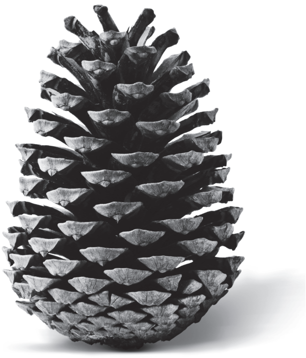
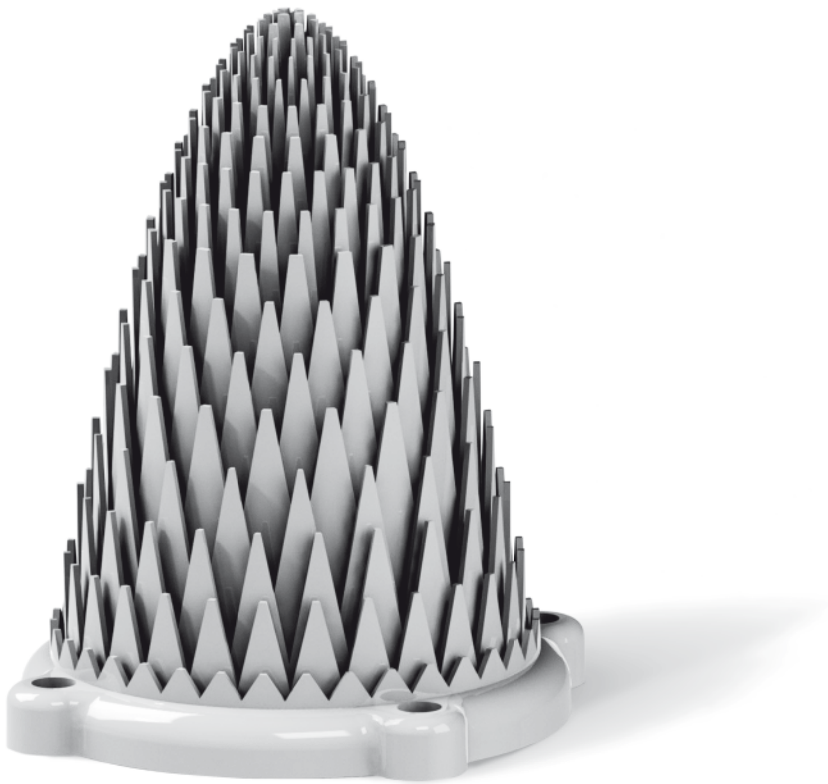
smart engineering for
extreme environments





Smart engineering is second nature to us.

ANNUAL REPORT AND
ACCOUNTS **2014**

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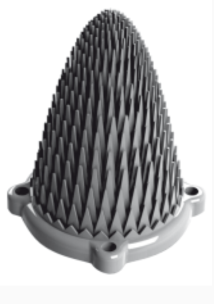


Smart engineering is second nature to us

High pressure air travelling through the geometry of bleed air valves cast or machined in the traditional way is extremely noisy, something that will be familiar to those who live near airports.

In future, air could flow more quietly through a radical new concept from Meggitt based on a fir-cone design, an organic structure made possible through additive layer manufacturing. The bold use of innovative processes forms part of Meggitt's centrally coordinated and highly focused technology strategy.

Contents

Download the 2014 Meggitt PLC annual report and accounts from www.meggitt.com

Meggitt's smart engineering for extreme environments attracted an unprecedented number of programme wins in the current civil aerospace cycle of new platform launches, making 2014 a year of accelerating new product introduction ready to meet the manufacturing ramp-up that will drive financial returns for the next decade and more.

We will continue to focus on the industrialisation of new products in 2015, supported by the widening implementation of the Meggitt Production System (MPS). This combination of tried-and-tested business improvement methodologies tailored to Meggitt is fundamental to defining how we work throughout the Group.

The system consists of six demanding phases, with the final Silver and Gold certifications delineating operations excellence as a defining, sustainable competitive advantage. While achieving gains in productivity and employee engagement wherever MPS has been introduced, we are at the beginning of a journey that will extend from the factory floor into every function and that will touch every Meggitt employee.

Operations excellence at the core

Across the Group, MPS has strengthened the foundations for greater operations excellence, giving us a comprehensive but flexible framework for continuous improvement. On-time-delivery and quality are up in many of our businesses as a result. MPS' new global standards make our core stronger, creating a secure platform for growth. **(See page 18).**

Making more of our talent

MPS is also reshaping our culture. Our new operating system has renewed employee confidence and commitment. Increasing numbers of operators, supervisors and managers have the tools and processes they need to make a very personal contribution to improving the business and leaders now have more time to lead, spotting opportunities for growth and innovation.
(See page 20).

A new wave of technology

The operational savings and productivity improvements won by MPS will allow us to invest more in innovation—what we make and how we make it.

We're looking ahead not only to product innovation but advances in how we make products. We are already investigating a new approach to manufacturing engineering, taking the first steps toward developing the factories of the future.
(See page 22).

Group overview

Headquartered in the UK, Meggitt PLC is a global engineering group specialising in *smart engineering for extreme environments*—components and sub-systems providing critical functionality in challenging applications within civil aerospace, military and energy markets.

Over 10,500 people are employed across manufacturing facilities in Asia, Europe and North America and in sales offices in Brazil, India and the Middle East.

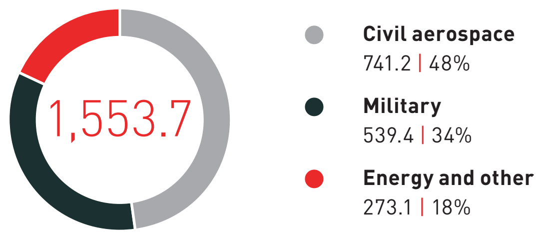
Our civil aerospace interests cover large commercial jets, regional aircraft, business jets, helicopters and general aviation.

Our 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.

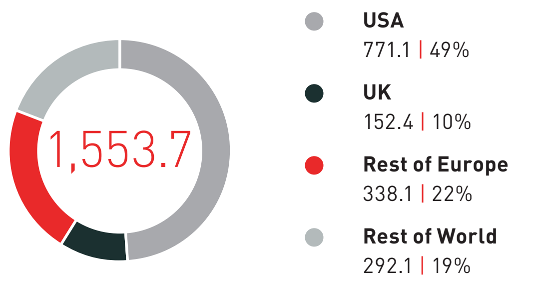
The Group's growing presence in energy is driven by core capabilities in control valves for industrial gas turbines; heat transfer engineering for oil and gas platforms and offshore gas processing and storage; and sensing and monitoring capabilities deployed in rotating power generation equipment. These promote safety and reduce maintenance costs, fuel consumption and carbon emissions.

The transfer of Meggitt's core technologies to other markets includes sensing materials for breakthrough medical devices and the test and measurement industry worldwide.

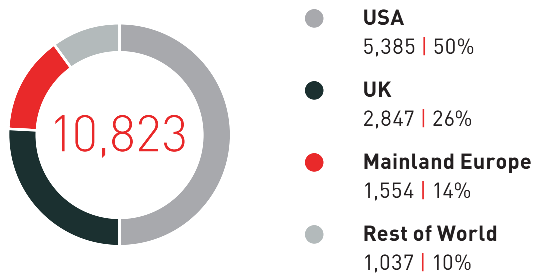
Revenue by market Total revenue (£ millions)



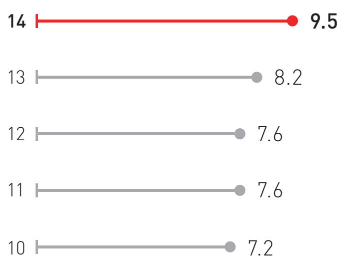
Revenue by destination Total revenue (£ millions)



Employees by region Number of employees



Total R&D as a % of revenue

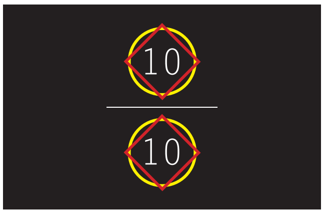


Capabilities

Just some of the smart sub-systems and critical components created by Meggitt.

For the full picture, take our Meggitt-in-a-Minute e-tour.
www.meggitt.com/e-tour

Aircraft safety and security

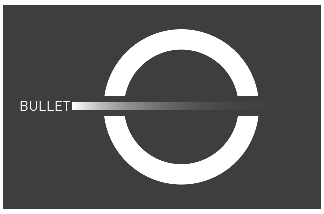


Avionics

Combat support

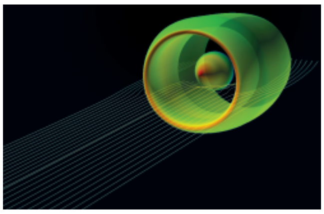
Composites

Fire protection

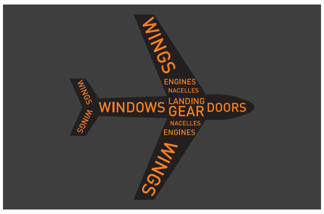


Fuel containment

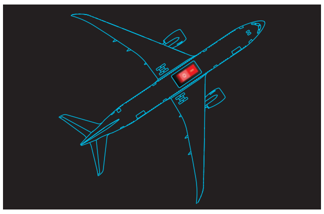
Heat transfer engineering



Ice protection

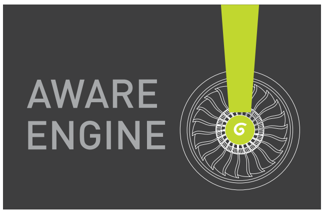


Polymer seals



Power products

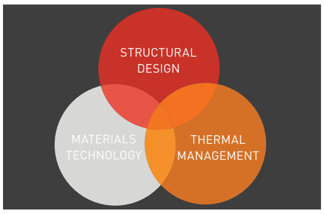
Precision micro metal engineering



Sensing and health monitoring

Small arms training systems

Thermal management and fluid control



Wheels, brakes and brake control

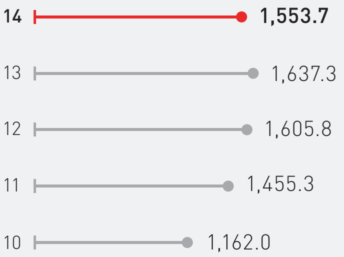
Financial highlights

Meggitt's 2014 results continued to demonstrate the breadth and resilience of its portfolio during a period when our suite of products is being substantially refreshed. Our equipment is installed on over 63,000 aircraft worldwide—a growing fleet—with a predictable aftermarket revenue stream stretching out for many decades. Our excellent win rate on the many new aircraft programmes entering service, which drove our investment in research and development of £148.3m (9.5% of revenue), gives us confidence in making good progress in the years to come.

Revenue

(£ millions)

1,553.7



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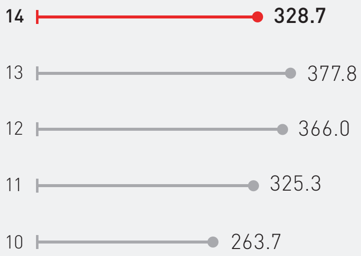
Underlying profit before tax

(£ millions)[1]

328.7



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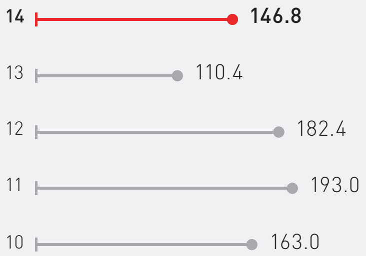
Free cash flow

(£ millions)

146.8



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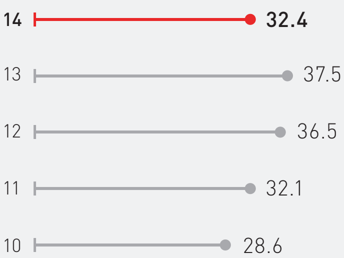
Underlying earnings per share

(pence)[1]

32.4



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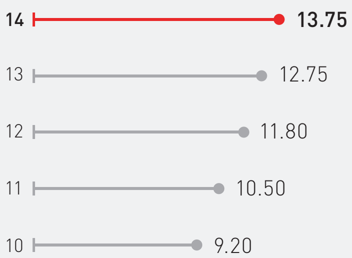
Dividends per share

(pence)

13.75



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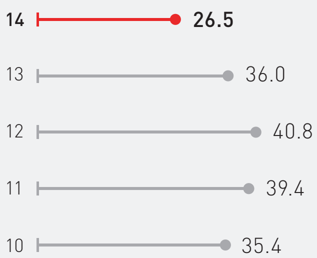
Return on trading assets

(%)

26.5



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[1] The definition of 'underlying' is provided in notes 10 and 15 to the consolidated financial statements on pages 103 and 106 respectively.

Chairman's statement

> "Meggitt was one of the first UK companies to commit to comprehensive ethics policies. As Chairman of the Group's Ethics and Trade Compliance Committee, I take great pride in the strength of our programmes."

Growing the Group

It's been over a decade since I joined Meggitt as a non-executive director, becoming Chairman in 2004. During that time, Meggitt has evolved from a group of individually-run industrial businesses into an increasingly integrated international enterprise focusing on aerospace, defence and energy.

We have grown revenue threefold, organically and by acquisition, increased our market capitalisation five-fold and doubled our workforce to over 10,500. A brand-new braking systems business has emerged from two significant acquisitions, both of which also boosted our existing thermal management and polymers and composites capabilities. An industry leader in aircraft fire protection and control emerged from another.

In 2009, we restructured our business into capability-based divisions with streamlined management that made us easier to do business with. In 2013, we launched our continuous improvement initiative, the Meggitt Production System (MPS), which is already having a marked impact on our operational performance with much more to come.

Talent

Meggitt has a strong focus on talent development, sponsoring aspiring engineers through successive Arkwright Scholarship Trust awards; entering into a long-term partnership with the Institution of Mechanical Engineers to provide training, management and leadership development for Meggitt engineers; appointing technical fellows; and creating a world-class biannual executive training programme with Oxford University's Saïd Business School.

In the last three years we have launched a hugely successful graduate training programme. We have attracted the best recruits from leading engineering faculties worldwide. Participants have been given the time and resources to focus on specific projects with excellent results, exemplified most recently by development work on a critical component for a major engine manufacturer using Meggitt's growing capability in additive layer manufacturing.

Doing business the right way

Meggitt's growth has been based on fair and impartial conduct of business, fully compliant with applicable laws and regulations worldwide and integrity in every business relationship.

Meggitt was one of the first UK companies to commit to comprehensive ethics policies, programmes and practice when we signed the *Statement of Adherence to the Global Principles of Business Ethics for the Aerospace and Defense Industry*. As Chairman of the Group's Ethics and Trade Compliance Committee, I take great pride in the strength of our programmes.

Capital deployment

Meggitt's capital allocation policy focuses on investing in organic growth, increasing ordinary dividends in line with earnings through the cycle and, where appropriate, enhancing capability in its core markets through targeted, accretive acquisitions.

As the year closed, we acquired Precision Engine Controls Corporation (PECC). This leading supplier of actuation systems and fuel metering valves to manufacturers of small-frame gas turbines complements Meggitt Control Systems' capability, further extending its reach in the oil and gas and power generation sectors.

Demonstrating our commitment to maintaining an efficient balance sheet, we launched a share buyback programme for the first time in 2014. This is already improving shareholder returns and will deliver gearing at or slightly above 1.5 times net debt to EBITDA (earnings before interest, taxes, depreciation and amortisation) by the end of 2015.

Board of directors

Alison Goligher was appointed non-executive director to the Board in October. Alison, an Executive Vice President in Shell's Upstream International Division, brings a wealth of experience in technology deployment and integrated project management in the energy sector.

In December, non-executive director, Philip Cox resigned to take up a new role as chairman of Drax Group plc. We thank Philip for his outstanding contribution to the Board.

I will be retiring at April's AGM and will be succeeded by Sir Nigel Rudd, whose extensive international business and boardroom experience spans many industries including those in which we specialise.

I have enjoyed my time at Meggitt immensely and I am proud to have played my part in its transformation into a FTSE-100 global engineering group delivering critical products and solutions in its chosen markets. I look forward to seeing even greater success as Meggitt continues to evolve and grow.

I would like to take this opportunity to extend my heartfelt thanks to all Meggitt employees for their outstanding work during my tenure as Chairman, particularly after a challenging year in some of our key markets.

Sir Colin Terry Chairman

Chief Executive's review

"Superior performance, defined by quality, cost and on-time delivery, is key to realising our growth potential and we are determined to make operations excellence a core competitive strength."

Group strategy

Meggitt aims to be a leading provider of *smart engineering for extreme environments*. We invest in developing high-technology components and sub-systems which play mission or safety-critical roles over long operating lives. We seek to improve our operational performance continuously to offer industry-leading levels of quality, on-time delivery and competitiveness, enabling us to reinvest in new capabilities and technologies while generating attractive returns for shareholders.

Technology

We focus on targeted investment to drive future growth. We seek to grow organically by investing in the product and manufacturing technologies that count across a broad range of platforms and customers. To secure positions on specific platforms, we align our development focus with our customers' technology roadmaps. We look to supplement organic growth with acquisitions that enhance our capabilities and routes to market.

In 2014, we continued to refine our complete ATA26 fire protection systems for aircraft as we progressed our development of innovative environmentally-sound suppression technology. We continued to invest in fluid control and thermal management products capable of operating at the ever-higher temperatures required to enable the latest generation of jet engines to deliver the efficiencies demanded by their operators.

To deliver these and many other capabilities competitively, we maintained our investment in cutting-edge manufacturing technologies such as additive layer manufacturing, which we now employ in the production of some in-service components, and Meggitt Modular Modifiable Manufacturing (M^4), our pioneering approach to the factories of the future. M^4 is designed to enable operators to manufacture a broader range of low-volume, highly complex components through greater deployment of technology through the factory. This includes the real-time monitoring of key parameters including product weight and touch-time and the provision of instant-access support to the operator if required. The result is greater optimisation of all aspects of the manufacturing process from machining and assembly to machine utilisation and traceability, enabling our businesses to invest in state-of-the-art equipment in the knowledge that it will be fully utilised in 'smart' facilities.

Our acquisition of Precision Engine Controls Corporation (PECC) in December 2014 exemplifies targeted, value-added portfolio enhancement. PECC, now a Meggitt Control Systems product range, builds on our existing thermal management and fluid control capabilities in the aero-derivative gas turbine market, broadening our reach into small-frame gas turbines in the 1-30MW power range and widening our actuation technology offering for the combined customer base.

Operations excellence

Superior performance, defined by quality, cost and on-time delivery, is another key to realising our growth potential and we are determined to make operations excellence a core competitive strength.

With meaningful improvements in operating performance such as Defective Parts Per Million down 84% and on-time delivery up 10%, the Meggitt Production System—our single, global approach to continuous improvement—has progressed well since its inception. We have launched the system across two thirds of our manufacturing estate and expect to see it adopted at all primary sites by the end of 2015. Several sites have entered the second phase in the six-phase programme, extending the reach of the system beyond the factory floor and supply chain into functions and leadership.

We have undertaken considerable work optimising our manufacturing footprint over the last few years, consolidating six sites into three and investing in low-cost manufacturing centres in China, Vietnam and Mexico. In 2014, we made good progress in enhancing the level of manufacturing capability of our facility in Querétaro, Mexico, with the start of a substantial transfer of product lines from our Control Systems businesses in North America. In China, we increased the scope of our Xiamen facility, responding to customers' global sourcing requirements with the successful replication of a high-tech process from one of our European facilities involving the printing of sensors onto printed circuit boards. We will continue to evolve our manufacturing estate in response to the requirements of our customer base.

Renewing our customer focus

Making ourselves easy to do business with while responding to the dynamic markets in which we operate is core to our business philosophy for original equipment (OE) and aftermarket customers alike. To enhance our customer focus, we have recently appointed two senior executives dedicated to the requirements of our OE customers and the aftermarket respectively.

The manufacturers of aircraft and engines will see a renewed focus on their interests as we strengthen key account relationship management and bring together cross-group product packages that simplify their supply chains.

The aftermarket is central to the Meggitt business model. We will improve service through the Meggitt Production System and focus on the development of innovative support solutions for our OE customers as they seek to maintain more of their products in service.

Cradle-to-grave programme management underpins Original equipment manufacturer (OEM) and aftermarket relationships. We are strengthening this function, shortening the lines of communication between OEMs and operators, championing their interests inside Meggitt and allowing closer collaboration than ever before. This is how we will achieve specific programme success, insights into customer's technology aspirations over the longer term and opportunities to create better products from our existing portfolio.

Performance in 2014

Performance in our end-markets was mixed. Good growth in civil aerospace was driven by a rise in aircraft deliveries from the major manufacturers, greater Meggitt content on newer platforms and a continued recovery in aftermarket revenues.

There were, however, challenges in our military market, particularly during the first half of the year. The effect of the US military drawdown from Afghanistan was compounded by the completion of two large retrofit contracts in the first half of the prior year. Both issues constituted a significant headwind to military aftermarket performance, although our overall military revenues stabilised on an organic basis in the second half of 2014. In energy, we continued to make good progress on the issue highlighted in 2013 concerning the lack of availability of tourmaline, a key raw material. This is now behind us—we have migrated a number of customers onto alternative in-house materials and we are receiving positive customer feedback on product performance. Energy performance in the second half was hampered by lower revenues at Heatric, our printed circuit heat exchanger business. Its local content provider in Brazil is experiencing financial challenges, causing revenue to be deferred from 2014.

Against this background, we have delivered flat organic revenues in 2014, with a decrease in underlying earnings per share of 5.1p to 32.4p reflecting currency movements, business mix, disposals and the investment being made in new aircraft programmes. Net debt to EBITDA at the end of the year was 1.2x. In November we announced a share buyback with the intention of increasing this ratio to 1.5x by the end of 2015 to maintain an efficient balance sheet.

Outlook

The outlook for our civil aerospace markets remains encouraging. Production rates of large jets are expected to continue to grow and the relatively high shipset values we enjoy on the latest generation of widebody aircraft, together with our positions on the re-engined narrowbodies, should underpin organic civil OE revenue growth of 7 to 8% over the medium term. Reflecting recent inventory build at aircraft manufacturers ahead of new product launches and production rate increases, 2015 will be moderately below this level.

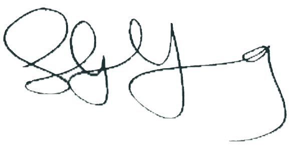
Available seat kilometres, the key driver of our large and regional jet aftermarket, are growing at above the long-term trend, and lower oil prices should see this continue. However, we are seeing month-to-month volatility in revenues and a continuing impact from surplus parts. We therefore expect civil aftermarket growth in mid-single digits for 2015.

In the military market, we look to be entering a more benign phase, with military budgets seeing lower rates of decline than in recent years and even some suggestion of growth in the all-important US budget from 2016.

Order intake in 2014 has been strong, with book to bill of 1.03 covering a number of short-term and multi-year contracts. On this basis we expect a return to modest growth in 2015 driven by good growth in military training, partially offset by a decline in MABS following the completion of the B1-B and Taiwanese upgrade programmes. We maintain our medium-term expectation of an average of 2% growth per annum excluding the effects of sequestration.

Our energy businesses, driven by heightened demand for our printed circuit heat exchangers and increasing market share in condition-monitoring equipment, should continue to deliver revenue growth averaging greater than 10% over the medium term. However, in 2015 we expect good organic growth in energy control valves and condition monitoring to be largely offset by a decline at Heatric reflecting the impact of capital expenditure deferrals by our major oil and gas customers.

On the basis of the above, the Group continues to expect organic revenue growth in 2015 of low to mid-single digit percentage points, in line with the guidance given in our interim management statement in November 2014.



Stephen Young Chief Executive

Group strategy

Strategy

We select high-growth markets where we can deploy our **smart engineering for extreme environments** and ability to navigate the complex regulatory and certification environment associated with safety- and mission-critical products. These markets must deliver long-term, predictable revenue streams in line with our business model.

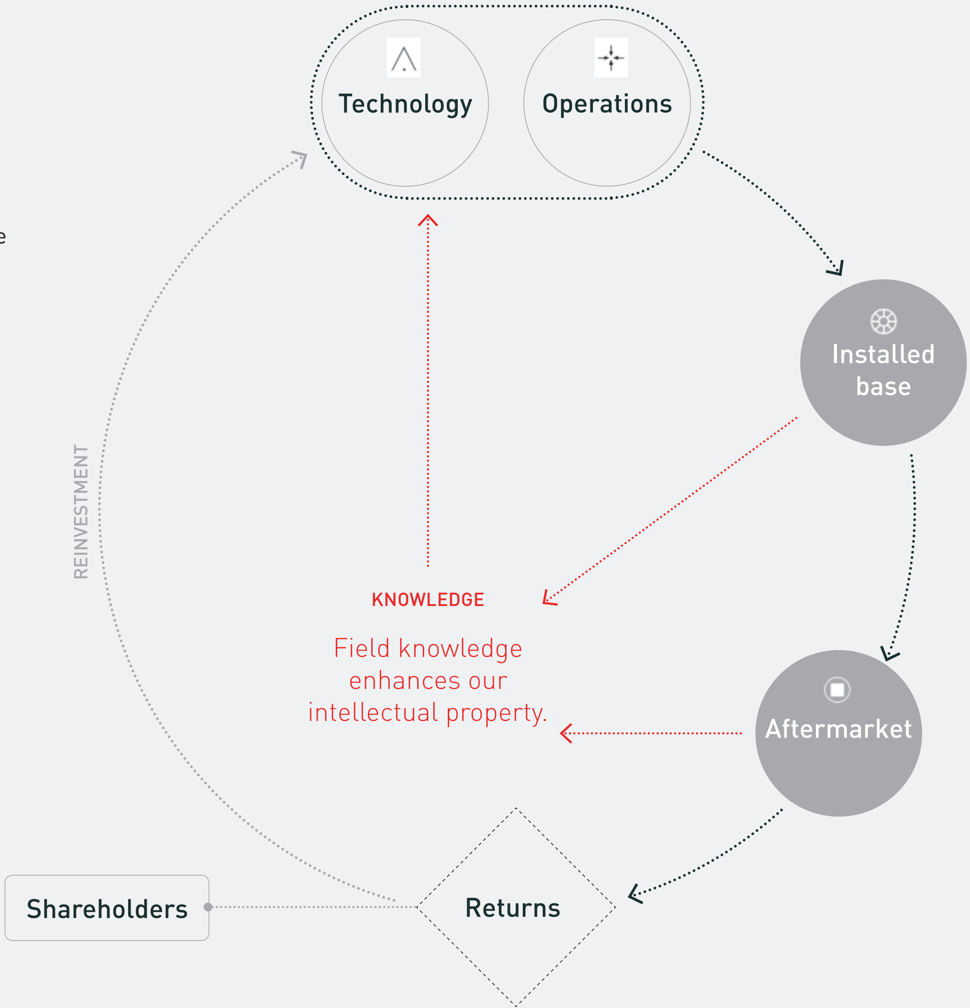
We set strategic priorities according to the dynamics of this business model. Today, we are addressing **core technology**, consolidating our resources and sharpening our focus to extend our intellectual property; **operations excellence** from the factory floor to every function based on the Meggitt Production System; and **renewed focus on customers**, with dedicated management responsibility for OEM and aftermarket customer relations, underpinned by strong programme management.

Meggitt's strategy by market and capability is outlined in the *Market review* (see page 10) and under *Meggitt divisions* (see page 13).

Business model

We deliver strong and sustainable shareholder returns through leading positions in aerospace, defence and energy markets.

Throughout the business cycle, revenue comes from successfully executing original equipment programmes (often sole-source) and the aftermarket that flows from them. Aftermarket demand is driven by condition-based demand caused by the wear and tear associated with the harsh environments in which our products operate.



Winning new programmes, often on a sole-source basis, through technology and operations excellence.

Airframers, turbine manufacturers, oil and gas platforms and processing vessels—60,000-plus platforms carry Meggitt products

Selling Meggitt content onto new platforms provides aftermarket access.

Airlines, militaries, distributors, MRO integrators

Supporting end-users through sales of spares and repairs for the life of programmes is a significant driver of returns.

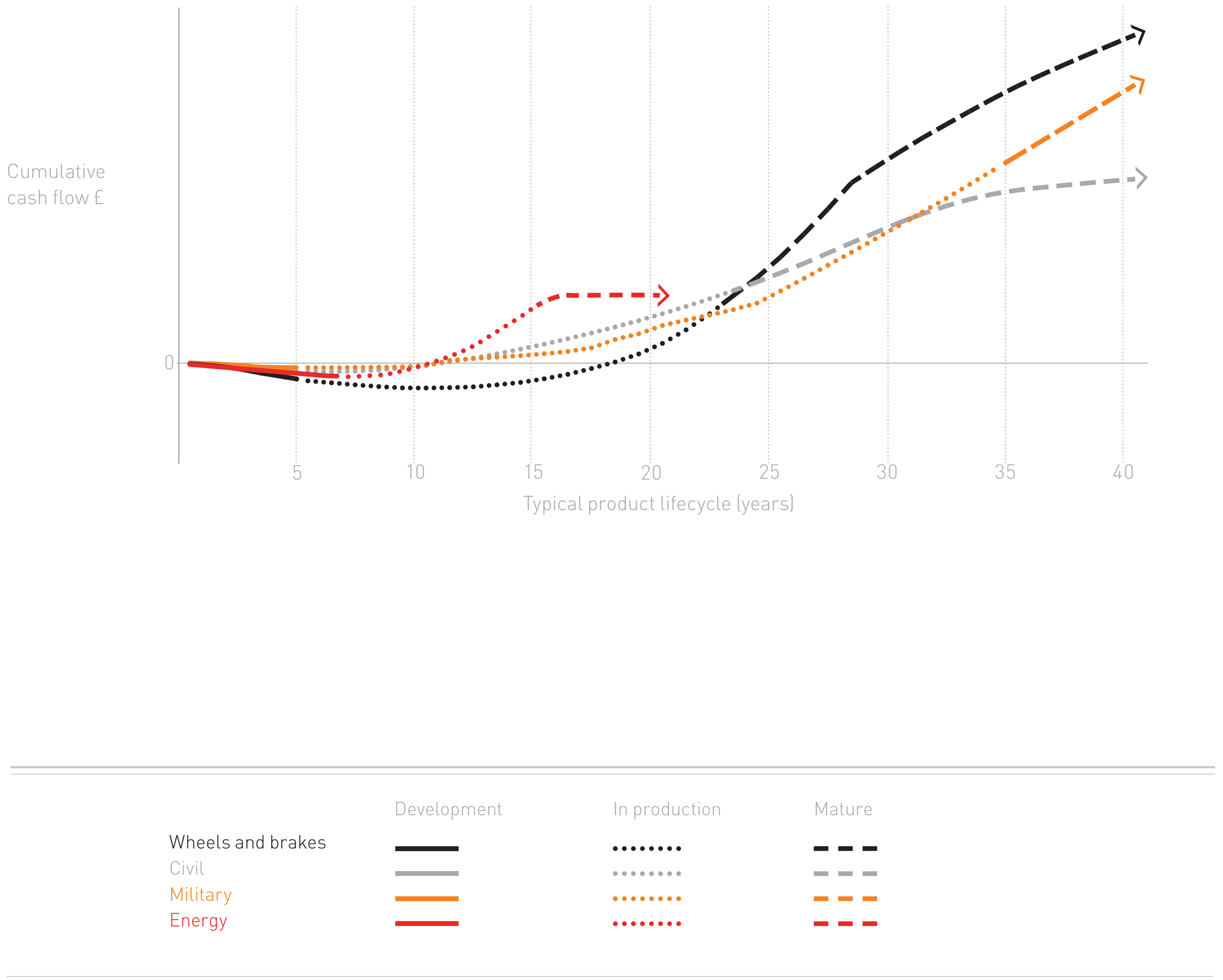
Investment cycle

We develop technology for applications involving product life-cycles measured in decades. Products must perform without fail in environmental extremes, requiring replacement or overhaul, generating strong returns from our initial investment over many years.

Our business model requires significant cash investment in the development phase of programmes. For our wheels and brakes business, this includes production. We make strong positive cashflow within our civil aerospace and military end-markets during the in-service phase, resulting in cash break-even between years 11 and 18 typically, with a shorter cash break-even in the energy market.

As our products are developed in line with our customers' technology goals, we have performed strongly in recent bid cycles, securing positions on key platforms and refreshing the long-term aftermarket pipeline.

Our near-term business is weighted therefore towards investment in new development programmes and the transition of new products to full run-rate manufacturing, the source of sustainable growth over the long term.



Market review

Market matrix

Meggitt benefits from a balanced portfolio. Capability-based business units deploy technological know-how and intellectual property across all our markets so we are not dependent on single customers, individual programmes or market segments.

	Meggitt Aircraft Braking Systems	Meggitt Control Systems	Meggitt Polymers & Composites	Meggitt Sensing Systems	Meggitt Equipment Group
Civil					
Original equipment	1—3%	3—10%	1—3%	3—10%	1—3%
Aftermarket	>10%	3—10%	1—3%	3—10%	1—3%
Military					
Original equipment	1—3%	1—3%	3—10%	1—3%	>10%
Aftermarket	3—10%	1—3%	3—10%	1—3%	3—10%
Energy	—	1—3%	—	3—10%	3—10%
Other	—	1—3%	—	1—3%	1—3%

>10% of Group revenue　3—10% of Group revenue　1—3% of Group revenue

Market review

Meggitt's core civil aerospace, military and energy markets share a common requirement for smart engineering for extreme environments: mission- and safety-critical components and sub-systems that function without fail for many years in highly demanding operating conditions, from suppliers capable of meeting rigorous certification requirements.

Civil aerospace

Civil aerospace accounts for 48% of Group revenue, with products and sub-systems installed on almost every jet airliner, regional aircraft and business jet in service. This fleet has grown recently, totalling over 43,000 aircraft today versus 31,000 a decade ago. New aircraft deliveries drive sales of original equipment (OE) and aircraft utilisation generates demand for spare parts and repairs over many decades, so the growth of our fleet is a strong indication of future aftermarket revenue growth.

Original equipment

We classify civil aircraft deliveries by seat capacity: large jets (>100 seats), regional aircraft (<100 seats) and business jets.

Large jet deliveries in 2014 stood at a record 1,380, 8% higher than in 2013. Growth is underpinned by the order books of Boeing and Airbus, the two major civil aircraft manufacturers, which extend over seven years at current production levels, plus other manufacturers investing in the large jet market including Bombardier, Sukhoi and AVIC. The high level of demand for new aircraft deliveries in recent years has been driven primarily by high oil prices, the relatively low cost of debt and the wave of newer, more fuel-efficient aircraft coming to market including Boeing's 787 and 737MAX and Airbus' A350XWB and A320neo. Despite the recent decrease in oil prices, we expect no significant changes to new aircraft demand in the short term.

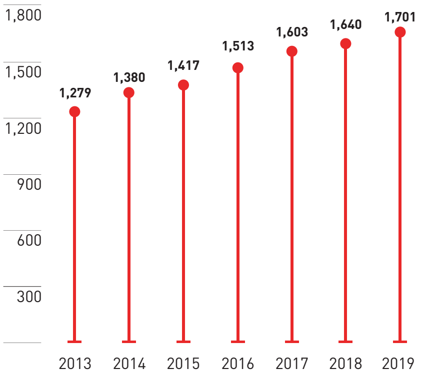
Regional aircraft deliveries of 269 in 2014 represented a 2% increase on 2013, with growth driven by 70-plus seat aircraft. Growth looks set to continue over the medium term, mirroring the increasing internationalisation of the regional aircraft fleet. Regional fleets outside North America account for 55% of the global fleet, up from 44% a decade ago.

Business jet deliveries totalled 675, a 6% increase on 2013, although deliveries remain around 40% below the peak in 2008. Inventories are continuing to decline, however, and rising corporate profitability, a good driver of business jet demand historically, is forecast to continue. As with regional aircraft, the fleet is becoming increasingly global—customers in the Americas currently comprise 75% of the global business jet fleet but order trends suggest this will move to around 60% over the next decade. Ten years ago, the Americas represented 85% of the global fleet. Over the medium term, we see deliveries continuing to recover, particularly at the smaller end of the market, driven by an improved economic growth outlook in developed economies and the large number of new aircraft models.

Meggitt performance

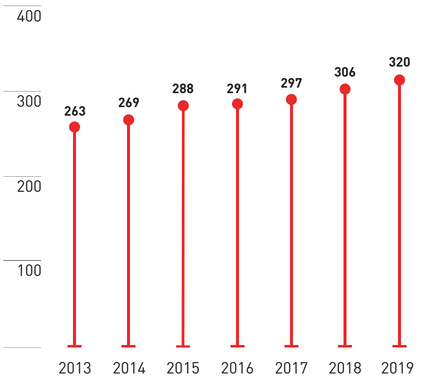
Meggitt's OE revenue grew organically by 6% in 2014, with significant contributions from the ramp-up of the Boeing 787 and initial production revenue from the A350XWB. Large jet deliveries drive the majority of our OE revenues, involving the supply of products and sub-systems on engines and airframes covering thermal management and fluid control, fire protection, condition-monitoring and high-integrity electronics. Our largest exposure to regional aircraft and business jets is through our wheels and brakes business, which provides most original equipment free of charge to civil aircraft manufacturers. Strong OE performance is also driven by higher shipset values on new aircraft programmes, whose order books and delivery forecasts lend confidence in growth prospects averaging 7 to 8% per annum for the medium term.

Large jet delivery forecast



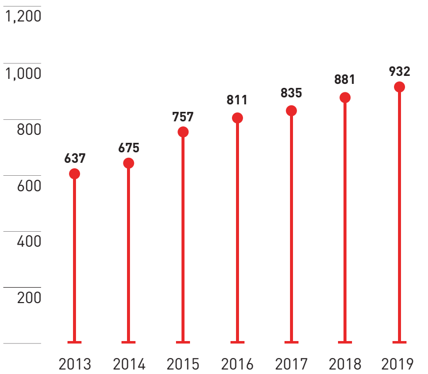
Source: Meggitt management estimates

Regional aircraft delivery forecast



Source: Meggitt management estimates

Business jet delivery forecast



Source: Meggitt management estimates

Aftermarket

The civil aerospace aftermarket is driven primarily by aircraft utilisation which, for large jets and regional aircraft, is measured using available seat kilometres (ASKs). We use take-offs and landings as a proxy for business jet utilisation.

ASKs in the commercial aircraft fleet grew 5.5% in 2014, above the 5% long-term average. The Middle East and Asia saw particularly strong growth, with the US market showing a steady recovery. Regional aircraft utilisation picked up noticeably driven by the recovery in North America. Business jet utilisation in the US and Europe continued to exhibit the gradual improvement seen for the last two years, with take-offs and landings in 2014 up 3% versus 2013. We would normally expect our aftermarket revenues to follow these leading indicators after a lag of a few months. However, revenue can be impacted by short-term perturbations including destocking or restocking cycles and excess spare part inventory arising from the retirement of old aircraft and subsequent harvesting of serviceable components from these aircraft.

Meggitt performance

Meggitt's organic aftermarket revenue was up 5% for the year, with 2% growth in the first half accelerating to 7% growth in the second half. The growth rate in the final quarter was 10%, above our medium-term expectation of 8 to 9%. Air traffic was good given the previously referenced 5.5% ASK growth. However, aftermarket revenue growth overall was held back to a degree by the parting out of old aircraft resulting from the high delivery rates of new, more fuel-efficient aircraft.

Regional aircraft and business jets are important contributors to the Group's aftermarket revenue. The continued increase in fleet size and recovery in regional aircraft utilisation in 2014 boosted overall aftermarket growth. Our regional aircraft aftermarket grew 4% in the year, with business jet aircraft up an impressive 13%.

Aircraft utilisation remains very encouraging, with ASKs now tracking above the long-term average. A reduction in some of the current cyclical factors such as retirement rates and the subsequent parting out of aircraft would drive confidence in our medium-term aftermarket revenue growth expectation of 8 to 9% on average.

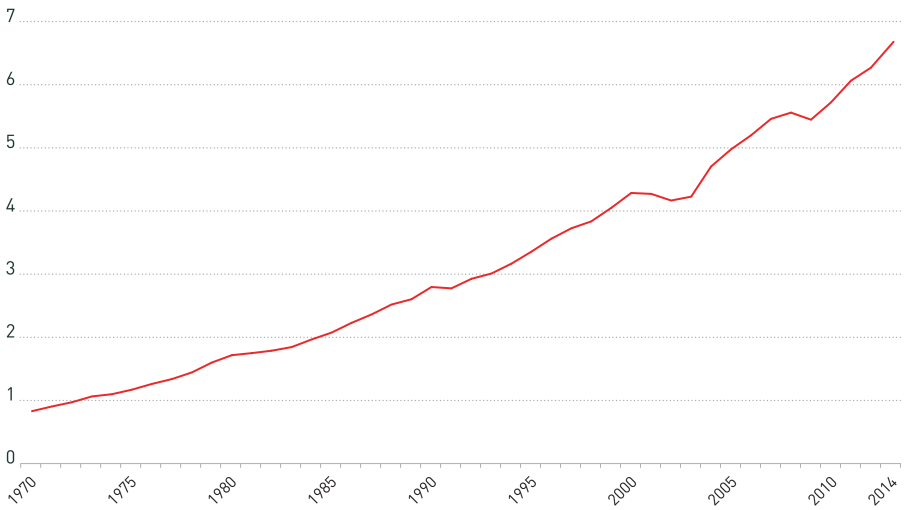
Military

Military accounts for 34% of Group revenue. Meggitt has equipment on over 20,000 aircraft and a variety of ground vehicles, naval vessels and training installations worldwide.

Defence budgets in some key markets remained under pressure in 2014, notably in the US where the effect of the drawdown from Afghanistan and absence of equipment reset affected

Available seat kilometres (ASKs)

(billions)

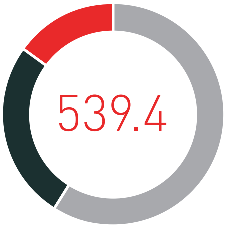


Source: Meggitt management estimates

Market review continued

Military revenue by region

Total revenue (£ millions)



USA
319.5 | 59%

Europe
137.3 | 26%

Rest of World
82.6 | 15%

spending levels and the Continuing Resolution in the early part of the year impacted the timing and size of orders. However, European markets were stable and parts of the Middle East and Asia saw budget growth. The US defence budget remains subject to ongoing fiscal pressures, although industry forecasts suggest we are moving into a more benign budgetary environment in US and international markets.

While we do not expect significant growth in military expenditure in the near term, opportunities remain for the reset and upgrade of repatriated equipment and the supply of new products as a significant tranche of military assets reach the end of their service lives.

Meggitt performance
Meggitt's military revenue declined organically by 7% in 2014. The first half decline was particularly affected by the completion of two substantial retrofit programmes in 2013 and a reduction in the sale of spares and repairs on some helicopter and heavy-lift platforms following the withdrawal of US equipment from Afghanistan. Military revenues were flat in the second half.

Our exposure to a broad range of fixed and rotary wing aircraft, ground vehicles, training facilities and naval vessels across original equipment and aftermarket spares and repairs has enabled us to demonstrate resilience in a challenging environment over the last few years. We expect to continue to do so over the medium term. We have enjoyed considerable success, for example, securing retrofit programmes for blast-proof fuel tanks for the Bradley fighting vehicle fleet and fuel bladders for the KC135 tanker aircraft. While we have now completed these retrofit programmes, further opportunities exist in the reset of recently repatriated equipment from Afghanistan, and we are engaged with US military customers on further ground vehicle fuel tank retrofits. Further revenue growth is supported by continuing expansion of the fleet of platforms on which we have good content such as the F-35 Joint Strike Fighter and A400M. Accordingly, we are targeting an average of 2% per annum organic revenue growth in the medium term, excluding the impact of sequestration.

Energy

Our energy business accounted for 11% of Group revenue in 2014. We target power generation and oil and gas markets with condition-monitoring hardware and software, control valves and printed circuit heat exchanger technology.

The market for condition monitoring and control valves has continued to grow, as high input costs, particularly in the first half of 2014, drove operators to extract greater efficiency from their assets. As newer, more capable monitoring technologies come to market, operators will maximise their asset utilisation and minimise unplanned downtime by retrofitting new condition-monitoring systems onto existing plant and machinery.

The oil and gas heat transfer market remained robust through 2014. Exploration and production companies have been increasingly turning to extraction sites which are further offshore and in deeper water, necessitating the commissioning of new equipment designed to operate in these increasingly harsh environments. These factors have resulted in good growth in demand for floating, production, storage and offload (FPSO) and floating liquefied natural gas (FLNG) vessels. However, the sharp decline in the global oil price over the last few months of the year is likely to significantly dampen oil producers' appetite for new capital projects in the short term, resulting in the deferral and possible cancellation of projects.

Meggitt performance
Meggitt's energy revenue declined 3% on an organic basis in 2014. Sales to power generation customers declined modestly, particularly in the first half of the year, as a shortage of tourmaline impacted our ability to fulfil customer requirements. We have, however, seen a considerable improvement as a result of migrating customers onto alternative technologies and we anticipate a return to growth from 2015. Revenue at our Heatric printed circuit heat exchanger business also declined as a result of the deferral of revenue out of 2014 driven by financial difficulties at our local content provider in Brazil.

Heightened demand for our printed circuit heat exchangers from an identified project pipeline totalling nearly £600 million and increasing market share in condition-monitoring equipment should continue to deliver revenue growth averaging greater than 10% over the medium term. However, in the short term we anticipate good growth in energy control valves and condition monitoring to be largely offset by a decline at Heatric, reflecting the impact of project deferrals resulting from the recent decline in the oil price.

Meggitt divisions

Meggitt Aircraft Braking Systems

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

Revenue (£ millions)

% of Group revenue

21.1

Underlying operating profit (£ millions)

127.5

Revenue by end market

- Civil OE 6%
- Military 30%
- Civil AM 64%
- Energy and other 0%

Markets

Civil aerospace

Fixed wing military aircraft

Rotary wing military aircraft

Capabilities

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

Growth strategy

- Extend core landing gear sub-systems technologies
- Secure sole-source positions on new aircraft programmes
- Expand share of maintenance, repair and overhaul market

Controlling more critical systems

CREATING AN EFFECTIVE ANTI-SKID SYSTEM is amongst the greatest challenges a braking systems provider can overcome. Since 1948, we have accomplished this for over 90 aircraft programmes, which is why customers are awarding more responsibility for aircraft safety to us. With leading-edge developments including the landing gear control and monitoring unit, nose wheel steering and aircraft hydraulics for Dassault's all new Falcon 5X business jet, advanced braking and monitoring systems for the Gulfstream G500 and G600 and pioneering large-jet style autobrakes for the G650 and G650 Extended Range aircraft, we remain the large cabin business jet manufacturers' preferred supplier.

Meggitt divisions continued

Meggitt Control Systems

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

Revenue (£ millions)	% of Group revenue	Underlying operating profit (£ millions)
348.7	22.4	91.8

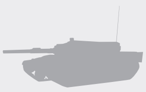
Revenue by end market

- Civil OE 26%
- Military 25%
- Civil AM 39%
- Energy and other 10%

Markets


Civil aerospace


Military aircraft


Military ground vehicles


Energy, industrial


Marine


Ground fuelling

Capabilities

- Heat exchangers
- Control valves and sub-systems
- Electro-mechanical controls
- Environmental control
- Fuel handling
- Aircraft fire protection and control systems

Growth strategy

- Develop lightweight control systems for extreme temperature and pressure environments to improve aircraft performance
- Diversify product range to a wider range of energy and industrial turbines
- Deploy full fire protection systems to secure sole-source positions on new platforms
- Develop 'green' fire suppressants to meet changing regulations and gain competitive advantage by being first to market

Maximising aircraft take-off readiness

TURNING AN AIRCRAFT BACK ON A FALSE ALARM can cost up to US$1 million which is why our goal is to maximise aircraft take-off readiness without compromising safety. Our complete fire protection and control systems are highly discriminating, with our latest smoke detectors reaching the state-of-the-art in particulate recognition. What's more, we have the largest range of components in the industry and world-class integration expertise, which is why our systems, from detectors and controllers to fire extinguishers, are carried by the latest generation of narrowbody aircraft including A320neo and 737 MAX.

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.

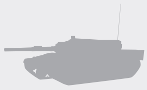
Revenue (£ millions)	% of Group revenue	Underlying operating profit (£ millions)
162.3	10.5	20.2

Revenue by end market

- Civil OE 27%
- Civil AM 18%
- Military 54%
- Energy and other 1%

Markets


Civil aerospace



Military aircraft and ground vehicles


Missile systems and UAVs



Nuclear, marine, heavy transportation and oil and gas sectors

Capabilities

- Flexible fuel tanks for military and civil aircraft and military ground vehicles
- Smart electro-thermal ice protection with energy-saving proportional control
- Complex composites
- Airframe, engine and oil and gas sealing solutions

Growth strategy

- Expand our industry-leading operational performance in polymers with further investment in manufacturing technology
- Invest in advanced polymer materials to enter attractive adjacent markets
- Expand capabilities in complex composites
- Complete fuel management systems

Components to systems

WE MADE OUR MARK in flexible, ballistically-resistant, crashworthy fuel cells for a range of aerospace applications, recently launching an IED-resistant design for land vehicles. Now we are leveraging this expertise with capabilities from other Meggitt divisions to deliver a fully-certified fuel containment system for Sikorsky's advanced S-92® helicopter in a multi-million dollar contract extending to 2030. Our design significantly reduces manufacturing risk and the cost of field repairs, an investment in line with our strategy to move into total fuel management systems.

Meggitt divisions continued

Meggitt Sensing Systems

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

Revenue (£ millions)	% of Group revenue	Underlying operating profit (£ millions)
398.2	25.6	58.4

Revenue by end market

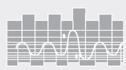
- **Civil OE** 35%
- **Military** 21%
- **Civil AM** 16%
- **Energy and other** 28%

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
- Power electronics
- Real-time remote aircraft surveillance
- Aircraft ground manoeuvring collision prevention
- Wireless emergency systems

Growth strategy

- Develop leading-edge sensing and condition-monitoring technologies to minimise emissions, conserve fuel, optimise engine performance and manage maintenance economically
- Accelerate growth in energy segment, launching innovative new products and expanding sales and aftermarket services in high-growth markets
- Exploit capabilities in power generation, conversion and storage for more electric aircraft
- Deploy advanced sensing knowledge and intellectual property for high-growth medical ultrasound applications

Improving aircraft operating economics

OUR LATEST ON-ENGINE CONDITION MONITORING system enters service in 2015 on the Airbus A350, the latest widebody. The system, which has already been adopted by the Airbus A380 and Boeing 787, plays a critical role in an aircraft's economics, enabling maintainers not only to diagnose problems but anticipate wear and tear to prevent schedule disruption and expensive unscheduled maintenance. On-engine monitors are of particular interest to engine-makers who provide total care packages to operators.

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.

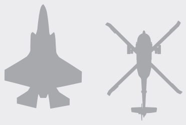
Revenue (£ millions)	% of Group revenue	Underlying operating profit (£ millions)
317.5	20.4	48.1

Revenue by end market

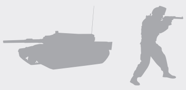
- Civil OE 3%
- Civil AM 1%
- Military 58%
- Energy and other 38%

Markets

Civil aerospace



Fixed and rotary wing military aircraft



Defence and security

Energy

Automotive and industrial

Capabilities

- Combat support (ammunition-handling, military electronics cooling and countermeasure launch and recovery systems)
- Live-fire and virtual training systems
- Heat transfer equipment for offshore oil and gas
- Standby flight displays and air data systems
- Linear motion control
- Automotive and industrial control electronics

Growth strategy

- Build on market-leading position in compact and high-pressure heat exchangers for high-growth energy markets
- Leverage growing US military system-of-record status in live and virtual training systems for international customers in defence and law enforcement markets
- Provide smart thermal management solutions for military electronics systems and extend automatic ammunition handling capability into larger calibre weapons

System-of-record status grows business and influence

MEGGITT'S NEXT GENERATION SMALL ARMS TRAINER will become the system-of-record for the US Army and US Marine Corps—an unprecedented dual win worth around US$130 million. Both contracts, won for *Best Value*, optimise the cost of personnel training through technology. Meggitt's significant investment in software architecture and military training expertise provides a virtual product that will not only improve the quality of training to soldiers but the efficiency and effectiveness of training instructors.

The aim of the Meggitt Production System (MPS) is to transform performance at our sites around the world, day in, day out. New global standards of excellence will strengthen our core, creating a solid platform for growth and innovation. Individual improvements are sometimes small. Together, however, they will reshape our future.

The Meggitt Production System
Excellence as standard[1]

Above:
The Meggitt Aerospace Asia Pacific Aftermarket team holds its daily functional review. L-R: James Mariadass, Director of Operations & Continuous Improvement, Sharon Fan, Head of Customer Service, Trebas Kwek, Regional Financial Controller, Adrian Plevin, General Manager, Roland Thia, Head of Quality & EHS, Dior Ang, Materials Manager, Mango Tan, Inside Sales Manager and Jeanali Wu, HR Manager.

MPS boosting performance in our Singapore facility

	2014	2013
Safety—number of lost time accidents	0	0
Quality—DPPM[2] (External – All)	243	1,854
Quality—number of MRO[3] escapes (workmanship)	0	4
Delivery—MRO OTD[4] performance	95%	84%

[2] Defective Parts Per Million
[3] Maintenance, repair and overhaul
[4] On-time delivery

Singapore: outpacing the industry

With a brand-new facility designed on Lean manufacturing principles, Meggitt Aerospace Asia Pacific (MAAP) already had very high standards of operational performance. In the seven months it took to implement the first stage of the MPS, however, standards rose even higher.

"We believe MPS is leading the industry," says James Mariadass, Director of Operations & Continuous Improvement in Singapore. "And it looks like the industry does too: we won Silver in the 'Singapore Aerospace Industry Excellence Award' for outpacing the industry. Now we're aiming for Gold next time round."

Everyone accountable, every day

Daily Layered Accountability is a key concept within the MPS. It starts with factory floor meetings that take place at the same time every day. Issues that cannot be solved by operators or supervisors are escalated same day to functional leaders, site leaders, general managers and even divisional presidents. Issues are visited daily through this process until they are solved.

[1] See page 8 for a full description of our strategy, articulated within three themes: Technology; Operations excellence; and Customer focus.

California: closer analysis, shop floor know-how saves US$50,000

In 2013 the main cause of internal scrap at Meggitt Control Systems' Corona site was stator failure on a motor production line. About two a week were failing the final test, amounting to a loss of about US$50,000 a year.

A cross-functional team ran a root cause investigation using a range of MPS tools, revealing that shorting thermostats were a major cause of stator failure. Based on an idea from Judy Bunch, leader of the motor-winding cell, one of the engineers on the line solved the problem by pre-impregnating the thermostats.

Judy also observed that when the stators were fitted into the motor housing, the wires would occasionally get damaged and later short. Working with her, a manufacturing engineer developed a replica of the motor housing. Assemblers now check for clearance issues without damaging the wires prior to fitting. The failure rate has dropped to zero.

"These are typical examples of how more ideas are coming up from the floor," says Site Operations Director, Garret Mertz. "With MPS, we start the day with a set of short, interlocking meetings which cascade information up and down the business, escalating problems and potential solutions so they get the attention they need."

"It's not 'Get it done' anymore," says Judy. "It's 'How can we help you get it done'. That's a huge difference."

Creativity on the factory floor: Garrett Mertz, Site Director, Business operations, Judy Bunch, Lead Assembly Technician and Derek Harris, Lead Test Technician eliminating scrap at Meggitt's control systems facility in Corona, California.

Model planning: Helge Huerkamp, General Manager, Meggitt Sensing Systems Switzerland, has confidence in data run through MPS's more reliable planning and simulation models.

Switzerland: better planning means higher productivity, lower inventory

For the last 18 months, Helge Huerkamp, General Manager, Meggitt Sensing Systems Switzerland, has been using MPS to drive more accurate sales, inventory and operations planning. As well as driving efficiencies throughout the business cycle, the revamped process allows managers to simulate the impact of new business more accurately.

At the end of 2014, a key customer asked for 120 additional engine monitoring units, each one consisting of thousands of components. Running the data through a more reliable planning and simulation model highlighted potential bottlenecks. But just as important, because key people are now used to a more rigorous step-by-step process of discussion, forecasting and sign-off, there's a much more accurate picture of what new business can be taken on and when.

"That information is invaluable in customer discussions," says Helge. "We know we can trust it and, of course, the customer picks up on that too. We were able to confirm this additional order, plus we've been able to ramp up production in other areas: productivity has increased by 8% over the last two years and inventory has improved by 10 days."

To be the best in your field, you need the best people.

Our senior leadership programme ensures we have a strong global leadership team.

Our graduate programme attracts talent from the world's top universities, adding cutting-edge technical knowledge to the Group today and engaging technology thinking for the longer term

We continue to broaden the range of training for all employees. A recent Meggitt Production System (MPS) initiative, for example, funnels expertise right through the business via a network of subject matter experts.

Talent More power to our people[1]

Flying higher

Ensuring we have the right talent to lead the organisation today and tomorrow is a key priority.

MPS continues to strengthen training at site level with leadership 'standard work' and a set of four competencies, such as leading by example and coaching. Daily, weekly and monthly, leaders are held accountable for ensuring their people are equipped to hit performance goals.

We have also developed a bespoke executive leadership programme with Oxford University's Saïd Business School. Taught by external experts from academia and business, the one-year Oxford Leadership Programme focuses on strategy, operations and personal skills.

"Since 2008, it's helped our brightest and best develop a greater understanding of Meggitt as a whole, helping them to develop systemic thinking beyond their functional areas," explains Robin Young, Group Organisation & Development Director.

Participants attend three off-site intensives, carrying out assignments in between on live strategic issues. Participants develop their ideas in small teams, presenting recommendations and implementation plans to our Executive Board.

"Each year the programme brings together a peer group of very diverse talent, new joiners and old Meggitt hands. It's a powerful networking tool," says Young. The people who have taken the programme so far create the core of a strong global leadership team, with a shared sense of priorities and values. We gather round and help should the going get tough and we make sure everyone in our respective teams understands their role in the bigger picture."

The next generation

Now in its third year, the Meggitt Graduate Programme has a dual purpose; creating a group of future leaders in the key disciplines of engineering, operations and procurement; and bringing new insight into cutting-edge technology from the world's leading universities.

"A lot of research into areas such as additive layer manufacturing and nanotechnology is happening at places like Georgia Tech, Cal Tech and MIT," says Chief Technology Officer, Keith Jackson. "The best graduates are ready to apply that knowledge to new and existing products."

In his first assignment, Blaise Guélat, who has a PhD in microsystems, was part of the team who produced a prototype for a next generation inclinometer. It replaces electromechanical technology with a micro-electro-mechanical system (MEMS) sensor. In his second assignment, he is developing a new algorithm for secondary flight displays to improve attitude and heading accuracy.

"It uses a statistical approach known as Kalman filtering to generate a more accurate estimate than you get with a single measurement," explains Blaise. "And it'll be able to use other data sources such as magnetic data and GPS when they come online."

Elsewhere, we have been working with local schools and universities to develop skills and create a pipeline of talent for tomorrow. In the UK, Meggitt sponsored Sheffield University's Formula Student team. Thousands of young engineers from more than 100 universities all over the world compete to design and manufacture a single-seat racing car to run at Silverstone.

"It gets our name as a top graduate choice out into the fast lane," says Jackson, "And it helps us get a good look at talent from all over the world."

Learn, teach, learn, teach—the smart way to embed new knowledge

As part of the second phase of MPS implementation, subject matter experts in many of our sites around the world are training to become experts in one of 10 critical subjects, from statistical analysis to project leadership. Engineer Paul Thomson has spent this year becoming one of the first 2 problem-solving experts at Securaplane, our aircraft security and battery specialists in Tucson, Arizona.

[1] See page 8 for a full description of our strategy, articulated within three themes: Technology; Operations excellence; and Customer focus.

(Left)
Tomorrow's leaders, refreshing our technologies today: Dr Blaise Guélat, front, with fellow graduate programme participants, back L-R: Dr Yair Korenblit, John Borton, Stefan Lespezeanu and Dr Jeff LeHew.

(Below)
First among experts: As part of the Meggitt Production System implementation, Paul Thompson (Sustaining Engineering Manager) is the first in a cadre of experts being developed at every Meggitt site in ten core disciplines ranging from problem-solving to project management.

"We started with offsite training in Six Sigma and presentation skills—you need to get people on your side when it comes to solving complex problems," he says. "After that came two assignments designed to put what we'd learned into practice."

The first assignment focused on quality issues with an emergency lighting system. Some 30 possible issues were revealed, 80% of recommendations were implemented within two weeks and after one month, there was a 30% improvement in the First Pass Yield (FPY). FPY shows how well standard work is undertaken, minimising deviation from plans and the introduction of rework into our production processes.

Paul is now passing on his learning in a train-the-trainer programme that will take all 180 people at the site up to the first tier of expertise in the subject by the end of 2015. "We start with around six people, they train up another four or five and on it goes."

Once the training is complete, Meggitt experts continuously develop their own understanding, sharing best practice and benchmarking across the sector in order to champion their subject within the business.

Model scores: Teri Samsel, Buyer/Planner, reviews production scorecards for Meggitt's emergency back-up battery line with Paul Thompson in Securaplane's brand-new model factory.

To continue leading the world in our chosen fields, we must become even better innovators.

By empowering people at every level to drive change themselves, the Meggitt Production System (MPS) is improving the way we innovate, freeing up capital to reinvest in technology.

We are not only focusing on developing greater maturity in next generation technologies, we are looking at the advanced manufacturing capabilities needed to industrialise them.

Technology Smarter engineering, generation after generation [1]

Factories of the future

Our focus on manufacturing high-value complex parts requires great expertise in assembling sub-components. That makes conventional automation difficult. But, as the volume, variety and complexity of these parts grows, we need to take performance optimisation up to the next level.

Our pioneering approach, known as Meggitt Modular Modifiable Manufacturing (M4), will do just that, giving operators the right tools, parts, and information at the right time so they can radically improve performance. At site level, it will enable us to reconfigure our factories in real time, adjusting plans to satisfy customer requirements and optimise inventory.

In 2014, we started this journey in partnership with the UK's Advanced Manufacturing Research Centre (AMRC), creating a prototype workstation. Laser and video projected guides, plus sensor-enabled smart assembly fixtures, allow operators to build a wider variety of products, faster and more accurately. Automatic cameras keep detailed records throughout, enhancing traceability, while capturing ideas for improvement.

Starting in 2015, we will develop the other technologies M4 requires in partnership with the AMRC, the Manufacturing Technology Centre (MTC) and a leading software provider. We have also attracted significant interest from Innovate UK, the UK's innovation agency and Britain's Aerospace Technology Institute.

"M4 will optimise factory performance by responding to changes at the micro level, such as late customer demand, and at the macro level, such as buying more efficient equipment," says Steve Parker, Director of Engineering. "It supports investment in people and equipment by maximising our resources: advanced workstations enable individual operators to work on the widest range of products."

Although the full programme will take three years, M^4 will initially run alongside existing factory operations, using a combination of simulated and actual environments.

"We're already looking at introducing findings from the scoping phase to some of our other facilities and that will continue throughout the programme," says Parker. "M^4 isn't just a one-off improvement. It's giving us the tools we need to drive improvements, year on year."

Lighter, quieter, more reliable and faster to manufacture

New manufacturing techniques are enabling us to improve existing product designs and create totally new ones.

Take compressor bleed valves, for example. They're used to prevent stalling by controlling engine pressure. High pressure air makes a huge amount of noise as it travels through the valve geometry that has been cast or machined in a traditional way.

A team of Meggitt engineers on our Group graduate programme have used additive layer manufacturing (ALM) to create a radical new component design for our engine customers.

The valve will significantly cut noise over residential areas surrounding major airports, an important regulatory requirement for almost all existing jet-engined planes.

Scott Lathrope, Matt Scovell and David Skolnik, have led work on the new control valve concept which aims to be 25% lighter as well as quieter, more reliable and quicker to manufacture.

"Air flows much more quietly around the kind of organic designs you can create with ALM," explains Lathrope. "And our model is simpler to assemble as there are fewer parts. That means less potential error and an increase in reliability."

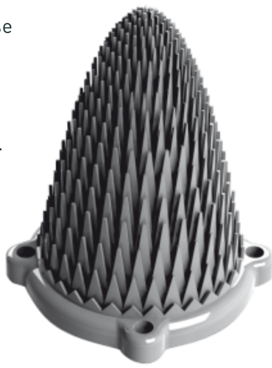
Group Engineering and Strategy Director, Chris Allen says, "We hope to use optimisation techniques developed on this project to create a wide range of advanced components for next-generation aero platforms, as well as products for the medical and energy sectors."

[1] See page 8 for a full description of our strategy, articulated within three themes: Technology; Operations excellence; and Customer focus.

Intelligent workbench (above and right): AMRC Technician, John Hall examines a flexible fixturing solution, a product of Meggitt's Closed Loop Adaptive Assembly Workbench (CLAAW) project, the aim of which is to achieve a quantum leap not only in production output but quality, repeatability and traceability using guidance via lasers and display screens and 'smart' tools. The sample part is Meggitt's electric brake.

Below right: CLAAW's fixture includes targets to guide the calibration of an overhead laser. A shaft is encoded to enable precise rotation measurements. A power-on brake provides stability for torque operations. Product assemblies can be mounted and removed swiftly using a pneumatic easy-click clamp.

Revolution: low-noise aero-engine valve, a concept enabled by Meggitt additive layer manufacturing.



Principal risks and uncertainties

Meggitt's risk management framework includes a formal process for identifying, assessing and responding to risk, supporting the delivery of the Group's strategy and business objectives.

Risk management operates at all levels throughout Meggitt. However, the Board takes overall responsibility, determining the nature and extent of the principal risks it is willing to take in achieving Meggitt's strategic objectives, and maintaining the Group's risk governance structure and an appropriate internal control framework.

Willis Risk Advisory Services, supported by Alvarez & Marsal, have been assisting in the implementation of the Group's risk management framework.

During 2013, the Board approved an updated Risk Management Policy, a Group risk management strategy and updated formats for regular Board reports and the Group Risk Register. This was supported by process and guidance documentation detailing the revised Group-wide framework. These processes were in place throughout 2014.

During 2014, we enhanced our risk management process further. The Board approved a Group risk appetite statement and related financial risk tolerances to ensure that identified risks are managed within acceptable limits. These risk tolerance levels are flowed down to divisional and functional levels for incorporation in the process described below. We started a risk maturity exercise to capture the improvements which had been made to the Group's risk management culture following the implementation of the new processes.

Types of risk

We monitor risk across strategic, operational, business environment and financial categories.

- **Strategic**
  Includes, for example, risk arising from making poor business decisions or sub-standard execution of business objectives.
- **Operational**
  Covers business processes and the technical, quality and project management or organisational risk associated with programmes.
- **Business environment**
  Arises when external forces could significantly change the fundamentals driving our overall objectives and strategies.
- **Financial**
  Encompasses key financial functions including the provision of adequate liquidity to meet our obligations and management of currency, interest rate, credit and other financial risks.

Risk disclosure

In accordance with the Group's enhanced risk management policy and process, we have evaluated our risk disclosure and focused this report on our most significant risks. General financial risks including foreign exchange and tax risks are not disclosed here but are described in the Chief Financial Officer's review on pages 31 to 37.

The risks outlined overleaf, which are not presented in order of priority, are those the Group believes are the principal ones it currently faces. However, additional risks, of which the Group is unaware, or risks the Group currently considers to be less significant, could have an adverse impact.

The process requires each risk to have an individual owner who is responsible for regular review of that risk (and consideration of new risks in that area). Risk identification is embedded in other processes, for example project and programme management, bid approvals and other operational activities.

After identification, each risk is reviewed at a site level and then aggregated and reviewed at divisional and functional level, and during the business review process. At the end of this process there is a detailed review and discussion of the Group Risk Register at the Executive Board. The Board of Directors review the output of this process. The senior executives also meet to discuss risks which may not have been identified through the normal channels.

Change in risk in year

No change	← →
Higher risk	↑
Lower risk	↓

Risk	Description and impact	How we manage it
Strategic		
Business model ↑	Failure to respond to fundamental changes in the aerospace business model, such as the accelerated pace of OE deliveries leading to earlier retirement of older aircraft and the continued development of an indigenous Chinese aerospace manufacturing industry. Impact: *decreased revenue and profit*	• Long-term customer agreements in place • Customer-facing organisation restructured and strengthened • Investing in research and development to maintain and enhance Meggitt's intellectual property • Ongoing strategic review of aftermarket including evaluation of operational model • Meggitt Production System (MPS) implementation and facilities investment in our aftermarket businesses • Maintaining a pricing strategy • Development of strategy for manufacture of non-aerospace products in China • Build relationships with Chinese aerospace customers
Technology strategy New	Failure to develop and implement meaningful technology strategies to meet customers' needs. Impact: *restriction of ability of Group to compete on new programmes with consequent decrease in revenue and profit*	• Creation of technology roadmaps • Investing in advanced research and technology • Focus on technology during the Group strategy process • Recruiting top calibre engineers with appropriate technology skills • Ring-fenced budgets focused on longer-term technology developments
Operational		
Quality escape/ equipment failure ↓	Defective product leading to in-service failure, accidents, the grounding of aircraft and prolonged production shut-downs for Meggitt and its customers. Impact: *decreased revenue and profit, damage to reputation and operational performance*	• Well-developed verification, validation and system safety analysis policy and processes in place • Quality and customer audits and industry certifications • Implementing MPS across the Group • Implementing an enhanced supplier quality assurance process
Customer satisfaction ← →	Failure to meet customers' cost, quality and delivery standards or qualify as preferred suppliers. Impact: *failure to win future programmes, decreased revenue and profit*	• Implemented supplier excellence framework through risk-based intervention following risk analysis and on-site assessments • Step change in performance enabled through ongoing implementation of MPS • Implementation of programme lifecycle management process • Programme management reorganised to increase capability and focus on programme delivery and governance • Developing our commercial function and engineering capability • Increased utilisation of low-cost manufacturing base
IT/systems failure ← →	Prolonged lack of availability of critical systems such as SAP due to badly-executed implementation, poor maintenance, change control, business continuity and back-up procedures; the failure of third-parties to meet service level agreements; cyber attack. Impact: *decreased revenue and profits, damage to operational performance*	• Rolling programme of system upgrades (including SAP implementation) to replace legacy systems • Ongoing programme of IT security enhancements • Reviewing existing systems, third-party service providers and risks, including resilience and disaster recovery processes, taking mitigating action where appropriate • Roll-out of deployment and architectural review processes

Group strategy

Technology Operations excellence Customer focus

Meggitt's corporate strategy is designed to optimise our business model and mitigate the risk inherent in it.

See page 8 for a full description of our strategy and business model.

Principal risks and uncertainties continued

Supply chain	Failure or inability of critical suppliers to supply unique products, capabilities or services which causes the Group to be unable to satisfy customers or meet contractual requirements. Impact: *decreased revenue and profit, damage to reputation*	• Implementation of supplier excellence framework • Buffer inventory maintained for critical and sole-source suppliers • Counterfeit and fraudulent parts policy implemented at high-risk facilities • Implementing integrated commercial and procurement approach to contractual terms and conditions including the development of long-term agreements
Project/programme management	Failure to meet new product development and programme milestones and certification requirements, and successfully transition new products into manufacturing. Impact: *significant financial penalties leading to decreased profit, damage to reputation*	• Implementation of programme lifecycle management process and a range of engineering support applications • Implementation of improved technology readiness and bid approval diligence methodology • Delivering applied research and technology objectives in line with Group strategy • Programme management reorganised to increase capability and focus on programme delivery and governance • Step change in performance enabled by the MPS implementation • Enhanced internal review process to stress-test readiness to proceed at each stage of key programmes
Legal and regulatory	Significant breach of increasingly complex trade compliance, bribery and corruption and ethics laws and violating the terms of Meggitt's 2013 Consent Agreement with the US Department of State. Impact: *damage to reputation, loss of supplier accreditations, suspension of activity, fines from civil and criminal proceedings*	• Substantial investment in measures to ensure compliance with 2013 US Department of State Consent Agreement and continuing investment in other compliance programmes • Board-approved trade compliance, ethics and anti-corruption policies • Implementing a trade compliance global IT solution • Regular monitoring by the Ethics and Trade Compliance Committee • Ongoing trade compliance programme including external audits and comprehensive ethics programme including training, anti-corruption policy, external audits and Ethics line • Implementing import compliance programme
IT and physical security	Failure to protect intellectual property or other sensitive information arising from cyber attack and physical theft of IT and business assets. Impact: *compromised market position, damage to reputation, financial or contractual liabilities*	• Ongoing implementation of IT security strategy and enhancing IT security infrastructure, policies and procedures • Group-wide intellectual property protection programme in place • Implementing physical security strategy, including self-assessment and audits, prioritising higher risk environments and regions
Business environment **Product demand**	Significant variation in demand for products should military and civil business downcycles coincide, a serious political, economic or terrorist event taking place or an industry consolidation materially changing the competitive landscape. Impact: *volatility in underlying profitability*	• Monitoring external economic and commercial environment and long-lead indicators • Focusing on balanced portfolio including expansion of energy-related businesses • Regularly communicating strategy to shareholders • Maintaining sufficient headroom in committed bank facilities and against bank covenants • Maintaining appropriate cost-base contingency plans

Group strategy

Technology

Operations excellence

Customer focus

Meggitt's corporate strategy is designed to optimise our business model and mitigate the risk inherent in it.

See page 8 for a full description of our strategy and business model.

Key performance indicators

The Group uses a mix of financial and non-financial key performance indicators (KPIs) to measure execution against its strategic objectives. To ensure we deliver value to our shareholders over the cycle, financial KPIs balance short-term measures (underlying profit before tax and free cash flow in the year) with longer-term measures (organic revenue growth, return on trading assets and underlying EPS growth). Non-financial KPIs focus on investment in R&D to drive future revenues, the health and safety of our employees and raising standards of operational performance to satisfy our customers. There have been no changes to the KPIs used in the year or to how they are calculated.

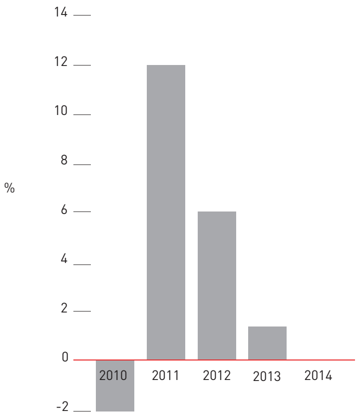
Strategic objectives

Technology

Operations excellence

Customer focus

Organic revenue growth



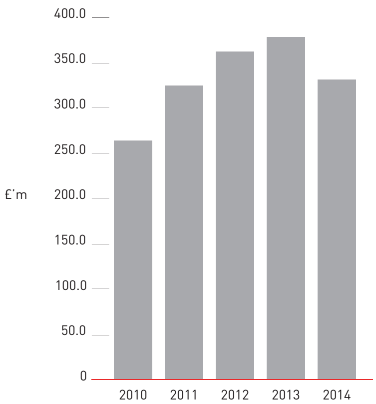
Definition and basis of calculation
Revenue growth calculated by measuring current and prior year revenue at constant currency, excluding revenue from any businesses acquired or disposed of in those periods. To measure revenue at constant currency, current year revenue is restated using translation and transaction exchange rates prevailing in the prior year. See page 32 for a reconciliation of organic revenue to statutory revenue.

Target
Low to mid-single digit in 2015. 6 to 7% over the medium term.

Result
2014: 0.0% (2013: 1.4%). Average achieved over last five years: 3.6%. Average achieved over four years since target was set: 4.8%. See page 31 for details.

Directors' incentive plans
Organic revenue growth is a performance measure for the 2014 and 2015 Long Term Incentive Plan (LTIP). See pages 68 and 71 for details.

Underlying PBT



Definition and basis of calculation
Underlying PBT is reconciled to statutory measures in note 10 of the Group consolidated financial statements on page 103.

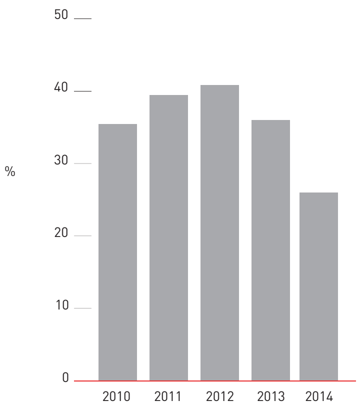
Target
We do not publish profit targets.

Result
2014: £328.7 million (2013: £377.8 million). See page 32 for details.

Directors' incentive plans
Underlying PBT is a performance measure in the 2014 Short Term Incentive Plan (STIP). For the purpose of this plan, underlying PBT is measured at constant currency. See page 66 for details. Underlying operating profit is the new profit measure to be used in the 2015 STIP, for the reasons described on page 71. In 2015, the Group will therefore replace the existing KPI based on underlying PBT with one based on underlying operating profit.

Key performance indicators continued

Return on trading assets



Definition and basis of calculation

Underlying operating profit after tax expressed as a percentage of average trading assets. Underlying operating profit is defined and reconciled to statutory measures in note 10 of the Group consolidated financial statements on page 103. Underlying operating profit after tax applies the Group's underlying tax rate to underlying operating profit.

Trading assets are defined as net assets adjusted to exclude goodwill, other intangible assets arising on the acquisition of businesses, net debt, share buyback commitment, retirement benefit obligations, derivative financial instruments and deferred tax.

Average trading assets are calculated as the average of trading assets at the start and end of the year.

Return on trading assets measures performance by linking operating performance to the amount of operating capital deployed.

Target

Target is to achieve an average return on trading assets of 25.4% over the next three years. The target has been reduced from that set in prior years, recognising the need to continue to invest in trading assets during this elevated investment period in the aerospace cycle.

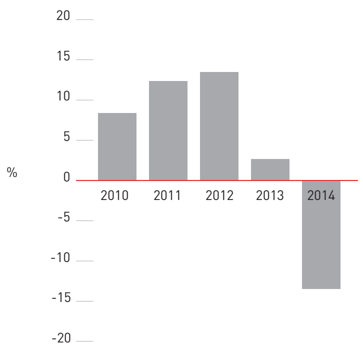
Result

2014: 26.5% (2013: 36.0%). Average achieved over last five years: 35.6%. See page 32 for details of the Group's operating profit performance in the year. See page 34 for details of the current high levels of investment to support future growth.

Directors' incentive plans

Return on trading assets is a performance measure for the 2014 and 2015 LTIP. For the purpose of these plans, underlying operating profit after tax and trading assets are measured at constant currency. See pages 68 and 71 for details.

Underlying EPS growth



Definition and basis of calculation

The percentage change in underlying earnings per share (EPS) from the previous year. Underlying EPS is reconciled to statutory measures in note 15 of the Group consolidated financial statements on page 106.

Target

We do not publish profit targets. However, the proposed 2015 LTIP includes EPS targets equivalent to growth ranging from 5.5 to 10.0% per annum over the next three years.

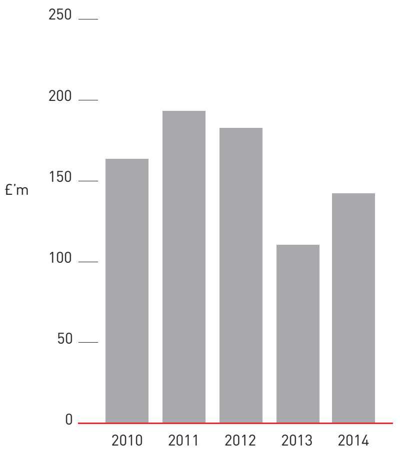
Result

2014: -13.6% (2013: 2.7%). Average achieved over last five years: 4.7%. See page 34 for details.

Directors' incentive plans

Underlying EPS is a performance measure for the 2014 and 2015 LTIP. For the purpose of these plans, underlying EPS is adjusted to exclude the impact of any scrip dividends. See pages 68 and 71 for details.

Free cash flow



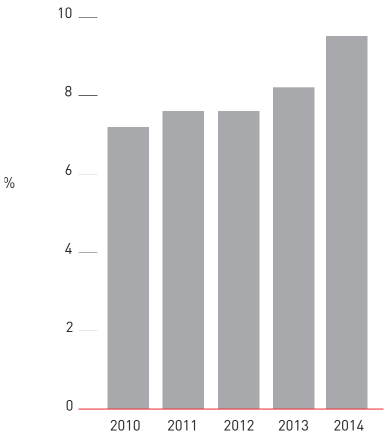
Definition and basis of calculation
Cash generated excluding amounts in respect of acquisition of businesses, disposal of businesses and paid to shareholders. See page 35 for a reconciliation of free cash flow to statutory measures.

Target
We do not publish free cash flow targets.

Result
2014: £146.8 million (2013: £110.4 million). See page 35 for details.

Directors' incentive plans
Free cash flow is a performance measure in the 2014 and 2015 STIP. For the purpose of these plans, actual and target free cash flow figures are measured at constant currency. See pages 66 and 71 for details.

R&D investment



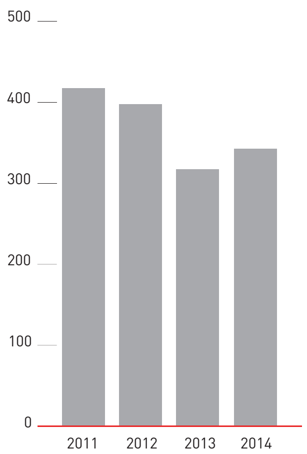
Definition and basis of calculation
Investment in research and development (R&D) expressed as a percentage of revenue. Investment is measured as total expenditure in the year and is not adjusted for amounts capitalised or amortised. Investment is measured gross of funding received from customers.

Target
Investment of 6 to 8% per annum. This range reflects typical investment fluctuation within the industry cycle.

Result
2014: 9.5% (2013: 8.2%). Average achieved over last five years: 8.0%. See page 34 for details.

Directors' incentive plans
R&D investment is not a specific measure used in directors' incentive plans. However, the 2014 and 2015 LTIP include measures focused on delivery of R&D programmes. See pages 68 and 71 for details.

Accident/incident rate



Definition and basis of calculation
The number of injuries reportable under local laws and regulations multiplied by 100,000 and then divided by the average employee headcount during the year.

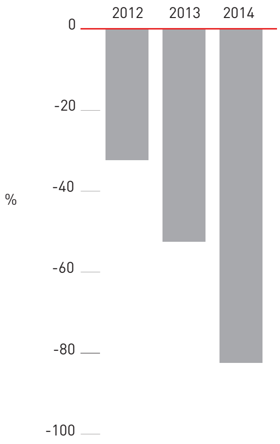
Target
Year-on-year improvement with an ultimate goal of nil.

Result
2014: 337 (2013: 317). See page 40 for details.

Directors' incentive plans
Health and safety performance is included in the personal objectives of the Chief Executive.

Key performance indicators continued

Reduction in defective parts per million (DPPM)



Definition and basis of calculation
Defective parts per million (DPPM) for the year expressed as a percentage improvement from that achieved at 31 December 2011, the date at which the Meggitt Production System introduced this consistent method of measurement. DPPM is defined as the number of defective parts returned by customers in the year multiplied by 1,000,000 and then divided by the total number of parts delivered.

Figures include the results of disposed businesses up to the date of sale and include the results of acquired businesses from the later of the start of the financial year following acquisition and the date the information is first available.

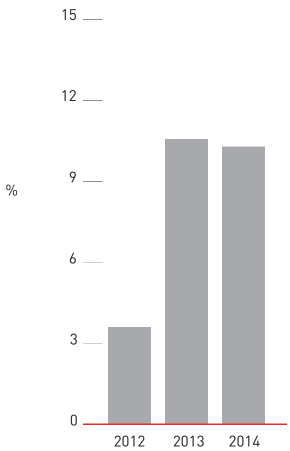
This KPI monitors the success of the Meggitt Production System.

Target
To achieve the levels of performance excellence (e.g. sometimes referred to as 'Supplier Gold') expected by our customers. We use simple on-time delivery and DPPM measures, aggregated at a Group level, to track overall progress towards these objectives. Given the complexity and variety of customer metrics, driven by the large number of customers we serve, we also track performance as reported by our customers through their own supplier scorecards.

Result
Cumulative improvement since 31 December 2011: 84% (2013: 54%). See page 34 for details.

Directors' incentive plans
DPPM is a performance measure for the 2014 and 2015 LTIP. For the purpose of these plans, it is measured by reference to the number of sites achieving individual targeted reductions in DPPM. See pages 68 and 71 for details.

On-time delivery improvement



Definition and basis of calculation
Average on-time delivery achieved in the year expressed as a percentage improvement from that achieved at 31 December 2011, the date at which the Meggitt Production System introduced this consistent method of measurement. Calculated as the 12-month average of the number of parts delivered on delivery dates agreed with customers, divided by the total number of parts delivered.

Figures include the results of disposed businesses up to the date of sale and include the results of acquired businesses from the later of the start of the financial year following acquisition and the date the information is first available.

This KPI monitors the success of the Meggitt Production System.

Target
To achieve the levels of performance excellence (e.g. sometimes referred to as 'Supplier Gold') expected by our customers. We use simple on-time delivery and DPPM measures, aggregated at a Group level, to track overall progress towards these objectives. Given the complexity and variety of customer metrics, driven by the large number of customers we serve, we also track performance as reported by our customers through their own supplier scorecards.

Result
Cumulative improvement since 31 December 2011: 10% (2013: 10%). See page 34 for details.

Directors' incentive plans
On-time delivery is a performance measure for the 2014 and 2015 LTIP. For the purpose of these plans, it is measured by reference to the number of sites achieving individual targeted improvements in on-time delivery figures. See pages 68 and 71 for details.

Chief Financial Officer's review

Overall performance

Good growth in civil aerospace original equipment (OE) and the accelerating recovery in civil aftermarket (AM) was tempered by softness in military and energy markets. Organic revenue was flat, and underlying profit before tax decreased by 11% resulting in a 14% decrease in underlying EPS to 32.4 pence. However, with a strong order book and 3% organic revenue growth in the second half of the year, there is good momentum going into 2015.

Financial highlights (Table 1)

	2014 £'m	2013 £'m	Reported change %	Organic change %
Revenue	**1,553.7**	1,637.3	-5	0
Underlying [1]:				
EBITDA [2]	**429.6**	479.3	-10	-8
Operating profit	**346.0**	397.2	-13	-11
Profit before tax	**328.7**	377.8	-13	-11
Earnings per share (EPS)	**32.4p**	37.5p	-14	
Statutory:				
Operating profit	**236.2**	300.3	-21	
Profit before tax	**208.9**	269.4	-22	
EPS	**22.0p**	29.4p	-25	
Free cash flow[3]	**146.8**	110.4	+33	+38
Net debt	**575.5**	564.6	+2	

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 depreciation, amortisation and impairment losses.
3 Free cash flow is defined and reconciled to statutory measures in note 40 of the Group financial statements.

Revenue

Reported revenue declined by 5% to £1,553.7 million. Table 2 details the revenue performance by end market.

As expected, currency and disposals had a significant adverse impact on revenue. Currency movements, reflecting the strength of Sterling against the Group's major operating currencies of US Dollar, Swiss Franc and Euro, contributed £57 million, or 3% to the decline, of which £43 million is attributable to Sterling/US Dollar. Net disposals represented an additional net headwind of £26 million, primarily reflecting the 2013 disposals of the Addison and Sunbank businesses. Good organic growth in civil in 2014 was offset by declines in military and energy, resulting in a flat overall organic revenue performance. Encouragingly, the trajectory within the year was positive with second half organic revenue growth of 3%.

Total civil aerospace revenues grew 6% on an organic basis. Large jet OE, the most significant driver of our OE revenues, grew 7% driven principally by the 787 ramp-up and some initial A350XWB revenues, with regional aircraft up 10% and business jets up 4%. The aftermarket recovery seen in the latter half of 2013 continued through 2014, although we still experienced significant monthly variations. Nevertheless, the trend was positive with total civil aftermarket growing 5% organically for the full year and 7% in the second half. Business jets were the most significant contributor to the overall aftermarket performance, delivering growth of 13% for the year, while large jet grew 3% and regional aircraft grew 4%. The parting out of older aircraft continued, fuelled by the increased retirement rate in recent years, although quantification of the impact is difficult. Aftermarket order intake was positive, with orders for the year up 13% on an organic basis and a book to bill of 1.08.

Military revenues declined by 7% on an organic basis, with a substantial decline in the first half of the year contrasting with a flat performance in the second half. The full-year decline was in part due to the previously announced wind-down of two retrofit programmes in the first half of 2013, with the remainder driven by the larger than expected impact of the drawdown in Afghanistan on military spares sales.

Chief Financial Officer's review continued

Energy revenue declined by 3% on an organic basis. The tourmaline shortage impacted growth in our condition monitoring business for the majority of the year, although the situation is now resolved and we expect a return to growth in 2015. Heatric, our printed circuit heat exchanger business, saw a modest revenue decline largely due to the financial difficulties being experienced by our local content provider in Brazil which resulted in the deferral of revenue from 2014. We continue to anticipate headwinds in this business in the short term, largely driven by the decline in the oil price which is causing a number of our customers to delay capital expenditure on new gas projects. Some contracts we expected to be awarded in 2015 have been deferred for a year, and it is possible that we will see further deferrals in the near future, though we have not seen any project cancellations.

Meggitt's other specialist markets saw organic growth of 5%, with growth in medical and automotive products offsetting weakness in the test and measurement market.

Revenue growth (Table 2)

	2014 Revenue	Growth %	Organic growth %
Civil OE	**301.6**	+0	+6
Civil AM	**439.6**	+1	+5
Total civil aerospace	**741.2**	+1	+6
Military	**539.4**	-12	-7
Energy	**163.1**	-6	-3
Other	**110.0**	-1	+5
Total	**1,553.7**	-5	0

Organic growth (Table 3)

Revenue 2014 £'m	Revenue 2013 £'m	Revenue Growth %		Underlying profit before tax 2014 £'m	Underlying profit before tax 2013 £'m	Underlying profit before tax Growth %
1,553.7	1,637.3	-5.1	Reported	**328.7**	377.8	-13.0
(8.9)	(35.4)		Impact of M&A[1]	**(0.6)**	(2.1)	
56.8	-		Impact of currency[2]	**5.1**	-	
1,601.6	1,601.9	0.0	Organic	**333.2**	375.7	-11.3

1 Excludes the results of businesses acquired or disposed of during the current and prior year.
2 Restates the current year using 2013 translation and transaction exchange rates.

Profit

The Board's preferred measure of the Group's trading performance is underlying profit. Underlying operating profit for the year was £346.0 million (2013: £397.2 million), representing a margin of 22.3% (2013: 24.3%). The principal drivers included adverse mix, with OE growth outpacing that of aftermarket in both civil and military markets, combined with a further increase in investment in research and development and new product introduction and the previously disclosed lower profitability on legacy contracts, partially offset by operational improvements and a one-time benefit of a new arrangement for our US retiree healthcare provision. We also took a £6 million provision against our investment on the Learjet 85 following Bombardier's announcement in January 2015 that they were pausing the development programme.

Underlying net finance costs decreased to £17.3 million (2013: £19.4 million) as a result of lower average debt and lower interest rates following the repayment of $180 million of US private placement debt in June 2013, partly offset by a non-recurring £1.8 million charge relating to the cost of refinancing the Group's debt in September.

Underlying profit before tax was £328.7 million (2013: £377.8 million).

The underlying tax rate was 21% (2013: 21%), lower than our forecast 22% due to a change in the geographical mix of profit delivery. Underlying earnings per share was 32.4 pence (2013: 37.5 pence).

On a statutory basis, profit before tax was £208.9 million (2013: £269.4 million), with the year-on-year decline driven by the fall in underlying operating profit and the marking to market of forward currency contracts. Earnings per share was 22.0 pence (2013: 29.4 pence).

Operational performance

Meggitt Aircraft Braking Systems (MABS) provides wheels, brakes and brake control systems for over 34,000 in-service aircraft. It continues to develop innovative technology for new programmes allowing the business to retain its leading position in its target markets, underscored by the recent programme awards on the Dassault Falcon 8X business jet and Gulfstream 500/600 family of aircraft. The division targets sole-source programmes and is particularly strong in regional aircraft, large business jets and military aircraft. The division represents 21% of Group revenue, generating 86% of its revenue from the aftermarket and 14% from OE sales.

MABS' revenue grew by 3% on an organic basis, with growth in civil aftermarket and military. Regional aftermarket grew 4% driven by increases in fleet size and utilisation, and business jet aftermarket grew by 7%. These were partially offset by a 9% decline in large jet aftermarket. Total military revenue grew 8% with aftermarket benefiting from upgrade contracts for the US B1-B fleet and the Taiwanese Air Force which were completed at the end of the year. Operating margins grew from 37.0% to 39.0%, benefiting from positive mix and operating efficiencies.

Meggitt Control Systems (MCS) designs and manufactures products which manage the flow of liquids and gases around aero and industrial turbines, and control the temperature of oil, fuel and air in aircraft engines. The division, which also provides fire protection equipment to engines and airframes, represents 22% of Group revenue, generating 46% of its revenue from OE and 54% from the aftermarket.

For MCS, revenue was up 1% on an organic basis, with 7% growth in civil aerospace, spread across both OE and aftermarket, being partly offset by an 11% decline in military, primarily aftermarket. The most significant contributor to the military performance was a marked reduction in military spares, largely related to the drawdown from Afghanistan. Unfavourable mix within military, the provision against our investment in the Learjet 85 programme and increased costs related to new product introduction saw operating margins decrease from 29.6% to 26.3%. PECC will be reported as part of MCS in 2015.

Meggitt Polymers & Composites (MPC) has a bias towards military, representing 54% of its revenue. It supplies flexible bladder fuel tanks, ice protection products and composite assemblies for a range of fixed wing and rotorcraft platforms and complex seals packages for civil and military platforms. These products are linked by their dependence on similar materials technology and manufacturing processes. It supplies over 80% of the US military requirements for fuel bladders and ballistically-resistant and crashworthy fuel tanks. MPC represents 11% of Group revenue and generated 55% of its revenue from OE and 45% from the aftermarket.

MPC revenue declined by 7% on an organic basis, largely reflecting the impact of the Bradley and KC135 retrofit programmes completed in 2013. Overall military revenue reduced by 17%, partially offset by growth in civil aerospace of 9%. Operating margins declined from 16.7% to 12.4% due to lower volumes in the fuel bladder facility and high levels of up-front new product introduction costs ahead of production ramp-up on upcoming aircraft programmes over the next few years.

Meggitt Sensing Systems (MSS) designs and manufactures highly engineered sensors to measure a variety of parameters such as vibration, temperature, pressure, fluid level and flow as well as power storage, conversion and distribution systems for aerospace applications. Its products are designed to operate effectively in the extreme conditions of temperature, vibration and contamination that exist in an aircraft or ground-based turbine engine. Sensors are combined into broader electronics packages, providing condition data to operators and maintainers of engines, contributing to improved safety and lower operating costs. MSS has migrated these products into other specialist markets requiring similar capabilities, such as test and measurement, automotive crash test and medical. Combining its capabilities with MABS, it is currently developing a number of civil aerospace tyre pressure monitoring systems, having secured positions for this technology on 10 aircraft platforms. MSS represents 26% of Group revenue and generated 81% of its revenue from OE and 19% from the aftermarket.

MSS revenue grew 4% on an organic basis, with 8% growth in civil offsetting a 6% decline in military, largely aftermarket, and a 3% decline in energy. The military decline reflected the Afghanistan drawdown and disruption linked to the US site consolidation in 2013, as well as the shortage of tourmaline which impacted both military and energy growth. Operating margins decreased from 17.6% to 14.7% reflecting adverse mix in the lower margin civil OE revenue stream and additional costs incurred as a result of the tourmaline shortage, offset by the renegotiation of a loss-making contract against which provision had previously been held. Operating margin in the second half showed good improvement versus the first half.

Meggitt Equipment Group (MEG) comprises principally our avionics, non-engine actuation, dedicated military and Heatric businesses. The division represents 20% of Group revenue and generates 81% of its revenue from OE and 19% from the aftermarket. With effect from 1 January 2015, Meggitt Avionics will be reported as part of Meggitt Sensing Systems.

Revenue in MEG declined by 3% on an organic basis. Good growth in civil, largely avionics, was more than offset by a modest decline in Heatric revenue and strong comparators in our training business. Operating margins decreased from 18.4% to 15.1% driven by lower volumes, adverse mix and the provision against our investment in the Learjet 85 programme, in addition to the previously disclosed investment in the Heatric business for future growth and lower profitability on three contracts.

Taxation

Meggitt's underlying tax rate remained at 21% (2013: 21%), lower than our forecast 22% due to a change in the mix of profit delivery. Our medium-term guidance is unchanged at 22%, based on our current business mix and barring any material changes in the tax legislation in the main countries in which we operate. Cash tax paid as a percentage of underlying profit was 6% (2013: 12%). The rate of cash tax paid is typically lower than our underlying tax rate due to tax deductible items which do not affect underlying profit, including goodwill amortisation and tax relief on retirement benefit deficit reduction payments. It is lower than normal in 2014 due to excess payments on account in prior years.

Our statutory tax rate, which includes items reported below underlying profit before tax, was 15% (2013: 14%). Cash tax paid as a percentage of statutory profit was 9% (2013: 16%) and is lower than normal for 2014 for the reasons described above.

The Group is committed to complying fully with the laws in the countries in which it operates. It seeks to achieve a competitive tax rate by maintaining appropriate levels of debt in high tax jurisdictions, claiming available tax credits and incentives and utilising common financing structures where appropriate. We are rated as low risk by HM Revenue and Customs. As for all companies, the Group is exposed to changing tax legislation in the territories in which we operate, including as an international business changes that may arise due to local legislation arising from the OECD's current Base Erosion and

Operational performance (Table 4)

Revenue					Underlying operating profit			
2014 £'m	2013[1] £'m	Growth %	Organic growth[2] %		2014 £'m	2013[1] £'m	Growth %	Organic growth[2] %
327.0	330.4	-1.0	+2.5	Aircraft Braking Systems	**127.5**	122.4	+4.2	+5.6
348.7	364.3	-4.3	+0.6	Control Systems	**91.8**	107.7	-14.8	-12.3
162.3	181.0	-10.3	-7.3	Polymers & Composites	**20.2**	30.2	-33.1	-33.3
398.2	397.5	+0.2	+3.5	Sensing Systems	**58.4**	69.9	-16.5	-11.0
317.5	364.1	-12.8	-3.3	Equipment Group	**48.1**	67.0	-28.2	-29.3
1,553.7	1,637.3	-5.1	0.0		**346.0**	397.2	-12.9	-11.0

1 Restated for the change in segmental structure announced on 7 May 2014 and as described in note 6 of the Group financial statements.
2 Organic growth excludes the impact of M&A and currency and is reconciled in Table 3.

Chief Financial Officer's review continued

Profit Shifting project. We manage these risks by monitoring international developments, participating in pre-legislative consultations where appropriate and adapting our approach where necessary and practical.

Earnings per share (EPS)

Underlying EPS declined by 14% to 32.4 pence (2013: 37.5 pence). An increase in shares in issue, which includes the 51% take up of scrip dividend on 2014 dividend payments, resulted in the EPS reduction being slightly greater than the reduction in underlying profit before tax.

The timing of the commencement of the share buyback programme in November 2014 meant it had no significant impact on reported underlying EPS this year but the programme will be accretive in 2015 as the issued share capital reduces.

In 2015, the scrip dividend plan will be replaced by a dividend reinvestment plan. The dividend reinvestment plan provides an efficient reinvestment option for shareholders, without the need for new shares to be issued.

Statutory EPS declined by 25% to 22.0 pence (2013: 29.4 pence). The decline is higher than in statutory profit before tax due to the increase in statutory tax rate and the higher issued share capital.

Dividends

The Board has recommended a final dividend of 9.50 pence (2013: 8.80 pence) which would result in an 8% increase in the full-year dividend to 13.75 pence (2013: 12.75 pence).

The Company has a balance on its profit and loss reserve at 31 December 2014 of £1.2 billion, the substantial majority of which relates to reserves which can be distributed as a dividend or used for share buybacks, and accordingly we have a comfortable level of headroom. We are monitoring the FRC's Financial Reporting Lab project on dividend policy and capacity and will consider their final recommendations on future disclosures in this area.

Investing for the future

Targeted investment in technology development remains critical to our long-term organic growth. Total R&D expenditure in 2014 of £148.3 million was 9.5% of revenues (2013: £134.9 million, 8.2%), of which 19% (2013: 18%) was funded by customers. The net charge to operating costs including amortisation and impairment increased by 5% on an organic basis to £58.5 million (2013: £57.1 million).

Growth in R&D largely reflects our impressive win rate on new programmes, as well as our ongoing investment in new technology aligned to our customers' future technology requirements. About 30% of the expenditure was on new wheels and brakes programmes and over 50% focused on products for engines and engine accessories, including working towards meeting the long-term requirement of the aerospace industry to eliminate the use of halon gas in on-board fire protection systems. The balance was spread across a range of civil, military and energy applications including the initial investment resulting from the strong order intake in the period, notably in military training. This investment in R&D supports our medium-term revenue growth assumptions and increases revenue security, particularly as the majority of the investment is on platforms where we have won sole-source positions.

The record number of programmes entering service in the next few years will also drive new product introduction costs higher. In 2014 we industrialised new products at three times our historical average rate, which is good for future revenues but which impacts profitability in the short term.

Our investment in programme participation costs including the supply of equipment free of charge to new aircraft, mostly in MABS, increased by 33% organically. The pace of deliveries on programmes equipped with our wheels and brakes including the Gulfstream 280 and 650 platforms is expected to grow further over the medium term. These programmes will drive aftermarket revenue for decades. Our market share of wheels and brakes on the fleet of super-mid size and large business jets in 2014 was 64%, supportive of our expectation that we will have a market share on the overall fleet in excess of 70% by 2020.

Capital expenditure on property, plant and equipment and intangible assets was £42.2 million (2013: £66.9 million), with 2013 expenditure inflated by site consolidations and expansions. We expect growth in expenditure in 2015 driven by increased investment in manufacturing equipment, including new carbon furnaces in MABS and further movement of production to low-cost manufacturing locations.

Analysis of R&D expenditure (Table 5)

	2014 £'m	2013 £'m
Total R&D expenditure	**148.3**	134.9
% of revenue	**9.5%**	8.2%
Customer-funded R&D	**(28.9)**	(24.5)
Capitalised	**(77.7)**	(70.2)
Amortisation/ impairment	**16.8**	16.9
Charge to net operating costs	**58.5**	57.1

Driving organic growth through operational excellence

The Meggitt Production System (MPS), our single, global approach to continuous improvement, was launched during 2013. MPS will create the sustainable quality and delivery culture that confers competitive advantage beyond our technical expertise, enabling the Group to deliver a higher rate of organic growth over the long term. It will also enable us to become more cost competitive through the reduction of working capital and the elimination of the cost of poor quality. MPS, a six-phase programme which will take five to seven years to become fully embedded, has been launched at 29 sites in total, representing 71% of our manufacturing footprint, with sixteen sites having successfully exited the first phase and one site having exited the second, more demanding phase. The launch of the programme at the remainder of the Group's primary facilities will be complete by the end of 2015.

We have already seen some significant improvements in quality and delivery since inception, with defective parts per million down 84% and on-time delivery up by 10%. The quality performance in the year improved significantly, and the stable year-on-year on-time delivery metric reflects good underlying performance in reducing production arrears. Given the demonstrable success we have seen internally, we have accelerated the planned deployment of the key tools and competencies to long-term partners in our supply chain.

Our culture of continuous improvement has resulted in the expansion of our footprint in low-cost manufacturing locations, notably a 30% increase in activity in our Mexican operations and an 8% increase in our Chinese facility in 2014.

These activities will drive consistently high levels of quality and delivery performance across all of our businesses, while retaining our focus on cost control. In turn, this will help us fund future technology development programmes and respond to changing customer requirements.

Cash flow and borrowings

Free cash flow of £146.8 million (2013: £110.4 million) represents a substantial year-on-year improvement despite the reduction in profit and continued high levels of investment to support future growth. This was driven by better working capital management and lower tax payments reflecting the unwinding of excess payments on account in prior years.

Net cash flow reduced to £21.1 million (2013: £63.2 million), largely driven by the £28.3 million acquisition of Precision Engine Controls Corporation (PECC) and a £33.7 million outflow (2013: Nil) from the purchase of shares as part of the share buyback programme implemented in November 2014. Dividend payments for the year reduced to £51.4 million (2013: £75.6 million) as a result of higher take-up of the scrip dividend. The scrip dividend option has been replaced by a dividend reinvestment plan for future dividend payments.

Debt structure and financing

The Group's borrowings comprise a combination of US private placement debt and syndicated bank credit facilities. During the year, the Group took the opportunity to refinance its bank facilities, agreeing a new USD900 million committed revolving credit facility, from 13 international banks.

The new facility has a five year term with one-year extension options at the end of the first and second years. It replaces existing facilities of USD700 million and USD400 million which were due to expire in 2016 and 2017 respectively. The early refinancing resulted in £1.8 million accelerated amortisation of debt issue costs, relating to the old facilities, being recorded within finance costs in 2014.

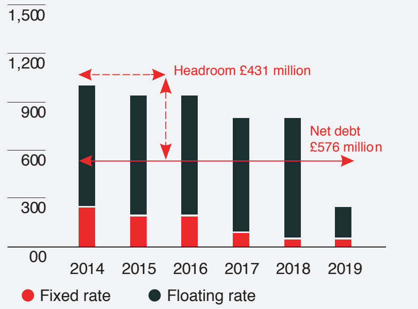
The terms of the new facility are substantially unchanged from those which it replaced, except for a relaxation of the net debt/EBITDA covenant to allow it to rise to 4.0x for two six month reporting periods after a significant acquisition.

There were no other changes in facilities available to the Group in the year.

At 31 December, 2014, the Group had undrawn committed credit facilities of £431 million after taking account of surplus cash (2013: £504 million).

With the exception of USD70 million private placement notes, which mature in June 2015 and will be repaid out of existing facilities, the Group has no committed facilities which expire before 2017.

Facility headroom (£'m) (Table 6)



Share buyback programme

The Group has a strong track record of cash generation and net debt reduction, even in periods of the aerospace cycle, as we are currently experiencing, that drive elevated organic investment. In addition to supporting our regular dividend, we seek to deploy this cash by investing in the acquisition of complementary businesses that will enhance our offering to customers, accelerate the Group's growth and deliver good returns to shareholders.

Whilst we continue to actively evaluate acquisition opportunities, there is currently a relative lack of sizeable acquisition opportunities meeting our strict investment criteria.

The Board believes that in maintaining an efficient balance sheet, a net debt/EBITDA ratio of between 1.5x and 2.5x is appropriate, whilst retaining the flexibility to move outside the range if appropriate. The Group had a net debt/EBITDA ratio of 1.3x at 30 June 2014 and accordingly in November 2014, announced the introduction of a share buyback programme with the intention of delivering a net debt/EBITDA ratio at, or slightly above, 1.5x (as measured under the Group's committed credit facilities) by the end of 2015. A share buyback programme was chosen as the most appropriate way to return excess capital to shareholders because the Board wish to retain flexibility to evaluate future organic growth and acquisition opportunities.

At 31 December 2014, the Group had purchased 6.8 million shares at an average share price of 490.49 pence and a cost of £33.7 million under the buyback programme. The programme has continued in 2015 with a further 2.9 million shares purchased at an average share price of 522.64 pence and a cost of £15.2 million as at 13 February 2015. These shares have all been cancelled.

Debt financing risks

The Group seeks to minimise debt financing risk as follows:

Movements in net debt (£'m) (Table 7)

	2014	2013
Cash flow from operations before exceptional operating costs	**364.0**	361.9
Exceptional operating costs excluding M&A costs	**(16.6)**	(15.3)
Interest and tax	**(34.7)**	(63.4)
Capitalised development costs/programme participation costs	**(123.7)**	(105.9)
Capital expenditure	**(42.2)**	(66.9)
Free cash flow	**146.8**	110.4
Net (investment in)/proceeds from M&A	**(29.1)**	25.9
Dividends	**(51.4)**	(75.6)
(Purchase)/issue of own shares	**(11.5)**	2.5
Share buyback	**(33.7)**	–
Net cash generated	**21.1**	63.2
Currency movements	**(24.7)**	2.7
Other non-cash movements	**(7.3)**	12.0
Opening net debt	**(564.6)**	(642.5)
Closing net debt	**(575.5)**	(564.6)

Chief Financial Officer's review continued

a. Concentration of risk

We raise funds through private placement issuances and committed bank facilities to reduce reliance on any one market. Bank financing is sourced from 13 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 lenders are Bank of America, Bank of China, Barclays, BNP Paribas, Crédit Industriel et Commercial, HSBC, JP Morgan, Bank of Tokyo-Mitsubishi and Sumitomo Mitsui Banking Corporation. We seek to maintain at least £200 million of undrawn committed facilities, net of cash, 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 seek to ensure the maturity of our facilities is staggered and any refinancing is concluded in good time, typically more than 12 months before expiry.

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.

Net debt by drawn currency (£'m) (Table 8)

	2014	2013
Sterling	**(17.7)**	(21.2)
US Dollar	**545.8**	462.9
Euro	**42.4**	53.9
Swiss Franc	**12.0**	78.9
Other	**(7.0)**	(9.9)
Net debt	**575.5**	564.6

e. Covenant risk

Our committed credit facilities contain two financial ratio covenants—interest cover and net debt to EBITDA. The covenant calculations are drafted to protect us from 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 for the year and excluding exceptional items from the definition of EBITDA. We continue to have considerable headroom on both key financial covenant measures.

Covenant ratios (£'m) (Table 9)

	Covenant	2014	2013
Net debt/EBITDA	≤3.5x[1]	**1.2x**	1.2x
Interest cover	≥3.0x	**20.8x**	22.0x

1 A ratio of 4.0x applies in the two six month reporting periods following a significant acquisition.

Interest risk

The Group seeks to reduce the volatility caused by interest rate fluctuations on net debt. 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 2014, the percentage of net debt at fixed rates was 48% (2013: 46%) and the weighted average period to maturity of the first 25% was 4.5 years (2013: 5.4 years).

Foreign exchange risk

The Group is exposed to both translation and transaction risk due to changes in foreign exchange rates. These risks principally relate to the US Dollar/Sterling rate, although exposure also exists in relation to other currency pairs including translation risk for the Sterling/Euro and Sterling/Swiss Franc and transaction risk for the US Dollar/Euro and US Dollar/Swiss Franc.

Exchange rates (Table 10)

	2014	2013
Average translation rates against Sterling:		
US Dollar	**1.63**	1.57
Euro	**1.24**	1.18
Swiss Franc	**1.51**	1.45
Average transaction rates:		
US Dollar/Sterling	**1.54**	1.62
US Dollar/Euro	**1.30**	1.29
US Dollar/Swiss Franc	**1.08**	1.06
Year-end rates against Sterling:		
US Dollar	**1.56**	1.66
Euro	**1.29**	1.20
Swiss Franc	**1.55**	1.47

The results of overseas businesses are translated into Sterling at weighted average exchange rates. Compared to 2013, the Group's underlying profit before tax for the year was adversely affected by £9.6 million from currency translation, of which £7.8 million arose on US Dollar denominated profits with the balance on other currencies.

Translation currency sensitivity (£'m) (Table 11)

	Revenue	PBT[1]
Impact of 10 cent movement[2]:		
US Dollar	**55.0**	**12.0**
Euro	**10.0**	**1.0**
Swiss Franc	**7.0**	**2.0**

1 Underlying profit before tax as defined and reconciled to statutory measures in note 10 of the Group financial statements.

2 As measured against the 2014 average translation rates against Sterling set out in Table 10.

The net assets of overseas businesses are translated into Sterling at year end exchange rates. The resultant exchange rate exposure is mitigated through holding our net debt in the currencies of those net assets, principally the US Dollar.

Transaction risk arises where revenues and/or costs of our businesses are denominated in a currency other than their own. We hedge 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 2013, the Group's underlying profit before tax for the year benefited by £4.5 million from currency transaction movements, including a favourable impact of £5.6 million relating to US Dollar/Sterling exposure and adverse impacts from other currency pairs.

Each ten cent movement in the US Dollar against the average hedge rates achieved in 2014, would affect underlying profit before tax by approximately £8.0 million in respect of US Dollar/Sterling exposure, £3.0 million in respect of US Dollar/Euro exposure and £4.0 million in respect of US Dollar/Swiss Franc exposure.

At 31 December 2014, US Dollar/Sterling cover for our estimated 2015 exposure is 96% hedged at an average rate of $1.57 and we have covered approximately 80% of our exposure for the four subsequent years at an average rate of $1.54. We have also hedged 96% of our estimated 2015 US Dollar/Euro exposure at a rate of 1.36 and 100% of our estimated 2015 US Dollar/Swiss Franc exposure at a rate of 1.08. Further hedging of approximately 80% of our US Dollar/Euro exposure for the four subsequent years is in place at an average rate of 1.21. We do not have any hedging in place for 2016 or subsequent years in respect of US Dollar/Swiss Franc exposure.

Post-retirement benefit schemes

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

Total pension scheme deficits increased to £271.0 million (2013: £189.8 million). The main drivers of the movement were:

- An increase in the deficit of £124.6 million (2013: Reduction of £10.6 million) due to remeasurement losses on scheme liabilities. The main cause of the increase was a significant reduction in the rates used to discount scheme liabilities. Accounting standards require these liabilities to be discounted using the yields on high quality AA corporate bonds, with a maturity that reflects the duration of the scheme liabilities. These yields, reflecting the falls seen in gilt markets, have reduced in 2014 by 100 basis points in the UK and 70 basis points in the US to levels not seen in the last 10 years. There has also been a modest increase in US liabilities following the adoption of new life expectancy tables which were published during the year.
- A reduction in the deficit of £30.9 million (2013: £25.5 million) due to remeasurement gains on scheme assets, principally driven by the continued global recovery in equity markets.
- Net deficit reduction payments of £27.8 million (2013: £26.7 million). Regulations in the UK and US require repayment of deficits over time. In the UK, the Group is making deficit payments in accordance with an agreement reached with the trustees following the last actuarial valuation in 2012. This agreement provides for payments to gradually increase over the period to 2024. The next actuarial valuation date is April 2015. In the US, the level of deficit payments is principally driven by regulations. Amounts required to be paid in the US decreased slightly in the year reflecting the impact of new legislation regarding funding payments and are expected to reduce further in 2015 due to the full year impact of these changes. Overall, the Group expects deficit contributions to reduce to £25.7 million in 2015 based on the existing deficit reduction agreement with the UK trustees and absent further regulatory changes in the US.

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 £46.8 million (2013: £48.3 million). Deficit payments during the year were £1.5 million (2013: £0.7 million). During the year, the Group made changes to the way in which medical benefits are provided. These changes, following which the Group continues to provide comparable benefits, resulted in a past service credit being recognised of £8.4 million (2013: Nil).

Defined benefit pension scheme summary (£'m) (Table 12)

	2014	2013
Opening net deficit	**189.8**	241.2
Service cost	**11.9**	12.7
Group cash contributions	**(39.7)**	(39.4)
Deficit reduction payments	**(27.8)**	(26.7)
Other amounts charged to income statement[1]	**10.3**	11.4
Remeasurement gains—schemes' assets	**(30.9)**	(25.5)
Remeasurement losses/(gains)—schemes' liabilities	**124.6**	(10.6)
Currency movements	**5.0**	–
Closing net deficit	**271.0**	189.8
Assets	**761.1**	688.4
Liabilities	**1,032.1**	878.2
Closing net deficit	**271.0**	189.8
Funding status	**74%**	78%

[1] Comprises past service amounts, administration expenses borne directly by schemes and net finance costs.

Going concern

The Group's business activities are described on pages 10 to 17 which include those factors most likely to affect its future development, performance and position. The financial position of the Group is set out in this report and additional information is provided in the financial statements including note 3 (Financial risk management), note 28 (Bank and other borrowings) and note 30 (Derivative financial instruments). Details of the principal risks and uncertainties to which the Group is exposed, and the mitigation plans in place, are set out on pages 24 to 26.

The Group describes in the Strategic Report on pages 8 to 9 its cash generative business model designed to deliver organic revenue growth of 6–7% in the medium-term and its resilience to one-off global shock events.

The Group continues to be cash generative even at the current elevated level in the aerospace investment cycle, has considerable headroom against existing bank facilities and covenants and there is no material facility expiry before 2017.

Accordingly, 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 Group and Company financial statements.

Doug Webb Chief Financial Officer

Corporate responsibility

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 believe that our focus on corporate responsibility creates value for Meggitt and our stakeholders. It helps us manage our businesses more efficiently, which in turn helps us mitigate risks, reduce costs and protect the communities in which we operate. We are also committed to ensuring compliance with all relevant national laws and regulations and aim to continually improve our financial, social and environmental performance.

Policy

We are committed to:

- Upholding sound corporate governance principles;
- Providing a supportive, rewarding and safe working environment with modern operational practices;
- Conducting business relationships in an ethical and responsible manner;
- Minimising the environmental impact of products and processes and maintaining internationally-accredited environmental management systems;
- Acting as a responsible supplier and encouraging our contractors and suppliers to do the same;
- Independent audits in key compliance areas;
- Supporting our local communities; and
- Professional and comprehensive employee training programmes.

Governance and compliance

Health, safety and environment (HSE), ethics and business conduct and trade compliance are managed by a highly experienced team of functional specialists, under the leadership of the Corporate Affairs Director. Divisional presidents and site directors are responsible for implementing policies and programmes locally.

Board-approved policies on corporate responsibility, health and safety, environment, ethics and business conduct and trade compliance are published on the policies section of our website.

The Board's Ethics and Trade Compliance Committee meets quarterly to discuss these programmes in detail. HSE matters are reviewed and discussed at every Board meeting.

Sustainability

Meggitt appreciates the importance of conducting business in a sustainable manner and we will continue to incorporate this principle into the way we carry out our operations. During 2014, we held initial discussions with Business in the Community, a leading charitable organisation in this field, to help develop our thinking further.

Activity in 2014

Environment

Meggitt strives to achieve high levels of environmental performance throughout our businesses based on standards and procedures set by Group leadership. 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.

Our global environmental audit programme, supported by external consultants, includes a comprehensive review of applicable regulatory requirements and best practice standards at all manufacturing facilities every three years. In total, 16 sites were audited in 2014.

Some 86% of our manufacturing facilities had achieved ISO 14001 standard certification by the end of 2014. The remaining facilities are targeting certification in 2015.

Performance

Table 1 shows our performance for key environmental metrics and Table 2 shows our progress on achieving internally set targets.

Our performance is on track to meet targets for most metrics, but facility consolidations and increased production of carbon brakes has impacted our progress on electricity and waste recycled in 2014.

Although we had already achieved our five-year target on CO_2 emissions relative to revenue as at the end of last year, our performance slipped in 2014 to a 7% reduction compared to our baseline year which means that we did not reach our five-year CO_2 reduction target by the end of 2014. The increase in CO_2 emissions in 2014 was primarily due to a significant increase in electricity and gas consumption in our US carbon manufacturing operations because of an increase in production as new aircraft programmes enter service.

We recycle an estimated average of 87,000 cubic metres of water each year through closed-loop water recycling systems installed at several facilities. Other water conservation measures include installation of thermostatically controlled water circulation systems on process tanks reducing evaporative losses. In 2014, despite an increase in cooling water used in our carbon manufacturing operations, our closed-loop recycling systems and other water conservation efforts resulted in a decrease in absolute water consumption and consumption relative to revenue and we remain on track to meet our five-year target of reducing water consumption relative to revenue.

We were able to realise the benefits of integrating the waste minimisation ideals of the Meggitt Production System (MPS) by reducing the environmental impact of waste at many facilities within the Group and were able to decrease the absolute amount of waste generated by 13%. An example of the progress made in 2014 is at one of our US braking systems facilities, which found a way to recycle carbon dust from carbon brake disk machining into electrically conductive plastic. This facility also identified a recycling method for waste carbon insulation as an oxygen scavenger in third-party metal recovery

Environmental metrics[1] (Table 1)

	2014	Change	2013
Utilities			
Electricity—gWh	**201**		192
MWh per £m revenue	**127**	+6%	**120**
Natural gas—gWh	**190**		183
MWh per £m revenue	**120**	+4%	**115**
GHG Emissions (CO_2e)[1]—tonnes	**131,897**		126,720
Tonnes per £m revenue	**83.5**	+5%	**79.3**
Waste—tonnes	**12,200**		14,182
Tonnes per £m revenue	**7.72**	-13%	**8.87**
Water—cubic metres	**722,200**		744,196
Cubic metres per £m revenue	**457**	-2%	466

1 Metrics per £m are calculated using revenue converted at constant exchange rates. Greenhouse gas emissions are calculated using conversion factors published in the 2013 and 2014 Guidelines to DEFRA/DECC's GHG Conversion Factors for Company Reporting. Emissions from overseas electricity are in CO_2 only (not CO_2e). The 2013 reported GHG emissions have been restated to reflect the change in using the updated conversion factors.

furnaces. In total, these efforts have resulted in the facility diverting 35 tonnes of waste away from landfill. Since 2007, we have been a participant in the Carbon Disclosure Project (CDP) detailing our approach and performance in managing climate change. In 2014, we increased our score by 60% and our submission can be viewed on the CDP website.

Targets (Table 2)

	Baseline year	Five year performance period (financial years)	Target improvement over performance period	Achieved during performance period up to 31 December 2014
CO_2 emissions	2009	To 31 December 2014	-15%	-7%
Gas	2011	To 31 December 2016	-15%	-11%
Electricity	2011	To 31 December 2016	-15%	+10%
Water consumption	2011	To 31 December 2016	-10%	-6%
Waste to landfill	2011	To 31 December 2016	-10%	-6%
Waste recycled	2011	To 31 December 2016	+10%	0%

Greenhouse gas emissions (GHG)

Table 3 shows the GHG emissions data for the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulation 2013 (the Regulations). The sites reporting GHG data are the same as those consolidated in the Group's financial statements.

We had an absolute increase in our GHG emissions in 2014 and our GHG emissions relative to revenue increased slightly due to an increase in electricity and natural gas consumed in our US carbon manufacturing operations as described above. Notwithstanding, this increase was partially offset by reductions in electricity and gas consumption and associated GHG emissions elsewhere due to site consolidations and energy efficiency measures as well as an increase in carbon recycling and reuse under our carbon refurbishment initiative described below.

To align the Group's emissions targets with the Regulations, we will be setting new five-year GHG emission reduction targets from 2016 using 2015 as the baseline year. We will set separate GHG reduction targets for our carbon manufacturing operations due to the unique and complex process involved.

Saving energy

In 2014, we achieved reductions in key sustainability metrics through investments in several energy efficiency projects. These are exemplified by upgrading compressed air plants, improving furnace controls and installing high efficiency lighting and controls at our facilities as follows:

- Recladding of roofing insulation at a UK facility resulted in improved heating and cooling efficiencies.
- Significant lighting upgrade projects at several facilities, saving around 300 tonnes of CO_2 per annum.
- Replacement of fluorescent lighting with more efficient LED lighting and replacement of two inefficient boilers with higher efficiency rated gas boilers at another of our UK facilities saving 25 tonnes of CO_2 per annum. The same facility made insulation upgrades to improve heating and cooling efficiencies.
- The carbon refurbishment programme at our braking systems facility in Akron, US continued to expand in 2014 with a 59% increase in carbon discs recovered and refurbished from 2013. Reductions in processing time and associated energy consumption of around 81% resulted in savings of approximately 2,300 tonnes of CO_2 that would have otherwise been emitted in 2014.

Meggitt UK facilities will be required to comply with the Energy Savings Opportunity Scheme (ESOS) in 2015. As a result, the facilities comprising at least 90% of our energy consumption in the UK will undergo energy assessments. Conducted by certified lead assessors, these will assist us in identifying additional energy conservation opportunities. The ESOS is derived from European Union (EU) legislation and it is likely that EU member countries will implement similar schemes requiring energy assessments for other EU Meggitt facilities.

We recognise the need to reduce our dependence on fossil fuels and are actively investigating cleaner energy technologies including fuel cell power generation systems and solar energy throughout the Group.

REACH

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 continues to address the risks associated with the potential obsolescence of chemicals used by aerospace manufacturers. We continuously track substances regulated under REACH and work closely with our chemical suppliers to ensure substances are registered and will be approved for continued use, or a suitable alternative identified. We participate in an aerospace industry group involved in researching the replacement of hexavalent chromium used in common applications impacting aerospace manufacturing.

Obsolescence

The Obsolescence Review Board (ORB) continued to identify and define a coordinated response to issues potentially affecting our business including conflict minerals, counterfeit and fraudulent materials and chemical obsolescence. Working with our customers and suppliers, we continue to strive for the reduction and substitution of materials and substances impacted by regulatory developments, performing material assessments, surveying our suppliers and undertaking reliability and qualification testing of alternatives.

Health and safety

We want our employees to work in safe and secure environments and believe that occupational injuries and illnesses are

GHG emissions[1] data (Table 3)

	2014 Tonnes of CO_2e	2013[2] Tonnes of CO_2e
Combustion of fuel and operation of facilities[3]	**35,693**	34,239
Electricity, heat, steam and cooling purchased for own use	**96,204**	92,480
	131,897	126,719
Intensity measurement:		
Emissions reported above, normalised to tonnes per £m revenue	**83.5**	79.3

1 Global GHG emissions are calculated using conversion factors published in the Guidelines to DEFRA/DECC's GHG Conversion Factors for Company Reporting. Emissions factors from overseas electricity are in CO_2 only (not CO_2e).
2 2013 numbers have been restated to the updated 2013 conversion factors.
3 Does not include GHG emissions generated from Meggitt-owned and operated vehicles or refrigerant gases as these emissions are not material to the Group's emissions.

Corporate responsibility continued

Reportable accidents and incidents (Table 4)

	2014	Change	2013
Reportable accidents and incidents[1]	**36**	+3%	35
Reportable accident/incident rate[2]	**337**	+6%	317

[1] Directly reportable to a regulatory authority.
[2] The number of reportable accidents/incidents per 100,000 employees.

preventable. Our health and safety policy makes clear that we do not tolerate unsafe behaviours or conditions in our workplaces and that we seek to continuously improve our safety culture and performance with an ultimate goal of zero injuries and illnesses. In 2014, we continued to implement measures to improve safety in the workplace. These included:

- Group-wide online health and safety awareness training for all employees;
- Implementation of a behavioural health and safety programme at five facilities in 2014, with plans to roll it out at another ten facilities in 2015;
- Development of a health and safety maturity index and a revision of the Meggitt Safety Star recognition programme to focus on proactive health and safety leading indicators. This will emphasise the importance of preventative actions to reduce incidents and injuries occurring in the workplace;
- Integration of the reporting and investigation of near-miss accidents and unsafe conditions with MPS;
- Continued dissemination of information and best practice through intra-Group HSE conferences, health and safety alerts and all-employee safety bulletins.
- Roll out of a further three new Meggitt health and safety procedures across the Group.

As a result of these measures we have made good progress on some of our safety metrics across the Group, most notably a 25% decrease in the US Occupational Safety and Health Administration (OSHA) recordable frequency rate for our US operations compared to the prior year. However, due to a substantial increase in the number of reported incidents at a small number of our sites, the Group overall experienced a slight increase in reportable incidents and associated incident rates, as shown in Table 4. In 2014, 80% (2013: 80%) of our manufacturing facilities achieved at least a Bronze Meggitt Safety Star award reflecting a 25% improvement in health and safety performance over the three-year average performance for years 2009 to 2011. Of those, 23 facilities will receive a Platinum Safety Star award for outstanding performance in 2014.

As reported in last year's annual report, we continue to cooperate fully with regulatory authorities in the investigation of the fatal accident that occurred at our Rockmart, US facility last year and we expect the investigation to conclude in 2015.

Ethics and business conduct and trade compliance

Our ethics and business conduct programme commits us to conducting business fairly, impartially and in compliance with laws and regulations and acting with integrity and honesty in our business relationships.

In 2014, we provided training across the Group, on our Code of Conduct, 'Reporting Concerns—Someone Else's Problem', and Global Anti-Corruption. We held two in-house ethics conferences, one in the UK and one in the USA, where facility-based ethics coordinators reviewed and provided feedback on the Ethics Programme. As a result of this feedback, we are redesigning our Ethics Guide, which will be available to all staff in printed form and on our website. Meggitt is a charter member of the International Forum on Business Ethical Conduct for the aerospace and defence industries and Barney Rosenberg, our Vice President, Ethics and Business Conduct, serves on the Steering Committee that runs this global organisation.

The Board revised the Trade Compliance Policy (which is available on our website) in 2014. We have a highly-developed trade compliance programme, based on the Nunn-Wolfowitz Task Force Report of 2000 (the influential report on export compliance best practice) and guidelines issued by the regulatory authorities. During 2014, we continued to implement our global trade management software solution to enhance our trade compliance programme, and continued implementation of our enhanced import compliance programme at a number of facilities in the US and the UK. We also implemented Phases 2 to 5 of the US Government's Export Control Reform programme.

Local communities and charitable donations

We are committed to being good corporate citizens, and continue to support the communities in which we operate. Our businesses and employees give back to our communities through volunteerism, educational business partnerships and charitable donations as demonstrated by the following:

- Since 2007, we have continued to sponsor the Arkwright Engineering Scholarship Trust, an independent, charity that identifies, inspires and nurtures future leaders in engineering and technical design. The scholarship supports Science, Technology, Engineering and Mathematics (STEM) initiatives that grant an annual financial award to young scholars and their schools. The 2014 scholar will benefit from mentoring by an experienced member of the Meggitt Global Engineering Group and valuable work experience over the next two years.
- Meggitt US businesses and employees have donated over USD 1 million in the past five years to the United Way, a US-based non-profit organisation focusing on resolving local community issues through partnerships with local schools, government agencies and voluntary and neighbourhood associations. Several Meggitt US businesses hold annual United Way drives to encourage employee engagement in local community activities and initiatives designed to improve education, financial stability and health care for local families.
- Our McMinnville Oregon facility partnered with local businesses, community leaders and the McMinnville Economic Development Partnership to establish a manufacturing training programme at a local high school to address a shortage of skilled local labour. Meggitt donated equipment and materials for student training and assisted in developing the syllabus. Local congressional officials who visited the high school and Meggitt facility acknowledged the importance of innovative partnerships between the private sector and local schools to provide training leading to well-paid local manufacturing jobs. Some 260 of the school's 400 students enrolled.

Analysis of employees (Table 5)[1]

Employees by division
Number of employees

Aircraft Braking Systems	1,267	12%
Control Systems	1,902	17%
Polymers & Composites	1,827	17%
Sensing Systems	3,120	29%
Equipment Group	1,995	18%
Cross-group facilities	712	7%

Employees by length of service (years)
Number of employees

Less than 5	4,841	45%
Between 5 and 10	2,252	21%
Between 10 and 15	1,211	11%
Between 15 and 20	976	9%
Between 20 and 25	350	3%
Over 25	1,193	11%

Employees by region
Number of employees

USA	5,385	50%
UK	2,847	26%
Mainland Europe	1,554	14%
Rest of World	1,037	10%

1 As at 31 December 2014.

- Our Poole UK facility partnered with the local Bournemouth and Poole College to develop an apprenticeship and training programme.
- An annual charitable golf outing sponsored by our Saginaw, Michigan facility is held in June, donating funds to the local amyotrophic lateral sclerosis association and the Saginaw YMCA.
- In the UK, our Birmingham facility commemorated the 100-year anniversary of the start of World War 1 with support for the Help for Heroes military charity.

Our employees

Learning, career development, employee engagement, strong leadership and effective teamwork are vital components of Meggitt's performance culture.

Various initiatives are underway, many of which have overt goals to improve or sustain engagement. Investment in learning and development is one. We continue to increase corporate training enabling employees from different businesses to learn together and create a common culture. The most significant investment is in MPS, our single, global approach to the application of 'lean' tools and other continuous improvement practices. The purpose of MPS is to ensure that everything we do and everyone who does it supports the front line of our business.

Our very successful graduate training scheme continues with a third generation of graduates and post-graduates from some of the world's best engineering institutions. Our next executive leadership programme begins in 2015, tailored for Meggitt by the Saïd Business School (see page 20).

Table 6

Level	% of females at 31 December 2014	Number of females	Number of males
Board of Directors	20%	2	8
Executive Board	13%	1	7
Senior executives	9%	22	236
All employees	29%	3,111	7,712

Equal opportunities
The Group supports equal employment opportunities and opposes all forms of unlawful or unfair discrimination. It is Group policy to give full and fair consideration to job applications from disabled people, to provide opportunities for their training, career development and promotion and to continue wherever possible to employ staff who become disabled.

We require all Meggitt employees, reinforced through our ethics training programme and its values, to treat all colleagues fairly and with respect. We recognise the value of diversity amongst our employees. Table 6 shows the number of women employed at all levels of the workforce. The Board's approach to diversity is discussed in the Nominations Committee report (see page 54).

Human rights
We confirm our commitment to the human rights of our employees in our Corporate Responsibility Policy, which we apply across all our businesses.

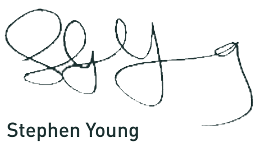
Employee consultation
The Group regards employee communication as a vital business function. Communication and consultation is carried out at facilities by operations directors and other line managers using a variety of forums including daily meetings on shop floors, monthly all-employee 'Town Hall' meetings, team briefings and works councils. We respect all employee relations regulations.

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 its performance.

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.

Strategic report

This 2014 Strategic report on pages 1 to 41 is hereby signed on behalf of the Board of Directors.



Stephen Young
Chief Executive
23 February 2015

Who runs Meggitt and how do we reward them?

44
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Corporate governance report

Chairman's introduction

Throughout the financial year ended 31 December 2014 and to the date of this report, we have complied with the provisions set out in the UK Corporate Governance Code 2012 (the Code) published by the Financial Reporting Council (FRC). The Company has applied the main and supporting principles set out in the Code. An explanation of how the main principles have been applied is set out in this report and in the Audit Committee report, the Nominations Committee report (including a report from the Chairman Succession Sub-Committee) and in the Directors' remuneration report. The FRC published a revised UK Corporate Governance Code on 17 September 2014, applicable to reporting periods beginning on or after 1 October 2014 (the 2014 Code), although the Board has adopted some of the new provisions in the 2014 Code earlier than required.

The Board is committed to maintaining high standards of corporate governance, which are fundamental to discharging our responsibilities. As Chairman, I encourage open and transparent discussion and constructive challenge. It is my responsibility to ensure that Meggitt is governed and managed in the best interests of shareholders and wider stakeholders. In this report, we set out our governance framework and explain how sound and effective corporate governance practices support our strategy of creating long-term, sustainable shareholder value.

Leadership

At our AGM in May 2014, I announced my intention to retire following the appointment of a suitable successor, having had the privilege of chairing the Board of Directors for nearly 11 years. I have thoroughly enjoyed my time as the Chairman of Meggitt and am delighted to hand over to Sir Nigel Rudd, a highly experienced and successful director and chairman. With his prior role as a non-executive director of BAE Systems, and current exposure to the industry at BBA Aviation, Sir Nigel has exceptional knowledge of the aerospace sector. I know that his experience across a wide range of businesses will be of significant benefit to the Group.

In terms of other Board changes, in May 2014, David Robins retired from the Board and in October 2014 we appointed Alison Goligher as a non-executive director. Alison introduces specific oil and gas experience to our Board, which will be of great value to Meggitt's energy businesses. At the same time, her technology management expertise and experience running a wide range of functions within globally significant corporations will benefit the Group as a whole.

In December 2014, we announced that as a result of the additional time commitments required for his new appointment as non-executive director and chairman designate of Drax Group plc, Phil Cox had decided to resign as a non-executive director with effect from 31 January 2015. On behalf of the Board I would like to thank David and Phil for their significant contributions to the Board and to wish them well for the future.

Effectiveness

As reported last year, the main findings from our 2013 internal evaluation were to enhance our strategy reviews and risk management process and continue to improve the annual Board schedule. In 2014, the Board engaged in additional strategy presentations and discussions and we continued to enhance our risk management process. We have since conducted our 2014 internal evaluation and a report is included on page 49.

Accountability

The Board considered the 2014 Code, and assessed our current processes and reporting of risk management and internal control against the associated guidance issued by the Financial Reporting Council in September 2014. In 2015, we will start preparing for the new long-term viability statement which is first required for our 2015 Annual Report. Our shareholders can read about our most significant risks and uncertainties and our risk management process on pages 24 to 26.

The Board have confirmed that this Annual Report is fair, balanced and understandable, and you will find an explanation of the process we have used to make this determination on page 51.

Remuneration

At our AGM in 2014, we received 98.95% votes in favour of our Remuneration Policy. Shareholders also overwhelmingly approved our Directors' remuneration report and a new long-term incentive plan. The Directors' remuneration report (pages 55 to 75) provides a detailed review of the Remuneration Committee's 2014 activities and bonus and share scheme performance in 2014. For ease of reference, we have also included the Remuneration Policy approved at our AGM in 2014 (which is valid until the AGM held in 2017).

Sir Colin Terry
Chairman of the Board of Directors
23 February 2015

Board of directors

Meggitt's Board is characterised by world-class experience of UK, mainland European and North American businesses spanning multiple sectors—many with global reach.


Stephen Young


Alison Goligher


Sir Colin Terry


Guy Berruyer


Philip Green

Sir Colin Terry KBE CB DL FREng

Non-Executive Chairman + §
Appointed: 2004 | Nationality: British
Retiring at the conclusion of the 2015 AGM

Skills and experience
Chartered engineer with extensive civil and military aerospace, logistics and industrial experience. Qualified military and civilian pilot.

Current appointments
Chairman of the UK Military Aviation Authority Safety Advisory Committee, Non-Executive Director and Chairman of the Audit Committee of Fox Marble Holdings PLC, Non-Executive Chairman of AviaMedia Tech Limited and Non-Executive Director and Chairman of the Remuneration Committee of Aveillant Limited.

President of Soldiers, Sailors, Airmen and Families Association in Buckinghamshire, of which he is Deputy Lieutenant.

Previous appointments
37 years in Royal Air Force, reaching rank of Air Marshal, where he was Chief Engineer (RAF), a Commander in Chief and the Air Force Board Member for Logistics. Since retiring from the regular RAF, was 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. Served for several years as an RAF Volunteer Reserve Pilot.

Stephen Young

Chief Executive + § ◊
Appointed: 2013 | Nationality: British
Appointed to the Board as Group Finance Director in 2004, prior to appointment as Chief Executive

Skills and experience
Chartered management accountant with wide experience in all financial disciplines gained from national and multi-national businesses across multiple sectors.

Current appointments
Non-Executive Director, Audit Committee Chairman and member of Risk and Remuneration committees of Derwent London plc.

Previous appointments
Senior financial positions held previously include Group Finance Director, Thistle Hotels plc and Group Finance Director of the Automobile Association.

Guy Berruyer

Non-Executive Director * + ‡
Appointed: 2012 | Nationality: French

Skills and experience
Trained as electrical engineer at the École Polytechnique Fédérale de Lausanne and holds Harvard Business School MBA. Brings significant experience to the Board as a recently serving FTSE-100 Chief Executive.

Current appointments
None.

Previous appointments
Group Chief Executive of The Sage Group plc until 5 November 2014. Chief Executive of Sage Group plc's Europe and Asia division. Early career spent with software and hardware vendors in French and European management roles.

Alison Goligher OBE

Non-Executive Director * + ‡
Appointed: 2014 | Nationality: British

Skills and experience
MEng Petroleum Engineering. Brings specific oil and gas experience to the Board, including technology management expertise and experience running diverse functions and businesses within globally significant energy corporations.

Current appointments
Joined Royal Dutch Shell in 2006; appointed Executive Vice President, Upstream International Unconventionals in 2013.

Previous appointments
17 years at Schlumberger, a leading supplier of technology, integrated project management and information solutions to oil and gas customers worldwide.

Philip Green

Group Corporate Affairs Director § ◊
Appointed: 2001 | Nationality: British

Skills and experience
Fellow of the Institute of Chartered Secretaries and Administrators, with significant legal and compliance experience.

Current Appointments
Member of the GC100 and the Dorset Employment and Skills Board. To be appointed as Non-Executive Director of Poole Hospital NHS Foundation Trust from 25 April 2015.

Previous appointments
Meggitt's Company Secretary from 1994 to 2006, after 14 years at British Aerospace in company secretarial roles.

Committee membership
*** Audit Committee**
+ Nominations Committee
‡ Remuneration Committee
§ Ethics and Trade Compliance Committee
◊ Finance Committee

Paul Heiden

Doug Webb

Brenda Reichelderfer

David Williams

Sir Nigel Rudd

Paul Heiden

Non-Executive Director * + ‡
Appointed: 2010 | Nationality: British

Skills and experience
Chartered accountant, with considerable experience in senior executive and financial roles in aerospace.

Current appointments
Non-Executive Director and Chairman of the Audit Committee of London Stock Exchange Group plc and Chairman of Intelligent Energy Holdings plc.

Previous appointments
Chief Executive of FKI Plc from 2003 to 2008, 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. Non-Executive Director of UU Plc, Bunzl plc, Essentra PLC (formerly Filtrona PLC) and Chairman of Talaris Topco Limited.

Brenda Reichelderfer

Non-Executive Director * + ‡ §
Appointed: 2011 | Nationality: American

Skills and experience
Skilled engineer and business leader with considerable US aerospace and industrial experience.

Current appointments
Senior Vice President and Managing Director of private equity sector consulting firm TriVista and Non-Executive Director of Federal Signal Corporation.

Previous appointments
Senior roles at ITT Industries Corporation including Senior Vice President, Director of Engineering, Chief Technology Officer and Group President of two operating divisions. Non-Executive Director of Wencor Aerospace.

Doug Webb

Chief Financial Officer § ◊
Appointed: 2013 | Nationality: British

Skills and experience
Chartered accountant who has held senior international financial positions in defence, aerospace, engineering, technology and financial services.

Current appointments
Non-Executive Director of SEGRO Plc and Chairman of their Audit Committee and member of the Hundred Group of Financial Directors.

Previous appointments
Chief Financial Officer, London Stock Exchange Group Plc, Chief Financial Officer, QinetiQ Group Plc and various senior financial roles in the UK and US for Logica (now CGI).

David Williams

Non-Executive Director * + ‡
Senior Independent Director
Appointed: 2006 | Nationality: British

Skills and experience
Chartered accountant with significant experience in senior financial roles.

Current appointments
Joint Chairman of Mondi plc and Mondi Limited.

Previous appointments
Senior financial roles including 15 years as Finance Director of Bunzl plc. Non-Executive Director and Audit Committee Chairman of Tullow Oil plc until May 2012. Non-Executive Director and Audit Committee Chairman of DP World Limited until his retirement in April 2014.

Sir Nigel Rudd DL

To be appointed as Non-Executive Director and Deputy Chairman on 1 March 2015
Assuming the role of Non-Executive Chairman at the conclusion of the AGM on 23 April 2015 | Nationality: British

Skills and experience
Chartered accountant with extensive Board experience spanning multiple sectors including aerospace, retail and financial services.

Current appointments
Non-Executive Chairman of BBA Aviation plc and Heathrow Airport Holdings Limited, Chairman of Aquarius Platinum Ltd, Non-Executive Director of Sappi Limited and Chancellor of Loughborough University.

Previous appointments
Chief Executive of Williams Holdings plc. Chairman of Kidde plc, BAA Limited, The Boots Company, Pilkington PLC, Pendragon PLC and Invensys plc. Deputy Chairman of Barclays PLC and Non-Executive Director of BAE Systems plc.

Corporate governance report continued

LEADERSHIP

Our governance framework as at 31 December 2014:

Board of directors

Sir Colin Terry (Chairman)
Three executive directors
Six independent non-executive directors

Creating and delivering sustainable shareholder value

Board committees

Remuneration	Audit	Nominations
Six independent non-executive directors	Six independent non-executive directors	Chairman, Chief Executive and six independent non-executive directors
Determines the reward strategy for the executive directors and senior management, to align their interests with those of the shareholders	Monitors the integrity of the Group's financial statements and the effectiveness of the external and internal auditors	Ensures the Board and senior management team have the appropriate skills, knowledge and experience to operate effectively and to deliver the Group's strategy
Ethics and trade compliance	**Finance**	**Chairman Succession**
Chairman, one non-executive director and three executive directors	Three executive directors and Chief Operating Officer	This committee existed during 2014 but not at the year end Independent non-executive directors
Ensures the implementation and application of the Ethics and Business Conduct and Trade Compliance policies and programmes	Approves treasury-related activity, insurance, and other matters delegated to it by the Board	Select and interview candidates and recommend candidate to the Board

Management committees

Executive Board	Operations Board	Commercial Committee
Three executive directors, the Chief Operating Officer and four senior functional executives	The Chief Operating Officer and five divisional presidents	Three executive directors, Chief Operating Officer and two Executive Board members
Assists the Chief Executive with the development and implementation of the Group's strategy, the management of the business and the discharge of responsibilities delegated by the Board	Assists the Chief Operating Officer to manage the Group's operations and discharge the responsibilities delegated by the Executive Board	Reviews/approves bids and proposals and any other commercial activity

The role of the Board

The Board retains full and effective control of the Group and is collectively responsible for its success. It sets the Group's strategy, ensures appropriate resources are in place to achieve the Group's objectives and reviews performance regularly.

The Board is responsible for setting the Group's values and standards and for ensuring obligations to shareholders, employees and other stakeholders are met.

A Schedule of Matters Reserved for the Board (updated in 2012) sets out the matters on which the Board must make the final decisions. These include, for example, changes to the Group's capital structure and capital allocation policy, acquisitions and disposals above a certain threshold and approval of results announcements, annual reports and dividends. If a decision is not reserved for the Board, authority lies, in accordance with authorisation policies and terms of reference, with a Board committee, a management committee, the Chief Executive or other executive director, Chief Operating Officer, divisional president or site director.

Board membership and attendance during 2014

The Board met eight times in 2014, attendance for which is shown in the table below.

Name	Title	Meetings eligible to attend	Meetings attended
Sir Colin Terry	Chairman	8	8
Mr G S Berruyer	Non-executive director	8	8
Mr P G Cox[1]	Non-executive director	8	8
Ms A J P Goligher[2]	Non-executive director	2	2
Mr P E Green	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[3]	Non-executive director	2	2
Mr D R Webb	Chief Financial Officer	8	8
Mr D M Williams	Non-executive director	8	8
Mr S G Young	Chief Executive	8	8

1 Resigned 31 January 2015
2 Appointed 30 October 2014
3 Resigned 7 May 2014

Chairman

- Sir Colin Terry met the independence criteria on appointment as Chairman on 1 July 2004. Sir Nigel Rudd will join the Board on 1 March 2015, initially as a non-executive director and Deputy Chairman, becoming Chairman at the end of the Annual General Meeting (AGM) on 23 April 2015 upon Sir Colin Terry's retirement from the Board and as Chairman. Sir Nigel Rudd will meet the independence criteria on appointment as Chairman.
- The roles of the Chairman and Chief Executive are separate and a clear division of responsibilities has been approved and agreed in writing by the Board. These were reviewed and updated by the Board in 2013.
- The Chairman is responsible for (i) setting the Board's agenda; (ii) ensuring that adequate time is available for discussion of agenda items, including strategic issues; (iii) leading the Board; and (iv) ensuring its effectiveness.
- The Chairman facilitates the contribution of non-executive directors and oversees the relationship between them and the executive directors. The Chairman holds meetings with other non-executive directors without executive directors present.
- The Chairman is responsible for ensuring directors receive accurate, timely and clear information and is satisfied that effective communication, principally by the Chief Executive and Chief Financial Officer, is undertaken with shareholders.
- The Chairman agrees a personalised approach to the training and development of each director and reviews this regularly.

Senior Independent Director

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

- Make himself available to shareholders if they have concerns that cannot be resolved through normal channels;
- Chair the Nominations Committee when it is considering the Chairman of the Board's succession, however Mr Williams did not Chair the Nominations Committee for the recent Chairman succession process because he was a candidate for the role. The chairman selection process employed in 2014 is outlined in more detail on page 54; and
- Meet with the non-executive directors at least once a year to appraise the Chairman's performance.

Non-executive directors

- The non-executive directors play a full part by challenging executive management and contributing to the development of the Group's strategy.
- The non-executive directors scrutinise the performance of executive management and monitor the reporting of the Group's performance, the integrity of financial information and the effectiveness of financial controls and risk management systems.
- The non-executive directors are responsible for determining appropriate levels of remuneration for executive directors and participating in the selection and recruitment of new directors and succession planning.
- The terms and conditions of appointment of non-executive directors are available for inspection at the Company's registered office during normal business hours.

Company Secretary

The appointment and removal of the Company Secretary is a matter for the Board.

The work of the Board in 2014

The Board approved the appointment of Ms Goligher as a non-executive director and Sir Nigel Rudd as non-executive director and Deputy Chairman (to become Chairman at the conclusion of the AGM on 23 April 2015). The Board visited several facilities and received regular reports from executive management on strategy and business performance, financial performance (including treasury activity) and corporate affairs (including risk, legal and compliance).

The Board implemented enhancements to its 2014 programme as a result of the evaluation of the Board undertaken in 2013, including:

- An update and Board discussion on Group strategy, focusing on technology, aftermarket and operations;

Corporate governance report continued

- Greater focus on risk, including a session to review and approve the Group's risk appetite.

The Board received and discussed:

- The Group's budget for 2015;
- Business unit and functional updates and presentations on senior executive succession, operations, IT security, and investor relations;
- Reports on internal control, risk management and going concern; and
- Reports on the activities of its committees.

The Board reviewed and approved:

- The 2013 Annual Report and Accounts, the 2013 full-year results announcement and the 2014 interim results announcement;
- Interim management statements released in May and November 2014;
- Recommendations to shareholders on the final dividend payment for the year ended 31 December 2013 and approved the interim dividend payment for the year ended 31 December 2014;
- The Group's risk appetite and risk register;
- The appointment of a second corporate broker;
- The decision to commence a share buyback programme;
- Fees payable to the Group's auditors and a recommendation to shareholders on their reappointment;
- Amended terms of reference for all Board committees; and
- Revisions to the Group's share dealing rules, health and safety and trade compliance policies.

Since the year-end, up to the date of the Annual Report, the Board has approved the 2014 Annual Report and Accounts, the 2014 full-year results announcement and the proposed final dividend for the year ended 31 December 2014.

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

Effectiveness

Composition

The Board considers it has a good balance of executive and non-executive directors, is of an appropriate size and includes the independence, skills, experience and knowledge to enable the directors to discharge their respective duties and responsibilities effectively. All non-executive directors are considered independent under the Code.

All non-executive directors (other than the Chairman) are members of the Audit and Remuneration Committees on appointment. All non-executive directors are asked to join the Nominations Committee on appointment. Chairmanship of Committees is considered during discussions on composition and succession. No one other than Committee chairmen and members are entitled to attend the meetings, although others can be invited. Committee chairmen, members and regular meeting invitees are noted in the respective Committee reports below.

Each of these Committees' written terms of reference were reviewed and updated in 2014 by the Board. These are available on our website. All Committee chairmen report orally on the proceedings of their Committees at the next meeting of the Board. Where appropriate, the Committee chairmen make recommendations to the Board on appropriate matters, for example, the fairness, balance and understandability of the Annual Report. Further details of the composition and operation of these Committees are set out in the Audit Committee, Nominations Committee and Directors' remuneration reports.

Appointments to the Board

There is a formal, rigorous and transparent procedure for the appointment of new directors. Full details of the process for appointments made during the year are available in the Nominations Committee report set out on page 54.

Commitment

The letters of appointment for the Chairman and non-executive directors set out the expected time commitment required of them and are available for inspection during normal business hours at the Company's registered office and at the AGM. Other significant commitments of the Chairman and non-executive directors are disclosed on appointment and require approval thereafter.

In 2014, the Chairman became a non-executive director of Aveillant Limited. Sir Colin confirmed that he continues to have sufficient time to discharge his role as Chairman of the Board. Mr Philip Cox was appointed as non-executive director and chairman designate of Drax Group plc with effect from 1 January 2015 and, as a result of the additional time commitments required, resigned as a non-executive director of the Company with effect from 31 January 2015.

Development

The Board is supplied with the information it needs to discharge its duties.

In 2014, Ms Alison Goligher joined the Board and has since had meetings with other directors, senior management, auditors, brokers and other professional advisors, as well as site visits and a comprehensive induction pack. Sir Nigel Rudd will commence a similar induction process in March 2015 following his appointment to the Board. The Board will continue to enhance the induction process as feedback is received and incorporated from the recently recruited directors. The Company Secretary facilitates the induction of new directors and assists with professional development where required.

Directors are encouraged to update their skills regularly and their training needs are 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 site visits. Resources are available to all directors for the purposes of developing and updating their knowledge and capabilities.

Information and support

The Chairman is responsible for ensuring the directors receive accurate, timely and clear information. The Company Secretary is responsible for ensuring good information flows within the Board and Committees and between senior management and non-executive directors. The Board members have regular discussions about their information and support requirements, and are involved in setting the annual Board schedule.

The Board and its Committees have been provided with sufficient resources to undertake their duties. All directors have had access to the advice and services of the Company Secretary who is responsible to the Board for advising on all governance matters. The Board allows all directors to take external independent professional advice at the Group's expense.

Board performance evaluation

In 2014, the Board evaluated its own effectiveness, together with the effectiveness of the Chairman, individual directors, its Committees, auditors and remuneration advisers and agreed its objectives for 2015. The effectiveness reviews covered strategy, risk management, the annual Board schedule, composition, succession, the appointment process, diversity, remuneration, audit and open channels of communication.

The 2014 evaluation of the Board and its Committees was undertaken internally, using questionnaires and group and individual discussions. The Board continues to be thoroughly engaged with the review process, and the main findings and recommendations of the 2014 evaluation relate to further developing our succession planning and administrative matters relating to the issue of papers. The Board noted that progress had been made in areas selected for improvement in 2013.

It is anticipated that the 2015 evaluation will be externally facilitated.

Accountability

Financial and business reporting

The financial statements contain an explanation of the directors' responsibilities in preparing the Annual Report and the financial statements (pages 78 to 79) and a statement by the auditors concerning their responsibilities (page 84). The directors also report that the business is a going concern (page 37) and detail how the Group generates and preserves value over the longer term (the business model) and the Group's strategy for delivering its objectives in the Strategic report (pages 1 to 41).

Risk management and internal control

The Board is responsible for the Group's system of internal control and for maintaining and reviewing its financial and operational effectiveness. The Board has taken into account the guidance provided by the FRC on Risk Management, Internal Control and Related Financial and Business Reporting in 2014 in reviewing the effectiveness of the Group's risk management and internal control systems. The system of internal control is designed to manage, but not to eliminate, the risk of failure to achieve business objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss.

The Group's functions are responsible for determining Group policies and processes, and businesses are responsible for implementing them, with internal and/or external audits to confirm business unit compliance. The key features of the risk management and internal control system are described below, including those relating to the financial reporting process, as required under the Disclosure and Transparency Rules:

- Group policies—key policies are approved by the Board and most other policies are approved by Group functions;
- Process controls—for example financial controls including the Group Financial Policies and Procedures Manual, bid approvals, programme management and execution, IT security and risk management. The risk management process enables the Group to identify, evaluate and manage the principal risks faced by the Group and this process was in place for 2014 and up to the date of approval of the Annual Report and has been regularly reviewed by the Board; and
- The forecasting, budget and strategic plan processes.

The Group has programmes for insurance and business continuity which form part of the risk management and internal control framework.

The following features of the internal control framework allow the Group to monitor the effective implementation of policy and process controls by business units:

- A business performance review process (including financial, operational and compliance performance);
- Annual business unit and divisional sign-off of compliance with Group policies and processes;
- Compliance programmes and external audits (including trade compliance, ethics, anti-corruption, health, safety and environmental);
- An effective internal audit function which, primarily, performs business unit reviews by rotation (including finance, IT, HR, ethics and the bid process); and
- A whistleblowing line to enable employees to raise concerns.

The Board and Audit Committee applied the following processes in 2014 and up to the date of approval of the Annual Report in order to review the effectiveness of the system of internal controls:

- Reviews of the risk management process, risk register and risk appetite;
- Written and verbal reports to the Audit Committee from internal and external audit on progress with internal control activities, including:
  - reviews of business processes and activities, including action plans to address any identified control weaknesses and recommendations for improvements to controls or processes;
  - the results of internal audits;
  - internal control recommendations made by the external auditors; and
  - follow-up actions from previous internal control recommendations;
- Regular compliance reports from the Corporate Affairs Director; Regular reports on the state of the business from the Chief Executive and Chief Financial Officer;
- A presentation on IT security activities and plans;
- Strategy reviews, review of the ten year financial plan and review and approval of the 2015 budget;
- Written report to the Ethics and Trade Compliance Committee on the effectiveness of whistleblowing procedures; and
- Reports on insurance coverage and uninsured risks.

Corporate governance report continued

The risk management and internal control systems have been in place for the year under review and up to the date of approval of the Annual Report, and are regularly reviewed by the Board.

The Board monitors executive management's action plans to implement improvements in internal controls that have been identified following the above-mentioned reviews and reports. The Board confirms that it has not been advised of any significant failings or weaknesses in the Group's internal controls.

Remuneration

The Directors' remuneration report is set out on pages 55 to 75 and provides details of our remuneration policy which was approved at our AGM in 2014, and how it has been implemented in 2014, together with the activities of the Remuneration Committee.

Relations with shareholders

The Group values its dialogue with institutional and private investors.

The Board communicates with private investors via direct communication with our Group Head of Investor Relations and the Company Secretary, material distributed or made available on the investor relations section of our website and at the AGM (see below).

Effective communication with fund managers, institutional investors and analysts about the Group's strategy, performance and policies is promoted by meetings involving, principally, the Chief Executive and Chief Financial Officer. The Board receives reports from the Chief Executive and Chief Financial Officer and the Head of Investor Relations on the views of shareholders, which are discussed.

The Chairman and other non-executive directors are available to attend meetings with shareholders, and a specific letter was issued to major shareholders after the AGM in 2014, offering a meeting with the Chairman and Senior Independent Director. A number of such meetings on corporate governance took place in 2014. We also received a number of requests from shareholders to have meetings with the Chairman Succession sub-committee, which were held before and after the announcement of our chosen candidate.

Directors' understanding of major shareholders' views is enhanced by reports from the Head of Investor Relations, our brokers and attending analysts' briefings. Analysts' notes on the Group are made available to all directors.

We provide annual reports and other documents to shareholders in their elected format under the electronic communications provisions, which were approved by shareholders at our AGM in 2007. Electronic copies of this Annual Report and Accounts 2014 and the Notice of AGM will be posted on our website, where our announcements, press releases and other investor information are also available. An analysis of ordinary shareholders by size of holdings and shareholder type is also available on our website.

Constructive use of the 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 voting results announcement 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.

Meggitt encourages shareholders to vote at the 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.

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 also attend.

At the AGM to be held on 23 April 2015, shareholders' consent will be sought on the following item of special business, in addition to the routine business: on the authority to convene general meetings on 14 clear days' notice in accordance with the Articles (on the terms set out in the Notice of Meeting).

All directors are subject to election by shareholders at the first AGM after their appointment and have been subject to re-election annually since 2012 in compliance with the Code. All directors in office at the date of the AGM (23 April 2015) will be subject to election or re-election except for Sir Colin Terry, who will retire from the Board as Chairman and non-executive director at the conclusion of the AGM.

By order of the Board

M L Thomas
Company Secretary
23 February 2015

Audit Committee report

Chairman's introduction

I am pleased to present the report of the Audit Committee for 2014.

I chair the Audit Committee and as a Fellow of the ICAEW, former Audit Committee Chairman of DP World Limited and Finance Director at Bunzl plc, I bring recent and relevant financial experience to the Committee. My fellow committee members throughout 2014 were Guy Berruyer, Philip Cox, Paul Heiden and Brenda Reichelderfer, who attended all three Committee meetings during the year. Alison Goligher joined the Committee for her first meeting in December 2014 (which was the last meeting for Philip Cox before stepping down from the Board in January 2015). By invitation, there were a number of other regular attendees including the Chief Financial Officer, the Group Financial Controller and the internal and external auditors. The Chairman of the Board, the Chief Executive, the Corporate Affairs Director and David Robins (for the February 2014 meeting) also attended by invitation.

The key role of the Audit Committee is to provide confidence in the integrity of our processes and procedures relating to internal financial control and corporate reporting. The Board relies on the Committee to review financial reporting and to appoint and oversee the work of the internal and external auditors.

The work of the Committee in 2014 is described below in detail and included providing advice to the Board on whether these accounts are fair, balanced and understandable.

Committee membership and attendance

Name	Meetings eligible to attend	Meetings attended
Mr D M Williams (Committee chairman)	3	3
Mr G S Berruyer	3	3
Mr P G Cox	3	3
Ms A J P Goligher	1	1
Mr P Heiden	3	3
Ms B L Reichelderfer	3	3

Terms of Reference

The Committee operates within agreed terms of reference, which were updated in 2014 and are available on our website.

Responsibilities

The responsibilities of the Audit Committee include:

- Monitoring the integrity of the financial statements of the Group, including its annual and half-yearly reports, and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements having regard to matters communicated to it by the external auditor;
- Reviewing and challenging where necessary: (i) the consistency of and any changes to significant accounting policies and the methods used to account for significant or unusual transactions; (ii) whether appropriate accounting standards have been followed; (iii) whether appropriate estimates and judgements have been made, taking into account the views of the external auditor; and (iv) the clarity and completeness of disclosure in the Group's financial reports and the context in which the statements are made;
- Reviewing the content of the annual report and advising the Board on whether, taken as a whole, it is fair, balanced and understandable;
- Reviewing the adequacy and effectiveness of the Group's internal financial controls and financial risk management system, reviewing and approving the statements to be included in the annual report concerning internal financial controls and financial risk management and reviewing the Group's procedures for detecting fraud;
- Overseeing the internal audit function, including assessing the annual work plan, receiving reports on a periodic basis and monitoring the effectiveness of the internal audit function;
- Overseeing the relationship with the external auditor, including the decision to tender external audit services, the approval of fees paid to external auditors and their terms of engagement, and recommending to the Board, to be put to shareholders for approval at the AGM, the appointment, re-appointment and removal of the external auditor; and
- Reviewing the Committee's own effectiveness.

Work of the committee

The Audit Committee reviewed:

- The financial information contained in the 2013 Annual Report and 2013 full-year and 2014 interim results announcements and recommended them to the Board for approval;
- 2014 external audit fees, and recommended them to the Board for approval;
- The external audit strategy memorandum and interim audit clearance report for 2014;
- The independence, effectiveness and reappointment of the external auditors;
- The internal audit plan for 2015 and regular update reports;
- Their own terms of reference and agreed to transfer the responsibility for reviewing whistleblowing procedures to the Ethics and Trade Compliance Committee;
- Technical accounting and governance updates provided by the Group Financial Controller, Company Secretary and the external auditors;
- A treasury update from the Head of Tax and Treasury; and
- The effectiveness of the Committee and internal audit.

Since the year end, the Committee has approved the 2014 Annual Report and Accounts and full-year results announcement and recommended them to the Board for approval and provided advice to the Board that the 2014 Annual Report and Accounts, taken as a whole, is fair, balanced and understandable. The Committee provided this advice having approved and monitored an enhanced review and verification process of the Annual Report undertaken by management and provided confirmation to the Board that this process was both followed and effective.

Audit Committee report continued

Significant judgements relating to the financial statements
The table below summarises the significant judgements reviewed by the Committee in respect of the Group's financial statements:

Significant judgements	Action
Goodwill and other intangible assets arising on an acquisition	The principal judgements are management's determination of the level at which impairment testing should be performed, the achievability of CGU business plans (and therefore future cash flows) and the appropriateness of the discount rates applied to future cash flows. The Committee addressed this through consideration of a report from management setting out the basis for the assumptions, confirmation that the cash flows used were derived from the 2015 budget and strategic plan (which in their role as members of the Board, committee members had previously reviewed), a sensitivity analysis on key assumptions and an analysis of the headroom for each CGU. The Committee agreed the assumptions made by management were appropriate and that no impairment was required.
Development costs and programme participation costs	The Committee considered the method of testing for potential impairment used by management, the reasonableness of assumptions used on specific programmes with limited headroom, the aggregation of related intangible assets at an aircraft platform level and the appropriateness of the estimated useful lives assigned to the assets. The Committee addressed this through consideration of a report from management covering these areas, exposure to different platforms and a sensitivity analysis on specific programmes. The Committee concluded that the assumptions made by management were reasonable and the carrying value and estimated useful lives of the assets appropriate.
Provision for environmental matters relating to historic sites	The Committee considered a report from management setting out the basis for the judgements made and the extent to which these were supported by third party specialist advice. The Committee discussed with management, the sensitivity of the estimates to increases in cost estimates and changes in discount rates applied to future cash flows. The Committee agreed with the judgements made by management.
Provision for onerous contracts and other matters	The key areas reviewed by the Committee were the provision held for the supply from a vendor of non-conforming raw material identified in the prior year, judgements made by management relating to selling prices, product quantities and unit costs on a small number of onerous production contracts and the impact of Heatric's local content provider in Brazil having filed for creditor protection. The Committee considered a report from management setting out the bases for the judgements made on each of these items. The Committee agreed with the accounting treatment adopted.
Retirement benefit obligations	Assumptions on mortality, inflation and the rates at which scheme liabilities are discounted can have a significant impact on the value at which retirement benefit obligations are included in the financial statements. The Committee considered a report from management setting out the basis on which the 2014 assumptions had been determined, including the revised mortality tables used for the Group's US schemes. Additionally, the Committee reviewed a benchmarking, they had requested, of the Group's assumptions used in the 2013 consolidated financial statements against those disclosed by other large corporate entities. The Committee concluded that the assumptions recommended, which were supported by third party actuarial advice, were appropriate.
Income taxes	Judgements have to be made by management on the tax treatment of a number of transactions in advance of the ultimate tax determination being known. In determining the appropriateness of the estimates made, the Committee considered a report from management setting out the basis for the judgements. The Committee concluded that the position taken was appropriate.
Contract accounting revenue	The Committee considered a report from management setting out the key judgements made by management in recognising revenue under contract accounting principles, focusing on the process by which amounts recognised were determined using estimates of total contract costs and the historical reliability of such estimates. The Committee concluded that the basis of revenue recognition was appropriate.
Treatment of exceptional operating items	The Committee discussed the treatment and disclosure of items included within exceptional operating items. The Committee noted items were treated appropriately and consistently year on year.

The Committee also discussed each of the above judgements with the external auditors in reaching their conclusions.

Key areas of oversight

External audit

The external auditors are PricewaterhouseCoopers LLP (PwC) who were appointed as Group auditors for the financial year commencing 1 January 2003 on 2 October 2003 after a competitive tender. There are no contractual obligations restricting the Committee's choice of external auditors.

The lead audit partner is Mr Paynter whose appointment in this role commenced with the audit for the financial year ended 31 December 2013. Mr Paynter has had no previous involvement with the Group in any capacity.

The Committee assessed the effectiveness of PwC and the external audit process using a questionnaire and a Committee discussion on the responses to the questionnaire. The Committee was satisfied with PwC's performance and the external audit process and that they had employed an appropriate level of professional challenge in fulfilling their role. 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 2015. It has recommended that the Board submit the re-appointment of PwC to shareholders for approval at the AGM in 2015.

The Committee has reviewed the tendering and rotation provisions from the EU, Competition and Markets Authority (CMA) and those contained in the UK Corporate Governance Code. The Committee does not expect to put the external audit services out for tender before the end of the current audit partner rotation period i.e. after the audit for the financial year ending 31 December 2017. This is subject to (i) any clarifications or changes issued by the CMA relating to their transitional provisions; (ii) the detailed implementation of the EU auditor rotation rules in UK law, scheduled for later in 2015; (iii) any other changes to the regulatory regime; and (iv) the Committee continuing to be satisfied with the effectiveness of the auditors which is considered annually.

The Committee routinely meet with PwC without executive management present and there were no concerns raised at that meeting. It was confirmed that the external auditors had been able to offer rigorous and constructive challenge to executive management during the year.

Non-audit services

The Group places great importance on the independence of its external 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.

Details of the fees paid for audit services, audit-related services and non-audit services can be found in note 7 to the financial statements. The fees paid for non-audit services in 2014 were less than £0.1 million (Nil% of the total audit fee) and the average fees paid for non-audit services for the last three years to 2014 was £0.1 million (4% of the total audit fee over that period). Fees paid in prior years related to services permitted to be provided by PwC under the Group's policy on non-audit services.

The Group's policy on non-audit services covers which services can be provided and which generally cannot be provided (for example internal audit services and tax planning). The full policy is disclosed on our website.

On balance, the Committee is satisfied that the overall levels of audit-related and non-audit fees are not material relative to the income of the office of PwC conducting the audit or PwC as a whole and therefore the objectivity and independence of the external auditors was not compromised.

Internal audit

The Committee agrees the annual internal audit plan which is developed according to a risk assessment process and ensures that adequate resources are available to execute the plan. In 2014, the risk assessment process was reviewed. It was agreed that businesses would be split into three tiers based on their significance to the Group's results, prior year audit findings, a self-assessment questionnaire and discussions with key stakeholders throughout the Group. Tier 1 businesses are visited annually, with Tier 2 businesses visited every other year and Tier 3 every third year.

At each meeting, the Committee receives a status update on the audit programme and reviews, discusses and challenges any significant issues arising and monitors implementation by the business of the recommendations made. In 2014, internal audits were carried out at a number of Group sites, including post-SAP implementation audits and the annual audit of the finance shared service centres.

IT was added to the scope of internal audit in 2014, using the services of Grant Thornton UK LLP. The 2014 IT audit scope included reviews of IT strategy and risk management, IT security, a data centre which has been established in the UK, and the global template utilised on SAP, our ERP system.

The Committee routinely meet internal audit without executive management present. No concerns were raised at the meeting and it was confirmed that internal audit had been able to carry out their work and offer constructive challenge to executive management during the year. The Committee considered the effectiveness of internal audit and confirmed that they were satisfied.

Whistleblowing

During the year, the Committee transferred responsibility for reviewing the process for handling allegations from whistleblowers to the Ethics and Trade Compliance Committee. In January 2015, the Ethics and Trade Compliance Committee confirmed that it was satisfied with the Group's process for handling whistleblowing allegations. Whistleblowing is covered under our Ethics and Business Conduct Policy and Code of Conduct, which are available on our website. The Group sponsors an independently operated and monitored Ethics Line, enabling employees to report concerns about possible misconduct, with proportionate and independent investigation and appropriate follow-up action. Whistleblowing reports are reviewed regularly by the Ethics and Trade Compliance Committee of the Board.

On behalf of the Audit Committee

David Williams
Chairman of the Audit Committee
23 February 2015

Nominations Committee report

Chairman's introduction

The Nominations Committee plays a leading role in assessing the balance of skills and experience on the Board and the Group's principal committees. The Committee identifies the roles and capabilities required to meet the demands of the business and, with due regard to diversity, ensures that a succession plan is in place. Candidates continue to be considered on merit against specific criteria determined by the Committee.

David Robins retired from the Board at the end of the 2014 AGM. Following a rigorous search process using search firm Zygos Associates, a number of candidates for the position of non-executive director were interviewed by the Board. The Nominations Committee recommended the appointment of Ms Alison Goligher as a non-executive director, as her career in the energy sector in a wide range of functional and operational roles would be of great value to Meggitt's energy businesses.

In December 2014, we announced the appointment of Sir Nigel Rudd as a non-executive director and Deputy Chairman effective from 1 March 2015 (becoming Chairman at the conclusion of the AGM in April 2015). He is a highly experienced and successful director and chairman and with his prior role as a non-executive director of BAE Systems, and current exposure to the industry at BBA Aviation, Sir Nigel has exceptional knowledge of the aerospace sector. His experience across a wide range of businesses and expertise will be of significant benefit to the Group and make him ideally positioned to be the next Chairman of Meggitt PLC.

We announced in December 2014 that Mr Philip Cox has resigned from the Board to concentrate on his new role as non-executive director and chairman designate of Drax Group plc.

In 2015, the Committee will continue to review the composition of the Board and succession plans for executive and non-executive directors, and is considering succession plans for Mr David Williams as he approaches his ninth year as a non-executive director during 2016.

Committee membership and attendance during 2014

Name	Meetings eligible to attend	Meetings attended
Sir Colin Terry (Chairman)	3	3
Mr S G Young	3	3
Mr G S Berruyer	3	3
Mr P G Cox	3	3
Ms A J P Goligher	1	1
Mr P Heiden	3	3
Ms B L Reichelderfer	3	3
Mr D M Williams	3	3

Terms of reference

The Committee operates within agreed Terms of Reference which were reviewed and updated in 2014 and are on our website.

Responsibilities

The Committee reviews the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and, in consultation with the directors, makes recommendations to the Board on any proposed changes. Decisions on Board changes are taken by the Board as a whole. In performing its duties, the Committee has access to the services of the Company Secretary and may seek external professional advice at the Group's expense.

Chairman Succession Sub-Committee of the Board

In 2014, after a number of internal applications were received for the role of Chairman, it was agreed that a Chairman Succession Sub-Committee of the Board be formed, for the purpose of running the Chairman selection process. Sir Colin Terry was not involved in the selection of his successor and Ms Reichelderfer chaired the Sub-Committee, which was formed entirely of non-executive directors. Advisers (including Russell Reynolds Associates acting as search adviser), the Chief Executive and other executive directors were consulted during the process.

The role of Chairman was defined in writing and approved by the Board. The selection process for the role included consideration of prior successful FTSE 100 chair experience, solid experience in aerospace and defence or engineering/industrial, as well as broad international experience, time availability and preferably previous experience of being a Chief Executive. Just over 30 candidate profiles were initially reviewed in the long list, from which a short list was identified and around ten candidates (including external and internal) were interviewed.

Taking into account the requirements of the role and the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board, the Chairman Succession Sub-Committee decided to recommend to the Board that Sir Nigel Rudd be appointed as Chairman. It was the view of the Board who approved his appointment, that Meggitt would benefit from the counsel and governance of Sir Nigel Rudd, a seasoned chairman with extensive international business experience spanning many industries, including aerospace.

Board 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 the selection and appointment process for employees and directors includes a diverse range of candidates;
- Disclosing statistics on gender diversity in every Annual Report (see page 41); and
- Reviewing this policy from time to time and continuing to disclose this policy in the Annual Report.

Based on the current size and composition of the Board and taking into account current succession plans, the Board has determined that there should be a minimum of two female directors, which is currently the case (for gender diversity statistics, see page 41). The Board remains committed to ensuring that the directors bring a wide range of skills, knowledge, experience, backgrounds and perspectives. Our directors are from the UK, US and France, and have a range of different skills and experience, from energy to aerospace, financial and technology backgrounds to an electrical engineer.

External search consultancies

During 2014, the Committee used Russell Reynolds Associates to assist in the search for the Chairman (and assist the Group with searches for other senior management posts from time to time). Zygos Associates were used to assist in the search for the non-executive director. Neither Russell Reynolds Associates nor Zygos Associates have any other connection with the Group.

On behalf of the Nominations Committee

Sir Colin Terry
Chairman of the Nominations Committee
23 February 2015

Directors' remuneration report

Chairman's introduction and annual statement

It is my pleasure to present the Directors' remuneration report for the year ended 31 December 2014.

Pay philosophy

Executive remuneration packages at Meggitt 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 delivering value to shareholders. The package targets fixed pay at market competitive levels to companies of a similar size and with similar operating characteristics, supplemented by performance-related annual bonuses and an equity-based long term incentive plan designed to reward and incentivise growth, and provide a strong link to Group and individual performance.

2014 activity

In 2014, we finalised the review of the remuneration package (which commenced last year and was extensively reported on in our 2013 report) and submitted the Directors' remuneration report and remuneration policy (Policy) to shareholders for approval at our AGM. 98.95% of those shareholders who voted at the AGM approved our Policy and 99.79% voted for the Directors' remuneration report.

We also finalised the effectiveness review of the Committee and Kepler Associates (Kepler), our advisers, which was carried out using questionnaires and Committee discussion. Overall the ratings for the Committee and Kepler were satisfactory; there was a valuable discussion about effectiveness but no significant areas highlighted for improvement.

Since May, we have approved awards under the new shareholder-approved Long Term Incentive Plan (LTIP), updated our terms of reference to reflect the new remuneration reporting and policy regime and confirmed the Equity Participation Plan (EPP) vesting outcome (see page 67). We also discussed performance targets for 2015 and agreed the fees for Sir Nigel Rudd, who will become Chairman at the conclusion of the AGM on 23 April 2015.

The intended remuneration arrangements for 2015, outlined in this report, are in line with the Policy approved by shareholders at our 2014 AGM.

2014 performance

Civil original equipment revenue enjoyed another year of strong growth, and the civil aftermarket gained momentum through the year resulting in full year organic growth in civil aerospace of 6%. However, this was offset by declines in military and energy resulting in flat organic Group revenue for the year. Underlying organic profit before tax declined by 11% reflecting adverse product mix and increased investment in new product introduction costs, with a 14% decline in underlying EPS reflecting also adverse movements in foreign exchange and the disposal of non-core businesses. This has resulted in the earnings per share (EPS) and cash elements of the awards granted in 2012 under the Executive Share Option Scheme (ESOS) and EPP failing to meet their performance conditions (the total shareholder return outcome on the EPP will be confirmed at the vesting date). Under our Short Term Incentive Plan (STIP), we did not hit our financial targets which account for two thirds of the award, but the targets for personal performance objectives were met and vesting outcomes for 2014 are as a result of this personal performance element. With growing order intake and building aftermarket momentum, we anticipate a return to organic growth in 2015.

This Directors' remuneration report has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

The report meets the requirements of the UK Listing Authority's Listing Rules and the Disclosure and Transparency Rules. In this report we describe how the principles relating to directors' remuneration, as set out in the UK Corporate Governance Code 2012 (the Code), are applied in practice. The FRC published a revised UK Corporate Governance Code on 17 September 2014, applicable to reporting periods beginning on or after 1 October 2014 (the 2014 Code), although the Board has adopted some of the new provisions in the 2014 Code earlier than required.

Paul Heiden
Chairman of the Remuneration Committee

Directors' remuneration report continued

The Policy report

This section of the report sets out the Policy for the directors, which shareholders approved at the 2014 AGM and is effective for a period of three years from the date of the 2014 AGM. The only amendments to the Policy from the version approved by shareholders are to update the data used in the pay-for-performance scenario analysis from 2014 to 2015 and to remove references to future approval of the Long Term Incentive Plan (which was approved at the AGM in 2014).

Executive Director Remuneration Policy Table

Base salary	
Function	To attract and retain talent by ensuring base salaries are competitive in the relevant talent market.
Operation	Salary will be reviewed by the Committee annually, in February, with changes effective from 1 April of that year. Salaries for the year under review are disclosed in the annual report on remuneration. In deciding salary levels, the Committee considers personal performance including how the individual has helped to support the strategic objectives of the Group. The Committee will also consider employment conditions and salary levels across the Group, and prevailing market conditions. Salaries are paid to existing directors in GBP; however the Committee reserves the right to pay future and existing directors in any other currency (converted at the prevailing market rate when a change is agreed).
Opportunity	It is not anticipated that percentage salary increases for executive directors will exceed those of the wider workforce over the period this Policy will apply. Where increases are awarded in excess of the wider employee population, for example if there is a material change in the responsibility, size or complexity of the role, the Committee will provide the rationale in the relevant year's annual report on remuneration.
Performance metrics	None explicitly, but salaries are independently benchmarked periodically against FTSE companies in similar industries and those with similar market capitalisation. Personal performance is also taken into account when considering salary increases.

Pension	
Function	To provide post-retirement benefits for executive directors in a cost-efficient manner.
Operation	The pension plans operated by the Group which executive directors are, or could be, members of are: —Meggitt Pension Plan (defined benefit pension plan, closed to new members). —Meggitt Workplace Savings Plan (defined contribution personal pension scheme, open to new members). Salary is the only element of remuneration that is pensionable. There are no unfunded pension promises or similar arrangements for directors.
Opportunity	From 2013, it has been our Policy that new executive director external appointments are eligible for a pension allowance of 25% of salary, payable either as pension contribution up to any limit set in current regulations or, above such limits, in cash. Where agreements have been made prior to the approval of this Policy which entitle an executive to receive a pension allowance higher than 25% of salary, pension allowances up to a maximum of 50% of salary, will be paid; Mr Young and Mr Green had agreements prior to the approval of this Policy which entitle them to receive a pension allowance of 50% of salary and this arrangement will continue for these directors.
Performance metrics	None.

Benefits	
Function	To provide non-cash benefits which are competitive in the market in which the executive director is employed.
Operation	The Group may provide benefits including, but not limited to, a company car or car allowance, private medical insurance, permanent health insurance, life assurance, a fuel allowance, a mobile phone, relocation costs and any other future benefits made available either to all employees globally or all employees in the region in which the executive director is employed.
Opportunity	Benefits vary by role and individual circumstances; eligibility and cost is reviewed periodically. Benefits in respect of the year under review are disclosed in the annual report on remuneration. It is not anticipated that the costs of benefits provided will increase significantly in the financial years over which this Policy will apply, although the Committee retains discretion to approve a higher cost in exceptional circumstances (e.g. to facilitate recruitment, relocation, expatriation etc) or in circumstances where factors outside the Group's control have changed materially (e.g. market increases in insurance costs).
Performance metrics	None.

Annual bonus (Short Term Incentive Plan—STIP)	
Function	To incentivise executive directors on delivering annual financial and personal targets.
Operation	Performance measures, targets and weightings are set at the start of the year. The performance period of the STIP is a financial year. After the end of the financial year, to the extent that the performance criteria have been met, 75% of the STIP award is paid in cash to the director. The remaining 25% of the award will be deferred into shares and released (with no further performance conditions attached, and no matching shares provided) after a further period of two years. Under the STIP 2014 rules as approved by the Committee, the Committee may decide to apply malus and/or clawback to STIP awards and deferred STIP awards to reduce the vesting of awards and/or require repayment of awards in the event of a review of the conduct, capability or performance of the director where there has been misconduct by the director or material misstatement of the Company's or a Group members financial results for any period. Deferred STIP awards may lapse in certain leaver circumstances (see page 62).
Opportunity	The STIP provides for a maximum award opportunity of up to 150% of salary in normal circumstances with an on-target opportunity of 100% of salary and an opportunity of 50% of salary at threshold. The Committee has discretion to make a STIP award of up to 200% of salary in exceptional circumstances (e.g. a substantial contract win which has a significant positive financial impact in the long term but which has no, or negative, short term financial impact). Dividends accrue on unvested deferred STIP awards over the vesting period and are released on the vesting date.
Performance metrics	STIP awards are based on the achievement of financial and personal performance targets. For the executive directors, two-thirds of the STIP will be weighted to financial performance, with the remainder subject to personal performance. The relative weightings of the financial and personal elements for any STIP period, and the measures used to assess financial and non-financial performance, will be set by the Committee in its absolute discretion to align with the Group's operating and strategic priorities for that year. The award for performance under each element of the STIP will be calculated independently. The Committee will have discretion to review the consistency of the pay-out of the financial and personal elements and adjust the total up or down (within the levels specified above) if it does not consider this to be a fair reflection of the underlying performance of the Group or the individual. The personal performance element will typically be based on three to five objectives relevant to the executive's role. Details of the measures, weightings and targets applicable to the STIP for each year, including a description of how they were chosen and whether they were met, will be disclosed retrospectively in the annual report on remuneration for the following year (subject to commercial sensitivity).

Directors' remuneration report continued

Long Term Incentive Plan (LTIP)	
Function	To align the interests of executive directors with shareholders in growing the value of the Group over the long term.
Operation	The LTIP replaced the ESOS and EPP in 2014. Under the LTIP, executive directors are eligible to receive annual awards over Meggitt shares vesting after three years, subject to the achievement of stretching performance targets. Whilst it is the current intention that LTIP awards will be in the form of nil cost options, the LTIP provides, at the absolute discretion of the Committee, for awards over conditional shares, market value share options and phantom awards. Under the LTIP 2014 rules as approved by shareholders at the AGM in 2014, the Committee may decide to apply malus and/or clawback to awards to reduce the vesting of awards and/or require repayment of awards in the event of a review of the conduct, capability or performance of the director where there has been misconduct by the director or material misstatement of the Company's or a Group members financial results for any period.
Opportunity	Executive directors will normally be eligible for annual LTIP awards of 220% of salary. Awards up to a maximum of 300% of salary may be granted in exceptional circumstances (e.g. to support the recruitment of a key executive or to recognise exceptional individual performance). 30% of an award will vest if performance against each performance condition is at threshold and 100% if it is at maximum, with straight line vesting in between. Dividends accrue on unvested LTIP awards over the vesting period and are released, to the extent the LTIP award vests, on the vesting/exercise date.
Performance metrics	Vesting of LTIP awards is subject to continued employment and performance against three measures, which are intended to be as follows: • Earnings per Share (EPS); • Return on Trading Assets (ROTA), which is underlying operating profit after tax divided by net trading assets, measured at constant currency. Net trading assets are adjusted to exclude goodwill and other intangible assets arising on the acquisition of a business, derivative financial instruments, retirement benefit obligations, deferred tax and net debt; and • Strategic goals (typically to be based on three strategic priorities around execution, growth and innovation). The way these measures link to our KPIs can be seen on pages 27 to 30. It is the current intention that the weighting of the measures will be equal (i.e. one third each) but that the Committee will consider, and adjust if deemed appropriate, the weighting at the start of each LTIP cycle. Any commercially-sensitive information on measures, targets and performance will be disclosed retrospectively. Awards made under the LTIP will have a performance period of three financial years, starting from 1 January of the year in which the award is made and ending on 31 December of the third year. If no entitlement has been earned at the end of the relevant performance period, awards will lapse. Vesting of the strategic element will also be subject to a discretionary assessment by the Committee of the extent to which achievement of the strategic objectives is consistent with the underlying financial performance over the three-year period. The measures and targets in operation for grants made under the LTIP in the current year, and which are not deemed commercially sensitive are disclosed in the annual report on remuneration.

Sharesave Scheme and Share Incentive Plan (SIP)	
Function	To align the interests of employees and shareholders by encouraging all employees to own Meggitt shares.
Operation	Sharesave Scheme—All employee scheme under which all UK employees (including executive directors) may save up to the maximum monthly savings limit (as determined by legislation) over a period of three or five years. Options under the Sharesave Scheme are granted at a discount of up to 20% to the market value of shares at the date of grant. SIP—All employee scheme under which (i) all UK employees (including executive directors) may contribute up to the monthly maximum (as determined by legislation) to purchase shares monthly from pre-tax pay; and (ii) all UK employees (including executive directors) may receive free shares up to the annual maximum value (as determined by legislation).
Opportunity	Savings, contributions and free shares are capped at the prevailing legislative limit at the time UK employees are invited to participate.
Performance metrics	None.

Notes to the Policy table

The Committee is satisfied that the above Policy is in the best interests of shareholders and does not promote excessive risk-taking. The Committee retains discretion to make minor, non-significant changes to the Policy without reverting to shareholders.

Payments from outstanding awards

Outstanding awards are currently held by the directors under the EPP and the ESOS, the Group's long term incentives operated prior to the introduction of the LTIP in 2014. These awards will continue to vest (subject to performance conditions being met) and be capable of exercise during the period over which this Policy applies. The tables on pages 74 to 75 highlight outstanding and vested awards.

Approach to target setting and performance measure selection

Targets applying to the STIP and LTIP are reviewed annually, based on a number of internal and external reference points, including the Group's strategic plan, analyst forecasts for Meggitt and its sector comparators, historical growth achieved by Meggitt and its sector comparators and external expectations for growth in Meggitt's markets.

STIP

The performance measures used under the STIP reflect financial targets for the year and non-financial performance objectives. The Policy provides the Committee with flexibility to select appropriate measures on an annual basis.

STIP performance targets are set to be stretching but achievable, with regard to the particular personal performance objectives and the economic environment in a given year. For financial measures, 'target' is based around the annual budget approved by the Board. Prior to the start of the financial year, the Committee sets an appropriate performance range around target, which it considers provides an appropriate degree of 'stretch' challenge and an incentive to outperform.

LTIP

The vesting of LTIP awards is linked to EPS, ROTA and the achievement of long-term strategic goals.

EPS is considered by the Board to be the most important measure of Meggitt's financial performance. It is highly visible internally, is regularly monitored and reported, and is strongly motivational for participants. EPS targets will continue to be set on a nominal cumulative (pence) basis to incentivise consistent performance and reflect the fact that Meggitt's profits are generated to a large degree outside the UK and not significantly influenced by UK retail price inflation.

ROTA helps to balance the achievement of growth and returns. The Committee believes ROTA is a good internal proxy for total shareholder return (TSR) which focuses executives on managing the balance sheet and Meggitt's operational performance, whilst also being less remote for participants below Board level. The definition of net trading assets for ROTA excludes goodwill and other intangible assets arising when a business is acquired, to reflect that acquisitions are not within the control of the majority of participants. In order to safeguard against poor acquisitions, the Committee has overall discretion to reduce the outcome under the ROTA element if in its opinion the outcome does not reflect the underlying financial performance of the Group. The performance of acquisitions against Board approved targets is also monitored separately.

The Committee believes that the strategic goals component will help reinforce the realisation of Group strategy and the achievement of key non-financial and strategic goals over long product cycles which drive long-term value at Meggitt. The element will typically comprise a scorecard of three-year targets across a maximum of three core strategic areas for the Group. The Committee believes that this approach will enable it to reflect the Group's long-term nature and shifting strategic priorities in the LTIP to ensure executives' interests remain closely aligned with those of our shareholders over time. Specific measures and targets for each area will be developed and clearly defined at the start of each three-year cycle to balance leading and lagging indicators of performance. Vesting of this element is subject to a discretionary assessment by the Committee of the extent to which achievement of the strategic objectives is consistent with Meggitt's underlying financial performance over the performance period.

Remuneration policy for other employees

The remuneration policy for other employees is based on broadly consistent principles as that for executive directors. Annual salary reviews take into account Group performance, local pay and market conditions, and salary levels for similar roles in comparable companies. Some employees below executive level are eligible to participate in annual bonus schemes; opportunities and performance measures vary by organisational level, geographical region and an individual's role. Senior executives are eligible for LTIP on similar terms as the executive directors, although award opportunities are lower and vary by organisational level. All UK employees are eligible to participate in the Sharesave Scheme and SIP on identical terms.

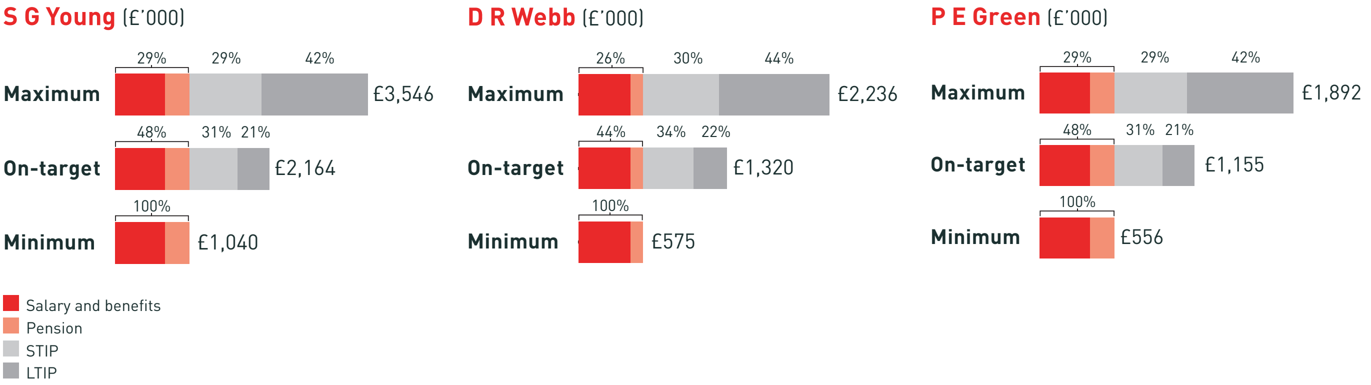
Share ownership guidelines

In 2013, the Committee increased the minimum shareholding guidelines for executive directors from 100% to 300% of base salary for the Chief Executive and from 100% to 200% of base salary for each of the other executive directors. There is no set time frame within which directors have to meet the guideline, however until they meet the guideline they are not permitted to sell more than 50% of the after-tax value of a vested share award. The shareholding requirement ceases when a director leaves the Group. Further information on the shareholding requirement is in the annual remuneration report (see page 73).

Directors' remuneration report continued

Pay-for-performance: scenario analysis

The charts below provide an estimate of the potential future reward opportunities for the executive directors, and the potential split between the different elements of remuneration under three different performance scenarios: 'Maximum', 'On-target' and 'Minimum'.



Potential reward opportunities are based on the Policy, applied to 2015 base salaries and 2015 incentive opportunities. Note that the LTIP awards granted in a year will not normally vest until the third anniversary of the date of grant, and the projected value excludes the impact of share price movement or dividend accrual.

The 'Maximum' scenario reflects fixed remuneration (salary and benefits and pension), plus maximum payout under all incentives (150% of salary under the STIP, and full vesting of LTIP awards).

The 'On-target' scenario reflects fixed remuneration as above, plus target STIP (based on two-thirds of maximum opportunity) and LTIP threshold vesting (30% vesting).

The 'Minimum' scenario reflects fixed remuneration only, being the only elements of the executive directors' remuneration package not linked to performance.

Non-Executive Directors'—Remuneration Policy Table

Non-Executive Directors are submitted for re-election annually, do not have a contract of service and are not eligible to join the Group's pension or share schemes. Details of the Policy on fees paid to our non-executive directors are set out in the table below:

Fees	
Function	To attract and retain non-executive directors of the highest calibre with broad commercial and other experience relevant to the Group.
Operation	Fee levels are reviewed annually, with any adjustments effective 1 April each year. The fees paid to the Chairman of the Board are determined by the Committee, while the fees for all other non-executive directors are reviewed by a committee of the Board formed of executive directors. Fees for the year under review and for the current year are disclosed in the annual report on remuneration. Additional fees are paid to the chairmen of the Remuneration and Audit Committee and to the Senior Independent Director, to reflect the additional time commitment of these roles. In deciding fee increases, the committees consider employment conditions and salary increases across the Group, and prevailing market conditions. Currently, all fees are paid in GBP, however the committees reserve the right to pay future and existing non-executive directors in any other currency (converted at the prevailing market rate when a change is agreed) .
Opportunity	Fee increases will be applied taking into account the outcome of the annual review. The maximum aggregate annual fee for all non-executive directors (including the Chairman) as provided in the Company's Articles of Association is £1,000,000.
Performance metrics	None.

Recruitment

External appointments
In cases of hiring or appointing a new executive director from outside the Group, the Committee may make use of all existing components of remuneration, as follows:

Component	Approach	Maximum annual grant value
Base salary	The base salaries of new appointees will be determined based on the experience and skills of the individual, internal comparisons, employment conditions and salary levels across the Group, and prevailing market conditions. Initial salaries may be set below market and consideration given to phasing any increases over two or three years subject to development in the role.	N/A
Pension	In line with the Policy, new appointees will be entitled to become members of the Meggitt Workplace Savings Plan (defined contribution plan) or receive a cash pension allowance of 25% of salary in lieu.	N/A
Benefits/ Sharesave/SIP	New appointees will be eligible to receive benefits in line with the Policy, and will be eligible to participate in all-employee share schemes.	N/A
STIP	The structure described in the Policy table will apply to new appointees with the relevant maximum being pro-rated to reflect the proportion of employment over the year. Targets for the personal element will be tailored to the appointee.	150% of salary (200% in exceptional circumstances)
LTIP	New appointees will be granted awards under the LTIP on similar terms as other executive directors, as described in the Policy table.	220% of salary (300% in exceptional circumstances)

In determining the appropriate remuneration structure and levels, the Committee will take into consideration all relevant factors to ensure that arrangements are in the best interests of Meggitt and its shareholders. The Committee may make an award in respect of a new appointment to 'buy out' incentive arrangements forfeited on leaving a previous employer, i.e. over and above the approach outlined in the table above. Any such compensatory awards will be made under existing share schemes, where appropriate, and will be subject to the normal performance conditions of those schemes.

The Committee may also consider it appropriate to structure 'buy-out' awards differently to the structure described in the Policy table, exercising the discretion available under UKLA Listing Rule 9.4.2 R where necessary to make a one-off award to an executive director in the context of recruitment. In doing so, the Committee will consider relevant factors including any performance conditions attached to these awards, the likelihood of those conditions being met and the proportion of the vesting period remaining. The value of any such 'buy-out' will be fully disclosed.

Internal promotion
Where a new executive director is appointed by way of internal promotion, the Policy will be consistent with that for external appointees, as detailed above. Any commitments made prior to an individual's promotion will continue to be honoured even if they would not otherwise be consistent with the Policy prevailing when the commitment is fulfilled, although the Group may, where appropriate, seek to revise an individual's existing service contract on promotion to ensure it aligns with other executive directors and prevailing market best practice.

Disclosure on the remuneration structure of any new executive director, including details of any exceptional payments, will be disclosed in the RIS notification made at the time of appointment and in the annual report on remuneration for the year in which the recruitment occurred.

Non-executive directors
In recruiting a new non-executive director, the Committee will use the Policy as set out in the table on page 60.

Directors' remuneration report continued

Service contracts and exit payment policy

Executive director service contracts, including arrangements for early termination, are carefully considered by the Committee and are designed to recruit, retain and motivate directors of the quality required to manage the Group.

The Committee's Policy is that executive directors' service contracts should be terminable on no more than 12 months' notice. The Committee's approach to payments in the event of termination of employment of an executive director is to take account of the particular circumstances, including the reasons for termination, individual performance, contractual obligations and the rules of the Group's applicable incentive plans which apply to share awards held by the executive directors:

- Compensation for loss of office in service contracts
  Except as set out in the table on page 63, under the terms of their service contracts, the executive directors may be required to work during their notice period or may, if the Group decides, be paid in lieu of notice if not required to work the full notice period. Payment in lieu of notice will be equal to base salary plus the cost to the Group of providing the contractual benefits (pensions allowance, health insurance and company car or car allowance) that would otherwise have been paid or provided during the notice period. Payments will be in equal monthly instalments and will be subject to mitigation such that payments will either reduce, or stop completely, if the executive director obtains alternative employment.

  An executive director's employment can be terminated by the Company without notice or payment in lieu of notice in specific circumstances including summary dismissal, bankruptcy or resignation.

- Treatment of STIP
  Executive directors have no automatic entitlement to any bonus on termination of employment under the STIP, but the Committee may use its discretion to award a bonus (normally pro-rated).

  Where any bonus is deferred into shares, the award will normally lapse if an executive director's employment terminates unless the executive director leaves for specified 'good leaver' reasons. The 'good leaver' reasons are death, redundancy, retirement, injury, disability, the business or company which employs the executive director ceasing to be part of the Group, any other circumstances in which the Committee exercises discretion to treat the executive director as a 'good leaver' or on a change of control. If the executive director is a 'good leaver' their award will vest on the normal vesting date, or earlier on a change of control, and would not be subject to pro-rating.

- Treatment of long term incentive plan awards
  The treatment of awards under the ESOS, EPP and LTIP is governed by the rules of the plans which have been approved by shareholders and is described below.

  Awards will normally lapse if an executive director's employment terminates unless the executive director leaves for specified 'good leaver' reasons. The 'good leaver' reasons are the same as described above. If the executive director is a 'good leaver', awards will vest to the extent that the attached performance conditions are met, but on a time pro-rated basis, with Committee discretion to allow early vesting. Under the EPP and ESOS, awards vest as soon as practicable after an employee has left. Under the LTIP, awards vest on the normal vesting date.

A summary of the key terms of the executive directors' service contracts on termination of employment or change of control is set out below:

Name	Position	Notice period from employer	Notice period from employee	Compensation payable on termination of employment or change of control
Mr S G Young Service contract dated 1 May 2013	Chief Executive	12 months	6 months	As set out in the Policy, but service contract includes an obligation for the Committee to allow Mr Young to exercise awards under the Group's share plans that have already vested at the point of termination. No change of control provisions.
Mr D R Webb Service contract dated 6 June 2013	Chief Financial Officer	12 months	6 months	As set out in the Policy. No change of control provisions.
Mr P E Green Service contract dated 26 February 2001	Group Corporate Affairs Director	12 months	6 months	Mr Green's service contract was entered into before 27 June 2012 and has not been modified or renewed after that date. As such, remuneration or payments for loss of office that are required to be made under Mr Green's service contract are not required to be consistent with the Policy. Payments to Mr Green under his service contract differ from the Policy in the following respects: On termination of employment, Mr Green is entitled to a liquidated damages payment equal to his salary and the value of his contractual benefits (bonus, pension allowance, insurance and company car or car allowance) at the date of termination, pro-rated to the remaining notice period less an amount equal to 5% of the aggregate sum and the Committee shall exercise its discretion under the Group's share plans to treat Mr Green as a 'good leaver'. On change of control, Mr Green may give notice to terminate his employment within six months of the event and upon such termination he shall become entitled to the liquidated damages payment summarised above.

External appointments held by executive directors
The Board believes that the Group 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 deterioration in the individual's performance. Details of external appointments and the associated fees received are included in the annual report on remuneration on page 72.

Consideration of conditions elsewhere in the Company
The Committee does not consult with employees specifically on executive remuneration policy and framework but does seek to promote and maintain good relations with employee representative bodies—including trade unions and works councils—as part of its broader employee engagement strategy and consults on matters affecting employees and business performance as required in each case by law and regulation in the jurisdictions in which the Group operates. Salary increases made elsewhere in the Group are amongst the data that the Committee considers in determining salaries for executive directors.

Consideration of shareholder views
The Committee considers shareholder views received during the year and at the AGM each year, as well as guidance from shareholder representative bodies more broadly. The majority of shareholders continue to express support of remuneration arrangements at Meggitt.

Directors' remuneration report continued

Annual report on remuneration

The following report provides details of how our Policy was implemented during the year ended 31 December 2014.

Remuneration Committee—2014 membership and attendance

Name	Meetings eligible to attend	Meetings attended
Mr P Heiden (Chairman)	3	3
Mr G S Berruyer	3	3
Mr P G Cox	3	3
Ms A J P Goligher	1	1
Ms B L Reichelderfer	3	3
Mr D M Williams	3	3

Mr Cox resigned from the Committee on 31 January 2015 on his departure from the Board. There was one meeting between the end of the financial year and the date of signing of this report on 16 February 2015, which all current members of the Committee attended. The Committee operates within agreed Terms of Reference, which are available on our website and were updated in 2014. The Committee is responsible for determining the remuneration policy and packages for all executive directors and Executive Board members (covering five of the next most senior executives across the Group) 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.

Advisers to the Committee

During the year, the Committee's independent remuneration advisor was Kepler Associates (Kepler). Kepler, appointed in 2010, was selected by the Committee as a result of a competitive tender process. The Committee evaluates the support provided by Kepler annually and is comfortable that they provide independent remuneration advice to the Committee. Kepler provide guidance on remuneration matters at Board level and below. Kepler do not have any other connection with the Group. Kepler is a member of the Remuneration Consultants Group and adheres to its code of conduct (www.remunerationconsultantsgroup.com). Their total fees in 2014 were £88,000 (2013: £87,000).

2014 AGM voting

The following table shows the results of the AGM votes on the 2013 Directors' Remuneration Policy and Directors' remuneration report at the 2014 AGM:

Resolution text	Votes for	% of votes cast for	Votes against	% of votes cast against	Total votes cast	Votes withheld (abstentions)[1]
Approval of Directors' Remuneration Policy	623,092,269	98.95	6,598,635	1.05	629,690,904	30,502,072
Approval of Directors' remuneration report	654,155,733	99.79	1,368,456	0.21	655,524,189	4,668,787

1 A withheld vote is not a vote in law and is not counted in the calculation of the proportion of votes cast for and against a resolution.

Single total figure of remuneration for executive directors (audited)

The table below sets out a single figure for the total remuneration received by each executive director for the year ended 31 December 2014 and the prior year:

	Mr S G Young[1]		Mr D R Webb[1]		Mr P E Green	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000	**2014 £'000**	2013 £'000
Base salary	**658**	554	**436**	240	**339**	325
Taxable benefits[2]	**24**	21	**14**	8	**14**	14
Pension	**329**	277	**118**	57	**170**	163
STIP[3]	**221**	250	**198**	93	**166**	126
EPP basic[4]	**–**	136	**–**	–	**–**	106
EPP matching[4]	**–**	96	**–**	–	**–**	74
ESOS[5]	**–**	244	**–**	–	**–**	190
Total	**1,232**	1,578	**766**	398	**689**	998

1 Mr Young was promoted to Chief Executive on 1 May 2013. Mr Webb was appointed on 6 June 2013.

2 Taxable benefits consist primarily of company car or car allowance, fuel allowance and private health care insurance.

3 STIP paid for performance over the relevant financial year. Further details of the 2014 STIP, including performance measures, actual performance and bonus payouts, can be found on page 66.

4 EPP is calculated as the number of shares vesting based on performance measures substantially completed during the year, valued at the market value of the shares. For 2014, the figure represents the actual vesting outcome of the EPS and cash elements of the 2012 award (the performance period ended on 31 December 2014) and an estimate of the outcome of the TSR element of the 2012 award (the performance period of which will end in August 2015) based on performance to 31 December 2014. The market value of vested shares is based on the average share price over the last quarter of 2014 of 474.07 pence. The valuation of the 2012 award will be amended for the actual vesting outcome of the TSR element in August 2015 and the share price on the date of vesting (22 August 2015) in next year's annual report on remuneration. For 2013, the figure represents the actual vesting outcome of the 2011 award, which has been trued up, compared to that reported last year, to reflect the final vesting outcome of the TSR element (Nil%) and the share price on the date of vesting (467.80p). Further details on performance criteria, achievement and resulting vesting levels can be found on page 67.

5 ESOS is calculated as the number of shares vesting based on performance measures substantially completed during the year, valued at the difference between the market value of the shares and the exercise price of the award. For 2014, the figure represents the actual vesting outcome of the 2012 award. The market value of vested shares is based on the average share price over the last quarter of 2014 of 474.07 pence and an exercise price of 397.20p. For 2013, the figure represents the actual vesting outcome of the 2011 award, trued up, compared to that reported last year, to reflect the embedded gain based on the actual share price at vesting (504.00p). Further details on performance criteria, achievement and resulting vesting levels can be found on page 67.

Single total figure of remuneration for non-executive directors (audited)

The table below sets out a single figure for the total remuneration received by each non-executive director for the year ended 31 December 2014 and the prior year:

	2014 £'000	2013 £'000
Sir Colin Terry	**175**	170
Mr D M Williams	**74**	72
Mr G S Berruyer	**53**	52
Mr P G Cox	**53**	52
Ms A J P Goligher[1]	**9**	–
Mr P Heiden	**63**	62
Ms B L Reichelderfer	**53**	52
Mr D A Robins[2]	**18**	52

1 Appointed on 30 October 2014.

2 Retired on 7 May 2014.

Directors' remuneration report continued

Incentive outcomes for the year ended 31 December 2014

STIP in respect of 2014 performance

The Board set stretching financial and strategic targets for the STIP at the start of the 2014 financial year. These targets, and our performance against these, are summarised in the table below.

Measure	Performance targets			Actual performance
	Threshold	Target	Stretch	
Underlying profit before tax (Weighting: one-third of the award)	£370m	£390m	£410m	Below threshold
Free cash flow[1] (Weighting: one-third of the award)	£195m	£228m	£260m	Below threshold
Personal performance[2] (Weighting: one third of the award)				
Mr S G Young	2	3	4	Target
Mr D R Webb	2	3	4	Between target and stretch
Mr P E Green	2	3	4	At stretch

1 Adjusted to exclude capital expenditure.

2 Individual personal performance is measured on a scale of 1 to 5. The average of all ratings drives the STIP outcome, where 2 indicates expectations are partially met, 3 is fully met and 4 exceeds expectations. Details of the personal performance measures are provided below.

It is the view of the Committee that notwithstanding that 2014 has been a challenging year and that the STIP financial targets have not been met, the personal performance objectives of the executive directors have been satisfied to the extent shown above, and STIP awards should vest on this basis.

A full listing of personal performance objectives has not been provided owing to commercial sensitivity, however, the following is a summary of the conditions applying to each executive director. Mr Young's personal performance objectives related to transforming execution capability (e.g. through successful implementation of the Meggitt Production System), shaping the business for competitive advantage, positioning for future growth (e.g. progressing technology projects) and ensuring best practice governance (e.g. health and safety improvements at sites). Mr Webb's personal objectives related to assessing the Group's strategic financial planning and capital allocation priorities, delivering sustainable cost improvements, implementing a mid-life ERP effectiveness programme, delivering a cyber-security risk reduction programme and shaping the business for competitive advantage. Mr Green's personal objectives related to continued enhancement of the risk management programme, continued improvement of health, safety and environment standards, implementation of the US Department of State's Consent Agreement and enhancing the import compliance and ethics programmes.

The following STIP awards were received by directors in respect of 2014 performance:

	% salary	£'000
Mr S G Young	33	221
Mr D R Webb	45	198
Mr P E Green	48	166

STIP—deferral into shares

As a result of the 2014 performance STIP vesting outcome described above, 25% of the STIP bonus will be deferred into shares and released (with no further performance conditions attached) after a further period of two years, per the Policy.

2012 EPP

The EPP award made in August 2012 vests 50% on cumulative underlying EPS performance, 25% on cash conversion over three financial years and 25% on the Group's relative TSR performance over a three-year period commencing on the date of grant, as follows:

Measure	Weighting %	Period ending	Vesting schedule	Outcome	Vesting %
EPS	50	31.12.14	0% vesting below 110p 30% vesting for 110p per share 100% vesting for 122p or more; Straight line vesting between these points	Below 110p	Nil
Cash conversion	25	31.12.14	0% vesting below 87% 30% vesting at 87% 100% vesting at 95% and above; Straight line vesting between these points	Below 87%	Nil
TSR	25	22.08.15	0% vesting for performance below median TSR 30% vesting for performance in line with median TSR 100% vesting for outperformance of median TSR by 8% per annum; Straight line vesting between these points	N/A[1]	N/A[1]

[1] The vesting outcome will be confirmed at the end of the three-year performance period ending on 22 August 2015. For the purposes of the single figure of remuneration table, the estimated vesting of this element of the 2012 award is Nil%, based on Meggitt's relative TSR performance to 31 December 2014.

2012 ESOS

The ESOS award made in April 2012 did not vest, based on three-year cumulative underlying EPS performance to 31 December 2014.

Measure	Weighting %	Period ending	Vesting schedule	Outcome	Vesting %
EPS	100	31.12.14	0% vesting below 110p 30% vesting for 110p per share 100% vesting for 122p or more; Straight line vesting between these points	Below 110p	0%

2011 EPP

As disclosed in the 2013 annual report on remuneration, the Committee determined that 50% of the 2011 EPP award subject to the three-year cumulative underlying EPS performance condition and the 25% subject to the cash conversion performance condition vested in full based on performance to 31 December 2013. The remaining 25% of the award was dependent on the Group's TSR performance compared to a group of 17 international aerospace and defence companies over the three-year period to 17 August 2014. TSR for all comparator companies is measured on a common currency basis.

Measure	Weighting %	Period ending	Vesting schedule	Outcome	Vesting %
TSR	25	17.08.14	0% vesting for performance below median TSR 30% vesting for performance in line with median TSR 100% vesting for outperformance of median TSR by 8% per annum; Straight line vesting between these points	Below median TSR	0%

Following confirmation of the vesting outcome of the TSR element, the overall vesting outcome for the 2011 EPP award (taking into consideration the outcome of both the EPS and TSR elements) was 38% of maximum.

To allow for comparability going forward, the Committee has elected to capture the vesting of the entire 2011 EPP award in the financial year ending 31 December 2013 for the purposes of the single figure, as follows:

Executive	Interests held	Vesting %	Interests vested	Date vested	Market price at vesting	Value £'000
Mr S G Young						
Basic award	76,663	38	29,131	17.08.14	467.80p	£136
Matching award	53,768	38	20,431	17.08.14	467.80p	£96
Mr P E Green						
Basic award	59,719	38	22,693	17.08.14	467.80p	£106
Matching award	41,884	38	15,915	17.08.14	467.80p	£74

Directors' remuneration report continued

Scheme interests awarded in the year ended 31 December 2014 (audited)

2014 LTIP

Executive	Form of award	Date of grant	Shares over which awards granted	Award price[1]	Face value £'000	Face value % of salary[1]	Date of vesting
Mr S G Young	Nil cost option	22.05.14	312,443	467.54p	£1,460	220	22.05.17
Mr D R Webb	Nil cost option	22.05.14	207,041	467.54p	£968	220	22.05.17
Mr P E Green	Nil cost option	22.05.14	161,868	467.54p	£757	220	22.05.17

1 The award price is the average of the last five days close prices before the award date. The face value has been calculated using the award price for each award.

2 Based on 2014 salary at the date of award.

Vesting is dependent on the achievement of three-year targets based on the following performance measures:

Weighting	Measure				Threshold	Mid-point	Stretch
33.3%	**Underlying EPS** (pence) three-year aggregate (equivalent to CAGR range of 5 to 10%)				124.0	130.5	137.0
33.3%	**ROTA** average over three years				33.0%	34.5%	36.0%
33.3%	**Strategic measures**[1] average over three years	Execution	Quality	% sites on target[2]	57.0%	71.0%	86.0%
		Execution	Delivery	% sites on target[2]	43.0%	57.0%	71.0%
		Execution	Meggitt Production System	Average status per schedule	2.0	3.0	4.0
		Growth	Organic revenue growth	% organic revenue growth (CAGR over three years)	5.0%	6.5%	8.0%
		Growth	Programme management	Average status per reviews	2.0	3.0	4.0
		Innovation	Schedule	Average status per schedule	2.0	3.0	4.0

1 Performance against each strategic measure will be assessed at the end of the three-year period against a scale of:
- 1.0—threshold objective not met
- 2.0—threshold met
- 3.0—on target
- 4.0—stretch objective met
- 5.0—stretch objective exceeded

2 The targets for quality and delivery are for year 1 of the 2014 LTIP award. Please refer to the 2015 LTIP award performance measures for the targets which also apply to year 2 of the 2014 LTIP award.

Total pension entitlements (audited)

The table below sets out details of the pension entitlements under the Meggitt Pension Plan (MPP) for Mr Young and Mr Green.

Under the MPP, Mr Young and Mr Green accrued defined benefits at 3% of salary per annum up to the Scheme Cap and were entitled to a cash supplement equivalent to 50% of salary above the Scheme Cap. Since reaching the government's Lifetime Allowance in April 2012, Mr Young and Mr Green ceased accruing further benefit under the MPP and received a 50% pension allowance on their full salary. Mr Young and Mr Green's dependants remain eligible for dependants' pensions and the payment of a lump sum on death in service.

Mr Webb receives a pension allowance of 25% of base salary, but is not a member of any defined benefit or defined contribution pension scheme operated by the Group.

The pension allowance payments made in 2014 are included in the single total figure of remuneration table.

	Mr S G Young[1]		Mr P E Green[2]	
	2014 £'000	2013 £'000	**2014 £'000**	2013 £'000
Accrued benefit	**27**	27	**75**	73
Date benefit receivable	**05.04.2012**	05.04.2012	26.10.2018	26.10.2018
Total value of additional benefit if director retires early	**Left MPP and taken benefits**	Left MPP and taken benefits	**Nil. Early retirement factors cost neutral**	Nil. Early retirement factors cost neutral

1 Mr Young opted to leave the MPP and take his pension benefits with effect from 5 April 2012.
2 Mr Green opted to leave the MPP with effect from 31 March 2012. He has not drawn his pension.

Percentage change in CEO cash remuneration

The table below shows the percentage change in CEO remuneration from the prior year compared to the average percentage change in remuneration for all executive employees. We have selected our executive population (around 300 people) for this comparison because it is considered to be the most relevant, due to the structure of total remuneration; most of our senior executives receive benefits under the same STIP and LTIP structure as our CEO.

	2014[1] £'000	2013[1] £'000	**CEO % change 2013-2014**	**Executive employees% change 2013-2014**
Base salary	**658**	647	**+1.7**	**+3.5**[2]
Taxable benefits	**24**	24	**Nil**	**+2.0**[3]
STIP	**221**	244	**-9.4**	**Nil**[4]
Total	**903**	915	**-1.3**	**+3.0**

1 The CEO's remuneration includes base salary, taxable benefits and STIP. For 2013, the figures comprise elements paid to Mr T Twigger before his retirement from the Board in May 2013 and payments made to Mr S G Young from his appointment as CEO since May 2013.
2 The base salary for executive employees is calculated using the increase in the earnings of full-time executive employees using a consistent set of employees.
3 For benefits, this information is not collected for the executive employee population and is therefore estimated from a sample of executive employees, using a consistent set of employees.
4 For STIP, the increase is estimated as at 13 February 2015 as the validation processes for personal performance ratings for executive employees below the level of the Board and Executive/Operations Boards is not yet complete. To the extent there is a significant variation between the actual outcome and the estimate, this will be declared in the 2015 Directors' remuneration report.

Directors' remuneration report continued

Relative importance of spend on pay

The table below shows shareholder distributions (i.e. dividends and share buybacks) and total employee expenditure for 2014 and the prior year, along with the percentage change in both.

	2014 £'m	2013 £'m	% change 2013-2014
Shareholder distributions—dividends[1]	**110.4**	101.4	**+8.9**
Shareholder distributions—buybacks[1]	**33.7**	–	**N/A**
Total employee expenditure[2]	**461.3**	475.1	**-2.9**

1 See notes 16 and 40 respectively of the Group consolidated financial statements.

2 Comprises wages and salaries and retirement benefit costs. See note 9 of the Group consolidated financial statements.

Exit payments made in the year

No exit payments have been made in 2014.

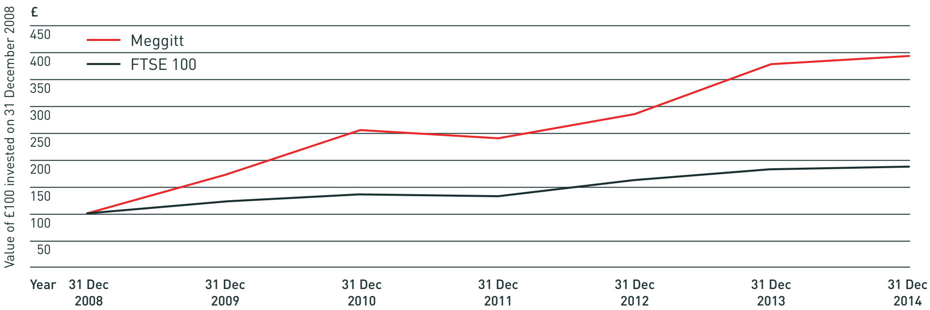
Payments to past directors (audited)

There were no payments to past directors in 2014. A de minimis of £10,000 applies to all disclosures under this note.

Review of past performance

The remuneration package is structured to help ensure alignment with shareholders. There is no direct correlation between share price movement and the change in the value of the pay package in any one year (as the remuneration package comprises several components, some fixed, and others based on non-financial measures). The graph and table below show how the CEO's pay has been sensitive to the share price over the last six years.

This graph illustrates the Group's performance compared to the FTSE100 Index, which is considered the most appropriate broad equity market index against which the Group's performance should be measured. Performance, as required by legislation, is measured by TSR over the six-year period from 1 January 2009 to 31 December 2014:



The table below details the CEO's single total figure of remuneration over the same period:

	2009	2010	2011	2012	2013[2]	**2014**
Mr S G Young						
Single total figure of remuneration (£'000)	–	–	–	–	1,296	**1,232**
STIP outcome[1] (% of maximum)	–	–	–	–	39%	**33%**
EPP vesting[1] (% of maximum)	–	–	–	–	38%	**0%**
ESOS vesting[1] (% of maximum)	–	–	–	–	76%	**0%**
Mr T Twigger						
Single total figure of remuneration (£'000)	1,758	2,947	4,252	3,812	1,845	
STIP outcome[1] (% of maximum)	86%	86%	100%	80%	35%	
EPP vesting[1] (% of maximum)	0%	50%	69%	88%	56%	
ESOS vesting[1] (% of maximum)	100%	100%	100%	100%	98%	

1 The outcomes are for those awards which are included in the single figure of remuneration for that year. For 2014, this represents the outcome of ESOS and EPP awards vesting in 2015. The final vesting of the EPP award will not be confirmed until the vesting date in 2015 because of the TSR performance condition.

2 Figures are provided for Mr T Twigger for the period up to 1 May 2013, and Mr S G Young for the period from his appointment as CEO on 1 May 2013.

Implementation of Remuneration Policy for 2015

Base salary

Base salaries are reviewed taking into account personal performance, employment conditions and salary levels across the Group and prevailing market conditions. Base salaries were reviewed in early 2015 and, effective 1 April 2015, will be as follows for the executive directors:

	2015 £'000	% change	2014 £'000
Mr S G Young	**677**	+2.0	664
Mr D R Webb	**449**	+2.0	440
Mr P E Green	**361**	+5.0	344

For context, salary adjustments across the Group vary from region to region according to local salary inflation; in the UK and the US the average salary adjustment will be 2%. Mr Green assumes additional responsibilities in 2015, including for the commercial contracts function. The Committee therefore agreed to increase his salary by 5% in recognition of this change in role and in view of his salary continuing to be below competitive levels.

Pension and benefits

There were no changes in pension contribution rates or benefit provision.

2015 STIP measures

STIP measures for 2015 are based on underlying operating profit (one third), free cash flow (one third) and personal performance (one third). The definition of profit for the purposes of this target has been changed for 2015 from underlying profit before tax to underlying operating profit because it is considered by the Committee to be more aligned to the metrics used to monitor our business units and therefore more relevant to STIP participants. The STIP targets for 2015, together with details of whether they have been met, will be disclosed (subject to commercial sensitivity) in the 2015 Directors' remuneration report. The opportunity is in line with the Policy disclosed on page 57.

2015 LTIP measures

The executive directors will be granted awards under the LTIP in 2015, the vesting of which will be subject to the measures and targets set out in the table below. A number of the strategic measures have agreed annual schedules and, to ensure that the LTIP targets for these measures remain relevant and stretching over the entire three-year performance period, targets for these measures will be set as three sets of annual targets (i.e. at the start of each year and measured over a 12-month period). Therefore, the quality and delivery targets shown below are effective for year 1 of the 2015 LTIP award, and also for year 2 of the 2014 LTIP award. In determining the final vesting outcome at the end of each LTIP cycle, the Committee will consider performance over the three-year performance period for each strategic measure.

Vesting of the LTIP awards will be subject to the following measures and targets:

Weighting	Measure				Threshold	Mid-point	Stretch
33.3%	**Underlying EPS** (pence) three-year aggregate (equivalent to CAGR range of 5.5 to 10%)				108.3	113.6	119.1
33.3%	**ROTA** average over three years				23.4%	25.4%	27.4%
33.3%	**Strategic measures**[1] average over three years	Execution	Quality	% sites on target[2]	57.0%	71.0%	86.0%
			Delivery	% sites on target[2]	36.0%	50.0%	65.0%
			Meggitt Production System	Average status per schedule	2.0	3.0	4.0
		Growth	Organic revenue growth	% organic revenue growth (CAGR over 3 years)	5.0%	6.5%	8.0%
			Programme management	Average status per reviews	2.0	3.0	4.0
		Innovation	Schedule	Average status per schedule	2.0	3.0	4.0

1 Performance aga inst each strategic measure will be assessed at the end of the three-year period against a scale of:
- 1.0—threshold objective not met
- 2.0—threshold met
- 3.0—on target
- 4.0—stretch objective met
- 5.0—stretch objective exceeded

2 The targets set out above on quality and delivery apply to year 1 of the 2015 LTIP award and year 2 of the 2014 LTIP award.

Directors' remuneration report continued

Chairman and non-executive director fees

The remuneration of the Chairman and non-executive directors has been in line with our Policy in 2014.

	2015[1] £'000	2014[1] £'000
Chairman fee[2]	**350**	176
Non-executive director base fee	**55**	54
Additional fee for chairing Audit or Remuneration Committee	**11**	10
Additional fee for Senior Independent Director	**11**	10

1 Fees shown here are effective for a year from 1 April.

2 On 23 April 2015, Sir Nigel Rudd will assume the role of Chairman. As part of the selection process, the Chairman's fee was reviewed and it was agreed that it would be appropriate to review the fee against a benchmark based on Chairman fees at other FTSE 100 companies, and for the fee to reflect Sir Nigel Rudd's extensive experience at Board level across multiple industries. With his prior role as a non-executive director of BAE Systems, and current exposure to the industry at BBA Aviation, Sir Nigel has exceptional knowledge of the aerospace sector. His experience across a wide range of businesses and expertise will be of significant benefit to the Group and make him ideally positioned to be the next Chairman. It was also agreed that Sir Nigel Rudd will receive additional benefits of £20,000 per annum for secretarial and car services needed for business purposes.

Directors' beneficial interests (audited)

The beneficial interests of the directors and their connected persons in the ordinary shares of the Company at 31 December 2014, as notified under the Disclosure and Transparency Rules of the Financial Conduct Authority (DTR) (including shares held beneficially in the Share Incentive Plan by executive directors), were as follows:

	Shareholding Ordinary shares of 5p each 2014	2013
Sir Colin Terry	**12,274**	12,041
Mr S G Young	**431,501**	413,351
Mr G S Berruyer	**3,000**	3,000
Mr P G Cox[1]	**6,162**	6,824
Ms A J P Goligher[2]	**3,000**	–
Mr P E Green	**558,928**	557,978
Mr P Heiden	**6,008**	5,841
Ms B L Reichelderfer	**6,000**	6,000
Mr D A Robins[3]	**–**	73,008
Mr D R Webb[4]	**26,488**	25,648
Mr D M Williams	**5,000**	5,000

1 Resigned on 31 January 2015.

2 Appointed on 30 October 2014.

3 Retired on 7 May 2014.

4 Appointed on 6 June 2013.

Between 1 January 2015 and 13 February 2015, the only changes to the beneficial interests of the directors in the ordinary shares of the Company are that Mr Young, Mr Webb and Mr Green each acquired 47 shares through the Meggitt PLC Share Incentive Plan.

External appointments held by executive directors

Executive Director	Company	Role	Fees retained 2014 £'000
Mr S G Young	Derwent London plc	Non-executive director	40
		Chairman of Audit Committee	9
		Member of Remuneration Committee	4
		Total	**53**
Mr D R Webb	SEGRO plc	Non-executive director	53
		Chairman of Audit Committee	10
		Total	**63**

Directors' shareholding requirements (audited)

Shares which are included within the shareholding requirement are:

Source of shares	Description
ESOS, EPP and LTIP	Share awards exercised and retained.
Investment shares	Shares purchased as investment shares in respect of matching awards held under the EPP.
Deferred Bonus	Shares released and retained after the two-year deferral period.
Ordinary shares	Shares purchased directly in the market.
Share dividend plan	Shares acquired through the share dividend plan.
SIP	Shares acquired via the SIP.
Sharesave Scheme	Shares exercised and retained.

The table below shows the shareholding of each executive director against their respective shareholding requirement as at 31 December 2014:

Name	Shareholding guideline (% 2014 salary)	Shares owned outright[1]	Current shareholding (% 2014 salary)[2]	Guideline met?
Mr S G Young	300	431,501	337	Met
Mr D R Webb	200	26,488	31	Building
Mr P E Green	200	558,928	843	Met

1 Includes shares invested to be eligible for outstanding EPP matching awards.

2 Assessment of shareholding is based on a share price of 519.00 pence (the value of a Meggitt share on 31 December 2014).

Directors' remuneration report continued

Directors' interests in share schemes (audited)

All of the ESOS, EPP and LTIP awards have performance conditions attached (as detailed in the Directors remuneration report in the year of grant and in this report for those awards made in 2014):

- The awards made up to and including 2011 have already vested to the extent detailed in this and previous reports and the figures shown in the table below for those years are the vested share award amounts.
- The awards made in 2012, 2013 and 2014 were unvested as at 31 December 2014.

Sharesave awards are not subject to performance conditions.

		Number of shares under award						
	Date of award	At 1 Jan 2014	Awarded/ (exercised/ lapsed)	At 31 Dec 2014	Exercise price	Market price at date of exercise	Date exercisable from	Expiry date
Mr S G Young								
1996 ESOS No1 (options)	01.04.04	17,200	(17,200)	–	174.40p	449.50p	01.04.07	31.03.14
ESOS 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	(50,634)	160,341	351.70p	–	02.03.14	01.03.21
	10.04.12	288,520	–	288,520	397.20p	–	10.04.15	09.04.22
	05.09.13	243,114	–	243,114	526.50p	–	05.09.16	04.09.23
EPP—Basic (nil cost options)	05.08.09	115,418	–	115,418	–	–	21.08.12	04.08.19
	21.04.11	77,729	–	77,729	–	–	21.08.13	20.04.21
	17.08.11	76,663	(47,532)	29,131	–	–	17.08.14	16.08.21
	22.08.12	73,236	–	73,236	–	–	22.08.15	21.08.22
	18.03.13	114,556	–	114,556	–	–	18.03.16	17.03.23
EPP—Match (nil cost options)	12.08.09	64,359	–	64,359	–	–	21.08.12	04.08.19
	21.04.11	57,630	–	57,630	–	–	21.08.13	20.04.21
	17.08.11	53,768	(33,337)	20,431	–	–	17.08.14	16.08.21
	22.08.12	47,547	–	47,547	–	–	22.08.15	21.08.22
	18.03.13	66,946	–	66,946	–	–	18.03.16	17.03.23
LTIP (nil cost options)	22.05.14	–	312,443	312,443	–	–	22.05.17	21.05.19
Sharesave (options)	12.09.14	–	2,405	2,405	374.19p	–	01.11.17	01.05.18
Total		2,931,943	166,145	3,098,088				

	Date of award	Number of shares under award: At 1 Jan 2014	Awarded/ (exercised/ lapsed)	At 31 Dec 2014	Exercise price	Market price at date of exercise	Date exercisable from	Expiry date
Mr P E Green								
ESOS 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
ESOS 2005, Part B (stock SARs)	10.10.05	20,662	–	20,662	278.65p	–	10.10.08	09.10.15
	27.09.06	23,365	–	23,365	263.67p	–	27.09.09	26.09.16
	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	(39,443)	124,902	351.70p	–	02.03.14	01.03.21
	10.04.12	233,384	–	233,384	397.20p	–	10.04.15	09.04.22
	05.09.13	123,456	–	123,456	526.50p	–	05.09.16	04.09.23
EPP – Basic (nil cost options)	05.08.09	88,167	–	88,167	–	–	21.08.12	04.08.19
	21.04.11	59,377	–	59,377	–	–	21.08.13	20.04.21
	17.08.11	59,719	(37,026)	22,693	–	–	17.08.14	16.08.21
	22.08.12	59,240	–	59,240	–	–	22.08.15	21.08.22
	18.03.13	58,173	–	58,173	–	–	18.03.16	17.03.23
EPP – Match (nil cost options)	12.08.09	49,163	–	49,163		–	21.08.12	04.08.19
	21.04.11	44,022	–	44,022	–	–	21.08.13	20.04.21
	17.08.11	41,884	(25,969)	15,915	–	–	17.08.14	16.08.21
	22.08.12	38,461	–	38,461	–	–	22.08.15	21.08.22
	18.03.13	33,996	–	33,996	–	–	18.03.16	17.03.23
LTIP (nil cost options)	22.05.14	–	161,868	161,868	–	–	22.05.17	21.05.19
Sharesave (options)	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
	12.09.14	–	1,619	1,619	374.19p	–	01.11.19	01.05.20
Total		1,740,597	61,049	1,801,646				

	Date of award	Number of shares under award: At 1 Jan 2014	Awarded/ (exercised/ lapsed)	At 31 Dec 2014	Exercise price	Market price at date of exercise	Date exercisable from	Expiry date
Mr D R Webb								
ESOS 2005, Part A (options)	05.09.13	5,698	–	5,698	526.50p	–	05.09.16	04.09.23
ESOS 2005, Part B (stock SARs)	05.09.13	155,745	–	155,745	526.50p	–	05.09.16	04.09.23
EPP-Basic (nil cost options)	05.09.13	60,281	–	60,281	526.50p	–	05.09.16	04.09.23
EPP-Match (nil cost options)	05.09.13	39,868	–	39,868	526.50p	–	05.09.16	04.09.23
LTIP (nil cost options)	22.05.14	–	207,041	207,041	–	–	22.05.17	21.05.19
Sharesave (options)	13.09.13	3,517	–	3,517	426.40p	–	01.11.18	01.05.19
Total		265,109	207,041	472,150				

By order of the Board

Paul Heiden
Chairman, Remuneration Committee
23 February 2015

Directors' report

The directors present their report together with the audited consolidated financial statements of the Group (prepared in accordance with International Financial Reporting Standards (IFRSs as adopted by the European Union and the Companies Act 2006) and Company audited financial statements (prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) and the Companies Act 2006) for the year ended 31 December 2014.

There are no significant events affecting the Group since the end of the year requiring disclosure.

Incorporation by reference

Certain laws and regulations require that specific information should be included in the Directors' report. The table below shows the items which are incorporated into this Directors' report by reference:

Information incorporated into the Directors' report by reference	Location and page
Likely future developments in the Group's business	Strategic report (page 1 to 41)
The Corporate governance report	Board of Directors and Corporate governance report (pages 43 to 50)
Research and development activities	Note 8 of the Group's consolidated financial statements (page 102) and Chief Financial Officer's review (page 34)
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	Note 3 of the Group's consolidated financial statements (page 95)
Greenhouse gas emissions	Corporate responsibility report (page 39)
Employee information Employee involvement Employment of disabled persons	Corporate responsibility report (page 41)
Independent auditors—disclosure of relevant audit information	Statement of directors responsibilities (page 79)
Statement of the amount of interest capitalised by the Group during the year with an indication of the amount and treatment of any related tax relief	Note 19 of the Group's consolidated financial statements (page 109)
Details of long term incentive plans	Directors' remuneration report (pages 58 to 59)
Details of any arrangements under which a director of the Company has waived or agreed to waive any emoluments from the Company or any subsidiary undertaking.	Nothing to disclose
Details of allotments for cash of ordinary shares made during the period under review.	Note 34 of the Group's consolidated financial statements (page 125)
Contracts of significance to which the Company is a party and in which a director is materially interested.	Nothing to disclose
Contracts of significance between a Company and a controlling shareholder.	Not applicable, as the Company does not have a controlling shareholder
Contracts for the provision of services to the Company by a controlling shareholder.	Not applicable, as the Company does not have a controlling shareholder
Details of any arrangement under which a shareholder has waived or agreed to waive dividends.	Nothing to disclose
Agreements related to controlling shareholder requirements under LR 9.2.2 A	Not applicable, as the Company does not have a controlling shareholder
Statement of directors interests	Directors' remuneration report (page 72)
Interests disclosed by shareholders under DTR 5	Substantial shareholdings (page 78)
Going concern disclosure	Chief Financial Officer's review (page 37)
Details of shareholder authority for the purchase of the Company's own shares	Share capital and control (page 77)
A statement of how the Company has complied with the Code and details of any non-compliance.	Corporate governance report (page 43)
Details of directors service contracts	Share capital and control (page 78) and Directors' remuneration report (pages 62 to 63)
Share buyback disclosures	Chief Financial Officer's review (page 35)

Dividends

The directors recommend the payment of a final dividend of 9.50p net per ordinary 5p share (2013: 8.80p), to be paid on 8 May 2015 to those members on the register at close of business on 20 March 2015. An interim dividend of 4.25p (2013: 3.95p) was paid on 3 October 2014. If the final dividend as recommended is approved the total ordinary dividend for the year will amount to 13.75p net per ordinary 5p share (2013: 12.75p).

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.

Share dividend plan

During 2014, the Company made a share dividend plan available for the dividends paid in May 2014 (the final dividend for 2013) and in October 2014 (the interim dividend for 2014). The cash dividend necessary to give an entitlement to one new ordinary share was fixed at 454.54p and 467.40p respectively.

A share buyback programme was announced on 5 November 2014. Consistent with introducing a share buyback programme, the Board determined that a dividend reinvestment plan would be offered instead of a scrip dividend in 2015. Further details of the share buyback programme are contained in the Chief Financial Officer's review (page 35).

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 (Chairman), Mr S G Young (Chief Executive), Mr G S Berruyer, Mr P G Cox (resigned 31 January 2015), Ms A J P Goligher (appointed 30 October 2014), Mr P E Green, Mr P Heiden, Ms B L Reichelderfer, Mr D A Robins (retired 7 May 2014), Mr D R Webb and Mr D M Williams (Senior Independent Director). Since the year end and up to the date of this Directors' report, Mr Philip Cox resigned as a director on 31 January 2015. Additionally, the Board announced in December 2014 that on 1 March 2015, Sir Nigel Rudd will join the Board, initially as a non-executive director and Deputy Chairman, and then as Non-Executive Chairman at the conclusion of the Annual General Meeting (AGM) being held on 23 April 2015, following the retirement of Sir Colin Terry.

All directors will be submitted for election or re-election at the AGM, except Sir Colin Terry who is due to retire at its conclusion. Details of any unexpired terms of the directors' service contracts are in the Directors' remuneration report. Membership of committees and biographical information is disclosed on pages 44 to 45 and in the notice of AGM.

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.

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. 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 regularly reviewed by the Board.

Political donations

No political donations were made during the year (2013: None).

Share capital and control

The issued share capital of the Company at 31 December 2014 and details of shares issued and cancelled during the financial year are shown in note 34 of the Group's consolidated financial statements. On 31 December 2014 there were 802,330,037 ordinary shares in issue. A further 2,916,114 ordinary shares were bought back and cancelled between 1 January 2015 and 13 February 2015 with an aggregate amount paid of £15.2m, all of which were cancelled as a result of the share buyback programme, and 1,031 shares have been allotted under the Sharesave Scheme. 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.

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 the 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.

Directors' report continued

Share capital and control continued

The Group has significant financing agreements which include change of control provisions which, should there be a change of ownership of the Company, could result in renegotiation, withdrawal or early repayment of these financing agreements. These are a USD 900 million revolving credit agreement dated September 2014, 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.

Agreements with the Company's directors or employees providing compensation in the event of a takeover bid:

Director	Contractual entitlement
Mr S G Young	None 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.
Mr D R Webb	None 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.
Mr P E Green	Mr Green may terminate his 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%. In addition, provisions in the Company's share plans may cause options and/or awards granted to employees under such plans to vest on a takeover.
Non-executive directors	None.
All other employees	There are no agreements that would provide compensation for loss of 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.

Substantial shareholdings

At 13 February 2015, 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 (m)*	Indirect voting rights (m)*	Percentage of total votingr ights attaching to the issuedor dinary share capital of the company
The Capital Group Companies, Inc.	–	120.8	15.11%
Harris Associates L.P.	–	41.3	5.16%
FMR LLC	–	40.6	5.07%
Standard Life Investments Ltd	22.2	3.8	3.24%
Legal & General Group plc	23.7	–	2.97%

*One voting right per ordinary share.

These holdings are published on a regulatory information service and on the Company's website.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent Company financial statements respectively.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are also 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 44 to 45, 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
- the Strategic report and this Directors' report 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.

Each of the persons who is a director as at the date of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director 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.

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

Fair, balanced and understandable

The directors as at the date of this report consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy. The Board has made this assessment on the basis of a review of the accounts process, a discussion on the content of the annual report assessing its fairness, balance and understandability, together with the confirmation from executive management that the report is fair, balanced and understandable.

By order of the Board

M L Thomas
Company Secretary

23 February 2015

Independent auditors' report to the members of Meggitt PLC

Report on the group financial statements

Our opinion

In our opinion, Meggitt PLC's group financial statements (the "financial statements"):

- give a true and fair view of the state of the group's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("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.

What we have audited

Meggitt PLC's financial statements comprise:

- the Consolidated balance sheet as at 31 December 2014;
- the Consolidated income statement and Consolidated statement of comprehensive income for the year then ended;
- the Consolidated cash flow statement for the year then ended;
- the Consolidated statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report and Accounts (the 'Annual Report'), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

Our audit approach

Overview

Materiality	• Overall group materiality: £11m which represents approximately 5% of profit before tax.
Audit Scope	• We conducted audit work at 17 reporting units. • Business units where we performed audit work accounted for 100% of group profit before tax and 77% of group net assets.
Areas of focus	• Goodwill and intangible asset impairment assessments. • Environmental and contractual provisions. • Revenue recognition under long term contract accounting primarily in the group's energy business. • Retirement benefit obligation liability. • Provision for uncertain tax positions.

The scope of our audit and our areas of focus

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

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. Each of the areas of focus below is also referred to in the Audit Committee report on page 52 and in the critical accounting estimates and judgements on pages 96 to 98. This is not a complete list of all risks identified by our audit.

Independent auditors' report to the members of Meggitt PLC continued

Area of focus	How the scope of our audit addressed the area of focus
Goodwill and intangible asset impairment assessments *Refer also to notes 18, 19 and 20 (pages 107 to 110)*	
The group holds significant amounts of goodwill (£1.5bn), acquired intangibles (£0.7bn), development costs (£0.3bn) and programme participation costs (£0.2bn) on the balance sheet. We focused on the risk that certain of these balances could be overstated. We focused in particular on the estimated value in use of the Meggitt Sensing Systems business as it has the lowest percentage headroom of estimated value in use over book value (headroom £53.4m) and also the Meggitt Aircraft Braking Systems business as it has the highest net book value of goodwill and intangibles at £1.5bn and has the second lowest percentage headroom of estimated value in use over net book value (headroom £313.6m).	We evaluated and challenged the directors' future cash flow forecasts, and the process by which they were drawn up, and tested the underlying value in use calculations. We compared the directors' forecast to the latest Board approved five year plans and assessed the actual performance in the year against the prior year budgets to evaluate budgeting accuracy. The key assumption in the Sensing Systems business forecast is the planned level of profitability following a significant decline in profits during 2014. In assessing this assumption we evaluated in particular the likelihood of the factors that drove the decline in profits during 2014 impacting the business over the 5 year forecast period. The key assumption in the Braking Systems business forecast is the assumed level of growth. In assessing this assumption the factors we considered included the expected growth in the number of aircraft on which the braking business has its equipment (based on third party forecasts) during the forecast period, in particular the aftermarket size and whether a sole source supplier position is held. In respect of both forecasts, we also challenged: • the directors' assumptions for terminal growth rates in the forecasts by comparing them to economic and industry forecasts; and • the discount rate by assessing the cost of capital for the company and comparable organisations. We performed sensitivity analysis in respect of the assumptions noted above to ascertain the extent of change in those assumptions which either individually or collectively would be required for the goodwill and intangible assets to be impaired and we assessed the likelihood of these changes in assumption arising. Although uncertainties exist in any long term forecasting exercise, based on the work performed we reached the view that the cash flows required to support the carrying values are achievable.
Environmental and contractual provisions *Refer also to note 31 (page 119)*	
The group has liabilities of £133.0m relating to environmental matters and £42.6m relating to other matters. We focused on these areas because certain of these provisions include significant subjective judgements as set out below. The environmental matters, which primarily relate to site remediation and clean up liabilities at legacy manufacturing sites in the US, are based on judgements as to the estimated clean-up cost and also the length of time that operation and monitoring of the site is required. In addition the group has contract related and other provisions based, for example, on estimates of the potential cost of settling any claims for damages by customers and, where appropriate, the cost of any new equipment or rework required under the contract.	Our work on the valuation of environmental liabilities comprised the following: • We obtained the cost estimates and reports prepared by the group's external environmental consultants, for the most significant sites, and discussed these with the group's internal legal counsel. We agreed the provisions recorded to the cost estimates included in these reports. In addition we assessed the consistency of the cost estimates year on year and the level of costs incurred compared to the prior year estimates. • We assessed the competence of the external environmental consultants including reviewing their qualifications and we assessed the level of historical accuracy of the estimates produced by these consultants and in-house legal experts by comparing them to the actual costs or settlements. • We assessed the extent of insurance coverage against the known exposures including obtaining evidence of the insurers' financial position to assess their ability to meet the commitments in these policies. We found no material exceptions in these tests. Our work on contract related and other provisions included obtaining corroborating evidence for the directors' cost estimates including looking at the historical level of actual costs incurred against the estimated costs and comparing the future cost estimates to the current actual costs. We also read legal and other correspondence with customers for evidence regarding claims outstanding or provided for at year end. In addition where insurance exists in respect of an exposure we read the correspondence with the insurers. We found no material exceptions in these tests. We performed sensitivity analysis in respect of the cost estimates of contractual disputes (including estimated costs of settlement and the expected cost of production of new equipment or rework), to ascertain the extent of change in those estimates that either individually or collectively would be required for the provisions to be materially misstated. We discussed the likelihood of such a change in these estimates with the directors and agreed with their conclusion that this was unlikely.

Independent auditors' report to the members of Meggitt PLC continued

Area of focus	How the scope of our audit addressed the area of focus
Revenue recognition under long term contract accounting primarily in the group's energy business	
Refer also to note 5 (page 98)	
We focused on the recognition of revenue because where long term contract accounting is used, estimates and judgements are made in determining the amount of revenue to be recorded. The group's long term contract accounting is primarily concentrated in its energy business which contracts to manufacture printed circuit heat exchangers. These comprise the majority of the group contract accounting revenue of £98.3m. The recognition of revenue is largely dependent on the estimated stage of completion of each contract which is determined based on the proportion of contract costs incurred for work performed to date compared to the estimated total contract costs. As these contracts sometimes span a number of reporting periods, changes in the estimate of total contract costs or the inappropriate recording of costs around the year end could result in material amounts of revenue being recorded in the incorrect period.	We tested revenue recognised under long term contract accounting as follows: • Tested the calculation of stage of completion including testing the costs incurred and recorded against the contract for occurrence and accuracy, assessing the basis for determining the total contract cost and reperforming the percentage of completion calculation. • Agreed that the revenue recognised was consistent with the calculated stage of completion. • Tested whether the work allocated to contracts had been carried out in the period in which the revenue had been recognised. • For raw materials in stock at year end and allocated to contracts, tested to confirm that these were made specifically for the contract and therefore that revenue was recorded in the appropriate period. • Assessed the estimates of costs to complete for major contracts and also assessed the historical accuracy of the estimates of total contract costs. • Examined any loss making contracts to determine the level of provisioning required and also assessed the actual profit or loss achieved on contracts that completed in the year compared to the forecast position in the prior year. We found no instances of inappropriate revenue recognition.
Retirement benefit obligation liability	
Refer also to note 33 (pages 121 to 125)	
The group has retirement benefit obligations with gross liabilities of £1,078.9m, which are significant in the context of the overall balance sheet of the group. The valuation of retirement benefit obligations requires significant levels of judgement and technical expertise in choosing appropriate assumptions. Small changes in a number of the key assumptions (including salary increases, inflation, discount rates and mortality) can have a material impact on the calculation of the liability.	We evaluated the assumptions made in relation to the valuation of the liabilities. In particular: • We compared assumed mortality rates to national and industry averages. • We assessed the assumption for salary increases against the group's historic trend and expected future outlook. • We agreed the discount and inflation rates used to our internally developed benchmarks. • We validated the census data used by the group's actuaries to the underlying data held by the group and scheme administrators. We found no material exceptions in these tests.
Provisions for uncertain tax positions	
Refer also to note 14 (page 105)	
Judgements have to be made by management on the tax treatment of a number of transactions in advance of the ultimate tax determination being known. These uncertain tax outcomes result from the complexity of the group's legal structure (including multiple legal entities) and the multiple tax jurisdictions (primarily the UK and US) and the changing tax environment in which the group operates. In addition uncertainty arises from the level of tax credits claimed and the level of intergroup transactions that are recorded.	We evaluated the process by which management have calculated each exposure and we challenged the estimates made by management in arriving at the provision for uncertain tax positions. We also calculated our own range of outcomes in respect of each of the significant tax exposures. In addition we considered any tax opinions or other tax reports the group had received from its tax advisors in relation to the exposures identified to determine if the treatment is consistent with the advice obtained. We also tested the underlying calculation of the provision for uncertain tax positions. We found that the assumptions management have used in developing the estimated exposure provided a reasonable basis for provisioning.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the group, the accounting processes and controls, and the industry in which the group operates.

The group's accounting process is structured around a local finance function in each of the group's reporting units. These functions maintain their own accounting records and controls (although transactional processing and certain controls for some reporting units are performed at the group's shared service centres) and report to the head office finance team through an integrated consolidation system.

In establishing the overall group audit strategy and plan, we determined the type of work that needed to be performed at the reporting units by the group engagement team and by component auditors from other PwC network firms or by our shared service centre teams. Where the work was performed by component auditors or our shared service centre teams, we determined the level of involvement we needed to have in the audit work at those reporting units so as to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole.

For each reporting unit we determined whether we required an audit of their complete financial information or whether specified procedures addressing parts of their financial information would be sufficient. Those where a complete audit was required included the largest reporting unit (Meggitt Aircraft Braking Systems Akron), because this makes up more than 15% of the group's revenue and profits. We included a further 9 reporting units in 4 countries based on their size or risk and performed specified procedures on a further 7 reporting units in respect of specific balances.

The group consolidation, financial statement disclosures and a number of complex items were audited by the group engagement team at the head office. These included derivative financial instruments, hedge accounting, defined benefit pension schemes, share based payments and goodwill. The group engagement team also visited 10 businesses in 3 countries (UK, USA and Switzerland) to review the work undertaken by component auditors and to assess the findings. Together these 17 reporting units accounted for 100% of Group profit before tax and 77% of net assets. This gave us the evidence we needed for our opinion on the financial statements as a whole.

Materiality

The scope of our audit is influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	£11m (2013: £14m).
How we determined it	Approximately 5% of profit before tax.
Rationale for benchmark applied	Consistent with last year, we applied this benchmark, a generally accepted auditing practice, in the absence of indicators that an alternative benchmark would be more appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £500,000 (2013: £500,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 37, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the group's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

• information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or – is otherwise misleading.	We have no exceptions to report arising from this responsibility.
• the statement given by the directors on page 79, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's performance, business model and strategy is materially inconsistent with our knowledge of the group acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
• the section of the Annual Report on page 51, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

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

Corporate governance statement
Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Statement of directors' responsibilities set out on pages 78 to 79, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves
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.

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

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the company financial statements of Meggitt PLC for the year ended 31 December 2014 and on the information in the Directors' remuneration report that is described as having been audited.

Andrew Paynter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors
London
23 February 2015

Consolidated income statement

For the year ended 31 December 2014

	Notes	2014 £'m	2013 £'m
Revenue	5	**1,553.7**	1,637.3
Cost of sales		**(935.9)**	(981.1)
Gross profit		**617.8**	656.2
Net operating costs		**(381.6)**	(355.9)
Operating profit[1]	6	**236.2**	300.3
Finance income	12	**1.2**	0.3
Finance costs	13	**(28.5)**	(31.2)
Net finance costs		**(27.3)**	(30.9)
Profit before tax[2]		**208.9**	269.4
Tax	14	**(31.9)**	(37.1)
Profit for the year attributable to equity owners of the Company		**177.0**	232.3
Earnings per share:			
Basic[3]	15	**22.0p**	29.4p
Diluted[4]	15	**21.7p**	28.9p

[1] Underlying operating profit	10	**346.0**	397.2
[2] Underlying profit before tax	10	**328.7**	377.8
[3] Underlying basic earnings per share	15	**32.4p**	37.5p
[4] Underlying diluted earnings per share	15	**31.9p**	36.9p

Consolidated statement of comprehensive income

For the year ended 31 December 2014

	Notes	2014 £'m	2013 £'m
Profit for the year attributable to equity owners of the Company		**177.0**	232.3
Items that may be reclassified to the income statement in subsequent periods:			
Currency translation differences		**77.4**	(37.2)
Cash flow hedge movements		**(0.8)**	1.9
Tax effect	14	**(0.2)**	0.1
		76.4	(35.2)
Items that will not be reclassified to the income statement in subsequent periods:			
Remeasurement of retirement benefit obligations	33	**(97.7)**	46.8
Tax effect	14	**24.2**	(21.6)
		(73.5)	25.2
Other comprehensive income/(expense) for the year		**2.9**	(10.0)
Total comprehensive income for the year attributable to equity owners of the Company		**179.9**	222.3

Consolidated balance sheet

As at 31 December 2014

	Notes	2014 £'m	2013 £'m
Non-current assets			
Goodwill	18	**1,541.1**	1,457.1
Development costs	19	**342.9**	270.5
Programme participation costs	19	**242.4**	210.6
Other intangible assets	20	**673.0**	707.3
Property, plant and equipment	21	**251.1**	245.5
Trade and other receivables	23	**93.4**	89.9
Derivative financial instruments	30	**29.6**	35.5
Deferred tax assets	32	**0.9**	9.1
		3,174.4	3,025.5
Current assets			
Inventories	22	**327.2**	299.2
Trade and other receivables	23	**331.9**	328.9
Derivative financial instruments	30	**1.1**	11.2
Current tax recoverable		**3.3**	2.8
Cash and cash equivalents	24	**105.5**	116.1
		769.0	758.2
Total assets	6	**3,943.4**	3,783.7
Current liabilities			
Trade and other payables	25	**(358.5)**	(329.1)
Derivative financial instruments	30	**(9.6)**	(0.7)
Current tax liabilities		**(36.5)**	(40.6)
Obligations under finance leases	27	**(0.1)**	(2.4)
Bank and other borrowings	28	**(58.9)**	(7.2)
Provisions	31	**(45.1)**	(44.3)
		(508.7)	(424.3)
Net current assets		**260.3**	333.9
Non-current liabilities			
Trade and other payables	26	**(5.9)**	(5.2)
Derivative financial instruments	30	**(2.9)**	(0.1)
Deferred tax liabilities	32	**(214.8)**	(219.3)
Obligations under finance leases	27	**(5.3)**	(5.1)
Bank and other borrowings	28	**(616.7)**	(666.0)
Provisions	31	**(130.5)**	(149.2)
Retirement benefit obligations	33	**(317.8)**	(238.1)
		(1,293.9)	(1,283.0)
Total liabilities		**(1,802.6)**	(1,707.3)
Net assets		**2,140.8**	2,076.4
Equity			
Share capital	34	**40.1**	39.9
Share premium		**1,218.9**	1,166.3
Other reserves		**14.4**	14.1
Hedging and translation reserves		**159.1**	82.7
Retained earnings		**708.3**	773.4
Total equity attributable to owners of the Company		**2,140.8**	2,076.4

The financial statements on pages 85 to 132 were approved by the Board of Directors on 23 February 2015 and signed on its behalf by:

S G Young
Director

D R Webb
Director

Consolidated statement of changes in equity

For the year ended 31 December 2014

	Notes	Equity attributable to owners of the Company					
		Share capital £'m	Share premium £'m	Other reserves* £'m	Hedging and translation reserves** £'m	Retained earnings £'m	Total equity £'m
At 1 January 2013		39.3	1,143.9	14.1	117.9	590.2	1,905.4
Profit for the year		–	–	–	–	232.3	232.3
Other comprehensive income for the year:							
Currency translation differences:							
Arising in the year		–	–	–	(31.9)	–	(31.9)
Transferred to income statement		–	–	–	(5.3)	–	(5.3)
Cash flow hedge movements:							
Movement in fair value		–	–	–	1.6	–	1.6
Transferred to income statement		–	–	–	0.3	–	0.3
Remeasurement of retirement benefit obligations	33	–	–	–	–	46.8	46.8
Other comprehensive (expense)/income before tax		–	–	–	(35.3)	46.8	11.5
Tax effect	14	–	–	–	0.1	(21.6)	(21.5)
Other comprehensive (expense)/income for the year		–	–	–	(35.2)	25.2	(10.0)
Total comprehensive (expense)/income for the year		–	–	–	(35.2)	257.5	222.3
Employee share schemes:							
Value of services provided		–	–	–	–	21.8	21.8
Issue of equity share capital		0.4	2.6	–	–	(0.5)	2.5
Dividends	16	0.2	19.8	–	–	(95.6)	(75.6)
At 31 December 2013		39.9	1,166.3	14.1	82.7	773.4	2,076.4
Profit for the year		**–**	**–**	**–**	**–**	**177.0**	**177.0**
Other comprehensive income for the year:							
Currency translation differences:							
Arising in the year		–	–	–	77.4	–	77.4
Cash flow hedge movements:							
Movement in fair value		–	–	–	(1.6)	–	(1.6)
Transferred to income statement		–	–	–	0.8	–	0.8
Remeasurement of retirement benefit obligations	33	–	–	–	–	(97.7)	(97.7)
Other comprehensive income/(expense) before tax		–	–	–	76.6	(97.7)	(21.1)
Tax effect	14	–	–	–	(0.2)	24.2	24.0
Other comprehensive income/(expense) for the year		**–**	**–**	**–**	**76.4**	**(73.5)**	**2.9**
Total comprehensive income for the year		**–**	**–**	**–**	**76.4**	**103.5**	**179.9**
Employee share schemes:							
Value of services provided		–	–	–	–	1.1	1.1
Purchase of own shares		–	–	–	–	(11.6)	(11.6)
Issue of equity share capital		–	0.1	–	–	–	0.1
Share buyback – purchased in year		(0.3)	–	0.3	–	(33.7)	(33.7)
Share buyback – close period commitment		–	–	–	–	(20.0)	(20.0)
Dividends	16	0.5	52.5	–	–	(104.4)	(51.4)
At 31 December 2014		**40.1**	**1,218.9**	**14.4**	**159.1**	**708.3**	**2,140.8**

* Other reserves relate to capital reserves of £14.1 million (2013: £14.1 million) arising on the acquisition of businesses in 1985 and 1986 where merger accounting was applied and a capital redemption reserve of £0.3 million (2013: £Nil million) created as a result of the share buyback programme commenced during 2014.

** Hedging and translation reserves at 31 December 2014 comprise a credit balance on the hedging reserve of £2.5 million (2013: £3.2 million) and a credit balance on the translation reserve of £156.6 million (2013: £79.5 million). Amounts recycled from the hedging reserve to the income statement, in respect of cash flow hedge movements, have been recorded in net finance costs. Amounts recycled from the translation reserve to the income statement in 2013, in respect of the disposal of foreign subsidiaries, have been recorded in net operating costs.

Consolidated cash flow statement

For the year ended 31 December 2014

	Notes	2014 £'m	2013 £'m
Cash inflow from operations before exceptional operating items		**364.0**	361.9
Cash outflow from exceptional operating items	11	**(17.1)**	(16.2)
Cash inflow from operations	39	**346.9**	345.7
Interest received		**0.3**	0.3
Interest paid		**(16.3)**	(19.7)
Tax paid		**(18.7)**	(44.0)
Cash inflow from operating activities		**312.2**	282.3
Businesses acquired	42	**(28.6)**	(26.5)
Businesses disposed		**–**	53.3
Capitalised development costs	19	**(77.7)**	(70.2)
Capitalised programme participation costs	19	**(46.0)**	(35.7)
Purchase of intangible assets	20	**(12.0)**	(18.4)
Purchase of property, plant and equipment		**(33.0)**	(52.4)
Proceeds from disposal of property, plant and equipment		**2.8**	3.9
Cash outflow from investing activities		**(194.5)**	(146.0)
Dividends paid to Company's shareholders	16	**(51.4)**	(75.6)
Purchase of own shares		**(11.6)**	–
Issue of equity share capital		**0.1**	2.5
Share buyback – purchased in year	34	**(33.7)**	–
Proceeds from borrowings		**218.3**	181.5
Debt issue costs		**(2.8)**	–
Repayments of borrowings		**(249.9)**	(231.4)
Cash outflow from financing activities		**(131.0)**	(123.0)
Net (decrease)/increase in cash and cash equivalents		**(13.3)**	13.3
Cash and cash equivalents at start of the year		**116.1**	104.9
Exchange gains/(losses) on cash and cash equivalents		**2.7**	(2.1)
Cash and cash equivalents at end of the year	24	**105.5**	116.1

Notes to the consolidated financial statements

1. Basis of preparation

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.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on a going concern basis and 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 control. The Group has control over an entity where the Group is exposed to, or has the rights to, variable returns from its involvement with the entity, and it has the power over the entity to affect those returns. The results of subsidiaries acquired are fully consolidated from the date on which control transfers to the Group. The results of subsidiaries disposed are fully consolidated up to the date on which control transfers 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 contingent consideration are recorded in the income statement. Identifiable assets and liabilities of an acquired business meeting the conditions for recognition under IFRS 3 are recognised at 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 net assets acquired exceeds the cost of an acquisition, the difference is recorded immediately in the income statement. Costs directly attributable to an acquisition are recognised in the income statement as incurred.

When a subsidiary is acquired, the fair value 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 consideration received or receivable and the value at which net assets of the subsidiary were recorded, immediately prior to disposal, is recognised in the income statement. Any contingent consideration receivable is measured at fair value at the date of disposal in determining the gain or loss to be recognised. Contingent consideration is measured at fair value at each subsequent balance sheet date, with any changes in fair value recorded in the income statement.

When a foreign subsidiary is disposed, 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').

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.

The following items in respect of the acquisition and disposal of subsidiaries are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10):

- Any amounts by which the fair value of net assets of an acquired subsidiary exceed the cost of acquisition;
- Costs directly attributable to the acquisition and integration of a subsidiary;
- Any gain or loss arising from the disposal of a subsidiary; and
- Adjustments to the fair value of contingent consideration payable in respect of the acquisition of a subsidiary or receivable in respect of the disposal of a subsidiary.

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 exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are reported at exchange rates 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 hedging and translation reserves within other comprehensive income.

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

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 exchange rates prevailing at the balance sheet date.

2. Summary of significant accounting policies continued

Segment reporting

Operating segments are those segments for which results are reviewed by the Group's Chief Operating Decision Maker ('CODM') to assess performance and make decisions about resources to be allocated. The CODM has been identified as the Board (see page 46 of the Corporate governance report). The Group has determined that its segments are Meggitt Aircraft Braking Systems, Meggitt Control Systems, Meggitt Polymers & Composites, Meggitt Sensing Systems and the Meggitt Equipment Group. On 7 May 2014, the Group announced that the divisional structure had been realigned to reflect the following changes:

- The fire protection business has moved from Meggitt Equipment Group to Meggitt Control Systems; and
- The power businesses have moved from Meggitt Equipment Group to Meggitt Sensing Systems.

Prior period comparatives have been restated to reflect this new divisional structure.

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 the notes to the financial statements in respect of 'trading assets', which are defined to exclude from total assets amounts which the CODM does not review at a segmental level. Excluded assets comprise centrally managed trading assets, goodwill, other intangible assets (excluding software assets), derivative financial instruments, deferred tax assets, current tax recoverable and cash and cash equivalents.

No segmental information on liabilities is provided in the notes to the financial statements as no such measure is reviewed by the CODM.

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 total contract revenue, the proportion costs incurred for work performed in the period bear to total estimated contract costs. Where it is not possible to reliably estimate the outcome of a contract, revenue is recognised equal to costs incurred, provided recovery of such costs is probable. If total contract costs are forecast to exceed total contract revenue then the expected loss is recorded immediately in the income statement.

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

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, which are considered non-recurring and which are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10) are classified as exceptional operating items. They include, for instance, gains or losses made on the disposal or closure of a business, adjustments to the fair value of contingent consideration payable in respect of an acquired business or receivable in respect of a disposed business, costs directly attributable to the acquisition and integration of a business, and significant site consolidation and other restructuring costs. Additionally in 2013, given its significance and non-recurring nature, the raw material supply issue described in note 11 was treated as an exceptional operating item. Exceptional operating items are included within the appropriate consolidated income statement category but are highlighted separately in the notes to the financial statements.

Intangible assets

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of identifiable assets acquired and liabilities and contingent liabilities assumed. Goodwill is tested annually for impairment, and also whenever events or changes in circumstances indicate the carrying value may not be recoverable. 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, 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 and that the asset will generate future economic benefit based on all relevant available information are recognised as an intangible asset. Capitalised development costs are carried at cost less accumulated amortisation and impairment losses. Amortisation is charged over the periods expected to benefit, commencing with the launch of the product. During the year, the period over which amortisation is charged was reassessed and, as a result, the maximum life extended from 10 years to 15 years. The impact of this change, which has been applied prospectively, was to reduce the charge to the income statement in 2014 by approximately £7.0 million. Development costs not meeting the criteria for capitalisation are expensed as incurred.

Notes to the consolidated financial statements continued

2. Summary of significant accounting policies continued

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 impairment losses. For manufactured parts supplied on a free of charge or deeply discounted basis, cost represents the cost of manufacture transferred from inventory less the value of any revenue received or receivable. 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. Intangible assets are initially recognised at fair value, which is regarded as their cost. Intangible assets are subsequently held at cost less accumulated amortisation and impairment losses. Where intangible assets have finite lives, their cost 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 and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful economic life, typically over periods up to 10 years.

Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and impairment losses, except for land which is recorded at cost less accumulated impairment losses. 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	Up to 50 years
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

Residual values and useful lives are reviewed annually and adjusted if appropriate.

When property, plant and equipment is disposed, the difference between sale proceeds, net of related costs, and the carrying value of the asset is recognised in the income statement.

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 12 months. All other borrowing costs are recognised in the income statement as 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. Deferred tax is calculated using tax rates enacted or substantively enacted at the balance sheet date.

Current tax and deferred tax are recognised in the income statement, other comprehensive income or directly in equity depending on where the item to which they relate has been recognised.

Impairment of non-current non-financial assets

Assets are reviewed for impairment annually and also whenever events or changes in circumstances indicate their 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 level for which there are separately identifiable cash inflows which are largely independent of cash inflows 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, 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 also valued at fair value at acquisition, 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 post acquisition, the fair value is charged to the income statement. The difference between the fair value of the inventory disposed 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.

2. Summary of significant accounting policies continued

Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost less any impairment losses. An impairment is 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 receivable 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 measured 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 commencement of the lease at the lower of fair value of the leased asset and 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 lease obligations, net of finance charges, are included in liabilities. Assets acquired under finance leases are depreciated on a straight-line basis over the shorter of the useful life of the asset or the lease term.

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

Dividends

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

Borrowings

Borrowings are initially recognised at fair value, being proceeds received less directly attributable transaction costs incurred. Borrowings are generally 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. Certain borrowings however are designated as fair value through profit and loss at inception, if the Group has interest rate derivatives in place which have the economic effect of converting fixed rate borrowings into floating rate borrowings. Such borrowings are measured at fair value at each balance sheet date with any movement in fair value recorded in the income statement within net operating costs. Movements in 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).

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 liabilities, onerous contracts, product warranty claims and other liabilities 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 in the income statement within net finance costs.

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 credits and costs are recognised immediately in the income statement.

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. Where the Group has a statutory or contractual minimum funding requirement to make contributions to a scheme in respect of past service and any such contributions are not available to the Group once paid (either as a reduction in future contributions or as a refund during the life of the scheme or when the scheme liabilities are settled, to which the Group has an irrevocable right), an additional liability for such amounts is recognised.

Remeasurement 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. The Group has no further obligations once the contributions have been paid.

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. When awards are exercised and the Company issues new shares, the proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium.

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.

Notes to the consolidated financial statements continued

2. Summary of significant accounting policies continued

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 initially 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 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 within net operating costs together with changes in fair value of the hedged item. Any difference between the movement in fair value of the derivatives and the hedged item is excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10). The Group currently only applies fair value hedge accounting to the hedging of fixed interest rate risk on borrowings.

Cash flow hedges
Changes in 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 within net operating costs.

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. Changes in fair value of 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 within net operating costs. 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.

Derivatives not meeting 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 large number of foreign currency forward contracts to mitigate against currency fluctuations. The Group has determined the additional costs of meeting the extensive documentation requirements in order to apply hedge accounting under IAS 39 'Financial Instruments: Recognition and Measurement' 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. Consideration paid for own shares, including any incremental directly attributable costs, is recorded as a deduction from retained earnings.

Share buyback

On 5 November 2014, the Group announced the intention to commence a share buyback programme. The total consideration payable for shares purchased is deducted from retained earnings. The shares when purchased are cancelled and the nominal value of the cancelled shares is transferred from share capital to a separate capital redemption reserve. Where the Group has entered into an irrevocable non-discretionary contract to purchase for cancellation shares on its behalf during a close period, the obligation to purchase shares is recognised in full at the inception of the contract, even when the obligation is conditional on the share price. The obligation is remeasured at each balance sheet date with changes recognised in the income statement.

Adoption of new and revised accounting standards

During the year, no new accounting standards became effective which had a significant impact on the Group's consolidated financial statements.

Recent accounting developments

A number of new standards and amendments and revisions to existing standards have been published and are mandatory for the Group's future accounting periods. They have not been adopted early in these consolidated financial statements. None of these are expected to have a significant impact on the consolidated financial statements when they are adopted except as disclosed below;

- IFRS 9, 'Financial instruments'. The main change is expected to relate to the way in which movements in the fair value of the Group's fixed rate borrowings, attributable to changes in the Group's own credit risk, are accounted for. The Group is yet to assess the full impact of IFRS 9 which becomes effective for accounting periods beginning on or after 1 January 2018. This standard is subject to endorsement by the European Union.
- IFRS 15, 'Revenue from contracts with customers'. This standard establishes principles for reporting the nature, amount and timing of revenue arising from an entity's contracts with customers. The Group is yet to assess the full impact of IFRS 15 which becomes effective for accounting periods beginning on or after 1 January 2017. This standard is subject to endorsement by the European Union.

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 (see also pages 35 to 37 of the Chief Financial Officer's review). 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 the retranslation of the results of, and net investments in, foreign subsidiaries. The principal exposure arises 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 exposure 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 hedges in place are provided in note 30. The Group does not currently hedge exposure arising from the retranslation of the results of foreign subsidiaries. The Group uses borrowings denominated in the relevant currencies to hedge its net investments 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 interest rate derivatives which have the economic effect of converting fixed rate borrowings into floating rate borrowings and floating rate borrowings into fixed rate borrowings. Details of 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 non-derivative financial liabilities and derivative assets and liabilities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows:

	2014				
	Less than 1 year £'m	**1-2 years £'m**	**2-5 years £'m**	**Greater than 5 years £'m**	**Total £'m**
Trade and other payables*	**350.1**	**1.5**	**2.7**	**1.7**	**356.0**
Bank and other borrowings	**49.5**	**0.1**	**343.9**	**256.8**	**650.3**
Interest payments on borrowings	**20.5**	**19.0**	**45.2**	**17.3**	**102.0**
Obligations under finance leases (see note 27)	**1.1**	**1.0**	**3.0**	**12.4**	**17.5**
Derivative financial instruments:					
Inflows**	**(9.1)**	**(9.0)**	**(22.8)**	**(9.8)**	**(50.7)**
Outflows**	**0.8**	**0.8**	**1.2**	**–**	**2.8**
Total	**412.9**	**13.4**	**373.2**	**278.4**	**1,077.9**

	2013				
	Less than 1 year £'m	1-2 years £'m	2-5 years £'m	Greater than 5 years £'m	Total £'m
Trade and other payables*	316.6	1.2	2.2	1.8	321.8
Bank and other borrowings	4.1	42.4	370.4	241.9	658.8
Interest payments on borrowings	20.6	19.1	48.2	28.6	116.5
Obligations under finance leases (see note 27)	3.4	1.0	2.8	12.7	19.9
Derivative financial instruments:					
Inflows**	(8.2)	(8.5)	(23.5)	(15.8)	(56.0)
Outflows**	0.7	0.7	1.9	–	3.3
Total	337.2	55.9	402.0	269.2	1,064.3

* Excludes social security and other taxes of £8.4 million (2013: £12.5 million) (see note 25).
** Assumes no change in interest rates from those prevailing at year end.

Notes to the consolidated financial statements continued

3. Financial risk management continued

Sensitivity analysis

The Group's principal exposure 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 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.

	2014		2013	
	Income statement £'m	**Equity £'m**	Income statement £'m	Equity £'m
USD/GBP exchange rate +/- 10%	**28.3**	**44.1**	25.2	36.1
US yield curve +/- 1%	**4.6**	**3.3**	4.6	4.1

The impact on equity from movements in the exchange rate comprises £53.2 million (2013: £46.3 million) in respect of US dollar net debt, offset by £9.1 million (2013: £10.2 million) in respect of other financial assets and liabilities. However, as all US dollar debt is designated as a net investment hedge, this element of the impact is entirely offset by the retranslation of foreign subsidiaries. The impact of a 1% movement in the US yield curve includes the effect on the Group's forward foreign exchange contracts as well as other financial assets and liabilities.

Capital risk management

The Group's objective when managing its capital structure is to minimise the cost of capital whilst 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 Group's current post-tax average cost of capital is approximately 8% (2013: 8%) and its capital structure at 31 December is as follows:

	2014 £'m	2013 £'m
Net debt (see note 40)	**575.5**	564.6
Total equity	**2,140.8**	2,076.4
Debt/equity %	**26.9%**	27.2%

The Board believes that in maintaining an efficient balance sheet, a net debt/EBITDA ratio of between 1.5x and 2.5x is appropriate, whilst retaining the flexibility to move outside the range if appropriate. Further details on the share buyback programme announced as part of the Group's strategy for delivering net debt/EBITDA in this range can be found on page 35 of the Chief Financial Officer's review, which also includes details on how the Group has complied with the two principle financial covenant requirements contained in its committed credit facilities for the year ended 31 December 2014.

4. Critical accounting estimates and judgements

In applying the Group's accounting policies set out in note 2, the Group is required to make certain estimates and judgements concerning the future. These estimates and judgements are regularly reviewed and revised as necessary. The estimates and judgements that have the most significant effect on the amounts included in these financial statements are as described below. Further consideration of these critical estimates and judgements can be found in the Audit Committee report on page 52.

Goodwill

Each year the Group carries out impairment tests of goodwill which require 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 and sensitivities of the carrying value of goodwill to these estimates are provided in note 18.

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 assets are dependent on estimates of attributable future revenues, margins, cash flows and appropriate discount rates to be applied to future cash flows. The Group takes advice from third parties in determining fair values and the estimated useful lives of intangible assets arising on significant acquisitions. Intangible assets are subject to impairment testing at least annually or if events or changes in circumstances indicate their carrying value may not be recoverable. Estimates of remaining useful lives of assets are also reviewed at least annually, and revised if appropriate (see note 20 for further details).

4. Critical accounting estimates and judgements continued

Development costs

The majority of capitalised development costs relate to technology developed for aerospace programmes. In such cases, costs are typically not capitalised until a contract to develop the technology is awarded by a customer as, prior to this date, it is generally not possible to reliably estimate the point at which research activities conclude and development activities commence. Absent a contract, the Group also does not believe there is generally sufficient certainty over the future economic benefits that will be generated from the technology, to allow capitalisation of those costs. Post contract award, the Group will capitalise development costs provided it retains the intellectual property in the technology throughout the life of the aircraft or engine and it is probable that future economic benefits will flow to the Group. In making a judgement as to whether economic benefits will arise, the Group will make estimates of aircraft or engine volumes (taking into account the extent to which the Group has a sole-source position), aftermarket revenues which are dependent on aircraft utilisation, fleet lives and operator service routines, costs of manufacture and costs to complete the development activity.

Capitalised development costs are subject to impairment testing at least annually and, where headroom is limited or if events or changes in circumstances indicate the carrying value may not be recoverable, more frequently. Estimates of remaining useful lives of assets are also reviewed at least annually, and revised if appropriate.

At 31 December 2014, the programme with the largest capitalised development balance has a net book value of £44.5 million. Fleet volumes would need to reduce by approximately 60% from management estimates, without any mitigation actions taken by the Group, before any impairment would need to be recognised.

Programme participation costs

Approximately 80% of capitalised programme participation costs relate to free of charge or deeply discounted manufactured parts ('FOC'), with the balance relating to cash payments. All amounts relate to aerospace programmes. FOC costs are typically incurred just prior to individual aircraft entering service and only where the Group is satisfied the incremental aftermarket revenues that will be generated over the life of the part are sufficient, will amounts be capitalised. In making this judgement, the Group makes estimates of aircraft utilisation rates and fleet lives and operator service routines. The capitalisation of cash payments is subject to similar judgements to those described in development costs above.

Capitalised programme participation costs are subject to impairment testing at least annually and, where headroom is limited or if events or changes in circumstances indicate the carrying value may not be recoverable, more frequently. Estimates of remaining useful lives of assets are also reviewed at least annually, and revised if appropriate.

At 31 December 2014, the programme with the largest capitalised programme participation balance has a net book value of £29.0 million. No reasonably foreseeable change in assumptions would cause an impairment to be recognised.

Environmental matters

The Group is involved in the investigation and remediation of certain sites for which it has 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. The Group has extensive insurance arrangements in place to mitigate the impact of historical environmental events on the Group. To the extent estimates in respect of claims change as more information becomes available, adjustments are made to the carrying value of these provisions and, if the costs are determined to be covered by insurance, to the amounts recoverable from insurers. However, actual losses incurred could differ from the original estimates (see note 31 for further details).

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, potential claims from third parties and cash flows. These estimates are dependent on a number of factors including anticipated sales volumes, future pricing, production costs and the outcome of negotiations with third parties. To the extent these estimates change as more information becomes available, adjustments are made to the carrying value of these provisions. However, actual losses incurred could differ from the original estimates (see note 31 for further details).

Legal, regulatory and other similar matters

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 any provisions required and any impairment of related receivables for these matters is based on a careful analysis of each individual issue with the assistance of outside legal counsel. However, actual losses incurred could differ from the original estimates (see note 31 for further details).

Notes to the consolidated financial statements continued

4. Critical accounting estimates and judgements continued

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. External actuarial advice is taken with regard to the most appropriate assumptions to use. During 2014, a number of new mortality tables were published in the US. Advice was taken from the Group's third party US actuary as to the most appropriate tables to use to reflect current and future improvements in life expectancy for each of the Group's US schemes. Further details on these estimates and sensitivities of the retirement benefit obligations to these estimates are provided in note 33.

Contract accounting revenue

In determining amounts to be recognised as revenue under long-term contracts, the Group makes an assessment of the stage of completion of each contract and its expected profit at completion based on an estimate of total contract costs. Contract cost estimates are based on an internal evaluation taking into account the specific nature of the contract, including its level of technical risk, together with the historical accuracy of previous contract estimates. Estimates are reviewed and updated regularly throughout the life of the contract, which typically will span more than one accounting period. The total amount of revenue recognised under long-term contracts in the year is disclosed in note 5.

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. If the actual outcome of events differed by 10% from the estimates made at 31 December 2014, the impact on the tax charge would be approximately £5.0 million. Judgements also need to be made as to the extent to which deferred tax assets and liabilities can be offset against one another (see note 32 for further details).

5. Revenue

The Group's revenue is analysed as follows:

	2014 £'m	2013 £'m
Sale of goods	**1,351.7**	1,428.8
Contract accounting revenue	**98.3**	110.1
Revenue from services	**75.0**	73.9
Revenue from funded research and development	**28.7**	24.5
Total	**1,553.7**	1,637.3

6. Segmental analysis

Analysis by operating segment

The Group manages its businesses under the key segments of Meggitt Aircraft Braking Systems, Meggitt Control Systems, Meggitt Polymers & Composites, Meggitt Sensing Systems and the Meggitt Equipment Group. On 7 May 2014, the Group announced that the divisional structure had been realigned to reflect the following changes:

- The fire protection business has moved from Meggitt Equipment Group to Meggitt Control Systems; and
- The power businesses have moved from Meggitt Equipment Group to Meggitt Sensing Systems.

Prior year comparatives have been restated to reflect this new divisional structure.

Details of the Group's divisions can be found on pages 13 to 17 of the Strategic report.

6. Segmental analysis continued

Year ended 31 December 2014

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.

	Meggitt Aircraft Braking Systems £'m	Meggitt Control Systems £'m	Meggitt Polymers & Composites £'m	Meggitt Sensing Systems £'m	Meggitt Equipment Group £'m	Total £'m
Gross segment revenue	327.1	349.7	163.2	402.4	320.1	1,562.5
Inter-segment revenue	(0.1)	(1.0)	(0.9)	(4.2)	(2.6)	(8.8)
Revenue from external customers	**327.0**	**348.7**	**162.3**	**398.2**	**317.5**	**1,553.7**
Underlying operating profit (see note 10)*	**127.5**	**91.8**	**20.2**	**58.4**	**48.1**	**346.0**
Items not affecting underlying operating profit (see note 10)						(109.8)
Operating profit (see note 10)						**236.2**
Finance income (see note 12)						1.2
Finance costs (see note 13)						(28.5)
Net finance costs						(27.3)
Profit before tax						**208.9**
Tax (see note 14)						(31.9)
Profit for the year						**177.0**
Exceptional operating items (see note 11)	0.5	3.0	0.3	6.9	1.8	**12.5**
Amortisation of intangible assets (see notes 19 and 20)**	70.9	12.2	6.4	15.0	8.1	**112.6**
Impairment loss (see note 19)	–	4.0	–	3.1	0.9	**8.0**
Depreciation (see note 21)***	6.7	6.1	3.3	9.0	6.1	**31.2**

* 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, £44.5 million has been charged to underlying operating profit as defined in note 10.

*** Of the total depreciation in the year, £31.1 million has been charged to underlying operating profit as defined in note 10.

The Group's largest customer accounts for 6.2% of revenue (£96.3 million). Revenue from this customer arises across all segments.

	Meggitt Aircraft Braking Systems £'m	Meggitt Control Systems £'m	Meggitt Polymers & Composites £'m	Meggitt Sensing Systems £'m	Meggitt Equipment Group £'m	Total £'m
Additions to non-current assets*						
Development costs (see note 19)	30.1	16.5	4.1	21.7	5.3	**77.7**
Programme participation costs (see note 19)	40.4	5.6	–	–	–	**46.0**
Other purchased intangible assets	0.3	1.3	0.5	1.1	1.0	**4.2**
Property, plant and equipment	6.1	4.5	5.9	9.1	7.7	**33.3**
Total	**76.9**	**27.9**	**10.5**	**31.9**	**14.0**	**161.2**

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

Notes to the consolidated financial statements continued

6. Segmental analysis continued

As at 31 December 2014

	Total £'m
Meggitt Aircraft Braking Systems	568.3
Meggitt Control Systems	295.0
Meggitt Polymers & Composites	94.0
Meggitt Sensing Systems	325.2
Meggitt Equipment Group	200.6
Total segmental trading assets	**1,483.1**
Centrally managed trading assets*	181.4
Goodwill (see note 18)	1,541.1
Other intangible assets	597.4
Derivative financial instruments – non-current (see note 30)	29.6
Deferred tax assets (see note 32)	0.9
Derivative financial instruments – current (see note 30)	1.1
Current tax recoverable	3.3
Cash and cash equivalents (see note 24)	105.5
Total assets	**3,943.4**

* 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.

Year ended 31 December 2013 (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.

	Meggitt Aircraft Braking Systems £'m	Meggitt Control Systems £'m	Meggitt Polymers & Composites £'m	Meggitt Sensing Systems £'m	Meggitt Equipment Group £'m	Total £'m
Gross segment revenue	330.4	365.2	182.9	399.5	365.2	1,643.2
Inter-segment revenue	–	(0.9)	(1.9)	(2.0)	(1.1)	(5.9)
Revenue from external customers	330.4	364.3	181.0	397.5	364.1	1,637.3
Underlying operating profit (see note 10)*	122.4	107.7	30.2	69.9	67.0	397.2
Items not affecting underlying operating profit (see note 10)						(96.9)
Operating profit (see note 10)						300.3
Finance income (see note 12)						0.3
Finance costs (see note 13)						(31.2)
Net finance costs						(30.9)
Profit before tax						269.4
Tax (see note 14)						(37.1)
Profit for the year						232.3
Exceptional operating items (see note 11)	1.5	8.6	–	8.9	9.4	28.4
Amortisation of intangible assets (see notes 19 and 20)**	74.5	13.4	6.7	16.3	12.3	123.2
Impairment loss (see note 19)	–	3.2	–	–	–	3.2
Depreciation (see note 21)***	8.1	4.8	3.2	9.4	6.7	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, £47.5 million has been charged to underlying operating profit as defined in note 10.

*** Of the total depreciation in the year, £31.4 million has been charged to underlying operating profit as defined in note 10.

The Group's largest customer accounts for 6.6% of revenue (£108.3 million). Revenue from this customer arises across all segments.

6. Segmental analysis continued

	Meggitt Aircraft Braking Systems £'m	Meggitt Control Systems £'m	Meggitt Polymers & Composites £'m	Meggitt Sensing Systems £'m	Meggitt Equipment Group £'m	Total £'m
Additions to non-current assets*						
Development costs (see note 19)	24.8	16.8	2.5	21.4	4.7	70.2
Programme participation costs (see note 19)	31.5	3.2	–	1.0	–	35.7
Other purchased intangible assets	0.4	5.1	0.8	2.3	0.9	9.5
Property, plant and equipment	4.0	14.4	2.7	18.6	10.2	49.9
Total	60.7	39.5	6.0	43.3	15.8	165.3

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

As at 31 December 2013 (Restated)

	Total £'m
Meggitt Aircraft Braking Systems	502.2
Meggitt Control Systems	241.9
Meggitt Polymers & Composites	87.8
Meggitt Sensing Systems	314.5
Meggitt Equipment Group	194.9
Total segmental trading assets	1,341.3
Centrally managed trading assets*	176.5
Goodwill (see note 18)	1,457.1
Other intangible assets	634.1
Derivative financial instruments – non-current (see note 30)	35.5
Deferred tax assets (see note 32)	9.1
Derivative financial instruments – current (see note 30)	11.2
Current tax recoverable	2.8
Cash and cash equivalents (see note 24)	116.1
Total assets	3,783.7

* 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.

Analysis by geography

	2014 £'m	2013 £'m
Revenue		
UK	**152.4**	165.8
Rest of Europe	**338.1**	365.1
United States of America	**771.1**	811.7
Rest of World	**292.1**	294.7
Total	**1,553.7**	1,637.3

Revenue is based on the location of the customer.

	2014 £'m	2013 £'m
Non-current assets		
UK	**602.0**	714.4
Rest of Europe	**203.6**	215.6
United States of America	**2,235.4**	1,953.0
Rest of World	**9.5**	8.0
Total	**3,050.5**	2,891.0

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

Notes to the consolidated financial statements continued

7. Auditor's remuneration

Payable to PricewaterhouseCoopers LLP and its associates:

	2014 £'m	2013 £'m
For the audit of the Company and consolidated financial statements in respect of the current year	**0.7**	0.8
For the audit of the Company and consolidated financial statements in respect of the prior year	**–**	0.1
For the audit of the accounts of any subsidiary of the Company in respect of the current year	**0.7**	0.6
For audit related assurance services	**–**	0.1
Total	**1.4**	1.6

8. Operating profit

Operating profit is stated after charging/(crediting):

	2014 £'m	2013 £'m
Raw materials and consumables used	**423.2**	450.6
Changes in inventories of finished goods and work in progress	**(13.4)**	(5.9)
Employee costs (see note 9)	**541.8**	566.1
Research and development costs*	**70.6**	64.7
Amortisation of capitalised development costs (see note 19)	**8.8**	13.7
Amortisation of programme participation costs (see note 19)	**24.9**	25.4
Amortisation of other purchased intangible assets (see note 20)	**10.8**	9.8
Amortisation of intangible assets acquired in business combinations (see note 10)	**68.1**	74.3
Impairment loss on capitalised development costs (see note 19)	**8.0**	3.2
Depreciation (see note 21)	**31.2**	32.2
Loss/(gain) on disposal of property, plant and equipment	**0.4**	(1.1)
Exceptional operating items (see note 11)	**12.5**	28.4
Financial instruments (see note 10)	**29.2**	(6.1)
Net foreign exchange loss	**0.6**	2.1
Operating lease rentals	**15.3**	14.3
Other operating income	**(3.1)**	(4.6)

* Total research and development expenditure in the year was £148.3 million (2013: £134.9 million) of which £28.9 million (2013: £24.5 million) was charged to cost of sales, £41.7 million (2013: £40.2 million) was charged to net operating costs and £77.7 million (2013: £70.2 million) was capitalised as development costs (see note 19).

9. Employee information

	2014 £'m	2013 £'m
Employee costs including executive directors:		
Wages and salaries	**434.7**	441.0
Social security costs	**78.8**	79.1
Retirement benefit costs (see note 33)	**26.6**	34.1
Share-based payment expense (see note 35)	**1.7**	11.9
Total	**541.8**	566.1

Details of directors' remuneration is provided in the Directors' remuneration report on pages 55 to 75, which forms part of these financial statements.

	2014 Number	2013 Restated Number
Average monthly number of persons employed including executive directors:		
Meggitt Aircraft Braking Systems	**1,228**	1,191
Meggitt Control Systems	**1,811**	1,804
Meggitt Polymers & Composites	**1,876**	1,979
Meggitt Sensing Systems	**3,138**	3,078
Meggitt Equipment Group	**1,975**	2,402
Corporate including shared services and centres of excellence	**657**	581
Total	**10,685**	11,035

Prior year comparatives have been restated to reflect the new divisional structure (see note 6).

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	2014 £'m	2013 £'m
Operating profit		**236.2**	300.3
Exceptional operating items (see note 11)		**12.5**	28.4
Amortisation of intangible assets acquired in business combinations	a	**68.1**	74.3
Disposal of inventory revalued in business combinations		**–**	0.3
Financial instruments	b	**29.2**	(6.1)
Adjustments to operating profit*		**109.8**	96.9
Underlying operating profit		**346.0**	397.2
Profit before tax		**208.9**	269.4
Adjustments to operating profit per above		**109.8**	96.9
Net interest expense on retirement benefit obligations (see note 33)		**10.0**	11.5
Adjustments to profit before tax		**119.8**	108.4
Underlying profit before tax		**328.7**	377.8
Profit for the year		**177.0**	232.3
Adjustments to profit before tax per above		**119.8**	108.4
Tax effect of adjustments to profit before tax		**(36.6)**	(43.8)
Adjustments to profit for the year		**83.2**	64.6
Underlying profit for the year		**260.2**	296.9

* Of the adjustments to operating profit, £5.5 million (2013: £28.8 million) relating to exceptional operating items and £Nil (2013: £0.3 million) relating to the disposal of inventory revalued in business combinations has been charged to cost of sales, with the balance of £104.3 million (2013: £67.8 million) included within net operating costs.

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

	2014 £'m	2013 £'m
Amortisation of other intangible assets (see note 20)	**78.9**	84.1
Less amortisation of other purchased intangible assets (see note 20)	**(10.8)**	(9.8)
Amortisation of intangible assets acquired in business combinations	**68.1**	74.3

b. 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 derivatives and in the fair value of fixed rate borrowings is excluded from underlying profit.

	2014 £'m	2013 £'m
Movement in the fair value of foreign currency forward contracts	**31.1**	(12.0)
Impact of retranslating net foreign currency assets and liabilities at spot rate	**(1.9)**	0.8
Movement in the fair value of interest rate derivatives	**(4.2)**	18.6
Movement in the fair value of fixed rate borrowings	**4.2**	(13.5)
Financial instruments – loss/(gain)	**29.2**	(6.1)

Notes to the consolidated financial statements continued

11. Exceptional operating items

		Income statement		Cash expenditure	
	Note	**2014 £'m**	2013 £'m	**2014 £'m**	2013 £'m
Site consolidations	a	**7.5**	8.2	**7.5**	6.4
Loss/(gain) on disposal or closure of businesses	b	**2.9**	(9.0)	**0.5**	0.5
Raw material supply issue	c	**–**	20.0	**4.7**	3.1
Costs related to acquisition and integration of businesses		**2.1**	7.9	**4.4**	5.0
Other		**–**	1.3	**–**	1.2
Exceptional operating items		**12.5**	28.4	**17.1**	16.2

a. This principally relates to the consolidation of the Group's two North American sensor businesses onto a single new site in California, USA and the movement of production to the Group's low cost manufacturing locations.

b. The charge in 2014 relates to the closure of a business in the US. In the prior year, the Group disposed of the shares of Meggitt (Addison), Inc, realising a profit of £14.9 million and the shares of the Sunbank Family of Companies LLC, realising a loss of £5.9 million. Cash expenditure relates to business disposal expenses. Proceeds from the disposal of businesses are reported separately as part of cash outflow from investing activities.

c. In 2013, the Group announced it had identified an issue relating to the supply from a vendor of non-conforming raw material in one of our businesses. A provision of £20.0 million was made for the estimated cost of this issue, including where necessary the replacement of the relevant parts over the next few years. No amounts were recorded in the income statement in respect of this issue in 2014.

The tax credit in respect of exceptional operating items was £4.1 million (2013: £10.7 million).

12. Finance income

	2014 £'m	2013 £'m
Interest on bank deposits	**0.1**	0.1
Unwinding of interest on other receivables	**0.9**	–
Other finance income	**0.2**	0.2
Finance income	**1.2**	0.3

13. Finance costs

	2014 £'m	2013 £'m
Interest on bank borrowings	**2.7**	3.5
Interest on senior notes	**12.7**	15.4
Interest on obligations under finance leases	**0.9**	1.1
Unwinding of discount on provisions (see note 31)	**1.1**	–
Net interest expense on retirement benefit obligations (see note 33)	**10.0**	11.5
Amortisation of debt issue costs*	**3.1**	1.2
Less: amounts capitalised in the cost of qualifying assets (see note 19)	**(2.0)**	(1.5)
Finance costs	**28.5**	31.2

* An additional charge of £1.8 million was recorded in 2014, following the early refinancing of the Group's committed syndicated bank facilities.

14. Tax

	2014 £'m	2013 £'m
Current tax – current year	**20.4**	38.0
Current tax – adjustment in respect of prior years	**0.2**	(6.5)
Deferred tax – origination and reversal of temporary differences	**17.2**	12.7
Deferred tax – effects of changes in tax rates	**–**	(5.4)
Deferred tax – adjustment in respect of prior years	**(5.9)**	(1.7)
Total taxation	**31.9**	37.1

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

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:

	2014 £'m	2013 £'m
Profit on ordinary activities before tax at UK corporation tax rate of 21.5%* (2013: 23.25%)	**44.9**	62.6
Effects of:		
Different tax rates of subsidiaries operating in other jurisdictions	**12.5**	14.1
Permanent differences	**(16.0)**	(20.1)
Temporary differences	**(0.6)**	(1.5)
Changes in statutory tax rates	**–**	(5.4)
Tax credits and incentives	**(3.2)**	(4.4)
Current tax – adjustment in respect of prior years	**0.2**	(6.5)
Deferred tax – adjustment in respect of prior years	**(5.9)**	(1.7)
Total taxation	**31.9**	37.1

* 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 2014 to increase, or reduce respectively, by approximately £2.1 million.

Tax relating to components of other comprehensive income

	2014			2013		
	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	**77.0**	**(0.3)**	**76.7**	(31.9)	0.2	(31.7)
Deferred tax – currency translation movements	**0.4**	**–**	**0.4**	(5.3)	0.2	(5.1)
Deferred tax – remeasurement of retirement benefit obligations	**(97.7)**	**24.2**	**(73.5)**	46.8	(21.6)	25.2
Deferred tax – cash flow hedge movements	**(0.8)**	**0.1**	**(0.7)**	1.9	(0.3)	1.6
Other comprehensive income	**(21.1)**	**24.0**	**2.9**	11.5	(21.5)	(10.0)
Current tax		**(0.3)**			0.2	
Deferred tax		**24.3**			(21.7)	
Total		**24.0**			(21.5)	

Tax relating to items recognised directly in equity

	2014 £'m	2014 £'m
Current tax credit relating to share-based payment expense	**1.2**	5.3
Deferred tax (charge)/credit relating to share-based payment expense	**(1.8)**	3.3
Total	**(0.6)**	8.6

Notes to the consolidated financial statements continued

15. Earnings per ordinary share

Earnings per ordinary share ('EPS') is calculated by dividing the profit attributable to owners of the Company 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 0.1 million shares (2013: Nil). 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.

	2014 Profit* £'m	2014 Shares Number 'm	2014 EPS Pence	2013 Profit* £'m	2013 Shares Number 'm	2013 EPS Pence
Basic EPS	**177.0**	**804.1**	**22.0**	232.3	791.1	29.4
Potential effect of dilutive ordinary shares	**–**	**11.0**	**(0.3)**	–	13.1	(0.5)
Diluted EPS	**177.0**	**815.1**	**21.7**	232.3	804.2	28.9

* Profit for the year attributable to equity owners of the Company.

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:

	2014 Pence	2013 Pence
Basic EPS	**22.0**	29.4
Adjust for effects of:		
Exceptional operating items	**1.1**	2.2
Amortisation of intangible assets acquired in business combinations	**5.5**	5.6
Financial instruments	**2.9**	(0.7)
Net interest expense on retirement benefit obligations	**0.9**	1.0
Underlying basic EPS	**32.4**	37.5

Diluted underlying EPS is based on underlying profit for the year (see note 10) and the same number of shares used in the calculation of diluted EPS. Diluted underlying EPS for the year was 31.9 pence (2013: 36.9 pence).

16. Dividends

	2014 £'m	2013 £'m
In respect of earlier years	**–**	64.4
In respect of 2013:		
Interim of 3.95p per share	**–**	31.2
Final of 8.80p per share	**70.2**	–
In respect of 2014:		
Interim of 4.25p per share	**34.2**	–
Dividends paid	**104.4**	95.6
Less paid as scrip dividend (see note 41)	**(53.0)**	(20.0)
Dividends paid in cash	**51.4**	75.6

A final dividend in respect of 2014 of 9.50p per share (2013: 8.80p), amounting to an estimated total final dividend of £76.2 million (2013: £70.2 million) is to be proposed at the Annual General Meeting on 23 April 2015. 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 for 2014 as members of the Board, the Executive Board and the Operations Board, is set out below. Prior year comparatives have not been restated to reflect changes to the definition of key management personnel during the current year:

	2014 £'m	2013 £'m
Salaries and other short-term employee benefits	**7.3**	6.8
Retirement benefit expense	**0.3**	0.4
Share-based payment expense	**0.6**	3.2
Total	**8.2**	10.4

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

	2014 Average exercise price Pence	**2014 Number outstanding 'm**	2013 Average exercise price Pence	2013 Number outstanding 'm
Share options	**393.00**	**0.1**	348.66	0.1
Share appreciation rights – equity-settled	**359.71**	**5.1**	353.23	5.7
Equity participation plan shares	**–**	**2.5**	–	2.8
Meggitt Long Term Incentive Plan 2014	**–**	**1.5**	–	–

Full details of all elements in the remuneration package of each director, together with directors' share interests and share awards, are given in the Directors' remuneration report on pages 55 to 75 which forms part of these financial statements.

18. Goodwill

	2014 £'m	2013 £'m
Cost at 1 January	**1,457.1**	1,494.2
Exchange rate adjustments	**64.1**	(19.6)
Businesses acquired (see note 42)	**19.9**	9.0
Businesses disposed	**–**	(26.5)
Cost at 31 December	**1,541.1**	1,457.1

Goodwill is tested for impairment annually or more frequently if there is any indication of impairment. No impairment charge was required in the year (2013: £Nil) and the cumulative impairment charge recognised to date is £Nil (2013: £Nil). The total amount of goodwill and other intangible assets acquired as part of the acquisition of Precision Engine Controls Corporation (see note 42) that are expected to be deductible for tax purposes will be assessed during 2015.

For the purpose of impairment testing, 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:

	2014 £'m	2013 £'m
Meggitt Aircraft Braking Systems ('MABS')	**699.9**	665.3
Meggitt (North Hollywood), Inc.	**188.0**	177.2
Meggitt Safety Systems, Inc./Pacific Scientific HTL	**137.7**	129.6
Meggitt Sensing Systems ('MSS')*	**81.9**	82.9
Meggitt (Rockmart), Inc.	**72.8**	68.6
Meggitt Training Systems, Inc.	**66.8**	62.9
Other	**294.0**	270.6
Total	**1,541.1**	1,457.1

* During 2014, the Group announced the divisional structure had been realigned and the power businesses have moved from Meggitt Equipment Group to Meggitt Sensing Systems (see note 6). For the purpose of impairment testing, the power businesses currently continue to be considered as individual CGUs, and are excluded from the MSS CGU shown above.

Notes to the consolidated financial statements continued

18. Goodwill continued

For each 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 2014. 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., Meggitt Safety Systems, Inc./Pacific Scientific HTL and MSS are broadly spread across both civil aerospace and military platforms with Meggitt (North Hollywood), Inc. and MSS also operating in the energy sector. MABS is a leading supplier of wheels, brakes and brake control 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. Meggitt Safety Systems, Inc./Pacific Scientific HTL designs and manufactures fire protection and control systems for large, regional, business and military aircraft. MSS is a leading provider of high-performance sensing and condition-monitoring solutions for high-value rotating machinery and other assets and, within the aerospace sector, has a higher content on large jets. All four CGUs have significant OEM and aftermarket revenue 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 revenue except for MSS which has a higher OEM content. Meggitt (Rockmart), Inc. and Meggitt Training Systems, Inc. both operate mainly 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, capacity measured in available seat kilometres (ASKs) 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 revenue of 8 to 9% per annum over the medium term. The Group's continuing confidence in air passenger traffic growth is supported by the sustained high levels of order intake at Boeing and Airbus. Large jet deliveries increased by 8% in 2014, and the Group expects good delivery growth over the next five years underpinned by continued strong order intake and a backlog at Boeing and Airbus which equates to over seven years of deliveries at the current production rate. Deliveries of regional aircraft increased by 2% in 2014, with modest growth anticipated over the next five years, driven principally by demand for 70-90 seat aircraft, on which the Group has a strong shipset content. Total business jet deliveries increased by 6% in 2014 but deliveries of super-midsize and long-range aircraft, where the Group benefits from particularly strong market positions, grew more strongly. Further growth is anticipated in this market over the next five years, driven by increasing internationalisation of the customer base and the ongoing improvement in the US economy. Military markets look to be entering a more benign phase, with lower rates of decline than have been seen in recent years and even some suggestion of growth in the all important US budget from 2016. The threat of sequestration remains, although the likelihood, timing and impact are unknown at this stage. However, the Group has key positions on future growth platforms and, in the absence of any clarity on if or where sequestration cuts will ultimately fall, continues to anticipate average compound organic military growth 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% (2013: 2.4%), US: 2.4% (2013: 2.4%)), the latter has been used.

- Discount rates applied to future cash flows. The Group's pre-tax weighted average cost of capital (WACC) was used as the foundation for determining the discount rates to be applied. The WACC was then adjusted to reflect risks specific to the CGU not already reflected in the future cash flows for that CGU. The discount rates used were as follows: MABS 10.2% (2013: 10.3%), Meggitt (North Hollywood), Inc., 10.9% (2013: 11.0%), Meggitt Safety Systems, Inc./Pacific Scientific HTL 10.9% (2013: 10.8%), MSS 10.1% (2013: 9.7%), Meggitt (Rockmart), Inc. 10.4% (2013: 10.7%), and Meggitt Training Systems, Inc. 9.8% (2013: 10.9%). The discount rates used for 'Other' CGUs ranged between 8.3% to 11.0% (2013: 9.3% to 10.9%).

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 CGU with the least headroom in percentage terms is MSS followed by MABS. 'Other' goodwill of £294.0 million (2013: £270.6 million) relates to approximately 10 individual CGUs, all of which have headroom in percentage terms greater than that of MABS and MSS.

To require an impairment in the Group financial statements, one of the following would be required:

	MABS	MSS
Reduction in estimates of cash flows (more than)	**18%**	**14%**
Reduction of long-term growth rates (more than)	**62%**	**100%**
Increase in the discount rate applied to future cash flows (more than)	**14%**	**14%**
Headroom	**£313.6m**	**£53.4m**

19. Development costs and programme participation costs

		Development costs £'m	Programme participation costs £'m
At 1 January 2013			
Cost		276.0	326.9
Accumulated amortisation		(54.5)	(123.3)
Net book amount		221.5	203.6
Year ended 31 December 2013			
Opening net book amount		221.5	203.6
Exchange rate adjustments		(3.8)	(3.3)
Additions	– Internal development costs	70.2	–
	– Free of charge/deeply discounted manufactured parts	–	30.4
	– Cash payments	–	5.3
Disposals		(2.0)	–
Interest capitalised		1.5	–
Impairment loss		(3.2)	–
Amortisation*		(13.7)	(25.4)
Net book amount		270.5	210.6
At 31 December 2013			
Cost		340.7	356.0
Accumulated amortisation		(70.2)	(145.4)
Net book amount		270.5	210.6
Year ended 31 December 2014			
Opening net book amount		270.5	210.6
Exchange rate adjustments		9.5	10.7
Additions	– Internal development costs	77.7	–
	– Free of charge/deeply discounted manufactured parts	–	43.3
	– Cash payments	–	2.7
Interest capitalised		2.0	–
Impairment loss		(8.0)	–
Amortisation*		(8.8)	(24.9)
Net book amount		**342.9**	**242.4**
At 31 December 2014			
Cost		431.2	419.2
Accumulated amortisation		(88.3)	(176.8)
Net book amount		**342.9**	**242.4**

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

Interest has been capitalised using the average rate payable on the Group's floating rate borrowings of 1.5% (2013: 1.6%).

The net book amount of development costs includes £125.5 million (2013: £91.1 million) in respect of Meggitt Aircraft Braking Systems which have an estimated weighted average remaining life of 14.2 years (2013: 9.1 years). The net book amount of programme participation costs includes £228.6 million (2013: £202.7 million) in respect of Meggitt Aircraft Braking Systems which have an estimated weighted average remaining life of 9.0 years (2013: 8.4 years).

Notes to the consolidated financial statements continued

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 2013						
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
Year ended 31 December 2013						
Opening net book amount	552.3	146.6	0.3	11.7	68.0	778.9
Exchange rate adjustments	(5.8)	(1.4)	–	–	(0.4)	(7.6)
Business acquired	10.0	5.6	0.1	–	0.1	15.8
Businesses disposed	(9.5)	(1.1)	–	(0.6)	–	(11.2)
Additions	–	–	–	–	15.5	15.5
Amortisation – net operating costs (see note 10)	(54.7)	(17.0)	(0.3)	(2.3)	(9.8)	(84.1)
Net book amount	492.3	132.7	0.1	8.8	73.4	707.3
At 31 December 2013						
Cost	807.9	238.8	10.9	27.9	110.8	1,196.3
Accumulated amortisation	(315.6)	(106.1)	(10.8)	(19.1)	(37.4)	(489.0)
Net book amount	492.3	132.7	0.1	8.8	73.4	707.3
Year ended 31 December 2014						
Opening net book amount	492.3	132.7	0.1	8.8	73.4	707.3
Exchange rate adjustments	22.0	5.3	–	0.4	0.9	28.6
Businesses acquired (see note 42)	1.7	–	–	–	2.3	4.0
Additions	–	–	–	–	12.0	12.0
Amortisation – net operating costs (see note 10)	(50.7)	(15.3)	(0.1)	(2.0)	(10.8)	(78.9)
Net book amount	**465.3**	**122.7**	**–**	**7.2**	**77.8**	**673.0**
At 31 December 2014						
Cost	848.5	249.6	–	29.0	126.4	1,253.5
Accumulated amortisation	(383.2)	(126.9)	–	(21.8)	(48.6)	(580.5)
Net book amount	**465.3**	**122.7**	**–**	**7.2**	**77.8**	**673.0**

* 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. Amortisation of £Nil (2013: £1.4 million) has been charged to exceptional operating items and is excluded from the Group's underlying profit figures (see note 10).

During 2014, cost and accumulated amortisation relating to completed order backlogs were eliminated.

The net book amount of customer relationships includes £332.1 million (2013: £350.2 million) in respect of Meggitt Aircraft Braking Systems and £55.7 million (2013: £59.8 million) in respect of Meggitt Sensing Systems which have an estimated weighted average remaining life of 9.0 years (2013: 10.0 years) and 10.2 years (2013: 11.2 years) respectively. The net book amount of technology includes £66.4 million (2013: £70.2 million) in respect of Meggitt Aircraft Braking Systems and £19.4 million (2013: £22.0 million) in respect of Meggitt Sensing Systems which have an estimated weighted average remaining life of 9.0 years (2013: 10.0 years) and 6.9 years (2013: 7.9 years) respectively. Meggitt Sensing Systems comparatives for 2013 have been restated to reflect the impact of the change in divisional structure described in note 6.

21. Property, plant and equipment

	Land and buildings £'m	Plant, equipment and vehicles £'m	Total £'m
At 1 January 2013			
Cost	169.2	380.7	549.9
Accumulated depreciation	(55.0)	(262.7)	(317.7)
Net book amount	114.2	118.0	232.2
Year ended 31 December 2013			
Opening net book amount	114.2	118.0	232.2
Exchange rate adjustments	(0.8)	(1.1)	(1.9)
Business acquired	–	0.7	0.7
Businesses disposed	(0.1)	(4.0)	(4.1)
Additions	21.9	29.6	51.5
Disposals	(0.1)	(0.6)	(0.7)
Depreciation*	(6.5)	(25.7)	(32.2)
Net book amount	128.6	116.9	245.5
At 31 December 2013			
Cost	185.9	385.0	570.9
Accumulated depreciation	(57.3)	(268.1)	(325.4)
Net book amount	128.6	116.9	245.5
Year ended 31 December 2014			
Opening net book amount	128.6	116.9	245.5
Exchange rate adjustments	1.3	2.7	4.0
Businesses acquired (see note 42)	0.1	0.5	0.6
Additions	3.6	31.6	35.2
Disposals	(1.8)	(1.2)	(3.0)
Reclassification	(2.4)	2.4	–
Depreciation*	(6.3)	(24.9)	(31.2)
Net book amount	**123.1**	**128.0**	**251.1**
At 31 December 2014			
Cost	179.6	413.8	593.4
Accumulated depreciation	(56.5)	(285.8)	(342.3)
Net book amount	**123.1**	**128.0**	**251.1**

* Depreciation of £0.1 million (2013: £0.8 million) has been charged to exceptional operating items and is excluded from the Group's underlying profit figures (see note 10).

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 £4.4 million included within land and buildings (2013: £4.4 million) and £0.1 million (2013: £0.2 million) included within plant, equipment and vehicles.

22. Inventories

	2014 £'m	2013 £'m
Contract costs incurred	**9.3**	10.8
Less progress billings	**–**	(3.0)
Net contract costs	**9.3**	7.8
Raw materials and bought-in components	**121.1**	115.1
Manufacturing work in progress	**141.0**	127.9
Finished goods and goods for resale	**55.8**	48.4
Total	**327.2**	**299.2**

The cost of inventories recognised as an expense and included in cost of sales was £897.6 million (2013: £923.7 million). The cost of inventories recognised as an expense includes £6.4 million (2013: £2.3 million) in respect of write-downs of inventory to net realisable value, and has been reduced by £3.0 million (2013: £7.4 million) in respect of the reversal of write-downs made in previous years.

Notes to the consolidated financial statements continued

23. Trade and other receivables

	2014 £'m	2013 £'m
Trade receivables	**232.3**	244.6
Amounts recoverable on contracts	**55.1**	35.9
Prepayments and accrued income	**14.5**	12.2
Other receivables	**123.4**	126.1
Total	**425.3**	418.8
Less non-current portion:		
Other receivables	**93.4**	89.9
Non-current portion	**93.4**	89.9
Current portion	**331.9**	328.9

Other receivables includes £95.5 million (2013: £95.9 million) in respect of insurance receivables arising on environmental issues relating to businesses sold by Whittaker Corporation prior to its acquisition by the Group (see note 31) of which £11.1 million (2013: £10.5 million) is shown as current.

Trade receivables are stated after a provision for impairment of £3.7 million (2013: £4.1 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:

	2014 £'m	2013 £'m
At 1 January	**4.1**	6.6
Exchange rate adjustments	**0.1**	0.1
Businesses disposed	**–**	(0.5)
Credit to income statement – net operating costs	**(0.5)**	(2.1)
At 31 December	**3.7**	4.1

At 31 December 2014, trade receivables and amounts recoverable on contracts of £67.5 million (2013: £61.8 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 and other receivables is as follows:

	2014 £'m	2013 £'m
Up to 3 months overdue	**41.5**	53.2
Over 3 months overdue	**26.0**	8.6
Total	**67.5**	61.8

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:

	2014 £'m	2013 £'m
Sterling	**87.9**	79.2
US dollar	**295.9**	289.3
Euro	**28.6**	41.7
Other	**12.9**	8.6
Total	**425.3**	418.8

24. Cash and cash equivalents

	2014 £'m	2013 £'m
Cash at bank and on hand	**95.4**	101.0
Short-term bank deposits	**10.1**	15.1
Total	**105.5**	116.1

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

	2014 £'m	2013 £'m
S&P/Moody's rating:		
AAA	**0.3**	0.7
AA	**25.5**	29.0
A	**77.4**	81.7
BBB	**2.3**	4.7
Total	**105.5**	116.1

25. Trade and other payables – current

	2014 £'m	2013 £'m
Payments received on account	**31.5**	42.2
Trade payables	**127.3**	128.2
Social security and other taxes	**8.4**	12.5
Accrued expenses	**52.6**	47.8
Share buyback - close period commitment	**20.0**	–
Other payables	**118.7**	98.4
Total	**358.5**	329.1

26. Trade and other payables – non-current

	2014 £'m	2013 £'m
Deferred consideration relating to acquired businesses	**3.0**	2.9
Other payables	**2.9**	2.3
Total	**5.9**	5.2

27. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2014 £'m	2013 £'m	2014 £'m	2013 £'m
Amounts payable under finance leases:				
In one year or less	**1.1**	3.4	**0.1**	2.4
In more than one year but not more than five years	**4.0**	3.8	**0.2**	1.3
In more than five years	**12.4**	12.7	**5.1**	3.8
Total	**17.5**	19.9	**5.4**	7.5
Less: future finance charges	**(12.1)**	(12.4)		
Present value of lease obligations	**5.4**	7.5		
Less non-current portion	**5.3**	5.1		
Current portion	**0.1**	2.4		

Obligations under finance leases are principally US dollar denominated. The weighted average period to maturity is 15.4 years (2013: 11.0 years) and the weighted average interest rate is 18.0% (2013: 13.9%).

Notes to the consolidated financial statements continued

28. Bank and other borrowings

	2014 £'m	2013 £'m
Current		
Bank loans	**10.8**	3.9
Other loans	**48.1**	3.3
Total current	**58.9**	7.2
Non-current		
Bank loans	**212.6**	245.8
Other loans	**404.1**	420.2
Total non-current	**616.7**	666.0
Total	**675.6**	673.2
Analysis of bank and other borrowings repayable:		
In one year or less	**58.9**	7.2
In more than one year but not more than five years	**344.4**	413.7
In more than five years	**272.3**	252.3
Total	**675.6**	673.2
Analysis of bank and other borrowings:		
Drawn under committed facilities	**644.9**	653.2
Less unamortised debt issue costs	**(3.6)**	(3.9)
Fair value adjustment to fixed rate borrowings	**19.5**	15.3
Drawn under uncommitted facilities	**11.6**	5.6
Interest accruals	**3.2**	3.0
Total	**675.6**	673.2

Debt issue costs are amortised over the period of the facility to which they relate. The Group has no secured borrowings (2013: £Nil).

The Group has the following committed facilities:

	2014			2013		
	Drawn £'m	**Undrawn £'m**	**Total £'m**	Drawn £'m	Undrawn £'m	Total £'m
Senior notes (USD 70.0 million)	**44.9**	**–**	**44.9**	42.3	–	42.3
Senior notes (USD 600.0 million)	**384.8**	**–**	**384.8**	362.3	–	362.3
Syndicated credit facility (USD 700.0 million)	**–**	**–**	**–**	186.4	236.1	422.5
Syndicated credit facility (USD 400.0 million)	**–**	**–**	**–**	62.2	179.3	241.5
Syndicated credit facility (USD 900.0 million)	**215.2**	**362.0**	**577.2**	–	–	–
Total	**644.9**	**362.0**	**1,006.9**	653.2	415.4	1,068.6

The Group issued USD 70.0 million of loan notes to private placement investors in 2003. The notes carry an interest rate of 5.46% and are due for repayment in 2015.

The Group issued USD 600.0 million of loan notes to private placement investors in 2010. 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 also 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 2014, the Group secured a new five year USD 900.0 million syndicated revolving credit facility which matures in 2019 to replace the existing USD 700.0 million and USD 400.0 million syndicated revolving credit facilities which were due to mature in 2016 and 2017 respectively. The new facility includes one-year extension options at the end of the first and second years. At 31 December 2014, the amounts drawn under revolving credit facilities were £215.2 million (2013: £248.6 million) represented by borrowings denominated in US dollars of £142.5 million (2013: £97.0 million), in Euros of £50.4 million (2013: £62.3 million), in Swiss francs of £10.3 million (2013: £78.3 million) and in Sterling of £12.0 million (2013: £11.0 million). Borrowings under the facilities are subject to interest at floating rates.

28. Bank and other borrowings continued

The committed facilities available at each balance sheet date expire as follows:

	2014 Drawn £'m	2014 Undrawn £'m	2014 Total £'m	2013 Drawn £'m	2013 Undrawn £'m	2013 Total £'m
In one year or less	**44.9**	**–**	**44.9**	–	–	–
In more than one year but not more than five years	**343.5**	**362.0**	**705.5**	411.7	415.4	827.1
In more than five years	**256.5**	**–**	**256.5**	241.5	–	241.5
Total	**644.9**	**362.0**	**1,006.9**	653.2	415.4	1,068.6

The Group also has various uncommitted facilities with its relationship banks.

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

	2014 Book value £'m	2014 Fair value £'m	2013 Book value £'m	2013 Fair value £'m
Current	**58.9**	**61.6**	7.2	7.2
Non-current	**616.7**	**625.7**	666.0	676.3
Total	**675.6**	**687.3**	673.2	683.5

After taking account of financial derivatives that alter the interest 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 2014:

	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	**317.6**	**277.4**	**–**	**595.0**	**3.7**	**3.3**
Swiss franc	**14.8**	**–**	**–**	**14.8**		
Euro	**50.4**	**–**	**0.9**	**51.3**		
Sterling	**18.1**	**–**	**–**	**18.1**		
Gross bank and other borrowings	**400.9**	**277.4**	**0.9**	**679.2**		
Less unamortised debt issue costs	**(2.8)**	**(0.8)**	**–**	**(3.6)**		
Bank and other borrowings	**398.1**	**276.6**	**0.9**	**675.6**		

As at 31 December 2013:

	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	262.7	259.6	–	522.3	4.2	4.3
Swiss franc	79.6	–	–	79.6		
Euro	62.3	0.3	1.6	64.2	0.7	3.1
Sterling	11.0	–	–	11.0		
Gross bank and other borrowings	415.6	259.9	1.6	677.1		
Less unamortised debt issue costs	(3.2)	(0.7)	–	(3.9)		
Bank and other borrowings	412.4	259.2	1.6	673.2		

The weighted average interest rate reflects the relative impact of interest rates based on both principal amounts and duration of borrowings. The weighted average period to maturity for non-interest bearing borrowings is 4.4 years (2013: 3.5 years).

Notes to the consolidated financial statements continued

29. Financial instruments

As at 31 December 2014:

	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
Non-current:						
Trade and other receivables (see note 23)	–	–	93.4	–	93.4	93.4
Derivative financial instruments (see note 30)	28.3	1.3	–	–	29.6	29.6
Current:						
Trade and other receivables*	–	–	317.4	–	317.4	317.4
Derivative financial instruments (see note 30)	1.1	–	–	–	1.1	1.1
Cash and cash equivalents (see note 24)	–	–	105.5	–	105.5	105.5
Financial assets	**29.4**	**1.3**	**516.3**	**–**	**547.0**	**547.0**
Current:						
Trade and other payables**	–	–	–	(350.1)	(350.1)	(350.1)
Derivative financial instruments (see note 30)	(9.6)	–	–	–	(9.6)	(9.6)
Obligations under finance leases (see note 27)	–	–	–	(0.1)	(0.1)	(0.1)
Bank and other borrowings (see note 28)	–	–	–	(58.9)	(58.9)	(61.6)
Non-current:						
Trade and other payables (see note 26)	–	–	–	(5.9)	(5.9)	(5.9)
Derivative financial instruments (see note 30)	(2.9)	–	–	–	(2.9)	(2.9)
Obligations under finance leases (see note 27)	–	–	–	(5.3)	(5.3)	(5.3)
Bank and other borrowings (see note 28)	(276.9)	–	–	(339.8)	(616.7)	(625.7)
Financial liabilities	**(289.4)**	**–**	**–**	**(760.1)**	**(1,049.5)**	**(1,061.2)**
Total	**(260.0)**	**1.3**	**516.3**	**(760.1)**	**(502.5)**	**(514.2)**

As at 31 December 2013:

	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
Non-current:						
Trade and other receivables (see note 23)	–	–	89.9	–	89.9	89.9
Derivative financial instruments (see note 30)	33.4	2.1	–	–	35.5	35.5
Current:						
Trade and other receivables*	–	–	316.7	–	316.7	316.7
Derivative financial instruments (see note 30)	11.2	–	–	–	11.2	11.2
Cash and cash equivalents (see note 24)	–	–	116.1	–	116.1	116.1
Financial assets	44.6	2.1	522.7	–	569.4	569.4
Current:						
Trade and other payables**	–	–	–	(316.6)	(316.6)	(316.6)
Derivative financial instruments (see note 30)	(0.7)	–	–	–	(0.7)	(0.7)
Obligations under finance leases (see note 27)	–	–	–	(2.4)	(2.4)	(2.4)
Bank and other borrowings (see note 28)	–	–	–	(7.2)	(7.2)	(7.2)
Non-current:						
Trade and other payables (see note 26)	–	–	–	(5.2)	(5.2)	(5.2)
Derivative financial instruments (see note 30)	(0.1)	–	–	–	(0.1)	(0.1)
Obligations under finance leases (see note 27)	–	–	–	(5.1)	(5.1)	(5.1)
Bank and other borrowings (see note 28)	(256.8)	–	–	(409.2)	(666.0)	(676.3)
Financial liabilities	(257.6)	–	–	(745.7)	(1,003.3)	(1,013.6)
Total	(213.0)	2.1	522.7	(745.7)	(433.9)	(444.2)

* Excludes prepayments and accrued income of £14.5 million (2013: £12.2 million) (see note 23).
** Excludes social security and other taxes of £8.4 million (2013: £12.5 million) (see note 25).

29. Financial instruments continued

Fair value measurement and hierarchy

For trade and other receivables, cash and cash equivalents, trade and other payables, obligations under finance leases and the current element of floating rate bank and other borrowings, fair values approximate to book values due to the short maturity periods of these financial instruments. For trade and other receivables, allowances are made within book value for credit risk.

Derivative financial instruments measured at fair value, 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 values of foreign currency forward contracts have been derived from forward exchange rates observable at the balance sheet date together with the contractual forward rates. The fair values of interest rate derivatives have been derived from forward interest rates based on yield curves observable at the balance sheet date together with the contractual interest rates.

The non-current portion of bank and other borrowings measured at fair value, is classified as level 3 in the fair value measurement hierarchy, as it 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 (credit risk). The fair value attributable to interest rate risk has been derived from forward interest rates based on yield curves observable at the balance sheet date together with the contractual interest rates and with the credit risk margin kept constant. The fair value attributable to credit risk has been derived from quotes from lenders for borrowings of similar amounts and maturity periods. The same methods of valuation have been used to derive the fair value of the current element of fixed rate bank and other borrowings and the non-current element of bank and other borrowings which are held at amortised cost, but for which fair values are provided in the table above.

There were no transfers of assets or liabilities between levels of the fair value hierarchy during the year.

Financial liabilities designated as fair value through profit or loss

Cumulative unrealised changes in the fair value of the non-current portion of bank and other borrowings arising from changes in credit risk are as follows:

	2014 £'m	2013 £'m
Fair value at 1 January	**7.0**	10.0
Credited/(charged) to net operating costs	**0.7**	(3.0)
Fair value at 31 December	**7.7**	7.0

The difference between the fair value and contractual amount at maturity of the non-current portion of bank and other borrowings is as follows:

	2014 £'m	2013 £'m
Fair value	**276.9**	256.8
Difference between fair value and contractual amount at maturity	**(19.5)**	(15.3)
Contractual amount payable at maturity	**257.4**	241.5

Financial liabilities classified as level 3 in the hierarchy

Changes in fair value are as follows:

	2014 £'m	2013 £'m
Bank and other borrowings at fair value through profit or loss:		
At 1 January	**256.8**	274.9
Exchange rate adjustments	**16.1**	(4.4)
Loss/(gain) recognised in net operating costs	**4.0**	(13.7)
At 31 December	**276.9**	256.8

The largest movement in credit spread seen in a six month period since inception of the borrowings is 70 basis points. A 70 basis point movement in the credit spread used as an input in determining the fair value at 31 December 2014, would impact profit before tax by approximately £9.0 million.

Notes to the consolidated financial statements continued

30. Derivative financial instruments

As at 31 December 2014:

	Contract or underlying principal amount		Fair value	
	Assets £'m	Liabilities £'m	Assets £'m	Liabilities £'m
Interest rate swaps – cash flow hedges	**102.6**	**–**	**1.3**	**–**
Interest rate swaps – fair value hedges	**256.5**	**–**	**27.0**	**–**
Foreign currency forward contracts – not hedge accounted	**134.3**	**(284.3)**	**2.4**	**(12.5)**
Total	**493.4**	**(284.3)**	**30.7**	**(12.5)**
Less non-current portion:				
Interest rate swaps – cash flow hedges	**102.6**	**–**	**1.3**	**–**
Interest rate swaps – fair value hedges	**256.5**	**–**	**27.0**	**–**
Foreign currency forward contracts – not hedge accounted	**72.0**	**(131.2)**	**1.3**	**(2.9)**
Non-current portion	**431.1**	**(131.2)**	**29.6**	**(2.9)**
Current portion	**62.3**	**(153.1)**	**1.1**	**(9.6)**

As at 31 December 2013:

	Contract or underlying principal amount		Fair value	
	Assets £'m	Liabilities £'m	Assets £'m	Liabilities £'m
Interest rate swaps – cash flow hedges	96.6	–	2.1	–
Interest rate swaps – fair value hedges	241.5	–	22.8	–
Foreign currency forward contracts – not hedge accounted	344.5	(12.4)	21.8	(0.8)
Total	682.6	(12.4)	46.7	(0.8)
Less non-current portion:				
Interest rate swaps – cash flow hedges	96.6	–	2.1	–
Interest rate swaps – fair value hedges	241.5	–	22.8	–
Foreign currency forward contracts – not hedge accounted	170.6	(1.6)	10.6	(0.1)
Non-current portion	508.7	(1.6)	35.5	(0.1)
Current portion	173.9	(10.8)	11.2	(0.7)

Interest rate swaps

The total notional principal amount of outstanding interest rate swap contracts at 31 December 2014 is £359.1 million (2013: £338.1 million), of which £64.1 million will expire in 2017, £102.6 million will expire in 2018, £112.2 million will expire in 2020 and £80.2 million will expire in 2022. The contracts are all denominated in USD. Of the notional principal amount outstanding, £102.6 million (2013: £96.6 million) has the economic effect of converting floating rate US dollar borrowings into fixed rate US dollar borrowings and £256.5 million (2013: £241.5 million) has the economic effect of converting fixed rate US dollar borrowings into floating rate US dollar borrowings. To the extent they meet the criteria for hedge accounting, the floating rate to fixed rate swap contracts are accounted for as cash flow hedges and the fixed rate to floating rate swap contracts as fair value hedges.

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.

	2014 Assets £'m	**2014 Liabilities £'m**	2013 Assets £'m	2013 Liabilities £'m
Fair value:				
US dollar forward sales (USD/£)	**2.3**	**(3.8)**	17.4	–
Forward sales denominated in other currencies	**0.1**	**(8.7)**	4.4	(0.8)
Total	**2.4**	**(12.5)**	21.8	(0.8)

30. Derivative financial instruments continued

Credit quality of derivative financial assets

The credit quality of derivative financial assets is as follows:

	2014 £'m	2013 £'m
S&P/Moody's rating:		
AA	**4.0**	7.2
A	**26.7**	33.8
BBB	**–**	5.7
Total	**30.7**	46.7

31. Provisions

	Environmental (a) £'m	Onerous contracts (b) £'m	Warranty costs (c) £'m	Other (d) £'m	Total £'m
At 1 January 2014	120.4	40.2	12.6	20.3	193.5
Exchange rate adjustments	7.6	0.8	0.3	0.4	9.1
Business acquired (see note 42)	–	–	0.1	–	0.1
Additional provision in year – cost of sales	–	2.5	8.1	–	10.6
Additional provision in year – net operating costs	25.2	–	–	3.6	28.8
Unused amounts reversed – cost of sales	–	(7.5)	(0.2)	(2.4)	(10.1)
Unused amounts reversed – net operating costs	(8.6)	(4.0)	–	(9.9)	(22.5)
Charge to income statement – net finance costs (see note 13)	1.1	–	–	–	1.1
Utilised	(12.7)	(9.7)	(7.9)	(4.7)	(35.0)
At 31 December 2014	**133.0**	**22.3**	**13.0**	**7.3**	**175.6**

	2014 £'m	2013 £'m
Current	**45.1**	44.3
Non-current	**130.5**	149.2
At 31 December 2014	**175.6**	193.5

a. Provision has been made for known exposures arising from environmental remediation 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. The provisions are expected to be substantially utilised over the next fifteen years and are discounted, where appropriate, using an appropriate discount rate. A receivable has been established to the extent these costs are recoverable under the Group's environmental insurance policies or from other parties (see note 23). The net charge to net operating costs of £16.6 million was partly offset by a credit to net operating costs of £9.7 million, recognised in respect of an increase in the year in amounts recoverable under these insurance policies and from other parties.

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, where appropriate, using a discount rate appropriate to each provision. Provision has also been made for estimated losses under certain trading contracts. As described in note 11, during 2013 the Group was made aware of an issue relating to the supply from a vendor of non-conforming raw material in one of our businesses. Provision has been made for the estimated future costs associated with this matter, which include the provision of a number of free of charge replacement parts to customers over a period of several years. There are a number of uncertainties regarding the ultimate amounts that will be payable, including the extent to which replacement parts will be required. However, the directors believe, based on the information currently available, that the ultimate outcome will not be significantly different from that recognised. Onerous trading contract 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.

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

d. 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. During 2013, an administrative settlement was reached with the US Government following its investigation of alleged violations of US export control laws by certain subsidiaries of the Group. Under the terms of the 30-month consent agreement, Meggitt-USA, Inc. was assessed a civil penalty of USD 25 million, of which USD 22 million was suspended on condition the Government approves certain past or future remedial costs incurred or to be incurred by the Group's US subsidiaries. In addition, the Group is required to implement additional future compliance measures. No provision is held for the suspended penalty as it is not considered probable that such amounts will be payable. 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.

Notes to the consolidated financial statements continued

32. Deferred tax

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

Deferred tax assets	Retirement benefit obligations £'m	Other £'m	Total £'m
At 1 January 2013	94.3	21.0	115.3
Exchange rate adjustments	(0.1)	0.1	–
Business acquired	–	(0.1)	(0.1)
Businesses disposed	–	4.6	4.6
Reclassifications	–	0.6	0.6
Charge to income statement (see note 14)	(4.5)	(13.4)	(17.9)
Charge to other comprehensive income (see note 14)	(21.6)	(0.1)	(21.7)
Credit to equity (see note 14)	–	3.3	3.3
At 31 December 2013	68.1	16.0	84.1
Exchange rate adjustments	2.7	0.3	3.0
Reclassifications	–	(3.7)	(3.7)
(Charge)/credit to income statement (see note 14)	(7.3)	2.1	(5.2)
Credit to other comprehensive income (see note 14)	24.2	0.2	24.4
Charge to equity (see note 14)	–	(1.8)	(1.8)
At 31 December 2014	**87.7**	**13.1**	**100.8**

Deferred tax liabilities	Accelerated tax depreciation £'m	Intangible assets (*) £'m	Total £'m
At 1 January 2013	(16.5)	(288.1)	(304.6)
Exchange rate adjustments	0.3	4.0	4.3
Businesses disposed	–	(6.0)	(6.0)
Reclassifications	(0.3)	–	(0.3)
(Charge)/credit to income statement (see note 14)	(2.8)	15.1	12.3
At 31 December 2013	(19.3)	(275.0)	(294.3)
Exchange rate adjustments	(0.9)	(14.1)	(15.0)
Reclassifications	(0.1)	0.9	0.8
Charge to income statement (see note 14)	(1.8)	(4.3)	(6.1)
Charge to other comprehensive income (see note 14)	–	(0.1)	(0.1)
At 31 December 2014	**(22.1)**	**(292.6)**	**(314.7)**

* 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:

	2014 £'m	2013 £'m
Deferred tax assets	**0.9**	9.1
Deferred tax liabilities	**(214.8)**	(219.3)
Net balance at 31 December	**(213.9)**	(210.2)

Deferred tax assets are analysed as follows:

	2014 £'m	2013 £'m
To be recovered within one year	**0.2**	0.2
To be recovered after more than one year	**0.7**	8.9
Total	**0.9**	9.1

Deferred tax liabilities are analysed as follows:

	2014 £'m	2013 £'m
Due within one year	**–**	(0.3)
Due after more than one year	**(214.8)**	(219.0)
Total	**(214.8)**	(219.3)

The Group has unrecognised tax losses of £23.5 million (2013: £25.2 million) for which no deferred tax asset has been recognised. Deferred tax assets have not been recognised in respect of these losses, 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 they reverse and suitable taxable profits are available. There are no unremitted earnings in foreign subsidiaries that would give rise to a tax liability in the event of those subsidiaries remitting their earnings.

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 but open to future accrual for existing members;
- In the US, the Group operates five defined benefit schemes, all of which are closed to new members. With two exceptions, these schemes are open to future accrual for existing members. The schemes are a mixture of funded and unfunded schemes; and
- In Switzerland, the Group operates a funded defined benefit scheme which is open to new members and to future accrual.

The UK and US schemes provide benefits to members in the form of a guaranteed level of pension payable for life. The benefits provided depend on a member's length of service. For the majority of schemes, the benefits are also dependent on salary at retirement or average salary over employment in the final years leading up to retirement. In the US, one scheme provides a fixed benefit for each year of service. The Swiss scheme has many of the characteristics of a defined contribution scheme but provides for certain minimum benefits to be guaranteed to members.

For all funded schemes, benefit payments are made from funds administered by third parties unrelated to the Group. The assets of such schemes are held in trust funds, or their equivalent, separate from the Group's finances.

The UK scheme is a registered scheme and subject to the statutory scheme-specific funding requirements outlined in UK legislation, including the payment of levies to the Pension Protection Fund. It is established under trust and the responsibility for its governance lies with the trustees who also agree funding arrangements with the Group.

The funded US schemes are tax-qualified pension schemes regulated by the Pension Protection Act 2006 and are insured by the Pension Benefit Guarantee Corporation up to certain limits. They are established under, and governed by, the US Employee Retirement Income Security Act 1974. Meggitt is a named fiduciary with the authority to manage the operation of the US schemes.

For all unfunded schemes, benefit payments are made by the Group as obligations fall due. The Group also operates a number of defined contribution schemes under which the Group has no further obligations once the contributions have been paid.

Healthcare schemes

The Group has two principal other post-retirement benefit schemes providing medical and life assurance benefits to 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

	2014 £'m	2013 £'m
Total charge in respect of defined contribution pension schemes	**21.7**	19.2
Defined benefit pension schemes:		
Service cost	**11.9**	12.7
Past service cost	**1.1**	0.7
Net interest expense on retirement benefit obligations	**7.8**	9.5
Total charge in respect of defined benefit pension schemes	**20.8**	22.9
Healthcare schemes:		
Service cost	**0.8**	1.5
Past service credit*	**(8.9)**	–
Net interest expense on retirement benefit obligations	**2.2**	2.0
Total (credit)/charge in respect of healthcare schemes	**(5.9)**	3.5
Total charge	**36.6**	45.6

* During the year, the Group made changes to the way in which medical benefits are provided. These changes, following which the Group continues to provide comparable benefits, resulted in a past service credit being recognised of £8.4 million (2013: Nil) which is included within the amounts shown in the table.

Of the total charge, £26.6 million (2013: £34.1 million) has been charged to operating profit (see note 9), of which £19.5 million (2013: £18.9 million) has been included in cost of sales and £7.1 million (2013: £15.2 million) in net operating costs. The remaining £10.0 million (2013: £11.5 million) is included in finance costs (see note 13).

Notes to the consolidated financial statements continued

33. Retirement benefit obligations continued

Amounts recognised in the balance sheet

	2014			
	UK pension scheme £'m	Overseas pension schemes £'m	Overseas healthcare schemes £'m	Total £'m
Present value of scheme liabilities	**681.4**	**350.7**	**46.8**	**1,078.9**
Fair value of scheme assets	**(501.4)**	**(259.7)**	**–**	**(761.1)**
Retirement benefit obligations	**180.0**	**91.0**	**46.8**	**317.8**

	2013			
	UK pension scheme £'m	Overseas pension schemes £'m	Overseas healthcare schemes £'m	Total £'m
Present value of scheme liabilities	573.4	304.8	48.3	926.5
Fair value of scheme assets	(449.9)	(238.5)	–	(688.4)
Retirement benefit obligations	123.5	66.3	48.3	238.1

Of the total deficit of £317.8 million (2013: £238.1 million), £63.8 million (2013: £61.0 million) is in respect of unfunded schemes.

Changes in the present value of retirement benefit obligations

	2014			2013		
	Liabilities (*) £'m	Assets (**) £'m	Total £'m	Liabilities (*) £'m	Assets (**) £'m	Total £'m
At 1 January	**926.5**	**(688.4)**	**238.1**	934.4	(634.7)	299.7
Exchange rate adjustments	**15.6**	**(7.9)**	**7.7**	(4.0)	3.1	(0.9)
Service cost	**12.7**	**–**	**12.7**	14.2	–	14.2
Past service (credit)/cost	**(7.8)**	**–**	**(7.8)**	0.7	–	0.7
Interest expense/(income) (see note 13)	**38.9**	**(28.9)**	**10.0**	36.4	(24.9)	11.5
Contributions – Group	**–**	**(42.0)**	**(42.0)**	–	(41.6)	(41.6)
Contributions – members	**3.2**	**(3.2)**	**–**	3.6	(3.6)	–
Benefits paid	**(38.8)**	**38.8**	**–**	(37.5)	37.5	–
Remeasurement of retirement benefit obligations:						
Loss/(gain) from change in demographic assumptions	**10.8**	**–**	**10.8**	(6.9)	–	(6.9)
Loss/(gain) from change in financial assumptions	**117.8**	**–**	**117.8**	(14.4)	–	(14.4)
Return on schemes' assets excluding amounts included in interest income	**–**	**(30.9)**	**(30.9)**	–	(25.5)	(25.5)
Total remeasurement loss/(gain)	**128.6**	**(30.9)**	**97.7**	(21.3)	(25.5)	(46.8)
Administrative expenses borne directly by schemes	**–**	**1.4**	**1.4**	–	1.3	1.3
At 31 December	**1,078.9**	**(761.1)**	**317.8**	926.5	(688.4)	238.1

* Present value of schemes' liabilities.

** Fair value of schemes' assets.

33. Retirement benefit obligations continued

Analysis of pension scheme assets

	2014				2013			
	Quoted £'m	Unquoted £'m	Total £'m	%	Quoted £'m	Unquoted £'m	Total £'m	%
Equities	**146.0**	**–**	**146.0**	**29.1**	199.4	0.4	199.8	44.4
Government bonds	**196.6**	**1.9**	**198.5**	**39.6**	132.7	1.9	134.6	29.9
Corporate bonds	**80.1**	**18.9**	**99.0**	**19.8**	42.7	26.4	69.1	15.4
Cash	**35.7**	**–**	**35.7**	**7.1**	22.3	–	22.3	5.0
Other assets	**8.2**	**14.0**	**22.2**	**4.4**	14.6	9.5	24.1	5.3
UK pension scheme	**466.6**	**34.8**	**501.4**	**100.0**	411.7	38.2	449.9	100.0
Equities	**58.0**	**–**	**58.0**	**22.3**	112.6	–	112.6	47.2
Government bonds	**67.5**	**–**	**67.5**	**26.0**	22.8	–	22.8	9.6
Corporate bonds	**85.2**	**–**	**85.2**	**32.8**	65.9	–	65.9	27.6
Property	**8.9**	**13.5**	**22.4**	**8.7**	9.9	11.5	21.4	9.0
Cash	**2.2**	**–**	**2.2**	**0.8**	10.6	–	10.6	4.4
Other assets	**24.4**	**–**	**24.4**	**9.4**	5.2	–	5.2	2.2
Overseas pension schemes	**246.2**	**13.5**	**259.7**	**100.0**	227.0	11.5	238.5	100.0
Equities	**204.0**	**–**	**204.0**	**26.8**	312.0	0.4	312.4	45.4
Government bonds	**264.1**	**1.9**	**266.0**	**34.9**	155.5	1.9	157.4	22.8
Corporate bonds	**165.3**	**18.9**	**184.2**	**24.2**	108.6	26.4	135.0	19.6
Property	**8.9**	**13.5**	**22.4**	**3.0**	9.9	11.5	21.4	3.1
Cash	**37.9**	**–**	**37.9**	**5.0**	32.9	–	32.9	4.8
Other assets	**32.6**	**14.0**	**46.6**	**6.1**	19.8	9.5	29.3	4.3
Total pension schemes' assets	**712.8**	**48.3**	**761.1**	**100.0**	638.7	49.7	688.4	100.0

Other assets include hedge funds, commodities and derivatives. The schemes have no investments in any assets of the Group.

Financial assumptions used to calculate scheme liabilities

	2014			2013		
	UK pension scheme	Overseas pension schemes	Overseas healthcare schemes	UK pension scheme	Overseas pension schemes	Overseas healthcare schemes
Discount rate	**3.60%**	**3.85%**	**3.85%**	4.60%	4.55%	4.55%
Inflation rate	**3.10%**	**N/A**	**N/A**	3.40%	N/A	N/A
Increases to deferred benefits during deferment*	**2.10%**	**N/A**	**N/A**	2.60%	N/A	N/A
Increases to pensions in payment*	**3.00%**	**N/A**	**N/A**	3.30%	N/A	N/A
Salary increases	**4.10%**	**4.74%**	**N/A**	4.40%	4.76%	N/A

* To the extent not overridden by specific scheme rules.

In determining the fair value of scheme liabilities, the Group uses mortality assumptions which are based on published mortality tables adjusted to reflect the characteristics of the scheme populations. The Group's mortality assumptions in the UK are based on recent mortality investigations of Self Administered Pension Schemes adjusted to reflect the profile of the membership of the scheme, which include the results of a postcode analysis of members used to support the 2012 triennial UK actuarial valuation. 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 were previously based on the RP2000 IRS RPA tables. During 2014, new mortality tables have been adopted and the assumptions are now based on the RPH-2014 headcount weighted table, for schemes where benefits are not salary-linked, and the RP-2014 table for other schemes, with both tables projecting rates of mortality to fall using the Social Security Administration's projection scale ('Scale SSA').

Notes to the consolidated financial statements continued

33. Retirement benefit obligations continued

	2014		2013	
	UK scheme Years	**Overseas schemes Years**	UK scheme Years	Overseas schemes Years
Member age 45 (life expectancy at age 65) – male	**23.6-25.3**	**21.6-22.2**	23.5-25.2	19.3
Member age 45 (life expectancy at age 65) – female	**26.4-28.0**	**23.4-23.7**	26.3-27.9	21.1
Member age 65 (current life expectancy) – male	**21.9-23.6**	**20.3-20.9**	21.8-23.6	19.3
Member age 65 (current life expectancy) – female	**24.5-26.1**	**22.3-22.5**	24.3-26.0	21.1

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 2014 to increase by approximately £18.3 million;
- The impact of a 10 basis point increase in inflation and salary inflation rates would cause scheme liabilities at 31 December 2014 to increase by approximately £13.5 million;
- The impact of assuming every scheme member were to live for an additional year would cause scheme liabilities at 31 December 2014 to increase by approximately £27.5 million.

The above sensitivity analyses are based on a change in a single assumption while keeping all other assumptions constant. In practice, this is unlikely to occur, and changes in some assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method of calculating the defined benefit obligation has been used as when calculating the retirement benefit obligations recognised in the balance sheet. The methods and types of assumptions used in preparing the sensitivity analysis are consistent with the previous year.

Risks

The Group is exposed to a number of risks arising from operating its defined benefit pension and healthcare schemes, the most significant of which are detailed below. Except as discussed below, the Group has not changed the processes used to manage defined benefit scheme risks during the year.

Asset volatility

In determining the present value of schemes' defined benefit obligations, liabilities are discounted using interest rates of high quality corporate bonds. To the extent the actual return on schemes' assets is below this yield, the retirement benefit obligations recognised in the consolidated financial statements would increase. This risk is partly mitigated by funded schemes investing in matching corporate bonds, such that changes in asset values are offset by similar changes in the value of scheme liabilities. However, the Group also invests in other asset types such as equities, property, hedge funds, commodities and derivatives where movements in asset values may be uncorrelated to movements in the yields on high quality corporate bonds. The Group believes that, due to the long-term nature of its scheme liabilities, it is appropriate to invest in assets which are expected to out-perform corporate bonds over this timeframe. Scheme assets are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. During the year, part of the equity portfolio held by the UK and US schemes was disinvested. The amounts disinvested totalled approximately £100 million. The proceeds were used to purchase structured investments consisting of high quality government bonds together with equity derivatives. The structured investments enable the schemes to benefit from equity-like returns, subject to certain caps, on the amounts invested, whilst providing an element of protection against falls in equity markets. The Group actively monitors how the duration and expected yield of scheme assets are matching the expected cash outflows arising from the pension obligations. For each funded scheme, there is a 'glide-path' in place which provides, to the extent the funding position improves, for asset volatility to be reduced by increased investment in long-term index linked securities with maturities that match the benefit payments as they fall due.

Interest risk

In determining the present value of schemes' defined benefit obligations, liabilities are discounted using interest rates of high quality corporate bonds. If these yields fall, the retirement benefit obligations recognised in the consolidated financial statements would increase. This risk is partly mitigated through the funded schemes investing in matching assets as described above.

Inflation risk

In determining the present value of schemes' defined benefit obligations, estimates are made as to levels of salary inflation, inflation increases that will apply to deferred benefits during deferment and pensions in payment, and healthcare cost inflation. To the extent actual inflation exceeds these estimates, the retirement benefit obligations recognised in the consolidated financial statements would increase. Salary inflation risk is partly mitigated in both the UK and US schemes by linking benefits in respect of future service to average salaries over a period of employment rather than final salary at retirement. Benefits in respect of certain periods of past service are still linked to final salary at retirement. In the UK, inflation risk in respect of deferred benefits and pensions in payment is mitigated by caps on the levels of inflation under the scheme rules. In the US and Switzerland, the schemes provide for no inflation to be applied to benefits in deferment or retirement. Exposure to inflation on US healthcare costs has been mitigated by freezing Group contributions to medical costs at 2011 cost levels.

33. Retirement benefit obligations continued

Longevity risk

In determining the present value of schemes' defined benefit obligations, assumptions are made as to the life expectancy of members during employment and in retirement. To the extent life expectancy exceeds this estimate, the retirement benefit obligations recognised in the consolidated financial statements would increase. This risk is more significant in the UK plan, where inflationary increases result in higher sensitivity to changes in life expectancy. The Group currently does not use derivatives, such as longevity swaps, to mitigate this risk.

Other information

In the UK, the last triennial valuation was in 2012 following which the Group agreed with the trustees to increase deficit reduction payments, with the aim being to eliminate the deficit by 2024. Under the agreement with the trustees, deficit payments in 2015 will be £21.4 million and will increase by approximately 5% per annum until 2024. Although the present value of future deficit payments agreed as part of the 2012 actuarial valuation exceed the scheme deficit at 31 December 2014, such amounts would be recoverable by the Group under the scheme rules once the last member has died and accordingly no additional minimum funding liability arises.

In the US, deficit reduction payments are driven by regulations and provide for deficits to be eliminated over periods up to 15 years. Deficit payments in 2015 are expected to be £4.4 million and, absent any changes in legislation, will reduce over the following two years before increasing to £6.7 million by 2019. Thereafter, annual payments are expected to remain relatively stable for the remainder of the recovery period. The present value of deficit payments due under legislation do not exceed the schemes' deficits at 31 December 2014 and accordingly no additional minimum funding liability arises.

There is no significant deficit in the Swiss scheme.

The estimated total Group contributions expected to be paid to the schemes during 2015 are £43.1 million.

The weighted average duration of the UK schemes' defined benefit obligation is 19.6 years. The weighted average duration of the overseas schemes' defined benefit obligation is 11.5 years. The expected maturity of undiscounted pension and healthcare benefits at 31 December 2014 is as follows:

	Pension schemes £'m	Healthcare schemes £'m	Total £'m
Less than a year	35.8	3.4	39.2
Between 1-2 years	36.6	3.2	39.8
Between 2-5 years	112.1	9.7	121.8
Between 5-10 years	199.7	15.4	215.1
Between 10-15 years	246.3	12.5	258.8
Between 15-20 years	257.6	9.8	267.4
Between 20-25 years	252.8	7.6	260.4
Over 25 years	696.5	14.5	711.0
Total	**1,837.4**	**76.1**	**1,913.5**

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 2013	785.0	39.3	
Issued on exercise of executive share awards	7.2	0.3	0.5
Issued on exercise of sharesave awards	1.1	0.1	2.0
Scrip dividends	3.8	0.2	20.0
At 31 December 2013	797.1	39.9	
Issued on exercise of executive share awards	0.4	–	0.1
Share buyback – purchased in year	(6.8)	(0.3)	(33.7)
Scrip dividends	11.6	0.5	53.0
At 31 December 2014	**802.3**	**40.1**	

Notes to the consolidated financial statements continued

34. Share capital and share schemes continued

Share Options

Year of grant	Number of ordinary shares under award	Exercise price per share	Exercise period From	To
Meggitt 2008 Sharesave Scheme				
2008	65,963	171.40p	01.11.15	30.04.16
2010	430,711	222.35p	01.11.15	30.04.16
2010	50,781	222.35p	01.11.17	30.04.18
2012	682,810	326.94p	01.11.15	30.04.16
2012	369,802	326.94p	01.11.17	30.04.18
2013	398,515	426.40p	01.11.16	30.04.17
2013	136,635	426.40p	01.11.18	30.04.19
2014	578,493	374.19p	01.11.17	30.04.18
2014	382,956	374.19p	01.11.19	30.04.20
Meggitt Executive Share Option Scheme 2005 Part A				
2005	51,759	278.65p	10.10.08	09.10.15
2006	9,384	263.67p	27.09.09	26.09.16
2007	7,459	299.00p	29.03.10	28.03.17
2008	990	252.50p	25.03.11	24.03.18
2009	30,531	169.50p	30.04.12	29.04.19
2010	8,686	286.10p	12.03.13	11.03.20
2011	48,031	351.70p	02.03.14	01.03.21
2012	211,862	397.20p	10.04.15	09.04.22
2013	217,649	526.50p	05.09.16	04.09.23
2013	5,504	545.00p	09.09.16	08.09.23

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 3.4 years (2013: 4.2 years).

Share Appreciation Rights – Equity-settled

Year of grant	Indicative number of shares to be released*	Number of ordinary shares under award	Exercise price per share	Exercise period From	To
Meggitt Executive Share Option Scheme 2005 Part B					
2005	146,630	316,625	278.65p	10.10.08	09.10.15
2006	202,199	411,002	263.67p	27.09.09	26.09.16
2007	175,934	415,045	299.00p	29.03.10	28.03.17
2007	32,533	73,332	288.75p	17.08.10	16.08.17
2008	459,613	895,082	252.50p	25.03.11	24.03.18
2008	156,656	258,109	204.00p	07.08.11	06.08.18
2009	811,243	1,204,679	169.50p	30.04.12	29.04.19
2010	719,939	1,604,329	286.10p	12.03.13	11.03.20
2011	511,432	1,586,569	351.70p	02.03.14	01.03.21
2011	70,519	210,948	345.50p	17.08.14	16.08.21
2012	1,038,807	4,426,443	397.20p	10.04.15	09.04.22
2013	–	3,688,877	526.50p	05.09.16	04.09.23
2013	–	11,679	545.00p	09.09.16	08.09.23

* Based on an indicative share price of 519.00p, the share price at 31 December 2014.

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 6.3 years (2013: 7.1 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 in respect of such schemes was £1.7 million (2013: £11.9 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 Long Term Incentive Plan 2014

Equity-settled

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

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

35. Share-based payment continued

Each of the conditions is measured over a three year performance period. An expense of £1.7 million (2013: £Nil) was recorded in the year. Awards are made as nil cost options. An employee is generally entitled to a payment at the end of the vesting period, equivalent to dividends that would have been paid during the vesting period, on any shares that vest. The fair value of the award made in 2014 has been estimated at the market price of the share on the date of grant, which was 467.54 pence. Movements in the number of outstanding shares that may potentially be released to employees are as follows:

	2014 Number of shares under award outstanding 'm
At 1 January	**–**
Awarded	**4.2**
At 31 December	**4.2**

At 31 December 2014, none of the shares under award are eligible for release.

Meggitt Executive Share Option Scheme 2005

Equity-settled

Awards are no longer made under this scheme. Share awards under the scheme were granted to certain senior executives at an exercise price equal to the market price of the shares on the day before the grant was made. The awards are generally exercisable at the earliest three years after the grant date. Awards can only be exercised if the Group meets an earnings per share performance condition. The Group has no obligation, legal or constructive, to settle the awards in cash. Awards under Part A of the scheme provide for the executive on exercise to be entitled, on payment of the exercise price, to the number of shares under award. Awards under Part B of the scheme are in the form of equity-settled share appreciation rights (SAR's) and provide for the executive on exercise to be entitled to receive equity equivalent to the gain in value between the exercise price and the market price on the date of exercise. Awards may be exercised at any point between the vesting date and ten years after the date the award was made.

A credit of £0.9 million (2013: £2.5 million expense) was recorded in the year. Movements in the number of outstanding awards and their related weighted average exercise prices are as follows:

	2014 Average exercise price Pence	**2014 Number of awards outstanding 'm**	2013 Average exercise price Pence	2013 Number of awards outstanding 'm
At 1 January	**360.49**	**21.1**	304.35	24.5
Granted	**–**	**–**	526.58	4.1
Lapsed	**371.43**	**(2.0)**	365.26	(0.5)
Modified from cash-settled	**–**	**–**	262.04	3.4
Exercised	**292.76**	**(3.4)**	262.42	(10.4)
At 31 December	**373.89**	**15.7**	360.49	21.1

At 31 December 2014, of the total number of awards outstanding, 7.1 million are exercisable at an average exercise price of 274.59 pence (2013: 7.2 million at an average exercise price of 245.50 pence). The fair values of the awards made in 2013 were determined using the Black-Scholes option pricing model. The significant assumptions used in the model and the fair values determined were:

	2013 Award in September	2013 Modification in April
Share price at date of grant/modification (pence)	526.50	468.60
Exercise price (pence)	526.50	351.70
Vesting period (years)	3.0	1.0
Expected volatility	35%	27%
Expected life of award (years)	5.0	3.0
Risk free rate	1.56%	0.73%
Expected dividend yield	3.24%	2.65%
Fair value at date of award (pence)	121.37	120.54

Expected volatility figures were based on volatility over the last five years measured using a statistical analysis of daily share prices.

Notes to the consolidated financial statements continued

35. Share-based payment continued

Cash-settled

Awards are no longer made under this scheme. Under the scheme the Group was able to grant cash-settled SARs to certain overseas employees. The Group is required to pay the intrinsic value of the SARs to the employee at the date of exercise. Awards can only be exercised if the Group meets an earnings per share performance condition. Awards may be exercised at any point between the vesting date and ten years after the date the award was made.

An expense of £Nil (2013: £3.1 million) was recorded in the year. The Group has recorded a liability at the balance sheet date of £0.1 million (2013: £0.7 million). The total intrinsic value at the balance sheet date was £0.1 million (2013: £0.9 million). Movements in the number of outstanding awards and their related weighted average exercise prices are as follows:

	2014 Average exercise price Pence	**2014 Number of awards outstanding 'm**	2013 Average exercise price Pence	2013 Number of awards outstanding 'm
At 1 January	**354.05**	**0.6**	267.74	4.8
Granted	**–**	**–**	526.50	0.1
Lapsed	**326.04**	**(0.1)**	385.07	(0.1)
Modified to equity-settled	**–**	**–**	262.04	(3.4)
Exercised	**264.18**	**(0.2)**	242.59	(0.8)
At 31 December	**436.22**	**0.3**	354.05	0.6

At 31 December 2014, of the total number of awards outstanding, Nil million are exercisable (2013: 0.2 million at an average exercise price of 205.24 pence). As a cash-settled award, the fair value of outstanding awards is remeasured at each balance sheet date.

Meggitt Equity Participation Plan 2005

Awards are no longer made under this scheme. Under the Meggitt Equity Participation Plan 2005, an annual award of shares could be made to certain senior executives. For awards made under the plan, the number of shares 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. An expense of £0.3 million (2013: £5.4 million) was recorded in the year. Movements in the number of outstanding shares that may potentially be released to employees are as follows:

	2014 Number of shares under award outstanding 'm	2013 Number of shares under award outstanding 'm
At 1 January	**7.7**	7.8
Awarded	**–**	2.1
Lapsed	**(1.5)**	(0.6)
Released to employees	**(1.1)**	(1.6)
At 31 December	**5.1**	7.7

At 31 December 2014, of the total number of shares under award outstanding, 1.1 million are eligible for release (2013: 1.5 million).

The fair value of the award made in 2013, subject to the EPS and cash flow performance conditions, was 478.00 pence. The fair value of the award made in 2013, subject to the TSR performance condition, was determined using a Monte Carlo model. The significant assumptions used in the model and the fair value determined were:

	2013 Award in March
Share price at date of grant (pence)	478.00
Vesting period (years)	3.0
Expected volatility	26%
Expected life of award (years)	3.0
Risk free rate	0.26%
Fair value at date of award (pence)	248.00

36. Own shares

Own shares represent shares in the Company that are held by an independently managed Employee Share Ownership Plan Trust ('the trust') formed to acquire shares to be used to satisfy share options and awards under the employee share schemes as described in the Directors' remuneration report on pages 55 to 75. At 31 December 2014, the trust held 337,664 ordinary shares (2013: Nil) of which 281,638 were unallocated, being retained by the trust for future use. The balance of 56,026 shares were held in vested share accounts to satisfy particular awards which have fully vested in employees. All shares, whether or not allocated, are held for the benefit of employees. The shares were purchased during the year and have a cost of £1.7 million at 31 December 2014. The market value of the shares at 31 December 2014 was £1.8 million representing 0.04% of the issued share capital of the Company.

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

	2014 £'m	2013 £'m
Contracted for but not incurred:		
Intangible assets	**0.9**	1.4
Property, plant and equipment	**11.0**	7.5
Total	**11.9**	8.9

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. None of these terms represent unusual arrangements or create material onerous or beneficial rights or obligations. Additionally the Group leases various items of plant and machinery under both cancellable and non-cancellable operating leases. Expenditure on operating leases is charged to the income statement as incurred and is disclosed in note 8.

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

	2014 £'m	2013 £'m
In one year or less	**12.7**	13.0
In more than one year but not more than five years	**37.2**	38.2
In more than five years	**24.1**	25.7
Total	**74.0**	76.9

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. Based on latest OE delivery forecasts from external agencies, the future estimated expenditure under contractual commitments to incur development costs and programme participation costs at 31 December, 2014, which are expected to be recognised as intangible assets when incurred are as follows:

	Development costs £'m	**Programme participation costs £'m**
In one year or less	**62.0**	**40.1**
In more than one year but not more than five years	**19.2**	**220.5**
In more than five years	**2.7**	**732.4**
Total	**83.9**	**993.0**

Notes to the consolidated financial statements continued

39. Cash inflow from operations

	2014 £'m	2013 £'m
Profit for the year	**177.0**	232.3
Adjustments for:		
Finance income (see note 12)	**(1.2)**	(0.3)
Finance costs (see note 13)	**28.5**	31.2
Tax (see note 14)	**31.9**	37.1
Depreciation (see note 21)	**31.2**	32.2
Amortisation (see notes 19 and 20)	**112.6**	123.2
Impairment loss (see note 19)	**8.0**	3.2
Loss/(gain) on disposal of property, plant and equipment	**0.4**	(1.1)
Loss/(gain) on disposal or closure of businesses (see note 11)	**2.9**	(9.0)
Financial instruments (see note 10)	**29.2**	(6.1)
Retirement benefit obligation deficit payments	**(29.3)**	(27.4)
Share-based payment expense (see note 35)	**1.7**	11.9
Changes in working capital:		
Inventories	**(17.7)**	(16.4)
Trade and other receivables	**9.8**	(24.6)
Trade and other payables	**(10.1)**	(13.1)
Provisions	**(28.0)**	(27.4)
Cash inflow from operations	**346.9**	345.7

40. Movements in net debt

	2014 £'m	2013 £'m
At 1 January	**564.6**	642.5
Free cash inflow	**(146.8)**	(110.4)
Businesses acquired (see note 42)	**28.6**	26.5
Business acquisition expenses	**–**	0.4
Businesses disposed	**–**	(53.3)
Business disposal expenses (see note 11)	**0.5**	0.5
Dividends paid to Company's shareholders (see note 16)	**51.4**	75.6
Purchase of own shares	**11.6**	–
Issue of equity share capital	**(0.1)**	(2.5)
Share buyback - purchased in year	**33.7**	–
Net cash generated – inflow	**(21.1)**	(63.2)
Debt acquired with businesses	**–**	0.3
Exchange rate adjustments	**24.7**	(2.7)
Other non-cash movements	**7.3**	(12.3)
At 31 December	**575.5**	564.6

Analysed as:

	2014 £'m	2013 £'m
Bank and other borrowings – current (see note 28)	**58.9**	7.2
Bank and other borrowings – non-current (see note 28)	**616.7**	666.0
Obligations under finance leases – current (see note 27)	**0.1**	2.4
Obligations under finance leases – non-current (see note 27)	**5.3**	5.1
Cash and cash equivalents (see note 24)	**(105.5)**	(116.1)
Total	**575.5**	564.6

41. Major non-cash transactions

During the year, the Company issued 11.6 million shares worth £53.0 million in respect of scrip dividends (2013: 3.8 million shares worth £20.0 million) (see notes 16 and 34).

42. Business combinations

On 31 December 2014, the Group acquired 100% of the voting rights of Precision Engine Controls Corporation ('PECC'). PECC is a leading supplier of actuation systems and fuel metering valves to manufacturers of small-frame gas turbines used predominantly in the oil and gas and power generation industries. PECC's products are complementary to Meggitt's existing valve technology in the aero-derivative gas turbine market and expand our range of actuation capabilities.

The assets and liabilities of PECC at the date of acquisition, including the goodwill arising on consolidation, were as follows:

	Net assets £'m
Goodwill (see note 18)	**19.9**
Other intangible assets	**3.9**
Property, plant and equipment	**0.4**
Inventories	**3.0**
Trade and other receivables - current	**1.4**
Trade and other payables - current	**(0.6)**
Provisions - non-current (see note 31)	**(0.1)**
Net assets	**27.9**
Consideration satisfied in cash	**28.3**
Less amounts recoverable under working capital mechanism	**(0.4)**
Total consideration payable	**27.9**

Due to the proximity of the acquisition to the balance sheet date, the difference between the book value of acquired net assets and consideration payable has been provisionally recognised as goodwill. During 2015, the Group will determine the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed, with any corresponding adjustment necessary being made to the value of goodwill recognised. Costs related to the acquisition were £0.5 million. The impact of the acquired business on the results of the Group for the period since acquisition is not significant and would not have been significant had it been acquired on 1 January 2014.

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

	2014 £'m	2013 £'m
Cash paid in respect of PECC	**28.3**	–
Cash paid in respect of Piezotech	**–**	26.5
Cash paid in respect of other acquisitions*	**0.3**	–
Total	**28.6**	26.5

* On 10 September 2014, the Group acquired a small business which included the acquisition of other intangible assets of £0.1 million and property, plant and equipment of £0.2 million.

Notes to the consolidated financial statements continued

43. Group companies

The following information is not a complete listing of all subsidiary companies at 31 December 2014 and relates only to those subsidiaries principally affecting the revenues, profits or assets of the Group.

United Kingdom

Meggitt Aerospace Limited
Meggitt Finance Limited ‡
Meggitt (UK) Limited

Continental Europe

Artus SAS – France
Meggitt SA – Switzerland

North America

Linear Motion LLC
Meggitt Aircraft Braking Systems Corporation
Meggitt Defense Systems, Inc.
Meggitt GP, Inc. ‡
Meggitt Oregon, Inc.
Meggitt Safety Systems, Inc.
Meggitt Training Systems, Inc.
Meggitt USA, Inc. ‡
Meggitt (North Hollywood), Inc.
Meggitt (Orange County), Inc.
Meggitt (Rockmart), Inc.
OECO, LLC
Pacific Scientific Company
Securaplane Technologies, Inc.
Whittaker Corporation ‡

Rest of World

Meggitt Aerospace Asia Pacific Pte Limited – Singapore
Meggitt Brasil (Soluçeos de Engenharia) Limited – Brazil

a. 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.
b. The ordinary shares of all subsidiaries were 100% owned by the Company, either directly or indirectly, at 31 December 2014.
c. All companies listed above are included in the consolidation.
d. Companies marked ‡ are management companies. Otherwise all companies are operating companies engaged in the Group's principal activities as described in note 1.

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

Report on the company financial statements

Our opinion

In our opinion, Meggitt PLC's company financial statements (the 'financial statements'):

- give a true and fair view of the state of the company's affairs as at 31 December 2014;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Meggitt PLC's financial statements comprise:

- the Company balance sheet as at 31 December 2014; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report and Accounts (the 'Annual Report'), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)') we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report - Companies Act 2006 opinion

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on pages 78 to 79, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

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

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the group financial statements of Meggitt PLC for the year ended 31 December 2014.

Andrew Paynter (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 February 2015

Company balance sheet

As at 31 December 2014

	Notes	2014 £'m	2013 £'m
Fixed assets			
Tangible fixed assets	3	**34.5**	31.1
Derivative financial instruments	9	**30.6**	35.5
Investments	4	**2,070.1**	2,069.9
		2,135.2	2,136.5
Current assets			
Debtors	5	**997.0**	940.0
Derivative financial instruments	9	**6.6**	11.4
Cash at bank and in hand		**3.8**	17.0
		1,007.4	968.4
Creditors – amounts falling due within one year	6	**(212.2)**	(79.5)
Derivative financial instruments	9	**(10.4)**	(9.3)
Net current assets		**784.8**	879.6
Total assets less current liabilities		**2,920.0**	3,016.1
Creditors – amounts falling due after more than one year	7	**(403.3)**	(664.5)
Provision for liabilities and charges	8	**(2.8)**	(1.7)
Derivative financial instruments	9	**(3.1)**	(10.2)
Net assets		**2,510.8**	2,339.7
Capital and reserves			
Called-up share capital	12	**40.1**	39.9
Share premium account	13	**1,218.9**	1,166.3
Capital redemption reserve	13	**0.3**	-
Other reserves	13	**17.5**	17.5
Profit and loss reserve	13	**1,234.0**	1,116.0
Total shareholders' funds	13	**2,510.8**	2,339.7

The financial statements on pages 134 to 140 were approved by the Board of Directors on 23 February 2015 and signed on its behalf by:

S G Young
Director

D R Webb
Director

Notes to the financial statements of the Company

1. Basis of preparation

These financial statements have been prepared on a going concern basis and under the historical cost accounting convention, as modified by the revaluation of certain 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 financial statements in accordance with UK Generally Accepted Accounting Practice (UK GAAP).

2. Summary of significant accounting policies

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

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 impairment losses. 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 their estimated useful lives as follows:

Land and buildings	Over period of lease
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.

Foreign currencies

Transactions in foreign currencies are recorded at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities, denominated in foreign currencies at the balance sheet date, are reported at exchange rates 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').

Awards made to employees of the Company are equity-settled. 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 (nominal value) and share premium.

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.

Notes to the financial statements of the Company continued

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 by the Company 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. Fixed interest rate borrowings 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.

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.

Share buyback

On 5 November 2014, the Company announced the intention to commence a share buyback programme. The total consideration payable for shares purchased is deducted from the profit and loss reserve. The shares when purchased are cancelled and the nominal value of the cancelled shares is transferred from share capital to a separate capital redemption reserve. Where the Company has entered into an irrevocable non-discretionary contract to purchase for cancellation, shares on its behalf during a close period, the obligation to purchase shares is recognised in full at the inception of the contract, even when that obligation is conditional on the share price. The obligation is remeasured at each balance sheet date with changes recognised in the profit and loss account.

3. Tangible fixed assets

	Land and buildings £'m	Plant, equipment and vehicles £'m	Total £'m
Cost at 1 January 2014	0.7	39.0	39.7
Additions	–	7.5	7.5
Disposals	(0.1)	(0.2)	(0.3)
Cost at 31 December 2014	**0.6**	**46.3**	**46.9**
Accumulated depreciation at 1 January 2014	0.4	8.2	8.6
Charge for year	–	4.0	4.0
Disposals	(0.1)	(0.1)	(0.2)
Accumulated depreciation at 31 December 2014	**0.3**	**12.1**	**12.4**
Net book amount at 31 December 2014	**0.3**	**34.2**	**34.5**
Net book amount at 31 December 2013	0.3	30.8	31.1

	2014 £'m	2013 £'m
Net book amount of land and buildings:		
Short leasehold	**0.3**	0.3
Total	**0.3**	0.3

4. Investments

	2014 £'m	2013 £'m
Shares in subsidiaries:		
At 1 January	**2,069.9**	2,060.7
Capital contributions (see note 13)	**1.2**	9.2
Less contributions from subsidiary companies	**(1.0)**	–
At 31 December	**2,070.1**	2,069.9

The directors believe the carrying value of investments is supported by their underlying assets. A list of principal subsidiaries is included in note 43 of the Group accounts.

5. Debtors

	2014 £'m	2013 £'m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**993.4**	936.3
Other debtors	**0.3**	1.2
Prepayments and accrued income	**3.3**	2.5
Total	**997.0**	940.0

6. Creditors – amounts falling due within one year

	2014 £'m	2013 £'m
Bank loans and overdrafts	**6.1**	0.1
Other loans	**48.0**	2.9
Trade creditors	**1.4**	2.8
Amounts owed to subsidiary undertakings	**115.6**	45.5
UK corporation tax payable	**13.1**	16.2
Taxation and social security	**2.7**	5.6
Other creditors	**1.7**	1.9
Share buyback – close period commitment	**20.0**	–
Accruals	**3.6**	4.5
Total	**212.2**	79.5

Bank loans and overdrafts, other loans and amounts owed to subsidiary undertakings are unsecured.

Notes to the financial statements of the Company continued

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

	2014 £'m	2013 £'m
Bank loans	–	245.8
Other loans	403.3	418.7
Total	**403.3**	664.5

Bank loans and other loans are unsecured.

	2014 £'m	2013 £'m
Analysis of bank loans and overdrafts repayable:		
In one year or less	6.1	0.1
In more than one year but not more than five years	–	245.8
Total	**6.1**	245.9

	2014 £'m	2013 £'m
Analysis of other loans repayable:		
In one year or less	48.0	2.9
In more than one year but not more than five years	131.3	166.8
In more than five years	272.0	251.9
Total	**451.3**	421.6

Amounts repayable in more than five years mature in 2020 and 2022.

8. Provision for liabilities and charges

Movements in the deferred tax provision are analysed as follows:

	2014 £'m	2013 £'m
At 1 January	1.7	1.8
Charge/(credit) to profit and loss account	1.3	(0.2)
(Credit)/charge to profit and loss reserve	(0.2)	0.1
At 31 December	**2.8**	1.7

The deferred tax provision is analysed as follows:

	2014 £'m	2013 £'m
Accelerated capital allowances	2.9	1.7
Other short-term timing differences	(0.1)	–
Total	**2.8**	1.7

9. Derivative financial instruments

	2014 Assets £'m	2014 Liabilities £'m	2013 Assets £'m	2013 Liabilities £'m
Interest rate swaps	**28.3**	**–**	24.9	–
Foreign currency forward contracts	**8.9**	**(13.5)**	22.0	(19.5)
Total	**37.2**	**(13.5)**	46.9	(19.5)
Less non-current portion:				
Interest rate swaps	**28.3**	**–**	24.9	–
Foreign currency forward contracts	**2.3**	**(3.1)**	10.6	(10.2)
Non-current portion	**30.6**	**(3.1)**	35.5	(10.2)
Current portion	**6.6**	**(10.4)**	11.4	(9.3)

The Company is exempt from the FRS 29 disclosures as the consolidated financial statements of the Group give the disclosures required by IFRS 7 (see Group accounts notes 29 and 30).

10. Commitments

Capital commitments

	2014 £'m	2013 £'m
Contracted for but not incurred:		
Plant, equipment and vehicles	**0.2**	0.1
Total	**0.2**	0.1

Operating lease commitments

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

	2014 £'m	2013 £'m
Later than five years	**0.1**	0.1
Total	**0.1**	0.1

11. Pensions

The directors believe 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 Group accounts in respect of the UK scheme. At 31 December 2014, an amount of £0.1 million (2013: £0.1 million) relating to contributions payable in respect of the defined contribution scheme were outstanding.

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 2014	797.1	39.9	
Issued on exercise of executive share awards	0.4	–	0.1
Share buyback – purchased in year	(6.8)	(0.3)	(33.7)
Scrip dividends	11.6	0.5	53.0
At 31 December 2014	**802.3**	**40.1**	

Notes to the financial statements of the Company continued

13. Reconciliation of movements in shareholders' funds

	Called-up share capital £'m	Share premium account £'m	Capital redemption reserve £'m	Other reserves £'m	Profit and loss reserve £'m	Total 2014 £'m	Total 2013 £'m
At 1 January 2014	39.9	1,166.3	–	17.5	1,116.0	2,339.7	2,309.3
Profit for the financial year	–	–	–	–	286.5	286.5	90.3
Dividends	–	–	–	–	(104.4)	(104.4)	(95.6)
Cash flow hedge movements	–	–	–	–	(0.6)	(0.6)	1.6
Currency translation differences	–	–	–	–	0.1	0.1	0.2
Employee share option schemes:							
Value of subsidiary employee services (see note 4)	–	–	–	–	1.2	1.2	9.2
Value of services provided	–	–	–	–	0.5	0.5	2.2
Purchase of own shares	–	–	–	–	(11.6)	(11.6)	–
Shares issued	–	0.1	–	–	–	0.1	2.5
Share buyback - purchased in year	(0.3)	–	0.3	–	(33.7)	(33.7)	–
Share buyback - close period commitment	–	–	–	–	(20.0)	(20.0)	–
Scrip dividends	0.5	52.5	–	–	–	53.0	20.0
At 31 December 2014	**40.1**	**1,218.9**	**0.3**	**17.5**	**1,234.0**	**2,510.8**	**2,339.7**

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

Five-year record

	2014 £'m	2013 £'m	2012 £'m	2011 £'m	2010 £'m
Revenue and profit					
Revenue	**1,553.7**	1,637.3	1,605.8	1,455.3	1,162.0
Underlying profit before tax	**328.7**	377.8	366.0	325.3	263.7
Exceptional operating items	**(12.5)**	(28.4)	(13.3)	(20.3)	(15.7)
Amortisation of intangible assets acquired in business combinations	**(68.1)**	(74.3)	(80.6)	(75.1)	(64.7)
Disposal of inventory revalued in business combinations	**–**	(0.3)	(0.2)	(11.3)	–
Financial instruments	**(29.2)**	6.1	23.4	9.7	(3.2)
Net interest expense on retirement benefit obligations	**(10.0)**	(11.5)	(14.0)	(12.1)	(15.3)
Profit before tax	**208.9**	269.4	281.3	216.2	164.8
Earnings and dividends					
Earnings per share – basic	**22.0p**	29.4p	30.1p	23.1p	19.3p
Earnings per share – underlying	**32.4p**	37.5p	36.5p	32.1p	28.6p
Dividends per ordinary share (paid or proposed in respect of the year)	**13.75p**	12.75p	11.80p	10.50p	9.20p
Gearing ratio					
Year end net debt as a percentage of capital employed	**26.9%**	27.2%	33.7%	44.0%	50.2%

Investor information

Contacts

Investor relations

T: 01202 597597
E: investors@meggitt.com

Information on Meggitt PLC, including the latest share price: www.meggitt.com

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.

Other useful contacts

Share dealing services are provided for shareholders by Computershare Investor Services PLC. These services are provided by telephone (0870 703 0084) and online (to access the service, shareholders should have their SRN and log onto www.computershare.com/dealing/uk).

ShareGift (www.sharegift.org, registered charity number 1052686): 17 Carlton House Terrace, London, SW1Y 5AH (0207 930 3737). ShareGift, 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.

Other Information

Dividends

The proposed 2014 final dividend of 9.50p per ordinary share, if approved, will be paid on 8 May 2015 to shareholders on the register on 20 March 2015. The expected payment date for the 2015 interim dividend is 2 October 2015.

2015 provisional financial calendar

Full-year results for year ended 31 December 2014	**24 February**
Final dividend ex-dividend date	19 March
Final dividend record date	20 March
Report and accounts for year ended 31 December 2014 despatched	20 March
Deadline for receipt of dividend reinvestment plan elections	16 April
AGM and trading statement	**23 April**
2014 Final dividend payment date	8 May
Interim results for period ended 30 June 2015	**4 August**
Interim dividend ex-dividend date	3 September
Interim dividend record date	4 September
Deadline for receipt of dividend reinvestment plan elections	11 September
2015 Interim dividend payment date	2 October

Key dates 2015

FEBRUARY
24
Full-year results

APRIL
23
AGM & interim management statement

AUGUST
4
Interim results

Glossary

Aftermarket	Spares and repairs
AGM	Annual general meeting
ALM	Additive layer manufacturing
ASK	Available seat kilometres
ATA	Air Transport Association Chapter numbers represent an industry-wide approach to commercial aircraft system numbering and documentation. Meggitt offers full ATA Chapter 26 fire protection and is expanding its ATA 32 landing gear system offering
Board	Board of directors
Book to bill	The ratio of orders received to revenue recognised in a specific period
CAGR	Compound annual growth rate
Capability	Expertise in technology and manufacturing
CGU	Cash generating unit
CO_2	Carbon dioxide
Code	UK Corporate Governance Code
CODM	Chief operating decision-maker
Company	Meggitt PLC
Condition-monitoring	Monitoring the condition of aerospace and land-based turbines and supporting equipment to predict wear and tear, promoting safety, up-time and planned maintenance
Continuing Resolution	Appropriations legislation restricting modification from prior-year funding patterns
DECC	Department of Energy & Climate Change
DEFRA	Department for Environment, Food & Rural Affairs
DoD	(United States) Department of Defense
DPPM	Defective Parts Per Million
DRIP	Dividend reinvestment plan
DTR	Disclosure and Transparency Rules
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
ESOP	Employee Share Ownership Plan
EU	European Union
Executive Board	Board which assists the Chief Executive with the development and implementation of the Group's strategy, the management of the business and the discharge of responsibilities delegated by the Board
Facility	Factory
FAA	Federal Aviation Administration
FCA	Financial Conduct Authority
FIFO	First-in first-out
FLNG	Floating liquefied natural gas
FOC	Free of charge
FPSO	Floating production, storage and offload
FRC	Financial Reporting Council
FRS	Financial Reporting Standard
FTSE	Share index of companies listed on the London Stock Exchange
GAAP	Generally Accepted Accounting Practice
GBP	British pound or pound sterling
GC 100	Association of General Counsel & Company Secretaries of FTSE-100 companies
GDP	Gross domestic product
GHG	Greenhouse gas
Group	Meggitt PLC and its subsidiaries
HMRC	HM Revenue & Customs
HSE	Health, safety and environment
IAS	International Accounting Standards
IDIQ	Indefinite delivery, indefinite quantity
IED	Improvised explosive device
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
Installed base	The sum total of the Meggitt products and sub-systems installed on customers' equipment
IRS	Internal Revenue Services
ISA	International Standards on Auditing
KPI	Key performance indicator
Large jets	Commercial aircraft with greater than 100 seats
LIBOR	London Inter-Bank Offered Rate
LTIP	Long-Term Incentive Plan
LNG	Liquefied natural gas
MAAP	Meggitt Aerospace Asia Pacific, the Group's maintenance, repair and overhaul hub in Singapore
MABS	Meggitt Aircraft Braking Systems
M&A	Mergers and acquisitions
MCS	Meggitt Control Systems
MEG	Meggitt Equipment Group
Meggitt Production System (MPS)	Our single global approach to continuous improvement using tools and processes tailored for the Group, and extending from the factory floor into every function
Mix	The impact on performance of revenue streams with higher or lower profitability growing at differing rates
MoD	UK Ministry of Defence
MPC	Meggitt Polymers & Composites
MPP	Meggitt Pension Plan
MRO	Maintenance, repair and overhaul

Glossary continued

MSS	Meggitt Sensing Systems
M^4	Meggitt Modular Modifiable Manufacturing, an advanced manufacturing engineering concept that will underpin the more efficient aerospace factories of the future. They will continue to accommodate low volumes of largely handmade products but those products will become increasingly complex and often involve new manufacturing technologies requiring new kinds of factory operators and managers and new standards of traceability
Organic growth	Growth excluding the impact of currency and acquisitions and disposal of businesses
OE	Original equipment
OECD	Organisation for Economic Cooperation and Development
OEM	Original equipment manufacturer
Operations Board	Assists the Chief Operating Officer to manage the Group's operations and discharge the responsibilities delegated by the Executive Board
Operations excellence	A system of tools and processes that embraces the way in which every aspect of Meggitt is managed from the factory floor to all functions and every level of leadership from supervisors to the Executive Board
ORB	The Group's obsolescence review board
OTD	On-time Delivery
PBT	Profit before tax
PCHE	Printed circuit heat exchanger – a block of flat, diffusion-bonded plates on to which fluid flow channels have been chemically milled
PECC	Precision Engine Controls Corporation
Platform	Aircraft or ground vehicle model incorporating Meggitt products
PPC	Programme Participation Cost
Programme	The production and utilisation lifecycle of an aircraft model or ground vehicle
PwC	PricewaterhouseCoopers LLP
R&D	Research and development
REACH	Registration, Evaluation and Authorisation of Chemicals
Regional aircraft	Commercial aircraft with fewer than 100 seats
Registrar	Computershare Investor Services PLC
RIDDOR	The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations
ROTA	Return on trading assets
RPA	Retirement Protection Act
SAP	The Group's selected enterprise management system
SARs	Share appreciation rights
SAYE	Sharesave Scheme
SCRIP	Share dividend plan
SIP	Share Incentive Plan
Shipset	Total value of the components and subsystems installed on a single aircraft or ground vehicle type
Smart engineering for extreme environments	What Meggitt specialises in: long-life, highly reliable, often mission-critical products that must operate effectively in the harsh conditions of aero-engines, oil and gas and power generation environments and combat
Sequestration	US government defence budget cuts
SRN	Shareholder Reference Number
STEM	Science, technology, engineering and mathematics
STIP	Short Term Incentive Plan
TRI	Total reportable injuries
TSR	Total shareholder return
UAV	Unmanned aerial vehicle
USD	United States dollar
WACC	Weighted average cost of capital

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