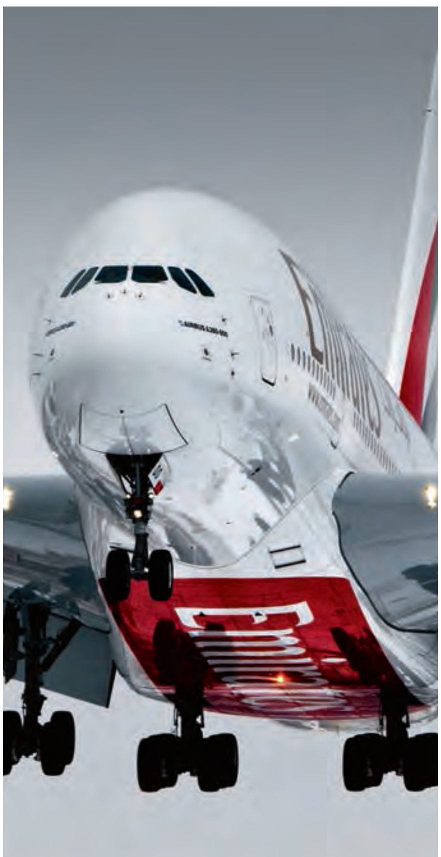
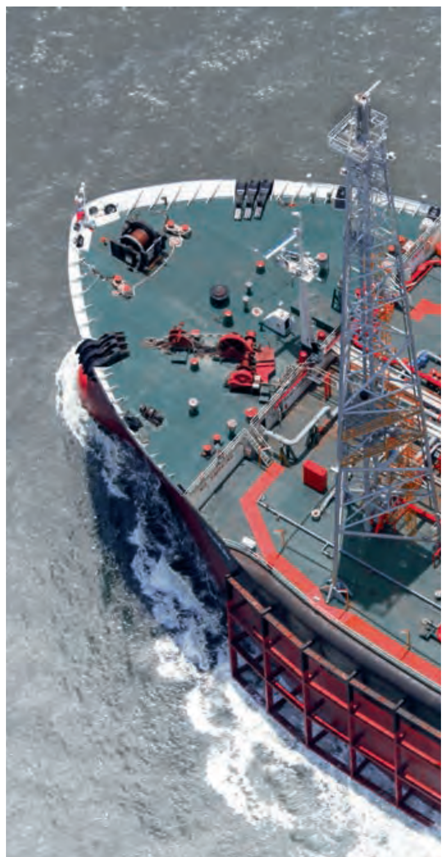
MEGGITT

smart engineering for
extreme environments

ANNUAL REPORT AND ACCOUNTS 2012





Contents

The Meggitt PLC annual report and accounts 2012 can be downloaded from www.meggitt.com

Meggitt deploys its extreme environment engineering in the aerospace, defence and energy markets.

Front cover images, left to right: Airbus A380 commercial transport; Apache Attack helicopter; Petrobras floating, production, storage and offloading (FPSO) vessel, Santos Basin, offshore Brazil.

Below: see case studies on how we apply our latest technology to airframes, military land vehicles, offshore gas processing and aero-engines on pages 10, 20, 24 and 28 respectively.




Headquartered in the UK, Meggitt PLC is a global engineering group specialising in extreme environment components and sub-systems for civil aerospace, military and energy markets.

Nearly 11,000 people are employed across facilities in Asia, Europe and North and Central America and in regional bases in Brazil, India and the Middle East.

Meggitt's civil aerospace interests cover large commercial jets, regional aircraft, business jets, helicopters and general aviation.

Its military markets encompass all aircraft types, land systems, naval platforms and aerial, land-based and marine threat simulation for personnel training and weapons systems development. Training extends to law enforcement and security organisations.

The group's growing presence in energy is driven by our fluid controls, heat management and sensing and monitoring capabilities, many of which are deployed in rotating power generation equipment to help reduce maintenance costs, fuel consumption and carbon emissions.

Financial highlights

Meggitt's strong 2012 results continued to demonstrate the breadth and resilience of its portfolio. Our equipment is installed on around 59,000 aircraft worldwide—a growing fleet—with a stable aftermarket revenue stream stretching out for many decades. While a 10% rise in revenues on 2011 can be attributed to growth in all our markets, our energy businesses performed exceptionally well. Meggitt continued to invest significantly in research and development—£122.0 million (7.6% of revenues).

Revenue
(£ millions)

1,605.8

12	**1,605.8**
11	1,455.3
10	1,162.0
09	1,150.5
08	1,162.6

Underlying profit before tax
(£ millions)[1]

362.8

12	**362.8**
11	323.0
10	256.1
09	234.2
08	243.3

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

408.8

12	**408.8**
11	395.8
10	331.3
09	341.7
08	295.4

Dividends per share
(pence)

11.80

12	**11.80**
11	10.50
10	9.20
09	8.45
08	8.45

Underlying earnings per share
(pence)[1]

36.2

12	**36.2**
11	31.9
10	27.8
09	25.3
08	26.5

Order intake
(£ millions)

1,635.4

12	**1,635.4**
11	1,524.8
10	1,212.4
09	1,096.2
08	1,152.9

[1] The definition of 'underlying' is provided in notes 10 and 15 to the financial statements on pages 81 and 83 respectively.

Chairman's statement

We continue to grow the business by investing in people, technologies and facilities

Delivering our strategy

During 2012, Meggitt developed its strong market positions further. Total orders rose by 7% and total revenues by 10% compared to 2011. Underlying earnings per share were up 13% to 36.2 pence. We generated net cash of £116.7 million (2011: outflow of £30.1 million). Net debt decreased to £642.5 million (2011: £788.4 million) and net debt to EBITDA reduced to 1.3 times (2011: 1.7 times). In consequence, the Board is proposing an increase to the full-year dividend of 12% to 11.80 pence.

The fit between Pacific Scientific Aerospace and Meggitt has proved to be much better than we first thought, enabling us to increase our synergy target to a run-rate of $25 million savings per annum by 2014.

Investing for growth

We continue to grow the business by investing in people, technologies and facilities.

In 2012, we spent 7.6% of revenues, or £122.0 million (2011: £110.5 million) on R&D. We invested £36.1 million (2011: £33.2 million) on supplying free equipment to new aircraft and programme participation contributions, growing our base of installed equipment and securing future aftermarket revenues. Significant contract wins included engine sensor packages and thermal management equipment on Safran's popular LEAP engine; fire protection and control equipment on numerous military and civil programmes; long-term agreements with Sikorsky for composite components; and another major contract in offshore gas processing from Petrobras for our innovative printed circuit heat exchangers.

Capital expenditure on property, plant and equipment and other intangible assets increased to £63.5 million (2011: £52.1 million). We doubled the capacity of our printed circuit heat exchanger facility in Poole, UK. In California, we have signed the lease on a new building to co-locate our North American sensing businesses onto a new campus in Irvine and preparations are underway to combine our North American fire detection and fire suppression businesses onto our established campus in Simi Valley. We continue to implement common ERP and other IT systems across Meggitt and launched a major initiative to raise our operational performance and increase our organic growth rate.

Board of directors

We increased the international diversity of our Board in the Autumn with the appointment of two new non-executive directors.

Guy Berruyer, a French national, is Group Chief Executive of The Sage Group plc, whose French division he joined as Chief Executive in 1997. Guy's early career was spent with software and hardware vendors in management roles at French and pan-European levels.

Philip Cox, a chartered accountant, is Chief Executive Officer of International Power, which he joined as Chief Financial Officer in 2000. Before that, Philip was Senior Vice President for Operational Planning at Invensys plc and Finance Director of Siebe PLC.

In January 2013, Chief Executive Terry Twigger announced his intention to retire. Terry has been responsible for growing the group from around 4,000 employees with revenues of under £400 million to almost 11,000 employees with revenues of £1.6 billion. His legacy is highly significant—a world-class global engineering business with solid foundations and continuing enormous potential. Stephen Young, whose contribution as Group Finance Director has been outstanding, succeeds him from May 2013.

Our people

May I take this opportunity to thank all Meggitt employees for their efforts in what has been a year of further strong growth. The excellent preparatory work which has been undertaken during the year leaves us in excellent shape for 2013's rolling implementation of the group-wide standardised and upgraded production system. In particular, may I extend my gratitude to our outgoing CEO, Terry Twigger.

Group outlook

We continue to focus on organic growth, supplemented from time to time with targeted acquisitions where we can identify value-creating opportunities. Our energy markets remain strong with sensing and monitoring, fluid control and heat exchangers continuing to experience high demand. Sales of new civil aircraft remain strong. Air traffic growth remains steady, sustaining demand for our aftermarket products and services.

The potential sequestration of US defence funding remains an uncertainty. However, we believe our flexible manufacturing base will enable us to redirect activity to areas where demand is strong and we are confident that retrofit, outsourcing and upgrade opportunities will continue from greater utilisation and extension of existing programmes.

We look forward to continued growth in 2013 and beyond.

Sir Colin Terry Chairman

Group strategy

Our high-performance culture is dedicated to meeting customer requirements, underpinned by financial rigour and ethical best practice.

Meggitt aims to deliver upper quartile shareholder returns through *smart engineering for extreme environments*—innovative, high performance, highly reliable products that meet the demands of critical applications in civil aerospace, military and energy markets. Maintaining this focus has enabled us to deliver another strong set of results in 2012.

Focused investment

We invest in the design and manufacture of products operating in extreme environments and subject to demanding certification requirements. This enables us to win positions on new programmes, typically on a sole-source basis, generating aftermarket revenues for the life of these programmes, which can be up to 40 years in many cases.

We align our research and development investment with our customers' programmes and technology plans. To meet the requirements of original equipment manufacturers and operators, we invest in manufacturing capacity and regional customer support. Where appropriate, we seek to acquire companies that enhance our capabilities and fast-track product and market development.

We continue to transfer technologies into adjacent markets. Strong growth in our energy businesses has been supported by the application of our aerospace-derived condition monitoring capability into industrial rotating machinery. Our compact, diffusion-bonded heat exchanger technology has moved beyond its established oil and gas markets to floating liquefied natural gas vessels and waste heat recovery. We see a significant opportunity for growth from our industry-leading sensing technologies in healthcare through precision sensing components for non-invasive medical procedures.

Achieve operational excellence

The transformation initiative, launched in 2009, has delivered substantial group-wide improvements including a flatter, capability-driven organisation structure and a leaner, more flexible manufacturing footprint. Our centralised customer relationship teams and strengthened engineering organisation enable us to engage with customers earlier in the technology development process, and at a higher level. This has made us more responsive to changing customer demands and heightened customer awareness of our full range of products and capabilities.

In 2012, we started to invest in raising the bar, an on-time delivery and quality improvement initiative. This paved the way for 2013's rolling launch of the Meggitt Production System, a common Meggitt approach to the application of lean tools and quality management. This group-wide productivity drive will ensure every business meets the standards of

Our strategy

Focus on components and sub-systems for harsh environments

Invest in products with high technology content to secure sole-source positions with high aftermarket value

Deliver growth through organic investment and acquisition

excellence expected by our customers —and meets them consistently. We are aiming to create a continuous improvement culture that will serve all our businesses and enable our people to deliver sustainable productivity gains. While customers will see significant improvements, Meggitt will also benefit from enhanced cost-competitiveness through lower inventories, a leaner and more effective supply chain and lower cost of quality. Employing these principles rigorously throughout the group will enable us to drive our organic growth rate higher than the medium term target of 6 to 7%.

Across all functions, Meggitt continues to strive for excellence. We maintain a high-performance culture, dedicated to meeting customer requirements, underpinned by financial rigour and ethical best practice.

Building our future

This is my last annual report and accounts as Chief Executive of Meggitt. Since joining the group in 1993, I have seen significant change. We have grown from a diverse engineering conglomerate with a market capitalisation of £200 million to a global aerospace and energy business with a market capitalisation exceeding £3 billion. The integration of Pacific Scientific, one of many transforming acquisitions, is largely complete and I am confident in Meggitt's ability to continue on its growth trajectory, not least as I hand over the reins to our Finance Director, Stephen Young, who has played a pivotal role in developing group strategy over the last nine years.

Aided by an established senior management team and a great workforce, Stephen is committed to growing the group further, reinvesting our income stream into building and reinforcing our infrastructure, extending capabilities and enhancing the skills and experience of our managers and employees. In so doing, he will ensure that Meggitt continues to deliver exemplary service to its customers, rewarding careers to our employees and healthy returns to shareholders.

Terry Twigger Chief Executive

How we achieve our strategy

1. Innovate in our chosen technologies and markets

2. Continue to strengthen partnerships with customers

3. Achieve operational excellence by continually improving

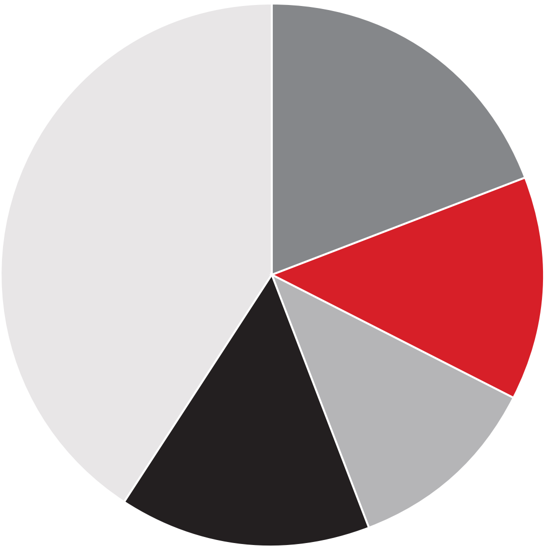
4. Meet the requirements of our global customer base

5. Maintain a culture of 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 19 to 30.

Group overview



Meggitt Aircraft Braking Systems

Revenue (£ millions)	% of group revenue	Underlying operating profit (£ millions)
311.2	19.4	117.8

Meggitt Control Systems

Revenue (£ millions)	% of group revenue	Underlying operating profit (£ millions)
214.9	13.4	50.1

Meggitt Polymers & Composites

Revenue (£ millions)	% of group revenue	Underlying operating profit (£ millions)
187.2	11.6	34.5

Meggitt Sensing Systems

Revenue (£ millions)	% of group revenue	Underlying operating profit (£ millions)
240.2	15.0	36.3

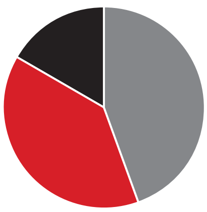
Meggitt Equipment Group

Revenue (£ millions)	% of group revenue	Underlying operating profit (£ millions)
652.3	40.6	155.6

Revenue by market

Total revenue (£ millions)

1,605.8



Civil aerospace	714.8	45%
Military	624.7	39%
Energy and other	266.3	16%

Employees by region

Number of employees

10,980

North America	6,011	55%
UK	2,597	24%
Mainland Europe	1,593	14%
Rest of World	779	7%

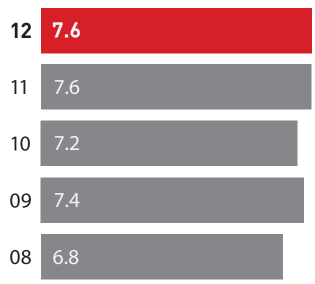
Revenue by destination

Total revenue (£ millions)

1,605.8

North America	871.6	54%
UK	162.4	10%
Mainland Europe	343.7	22%
Rest of World	228.1	14%

R&D as a % of revenue



Meggitt divisions

Meggitt Aircraft Braking Systems

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

Markets

- Civil aerospace
- Fixed and rotary wing military aircraft

Capabilities

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

›› Growth strategy

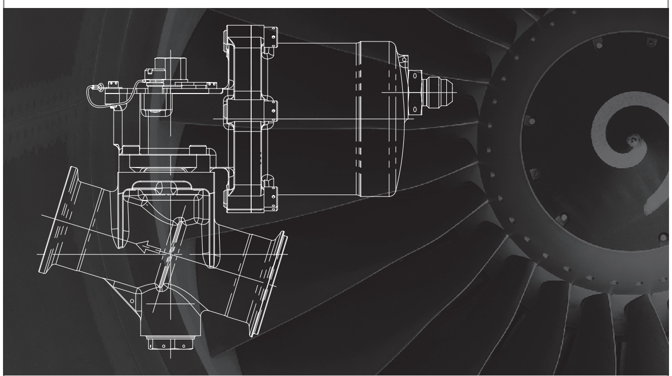
- Secure positions, sole source where possible, on new aircraft programmes
- Develop market-leading technologies—electric braking and innovative, long-life carbon heat sink materials
- Expand our ATA-32 landing gear sub-systems control and monitoring capability
- Leverage low-cost manufacturing capability

Meggitt Control Systems

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

Markets

- Civil aerospace
- Military aircraft and 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
- Leverage low-cost manufacturing capability

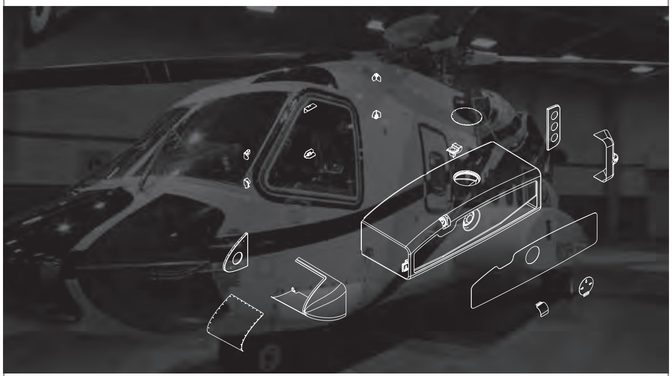
Meggitt divisions

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 aerospace
- Military aircraft and ground vehicles
- Missile systems and UAVs
- Nuclear, marine, heavy transportation and oil and gas sectors



Capabilities

- Life-saving fuel containment technologies for aerospace and ground vehicles
- Lightweight integral fuel tank sealants
- Smart electro-thermal ice protection with energy-saving proportional control
- Complex composite structures
- Aircraft and technical sealing solutions

›› Growth strategy

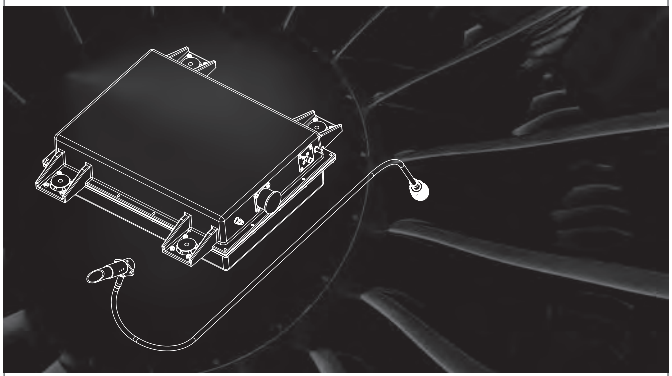
- Extend aerospace and ground combat vehicle applications for IED and blast-resistant technologies
- Lead in engineered aircraft sealing solutions including aerodynamic and fire seals
- Become a leading supplier of electro-thermal ice protection for fixed wing aircraft
- Expand composites and assembly business into complex aircraft structures
- Leverage our low-cost high quality 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
- 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

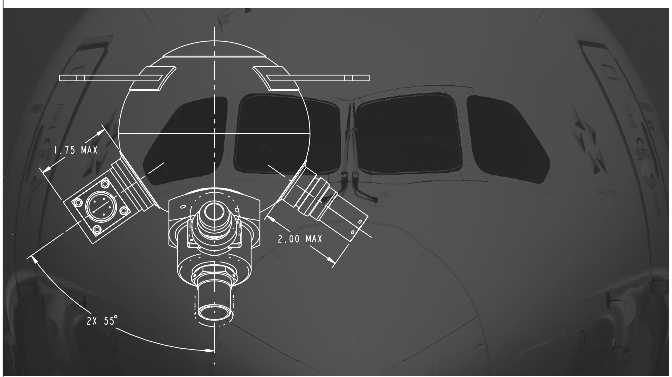
- Continue to invest in high-performance sensing and advanced condition-monitoring systems that reduce aircraft operating costs, optimise maintenance and reduce pollution
- Apply our expertise beyond aero-engines across the airframe to support integrated vehicle health management solutions
- Focus on energy markets through targeted solution-selling and an expanding regional presence
- Invest in precision sensing technology for non-invasive medical procedures

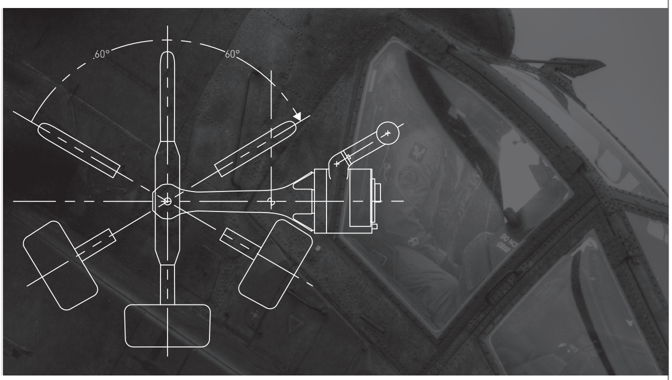
Meggitt Equipment Group

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

- Civil and military 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

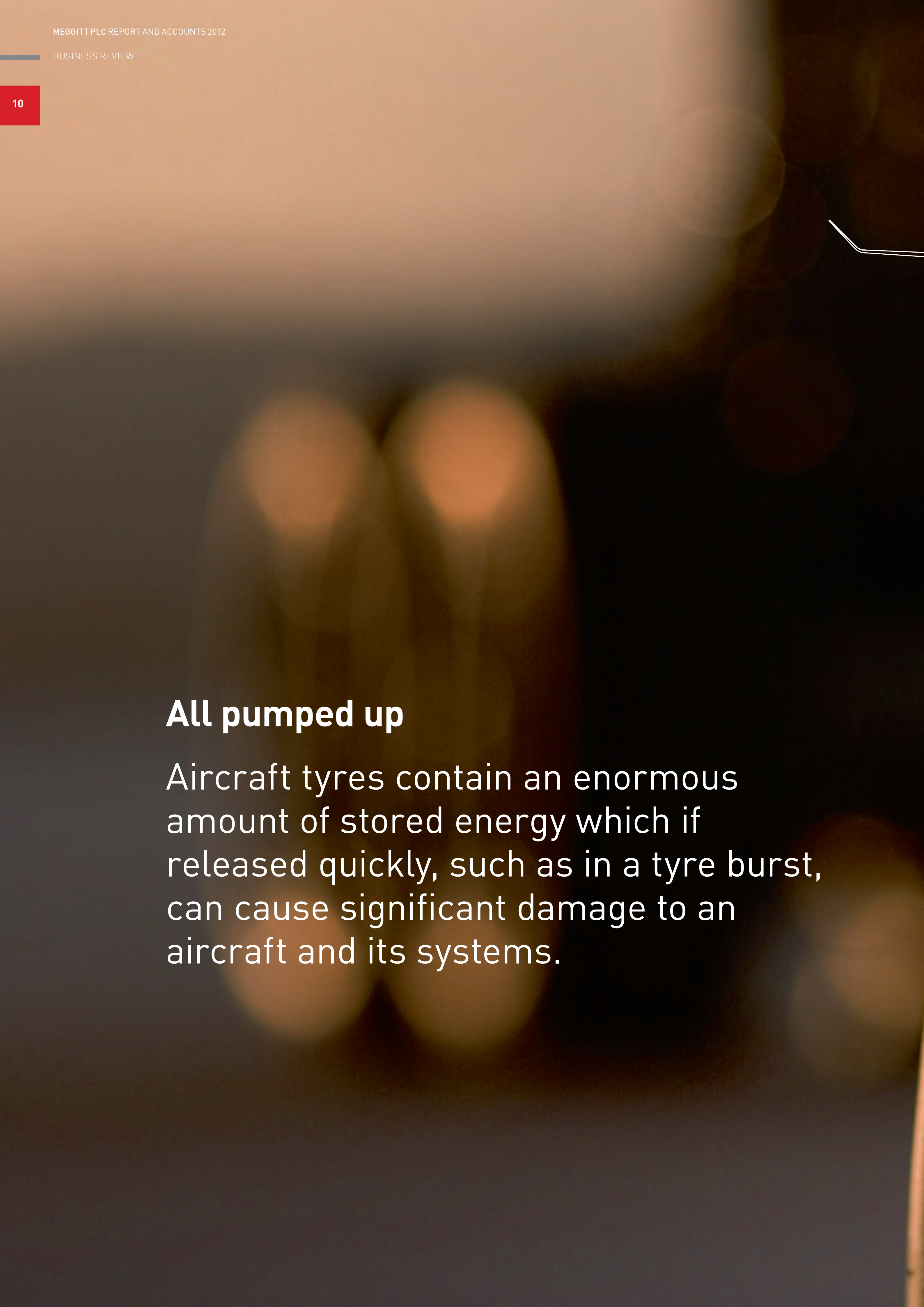
Power
- Leveraging our capabilities in power generation, conversion and storage to support future more electric aircraft

Heat transfer
- Continue to drive the market for 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

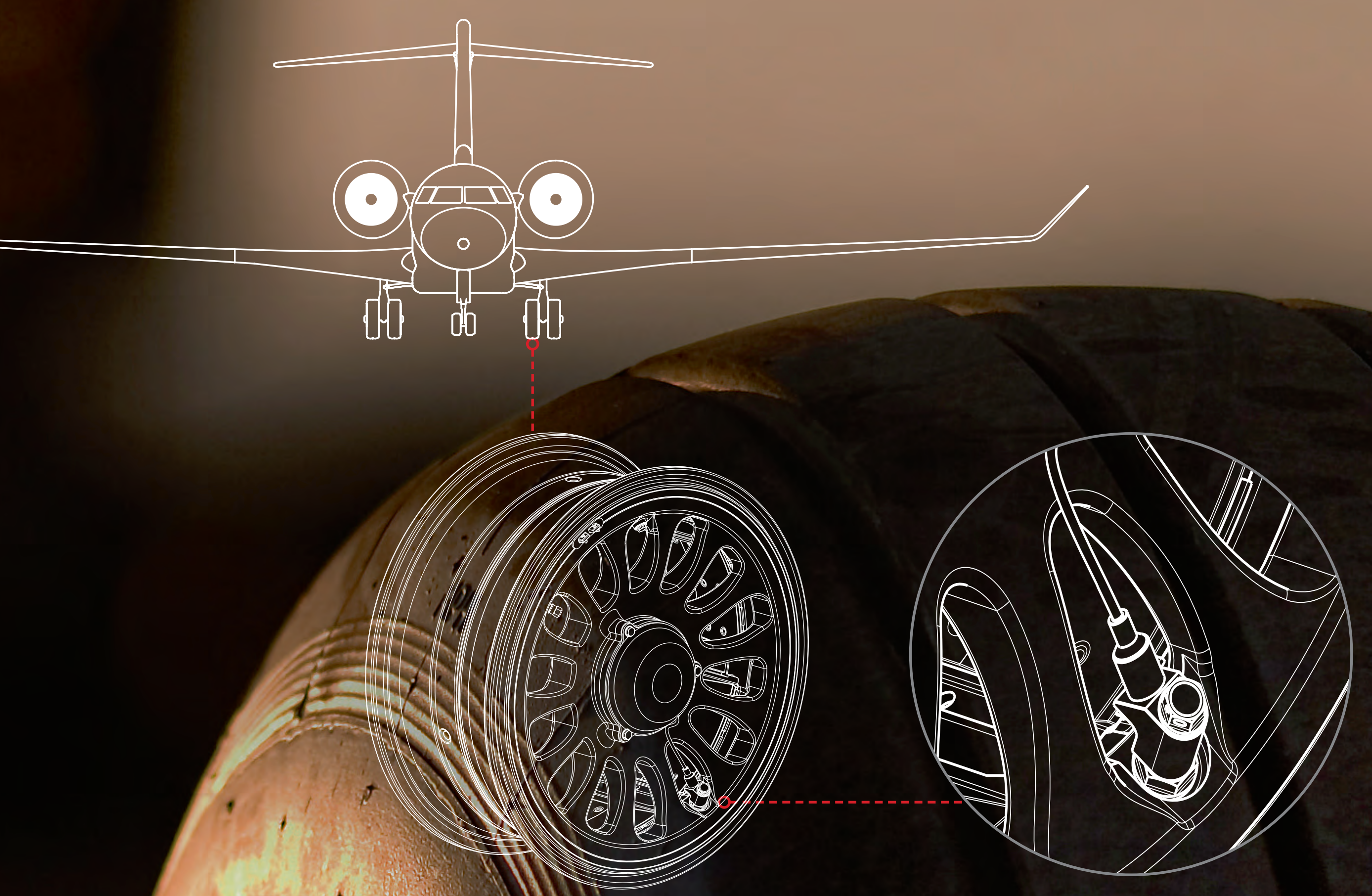
Combat systems
- Provide smart thermal management solutions to military electronics cooling problems
- Extend our automatic ammunition-handling capability into larger calibre weapons

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



All pumped up

Aircraft tyres contain an enormous amount of stored energy which if released quickly, such as in a tyre burst, can cause significant damage to an aircraft and its systems.



Expanding responsibility for aircraft safety and monitoring

Meggitt's flight deck-based tyre pressure monitoring system extends the scope of our responsibility for aircraft safety and monitoring in line with our brake control development strategy. We can now integrate ten control, monitoring or indication functions in our systems. The multiple safety and maintenance benefits of remote real-time tyre pressure data to flight and maintenance crews are offered on Bombardier Aerospace's CSeries* and other regional aircraft.

A new safety tool

Reducing the frequency of labour-intensive manual checks, our tyre pressure monitoring system can be used to ensure that maintenance procedures are fully and accurately carried out, avoiding the potentially serious dangers associated with underinflated tyres. At the same time, it will reduce the cost of maintenance associated with tyres exhibiting poor wear and tear after use at sub-optimal pressures.

Warnings in the air and on the ground

After calculating tyre pressure, the system will generate warnings or alarms about abnormal tyre inflation relative to the threshold of the aircraft's configuration and phase of flight. Tyre pressure anomalies will be indicated via the aircraft's engine indication and crew alerting system (EICAS) and associated flight deck displays before take-off and landing, enabling flight crews to make informed safety-critical decisions based on aircrew operating procedures. Ground crews will be alerted to the requirement to inflate a given tyre correctly via the aircraft's health and monitoring system.

* Trademarks of Bombardier Inc. or its subsidiaries

Market review

Meggitt's portfolio of engineered products and services for extreme environments focuses on three core markets—civil aerospace (45%); military (39%); and energy and speciality products (16%). This breadth and global reach enables us to offset negative conditions in individual sectors and regions. Meggitt performed strongly in 2012 despite challenging market conditions, sustaining confidence in the group's robust business model and our ability to deliver average revenue growth of 6 to 7% per annum over the medium term.

With growing deliveries of new aircraft and increasing air traffic, we expect good growth in our civil aerospace markets in 2013. Energy should also continue to be strong. Military markets are more uncertain, with 61% of revenues coming from the US, where potential spending cuts are not defined. Overall, conditions in our end markets would suggest mid-single-digit revenue growth in 2013.

Summary

Based on current market indicators and at constant exchange rates, the group expects to deliver revenue growth in the mid-single-digits in 2013 and to average 6 to 7% over the medium term.

Revenue by destination

Total revenue (£ millions)

1,605.8

North America	871.6	54%
UK	162.4	10%
Mainland Europe	343.7	22%
Rest of World	228.1	14%

Civil aerospace

Meggitt has won engine sensor packages measuring vibration, shaft speed, critical temperatures and oil level from Snecma (Safran Group) for its LEAP-1A, 1B and 1C engines. The deal will generate revenues of around $500 million over the lifetime of the Boeing (737MAX), Airbus (A320neo) and COMAC (C919) aircraft the LEAP variants will power.

45%

Military

Sikorsky Aircraft Corporation entered into a $129 million, five-year agreement with Meggitt's polymers and composites facility in Rockmart, Georgia, USA covering fuel tanks, electro-thermal ice protection equipment, secondary composite structures and interiors for all Sikorsky's production military helicopters, including the Black Hawk.

39%

Energy and other markets

Petrobras has awarded a $100 million-plus contract for over 200 of Heatric's innovative high-performance compact printed circuit heat exchangers. The equipment will feature in gas compression, gas injection and CO_2 separation modules—26 heat exchangers for each of eight floating production, storage and offloading vessels in remote Brazilian offshore locations.

16%

Market review – Civil aerospace

Civil aerospace revenues account for 45% of our business and are derived from products and sub-systems installed on almost every jet airliner, regional aircraft and business jet in service. The global fleet of civil aircraft on which Meggitt has content continues to demonstrate good growth, and currently totals around 40,000 aircraft.

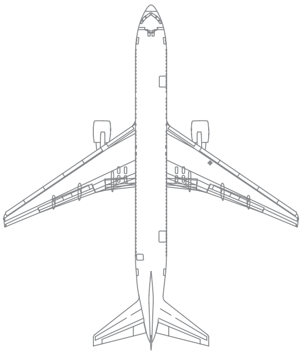
Established aircraft, such as the Boeing 737/777, Airbus A320/A330, Embraer E170/190 and several business jet programmes, continue to see strong build rates. The re-engined variants of the Boeing and Airbus narrowbody aircraft, for which we have secured several significant contracts, have attracted exceptional orders in recent years. Excellent growth on new aircraft programmes such as the Boeing 787, Airbus A350XWB and Gulfstream G650 also contribute to Meggitt's 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—engines, undercarriages and external structures experiencing 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, which represent over 60% of Meggitt's civil aerospace revenues.

Growth in global air traffic drives demand in the large jet and regional aircraft aftermarket. In 2012, traffic growth, expressed in Available Seat Kilometres, grew at approximately 3.5% and is expected to grow by about 5% on average over the next five years in line with the long term trend. Business jet utilisation remained steady year on year, and the increasing globalisation of the fleet is expected to yield future growth. Aftermarket demand decoupled from traffic growth in 2012 as our customers reduced inventories. We expect the relationship between traffic growth and spares demand to be restored during 2013. With our growing fleet, increasing utilisation and price increases, aftermarket sales should grow on average by 8 to 9% per annum over the medium term.

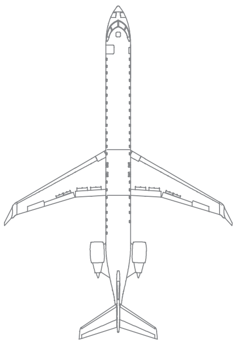
55%

Large jet



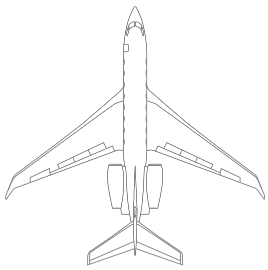
21%

Regional aircraft

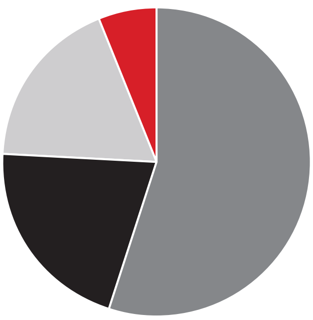


18%

Business jet

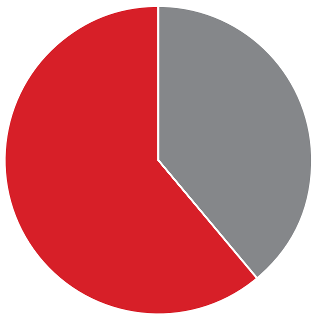


Civil aerospace revenue by sector



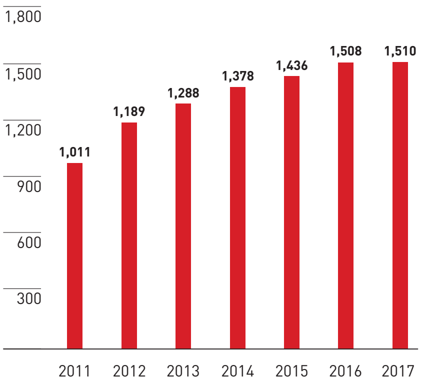
Large jet	55%
Regional aircraft	21%
Business jet	18%
Other	6%

Civil aerospace revenue by OE and aftermarket



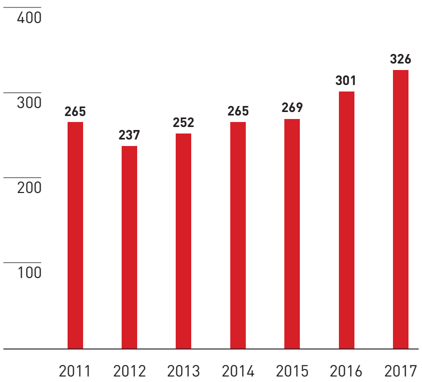
OE	39%
Aftermarket	61%

Large jet delivery forecast



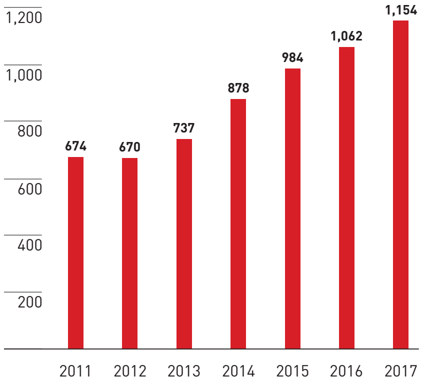
Source: Meggitt management estimates

Regional aircraft delivery forecast



Source: Meggitt management estimates

Business jet delivery forecast



Source: Meggitt management estimates

Large jet

Airbus and Boeing have maintained consistently high delivery rates over the last few years despite the 2008/9 economic downturn. Extensive order backlogs totalling over seven years of production at current rates at the end of December 2012 were supported by strong orders for their re-engined narrowbodies totalling 2,500 aircraft.

Some 1,189 large jets were delivered in 2012, an 18% increase on 2011, with new orders of over 2,200 aircraft giving a book-to-bill ratio of around two. This encouraging 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 grow further in 2013, continuing their upward trend over the medium term. This is underpinned by the rise in Boeing and Airbus delivery rates and ramp-ups for the production of new programmes such as the Boeing 737MAX/787 and Airbus A320neo/A350XWB.

Other aircraft manufacturers are continuing to invest in new aircraft platforms. The Bombardier C-Series and Comac C919, both of which feature Meggitt equipment requiring maintenance, repair and overhaul services, are due to enter commercial service over the medium term.

Regional aircraft

Regional aircraft deliveries of 237 in 2012 represented a modest decrease on 2011, principally due to lower deliveries of aircraft with fewer than 70 seats. We anticipate a gradual production recovery, led by growth in ATR 72 deliveries, a rise in Embraer 170/175 delivery rates and the ramp-up of Sukhoi SJ100 production.

Meggitt has a particularly strong market share in 70-plus seat regional aircraft equipped, in many cases, with Meggitt's high-value carbon braking systems. The utilisation of these larger regional jets has remained exceptionally strong. The increase in take-offs and landings by more than 10% worldwide versus 2011 is offsetting the anticipated decline in the utilisation of smaller regional aircraft.

Business jet

Deliveries of new business aircraft in 2012 totalled 670, down roughly 50% from the peak in 2008 and broadly flat relative to 2011. However, inventories of used aircraft are continuing to decline and demand is showing signs of recovery both in the US, which remains the world's largest market, and in emerging international regions. Customers outside the US own less than 30% of the global business jet fleet but account for over 40% of the total order backlog. Despite the cessation of Hawker business jet production, we expect deliveries of business jets to grow in 2013, driven by production rate increases in new models such as the Gulfstream G650 and G280. In the medium term, we expect business jet deliveries to continue to recover, driven by a host of new jets with high-value Meggitt content including Bombardier 7000 and 8000, Learjet 85, Cessna CJ4 and the continuing rise of G650 and G280 production.

Meggitt's sales of carbon brakes and electronic braking systems slant towards larger business jets, where we are enjoying a significant increase in market share. This area of the market has proven to be considerably more resilient than that of smaller aircraft since the 2008/2009 downturn. Several new programmes are due to enter service over the coming years from a range of manufacturers including Gulfstream, Dassault and Bombardier, giving us confidence in the continuing recovery of this market segment.

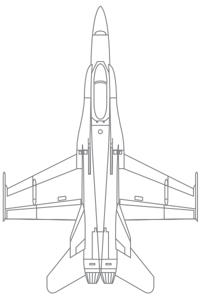
Market review – Military aerospace and defence

Meggitt's military revenues account for 39% of our business, comprising fixed wing aircraft at 43%, rotary wing at 27%, land vehicles at 6% and other sectors including training, at 24%. Our installed base incorporates some 19,000 aircraft, a variety of ground vehicles and training facilities. We expect our mix of OE (58%) and aftermarket (42%) to continue to provide a resilient revenue source in a challenging defence budget environment.

Defence budgets around the world remain under pressure, most notably in the United States, as governments rebalance spending to address 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 the military market will continue to yield organic revenue growth over the medium term due to our positions on key platforms in service (e.g. Black Hawk, Apache, Eurofighter, Rafale), growth platforms (e.g. F-35 JSF, V-22) and potential retrofits. This growth rate will be lower in 2013 and 2014 if sequestration (additional budget cuts from 2013, which have yet to be defined or quantified) has a material impact on programmes with high Meggitt content. Our US military sales are 24% of group revenues. The potential for a 10% cut across the board would reduce group revenues by approximately 1% in 2013 and a further 1% in 2014.

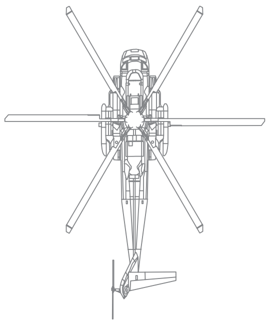
43%

Fixed wing



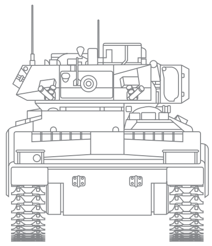
27%

Rotary wing



6%

Land vehicles



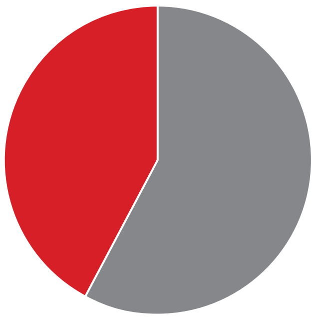
24%

Training and other

Military revenue by sector

Fixed wing	43%
Rotary wing	27%
Land vehicles	6%
Training and other	24%

Military revenue by OE and aftermarket



OE	58%
Aftermarket	42%

Military revenue by destination

North America	61%
Europe	24%
Rest of World	15%

Military fixed wing

Meggitt has a significant installed base of military fixed wing aircraft, a market in which we are the number one provider of wheels and brakes. With a range of products on current platforms, such as the F-15, F-16, F-18 E/F, Rafale and Eurofighter and good content on growing programmes such as the F-35 JSF and V-22, we are confident in delivering further growth in the medium term.

As new programme development and acquisition funds are cut back and delivery schedules pushed out, funding has been diverted to production of current platforms. 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-18 E/F Hornet, F-15 Eagle and F-16 Falcon, regarded as cost-effective solutions to governments' force and capability maintenance and expansion plans. These are good programmes for Meggitt.

Military rotary wing, land and sea

Military helicopters have proven to be an invaluable operational asset in Iraq and Afghanistan, demonstrated by the Department of Defense's ongoing commitment to Black Hawk, Chinook, Osprey and Apache. As key contributors to operational effectiveness, their systems continue to require significant maintenance, retrofit and upgrade to maintain combat readiness. During 2012, Meggitt signed a multi-year contract with Sikorsky which will see our composite content rise on several key helicopter platforms.

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. There is also significant potential for Meggitt's blast-resistant fuel tanks, which are currently being installed in the US Bradley Fighting Vehicle fleet.

Military training

Meggitt's live-fire and virtual simulation training products are market leaders, with over 10,000 Meggitt-supplied live-fire ranges and 5,100 virtual systems providing training to the armed forces, law enforcement and security organisations. This installed base provides regular replacement revenues.

Following Meggitt Training Systems' selection in October 2011 as an equipment supplier for live-fire training ranges at US Army installations worldwide, we have made good progress during 2012, supplemented by a further award for the provision of 1,100 infantry and armour units received in early 2013.

The training businesses have seen notable successes in international markets during the course of 2012, with international (ex-US) revenue growth of 49% spread across a range of contracts in Europe, the Middle East and Asia.

Market review – Energy and other markets

Our energy businesses accounted for 10% of group revenues in 2012. We target power generation and oil and gas markets with condition monitoring software and hardware and our printed circuit heat exchanger technology.

Meggitt's condition monitoring products enhance the safety and efficiency of turbines and optimise their maintenance regimes. In an environment of increasing energy demand and escalating input costs, this market is demonstrating strong growth and we continue to invest in our offering to maximise its growth potential.

Our primary product in oil and gas is our unique printed circuit heat exchanger (PCHE) technology. A $100 million-plus order from Petrobras to support the first eight floating, production, storage and offloading (FPSO) vessels of a 27-vessel programme saw record sales for our Poole, UK-based facility in 2012 on the back of a very strong preceding year. Indications are that this market will remain strong over the medium term. We are also developing PCHEs for use with emerging technologies including waste heat management and chemical reforming.

We estimate our energy businesses will grow at a compound annual growth rate of greater than 10% over the medium term following 45% growth in 2012.

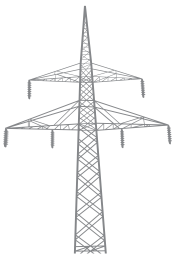
Other markets

Other markets comprise 6% of group revenues spread over a range of markets including automotive, test, consumer goods and medical.

We anticipate modest growth in these markets over the medium term, with significant potential for acceleration in medical as our highly accurate sensors are being used in innovative, non-invasive medical treatments.

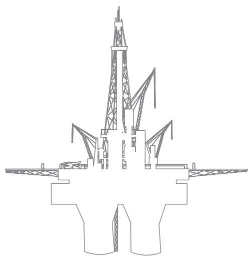
52%

Power generation



48%

Oil and gas

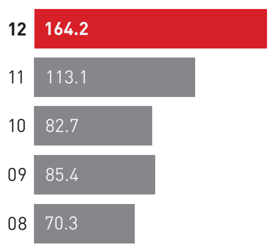


Energy revenue by market

Power generation 52%
Oil and gas 48%

Energy revenues
(£ millions)

164.2



Performance review

The group continued to grow strongly in 2012, with revenues up 10% and underlying profit before tax up 12%. Civil aerospace and military businesses grew at 7%, while our energy businesses had a particularly strong year, delivering revenue growth of 45%. Our operational improvement initiative is off to an excellent start, and we are confident that this will drive enhanced organic growth in the future.

With targeted investments in technologies and capacity expansion, the new capabilities acquired with PacSci, and an ongoing focus on operational excellence and customer satisfaction, we are confident in achieving continued growth in 2013 and beyond.

Financial highlights (Table 1)

	2012 £'m	2011 £'m	% change
Revenue	**1,605.8**	1,455.3	+10
Underlying[1]:			
EBITDA[2]	**468.4**	428.5	+9
Operating profit	**394.3**	359.5	+10
Profit before tax	**362.8**	323.0	+12
Earnings per share ('EPS')	**36.2p**	31.9p	+13
Statutory			
Operating profit	**323.6**	262.5	+23
Profit before tax	**292.1**	226.0	+29
Earnings per share ('EPS')	**31.1p**	24.0p	+30
Cash inflow from operations before exceptional operating items	**408.8**	395.8	+3
Cash conversion[3]	**104%**	110%	

[1] Underlying profit and EPS are defined and reconciled to statutory measures in notes 10 and 15 respectively of the group financial statements.
[2] Underlying EBITDA represents underlying operating profit adjusted to add back amortisation and depreciation.
[3] Cash conversion is the ratio of cash inflow from operations to underlying operating profit. Cash inflow from operations excludes exceptional operating items, interest, tax and investing activities.

Key Performance Indicators (KPIs)

Revenue growth
Percentage change in group revenue from previous financial year. Target compound proforma (excluding the impact of M&A) growth: 6 to 7% across the cycle.

Achieved: 6% proforma growth due to the ongoing growth in civil, military and energy markets. We continue to expect to achieve target over the cycle

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

Achieved: 9% proforma, 12% total in 2012

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

Achieved: 13% in 2012

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

Achieved: 24.6% proforma, 24.6% total

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

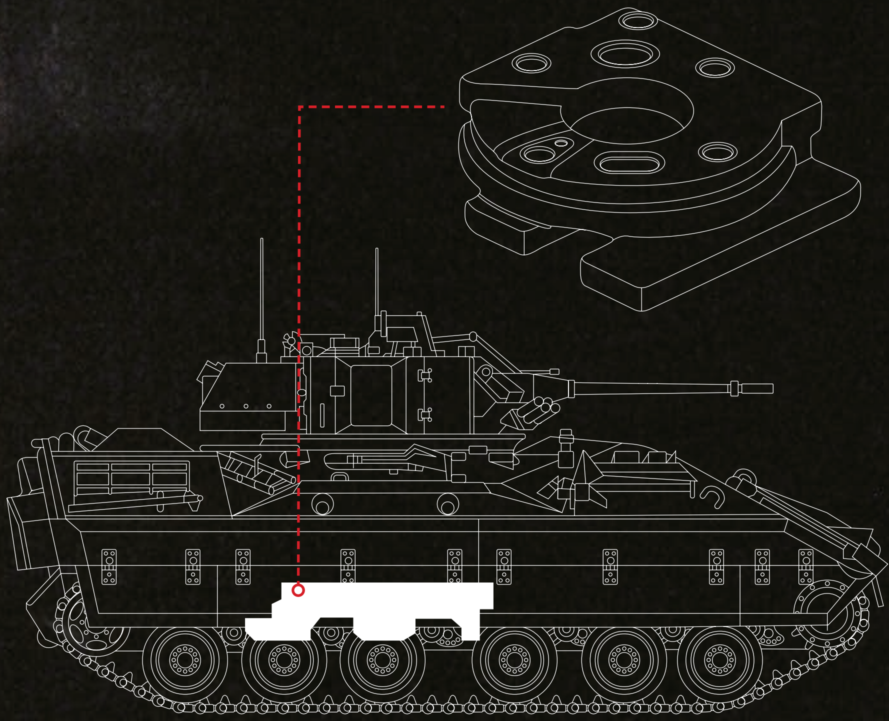
Achieved: 7.6% in 2012

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

Achieved: 104% in 2012

After the blast

We minimise the risk of fuel fires in fighting vehicles with our IED-resistant fuel tanks. These are derived from products which have eliminated fire-related deaths of pilots and crew involved in survivable helicopter crashes.



IED-resistant fuel tanks

Our fuel tanks are unique. Some can take a bullet, which means that military pilots and crew can get back to base safely without loss of fuel or risk of fire. Some remain intact after high impact helicopter crashes on rough terrain, enabling pilots and crew who survive to avoid further injury or death by fuel fire. And now, there's a range that enables soldiers to walk away from survivable IED events in fighting vehicles.

Maintaining fuel integrity under dynamic loads

Until the wars in Iraq and Afghanistan, mines were the main threat to ground vehicles. Today, the armour plating that countered mines is easily defeated by the explosive force of IEDs that send metal into fuel tanks, igniting them. That's why Meggitt has launched puncture and blast-resistant self-sealing fuel cells for military vehicles, based on decades protecting air crew from fuel-related fires with crashworthy fuel cells after survivable helicopter crashes. Whether it is a blast or gunfire event, the coated fabric from which the fuel tanks are made provides the strength to maintain fuel integrity under dynamic loads.

From aircraft to landcraft

Now in series production, the US Army has equipped over 4,000 Bradley Fighting Vehicles with this vital fuel tank technology in an upgrade programme designed to enhance the vehicle's survivability during contemporary warfare. Meggitt's first ground vehicle contract for leak-proof, life-saving fuel containment products evidences success in the group's strategy to expand its markets beyond aerospace.

Performance review

Revenue growth (Table 2)

	2012 revenues £'m	2012 growth %	Proforma growth[1] %
Civil OE	**281.1**	+15	+6
Civil AM	**433.7**	+3	-1
Total civil	**714.8**	+7	+1
Military	**624.7**	+7	+3
Energy	**164.2**	+45	+43
Other	**102.1**	+12	+5
Total	**1,605.8**	+10	+6

[1] Proforma growth numbers exclude the impact of M&A.

Overall performance

The exceptional performance in our energy businesses, with ongoing revenue growth in civil and military markets, enabled us to deliver robust growth in 2012. Revenue grew 10% and underlying profit before tax grew 12%, driving a 13% increase in underlying EPS to 36.2p. With a strong order book and a book-to-bill ratio of greater than one in 2012, we have good momentum going into 2013.

Revenues and orders

The continued strength of our end markets drove an increase in revenues of 10% to £1,605.8 million. As Table 2 demonstrates, civil OE and energy were particularly strong, while all end markets contributed positively to our growth profile.

Total proforma civil aerospace revenues grew 1%. Growth in civil OE across all sub-segments was achieved in 2012, offset by a modest decline in proforma civil aftermarket revenues owing to some destocking in the supply chain following an exceptionally strong 2011 where we grew 12%.

Proforma military revenues grew by 3%, with particular strength in aerospace aftermarket and non-aerospace businesses.

Energy revenues increased by a very impressive 45%, with 43% growth in proforma revenues. The buoyant oil and gas market, combined with the rapidly growing FLNG and FPSO markets, drove good demand for our unique printed circuit heat exchangers, and our power generation businesses performed well following our investment in product refreshes and enhanced routes to market.

Meggitt's other specialist markets saw proforma growth of 5% with ground refuelling and industrial markets 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 10% to £394.3 million. A strong operational performance helped offset an £8.4 million currency headwind, a negative mix effect of £5.4 million and a net investment of £2.0 million in the raising the bar programme and enabled us to hold the margin at last year's level.

Net finance costs decreased to £31.5 million as a result of strong cash generation and lower interest rates. Within this, post-retirement finance charges increased modestly to £5.4 million. Underlying profit before tax increased by 12% to £362.8m.

With an underlying tax rate of 22%, underlying EPS increased by 13% to 36.2 pence.

On a statutory basis, profit before tax increased by 29% to £292.1 million and EPS increased by 30% to 31.1p. A reconciliation between underlying profit and statutory profit is provided in note 10 of the financial statements.

The recommended final dividend is increased by 12% to 8.20p and represents a total dividend for the year of 11.80p, also up 12%.

Operational highlights (Table 3)

Meggitt Aircraft Braking Systems (MABS)
MABS represents 19% of total group revenue, generating 89% of its revenues from the aftermarket and 11% from OE sales. MABS' civil aftermarket revenues (66% of divisional total) declined by 6% in 2012 due to the combination of destocking, Chapter 11 events at some customers and the accelerated decline in utilisation of the legacy large jet fleet (DC9/MD80). The legacy large jet fleet accounted for revenues of c£20 million in 2012. Military revenues saw a modest increase owing in part to a one-off contract from the Indian Air Force for Hawk spares. Operating margins improved from 37.4% to 37.9% in the year reflecting operational improvements and favourable military mix, partially offset by the decline in highly profitable civil aftermarket revenues.

Meggitt Control Systems (MCS)
The division represents 13% of total group revenue and generated 54% of its revenues from OE and 46% from the aftermarket. For MCS, civil aerospace grew 2% in the year (5% growth in OE offset modest decline in aftermarket), and military grew at 11%, helped by strong aftermarket orders. Other markets grew by 10% reflecting a strong performance in energy and ground refuelling products. Operating margins declined modestly driven by strong performances in the relatively lower margin civil OE and military markets.

Operational highlights £'m (Table 3)

Revenue 2012	Revenue 2011	Revenue Proforma growth[1] %		Underlying operating profit 2012	Underlying operating profit 2011	Underlying operating profit Proforma growth[1] %	Return on sales % 2012	Return on sales % 2011
311.2	320.5	-3	Aircraft Braking Systems	**117.8**	119.9	-2	**37.9**	37.4
214.9	201.6	+10	Control Systems	**50.1**	47.9	+8	**23.3**	23.8
187.2	171.2	+9	Polymers & Composites	**34.5**	31.7	+9	**18.4**	18.5
240.2	233.9	+3	Sensing Systems	**36.3**	43.2	-16	**15.1**	18.5
652.3	528.1	+9	Equipment Group	**155.6**	116.8	+21	**23.9**	22.1
1,605.8	1,455.3	+6	Total Group	**394.3**	359.5	+7	**24.6**	24.7

[1] Proforma growth numbers, which exclude the impact of M&A, are provided to give a better like-for-like comparison.

Meggitt Polymers & Composites (MPC)
MPC represents 12% of total group revenue. Revenue growth in MPC of 9% in the year was driven by strong large jet demand resulting in civil growth of 8%. Military sales also grew strongly, with increased composites content on a range of helicopter platforms as a result of customer outsourcing and the ongoing Bradley fuel tank retrofit programme. Operating margins remained steady at 18.4%, with manufacturing efficiencies offsetting a negative mix impact.

Meggitt Sensing Systems (MSS)
MSS represents 15% of total group revenue and generated 80% of its revenues from the OE market and 20% from the aftermarket. MSS proforma revenues grew 3% in the year with particular strength in the energy and medical markets. Operating margins decreased, as expected, as a result of the movement in the Swiss Franc against the US Dollar. Excluding this impact, operating margins improved to 19.1% as the growth in energy exceeded growth in the relatively lower margin civil OE market.

Meggitt Equipment Group (MEG)
The division represents 41% of total group revenue and generates approximately 70% of its revenues from OE and 30% from the aftermarket. Revenue in MEG was up 23% on last year including the additional four-month contribution from PacSci. On a proforma basis, revenue was up 9% due to growth in civil OE, up 14%, and energy revenues which were up over 70% due to the strength of the Heatric printed circuit heat exchanger business. Heatric grew on the back of a significant Shell FLNG order awarded in 2011, and initial revenues from a Petrobras order received in 2012. This order was valued at over $100 million for the provision of heat exchangers to a fleet of floating production, storage and offload vessels. Operating margins improved due to favourable mix, volume leverage and incremental synergies from the PacSci acquisition.

Cash flow and borrowings

Cash inflow from operations before exceptional operating items was a very healthy £408.8 million, which was 104% of underlying operating profit. Our strong focus on cash generation continued to deliver excellent results in 2012.

Net cash generated of £116.7 million was impressive given a very low take-up of the scrip dividend and increased investment in capacity increases and IT infrastructure. Net debt decreased by 19% to £642.5 million.

Investing for the future

The application of our internally generated and owned intellectual property is fundamental to Meggitt's strategy. Total research and development expenditure in 2012 was £122.0 million or 7.6% of revenues, of which 20% was funded by customers. The largest relative investment was in MSS at around 14% of segment revenues.

Investment in technology development is aimed at adding new capabilities to our portfolio in response to customer requirements. Areas of focus in 2012 included a new distributed condition monitoring system for energy gas turbines which we intend to bring to market during 2013, and a range of new aerospace technologies including development of a green fire suppressant. We also continue to invest in transferring our core aerospace technologies across adjacent markets, and we will be opening a new facility in Denmark during 2014 to better serve medical markets with our specialist sensing capabilities.

Meggitt invested £36.1 million in supplying equipment free of charge to new aircraft and making programme participation contributions, mostly in the MABS business. This increased investment reflects our strong track record in winning the new programmes that drive future aftermarket growth.

Capital expenditure on property, plant and equipment and other intangible assets increased to £63.5 million, including continued investment in capacity, site consolidations and the deployment of common IT systems across the group. There has been substantial investment in our manufacturing facilities

Surfing gas

Petrobras floating production, storage and offloading ships will lie in remote locations 350 kilometres offshore in the Atlantic Ocean. Meggitt's heat exchangers can safely handle the high pressure needed to reinject extracted gas back into oil and gas reservoirs lying 5,000 metres beneath the ocean floor.

Transforming economics

Because Meggitt's PCHEs can unlock wider performance, safety and build-cost benefits than conventional heat exchangers, Petrobras, Brazil's national oil giant, has ordered over 200 for the eight floating production, storage and offloading ships it will commission over the next four years. Only we can make PCHEs on a commercial scale.

Higher output, more safety

At the heart of a Meggitt PCHE is a joint-less diffusion-bonded matrix of chemically-etched micro-channels. Three-to five-times lighter and smaller than traditional units, our PCHEs are capable of much higher throughput, accommodate much higher pressures (up to 650 bar) and, because they are 100 times less likely to develop a leak, are extremely safe. Made from corrosion-resistant materials and with 25-year life spans to match the offshore platforms on which they serve, Meggitt's PCHEs are resilient enough to shrug off the most extreme operating conditions.

Cutting the cost of operations

Whether it's boosting output from existing operations or optimising new-build projects, we optimise gas production by replacing old technology with high efficiency PCHEs, increasing throughput and system integrity. On new platforms, higher efficiency, safety and durability can be designed in. The compactness of PCHEs creates a multiplier effect, cutting millions of dollars from total build costs by shrinking topside bulk and simplifying construction.

Performance review

Investing for the future (continued)

to provide capacity to meet future growth driven by our high level of programme wins over the past few years, including new capital equipment in our US aircraft braking systems and polymers and composites facilities. We have doubled the capacity of our innovative heat exchanger business in Poole, UK and in California, we have leased a new building in which to co-locate our North American sensing businesses and progressed plans to co-locate our fire detection and fire suppression businesses in late 2013.

To be successful in today's environment we must combine our advanced technological capabilities with ever higher levels of customer responsiveness, hence launching our raising the bar initiative in 2012 to improve on-time delivery and quality. This programme will identify areas of operational best practice and implement them, sustainably, across all group facilities. Such performance improvements will help us secure the incremental contracts needed to boost Meggitt's organic growth rates and, after an initial investment of £2 million in 2012 and an estimated £6 million in 2013, we expect to add shareholder value with early cost savings.

As part of the group's low-cost manufacturing strategy, Meggitt continued to expand the range of capabilities at its manufacturing plants in China, Mexico and Vietnam, a key enabler to delivering enhanced cost-competitiveness and developing a best-in-class operational footprint.

Analysis of R&D costs (Table 4)

	2012 £'m	2011 £'m
Total R&D expenditure	**122.0**	110.5
% of revenue	**7.6%**	7.6%
Customer-funded R&D	**(24.9)**	(27.3)
Capitalised	**(52.2)**	(41.5)
Amortisation	**11.6**	11.3
Charge to income statement	**56.5**	53.0

Movement in net debt (£'m) (Table 5)

		2012
Cash flow from operations before exceptional operating costs		**408.8**
Exceptional operating costs paid		(14.7)
Net interest/tax paid		(62.5)
Capitalised development costs/programme participation costs		(88.3)
Net capital expenditure		(63.2)
Net cash generated from operations		**180.1**
Acquisition of businesses		(8.4)
Disposal of businesses		15.9
Net amounts payable to shareholders	(84.1)	
Add back scrip dividend	13.2	
Net amounts paid to shareholders		(70.9)
Decrease in net debt		**116.7**
Debt acquired with businesses		(0.4)
Currency movements		33.9
Other non-cash movements		(4.3)
Opening net debt		(788.4)
Closing net debt		**(642.5)**

Analysis of total committed credit facilities (Table 6)

	US$m
Private placement notes	180 Maturing in 2013
Private placement notes	70 Maturing in 2015
Syndicated credit facility	700 Maturing in 2016
Syndicated credit facility	400 Maturing in 2017
Private placement notes	600 Maturing in 2017, 2020 and 2022
	1,950

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%.

Debt structure

During the year Meggitt successfully negotiated a new USD 400 million five-year syndicated credit facility to replace a facility due to mature in 2013. As at 31 December 2012, we had undrawn, committed credit facilities of £557 million after taking account of surplus cash. No further refinancing is required before 2016.

Covenants

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

Covenant ratios (Table 7)

	Covenant	Actual*
Net debt/EBITDA	≤3.5x	**1.3x**
Interest cover	≥3.0x	**16.2x**

* As calculated in accordance with loan agreements.

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 6% of the group's total credit facilities and the credit rating of lenders is monitored by our treasury department. Our largest six lenders are Bank of America, Barclays, HSBC, JP Morgan, Bank of Tokyo-Mitsubishi and Sumitomo Mitsui Banking Corporation. 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.

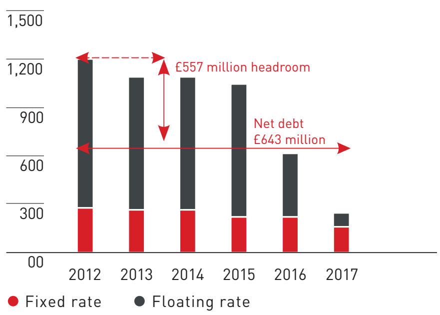
d. Currency risk
To ensure we mitigate headroom erosion due to currency movements our credit facilities are denominated in US dollars, the currency in which most of our borrowings are held.

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 GAAP basis, retranslating net debt and EBITDA at similar average exchange rates and excluding exceptional items from the definition of EBITDA. The covenant ratios are relatively insensitive to currency movements and we continue to have considerable headroom on both key financial covenant measures (Table 7).

Interest

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 2012, the percentage of net debt at fixed rates was 43% and the weighted average period to maturity of the first 25% was 5.4 years.

Facility headroom (£'m) (Table 8)



Our interest charge, excluding post-retirement net finance costs, reduced to £26.1 million (2011: £32.0 million) driven by strong cash generation and less debt at higher fixed rates. Post-retirement net finance costs increased slightly to £5.4 million (2011: £4.5 million).

Exchange rates (Table 10)

The group is exposed to both translation and transaction impacts due to changes in foreign exchange rates, principally the US dollar/sterling rate.

Net debt (£'m) (Table 9)

	2012	2011
Sterling	**(19.1)**	(30.0)
US dollar	**592.1**	747.5
Euro	**(10.2)**	(5.3)
Swiss franc	**88.6**	79.6
Other	**(8.9)**	(3.4)
Net debt	**642.5**	788.4

The net assets of overseas businesses 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 businesses.

The results of overseas businesses are translated into sterling at weighted average exchange rates (Table 10). Compared to 2011, the group's underlying profit before tax for the year was adversely affected by £1.4 million as a result of currency translation. Each five cent movement of the US dollar versus the 2012 average rate of £1 = $1.59 impacts underlying profit before tax by approximately £7.0 million.

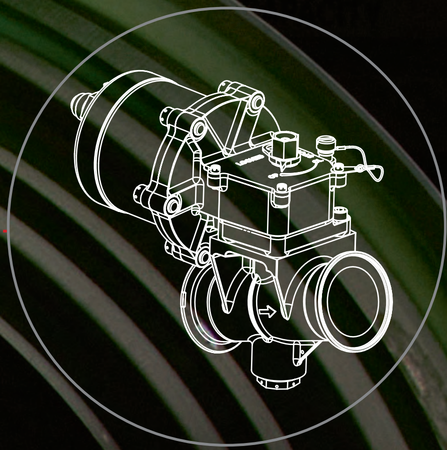
Exchange rates (Table 10)

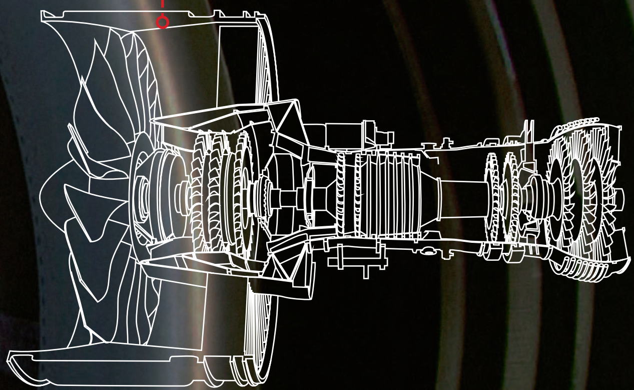
	2012	2011
Average translation rates		
US dollar	**1.59**	1.60
Euro	**1.24**	1.16
Swiss franc	**1.49**	1.40
Year-end rates		
US dollar	**1.63**	1.55
Euro	**1.23**	1.20
Swiss franc	**1.49**	1.45
Transaction rates		
US dollar/£	**1.66**	1.65
US dollar/Euro	**1.35**	1.42
Swiss franc/US dollar	**0.90**	1.06

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 2011, the group's underlying profit before tax for the year was adversely affected by £7.2 million as a result of currency transaction movements. Each five cent movement of the US dollar versus the 2012 average hedged rate of £1 = $1.66 impacts underlying profit before tax by approximately £2.5 million. At 31 December 2012, $/£ cover for 2013 was 92% at an average rate of $1.62 and we have covered approximately 30% of our $/£ exposures for the next three subsequent years at an average rate of $1.52.

Closer connections

Single point customer contact helped to deliver a contract worth over $1 billion for the life of Pratt & Whitney's revolutionary PurePower® geared turbofan engine.





New positions yield long-term aftermarket value

Meggitt strives to secure positions on new platforms, preferably as a sole-source provider, after which follows decades of stable aftermarket business in spares, maintenance, repair and overhaul. This is exemplified by a recent contract to provide critical components for thermal management packages to Hamilton Sundstrand for Pratt & Whitney's new PurePower® geared turbofan engine.

Simplifying procurement for the integrators

Manufacturing and servicing the valves, coolant pumps, oil coolers and heat exchangers on multiple thermal management sub-systems for an engine that will last around 40 years is worth around $1 billion. Meggitt secured the contract because of its superior technology and the Transformation programme which aligned thermal management and fluid control businesses under one management team, ready to simplify procurement for systems integrators such as Hamilton Sundstrand.

Industry innovators sign up

Offering double-digit improvements in fuel reduction, noise, environmental emissions and operating costs, the multi award-winning engine is the fruit of 20 years' research and development, with customers signing the engine up for equally innovative new platforms, including Bombardier's new C-Series regional jet, the Mitsubishi Regional Jet and Airbus's A320neo aircraft, one of the fastest selling commercial airliners in history.

Performance review

Taxation

Meggitt's underlying tax rate reduced to 22.0% (2011: 24.0%) due principally to the favourable resolution of certain historical items. Our statutory tax rate, which includes items reported below underlying operating profit is 17% (2011: 18%) and our cash tax rate is 12% (2011: 19%) reflecting timing differences, tax deductible goodwill amortisation and tax relief on pension deficit reduction payments.

Dividends

The group has recorded strong growth in underlying profit and EPS in the year and remains well-positioned for further growth. Accordingly we have increased the recommended final dividend to 8.20 pence (2011: 7.30 pence) which would result in a 12% increase in the full-year dividend to 11.80 pence (2011: 10.50 pence).

Post-retirement benefit schemes

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

Overall pension scheme deficits reduced to £241.2 million (2011: £265.4 million). Scheme assets increased by 9%, helped by a rebound in equity markets. The impact of the asset performance has however, been partially offset by an increase in liabilities. The main reason for this increase is the fall in yields on AA corporate bonds. These yields have fallen for the fourth successive year and, as they are used to discount scheme liabilities, 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 £22.8 million (2011: £23.9 million). In the UK, the current agreement with the trustees, is based on the 2009 triennial valuation of the scheme and provides for increases in deficit payments gradually being phased in over the period to 2024. The Group is currently in discussions with the trustees of the UK schemes regarding the results of the 2012 triennial valuation, and this will increase annualised deficit reduction payments by an estimated £8m from 2013. In the US, legislation was introduced to provide relief from the impact of historic low AA corporate bond rates. As a result of this new legislation, deficit payments in the US reduced slightly in 2012 and similar levels of payments are expected in 2013.

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 is capped. Both schemes are unfunded and have a combined deficit of £58.5 million (2011: £54.5 million). Deficit payments during the year were £2.2 million (2011: £2.3 million).

Accounting standards

Meggitt's results were not significantly affected by changes in financial reporting standards in 2012. In 2013 there will be a change in the way the group is required to account for retirement benefit obligations. Whilst this will not impact cash, nor will it affect the value at which the deficit is recorded in the financial statements, it will have a modest adverse impact on the income statement. Further details on the expected impact of this change are disclosed in note 2 to the group financial statements on page 73.

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

	2012	2011
Deficit at 1 January	**265.4**	210.5
Service cost	**12.3**	11.4
Group cash contributions	**(35.1)**	(35.3)
Net deficit reduction payments	**(22.8)**	(23.9)
Prior year service cost	**–**	0.5
Net finance cost	**2.9**	2.0
Actuarial (gains)/losses – schemes' assets	**(18.0)**	25.2
Actuarial losses – schemes' liabilities	**18.6**	48.7
Acquisition of businesses	**–**	1.7
Currency movements	**(4.9)**	0.7
Deficit at 31 December	**241.2**	265.4
Assets	**634.7**	584.9
Liabilities	**875.9**	850.3
Closing net deficits	**241.2**	265.4
Funding status	**72%**	69%

The above analysis excludes post-retirement healthcare schemes which have a deficit at 31 December 2012 of £58.5 million (2011: £54.5 million).

Corporate responsibility

At Meggitt, we recognise our responsibility to shareholders, employees, customers, suppliers and the wider community to conduct our operations in a safe, responsible and sustainable manner. We are committed to ensuring compliance 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

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 facility 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 we have effective programmes in these areas and to oversee their management. The Board reviews HSE at every meeting 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 locally.

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
- ensuring our employees act in an environmentally responsible manner

Meggitt strives to maintain the highest level of environmental performance by setting standards and procedures driven by our corporate leadership and implemented throughout our businesses. To achieve the goals of our Environmental Policy, Meggitt's environmental management programme includes setting environmental targets, communicating regulatory developments, training and information-sharing, data analysis and internal and external auditing of environmental management systems and practices.

Meggitt is a signatory to the Sustainable Aviation Strategy of the ADS Group (the UK's primary aerospace, defence and security trade association), is represented on the association's environmental and carbon management working groups and the US Aerospace Industry Association (AIA) Environmental, Health and Safety Committee.

We provide emissions data to the Carbon Disclosure Project, 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 continues to focus on environmentally-friendly materials initiatives and programmes. We formed an Obsolescence Review Board in 2012, consisting of senior health, safety and environment, procurement, engineering, quality and legal managers who meet regularly to review regulatory developments and supply chain issues affecting substances used in our processes and products. We are collaborating with several customers and suppliers to identify and test safer alternatives to address the increasingly restricted use of particular substances following global regulatory developments. Meggitt applies its expertise, research and technology to develop solutions that sustain product quality and performance yet reduce its impact on the environment over the product lifecycle.

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 chemicals used by aerospace manufacturers.

The HSE Director for Meggitt Sensing Systems is a member of the Aerospace and Defence Industries Association of Europe's REACH Implementation Working Group, enabling us to source and compare information about REACH compliance across the industry. Our Vice President, Health, Safety and Environment is a member of the AIA REACH Working Group.

Our global environmental audit programme is supported by external consultants and includes a comprehensive review of applicable regulatory requirements and best practice standards at all facilities every three years. 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 2012 by 38% on 2011.

All facilities, excluding those acquired since 2011, have successfully attained environmental management system ISO 14001 standard certification. Pacific Scientific Aerospace (PacSci) facilities are targeting certification by the end of 2013.

In 2010, we committed to reducing our carbon footprint by 15% in five years relative to revenue using our performance in 2009 as a baseline. We are on track to meet this goal with a 10% reduction between 2009 and 2012 in CO_2 emissions, equating to an emission reduction rate of greater than 3% per year (excluding the impact of businesses acquired during the period). Meggitt incorporated PacSci into its Meggitt Energy Reduction Programme (MERP) in 2012, implementing energy reduction strategies and initiatives at its facilities which have reduced our carbon footprint further. Including businesses acquired during the period, we have achieved a 17% reduction to date in CO_2 emissions relative to revenue since 2009.

In 2012, we established group five-year targets to reduce electricity, gas and water consumption and waste destined for landfill and to increase waste that is recycled. Using 2011 for comparison, we are targeting:

- a 15% reduction in electricity and gas consumption relative to revenue.
- a 10% reduction in water consumption relative to revenue.
- a 10% reduction in the amount of waste sent to landfill as a percentage of total waste generated.
- a 10% increase in the amount of waste recycled as a percentage of total waste generated.

The metrics for 2012 show we are making good progress towards meeting our target for a reduction in gas consumption compared to 2011. However, increased facility consolidation and expansion activities, acquisitions and an increase in production of carbon brakes within our aircraft braking systems business last year had a negative effect on electricity consumption and waste sent to landfill. Facility consolidation activities should improve the metrics in the longer term, although the trend towards an increase in the manufacture of carbon brakes will continue to have an adverse impact.

- The group achieved a 6% reduction in gas consumption due, largely, to gas efficiency initiatives completed at our aircraft braking systems facility in Akron, USA.
- Electricity consumption relative to revenue increased by 4% in 2012 due to increased production of carbon brakes, facility expansion and consolidation activities and the acquisition of Fotomechanix (a key supplier to Heatric, our printed circuit heat exchanger business) which we acquired in July 2012.
- Water consumption increased by 5% relative to revenue in 2012, due to the high water consumption at Fotomechanix. Excluding Fotomechanix, water consumption decreased relative to revenue by 1%.
- Total waste generated increased by 21% relative to revenue in 2012. This increase was primarily due to the amount of waste generated at Fotomechanix. Excluding Fotomechanix: (i) the increase relative to revenue was 5% and can be attributed to increased construction debris generated by site consolidation and expansion; (ii) total waste recycled and waste sent to landfill as a percentage of total waste generated remained the same at 48% and 49% respectively, as construction-related waste generated in 2012 could not be recycled.

MERP improves information and the sharing of best practice on energy performance through an intranet site providing detailed information on energy efficiency projects and their implementation. Designated energy teams at every facility quantify the carbon impact of our operations and identify opportunities for reducing energy consumption and improving efficiency.

We continually seek improvements in our operations and processes to achieve reductions in energy consumption and improve efficiencies. For example:

- In February 2012, our aircraft braking systems facility in Akron, USA, completed a £900,000 energy reduction project involving the conversion of central steam heat to direct fired natural gas heaters. This reduced CO_2 by 2,768 tonnes in 2012, a 10% reduction in the overall emissions for the facility (and a 2% reduction in emissions for the group as a whole). The facility installed new high-efficiency compressors to replace existing reciprocating models and the leak-prone air distribution system. This should save 500 tonnes of CO_2 emissions per year.

Environmental metrics[1]

	2012	Change	2011
Utilities			
Electricity – gWh	**188**		175
MWh per £m[2]	**118**	4%	114
Natural gas – gWh	**199**		204
MWh per £m[2]	**125**	-6%	133
Carbon dioxide (CO_2) – tonnes @ 2012 rates[3]	**134,444**		128,598
Tonnes per £m[2]	**84.2**	0%	84.1
Waste – tonnes	**12,861**		10,160
Tonnes per £m[2]	**8.05**	21%	6.65
Water – cubic metres	**806,941**		737,764
Cubic metres per £m[2]	**505**	5%	483

[1] Our environmental metrics are reported in full on the CR page of our website.
[2] Metrics per £m are calculated using revenue converted at constant foreign exchange rates.
[3] Meggitt's carbon emissions data is derived from electricity, gas and fuel oils usage converted using the 2012 greenhouse gas conversion factors of the UK Department for Environment and Rural Affairs (DEFRA). For electricity only, DEFRA updates prior years' conversion factors annually, so Meggitt's carbon emissions arising from electricity usage in 2011 have been restated.

Corporate responsibility

Environment (continued)

- Over the past two years, several Meggitt facilities upgraded their lighting. They converted standard low-efficiency incandescent lamps to high-efficiency compact fluorescent models and installed improved halogen lighting systems and occupancy sensors in office and factory areas. This has reduced our carbon footprint by approximately 1,000 tonnes per year.
- In 2012, we formed an energy "kaizen" (multi-level, multi-disciplinary problem-solving) team. This comprised energy management and heating, ventilation and air conditioning specialists and facility engineers from across the group to perform internal energy efficiency assessments at several sites. At Meggitt Control Systems in North Hollywood, an energy kaizen event was conducted in Q4 2012 and led to sound monitoring equipment being used to identify leaks in the compressed air system and repairs resulting in energy savings. More events are planned for Meggitt US facilities in 2013.
- Meggitt Polymers & Composites in Oregon, USA, replaced an old, inefficient moulding press with a new high-efficiency model, raising production efficiency by 70% and lowering CO_2 emissions by 17 tonnes per year.

Health and safety

Meggitt's commitment to protecting its employees is emphasised in our Health and Safety Policy, which was reviewed and updated by the Board in December 2011. This policy outlines our commitment to:

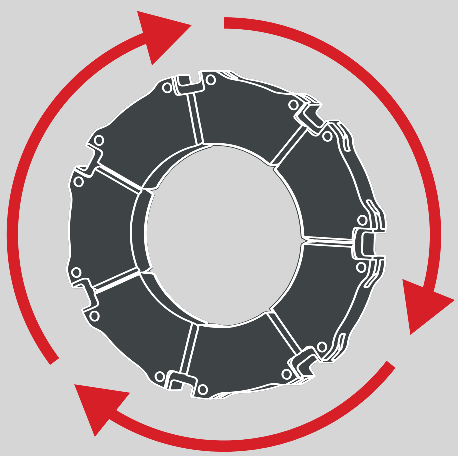
- formal management systems for regulatory and legislative compliance and guidance on best practice
- integrating identification, assessment and control of health and safety risks into operational management
- incorporating health and safety thinking into business plans
- instilling the importance of 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

Strong, supportive leadership is essential to a sustainable safety culture. In 2012 we implemented new training programmes for all levels of leadership to achieve the primary goals of our health and safety programme. As employees can contribute substantially by recognising and reporting unsafe and unhealthy conditions in the workplace promptly, we require them to take individual responsibility for health and safety and to encourage safe workplace behaviour in others.

Carbon refurbishment programme

Beginning in 2009, Meggitt Aircraft Braking Systems in Akron, USA, developed a carbon disc recycling programme to recover and refurbish customers' used or worn aircraft carbon disc brakes. Instead of disposing of them, Meggitt reprocesses them using a carbon re-densification process. Reprocessing and reusing worn carbon discs reduces process time by as much as 75% compared to new carbon disc production, significantly reducing energy consumption, carbon emissions and waste generation. Since implementing this programme in 2009, carbon manufacturing process emissions at the facility have decreased by 3%.

Cutting process time by 75%



recovering and refurbishing carbon brake discs

In 2012, we took further measures to improve safety in the workplace. These included:

- online health and safety leadership training for all levels of management.
- group-wide online health and safety awareness training for all employees.
- integration of health and safety requirements within the Meggitt Production System initiative.
- targeted behavioural health and safety programmes such as MoveSmart® at Meggitt Polymers & Composites' facility in Rockmart, US and Hearts and Minds at Meggitt Polymers & Composites in Loughborough, UK. We aim to roll out the latter across identified sites from 2013.
- implementation of an updated group-wide Personal Protective Equipment policy for eye and foot protection.
- improved reporting and investigation of near-miss accidents and unsafe conditions, with special emphasis on root-cause analysis and developing timely corrective action plans.

These measures have resulted in significant improvements in health and safety performance across the group and outstanding achievements at some of our sites:

- 17 manufacturing sites experienced no lost time due to accidents (2011:13)
- 15 additional sites achieved at least a 25% improvement in key health and safety metrics, including lost time incidents, days lost due to injury and injury severity rates.

There were no fatalities at Meggitt sites in 2012 (2011: none). In 2012, the number of reported injuries[1] (including PacSci) increased to 43 (2011: 39). The accident/incident[2] rate (including PacSci) decreased to 397 (2011: 417[3]).

We instituted the annual Meggitt Safety Star Programme to formally recognise the improvements in health and safety performance at Meggitt facilities. 70% of our manufacturing facilities achieved at least a Bronze Safety Star award reflecting at least a 25% improvement in key health and safety metrics. Of those, 17 facilities will receive a Platinum Safety Star award for outstanding performance in achieving no work-related lost time accidents and incurring no lost work days in 2012. The Meggitt Safety Star Awards will be awarded to sites in Q1 2013 and will be presented by senior group or divisional management.

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

[1] We define reported injuries as those which are reportable under local laws/regulations.
[2] 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.
[3] 2011 restated.

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 four key process tools—assessment, compliance improvement, audit and corrective action—which are applied in a continuum. Plans arising from the review elements enable 16 sub-processes for our facilities 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 Livingston International (formerly the Vastera element of 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 2012, we continued to implement our selected global trade management software solution, Global Trade Services (GTS) 8.0, to enhance our trade compliance programme. We completed the pilot programme successfully and started the implementation at selected facilities in the USA. We have started to develop the template for implementation at some of our European facilities in 2013. In 2012 we began to implement our enhanced import compliance programme at a number of facilities in the UK, and plan to expand this programme to the US in 2013.

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 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. The Group Corporate Affairs Director is a member of the Business Ethics Committee of the Aerospace and Defence Industries Association of Europe. Our Vice-President, Ethics and Business Conduct serves on the Steering Committee of the International Forum on Business Ethical Conduct (IFBEC).

During 2012, Meggitt's Ethics Programme was evaluated, along with 128 other aerospace companies around the world, by Transparency International: Meggitt was ranked in the top ten.

Employees by division[1]

Number of employees

10,980

Aircraft Braking Systems	1,228	11%
Control Systems	1,156	10%
Polymers & Composites	2,041	19%
Sensing Systems	1,617	15%
Equipment Group	4,400	40%
Cross-group facilities	538	5%

[1] As at 31 December 2012

Employees by length of service (years)[1]

Number of employees

10,980

Less than 5	4,822	44%
Between 5 and 10	2,440	22%
Between 10 and 15	1,253	11%
Between 15 and 20	718	7%
Between 20 and 25	520	5%
Over 25	1,227	11%

Employees by region[1]

Number of employees

10,980

North America	6,011	55%
UK	2,597	24%
Mainland Europe	1,593	14%
Rest of World	779	7%

Our people, local communities and charitable donations

At the end of 2012, Meggitt employed 10,980 people worldwide.

Learning, career development, employee engagement, strong leadership and effective teamwork are vital components of Meggitt's drive for all employees to deliver high levels of performance. In 2012, we expanded our global change leadership programme to equip managers with the skills needed to work in a complex matrix environment and to become more effective team leaders. 2012 saw the introduction of a global front-line leadership programme, designed to equip managers with a consistent set of people management capabilities. We continue to invest in our executive leadership programme.

During 2013, we will launch the Meggitt Production System across the group after significant preparatory work in 2012, including a significant focus on people and organisation development.

Throughout the year, we focused on processes for succession planning, staffing, and performance management to attract, develop and motivate talented staff in all areas of our businesses. We completed much of the groundwork for a new global HR information system that will be implemented in 2013. The new system will enhance the processes needed for talent management.

At Meggitt, all employees must have an equal opportunity to succeed, free from discrimination and have their contribution recognised fairly. We encourage all Meggitt employees, through our Ethics training programme and statement of values, to ensure that all others are treated fairly and with respect.

Meggitt makes an important economic contribution to our local communities, with salaries, tax and social security contributions across the group amounting to approximately £548 million in 2012 (34% of revenue).

Individual Meggitt facilities work with the local community and support charities at their discretion. Annual reports reveal the exceptional generosity of many employees who give time and money to a wide range of international and local initiatives. Education-Business Partnerships and the UK's Science, Technology, Engineering and Mathematics initiative were supported by sites locally, as were a variety of community-based charities.

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, regions 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 51).

In 2012, the role of Senior Vice President, Risk Management and Corporate Administration was created to give greater focus to Meggitt's risk management and reporting. The role, approved by the Board, reports directly to the Group Corporate Affairs Director.

Types of risk

We monitor risk across four broad categories—markets, operations, finance and corporate. The risks outlined below, which are not presented in 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 security

Finance

- Credit
- Exchange rates
- Financing
- Retirement benefits funding

Operations

- Acquisitions
- Contracts
- Equipment fault
- Supply chain

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. • Aligning organisational structure with customer requirements.
Product demand ←→	Military markets currently account for 39% 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 currently account for 45% 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 security ←→	Intellectual property and other business data are stored and transmitted electronically. Accordingly, the group is exposed to the increasing 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 number of global IT solutions based around a core SAP ERP system across its sites. Failure to implement the new systems successfully could lead to increased costs, loss of data, operational delays and unplanned increases in working capital.	• Monitoring risks and prioritising mitigation actions through an IT security committee. • Continually enhancing IT security policies, upgrading and standardising security tools and implementing comprehensive, group-wide training programmes. • Progressively rolling out SAP under the governance of a dedicated steering committee—18 sites to date successfully implemented. • 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. Integration of PacSci is now largely complete.

Risk description	Potential impact	Mitigation action
Operations		
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. • Implementing a programme of training and development to strengthen the commercial functions within the businesses.
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 engineering standards and manufacturing processes that ensure stringent quality and reliability standards. • Implementing best practice operational performance standards through the rollout of the Meggitt Production System. • 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. Meggitt's operations are becoming increasingly subject to global laws and regulations restricting the use of various hazardous substances in our manufacturing processes and in our products. This exposes the group to potential supply chain disruptions of critical substances needed to meet stringent product performance requirements mandated by our customers.	• 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. • Continuing to source a significant proportion of products and services from lower cost economies. • Forming an Obsolescence Review Board consisting of senior members of the HSE, procurement, engineering, quality and legal departments to track and assess regulatory developments and create action plans to identify and qualify alternative substances or sources of supply as required.
Finance		
Credit ←→	Credit risk exists in relation to customers, banks 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. • Implementing offset arrangements and cash deposit restrictions.
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.

Principal risks and uncertainties

Risk description	Potential impact	Mitigation action
Finance		
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 depends on general market conditions and convincing 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 2013 maturing bank facility with a new five-year USD400 million committed revolving bank facility. No further refinancing is required before 2016. • 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. • Regularly monitoring actual and forecast results against covenant ratios.
Retirement benefits funding ←→	The group's post-retirement benefit schemes are in deficit (£299.7 million at 31 December 2012). 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 effect on amounts recorded in the income statement and the level of future cash contributions required to be made.	• Closing 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 where this is appropriate.

Risk description	Potential impact	Mitigation action
Legal and regulatory ←→	We are subject to litigation in the ordinary course of business and provide for such costs where appropriate. 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 and import 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 compliance and risk management 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, benchmarking of performance, and detailed training programmes. • 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. • Implementing a new divisional structure. • Standardising back office functions, provided increasingly through shared service centres.

Contents

Board of directors

Sir Colin Terry KBE CB DL FREng
Non-Executive Chairman + §

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 + §

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. Terry intends to step down as Chief Executive and Board member after the annual general meeting on 1 May 2013. Terry will support the Board and his successor, Stephen Young, until his retirement on 30 June 2013.

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.

Guy Berruyer
Non-Executive Director * + ‡

Guy was appointed to the Board in October 2012. Guy is Group Chief Executive of The Sage Group plc, whose French division he joined as Chief Executive in 1997. Guy's early career was spent with software and hardware vendors in management roles both at French and European level. Guy trained as an electrical engineer at the École Polytechnique Fédérale de Lausanne and holds an MBA from Harvard Business School.

Guy does not hold any other non-executive directorships.

Philip Cox CBE
Non-Executive Director * + ‡

Philip, a chartered accountant, was appointed to the Board in September 2012. Philip was Senior Vice President for Operational Planning at Invensys plc and Finance Director of Siebe PLC before joining International Power plc as Chief Financial Officer in 2000. He retires as International Power's Chief Executive Officer at the end of April 2013.

Philip has been a non-executive director of Wm Morrison Supermarkets PLC since 2009, is Chairman of its Audit Committee and will be appointed non-executive director of PPL Corporation, a US-listed energy utility company, on 1 April 2013. Between 2001 and 2009, Philip was non-executive director and Chairman of the Audit Committee for logistics and supply chain management group Wincanton plc.

Philip Green
Group Corporate Affairs Director §

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 in 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 * + ‡

Paul, a Chartered Accountant, was appointed to the Board in June 2010 and became 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 non-executive director and Chairman of the Audit and Risk Committees of UU Plc and the London Stock Exchange Group plc and Chairman of Intelligent Energy Holdings plc.

Brenda Reichelderfer
Non-Executive Director * + ‡

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 Senior Vice President and Managing Director of private equity sector consulting firm TriVista, a member of the Technology Transfer Group of the Missile Defense Agency and non-executive director of Federal Signal Corporation and Wencor Aerospace.

David Robins
Non-Executive Director

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 Asian Growth Trust, Fidelity Japanese Values Investment Trust and Oriel Securities Ltd, director of a venture capital-backed company and chairman of two charities.

David Williams
Non-Executive Director * + ‡

David, a chartered accountant, was appointed to the Board in December 2006, becoming Senior Independent Director in February 2011. He held a number of senior financial positions before spending 15 years as Finance Director of distribution and outsourcing group Bunzl plc from 1991. He is the Joint Chairman of Mondi plc and Mondi Limited and non-executive director and Audit Committee Chairman of DP World Limited. He was also a non-executive director and Audit Committee Chairman of Tullow Oil plc until his retirement in May 2012.

Stephen Young
Group Finance Director §

Stephen, a chartered management accountant, was appointed to the Board in January 2004, and will assume the role of Chief Executive following the annual general meeting on 1 May 2013.

Stephen 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. He was appointed non-executive director of Derwent London plc in August 2010 and is Chairman of its Audit and Risk Committees and member of its Remuneration and Nominations Committees.

Membership of committees

*** Audit:** David Williams (Chairman), Guy Berruyer, Philip Cox, Paul Heiden, Brenda Reichelderfer

+ Nominations: Sir Colin Terry (Chairman), Terry Twigger, Guy Berruyer, Philip Cox, Paul Heiden, Brenda Reichelderfer, David Williams

‡ Remuneration: Paul Heiden (Chairman), Guy Berruyer, Philip Cox, Brenda Reichelderfer, David Williams

§ Ethics and trade compliance: Sir Colin Terry (Chairman), Terry Twigger, Philip Green, Stephen Young

Directors' report

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.

The Group's business activities, together with the factors likely to affect its future development, performance and position, are contained in the Business Review (pages 1 to 41). All such information as is required to be contained in the Directors' Report by Section 417 of the Companies Act 2006 is incorporated by reference into this report. The Corporate Governance Report (pages 47 to 51) also forms part of this report.

Policies on financial risk management, including the extent to which financial instruments are utilised to mitigate any significant risks to which the Group is exposed, are set out in note 3 of the Group's financial statements.

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 performance components and sub-systems for aerospace, defence and other specialist markets, including energy, medical, industrial, test and automotive.

Dividends

The directors recommend the payment of a final dividend of 8.20p net per ordinary 5p share (2011: 7.30p), to be paid on 10 May 2013 to those members on the register at close of business on 15 March 2013.

An interim dividend of 3.60p (2011: 3.20p) was paid on 5 October 2012. If the final dividend as recommended is approved the total ordinary dividend for the year will amount to 11.80p net per ordinary 5p share (2011: 10.50p).

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 2012, the Company made the Meggitt PLC share dividend plan available for the dividends paid in May 2012 (the final dividend for 2011) and in October 2012 (the interim dividend for 2012). The cash dividend necessary to give an entitlement to one new ordinary share was fixed at 403.08p and 408.78p respectively.

Acquisitions and disposals

On 4 July 2012, the Group acquired 100% of the voting rights of Fotomechanix Limited for a cash consideration of £11.9 million. Fotomechanix Limited is a key supplier to Heatric, the Group's printed circuit heat exchanger business.

On 10 August 2012, the Group disposed of the business and assets of Meggitt (Simi Valley), Inc. to RSA Engineered Products, Inc. for a cash consideration of £16.1m.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were: Sir Colin Terry, Mr T Twigger, Mr G S Berruyer (appointed 2 October 2012), Mr P G Cox (appointed 27 September 2012), Mr P E Green, Mr P Heiden, Ms B L Reichelderfer, Mr D A Robins, Mr D M Williams and Mr S G Young.

On 9 January 2013, Mr Twigger advised the Board of his intention to step down as Chief Executive and member of the Board on 1 May 2013. Following a rigorous search process, involving internal and external candidates, the Board determined that Mr Twigger will be succeeded as Chief Executive by Mr Young, who has been Group Finance Director since 2004. Mr Twigger will support the Board and Mr Young until his retirement on 30 June 2013. The recruitment process has begun for a new Group Finance Director.

Under the Articles of Association (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 Annual General Meeting (AGM) in 2013 all directors will stand for re-election (except for Mr Twigger, who is stepping down on that date).

Details of directors' contracts and their interests in the ordinary shares of the Company are shown in the Remuneration Report on pages 52 to 62. 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. The Company also purchased and maintained throughout the year Directors' and Officers' liability insurance. No indemnity is provided for the Company's auditors.

Substantial shareholdings

At 31 December 2012, the Company had been notified under the Disclosure and Transparency Rules (DTR) 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
The Capital Group Companies, Inc.	–	74,972,665	9.55
Prudential plc	64,753,939	–	8.25
FMR LLC	–	39,304,285	5.01
Baillie Gifford & Co	–	34,138,890	4.35
Legal & General Group plc	25,966,967	–	3.31
Standard Life Investments Ltd	22,153,694	3,769,560	3.30

* One voting right per ordinary share.

Between 31 December 2012 and 22 February 2013, The Capital Group Companies, Inc. has notified an increase in holding to 11.08% (86,993,907 indirect voting rights).

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 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.

Share capital and control

The issued share capital of the Company at 31 December 2012 and details of shares issued during the financial year are shown in note 34 on page 100. On 31 December 2012 there were 785,001,257 ordinary shares in issue. A further 83,273 ordinary shares were issued between 1 January 2013 and 22 February 2013, all of which were issued as a result of the exercise of share awards. 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. 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 or 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 which provide that a director may be appointed by ordinary resolution of shareholders or by the existing directors, either to fill a vacancy or as an additional director. Changes to the Articles must be submitted to the shareholders for approval by way of special resolution. The directors may exercise all the powers of the Company subject to the provisions of relevant legislation, the Articles and any directions given by the Company in general meeting. The powers of the directors include those in relation to the issue and buyback of shares. At each AGM, 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 the Articles. The Company can seek authority from the shareholders at the AGM to purchase its own shares.

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 400 million revolving credit agreement dated July 2012, a USD 700 million revolving credit agreement dated April 2011, a USD 600 million note purchase agreement dated June 2010 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. These arrangements are commercially confidential and their disclosure could be seriously prejudicial to the Company.

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.

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 2012 and can be found on pages 31 to 36.

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.

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 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.

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

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.

Community relations and charitable donations

During the year, the Group made charitable donations of £0.2 million (2011: £0.1 million), principally to local charities serving the communities in which the Group operates. The Company made charitable donations of £30,000 (2011: £15,000).

Political contributions

In accordance with the Group's policy, no contributions were made to EU political parties or EU political organisations (2011: £Nil) and no EU political expenditure exceeding £2,000 was incurred in the year by the Company or any of its subsidiaries (2011: none above £2,000). No contributions to non-EU organisations with political objectives were made during the year (2011: £Nil).

Directors' report continued

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 2012 were 44 (2011: 39).

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 £122.0 million (2011: £110.5 million). Excluding amounts funded by customers, it was £97.1 million (2011: £83.2 million), of which £52.2 million (2011: £41.5 million) was capitalised in accordance with the Group's accounting policies (see note 2 of the Group's financial statements).

Annual General Meeting – 1 May 2013

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

(i) approve the Remuneration Report;

(ii) increase the maximum aggregate amount of directors' fees;

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

(iv) 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; and

(v) 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 independent auditors and a resolution to reappoint them will be proposed at the 2013 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 and consider the Annual Report, taken as a whole, to be fair balanced and understandable and to provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

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; and
- 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: (i) show and explain the Group's and the Company's transactions; (ii) disclose with reasonable accuracy at any time the financial position of the Group and the Company; and (iii) 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 Group and the Company 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 43, 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 1 to 41 include 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 Thomas
Company Secretary
4 March 2013

Corporate governance report

Chairman's introduction

The Board considers that good corporate governance practice enhances the strength of our values, our reputation and our ability to implement our corporate strategy. In this report, and the Remuneration Report on pages 52 to 62, we have provided further details about how the principles of the UK Corporate Governance Code, as applicable for companies with accounting periods beginning on or after 29 June 2010 (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 2012, we completed an externally facilitated Board evaluation and we have provided a report on the outcome of that process below.

In terms of the composition of the Board, although David Robins has completed over nine years of service, he 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, we enhanced the composition of the Board with the appointment of two independent non-executive directors, Philip Cox and Guy Berruyer. Philip, who is a Chartered Accountant and Chief Executive of International Power plc until his forthcoming retirement in March 2013 and Guy, who is Chief Executive of The Sage Group plc, have added to the existing skills and experience on the Board and are expected to make a significant contribution to the Board's deliberations. The Board also considers that Guy's international experience and perspective will bring diversity to the deliberations of the Board. Full profiles are included in our Notice of Annual General Meeting (AGM).

On 9 January 2013, we announced the retirement of Terry Twigger as Chief Executive and the appointment of his successor, Stephen Young, with effect from 1 May 2013. Ensuring smooth succession of the Chief Executive and new Group Finance Director (once selected) is a crucial role for the Board and this will be a key focus in 2013.

I can confirm that the Company has applied the Code, which was issued in 2010 and is available on the Financial Reporting Council (FRC) website (www.frc.org.uk). In this report we have also included our policy on diversity and more detailed disclosures in the Audit Committee section. We have provided explanations where we have not complied with the Code in our Statement of Compliance on page 51. 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.

Sir Colin Terry
Chairman of the Board of Directors
4 March 2013

Board of Directors

The Board met eight times in 2012. 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.

Board membership and attendance during 2012

Name	Title	Meetings eligible to attend	Meetings attended
Sir Colin Terry	Chairman	8	8
Mr T Twigger	Executive Director (Chief Executive)	8	8
Mr G S Berruyer[1]	Non-Executive Director	2	2
Mr P G Cox[2]	Non-Executive Director	3	3
Mr P E Green	Executive Director (Group Corporate Affairs Director)	8	8
Mr P Heiden	Non-Executive Director	8	8
Ms B L Reichelderfer	Non-Executive Director	8	8
Mr D A Robins	Non-Executive Director	8	7
Mr D M Williams	Non-Executive Director (Senior Independent Director)	8	8
Mr S G Young	Executive Director (Group Finance Director)	8	8

1 Appointed on 2 October 2012.
2 Appointed on 27 September 2012.

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 risk, 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 (which was reviewed and updated in 2012). 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 AGM after their appointment and have been subject to re-election annually from 2012 onwards in compliance with the Code. In 2013, all directors will be subject to re-election except for Mr Twigger, who will step down from the Board at the end of the AGM on 1 May 2013. 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.
- There were no changes to the external commitments of the Chairman in 2012.
- 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 agrees a personalised approach to the training and development of each director and reviews this regularly.
- 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.

Corporate governance report continued

Board of Directors continued

Senior Independent Director

The role of Mr Williams, as Senior Independent Director, is to:

- Make himself available to shareholders if they have concerns which contact through the normal channels has failed to resolve or for which such contact is inappropriate;
- Ensure he has gained a balanced understanding of the issues and concerns of major shareholders and financial analysts;
- Chair the Nominations Committee when it is considering succession to the role of Chairman of the Board; and
- Meet with the non-executive directors at least once a year to appraise the Chairman's performance and on such other occasions as are deemed appropriate.

Non-executive directors

- All of the non-executive directors are considered independent under the Code, with the exception of Mr Robins who has served on the Board for over nine years. Mr Robins 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.
- 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 also 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 at the Company's registered office during normal business hours. Their letters of appointment set out the expected time commitment required. On appointment, their other significant commitments were disclosed, including the time involved.

The work of the Board in 2012

During the year, the Board approved the acquisition of Fotomechanix Limited and the disposal of Meggitt (Simi Valley), Inc.. The Board received regular reports from executive directors on business and financial performance and corporate affairs (litigation, health, safety and environmental, trade compliance, ethics and business conduct and risk management). The Board also received:

- Business unit and functional updates and presentations on strategy, engineering, operational excellence, and investor relations;
- Reports on internal control, risk management and amendments to the Code; and
- Reports on the activities of its committees.

The following other matters were also reviewed and approved:

- The 2011 Annual Report and Accounts, the 2011 full-year results announcement and the 2012 interim results announcement;
- Interim Management Statements released in April and November;
- Recommendations to shareholders on the final dividend payment to shareholders in respect of the year ended 31 December 2011 and the interim dividend payment for the year ended 31 December 2012;
- The appointments of Mr Berruyer and Mr Cox to the Board;
- The Group's strategy and budget for 2013;
- Refinancing of the Group's USD 500 million credit facility, which was due to expire in 2013, with a new five year USD 400 million multi-currency revolving credit facility;
- Revised Schedule of Matters Reserved for the Board, Board delegated authority and Terms of Reference for all Board committees;
- A revised Group Environmental Policy; and
- The appointment of Ms Thomas as Company Secretary.

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

Board performance evaluation

In August 2012, the Board engaged Lintstock Limited to externally facilitate the evaluation of the effectiveness of the Chairman, the Board and its Committees. Lintstock do not have any other connection with the Group. The responses received from the Board indicated that all members were thoroughly engaged in the evaluation process and there was a good level of positive alignment amongst Board members. On considering the feedback report, key themes and actions were identified where appropriate.

The performance of individual directors has been reviewed by the Chairman and Chief Executive. In 2013, the Board will conduct a self-evaluation, applying the lessons learned from the external process used in 2012. The next external evaluation is due in 2015.

Information and professional development

The Board is supplied with the information it needs to discharge its duties. The induction process was reviewed and refreshed in 2012, and all new directors receive an appropriate induction to the business, including meetings with other directors, senior management, auditors, brokers and other professional advisors as appropriate, site visits and the provision of a comprehensive induction pack. 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 and their training needs as assessed as part of the Board evaluation process. 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 advising on all governance matters and for ensuring that Board procedures are complied with and there is good information flow within the Board. The Company Secretary facilitates the induction of new directors and assists with professional development where required. 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 Group 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 on corporate governance took place in 2012. Directors' understanding of major shareholders' views are enhanced by reports from the Group Head of Investor Relations, our brokers and attendance at analysts' briefings. Analysts' notes on the Group 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 Group'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 2012) which are available at www.meggitt.com.

Committee membership and attendance during 2012

Name	Meetings eligible to attend	Meetings attended
Sir Colin Terry (Chairman)	6	6
Mr T Twigger	7	7
Mr G S Berruyer[1]	3	1
Mr P G Cox[2]	3	3
Mr P Heiden	7	7
Ms B L Reichelderfer	7	7
Mr D M Williams	7	7

1 Appointed on 2 October 2012. Mr Berruyer sent his apologies for one day of Committee meetings (on which two separate meetings were held) because he had meetings relating to his executive role at The Sage Group plc that were arranged before his appointment.
2 Appointed on 27 September 2012.

The work of the Committee in 2012
The Committee met seven times in 2012 and focussed on the appointment of two new non-executive directors and the selection of a successor to the Chief Executive, Mr Twigger.

Succession and the composition of the Board
In 2012, 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 two new non-executive directors. Mr Berruyer and Mr Cox were appointed in Autumn 2012, using the services of an external search consultancy, The Zygos Partnership. Zygos do not have any other connection with the Group. Further details on the newly appointed directors are available in the Notice of AGM for 2013.

On 9 January 2013, the Board announced that Mr Young would succeed Mr Twigger as Chief Executive, following a rigorous search process using executive search firm Russell Reynolds Associates, involving both external and internal candidates. Russell Reynolds do not have any other connection with the Group. The Board considers that Mr Young has made an outstanding contribution as Group Finance Director and will bring his broad range of commercial skills and extensive mergers and acquisitions and City experience to the role. Mr Young has worked closely with Mr Twigger for the last nine years and prior to that, has worked at Board level across many sectors. His appointment as Chief Executive will be effective from the end of the AGM on 1 May 2013.

A key activity in 2013 is the selection of a new Group Finance Director, for which an executive search firm is being used. In 2013, the Committee will also continue to regularly review the composition of the Board and succession plans for executive and non-executive directors.

Diversity
The Board confirms a strong commitment to diversity (including, but not limited to, gender diversity) at all levels of the Group. The Board's policy on diversity commits Meggitt to:

- Ensuring that the selection and appointment process for employees and directors includes a diverse range of candidates;
- Aspiring to achieve 25% of Board positions to be filled by women by 2015 and monitoring progress in achieving this;
- Disclosing statistics on gender diversity in every Annual Report; and
- Reviewing this policy from time-to-time and continuing to disclose this policy in the Annual Report.

	% of females
Board of Directors	10%
Management Board	9%
Senior executives	10%
All employees	28%

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 reports from management and internal audit on the effectiveness of systems for internal financial control, financial reporting and risk management;
- 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; and
- Report to the Board on how it has discharged its responsibilities during the year.

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

Committee membership and attendance during 2012

Name	Meetings eligible to attend	Meetings attended
Mr D M Williams (Chairman)	3	3
Mr G S Berruyer[1]	1	0
Mr P G Cox[2]	1	1
Mr P Heiden	3	3
Ms B L Reichelderfer	3	3

1 Appointed on 2 October 2012. Mr Berruyer sent his apologies for a Committee meeting because he had meetings relating to his executive role at The Sage Group plc that were arranged before his appointment.
2 Appointed on 27 September 2012.

The Board is satisfied that the members of the Committee have recent and relevant financial experience. The qualifications of the members of the Committee are on page 43.

Corporate governance report continued

Audit Committee continued

The work of the Committee in 2012
The Committee met three times in 2012. At these meetings, the Committee:
- Monitored the integrity of the Group's financial statements and reviewed the Group's internal controls and governance structures, including the effectiveness of the internal audit function;
- Considered the supporting analysis from management on critical accounting estimates and judgements (as detailed in note 3 of the Group's financial statements);
- Considered the analysis of cash conversion at a cash generating unit level (the ratio of cash inflow from operations to underlying operating profit);
- Reviewed the process for ensuring the accounting policies of the businesses acquired as part of Pacific Scientific Aerospace had been appropriately aligned with the Group's policies;
- Reviewed the key internal controls operated over treasury transactions and received a presentation on Group Treasury activity;
- Received reports from Internal Audit at every meeting covering internal audit strategy, scope of activities to be undertaken and findings from audit visits;
- Reviewed the effectiveness, independence, objectivity and fees of the external auditors;
- Agreed the scope of audit and non-audit services provided by the external auditors;
- Reviewed formal announcements relating to the Group's financial performance and any significant financial reporting statements contained in those announcements;
- Received technical updates of relevant changes in the governance environment, accounting standards and other reporting matters; and
- Considered and discussed its own effectiveness following an external evaluation conducted by Lintstock (see page 48).

The external auditors attended Committee meetings to discuss the scope and the final results of the 2011 audit in detail (which included the main risks facing the Group), the strategy for the 2012 audit and the "hard close" results of the 2012 audit.

Auditors

The external auditors are PricewaterhouseCoopers LLP who were appointed as Group auditors on 2 October 2003 as a result of a competitive tender process. 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 and will end with the audit for the financial year ended 31 December 2012. Mr Maitland's successor as lead audit partner has been agreed by the Committee.

The Committee has assessed the effectiveness of the external audit process using a questionnaire and a Committee discussion and the Committee were satisfied with the performance of the external auditor and the external audit process. The Committee has determined on the basis of the satisfactory outcome of the evaluation that the external audit will not be subject to tender in 2013, and has recommended that the Board submit the re-appointment of PricewaterhouseCoopers LLP to shareholders for approval at the AGM in 2013. There are no contractual obligations which restrict the Committee's choice of external auditors.

Applying FRC guidance, the Group is not required to tender external audit services until 2017 (for the financial year ending 31 December 2017), however the Committee will continue to consider and confirm annually whether to tender the external audit.

Non-audit services
The Group 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 2012, there were no fees paid to PricewaterhouseCoopers LLP for non-audit services above £0.1 million. Fees paid related to services permitted to be provided by the Group's external auditor under the policy on non-audit services and the Committee does not consider that the provision of those services has impacted the independence or objectivity of the external auditors.

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 Group operations and activities, including acting temporarily or permanently as a director, officer or employee of the Group;
- 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 the 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' responsibilities for the preparation of the accounts (page 46) and a statement by the auditors concerning their responsibilities (page 63). The directors also report that the business is a going concern (page 51).

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

The independently run 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 safeguarding shareholders' investments and the Group's assets, by:

- Maintaining sound risk management and internal control systems;
- Having an ongoing process for identifying, evaluating and managing the significant risks faced by the Group;
- Conducting a review of the effectiveness of the Group's risk management and internal control systems at least annually and reporting to shareholders that they have done so. The review should cover all material controls, including financial, operational and compliance controls; and
- Confirming that necessary actions have been taken, or are in process, to address any significant failings or weaknesses identified from the annual review.

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.

Key elements of the Group's system of risk management and internal control include:

- Quarterly reviews of those risks of particular relevance to the Group and the appropriate risk management mitigation plans. Reviews are based on detailed risk workshops, which are refreshed every two years;
- Regular reviews of each operating unit performance undertaken by Group and divisional management;
- An on-going programme of assurance activities including an internal audit function, external financial audit, tax compliance reviews, environmental audits, trade compliance audits, government contracting compliance audits, anti-corruption policy audits, health and safety audits and property risk reviews;
- A Group Finance Policies and Procedures Manual which establishes appropriate controls and authority levels throughout the Group;
- Programmes for business continuity, health and safety, environment, trade compliance and ethics;
- A programme management office responsible for all aspects of the integration of the PacSci acquisition which has operated throughout 2012; and
- A comprehensive insurance programme.

To enable the Board to review the effectiveness of the system of risk management and internal control systems the following procedures have been in place for the year under review and up to the date of approval of the financial statements:

- An annual review of the key risks and mitigation plans is presented to the Board for their consideration. This was presented to the Board in December 2012;
- Each division carries out a quarterly review of financial, operational and compliance areas (including environmental, health and safety, property, business continuity etc), ensures mitigation plans exist to address those risks identified and monitors progress on implementing mitigation plans. The results of the risk reviews have been communicated, subject to materiality, to the Management Board and to the Board.
- The Board receives regular reports at each Board Meeting on the state of the business from the Group Chief Executive and the Group Finance Director, reviews strategy plans and budgets as appropriate and regularly receives a report on compliance activities from the Group Corporate Affairs Director;
- Each month, divisions submit detailed operating and financial reports covering all aspects of their performance. These are reviewed and, subject to materiality, issues are communicated to the Management Board and the Board;
- The Audit Committee meets regularly and reviews the effectiveness of the internal financial control environment of the Group. At these meetings it receives reports from the external and internal auditors;
- The Board has an Ethics and Trade Compliance Committee which meets quarterly and reviews these areas of compliance;
- An IT Security Committee, chaired by the Group Corporate Affairs Director, meets quarterly to consider potential risks and oversee the implementation of the enabling technology required to deliver the Group IS security strategy;
- Annually, the Board receives a report on the insurance coverage in place and uninsured risks;
- On an annual basis, the site director/general manager and finance manager of each operating unit provide written confirmation that the businesses for which they are responsible have been in compliance with the Group Finance Policies and Procedures Manual and other Group policies including, but not limited to, those concerning trade compliance, ethics and business conduct and sales representatives. They also confirm that they are not aware of any actual or potential breaches that could have a material impact on the Group's financial statements or any non compliance with laws and regulations;
- Additional improvements to the control environment have been, or are in the process of being, implemented, as part of Transformation, the roll-out of the global SAP template and the introduction of the Meggitt Production System.

The Board considers that there is considerable comfort in the fact that the Group's cash inflow from operating activities represented 104% (2011: 110%) of underlying operating profit in 2012. The Board confirms full implementation of the Financial Reporting Council's updated Turnbull guidance on Internal Control (2005)

Compliance with the Code

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

(i) B.1.2 – between 1 January 2012 and the appointment of Mr Cox on 27 September 2012, at least half of the Board was not independent. After a review of the composition, size and diversity of the Board, it was agreed that two new non-executive directors should be appointed. The Company has been in compliance with this provision since the appointment of Mr Cox as an independent non-executive director on 27 September 2012 and has further reinforced the number of independent non-executives with the appointment of Mr Berruyer on 2 October 2012.

(ii) D.2.1 – between 1 January 2012 and 26 April 2012 (the AGM), not all members of the Remuneration Committee were independent because of the membership of Mr Robins. Mr Robins continued to serve as Chairman of the Committee to maintain consistency of chairmanship during the 2011 financial reporting cycle, which ended when the shareholders voted on the Remuneration Report at the AGM in 2012. Mr Robins stepped down from the Committee on 26 April 2012 and the Company has been in compliance with the Code since that date.

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 Group and the Company 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 1 to 41.

By order of the Board

M L Thomas
Company Secretary
4 March 2013

Remuneration report

Introduction

On behalf of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2012.

Executive remuneration continues to be an area of focus for shareholders and the wider public. During 2013, the Committee will be reviewing the Group's executive remuneration framework, our long term incentive plans and preparing the policy which will need to be submitted to shareholders for approval at our 2014 AGM. We will consult major shareholders and their representative bodies during this process, the outcome of which will be detailed in next year's report.

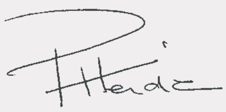
In 2012, the Committee benchmarked, reviewed and set the salaries, annual bonuses and other performance related remuneration for the executive directors and key members of executive management, determined the outcome of the annual bonus and share plan awards, reviewed the Directors' Remuneration Report for 2011 prior to approval by the Board, updated its Terms of Reference and considered the effectiveness of the Committee.

During 2012, the award made in 2009 under the Executive Share Option Scheme vested at 100%, as the Group fully met the earnings per share performance condition. The award made in 2009 under the Equity Participation Plan vested at 69%, as the Group fully met the earnings per share performance condition (accounting for 50% of the award) and achieved a TSR position of 8th in our comparator group resulting in vesting of 39% (accounting for 50% of the award).

The total bonus pool generated in 2012 reflected another year of excellent performance in difficult economic conditions. Profit and cash flow performance were again very strong and the Group has made progress on important strategic objectives, most notably on quality and delivery through the *raising the bar* programme. It is the view of the Committee that the performance of the Group, backed by the growth in the share price in recent years, warrants the rewards which our executives will receive in 2013.

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 2008 Regulations), the UK Corporate Governance Code 2010 (the Code) and the Financial Services Authority's Listing Rules. The Department for Business Innovation & Skills (BIS) have produced draft regulations on the approval of remuneration policy and remuneration reporting. Although those regulations are not due to come into force until our 2013 financial year, we have incorporated a number of the proposed changes in this report. The 2008 Regulations require the auditors to report to shareholders on the audited information in this report and to state whether in their opinion the audited sections (which have been highlighted) have been properly prepared in accordance with company law (as implemented by the 2008 Regulations).

A resolution will be put to shareholders at the AGM on 1 May 2013 inviting them to approve this report.



P Heiden
Chairman of the Remuneration Committee
4 March 2013

Policy Report

Remuneration Committee

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

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

Membership and meeting attendance

The Remuneration Committee is currently comprised of five independent non-executive directors.

Name	Meetings eligible to attend	Meetings attended
Mr P Heiden (Chairman)	6	6
Mr G S Berruyer[1]	1	0
Mr P G Cox[2]	1	1
Ms B L Reichelderfer	6	6
Mr D A Robins[3]	4	4
Mr D M Williams	6	6

1 Appointed on 2 October 2012. Mr Berruyer sent his apologies for a Committee meeting because he had meetings relating to his executive role at The Sage Group plc that were arranged before his appointment.

2 Appointed on 27 September 2012.

3 Mr 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 continued to serve as Chairman of the Committee to ensure consistency of Chairmanship throughout the 2011 reporting cycle. He stepped down as Chairman and member of the Committee at the end of the AGM in April 2012.

External advisor

During the year, the Committee's independent remuneration advisor was Kepler Associates. Kepler were selected by the Committee as a result of a competitive tender process and were appointed by the Committee in 2010, after consultation with the Board. Kepler provide guidance on remuneration matters at Board level and below, and do not provide any other services to the Company. Kepler is a member of the Remuneration Consultants Group and adheres to its code of conduct (www.remunerationconsultantsgroup.com).

Key elements of the remuneration package for executive directors

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 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 Committee also takes into account pay and employment conditions throughout the Group in determining the overall remuneration for the year.

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 package targets median levels of fixed pay, supplemented by performance-related annual bonuses and equity-based long-term incentive plans designed to reward and incentivise growth, provide a strong link to Group and individual performance and to take account of corporate governance best practice.

Fixed pay

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Base salary			
To attract and retain talent by ensuring base salaries are competitive in the talent market(s) relevant to each individual.	In deciding salary levels, the Committee considers personal performance, changes of responsibility, employment conditions and salary levels across the Group, advice from Kepler, data from appropriate third-party surveys and market conditions.	Base salary increases are applied in line with the outcome of the annual review, with any increase effective from 1 January (unless there is a change of responsibility during the year).	Personal performance against objectives.
Pension			
Provides post-retirement benefits for participants in a cost-efficient manner.	Membership of the executive section of the Meggitt Pension Plan: a funded, registered 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 HMRC limits. Bonus payments to executive directors are not pensionable and there are no unfunded pension promises or similar arrangements for directors.	As at 31 December 2012, none of the executive directors were accruing benefits under the plan as they had reached the Lifetime Allowance. For details of the pensions allowance paid to directors see page 57.	None.
Benefits			
Designed to be competitive in the market in which the individual is employed.	Benefits include a fully expensed car, or car allowance, fuel allowance, private medical insurance for the individual and his immediate family and a telephone.	Benefit values vary by role and are reviewed periodically relative to market.	None.

Remuneration report continued

Variable pay

Purpose and link to strategy	Operation	Opportunity	Performance metrics
Annual Bonus			
Incentivises the achievement of specific goals over the short-term that are also aligned to the long-term business strategy.	Bonus targets are agreed by the Committee at the start of the year for performance during that financial year. Payments to the executive directors are made 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.	Bonuses are based on a combination of Group profit, cash conversion, strategic objectives and personal performance.
Equity Participation Plan (EPP)			
Approved by shareholders in 2005. Aligns the interests of shareholders and executives in growing the value of the business over the long-term.	Annual award of market-priced awards. Comprises basic and matching awards of nil-cost options. Award levels and performance conditions are reviewed annually to ensure they remain appropriate. The Committee reviews the performance criteria for the EPP in advance of each award.	Allows for an annual grant of basic awards not exceeding 125% of basic salary. Awards have normally been made at 75% of basic salary. The number of shares awarded is based on the average share price over a 90-day period ending on the day before the date of grant. Allows for an annual grant of matching awards not exceeding 50% of basic salary, subject to investing in and retaining shares worth up to 25% of net salary. The number of shares awarded is based on the market price on the date of award.	The vesting of EPP awards is subject to the Group's performance over a 3-year performance period. The performance conditions are described on pages 58 and 59.
Executive Share Option Scheme (ESOS)			
Approved by shareholders in 2005. Aligns the interests of shareholders and executives in growing the value of the business over the long-term.	Annual award of market-priced options. Award levels and performance conditions are reviewed annually to ensure they remain appropriate. The Committee reviews the performance criteria for the ESOS in advance of each award.	Allows for an annual grant not exceeding 300% of basic salary. Awards have normally been made at 200% of basic salary. The number of shares awarded is based on the market price on the day before the award is made.	The vesting of ESOS awards is subject to the Group's performance over a 3-year performance period. The performance condition is described on page 60.
Share retention guidelines			
To encourage share ownership and ensure alignment of executive interests with those of shareholders.	Requirement to hold a minimum number of Meggitt shares defined as a % of basic salary.	Equivalent to 100% of basic salary for executive directors.	None.

Service contracts for executive directors

The policy of the Committee is to offer executive directors contracts requiring one year's notice from the Company.

			Notice period	
Executive Director	**Position**	**Effective date of contract**	**From employer**	**From employee**
Mr T Twigger	Chief Executive	26 February 2001	12 months	6 months
Mr P E Green	Group Corporate Affairs Director	26 February 2001	12 months	6 months
Mr S G Young[1]	Group Finance Director	27 February 2004	12 months	6 months

1 It is anticipated that Mr Young's service contract will be updated prior to his appointment as Chief Executive on 1 May 2013.

Exit payments for executive directors

Should the Company terminate the executive directors' service contracts in breach of contract terms, then damages would be due equivalent to annual remuneration plus the value of benefits for the unexpired notice period less 5% of the aggregate sum.

The EPP and ESOS rules provide for vesting in certain circumstances in the event of an executive leaving the Company, for example, retirement, redundancy or leaving through ill-health. The rules also determine that awards will vest if there is a change of control. Unvested awards would usually be reduced pro-rata to take into account the proportion of the performance period not completed and the extent to which the performance condition for each award has been met. More details are available in the rules (which are available to shareholders on request).

External appointments held by executive directors

The Board believes that the Company can benefit from experience gained when executive directors hold external non-executive directorships. Executive directors are allowed to hold external appointments and to receive payment provided such appointments are agreed by the Board or Committee in advance, there are no conflicts of interests and the appointment does not lead to a deterioration in the individual's performance.

Executive Director	**Company**	**Role**	**Fees retained**
Mr T Twigger	Filtrona plc	Non-executive director	£42,500 (2011: £40,000)
		Chairman of the Audit Committee	£10,000 (2011: £8,874)
Mr S G Young	Derwent London plc	Non-executive director	£50,187 (2011: £47,000)
		Chairman of the Audit Committee	£5,500 (2011: £4,125)

Non-executive directors

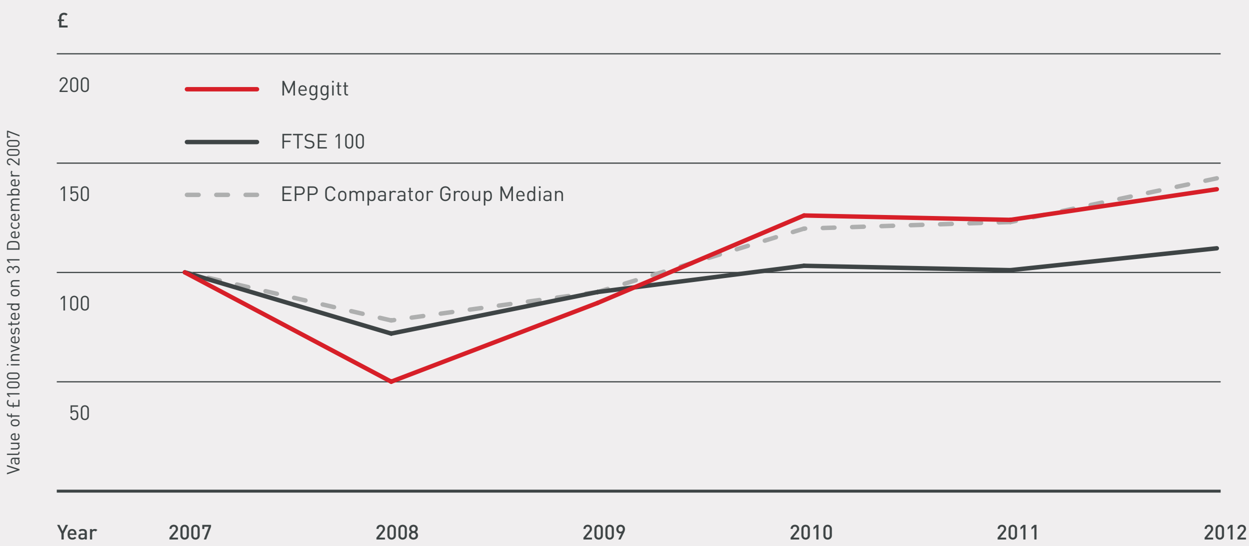
The fees paid to non-executive directors are within the limits set in the Articles. The fees paid to the Chairman are approved by the Committee and fees paid to the other non-executive directors are approved by the Finance Committee of the Board. The Committee and the Finance Committee set the level of fees for non-executive directors to reflect the time commitment and responsibilities of the role, after consulting independent surveys.

Non-executive directors are appointed for a term of no longer than three years, do not have a contract of service and are not eligible to join the Company's pension or share schemes.

Implementation Report

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 (shown on page 58):



Remuneration report continued

Details of directors' remuneration (audited)

	Basic salary[1] 2012 £	Fees 2012 £	Taxable benefits[2] 2012 £	Bonus payments 2012 £	Pension allowance[3] 2012 £	Total emoluments excluding pension 2012 £	Total emoluments excluding pension 2011 £
Executive directors							
Mr T Twigger	**639,000**	**–**	**30,337**	**766,800**	**319,500**	**1,755,637**	1,878,016
Mr P E Green	**309,000**	**–**	**17,290**	**371,744**	**141,479**	**839,513**	833,700
Mr S G Young	**382,000**	**–**	**19,896**	**459,305**	**177,979**	**1,039,180**	1,081,321
Non-executive directors							
Sir Colin Terry	**–**	**165,000**	**–**	**–**	**–**	**165,000**	155,000
Mr G S Berruyer[4]	**–**	**12,308**	**–**	**–**	**–**	**12,308**	–
Sir Alan Cox[4]	**–**	**–**	**–**	**–**	**–**	**–**	11,399
Mr P G Cox[4]	**–**	**13,269**	**–**	**–**	**–**	**13,269**	–
Mr P Heiden	**–**	**56,705**	**–**	**–**	**–**	**56,705**	46,000
Ms B L Reichelderfer[4]	**–**	**50,000**	**–**	**–**	**–**	**50,000**	26,025
Mr D A Robins	**–**	**53,295**	**–**	**–**	**–**	**53,295**	56,000
Mr D M Williams	**–**	**70,000**	**–**	**–**	**–**	**70,000**	56,000
Total	**1,330,000**	**420,577**	**67,523**	**1,597,849**	**638,958**	**4,054,907**	4,143,461

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, or car allowance, private medical insurance, fuel and telephone.
3 The executive directors receive a pension allowance as detailed on page 57.
4 Appointments: Ms Reichelderfer was appointed on 7 June 2011. Mr P G Cox was appointed on 27 September 2012. Mr Berruyer was appointed on 2 October 2012. Resignation: Sir Alan Cox resigned on 24 February 2011.

Single figure for directors' remuneration

The single figure for the total remuneration received by each executive director for the year ended 31 December 2012 and the prior year, consistent with the methodology proposed by BIS and outlined in notes 1 to 6 is shown in the table below.

	Mr T Twigger		Mr P E Green		Mr S G Young	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Salary[1]	**639**	620	**309**	289	**382**	371
Benefits[2]	**30**	30	**17**	17	**20**	19
Pension[3]	**320**	314	**157**	156	**194**	192
Annual bonus[4]	**767**	930	**372**	434	**459**	557
EPP basic[5]	**496**	541	**227**	248	**298**	325
EPP matching[5]	**335**	316	**153**	145	**201**	190
ESOS[6]	**430**	1,184	**197**	543	**258**	711
Total	**3,017**	3,935	**1,432**	1,832	**1,812**	2,365

The figures have been calculated as follows:
1 Base salary is the salary earned in the year.
2 Benefits are the taxable values of benefits received in the year.
3 Pension is calculated as 20x the increase in value of accrued benefit in the year in respect of the Meggitt Pension Plan plus pension allowances paid to directors in the year.
4 Annual bonus is the total bonus earned in respect of performance during the year.
5 EPP is calculated as the number of shares vesting, based on performance in the year, valued at the market value of the shares. Market value is the market value on the day the awards vest (if they vest before the date the financial statements are approved) or the average market value for the last three months of the financial year (if the awards vest after the date the financial statements are approved). For 2012, the TSR element of the 2009 award vested at 39% and the EPS element of the April 2011 award (delayed from August 2010) vested at 100%. The market values were 390.60p (TSR basic award), 408.90p (TSR matching award) and 388.53p (EPS) respectively. For 2011, the EPS element of the 2009 award vested at 100% and the market value was 390.60p.
6 ESOS is calculated as the number of shares vesting, based on performance in the year, valued at the difference between the market value of the shares and the exercise price of the award. Market value is the market value of the shares on the day the awards vest (if they vest before the date the financial statements are approved) or the average market value for the last three months of the financial year (if the awards vest after the date the financial statements are approved). For 2012, the 2010 award vested at 100% and the market value and exercise price were 388.53p and 286.10p respectively. For 2011, the 2009 award vested at 100% and the market price and exercise price were 408.50p and 169.50p respectively.

Basic salary for executive directors

A review of executive basic salary levels was under taken in 2012. Effective 1 January 2013:

- Mr Twigger's salary will increase by 3.3%, in line with salary increases across the Group.
- Mr Green's salary continues to be below competitive levels and in the context of his continued strong performance it was agreed to increase his salary by 5.2%.
- Mr Young's salary has been frozen as at 1 January 2013, but will increase on 1 May 2013 to £640,000 on his appointment as Chief Executive. The Board considers that Mr Young has made an outstanding contribution as Group Finance Director and will bring his broad range of commercial skills and extensive mergers and acquisitions and City experience to the role. Mr Young has worked closely with Mr Twigger for the last nine years and prior to that, has worked at Board level across many sectors. The Committee considered during their discussion on the base salary for the new Chief Executive: (i) the skills and experience of Mr Young and the substantial increase in responsibilities on his promotion to Chief Executive; (ii) advice from Kepler; (iii) data obtained as part of the recruitment process; and (iv) benchmarking data on salary for the Chief Executive role. The Committee's view is that the increase in responsibilities for Mr Young together with the other matters referred to above, warrants the basic salary which Mr Young will receive from 1 May 2013.

		Base salary at:		
Executive Director	Position	1 January 2013 £	1 January 2012 £	Increase
Mr T Twigger	Group Chief Executive Officer	660,000	639,000	3.3%
Mr P E Green	Group Corporate Affairs Director	325,000	309,000	5.2%
Mr S G Young	Group Finance Director	382,000	382,000	–

Fees for non-executive directors

Role	2012 £
Chairman	165,000
Non-executive director	50,000
Committee chairman (Audit/Remuneration)	10,000
Senior Independent Director	10,000

Pension benefits for executive directors (audited)

	Mr T Twigger[1] £	Mr P E Green[2] £	Mr S G Young[3] £
Meggitt Pension Plan			
Accumulated total accrued pension at 31 December 2011	51,419	74,596	35,225
Pension accrued in year	–	781	781
Total decrease in accrued pension in year	(7,873)	(3,352)	(5,960)
Accumulated total accrued pension at 31 December 2012	**43,546**	**71,244**	**29,265**
Transfer value basis at 31 December 2011[4]	1,584,510	1,715,680	803,394
Increase/(decrease) in transfer value excluding directors' contributions	79,923	(108,488)	74,669
Directors' contributions[5]	–	–	–
Transfer value basis at 31 December 2012[4]	**1,664,433**	**1,607,192**	**878,063**

1 Mr Twigger opted to leave the Meggitt Pension Plan and take his pension benefits with effect from 6 April 2011.
2 Mr Green opted to leave the Meggitt Pension Plan with effect from 31 March 2012. He has not drawn his pension.
3 Mr Young opted to leave the Meggitt Pension Plan and take his pension benefits with effect from 5 April 2012.
4 Transfer values do not represent a sum payable to the individual director, but represent a potential liability of the pension scheme.
5 Although there are no direct member contributions, the directors all contributed 7% of their capped pensionable salary until they left the plan, amounting in 2012 to £Nil for Mr Twigger and £1,823 for each of Mr Green and Mr Young (2011: £2,363 for Mr Twigger and £7,832 for each of Mr Green and Mr Young), through a salary sacrifice arrangement in the same way as all other members of the plan.

Executive directors are entitled to participate in the Meggitt Pension Plan (MPP) accruing defined benefits at 3% of salary per annum up to the Scheme Cap. They are also entitled to a cash supplement equivalent to 50% of salary above the Scheme Cap. Upon reaching the government's Lifetime Allowance the directors are entitled to cease accruing further benefit under the MPP and receive the 50% allowance on their full salary. Mr Twigger reached the Lifetime Allowance in April 2011. Mr Green and Mr Young both reached the Lifetime Allowance in April 2012. The Scheme Cap was reduced in April 2012 per the government's change in Annual Allowance. The MPP Scheme Cap applicable to directors was £135,000 for 2010/11 and £104,160 for 2011/12.

The directors' dependants remain eligible for dependants' pensions and the payment of a lump sum on death in service.

Remuneration report continued

Bonus payments for executive directors

The Board set stretching financial and strategic targets for the bonus in 2012. Taking into account the achievement of the challenging targets set for the bonus year, the double-digit profit growth, the strong personal performance of each of the executive directors and the significant value created for shareholders during the year, the Committee approved bonus awards of 120% of basic salary as at 31 December 2012 for each of the executive directors, which will be paid in cash.

	Achievement				
	Below threshold	Between threshold and target	At target	Between target and stretch	At or above stretch
Measure					
Group profit				✓	
Cash conversion		✓			
Strategic objectives – quality and delivery				✓	
Strategic objective – implementation of SAP	✓				
Personal performance					
Mr T Twigger					✓
Mr P E Green					✓
Mr S G Young					✓

For awards in respect of 2013 performance, 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 for executive directors

Equity Participation Plan 2005 (EPP)
The Committee approved basic and matching awards in August 2012 (as detailed in the table on page 59). The Committee has also approved basic and matching awards to be made for the 2013 cycle which will be granted within the plan rules and limits. The following performance measures are attached to the 2012 and 2013 awards:

Relative TSR (25% of award)
TSR relative to a tailored peer group of international aerospace and defence companies that best reflect Meggitt's business and geographic mix, illustrated in the table below for 2012 and 2013 awards:

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

Awards will vest as follows:

2012 TSR outperformance of the median of comparator group	2013 TSR outperformance of the median of comparator group	% of element vesting
8% p.a. and above	8% p.a. and above	100%
Between 0% and 8% p.a.	Between 0% and 8% p.a.	Straight-line vesting between 30% and 100%
Equal to median (0% p.a.)	Equal to median (0% p.a.)	30%
Below median	Below median	0%

TSR for all comparator companies is measured on a common currency basis.

Underlying EPS (50% of award)

Based on cumulative underlying EPS over a three year period. Awards will vest as follows:

2012 3-year cumulative EPS	2013 3-year cumulative EPS	% of element vesting
122p and above	133p and above	100%
Between 110p and 122p	Between 121p and 133p	Straight-line vesting between 30% and 100%
Equal to 110p	Equal to 121p	30%
Below 110p	Below 121p	0%

Cash conversion (25% of award)

Based on cash conversion, defined as cash flow as a percentage of underlying profit after taxation. Cash is measured before dividends, merger and acquisition costs and capital expenditure. Awards will vest as follows:

2012 Cash conversion	2013 Cash conversion	% of element vesting
95% and above	95% and above	100%
Between 87% and 95%	Between 87% and 95%	Straight-line vesting between 30% and 100%
Equal to 87%	Equal to 87%	30%
Below 87%	Below 87%	0%

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' interests.

2009 and 2010 EPP – outcome

The 2009 EPP award performance condition was based on 50% TSR and 50% EPS. The Committee confirmed vesting at 69% (EPS: 100%, TSR: 39%). In respect of the award made in April 2011 (delayed from August 2010), the Committee has confirmed that 50% of the award which was subject to the EPS performance condition has vested in full, as Meggitt achieved an aggregate EPS of 97.4 pence (adjusted for scrip), exceeding the maximum vesting threshold of 86.0 pence. The vesting outcome of the 50% of the award subject to the TSR performance condition cannot be confirmed until August 2013.

Equity Participation Plan holdings (audited)

The directors' interests in the EPP and movements during the year are set out below:

	Date of award	Value of award £	Number of shares at 1 Jan 2012	Awarded	Exercised	Lapsed	at 31 Dec 2012	Date exerciseable from
T Twigger								
Basic Award	05.08.09	450,000	277,180	–	–	84,817	192,363	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
Basic Award	22.08.12	480,000	–	122,507	–	–	122,507	22.08.15
Matching Award	12.08.09	300,000	154,560	–	–	47,295	107,265	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
Matching Award	22.08.12	320,000	–	79,536	–	–	79,536	22.08.15
P E Green								
Basic Award	05.08.09	206,250	127,041	–	–	38,874	88,167	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
Basic Award	22.08.12	231,750	–	59,240	–	–	59,240	22.08.15
Matching Award	12.08.09	137,500	70,840	–	–	21,677	49,163	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
Matching Award	22.08.12	154,500	–	38,461	–	–	38,461	22.08.15
S G Young								
Basic Award	05.08.09	270,000	166,308	–	–	50,890	115,418	05.08.12
Basic Award	21.04.11	270,000	88,379	–	–	–	88,379	16.08.13
Basic Award	17.08.11	278,250	76,663	–	–	–	76,663	17.08.14
Basic Award	22.08.12	286,500	–	73,236	–	–	73,236	22.08.15
Matching Award	12.08.09	180,000	92,736	–	–	28,377	64,359	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
Matching Award	22.08.12	191,000	–	47,547	–	–	47,547	22.08.15

Awards made in August 2009 and April 2011 (delayed from August 2010) were converted to nil cost options in September 2011. All awards made after April 2011 have been made as nil cost options.

Remuneration report continued

Executive Share Option Scheme 2005 (ESOS)

The Committee approved awards within the scheme limits in 2012 as detailed in the table below, with performance measured based on three-year cumulative EPS. Awards will vest as follows:

2012 3-year cumulative EPS	% of options vesting
122p and above	100%
Between 110p and 122p	Straight-line vesting between 30% and 100%
Equal to 110p	30%
Below 110p	0%

EPS is considered by the Board to be an important measure of Meggitt's financial performance. It is highly visible internally and regularly monitored and reported.

2009 and 2010 ESOS – outcome

The Committee confirmed in 2012 that the 2009 ESOS award vested at 100%. The Committee has confirmed that the 2010 ESOS award will vest at 100% as Meggitt achieved an aggregate 97.4 pence EPS (adjusted for scrip), exceeding the maximum vesting threshold of 86.0 pence.

Executive Share Option Scheme and Sharesave holdings (audited)

The directors held the following awards under the 1996 Executive Share Option Scheme, ESOS and Sharesave 2008:

	Date of award	Number of shares under award at 1 Jan 2012	Awarded/ (exercised)	at 31 Dec 2012	Award price	Market price at date of exercise	Date exercisable from	Expiry date
T Twigger								
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
	10.04.12	–	321,752	321,752	397.20p	–	10.04.15	09.04.22
Sharesave (options)	14.09.12	–	2,752	2,752	326.94p	–	01.11.15	01.05.16
Total		2,765,878	324,504	3,090,382				

	Date of award	Number of shares under award at 1 Jan 2012	Awarded/ (exercised)	at 31 Dec 2012	Award price	Market price at date of exercise	Date exercisable from	Expiry date
P E Green								
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
	10.04.12	–	233,384	233,384	397.20p	–	10.04.15	09.04.22
Sharesave (options)	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
	14.09.12	–	1,835	1,835	326.94p	–	01.11.17	01.05.18
Total		1,260,768	235,219	1,495,987				

	Date of award	Number of shares under award at 1 Jan 2012	Awarded/ (exercised)	at 31 Dec 2012	Award 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 SARs)	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
	10.04.12	–	288,520	288,520	397.20p	–	10.04.15	09.04.22
Sharesave (options)	07.04.05	9,468	(9,468)	–	188.76p	366.60p	01.06.12	30.11.12
	06.09.10	4,047	–	4,047	222.35p	–	01.11.13	01.05.14
Total		1,665,972	279,052	1,945,024				

Awards made under ESOS Part B are made as stock-settled share appreciation rights (stock SARs).

The market price of the shares at 31 December 2012 was 382.30p and the range during the year was 356.50p to 414.90p. Awards may, in certain circumstances, be exercised or lapse earlier than the dates shown on pages 59 to 60 and above.

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

During 2012, other than holdings in share schemes and the Share Incentive Plan (included in the table on page 62) there were no other schemes to benefit directors by enabling them to acquire shares in or debentures of the Company or any other company.

Gains made on exercise of share awards (audited)

	Option	2012 awards exercised Exercise date	Awards exercised	Gain 2012 £'000	Gain 2011 £'000
T Twigger	1996 No 2 Executive Share Option Scheme	–	–	**–**	257
	Sharesave	–	–	**–**	5
	Sharesave	–	–	**–**	7
P E Green	1996 No 2 Executive Share Option Scheme	–	–	**–**	120
	Sharesave	–	–	**–**	6
S G Young	Sharesave	01.06.12	9,468	**17**	–
Total				**17**	395

Remuneration report continued

Directors' shareholdings

The beneficial interests of the directors and their connected persons in the ordinary shares of the Company at 31 December 2012, as notified under the Disclosure and Transparency Rules of the Financial Services Authority (DTR), were as follows:

	Shareholding Ordinary shares of 5p each	
	2012	2011
Sir Colin Terry	**11,846**	11,603
Mr T Twigger	**1,104,756**	1,103,626
Mr G S Berruyer[1]	**–**	–
Mr P G Cox[2]	**–**	–
Mr P E Green	**553,260**	552,130
Mr P Heiden	**5,701**	5,551
Ms B L Reichelderfer	**6,000**	6,000
Mr D A Robins	**71,261**	68,918
Mr D M Williams	**5,000**	5,000
Mr S G Young	**407,154**	394,649

1 Appointed on 2 October 2012.
2 Appointed on 27 September 2012.

Between 1 January 2013 and 22 February 2013, the only changes to the beneficial interests of the directors in the ordinary shares of the Company are that Mr Twigger and Mr Green each acquired 58 shares and Mr Young acquired 57 shares through the Meggitt PLC Share Incentive Plan.

By order of the Board

P Heiden
Chairman, Remuneration Committee
4 March 2013

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 2012 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 46, 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 2012 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 47 to 51 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:

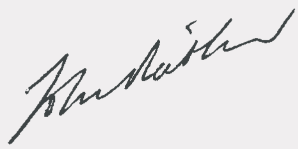
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance statement has not been prepared by the parent company.

Under the Listing Rules we are required to review:

- the Directors' Statement, set out on page 51, 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 2012 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
4 March 2013

Consolidated income statement

For the year ended 31 December 2012

	Notes	2012 £'m	2011 £'m
Revenue	5	**1,605.8**	1,455.3
Cost of sales		**(929.1)**	(839.8)
Gross profit		**676.7**	615.5
Net operating costs		**(353.1)**	(353.0)
Operating profit*	6	**323.6**	262.5
Finance income	12	**35.4**	36.9
Finance costs	13	**(66.9)**	(73.4)
Net finance costs		**(31.5)**	(36.5)
Profit before tax**		**292.1**	226.0
Tax	14	**(48.8)**	(41.1)
Profit for the year attributable to owners of the parent		**243.3**	184.9
Earnings per share:			
Basic	15	**31.1p**	24.0p
Diluted	15	**30.7p**	23.8p

* Underlying operating profit	10	**394.3**	359.5
** Underlying profit before tax	10	**362.8**	323.0

Consolidated statement of comprehensive income

For the year ended 31 December 2012

	Notes	2012 £'m	2011 £'m
Profit for the year		**243.3**	184.9
Other comprehensive income for the year:			
Actuarial losses	33	**(6.8)**	(76.6)
Currency translation differences		**(54.7)**	10.7
Cash flow hedge movements		**(5.8)**	5.3
Other comprehensive expense before tax		**(67.3)**	(60.6)
Related tax movements	14	**1.3**	21.6
Other comprehensive expense for the year		**(66.0)**	(39.0)
Total comprehensive income for the year attributable to owners of the parent		**177.3**	145.9

Consolidated balance sheet

As at 31 December 2012

	Notes	2012 £'m	2011 £'m
Non-current assets			
Goodwill	18	**1,494.2**	1,544.0
Development costs	19	**221.5**	185.8
Programme participation costs	19	**203.6**	197.5
Other intangible assets	20	**778.9**	865.8
Property, plant and equipment	21	**232.2**	229.9
Trade and other receivables	23	**98.8**	114.7
Derivative financial instruments	30	**49.8**	39.7
Deferred tax assets	32	**100.2**	112.5
		3,179.2	3,289.9
Current assets			
Inventories	22	**291.2**	277.5
Trade and other receivables	23	**304.2**	317.4
Derivative financial instruments	30	**5.0**	4.1
Current tax recoverable		**0.2**	2.6
Cash and cash equivalents	24	**104.9**	94.6
		705.5	696.2
Total assets	6	**3,884.7**	3,986.1
Current liabilities			
Trade and other payables	25	**(351.9)**	(349.4)
Derivative financial instruments	30	**(4.0)**	(12.8)
Current tax liabilities		**(57.0)**	(49.4)
Obligations under finance leases	27	**(3.1)**	(0.7)
Bank and other borrowings	28	**(127.0)**	(7.0)
Provisions	31	**(44.8)**	(50.6)
		(587.8)	(469.9)
Net current assets		**117.7**	226.3
Non-current liabilities			
Trade and other payables	26	**(6.3)**	(6.5)
Derivative financial instruments	30	**(0.2)**	(4.2)
Deferred tax liabilities	32	**(289.5)**	(316.8)
Obligations under finance leases	27	**(5.0)**	(8.2)
Bank and other borrowings	28	**(612.3)**	(867.1)
Provisions	31	**(178.5)**	(200.2)
Retirement benefit obligations	33	**(299.7)**	(319.9)
		(1,391.5)	(1,722.9)
Total liabilities		**(1,979.3)**	(2,192.8)
Net assets		**1,905.4**	1,793.3
Equity			
Share capital	34	**39.3**	38.9
Share premium		**1,143.9**	1,130.1
Other reserves		**14.1**	14.1
Hedging and translation reserves		**117.9**	177.8
Retained earnings		**590.2**	432.4
Total equity attributable to owners of the parent		**1,905.4**	1,793.3

The notes on pages 69 to 105 form an integral part of these consolidated financial statements.

The financial statements were approved by the Board of Directors on 4 March 2013 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 2012

	Notes	Share capital £'m	Share premium £'m	Other reserves* £'m	Hedging and translation reserves** £'m	Retained earnings £'m	Total equity £'m
At 1 January 2011		34.9	859.4	14.1	159.1	370.7	1,438.2
Profit for the year		–	–	–	–	184.9	184.9
Other comprehensive income for the year:							
Actuarial losses	33	–	–	–	–	(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	14	–	–	–	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	34	3.5	242.5	–	–	–	246.0
Employee share option schemes:							
Value of services provided		–	–	–	–	8.2	8.2
Shares issued	34	0.1	3.4	–	–	(0.1)	3.4
Dividends	16	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
Profit for the year		**–**	**–**	**–**	**–**	**243.3**	**243.3**
Other comprehensive income for the year:							
Actuarial losses	33	–	–	–	–	(6.8)	(6.8)
Currency translation differences:							
Arising in the year		–	–	–	(54.4)	–	(54.4)
Transferred to income statement		–	–	–	(0.3)	–	(0.3)
Cash flow hedge movements:							
Movement in fair value		–	–	–	(3.9)	–	(3.9)
Transferred to income statement		–	–	–	(1.9)	–	(1.9)
Other comprehensive expense before tax		–	–	–	(60.5)	(6.8)	(67.3)
Related tax movements	14	–	–	–	0.6	0.7	1.3
Other comprehensive expense for the year		**–**	**–**	**–**	**(59.9)**	**(6.1)**	**(66.0)**
Total comprehensive (expense)/income for the year		**–**	**–**	**–**	**(59.9)**	**237.2**	**177.3**
Employee share option schemes:							
Value of services provided		–	–	–	–	5.7	5.7
Shares issued	34	0.2	0.8	–	–	(0.1)	0.9
Dividends	16	0.2	13.0	–	–	(85.0)	(71.8)
At 31 December 2012		**39.3**	**1,143.9**	**14.1**	**117.9**	**590.2**	**1,905.4**

* 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 2012 comprise a credit balance on the hedging reserve of £1.6 million (2011: £5.9 million) and a credit balance on the translation reserve of £116.3 million (2011: £171.9 million). Amounts recycled from the hedging reserve to the income statement, in respect of cash flow hedge movements, have affected finance costs. Amounts recycled from the translation reserve to the income statement, in respect of the disposal of a foreign subsidiary, have affected net operating costs.

Consolidated cash flow statement

For the year ended 31 December 2012

	Notes	2012 £'m	2011 £'m
Cash inflow from operations before exceptional operating items		**408.8**	395.8
Cash outflow from exceptional operating items	11	**(14.7)**	(17.1)
Cash inflow from operations	39	**394.1**	378.7
Interest received		**0.2**	0.3
Interest paid		**(28.1)**	(31.0)
Tax paid		**(34.6)**	(42.6)
Cash inflow from operating activities		**331.6**	305.4
Businesses acquired	42	**(9.4)**	(418.1)
Net cash acquired with businesses		**1.0**	0.5
Business disposed	43	**15.9**	–
Capitalised development costs	19	**(52.2)**	(41.2)
Capitalised programme participation costs	19	**(36.1)**	(33.2)
Purchase of intangible assets		**(28.0)**	(25.1)
Purchase of property, plant and equipment		**(35.5)**	(27.0)
Proceeds from disposal of property, plant and equipment		**0.3**	7.5
Cash outflow from investing activities		**(144.0)**	(536.6)
Dividends paid to Company's shareholders	16	**(71.8)**	(48.4)
Issue of equity share capital		**0.9**	249.5
Proceeds from borrowings		**189.3**	214.3
Debt issue costs		**(2.0)**	(2.9)
Repayments of borrowings		**(292.7)**	(137.4)
Cash (outflow)/inflow from financing activities		**(176.3)**	275.1
Net increase in cash and cash equivalents		**11.3**	43.9
Cash and cash equivalents at start of year		**94.6**	51.9
Exchange losses on cash and cash equivalents		**(1.0)**	(1.2)
Cash and cash equivalents at end of year	24	**104.9**	94.6

Notes to the financial statements

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 on a going concern basis 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 its 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. To the extent the fair value of the net assets acquired exceeds the cost of an acquisition, the difference is recorded immediately in the income statement.

When a subsidiary is acquired, the fair values of its identifiable assets and liabilities 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.

When a subsidiary is disposed, the difference between the fair value of the consideration received or receivable and the value at which the net assets of the subsidiary were recorded, immediately prior to disposal, is recognised in the income statement. Any such gain or loss is excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10).

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 rates of exchange 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 hedging and translation reserves. Exchange differences on borrowings and other currency instruments designated as net investment hedges of foreign subsidiaries are also recognised in hedging and translation reserves.

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.

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.

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 centrally managed trading assets, goodwill, other intangible assets, derivative financial instruments, deferred tax, current tax and cash and cash equivalents.

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

Notes to the financial statements continued

2. Summary of significant accounting policies continued

Revenue recognition

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

Sale of goods
Revenue is recognised when the significant risks and rewards of ownership have transferred to the customer, managerial involvement and control of the goods is not retained by the Group, the revenue and costs associated with the sale can be measured reliably and the collection of related receivables is probable. In the majority of instances these conditions are met when delivery to the customer takes place. In a minority of instances 'bill and hold' arrangements exist whereby revenue is recorded prior to delivery but only when the customer has accepted title to the goods, the goods are separately identifiable and available for delivery on terms agreed with the customer and normal credit terms apply.

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

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

Revenue from funded research and development
Revenue is recognised according to the stage of completion of the contract. The stage of completion is typically measured by reference to contractual milestones achieved.

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 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 gains 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 subsidiary to which goodwill relates is disposed of, its 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. Development costs incurred on 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 and any impairment. 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 recognised as an intangible asset and carried at cost less accumulated amortisation and any impairment. Amortisation is charged over the periods expected to benefit from receiving the status of principal supplier (through the sale of replacement parts), typically up to 15 years.

Other intangible assets
a) 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 intangible assets 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).

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

2. Summary of significant accounting policies continued

Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and any 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.

Taxation

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

Impairment of non-current non-financial assets

Assets 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 which are largely independent of cash flows from other assets or groups of assets. At each balance sheet date, previously recorded impairment losses, other than any relating to goodwill, are reviewed and if no longer required reversed with a corresponding credit to the income statement.

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 subsidiary is acquired, inventory of the acquired subsidiary 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 actual cost of manufacture is excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10).

Provision is made for obsolete, slow moving or defective items where appropriate and for unrealised profits on items of inter-group manufacture.

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 its 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 initially recognised at fair value and subsequently held at amortised cost. Trade payables are not interest bearing.

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.

Notes to the financial statements continued

2. Summary of significant accounting policies continued

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.

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 employees remaining in service for a particular period in which case 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 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, 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 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 fair value of the hedged item. Any difference between the movement in 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.

2. Summary of significant accounting policies continued

Cash flow hedges
Changes in 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 fair value of any 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 gain or loss previously recognised in other comprehensive income is 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 fair value of any ineffective portion are recognised immediately 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.

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 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 became effective during the current period, but have had no significant impact on the Group's financial statements:

- IFRS 1 (Amended), 'First-time Adoption of International Financial Reporting Standards';
- IFRS 7 (Amended), 'Financial instruments: Disclosures';
- IAS 12 (Amended), 'Income taxes'.

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 has been endorsed 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:

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

Management has estimated that, had this standard been adopted in these financial statements, net operating costs for 2012 would have increased by approximately £2.0 million, as scheme administration expenses borne directly by defined benefit plans would be recorded as an operating expense and not as a reduction in the expected return on scheme assets. Net finance costs for 2012 would have increased by approximately £9.0 million, as the expected return on scheme assets is calculated using the same rate used to discount scheme liabilities and will no longer include any allowance for equity-like out-performance or deduction for scheme administration expenses. The adverse impact on net operating costs and net finance costs would be offset by an equal reduction in actuarial losses, which would therefore have reduced by approximately £11.0 million. There would have been no impact on the value at which retirement benefit obligations are recorded in the balance sheet. The results of the prior period would also need to have been restated accordingly. The Group intends to exclude the revised net pension finance cost calculated under IAS 19 (revised 2011) from its underlying profit measures (as defined in note 10) when this standard is adopted in 2013.

The following new standards, amendments to existing standards and new interpretations have been published and are mandatory for the Group's future accounting periods. With the exception of the Improvements to IFRSs (2009-2011), the amendment to IFRS 1 and IFRS 9, they are endorsed 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 2012:

- IAS 1 (Amended), 'Presentation of Financial Statements'.

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

- 'Improvements to IFRSs (2009-2011)';
- IFRS 1 (Amended), 'First-time Adoption of International Financial Reporting Standards';
- IFRS 7 (Amended), 'Financial instruments: Disclosures';
- 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 2014:

- IAS 32 (Amended), 'Financial Instruments: Presentation'.

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

- IFRS 9, 'Financial instruments'.

Notes to the financial statements continued

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. Details of the hedges in place are provided in note 30. The Group also uses borrowings denominated in the relevant currencies to hedge its investment in foreign subsidiaries.

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 borrowings issued at floating rates 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 30.

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:

	2012				
	Less than 1 year £'m	**1-2 years £'m**	**2-5 years £'m**	**Greater than 5 years £'m**	**Total £'m**
Trade and other payables*	**339.9**	**2.1**	**2.4**	**1.8**	**346.2**
Bank and other borrowings	**123.7**	**0.4**	**341.2**	**247.0**	**712.3**
Interest payments on borrowings	**23.7**	**20.6**	**55.9**	**41.7**	**141.9**
Obligations under finance leases (see note 27)	**3.1**	**0.3**	**0.8**	**3.9**	**8.1**
Derivative financial instruments:					
Inflows**	**(75.2)**	**(8.3)**	**(24.8)**	**(21.7)**	**(130.0)**
Outflows**	**68.5**	**0.7**	**2.1**	**0.4**	**71.7**
Total	**483.7**	**15.8**	**377.6**	**273.1**	**1,150.2**

	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 27)	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

* Excludes social security and other taxes of £12.0 million (2011: £10.0 million) (see note 25).

** 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 those dates and assuming no hedge ineffectiveness.

	2012		2011	
	Income statement £'m	**Equity £'m**	Income statement £'m	Equity £'m
USD/GBP exchange rate +/- 10%	**18.4**	**50.4**	13.4	62.0
US yield curve +/- 1%	**3.2**	**5.0**	2.5	0.4

Of the impact on equity from movements in the exchange rate, £57.6 million (2011: £72.6 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 2012. Further details on the covenant requirements and the Group's performance against these can be found on page 26 of the Performance Review. The capital structure of the Group at the balance sheet date is as follows:

	2012 £'m	2011 £'m
Obligations under finance leases – current (see note 27)	**3.1**	0.7
Bank and other borrowings – current (see note 28)	**127.0**	7.0
Obligations under finance leases – non-current (see note 27)	**5.0**	8.2
Bank and other borrowings – non-current (see note 28)	**612.3**	867.1
Less cash and cash equivalents (see note 24)	**(104.9)**	(94.6)
Total net debt (see note 40)	**642.5**	788.4
Total equity	**1,905.4**	1,793.3
Debt/equity %	**33.7%**	44.0%

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 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 future cash flows, long-term growth rates and appropriate discount rates to be applied to future cash flows of the CGUs. Further details on these estimates are provided in note 18.

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, cash flows and appropriate discount rates to be applied to future 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 balances 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 appropriate provisions are made. To the extent these estimates change as more information becomes available, adjustments are made to the carrying value of the provisions. 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.

Onerous contracts

The Group makes provision for any expected losses arising from onerous contracts which require estimates to be made of future contract revenues, margins and cashflows. These estimates are dependent on a number of factors including anticipated sales volumes, future pricing and production costs. To the extent these estimates change as more information becomes available, adjustments are made to the carrying value of these provisions.

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 33.

5. Revenue

The Group's revenue is analysed as follows:

	2012 £'m	2011 £'m
Sale of goods	**1,417.2**	1,325.2
Contract accounting revenue	**115.1**	61.1
Revenue from services	**48.6**	41.7
Revenue from funded research and development	**24.9**	27.3
Total	**1,605.8**	1,455.3

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 to 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. For the period from its acquisition to 31 December 2011, its results were separately reported to the Chief Operating Decision Maker ('CODM') and accordingly PacSci was treated as a separate segment under IFRS 8. With effect from 1 January 2012, its results are no longer separately reported to the CODM and it is not treated as a separate segment. Comparative information has been restated to include PacSci within the Equipment Group segment.

6. Segmental analysis continued

Year ended 31 December 2012

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	Total £'m
Gross segment revenue	311.2	215.8	189.5	241.4	652.7	1,610.6
Inter-segment revenue	–	(0.9)	(2.3)	(1.2)	(0.4)	(4.8)
Revenue from external customers	**311.2**	**214.9**	**187.2**	**240.2**	**652.3**	**1,605.8**
Underlying operating profit (see note 10)*	**117.8**	**50.1**	**34.5**	**36.3**	**155.6**	**394.3**
Items not affecting underlying operating profit (see note 10)						(70.7)
Operating profit (see note 10)						**323.6**
Finance income (see note 12)						35.4
Finance costs (see note 13)						(66.9)
Net finance costs						(31.5)
Profit before tax						**292.1**
Tax (see note 14)						(48.8)
Profit for the year						**243.3**
Exceptional operating items (see note 11)	2.4	(2.9)	0.2	7.3	6.3	**13.3**
Amortisation of intangible assets (see notes 19 and 20)**	71.1	5.1	6.5	8.3	31.8	**122.8**
Depreciation (see note 21)	8.4	2.9	3.2	7.5	9.9	**31.9**

* 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, £42.2 million has been charged to underlying operating profit as defined in note 10.

The Group's largest customer accounts for 7.0% of revenues (£112.3 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 19)	16.7	12.1	0.7	9.2	13.5	**52.2**
Programme participation costs (see note 19)	33.4	2.7	–	–	–	**36.1**
Property, plant and equipment (see note 21)	4.7	3.6	3.1	7.6	17.6	**36.6**
Total	**54.8**	**18.4**	**3.8**	**16.8**	**31.1**	**124.9**

* Relates to those non-current assets included within segmental trading assets reviewed by the CODM.

As at 31 December 2012

	Total £'m
Aircraft Braking Systems	479.5
Control Systems	145.0
Polymers & Composites	79.3
Sensing Systems	190.2
Equipment Group	314.2
Total segmental trading assets	**1,208.2**
Centrally managed trading assets*	143.3
Goodwill (see note 18)	1,494.2
Other intangible assets (see note 20)	778.9
Derivative financial instruments – non-current (see note 30)	49.8
Deferred tax assets (see note 32)	100.2
Derivative financial instruments – current (see note 30)	5.0
Current tax recoverable	0.2
Cash and cash equivalents (see note 24)	104.9
Total assets	**3,884.7**

* 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.

Notes to the financial statements continued

6. Segmental analysis continued

Year ended 31 December 2011 (Restated)

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	Total £'m
Gross segment revenue	320.5	202.9	173.2	234.6	528.2	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	528.1	1,455.3
Underlying operating profit (see note 10)*	119.9	47.9	31.7	43.2	116.8	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	12.9	20.3
Amortisation of intangible assets (see notes 19 and 20)**	68.3	5.4	6.4	6.3	25.5	111.9
Depreciation (see note 21)	10.0	3.0	3.0	7.5	8.7	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	Total £'m
Additions to non-current assets*						
Development costs (see note 19)	14.9	7.4	1.8	9.2	8.2	41.5
Programme participation costs (see note 19)	32.1	1.1	–	–	–	33.2
Property, plant and equipment (see note 21)	10.4	2.9	3.8	5.0	9.4	31.5
Total	57.4	11.4	5.6	14.2	17.6	106.2

* Relates to those non-current assets included within segmental trading assets reviewed by the CODM.

As at 31 December 2011 (Restated)

	Total £'m
Aircraft Braking Systems	470.4
Control Systems	131.4
Polymers & Composites	79.1
Sensing Systems	190.2
Equipment Group	305.8
Total segmental trading assets	1,176.9
Centrally managed trading assets*	145.9
Goodwill (see note 18)	1,544.0
Other intangible assets (see note 20)	865.8
Derivative financial instruments – non-current (see note 30)	39.7
Deferred tax assets (see note 32)	112.5
Derivative financial instruments – current (see note 30)	4.1
Current tax recoverable	2.6
Cash and cash equivalents (see note 24)	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

Geographical information

	2012 £'m	2011 £'m
Revenue		
UK	**162.4**	134.0
Rest of Europe	**343.7**	324.7
North America	**871.6**	805.2
Rest of World	**228.1**	191.4
Total	**1,605.8**	1,455.3

Revenues are based on the location of the customer.

	2012 £'m	2011 £'m
Non-current assets		
UK	**708.8**	681.9
Rest of Europe*	**206.9**	215.6
United States of America	**2,006.6**	2,118.3
Rest of World	**8.1**	7.2
Total	**2,930.4**	3,023.0

* Includes non-current assets held in Switzerland of £105.3 million (2011: £109.2 million).

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

7. Operating profit

Operating profit is stated after charging/(crediting):

	2012 £'m	2011 £'m
Raw materials and consumables used	**469.7**	385.6
Changes in inventories of finished goods and work in progress	**(22.8)**	(13.1)
Employee costs (see note 9)	**542.7**	469.6
Depreciation (see note 21)	**31.9**	32.2
Research and development costs expensed as incurred	**44.9**	41.7
Amortisation of capitalised development costs (see note 19)	**11.6**	11.3
Amortisation of programme participation costs (see note 19)	**23.2**	20.8
Amortisation of other purchased intangible assets (see note 20)	**7.4**	4.7
Amortisation of intangible assets acquired in business combinations (see note 10)	**80.6**	75.1
Loss/(profit) on disposal of property, plant and equipment (see note 39)	**0.3**	(2.0)
Exceptional operating items (see note 11)	**13.3**	20.3
Financial instruments (see note 10)	**(23.4)**	(9.7)
Disposal of inventory revalued in business combinations (see note 10)	**0.2**	11.3
Net foreign exchange (gains)/losses	**(2.4)**	0.6
Operating lease rentals – land and buildings	**14.4**	13.1
Operating lease rentals – plant, equipment and vehicles	**1.1**	1.1
Other operating income	**(4.8)**	(4.3)

Notes to the financial statements continued

8. Auditor remuneration

Payable to PricewaterhouseCoopers LLP and network firms:

	2012 £'m	2011 £'m
Fees payable to the Company's auditor and its associates:		
For the audit of the Company and consolidated financial statements	**0.9**	1.1
For the audit of the Company's subsidiaries pursuant to legislation	**0.5**	0.7
For other non-audit services	**0.1**	0.1
Total	**1.5**	1.9

No significant fees were paid for other non-audit services.

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 Corporate Governance Report on page 50.

9. Employee information

	2012 £'m	2011 £'m
Employee costs including executive directors:		
Wages and salaries	**422.2**	373.7
Social security costs	**76.6**	63.5
Retirement benefit costs (see note 33)	**31.6**	24.0
Share-based payment expense (see note 35)	**12.3**	8.4
Total	**542.7**	469.6

Details of directors' remuneration is provided in the Remuneration Report on pages 52 to 62, which forms part of these financial statements.

	2012 Number	2011 Number
Average monthly number of persons employed including executive directors:		
Aircraft Braking Systems	**1,216**	1,176
Control Systems	**1,161**	1,040
Polymers & Composites	**2,092**	1,939
Sensing Systems	**1,600**	1,470
Equipment Group	**4,242**	3,283
Corporate including shared services and centres of excellence	**520**	449
Total	**10,831**	9,357

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	2012 £'m	2011 £'m
Operating profit		**323.6**	262.5
Exceptional operating items (see note 11)		**13.3**	20.3
Amortisation of intangible assets acquired in business combinations	a	**80.6**	75.1
Disposal of inventory revalued in business combinations	b	**0.2**	11.3
Financial instruments	c	**(23.4)**	(9.7)
Adjustments to operating profit*		**70.7**	97.0
Underlying operating profit		**394.3**	359.5
Profit before tax		**292.1**	226.0
Adjustments to operating profit per above		**70.7**	97.0
Underlying profit before tax		**362.8**	323.0
Profit for the year		**243.3**	184.9
Adjustments to operating profit per above		**70.7**	97.0
Tax effect of adjustments to operating profit		**(31.0)**	(36.4)
Adjustments to profit for the year		**39.7**	60.6
Underlying profit for the year		**283.0**	245.5

* Of the adjustments to operating profit, £5.4 million (2011: £3.7 million) relating to exceptional operating items and £0.2 million (2011: £11.3 million) relating to the disposal of inventory revalued in business combinations has been charged to cost of sales, with the balance of £65.1 million (2011: £82.0 million) included within net operating costs.

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

	2012 £'m	2011 £'m
Amortisation of other intangible assets (see note 20)	**88.0**	79.8
Less amortisation of purchased intangible assets (see note 20)	**(7.4)**	(4.7)
Amortisation of intangible assets acquired in business combinations	**80.6**	75.1

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 actual cost of manufacture of 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 actual cost of manufacture 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.

	2012 £'m	2011 £'m
Movement in the fair value of foreign currency forward contracts	**(20.1)**	5.6
Impact of retranslating net foreign currency assets and liabilities at spot rate	**0.5**	(1.4)
Movement in the fair value of interest rate derivatives	**(6.4)**	(30.0)
Movement in the fair value of fixed rate borrowings	**2.6**	16.1
Financial instruments – gain	**(23.4)**	(9.7)

As referred to in note 2 on page 73, in 2013 the Group will be required to adopt IAS 19 (revised 2011), 'Employee Benefits'. This revised standard will lead to the net pension finance cost recorded in the income statement becoming more significant. As net pension finance cost is a non-cash, non-trading item, the Board intends from 2013 to exclude it from the underlying profit measures it uses to monitor and measure the underlying trading performance of the Group.

Notes to the financial statements continued

11. Exceptional operating items

	Note	2012 £'m	2011 £'m
Site consolidations	a	**9.8**	3.7
Integration of Pacific Scientific Aerospace ('PacSci')	b	**4.8**	5.9
Acquisition of businesses	c	**1.3**	6.0
Transformation programme	d	**0.6**	4.4
Profit on disposal of business	e	**(3.2)**	–
Other		**–**	0.3
Exceptional operating items		**13.3**	20.3

a. This principally relates to the consolidation of Sensing Systems' New Hampshire and San Juan Capistrano facilities to a single new location in Southern California, which was announced in June 2011. This consolidation will be substantially completed in 2013.

b. Cumulative cost synergies achieved at the end of 2012, as part of the on-going PacSci integration process were £11.0 million (2011: £4.1 million). Costs incurred in the year in respect of this integration process were £4.8 million (2011: £5.9 million).

c. This principally relates to the acquisition of Fotomechanix Limited which completed on 4 July 2012 and the acquisition of PacSci which completed on 21 April 2011.

d. The previously announced transformation programme was substantially completed during 2011 and achieved the increased annual run-rate savings target of £57.0 million.

e. On 10 August 2012, the Group disposed of the business and trading assets and liabilities of Meggitt (Simi Valley), Inc making a profit on disposal of £3.2 million (see note 43).

Cash expenditure on exceptional operating items was £14.7 million (2011: £17.1 million), comprising £6.0 million in respect of site consolidations (2011: £1.9 million), £5.6 million in respect of the integration of PacSci (2011: £4.4 million), £1.4 million in respect of the acquisition of businesses (2011: £6.6 million), £0.8 million in respect of the transformation programme (2011: £3.9 million), £0.9 million in respect of business disposal costs (2011: £Nil) and £Nil million in respect of other items (2011: £0.3 million). The tax credit in respect of exceptional operating items was £5.4 million (2011: £5.6 million).

12. Finance income

	2012 £'m	2011 £'m
Interest on bank deposits	**0.2**	0.1
Unwinding of interest on other receivables	**1.7**	1.1
Expected return on retirement benefit scheme assets (see note 33)	**33.4**	35.5
Other finance income	**0.1**	0.2
Finance income	**35.4**	36.9

13. Finance costs

	2012 £'m	2011 £'m
Interest on bank borrowings	**5.8**	11.1
Interest on senior notes	**19.4**	19.8
Interest on finance lease obligations	**1.1**	0.3
Unwinding of interest on provisions (see note 31)	**1.7**	1.1
Unwinding of interest on retirement benefit scheme liabilities (see note 33)	**38.8**	40.0
Amortisation of debt issue costs	**1.7**	1.7
Less: amounts capitalised in the cost of qualifying assets (see notes 19 and 20)	**(1.6)**	(0.6)
Finance costs	**66.9**	73.4

14. Tax

	2012 £'m	2011 £'m
Current tax – current year	**49.8**	44.5
Current tax – adjustment in respect of prior years	**(4.9)**	(8.5)
Deferred tax – origination and reversal of temporary differences	**8.2**	6.5
Deferred tax – effect of changes in tax rates	**(4.3)**	(1.4)
Total taxation	**48.8**	41.1

14. Tax continued

The Finance Act 2011 included legislation to reduce the main rate of corporation tax in the UK from 26% to 25% with effect from 1 April 2012. The Finance Act 2012 included legislation to further reduce the main rate of corporation tax in the UK to 24% with effect from 1 April 2012 and to 23% with effect from 1 April 2013. The reduction in the main UK tax rate to 23% is reflected in the financial statements for the year ended 31 December 2012. The impact of this change on net deferred tax liabilities as at 31 December 2012, profit for the year (underlying and statutory) and comprehensive income for the year has not been significant.

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:

	2012 £'m	2011 £'m
Profit on ordinary activities before taxation at weighted average standard tax rate of 30.3%* (2011: 30.1%)	**88.5**	68.0
Effects of:		
Permanent differences	**(19.6)**	(14.6)
Timing differences	**(9.4)**	(0.1)
Changes in statutory tax rates	**(4.3)**	(1.4)
Tax credits and incentives	**(3.2)**	(4.3)
Prior year credits	**(3.2)**	(6.5)
Total taxation	**48.8**	41.1

* 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 2012 to increase, or reduce respectively, by approximately £2.9 million.

Tax relating to components of other comprehensive income

	2012			2011		
	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	**(55.1)**	**(0.7)**	**(55.8)**	11.2	3.9	15.1
Deferred tax – currency translation movements	**0.4**	**(0.2)**	**0.2**	(0.5)	0.1	(0.4)
Deferred tax – actuarial losses	**(6.8)**	**0.7**	**(6.1)**	(76.6)	18.9	(57.7)
Deferred tax – cash flow hedge movements	**(5.8)**	**1.5**	**(4.3)**	5.3	(1.3)	4.0
Other comprehensive income	**(67.3)**	**1.3**	**(66.0)**	(60.6)	21.6	(39.0)
Current tax		**(0.7)**			3.9	
Deferred tax		**2.0**			17.7	
Total		**1.3**			21.6	

Tax relating to items recognised directly in equity

	2012 £'m	2011 £'m
Deferred tax (charge)/credit relating to share-based payment	**(3.1)**	0.9
Total	**(3.1)**	0.9

15. 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 any shares bought by the Group and held during the year by an independently managed Employee Share Ownership Plan Trust (see note 36). The weighted average number of own shares excluded was Nil million shares (2011: 0.2 million shares). 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 share awards in issue are exercised.

	2012 Profit* £'m	**2012 Shares Number 'm**	**2012 EPS Pence**	2011 Profit* £'m	2011 Shares Number 'm	2011 EPS Pence
Basic EPS	**243.3**	**782.3**	**31.1**	184.9	769.7	24.0
Potential effect of dilutive ordinary shares	**–**	**10.0**	**(0.4)**	–	6.2	(0.2)
Diluted EPS	**243.3**	**792.3**	**30.7**	184.9	775.9	23.8

* Profit for the year attributable to owners of the parent.

Notes to the financial statements continued

15. Earnings per ordinary share continued

Underlying EPS is based on underlying profit for the year (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:

	2012 Pence	2011 Pence
Basic EPS	**31.1**	24.0
Add back effects of:		
Exceptional operating items	**1.0**	1.9
Amortisation of intangible assets acquired in business combinations	**6.4**	6.0
Disposal of inventory revalued in business combinations	**–**	0.9
Financial instruments	**(2.3)**	(0.9)
Underlying EPS	**36.2**	31.9

Diluted underlying EPS is based on underlying profit for the year (see note 10) and the same number of shares as is used in the calculation of diluted EPS. Diluted underlying EPS for the year was 35.7 pence (2011: 31.6 pence).

16. Dividends

	2012 £'m	2011 £'m
In respect of earlier years	**–**	48.8
In respect of 2011:		
Interim of 3.20p per share	**–**	24.8
Final of 7.30p per share	**56.9**	–
In respect of 2012:		
Interim of 3.60p per share	**28.1**	–
Dividends paid	**85.0**	73.6
Less paid as scrip dividend (see note 41)	**(13.2)**	(25.2)
Dividends paid in cash	**71.8**	48.4

A final dividend in respect of 2012 of 8.20p per share (2011: 7.30p), amounting to an estimated total final dividend of £64.4 million (2011: £56.9 million) is to be proposed at the Annual General Meeting on 1 May 2013. This dividend is not reflected in these financial statements as it is has not been approved by the shareholders at the balance sheet date.

17. Related party transactions

Transactions between the Company and its subsidiaries have been eliminated on consolidation. The remuneration of key management personnel of the Group (which is defined as members of the Management Board), including executive directors, is set out below:

	2012 £'m	2011 £'m
Salaries and other short-term employee benefits	**8.5**	8.7
Retirement benefit costs	**0.3**	0.4
Share-based payment expense	**4.6**	3.8
Total	**13.4**	12.9

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

	2012 Average award price Pence	2012 Number outstanding 'm	2011 Average award price Pence	2011 Number outstanding 'm
Share options	**182.49**	**0.1**	217.41	0.1
Share appreciation rights – equity-settled	**285.74**	**10.1**	265.79	9.7
Share appreciation rights – cash-settled	**–**	**–**	269.05	0.4
Equity Participation Plan shares	**N/A**	**3.6**	N/A	4.2
Deferred Share Bonus Plan shares	**N/A**	**–**	N/A	0.1

Full details of all elements in the remuneration package of each director, together with directors' share interests and share awards, are given in the Remuneration Report on pages 52 to 62 which forms part of these financial statements.

18. Goodwill

	2012 £'m	2011 £'m
Cost at 1 January	**1,544.0**	1,295.5
Exchange rate adjustments	**(53.7)**	15.9
Businesses acquired (see note 42)	**3.9**	232.6
Cost at 31 December	**1,494.2**	1,544.0

Goodwill is tested for impairment annually or more frequently if there is any indication of impairment. No impairment charge was required in the year (2011: £Nil) and the cumulative impairment charge recognised to date is £Nil (2011: £Nil). The total amount of goodwill acquired in the year that was expected to be deductible for tax purposes was £Nil million (2011: £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:

	2012 £'m	2011 £'m
Meggitt Aircraft Braking Systems ('MABS')	**675.8**	701.8
Meggitt (North Hollywood), Inc	**165.6**	173.0
Pacific Scientific HTL	**91.0**	95.2
Meggitt (Rockmart) Inc	**69.9**	73.1
Meggitt Training Systems Inc	**64.1**	67.1
Other	**427.8**	433.8
Total	**1,494.2**	1,544.0

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 2012. 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. Our continuing confidence in air passenger travel growth is supported by the sustained high levels of order intake at Boeing and Airbus. Large jet deliveries increased by 18% in 2012, and we continue to expect good delivery growth over the next 5 years underpinned by strong recent order intake and a backlog at Boeing & Airbus which equates to over 7 years of deliveries at the current production rate. Deliveries of regional aircraft declined slightly in 2012, with modest growth anticipated over the next few years, driven principally by demand for 70-90 seat aircraft, on which Meggitt has a strong shipset content. Business jet deliveries were roughly flat in 2012 but deliveries of super-midsize and long-range aircraft, where Meggitt benefits from particularly strong market positions, grew modestly. Further growth is anticipated in this market over the next 5 years, driven by increasing internationalisation of the customer base. In military markets, defence budgets remain under pressure. The threat of sequestration in the US remains, and as a result we have taken an incrementally more cautious stance on near-term revenue growth. However, we have key positions on future growth platforms, and in the absence of any clarity on where cuts will ultimately fall, we continue to anticipate average compound organic growth in military of around 2% per annum in the medium term.

- Growth rates used for periods beyond those covered by management's detailed budgets and plans. Growth rates are derived from 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: 2.3% (2011: 2.1%), US: 2.4% (2011: 2.5%)), the latter has been used.

Notes to the financial statements continued

18. Goodwill continued

- 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% (2011: 10.8%), Meggitt (North Hollywood), Inc, 11.1% (2011: 11.1%), Pacific Scientific HTL 10.6% (2011: 11.2%), Meggitt (Rockmart) Inc 11.2% (2011: 11.1%), and Meggitt Training Systems Inc 10.0% (2011: 11.3%). The discount rates used for 'Other' CGU's ranged between 9.4% to 11.3% (2011: 9.5% to 11.3%).

A sensitivity analysis was carried out for each CGU 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. The principal CGU with the least headroom in percentage terms is MABS. To require an impairment in the Group financial statements, one of the following would be required:

- Estimates of cash flows during the five year period, for which management estimates have been used, would need to reduce by more than 20%;
- Estimates of long term growth rates would need to reduce by more than 70%; or
- The discount rate applied to future cash flows would need to increase by more than 15%.

'Other' goodwill of £427.8 million (2011: £433.8 million) relates to approximately 20 individual CGUs. A sensitivity analysis was carried out for each individual CGU and the aggregated results for 'Other' goodwill are shown below:

- If estimates of cash flows during the five year period, for which management estimates have been used, reduced by 20%, an impairment of £13.6 million would potentially be required;
- If estimates of long term growth rates reduced by 20%, an impairment of £4.1 million would potentially be required;
- If the discount rate applied to future cash flows increased by 20%, an impairment of £16.0 million would potentially be required.

19. Development costs and programme participation costs

	Development costs £'m	Programme participation costs £'m
At 1 January 2011		
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	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
Year ended 31 December 2012		
Opening net book amount	185.8	197.5
Exchange rate adjustments	(6.2)	(6.8)
Additions	52.2	36.1
Interest capitalised	1.3	–
Amortisation*	(11.6)	(23.2)
Net book amount	**221.5**	**203.6**
At 31 December 2012		
Cost	276.0	326.9
Accumulated amortisation	(54.5)	(123.3)
Net book amount	**221.5**	**203.6**

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

Meggitt Aircraft Braking Systems has the largest share of Group development costs with a net book amount of £72.5 million (2011: Meggitt Sensing Systems with a net book amount of £62.6 million), which have an estimated weighted average remaining life of 9.2 years (2011: 9.1 years). Meggitt Aircraft Braking Systems has the largest share of Group programme participation costs with a net book amount of £199.5 million (2011: £195.9 million), which have an estimated weighted average remaining life of 9.1 years (2011: 9.4 years).

20. Other intangible assets

	Customer relationships (*) £'m	Technology (*) £'m	Order backlogs (*) £'m	Trade names and trademarks (*) £'m	Other purchased (**) £'m	Total £'m
At 1 January 2011						
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	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
Year ended 31 December 2012						
Opening net book amount	633.5	165.9	3.2	14.6	48.6	865.8
Exchange rate adjustments	(22.8)	(5.9)	(0.1)	(0.6)	(1.3)	(30.7)
Businesses acquired	0.7	2.9	0.1	–	–	3.7
Additions	–	–	–	–	27.9	27.9
Disposals	–	–	–	–	(0.1)	(0.1)
Interest capitalised	–	–	–	–	0.3	0.3
Amortisation – net operating costs (see note 10)	(59.1)	(16.3)	(2.9)	(2.3)	(7.4)	(88.0)
Net book amount	**552.3**	**146.6**	**0.3**	**11.7**	**68.0**	**778.9**
At 31 December 2012						
Cost	832.1	240.5	11.2	29.9	98.4	1,212.1
Accumulated amortisation	(279.8)	(93.9)	(10.9)	(18.2)	(30.4)	(433.2)
Net book amount	**552.3**	**146.6**	**0.3**	**11.7**	**68.0**	**778.9**

* 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 £391.5 million (2011: £444.1 million) in respect of Meggitt Aircraft Braking Systems which have an estimated weighted average remaining life of 11.0 years (2011: 12.0 years). The net book amount of technology includes £78.4 million (2011: £88.8 million) in respect of Meggitt Aircraft Braking Systems which have an estimated weighted average remaining life of 11.0 years (2011: 12.0 years).

During 2011, cost and accumulated amortisation relating to completed order backlogs was eliminated.

Notes to the financial statements continued

21. Property, plant and equipment

	Land and buildings £'m	Plant, equipment and vehicles £'m	Total £'m
At 1 January 2011			
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	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
Year ended 31 December 2012			
Opening net book amount	114.4	115.5	229.9
Exchange rate adjustments	(2.5)	(3.5)	(6.0)
Businesses acquired	2.5	1.6	4.1
Additions	6.9	29.7	36.6
Disposals	(0.1)	(0.4)	(0.5)
Depreciation	(7.0)	(24.9)	(31.9)
Net book amount	**114.2**	**118.0**	**232.2**
At 31 December 2012			
Cost	169.2	380.7	549.9
Accumulated depreciation	(55.0)	(262.7)	(317.7)
Net book amount	**114.2**	**118.0**	**232.2**

The Group's obligations under finance leases (see note 27) are secured by the lessors' title to the leased assets, which have a carrying amount of £4.5 million included within land and buildings (2011: £5.0 million) and £1.4 million (2011: £2.0 million) included within plant, equipment and vehicles.

22. Inventories

	2012 £'m	2011 £'m
Contract costs incurred	**8.8**	12.1
Less progress billings	**(4.2)**	(3.5)
Net contract costs	**4.6**	8.6
Raw materials and bought-in components	**107.8**	105.4
Manufacturing work in progress	**123.9**	110.0
Finished goods and goods for resale	**54.9**	53.5
Total	**291.2**	277.5

The cost of inventories recognised as an expense and included in cost of sales amounted to £896.2 million (2011: £828.3 million).

23. Trade and other receivables

	2012 £'m	2011 £'m
Trade receivables	**240.2**	263.0
Amounts recoverable on contracts	**14.6**	8.3
Prepayments and accrued income	**10.4**	10.8
Other receivables	**137.8**	150.0
Total	**403.0**	432.1
Less non-current portion:		
Other receivables	**98.8**	114.7
Non-current portion	**98.8**	114.7
Current portion	**304.2**	317.4

Other receivables includes £102.7 million (2011: £112.8 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 31) of which £10.7 million (2011: £5.1 million) is shown as current.

Trade receivables are stated after a provision for impairment of £6.6 million (2011: £7.2 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:

	2012 £'m	2011 £'m
At 1 January	**7.2**	3.9
Exchange rate adjustments	**(0.2)**	0.1
(Credit)/charge to income statement – net operating costs	**(0.4)**	3.2
At 31 December	**6.6**	7.2

At 31 December 2012, trade receivables of £50.0 million (2011: £42.8 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:

	2012 £'m	2011 £'m
Up to 3 months overdue	**42.7**	34.4
Over 3 months overdue	**7.3**	8.4
Total	**50.0**	42.8

The maximum exposure to credit risk at the balance sheet 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:

	2012 £'m	2011 £'m
Sterling	**69.3**	60.0
US dollar	**279.8**	325.0
Euro	**42.1**	38.6
Other	**11.8**	8.5
Total	**403.0**	432.1

Notes to the financial statements continued

24. Cash and cash equivalents

	2012 £'m	2011 £'m
Cash at bank and on hand	**94.9**	80.6
Short-term bank deposits	**10.0**	14.0
Total	**104.9**	94.6

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

	2012 £'m	2011 £'m
S&P rating:		
AAA	**1.0**	0.6
AA	**27.8**	16.0
A	**72.5**	63.8
BBB	**3.6**	14.2
Total	**104.9**	94.6

25. Trade and other payables – current

	2012 £'m	2011 £'m
Payments received on account	**42.6**	42.1
Trade payables	**121.6**	142.4
Social security and other taxes	**12.0**	10.0
Accrued expenses	**47.8**	53.2
Deferred consideration relating to acquired businesses	**0.2**	–
Other payables	**127.7**	101.7
Total	**351.9**	349.4

26. Trade and other payables – non-current

	2012 £'m	2011 £'m
Deferred consideration relating to acquired businesses	**2.9**	3.1
Other payables	**3.4**	3.4
Total	**6.3**	6.5

27. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2012 £'m	2011 £'m	2012 £'m	2011 £'m
Amounts payable under finance leases:				
In one year or less	**4.3**	1.8	**3.1**	0.7
In more than one year but not more than five years	**3.7**	7.1	**1.1**	2.9
In more than five years	**13.9**	15.5	**3.9**	5.3
Total	**21.9**	24.4	**8.1**	8.9
Less: future finance charges	**(13.8)**	(15.5)		
Present value of lease obligations	**8.1**	8.9		
Less non-current portion	**5.0**	8.2		
Current portion	**3.1**	0.7		

The underlying currency of obligations under finance leases is Sterling £0.2 million (2011: £Nil) and US dollar £7.9 million (2011: £8.9 million). The weighted average period to maturity is 11.2 years (2011: 12.0 years) and the weighted average interest rate is 16.0% (2011: 15.3%).

28. Bank and other borrowings

	2012 £'m	2011 £'m
Current		
Bank loans	**12.2**	2.7
Other loans	**114.8**	4.3
Total current	**127.0**	7.0
Non-current		
Bank loans	**170.1**	292.6
Other loans	**442.2**	574.5
Total non-current	**612.3**	867.1
Total	**739.3**	874.1
Analysis of bank and other borrowings repayable:		
In one year or less	**127.0**	7.0
In more than one year but not more than five years	**343.3**	455.6
In more than five years	**269.0**	411.5
Total	**739.3**	874.1

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 £0.1 million (2011: £0.2 million) which are secured by specific land and buildings of the Group.

The Group has the following committed facilities:

	2012			2011		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
Senior notes (2012: USD 250.0 million, 2011: USD 250.0 million)	**153.8**	**–**	**153.8**	160.9	–	160.9
Senior notes (2012: USD 600.0 million, 2011: USD 600.0 million)	**369.1**	**–**	**369.1**	386.1	–	386.1
Syndicated credit facility (2012: USD 400.0 million, 2011: USD 500.0 million)	**80.1**	**166.0**	**246.1**	218.3	103.4	321.7
Syndicated credit facility (2012: USD 700.0 million, 2011: USD 700.0 million)	**93.8**	**336.8**	**430.6**	77.3	373.1	450.4
Total	**696.8**	**502.8**	**1,199.6**	842.6	476.5	1,319.1

The Group issued USD 250.0 million of loan notes to private placement investors in 2003. These were all drawn at 31 December 2012 and the sterling equivalent was £153.8 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 has sufficient headroom in existing facilities and the loan notes that mature in 2013 will not be refinanced.

The Group issued USD 600.0 million of loan notes to private placement investors in 2010. These were all drawn at 31 December 2012 and the sterling equivalent was £369.1 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 2012, the Group successfully negotiated a new USD 400.0 million five-year syndicated revolving credit facility to replace an existing facility due to mature in July 2013. The Group also has a USD 700.0 million syndicated revolving credit facility which matures in 2016.

At 31 December 2012, the amounts drawn under revolving credit facilities were £173.9 million (2011: £295.6 million) represented by borrowings denominated in US dollars of £80.1 million (2011: £212.9 million) and in Swiss francs of £93.8 million (2011: £82.7 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 2012 and 31 December 2011 expire as follows:

	2012			2011		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
In one year or less	**110.7**	**–**	**110.7**	–	–	–
In more than one year but not more than five years	**340.0**	**502.8**	**842.8**	456.6	476.5	933.1
In more than five years	**246.1**	**–**	**246.1**	386.0	–	386.0
Total	**696.8**	**502.8**	**1,199.6**	842.6	476.5	1,319.1

Notes to the financial statements continued

28. Bank and other borrowings continued

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

	2012 Book value £'m	2012 Fair value £'m	2011 Book value £'m	2011 Fair value £'m
Current	**127.0**	**128.7**	7.0	7.0
Non-current	**612.3**	**628.4**	867.1	885.6
Total	**739.3**	**757.1**	874.1	892.6

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 2012:

	Floating £'m	Fixed £'m	Non-interest bearing £'m	Total £'m	Fixed rate borrowings: Weighted average interest rate %	Fixed rate borrowings: Weighted average period for which rate is fixed Years
US dollar*	**294.8**	**276.8**	**–**	**571.6**	**5.1**	**5.3**
Swiss franc	**93.8**	**–**	**–**	**93.8**		
Euro	**68.1**	**0.1**	**3.3**	**71.5**	**5.9**	**0.5**
Sterling	**7.5**	**–**	**–**	**7.5**		
Gross bank and other borrowings	**464.2**	**276.9**	**3.3**	**744.4**		
Less unamortised debt issue costs	**(4.6)**	**(0.5)**	**–**	**(5.1)**		
Bank and other borrowings	**459.6**	**276.4**	**3.3**	**739.3**		

* On 10 June 2013, USD 180.0 million of the 10 year fixed rate private placement loan notes issued in 2003 will be repaid using floating rate borrowings. As at 31 December 2012, a new USD 160.0 million floating to fixed interest rate swap had been entered into which will have the effect of converting USD 160.0 million of the new floating rate borrowings, arising upon the repayment of the USD 180.0 million private placement loan notes, into fixed rate borrowings. This will reduce the weighted average interest rate on fixed rate borrowings to 4.3%.

As at 31 December 2011:

	Floating £'m	Fixed £'m	Non-interest bearing £'m	Total £'m	Fixed rate borrowings: Weighted average interest rate %	Fixed rate borrowings: 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		

The weighted average period to maturity for non-interest bearing borrowings is 3.8 years (2011: 3.4 years).

29. Financial instruments

For cash and cash equivalents, trade and other receivables, trade and other payables and obligations under finance leases, fair values approximate to their book values due to the short maturity periods of these financial instruments. For trade and other receivables, allowances are made within the book 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.

29. Financial instruments continued

As at 31 December 2012:

	Held at fair value		Held at amortised cost			
	Through profit & loss £'m	Derivatives used for hedging £'m	Loans & receivables £'m	Liabilities £'m	Total book value £'m	Total fair value £'m
Financial assets						
Non-current:						
Trade and other receivables (see note 23)	–	–	98.8	–	98.8	98.8
Derivative financial instruments (see note 30)	49.8	–	–	–	49.8	49.8
Current:						
Trade and other receivables*	–	–	293.8	–	293.8	293.8
Derivative financial instruments (see note 30)	5.0	–	–	–	5.0	5.0
Cash and cash equivalents (see note 24)	–	–	104.9	–	104.9	104.9
	54.8	–	497.5	–	552.3	552.3
Financial liabilities						
Current:						
Trade and other payables**	–	–	–	(339.9)	(339.9)	(339.9)
Derivative financial instruments (see note 30)	(2.7)	(1.3)	–	–	(4.0)	(4.0)
Obligations under finance leases (see note 27)	–	–	–	(3.1)	(3.1)	(3.1)
Bank and other borrowings (see note 28)	–	–	–	(127.0)	(127.0)	(128.7)
Non-current:						
Trade and other payables (see note 26)	–	–	–	(6.3)	(6.3)	(6.3)
Derivative financial instruments (see note 30)	(0.2)	–	–	–	(0.2)	(0.2)
Obligations under finance leases (see note 27)	–	–	–	(5.0)	(5.0)	(5.0)
Bank and other borrowings (see note 28)	(274.9)	–	–	(337.4)	(612.3)	(628.4)
	(277.8)	(1.3)	–	(818.7)	(1,097.8)	(1,115.6)
Total	(223.0)	(1.3)	497.5	(818.7)	(545.5)	(563.3)

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	Liabilities £'m	Total book value £'m	Total fair value £'m
Financial assets						
Non-current:						
Trade and other receivables (see note 23)	–	–	114.7	–	114.7	114.7
Derivative financial instruments (see note 30)	39.7	–	–	–	39.7	39.7
Current:						
Trade and other receivables*	–	–	306.6	–	306.6	306.6
Derivative financial instruments (see note 30)	1.1	3.0	–	–	4.1	4.1
Cash and cash equivalents (see note 24)	–	–	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 30)	(10.3)	(2.5)	–	–	(12.8)	(12.8)
Obligations under finance leases (see note 27)	–	–	–	(0.7)	(0.7)	(0.7)
Bank and other borrowings (see note 28)	–	–	–	(7.0)	(7.0)	(7.0)
Non-current:						
Trade and other payables (see note 26)	–	–	–	(6.5)	(6.5)	(6.5)
Derivative financial instruments (see note 30)	(4.2)	–	–	–	(4.2)	(4.2)
Obligations under finance leases (see note 27)	–	–	–	(8.2)	(8.2)	(8.2)
Bank and other borrowings (see note 28)	(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)

* Excludes prepayments and accrued income of £10.4 million (2011: £10.8 million) (see note 23).
** Excludes social security and other taxes of £12.0 million (2011: £10.0 million) (see note 25).

Notes to the financial statements continued

29. Financial instruments continued

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

	2012 £'m	2011 £'m
Bank and other borrowings at fair value through profit and loss:		
Opening balance	**(283.6)**	(265.6)
Exchange rate adjustments	**12.5**	(2.6)
Loss recognised in net operating costs	**(3.8)**	(15.4)
Closing balance	**(274.9)**	(283.6)

30. Derivative financial instruments

As at 31 December 2012:

	Contract or underlying principal amount		Fair value	
	Assets £'m	Liabilities £'m	Assets £'m	Liabilities £'m
Interest rate swaps – fair value hedges	**246.1**	**–**	**43.1**	**–**
Interest rate swaps – not hedge accounted	**–**	**(98.4)**	**–**	**(0.2)**
Cross currency swaps – net investment hedges	**–**	**(68.1)**	**–**	**(1.3)**
Foreign currency forward contracts – not hedge accounted	**233.9**	**(54.8)**	**11.7**	**(2.7)**
Total	**480.0**	**(221.3)**	**54.8**	**(4.2)**
Less non-current portion:				
Interest rate swaps – fair value hedges	**246.1**	**–**	**43.1**	**–**
Interest rate swaps – not hedge accounted	**–**	**(98.4)**	**–**	**(0.2)**
Foreign currency forward contracts – not hedge accounted	**111.5**	**(3.2)**	**6.7**	**–**
Non-current portion	**357.6**	**(101.6)**	**49.8**	**(0.2)**
Current portion	**122.4**	**(119.7)**	**5.0**	**(4.0)**

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)

Interest rate swaps

The total notional principal amount of outstanding interest rate swap contracts at 31 December 2012 is £344.5 million (2011: £450.4 million), of which £61.5 million will expire in 2017, £98.4 million will expire in 2018, £107.7 million will expire in 2020 and £76.9 million will expire in 2022. The contracts are all denominated in USD. Of the notional principal amount outstanding, £98.4 million (2011: £193.0 million) has the economic effect of converting floating rate US dollar borrowings into fixed rate US dollar borrowings and £246.1 million (2011: £257.4 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 rate to floating rate swap 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, cross currency swaps are accounted for as net investment hedges.

30. 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.

	2012 Assets £'m	2012 Liabilities £'m	2011 Assets £'m	2011 Liabilities £'m
Fair value:				
US dollar forward sales (USD/£)	**9.2**	**(2.5)**	1.0	(9.3)
Forward sales denominated in other currencies	**2.5**	**(0.2)**	0.6	(3.4)
Total	**11.7**	**(2.7)**	1.6	(12.7)

Credit quality of derivative financial assets

The credit quality of derivative financial assets is as follows:

	2012 £'m	2011 £'m
AA	**7.7**	13.8
A	**37.2**	21.9
BBB	**9.9**	8.1
Total	**54.8**	43.8

31. Provisions

	Environmental legal & regulatory (a) £'m	Onerous contracts (b) £'m	Warranty costs (c) £'m	Total £'m
At 1 January 2012	185.2	44.1	21.5	250.8
Exchange rate adjustments	(8.0)	(1.7)	(0.8)	(10.5)
Businesses acquired	–	0.3	–	0.3
Transfers from trade and other payables – non-current	0.4	11.9	–	12.3
(Credit)/charge to income statement – cost of sales	–	(6.9)	4.2	(2.7)
Charge/(credit) to income statement – net operating costs	0.6	(2.4)	–	(1.8)
Charge to income statement – finance costs (see note 13)	1.7	–	–	1.7
Utilised	(16.2)	(4.2)	(6.4)	(26.8)
At 31 December 2012	**163.7**	**41.1**	**18.5**	**223.3**

	2012 £'m	2011 £'m
Current	**44.8**	50.6
Non-current	**178.5**	200.2
At 31 December 2012	**223.3**	250.8

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. 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 made 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 made for estimated losses 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

32. 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 2011	89.0	3.2	92.2
Exchange rate adjustments	0.5	0.6	1.1
Businesses acquired	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
Exchange rate adjustments	(2.8)	(0.3)	(3.1)
Reclassifications	–	11.9	11.9
Charged to income statement (see note 14)	(5.3)	(7.8)	(13.1)
Credited to other comprehensive income (see note 14)	0.7	1.2	1.9
Charged to equity (see note 14)	–	(3.1)	(3.1)
At 31 December 2012	**94.3**	**21.0**	**115.3**

Deferred tax liabilities	**Accelerated tax depreciation £'m**	**Intangible assets (*) £'m**	**Total £'m**
At 1 January 2011	(11.4)	(305.4)	(316.8)
Exchange rate adjustments	(0.3)	(1.1)	(1.4)
Businesses acquired	(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)
Exchange rate adjustments	0.6	11.4	12.0
Businesses acquired	–	(0.8)	(0.8)
Credited to income statement (see note 14)	1.7	7.5	9.2
Credited to other comprehensive income (see note 14)	–	0.1	0.1
At 31 December 2012	**(16.5)**	**(288.1)**	**(304.6)**

* 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:

	2012 £'m	2011 £'m
Deferred tax assets	**100.2**	112.5
Deferred tax liabilities	**(289.5)**	(316.8)
Net balance at 31 December	**(189.3)**	(204.3)

Deferred tax assets are analysed as follows:

	2012 £'m	2011 £'m
To be recovered within one year	**1.5**	0.9
To be recovered after more than one year	**98.7**	111.6
Total	**100.2**	112.5

Deferred tax liabilities are analysed as follows:

	2012 £'m	2011 £'m
Falling due within one year	**(0.1)**	(0.4)
Falling due after more than one year	**(289.4)**	(316.4)
Total	**(289.5)**	(316.8)

The Group has unrecognised deferred tax assets of £10.0 million (2011: £28.1 million), the majority of which relates 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 (2011: £Nil).

33. 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; and
- 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

	2012 £'m	2011 £'m
Total charge in respect of defined contribution pension schemes	**18.3**	14.7
Defined benefit pension schemes		
Service cost	**12.3**	11.4
Past service cost	**–**	0.5
Expected return on scheme assets	**(33.4)**	(35.5)
Interest cost	**36.3**	37.5
Total charge in respect of defined benefit pension schemes	**15.2**	13.9
Healthcare schemes		
Service cost	**1.0**	0.8
Past service credit*	**–**	(3.4)
Interest cost	**2.5**	2.5
Total charge/(credit) in respect of healthcare schemes	**3.5**	(0.1)
Total charge	**37.0**	28.5

* During 2011, the number of healthcare plans made available to employees was reduced. The reduction in scheme liabilities arising from this change was recorded as a past service credit.

Of the total charge, £31.6 million (2011: £24.0 million) has been charged to operating profit (see note 9), of which £18.1 million (2011: £15.6 million) has been included in cost of sales and £13.5 million (2011: £8.4 million) in net operating costs. The remaining £5.4 million (2011: £4.5 million) is included in net finance costs (see notes 12 and 13).

Amounts recognised in the balance sheet

	2012			
	UK pension scheme £'m	**Overseas pension schemes £'m**	**Overseas healthcare schemes £'m**	**Total £'m**
Fair value of scheme assets	**412.8**	**221.9**	**–**	**634.7**
Present value of scheme liabilities	**(546.4)**	**(329.5)**	**(58.5)**	**(934.4)**
Retirement benefit obligations	**(133.6)**	**(107.6)**	**(58.5)**	**(299.7)**

	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)

Of the total deficit of £299.7 million (2011: £319.9 million), £72.5 million (2011: £67.8 million) is in respect of unfunded schemes.

Notes to the financial statements continued

33. Retirement benefit obligations continued

Analysis of scheme assets

	2012							
	UK pension scheme			Overseas pension schemes			Total	
	£'m	%	Expected return %	£'m	%	Expected return %	£'m	%
Equities	124.7	30.2	7.40	110.7	49.9	8.70	235.4	37.1
Hedge funds	10.4	2.5	7.40	–	–	N/A	10.4	1.6
Commodities	23.1	5.6	7.40	3.3	1.5	8.70	26.4	4.2
Property	–	–	N/A	19.3	8.7	7.80	19.3	3.0
Corporate bonds	93.6	22.7	4.50	50.1	22.6	4.00	143.7	22.6
Government bonds	131.2	31.8	2.70	33.8	15.2	3.50	165.0	26.0
Other assets	29.8	7.2	5.10	4.7	2.1	3.10	34.5	5.5
Total	**412.8**	**100.0**	**5.08**	**221.9**	**100.0**	**6.65**	**634.7**	**100.0**

	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

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

	2012 £'m	2011 £'m
At 1 January	**584.9**	567.9
Exchange rate adjustments	**(8.4)**	1.9
Businesses acquired	**–**	0.2
Expected return on scheme assets (see note 12)	**33.4**	35.5
Contributions – Group	**38.3**	38.4
Contributions – Members	**3.6**	3.9
Benefits paid	**(35.1)**	(37.7)
Actuarial gains/(losses)	**18.0**	(25.2)
At 31 December	**634.7**	584.9

The actual return on scheme assets was a gain of £51.4 million (2011: Gain of £10.3 million).

Financial assumptions used to calculate scheme liabilities

	2012			2011		
	UK pension scheme	Overseas pension schemes	Overseas healthcare schemes	UK pension scheme	Overseas pension schemes	Overseas healthcare schemes
Discount rate	**4.50%**	**3.80%**	**3.80%**	4.70%	4.65%	4.65%
Inflation rate	**3.00%**	**N/A**	**N/A**	3.00%	N/A	N/A
Increases to deferred benefits during deferment*	**2.50%**	**N/A**	**N/A**	2.20%	N/A	N/A
Increases to pensions in payment*	**3.00%**	**N/A**	**N/A**	2.90%	N/A	N/A
Salary increases	**4.00%**	**4.00%**	**N/A**	4.00%	4.00%	N/A

* To the extent not overridden by specific scheme rules.

33. 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, which in 2012 include the results of a postcode analysis of members used to support the 2012 triennial UK actuarial valuation. 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 been made for rates of mortality to continue to fall at the rate of 1.25% per annum. In the US, mortality assumptions are based on the RP2000 IRS RPA tables.

	2012		2011	
	UK scheme Years	**Overseas schemes Years**	UK scheme Years	Overseas schemes Years
Member age 45 (life expectancy at age 65) – male	**23.4-25.1**	**19.2**	23.9-26.4	19.1
Member age 45 (life expectancy at age 65) – female	**26.2-27.9**	**21.0**	26.7-28.0	20.9
Member age 65 (current life expectancy) – male	**21.7-23.5**	**19.2**	22.0-24.6	19.1
Member age 65 (current life expectancy) – female	**24.2-25.9**	**21.0**	24.8-26.0	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 2012 to increase by approximately £14.5 million;
- The impact of a 10 basis point increase in inflation rate would cause scheme liabilities at 31 December 2012 to increase by approximately £10.1 million;
- The impact of assuming every scheme member were to live for an additional year would cause scheme liabilities at 31 December 2012 to increase by approximately £24.1 million.

Changes in the present value of scheme liabilities

	2012 £'m	2011 £'m
At 1 January	**904.8**	833.0
Exchange rate adjustments	**(15.8)**	3.0
Businesses acquired	**–**	1.9
Service cost	**13.3**	12.2
Past service credit	**–**	(2.9)
Interest cost (see note 13)	**38.8**	40.0
Contributions – Members	**3.6**	3.9
Benefits paid	**(35.1)**	(37.7)
Actuarial losses	**24.8**	51.4
At 31 December	**934.4**	904.8

Cumulative losses recognised in other comprehensive income

	2012 £'m	2011 £'m
At 1 January	**(145.4)**	(87.7)
Actuarial losses	**(6.8)**	(76.6)
Deferred tax credit	**0.7**	18.9
Net actuarial losses in the year	**(6.1)**	(57.7)
At 31 December	**(151.5)**	(145.4)

History of experience gains and losses and retirement benefit obligations

	2012 £'m	2011 £'m	2010 £'m	2009 £'m	2008 £'m
Experience adjustments on scheme assets:					
Gain/(Loss)	**18.0**	(25.2)	21.7	46.1	(115.0)
Percentage of scheme assets	**2.8%**	(4.3%)	3.8%	9.1%	(25.4%)
Experience adjustments on scheme liabilities:					
Gain/(loss)	**20.3**	3.7	(5.0)	3.0	(4.9)
Percentage of scheme liabilities	**2.2%**	0.4%	(0.6%)	0.4%	(0.7%)
Fair value of scheme assets	**634.7**	584.9	567.9	504.2	451.9
Present value of scheme liabilities	**(934.4)**	(904.8)	(833.0)	(784.7)	(693.1)
Scheme deficits	**(299.7)**	(319.9)	(265.1)	(280.5)	(241.2)

The estimated Group contributions expected to be paid to the schemes during 2013 are £45.2 million.

Notes to the financial statements continued

34. Share capital and share schemes

Issued share capital

	Ordinary shares of 5p each Number '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 awards	2.4	0.1	1.7
Issued on exercise of sharesave awards	1.1	–	1.8
Scrip dividends	7.5	0.4	25.2
At 31 December 2011	778.8	38.9	
Issued on exercise of executive share awards	2.7	0.2	0.6
Issued on exercise of sharesave awards	0.2	–	0.4
Scrip dividends	3.3	0.2	13.2
At 31 December 2012	**785.0**	**39.3**	

Share Options

Year of grant	Number of ordinary shares under award	Exercise price per share	Exercise period From	Exercise period To
Meggitt 1998 Sharesave Scheme				
2006	50,669	203.18p	01.12.13	31.05.14
Meggitt 2008 Sharesave Scheme				
2008	580,317	171.40p	01.11.13	30.04.14
2008	79,604	171.40p	01.11.15	30.04.16
2010	456,533	222.35p	01.11.13	30.04.14
2010	479,479	222.35p	01.11.15	30.04.16
2010	50,781	222.35p	01.11.17	30.04.18
2012	784,842	326.94p	01.11.15	30.04.16
2012	409,984	326.94p	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	184,890	278.65p	10.10.08	09.10.15
2006	20,848	263.67p	27.09.09	26.09.16
2007	13,126	299.00p	29.03.10	28.03.17
2007	10,152	295.50p	16.04.10	15.04.17
2008	22,101	252.50p	25.03.11	24.03.18
2009	48,230	169.50p	30.04.12	29.04.19
2010	48,551	286.10p	12.03.13	11.03.20
2011	134,405	351.70p	02.03.14	01.03.21
2011	8,683	345.50p	17.08.14	16.08.21
2012	228,791	397.20p	10.04.15	09.04.22

All the above awards, 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 awards is 3.6 years (2011: 3.7 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	276,284	1,019,040	278.65p	10.10.08	09.10.15
2006	487,370	1,570,610	263.67p	27.09.09	26.09.16
2006	18,073	61,108	269.23p	09.10.09	08.10.16
2007	343,762	1,577,674	299.00p	29.03.10	28.03.17
2007	8,068	35,533	295.50p	16.04.10	15.04.17
2008	714,005	2,102,958	252.50p	25.03.11	24.03.18
2008	192,719	413,216	204.00p	07.08.11	06.08.18
2009	1,532,645	2,753,431	169.50p	30.04.12	29.04.19
2010	1,133,211	4,503,395	286.10p	12.03.13	11.03.20
2011	320,652	4,006,056	351.70p	02.03.14	01.03.21
2011	49,217	511,297	345.50p	17.08.14	16.08.21
2012	–	5,199,153	397.20p	10.04.15	09.04.22

* Based on indicative share price of 382.30p, the share price as at 31 December 2012.

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 awards is 6.9 years (2011: 7.2 years).

35. 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 £12.3 million (2011: £8.4 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 Executive Share Option Scheme and Executive Share Option Scheme 2005

Equity-settled

Share awards are granted to certain senior executives at an award price equal to the market price of the shares on the day before the grant is made. The awards are generally exercisable at the earliest three years after the grant is made. Awards can only be exercised if the Group meets an earnings per share performance condition. The Group has no obligation, legal or constructive, to settle the awards in cash. Awards under Part A of the schemes provide for the executive on exercise to be entitled, on payment of the award price, to the number of shares under award. 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 award price and the market price on the date of exercise.

An expense of £3.1 million (2011: £2.7 million) was recorded in the year. Movements in the number of outstanding awards and their related weighted average award prices are as follows:

	2012 Average award price Pence	**2012 Number of awards outstanding 'm**	2011 Average award price Pence	2011 Number of awards outstanding 'm
At 1 January	**270.11**	**21.5**	247.34	19.5
Granted	**397.20**	**5.5**	350.88	4.9
Lapsed	**340.77**	**(0.2)**	283.83	(0.3)
Exercised	**203.50**	**(2.3)**	247.83	(2.6)
At 31 December	**304.35**	**24.5**	270.11	21.5

At 31 December 2012, of the total number of awards outstanding, 9.9 million are exercisable at an average exercise price of 239.54 pence (2011: 8.0 million at an average exercise price of 265.60 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:

	2012 Award in April	2011 Award in August	2011 Award in March
Share price at date of grant (pence)	**397.20**	345.50	351.70
Award price (pence)	**397.20**	345.50	351.70
Vesting period (years)	**3.0**	3.0	3.0
Expected volatility	**38%**	37%	38%
Expected life of award (years)	**5.0**	5.0	5.0
Risk free rate	**1.07%**	1.61%	2.45%
Expected dividend yield	**3.31%**	3.29%	3.29%
Fair value at date of award (pence)	**98.25**	86.40	92.98

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. An expense of £2.5 million (2011: £0.5 million) was recorded in the year. The Group has recorded a liability at the balance sheet date of £4.9 million (2011: £6.6 million). The total intrinsic value at the balance sheet date was £5.5 million (2011: £6.8 million).

Movements in the number of outstanding awards and their related weighted average award prices are as follows:

	2012 Average award price Pence	**2012 Number of awards outstanding 'm**	2011 Average award price Pence	2011 Number of awards outstanding 'm
At 1 January	**252.59**	**6.8**	243.05	8.2
Granted	**397.20**	**0.2**	350.29	0.9
Lapsed	**340.43**	**(0.1)**	243.74	(0.4)
Exercised	**232.00**	**(2.1)**	256.52	(1.9)
At 31 December	**267.74**	**4.8**	252.59	6.8

At 31 December 2012, of the total number of awards outstanding, 3.2 million are exercisable at an average exercise price of 235.26 pence (2011: 4.0 million at an average exercise price of 255.13 pence). The fair value of the awards made in the year were determined, at the grant date, using the Black-Scholes option pricing model and reflect the same assumptions used for equity-settled awards as disclosed above. As a cash-settled award, the fair value of outstanding awards is remeasured at each balance sheet date.

Notes to the financial statements continued

35. 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 2012 and 2011, the number of shares, if any that an executive ultimately receives, depends on three performance conditions:

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

Each of the conditions is measured over a three year performance period. For awards made between 2008 and 2010, 50% of the award was based on an EPS measure and 50% on a TSR condition. An expense of £5.9 million (2011: £4.6 million) was recorded in the year. Movements in the number of outstanding shares that may potentially be released to employees are as follows:

	2012 Number of shares under award outstanding 'm	2011 Number of shares under award outstanding 'm
At 1 January	**8.3**	5.9
Awarded	**2.4**	4.6
Lapsed	**(1.3)**	(1.1)
Released to employees	**(1.6)**	(1.1)
At 31 December	**7.8**	8.3

At 31 December 2012, 1.1 million of the shares under award are eligible for release (2011: Nil).

The fair value of the awards made in 2012 subject to the EPS and cashflow performance conditions was 392.97 pence. The fair value of the awards made in 2012, which were subject to the TSR performance condition, was determined using a Monte Carlo model. The significant assumptions used in the model and the fair values determined were:

	2012 Award in August	2011 Award in August	2011 Award in April
Share price at date of grant (pence)	**392.97**	345.00	351.50
Vesting period (years)	**3.0**	3.0	2.3
Expected volatility	**29%**	41%	36%
Expected life of award (years)	**3.0**	3.0	3.0
Risk free rate	**0.26%**	0.82%	1.30%
Fair value at date of award (pence)	**240.00**	241.00	217.00

36. 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 52 to 62.

At 31 December 2012, the trust held 1,708 ordinary shares representing 0.00% of the issued share capital of the Company. The shares, all of which were unallocated, were purchased during 2012.

At 31 December 2011, the trust held 111,335 ordinary shares representing 0.01% of the issued share capital of the Company. The shares, all of which were allocated to the Deferred Share Bonus Plan, were purchased during 2010. The Group retained the full benefit of 26,545 of the shares in the Deferred Share Bonus Plan until such time as awards were released to participating employees. The Group had no benefit accruing to it over the remaining 84,790 shares in the Deferred Share Bonus Plan.

37. 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 directors do not believe that the effect of giving these guarantees will have a material adverse effect upon the Group's financial position.

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.

38. Contractual commitments

Capital commitments

	2012 £'m	2011 £'m
Contracted for but not incurred:		
Intangible assets	**1.1**	0.9
Property, plant and equipment	**8.4**	6.9
Total	**9.5**	7.8

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:

	2012 £'m	2011 £'m
In one year or less	**13.7**	11.6
In more than one year but not more than five years	**43.6**	27.6
In more than five years	**25.6**	11.2
Total	**82.9**	50.4

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.

39. Cash inflow from operations

	2012 £'m	2011 £'m
Profit for the year	**243.3**	184.9
Adjustments for:		
Tax (see note 14)	**48.8**	41.1
Depreciation (see note 21)	**31.9**	32.2
Amortisation (see notes 19 and 20)	**122.8**	111.9
Loss/(profit) on disposal of property, plant and equipment	**0.3**	(2.0)
Profit on disposal of business (see note 11)	**(3.2)**	–
Finance income (see note 12)	**(35.4)**	(36.9)
Finance costs (see note 13)	**66.9**	73.4
Financial instruments (see note 10)	**(23.4)**	(9.7)
Retirement benefit obligation deficit payments	**(25.0)**	(26.2)
Share-based payment expense (see note 35)	**12.3**	8.4
Changes in working capital:		
Inventories	**(30.5)**	6.4
Trade and other receivables	**14.7**	(59.0)
Trade and other payables	**4.5**	35.9
Provisions	**(33.9)**	18.3
Cash inflow from operations	**394.1**	378.7

Notes to the financial statements continued

40. Movements in net debt

	2012 £'m	2011 £'m
At 1 January	**788.4**	721.4
Cash inflow from operating activities	**(331.6)**	(305.4)
Cash outflow from investing activities excluding businesses acquired and disposed	**151.5**	119.0
Free cash inflow	**(180.1)**	(186.4)
Businesses acquired	**9.4**	418.1
Net cash acquired with businesses	**(1.0)**	(0.5)
Business disposed	**(15.9)**	–
Dividends paid to Company's shareholders	**71.8**	48.4
Issue of equity share capital	**(0.9)**	(249.5)
Net cash generated – (inflow)/outflow	**(116.7)**	30.1
Debt acquired with businesses	**0.4**	–
Exchange rate adjustments	**(33.9)**	13.9
Other non-cash movements	**4.3**	23.0
At 31 December	**642.5**	788.4

Analysed as:

	2012 £'m	2011 £'m
Bank and other borrowings – current (see note 28)	**127.0**	7.0
Bank and other borrowings – non-current (see note 28)	**612.3**	867.1
Obligations under finance leases – current (see note 27)	**3.1**	0.7
Obligations under finance leases – non-current (see note 27)	**5.0**	8.2
Cash and cash equivalents (see note 24)	**(104.9)**	(94.6)
Total	**642.5**	788.4

41. Major non-cash transactions

During the year, Meggitt PLC issued 3.3 million shares worth £13.2 million in respect of scrip dividends (2011: 7.5 million shares worth £25.2 million) (see notes 16 and 34).

42. Business combinations

On 4 July 2012, the Group acquired 100% of the voting rights of Fotomechanix Limited ('Fotomechanix') for a cash consideration of £11.9 million. The acquired business is a key supplier to Heatric, our printed circuit heat exchanger business and is managed within the Equipment Group. Goodwill arising on consolidation, based on preliminary estimates of fair values which will be finalised in 2013, was £3.9 million. The impact of the acquired business on the results of the Group for the period since acquisition is not significant.

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

	2012 £'m	2011 £'m
Cash paid in respect of Fotomechanix	**11.9**	–
Cash (received)/paid in respect of Pacific Scientific Aerospace	**(2.5)**	417.1
Cash paid in respect of acquisitions in earlier years	**–**	1.0
Total consideration paid	**9.4**	418.1

43. Disposals

On 10 August 2012, the business and trading assets and liabilities of Meggitt (Simi Valley), Inc were sold for a cash consideration of £16.1 million, of which £15.9 million was received in the year. The profit on disposal of the business was £3.2 million and has been treated as an exceptional operating item and excluded from the Group's underlying profit figures (see notes 10 and 11). The business, which was no longer considered core to the Group's operations, was engaged in manufacturing ducting and sheet metal components, ozone converters, pneumatic air inlets and specialist connectors for aerospace applications. The impact of the disposal on the Group's results for the year was not significant.

44. Group companies

The following information is not a complete listing of all subsidiary companies at 31 December 2012 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 International Limited‡
Meggitt (UK) Limited
Dunlop Holdings Limited‡
Dunlop Aerospace Overseas Limited‡
Meggitt Aerospace Limited
Meggitt Defence Systems Limited
Meggitt International Holdings Limited*‡
Meggitt Properties PLC‡

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
NASCO Aircraft Brake Inc
Pacific Scientific Company
Whittaker Corporation‡
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 (Troy), Inc
OECO LLC
Securaplane Technologies Inc

Rest of World

Meggitt Aerospace Asia Pacific Pte Limited – Singapore
Meggitt (Xiamen) Sensors & Controls Co Limited – China
Meggitt Brasil (Soluçeos de Engenharia) Limited – Brazil

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 listed 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 2012.
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 44.

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 2012 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 46, 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 and express an opinion on 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 2012;
- 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 2012.

John Maitland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
4 March 2013

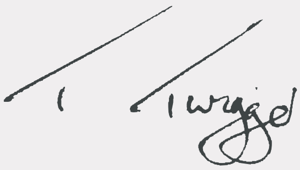
Company balance sheet

As at 31 December 2012

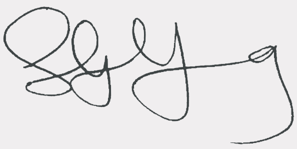
	Notes	2012 £'m	2011 £'m
Fixed assets			
Tangible fixed assets	3	**24.6**	16.8
Derivative financial instruments	9	**50.4**	39.9
Investments	4	**2,060.7**	2,052.4
		2,135.7	2,109.1
Current assets			
Debtors	5	**958.3**	1,010.4
Derivative financial instruments	9	**4.9**	7.4
Cash at bank and in hand		**13.5**	28.6
		976.7	1,046.4
Creditors – amounts falling due within one year	6	**(186.1)**	(89.5)
Derivative financial instruments	9	**(5.0)**	(13.4)
Net current assets		**785.6**	943.5
Total assets less current liabilities		**2,921.3**	3,052.6
Creditors – amounts falling due after more than one year	7	**(609.8)**	(864.0)
Provision for liabilities and charges	8	**(2.0)**	(0.9)
Derivative financial instruments	9	**(0.2)**	(4.2)
Net assets		**2,309.3**	2,183.5
Capital and reserves			
Called-up share capital	12	**39.3**	38.9
Share premium account	13	**1,143.9**	1,130.1
Other reserves	13	**17.5**	17.5
Profit and loss reserve	13	**1,108.6**	997.0
Total shareholders' funds	13	**2,309.3**	2,183.5

The notes on pages 108 to 113 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 4 March 2013 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 on a going concern basis 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 this 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

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 compensation

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 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 is 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 treated as fair value hedges provided they meet 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 treated as cash flow hedges provided they meet the hedge criteria. Changes in 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 gain or loss previously recognised in equity is 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 stated at proceeds received less directly attributable transaction costs incurred. Transaction costs are 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 the value at which loans are recorded. 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 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.

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. 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 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 2012	0.8	20.7	21.5
Additions	–	9.7	9.7
Disposals	–	(0.2)	(0.2)
Cost at 31 December 2012	**0.8**	**30.2**	**31.0**
Accumulated depreciation at 1 January 2012	0.4	4.3	4.7
Charge for year	–	1.8	1.8
Disposals	–	(0.1)	(0.1)
Accumulated depreciation at 31 December 2012	**0.4**	**6.0**	**6.4**
Net book amount at 31 December 2012	**0.4**	**24.2**	**24.6**
Net book amount at 31 December 2011	0.4	16.4	16.8

	2012 £'m	2011 £'m
Net book amount of land and buildings:		
Freehold	**0.1**	0.1
Short leasehold	**0.3**	0.3
Total	**0.4**	0.4

4. Investments

	2012 £'m	2011 £'m
Shares in subsidiaries:		
At 1 January	**2,052.4**	187.1
Additions	**–**	1,983.7
Disposals	**–**	(133.7)
Cost of share-based payments in respect of employees of subsidiary undertakings net of recoveries (see note 13)	**8.3**	7.6
Reversal of provision for impairment in value	**–**	7.7
At 31 December	**2,060.7**	2,052.4

During 2011, 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.

The directors believe that the carrying value of the investments is supported by their underlying assets.

A list of principal subsidiaries is included in note 44 of the Meggitt PLC Group accounts.

5. Debtors

	2012 £'m	2011 £'m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**954.1**	1,005.9
Other debtors	**2.5**	2.9
Prepayments and accrued income	**1.7**	1.6
Total	**958.3**	1,010.4

6. Creditors – amounts falling due within one year

	2012 £'m	2011 £'m
Bank loans and overdrafts	**7.6**	0.4
Other loans	**114.0**	3.4
Trade creditors	**4.0**	5.9
Amounts owed to subsidiary undertakings	**30.1**	55.0
UK corporation tax payable	**16.7**	12.4
Taxation and social security	**3.8**	3.7
Other creditors	**4.0**	1.8
Accruals	**5.9**	6.9
Total	**186.1**	89.5

Bank loans and overdrafts and other loans are unsecured.

7. Creditors – amounts falling due after more than one year

	2012 £'m	2011 £'m
Bank loans	**170.2**	292.5
Other loans	**439.6**	571.5
Total	**609.8**	864.0

Bank loans and other loans are unsecured.

	2012 £'m	2011 £'m
Analysis of bank loans and overdrafts repayable:		
In one year or less	**7.6**	0.4
In more than one year but not more than five years	**170.2**	292.5
Total	**177.8**	292.9

	2012 £'m	2011 £'m
Analysis of other loans repayable:		
In one year or less	**114.0**	3.4
In more than one year but not more than five years	**171.5**	160.7
In more than five years	**268.1**	410.8
Total	**553.6**	574.9

8. Provision for liabilities and charges

	Onerous lease costs £'m	Deferred tax provision £'m	Total £'m
At 1 January 2012	0.3	0.6	0.9
Charged to profit and loss account	–	2.4	2.4
Credited to profit and loss reserve	–	(1.2)	(1.2)
Utilisation of provision	(0.1)	–	(0.1)
At 31 December 2012	**0.2**	**1.8**	**2.0**

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 of up to two years.

Notes to the financial statements of the Company continued

8. Provision for liabilities and charges continued

Deferred tax liabilities are analysed as follows:

	2012 £'m	2011 £'m
Accelerated capital allowances	**(2.0)**	(1.0)
Other short-term timing differences	**0.2**	0.4
Total	**(1.8)**	(0.6)

Movements in deferred tax balances are analysed as follows:

	2012 £'m	2011 £'m
At 1 January	**(0.6)**	1.0
Charged to profit and loss account	**(2.4)**	(0.5)
Credited/(charged) to profit and loss reserve	**1.2**	(1.1)
At 31 December	**(1.8)**	(0.6)

9. Derivative financial instruments

	2012 Assets £'m	2012 Liabilities £'m	2011 Assets £'m	2011 Liabilities £'m
Interest rate swaps	**43.1**	**(0.2)**	39.2	(4.3)
Cross currency swaps	**–**	**(1.3)**	3.0	–
Foreign currency forward contracts	**12.2**	**(3.7)**	5.1	(13.3)
Total	**55.3**	**(5.2)**	47.3	(17.6)
Less non-current portion:				
Interest rate swaps	**43.1**	**(0.2)**	39.2	–
Foreign currency forward contracts	**7.3**	**–**	0.7	(4.2)
Non-current portion	**50.4**	**(0.2)**	39.9	(4.2)
Current portion	**4.9**	**(5.0)**	7.4	(13.4)

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 29 and 30).

10. Commitments

Capital commitments

	2012 £'m	2011 £'m
Contracted for but not incurred:		
Property, plant and equipment	**0.1**	–
Total	**0.1**	–

Operating lease commitments

The annual commitments under non-cancellable operating leases, all of which relate to land and buildings, expire as follows:

	2012 £'m	2011 £'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 scheme in which the Company participates would be consistent with the IAS 19 deficit reported in note 33 to the Meggitt PLC Group accounts.

12. Called-up share capital

	Ordinary shares of 5p each Number 'm	Nominal value £'m	Net consideration £'m
Allotted and fully paid:			
At 1 January 2012	778.8	38.9	
Issued on exercise of executive share awards	2.7	0.2	0.6
Issued on exercise of sharesave awards	0.2	–	0.4
Scrip dividends	3.3	0.2	13.2
At 31 December 2012	**785.0**	**39.3**	

13. Reconciliation of movements in shareholders' funds

	Called-up share capital £'m	Share premium account £'m	Other reserves £'m	Profit and loss reserve £'m	Total 2012 £'m	Total 2011 £'m
At 1 January 2012	38.9	1,130.1	17.5	997.0	2,183.5	1,187.6
Profit for the financial year	–	–	–	188.6	188.6	782.7
Dividends	–	–	–	(85.0)	(85.0)	(73.6)
Cash flow hedge movements	–	–	–	(4.3)	(4.3)	4.0
Currency translation differences	–	–	–	1.2	1.2	–
Equity placing	–	–	–	–	–	246.0
Employee share option schemes:						
Value of subsidiary employee services (see note 4)	–	–	–	8.3	8.3	7.6
Value of services provided	–	–	–	2.9	2.9	0.6
Shares issued	0.2	0.8	–	(0.1)	0.9	3.4
Scrip dividends	0.2	13.0	–	–	13.2	25.2
At 31 December 2012	**39.3**	**1,143.9**	**17.5**	**1,108.6**	**2,309.3**	2,183.5

Details of the Group's employee share schemes are included in note 35 of the Meggitt PLC Group accounts.

Five-year record

	2012 £'m	2011 £'m	2010 £'m	2009 £'m	2008 £'m
Revenue and profit					
Revenue	**1,605.8**	1,455.3	1,162.0	1,150.5	1,162.6
Underlying profit before tax	**362.8**	323.0	256.1	234.2	243.3
Exceptional operating items	**(13.3)**	(20.3)	(15.7)	(20.8)	(15.8)
Amortisation of intangible assets acquired in business combinations	**(80.6)**	(75.1)	(64.7)	(69.2)	(61.8)
Disposal of inventory revalued in business combinations	**(0.2)**	(11.3)	–	–	(0.3)
Financial instruments	**23.4**	9.7	(3.2)	36.6	(46.1)
Profit before tax	**292.1**	226.0	172.5	180.8	119.3
Earnings and dividends					
Earnings per share – basic	**31.1p**	24.0p	20.1p	20.5p	15.0p
Earnings per share – underlying	**36.2p**	31.9p	27.8p	25.3p	26.5p
Dividends per ordinary share (paid or proposed in respect of the year)	**11.80p**	10.50p	9.20p	8.45p	8.45p
Gearing ratio					
Year end net debt as a percentage of capital employed	**33.7%**	44.0%	50.2%	63.5%	81.5%

Investor Information

Dividends

The proposed 2012 final dividend of 8.20p per ordinary share, if approved, will be paid on 10 May 2013 to shareholders on the register on 15 March 2013. The expected payment date for the 2013 interim dividend is 4 October 2013.

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 (AGM) and provides a facility for electronic proxy voting. Shareholders who are not Crest members can vote online on resolutions proposed at the AGM 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 AGM in 2007.

Electronic copies of the Annual Report and Accounts 2012 and the Notice of AGM 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 1% of the value of the transaction, 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% of the value of the transaction plus £35. Stamp duty, currently 0.5%, is payable on purchases. The service is available from 8.00am to 4.30pm 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 2012

Size of holdings	Number of shareholders	% of total shares
1–999	5,505	0.16
1,000–9,999	2,468	0.98
10,000–99,999	528	2.00
100,000–249,999	113	2.26
250,000–499,999	75	3.42
500,000–999,999	67	6.06
1,000,000 and over	106	85.12
	8,862	100.00

Types of shareholder	Number of shareholders	% of total shares
Individuals	7,470	2.03
Banks and nominees	1,301	96.61
Investment and insurance companies	28	0.15
Other	63	1.21
	8,862	100.00

2013 provisional financial calendar

Full-year results announcement for year ended 31 December 2012	**5 March**
Final dividend ex-dividend date	13 March
Final dividend record date	15 March
Report and accounts for year ended 31 December 2012 despatched	28 March
Deadline for receipt of scrip dividend elections	22 April
AGM and interim management statement	**1 May**
Final dividend for year ended 31 December 2012 – payment date	10 May
Interim announcement for period ended 30 June 2013	**6 August**
Interim dividend ex-dividend date	14 August
Interim dividend record date	16 August
Deadline for receipt of scrip dividend elections	20 September
Interim dividend for period ended 30 June 2013 – payment date	4 October
Interim management statement	**1 November**

Key dates

MARCH
5
Full-year results

MAY
1
AGM & interim management statement

AUGUST
6
Interim results

NOVEMBER
1
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

Independent 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

FSC
www.fsc.org
MIX
Paper from
responsible sources
FSC® C107262

Designed by Hybrid Creative
Typeset by Orb Solutions
Printed by The Colourhouse

The papers used for the production of this report are certified by the Forestry Stewardship Council® and are elemental chlorine free. They are produced at paper mills certified to ISO 14001 and registered to EMAS.

Company information

Meggitt PLC
Atlantic House
Aviation Park West
Bournemouth International Airport
Christchurch
Dorset BH23 6EW
United Kingdom

T +44 (0) 1202 597 597
F +44 (0) 1202 597 555

www.meggitt.com

Registered in England and Wales
Company number 432989