)	112.5
Derivative financial instruments – current (see note 31)	4.1
Current tax recoverable	2.6
Cash and cash equivalents (see note 25)	94.6
Total assets	**3,986.1**

Centrally managed trading assets principally include amounts recoverable from insurers in respect of environmental issues relating to former sites, other receivables and property, plant and equipment of central companies.

6. Segmental analysis continued

Year ended 31 December 2010

The key performance measure reviewed by the Group's CODM is underlying operating profit. A detailed reconciliation of operating profit to underlying operating profit is provided in note 10.

	Aircraft Braking Systems £'m	Control Systems £'m	Polymers & Composites £'m	Sensing Systems £'m	Equipment Group £'m	Total £'m
Gross segment revenue	309.7	183.3	156.9	213.7	305.4	1,169.0
Inter-segment revenue	–	(0.5)	(0.9)	(5.3)	(0.3)	(7.0)
Revenue from external customers	309.7	182.8	156.0	208.4	305.1	1,162.0
Underlying operating profit (see note 10)*	120.7	44.7	28.4	39.5	70.4	303.7
Items not affecting underlying operating profit (see note 10)						(83.6)
Operating profit (see note 10)						220.1
Finance income (see note 12)						33.6
Finance costs (see note 13)						(81.2)
Net finance costs						(47.6)
Profit before tax						172.5
Tax (see note 14)						(33.7)
Profit for the year						138.8
Exceptional operating items (see note 11)	3.4	2.0	3.0	2.3	5.0	15.7
Amortisation of intangible assets (see notes 20 and 21)**	67.5	4.1	8.1	4.5	12.4	96.6
Depreciation (see note 22)	11.0	3.3	3.1	5.8	5.6	28.8

* Central costs are allocated using a variety of bases designed to reflect the beneficial relationship between the costs and the segments. Bases include headcount, payroll costs, gross assets and revenue.

** Of the total amortisation in the year £31.9 million has been charged to underlying operating profit as defined in note 10.

The Group's largest customer accounts for 10.6% of revenues (£123.1 million). Revenues from this customer arise across all segments.

	Aircraft Braking Systems £'m	Control Systems £'m	Polymers & Composites £'m	Sensing Systems £'m	Equipment Group £'m	Total £'m
Additions to non-current assets						
Development costs (see note 20)	10.2	4.9	–	11.3	7.1	33.5
Programme participation costs (see note 20)	24.6	–	–	–	–	24.6
Property, plant and equipment (see note 22)	3.0	1.6	2.1	4.0	3.5	14.2
Total	37.8	6.5	2.1	15.3	10.6	72.3

As at 31 December 2010	Total £'m
Aircraft Braking Systems	454.6
Control Systems	114.5
Polymers & Composites	69.4
Sensing Systems	176.4
Equipment Group	179.6
Total segmental trading assets	994.5
Centrally managed trading assets	113.8
Goodwill (see note 19)	1,295.5
Other intangible assets (see note 21)	722.1
Derivative financial instruments – non-current (see note 31)	12.0
Deferred tax assets (see note 33)	105.0
Derivative financial instruments – current (see note 31)	6.2
Current tax recoverable	0.8
Cash and cash equivalents (see note 25)	51.9
Total assets	3,301.8

Centrally managed trading assets principally include amounts recoverable from insurers in respect of environmental issues relating to former sites, other receivables and property, plant and equipment of central companies.

6. Segmental analysis continued

Geographical information

	2011 £'m	2010 £'m
Revenue		
UK	**134.0**	117.9
Rest of Europe	**324.7**	261.2
North America	**805.2**	631.2
Rest of World	**191.4**	151.7
Total	**1,455.3**	1,162.0

Revenues are based on the location of the customer.

	2011 £'m	2010 £'m
Segment non-current assets		
UK	**681.9**	564.3
Rest of Europe	**215.6**	129.5
North America	**2,121.1**	1,863.5
Rest of World	**4.4**	2.5
Total	**3,023.0**	2,559.8

Segment non-current assets are based on the location of the assets. They exclude deferred tax, derivative financial instruments and trade and other receivables.

7. Expenses by nature

	2011 £'m	2010 £'m
Raw materials and consumables used	**385.6**	302.5
Changes in inventories of finished goods and work in progress	**(13.1)**	(12.9)
Employee costs (see note 9)	**469.6**	370.2
Depreciation (see note 22)	**32.2**	28.8
Research and development costs expensed as incurred	**41.7**	34.0
Amortisation of capitalised development costs (see note 20)	**11.3**	8.2
Amortisation of programme participation costs (see note 20)	**20.8**	19.7
Amortisation of other purchased intangible assets (see note 21)	**4.7**	4.0
Amortisation of intangibles acquired in business combinations (see note 10)	**75.1**	64.7
(Profit)/loss on disposal of property, plant and equipment	**(2.0)**	0.2
Exceptional operating items (see note 11)	**20.3**	15.7
Financial instruments (see note 10)	**(9.7)**	3.2
Disposal of inventory revalued in business combinations (see note 10)	**11.3**	–
Net foreign exchange losses	**0.6**	1.3
Operating lease rentals – land and buildings	**13.1**	10.9
Operating lease rentals – plant, equipment and vehicles	**1.1**	0.8
Other administration costs	**134.5**	93.8
	1,197.1	945.1
Other operating income	**(4.3)**	(3.2)
Total	**1,192.8**	941.9

Analysed in the income statement:		
Cost of sales	**839.8**	639.8
Net operating costs	**353.0**	302.1
Total	**1,192.8**	941.9

Notes to the financial statements continued

8. Auditor remuneration

Payable to PricewaterhouseCoopers LLP and network firms:

	2011 £'m	2010 £'m
Audit services:		
Fees payable to the Company's auditor for the audit of the Company and the consolidated financial statements	**0.6**	0.4
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries pursuant to legislation	**1.2**	1.0
Non-audit services:		
Fees payable to the Company's auditor and its associates for all other services	**0.1**	0.5
Total	**1.9**	1.9

No significant fees were paid in 2011 for non-audit services. The non-audit services in 2010 primarily relate to fees in respect of cost saving advice on procurement.

The Group engages PricewaterhouseCoopers LLP to undertake those non-audit related activities which they are required to, and most suited to perform. Further details on the Group's policy in respect of non-audit fees is contained in the Directors' statement on corporate governance on page 45.

9. Employee information

	2011 £'m	2010 £'m
Employee costs including executive directors:		
Wages and salaries	**373.7**	289.7
Social security costs	**63.5**	51.9
Retirement benefit costs (see note 34)	**24.0**	14.3
Share-based payment expense (see note 36)	**8.4**	14.3
Total	**469.6**	370.2

Details of directors' remuneration is provided in the Remuneration Report on pages 47 to 54, which forms part of these financial statements.

	2011 No.	2010 No.
Average monthly number of persons employed including executive directors:		
Aircraft Braking Systems	**1,176**	1,170
Control Systems	**1,040**	945
Polymers & Composites	**1,939**	1,741
Sensing Systems	**1,470**	1,371
Equipment Group	**1,669**	1,638
Pacific Scientific Aerospace	**1,614**	–
Corporate including shared services and centres of excellence	**449**	323
Total	**9,357**	7,188

10. Reconciliations between profit and underlying profit

Underlying profit is used by the Board to monitor and measure the underlying trading performance of the Group. It excludes certain items as described below:

	Note	2011 £'m	2010 £'m
Operating profit		**262.5**	220.1
Exceptional operating items (see note 11)		**20.3**	15.7
Amortisation of intangible assets acquired in business combinations	a	**75.1**	64.7
Disposal of inventory revalued in business combinations	b	**11.3**	–
Financial instruments	c	**(9.7)**	3.2
Adjustments to operating profit*		**97.0**	83.6
Underlying operating profit		**359.5**	303.7
Profit before tax		**226.0**	172.5
Adjustments to operating profit per above		**97.0**	83.6
Underlying profit before tax		**323.0**	256.1
Profit for the year		**184.9**	138.8
Adjustments to operating profit per above		**97.0**	83.6
Tax effect of adjustments to operating profit		**(36.4)**	(30.3)
Adjustments to profit for the year		**60.6**	53.3
Underlying profit for the year		**245.5**	192.1

* Of the adjustments to operating profit, £3.7 million (2010: £4.9 million) relating to exceptional operating items and £11.3 million (2010: £Nil relating to the disposal of inventory revalued in business combinations has been charged to cost of sales, with the balance of £82.0 million (2010: £78.7 million) included within net operating costs.

a. The Group excludes from its underlying profit figures the amortisation of intangible assets acquired in business combinations.

	2011 £'m	2010 £'m
Amortisation of other intangible assets (see note 21)	**79.8**	68.7
Less amortisation of purchased intangible assets (see note 21)	**(4.7)**	(4.0)
Amortisation of intangible assets acquired in business combinations	**75.1**	64.7

b. IFRS 3 requires finished goods acquired in a business combination to be valued at fair value, which is typically estimated selling price less costs of disposal and a reasonable profit allowance for the selling effort. Work in progress acquired in a business combination is valued at fair value, which is typically estimated selling price less costs to complete, costs of disposal and a reasonable profit allowance for work still to be carried out. The fair value of acquired inventory is thus significantly higher than the same items built post acquisition, the value of which includes no profit element. The difference between the fair value of the inventory consumed and its cost is excluded from the Group's underlying profit figures.

c. Although the Group 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. The Group's underlying profit figures exclude amounts which would not have been recorded if hedge accounting had been applied.

Where interest rate derivatives do not qualify to be hedge accounted, movements in the fair value of the derivatives are excluded from underlying profit. Where interest rate derivatives do qualify to be hedge accounted, any difference between the movement in the fair value of the derivatives and in the fair value of fixed rate borrowings is excluded from underlying profit.

	2011 £'m	2010 £'m
Movement in the fair value of foreign currency forward contracts	**5.6**	(0.3)
Impact of retranslating net foreign currency assets and liabilities at spot rate	**(1.4)**	0.7
Movement in the fair value of interest rate derivatives	**(30.0)**	(6.1)
Movement in the fair value of fixed rate borrowings	**16.1**	8.9
Financial instruments – (gain)/loss	**(9.7)**	3.2

Notes to the financial statements continued

11. Exceptional operating items

	Note	2011 £'m	2010 £'m
Transformation programme	a	**4.4**	13.2
Acquisition of Pacific Scientific Aerospace ('PacSci')	b	**6.0**	1.3
Integration of PacSci	c	**5.9**	-
Sensing Systems consolidation	d	**3.7**	-
Other		**0.3**	1.2
Exceptional operating items		**20.3**	15.7

a. The previously announced transformation programme was substantially completed during 2011 and the increased annual run-rate savings target of £57.0 million, set for the end of 2011, has been achieved.

b. Costs were incurred in respect of the acquisition of PacSci which completed on 21 April 2011. Total costs associated with the acquisition were £7.3 million of which £6.0 million were incurred in the year.

c. Cost synergies achieved in 2011 as part of the on-going PacSci integration process were £4.1 million. Costs incurred in the year in respect of this integration process were £5.9 million.

d. In June 2011, Sensing Systems announced the consolidation of its New Hampshire and San Juan Capistrano facilities to a single new location in Southern California. This decision will result in the closure of the New Hampshire site in 2013.

Cash expenditure on exceptional operating items was £17.1 million (2010: £15.5 million), including £3.9 million in respect of the transformation programme (2010: £13.7 million), £6.6 million in respect of the acquisition of PacSci (2010: £0.7 million), £4.4 million in respect of the integration of PacSci (2010: £Nil), £1.9 million in respect of the Sensing Systems consolidation (2010: £Nil) and £0.3 million in respect of other items (2010: £1.1 million). The tax credit in respect of exceptional operating items was £5.6 million (2010: £4.9 million).

12. Finance income

	2011 £'m	2010 £'m
Interest on bank deposits	**0.1**	0.2
Unwinding of interest on other receivables	**1.1**	1.2
Expected return on retirement benefit scheme assets (see note 34)	**35.5**	32.0
Other finance income	**0.2**	0.2
Finance income	**36.9**	33.6

13. Finance costs

	2011 £'m	2010 £'m
Interest on bank borrowings	**11.1**	24.6
Interest on senior notes	**19.8**	12.2
Interest on finance lease obligations	**0.3**	0.3
Unwinding of interest on provisions (see note 32)	**1.1**	1.3
Unwinding of interest on retirement benefit scheme liabilities (see note 34)	**40.0**	41.8
Amortisation of debt issue costs	**1.7**	1.5
Less: amounts capitalised in the cost of qualifying assets	**(0.6)**	(0.5)
Finance costs	**73.4**	81.2

14. Tax

	2011 £'m	2010 £'m
Current tax – current year	**44.5**	45.0
Current tax – adjustment in respect of prior years	**(8.5)**	0.7
Deferred tax – origination and reversal of temporary differences	**6.5**	(9.8)
Deferred tax - effect of changes in tax rates	**(1.4)**	(2.2)
Total taxation	**41.1**	33.7

The Finance Act 2011 included legislation to reduce the main rate of corporation tax in the UK from 26% to 25% with effect from 1 April 2012. Further reductions are proposed to reduce the main rate by 1% per annum to 23% by 1 April 2014.

The reduction in the main UK tax rate to 25% is reflected in the financial statements for the year ended 31 December 2011. The impact, of this change, on net deferred tax liabilities as at 31 December 2011, profit for the year (underlying and statutory) and other comprehensive income for the year has not been significant. As the further reductions in the main UK tax rate have not been substantially enacted at the balance sheet date, their impact is not reflected in these financial statements.

14. Tax continued

Reconciliation of total tax charge

A reconciliation of the notional tax charge based on average standard rates of tax (weighted in proportion to accounting profits) to the actual tax charge is as follows:

	2011 £'m	2010 £'m
Profit on ordinary activities before taxation at weighted average standard tax rate of 30.1%* (2010: 30.8%)	**68.0**	53.1
Effects of:		
Permanent differences	**(14.6)**	(11.2)
Timing differences	**(0.1)**	0.1
Changes in statutory tax rates	**(1.4)**	(2.2)
Tax credits and incentives	**(4.3)**	(6.0)
Prior year credits	**(6.5)**	(0.1)
Total taxation	**41.1**	33.7

*The sensitivity of the tax charge to changes in the tax rate is such that a one percentage point increase, or reduction, in the tax rate would cause the total taxation charge for 2011 to increase, or reduce respectively, by approximately £2.3 million.

Tax relating to components of other comprehensive income

	2011			2010		
	Before tax £'m	Tax credit /(charge) £'m	After tax £'m	Before tax £'m	Tax credit /(charge) £'m	After tax £'m
Current tax - currency translation movements	**11.2**	**3.9**	**15.1**	28.3	(2.0)	26.3
Deferred tax - currency translation movements	**(0.5)**	**0.1**	**(0.4)**	1.0	(0.3)	0.7
Deferred tax - actuarial losses	**(76.6)**	**18.9**	**(57.7)**	(1.5)	0.6	(0.9)
Deferred tax - cash flow hedge movements	**5.3**	**(1.3)**	**4.0**	20.6	(5.8)	14.8
Other comprehensive income	**(60.6)**	**21.6**	**(39.0)**	48.4	(7.5)	40.9
Current tax		**3.9**			(2.0)	
Deferred tax		**17.7**			(5.5)	
Total		**21.6**			(7.5)	

Tax relating to items recognised directly in equity

	2011 £'m	2010 £'m
Deferred tax credit relating to share-based payment	**0.9**	2.6
Total	**0.9**	2.6

15. Profit of parent company

The profit, after dividends received, attributable to the shareholders of Meggitt PLC is £782.7 million (2010: £86.5 million) and has been dealt with in the accounts of that Company. Meggitt PLC, which prepares its accounts in accordance with UK GAAP, has taken advantage of the legal dispensation contained in Section 408 of the Companies Act 2006 allowing it not to publish a separate profit and loss account.

16. Earnings per ordinary share

Earnings per ordinary share ('EPS') is calculated by dividing the profit attributable to owners of the parent by the weighted average number of shares in issue during the year. The weighted average number of shares used excludes 0.2 million shares (2010: 0.6 million shares) being the weighted average number of own shares bought by the Group and held during the year by an independently managed Employee Share Ownership Plan Trust (see note 37). The calculation of diluted EPS adjusts the weighted average number of shares to reflect the assumption that all potentially dilutive ordinary shares convert. For the Group this means assuming all equity-settled share options and share appreciation rights in issue are exercised.

	2011 Profit* £'m	2011 Shares No. 'm	2011 EPS Pence	2010 Profit* £'m	2010 Shares No. 'm	2010 EPS Pence
Basic EPS	**184.9**	**769.7**	**24.0**	138.8	691.5	20.1
Potential effect of dilutive ordinary shares	**–**	**6.2**	**(0.2)**	–	7.9	(0.2)
Diluted EPS	**184.9**	**775.9**	**23.8**	138.8	699.4	19.9

* Profit for the year from continuing operations attributable to owners of the parent.

Notes to the financial statements continued

16. Earnings per ordinary share continued

Underlying EPS is based on underlying profit (see note 10) and the same number of shares as is used in the calculation of basic EPS. It is reconciled to basic EPS below:

	2011 Pence	2010 Pence
Basic EPS	**24.0**	20.1
Add back effects of:		
Exceptional operating items	**1.9**	1.6
Amortisation of intangible assets acquired in business combinations	**6.0**	5.8
Disposal of inventory revalued in business combinations	**0.9**	–
Financial instruments	**(0.9)**	0.3
Underlying EPS	**31.9**	27.8

As the impact was not significant, earnings per share data for the prior year has not been restated for the effects of the equity placing completed on 21 January 2011.

17. Dividends

	2011 £'m	2010 £'m
In respect of earlier years	**–**	39.4
In respect of 2010:		
Interim of 2.85p per share	**–**	19.8
Final of 6.35p per share	**48.8**	–
In respect of 2011:		
Interim of 3.20p per share	**24.8**	–
Dividends paid	**73.6**	59.2
Less paid as scrip dividend (see note 41)	**(25.2)**	(29.5)
Dividends paid in cash	**48.4**	29.7

A final dividend in respect of 2011 of 7.30p per share (2010: 6.35p), amounting to an estimated total final dividend of £56.9 million (2010: £48.8 million) is to be proposed at the Annual General Meeting on 26 April 2012. This dividend is not reflected in these financial statements as it is has not been approved by the shareholders at the balance sheet date.

18. Related party transactions

Transactions between the Company and its subsidiaries have been eliminated on consolidation. The remuneration of the key management personnel of the Group, including executive directors, is set out below:

	2011 £'m	2010 £'m
Salaries and other short-term employee benefits	**8.7**	7.9
Retirement benefit costs	**0.4**	0.5
Share-based payment expense	**3.8**	4.8
Total	**12.9**	13.2

Interests of key management personnel, including executive directors, in share schemes operated by the Group at the balance sheet date are set out below:

	2011 Average option/base price Pence	2011 Number outstanding 'm	2010 Average option/base price Pence	2010 Number outstanding 'm
Share options	**217.41**	**0.1**	209.39	0.5
Share appreciation rights – equity-settled	**265.79**	**9.7**	250.39	9.2
Share appreciation rights – cash-settled	**269.05**	**0.4**	264.70	0.6
Equity Participation Plan shares	**N/A**	**4.2**	N/A	4.2
Deferred Share Bonus Plan shares	**N/A**	**0.1**	N/A	0.2

Full details of all elements in the remuneration package of each director together with directors' share interests and share options are given in the Remuneration Report on pages 47 to 54 which forms part of these financial statements.

19. Goodwill

	2011 £'m	2010 £'m
Cost as at 1 January	**1,295.5**	1,261.9
Exchange rate adjustments	**15.9**	33.6
Businesses acquired (see note 42)	**232.6**	–
Cost as at 31 December	**1,544.0**	1,295.5

Goodwill is tested for impairment annually or more frequently if there is any indication of impairment. No impairment charge was required in the year (2010: £Nil) and the cumulative impairment charge recognised to date is £Nil (2010: £Nil). The total amount of goodwill acquired in the year that is expected to be deductible for tax purposes is £85.4 million.

For the purposes of testing goodwill for impairment, goodwill is allocated to the Group's cash generating units ('CGUs') which principally comprise its individual business operations. Goodwill is initially allocated, in the year a business is acquired, to CGUs expected to benefit from the acquisition. Subsequent adjustments are made to this allocation to the extent operations to which goodwill relates are transferred between CGUs.

An analysis of goodwill by principal CGU is shown below:

	2011 £'m	2010 £'m
Meggitt Aircraft Braking Systems ('MABS')	**701.8**	697.5
Meggitt (North Hollywood), Inc	**173.0**	171.7
Pacific Scientific HTL (Acquired as part of Pacific Scientific Aerospace)	**95.2**	–
Meggitt (Rockmart) Inc	**73.1**	72.5
Meggitt Training Systems Inc	**67.1**	66.6
Other*	**433.8**	287.2
Total	**1,544.0**	1,295.5

* Includes five CGUs acquired as part of the acquisition of Pacific Scientific Aerospace, with a total value of £145.8 at 31 December 2011.

For each acquired CGU the Group has determined its recoverable amount from value in use calculations. The value in use calculations are based on cash flow forecasts derived from the most recent budgets and plans for the next five years, as approved by management in December 2011. Cash flows for periods beyond five years are extrapolated using estimated growth rates. The resultant cash flows are discounted using a pre-tax discount rate appropriate for the relevant CGU.

The key assumptions for the value in use calculations are shown below:

- Sales volumes, selling prices and cost increases over the five years covered by management's detailed plans. Sales volumes are based on industry forecasts and management estimates for the businesses in which each CGU operates including forecasts for OEM deliveries of large jets, regional aircraft and business jets; air traffic growth and military spending by the US DoD and other major governments. Selling prices and cost increases are based on past experience and management expectations of future changes in the market. Overall a cautious approach to volume levels, selling prices and cost increases has been taken given the continued global economic uncertainty. The extent to which these assumptions affect each principal CGU with a significant level of goodwill are described below.

  MABS, Meggitt (North Hollywood), Inc and Pacific Scientific HTL are broadly spread across both civil aerospace and military platforms with Meggitt (North Hollywood), Inc also operating in the energy sector. MABS is a world leader in the supply of braking systems particularly for regional aircraft, business jets, and military aircraft. Meggitt (North Hollywood), Inc designs and manufactures fluid control devices and systems for most aircraft types and has a higher content on large jets. Pacific Scientific HTL designs and manufactures customised aviation safety equipment for large, regional, business and military aircraft. All three businesses have significant OEM and aftermarket revenues derived from sole source positions with the aftermarket, where platform lives can be up to thirty years for civil aircraft and longer for military, representing the greater proportion of revenues. Meggitt (Rockmart) Inc and Meggitt Training Systems Inc both operate in military markets. The principal customer of Meggitt (Rockmart) Inc is the US DoD to whom Meggitt (Rockmart) Inc are a leading supplier of flexible fuel tanks. Meggitt Training Systems Inc supplies integrated live and virtual training packages for armed forces and law enforcement agencies across the world.

  In civil aerospace, growth in capacity terms, measured in available seat kilometres (ASK's), is forecast to grow in line with the long-term trend rate of 5%, which together with the Group's growing fleet and price increases, should drive an increase in aftermarket revenues of 8 to 9% per annum over the medium term. The recovery in air passenger travel has been reflected in an increase in orders received by Boeing and Airbus. Large jet deliveries increased by 4% in 2011 and compound annual growth of 10% is expected over the next five years as airlines replace ageing fleets with more efficient aircraft. Deliveries of regional aircraft increased by 6% in 2011 and growth at similar levels is anticipated over the next five years, particularly in 70-90 seat passenger aircraft on which the Group has strong shipset content. Regional aftermarket revenues are expected to grow as operators expand capacity and utilisation particularly in Europe, Latin and South America and Asia. Whilst business jet deliveries declined in 2011, recovery is expected from 2012 with compound annual growth of 10% expected over the next five years. The business jet aftermarket has been strong in 2011 and further growth is expected on the back of a growing fleet, growing market share and pricing. In military markets, defence budgets remain under pressure. However, the Group has key positions on growth platforms of the future and is not currently expected to be significantly affected by any cancellation, delay or changes in scope arising from the US DoD, or other governments' spending reviews. Overall the Group anticipates organic revenue growth from military markets at around 2% over the medium-term and expects its energy revenues to grow at double–digit percentages in the medium-term.

Notes to the financial statements continued

19. Goodwill continued

- Growth rates used for periods beyond those covered by management's detailed budgets and plans. Growth rates are derived based on management's estimates which take into account the long-term nature of the industry in which each CGU operates, external industry forecasts of long-term growth in the aerospace and defence sectors, the extent to which a CGU has sole source position on platforms where it is able to share in a continuing stream of highly profitable aftermarket revenues, the maturity of the platforms supplied by the CGU and the technological content of the CGU's products. For the purpose of impairment testing, a conservative approach has been used and where the derived rate is higher than the long-term GDP growth rates for the countries in which the CGU operates (UK: 2.1% (2010: 2.4%), US: 2.5% (2010: 2.5%)), the latter has been used;
- Discount rates applied to future cash flows. The Group's pre-tax weighted average cost of capital (WACC) was used as the foundation for determining the discount rates to be applied. The WACC was then adjusted to reflect risks specific to the CGU not already reflected in the future cash flows for that CGU. The discount rates used were as follows: MABS 10.8% (2010: 10.5%), Meggitt (North Hollywood), Inc, 11.1% (2010: 10.9%), Pacific Scientific HTL 11.2% (2010: Not applicable), Meggitt (Rockmart) Inc 11.1% (2010: 10.9%), and Meggitt Training Systems Inc 11.3% (2010: 10.0%).

The Group has carried out a sensitivity analysis to determine the extent to which its assumptions would need to change for the calculated recoverable amounts from value in use, to fall below the carrying value of goodwill of the CGU. Management has concluded that no reasonably foreseeable change in the key assumptions used in the impairment model would result in a significant impairment charge being recorded in the financial statements.

20. Development costs and programme participation costs

	Development costs £'m	Programme participation costs £'m
At 1 January 2010		
Cost	147.2	237.3
Accumulated amortisation	(28.2)	(62.4)
Net book amount	119.0	174.9
Year ended 31 December 2010		
Opening net book amount	119.0	174.9
Exchange rate adjustments	6.7	4.0
Additions	33.5	24.6
Interest capitalised	0.3	–
Amortisation*	(8.2)	(19.7)
Net book amount	151.3	183.8
At 31 December 2010		
Cost	184.3	266.5
Accumulated amortisation	(33.0)	(82.7)
Net book amount	151.3	183.8
Year ended 31 December 2011		
Opening net book amount	151.3	183.8
Exchange rate adjustments	1.4	1.3
Businesses acquired (see note 42)	2.4	-
Additions	41.5	33.2
Interest capitalised	0.5	–
Amortisation*	(11.3)	(20.8)
Net book amount	**185.8**	**197.5**
At 31 December 2011		
Cost	230.3	301.8
Accumulated amortisation	(44.5)	(104.3)
Net book amount	**185.8**	**197.5**

* Charged to net operating costs in respect of development costs and to cost of sales in respect of programme participation costs.

Meggitt Sensing Systems has the largest share of Group development costs with a net book amount of £62.6 million (2010: £57.2 million), which have an estimated weighted average remaining life of 9.1 years (2010: 9.6 years). Meggitt Aircraft Braking Systems has the largest share of Group programme participation costs with a net book amount of £195.9 million (2010: £183.2 million), which have an estimated weighted average remaining life of 9.4 years (2010: 9.7 years).

21. Other intangible assets

	Customer relationships (*) £'m	Technology (*) £'m	Order backlogs (*) £'m	Trade names and trademarks (*) £'m	Other purchased (**) £'m	Total £'m
At 1 January 2010						
Cost	716.4	187.6	21.4	26.0	29.2	980.6
Accumulated amortisation	(128.8)	(47.6)	(21.0)	(12.6)	(16.1)	(226.1)
Net book amount	587.6	140.0	0.4	13.4	13.1	754.5
Year ended 31 December 2010						
Opening net book amount	587.6	140.0	0.4	13.4	13.1	754.5
Exchange rate adjustments	15.8	3.6	0.1	0.4	0.4	20.3
Additions	–	–	–	–	15.8	15.8
Interest capitalised	–	–	–	–	0.2	0.2
Amortisation - net operating costs (see note 10)	(46.1)	(16.6)	(0.5)	(1.5)	(4.0)	(68.7)
Net book amount	557.3	127.0	–	12.3	25.5	722.1
At 31 December 2010						
Cost	734.6	192.3	21.8	26.5	45.9	1,021.1
Accumulated amortisation	(177.3)	(65.3)	(21.8)	(14.2)	(20.4)	(299.0)
Net book amount	557.3	127.0	–	12.3	25.5	722.1
Year ended 31 December 2011						
Opening net book amount	557.3	127.0	–	12.3	25.5	722.1
Exchange rate adjustments	6.5	2.0	–	0.2	0.1	8.8
Businesses acquired (see note 42)	119.9	51.7	11.3	4.1	0.7	187.7
Additions	–	–	–	–	26.9	26.9
Interest capitalised	–	–	–	–	0.1	0.1
Amortisation - net operating costs (see note 10)	(50.2)	(14.8)	(8.1)	(2.0)	(4.7)	(79.8)
Net book amount	**633.5**	**165.9**	**3.2**	**14.6**	**48.6**	**865.8**
At 31 December 2011						
Cost	863.2	246.7	11.4	30.9	73.4	1,225.6
Accumulated amortisation	(229.7)	(80.8)	(8.2)	(16.3)	(24.8)	(359.8)
Net book amount	**633.5**	**165.9**	**3.2**	**14.6**	**48.6**	**865.8**

* Acquired in business combinations. Amortisation of these items is excluded from the Group's underlying profit figures (see note 10).
** Principally relates to software costs.

The net book amount of customer relationships include £444.1 million (2010: £478.0 million) in respect of Meggitt Aircraft Braking Systems which have an estimated weighted average remaining life of 12.0 years (2010: 13.0 years). The net book amount of technology includes £88.8 million (2010: £95.6 million) in respect of Meggitt Aircraft Braking Systems which have an estimated weighted average remaining life of 12.0 years (2010: 13.0 years).

During the current year, cost and accumulated amortisation relating to completed order backlogs has been eliminated.

Notes to the financial statements continued

22. Property, plant and equipment

	Land and buildings £'m	Plant, equipment and vehicles £'m	Total £'m
At 1 January 2010			
Cost	145.3	328.4	473.7
Accumulated depreciation	(35.2)	(222.6)	(257.8)
Net book amount	110.1	105.8	215.9
Year ended 31 December 2010			
Opening net book amount	110.1	105.8	215.9
Exchange rate adjustments	3.3	3.1	6.4
Additions	1.7	12.5	14.2
Disposals	(0.6)	–	(0.6)
Depreciation	(6.1)	(22.7)	(28.8)
Net book amount	108.4	98.7	207.1
At 31 December 2010			
Cost	151.4	335.9	487.3
Accumulated depreciation	(43.0)	(237.2)	(280.2)
Net book amount	108.4	98.7	207.1
Year ended 31 December 2011			
Opening net book amount	108.4	98.7	207.1
Exchange rate adjustments	0.4	0.7	1.1
Businesses acquired (see note 42)	5.6	18.1	23.7
Additions	8.7	22.8	31.5
Disposals	(1.1)	(0.2)	(1.3)
Depreciation	(7.6)	(24.6)	(32.2)
Net book amount	**114.4**	**115.5**	**229.9**
At 31 December 2011			
Cost	164.8	372.2	537.0
Accumulated depreciation	(50.4)	(256.7)	(307.1)
Net book amount	**114.4**	**115.5**	**229.9**

The Group's obligations under finance leases (see note 28) are secured by the lessors' title to the leased assets, which have a carrying amount of £5.0 million included within land and buildings (2010: £Nil) and £2.0 million (2010: £3.2 million) included within plant, equipment and vehicles.

23. Inventories

	2011 £'m	2010 £'m
Contract costs incurred	**12.1**	6.8
Less progress billings	**(3.5)**	(1.0)
Net contract costs	**8.6**	5.8
Raw materials and bought-in components	**105.4**	99.0
Manufacturing work in progress	**110.0**	93.3
Finished goods and goods for resale	**53.5**	41.0
Total	**277.5**	239.1

The cost of inventories recognised as an expense and included in cost of sales amounted to £828.3 million (2010: £631.3 million).

24. Trade and other receivables

	2011 £'m	2010 £'m
Trade receivables	**263.0**	189.3
Amounts recoverable on contracts	**8.3**	4.7
Prepayments and accrued income	**10.8**	8.9
Other receivables	**150.0**	124.1
Total	**432.1**	327.0
Less non-current portion:		
Other receivables	**114.7**	88.6
Non-current portion	**114.7**	88.6
Current portion	**317.4**	238.4

Other receivables includes £112.8 million (2010: £95.3 million) in respect of insurance receivables arising on environmental issues pertaining to businesses sold by Whittaker Corporation prior to its acquisition by the Group (see note 32) of which £5.1 million (2010: £10.0 million) is shown as current.

Trade receivables are stated after a provision for impairment of £7.2 million (2010: £3.9 million). Other balances within trade and other receivables do not contain impaired assets. The provision for impairment against trade receivables is based on a specific risk assessment taking into account past default experience and is analysed as follows:

	2011 £'m	2010 £'m
At 1 January	**3.9**	3.5
Exchange movements	**0.1**	0.1
Charge to income statement - net operating costs	**3.2**	0.3
At 31 December	**7.2**	3.9

At 31 December 2011, trade receivables of £42.8 million (2010: £35.0 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2011 £'m	2010 £'m
Up to 3 months	**34.4**	28.0
Over 3 months	**8.4**	7.0
Total	**42.8**	35.0

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable reported above. The Group does not hold any collateral as security.

Trade and other receivables are denominated in the following currencies:

	2011 £'m	2010 £'m
Sterling	**60.0**	50.5
US dollar	**325.0**	243.2
Euro	**38.6**	28.7
Other	**8.5**	4.6
Total	**432.1**	327.0

Notes to the financial statements continued

25. Cash and cash equivalents

	2011 £'m	2010 £'m
Cash at bank and on hand	**80.6**	51.9
Short-term bank deposits	**14.0**	–
Total	**94.6**	51.9

Cash and cash equivalents are subject to interest at floating rates. The credit quality of cash and cash equivalents is as follows:

	2011 £'m	2010 £'m
S&P rating:		
AAA	**0.6**	0.1
AA	**16.0**	24.7
A	**63.8**	26.9
BBB	**14.2**	0.2
Total	**94.6**	51.9

26. Trade and other payables – current

	2011 £'m	2010 £'m
Payments received on account	**42.1**	43.7
Trade payables	**142.4**	89.2
Social security and other taxes	**10.0**	8.1
Accrued expenses	**53.2**	33.6
Deferred consideration relating to acquired businesses	**–**	1.7
Other payables	**101.7**	73.6
Total	**349.4**	249.9

27. Trade and other payables – non-current

	2011 £'m	2010 £'m
Deferred consideration relating to acquired businesses	**3.1**	2.3
Other payables	**3.4**	5.5
Total	**6.5**	7.8

28. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2011 £'m	2010 £'m	2011 £'m	2010 £'m
Amounts payable under finance leases:				
Within one year	**1.8**	1.3	**0.7**	0.8
In the second to fifth years inclusive	**7.1**	4.4	**2.9**	3.9
After five years	**15.5**	–	**5.3**	–
Total	**24.4**	5.7	**8.9**	4.7
Less: future finance charges	**(15.5)**	(1.0)		
Present value of lease obligations	**8.9**	4.7		
Less non-current portion	**8.2**	3.9		
Current portion	**0.7**	0.8		

The underlying currency of obligations under finance leases is Sterling £Nil (2010: £0.1 million) and US dollar £8.9 million (2010: £4.6 million). The weighted average period to maturity is 12.0 years (2010: 2.9 years) and the weighted average interest rate is 15.3% (2010: 5.7%).

29. Bank and other borrowings

	2011 £'m	2010 £'m
Current		
Bank loans	**2.7**	8.2
Other loans	**4.3**	4.5
Total current	**7.0**	12.7
Non-current		
Bank loans	**292.6**	201.6
Other loans	**574.5**	554.3
Total non-current	**867.1**	755.9
Total	**874.1**	768.6
Analysis of bank and other borrowings repayable:		
In one year or less	**7.0**	12.7
In more than one year but not more than two years	**334.2**	203.6
In more than two years but not more than five years	**121.4**	159.8
In more than five years	**411.5**	392.5
Total	**874.1**	768.6

Bank and other borrowings are stated after deduction of unamortised debt issue costs. Debt issue costs are written off over the period of the facility to which they relate. Secured borrowings amounted to £0.2 million (2010: £1.0 million) which are secured by specific land and buildings of the Group.

The Group has the following committed facilities:

	2011			2010		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
Senior notes (2011: USD 250.0 million, 2010: USD 250.0 million)	**160.9**	**–**	**160.9**	159.7	–	159.7
Senior notes (2011: USD 600.0 million, 2010: USD 600.0 million)	**386.1**	**–**	**386.1**	383.2	–	383.2
Syndicated credit facility (2011: USD 500.0 million, 2010: USD 500.0 million)	**218.3**	**103.4**	**321.7**	–	319.3	319.3
Syndicated credit facility (2011: USD 700.0 million, 2010:USD 920.0 million)	**77.3**	**373.1**	**450.4**	203.1	384.5	587.6
Total	**842.6**	**476.5**	**1,319.1**	746.0	703.8	1,449.8

The Group issued USD 250.0 million of loan notes to private placement investors in 2003. These were all drawn at 31 December 2011 and the sterling equivalent was £160.9 million. The notes are in two tranches as follows: USD 180.0 million carry an interest rate of 5.36% and are due for repayment in 2013 and USD 70.0 million carry an interest rate of 5.46% and are due for repayment in 2015.

The Group issued USD 600.0 million of loan notes to private placement investors in 2010. These were all drawn at 31 December 2011 and the sterling equivalent was £386.1 million. The notes are in four tranches as follows: USD 200.0 million carry an interest rate of 4.62% and are due for repayment in 2017, USD 125.0 million carry an interest rate of 5.02% and are due for repayment in 2020, USD 150.0 million carry an interest rate of 5.17% and are due for repayment in 2020 and USD 125.0 million carry an interest rate of 5.12% and are due for repayment in 2022.

During 2011 the USD 920.0 million credit facility which was available at 31 December 2010 was cancelled and replaced by a pre-arranged USD 700.0 million revolving credit facility which matures in 2016. The Group also has a USD 500.0 million revolving credit facility which matures in 2013.

At 31 December 2011 the amounts drawn under our revolving credit facilities were £295.6 million (2010: £203.1 million) represented by borrowings denominated in US dollars of £212.9 million (2010: £112.1 million) and in Swiss francs of £82.7 million (2010: £91.0 million). Borrowings under the facilities are subject to interest at floating rates. The Group also has various uncommitted facilities with its relationship banks.

The committed facilities available as at 31 December 2011 and 31 December 2010 expire as follows:

	2011			2010		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
Within one to two years	**334.2**	**103.4**	**437.6**	203.1	384.5	587.6
In more than two years	**508.4**	**373.1**	**881.5**	542.9	319.3	862.2
Total	**842.6**	**476.5**	**1,319.1**	746.0	703.8	1,449.8

Notes to the financial statements continued

29. Bank and other borrowings continued

The fair value of bank and other borrowings is as follows:

	2011		2010	
	Carrying value £'m	Fair value £'m	Carrying value £'m	Fair value £'m
Current	**7.0**	**7.0**	12.7	12.7
Non-current	**867.1**	**885.6**	755.9	769.1
Total	**874.1**	**892.6**	768.6	781.8

After taking account of the financial derivatives that alter the interest and currency basis of the financial liabilities entered into by the Group, the interest rate exposure on gross bank and other borrowings is:

As at 31 December 2011:

					Fixed rate borrowings	
	Floating £'m	Fixed £'m	Non-interest bearing £'m	Total £'m	Weighted average interest rate %	Weighted average period for which rate is fixed years
US dollar	**233.6**	**482.6**	**–**	**716.2**	**5.1**	**2.7**
Swiss franc	**82.7**	**–**	**–**	**82.7**		
Euro	**75.8**	**0.2**	**3.8**	**79.8**	**5.9**	**1.0**
Other	**0.2**	**–**	**–**	**0.2**		
Gross bank and other borrowings	**392.3**	**482.8**	**3.8**	**878.9**		
Less unamortised debt issue costs	**(3.7)**	**(1.1)**	**–**	**(4.8)**		
Bank and other borrowings	**388.6**	**481.7**	**3.8**	**874.1**		

As at 31 December 2010:

					Fixed rate borrowings	
	Floating £'m	Fixed £'m	Non-interest bearing £'m	Total £'m	Weighted average interest rate %	Weighted average period for which rate is fixed years
US dollar	192.9	479.0	–	671.9	5.1	3.7
Swiss franc	93.1	–	–	93.1		
Euro	0.6	0.4	4.2	5.2	5.9	1.5
Other	2.0	–	–	2.0		
Gross bank and other borrowings	288.6	479.4	4.2	772.2		
Less unamortised debt issue costs	(2.6)	(1.0)	–	(3.6)		
Bank and other borrowings	286.0	478.4	4.2	768.6		

The weighted average period to maturity for non-interest bearing borrowings is 3.4 years (2010: 3.1 years).

30. Financial instruments

For cash and cash equivalents, trade and other receivables, trade and other payables, obligations under finance leases and the current portion of bank and other borrowings, fair values approximate to their carrying values due to the short maturity periods of these financial instruments. For trade and other receivables, allowances are made within the carrying value for credit risk. For other financial instruments, fair values are based on market values, or where not available on discounting future cash flows at prevailing market rates, and by applying year end exchange rates.

IFRS 7 'Financial Instruments: Disclosures' requires the disclosure of financial assets and liabilities held at fair value using a hierarchy that reflects the significance of the inputs used in making the fair value measurements. Derivative financial instruments measured at fair value in the following table are classified as level 2 in the fair value measurement hierarchy, as they have been determined using significant inputs based on observable market data. The fair value of the non-current portion of bank and other borrowings has been determined using significant inputs which are a mixture of those based on observable market data (interest rate risk) and those not based on observable market data for which the Group takes advice from a third party (credit risk). The non-current portion of bank and other borrowings, held at fair value, in the following table is therefore classified as level 3 in the fair value measurement hierarchy.

30. Financial instruments continued

As at 31 December 2011:

	Held at fair value		Held at amortised cost			
	Through profit & loss £'m	Derivatives used for hedging £'m	Loans & receivables £'m	Other liabilities £'m	Total carrying value £'m	Total fair value £'m
Financial assets						
Non-current:						
Trade and other receivables (see note 24)	–	–	114.7	–	114.7	114.7
Derivative financial instruments (see note 31)	39.7	–	–	–	39.7	39.7
Current:						
Trade and other receivables*	–	–	306.6	–	306.6	306.6
Derivative financial instruments (see note 31)	1.1	3.0	–	–	4.1	4.1
Cash and cash equivalents (see note 25)	–	–	94.6	–	94.6	94.6
	40.8	3.0	515.9	–	559.7	559.7
Financial liabilities						
Current:						
Trade and other payables**	–	–	–	(339.4)	(339.4)	(339.4)
Derivative financial instruments (see note 31)	(10.3)	(2.5)	–	–	(12.8)	(12.8)
Obligations under finance leases (see note 28)	–	–	–	(0.7)	(0.7)	(0.7)
Bank and other borrowings (see note 29)	–	–	–	(7.0)	(7.0)	(7.0)
Non-current:						
Trade and other payables (see note 27)	–	–	–	(6.5)	(6.5)	(6.5)
Derivative financial instruments (see note 31)	(4.2)	–	–	–	(4.2)	(4.2)
Obligations under finance leases (see note 28)	–	–	–	(8.2)	(8.2)	(8.2)
Bank and other borrowings (see note 29)	(283.6)	–	–	(583.5)	(867.1)	(885.6)
	(298.1)	(2.5)	–	(945.3)	(1,245.9)	(1,264.4)
Total	(257.3)	0.5	515.9	(945.3)	(686.2)	(704.7)

As at 31 December 2010:

	Held at fair value		Held at amortised cost			
	Through profit & loss £'m	Derivatives used for hedging £'m	Loans & receivables £'m	Other liabilities £'m	Total carrying value £'m	Total fair value £'m
Financial assets						
Non-current:						
Trade and other receivables (see note 24)	–	–	88.6	–	88.6	88.6
Derivative financial instruments (see note 31)	12.0	–	–	–	12.0	12.0
Current:						
Trade and other receivables*	–	–	229.5	–	229.5	229.5
Derivative financial instruments (see note 31)	6.2	–	–	–	6.2	6.2
Cash and cash equivalents (see note 25)	–	–	51.9	–	51.9	51.9
	18.2	–	370.0	–	388.2	388.2
Financial liabilities						
Current:						
Trade and other payables**	–	–	–	(241.8)	(241.8)	(241.8)
Derivative financial instruments (see note 31)	(4.0)	–	–	–	(4.0)	(4.0)
Obligations under finance leases (see note 28)	–	–	–	(0.8)	(0.8)	(0.8)
Bank and other borrowings (see note 29)	–	–	–	(12.7)	(12.7)	(12.7)
Non-current:						
Trade and other payables (see note 27)	–	–	–	(7.8)	(7.8)	(7.8)
Derivative financial instruments (see note 31)	(12.3)	(4.8)	–	–	(17.1)	(17.1)
Obligations under finance leases (see note 28)	–	–	–	(3.9)	(3.9)	(3.9)
Bank and other borrowings (see note 29)	(265.6)	–	–	(490.3)	(755.9)	(769.1)
	(281.9)	(4.8)	–	(757.3)	(1,044.0)	(1,057.2)
Total	(263.7)	(4.8)	370.0	(757.3)	(655.8)	(669.0)

* Excludes prepayments and accrued income of £10.8 million (2010: £8.9 million) (see note 24).
** Excludes social security and other taxes of £10.0 million (2010: £8.1 million) (see note 26).

Notes to the financial statements continued

30. Financial instruments continued

The following table presents the changes in fair value of financial instruments classified as level 3 during the year:

	2011 £'m	2010 £'m
Bank and other borrowings at fair value through profit and loss:		
Opening balance	**(265.6)**	(35.2)
Exchange rate adjustments	**(2.6)**	2.5
Additions	**-**	(224.0)
Gains and losses recognised in net operating costs	**(15.4)**	(8.9)
Closing balance	**(283.6)**	(265.6)

31. Derivative financial instruments

As at 31 December 2011:

	Contract or underlying principal amount		**Fair value**	
	Assets £'m	**Liabilities £'m**	**Assets £'m**	**Liabilities £'m**
Interest rate swaps - cash flow hedges	**–**	**(112.6)**	**–**	**(2.5)**
Interest rate swaps - fair value hedges	**257.4**	**-**	**39.2**	**-**
Interest rate swaps - not hedge accounted	**-**	**(80.4)**	**-**	**(1.8)**
Cross currency swaps - net investment hedges	**75.2**	**–**	**3.0**	**–**
Foreign currency forward contracts - not hedge accounted	**72.8**	**(143.0)**	**1.6**	**(12.7)**
Total	**405.4**	**(336.0)**	**43.8**	**(17.0)**
Less non-current portion:				
Interest rate swaps - fair value hedges	**257.4**	**–**	**39.2**	**–**
Foreign currency forward contracts - not hedge accounted	**47.0**	**(35.9)**	**0.5**	**(4.2)**
Non-current portion	**304.4**	**(35.9)**	**39.7**	**(4.2)**
Current portion	**101.0**	**(300.1)**	**4.1**	**(12.8)**

As at 31 December 2010:

	Contract or underlying principal amount		Fair value	
	Assets £'m	Liabilities £'m	Assets £'m	Liabilities £'m
Interest rate swaps - cash flow hedges	-	(111.8)	-	(4.8)
Interest rate swaps - fair value hedges	255.5	-	10.9	-
Interest rate swaps - not hedge accounted	-	(79.8)	-	(3.4)
Foreign currency forward contracts - not hedge accounted	79.0	(137.2)	7.3	(12.9)
Total	334.5	(328.8)	18.2	(21.1)
Less non-current portion:				
Interest rate swaps - cash flow hedges	-	(111.8)	-	(4.8)
Interest rate swaps - fair value hedges	255.5	-	10.9	-
Interest rate swaps - not hedge accounted	-	(79.8)	-	(3.4)
Foreign currency forward contracts - not hedge accounted	27.2	(102.2)	1.1	(8.9)
Non-current portion	282.7	(293.8)	12.0	(17.1)
Current portion	51.8	(35.0)	6.2	(4.0)

Interest rate swaps

The total notional principal amount of outstanding interest rate swap contracts at 31 December 2011 is £450.4 million (2010: £447.1 million), of which £193.0 million will expire in 2012, £64.3 million will expire in 2017, £112.6 million will expire in 2020 and £80.5 million will expire in 2022. The contracts are all denominated in USD. Of the notional principal amount outstanding, £193.0 million (2010: £191.6 million) has the economic effect of converting floating rate US dollar borrowings into fixed rate US dollar borrowings and £257.4 million (2010: £255.5 million) has the economic effect of converting fixed rate US dollar borrowings into floating rate US dollar borrowings. To the extent they meet the criteria for hedge accounting, the floating rate to fixed rate swap contracts are accounted for as cash flow hedges and the fixed to floating rate contracts as fair value hedges.

Cross currency swaps

Cross currency swaps are used to synthetically convert US dollar denominated borrowings into Euro denominated borrowings to hedge against Euro denominated assets of overseas subsidiaries. To the extent they meet the criteria for hedge accounting, swaps are accounted for as net investment hedges.

31. Derivative financial instruments continued

Foreign currency forward contracts

Although the Group 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.

	2011 Assets £'m	2011 Liabilities £'m	2010 Assets £'m	2010 Liabilities £'m
Fair value:				
US dollar forward sales (USD/£)	**1.0**	**(9.3)**	1.5	(12.8)
Forward sales denominated in other currencies	**0.6**	**(3.4)**	5.8	(0.1)
Total	**1.6**	**(12.7)**	7.3	(12.9)

Credit quality of derivative financial assets

The credit quality of derivative financial assets is as follows:

	2011 £'m	2010 £'m
AA	**13.8**	7.8
A	**21.9**	10.4
BBB	**8.1**	-
Total	**43.8**	18.2

32. Provisions

	Environmental legal & regulatory (a) £'m	Onerous contracts (b) £'m	Warranty costs (c) £'m	Total £'m
At 1 January 2011	136.2	6.7	13.1	156.0
Exchange rate adjustments	2.9	1.4	0.5	4.8
Businesses acquired (see note 42)	20.2	40.2	9.4	69.8
Transfers (to)/from trade and other payables – non-current	–	(0.1)	0.9	0.8
Charge to income statement – cost of sales	–	0.4	2.5	2.9
Charge to income statement – net operating costs	35.7	0.4	–	36.1
Charge to income statement – finance costs (see note 13)	1.1	–	–	1.1
Utilised	(10.9)	(4.9)	(4.9)	(20.7)
At 31 December 2011	**185.2**	**44.1**	**21.5**	**250.8**

	2011 £'m	2010 £'m
Current	**50.6**	40.7
Non-current	**200.2**	115.3
At 31 December 2011	**250.8**	156.0

a) Provision has been made for known exposures arising from environmental, health and safety, product liability matters, legal proceedings and contractual disputes in a number of businesses. The Group's operations and facilities are subject to laws and regulations that govern the discharge of pollutants and hazardous substances into the ground, air and water as well as the handling, storage and disposal of such materials and other environmental matters. Failure to comply with its obligations potentially exposes the Group to serious consequences, including fines, other sanctions and limitations on operations. The Group is involved in the investigation and remediation of current and former sites for which it has been identified as a potentially responsible party under US law. Provision has been made for the expected costs arising from these sites based on information currently available. A receivable has been established to the extent these costs are recoverable under the Group's environmental insurance policies or from other parties. During the year an increase of £28.2 million (2010: £66.3 million) in amounts recoverable from insurers was recognised within other receivables and credited to operating profit. A number of asbestos-related claims have been made against subsidiary companies of the Group. To date, the amount connected with such claims in any year has not been material and many claims are covered fully or partly by existing insurance and indemnities. There is a provision for claims which cannot be recovered from insurers. The US Government is investigating alleged violations of US export control laws by four US subsidiaries and one UK subsidiary of the Group. These investigations are likely to lead to financial penalties and the imposition of corrective measures for which provision has been made. The provisions are expected to be substantially utilised over the next ten years and are discounted, where appropriate, using a discount rate appropriate to each provision.

b) Onerous contracts include lease obligations and trading contracts. Provision has been set up for the estimated rental shortfall in respect of properties with onerous lease obligations. These will be utilised over the lease terms typically up to five years and are discounted using a discount rate appropriate to each provision. Provision has also been set up for the estimated losses to be made under certain trading contracts. These are expected to be substantially utilised over the next ten years.

c) Provision has been made for product warranty claims. These provisions are expected to be utilised over the next three years.

Notes to the financial statements continued

33. Deferred tax

Movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred tax assets

	Retirement benefit obligations £'m	Other £'m	Total £'m
At 1 January 2010	93.6	6.6	100.2
Exchange rate adjustments	1.8	(0.2)	1.6
Reclassifications	–	(4.3)	(4.3)
(Charged)/credited to income statement (see note 14)	(7.0)	4.6	(2.4)
Credited/(charged) to other comprehensive income (see note 14)	0.6	(6.1)	(5.5)
Credited to equity (see note 14)	-	2.6	2.6
At 31 December 2010	89.0	3.2	92.2
Exchange rate adjustments	0.5	0.6	1.1
Businesses acquired (see note 42)	0.6	23.3	23.9
Reclassifications	–	(1.1)	(1.1)
Charged to income statement (see note 14)	(7.3)	(6.6)	(13.9)
Credited/(charged) to other comprehensive income (see note 14)	18.9	(1.2)	17.7
Credited to equity (see note 14)	–	0.9	0.9
At 31 December 2011	**101.7**	**19.1**	**120.8**

Deferred tax liabilities

	Accelerated tax depreciation £'m	Intangible assets (*) £'m	Total £'m
At 1 January 2010	(11.1)	(311.7)	(322.8)
Exchange rate adjustments	(0.2)	(8.2)	(8.4)
(Charged)/credited to income statement (see note 14)	(0.1)	14.5	14.4
At 31 December 2010	(11.4)	(305.4)	(316.8)
Exchange rate adjustments	(0.3)	(1.1)	(1.4)
Businesses acquired (see note 42)	(1.9)	(13.8)	(15.7)
(Charged)/credited to income statement (see note 14)	(5.2)	14.0	8.8
At 31 December 2011	**(18.8)**	**(306.3)**	**(325.1)**

*Acquired in business combinations.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The balances after allowing for such offsets are as follows:

	2011 £'m	2010 £'m
Deferred tax assets	**112.5**	105.0
Deferred tax liabilities	**(316.8)**	(329.6)
Net balance at 31 December	**(204.3)**	(224.6)

Deferred tax assets are analysed as follows:

	2011 £'m	2010 £'m
To be recovered within 12 months	**0.9**	2.9
To be recovered after more than 12 months	**111.6**	102.1
Total	**112.5**	105.0

Deferred tax liabilities are analysed as follows:

	2011 £'m	2010 £'m
Falling due within 12 months	**(0.4)**	(3.7)
Falling due after more than 12 months	**(316.4)**	(325.9)
Total	**(316.8)**	(329.6)

The Group has unrecognised deferred tax assets of £28.1 million (2010: £20.9 million). The majority relate to the Group's operations in the US together with unutilised losses. Deferred tax assets have not been recognised in respect of these items, as it is not regarded as more likely than not that they will be recovered. Deferred tax assets not recognised would be recoverable in the event that they reverse and suitable taxable profits are available. No provision has been made for taxation that would arise in the event of foreign subsidiaries distributing their reserves as these amounts are retained for investment in the businesses. The aggregate unrecognised deferred tax liability in respect of such unremitted earnings is £Nil (2010: £Nil).

34. Retirement benefit obligations

Pension schemes

The Group operates a number of pension schemes for the benefit of its employees. The nature of each scheme which has a significant impact on the financial statements is as follows:

- In the UK, the Group operates a funded defined benefit scheme which is closed to new members;
- In the US, the Group operates a number of defined benefit schemes, all of which are closed to new members. The US schemes are a mixture of funded and unfunded plans;
- In Switzerland, the Group operates a funded defined benefit scheme.

The assets of all defined benefit schemes are held in trust funds separate from the Group's finances. The Group also operates a number of defined contribution schemes.

Healthcare schemes

The Group has two principal other post-retirement benefit schemes providing medical and life assurance benefits, covering certain employees, and former employees, of Meggitt Aircraft Braking Systems Corporation and Meggitt (Rockmart), Inc. These schemes are unfunded.

Amounts recognised in the income statement

	2011 £'m	2010 £'m
In respect of:		
Defined contribution pension schemes	**14.7**	11.0
Defined benefit pension schemes		
Service cost	**11.4**	10.5
Past service cost	**0.5**	1.3
Expected return on scheme assets	**(35.5)**	(32.0)
Interest cost	**37.5**	38.5
Total cost of defined benefit pension schemes	**13.9**	18.3
Healthcare schemes		
Service cost	**0.8**	1.0
Past service credit*	**(3.4)**	(9.5)
Interest cost	**2.5**	3.3
Total credit in respect of healthcare schemes	**(0.1)**	(5.2)
Total charge	**28.5**	24.1

* During 2010, the Group reached agreement with certain employees in the US whereby the Group's contribution to post-retirement medical costs is frozen at 2011 levels. During 2011, the number of healthcare plans made available to employees was reduced. The reductions in scheme liabilities arising from these changes have been recorded as past service credits.

Of the total charge, £24.0 million (2010: £14.3 million) has been charged to operating profit (see note 9), of which £15.6 million (2010: £10.3 million) has been included in cost of sales and £8.4 million (2010: £4.0 million) in net operating costs. The remaining £4.5 million (2010: £9.8 million) is included in net finance costs (see notes 12 and 13).

Amounts recognised in the balance sheet

	2011			
	UK pension scheme £'m	**Overseas pension schemes £'m**	**Overseas healthcare schemes £'m**	**Total £'m**
Fair value of scheme assets	**381.1**	**203.8**	**–**	**584.9**
Present value of scheme liabilities	**(538.5)**	**(311.8)**	**(54.5)**	**(904.8)**
Retirement benefit obligations	**(157.4)**	**(108.0)**	**(54.5)**	**(319.9)**

	2010			
	UK pension scheme £'m	Overseas pension schemes £'m	Overseas healthcare schemes £'m	Total £'m
Fair value of scheme assets	370.6	197.3	–	567.9
Present value of scheme liabilities	(481.4)	(297.0)	(54.6)	(833.0)
Retirement benefit obligations	(110.8)	(99.7)	(54.6)	(265.1)

Of the total deficit of £319.9 million (2010: £265.1 million), £67.8 million (2010: £69.8 million) is in respect of unfunded schemes.

Notes to the financial statements continued

34. Retirement benefit obligations continued

Analysis of scheme assets

	2011							
	UK pension scheme			Overseas pension schemes			Total	
	£'m	%	Expected return %	£'m	%	Expected return %	£'m	%
Equities	**176.2**	**46.2**	**7.50**	**99.2**	**48.7**	**9.50**	**275.4**	**47.1**
Hedge funds	**31.7**	**8.3**	**7.50**	**2.3**	**1.1**	**7.50**	**34.0**	**5.8**
Commodities	**18.4**	**4.9**	**7.50**	**2.3**	**1.1**	**7.50**	**20.7**	**3.5**
Property	**–**	**–**	**N/A**	**11.2**	**5.5**	**7.50**	**11.2**	**1.9**
Corporate bonds	**56.9**	**14.9**	**4.70**	**51.1**	**25.1**	**5.00**	**108.0**	**18.5**
Government bonds	**92.0**	**24.1**	**2.80**	**34.4**	**16.9**	**3.50**	**126.4**	**21.6**
Other assets	**5.9**	**1.6**	**2.80**	**3.3**	**1.6**	**4.80**	**9.2**	**1.6**
Total	**381.1**	**100.0**	**5.87**	**203.8**	**100.0**	**7.13**	**584.9**	**100.0**

	2010							
	UK pension scheme			Overseas pension schemes			Total	
	£'m	%	Expected return %	£'m	%	Expected return %	£'m	%
Equities	189.3	51.1	7.70	96.6	49.0	9.75	285.9	50.3
Hedge funds	33.0	8.9	7.70	2.7	1.4	7.70	35.7	6.3
Commodities	20.1	5.4	7.70	2.2	1.1	7.70	22.3	3.9
Property	–	–	N/A	8.4	4.2	7.70	8.4	1.5
Corporate bonds	41.2	11.1	5.40	45.2	22.9	5.50	86.4	15.2
Government bonds	81.1	21.9	4.20	35.3	17.9	4.25	116.4	20.5
Other assets	5.9	1.6	3.40	6.9	3.5	3.30	12.8	2.3
Total	370.6	100.0	6.61	197.3	100.0	7.43	567.9	100.0

The schemes have no investments in any assets of the Group.

To develop the expected long-term rate of return on assets assumption, the Group considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in the investment portfolio and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

Changes in the fair value of scheme assets

	2011 £'m	2010 £'m
Fair value of scheme assets at 1 January	**567.9**	504.2
Exchange rate adjustments	**1.9**	11.4
Businesses acquired (see note 42)	**0.2**	–
Expected return on scheme assets (see note 12)	**35.5**	32.0
Contributions – Group	**38.4**	34.6
Contributions – Members	**3.9**	3.3
Benefits paid	**(37.7)**	(39.3)
Actuarial (losses)/gains	**(25.2)**	21.7
Fair value of scheme assets at 31 December	**584.9**	567.9

The actual return on scheme assets was a gain of £10.3 million (2010: Gain of £53.7 million).

Financial assumptions used to calculate scheme liabilities

	2011			2010		
	UK pension scheme	**Overseas pension schemes**	**Overseas healthcare schemes**	UK pension scheme	Overseas pension schemes	Overseas healthcare schemes
Discount rate	**4.70%**	**4.65%**	**4.65%**	5.40%	5.25%	5.25%
Inflation rate	**3.00%**	**N/A**	**N/A**	3.30%	N/A	N/A
Increases to deferred benefits during deferment*	**2.20%**	**N/A**	**N/A**	2.80%	N/A	N/A
Increases to pensions in payment*	**2.90%**	**N/A**	**N/A**	3.30%	N/A	N/A
Salary increases	**4.00%**	**4.00%**	**N/A**	4.30%	4.00%	N/A

* To the extent not overridden by specific scheme rules.

34. Retirement benefit obligations continued

In determining the fair value of scheme liabilities, the Group uses mortality assumptions which are based on published mortality tables adjusted to reflect the characteristics of the scheme populations. The Group's mortality assumptions in the UK are based on recent mortality investigations of Self Administered Pension Schemes adjusted to reflect the profile of the membership of the Plan. Allowance has also been made for rates of mortality to continue to fall in the medium-term and that in the long-term, rates of mortality will continue to fall at the rate of 1% per annum. In the US mortality assumptions are based on the RP2000 IRS RPA tables.

	2011		2010	
	UK scheme years	**Overseas schemes years**	UK scheme years	Overseas schemes years
Member age 45 (life expectancy at age 65) – male	**23.9-26.4**	**19.1**	23.8-26.3	19.0
Member age 45 (life expectancy at age 65) – female	**26.7-28.0**	**20.9**	26.6-27.9	20.9
Member age 65 (current life expectancy) – male	**22.0-24.6**	**19.1**	21.9-24.5	19.0
Member age 65 (current life expectancy) – female	**24.8-26.0**	**20.9**	24.7-25.9	20.9

Details on the sensitivity of scheme liabilities to changes in assumptions are provided below:

- The impact of a 10 basis point reduction in discount rate would cause scheme liabilities at 31 December 2011 to increase by approximately £13.5 million;
- The impact of a 10 basis point increase in inflation rate would cause scheme liabilities at 31 December 2011 to increase by approximately £9.5 million;
- The impact of assuming every scheme member were to live for an additional year would cause scheme liabilities at 31 December 2011 to increase by approximately £24.0 million.

Changes in the present value of scheme liabilities

	2011 £'m	2010 £'m
Present value of scheme liabilities at 1 January	**833.0**	784.7
Exchange rate adjustments	**3.0**	16.0
Businesses acquired (see note 42)	**1.9**	–
Service cost	**12.2**	11.5
Past service credit	**(2.9)**	(8.2)
Interest cost (see note 13)	**40.0**	41.8
Contributions – Members	**3.9**	3.3
Benefits paid	**(37.7)**	(39.3)
Actuarial losses	**51.4**	23.2
Present value of scheme liabilities at 31 December	**904.8**	833.0

Cumulative losses recognised in other comprehensive income

	2011 £'m	2010 £'m
As at 1 January	**(87.7)**	(87.0)
Actuarial losses	**(76.6)**	(1.5)
Deferred tax credit	**18.9**	0.6
Net actuarial losses	**(57.7)**	(0.9)
As at 31 December	**(145.4)**	(87.9)

History of experience gains and losses and retirement benefit obligations

	2011 £'m	2010 £'m	2009 £'m	2008 £'m	2007 £'m
Experience adjustments on scheme assets:					
(Loss)/gain	**(25.2)**	21.7	46.1	(115.0)	(8.7)
Percentage of scheme assets	**(4.3%)**	3.8%	9.1%	(25.4%)	(1.8%)
Experience adjustments on scheme liabilities:					
Gain/(loss)	**3.7**	(5.0)	3.0	(4.9)	22.1
Percentage of scheme liabilities	**0.4%**	(0.6%)	0.4%	(0.7%)	3.5%
Fair value of scheme assets	**584.9**	567.9	504.2	451.9	471.4
Present value of scheme liabilities	**(904.8)**	(833.0)	(784.7)	(693.1)	(624.7)
Scheme deficits	**(319.9)**	(265.1)	(280.5)	(241.2)	(153.3)

The estimated Group contributions expected to be paid to the schemes during 2012 are £38.4 million.

Notes to the financial statements continued

35. Share capital and share schemes

Issued share capital

	Ordinary shares of 5p each No.'m	Nominal value £'m	Net consideration £'m
Allotted and fully paid:			
At 1 January 2010	685.3	34.3	
Issued on exercise of executive share options	1.7	0.1	3.6
Issued on exercise of sharesave options	0.6	–	1.0
Scrip dividends	10.4	0.5	29.5
At 31 December 2010	698.0	34.9	
Equity placing	69.8	3.5	246.0
Issued on exercise of executive share options	2.4	0.1	1.7
Issued on exercise of sharesave options	1.1	–	1.8
Scrip dividends	7.5	0.4	25.2
At 31 December 2011	**778.8**	**38.9**	

From 1 October 2009, the Companies Act 2006 abolished the requirement for a company to have an authorised share capital. On 21 April 2010 the Company adopted new Articles of Association by special resolution, which had the effect of removing the authorised share capital of the Company.

Share Options

Year of grant	No. of ordinary shares under option	Exercise price per share	Exercise period From	Exercise period To
Meggitt 1998 Sharesave Scheme				
2005	164,731	188.76p	01.06.12	30.11.12
2006	38,344	203.18p	01.12.11	31.05.12
2006	50,669	203.18p	01.12.13	31.05.14
Meggitt 2008 Sharesave Scheme				
2008	25,111	171.40p	01.11.11	30.04.12
2008	593,989	171.40p	01.11.13	30.04.14
2008	81,640	171.40p	01.11.15	30.04.16
2010	470,045	222.35p	01.11.13	30.04.14
2010	500,320	222.35p	01.11.15	30.04.16
2010	59,537	222.35p	01.11.17	30.04.18
Meggitt 1996 No 1 Executive Share Option Scheme				
2004	17,200	174.40p	01.04.07	31.03.14
Meggitt Executive Share Option Scheme 2005 Part A				
2005	256,352	278.65p	10.10.08	09.10.15
2006	24,959	263.67p	27.09.09	26.09.16
2007	32,306	299.00p	29.03.10	28.03.17
2007	10,152	295.50p	16.04.10	15.04.17
2008	26,031	252.50p	25.03.11	24.03.18
2009	76,416	169.50p	30.04.12	29.04.19
2010	60,469	286.10p	12.03.13	11.03.20
2011	142,738	351.70p	02.03.14	01.03.21
2011	8,683	345.50p	17.08.14	16.08.21

All the above options, which were granted for nil consideration, may in certain circumstances, be exercised earlier than the dates given. The weighted average remaining contractual life of outstanding options is 3.7 years (2010: 3.2 years).

Share Appreciation Rights – Equity-settled

Year of grant	Indicative number of shares to be released*	Number of ordinary shares under award	Exercise price per share	Exercise period From	Exercise period To
Meggitt Executive Share Option Scheme 2005 Part B					
2005	230,929	1,098,742	278.65p	10.10.08	09.10.15
2006	423,923	1,677,998	263.67p	27.09.09	26.09.16
2006	14,475	61,108	269.23p	09.10.09	08.10.16
2007	257,545	1,688,882	299.00p	29.03.10	28.03.17
2007	5,771	35,533	295.50p	16.04.10	15.04.17
2008	667,319	2,347,259	252.50p	25.03.11	24.03.18
2008	284,318	674,108	204.00p	07.08.11	06.08.18
2009	2,141,288	4,121,367	169.50p	30.04.12	29.04.19
2010	862,547	4,562,317	286.10p	12.03.13	11.03.20
2011	12,547	4,024,227	351.70p	02.03.14	01.03.21
2011	12,182	588,746	345.50p	17.08.14	16.08.21

*Based on indicative share price of 352.80p, the share price as at 31 December 2011.

All the above share appreciation rights, which were granted for nil consideration, may in certain circumstances, be exercised earlier than the dates given. The weighted average remaining contractual life of outstanding share appreciation rights is 7.2 years (2010: 7.5 years).

36. Share-based payment

The Group operates a number of share schemes for the benefit of its employees. The total expense recorded in the income statement for the year in respect of such schemes was £8.4 million (2010: £14.3 million) (see note 9). The nature of each scheme which has a significant impact on the expense recorded in the income statement is set out below.

Meggitt 1996 No 1 & No 2 Executive Share Option Schemes and Executive Share Option Scheme 2005

Equity-settled

Share options are granted to certain senior executives at an option price equal to the market price of the shares on the date the grant is made. The options are generally exercisable at the earliest three years after the grant is made. Options can only be exercised if the Group meets an earnings per share performance condition. The Group has no obligation, legal or constructive, to settle the options in cash. Awards under Part A of the schemes 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 schemes are in the form of equity-settled share appreciation rights (SAR's) and provide for the executive on exercise to be entitled to receive equity equivalent to the gain in value between the option price and the market price on the date of exercise.

An expense of £2.7 million (2010: £3.2 million) was recorded in the year. Movements in the number of outstanding awards and their related weighted average option prices are as follows:

	2011 Average option price Pence	**2011 Number of awards outstanding 'm**	2010 Average option price Pence	2010 Number of awards outstanding 'm
At 1 January	**247.34**	**19.5**	232.91	17.5
Granted	**350.88**	**4.9**	286.10	4.9
Lapsed	**283.83**	**(0.3)**	227.15	(0.6)
Exercised	**247.83**	**(2.6)**	224.73	(2.3)
At 31 December	**270.11**	**21.5**	247.34	19.5

As at 31 December 2011, of the total number of awards outstanding, 8.0 million (2010: 6.5 million) are exercisable at an average exercise price of 265.60 pence (2010: 274.67 pence). The fair values of the awards made in the year were determined using the Black-Scholes option pricing model. The significant assumptions used in the model and the fair values determined were:

	2011 Award in August	**2011 Award in March**	2010 Award in March
Share price at date of grant (pence)	**345.50**	**351.70**	286.10
Option price (pence)	**345.50**	**351.70**	286.10
Vesting period (years)	**3.0**	**3.0**	3.0
Expected volatility	**37%**	**38%**	36%
Expected life of option (years)	**5.0**	**5.0**	5.0
Risk free rate	**1.61%**	**2.45%**	2.75%
Expected dividend yield	**3.29%**	**3.29%**	3.10%
Fair value at date of award (pence)	**86.40**	**92.98**	74.74

Expected volatility figures are based on volatility over the last five years measured using a statistical analysis of daily share prices. Awards may be exercised at any point between the vesting date and ten years after the date the award was made.

Cash-settled

Under the terms of the Meggitt Executive Share Option Scheme 2005, the Group may grant cash-settled SAR's to certain overseas employees. The Group is required to pay the intrinsic value of the SAR's to the employee at the date of exercise. A charge of £0.5 million (2010: £6.4 million) was recorded in the year. The Group has recorded a liability at the balance sheet date of £6.6 million (2010: £8.4 million). The total intrinsic value at the balance sheet date was £6.8 million (2010: £10.1 million).

Movements in the number of outstanding cash-settled SAR's and their related weighted average option prices are as follows:

	2011 Average option price Pence	**2011 Number of SAR's outstanding 'm**	2010 Average option price Pence	2010 Number of SAR's outstanding 'm
At 1 January	**243.05**	**8.2**	242.70	9.2
Granted	**350.29**	**0.9**	286.10	0.6
Lapsed	**243.74**	**(0.4)**	221.91	(0.4)
Exercised	**256.52**	**(1.9)**	269.38	(1.2)
At 31 December	**252.59**	**6.8**	243.05	8.2

As at 31 December 2011, of the total number of awards outstanding, 4.0 million (2010: 2.9 million) are exercisable at an average exercise price of 255.13 pence (2010: 283.07 pence). The fair value of each cash-settled SAR was determined at the grant date using the Black-Scholes model and reflects the same assumptions used for equity-settled awards as disclosed above. As a cash-settled award, the fair value of outstanding SAR's is remeasured at each balance sheet date.

Notes to the financial statements continued

36. Share-based payment continued

Meggitt Equity Participation Plan 2005

Under the Meggitt Equity Participation Plan 2005, an annual award of shares may be made to certain senior executives. For awards made in 2011, the number of shares, if any that an executive ultimately receives, depends on three performance conditions:

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

Each of the conditions is measured over a three year performance period. For awards made between 2008 and 2010, 50% of the award was based on an EPS measure and 50% on a TSR condition. For awards made in 2007, vesting depended solely on a TSR condition. An expense of £4.6 million (2010: £4.3 million) was recorded in the year. Movements in the number of outstanding shares that may potentially be released to employees are as follows:

	2011 No. of shares under award outstanding 'm	2010 No. of shares under award outstanding 'm
At 1 January	**5.9**	7.7
Awarded	**4.6**	-
Lapsed	**(1.1)**	(1.8)
Released to employees	**(1.1)**	-
At 31 December	**8.3**	5.9

As at 31 December 2011, none of the shares under award are eligible for release (2010: Nil).

The fair value of the awards made in 2011, which were subject to the EPS and cashflow performance conditions, were 345.00 pence and 351.50 pence respectively. The fair value of the awards made in 2011, which were subject to the TSR performance condition, were determined using a Monte Carlo model. The significant assumptions used in the model and the fair values determined were:

	2011 Award in August	**2011 Award in April**
Share price at date of grant (pence)	**345.00**	**351.50**
Vesting period (years)	**3.0**	**2.3**
Expected volatility	**41%**	**36%**
Expected life of award (years)	**3.0**	**3.0**
Risk free rate	**0.82%**	**1.30%**
Fair value at date of award (pence)	**241.00**	**217.00**

No awards were made in 2010.

37. Own shares

Own shares represents shares in the Company that are held by an independently managed Employee Share Ownership Plan Trust ('the trust') formed to purchase shares to be used to meet certain of the Company's future obligations in respect of employee share schemes as described in the Remuneration Report on pages 47 to 54.

At 31 December 2011 the trust held 111,335 ordinary shares (2010: 727,247 shares) all of which were allocated to the Deferred Share Bonus Plan (2010: 718,027 shares) and none were unallocated (2010: 9,220 shares). The shares were purchased during 2010 and had a cost of £0.3 million at 31 December 2011 (2010: £2.1 million).

The market value of the shares at 31 December 2011 was £0.4 million (2010: £2.7 million) representing 0.1% of the issued share capital of the Company (2010: 0.1%). The Group retains the full benefit of 26,545 of the shares in the Deferred Share Bonus Plan until such time as awards are released to participating employees (2010: 135,909 shares). The Group has no benefit accruing to it over the remaining 84,790 shares in the Deferred Share Bonus Plan (2010: 582,118 shares).

38. Contingent liabilities

The Company has given guarantees in respect of credit facilities for certain of its subsidiaries, some property leases, other leasing arrangements and the performance by some current and former subsidiaries of certain contracts. Also, there are similar guarantees given by certain other Group companies. The fair value of these guarantees is not considered to be significant.

The Company and various of its subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the ordinary course of business. The directors do not anticipate that the outcome of these proceedings, actions and claims, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.

39. Contractual commitments

Capital commitments

	2011 £'m	2010 £'m
Contracted for but not incurred:		
Intangible assets	**0.9**	0.5
Property, plant & equipment	**6.9**	4.3
Total	**7.8**	4.8

Operating lease commitments

The Group leases various factories, warehouses and offices under non-cancellable operating leases. These leases have various lease periods, escalation clauses and renewal rights. Additionally the Group also leases various items of plant and machinery under cancellable operating leases. The expenditure on operating leases is charged to the income statement as incurred and is disclosed in note 7.

The future aggregate minimum lease payments under non–cancellable operating leases are as follows:

	2011 £'m	2010 £'m
Not later than one year	**11.6**	11.0
Later than one year and not later than five years	**27.6**	27.1
Later than five years	**11.2**	16.4
Total	**50.4**	54.5

Other financial commitments

The Group enters into long-term arrangements with Aircraft and Original Equipment Manufacturers to design, develop and supply products to them for the life of the aircraft. This represents a significant long-term financial commitment for the Group and requires the consideration of a number of uncertainties including the feasibility of the product and the ultimate commercial viability over a period which can extend over 40 years.

The directors are satisfied that, at this time, there are no significant contingent liabilities arising from these commitments.

40. Cash inflow from operations

	2011 £'m	2010 £'m
Profit for the year	**184.9**	138.8
Adjustments for:		
Tax (see note 14)	**41.1**	33.7
Depreciation (see note 22)	**32.2**	28.8
Amortisation (see notes 20 and 21)	**111.9**	96.6
(Profit)/loss on disposal of property, plant & equipment	**(2.0)**	0.2
Finance income (see note 12)	**(36.9)**	(33.6)
Finance costs (see note 13)	**73.4**	81.2
Financial instruments (see note 10)	**(9.7)**	3.2
Retirement benefit obligation deficit payments	**(26.2)**	(23.1)
Share-based payment expense (see note 36)	**8.4**	14.3
Changes in working capital:		
Inventories	**6.4**	4.7
Trade and other receivables	**(59.0)**	(77.7)
Trade and other payables	**35.9**	3.4
Provisions	**18.3**	45.3
Cash inflow from operations	**378.7**	315.8

41. Major non-cash transactions

During the year Meggitt PLC issued 7.5 million shares worth £25.2 million in respect of scrip dividends (2010: 10.4 million shares worth £29.5 million) (see notes 17 and 35).

42. Business combinations

On 21 April 2011 the Group acquired Pacific Scientific Aerospace ('PacSci') from Danaher Corporation. The acquisition comprised 100% of the voting rights of Pacific Scientific Company, Artus SAS, Linear Motion LLC, OECO Holdings LLC, Securaplane Technologies Inc and Sunbank Family of Companies LLC. Each of the acquired entities is incorporated in the USA with the exception of Artus SAS, which is incorporated in France. The Group also acquired, in the UK and Germany, certain assets and liabilities used in connection with the PacSci business. The acquisition adds fire and smoke suppression capabilities to the Group's existing product portfolio, creating a leading integrated fire and smoke detection and suppression offering and will enhance the Group's electric solutions offering as aircraft of the future move away from hydraulic/pneumatic technology and towards electric power. The acquisition also strengthens the Group's portfolio of sensors and anti-icing products and enhances the Group's low cost manufacturing capability with the addition of factories in Mexico and Vietnam.

The assets and liabilities of PacSci on 21 April 2011, including goodwill arising on consolidation, were as follows:

	Notes	Fair value £'m
Non-current assets		
Goodwill	19	**232.6**
Development costs	20	**2.4**
Other intangible assets	21	**187.7**
Property, plant and equipment	22	**23.7**
Trade and other receivables		**4.2**
Deferred tax assets	33	**23.2**
		473.8
Current assets		
Inventories		**42.7**
Trade and other receivables		**34.1**
Current tax recoverable		**0.7**
Cash and cash equivalents		**0.5**
		78.0
Total assets		**551.8**
Current liabilities		
Trade and other payables		**(49.8)**
Bank and other borrowings		**(0.1)**
Provisions	32	**(7.6)**
		(57.5)
Net current assets		**20.5**
Non-current liabilities		
Trade and other payables		**(0.7)**
Deferred tax liabilities	33	**(15.0)**
Provisions	32	**(62.2)**
Retirement benefit obligations	34	**(1.7)**
		(79.6)
Total liabilities		**(137.1)**
Net assets		**414.7**

The fair value of consideration payable in respect of PacSci is as follows:

	2011 £'m
Cash paid on acquisition	**417.1**
Less amounts recoverable under working capital mechanism	**(2.4)**
Total consideration payable in respect of PacSci	**414.7**

Goodwill is attributable to the profitability of the acquired businesses and expected future synergies arising following the acquisition.

Trade and other receivables had a fair value at acquisition of £38.3 million. The gross contractual amounts receivable at acquisition were £39.3 million, the difference of £1.0 million is the best estimate of the contractual cash flows not expected to be collected.

For the period from acquisition to 31 December 2011, PacSci contributed revenue of £189.6 million, underlying operating profit of £38.2 million and an operating loss of £3.0 million to the Group's results. Had PacSci been consolidated from 1 January 2011, the Group's consolidated income statement for the year ended 31 December 2011 would show revenue of £258.6 million, underlying operating profit of £45.4 million and operating profit of £4.2 million.

42. Business combinations (continued)

Costs related to the acquisition were £7.3 million, of which £6.0 million were incurred in the current year and £1.3 million in the prior year. These costs have been treated as an exceptional operating item (note 11).

Total consideration paid in respect of acquisitions during the year is as follows:

	2011 £'m	2010 £'m
Cash paid in respect of PacSci	417.1	-
Cash paid in respect of acquisitions in earlier years	1.0	-
Total consideration paid	418.1	-

43. Group companies

The following information is not a complete listing of all subsidiary companies at 31 December 2011 and relates only to those subsidiaries principally affecting the profits or assets of the Group.

United Kingdom

Dunlop Limited‡
Dunlop Aerospace Group Limited‡
Dunlop Aerospace Holdings Limited‡
Meggitt Aerospace Holdings Limited‡
Meggitt Finance Limited‡
Meggitt Properties PLC‡
Dunlop Holdings Limited‡
Dunlop Aerospace Overseas Limited‡
Meggitt Aerospace Limited
Meggitt International Holdings Limited*‡
Meggitt International Limited‡
Meggitt (UK) Limited

Continental Europe

Artus SAS – France
Meggitt Holdings (France) SNC - France
Meggitt SA – Switzerland
Meggitt Acquisition (France) SAS - France‡
Meggitt (France) SAS – France
Piher Sensors & Controls SA – Spain

North America

Joslyn Sunbank Company LLC
Meggitt Aircraft Braking Systems Corporation
Meggitt GP Inc‡
Meggitt Oregon, Inc
Meggitt Training Systems Inc
Meggitt-USA Holdings LLC‡
Meggitt (Maryland), Inc
Meggitt (North Hollywood), Inc
Meggitt (San Juan Capistrano), Inc
Meggitt (Troy), Inc
OECO LLC
Securaplane Technologies Inc
Linear Motion LLC
Meggitt Defense Systems, Inc
Meggitt Holdings (USA) Inc‡
Meggitt Safety Systems Inc
Meggitt-USA, Inc‡
Meggitt (Addison), Inc
Meggitt (New Hampshire), Inc
Meggitt (Rockmart), Inc
Meggitt (Simi Valley), Inc
NASCO Aircraft Brake Inc
Pacific Scientific Company
Whittaker Corporation‡

Rest of World

Meggitt Aerospace Asia Pacific Pte Limited – Singapore
Meggitt (Xiamen) Sensors & Controls Co Limited – China

i) United Kingdom companies listed above are incorporated and registered in England and Wales. North American companies listed above are incorporated and registered in the United States of America. Other companies above are incorporated in the country named.
ii) The ordinary shares of all subsidiaries were 100% owned by Meggitt PLC, either directly or indirectly, at 31 December 2011.
iii) All companies listed above are included in the consolidation.
iv) The company marked * is a direct subsidiary of Meggitt PLC.
v) Companies marked ‡ are management companies. Otherwise all companies are operating companies engaged in the Group's principal activities as described in the Report of the Directors on page 39.

A full list of subsidiary companies will be annexed to the next annual return to the Registrar of Companies.

Independent auditors' report to the members of Meggitt PLC

We have audited the parent company financial statements of Meggitt PLC for the year ended 31 December 2011 which comprise the Company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 42, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent 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 Meggitt PLC Annual report and accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2011;
- 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

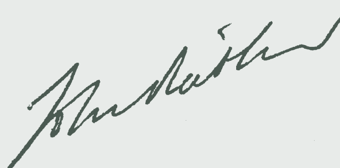
Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the group financial statements of Meggitt PLC for the year ended 31 December 2011.



John Maitland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
5 March 2012

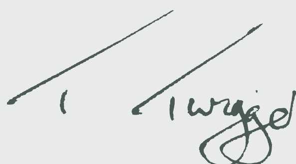
Company balance sheet

As at 31 December 2011

	Notes	2011 £'m	2010 £'m
Fixed assets			
Tangible fixed assets	3	**16.8**	9.6
Derivative financial instruments	9	**39.9**	12.0
Investments	4	**2,052.4**	187.1
		2,109.1	208.7
Current assets			
Debtors	5	**1,010.4**	2,298.8
Derivative financial instruments	9	**7.4**	6.2
Cash at bank and in hand		**28.6**	14.8
		1,046.4	2,319.8
Creditors – amounts falling due within one year	6	**(89.5)**	(561.1)
Derivative financial instruments	9	**(13.4)**	(9.3)
Net current assets		**943.5**	1,749.4
Total assets less current liabilities		**3,052.6**	1,958.1
Creditors – amounts falling due after more than one year	7	**(864.0)**	(752.6)
Provision for liabilities and charges	8	**(0.9)**	(0.3)
Derivative financial instruments	9	**(4.2)**	(17.6)
Net assets		**2,183.5**	1,187.6
Capital and reserves			
Called-up share capital	12	**38.9**	34.9
Share premium account	14	**1,130.1**	859.4
Other reserves	14	**17.5**	17.5
Profit and loss reserve	13	**997.0**	275.8
Total shareholders' funds	14	**2,183.5**	1,187.6

The notes on pages 100 to 105 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 5 March 2012 and signed on its behalf by:



T Twigger
Director

S G Young
Director

Notes to the financial statements of the Company

1. Basis of preparation

These financial statements have been prepared under the historical cost accounting convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value, in accordance with the Companies Act 2006. The Company continues to prepare its annual financial statements in accordance with UK Generally Accepted Accounting Practice (UK GAAP).

2. Summary of significant accounting policies

Investments

Investments in subsidiaries are stated at cost less provision for impairment in value except for investments acquired before 1 January 1988 where Section 612 merger relief has been taken and investments are stated at the nominal value of the shares issued in consideration.

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 costs attributable to bringing the asset into use. Depreciation is not provided on freehold land. On other assets it is provided in equal annual instalments over the estimated useful lives of the assets as follows:

Freehold buildings .... 40 to 50 years
Leasehold property.................................... over period of lease
Fixtures and fittings.................................... 3 to 10 years
Plant and equipment.................................... 3 to 10 years
Motor vehicles.. 5 years

Operating leases

Rental costs under operating leases are charged to the profit and loss account on a straight-line basis over the lease term, even if the payments are not made on such a basis.

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 is provided in full, without discounting, on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Deferred taxation assets are recognised to the extent it is regarded as more likely than not that they will be recovered.

Deferred taxation is not provided on timing differences arising from the sale or revaluation of fixed assets unless, at the balance sheet date, a binding commitment to sell the asset has been entered into and it is unlikely that any gain will qualify for rollover relief.

Provision for liabilities and charges

In accordance with FRS 12, provision is made for onerous property leases. Provisions are discounted where appropriate to reflect the time value of money.

Foreign currencies

Local currency
The Company's financial statements are presented in pounds sterling, the functional currency of the Company.

Transactions and balances
Transactions in foreign currencies are recorded at the rate of exchange prevailing at the dates of the transactions. Monetary assets and liabilities, denominated in foreign currencies at the balance sheet date, are reported at the rates of exchange prevailing at that date. Exchange differences on retranslating monetary assets and liabilities are recognised in the profit and loss account except where they relate to qualifying cash flow hedges in which case the exchange differences are recognised in equity.

Pension scheme arrangements

As the Company is unable to identify its share of the underlying assets and liabilities of the Meggitt Pension Plan on a consistent and reasonable basis, the Company accounts for the scheme as though it were a defined contribution scheme. Accordingly the amount charged to the profit and loss account is the contribution payable in the period. Differences between contributions payable in the period and contributions paid are shown as accruals or prepayments in the balance sheet.

Share-based payment

The fair value of services received from employees is recognised as an expense in the profit and loss account over the period for which services are received ('the vesting period').

For equity-settled awards, 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 profit and loss account on a straight-line basis over the vesting period. 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 profit and loss account to reflect the revised estimate. Proceeds received, net of directly attributable transaction costs, are credited to share capital and share premium.

For cash-settled awards, the total amount recognised is based on the fair value of the liability incurred. The fair value of the liability is remeasured at each balance sheet date with changes in the fair value recognised in the profit and loss account for the period.

The grant by the Company of options over its equity instruments to employees of subsidiary undertakings, is treated as a capital contribution. The fair value of the awards made are recognised, over the vesting period, as an increase in investment in subsidiary undertakings, with a corresponding credit to the profit and loss reserve.

Shares in the Company are held by an independently managed Employee Share Ownership Trust ('ESOP Trust'), to meet future obligations in respect of the Company's employee share schemes. The cost of own shares held by the ESOP Trust is deducted from shareholders' funds.

2. Summary of significant accounting policies continued

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value at each balance sheet date. 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 liability. Derivative financial instruments with maturities of less than 12 months from the balance sheet are shown as current assets or liabilities. The method by which any gain or loss is recognised depends on the designation of the derivative financial instrument:

Fair value hedges
Fair value hedges are hedges of the fair value of recognised assets or liabilities or a firm commitment. Interest rate swaps that change fixed rate interest to variable rate interest are an example of an instrument that is treated as a fair value hedge provided it meets the hedge criteria. Changes in the fair value of derivative financial instruments, designated as fair value hedges, are recognised in the profit and loss account together with changes in the fair value of the hedged item.

Cash flow hedges
Cash flow hedges are hedges of highly probable forecast transactions. Interest rate swaps that change variable rate interest to fixed rate interest are an example of an instrument that is treated as a cash flow hedge provided it meets the hedge criteria. Changes in the fair value of the effective portion of derivative financial instruments, designated as cash flow hedges, are initially recorded within equity. To the extent changes in fair value are recorded in equity, they are recycled to the profit and loss account in the periods in which the hedged item affects the profit and loss account. However, when the transaction to which the hedge relates results in the recognition of a non-monetary asset or a liability then gains and losses previously recognised in equity are included in the initial measurement of the cost of the non-monetary asset or liability.

If the forecast transaction to which the cash flow hedge relates is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the profit and loss account immediately. If the hedging instrument is sold, expires or no longer meets the criteria for hedge accounting the cumulative gains and losses previously recognised in equity are transferred to the profit and loss account when the forecast transaction is recognised in the profit and loss account.

Derivatives that do not meet the criteria for hedge accounting
Where derivatives do not meet the criteria for hedge accounting, changes in fair value are recognised immediately in the profit and loss account. The Company utilises a number of foreign currency forward contracts to mitigate against currency fluctuations. The Company has determined that the additional costs of meeting the extensive documentation requirements for the Company's large number of foreign currency contracts are not merited. Accordingly gains and losses arising from measuring the contracts at fair value are recorded immediately in the profit and loss account.

Loans

Loans are initially recognised at fair value, being proceeds received less directly attributable transaction costs incurred. Loans are subsequently measured at amortised cost with transaction costs amortised to the profit and loss account over the period of the loans. Loans are held at fair value where a hedge relationship is in place. Any related interest accruals are included within loans. Loans are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Capital instruments

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are deducted from the proceeds recorded in equity. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits, otherwise they are included in shareholders' funds. The finance cost recognised in the profit and loss account in respect of capital instruments, other than equity shares, is allocated to periods over the term of the instrument at a constant rate of charge based on the carrying amount.

Dividends

Interim dividends are recognised when they are approved by the Board. Final dividends are recognised when they are approved by the Company's shareholders.

Profit and recognised gains and losses of the Company

The Company has taken advantage of the legal dispensation contained in Section 408 of the Companies Act 2006 allowing it not to publish a separate profit and loss account and related notes (see Meggitt PLC Group accounts note 15). The Company has also taken advantage of the legal dispensation contained in Section 408 of the Companies Act 2006 allowing it not to publish a separate statement of recognised gains and losses.

Cash flow statement

The Company has taken advantage of the exemption under the terms of FRS 1 (revised 1996) from the requirement to produce a cash flow statement. A consolidated cash flow statement is included in the Meggitt PLC Group accounts.

Related party transactions

The Company has taken advantage of the exemption contained in FRS 8 from the requirement to disclose related party transactions within the Group.

Notes to the financial statements of the Company continued

3. Tangible fixed assets

	Land and buildings £'m	Plant, equipment and vehicles £'m	Total £'m
Cost at 1 January 2011	0.8	12.4	13.2
Additions	–	9.3	9.3
Disposals	–	(1.0)	(1.0)
Cost at 31 December 2011	**0.8**	**20.7**	**21.5**
Accumulated depreciation at 1 January 2011	0.3	3.3	3.6
Charge for year	0.1	1.2	1.3
Disposals	–	(0.2)	(0.2)
Accumulated depreciation at 31 December 2011	**0.4**	**4.3**	**4.7**
Net book amount at 31 December 2011	**0.4**	**16.4**	**16.8**
Net book amount at 31 December 2010	0.5	9.1	9.6

	2011 £'m	2010 £'m
Net book amount of land and buildings:		
Freehold	**0.1**	0.1
Short leasehold	**0.3**	0.4
Total	**0.4**	0.5

4. Investments

	2011 £'m	2010 £'m
Shares in subsidiaries:		
At 1 January	**187.1**	176.6
Additions	**1,983.7**	–
Disposals	**(133.7)**	–
Cost of share-based payments in respect of employees of subsidiary undertakings net of recoveries (see note 14)	**7.6**	10.5
Reversal of provision for impairment in value	**7.7**	–
At 31 December	**2,052.4**	187.1

During the year an internal Group reorganisation was undertaken. Following this, the direct subsidiaries of the Company were sold to a new subsidiary holding company, Meggitt International Holdings Limited. No impact on the Company's investments arose on this transaction. In addition, £1,850.0 million of the Company's inter-group receivables were transferred to the new holding company in consideration for additional shares subscribed for in Meggitt International Holdings Limited.

A list of principal subsidiaries is included in note 43 of the Meggitt PLC Group accounts.

5. Debtors

	2011 £'m	2010 £'m
Amounts owed by subsidiary undertakings	**1,005.9**	2,296.8
Other debtors	**2.9**	0.1
Prepayments and accrued income	**1.6**	0.9
Deferred tax assets (see note 8)	**–**	1.0
Total	**1,010.4**	2,298.8

Amounts owed by subsidiary undertakings include £Nil (2010: £200.0 million) due after more than one year. Deferred tax assets include £Nil (2010: £0.5 million) due after one year. All other debtors fall due within 1 year.

6. Creditors – amounts falling due within one year

	2011 £'m	2010 £'m
Bank loans and overdrafts	**0.4**	0.2
Other loans	**3.4**	3.4
Trade creditors	**5.9**	4.0
Amounts owed to subsidiary undertakings	**55.0**	533.1
UK corporation tax payable	**12.4**	10.2
Taxation and social security	**3.7**	3.9
Other creditors	**1.8**	1.4
Accruals	**6.9**	4.9
Total	**89.5**	561.1

Bank loans and overdrafts and other loans are unsecured.

7. Creditors – amounts falling due after more than one year

	2011 £'m	2010 £'m
Bank loans	**292.5**	201.4
Other loans	**571.5**	551.2
Total	**864.0**	752.6

Bank loans and overdrafts and other loans are unsecured.

	2011 £'m	2010 £'m
Analysis of bank loans and overdrafts repayable:		
In one year or less	**0.4**	0.2
In more than one year but not more than two years	**217.6**	201.4
In more than two years but not more than five years	**74.9**	–
Total	**292.9**	201.6

	2011 £'m	2010 £'m
Analysis of other loans repayable:		
In one year or less	**3.4**	3.4
In more than one year but not more than two years	**115.7**	–
In more than two years but not more than five years	**45.0**	159.5
In more than five years	**410.8**	391.7
Total	**574.9**	554.6

8. Provisions for liabilities and charges

	Onerous lease costs £'m	Deferred tax provision £'m	Total £'m
At 1 January 2011	0.3	–	0.3
Charged to profit and loss account	–	0.6	0.6
At 31 December 2011	**0.3**	**0.6**	**0.9**

Onerous lease costs

Provision has been made for the estimated rental shortfall in respect of properties with onerous lease obligations and will be utilised over the lease terms, typically up to three years.

Notes to the financial statements of the Company continued

8. Provisions for liabilities and charges continued

Deferred tax

	2011 £'m	2010 £'m
Deferred tax assets (see note 5)	**–**	1.0
Deferred tax liabilities	**(0.6)**	–
Total (liability)/asset	**(0.6)**	1.0

Deferred tax balances are analysed as follows:

	2011 £'m	2010 £'m
Accelerated capital allowances	**(1.0)**	(0.4)
Other short-term timing differences	**0.4**	1.4
Total	**(0.6)**	1.0

Movements in deferred tax balances are analysed as follows:

	2011 £'m	2010 £'m
At 1 January 2011	**1.0**	5.6
Charged/(credited) to profit and loss account	**(0.5)**	1.3
Charged to profit and loss reserve	**(1.1)**	(5.9)
At 31 December 2011	**(0.6)**	1.0

9. Derivative financial instruments

	2011 Assets £'m	2011 Liabilities £'m	2010 Assets £'m	2010 Liabilities £'m
Interest rate swaps	**39.2**	**(4.3)**	10.9	(8.2)
Cross currency swaps	**3.0**	**–**	–	–
Foreign currency forward contracts	**5.1**	**(13.3)**	7.3	(18.7)
Total	**47.3**	**(17.6)**	18.2	(26.9)
Less non-current portion:				
Interest rate swaps	**39.2**	**–**	10.9	(8.2)
Foreign currency forward contracts	**0.7**	**(4.2)**	1.1	(9.4)
Non-current portion	**39.9**	**(4.2)**	12.0	(17.6)
Current portion	**7.4**	**(13.4)**	6.2	(9.3)

The Company is exempt from the FRS 29 disclosures as the consolidated financial statements of Meggitt PLC give the disclosures required by IFRS 7 (see Meggitt PLC Group accounts notes 30 and 31).

10. Commitments

Capital commitments

	2011 £'m	2010 £'m
Contracted for but not incurred:		
Property, plant & equipment	**–**	0.5
Total	**–**	0.5

Operating lease commitments

The annual commitments under non-cancellable operating leases expire as follows:

	2011 £'m	2010 £'m
Within two to five years	**0.1**	0.1
Later than five years	**0.1**	0.1
Total	**0.2**	0.2

11. Pensions

The Directors believe that the FRS 17 deficit for the schemes in which the Company participates would be consistent with the IAS 19 deficits reported in note 34 to the Meggitt PLC Group accounts.

12. Called-up share capital

	Ordinary shares of 5p each No. 'm	Nominal value £'m	Net consideration £'m
Allotted and fully paid:			
At 1 January 2011	698.0	34.9	
Equity placing	69.8	3.5	246.0
Issued on exercise of executive share options	2.4	0.1	1.7
Issued on exercise of sharesave options	1.1	–	1.8
Scrip dividends	7.5	0.4	25.2
At 31 December 2011	**778.8**	**38.9**	

From 1 October 2009, the Companies Act 2006 abolished the requirement for a company to have an authorised share capital. On 21 April 2010 the Company adopted new Articles of Association by special resolution, which had the effect of removing the authorised share capital of the Company.

13. Profit and loss reserve

	£'m
At 1 January 2011	275.8
Profit for the financial year	782.7
Dividends	(73.6)
Cash flow hedge movements	4.0
Employee share option schemes:	
Value of subsidiary employee services (see note 4)	7.6
Value of services provided	3.6
Shares issued	(3.1)
At 31 December 2011	**997.0**

14. Reconciliation of movement in shareholders funds

	Share capital £'m	Share premium £'m	Other reserves £'m	Profit and loss reserve £'m	Total 2011 £'m	Total 2010 £'m
At 1 January 2011	34.9	859.4	17.5	275.8	1,187.6	1,096.8
Profit for the financial year	–	–	–	782.7	782.7	86.5
Dividends	–	–	–	(73.6)	(73.6)	(59.2)
Cash flow hedge movements	–	–	–	4.0	4.0	14.8
Currency translation differences	–	–	–	–	–	0.7
Equity placing	3.5	242.5	–	–	246.0	–
Employee share option schemes:						
Value of subsidiary employee services (see note 4)	–	–	–	7.6	7.6	10.5
Value of services provided	–	–	–	0.6	0.6	3.8
Shares issued	0.1	3.4	–	(0.1)	3.4	4.2
Scrip dividends	0.4	24.8	–	–	25.2	29.5
At 31 December 2011	**38.9**	**1,130.1**	**17.5**	**997.0**	**2,183.5**	1,187.6

Details of the Group's employee share schemes are included in note 36 of the Meggitt PLC Group accounts.

Five-year record

	2011 £'m	2010 £'m	2009 £'m	2008 £'m	2007 £'m
Revenue and profit					
Revenue	**1,455.3**	1,162.0	1,150.5	1,162.6	878.2
Underlying profit before tax	**323.0**	256.1	234.2	243.3	179.0
Exceptional operating items	**(20.3)**	(15.7)	(20.8)	(15.8)	(5.4)
Amortisation of intangible assets acquired in business combinations	**(75.1)**	(64.7)	(69.2)	(61.8)	(38.4)
Disposal of inventory revalued in business combinations	**(11.3)**	–	–	(0.3)	(21.3)
Financial instruments	**9.7**	(3.2)	36.6	(46.1)	(5.3)
Goodwill adjustment arising from recognition of tax losses	**–**	–	–	–	(3.2)
Profit before tax	**226.0**	172.5	180.8	119.3	105.4
Earnings and dividends					
Earnings per share – basic	**24.0p**	20.1p	20.5p	15.0p	14.6p
Earnings per share – underlying	**31.9p**	27.8p	25.3p	26.5p	22.1p
Dividends per ordinary share (paid or proposed in respect of the year)	**10.50p**	9.20p	8.45p	8.45p	8.20p
Gearing ratio					
Year end net cash/borrowings as a percentage of capital employed	**44.0%**	50.2%	63.5%	81.5%	76.7%

Investor Information

Dividends

The proposed 2011 final dividend of 7.30p per ordinary share, if approved, will be paid on 11 May 2012 to shareholders on the register on 16 March 2012. The expected payment date for the 2012 interim dividend is 5 October 2012.

Shareholder enquiries

Registrar:
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

T: 0870 703 6210
E: www.investorcentre.co.uk/contactus

Enquiries about the following administrative matters should be addressed to Meggitt PLC's registrar:

- Change of address notification.
- Lost share certificates.
- Dividend payment enquiries.
- Dividend mandate instructions. Shareholders may have their dividends paid directly into their bank or building society accounts by completing a dividend mandate form. Tax vouchers are sent directly to shareholders' registered addresses.
- Amalgamation of shareholdings. Shareholders who receive more than one copy of the annual report are invited to amalgamate their accounts on the share register.

Shareholders can view and manage their shareholdings online at www.investorcentre.co.uk, including updating address records, making dividend payment enquiries, updating dividend mandates and viewing the latest share price. Shareholders will need their Shareholder Reference Number (SRN), which can be found on their share certificate or a recent dividend tax voucher, to access this site. Once signed up to Investor Centre, an activation code will be sent to the shareholder's registered address to enable the shareholder to manage their holding.

Electronic communications and electronic proxy voting

Meggitt encourages shareholders to vote at the Annual General Meeting and provides a facility for electronic proxy voting. Shareholders who are not Crest members can vote online on resolutions proposed at the Annual General Meeting via our website after voting has opened. Proxy cards contain further details on how and when to vote and further information for Crest members.

We provide annual reports and other documents to shareholders in their elected format under the electronic communications provisions, which were approved by the shareholders at the Annual General Meeting in 2007.

Electronic copies of the Annual Report and Accounts 2011 and the Notice of Annual General Meeting will be posted on our website where Meggitt PLC's announcements to the Stock Exchange and press releases are also published.

Share dealing services

8.00am – 4.30pm
Monday – Friday

T: 0870 703 0084

We have established share dealing services with the Group's registrar, Computershare Investor Services PLC, which provides shareholders with an easy way to buy or sell Meggitt PLC ordinary shares on the London Stock Exchange.

The internet share dealing service commission is 0.5%, subject to a minimum charge of £30. Stamp duty, currently 0.5%, is payable on purchases. There is no need to open an account to deal. Real-time dealing is available during market hours. There is a facility to place orders outside market hours. Up to 90-day limit orders are available for sales. To access the service, shareholders should have their SRN to hand and log onto www.computershare.com/dealing/uk.

The telephone share dealing service commission is 1%, subject to a minimum charge of 1% plus £35. Stamp duty, currently 0.5%, is payable on purchases. The service is available from 8 a.m. to 4.30 p.m. Monday to Friday, excluding bank holidays, on telephone number 0870 703 0084. Shareholders should have their SRN ready when making the call. Detailed terms and conditions are available on request by telephoning 0870 702 0000.

This is not a recommendation to buy, sell or hold shares in Meggitt PLC. Shareholders who are unsure of what action to take should obtain independent financial advice. Share values may go down as well as up which may result in shareholders receiving less than they originally invested.

Insofar as this statement constitutes a financial promotion for the share dealing service provided by Computershare Investor Services PLC, it has been approved by Computershare Investor Services PLC for the purpose of Section 21 (2) (b) of the Financial Services and Markets Act 2000 only. Computershare Investor Services PLC is authorised and regulated by the Financial Services Authority. Where this statement has been received in a country where providing such a service would be contrary to local laws or regulations, this should be treated as information only.

ShareGift

17 Carlton House Terrace
London SW1Y 5AH

T: 0207 930 3737

ShareGift (registered charity number 1052686), the independent share donation charity, is especially useful for those who may want to dispose of a small number of shares which are uneconomic to sell on their own. Shares which have been donated to ShareGift are aggregated and sold when practicable, with the proceeds passed on to a wide range of UK registered charities. Further details about ShareGift can be obtained from www.ShareGift.org.

Investor Information continued

Analysis of ordinary shareholders as at 31 December 2011

	Number of shareholders	% of total shares
Size of holdings		
1–999	5,581	0.17
1,000–9,999	2,538	1.01
10,000–99,999	514	2.00
100,000–249,999	113	2.30
250,000–499,999	67	3.19
500,000–999,999	69	6.33
1,000,000 and over	110	85.00
	8,992	100.00

	Number of shareholders	% of total shares
Types of shareholder		
Individuals	7,665	1.90
Banks and nominees	1,226	97.30
Investment and insurance companies	28	0.15
Other	73	0.65
	8,992	100.00

2012 provisional financial calendar

Full-year announcement for year ended 31 December 2011	**6 March**
Final dividend ex-dividend date	14 March
Final dividend record date	16 March
Report and accounts for year ended 31 December 2011 despatched	23 March
Deadline for receipt of scrip dividend elections	23 April
AGM and interim management statement	**26 April**
Final dividend for year ended 31 December 2011 – payment date	11 May
Interim announcement for period ended 30 June 2012	**7 August**
Interim dividend ex-dividend date	15 August
Interim dividend record date	17 August
Deadline for receipt of scrip dividend elections	21 September
Interim dividend for period ended 30 June 2012 – payment date	5 October
Interim management statement	**2 November**

Key dates

MARCH
6
Full-year results

APRIL
26
AGM & interim management statement

AUGUST
7
Interim results

NOVEMBER
2
Interim management statement

Advisors

Registrars
Computershare Investor Services PLC

Principal clearing bankers
HSBC Bank plc
Barclays Bank PLC
Bank of America Merrill Lynch

Merchant bankers
N M Rothschild & Sons Limited

Auditors
PricewaterhouseCoopers LLP

Solicitors
Clifford Chance LLP

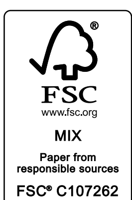
Brokers
Bank of America Merrill Lynch

Contact us

Investor relations
T: 01202 597 597

investors@meggitt.com

Information on Meggitt PLC, including the latest share price: www.meggitt.com



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