smart materials

Smart materials just got smarter.

ANNUAL REPORT AND
ACCOUNTS **2015**

Meggitt's *smart engineering for extreme environments* has resulted in the Group securing strong positions on the latest wave of new aircraft platforms. 2015 has been a year of consolidating these positions by focusing relentlessly on the product development processes and manufacturing capability needed to industrialise the unprecedented number of parts and sub-systems won from the current development cycle.

New products are being introduced faster than ever to our manufacturing facilities, supported by the Meggitt Production System which has now been launched at all major facilities. This combination of established business improvement techniques, which can be tailored to accommodate the rich diversity of Meggitt capabilities and facilities, defines our internal processes and, increasingly, the experiences of our customers.

Growing composites capabilities

The 2014 strategy review identified the fast-growing advanced composites market for aerospace as a key priority for the Group. Following a year-long market review, the two acquisitions announced in 2015 position Meggitt strongly on the new generation of engines that are now entering service. **(See page 18).**

Reclaiming our aftermarket

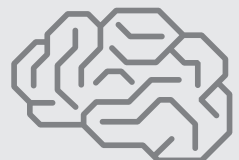
Responding to the needs of our customers is critical to our growth ambitions. The formation of our Customer Services & Support (CSS) organisation in 2015 will make Meggitt more agile and easier to do business with in the increasingly dynamic aftermarket business environment. Its focus is on creating superb service throughout the lifecycle of our products so that our airline customers look to us as the suppliers who can help run their operations as cost-effectively as possible. **(See page 20).**

Why our Bronze is their Gold

The first Meggitt operating facility to enter the fourth—*Bronze*—stage of the Meggitt Production System is the Singapore-based hub of the Group's new Customer Services & Support organisation. In addition to the requirement that customers be completely satisfied, this exacting Meggitt phase is the point at which we expect to start seeing meaningful financial benefits arising from enhanced operating efficiency. **(See page 22).**

Communicate, collaborate, *create*

The foundation of Meggitt's performance culture is increasingly based on delegating decision-making as far down the hierarchy as possible where problems are resolved by the teams who understand them most. The technique of Daily Layered Accountability or 'DLA' and new 'value streams' are playing a role at all levels, enabling Meggitt to respond quickly to customer and market needs, while stimulating our employees' careers through the promotion of early responsibility. **(See page 24).**



Front cover:

Smart materials just got smarter
Around 40% of future aircraft weight will come from composite materials. In 2015, Meggitt acquired two advanced composites businesses with innovative products and mastery of the processes needed to deliver them—moves that substantively strengthen Meggitt's ability to compete for content on next generation aircraft.

Quick reference

What is Meggitt?
2

How did we perform in 2015?
4
34

What is our strategy and business model?
6
8

What are our markets and what drives them?
10

How do we manage risk?
26

What are our key performance indicators?
30

How do we perform as corporate citizens?
41

Who runs Meggitt and how do we reward them?
50
60

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Contents

1-47 Strategic report
2 Group overview
3 Capabilities
4 Financial highlights
5 Chairman's statement
6-7 Chief Executive's review
8-9 Group strategy
10-12 Market review
13-17 Meggitt divisions
18-19 *Technology*
20-21 *Customer focus*
22-23 *Operations Excellence*
24-25 *People and culture*
26-29 Risk management
30-33 Key performance indicators
34-40 Chief Financial Officer's review
41-47 Corporate responsibility

48-84 Governance reports
49 Chairman's introduction
50-51 Board of directors
52-55 Corporate governance report
56-58 Audit Committee report
59 Nominations Committee report
60-80 Directors' remuneration report
81-84 Directors' report

85-156 Financial statements
Group financial statements
85-91 Independent auditors' report to the members of Meggitt PLC
92 Consolidated income statement
93 Consolidated statement of comprehensive income
94 Consolidated balance sheet
95 Consolidated statement of changes in equity
96 Consolidated cash flow statement
97-141 Notes to the consolidated financial statements

Company financial statements
142-143 Independent auditors' report to the members of Meggitt PLC
144 Company balance sheet
145 Company statement of changes in equity
146-156 Notes to the financial statements of the Company

157-160 Supplementary information
157 Five-year record
158 Investor information
159-160 Glossary

Forward-looking statements

The Annual Report and Accounts contains certain forward looking statements with regard to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report & Accounts and the Company undertakes no obligation to update these forward looking statements. Nothing contained in this Annual Report and Accounts should be construed as a profit forecast. This report is intended to provide information to shareholders, is not designed to be relied upon by any other party or for any other purpose, and the Company and its directors accept no liability to any other person other than that required under English law.

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 market applications within civil aerospace, military and energy markets.

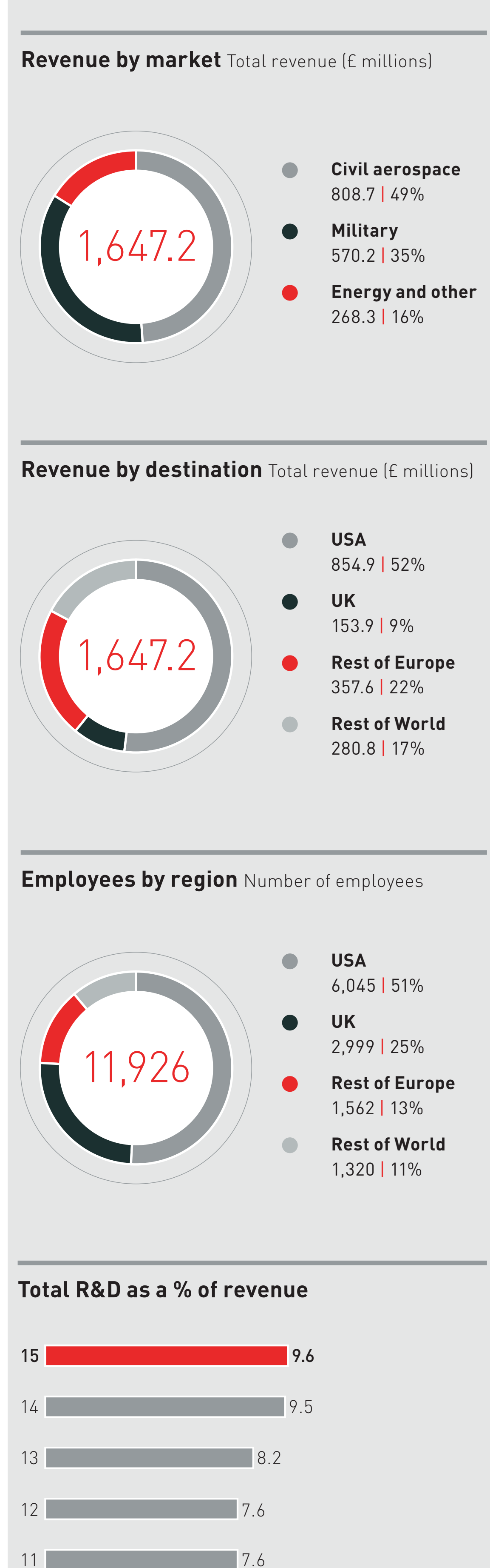
Nearly 12,000 people are employed across manufacturing facilities in Asia, Europe and North America and in sales offices in Brazil, India and the Middle East.

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 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.

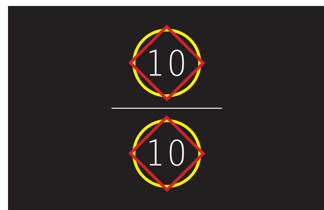


Capabilities

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

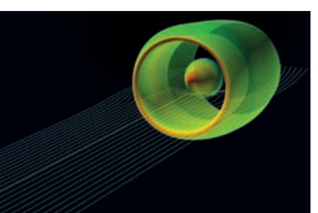
Combat support

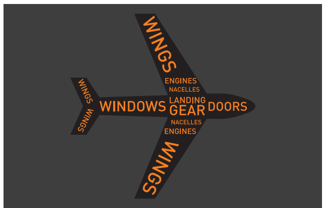
Composites

Fire protection

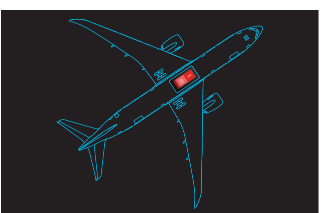
Fuel containment

Heat transfer engineering

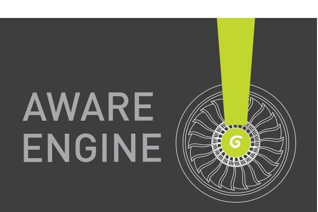

Bleed air ice protection



Polymer seals


Power products

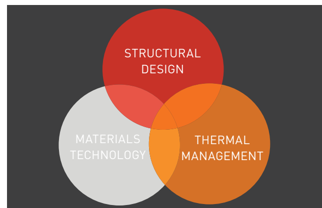
Precision micro metal engineering



Sensing and health monitoring

Small arms training systems

Thermal management and fluid control



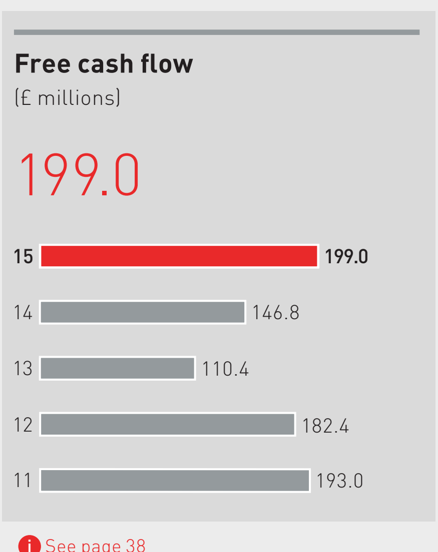
Wheels, brakes and brake control

Financial highlights

Meggitt's 2015 results reflect the effects of significant volatility in the civil aerospace aftermarket and pressure from the low oil price on our energy businesses. However, we are a long-term business. Our installed base on over 64,000 aircraft worldwide, with a strong and growing presence on the wave of new aerospace platforms entering into service over the next few years, demonstrates the fundamental strength of our business model, and gives us confidence in making good progress in the years to come.

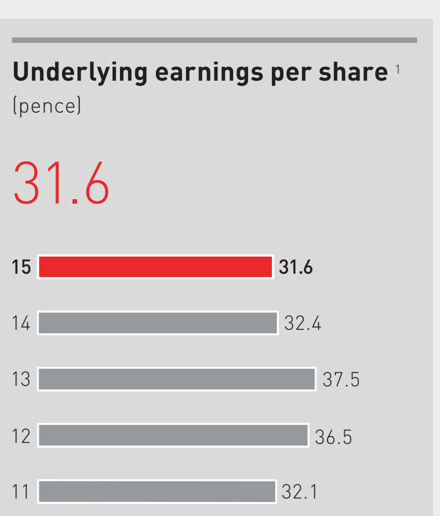
See page 34

See page 35



See page 38

See page 37



See page 36

See page 31

[1] The definition of 'underlying' is provided in notes 10 and 15 to the consolidated financial statements on pages 110 and 113 respectively.

Chairman's statement

"Meggitt's safety record at every facility has benefited in recent years from the establishment of global standards, measurement and direction."

Difficult trading conditions in several end-markets made 2015 a challenging year for Meggitt, with weakness in energy and slower than expected growth in civil aftermarket impacting results. However, the Group made good progress with a number of key strategic initiatives targeted at improving our operational efficiency and market access.

The Meggitt Production System, our global approach to continuous improvement, has now been launched at virtually all Meggitt facilities. We are very pleased with the operational improvements we have seen so far, and the programme is gaining excellent traction both inside the Group and with our suppliers and customers.

We formed a new aftermarket organisation to respond better to the requirements of our customers, who are looking for long-term partnerships and strategies to improve airline economics. We also strengthened our capability in aerospace composites with two high-quality acquisitions, both of which will deliver good growth on new platforms entering into service over the coming years.

Results

In 2015, Group revenue increased by 6% to £1,647.2 million, driven largely by foreign currency translation, with organic revenue flat. Underlying operating profit decreased by 6% to £325.5 million and underlying earnings per share by 2% to 31.6 pence. While this was a solid performance given difficult trading conditions, it was below our expectations and those of our stakeholders. The cash-generative nature of the Group's activities remained unchanged, however, and 2015 saw a good improvement in free cash flow to £199.0 million, even with the continuing high levels of investment in the business arising from an unprecedented level of new business won during the recent bid cycle.

Dividend

The Board is proposing a final dividend of 9.80 pence per share (2014: 9.50 pence per share), taking the full-year dividend to 14.40 pence per share (2014: 13.75 pence per share). This is a 5% increase for the year, reflecting the Board's progressive dividend policy and continuing confidence in the Group's medium-term growth and cash generation prospects.

Investing for growth

Our continued investment in technology will ensure the future growth of the business. In 2015, research and development expenditure comprised 9.6% of revenue or £158.7 million (2014: £148.3 million), of which £26.8 million was funded by customers. The vast majority of this investment supports positions secured on future aerospace platforms and will continue at an elevated level during 2016 before declining as the wave of programmes in development starts to enter commercial service. These investments have a very attractive payback and will support revenue growth for many years.

Corporate governance and the Board

The Board recognises that good corporate governance is a major contributor to the delivery of strong Group performance, and is therefore committed to maintaining the highest standards at Board level. As part of the normal evolution of the Board, there were a few changes since the last annual report. In April 2015, Sir Colin Terry retired after 12 years on the Board and I succeeded him as Chairman. In October, we welcomed Colin Day to the Board as non-executive director and Chairman of the Audit Committee. After over nine years as non-executive director, most recently as senior independent director, David Williams retired at the end of the year and Paul Heiden was appointed senior independent director with effect from January 2016. I would like to take this opportunity to thank Sir Colin and David for their significant contributions to the business and wish them well for the future.

Our people

People are central to the success of any business. All deserve to work in safe environments and reach their full potential. Meggitt's safety record at every facility has benefited in recent years from the establishment of global standards, measurement and direction, and in 2015, for instance, we saw a 20% decrease in lost-time incidents in the workplace. The Meggitt Production System's success is predicated on harnessing talent at every level in the organisation. We continue to invest in the delivery of superior graduate training, with an international rotation programme attracting high-calibre individuals from leading engineering faculties worldwide. After launching it three years ago, our first cohort graduated in October 2015 after making significant contributions to technology development, engineering programmes and a range of projects in their non-engineering rotation. Given the wide-ranging nature of our production system implementation, we have extended the programme with the addition of an operations excellence stream, now in its second year of admissions.

I would like to take this opportunity to extend my warm thanks to all employees for their outstanding commitment during the Group's challenging year.

Sir Nigel Rudd Chairman

Chief Executive's review

"End market weakness presents challenges in any business. Our focus on superior performance, defined by quality, cost and on-time delivery, will help us grow faster than the markets in which we operate."

Group strategy

Meggitt is a leading provider of smart engineering for extreme environments. Our strategy involves investing in technologies and capabilities targeted at high-growth, complex and highly regulated markets, underpinned by market-leading levels of operational excellence. Our aim is to deliver financial performance exceeding that of our target markets, enabling us to reinvest for future growth while generating attractive returns for shareholders.

Technology

The technology component of our strategy is designed to drive organic growth through targeted investment in key products and manufacturing capabilities aligned with our customers' technology roadmaps. We invest where we have pedigree and where we can add most value to customers and shareholders. We aim to supplement organic growth with targeted acquisitions that enhance our capabilities and routes to market.

A year of record spend on research and development in 2015 ensured we are set to support the entry into service of many new platforms including the re-engined narrowbody aircraft from Boeing and Airbus, the Bombardier C-Series and a wide range of business jets.

Meggitt's applied research and technology activity, conducted at a divisional level, supports product development for new and existing applications. This has been supplemented with dedicated central funding for the development of cutting-edge technologies for next-generation platforms, which we have been successful in augmenting through grants from governments and industry. This funding source has enabled us to boost our progress in projects such as additive layer manufacturing, a technology which is now used in our production facilities. Under the EU Clean Sky initiative, we are a core partner, leading a consortium of parties developing Green Airframe Icing Novel Systems (GAINS) for energy-efficient anti-ice technology for next-generation aircraft. We continued to invest in 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 to a consistently high standard. It deploys smart tools and big data for real-time monitoring of key parameters such as product weight and touch-time. The resulting optimisation of all aspects of the manufacturing process from machining and assembly to machine utilisation and traceability is hugely beneficial, particularly in an aerospace environment. M^4 projects have already been seeded in several Meggitt factories in the UK with many more to come in future years.

Investing in these and other new technologies is becoming an increasingly important activity for aerospace equipment suppliers, as customers require ever greater levels of technology readiness prior to awarding work on new aircraft platforms.

Our acquisitions of the composites businesses of EDAC and Cobham plc exemplify targeted, value-added portfolio enhancement. These two transactions, both of which completed in the fourth quarter of 2015, build on our existing composite component technology, broadening our reach beyond airframe and anti-ice products into high-growth, higher temperature engine products. They have established positions on a range of significant new platforms including the PurePower, F135 and LeapX engines. The integration of these businesses into the Group is just starting, but we are encouraged by what we have seen to date and delighted to welcome 1,148 new employees to the Meggitt family.

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.

The Meggitt Production System – our global approach to continuous improvement – has progressed well since its inception in 2013, with the initial launch now complete at all main manufacturing facilities. We have seen meaningful improvements in operating performance such as Defective Parts Per Million down 87% and on-time delivery up 14%. Two sites have now successfully exited the third phase of the six-phase programme, which extends the system beyond the factory floor, supply chain and programme management, and into functions and leadership. We expect further progress toward this level of maturity during 2016. This is the stage at which we expect to start seeing meaningful financial benefits arising from enhanced operating efficiency.

We have continued to invest in low-cost manufacturing centres in China and Mexico. In 2015, we acquired a new site next to our existing Vietnam factory enabling us to increase capacity significantly. The operational focus for the next two years is to ensure we are equipped to accelerate production to support the rapid growth of new aircraft programmes, following which we will accelerate our work on footprint optimisation.

Renewing our customer focus

Making ourselves easy to do business with is central to our business philosophy. During 2015, we dedicated a senior executive to the requirements of our original equipment customers and another to the aftermarket.

Original equipment manufacturers are seeing a renewed focus on their priorities. Transactional relationships with procurement teams at key engine and airframers in Europe, the US and China are giving way to the collaborative, technology-led discussions needed to deliver positions on next generation platforms. At the same time, refined key account strategies are enabling us to bring together cross-group product packages that simplify their supply chains today.

We established a Customer Services & Support (CSS) organisation designed to strengthen revenue growth through better customer support and satisfaction in the aftermarket, which is central to the Meggitt aerospace business model. CSS will centralise much of our customer-facing aftermarket resource and will enhance our relationships with customers. CSS is also working on a range of initiatives including building a greater presence in the market for maintaining, repairing and overhauling our own components, consolidating our global distribution network and engaging directly in the surplus parts market via strategic partnerships. As these activities will enable us to build greater knowledge of changing market behaviour and the in-service performance of our products, we will be able to maximise Meggitt revenue across the product lifecycle by focusing on profitable modification and retrofit opportunities.

Performance in 2015

Our end markets experienced a challenging year in 2015. Growth in civil aerospace was lower than expected, with organic civil OE revenue growth of 4% reflecting lower growth in deliveries of new aircraft, and 3% organic growth in aftermarket demonstrating weakness in large jet spares from increased surplus market activity, more than offset by good growth in business jet aftermarket.

Military revenues saw a good recovery in the first half from a weak 2014. However, the second half was hampered by the Continuing Resolution put in place in September in the US ahead of the agreement of the full-year 2016 budget, resulting in a flat year overall. As anticipated, energy revenues saw a further decline, with the offshore oil and gas-focused Heatric business having a particularly challenging year as continued oil price weakness impacted its customers' appetites for investment. The power generation part of our energy business saw good growth in the first half but the second half was weaker, driven by reduced investment by our customers, primarily utility companies.

Against this background, organic revenue was flat. Underlying earnings per share decreased by 0.8p to 31.6p reflecting adverse business mix in the year from the weaker than expected aftermarket performance, particularly in the higher margin old aircraft spares, partially offset by the benefits from foreign exchange and the share buyback. Contribution from the acquisitions completed late in the year was not significant at the earnings level. Net debt to EBITDA at the end of the year was 2.3x (2014: 1.2x). The increase from last year reflects the effect of the aggregate £509m spend on acquisitions and the share buyback, and lower profit.

Outlook

The outlook for our civil markets is encouraging. Production of large jets is expected to continue to grow in the medium term, and the high and growing shipset values we enjoy on the latest generation of large jets support organic civil OE revenue growth over the medium term ahead of the overall market growth. In 2016, we expect civil OE to grow organically in the low- to mid-single-digit percentage range, and for the composites acquisitions to add a further 20%.

Available seat kilometres, an important driver of our large and regional jet aftermarket, are growing at above the long-term trend. In combination with the expected output from the CSS organisation, which will enable us to address some of the areas of weakness we have seen in recent years, we expect to be able to outgrow the market for civil spares in the medium term. Shorter term, however, we anticipate a continued impact from the availability of surplus parts. This is expected to limit organic aftermarket growth in 2016 to low- to mid-single digits, with a further modest negative impact from revenue mix.

In military markets, we look to be entering a more benign phase with military budgets returning to growth for the first time in a number of years. We believe our strong technology offering and broad platform and customer exposure will enable us to outgrow the overall military market over the medium term, but we maintain a relatively cautious stance for 2016 reflecting weaker orders in 2015 and our view that it will take some time for cash to flow on the back of the recently agreed 2016 budget in the US. We therefore anticipate organic growth in the low-single-digit percentage range, with a further 10% from the composites acquisitions.

Our energy businesses have been impacted by the global slowdown in investment following the decline in the oil price, and we expect that this weakness will continue through 2016 resulting in further organic revenue decline, although the cost reduction activities we have initiated, and recently intensified, will partially mitigate the financial impact of this decline. Medium term, however, the strong technology franchise in Heatric and growth opportunities in energy condition monitoring give us confidence that our energy revenues will resume their growth trajectory.

On the basis of the above, the Group expects organic revenue growth in 2016 of low-single-digit percentage points, in line with the guidance given in December, with revenue phasing expected to return to normal levels. The headcount reduction programme will offset the negative mix impact in the civil aftermarket. The acquisitions completed in the fourth quarter will increase reported revenue growth, as will foreign exchange if rates stay at or close to current levels.

Stephen Young Chief Executive

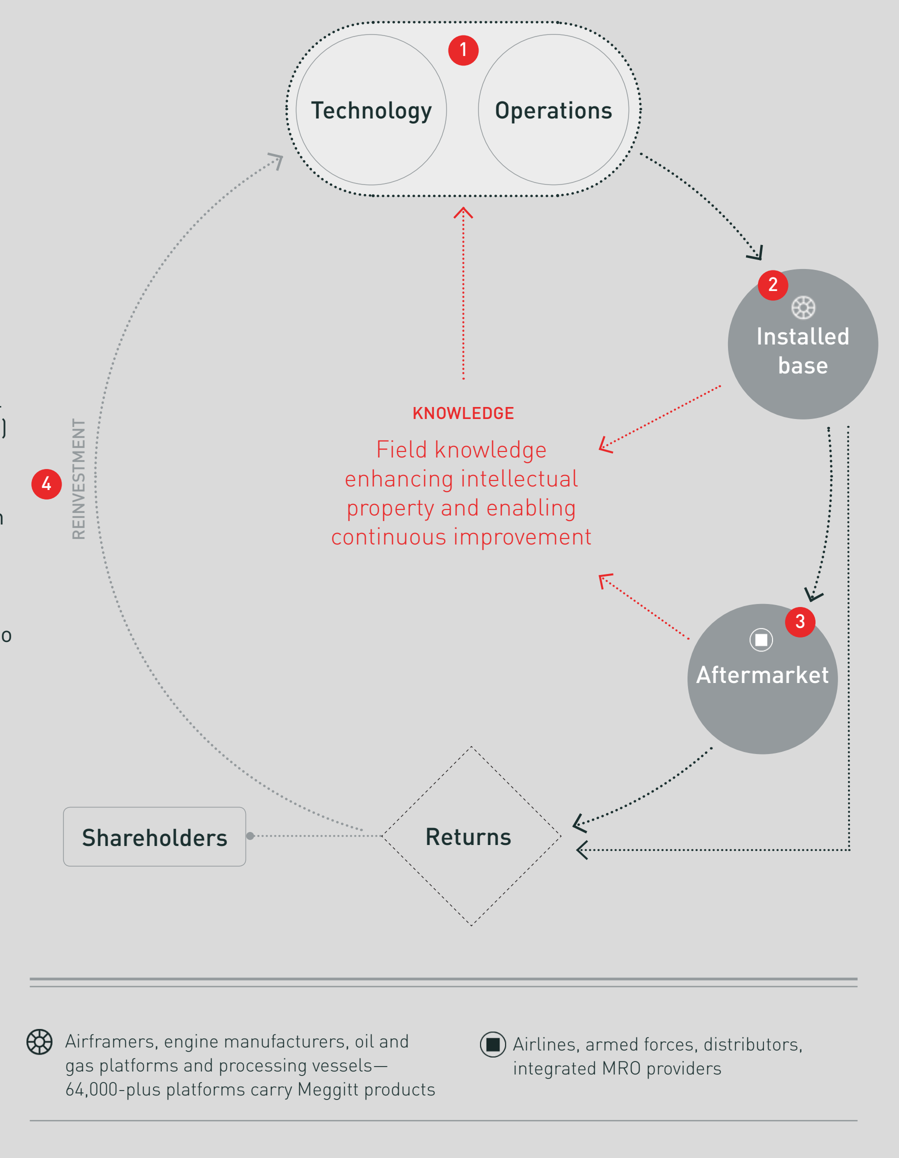
Group strategy

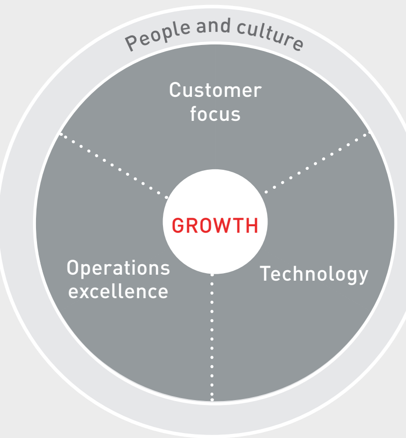
Business model

We deliver strong and sustainable shareholder returns over the long term through leading positions in aerospace, defence and energy markets, secured on the basis of our intellectual property and proprietary manufacturing capabilities.

We develop and manufacture components and sub-systems to enhance the performance of airframes, engines and other high value industrial plant. Revenue comes from successfully executing original equipment programmes (often sole-source) and maximising revenue from the aftermarket opportunities that flow from the wear and tear associated with the harsh environments in which our products operate. High quality services and support and close relationships with operators deliver the field performance data needed to improve existing products and create next generation technologies.

1. **Winning** new programmes, often on a sole-source basis, through technology and operations excellence.
2. **Delivering** Meggitt content onto new platforms generates revenue and provides aftermarket access.
3. **Supporting** the customer through the product lifecycle delivers additional revenue-generating opportunities through maintenance, repair and overhaul and mid-life product modifications and upgrades.
4. **Reinvesting** returns into new technologies, capital equipment and people.





Strategy

Our strategy centres on outperforming our chosen markets by realising competitive advantage at every stage of our business model.

We operate in high-growth markets where smart engineering and the ability to navigate the complex regulatory and certification environment associated with our safety- and mission-critical products is essential.

We target our **technology** investments in attractive segments where Meggitt has—or can—develop leading positions. We invest in **operations excellence** as a core competitive strength and in the **people and culture** needed to deliver our strategy, through the Meggitt Production System. This all-embracing operating system is rooted in realising the potential of every employee from factory floors to functions at every level. Our organisation maximises the value of our products throughout their lifecycles, with strong programme management integrating the efforts of our dedicated original equipment and aftermarket teams to meet the exacting needs of our **customers**.

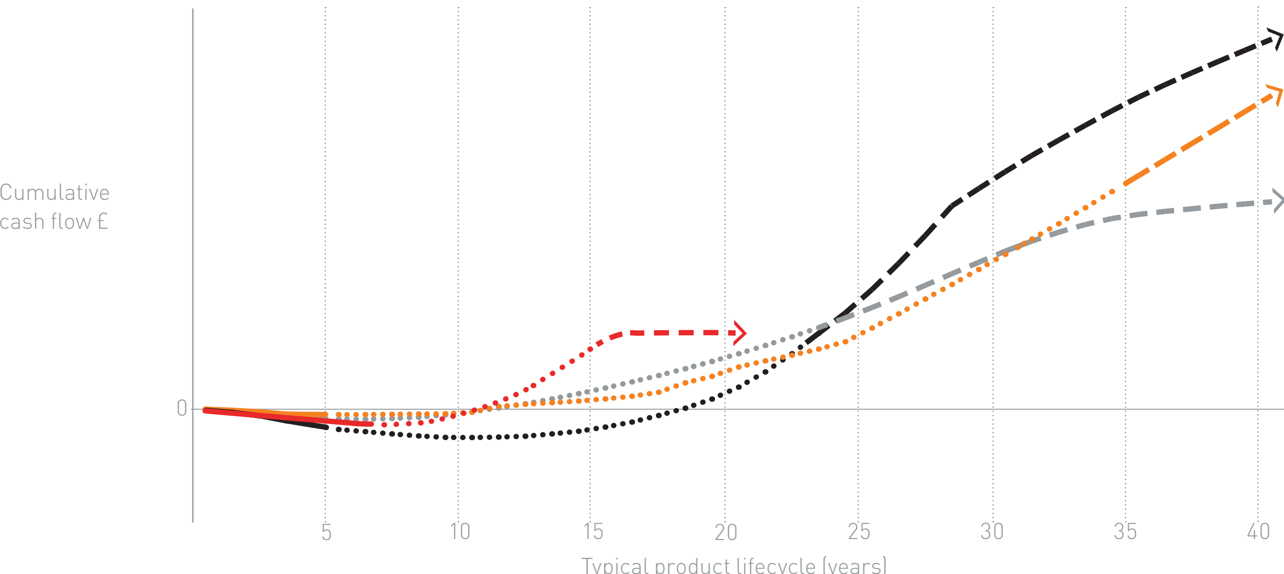
Meggitt's strategy by market and capability is outlined in the Market review (see page 10) and Meggitt divisions (see page 13).

Investment cycle

We develop technology for applications with 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, we often supply equipment free of charge to the original equipment manufacturer. We deliver strong positive cashflow within our civil aerospace and military end-markets during the in-service phase, resulting in a cumulative cash break-even period between years 11 and 18 typically, with a shorter cash break-even in the energy market where up front investments are lower.

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. In the near-term, our business is focused on the delivery of 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	Group
Civil Original equipment	6%	25%	27%	32%	2%	20%
Aftermarket	69%	35%	16%	15%	1%	29%
Military	25%	26%	56%	28%	61%	35%
Energy	—	9%	1%	13%	22%	9%
Other	—	5%	—	12%	14%	7%

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 operate flawlessly for many years in highly demanding operating conditions, from a supplier capable of meeting rigorous certification requirements. The extreme environments in which many of our products operate results in high levels of wear and tear, which drives aftermarket revenues stretching out for many decades from initial product delivery.

Civil aerospace

Civil aerospace accounts for 49% of Group revenue, with products and sub-systems installed on almost every jet airliner, regional aircraft and business jet in service. The global fleet of aircraft has grown significantly in recent years, totalling over 44,000 aircraft today versus 32,000 a decade ago. New aircraft deliveries drive sales of original equipment 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 by seat capacity: large jets (>100 seats), regional aircraft (<100 seats) and business jets.

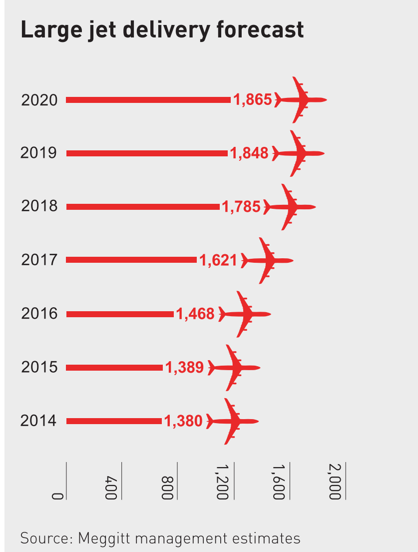
Large jet deliveries in 2015 stood at a record 1,389, 1% higher than in 2014. Future growth estimated at an average of 5-6% per annum is underpinned by the order books of Boeing and Airbus, the two major civil aircraft manufacturers, which extend to eight years at current production levels, with other manufacturers investing in the large jet market including Bombardier, Sukhoi and COMAC. The high level of demand for new aircraft, deliveries of which have grown at an average of over 8% during the last five years, has been driven in part 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 737MAX, Airbus' A320neo and the CSeries from Bombardier. Despite the recent decrease in oil prices, the strong order backlogs mean that no significant reduction in new aircraft demand is expected in the short term.

Regional aircraft deliveries of 297 in 2015 represented a 10% increase on 2014, with an increasing proportion of these being 70-plus seat aircraft where we have a particularly strong market share. Deliveries look set to continue at this level over the medium term. Regional fleets outside North America account for over 50% of the global fleet, up from 10% a decade ago.

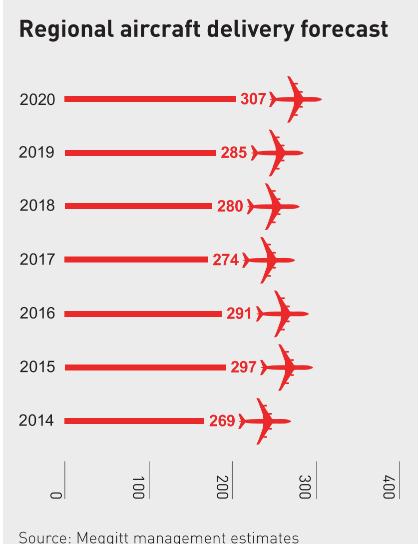
Business jet deliveries totalled 717, a 6% increase on 2014, although considerably below the peak in 2008. Inventories of used aircraft are continuing to decline, although falling commodity prices are likely to reduce demand in the near term. As with regional aircraft, the fleet is becoming increasingly 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 84% of the global fleet. Over the medium term, we see deliveries continuing to recover, driven by increasing globalisation and an improving economic growth outlook in developed economies, enhanced by the large number of new aircraft models due to enter into service in the coming years.

Meggitt performance

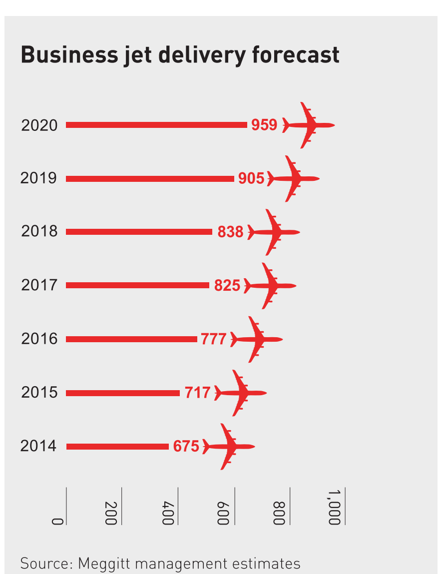
Meggitt's civil original equipment (OE) revenue grew organically by 4% in 2015, with good growth in 737 and A320 families of aircraft and initial OE revenue from the A350XWB offsetting modest reductions in A330 and A380 platforms. Large jet deliveries drive the majority of our OE revenues, involving 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



Source: Meggitt management estimates



Source: Meggitt management estimates



Source: Meggitt management estimates

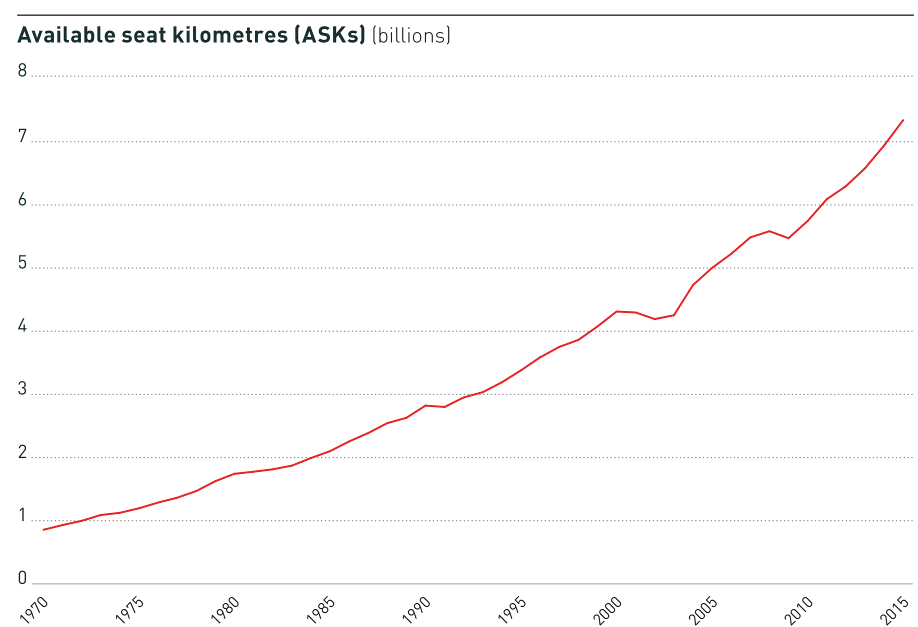
free of charge to civil aircraft manufacturers. Strong OE performance is also driven by shipset values on new aircraft which exceed those of their predecessors. Order books and delivery forecasts remain robust and lend confidence in organic growth prospects ahead of the market growth rate over the medium term.

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 5.8% in 2015, 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 2015 up by over 2% versus 2014. 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, increased pooling of spares between airlines and MRO providers and excess spare part inventory arising from the retirement of old aircraft and the subsequent harvesting of serviceable components from these aircraft. The impact of spare parts harvesting, or surplus parts, has intensified in recent years, driven by increased availability of parked aircraft which can be broken up and heightened sophistication in third party repair and distribution capability, which has caused a greater than expected dislocation between aircraft utilisation and aftermarket demand. Recent organisational changes have been made in the Group with the formation of CSS, which will leave us better equipped to directly address the surplus parts issue.

Meggitt performance
Meggitt's organic aftermarket revenue was up 3% for the year, with 5% growth in the first half decelerating to 2% growth in the second. Air traffic was good given the previously referenced 5.8% ASK growth. However, aftermarket revenue growth overall was held back by the parting out of old aircraft resulting from the high delivery rates of new, more fuel-efficient aircraft. Large jet aftermarket, where the effect of parting out is most pronounced, particularly in components with long lifecycles, saw flat revenue on an organic basis.

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 2015 boosted overall aftermarket growth.



Market review continued

Military revenue by region Total revenue (£ millions)

Our regional aircraft aftermarket revenue grew organically by 4% in the year, with business jet aircraft revenue up 11% organically.

Aircraft utilisation remains very encouraging, with ASKs now tracking comfortably above the long-term average. The reduction we have seen in aircraft retirements over the last twelve months is an encouraging indicator that the headwind we have been experiencing from the parting out of older aircraft may subside over time, although we expect the negative impact of parting out to persist through 2016. Over the medium term, however, we maintain confidence in our ability to grow aftermarket revenue above the broader civil spares market.

Military

Military accounts for 35% of Group revenue. Meggitt has equipment on around 21,000 aircraft and a variety of ground vehicles, naval vessels and training installations worldwide. During 2015, 58% of our military revenue came from US customers, with 26% from Europe and 16% from the rest of the world.

Defence budgets in some key markets remained under pressure in 2015, notably in the US where the effect of recent budget cuts and the Continuing Resolution in the latter part of the year impacted the timing and size of orders. Declining commodity prices have also had an impact on budgets in the Middle East, although European markets remained stable. The overall outlook for defence spending, however, is more positive than it has been for a number of years, with a recently agreed budget increase in the US budget spread over 2016 and 2017 and modest increases in European budgets in response to greater perceived threat levels resulting in a more benign budgetary environment than has been seen since the financial crisis in 2008/9.

While we do not expect an immediate rebound in military expenditure, driven in part by weaker orders in 2015 and the anticipated lag between budget approval and cash deployment, 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 was flat on an organic basis in 2015, with good growth in the first half being offset by a weaker second half. The second half weakness reflected tougher comparators, the timing of programme deliveries and the US DoD entering a period of Continuing Resolution.

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. Military markets look to be entering a more benign environment now, with budgets in many regions expected to return to growth for the first time in a number of years. This will present opportunities through the expansion of the fleet of programmes on which we have good content, such as the F-35 and Rafale, as well as retrofit work arising following the repatriation of equipment from the recent conflict in Afghanistan, and the reinvestment in military training systems for a number of armed forces, where we have seen considerable contract success in recent years. Accordingly, we are targeting organic revenue growth in the low-single-digit percentage range in the medium term.

Energy

Our energy business accounted for 9% of Group revenue in 2015. We target power generation and oil and gas markets with condition-monitoring hardware and software, control valves for aero-derivative gas turbines and microturbines, and printed circuit heat exchanger technology.

The overall energy market was very challenging in 2015. Lower demand for new equipment and deferrals of capital projects in oil and gas markets reflected the impact of lower commodity prices on the investment appetite of exploration and production companies. The market has also seen reduced demand for gas turbines used in power generation, driven by reduced investment by utilities.

Longer term, however, the power generation market remains very attractive, with increasing global demand for power driven by population growth and increasing levels of industrialisation in emerging economies. Meanwhile, the structural demand drivers for the oil and gas market remain strong. Gas, particularly is a relatively low-cost high-efficiency energy source, and our Heatric product fulfils a core technological requirement of this market. There are also significant opportunities for Heatric, our printed circuit heat exchanger business, outside of its core oil and gas market, including in power generation where a contract for the provision of heat exchangers for an innovative power station design is currently being fulfilled.

Meggitt performance

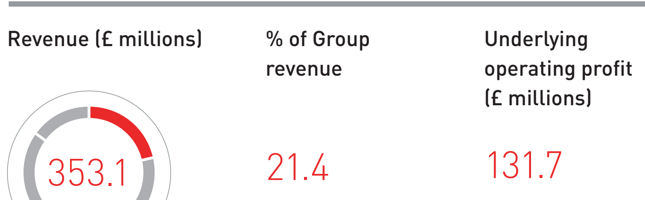
Meggitt's energy revenue declined 20% on an organic basis in 2015. Sales to power generation customers increased modestly, with a good recovery from a weak 2014 in the first half of the year tailing off through the second half as investment budgets became more constrained. Revenue at Heatric, which accounts for 35% of our overall energy revenue, declined by 40% as the investment projects of our oil and gas customers were deferred following the reduction in the oil price.

Heightened demand for our printed circuit heat exchangers driven by a strong project pipeline and increasing market share in condition-monitoring equipment should continue to deliver strong revenue growth over the medium term. In the short term, however, we anticipate modest growth in energy control valves and condition monitoring to be more than offset by further weakness at Heatric, where further project deferrals are anticipated as capital expenditure budgets continue to be pared back.

Meggitt divisions

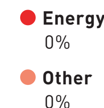
Meggitt Aircraft Braking Systems

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



Revenue (£ millions)	% of Group revenue	Underlying operating profit (£ millions)
353.1	21.4	131.7

Revenue by end market



353.1

- Civil OE 6%
- Civil AM 69%
- Military 25%
- Energy 0%
- 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

Page turns on another chapter

December 2015 saw the Falcon 8X, the flagship of Dassault's high-end business jet range, successfully conduct one of the most critical certification tests—a maximum energy rejected take-off. Like the Falcon 900EX and 7X, it undertook this milestone test with Meggitt's wheels and brakes and brake control system on board, plus Meggitt's safety-critical brake temperature and tyre pressure monitoring systems. In line with Meggitt's strategy to develop core landing gear sub-systems, the scope of Meggitt work on Dassault's all-new Falcon 5X will expand still further into responsibility for safety functions—nose wheel steering, hydraulic system control and monitoring and landing gear control itself.

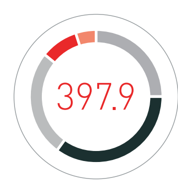
Meggitt divisions continued

Meggitt Control Systems

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

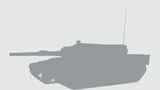
Revenue (£ millions)	% of Group revenue	Underlying operating profit (£ millions)
397.9	24.2	97.0

Revenue by end market



- Civil OE 25%
- Civil AM 35%
- Military 26%
- Energy 9%
- Other 5%

Markets

					
Civil aerospace	Military aircraft	Military ground vehicles	Energy and industrial	Marine	Ground fuelling

Capabilities

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

Growth strategy

- Develop lightweight control systems for extreme temperature and pressure environments to improve aircraft performance
- Deploy full fire protection systems to secure sole-source positions on new platforms
- Continue diversification of product offering to a wider range of energy and industrial turbines

Service entries

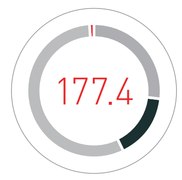
The fast-selling next generation single-aisle aircraft, the A320neo, entered into service with Lufthansa in January 2016. Its engine, Pratt & Whitney's award-winning fuel-efficient "PurePower" PW1000G, is cooled by an extensive suite of Meggitt thermal management products. Seven sub-systems feature Meggitt valves, pumps, oil coolers and heat exchangers. The engine will power yet more innovative aircraft soon to enter service—the Bombardier C-Series, Mitsubishi MRJ, Irkut MC21 and Embraer E2 family. Working closely with the Group's newly-launched Customer Services & Support organisation, Meggitt Control Systems is gearing up to support these programmes for life, which could be 40 years or more.

Meggitt Polymers & Composites

A leading specialist in fuel containment and systems, sealing solutions and advanced composites.

Revenue (£ millions)	% of Group revenue	Underlying operating profit (£ millions)
177.4	10.8	15.4

Revenue by end market

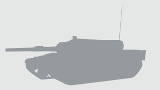


- Civil OE 27%
- Civil AM 16%
- Military 56%
- Energy 1%
- Other 0%

Markets

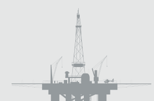
Civil aerospace

Military aircraft



Military ground vehicles

Missile systems and UAVs



Nuclear, marine, heavy transportation and oil and gas

Capabilities

- Complex, high-temperature composite structures and sub-assemblies
- Flexible fuel tanks for military and civil aircraft and military ground vehicles
- Smart electro-thermal ice protection
- Airframe, engine and oil and gas sealing solutions

Growth strategy

- Expand capacity and capability in complex and high-temperature composites
- Exceed target financial returns through effective integration of recently acquired businesses
- Invest in advanced polymer materials to meet the demands of growing wet-wing applications across metal and composite structures
- Broaden capability in fuel systems

Components to systems

The world's first load-bearing composite in a rotating part is now in production for the GE90 115B engine. Exemplifying Meggitt's newly-acquired advanced carbon fibre composites capability, the flow path spacer directs air into the bypass section of the engine, improving efficiency. At just over nine kilograms, half the weight of the stainless steel original, the component is more than an advert for weight savings. A composite rotating part has significant performance requirements that can only be met by experts in design analysis and engineering, tooling, processing and onerous qualification and testing—capabilities used to create the new Meggitt composite products in their thousands, in-service on multiple GE, Pratt & Whitney and Snecma engines.

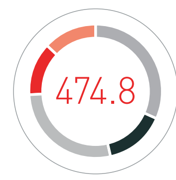
Meggitt divisions continued

Meggitt Sensing Systems

A leading provider of high-performance sensing, monitoring, power and motion systems, specialising in products designed to operate in demanding conditions across a diverse range of applications.

Revenue (£ millions)	% of Group revenue	Underlying operating profit (£ millions)
474.8	28.8	72.3

Revenue by end market



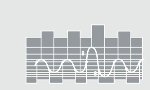
- Civil OE 32%
- Civil AM 15%
- Military 28%
- Energy 13%
- Other 12%

Markets

Civil aerospace

Military aircraft, ships, ground vehicles and missiles

Energy and industrial



Test and measurement

Medical

Capabilities

- High-performance sensing in extreme environments
- Condition and health monitoring for air and land-based machinery
- Power generation, conversion and storage
- Aircraft surveillance and security systems
- Aircraft ground manoeuvring collision prevention
- Wireless emergency systems
- Standby flight displays and air data systems

Growth strategy

- Develop leading-edge sensing and condition-monitoring technologies to minimise emissions, conserve fuel, optimise engine performance and manage maintenance efficiently
- Use our aerospace experience to offer innovative new products to the energy and industrial sectors whilst expanding our sales and aftermarket services in high-growth markets
- Expand power management capability under newly-created value stream organisation

LEAP forward in operating economics

Eight Meggitt extreme environment sensors, measuring vibration, speed, temperature and fluid level, are being integrated inside the LEAP, the fastest-selling aero-engine in aviation history. These measurements detect nascent engine conditions and prevent catastrophic failures. However, as core health monitoring tools, our sensors also boost day-to-day operating economics. Maintenance can be planned cost-effectively based on component condition, maximising product life on wing. And fuel burn deterioration rates can be extrapolated. This enables airlines to rotate aircraft around their networks, ensuring newly refurbished engines that consume less fuel are scheduled for routes where efficiency really counts.

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)
244.0	14.8	9.1

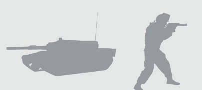
Revenue by end market

- Civil OE 2%
- Civil AM 1%
- Military 61%
- Energy 22%
- Other 14%

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
- Linear motion control
- Automotive and industrial control electronics

Growth strategy

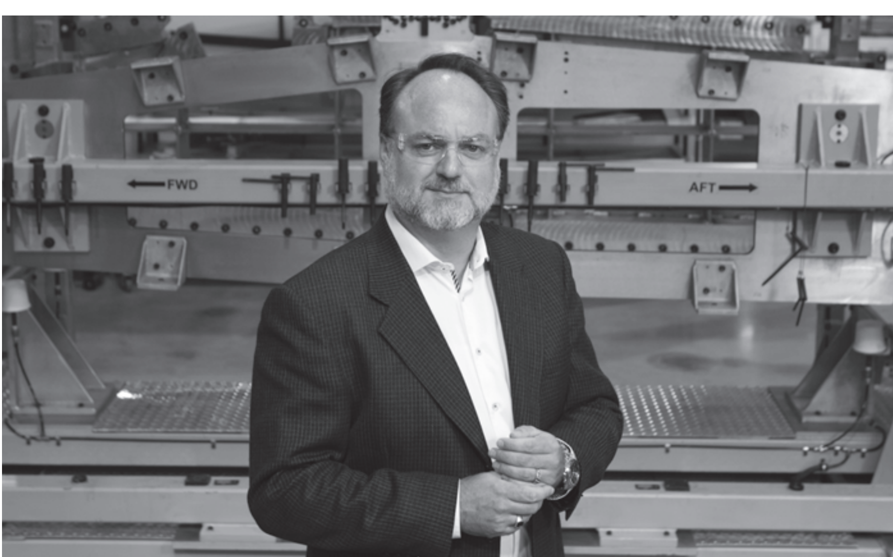
- Short-term cost management through current oil and gas market downturn while maintaining core capability
- Longer-term, build on market-leading position in compact and high-pressure heat exchangers for energy markets
- Leverage US military system-of-record status in live and virtual training systems 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

It's not a game

Meggitt Training Systems looks beyond the defence arena to drive innovation into its virtual small arms training systems, adopting gaming industry engines for the ultimate in realistic training scenarios. Known for the unsettling realism of combat scenarios in far-flung territories, it also creates virtual worlds nearer home, simulating the live-fire ranges of specific US military bases. There are economic and environmental imperatives. Ammunition is expensive and polluting. After using a Meggitt virtual training system, soldiers progress to live-fire ranges, qualifying faster, using fewer bullets. Our newest small arms trainer is the system-of-record for the US Army, US Marine Corps and the defence ministries of the UK, Canada and Australia.

Growing composites capabilities

At the close of 2015, Meggitt acquired two new businesses in one of the fastest growing sectors of aerospace—advanced carbon fibre composites. This exemplifies a sharp focus on strategic investment in higher growth market segments with attractive fundamentals and the potential to lead the market through differentiated technology and advanced manufacturing processes.



David Horner, President of Meggitt Polymers & Composites.

Protecting helicopter engine air inlets and mission-critical flight components from the effects of ice build-up is the geometric and thermal challenge in which Meggitt Polymers & Composites has excelled for 50 years. With its complete understanding of thermosetting composite materials—which it also applies to structures and specialist assemblies resistant to corrosion, lightning strikes and fatigue—the division remains the industry's leading supplier.

This is the core of expertise Meggitt has extended through the acquisition of the advanced composites businesses of Cobham plc (Advanced Composites) and EDAC. The two deals concluded a year-long review of assets in this market after the Group's 2014 strategy review identified engine composites, in particular, as a fast-growing market opportunity on which Meggitt was well-placed to capitalise.

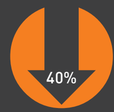
Meggitt Polymers & Composites had a long-held strategy to focus on complex secondary structures that are of less interest to the manufacturers of primary wings and fuselages. David Horner explains "These *Tier 1* producers like very large structures made from fibre that can be placed along a consistent arc by machine, not man. It's very capital intensive. We, on the other hand, like hand lay-up, complex secondary structures, difficult geometries and tight tolerances. And that's exactly the type of work we are going to build on with our new businesses."

The market for complex secondary structures is very fragmented. Very small producers take simple, low-value components and build them to the designers' specifications. "Aerospace customers want suppliers with greater expertise and scale. They want mature manufacturing processes that reduce risk," continues Horner.

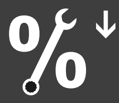
Why composites count

Aerospace composites market = £5.1 billion worldwide

Greater than 7% compound annual growth per annum



Strong as conventional alloys, 40% less density

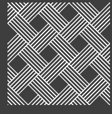


Maintenance costs up to 30% lower

Faster product development and industrialisation cycles

Percentage reduction in weight corresponds to percentage reduction in fuel

Up to 50% of next generation aircraft will be composite



Estimated carbon fibre market CAGR = 9.9%

With Meggitt Polymers & Composites' new scale, now 1.5 million square feet of manufacturing space in Europe and the Americas, comes an extension of the Group's intellectual property.

The acquisitions extend Meggitt's *smart engineering for extreme environments* further into manufacturing processes. "For radomes and electro-thermal ice protection, the smart engineering with which Meggitt has been so traditionally associated is still very necessary," says Horner, "but the essential qualifier for engine composites and secondary structures is manufacturing process IP for extreme environments."

In the world of composites, customers provide the engineering drawing for a given component and the composite supplier is responsible for addressing the geometric challenge. To develop optimal solutions, those suppliers need to deploy a range of tools and materials. "Our new composites businesses may have competitors for individual processes but there are none offering the required diversity," says Horner.

The list of Meggitt Polymers & Composites' capabilities includes resin and vacuum-assisted resin transfer moulding, compression moulding—up to six-axis—hand lay-up and fibre-wind. Horner explains: "I had a discussion with a customer recently about how we might replace an aluminium part with composite. If we had been just EDAC, we would have had two ways to do it. If we were just talking Advanced Composites—also two ways. As Meggitt, with our established integration expertise and capabilities, we now have six ways to do it. And that's what counts if you want to provide a solution that is not only great technically but makes sense commercially."

Composites deliver in-service weight efficiencies plus design flexibility, lower costs and shorter cycle times—providing they are manufactured by experienced providers. High tech equipment isn't worth much in isolation. "It's our formula—our process IP—that controls heat and pressure at six different angles and enables us to make the highly complex parts that virtually no-one else in the world can," says Horner.

Engine of growth

He had ambitious growth plans for Meggitt Polymers & Composites' existing composites businesses. These acquisitions take that ambition very much further. Meggitt now has first-class customer relationships in Europe and North America on the high growth engine programmes,

We've got scale

Meggitt Polymers & Composites

	Was	Now
REVENUE	£170 million	c£300 million
FACILITIES	4	12
SQUARE FEET	1 million	1.5 million
EMPLOYEES	1,800	2,900
OUTPUT	Glass-fibre based	Carbon fibre

and premier positions in the growing inflight wifi market and in structural components.

EDAC's engine composites order pipeline is worth over USD600 million for the next four years. Meggitt is now on every major commercial aerospace platform worldwide, including the fastest growing engines: LEAP, the PW1000G, the GEnX and the GE90. "Meggitt is well-placed to capitalise on many more opportunities to replace metal with composite as customers work their way through the engine, converting as much as they can based on available technologies," adds Horner.

While EDAC was a predominantly civil business whose capability grew with progressive civil engine manufacturers, Advanced Composites evolved by responding to demanding military requirements. Weight and cost savings aside, they are in demand for stealth and low radar observability and high degrees of engine performance and extreme aerodynamics.

Its engine components, which encompass flight critical products such as spinners and stators, exhaust flaps and internal multi-stage components, are present on high-volume, high-growth platforms like the Joint Strike Fighter. There are now 100 Meggitt composite parts on the F135 engine for the F35, one of the US Department of Defense's most significant programmes.

Advanced Composites had also secured good commercial business, enhancing Meggitt's positions on the A320neo, C-Series, MRJ, 777X, 787, A380 and the G650.

One of the most exciting growth opportunities relates to the highly specified radomes it already produces in repeatable high quality volumes for major fighter jets, maritime aircraft and electronic warfare platforms, including the P8 Poseidon, Eurofighter Typhoon, F16 and F18 variants and the Apache Attack Helicopter.

Gogo, a leading internet service provider on commercial and business aircraft, recorded a transmission peak of 3.1 million bits per second in 2010 and forecast a peak of 70 million this year. Its new system has a higher transmission capability by some order of magnitude, all of which will go through Meggitt radomes. The business is taking this capability into the global inflight connectivity market, which is experiencing very high and accelerating growth. With production on both sides of the Atlantic, Meggitt is positioned well to surf this wave, partnering with Gogo, the global leader in inflight connectivity.

Meggitt Polymers & Composites ticks many of the technology boxes that will secure positions on next generation aircraft—composite engine components, secondary structures, radomes and ice protection. These are the foundation on which Meggitt will build its scale composites business, one that is diversified across military and civil markets and one that has the capacity to satisfy the demanding production requirements of the impending ramp-up in production of new models. ■

It's our formula—our process IP—that enables us to make the highly complex parts that virtually no one else in the world can make

CUSTOMER FOCUS

Reclaiming our aftermarket

In May 2015, Meggitt launched the first phase of its centralised Customer Services & Support (CSS) organisation, streamlining the Group's interface with aftermarket customers. The global operating model, launched in January 2016, is designed to develop the agility Meggitt needs to compete in the increasingly dynamic market for spares and repairs. Its success is one of the Group's strategic priorities. "We will succeed by delivering superb service throughout the product lifecycle and, ultimately, helping our airline customers run their operations as cost-effectively as possible," says Lorraine Rienecker, the new organisation's President.

The civil aftermarket is changing. While traffic growth, the underlying driver of aftermarket demand, remains strong, we need to respond to a maturing market and increased competition. Better data is resulting in delayed and extended maintenance intervals, while bigger, stronger integrators are offering larger maintenance packages and capturing a greater share of the aftermarket as airlines continue to outsource maintenance repair and overhaul (MRO) services.

The Group has been disproportionately impacted by cyclical threats in recent times, cutting demand for its highest margin spares. Aircraft from the cycle of the late 1980s to early 1990s are reaching their natural retirement age and are increasing the supply of surplus parts. However, says Lorraine Rienecker, "we must assume this will continue for some time, and adjust accordingly."

The aim of the new organisation is to simplify the interface between Meggitt and its aftermarket customers." We need to coordinate the efforts of sales and customer support personnel more effectively and build partnerships for growth." Common metrics will be established for all Meggitt aftermarket operations to ensure that every team rises to the cost, quality and delivery standards set by the best. CSS will facilitate a more efficient feedback loop between customers and Meggitt engineering teams, delivering the data needed to design product upgrades to improve in-service operation.

The launch of CSS during 2015 was the first step on the road to reclaiming Meggitt's aftermarket in a dynamic market environment with many cross-currents.

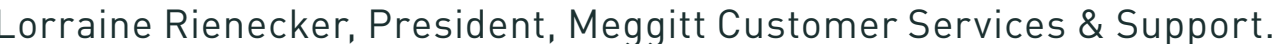
Phase one saw the establishment of a management team to centralise customer-facing teams. The sales effort has been organised regionally and by key account to offer a greatly simplified interface to customers—one single source of service rather than multiple points of contact across capabilities and regions.

The feedback from customers has been universally positive. "Our customers are starting to see the number of Meggitt phone numbers in their address books cut and their understanding of Meggitt's full range of capabilities rise," says Rienecker.

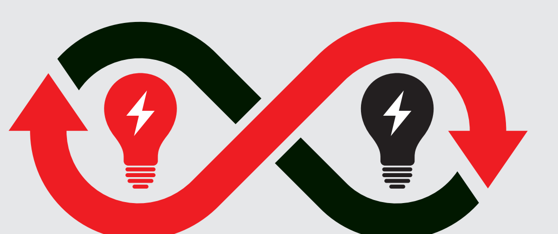
CSS's initial operational responsibility centred on existing dedicated aftermarket facilities in Singapore, UK, Germany and the United States. At the beginning of 2016, it assumed responsibility for key commercial and military aerospace spares distribution and the MRO operations of two divisions—Meggitt Control Systems and Meggitt Sensing Systems—plus those of Meggitt Aircraft Braking Systems' UK facility in Coventry. As CSS develops and matures, it will take responsibility for more of Meggitt's aftermarket operations. While complete control over operational performance will lead to systemic improvement and best-practice sharing, Rienecker wants to optimise the opportunity to meet customers' requirements for the long term. "A fully mature CSS organisation will enable us properly align all elements of our aftermarket services across the product lifecycle."

CSS is not a discrete organisation within the Group. "To guarantee CSS success, we are remaining fully integrated with our original equipment businesses and will retain strong interfaces at all levels," says Rienecker. Clearly, this is critical if CSS is to maintain high ratings on its customers' delivery scorecards. However, CSS wants to communicate a greater understanding of operators' needs and in-service product performance to Meggitt's original equipment engineering teams. "It's all about maximising Meggitt revenue across

It's all about maximising Meggitt revenue across the life cycle by creating an innovation loop. The opportunities to boost Meggitt's product pipelines with upgrades and next generation products are significant



Lorraine Rienecker, President, Meggitt Customer Services & Support.



Meggitt Customer Services & Support will capture value across the product lifecycle, delivering field data that will enable profitable original equipment modifications and upgrades for near-term growth and brand-new products for next generation platforms.

the lifecycle by creating an innovation loop," she explains. "The opportunities to boost Meggitt's product pipelines with upgrades and next generation products are significant."

To ensure that the new organisation is equipped to exploit retrofit, modification and upgrade opportunities, CSS technical teams are now focusing on developing more in-depth reliability and maintenance data for all Meggitt products. Over the past 18 months Meggitt Control Systems (MCS) has systematised electronic MRO data capture to better understand product performance in the field. This meets the aviation industry's Spec2000 requirement for industry partners to exchange detailed information easily and cost-effectively.

Having successfully deployed Spec2000 on MCS legacy product lines, CSS will now drive a global project to deploy this data-recording methodology across all Meggitt facilities performing MRO services. "Capturing data is only the start," Rienecker emphasises. "Having the processes to accurately assess and interpret the data and to act on the findings are critical. This is why designing them will be a priority for CSS and Group engineering over the next 12 months." The goal is to provide mid-life, product refreshment opportunities, boosting the operating economics of the airlines.

As the original equipment manufacturer, Rienecker believes Meggitt has intrinsic competitive advantage. "Our customers want to keep their parts *on wing* for as long as possible. With more data and trend analysis behind it, our team of outstanding product designers will be extremely well-placed to redesign longer-life products for retrofit."

For the moment, Meggitt has an immediate requirement to start thinking like an aftermarket trader. The surplus market has expanded with parts from retired fuel-inefficient aircraft, and Meggitt is now participating through a partnership with a leading provider of aviation services and logistics to repair and resell 'as removed' parts. Rienecker is confident: "The OEM tag remains important and provides our customers with the assurance that their products have been repaired by those who know them best—the Meggitt designer and manufacturer. The partnership will also provide better insights into real-time market value and demand for Meggitt product."

From a commercial perspective, with its developing understanding of in-service revenues and opportunities, CSS will enable more precision in Meggitt's contract arrangements with customers for new and existing products across all stages of their lifecycles.

CSS is also reviewing its distributor network. It is fragmented, complex and costly to manage. Over the next few years, that network will be rationalised and strengthened, with communication channels improved through one CSS interface.

After putting a centralised aircraft-on-ground (AOG) emergency call centre in place last year, CSS is developing it further to meet its obligations for new aircraft entering service. "We want to make it more efficient for the operators and more cost-effective for the Group so 24/7 support will be delivered with fewer points of contact and optimised inventory management," says Rienecker.

CSS operations will be underpinned by the Meggitt Production System. This will make fast, efficient service as much a competitive advantage in aftermarket centres as it is for those facilities concerned with the industrialisation of product for original equipment manufacturers. "There are many outstanding aftermarket teams at Meggitt but the competition is becoming stronger and airlines are having a greater influence over their supply chain. Meggitt's original equipment customers —the airframers and engine-makers— want to partner with suppliers who can deliver for their customers. MPS will ensure CSS provides that assurance."

After spending close to a decade as Meggitt's Executive Vice President of Strategy, Sales & Marketing, Rienecker is enjoying the opportunity to specialise in one business, albeit a multi-faceted one. "In the OE market, programmes can be very long. The aftermarket is much more dynamic and service-driven. I am, however, delighted to be working within the entrepreneurial service culture of the aftermarket trade, backed by our OE businesses—after all, they are the best manufacturers of our products and the best engineers." ■

OPERATIONS EXCELLENCE

Why our Bronze is their Gold

The first Meggitt operating facility to enter the fourth Bronze stage of the Meggitt Production System looks like a business that is on the home straight to operations excellence. However, it could take the group's Customer Services & Support hub in Singapore between one and two years of hard yards to make the exacting Meggitt grade, which includes rigorous financial targets.

Left: No going back to the old days, James Mariadass, Site Leader, Customer Services & Support, Singapore. *Right:* MPS is the way we do business. Group Operations Director, Amir Allahverdi.

Why MPS counts

Quality up 87%

Safety: lost-time incidents down 20% in 2015 on 2014

On-time delivery up 14%

Continuous improvement activities
486 in 2014
1,481 in 2015

The Meggitt Production System (MPS) is a six-stage operating system designed to make operations excellence a core competitive strength. The early stages focus on tools and techniques that enable products to be delivered, consistently, on time and to the required specification. The continuous elimination of waste is intrinsic to the system. Practised at the highest level, MPS aims to deliver superior incremental growth and performance as leadership, liberated by smoothly-running operations, can focus more on maximising returns from trading assets and long-term business strategy.

Since its launch in 2013, all Meggitt's main facilities, apart from the recent composites acquisitions, have entered the first *Red* phase with many moving into the second, *Yellow*, and third, *Green*, phases. The initial goal is tactical quality and delivery improvement and the establishment of a sustainable continuous improvement culture. Facilities will not be able to graduate from the next three phases, however, without meeting rigorous financial targets.

James Mariadass, whose facility is now in the fourth 'Bronze' Meggitt Production System phase, explains how it works. As a starting point, MPS is not a rigidly applied set of tools and structures but a framework that local leaders and employees can adopt and adapt to realities on the ground. "Implementing it like a check list doesn't work. Full involvement of everyone is essential, backed by good cross-functional collaboration."

And the phases? "Red sets the foundation. That's when we set up our visual factory boards, define our metrics, look at organisation and structure and start to work with basic Lean and related continuous improvement (CI) tools. It's very much about problem-solving and removing barriers to success.

"Yellow is about culture change. Daily Layered Accountability (DLA) meetings get maximum involvement from everyone—technicians all the way to the site leader. At the beginning, employees would be a little uncomfortable, thinking they were being blamed for non-delivery. Now employees understand that DLA is not about targeting individuals but issues and how we, as a team, go about resolving them. Ulltimately, this leads to happy employees as they have an avenue to resolve difficult issues, up the line, on a daily basis.

"Green fans MPS into the functions that feed the factory floor and focuses on material and inventory management, sales inventory and order processing, supplier selection and management. It is really about further developing an open cross-functional network to resolve issues and performance. Ultimately, it tests the resilience of our approach."

Mariadass has joked with his people about going back to the 'old days'. The response was universal: "We couldn't go back to phone calls and emails and departmental meetings. We'd be lost." Singapore's staff retention figures prove the point, contributing to a reduction in the Group's overall personnel turnover by 50% in 2015.

Starting with Bronze, precious metals denote operations excellence at a Meggitt facility as a core competitive strength.

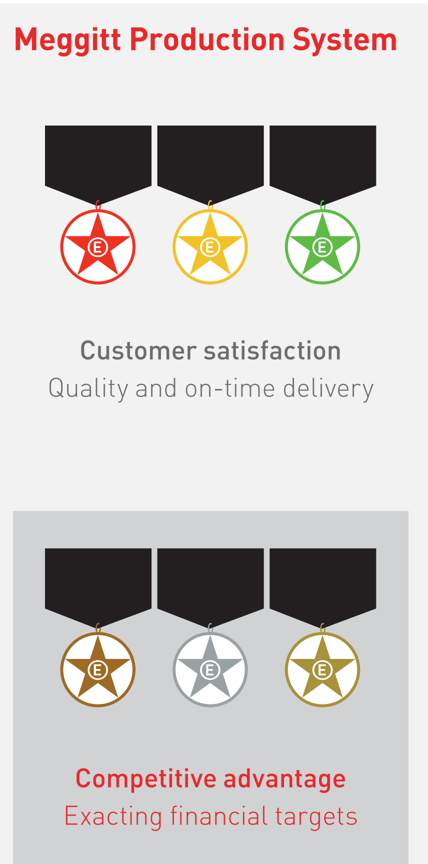
"Customers of a Bronze Meggitt factory are very happy indeed," Amir Allahverdi, Meggitt Group Operations Director, explains, "Our Bronze rating maps well to customers' own 'Gold' standards." So what's the point of our Silver and Gold? "At these levels of operations excellence, factories run like clockwork. Management can lift its gaze away from internal problem-solving to growth—filling our factory pipelines with new business. Silver and Gold operations anticipate customer demands and market forces, rather than being driven only by immediate requirements. It is the point at which operational advantage must turn to real strategic and financial advantage." Mariadass is already starting to ease into the new way of thinking. "Instead of being pushed by sales guys to fulfill orders, I am finding myself pushing the sales guys to top up my production pipeline."

He is particularly excited about the Singapore operation becoming part of the new Customer Services & Support (CSS) organisation. It is now responsible for most of Meggitt's spares distribution and MRO operations in Asia and he is keen for his new sister facilities to catch up. His Singapore-based facility is at the sharp end of the aftermarket where a *Mach 3* approach to service is a basic requirement. He knows that there can be no weak links in the chain of CSS excellence. Bronze for Mariadass, therefore, points the way to a proactive approach to building the strong network needed to build even stronger aftermarket service and improved financial performance.

And there are plenty of tools to assist. Now that MPS's global "SIOP"—sales inventory order processing—process has matured, the scope for advanced planning and forecasting is greater in the expanding CSS organisation. "SIOP is firmly established in Singapore and if we share this best practice, we can really start to make efficiency gains, consolidating spares inventory in fewer sites," he says. If the interface between CSS facilities is critical, CSS must also create effective links into Meggitt's original equipment engineering teams to deliver the field performance data needed for profitable mid-life product refresh opportunities.

And this, emphasises Allahverdi, is where a world-class Meggitt operating model shows its worth. "While reliable processes and open, regular communication have boosted employee morale on the production floor, MPS also equips functions, businesses and divisions to work together at the macro level. The languages of problem-solving and continuous improvement are the same." Meggitt's progress in operating efficiency in just three years has been exceptional. In aggregate, the Group's on-time delivery (OTD) has risen by 14% and quality is up by 87%.

While reliable processes and open, regular communication have boosted employee morale on the production floor, MPS equips functions, businesses and divisions to work together at the macro level. The languages of problem-solving and continuous improvement are the same



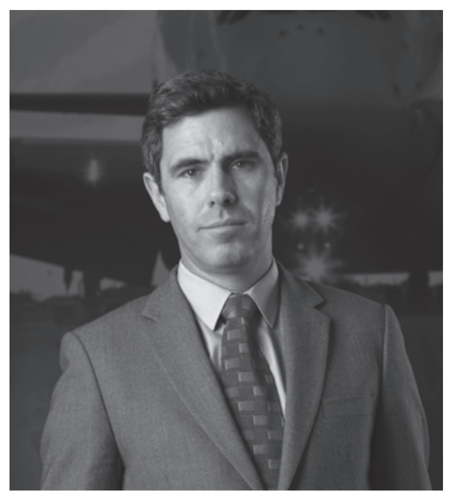
And customers have noticed. MPS 'immersion' attracted one of our power product businesses' largest orders. After a supplier assessment, Meggitt was lauded as the only one to have demonstrated deep understanding across multiple facilities of Lean deployment and standardised improvement processes. Another chose Meggitt to pilot the next revision to its supplier health assessment. Endorsed by customers, several Meggitt businesses are using MPS to map out realisable paths to 'supplier Gold' in 2016—a critical accreditation for quality and on-time delivery that is the price of entry for next generation aircraft programme bids. A top original equipment customer was so impressed by progress at one facility, he demanded "more, more quickly".

Allahverdi and team have already been orchestrating change on a grander scale in 2015. MPS was launched at divisional level, leading to Meggitt Sensing Systems' new 'value stream' structure (see People and culture, page 24) and a clearly-defined approach to leadership development. A Group programme management council was established to fully deploy Meggitt's highly developed programme life cycle management processes. A functional launch was undertaken by the Group's HR operations team. Meggitt's supply chain was risk-assessed prior to starting a programme of relationship development and MPS integration.

In 2016, Allahverdi will turn up the temperature again at facility level to deliver "more, more quickly". Now MPS principles and practice are embedded across Meggitt, the MPS cadre will focus on 12 Meggitt sites to accelerate breakthrough improvements in the year. These include three of the eight businesses acquired by Meggitt Polymers & Composites at the end of 2015 (see Technology, page 18). He reflects on future progress. "Meggitt has a wider vision of excellence and the potential of an entire organisation equipped to execute strategy smoothly and run on world-class processes—processes that maximise the return on trading assets and link us inextricably to customers, suppliers and each other. "For now, Allahverdi is impressed by what he describes as a critical identity level achievement for the Group. "MPS is part of who we are at Meggitt and there's no going back." ■

Communicate, collaborate, *create*.

Meggitt's performance culture is based on delegating decision-making as far down the hierarchy as possible where problems can be resolved by the teams who understand them most. That is Meggitt Production System basic equipment, facilitated through the technique of Daily Layered Accountability or 'DLA'. New 'value streams' are playing a role at divisional level too, devolving responsibility to where it is best discharged, MPS-style. The focus on international networking continues through the international graduate programme, the executive leadership programme with Oxford University and the launch in 2016 of the Group's first global intranet.



Paul Devaux
President, Power & Motion

Robin Young
Group Organisation Development Director

Karl Elkjaer
Meggitt Production System Leader

When Group Organisation Development Director, Robin Young, joined Meggitt, the Group was half the size, a conglomerate of small to medium-sized enterprises. "It was good for innovation and speed but we needed to leverage our scale to really count in our markets for the long term." And that's what Meggitt did in 2009, organising its businesses around core capabilities into integrated divisions. Meggitt is changing, subtly, again. "The divisional structure remains firmly in place but as our business has become more international and more intricate, the way we think about some of these divisions at an identity level is evolving again." Young is referring to the new "value streams" created by Meggitt's Sensing Systems and Polymers & Composites divisions to provide customers with the best solutions and improved support.

One man's industrial paradise

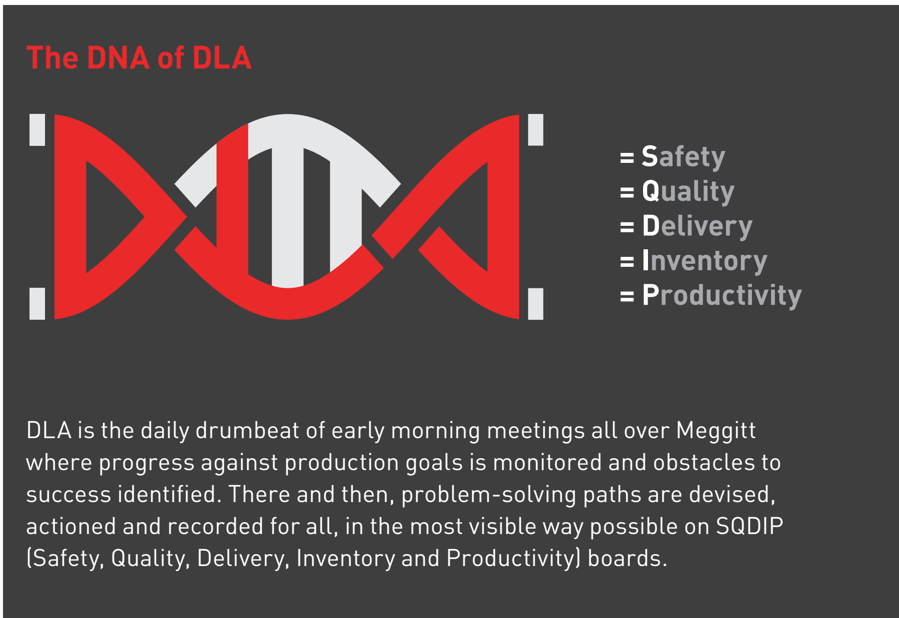
Paul Devaux heads up Meggitt Sensing Systems' *Power & Motion* value stream. An operations expert and French national based in Meggitt's power management facility in Avrillé, France, he has spent his career working for international companies. From Morocco to France and the UAE to Indonesia, he has experienced the extremes of disaffecting "command and control" processes to what he describes as the "industrial paradise of engagement". However, the impact of the Meggitt Production System could not have been greater when he joined Meggitt in 2015.

"This operating system is done in a very smart way. It is not *beside* the business. It is *inside* the business. It is fully integrated. That is unusual." The most palpable expression of integration for Devaux is DLA (see box right). "It's what you do every day at Meggitt. It is not 'in addition to' anything else. You just do that. And it works."

To some, the daily monitoring and problem-solving system seems too simple. Devaux asserts: "Some organisations have forgotten the world we are living in. Complex systems can be very satisfying intellectually but they are not always efficient. We are engineers and manufacturers. We are not making philosophy. We are trying to make profitable parts that satisfy our customers. Simplification in our world has to be one of the greatest virtues."

And this touches on a fundamental of Meggitt culture—common sense. At the helm of an outward-looking value stream, Devaux knows he will not be taken aside as he once was by a customer who told him:

The DNA of DLA



DLA is the daily drumbeat of early morning meetings all over Meggitt where progress against production goals is monitored and obstacles to success identified. There and then, problem-solving paths are devised, actioned and recorded for all, in the most visible way possible on SQDIP (Safety, Quality, Delivery, Inventory and Productivity) boards.

"at your company, you seem more interested in your culture than your customers!"

Devaux knows about the effectiveness of the value stream approach to delivering growth from product lines within individual factories. Now Meggitt is innovating, applying a common sense principle to aggregate businesses at an international level. Devaux is very comfortable with this.

With his team, he is combining the capabilities of five specialist centres in France, the United States and Vietnam into a rich seam of power generation, conversion, storage and management technologies, providing customers with the best solutions and improved support.

> You can take the best person and drop them into a poor process and they will fail

It takes Devaux back to his "industrial paradise" in which control is given to businesses rather than functions. For Devaux, being part of the Meggitt group means access to investment, functional expertise and world-class systems like MPS. As owner of a value stream, he can benefit from the parent but have the freedom to make decisions relating to customers and markets with which he and his team are in step. That is exactly where he wants to be in professional terms. He is equally ambitious for his people. The opportunities to showcase best practice from one facility to another are significant. The engineering challenges will grow in complexity and deliver greater professional satisfaction. "The Power & Motion teams are straining at the leash to reach out to each other and explore the possibilities," he says.

Graduate programme cohort expands into operations

Meggitt's international graduate programme is in its fourth year and the first cohort to finish its three-year rotation is starting full-time roles across the Group. Predominantly engineering-focused, the programme piloted operational streams last year, which has led to a 50% increase in intake in 2015 including the Meggitt Production System leaders of the future. Surprises unfold from the programme, including changes of career aspiration and what Young calls the effect of 'random nodes', where technologies and markets find new intersections.

From nanotechnology to industrial psychology

Karl Elkjaer exemplifies this idea. With his Masters in physics and nanotechnology he might have been expected to take a route to a Meggitt Technical Fellowship. Instead, he has discovered the satisfying immediacy of solving problems in operations. His chosen permanent role is as Meggitt Production System leader at the Group's specialist piezoceramics facility in Denmark. The problems are equally as complex in operations, to which the new discipline of 'psychology' can be added, he explains. "You can take the best person and drop them into a poor process and they will fail. My role is about creating the right conditions for people to succeed and enabling them to work better in teams."

Eureka moments

Elkjaer's graduate programme rotation started in Denmark, followed by nine-month cycles in the US and UK. He is sensitised to different national management styles and has had significant exposure to Meggitt's international customer base. As he changed his perspectives so, he believes, his hosts changed theirs, if only to learn about other businesses in the Meggitt group. The effect of Young's desired 'random intersection' occurred when he rotated from a sensing business in Denmark, where he had been looking at a paint form of piezoceramic sensor, to a composites business in the UK looking for actuating technologies for anti-ice systems. An ultra-low power solution deploying this technology contributed to Meggitt Polymers & Composites (Loughborough) beating the industry's odds-on favourites in a competition to lead a state-of-the-art anti-ice systems research project with EUR 6.2 million European Union funding.

Networking

Meggitt employees with senior leadership potential continue to enjoy the networking value of the biannual executive training programme with Oxford University's Said business school. Its fourth cohort is now benefiting from the one-year bespoke programme. Diverse talents, from new joiners to old hands, work on special projects to develop systems thinking beyond their functional areas. Several alumni now serve on Meggitt's executive management team.

And there's a new information democracy to come. In 2016, Meggitt will launch its first global intranet. Any employee, worldwide, will be able to tap into the richness of what Meggitt has to offer and act on the information through the intranet's latest communication and collaboration tools. Young concludes: "A new level of creativity will be enabled as these tools become available for use in day-to-day activities. All this contributes to a fertile environment for sharing and developing ideas that lead to revenue-generating new products and technologies. Meggitt is a treasure trove of capability and talent that deserves to be shared widely, inside the business and, ultimately, with our customers. Our new intranet is central to providing that narrative." ■

Risk management

Meggitt seeks to operate within a low risk appetite range overall. Effective risk management is required to deliver to this appetite while supporting the achievement of the Group's strategy and business objectives. Our risk management framework is based on ISO 31000 and includes a formal process for identifying, assessing and responding to risk.

During 2015, we continued to refine our approach. The Board approved an updated Group risk appetite statement with associated risk tolerances to ensure that identified risks are managed within acceptable limits. These risk tolerance levels are flowed down to the divisions and functions. The likely timeframe within which the impact of risks might be felt and how we prioritise risk is considered as part of our risk management strategy.

Governance

The responsibility for risk management operates at all levels throughout Meggitt:

- **The Board** – 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 overseeing the Group's risk governance structure and internal control framework. During 2015, the Board has carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. This report describes those risks and how they are being managed or mitigated.
- **The Audit Committee** – The Board has delegated responsibility for reviewing and ensuring the effectiveness of the risk management process to the Audit Committee.
- **Other Board and Management committees** – Divisional and functional leadership are responsible for the management of risk and for compiling and maintaining their own risk registers, which outline risks at business unit and programme levels. The Group Executive Committee as a whole regularly reviews the Group's principal risks, while individual members own specific risks.

Our risk management process requires identified risks throughout the Group to be owned by a named individual. They must review them regularly and consider related new risks. Risk identification is embedded in other processes, including project and programme management, bid approvals and other operational activities.

After they have been identified, risks are reviewed at facility level and aggregated for review at divisional and functional levels and during the Group's regular business review process.

The Group Risk Register is then subject to a detailed review and discussion at the Group Executive Committee which includes discussion of risks which may not have been identified through the normal channels. The Board reviews the output of this process.

Meggitt's corporate strategy is designed to optimise our business model and take risk, with the required controls, on an informed basis. To enable value to be created for our shareholders, we set varying risk tolerances and associated criteria. We accept risk and manage our risk universe on the following basis:

- **Strategic** – medium to low tolerance for risks arising from poor business decisions or sub-standard execution of business objectives.
- **Operational** – low to near-zero tolerance for risks arising from business processes including the technical, quality, and project management or organisational risk associated with programmes and products.
- **Corporate** – low to near-zero tolerance for compliance and reputational risks including those related to the law, health, safety and the environment.
- **Financial** – medium to low tolerance for financial risks including failure to provide adequate liquidity to meet our obligations and manage currency, interest rate and credit risks.

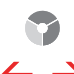
Principal risks and uncertainties

In accordance with the Group's risk management procedures, we have evaluated our risk disclosure and focused this report on the most significant risks. Financial risks associated with a multinational business, including foreign exchange are disclosed in the Chief Financial Officer's review on pages 34 to 40.

The risks outlined below, 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.

Change in risk in year

No change	← →
Higher risk	↑
Lower risk	↓

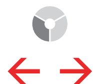
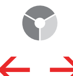
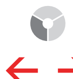
Risk	Description and impact	How we manage it
Strategic **Business model** 	Failure to respond to fundamental changes in our aerospace business model, primarily the evolving aftermarket. This includes more durable parts requiring less frequent replacement, a growing supply of surplus parts, OE customers seeking greater control of their aftermarket supply chain, accelerated pace of new aircraft deliveries leading to the earlier retirement of older aircraft and longer term development of indigenous Chinese aerospace manufacturing industry. Impact: *decreased revenue and profit*	• Establishment of dedicated customer-facing aftermarket organisation • Implementation of long-term customer agreements as part of maintaining and monitoring pricing strategy • Implementation of Meggitt Production System (MPS) in aftermarket operations • Investment in research and development to maintain and enhance Meggitt's intellectual property • Development of manufacturing strategy for products in China while building relationships with Chinese aerospace customers
Product demand 	Significant variation in demand for products should military, civil aerospace and energy business downcycles coincide, a serious political, economic or terrorist event take place or industry consolidation materially change the competitive landscape. Impact: *volatility in underlying profitability*	• Monitoring external economic and commercial environment and long-lead indicators whilst maintaining focus on balanced portfolio • Regularly communicating strategy to shareholders • Maintaining sufficient headroom in committed bank facilities and against bank covenants whilst implementing appropriate cost-base contingency plans
Technology strategy 	Failure to develop and implement meaningful technology strategies to meet customers' needs. Impact: *restriction of ability to compete on new programmes with consequent decrease in revenue and profit*	• Creation of technology roadmaps with customers and investment in applied research and technology • Focus on technology during Group strategy process • Recruiting first-class engineers with appropriate technology skills • Ring-fenced budgets focused on longer-term technology developments
Acquisition integration New	Failure to integrate effectively acquisitions and realise expected financial returns in line with business case. Impact: *decreased revenue and profit*	• Pre-acquisition due diligence performed internally and externally • Implementation of MPS as part of proven post-merger integration process led by incumbent divisional management, supported by experienced dedicated integration teams with a senior oversight committee
Operational **Quality escape/ equipment failure** 	Defective product leading to in-service failure, accidents, the grounding of aircraft or prolonged production shut-downs for Meggitt and its customers. Impact: *decreased revenue and profit, damage to reputation and operational performance*	• Implementation of well-developed verification, validation and system safety analysis policy and processes, combined with quality and customer audits and industry certifications • Implementing MPS across the Group • Implementation of 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*	• Implementation of supplier excellence framework following risk analysis and on-site assessments • Implementation of MPS combined with a programme lifecycle management process leading to step change in performance • Reorganisation of programme management to increase capability and focus on delivery and governance • Development of commercial function and engineering capability • Increased utilisation of low-cost manufacturing base

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.

Risk management continued

Risk	Description and impact	How we manage it
IT/systems failure 	Prolonged lack of availability of critical systems such as SAP due to badly-executed implementation or change control; poor maintenance, business continuity or back-up procedures; failure of third-parties to meet service level agreements; or cyber attack including failure to protect IP or other sensitive information. Impact: *decreased revenue and profits, damage to operational performance and reputation*	• Implementation of rolling programme of system upgrades (including SAP implementation) to replace legacy systems • Ongoing implementation of IT security strategy and enhancement of IT security infrastructure, policies and procedures • Establishment of Group-wide intellectual property protection programme • Review of existing systems, third-party service providers and risks, including resilience and disaster recovery processes, undertaking mitigating action where appropriate • Roll-out of deployment and architectural review processes
Supply chain 	Failure or inability of critical suppliers to supply unique products, capabilities or services preventing the Group from satisfying customers or meeting contractual requirements. Impact: *decreased revenue and profit, damage to reputation*	• Implementation of supplier excellence framework combined with integrated commercial and procurement approach to contractual terms and conditions including development of long-term agreements • Maintenance of buffer inventory for critical and sole-source suppliers • Implementation of measures to mitigate counterfeit and fraudulent parts at high-risk facilities
Project / programme management 	Failure to meet new product development programme milestones and certification requirements and successfully transition new products into manufacturing as production rates increase. Impact: *significant financial penalties leading to decreased profit, damage to reputation*	• Implementation of a programme lifecycle management process and engineering support applications, combined with enhanced internal review process to stress-test readiness to proceed at each stage of key programmes • Implementation of improved technology readiness and bid approval diligence methodology • Delivery of applied research and technology objectives in line with Group strategy • Incremental improvement in performance following MPS implementation and re-organisation of programme management to increase capability and focus on delivery and governance • Active participation in customer rate-readiness processes
Corporate **Legal & regulatory** 	Significant breach of increasingly complex trade compliance, bribery and corruption and ethics laws and violation of terms of Meggitt's 2013 Consent Agreement with 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 • Implementation of Board-approved trade compliance, ethics and anti-corruption policies • Roll-out of global trade compliance IT solution and import compliance programme • Regular monitoring by Ethics and Trade Compliance Committee, supported by ongoing trade compliance programme including external audits; and comprehensive ethics programme including training, anti-corruption policy, external audits and Ethics line
Financial **Taxation** New	Tax legislation is complex and compliance can be subject to interpretation. Legislation, including in response to the OECD BEPS programme, is subject to change which could negate the effectiveness of current, well-established, tax-efficient international structures used to finance acquisitions. Impact: *higher effective tax rates resulting in decreased profits*	• Monitoring international tax developments to assess implications of future legislation • Maintenance of a low-risk rating with UK HMRC and other tax authorities through open dialogue and, where possible, pre-agreement of arrangements to confirm compliance with legislation • Assessment of options to mitigate impact of legislative changes on the Group's effective tax rate

Group strategy

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.

Oversight of risk and internal control

The Board is responsible for risk management and 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 and Internal Control in carrying out their duties. 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. The 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 other policies are approved by Group functions;
- Process controls—for example financial controls including the Group Financial Policies and Procedures Manual, the bid approval process, programme management and execution, IT security and risk management. The risk management process, which enables the Group to identify, evaluate and manage the Group's principal risks was in place for 2015 and up to the date of approval of the Annual Report and has been regularly reviewed by the Audit Committee and approved by the Board; and
- The forecasting, budget and strategic plan processes.

The Group's programmes for insurance and business continuity form part of our risk management and internal control framework.

The following features allow the Group to monitor the effective implementation of policies 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.

To review the effectiveness of the system of internal controls, the Board and Audit Committee applied the following processes and activities in 2015 and up to the date of approval of the Annual Report:

- 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 Executive Director, Commercial and Corporate Affairs; 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 2016 budget;
- Written report to the Ethics and Trade Compliance Committee on the effectiveness of whistleblowing procedures; and
- Reports on insurance coverage and uninsured risks.

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 identified any significant failings or weaknesses in the Group's systems of risk management or internal control as a result of information provided to the Board and resulting discussions.

Viability statement

In accordance with provision C.2.2 of the 2014 Code, the directors have assessed the prospects of the Group over a period of five years from the balance sheet date (the Board having determined five years as the appropriate period for the reasons stated below), taking account of its current position and the potential impact of the principal risks set out above.

The Board selected the period of five years for the following reasons:

i) The Group's strategic plan covers an initial five-year period, with subsequent years modelled by extrapolating the trend in years three to five and thus inevitably are more uncertain.

ii) The investment cycle for a typical engineering development programme is up to five years.

iii) Although individual platforms operate for periods of 30 years or more, our five-year viability period aligns with the typical aerospace cycle; and

iv) The five-year viability period is consistent with the period over which we consider risks covered by the Group Risk Register.

In making this statement, the Board has reviewed and discussed the overall process undertaken by management and has:

- Considered the Group's current position and future prospects, the Group's strategy and principal risks and how these are managed as detailed in the Strategic Report;
- Discussed and agreed key assumptions in the stress testing model used by management;
- Assessed the likelihood of bank and other debt facilities continuing to be available to the Group as existing facilities mature over the next five years; and
- Assessed the outcome of the stress-testing, carried out using the Group's five-year strategic plan as the base case. The Group Risk Register was considered to determine those risks which could potentially pose the most significant threat to viability across the Group over this period and which should be modelled, including:
  - A significant market downturn, of greater magnitude than both the after effects of 9/11 and the global recession in 2008. The downturn was assumed to last for the full stress testing period, impacting both civil aerospace and energy, with military being unaffected (as history has shown);
  - A decline commensurate with losing one of our most significant customers, leading to a sharp loss of revenue across the full stress test period; and
  - A combination of these two scenarios to provide an indication of a plausible "worst case".

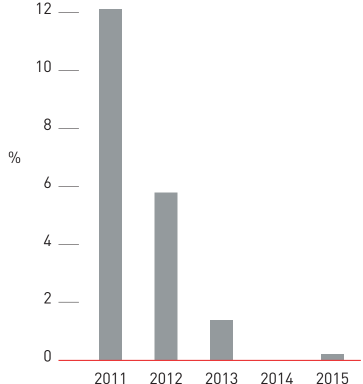
Based on the results of its review, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period of their assessment.

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 operating profit 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. As previously announced, and to align with the new profit measure used in the 2015 Short Term Incentive Plan (STIP), an underlying profit KPI has been introduced for 2015. It replaces the previously reported underlying profit before tax KPI. There have been no other changes to the KPIs used in the year or to how they are calculated.

Strategic objectives

Organic revenue growth



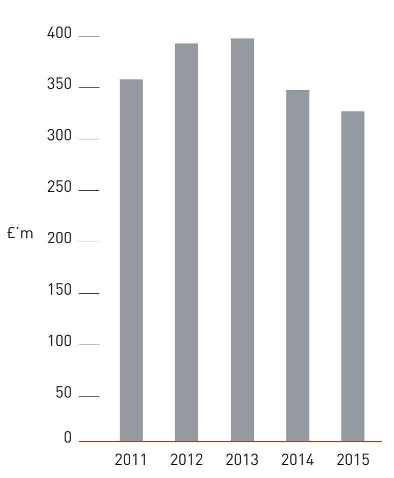
Definition and basis of calculation
Revenue growth calculated by measuring current and prior year revenue at constant currency, excluding revenue from any businesses acquired or disposed of in those periods. To measure revenue at constant currency, current year revenue is restated using translation and transaction exchange rates prevailing in the prior year. See page 35 for a reconciliation of organic revenue to statutory revenue.

Target
Low single digit in 2016. Ahead of end-market growth rates over the medium term.

Result
2015: 0.2% (2014: 0.0%). Compound annual growth rate (CAGR) achieved over last five years: 3.8%. See page 34 for details.

Directors' incentive plans
Organic revenue growth is a performance measure for the 2015 and 2016 Long Term Incentive Plan (LTIP). See pages 73 and 76 for details.

Underlying operating profit



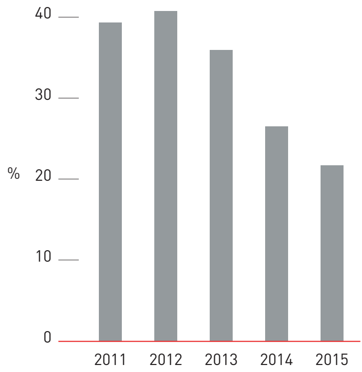
Definition and basis of calculation
Underlying operating profit is defined and reconciled to statutory measures in note 10 to the Group consolidated financial statements on page 110.

Target
We do not publish profit targets.

Result
2015: £325.5 million (2014: £346.0 million). See page 35 for details.

Directors' incentive plans
Underlying operating profit is a performance measure in the 2015 and 2016 STIP. For the purpose of these plans, actual and target underlying operating profit figures are measured at constant currency. See pages 71 and 76 for details.

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 to the Group consolidated financial statements on page 110. 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

To achieve an average return on trading assets of 20.9% over the next three years. The target recognises the need to continue to invest in trading assets during this elevated investment period in the aerospace cycle.

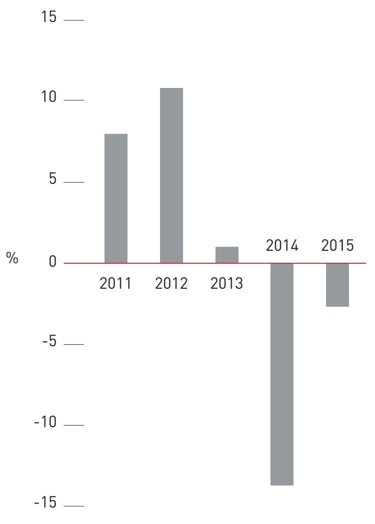
Result

2015: 21.7% (2014: 26.5%). Average achieved over last five years: 32.9%. See page 35 for details of the Group's operating profit performance in the year. See page 37 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 2015 and 2016 LTIP. For the purpose of these plans, underlying operating profit after tax and trading assets are measured at constant currency. See pages 73 and 76 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 defined and reconciled to statutory measures in note 15 to the Group consolidated financial statements on page 113.

Target

We do not publish profit targets. However, the proposed 2016 LTIP includes EPS targets equivalent to growth ranging from 4.0% to 9.0% per annum over the next three years.

Result

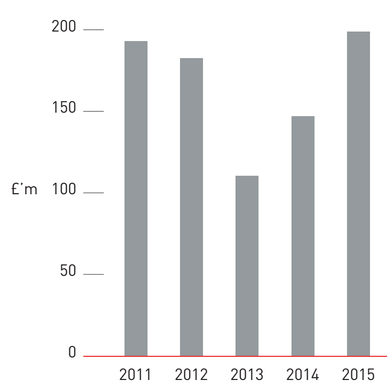
2015: -2.5% (2014: -13.6%). CAGR achieved over last five years: 2.0%. See page 36 for details.

Directors' incentive plans

Underlying EPS is a performance measure for the 2015 and 2016 LTIP. For the purpose of these plans, underlying EPS is adjusted to exclude an element of the benefit arising from any share buyback. See pages 73 and 76 for details.

Key performance indicators continued

Free cash flow



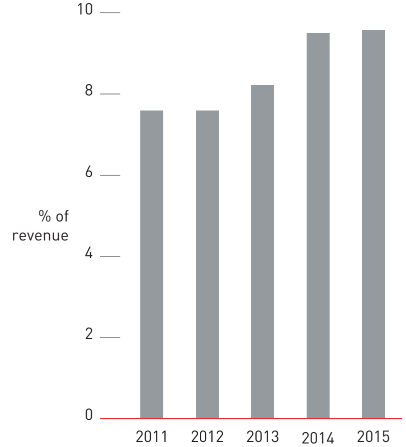
Definition and basis of calculation
Cash generated excluding amounts in respect of acquisition of businesses, disposal of businesses and payments to shareholders. Free cash flow is reconciled to statutory measures in note 40 to the Group consolidated financial statements on page 136.

Target
We do not publish free cash flow targets.

Result
2015: £199.0 million (2014: £146.8 million). See page 38 for details.

Directors' incentive plans
Free cash flow is a performance measure in the 2015 and 2016 STIP. For the purpose of these plans, actual and target free cash flow figures are measured at constant currency and exclude interest and tax. See pages 71 and 76 for details.

R&D investment



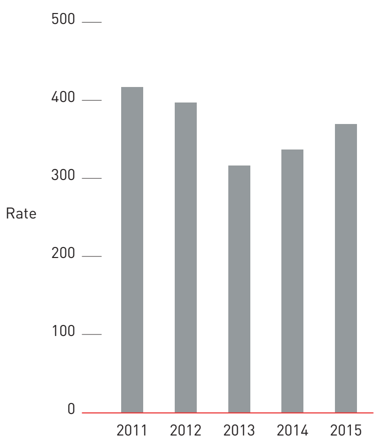
Definition and basis of calculation
Investment in research and development (R&D) expressed as a percentage of revenue. Investment is measured as total expenditure in the year and is not adjusted for amounts capitalised, amortised or incurred on contracts funded by customers.

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

Result
2015: 9.6% (2014: 9.5%). Average achieved over last five years: 8.5% reflecting high levels of investment in the last two years following the Group's high win rate on new aerospace platforms during a period of elevated growth for the industry. See page 37 for details.

Directors' incentive plans
R&D investment is not a specific measure used in directors' incentive plans. However, the 2015 and 2016 LTIP include measures focused on delivery of R&D programmes. See pages 73 and 76 for details.

Accident/incident rate



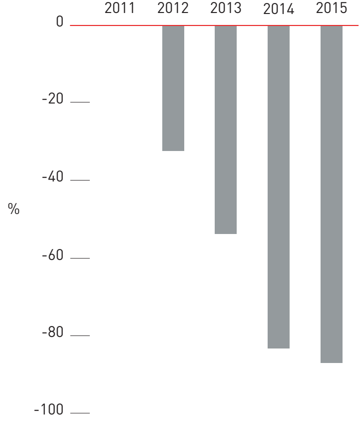
Definition and basis of calculation
The number of injuries reportable under local laws and regulations multiplied by 100,000 and then divided by the average employee headcount during the year.

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

Result
2015: 369 (2014: 337). See page 44 for details.

Directors' incentive plans
Health and safety performance is not a specific measure used in directors' incentive plans. However, during 2015 health and safety has been integrated into the Meggitt Production System ("MPS") and the 2015 and 2016 LTIP include measures focused on execution of MPS. See pages 73 and 76 for details.

Reduction in defective parts per million (DPPM)



Definition and basis of calculation
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 one million and then divided by the total number of parts delivered.

Figures include the results of disposed businesses up to the date of sale and 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.

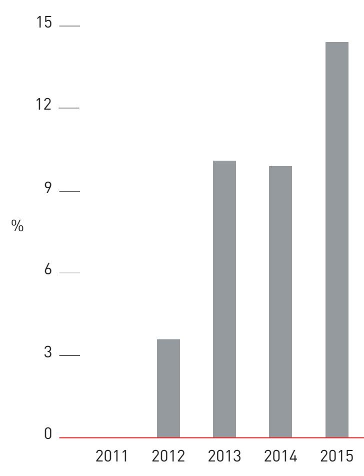
This KPI monitors the success of the Meggitt Production System.

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: 87% (2014: 84%). See page 37 for details.

Directors' incentive plans
DPPM is a performance measure for the 2015 and 2016 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 73 and 76 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. It is 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 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.

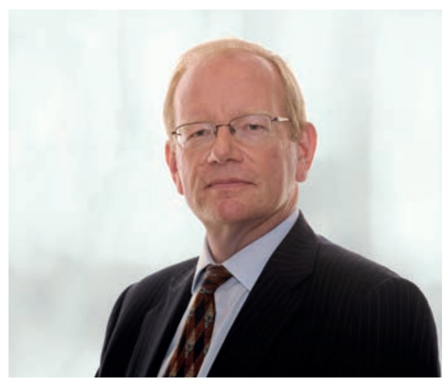
This KPI monitors the success of the Meggitt Production System.

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: 14% (2014: 10%). See page 37 for details.

Directors' incentive plans
On-time delivery is a performance measure for the 2015 and 2016 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 73 and 76 for details.

Chief Financial Officer's review



Overall performance

Organic revenue was flat in 2015, with the impact of 4% growth in civil original equipment (OE) and 3% growth in civil aftermarket (AM) being tempered by flat military revenue and a 20% decline in energy resulting from ongoing weakness in commodity prices. Underlying profit before tax decreased by 9% organically, with a 2% decrease in underlying EPS reflecting the benefit of the share buyback programme.

Financial highlights (Table 1)

	2015 £'m	2014 £'m	Reported growth %	Organic[4] growth %
Revenue	**1,647.2**	1,553.7	+6	0
Underlying[1]:				
EBITDA[2]	**414.5**	429.6	-4	-7
Operating profit	**325.5**	346.0	-6	-10
Profit before tax	**310.3**	328.7	-6	-9
Earnings per share (EPS)	**31.6p**	32.4p	-2	
Statutory:				
Operating profit	**236.6**	236.2	0	
Profit before tax	**210.2**	208.9	+1	
EPS	**23.2p**	22.0p	+5	
Free cash flow[3]	**199.0**	146.8	+36	+33
Net debt	**1,053.1**	575.5	+83	

1 Underlying profit and EPS are defined and reconciled to statutory measures in notes 10 and 15 respectively to 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 to the Group financial statements.
4 Organic growth excludes the impact of M&A and currency. See Table 3 for further details.

Revenue

Reported revenue increased by 6% to £1,647.2 million. Table 2 details the revenue performance by end market.

As expected, revenue benefited from foreign exchange and acquisitions during the year. Currency movements, reflecting the movement of Sterling against the Group's major operating currencies, contributed £68.9 million to reported revenue, represented by a £79.3 million increase from the strengthening US Dollar and Swiss Franc, partly offset by a weakening Euro. Acquisitions contributed a further £20.9 million to reported revenue. Organic revenue growth of 4% in civil aerospace and a flat performance in military, was offset by a decline in energy.

Total civil aerospace revenue grew 4% on an organic basis. Large jet OE, the most significant driver of our OE revenue, grew 4% driven principally by growth in narrow-body and A350XWB revenue, with regional aircraft up 5% and business jets up 11%. The aftermarket recovery seen during 2014 and the first half of 2015 slowed to 2% organic growth during the second half of 2015. Overall performance for the year, however, remained positive, with flat large jet aftermarket revenue, 4% growth in regional aircraft and 11% growth in business jets. The parting out of older aircraft, fuelled by a high retirement rate in recent years, has continued to impact our large jet aftermarket business, although actions currently being taken within the newly formed Customer Service & Support (CSS) organisation, including direct participation in the surplus parts market and seeking a greater share of maintenance, repair and overhaul work on our components, will partially mitigate the impact in future years.

Military revenue was flat on an organic basis, with strong growth in the first half of the year being offset by tougher comparators and the effects of Continuing Resolution in the US in the second half.

Energy revenue declined by 20% on an organic basis, driven principally by a 40% organic decline in Heatric, our printed circuit heat exchanger business, reflecting challenges in the global oil and gas market following the significant decline in the oil price over the last 18 months. Our energy condition monitoring revenues were broadly flat on an organic basis, while revenues in our MCS energy business grew organically by 18% reflecting strong demand for silicon-dioxide cables which facilitate signal transmission in safety-critical power applications. This growth was bolstered by the £15.1 million full-year revenue contribution from PECC, acquired in December 2014. We continue to expect headwinds in the energy businesses 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 2016 have been deferred, and it is likely that we will see further deferrals in the near future. We have taken significant action on costs within Heatric, while retaining the long-term capability of the business to respond when the market turns.

Meggitt's other specialist markets saw organic revenue growth of 6%, with growth in automotive and medical products offsetting a decline in ground fuelling system revenue.

Revenue growth (Table 2)

	2015 Revenue £'m	Growth %	Organic growth %
Civil OE	**326.0**	+8	+4
Civil AM	**482.7**	+10	+3
Total civil aerospace	**808.7**	+9	+4
Military	**570.2**	+6	0
Energy	**149.8**	-8	-20
Other	**118.5**	+8	+6
Total	**1,647.2**	+6	0

Organic growth (Table 3)

Revenue				Underlying profit before tax		
2015 £'m	2014 £'m	Growth %		2015 £'m	2014 £'m	Growth %
1,647.2	1,553.7	+6.0	Reported	**310.3**	328.7	-5.6
(20.9)	–		Impact of M&A[1]	**(0.4)**	–	
(68.9)	–		Impact of currency[2]	**(10.5)**	–	
1,557.4	1,553.7	+0.2	Organic	**299.4**	328.7	-8.9

1 Excludes the results of businesses acquired or disposed of during the current and prior year.
2 Restates the current year using 2014 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 £325.5 million (2014: £346.0 million), representing a margin of 19.8% (2014: 22.3%). The principal drivers of the margin decline included our Heatric business moving from a profit in 2014 to a small loss in 2015, adverse mix, primarily within civil, and continued expenditure on new product introduction. Within civil, organic OE growth outpaced that of AM, with particular weakness being seen in AM revenue associated with older aircraft where margins tend to be higher.

Underlying net finance costs decreased to £15.2 million (2014: £17.3 million) with the benefit of lower interest rates and the non-recurrence of a £1.8 million refinancing charge in 2014, partly offset by higher average debt due to the share buyback programme and acquisitions. The full year impact of both the buyback and the acquisitions will increase finance costs in 2016.

Underlying profit before tax was £310.3 million (2014: £328.7 million).

The underlying tax rate was 20% (2014: 21%), benefiting from a lower UK corporation tax rate and the release of provisions against historical tax uncertainties. The underlying tax rate is expected to increase to 23% from 2016, reflecting a growing proportion of revenue being generated in the US following the two recent acquisitions. Underlying earnings per share was 31.6 pence (2014: 32.4 pence).

On a statutory basis, profit before tax was £210.2 million (2014: £208.9 million), reflecting the favourable year-on-year impact of the marking to market of financial instruments (£24.4 million) offsetting lower underlying profitability. Earnings per share increased by 5% to 23.2 pence (2014: 22.0 pence), with the effect of the share buyback and the lower tax rate accounting for most of the improvement.

Operational performance

Meggitt Aircraft Braking Systems (MABS) provides wheels, brakes and brake control systems for around 34,000 in-service aircraft. It continues to develop innovative technology for new programmes enabling the business to retain its leading position in its target markets, underscored by the strong market share gains in recent years, notably on super mid-size and long-range business jets. 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 2% on an organic basis, with good growth in civil, both OE and AM, being partially offset by a 16% decline in military following the previously reported completion of the US B-1B and Taiwanese Air Force retrofit programmes. Regional aftermarket grew 5% driven by increases in fleet size and utilisation, and business jet aftermarket grew by 18%, with a particularly strong first half. Large jet aftermarket saw growth of 6% with strong DC10 spares revenue more than offsetting modest declines in MD80 and MD90. Operating margins declined from 39.0% to 37.3%, with unfavourable mix and the non-recurrence of the US retiree medical benefit in 2014 the principal contributors.

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 24% of Group revenue, generating 48% of its revenue from OE and 52% from the aftermarket.

For MCS, revenue was up by 3% on an organic basis. Civil aerospace declined by 1% overall, with 4% growth in OE being more than offset by a 4% decline in aftermarket, driven by weakness in large jets caused by the availability of surplus parts. Military revenue grew by 14%, primarily aftermarket, following a particularly weak 2014. Operating margins decreased from 26.3% to 24.4% driven by the mix effect of civil OE growth and civil aftermarket decline.

Meggitt Polymers & Composites (MPC) has a bias towards military, representing 56% of its revenue in 2015. 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 57% of its revenue from OE and 43% from the aftermarket. The recent acquisitions of the composites businesses of EDAC and Cobham plc are reported as part of MPC.

Chief Financial Officer's review continued

MPC revenue declined by 1% on an organic basis, with unchanged military revenues and weakness in civil aftermarket offsetting growth in civil OE. Operating margins declined from 12.4% to 8.7% due to high levels of up-front new product introduction expenditure ahead of production ramp-up on upcoming aircraft programmes over the next few years, and a weaker product mix.

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 and avionics suites 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 has a number of civil aerospace tyre pressure monitoring systems already in service and further systems under development, having secured positions for this technology on ten aircraft platforms. MSS represents 29% of Group revenue and generated 76% of its revenue from OE and 24% from the aftermarket.

MSS revenue grew 3% on an organic basis, with a modest decline in military and broadly flat energy revenue being more than offset by 3% growth in civil, largely OE, and strong growth in other markets including medical and automotive. Operating margins decreased from 16.8% to 15.2% reflecting adverse mix in the lower margin civil OE revenue stream and the non-recurrence of the favourable renegotiation of a loss-making contract in 2014.

Meggitt Equipment Group (MEG) comprises principally our non-engine actuation, dedicated military businesses and Heatric. The division represents 15% of Group revenue and generates 84% of its revenue from OE and 16% from the aftermarket.

Revenue in MEG declined by 10% on an organic basis. 5% growth in military revenue, driven by a strong performance in the training businesses, was more than offset by a 40% decline in Heatric resulting from reduced expenditure by oil and gas customers following the decline in the oil price. Operating margins decreased from 11.6% to 3.7% driven principally by the weakness in Heatric, which made a small loss in the year.

Taxation

Meggitt's underlying tax rate reduced to 20% (2014: 21%) as a result of the release of provisions against prior period tax uncertainties and reduction in the UK corporation tax rate. Our guidance is increased to 23% (2014: 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 5% (2014: 6%). 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.

Our statutory tax rate, which includes items reported below underlying profit before tax, was 13% (2014: 15%). Cash tax paid as a percentage of statutory profit was 7% (2014: 9%).

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 and our tax policy seeks to retain this low risk rating.

As for all companies, the Group is exposed to changing tax legislation in the territories in which we operate and, being multinational, also to international initiatives such as the current OECD Base Erosion and Profit Shifting project ("BEPS project"). The BEPS project published its recommendations at the end of 2015. Out of the 15 strands covered by the project, at least three could impact the Group depending on how territories take forward the BEPS recommendations and the final form of any legislation. These three strands are those covering hybrid mismatch arrangements, interest deductibility and transfer pricing/country by country reporting. The Group is currently monitoring these developments, participating in public consultations where appropriate, reviewing data collection systems and developing contingencies to mitigate the impact, should our existing arrangements be made ineffective.

Earnings per share (EPS)

Underlying EPS declined by 2% to 31.6 pence (2014: 32.4 pence). The EPS decline was lower than the reduction in underlying profit before tax due to the accretive nature of the share buyback programme and the reduction in underlying tax rate.

Statutory EPS increased by 5% to 23.2 pence (2014: 22.0 pence). The increase is higher than in statutory profit before tax

Operational performance (Table 4)

Revenue					Underlying operating profit			
2015 £'m	2014[1] £'m	Growth %	Organic growth[2] %		2015 £'m	2014[1] £'m	Growth %	Organic growth[2] %
353.1	327.0	+8.0	+2.0	Aircraft Braking Systems	**131.7**	127.5	+3.3	-0.9
397.9	348.7	+14.1	+3.0	Control Systems	**97.0**	91.8	+5.7	-0.3
177.4	162.3	+9.3	-0.6	Polymers & Composites	**15.4**	20.2	-23.8	-30.2
474.8	451.0	+5.3	+2.8	Sensing Systems	**72.3**	75.7	-4.5	-4.1
244.0	264.7	-7.8	-9.5	Equipment Group	**9.1**	30.8	-70.5	-72.7
1,647.2	1,553.7	+6.0	+0.2		**325.5**	346.0	-5.9	-9.6

[1] Restated for the change in segmental structure announced on 23 February 2015 and as described in note 6 to the Group financial statements.

[2] Organic growth excludes the impact of M&A and currency and is reconciled in Table 3.

due to the reductions in issued share capital as a result of the buyback programme and the reduction in the statutory tax rate.

Dividends

The Group's policy is to grow dividends broadly in line with underlying EPS over the cycle. The Board has recommended a final dividend of 9.80 pence (2014: 9.50 pence) which would result in a 5% increase in the full-year dividend to 14.40 pence (2014: 13.75 pence).

The Company has a balance on its profit and loss reserve at 31 December 2015 of £1.0 billion (2014: £1.1 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.

The dividend reinvestment plan, introduced in 2015, will be continued in 2016. It provides an efficient reinvestment option for shareholders, without the need for new shares to be issued by the Company.

Investing for the future

Targeted investment in technology development remains critical to our long-term organic growth. Total R&D expenditure in 2015 of £158.7 million was 9.6% of revenues (2014: £148.3 million, 9.5%), of which 17% (2014: 19%) was funded by customers. The charge to net operating costs including amortisation and impairment increased by 1% on an organic basis to £61.4 million (2014: £58.5 million).

Growth in R&D largely reflects our impressive win rate on new programmes during the last bid cycle, and the ongoing investment in new technology aligned to our customers' future technology requirements. A third of the expenditure was on new wheels and brakes programmes and over 40% focused on products for engines and engine accessories. These two categories support future revenue exceeding £10 billion. The balance was spread across a range of civil, military and energy programmes including a step-up in development costs in our training businesses in response to recent contract successes, which will start to have a meaningful impact on revenue from the end of 2016. R&D is expected to remain at elevated levels during 2016, supporting

Analysis of R&D expenditure (Table 5)

	2015 £'m	2014 £'m	Growth %	Organic[1] growth %
Total R&D expenditure	**158.7**	148.3	+7	+2
% of revenue	**9.6%**	9.5%		
Customer-funded R&D	**(26.8)**	(28.9)	-7	-10
Capitalised	**(84.8)**	(77.7)	+9	+3
Amortisation/impairment	**14.3**	16.8	-15	-18
Charge to net operating costs	**61.4**	58.5	+5	+1

[1] Organic growth excludes the impact of M&A and currency.

our medium-term revenue growth assumptions and increasing revenue security, particularly as the majority of the investment is on platforms where we have won sole-source positions. As the large number of aircraft programmes currently in development start to enter into service, we expect R&D investment as a percentage of revenue to start to decline. New product introduction expenditure associated with these platforms, which is expensed as incurred, will remain elevated for a period of time, which is good for future revenues but 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, decreased by 11% organically reflecting completion of the B-1B retrofit programme in 2014. Growth is expected to resume in 2016 and beyond as deliveries of aircraft equipped with our wheels and brakes increase, which in turn will drive aftermarket revenue stretching out for decades. Our market share of wheels and brakes on the fleet of super mid-size and large business jets in 2015 was 65%, 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 £55.4 million (2014: £42.2 million). This includes investments in additional furnace capacity in MABS and capacity increases in the MCS North Hollywood and MPC Rockmart facilities. While significant, the 27% organic increase in capital expenditure was off a very low base from 2014 and was less than originally expected, reflecting the cancellation of investment in additional capacity at Heatric and the cash impact of some capital commitments slipping into 2016. Capital expenditure will accelerate in 2016, including the impact of deferrals from 2015 and additional capacity requirements at the recently acquired composites businesses ahead of delivery growth of some key platforms including A320neo and 737MAX.

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 now been launched at all of our major manufacturing sites, and will be rolled out across the additional composites sites acquired during 2015 as part of the integration activities. As at the end of 2015, two sites have exited the third stage - the point at which we expect to start to see meaningful improvements in financial performance – and we expect further maturity of the programme during 2016. Meanwhile, the functional roll-out of the programme beyond operations is well under way.

We have already seen some significant improvements in quality and delivery since inception, with defective parts per million down 87% and on-time delivery up by 14%. This sustained improvement is recognised and appreciated by our customers, and has been instrumental in the Group having received 12 supplier awards from a number of different customers during the year. Given the demonstrable success we have seen internally, we have accelerated the planned deployment of the key tools and

Chief Financial Officer's review continued

competencies to long-term partners in our supply chain.

Cash flow and borrowings

Free cash flow of £199.0 million (2014: £146.8 million) represents a 36% year-on-year improvement despite the reduction in profit and continued high levels of investment to support future growth. This was driven by strong working capital management, enhanced by higher cash receipts at Heatric as projects were completed.

The net cash outflow of £431.4 million (2014: inflow of £21.1 million) reflects M&A activity totalling £363.2 million, principally the acquisitions of two composites businesses, and the share buyback totalling £146.4 million (2014: £33.7 million). The cash dividend payment also increased to £111.1 million (2014: £51.4 million) following the withdrawal of the scrip dividend option.

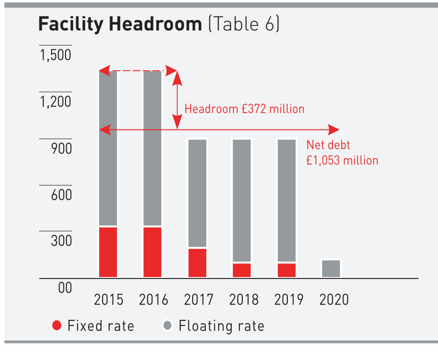
Debt structure and financing

The Group's borrowings comprise a combination of US private placement debt and syndicated and bilateral bank credit facilities. During the year, and as provided under the facility agreement, the Group requested a one year extension of its USD900 million committed revolving credit facility. This request was approved by all of the participating banks and accordingly the facility now matures in September 2020. There is one further option year under the facility agreement, which the Group would expect to exercise, subject to bank approval.

To fund the acquisition of the composites businesses of Cobham plc and EDAC, the Group agreed two new two-year USD300 million bilateral credit facilities with each of Bank of America and HSBC, maturing in September 2017. The terms of these facilities are substantially similar to the existing USD900 million revolving credit facility with the exception of margins, fees and duration which are more typical of bridge finance arrangements. We will be assessing the capital markets in 2016 with a view to refinancing the bilateral facilities on a longer term basis.

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

At 31 December 2015, the Group had undrawn committed credit facilities of £372 million after taking account of surplus cash (2014: £431 million).



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 organically to accelerate the Group's growth and investing in the acquisition of complementary businesses that will enhance our offering to customers and deliver enhanced returns to shareholders.

The Board believes that in maintaining an efficient balance sheet with appropriate covenant headroom and investment capacity, a net debt/EBITDA ratio, as measured on a bank covenant basis, of between 1.5x and 2.5x is appropriate, whilst retaining the flexibility to move outside the range if appropriate.

In November 2014, with a net debt/EBITDA ratio of 1.3x and a relative lack of sizeable acquisition opportunities meeting our strict investment criteria, the Group commenced a share buyback programme. Following the announcement of the acquisitions of the two composites businesses, the Group suspended the share buyback programme in September 2015. At 31 December 2015, the Group had a net debt/EBITDA ratio of 2.3x.

During 2015, the Group purchased 28.3 million shares at an average share price of 512.90 pence and a cost of £146.4 million under the buyback programme. With the exception of 1.5 million shares retained in treasury, shares purchased under the programme in the year were cancelled. The total number of shares purchased under the buyback programme, from its commencement in November 2014 to its suspension, was 35.2 million at an average share price of 508.54 pence, with a total of £180.1 million of capital returned to shareholders.

Debt financing risks

The Group seeks to minimise debt financing risk as follows:

a. Concentration of risk

We raise funds through private placement issuances and 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 18% 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, HSBC, Bank

Movements in net debt (£'m) (Table 7)

	2015	2014
Underlying EBITDA	**414.5**	429.6
Working capital inflow/(outflow)	**29.8**	(36.3)
Post retirement benefit deficit reduction payments	**(24.4)**	(29.3)
Cash flow from operations before exceptional and M&A costs	**419.9**	364.0
Exceptional operating costs	**(10.7)**	(16.6)
Interest and tax	**(31.3)**	(34.7)
Capitalised development costs/programme participation costs	**(123.5)**	(123.7)
Capital expenditure	**(55.4)**	(42.2)
Free cash flow	**199.0**	146.8
Net investment in M&A including costs	**(363.2)**	(29.1)
Dividends	**(111.1)**	(51.4)
Share buyback/Purchase of own shares	**(156.1)**	(45.2)
Net cash flow	**(431.4)**	21.1
Net debt acquired with businesses	**(6.3)**	–
Currency movements	**(39.6)**	(24.7)
Other non-cash movements	**(0.3)**	(7.3)
Opening net debt	**(575.5)**	(564.6)
Closing net debt	**(1,053.1)**	(575.5)

of China, Barclays, BNP Paribas, Crédit Industriel et Commercial, JP Morgan, Bank of Tokyo-Mitsubishi and Sumitomo Mitsui Banking Corporation. We seek to maintain at least £100 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)

	2015	2014
Sterling	**(33.6)**	(17.7)
US Dollar	**1,064.7**	545.8
Euro	**36.4**	42.4
Swiss Franc	**(6.8)**	12.0
Other	**(7.6)**	(7.0)
Net debt	**1,053.1**	575.5

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	2015	2014
Net debt/EBITDA	<3.5x[1]	**2.3x**	1.2x
Interest cover	≥3.0x	**21.4x**	20.8x

[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 and bilateral 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 generally maintain at least 25% of net debt at fixed rates with a weighted average maturity of two years or more. At 31 December 2015, the percentage of net debt at fixed rates was 23% (2014: 48%) and the weighted average period to maturity was 2.9 years (2014: 4.5 years for the first 25%). The floating rate bilateral bank credit facilities taken out to fund the acquisitions in the year, resulted in a reduction in the proportion of net debt at fixed rates to below 25%. It is the intention to seek to refinance this floating rate debt with fixed rate debt. At the same time as the new bilateral facilities were taken out, the Group entered a USD200 million treasury lock to secure current market interest rates for future fixed rate financing.

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)

	2015	2014
Average translation rates against Sterling:		
US Dollar	**1.53**	1.63
Euro	**1.38**	1.24
Swiss Franc	**1.47**	1.51
Average transaction rates:		
US Dollar/Sterling	**1.57**	1.54
US Dollar/Euro	**1.36**	1.30
US Dollar/Swiss Franc	**1.08**	1.08
Year-end rates against Sterling:		
US Dollar	**1.47**	1.56
Euro	**1.36**	1.29
Swiss Franc	**1.48**	1.55

The results of overseas businesses are translated into Sterling at weighted average exchange rates. Compared to 2014, the Group's underlying profit before tax for the year benefited by £12.6 million from currency translation including a favourable impact of £13.6 million relating to US Dollar denominated profits partly offset by an adverse impact on other currencies.

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

	Revenue	PBT[1]
Impact of 10 cent movement[2]:		
US Dollar	**70.0**	**15.0**
Euro	**9.0**	**1.0**
Swiss Franc	**7.0**	**2.0**

[1] Underlying profit before tax as defined and reconciled to statutory measures in note 10 to the Group financial statements.
[2] As measured against the 2015 average translation rates against Sterling set out in Table 10.

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 2014, the Group's underlying profit before tax for the year was adversely impacted by £2.1 million from currency transaction movements, including an adverse impact of £1.2 million relating to US Dollar/Sterling exposure. Each ten cent movement in the US Dollar against the average hedge rates achieved in 2015 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.

Transaction hedging in place (Table 12)

	Hedging in place[1] %	Average transaction rates
2016:		
US Dollar/Sterling	**89**	**1.56**
US Dollar/Euro	**100**	**1.21**
US Dollar/Swiss Franc	**96**	**1.06**
2017 - 2020 inclusive:		
US Dollar/Sterling	**70**	**1.50**
US Dollar/Euro	**70**	**1.19**
US Dollar/Swiss Franc	**50**	**1.05**

[1] Based on forecast transaction exposures and hedging in place at 22 February 2016.

Chief Financial Officer's review continued

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 reduced to £239.1 million (2014: £271.0 million). Drivers of the movement in net deficit included:

- A reduction of £32.6 million (2014: Increase of £124.6 million) due to remeasurement gains on scheme liabilities. The main cause of the increase was an increase in the rates used to discount scheme liabilities in the UK and US. 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 increased by 25 basis points in the UK and 35 basis points in the US from the 10 year low yields at the end of 2014. There has also been a modest reduction in UK liabilities from experience gains arising from the 2015 actuarial valuation. These gains were partly offset by reduction in the rate used to discount Swiss liabilities.
- An increase of £7.2 million (2014: reduction of £30.9 million) due to remeasurement losses on scheme assets, principally driven by volatility in equity markets.
- An increase of £9.5 million (2014: £7.8 million) arising from net interest expense on the deficit.
- Net deficit reduction payments of £22.4 million (2014: £27.8 million).

  Regulations in the UK and US require repayment of deficits over time. In the UK, the Group is currently 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. In the US, the level of deficit payments is principally driven by regulations. Amounts required to be paid in the US reduced in the year, as expected, reflecting the impact of new legislation implemented in the latter part of 2014 and are expected to fall further in 2016, before increasing from 2017.

  Overall, the Group would have expected deficit contributions to reduce to £20.8 million in 2016 based on the existing 2012 deficit reduction agreement with the UK trustees and absent further regulatory changes in the US. The April 2015 UK triennial valuation is however, approaching completion and discussions have commenced with the trustees over a revised recovery plan to address the increase in deficit of approximately £70.0 million since the previous valuation. Additional payments to address this deficit will likely start in quarter 2 of 2016, once the recovery plan is agreed with the trustees.

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 £45.4 million (2014: £46.8 million). Deficit payments during the year were £2.0 million (2014: £1.5 million).

Doug Webb Chief Financial Officer

Defined benefit pension scheme summary (£'m) (Table 13)

	2015	2014
Opening net deficit	**271.0**	189.8
Service cost	**14.5**	11.9
Group cash contributions	**(36.9)**	(39.7)
Deficit reduction payments	**(22.4)**	(27.8)
Other amounts charged to income statement[1]	**11.1**	10.3
Remeasurement losses/(gains)—schemes' assets	**7.2**	(30.9)
Remeasurement (gains)/losses—schemes' liabilities	**(32.6)**	124.6
Currency movements	**4.8**	5.0
Closing net deficit	**239.1**	271.0
Assets	**794.1**	761.1
Liabilities	**1,033.2**	1,032.1
Closing net deficit	**239.1**	271.0
Funding status	**77%**	74%

1 Comprises past service amounts, administration expenses borne directly by schemes and net interest expense.

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 to support the communities in which we operate.

Policy

We are committed to:

- Upholding sound corporate governance principles;
- Upholding our employees' human rights;
- Encouraging dialogue with employees;
- Professional and comprehensive employee training programmes;
- Supporting our local communities;
- 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; and
- Improving our financial, social and environmental performance.

Action

For our stakeholders this means:

- Complying with relevant national laws and regulations;
- Supporting the Ten Principles outlined in the United Nations Global Compact on Human Rights;
- Providing a supportive, rewarding and safe working environment;
- Delivering comprehensive training for employees;
- Developing state of the art communication and collaboration tools;
- Modern, safe and efficient operational practices;
- Contributing to the social and economic enrichment of local communities, focusing particularly on activities related to education;
- Effective risk identification and mitigation across all areas of the business;
- Conducting independent audits in compliance areas; and
- Robust internal and external reporting and controls and ensuring financial probity.

Corporate responsibility continued

Governance and compliance

In 2015, the Board approved a revised Corporate Responsibility Policy to align it further with ISO 26000 and to confirm our commitment to uphold our employees' human rights and our support for the Ten Principles outlined in the United Nations Global Compact. The revised policy highlighted our commitment to working with and supporting local schools, colleges, universities and other education initiatives. The updated policy is published on our website, together with Board-approved policies on health and safety, environment, ethics and business conduct, anti-corruption and trade compliance.

The Board is responsible for implementation and performance of the Corporate Responsibility Policy. On a day-to-day basis, the Executive Director, Commercial and Corporate Affairs has functional responsibility for corporate responsibility (CR) matters on behalf of the Chief Executive, including ethics and business conduct, trade compliance and charity and community activity. The Group Operations Director has functional responsibility for health, safety and environment on behalf of the Chief Executive. Divisional presidents and site directors are responsible for implementing our policies and procedures locally. The Group is committed to providing the support needed to ensure our facilities can fulfill the requirements outlined in our policies.

Activity in 2015

Environment

Meggitt continues to target high levels of environmental performance throughout our businesses based on global standards and procedures. 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 audits of environmental management systems and practices.

Our global environmental audit programme, supported by external consultants, includes a comprehensive review of applicable regulatory requirements. In 2015, our environmental audit programme, supported by external consultants, was integrated with our health and safety audit programme and the audits included a comprehensive review of applicable regulatory requirements as well as site compliance against industry best practice standards. In total, ten sites were audited in 2015.

All our manufacturing facilities are required to obtain the ISO 14001 standard. At the end of 2015, all had achieved certification, except our new acquisitions which are currently setting out their plans to achieve certification.

Performance

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

Our overall performance in 2015 reflects the challenges we face reducing Greenhouse Gas Emissions (GHGs) arising from the significant energy consumption demands associated with our carbon brake manufacturing processes at Meggitt Aircraft Braking Systems (MABS). The carbon densification process requires large amounts of electricity and natural gas due to high processing temperatures over lengthy cycle times. Primarily due to a significant increase in carbon production in 2015, our GHG emissions remained relatively flat as shown in Table 1 below.

This is also reflected in our performance against the five-year targets for electricity and natural gas consumption (Table 2). It will be challenging for us to achieve the targets by the end of 2016.

Excluding MABS, the Group would have achieved a 4% reduction in GHG emissions on an absolute basis and a 6% reduction in GHG emissions normalised to revenue. We are evaluating new strategies and technologies which should enable us to reduce absolute GHG emissions from MABS, including the use of cogeneration and new renewable energy technologies such as fuel cells.

In 2015, we announced new targets for the reduction of GHG emissions across the Group. Excluding MABS, we have set an aggressive target to reduce our GHG emissions by 25% relative to revenue over a ten-year period using 2015 as the baseline year. For MABS, we have set a separate 2016 GHG ceiling efficiency target of 138 kilogrammes of GHGs emitted per kilogramme of carbon produced. This separate target is necessary due to the difficulties in reducing electricity and natural gas consumed during the carbon brake manufacturing process. The ceiling target is based on analysis of data gathered over prior years that shows this to be the maximum amount of carbon brake material that could be produced when the carbon furnaces run at peak efficiency.

Environmental metrics[1] (Table 1)

	2015	Change	2014
Utilities			
Electricity—gWh	201		201
MWh per £m	**126**	-1%	127
Natural gas—gWh	203		190
MWh per £m	**127**	+6%	120
Greenhouse gas emissions (CO_2e)[1]—tonnes	132,074		131,897
Tonnes per £m	**82.7**	-1%	83.5
Waste—tonnes	12,098		12,200
Tonnes per £m	**7.58**	-2%	7.72
Water—cubic metres	711,385		722,200
Cubic metres per £m	**446**	-3%	457

[1] Metrics per £m are calculated using revenue converted at constant exchange rates. Greenhouse gas emissions (GHG) are calculated using conversion factors published in the 2014 and 2015 Guidelines to DEFRA/DECC's GHG Conversion Factors for Company Reporting. Emissions from overseas electricity are in CO_2 only (not CO_2e).

Targets (Table 2)

	Baseline year	Performance period	Target improvement over performance period	Achieved as at 31 December 2015
CO_2 emissions	2015	1 January 2016 – 31 December 2025	-25%	N/A
Electricity	2011	1 January 2012 – 31 December 2016	-15%	+10%
Gas	2011	1 January 2012 – 31 December 2016	-15%	-5%
Water consumption	2011	1 January 2012 – 31 December 2016	-10%	-8%
Waste to landfill	2011	1 January 2012 – 31 December 2016	-10%	-9%
Waste recycled	2011	1 January 2012 – 31 December 2016	+10%	+6%

Meggitt recycles an estimated average 100,000 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. As a result of these efforts in 2015, we continued to decrease our water consumption despite increased water used at the MABS UK facility during the carbon manufacturing process and significant leaks which were resolved in the water supply at one site. Decreased production demands at some UK facilities and water restrictions implemented in response to drought conditions in California contributed to the overall decrease in water consumption in 2015. We are on track to meet our five-year target for reduction in water usage.

We continued to decrease the amount of waste generated in 2015 with the conclusion of consolidation, demolition and construction projects that began in 2014. Our facilities continued to improve their recycling efforts in 2015 by identifying waste recycling vendors for items such as cardboard and waste carbon material. As a result, we increased our waste recycled by 13% and decreased our waste to landfill by 9% in 2015 compared to 2014. We are on track to meet our five-year target for increases in recycled waste and reduction of waste to landfill.

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.

GHG emissions[1] data (Table 3)

	2015 Tonnes of CO_2e	2014[2] Tonnes of CO_2e
Combustion of fuel and operation of facilities[3]	**37,796**	35,693
Electricity, heat, steam and cooling purchased for own use	**94,278**	96,204
	132,074	131,897
Intensity measurement:		
Emissions reported above, normalised to tonnes per £m revenue	**82.7**	83.5

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 2014 numbers have been restated to the updated 2014 DEFRA/DECC 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.

Career-long learning

Encouraging employees to take on new challenges is a key principle across the Group. There are numerous initiatives but one of the most successful is the tuition reimbursement programme at Meggitt Aircraft Braking Systems (MABS).

It grew more than 50% in 2015, with USD200,000 paid in fees for 32 employees studying postgraduate qualifications in areas such as law, engineering, project management and business.

Doug Moseley, VP of Applied Research and Technology, used the scheme 20 years ago to complete a Masters in engineering and is now using it to help finance a law degree.

"I was spending more and more time dealing with intellectual property in my role and found the legal aspects fascinating. The degree is demanding—20-30 hours a week—but it's food for the mind and it's very useful in my work. Patents can cost USD150,000 during their lifespan so the question of whether to file is not taken lightly."

"The R&D—in areas like quiet carbon braking—is also expensive but it could give us a strong competitive edge. The more I understand the legal issues, the better I can steer our decision making. And once I'm fully qualified, there are opportunities at division and Group level to get more involved with legal. I'm very excited about this next stage in my career."

The programme has also proved a good recruiting tool. One of the reasons Programme Manager Jennifer Flowers joined MABS was to study for a Masters in engineering management.

"The scheme covered 70% of the fees and my manager was very supportive throughout. It's broadened my horizons and opened a lot of doors for me."

"The degree was very much rooted in aerospace so my industry knowledge expanded rapidly. And there were classes in finance, project management and systems engineering alongside the main management component."

"It qualified me to take a certificate in project management too which, in turn, led to a promotion. I've put a lot of my learning into practice since, developing templates and tools to streamline processes at MABS within programme management."

Corporate responsibility continued

We had a slight increase in our absolute GHG emissions in 2015 and our GHG emissions relative to revenue remained relatively static due to the increases in electricity and natural gas consumed at MABS facilities. The rest of the Group achieved a reduction in absolute GHG emissions through site consolidations and relocation to newer, more energy efficient properties.

Saving energy
In 2015, our facilities continued to focus energy reduction initiatives on improving facility lighting, replacing older, inefficient equipment and upgrading building insulation. Improvements included:

- Ongoing lighting upgrade projects at many facilities resulting in reductions of approximately 55% of the energy used in previous lighting;
- Installation of variable speed drive compressors resulting in 10% electricity consumption savings;
- The carbon refurbishment programme at MABS continues to expand with over 6,000 carbon discs reused and refurbished in 2015. The reduction in process time saved 3,486 tonnes of CO_2 that otherwise would have been emitted (representing approximately 5% of MABS overall CO_2 emissions); and
- Recladding of building insulation at a UK facility resulting in increased heating and cooling efficiencies.

In 2015, Meggitt UK facilities representing 90% of our UK energy consumption conducted energy efficiency audits under the Energy Savings Opportunity Scheme (ESOS) requirements. Recommendations were made from the audits and our facilities are assessing their feasibility. Many of the recommendations are being shared beyond the UK in similar operations, providing further opportunities for energy reduction initiatives.

We continue to actively investigate 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 identify suitable alternatives. We participate in aerospace industry trade groups in the United States and Europe involved in researching replacements for hexavalent chromium used in common aerospace manufacturing applications.

Obsolescence
Our Obsolescence Review Board 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

As a Group, we strive to ensure our employees can work safely and live healthy, productive lives by actively promoting policies and programmes that help individuals safeguard themselves, their co-workers and visitors. We have integrated health and safety into our Meggitt Production System (MPS) by driving standard safe work in every facility, product line and operation plan. Our *safety first* culture is reinforced in safety reviews of every production cell as part of the MPS daily layered accountability (DLA) daily management cycle (see People and Culture, page 24). Our guiding philosophy is that since all accidents and injuries are preventable, our ultimate goal can be zero accidents and injuries. In 2015, we continued to implement measures to improve safety in the workplace, including:

- Regular external health and safety audits, which monitor site compliance with laws. These audits were integrated with our environmental audits from 2015;
- A revised scoping of internal compliance audits to include a review of site adherence to Meggitt Health and Safety Procedure (MHSP) and process documents incorporating the best industry-recognised safety practices;
- Group-wide online health and safety awareness training for all employees;
- Implementation of a behavioural health and safety programme at four facilities in 2015, with the requirement for facilities to build such programmes into the MPS process;
- Health and safety provisions built into the MPS process, allowing facilities to continuously improve on their health and safety performance;
- Continued dissemination of information and best practice through intra-Group health, safety and environment (HSE) conferences, health and safety alerts and all-employee safety bulletins;
- Roll-out of a MHSP for safe industrial lift truck operation and process documents for safety when working with hexavalent chromium or hydrofluoric acid across the Group; and
- Roll-out of a HSE topic of the week for discussion at the DLA reviews held in every production cell.

As a result of these measures great progress was made on our safety metrics across the Group, with a 20% decrease in days lost due to injury and lost time cases reported. We achieved a 37% decrease in the Occupational Safety and Health Administration (OSHA) recordable incident rate across our US sites. Since 2009 we have achieved a 72% decrease in the OSHA recordable incident rate at our US facilities.

Although we made progress in 2015, our total reportable incidents and associated incident rate increased (see Table 4). The increase is due primarily to incidents that occurred at three of our overseas facilities accounting for 65% of all reportable incidents. Some of those incidents involved first aid only which did not result in any lost time from work, and some, although not work related, were required to be reported to the local government

Reportable accidents and incidents (Table 4)

	2015	Change	2014
Reportable accidents and incidents[1]	**40**	+11%	36
Reportable accident/incident rate[2]	**369**	+9%	337

[1] Reportable accidents and incidents are those directly reportable to a regulatory authority.
[2] Accident/Incident rates are the number of reportable accidents/incidents per 100,000 employees.

authorities under applicable laws and regulations. We have implemented measures including behaviour-based safety training at these sites as part of our goal to achieve zero incidents, including reportable cases at any site.

In 2015, we modified the criteria used in our Meggitt Safety Star award programme to include accident prevention measures through leading indicators as a measure of improved health and safety performance. During the year, 91% of our manufacturing facilities achieved at least a Meggitt Gold Safety Star award. Of those, 18 facilities achieved a Platinum Safety Star, the highest level of achievement that can be awarded within the programme.

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 2015, we provided training across the Group on the following topics: 'Crack the Code: Maintaining Integrity;' 'Anti-Bribery Principles;' and 'Professional Behaviour: Mutual Respect.' We held two in-house ethics conferences in the UK and US, where facility-based ethics coordinators participated in live training on new directions for the business and reinforced the importance of the Ethics Programme. During the year, we published and distributed our new Ethics Guide in seven languages to all employees and directors. The Guide is available on our website. We also launched a Gifts Register to track gifts and hospitality given and received.

We have a highly-developed trade compliance programme, based on guidelines issued by the regulatory authorities and the Nunn-Wolfowitz Task Force Report of 2000 (the influential report on export compliance best practice). During 2015, 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 facilities in the US and the UK.

Local communities and charitable donations

Meggitt has a policy which underpins our approach to charitable giving and charitable sponsorship which was approved in 2014. We are committed to being good corporate citizens, and continue to support the communities in which we operate. Yearly reports reveal the exceptional generosity of many employees who give time and money to a wide range of national and local initiatives. Activity in 2015 included:

- 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

Training the next generation

When 22-year-old Benjamin Broch from our Fribourg facility came to Meggitt's UK Data Centre to train the IT team on a new set of tools, they were surprised at his age. Once the session was over, they were even more surprised at how much he knew.

"I did start working at Meggitt when I was 15," he smiles. "Apprentices get a good head start."

Ensuring there are enough skilled young people who have had the chance to develop their practical talents is as important for Meggitt's future as it is for society in general.

Each year about ten teenagers join Meggitt Sensing Systems' apprenticeship scheme in Switzerland, specialising in one of five areas: electrical or mechanical engineering, IT, commercial and logistics. The three or four-year programme combines rigorous on and off-the-job training at Meggitt with as many as eight academic subjects at school.

Second-year apprentice Daniel Fonseca is rotating through the key engineering departments this year and will specialise over the next two years. Having moved from Portugal only three years ago, he spent an additional year at school to build up his language skills and get to grips with the Swiss curriculum.

This year, in addition to spending time in production, quality control, maintenance and prototyping to learn the basics, he has had the opportunity to design and build assembly stands for his colleagues in operations.

"I chose Meggitt because it's global and it's a technology leader. That means I can practice my languages here and I get to train on machines that many of my classmates don't get access to. There's

a lot of opportunity but that means expectations are high too. You've got to get the work done."

Combining theory and practise in a commercial setting from a young age not only helps apprentices get a head start. Once they're finished, they're also ready and willing to train the next in-take.

"My time is now split 80/20 between Group and Fribourg projects," says Benjamin. "I was an apprentice not long ago so when it comes to training, I know what's helpful to pass on and when."

Corporate responsibility continued

engagement in local community activities and initiatives designed to improve education, financial stability and health care for local families. In 2015 our businesses raised over USD200,000.

- For more than a decade, our MPC facility in Rockmart, Georgia has held an annual toy donation drive for needy children in local communities. Through these donations, hundreds of children have received toys during the holiday season. Similar "Toys for Tots" drives have been held annually at several of our other US facilities.
- MABS Akron US Women in Leadership group won the Corporate Service Award "Champions for Children" given by the local county children's services organisation for their leadership and participation in community charitable events during the year including raising funds for over 200 Easter baskets for under-privileged children in the last five years.
- Our Piher facility in Spain held two fund raising events involving employees which resulted in 2,000 Euros being donated to a local food bank. Some 6,000 Euros were donated to the School CPI-ETI to equip a new technology classroom with new computers in recognition of its collaboration with Piher over several years to provide engineering and technical education.
- Meggitt PLC has for many years funded annual excellence awards for staff at the local Poole Hospital NHS Foundation Trust and during 2015 our Executive Director, Commercial & Corporate Affairs joined its Board. Meggitt PLC regularly supports the Dorset Community Foundation, a provider of donor advisory and grant services which acts as an advocate at national and regional level for Dorset's voluntary sector, and Julia's House, a children's hospice charity in Dorset dedicated to helping life-limited children and their families across Dorset and Wiltshire.

Although our Policy allows a broader range of charitable activity, the Group's priority is to support charities or community organisations which focus on education initiatives. The Arkwright Scholarships and Akron bursary apprentice programmes are highlighted elsewhere in this report. Other activities include:

- The Royal High School in California has an arrangement with our corporate office in Simi Valley to provide interns in support of the Regional Occupational Program. Each year, at least one student from that secondary school spends eight hours a week at the Meggitt-USA office, learning about business and undertaking specific projects that earn academic credits towards graduation.
- Our facility in McMinnville, Oregon, driven by a shortage of skilled manufacturing labour in the community and surrounding area, set up a manufacturing training programme at the local high school, engaging with local business, community leaders and the McMinnville Economic Development Partnership. Meggitt devised a training syllabus with the school, donated equipment for student training and trained the high school manufacturing shop teacher.

Our employees

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 59).

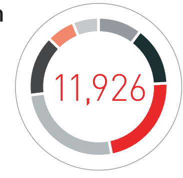
Table 6

Level	% of females at 31 December 2015	Number of females	Number of males
Board of Directors	22%	2	7
Group Executive Committee	14%	2	12
Senior executives	9%	24	252
All employees	28%	3,324	8,602

Analysis of employees (Table 5)[1]

Employees by division

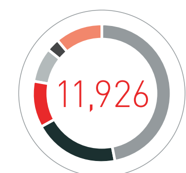
Number of employees



Division	Number	%
Aircraft Braking Systems	1,322	11%
Control Systems	1,789	15%
Polymers & Composites	2,916	24%
Sensing Systems	3,373	28%
Equipment Group	1,755	15%
Cross-Group functions	771	7%

Employees by length of service (years)

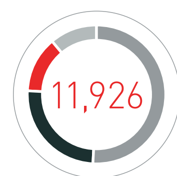
Number of employees

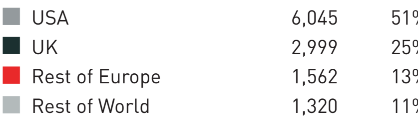


Length of service	Number	%
Less than 5	5,550	47%
Between 5 and 10	2,330	20%
Between 10 and 15	1,300	11%
Between 15 and 20	1,014	8%
Between 20 and 25	419	3%
Over 25	1,313	11%

Employees by region

Number of employees





Region	Number	%
USA	6,045	51%
UK	2,999	25%
Rest of Europe	1,562	13%
Rest of World	1,320	11%

[1] As at 31 December 2015.

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.

Our updated Policy included a new commitment to uphold our employees' human rights and support the Ten Principles outlined in the United Nations Global Compact, relating to human rights, labour, the environment and anti-corruption. We are reviewing our processes as a result of the recent modern slavery legislation enacted in the UK and expect to make the required statement in 2017 for the 2016 financial year.

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 formats 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, top-down strategy dissemination from the Chief Executive, 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 2015 Strategic report on pages 1 to 47 is hereby signed on behalf of the Board.

Stephen Young

Chief Executive
22 February 2016

Inspiring young engineers

Engineering has a long, proud history in the UK but with energy, aerospace, manufacturing and the technology sectors all playing a key role in the economy, the demand for young engineers outweighs the supply.

To help turn the tables, Meggitt joined leaders such as Thales, Korean firm Doosan and Lockheed Martin to mentor young engineers in partnership with the Arkwright Scholarships Trust, one of the UK's leading engineering education organisations. It works with more than 800 schools across the country to identify and inspire the next generation of engineers.

In 2014, graduate engineer Tom Newman started mentoring Calum Mills, one of three Arkwright teenagers Meggitt has worked with over the past two years.

"We spoke regularly on the phone and I helped organise work experience at Meggitt Aircraft Braking Systems. We set what I thought was a tough assignment to design a landing gear shock absorber. But they really applied themselves and completed it in just a few days."

"I'm very grateful," says Calum, who recently earned a place at Loughborough University, a leading UK engineering school. "The work experience really helped me make my mind up about my future career. And Tom was very helpful in advising me on a design project I undertook, looking at the design and build of a drone for surveying disaster areas and delivering emergency supplies."

Students on the scheme also benefit from advice on university selection and application. Mentors are generally recent graduates who draw on their own experience to advise on the respective

strengths of leading engineering universities and suggest extracurricular activities to strengthen applications.

"Mentoring is an important part of my own professional development as I work towards becoming a Chartered Engineer," says Tom. "But it's been very rewarding on a personal level, too. It's great to have an opportunity to give back to the engineering industry even though I'm only just getting started myself."

48-84 Governance reports

49	Chairman's introduction
50-51	Board of directors
52-55	Corporate governance report
56-58	Audit Committee report
59	Nominations Committee report
60-80	Directors' remuneration report
81-84	Directors' report

Who runs Meggitt and how do we reward them?

50
60

Corporate governance report

Chairman's introduction

Throughout the financial year ended 31 December 2015 and to the date of this report, we have complied with the provisions set out in the UK Corporate Governance Code 2014 (the Code) published by the Financial Reporting Council (FRC). This excludes Code Provision B.6.2, which is the requirement for the board evaluations of FTSE 350 companies to be facilitated externally at least every three years. Our last externally facilitated evaluation was in 2012. The Board decided in 2015 that because of the timing of my appointment as Chairman in April 2015, there would be more value in having an externally facilitated evaluation in 2016. The Group has applied all other main and supporting principles set out in the Code and explanations are included in this report and in the Audit Committee, Nominations Committee and the Directors' remuneration reports. The information required under Disclosure and Transparency Rule 7.2.6 is located in the Directors' report.

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

Leadership

As part of the planned and continued evolution of the Board, there have been a number of Board changes in 2015. Phil Cox retired on 31 January 2015 to take up the Chairmanship of Drax Group plc. I joined the Board on 1 March 2015, replacing Sir Colin Terry as Chairman at the end of the annual general meeting (AGM). On 1 October, Colin Day joined the Board as a non-executive director and assumed responsibility for the Chairmanship of the Audit Committee from David Williams who, after over nine years as a non-executive director, retired from the Board on 31 December 2015. Paul Heiden took over from David as Senior Independent Director from 1 January 2016.

On behalf of the Board I would like to thank Sir Colin, Phil and David for their significant contributions to the Board and to wish them well for the future, and to welcome Colin Day as a non-executive director.

Effectiveness

In 2015, Board processes were improved as a result of the 2014 evaluation and the Board agreed to defer our externally facilitated evaluation to 2016.

The main findings from our 2015 internal evaluation related to administrative board processes and improvements in risk management and succession planning. More details on the evaluation process and findings are later in this report.

Accountability

In 2015, the Audit Committee discussed and agreed the process we needed to undertake to enable the Board to make the viability statement as required under the Code. A description of the process and the resulting statement is set out in the Risk management report (page 29). The report also includes our annual confirmations on risk management and internal control that were previously included in this Corporate governance report. The risk management process has been further enhanced in 2015. The process continues to evolve through the Group Risk Register, risk assurance map and revised risk appetite statement. During the year, the Board provided authority to the Audit Committee to oversee the risk management process.

The Board has confirmed that this Annual Report is fair, balanced and understandable. You can find an explanation of the process we have used to make this determination on page 56.

Remuneration

At our AGM in 2015, shareholders overwhelmingly approved our Directors' remuneration report. The 2015 report (pages 60 to 80) provides a detailed review of the Remuneration Committee's 2015 activities and bonus and share scheme performance in 2015. For ease of reference, we have also included the Remuneration Policy approved at our AGM in 2014 (valid until the 2017 AGM). The 2014 Code introduced new requirements relating to remuneration, including inserting clawback/malus into remuneration schemes. Our remuneration package and policy approved in 2014 is compliant with those requirements.

Sir Nigel Rudd
Chairman of the Board of Directors
22 February 2016

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

Colin Day

Sir Nigel Rudd

Guy Berruyer

Alison Goligher

Sir Nigel Rudd DL

Non-Executive Chairman + §
Appointed: 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.

Appointments in unlisted entities: Non-Executive Chairman of Heathrow Airport Holdings Limited (due to retire in September 2016) and Aquarius Platinum Ltd and Non-Executive Director of Sappi Limited.

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.

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
Appointments in unlisted entities: Chairman of Linaro Limited since October 2015 and a member of the Council of the University of Southampton.

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 other European management roles.

Colin Day

Non-Executive Director * + ‡
Appointed: 2015 | Nationality: British

Skills and experience
Chartered certified accountant with significant experience in senior operational and financial roles gained across a variety of sectors including engineering and technology, pharmaceuticals, oil and gas and aerospace.

Current appointments
Chief Executive of Essentra PLC (formerly Filtrona PLC) and Non-Executive Director of Amec Foster Wheeler plc.

Appointments in unlisted entities: Non-Executive Director of FM Global.

Previous appointments
Chief Financial Officer, Reckitt Benckiser Group plc, Group Finance Director of Aegis Group plc, Non-Executive Director of WPP plc, Easyjet plc, Imperial Tobacco Group plc and Cadbury plc.

Alison Goligher OBE

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

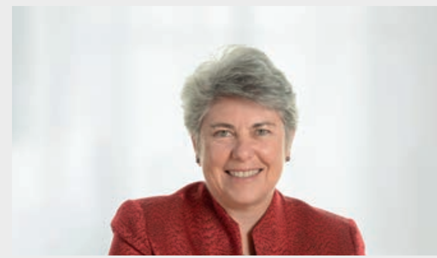
Skills and experience
MEng Petroleum Engineering. Brings specific oil and gas experience to the Board, including technology management expertise and experience running diverse functions and businesses within globally significant energy corporations.

Current appointments
None.

Previous appointments
Various roles at Royal Dutch Shell from 2006 to 2015, most recently, Executive Vice President, Upstream International Unconventionals. Previously spent seventeen years at Schlumberger, a supplier of technology, integrated project management and information solutions to oil and gas customers worldwide.

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

Philip Green


Brenda Reichelderfer

Paul Heiden

Doug Webb

Philip Green

Executive Director, Commercial and Corporate Affairs § ◊
Appointed: 2001 | Nationality: British

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

Current Appointments
Appointments in unlisted entities:
Non-Executive Director of Poole Hospital NHS Foundation Trust since 25 April 2015, Deputy Chairman of the Board and Chairman of the Audit and Governance Committee since 1 December 2015. Member of the GC100 and the Dorset Employment and Skills Board.

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

Paul Heiden

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

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

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

Appointments in unlisted entities: Non-Executive Chairman of A-Gas (Orb) Limited.

Previous appointments
Chief Executive of FKI Plc, 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
Non-Executive Director of Federal Signal Corporation and Chairman of their Compensation and Benefits Committee and Non-Executive Director of Moog, Inc..

Appointments in unlisted entities: Senior Vice President and Managing Director of private equity sector consulting firm TriVista.

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, Chairman of their Audit Committee and member of their Nominations Committee.

Appointments in unlisted entities: Member of the Hundred Group of Finance Directors and the Investment Advisory Committee of Fitzwilliam College, Cambridge University.

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

Corporate governance report continued

LEADERSHIP

Our governance framework as at 31 December 2015:

Board of directors

Sir Nigel Rudd (Chairman)
Three executive directors
Five independent non-executive directors

Creating and delivering sustainable shareholder value

Board committees

Remuneration

Five independent non-executive directors

Determines the reward strategy for the executive directors and senior management, to align their interests with those of the shareholders

Audit

Five independent non-executive directors

Monitors the integrity of the Group's financial statements and the effectiveness of the external and internal auditors

Nominations

Chairman, Chief Executive and five independent non-executive directors

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

Chairman, one independent non-executive director and three executive directors

Ensures the implementation and application of the Ethics and Business Conduct and Trade Compliance policies and programmes

Finance

Three executive directors and the Chief Operating Officer

Approves treasury-related activity, insurance and other matters delegated by the Board

Management committees

Group Executive Committee

Three executive directors, the Chief Operating Officer, five senior functional executives and five divisional presidents

Assists the Chief Executive to develop and implement the Group's strategy, manage operations and discharge responsibilities delegated by the Board

Commercial Committee

Three executive directors, the Chief Operating Officer and two other Group Executive Committee members

Reviews and approves bids and proposals of Group significance 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 2015) sets out the matters on which the Board must make the final decisions. These include setting the Group's strategy and approving the annual budget, changing the Group's capital structure and capital allocation policy, approving acquisitions and disposals above a certain threshold and agreeing 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 2015

The Board met ten times in 2015 (seven scheduled meetings, shown in the table below, and three unscheduled meetings).

Name	Title	Scheduled meetings eligible to attend[1]	Meetings attended
Sir Nigel Rudd[3]	Chairman	6	6
Mr G S Berruyer	Non-executive director	7	7
Mr P G Cox[4]	Non-executive director	–	–
Mr C R Day[5]	Non-executive director	3	3
Ms A J P Goligher	Non-executive director	7	7
Mr P E Green	Executive Director, Commercial and Corporate Affairs	7	7
Mr P Heiden	Non-executive director	7	7
Ms B L Reichelderfer	Non-executive director	7	7
Sir Colin Terry[6]	Chairman	2	2
Mr D R Webb	Chief Financial Officer	7	7
Mr S G Young	Chief Executive Officer	7	7
Mr D M Williams[7]	Non-executive director	7	6

[1] All of the directors attended the scheduled meetings in the year with the exception of Mr Williams who sent his apologies for the meeting held in October 2015.
[2] Three unscheduled meetings took place which were attended by all the directors eligible to attend, except Mr Green and Mr Heiden who sent apologies for one unscheduled meeting each owing to travel commitments, and Mr Williams who sent his apologies for two unscheduled meetings.
[3] Appointed 1 March 2015.
[4] Retired 31 January 2015.
[5] Appointed 1 October 2015.
[6] Retired 23 April 2015.
[7] Retired 31 December 2015.

Chairman

- Sir Nigel Rudd met the independence criteria on appointment as Chairman on 23 April 2015.
- 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 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 Heiden, 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; 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;
- 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;
- are responsible for determining appropriate levels of remuneration for executive directors and participating in the selection and recruitment of new directors and succession planning; and
- have terms and conditions of appointment which 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 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 approved the appointment of Colin Day as a non-executive director.

The Board covered the following specific items during 2015:

- there was a Board session dedicated to a detailed review and discussion of the Group's strategy. The Group's strategy process was significantly enhanced in 2015; and
- there was greater focus on risk, including a session to review and approve the Group's risk appetite and a formal delegation of authority to the Audit Committee to oversee the risk management process.

Corporate governance report continued

The Board received and discussed:

- divisional and functional updates and presentations on operational performance, Customer Services & Support (aftermarket), M&A, engineering and technology, senior executive succession, operations, IT and investor relations;
- the Group's strategic plan;
- reports on internal control, risk management and going concern; and
- reports on the activities of its committees.

The Board reviewed and approved:

- the 2016 budget;
- the 2014 Annual Report and Accounts, 2014 full-year results and 2015 interim results announcements;
- the May and October 2015 trading statements;
- recommendations to shareholders on the final dividend payment for the year ended 31 December 2014 and approval of the interim dividend payment for the year ended 31 December 2015;
- the acquisition of the Cobham and EDAC composites businesses;
- the Group's risk appetite and risk register;
- the conflicts of interest register for the Board;
- the decision to suspend the share buyback programme;
- fees payable to the Group's auditors and a recommendation to shareholders on their reappointment;
- a Corporate Responsibility Policy for the Group; and
- a Schedule of Matters Reserved for the Board.

Since the year-end, up to the date of the Annual Report, the Board has approved the 2015 Annual Report and Accounts, the 2015 full-year results announcement and the proposed final dividend for the year ended 31 December 2015.

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 has 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 and 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 59.

Commitment

The letters of appointment for the Chairman and non-executive directors set out the time they are expected to commit. These can be inspected 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. Details of significant appointments for all of the Board members are provided on pages 50 to 51.

Development

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

Since Sir Nigel Rudd joined the Board, he has been through a comprehensive formal induction programme, including meetings with other directors, senior management, investors, auditors, brokers and other professional advisors, as well as site visits in the UK and US and a detailed induction pack. Mr Colin Day started a similar induction process in October 2015 following his appointment to the Board. The Company Secretary, who facilitates the induction of new directors and assists with professional development where required, will continue to enhance the induction process following feedback from directors.

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 to develop and update their knowledge and capabilities.

Information and support

The Chairman is responsible for ensuring 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

The Board recognised that compliance with the UK Code on Corporate Governance would require an externally facilitated review in 2015. However, following the appointment of Sir Nigel Rudd as Chairman in April 2015, the Board considered this matter and concluded that conducting an external review in 2016 would be more valuable and effective than an external evaluation carried out in 2015 when the Chairman had only recently assumed his role.

Accordingly, starting in December 2015 the Chairman led an internal performance evaluation and appraisal process for the Board, its members and its main Committees. The effectiveness review, carried out using questionnaires and group and individual discussions, covered strategy, risk management, the annual Board schedule, composition, succession, the appointment process, diversity, remuneration, audit and open channels of communication.

The Board continues to be thoroughly engaged with the review process. A report summarising the findings of the evaluation was discussed by the Board and Committees at their meetings in February 2016. The main findings and recommendations of the 2015 evaluation were: (i) continuing to improve the Board's involvement in the strategy process, which was already enhanced in 2015 with the introduction of a detailed Board strategy session; (ii) conducting more site visits in 2016 (as some had been postponed in 2015 owing to the appointment of the new Chairman) and increasing contact with senior executives other than those on the Board; (iii) continuing to enhance and embed the risk management process; and (iv) enhancing the succession process.

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 83 to 84) and a statement by the auditors concerning their responsibilities (page 91). The directors also report that the business is a going concern (page 84) 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 47). The directors have also made a statement about the long-term viability of the Group, as required under the Code (page 29).

Remuneration

The Directors' remuneration report is on pages 60 to 80. It sets out the activities of the Committee and provides details of the remuneration policy which was approved at our AGM in 2014, and how it has been implemented in 2015.

Relations with shareholders

The Group values its dialogue with institutional and private investors.

The Board communicates with private investors via direct communication with our Head of Investor Relations and the Company Secretary and content 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 and discusses 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. A specific letter was issued to major shareholders after the AGM in 2015, offering a meeting with the Chairman and Senior Independent Director. Several such meetings on corporate governance took place in 2015. The Chairman met a number of investors at their request after the trading update issued in October 2015.

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 approved by shareholders at our AGM in 2007. Electronic copies of this Annual Report and Accounts 2015 and the Notice of AGM will be posted on our website, with announcements, press releases and other investor information, including an analysis of ordinary shareholders by size of holdings and shareholder type.

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 on 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 customary for all other directors to attend.

At the AGM to be held on 21 April 2016, in addition to the routine business, shareholder consent will be sought 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 are subject after that to re-election annually to comply with the Code. All directors in office at the date of the AGM will be subject to election or re-election.

By order of the Board

M L Thomas
Company Secretary
22 February 2016

Audit Committee report

Chairman's introduction

I am pleased to present the report of the Audit Committee for 2015.

I chair the Audit Committee and as a Fellow of the Association of Chartered Certified Accountants, current Chief Executive Officer of Essentra plc, and previously Chief Financial Officer of Reckitt Benckiser Group plc, I can confirm that I bring recent and relevant financial experience to the Committee. I took over the Chairmanship of the Committee from David Williams on my appointment on 1 October 2015 and chaired my first meeting in December 2015.

Committee members throughout 2015 were Guy Berruyer, Alison Goligher, Paul Heiden and Brenda Reichelderfer. Phil Cox and David Williams were also on the Committee, retiring on 31 January 2015 and 31 December 2015 respectively. The Committee would like to thank Phil Cox and David Williams, particularly for the significant contribution made by David in his role as Chairman of the Committee.

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 and the Executive Director, Commercial & Corporate Affairs also attended each meeting by invitation.

The Audit Committee's key role is to engender 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 2015 is described below in detail. It included advising the Board on whether these accounts are fair, balanced and understandable, review of the work carried out by executive management on the viability statement and taking on responsibility for oversight of the risk management process from the Board.

Committee membership and attendance

Name	Meetings eligible to attend	Meetings attended
Mr C R Day (Committee chairman)	1	1
Mr G S Berruyer	3	3
Mr P G Cox[1]	–	–
Ms A J P Goligher	3	3
Mr P Heiden	3	3
Ms B L Reichelderfer	3	3
Mr D M Williams[2]	3	3

[1] Retired 31 January 2015.

[2] Retired 31 December 2015.

Terms of Reference

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

Work of the committee

In 2015, the Audit Committee:

- reviewed the financial information contained in the 2014 Annual Report and 2014 full-year and 2015 interim results announcements and recommended them to the Board for approval;
- reviewed the 2015 external audit fees, and recommended them to the Board for approval;
- discussed the external audit strategy memorandum and interim audit clearance report for 2015;
- reviewed the independence and effectiveness of the external auditors, agreed their terms of engagement and fees;
- received reports from internal audit at each meeting, discussed significant items and the effectiveness of internal audit, and approved the internal audit plan for 2016;
- received an IT audit update from Grant Thornton LLP;
- received a tax update from the Head of Tax and Treasury;
- received technical accounting and governance updates provided by the Group Financial Controller, Company Secretary and the external auditors;
- reviewed the adequacy and effectiveness of the systems of internal control;
- took responsibility for oversight of the risk management process, a duty which was delegated to the Committee by the Board in 2015;
- took responsibility for the oversight of the process executive management used to enable the Board to make the viability statement; and
- reviewed the effectiveness of the Committee and internal audit using the process described on page 55. There were no significant findings and the Committee confirmed it was satisfied with the outcome of the evaluation.

Since the year end, the Committee has approved the 2015 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 2015 Annual Report and Accounts, taken as a whole, is fair, balanced and understandable. The Committee provided this advice having verified and confirmed the managements' process and its output, and provided confirmation to the Board that this process was effective. The Committee also recommended that the Board approve the viability statement, having overseen the viability statement process throughout the year (as described on page 29) and confirmed their agreement to propose the reappointment of the external auditors to shareholders for the 2016 financial year.

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. There were no new areas of significant judgement in 2015.

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), growth rates beyond the period covered by the five-year business plans 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 2016 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 noted the increased level of sensitivity analysis undertaken in view of the increased market volatility and its impact on the Group's results for 2015. The Committee agreed the assumptions made by management were appropriate and that no impairment was required. The Committee agreed with management that due to the proximity of the two acquisitions of businesses in 2015 to the balance sheet date, the fair value of net assets acquired would be finalised in 2016.
Development costs and programme participation costs	The Committee considered the method of testing for potential impairment used by management and the aggregation of related intangible assets at an aircraft platform level. 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 assumptions made by management were reasonable and the carrying value and estimated useful lives of the assets were appropriate.
Provision for environmental matters relating to historic sites and related insurance receivables	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 amounts recorded to increases in cost estimates, including the impact on insurance policy limits, and to 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 2013 and the impact of Heatric's local content provider in Brazil having received Court approval for its restructuring plan. 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 2015 assumptions had been determined and how the Group's assumptions used in its 2014 financial statements benchmarked against those disclosed by other large corporate entities. The Committee concluded that the assumptions used, 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 including the release of provisions held against prior period tax uncertainties. The Committee concluded that the position taken was appropriate.
Treatment of items excluded from underlying profit measures	The Committee discussed the treatment and disclosure of costs and income included within exceptional operating items and merger and acquisition (M&A) related items, together with the exclusion from underlying profit of gains made from remeasurement of the share buyback close period commitment and the Group's new cross currency and treasury lock derivatives. The Committee noted items were treated appropriately and, where applicable, consistently year on year.

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

Audit Committee report continued

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 Andrew 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 and there were no significant findings from the evaluation process. The Committee has determined, on the basis of the satisfactory outcome of the evaluation, that the external audit will not be subject to tender in 2016. It has recommended that the Board submit the re-appointment of PwC to shareholders for approval at the AGM in 2016.

The Committee reviewed recent tendering and rotation provisions from the EU and Competition and Markets Authority, and has also taken into account the length of appointment of the incumbent auditors but balanced against their continued effectiveness. The Committee intends to put the external audit for the financial year ending 31 December 2018 out to tender and to commence that process in 2017. This is in the best interests of the Company as it ensures continuity of audit services until the end of the current audit partner rotation period. This plan is subject to any other changes to the regulatory regime and the Committee continuing to be satisfied with the effectiveness of the auditors, which is evaluated annually.

The Committee routinely meets PwC without executive management present and no concerns have been raised. 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 consolidated financial statements. The fees paid for non-audit services in 2015 were less than £0.1 million (1% of the total audit fee) and the average fees paid for non-audit services for the last three years to 2015 were £Nil million (2% of the total audit fee over that period). Fees paid for non-audit services related to services allowed to be provided by PwC under the Group's policy on non-audit services.

The Group's policy on non-audit services covers the services that 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 (under Audit Committee in the Governance section).

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. The risk assessment process divides our business units into three tiers determined by financial measures, but subject to a discretionary risk based adjustment if there are circumstances which suggest a site should have an audit accelerated. Tier 1 businesses are visited annually, with Tier 2 businesses visited every other year and Tier 3 businesses every third year.

At each meeting, the Committee receives a status update on the audit programme and discusses and challenges any significant issues arising and monitors implementation by the businesses of any recommendations made. In 2015, internal audits were carried out at over 25 Group sites, including the finance shared service centres, as part of the 3 year rotational audit cycle.

Internal audit's remit was expanded in 2014 to include IT, using the services of Grant Thornton UK LLP. The 2015 IT audit scope included reviews of IT security and our SAP (enterprise resource planning) and HR systems.

The Committee routinely meets internal audit without executive management present. No concerns have been raised and it was confirmed that the internal auditors 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

The Ethics and Trade Compliance Committee is responsible for reviewing the process for handling allegations from whistleblowers. In February 2016, the Ethics and Trade Compliance Committee confirmed that it was satisfied with the Group's process for handling whistleblowing allegations. Whistleblowing is included in 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 received regularly by the Ethics and Trade Compliance Committee as part of the report from the Executive Director, Commercial and Corporate Affairs.

Compliance with audit services order

We comply with the Competition and Market Authority Order 2014 relating to the audit tendering and the provision of non-audit services, as discussed further above.

On behalf of the Audit Committee

Colin Day
Chairman of the Audit Committee
22 February 2016

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 ensures that a succession plan is in place. Candidates continue to be considered on merit against specific criteria determined by the Committee.

Following a rigorous search process using executive search firm The Zygos Partnership, Mr Colin Day was appointed as non-executive director on 1 October 2015. Mr Day is a chartered accountant and is currently Chief Executive at Essentra PLC and non-executive director at Amec Foster Wheeler plc and FM Global. Mr Day's extensive experience in senior financial roles across a range of sectors including aerospace, engineering and technology, oil and gas and pharmaceuticals make him an excellent addition to the Board. There were other Board changes in 2015 as described on page 82.

In 2016, the Committee will continue to review the composition of the Board and succession plans for executive and non-executive directors, taking into account diversity and the skills, knowledge and experience that will be of benefit to the Board in the future.

Committee membership and attendance during 2015

Name	Meetings eligible to attend	Meetings attended
Sir Nigel Rudd (Chairman)[1]	2	2
Mr S G Young	3	3
Mr G S Berruyer	3	3
Mr P G Cox[2]	–	–
Mr C R Day[3]	–	–
Ms A J P Goligher	3	3
Mr P Heiden	3	3
Ms B L Reichelderfer	3	3
Sir Colin Terry[4]	1	1
Mr D M Williams[5]	3	2

1 Appointed 1 March 2015.
2 Retired 31 January 2015.
3 Appointed 1 October 2015.
4 Retired 23 April 2015.
5 Retired 31 December 2015. Mr Williams sent his apologies for one Committee meeting.

Terms of reference
The Committee operates within agreed Terms of Reference. These were reviewed and updated in 2014 and are published 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.

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 46); 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. 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.

Succession
The Group operates a succession planning process which enables the identification and development of employees with the potential to fill key business leadership positions in the Group. In 2015, the Board reviewed detailed executive succession plans for each division and function with the Group Organisational Development Director, including plans for the executive directors and each member of the Group Executive Committee. Each individual on the succession plan has regular performance reviews and individual development plans.

Board composition and succession for the Chairman and non-executive directors is regularly discussed by the Nominations Committee.

Evaluation
The Committee performed an internal evaluation using the process described on page 55. The results of the evaluation were generally positive. Although the succession planning process had been enhanced in 2015, the need for continued improvement was noted during the Board evaluation.

External search consultancies
During 2015, the Committee used The Zygos Partnership to assist in the search for a non-executive director. The Zygos Partnership has no other connection with the Group.

On behalf of the Nominations Committee

Sir Nigel Rudd
Chairman of the Nominations Committee
22 February 2016

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 2015.

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.

2015 activity

Having approved and implemented our new remuneration policy and package in 2014, 2015 was a year of little change for our remuneration plans. The 2014 Directors' remuneration report was submitted to shareholders for approval at our 2015 AGM, gaining an approval rating of 99.77%. During the year, the Committee considered whether the recently implemented Long Term Incentive Plan (LTIP) and Short Term Incentive Plan (STIP) were providing fair outcomes taking into account Group performance, and determined that they were. The Committee also reviewed various governance updates relating to remuneration, including feedback from the Department for Business, Innovation & Skills on remuneration reports and the Investment Association's updated Principles of Remuneration.

We approved awards under the LTIP and confirmed the vesting outcomes under the STIP awards made in 2014 and awards made in 2012 under our legacy share plans (the Executive Share Option Scheme (ESOS) and Equity Participation Plan (EPP)). Since the year end, we have approved performance targets for the STIP and LTIP for 2016 awards which are detailed in this report, agreed the salaries for the executive directors and confirmed the vesting outcome of the 2015 STIP and awards made under the legacy ESOS and EPP share plans in 2013, as outlined below.

We also finalised the effectiveness review of the Committee and 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 were highlighted for improvement.

The intended remuneration arrangements for 2016, outlined in this report, are in line with the Policy approved by shareholders at our 2014 annual general meeting (AGM).

2015 performance

Group revenue was flat year on year on an organic basis, with 4% organic growth in civil aerospace and flat military revenue being offset by a 20% organic decline in energy as customers cut back on capital expenditure in response to lower commodity prices. Underlying profit before tax declined organically by 9% reflecting adverse product mix, particularly in civil aftermarket. Underlying earnings per share (EPS) declined by 2%.

The EPS, cash and total shareholder return elements of the awards granted in 2013 under the ESOS and EPP have failed to meet their performance conditions. For awards made under the STIP in 2015, the profit element did not reach threshold, the free cash flow element vested at 83% of target and the personal objective element of the award vested to the extent indicated on page 71 for each director. This outcome would have resulted in STIP payouts of 61%-71% of salary for the executive directors. However, in recognition of the fact that Group profit performance was below threshold in 2015, the executive directors agreed with the Committee that the STIP outcome for executive directors should be reduced by 25%.

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 also 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 2014 (the Code), are applied in practice.

Paul Heiden
Chairman of the Remuneration Committee

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 amendment to the Policy from the version approved by shareholders in 2014 is to update the data used in the pay-for-performance scenario analysis to provide figures for 2016.

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.

Directors' remuneration report continued

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 member's financial results for any period. Deferred STIP awards may lapse in certain leaver circumstances (see page 67).
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).

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 member's 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 30 to 33. 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.

Directors' remuneration report continued

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 79 to 80 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

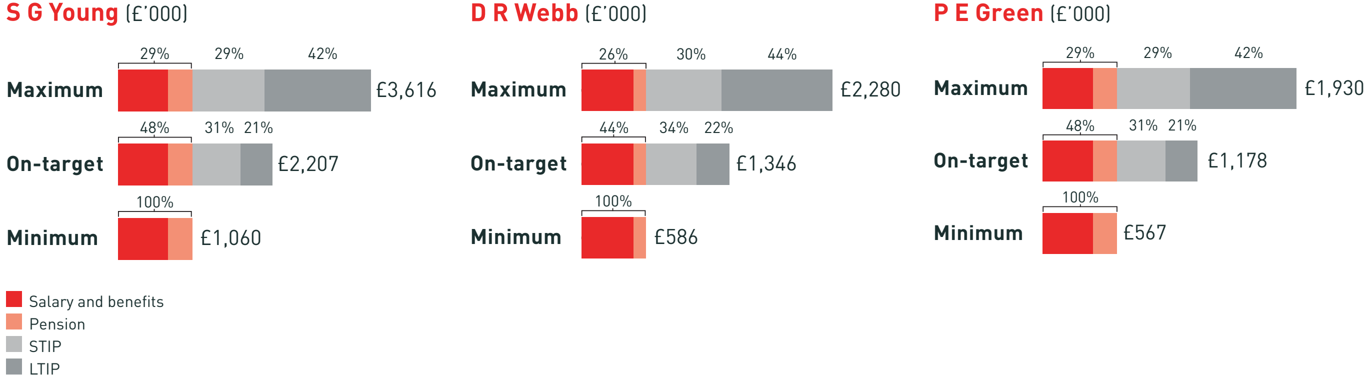
The remuneration policy for other employees is based on broadly consistent principles as that for executive directors. Annual salary reviews take into account Group performance, local pay and market conditions, and salary levels for similar roles in comparable companies. Some employees below executive 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 report on remuneration (see page 78).

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 2016 base salaries and 2016 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 element 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.

Directors' remuneration report continued

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, but only UK employees 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 65.

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 68, 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.

Directors' remuneration report continued

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	Executive Director, Commercial & Corporate Affairs	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 77.

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.

Annual report on remuneration

The following report provides details of how our Policy was implemented during the year ended 31 December 2015.

Remuneration Committee—2015 membership and attendance

Name	Meetings eligible to attend	Meetings attended
Mr P Heiden (Chairman)	4	4
Mr G S Berruyer	4	4
Mr P G Cox[1]	-	-
Mr C R Day[2]	1	1
Ms A J P Goligher	4	4
Ms B L Reichelderfer	4	4
Mr D M Williams[3]	4	4

1 Retired on 31 January 2015.
2 Appointed on 1 October 2015.
3 Retired on 31 December 2015.

There was one meeting between the end of the financial year and the date of signing of this report, 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 direct reports to the Chief Executive (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.

Advisors to the Committee

During the year, the Committee's independent remuneration advisors were Kepler who were appointed in 2010 after a competitive tender process was run by the Committee. During 2015, Kepler were acquired by Mercer. The Committee considered this development in light of the existing business relationship between the Company and Mercer, as Mercer act as the Company's primary advisors on UK pensions and benefits. However the Committee determined that this did not impact Kepler's independence and that they were satisfied that Kepler could continue to act as advisors to the Committee. The Committee evaluates the support provided by Kepler annually and is comfortable that they provide effective and 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 are a member of the Remuneration Consultants Group and adhere to its code of conduct (www.remunerationconsultantsgroup.com). Their total fees in 2015 were £41,000 (2014: £88,000).

2015 AGM voting

The following table shows the results of the advisory vote on the 2014 Directors' remuneration report at the 2015 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 report	680,195,804	99.77	1,599,751	0.23	681,795,555	370,441

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.

The Policy Report was approved by shareholders at the 2014 AGM. As disclosed in last year's report, the Policy Report received support from 98.95% of the votes cast (1.05% voted against, and 30.5 million votes were withheld).

Directors' remuneration report continued

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 2015 and the prior year:

	Mr S G Young		Mr D R Webb		Mr P E Green	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000	**2015 £'000**	2014 £'000
Base salary	**674**	658	**447**	436	**357**	339
Taxable benefits[1]	**24**	24	**13**	14	**14**	14
Pension	**337**	329	**112**	118	**178**	170
STIP[2]	**312**	221	**209**	198	**192**	166
EPP basic[3]	**–**	–	**–**	–	**–**	–
EPP matching[3]	**–**	–	**–**	–	**–**	–
ESOS[4]	**–**	–	**–**	–	**–**	–
Total	**1,347**	1,232	**781**	766	**741**	689

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

2 STIP paid for performance over the relevant financial year. Further details of the 2015 STIP, including performance measures, actual performance and bonus payouts, can be found on page 71.

3 EPP is calculated as the number of shares vesting based on certain performance measures and valued at the market value of the shares. For 2015, the figure represents the actual vesting outcome of the 2013 award, for which the performance measures were based on EPS, total shareholder return and cash conversion. Based on performance to 31 December 2015, the 2013 EPP award will lapse and therefore no value is ascribed to this award in this table. Further details on performance criteria, achievement and resulting vesting levels can be found on page 72.

4 ESOS is calculated as the number of shares vesting based on certain performance measures and valued at the difference between the market value of the shares and the exercise price of the award. For 2015, the figure represents the actual vesting outcome of the 2013 award, for which the performance measure was based on EPS. Based on performance to 31 December 2015, the 2013 ESOS award will lapse and therefore no value is ascribed to this award in this table. Further details on performance criteria, achievement and resulting vesting levels can be found on page 72.

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 2015 and the prior year:

	2015 £'000	2014 £'000
Sir Nigel Rudd[1]	**306**	–
Mr G S Berruyer	**55**	53
Mr P G Cox[2]	**4**	53
Mr C R Day[3]	**16**	–
Ms A J P Goligher[4]	**55**	9
Mr P Heiden	**65**	63
Ms B L Reichelderfer	**55**	53
Sir Colin Terry[5]	**56**	175
Mr D M Williams[6]	**73**	74

1 Appointed on 1 March 2015.

2 Retired on 31 January 2015.

3 Appointed on 1 October 2015.

4 Appointed on 30 October 2014.

5 Retired on 23 April 2015.

6 Retired on 31 December 2015.

Incentive outcomes for the year ended 31 December 2015

STIP in respect of 2015 performance

The Board set stretching financial and strategic targets for the STIP at the start of the 2015 financial year. These targets, and our performance against these, are summarised in the table below.

Measure	Performance targets			Actual performance
	Threshold	Target	Stretch	
Underlying operating profit[1] (Weighting: one-third of the award)	£358m	£374m	£408m	Below threshold
Free cash flow[1] (Weighting: one-third of the award)	£201m	£236m	£271m	£224m
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	Between target and stretch

1 Measured at constant currency.
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.

A full listing of 2015 personal performance objectives has not been provided owing to commercial sensitivity, however, the following is a summary of the conditions which applied in 2015 to each executive director.

Mr S G Young: Driving effectiveness in all functions (e.g. agreeing effective aftermarket functional strategy, cost reduction from functions), increasing the pace of change in execution (e.g. through continued implementation of the Meggitt Production System and maintaining customer relationships during successful programme ramp up phase), maintaining investment balance (e.g. hitting milestones on central AR&T programmes), maintaining FTSE 100 governance standards (e.g. sites reaching targets on health, safety and environment continuous improvement schedule).

Mr D R Webb: Delivery of a cyber security risk reduction programme, strategic development of the IT function and execution of key projects, delivery of ongoing cost reductions, driving the M&A programme forward through portfolio analysis and strong processes and procedures on implementing transactions, deliver on key tax and treasury initiatives, implement key financial reporting requirements such as the viability statement.

Mr P E Green: Enhancing the legal and compliance audit programme, improving the process for consulting external law firms, enhancing the efficiency and effectiveness of the Group trade compliance programme, continued implementation of the US Department of State's Consent Agreement and assuming responsibility for the Group Commercial function.

For awards made under the STIP in 2015, the profit element did not reach threshold, the free cash flow element vested at 83% of target and the personal objective element of the award vested to the extent indicated above for each director. This outcome would have resulted in STIP payouts of 61%-71% of salary for the executive directors. However, in recognition of the fact that Group profit performance was below threshold in 2015, the executive directors agreed with the Committee that the STIP outcome for executive directors should be reduced by 25%.

The following STIP awards were received by directors in respect of 2015 performance:

	% salary	£'000
Mr S G Young	46.0	312
Mr D R Webb	46.6	209
Mr P E Green	53.2	192

STIP—deferral into shares

As a result of the 2015 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, in line with the Policy.

In 2015, as a result of the 2014 STIP vesting, the following share awards were made under the Deferred Share Bonus Plan:

Executive	Form of award	Date of grant	Shares over which awards granted	Award price[1]	£'000	% of bonus[2]	Date of vesting
Mr S G Young	Award	01.04.2015	9,897	559.10p	55	25	01.04.2017
Mr D R Webb	Award	01.04.2015	8,853	559.10p	49	25	01.04.2017
Mr P E Green	Award	01.04.2015	7,434	559.10p	42	25	01.04.2017

1 The award price is the average close price for the five days prior to the award date. The face value has been calculated using the award price for each award.
2 Based on 2014 STIP.

Directors' remuneration report continued

2013 EPP

The EPP award made in August 2013 was measured 50% on cumulative underlying EPS performance, 25% on cash conversion over three financial years and 25% on the Group's relative TSR performance, and will not vest as the performance conditions were not met.

Measure	Weighting %	Period ending	Vesting schedule	Outcome	Vesting %
EPS	50	31.12.15	0% vesting below 121p 30% vesting for 121p per share 100% vesting for 133p or more; Straight line vesting between these points	Below 121p	0%
Cash conversion	25	31.12.15	0% vesting below 87% 30% vesting at 87% 100% vesting at 95% and above; Straight line vesting between these points	Below 87%	0%
TSR	25	31.12.15	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	Below median TSR	0%

2013 ESOS

The ESOS award made in April 2013 was measured on three-year cumulative underlying EPS performance to 31 December 2015 and will not vest as the performance condition was not met.

Measure	Weighting %	Period ending	Vesting schedule	Outcome	Vesting %
EPS	100	31.12.15	0% vesting below 121p 30% vesting for 121p per share 100% vesting for 133p or more; Straight line vesting between these points	Below 121p	0%

2012 EPP

As disclosed in the 2014 remuneration report, the Committee determined that the 50% of the 2012 EPP award subject to the three-year cumulative underlying EPS performance condition and the 25% subject to the cash conversion performance condition did not vest based on performance to 31 December 2014. The remaining 25% of the award was dependent on the Group's TSR performance compared to a group of international aerospace and defence companies over the three-year period to 22 August 2015. TSR for all comparator companies is measured on a common currency basis.

Measure	Weighting %	Period ending	Vesting schedule	Outcome	Vesting %
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	Below median TSR	0%

Following confirmation of the vesting outcome of the TSR element, the overall vesting outcome for the 2012 EPP award (taking into consideration the outcome of the EPS, cash conversion and TSR elements) was 0%.

Scheme interests awarded in the year ended 31 December 2015 (audited)

2015 LTIP

Executive	Form of award	Date of grant	Shares over which awards granted	Award price[1]	Face value £'000	Face value % of salary[2]	Date of vesting
Mr S G Young	Nil cost option	01.04.15	266,503	559.10p	£1,490	220	01.04.18
Mr D R Webb	Nil cost option	01.04.15	176,598	559.10p	£987	220	01.04.18
Mr P E Green	Nil cost option	01.04.15	142,128	559.10p	£795	220	01.04.18

1 The award price is the average close price for the five days prior to the award date. The face value has been calculated using the award price for each award.

2 Based on 2015 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 5.5 to 10.5%)				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%
		Execution	Delivery	% sites on target[2]	36.0%	50.0%	65.0%
		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 2015 LTIP award; they also apply to year 2 of the 2014 LTIP award.

Directors' remuneration report continued

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 receive 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 2015 are included in the single total figure of remuneration table.

	Mr S G Young[1]		Mr P E Green[2]	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Accrued benefit	**28**	27	**76**	75
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.

	2015[1] £'000	2014[1] £'000	CEO % change 2014-2015	Executive employees% change 2014-2015
Base salary	**674**	658	**+2.4**	**+5.1**[2]
Taxable benefits	**24**	24	**Nil**	**+2.2**[3]
STIP	**312**	221	**+41.2**	**+31.0**[4]
Total	**1,010**	903	**+11.8**	**+9.8**

1 The CEO's remuneration includes base salary, taxable benefits and STIP.
2 The base salary for executive employees is calculated using the increase in the earnings of full-time executive employees using the same employee data set in 2014 and 2015. Approximately 50% of the executive employees had pay rises of 2% or less, 20% had pay rises of between 2 and 5% and the remainder had pay rises of over 5%. Pay rises above 2% are awarded on merit, for increased responsibilities or to bring salaries in line with benchmark.
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 15 February 2016 as the validation processes for personal performance ratings for executive employees below the level of the Board/Group Executive Committee 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 2016 Directors' remuneration report.

Relative importance of spend on pay

The table below shows shareholder distributions (i.e. dividends and share buybacks) and total employee expenditure for 2015 and the prior year, along with the percentage change in both.

	2015 £'m	2014 £'m	% change 2014-2015
Shareholder distributions—dividends[1]	**111.5**	109.8	**+1.5**
Shareholder distributions—buybacks[1]	**146.4**	33.7	**+334.4**
Total employee expenditure[2]	**503.9**	461.3	**+9.2**

1 See notes 16 and 40 respectively to the Group consolidated financial statements.
2 Comprises wages and salaries and retirement benefit costs. See note 9 to the Group consolidated financial statements.

Exit payments made in the year

No exit payments have been made in 2015.

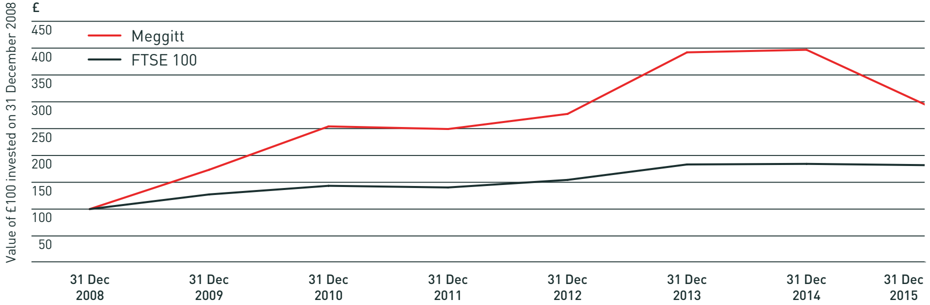
Payments to past directors (audited)

There were no payments to past directors in 2015. 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 seven years.

This graph illustrates the Group's performance compared to the FTSE 100 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 seven-year period from 1 January 2009 to 31 December 2015:



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

	2009	2010	2011	2012	2013[2]	2014	2015
Mr S G Young							
Single total figure of remuneration (£'000)	–	–	–	–	1,296	1,232	**1,347**
STIP outcome[1] (% of maximum)	–	–	–	–	39%	23%	**31%**
EPP vesting[1] (% of maximum)	–	–	–	–	38%	0%	**0%**
ESOS vesting[1] (% of maximum)	–	–	–	–	76%	0%	**0%**
Mr T Twigger							
Single 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 2015, this represents the outcome of ESOS and EPP awards vesting in 2016.

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.

Directors' remuneration report continued

Implementation of Remuneration Policy for 2016

Base salary, pension and benefits

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 2016 and, effective 1 April 2016, will be as follows:

	2016 £'000	% change	2015 £'000
Mr S G Young	**691**	+2.0	677
Mr D R Webb	**458**	+2.0	449
Mr P E Green	**368**	+2.0	361

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%.

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

2016 STIP measures

STIP measures for 2016 are based on underlying operating profit (one third), free cash flow (one third) and personal performance (one third). The STIP targets for 2016, together with details of whether they have been met, will be disclosed (subject to commercial sensitivity) in the 2016 Directors' remuneration report. The opportunity is in line with the Policy disclosed on page 62.

2016 LTIP measures

The executive directors will be granted awards under the LTIP, the vesting of which will be subject to the measures shown below.

The Committee sets performance measures for underlying EPS, ROTA and organic revenue growth annually using a consistent method, with reference to performance in the prior year (2015) and the Group's budget for 2016. For EPS, the Committee also takes into account other external benchmarks such as analyst consensus EPS, and EPS ranges for comparator companies. The organic growth range also takes into account external market trends. The targets for the 2016 LTIP award have been set in relation to these reference points and the 2015 outturn (which was lower than for 2014) and are considered by the Committee to be appropriately stretching for the three-year cycle.

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 2016 LTIP award, year 2 of the 2015 LTIP award and year 3 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 4% to 9%)				103	108	113
33.3%	**ROTA** average over three years				19.0%	20.9%	23.0%
33.3%	**Strategic measures**[1] average over three years	Execution	Quality	% sites on target[2]	57%	71%	86%
		Execution	Delivery	% sites on target[2]	36%	50%	65%
		Execution	Meggitt Production System	Average status per schedule	2.0	3.0	4.0
		Growth	Organic revenue growth	% organic revenue growth (CAGR over 3 years)	4.0%	5.5%	7.0%
		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 set out above on quality and delivery apply to year 1 of the 2016 LTIP award, year 2 of the 2015 award and year 3 of the 2014 award.

Chairman and non-executive director fees

The remuneration of the Chairman and non-executive directors has been in line with our Policy in 2015.

	2016[1] £'000	2015[1] £'000
Chairman fee[2]	**350**	350
Non-executive director base fee	**56**	55
Additional fee for chairing Audit or Remuneration Committee	**11**	11
Additional fee for Senior Independent Director	**11**	11

1 Fees shown here are effective for a year from 1 April.
2 Sir Nigel Rudd receives 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 2015, as notified under the Disclosure and Transparency Rules (DTR) of the Financial Conduct Authority (FCA) (including shares held beneficially in the SIP by executive directors), were as follows:

	Shareholding Ordinary shares of 5p each 2015	2014
Sir Nigel Rudd[1]	**97,000**	–
Mr S G Young	**637,486**	431,501
Mr G S Berruyer	**13,000**	3,000
Mr P G Cox[2]	**–**	6,162
Mr C R Day[3]	**25,000**	–
Ms A J P Goligher	**3,000**	3,000
Mr P E Green	**565,139**	558,928
Mr P Heiden	**6,064**	6,008
Ms B L Reichelderfer	**6,000**	6,000
Sir Colin Terry[4]	**–**	12,274
Mr D R Webb	**78,307**	26,488
Mr D M Williams[5]	**5,000**	5,000

1 Appointed on 1 March 2015.
2 Retired on 31 January 2015.
3 Appointed on 1 October 2015.
4 Retired on 23 April 2015.
5 Retired on 31 December 2015.

Between 1 January 2016 and 15 February 2016, 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 70 shares through the Meggitt PLC Share Incentive Plan.

External appointments held by executive directors

Executive Director	Company	Role	Fees retained 2015 £'000
Mr S G Young	Derwent London plc	Non-executive director	42
		Chairman of Audit Committee	8
		Member of Remuneration, Audit and Risk Committees	12
		Total	**62**
Mr D R Webb	SEGRO plc	Non-executive director	53
		Chairman of Audit Committee	10
		Total	**63**

Directors' remuneration report continued

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.
Dividend reinvestment plan	Shares acquired through the dividend reinvestment plan.
SIP	Shares acquired under the SIP (including those held in trust).
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 2015:

Name	Shareholding guideline (% 2015 salary)	Shares owned outright[1]	Current shareholding (% 2015 salary)[2]	Guideline met?
Mr S G Young	300	637,486	353	Met
Mr D R Webb	200	78,307	65	Building
Mr P E Green	200	565,139	586	Met

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

2 Assessment of shareholding is based on a share price of 374.70 pence (the value of a Meggitt share on 31 December 2015).

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 2015):

- The awards made up to and including 2012 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 2013, 2014 and 2015 were unvested as at 31 December 2015.

Sharesave awards are not subject to performance conditions.

		Number of shares under award						
	Date of award	At 1 Jan 2015	Awarded/ (exercised/ lapsed)	At 31 Dec 2015	Exercise price	Market price at date of exercise	Date exercisable from	Expiry date
Mr S G Young								
ESOS 2005, Part B (stock SARs)	10.10.05	186,615	(186,615)	–	278.65p	542.50p	10.10.08	09.10.15
	27.09.06	210,871	(210,871)	–	263.67p	542.50p	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	160,341	–	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	29,131	–	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	20,431	–	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
	01.04.15	–	266,503	266,503	–	–	01.04.18	31.03.20
Sharesave (options)	12.09.14	2,405	–	2,405	374.19p	–	01.11.17	01.05.18
Total		3,098,088	(540,286)	2,557,802				

Directors' remuneration report continued

		Number of shares under award						
	Date of award	At 1 Jan 2015	Awarded/ (exercised/ lapsed)	At 31 Dec 2015	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	–	–	05.09.16	04.09.23
EPP-Match (nil cost options)	05.09.13	39,868	–	39,868	–	–	05.09.16	04.09.23
LTIP (nil cost options)	22.05.14	207,041	–	207,041	–	–	22.05.17	21.05.19
	01.04.15	–	176,598	176,598	–	–	01.04.18	31.03.20
Sharesave (options)	13.09.13	3,517	–	3,517	426.40p	–	01.11.18	01.05.19
Total		472,150	176,598	648,748				

		Number of shares under award						
	Date of award	At 1 Jan 2015	Awarded/ (exercised/ lapsed)	At 31 Dec 2015	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	542.50p	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	124,902	–	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	22,693	–	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	15,915	–	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
	01.04.15	–	142,128	142,128	–	–	01.04.18	31.03.20
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
	11.09.15	–	750	750	399.79p	–	01.11.20	01.05.21
Total		1,801,646	(208,869)	1,592,777				

By order of the Board

Paul Heiden
Chairman, Remuneration Committee
22 February 2016

Directors' report

The directors present their report 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 Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006) for the year ended 31 December 2015.

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 (pages 1 to 47)
The Corporate governance report	Board of directors and Corporate governance report (pages 49 to 55)
Research and development	Note 8 to the Group's consolidated financial statements (page 109) and Chief Financial Officer's review (page 37)
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 to the Group's consolidated financial statements (page 102)
Greenhouse gas emissions	Corporate responsibility report (page 43)
Employee information Employee involvement Employment of disabled persons	Corporate responsibility report (page 46)
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 to the Group's consolidated financial statements (page 116)
Details of long-term incentive plans	Directors' remuneration report (pages 60 to 80)
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 to the Group's consolidated financial statements (page 132)
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
Contracts for the provision of services to the Company by a controlling shareholder	Not applicable
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
Statement of directors interests	Directors' remuneration report (page 77)
A statement of how the Company has complied with the Code and details of any non-compliance	Corporate governance report (page 49)
Details of directors service contracts	Share capital and control (page 83) and Directors' remuneration report (pages 67 to 68)
Related parties disclosures	Note 17 to the Group's consolidated financial statements (page 114)
Share buyback disclosures	Chief Financial Officer's review (page 38) and note 34 to the Group's consolidated financial statements (page 132)

Directors' report continued

Dividends

The directors recommend the payment of a final dividend of 9.80p net per ordinary 5p share (2014: 9.50p), to be paid on 6 May 2016 to those members on the register at close of business on 29 March 2016. An interim dividend of 4.60p (2014: 4.25p) was paid on 2 October 2015. If the final dividend as recommended is approved the total ordinary dividend for the year will amount to 14.40p net per ordinary 5p share (2014: 13.75p).

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.

Dividend reinvestment plan

The Company operates a Dividend Reinvestment Plan (DRIP) which enables shareholders to buy the Company's shares on the London Stock Exchange with their cash dividend. Further information about the DRIP is available from Computershare, the Company's registrars.

During 2015, the Company made the DRIP available to shareholders for the dividends paid in May 2015 and October 2015. The Board currently intends to continue to make the DRIP available to shareholders in 2016, and the date by which relevant DRIP elections must be received is disclosed on the financial calendar page on our website.

Directors

The directors of the Company in office during the year and up to the date of signing the financial statements were: Sir Nigel Rudd (appointed to the Board as a non-executive director from 1 March 2015 becoming Chairman from 23 April 2015), Mr S G Young (Chief Executive), Mr G S Berruyer, Mr P G Cox (retired from the Board on 31 January 2015), Mr C R Day (appointed to the Board as a non-executive director on 1 October 2015), Ms A J P Goligher, Mr P E Green, Mr P Heiden (Senior independent director from 1 January 2016), Ms B L Reichelderfer, Sir Colin Terry (retired as Chairman on 23 April 2015), Mr D R Webb, and Mr D M Williams (retired from the Board and his position as Senior independent director on 31 December 2015).

All directors will be submitted for election or re-election at the annual general meeting (AGM). 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 50 to 51 and in the AGM notice.

The directors benefit from qualifying third-party indemnity provisions for the purposes of Section 236 of the Companies Act 2006 pursuant to the Articles 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 conflicts 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 (2014: None).

Share capital and control

As at 31 December 2015, the Company held 350,966 treasury shares with a nominal value of 5p each, and the Company's issued share capital (excluding shares held as treasury shares) consisted of 775,167,523 shares with a nominal value of 5p each. As at 15 February 2016, the Company held 332,722 treasury shares with a nominal value of 5p each, and the Company's issued share capital (excluding shares held as treasury shares) consisted of 775,185,767 shares with a nominal value of 5p each. The issued share capital of the Company at 31 December 2015 and details of shares issued and cancelled during the financial year are shown in note 34 to the Group's consolidated financial statements.

The Company operated a share buyback programme during the year until 4 September 2015, and details of the shares bought back in 2015 under that programme are contained in the Chief Financial Officer's Review on page 38.

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 also seeks authority at each AGM from shareholders to purchase its own shares up to the limits set out in the Notice of Meeting.

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 600 million note purchase agreement dated June 2010, a USD 900 million syndicated revolving credit agreement dated September 2014, and two USD 300 million bilateral credit facility agreements, both dated September 2015.

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 15 February 2016, 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 voting rights attaching to the issued ordinary share capital of the company
The Capital Group Companies, Inc.	–	114.6	14.78%
Harris Associates L.P.	–	41.3	5.32%
BlackRock, Inc.	-	40.3	5.20%
First Pacific Advisors, LLC	–	39.1	5.04%
FMR LLC	–	38.1	4.91%
Standard Life Investments Ltd	22.2	3.8	3.34%
Legal & General Group plc	23.7	–	3.06%

*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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

Directors' report continued

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 and the Company for that period.

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

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

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 pages 50 to 51, 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 in office 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 steps that he ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is 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, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, 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.

Going Concern

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 a period of at least 12 months from the date of this report. For this reason, the directors continue to adopt the going concern basis in preparing the Group and Company financial statements.

In reaching this conclusion, the directors have considered:

- the financial position of the Group as set out in this report and additional information provided in the financial statements including note 3 (Financial risk management), note 28 (Bank and other borrowings) and note 30 (Derivative financial instruments);
- the resources available to the Group taking account of its financial projections and considerable existing headroom against committed debt facilities and covenants; and
- the principal risks and uncertainties to which the Group is exposed, as set out on pages 26 to 29, the likelihood of them arising and the mitigation actions available.

By order of the Board

M L Thomas
Company Secretary

22 February 2016

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 2015 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

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

- the Consolidated balance sheet as at 31 December 2015;
- the Consolidated income statement and the 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, 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: £10 million which represents 5% of profit before tax.
Audit Scope	• We identified 10 reporting units which, in our view, required a full scope audit based on their size or risk. In addition we determined that specified audit procedures were required at a further 8 reporting units to address specific risk characteristics or to provide sufficient overall Group coverage of particular financial statement line items. • We used component teams in 4 countries to perform a combination of full scope audits and specified procedures at 12 reporting units, with the Group team performing the remainder. • Reporting units where we performed audit procedures accounted for 63% of Group profit before tax and 84% of Group total assets. Our audit scope provided sufficient appropriate audit evidence as a basis for our opinion on the Group financial statements as a whole.
Areas of focus	• Goodwill impairment assessments • Development costs and programme participation costs impairment assessments • Environmental provisions • Revenue recognition under long term contract accounting primarily in the Group's energy business • Retirement benefit obligation liabilities • Provisions 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. 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 impairment assessments *Refer to notes18 (pages 114 to 116)* The Group holds significant amounts of goodwill (£1,866.0m) on the balance sheet which is supported by an annual impairment review. No impairment charge has been recorded against goodwill in the current year. Our audit focused on the risk that the carrying value of goodwill could be overstated. Certain assumptions used in the impairment review are subjective and are key judgements, these include: • The future cash flow growth assumptions used in the Group's most recent budgets and plans for the next five years approved by management (the "plan"), and the growth rate used beyond the period covered by the plan; and • The discount rate applied to future cash flows. We focused in particular on the following cash-generating units ("CGUs"): • Meggitt Aircraft Braking Systems ("MABS"), as it has the highest carrying value of goodwill of £734.0m, and the second lowest percentage headroom. Headroom is £356.3m; • The CGU with the least headroom in percentage terms. This CGU has a goodwill balance of £58.0m and limited headroom of £4.6m.	We evaluated the directors' future cash flow forecasts and the process by which they were drawn up, and tested the integrity of the underlying discounted cash flow model. We compared the forecasts used in this model to the plan and assessed the actual performance in the year against the prior year budgets to evaluate historical forecasting accuracy. In respect of the two CGUs we focussed on, we assessed the directors' assumptions for future cash flow growth in the plan, by: • Comparing the future cash flow growth assumptions to economic and industry forecasts, including the civil aerospace capacity trend rate of 5%, measured in available seat kilometres (ASKs) and where growth exceeded this sensitising the model down to this rate. • Evaluating the historical accuracy of the directors' forecast to actual performance, which in respect of these CGUs, showed performance in line with or in excess of forecast; • Additionally we performed sensitivity analysis in respect of the key assumptions to ascertain the extent of change in those assumptions which, either individually or collectively, would be required for the goodwill to be impaired. We assessed the likelihood of these changes in assumptions arising. For all impairment assessments we: • Tested the discount rates, by comparing key inputs, where relevant, to externally derived data or data for comparable listed organisations. We used our specialists in assessing the overall discount rates used, and observed them to be within a reasonable range; and • Considered the use of the long-term GDP growth rate for the country in which the CGU operates for the growth rate used beyond the period covered by the plan. Although inherent uncertainties exist in any long term forecasting exercise, based on the audit procedures performed, we found that the directors' judgements were supported by reasonable assumptions. For all CGUs, with the exception of one, with a carrying value of goodwill of £58.0m, it would require significant downside changes before a material impairment was required. For that one CGU, we found that reasonably foreseeable changes in key assumptions could result in a material impairment charge. We assessed whether the Group's disclosures regarding the extent to which changes in key assumptions would need to change for the recoverable amount to fall below the carrying value of goodwill, in particular in relation to those CGUs with the lowest percentage headroom. We determined that these disclosures appropriately draw attention to the significant areas of judgement.

Area of focus	How the scope of our audit addressed the area of focus
Development costs and programme participation costs impairment assessments *Refer also to note 19 (page 116)* The Group holds significant amounts of development costs (£408.4m) and programme participation costs (£267.6m) on the balance sheet. These intangible assets are subject to impairment testing at the individual asset ("programme") level, 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. An impairment charge of £6.4m has been recorded against these balances in the current year. Our audit focused on the risk that the carrying value of these intangible assets could be overstated. We focused our audit procedures on those programmes against which the directors have recorded an impairment provision and those with limited headroom or significant carrying value. The key assumptions assessed were: • the estimated aircraft volumes ("fleet forecast"); • the period over which future cash flows are forecast; • the sales price per part; and • the discount rate applied to future cash flows.	We evaluated the directors' future cash flow forecasts and the process by which they were drawn up, and tested the integrity of the underlying discounted cash flow model. In respect of the programme impairment assessments tested we: • Agreed the fleet forecast data up to 2030 used in calculating the programme forecast cash flow to external market forecasts, and corroborated any significant deviations applied by the directors to supporting evidence. We assessed fleet forecasts used beyond the period covered by the external market forecasts, considering average aircraft lives and trend analysis and considered them to be reasonable; • Agreed the sales price per part to customer contract and did not identify any material exceptions in these tests; and • Tested the discount rates, by comparing key inputs, where relevant, to externally derived data or data for comparable listed organisations. We used our specialists in assessing the overall discount rates used, and observed them to be within a reasonable range. Although inherent uncertainties exist in any long term forecasting exercise, based on the audit procedures performed, we found that these judgements were supported by reasonable assumptions.
Environmental provisions *Refer also to note 31 (page 126)* The Group has liabilities of £111.0m relating to environmental matters. The environmental matters primarily relate to known exposures arising from environmental investigation and remediation of a number of manufacturing sites in the US where the Group has been identified as a potentially responsible party under US law. The liabilities are based on subjective judgements as to the estimated clean-up cost and length of time that operating and monitoring of the site is required. The Group has separately recognised insurance receivables of £80.1m, in relation to these environmental matters. We focused on the required recognition criteria being met and recoverability of these receivables.	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. We assessed the consistency of the cost estimates year on year and the level of costs incurred compared to the prior year estimates to assess the historical accuracy of the estimates and understand changes to the scope of remediation plans. The changes in scope have been appropriately reflected in the provision; • We assessed the competence and objectivity of the Group's external environmental consultants, confirming that they are qualified and affiliated with the appropriate industry bodies in the respective local territory, and are independent of the Group; and • We reconciled the cost estimates and reports to the provision recorded and gained an understanding of all significant adjustments applied by the directors such as differences in the operating and monitoring period and the application of additional provision for incremental costs. We assessed the reasonableness of these, including reviewing historical data where appropriate and consider the provision to be supported by reasonable assumptions. Our work on the valuation of insurance receivables comprised the following: • We obtained the insurance policies to confirm the coverage limits; • We obtained confirmation from the insurer of the claims and settlements to date, and assessed the extent of insurance coverage against the known exposures, including the likelihood of reimbursement; and • We obtained evidence of the insurers' financial position to assess their ability to meet the policy obligations. The recognition of the insurance receivable is supportable.

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 (pages 105)*	
We focused on the recognition of revenue where long term contract accounting is used, due to the application by the directors of estimates and judgements 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's long term contract accounting revenue of £66.7m. The recognition of revenue is largely dependent on the estimated percentage of completion of each contract, which is determined based on the proportion of contract costs incurred to date compared to the estimated total contract costs. As these contracts may span reporting periods, changes in the estimate of total contract costs or the inappropriate recording of costs around the year end could result in revenue being recorded in the incorrect period.	Our work on the revenue recognised under long term contract accounting comprised the following: • We tested the calculation of percentage of completion, which included testing the costs incurred and recorded against the contract to invoice or other supporting evidence and agreeing the total contract costs to cost summaries. We re-performed the percentage of completion calculation, confirming that the revenue recognised was accurate based on the total contract value as per the signed contract or purchase order. We found no material exceptions in these tests; • We assessed the estimates of costs to complete for significant contracts, obtaining an understanding of the performance and status of the contracts through discussion with contract project managers, and where appropriate, corroborated explanations by examination of evidence, such as customer correspondence and receipt of milestone payments. Further we evaluated the historical accuracy of the estimates of total contract costs. We found that these estimates were supportable and we identified a satisfactory degree of historical estimation accuracy; and • We examined any loss making contracts and considered low margin contracts to determine the level of provisioning required. This included assessing the actual profit or loss achieved on contracts that completed in the year compared to the forecast position.
Retirement benefit obligation liabilities *Refer also to note 33 (pages 128 to 132)*	
The Group has retirement benefit obligations with gross liabilities of £1,078.6m, which are significant in the context of the overall Group balance sheet. The valuation of retirement benefit obligations requires significant levels of judgement and technical expertise, including the use of actuarial experts in selecting appropriate assumptions. Small changes in a number of the key assumptions used to value the Group's retirement benefit obligation, (including salary increases, inflation, discount rates and mortality) could have a material impact on the calculation of the liability.	We evaluated the assumptions made in relation to the valuation of the liabilities, with input from our actuarial specialists. In particular we: • Agreed the discount and inflation rates used to our internally developed benchmarks, based on externally derived data and comparable organisations; • Compared assumed mortality rates to national and industry averages; • Assessed the assumption for salary increases against the company's historical trend and expected future outlook; and • Assessed the competence and objectivity of the Group's external specialists, confirming they are qualified and affiliated with the appropriate industry bodies in the respective local territory. Based on the evidence obtained, we found that the assumptions used by the directors were reasonable.

Area of focus	How the scope of our audit addressed the area of focus
Provisions for uncertain tax positions *Refer also to note 14 (page 112 to 113)* Judgements have to be made by the directors on the tax treatment of a number of transactions in advance of the ultimate tax determination being certain. This is due to the complexity of the Group's legal structure (including multiple legal entities), the number of tax jurisdictions (primarily the UK and US) in which the Group operates, the complexity of international tax legislation and the changing tax environment. In addition uncertainty arises from intergroup transactions relating to goods, services and internal financing. Where the amount of tax payable or recoverable is uncertain, the Group establishes provisions based on the director's judgement of the probable amount of the liability, or expected amounts recoverable. There is a risk that the conclusion of the appropriate tax treatment with tax authorities is at an amount materially different to the amount provided for.	In conjunction with our internal UK and international tax specialists we: • Evaluated the process by which the directors calculated each tax exposure and assessed whether the assumptions they have used, in conjunction with their advisors, in developing the estimated exposure, provided a supportable and reasonable basis to calculate the provision for uncertain tax positions; • Considered any tax opinions or other tax advice the Group had received from its tax advisors in relation to the exposures identified to determine that the treatment is consistent with the advice obtained. We also considered the evidence of recent tax audits and external tax cases which may have an impact on existing tax exposures; • Assessed and formed our own views on the key judgements with respect to open and uncertain tax positions and concluded that the judgements made by the directors were materially consistent with our own views in respect of the significant tax exposures; and • Evaluated and concluded that the liabilities and potential exposures were appropriately disclosed in the financial statements. The directors' judgements in respect of the Group's position on uncertain tax items are supportable and reasonable in the context of the information currently available to them and no material matters were identified by our work that the directors had not adequately reflected in their estimate.

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 geographical 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. Where the work was performed by component auditors, 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 ("full scope") or whether specified procedures addressing specific risk characteristics or particular financial statement line items would be sufficient. Those where a full scope audit was required included the largest reporting unit (Meggitt Aircraft Braking Systems in Akron), determined as individually financially significant because it contributes more than 15% of the Group's profit. We performed a full scope audit at a further 9 reporting units, based on their size or risk. Senior members of the Group engagement team visited all of these reporting units, with the exception of one, for which a number of conference calls were held, to review the work undertaken by component auditors and assess the audit findings. The Group consolidation, financial statement disclosures and a number of complex items, prepared by the head office finance function, were audited by the Group engagement team. These included goodwill, other intangible assets, derivative financial instruments and related hedge accounting, retirement benefit obligations, environmental and contractual provisions, share based payments and central adjustments raised as part of the consolidation process. These audit procedures together with those performed on the 10 reporting units accounted for 63% of Group profit before tax and 84% of Group total assets. We also performed specified procedures on 8 reporting units to address specific risk characteristics or to provide sufficient overall Group coverage of particular financial statement line items, principally in relation to revenue and provisions. In addition to the work performed at the in scope reporting units, there is a substantial amount of work performed at the consolidated level. As a result of its structure and size, the Group also has a large number of small reporting units that have an immaterial profit before tax but, in aggregate, make up a material portion of its profit before taxation and total assets. These small reporting units are covered by the work that we perform at the consolidated level, whereby we perform analytical review procedures.
A significant proportion of these remaining reporting units not selected for local procedures were subject to this analysis of year on year movements, at a level of disaggregation to enable a focus on higher risk balances and unusual movements.

Independent auditors' report to the members of Meggitt PLC continued

Those not subject to analytical review procedures were individually, and in aggregate, immaterial. This gave us the evidence we needed for our opinion on the financial statements as a whole.

Materiality

The scope of our audit was 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 on the individual financial statement line items and disclosures and in evaluating 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	£10 million (2014: £11 million).
How we determined it	5% of profit before tax.
Rationale for benchmark applied	Consistent with last year, we applied this benchmark, the application of which is an accepted auditing practice. We note reference by the directors of an alternative profit measure (underlying profit before tax), and we specifically consider the related adjustments and disclosure in reconciling to statutory profit before tax as part of our audit procedures.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £500,000 (2014: £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 84, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. 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 – otherwise misleading.	We have no exceptions to report.
• the statement given by the directors on page 84, 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 position. 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.
• the section of the Annual Report on page 56, 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.

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
• the directors' confirmation on page 26 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
• the directors' explanation on page 29 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

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 ten further provisions of the 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 83 to 84, 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 parent 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 parent company financial statements of Meggitt PLC for the year ended 31 December 2015 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
22 February 2016

Consolidated income statement

For the year ended 31 December 2015

	Notes	**2015 £'m**	2014 £'m
Revenue	5	**1,647.2**	1,553.7
Cost of sales		**(997.2)**	(935.9)
Gross profit		**650.0**	617.8
Net operating costs		**(413.4)**	(381.6)
Operating profit[1]	6	**236.6**	236.2
Finance income	12	**2.7**	1.2
Finance costs	13	**(29.1)**	(28.5)
Net finance costs		**(26.4)**	(27.3)
Profit before tax[2]		**210.2**	208.9
Tax	14	**(28.1)**	(31.9)
Profit for the year attributable to equity owners of the Company		**182.1**	177.0
Earnings per share:			
Basic[3]	15	**23.2p**	22.0p
Diluted[4]	15	**22.9p**	21.7p

	Notes	2015	2014
[1] Underlying operating profit	10	**325.5**	346.0
[2] Underlying profit before tax	10	**310.3**	328.7
[3] Underlying basic earnings per share	15	**31.6p**	32.4p
[4] Underlying diluted earnings per share	15	**31.2p**	31.9p

Consolidated statement of comprehensive income

For the year ended 31 December 2015

	Notes	2015 £'m	2014 £'m
Profit for the year attributable to equity owners of the Company		**182.1**	177.0
Items that may be reclassified to the income statement in subsequent periods:			
Currency translation differences		**82.7**	77.4
Cash flow hedge movements		**(0.7)**	(0.8)
Tax effect	14	**2.1**	(0.2)
		84.1	76.4
Items that will not be reclassified to the income statement in subsequent periods:			
Remeasurement of retirement benefit obligations	33	**29.4**	(97.7)
Tax effect	14	**(9.5)**	24.2
		19.9	(73.5)
Other comprehensive income for the year		**104.0**	2.9
Total comprehensive income for the year attributable to equity owners of the Company		**286.1**	179.9

Consolidated balance sheet

As at 31 December 2015

	Notes	2015 £'m	2014 Restated (see note 43) £'m
Non-current assets			
Goodwill	18	**1,866.0**	1,534.7
Development costs	19	**408.4**	342.9
Programme participation costs	19	**267.6**	242.4
Other intangible assets	20	**689.1**	684.9
Property, plant and equipment	21	**290.3**	251.1
Trade and other receivables	23	**58.9**	93.4
Derivative financial instruments	30	**25.5**	29.6
Deferred tax assets	32	**0.3**	0.9
		3,606.1	3,179.9
Current assets			
Inventories	22	**415.2**	327.9
Trade and other receivables	23	**353.7**	331.8
Derivative financial instruments	30	**8.4**	1.1
Current tax recoverable		**5.5**	3.3
Cash and cash equivalents	24	**145.4**	105.5
		928.2	769.6
Total assets	6	**4,534.3**	3,949.5
Current liabilities			
Trade and other payables	25	**(402.1)**	(358.5)
Derivative financial instruments	30	**(12.7)**	(9.6)
Current tax liabilities		**(37.3)**	(36.5)
Obligations under finance leases	27	**(0.1)**	(0.1)
Bank and other borrowings	28	**(4.0)**	(58.9)
Provisions	31	**(36.0)**	(45.1)
		(492.2)	(508.7)
Net current assets		**436.0**	260.9
Non-current liabilities			
Trade and other payables	26	**(4.2)**	(5.9)
Derivative financial instruments	30	**(13.7)**	(2.9)
Deferred tax liabilities	32	**(255.8)**	(220.9)
Obligations under finance leases	27	**(5.4)**	(5.3)
Bank and other borrowings	28	**(1,189.0)**	(616.7)
Provisions	31	**(111.0)**	(130.5)
Retirement benefit obligations	33	**(284.5)**	(317.8)
		(1,863.6)	(1,300.0)
Total liabilities		**(2,355.8)**	(1,808.7)
Net assets		**2,178.5**	2,140.8
Equity			
Share capital	34	**38.8**	40.1
Share premium		**1,218.9**	1,218.9
Other reserves		**15.7**	14.4
Hedging and translation reserves		**243.2**	159.1
Retained earnings		**661.9**	708.3
Total equity attributable to owners of the Company		**2,178.5**	2,140.8

The financial statements on pages 92 to 141 were approved by the Board of Directors on 22 February 2016 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 2015

		Equity attributable to owners of the Company					
	Notes	Share capital £'m	Share premium £'m	Other reserves* £'m	Hedging and translation reserves** £'m	Retained earnings £'m	Total equity £'m
At 1 January 2014		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 and cancelled		(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
Profit for the year		**–**	**–**	**–**	**–**	**182.1**	**182.1**
Other comprehensive income for the year:							
Currency translation differences:							
Arising in the year		–	–	–	82.7	–	82.7
Cash flow hedge movements:							
Movement in fair value		–	–	–	(1.5)	–	(1.5)
Transferred to income statement		–	–	–	0.8	–	0.8
Remeasurement of retirement benefit obligations	33	–	–	–	–	29.4	29.4
Other comprehensive income before tax		–	–	–	82.0	29.4	111.4
Tax effect	14	–	–	–	2.1	(9.5)	(7.4)
Other comprehensive income for the year		**–**	**–**	**–**	**84.1**	**19.9**	**104.0**
Total comprehensive income for the year		**–**	**–**	**–**	**84.1**	**202.0**	**286.1**
Employee share schemes:							
Value of services provided		–	–	–	–	3.0	3.0
Purchase of own shares		–	–	–	–	(9.7)	(9.7)
Share buyback – purchased and cancelled		(1.3)	–	1.3	–	(138.8)	(138.8)
Share buyback – purchased and transferred to treasury shares		–	–	–	–	(7.6)	(7.6)
Share buyback – movement in close period commitment		–	–	–	–	15.8	15.8
Dividends	16	–	–	–	–	(111.1)	(111.1)
At 31 December 2015		**38.8**	**1,218.9**	**15.7**	**243.2**	**661.9**	**2,178.5**

* Other reserves relate to capital reserves of £14.1 million (2014: £14.1 million) arising on the acquisition of businesses in 1985 and 1986 where merger accounting was applied and a capital redemption reserve of £1.6 million (2014: £0.3 million) created as a result of the share buyback programme commenced during 2014.

** Hedging and translation reserves comprise a credit balance on the hedging reserve of £1.9 million (2014: £2.5 million) and a credit balance on the translation reserve of £241.3 million (2014: £156.6 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.

Consolidated cash flow statement

For the year ended 31 December 2015

	Notes	2015 £'m	2014 £'m
Cash inflow from operations before business acquisition expenses and exceptional operating items		**419.9**	364.0
Cash outflow from business acquisition expenses		**(2.5)**	(0.5)
Cash outflow from exceptional operating items	11	**(10.7)**	(16.6)
Cash inflow from operations	39	**406.7**	346.9
Interest received		**0.2**	0.3
Interest paid		**(16.2)**	(16.3)
Tax paid		**(15.3)**	(18.7)
Cash inflow from operating activities		**375.4**	312.2
Businesses acquired	42	**(362.7)**	(28.6)
Businesses disposed		**2.0**	–
Capitalised development costs net of funding from customers	19	**(80.5)**	(77.7)
Capitalised programme participation costs	19	**(43.0)**	(46.0)
Purchase of intangible assets		**(10.4)**	(12.0)
Purchase of property, plant and equipment		**(45.8)**	(33.0)
Proceeds from disposal of property, plant and equipment		**0.8**	2.8
Cash outflow from investing activities		**(539.6)**	(194.5)
Dividends paid to Company's shareholders	16	**(111.1)**	(51.4)
Purchase of own shares		**(9.7)**	(11.6)
Issue of equity share capital		**–**	0.1
Share buyback – purchased in year	34	**(146.4)**	(33.7)
Proceeds from borrowings		**537.0**	218.3
Debt issue costs		**(0.4)**	(2.8)
Repayments of borrowings		**(67.4)**	(249.9)
Cash inflow/(outflow) from financing activities		**202.0**	(131.0)
Net increase/(decrease) in cash and cash equivalents		**37.8**	(13.3)
Cash and cash equivalents at start of the year		**105.5**	116.1
Exchange gains on cash and cash equivalents		**2.1**	2.7
Cash and cash equivalents at end of the year	24	**145.4**	105.5

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. Contingent consideration payable is measured at fair value at each subsequent balance sheet date, with any changes in fair value recorded in the income statement within net operating costs. 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 within net operating costs. Costs directly attributable to an acquisition are recognised in the income statement within net operating costs 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 within net operating costs. 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 receivable is measured at fair value at each subsequent balance sheet date, with any changes in fair value recorded in the income statement within net operating costs.

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.

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 within net operating costs 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 in hedging and translation reserves within other comprehensive income. 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.

Notes to the consolidated financial statements continued

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 52 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.

With effect from 1 January 2015, the Meggitt Avionics business was transferred from Meggitt Equipment Group to Meggitt Sensing Systems. Prior period comparatives have been restated to reflect this change in 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, costs directly attributable to the integration of an acquired business, significant site consolidation costs and other significant restructuring costs. Exceptional operating items are included within the appropriate consolidated income statement category but are highlighted separately in the notes to the financial statements.

Amounts arising on the acquisition, disposal and closure of a business

These items are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10). 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 and costs directly attributable to the acquisition of a business. Amounts 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, typically up to 15 years, commencing with launch of the product. Development costs not meeting the criteria for capitalisation are expensed as incurred.

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 recorded 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 recorded 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 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.

Notes to the consolidated financial statements continued

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 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 unconditional 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 share-based compensation schemes, which are principally equity-settled.

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.

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 derivative 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. Any such gains or losses are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10).

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 within net operating costs. 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. Additionally, in 2015 the Group has entered a cross currency derivative and a treasury lock derivative (as described in note 30) which do not meet the criteria for hedge accounting. Gains and losses arising from measuring these derivatives 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

The total consideration payable for shares purchased is deducted from retained earnings. The shares when purchased are generally cancelled, unless they are to be used to satisfy obligations under employee share plans. The nominal value of 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. Any gain or loss arising from the remeasurement of the obligation is excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10).

Notes to the consolidated financial statements continued

2. Summary of significant accounting policies continued

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. The 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, along with the aerospace industry as a whole, is continuing to assess the full impact of IFRS 15. Areas which are currently under review by the Group, and where a change to current practice may be required, are the recognition as an intangible asset of programme participation costs, the method of accounting for revenue on power by the hour and cost per brake landing contracts and contract revenue recognition. The standard becomes effective for accounting periods beginning on or after 1 January 2018 and is subject to endorsement by the European Union.
- IFRS 16, 'Leases'. The main change is expected to relate to the recognition on the Group's balance sheet of assets and liabilities relating to leases which are currently being accounted for as operating leases. The Group is yet to assess the full impact of IFRS 16 which becomes effective for accounting periods beginning on or after 1 January 2019. 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 38 to 39 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 partially 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 generally 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, floating rate borrowings into fixed rate borrowings and in 2015 through a treasury lock which secures the rates of fixed interest payable on specified amounts of future fixed rate financing. 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.

3. Financial risk management continued

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:

	2015				
	Less than 1 year £'m	**1-2 years £'m**	**2-5 years £'m**	**Greater than 5 years £'m**	**Total £'m**
Trade and other payables*	**391.8**	**0.9**	**1.4**	**1.9**	**396.0**
Bank and other borrowings	**0.1**	**543.2**	**545.6**	**84.9**	**1,173.8**
Interest payments on borrowings	**21.5**	**20.1**	**39.5**	**6.5**	**87.6**
Obligations under finance leases (see note 27)	**1.1**	**1.0**	**3.2**	**12.1**	**17.4**
Derivative financial instruments:					
Inflows**	**(8.4)**	**(8.2)**	**(17.6)**	**(4.0)**	**(38.2)**
Outflows**	**0.5**	**0.4**	**0.2**	**–**	**1.1**
Total	**406.6**	**557.4**	**572.3**	**101.4**	**1,637.7**

	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

* Excludes social security and other taxes of £10.3 million (2014: £8.4 million) (see note 25).
** Assumes no change in interest rates from those prevailing at year end.

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.

	2015		2014	
	Income statement £'m	**Equity £'m**	Income statement £'m	Equity £'m
USD/GBP exchange rate +/- 10%	**32.8**	**101.5**	28.3	44.1
US yield curve +/- 1%	**21.7**	**5.0**	4.6	3.3

The impact on equity from movements in the exchange rate comprises £106.9 million (2014: £53.2 million) in respect of US dollar net debt, offset by £5.4 million (2014: £9.1 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% (2014: 8%) and its capital structure at 31 December is as follows:

	2015 £'m	2014 £'m
Net debt (see note 40)	**1,053.1**	575.5
Total equity	**2,178.5**	2,140.8
Debt/equity %	**48.3%**	26.9%

Notes to the consolidated financial statements continued

3. Financial risk management continued

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 38 of the Chief Financial Officer's review, which also includes details on how the Group has complied with the two principal financial covenant requirements contained in its committed credit facilities for the year ended 31 December 2015.

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 described below. Further consideration of these critical estimates and judgements can be found in the Audit Committee report on page 57.

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).

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 2015, the programme with the largest capitalised development balance has a net book value of £65.5 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 85% 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 for 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 2015, the programme with the largest capitalised programme participation balance has a net book value of £29.9 million. No reasonably foreseeable change in assumptions would cause an impairment to be recognised.

4. Critical accounting estimates and judgements continued

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).

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. 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 2015, the impact on the tax charge would be approximately £4.0 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:

	2015 £'m	2014 £'m
Sale of goods	**1,470.4**	1,351.7
Contract accounting revenue	**66.7**	98.3
Revenue from services	**78.9**	75.0
Revenue from funded research and development	**31.2**	28.7
Total	**1,647.2**	1,553.7

Notes to the consolidated financial statements continued

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. Details of the Group's divisions can be found on pages 13 to 17 of the Strategic report. With effect from 1 January 2015, the Meggitt Avionics business was transferred from Meggitt Equipment Group to Meggitt Sensing Systems. Prior year comparatives have been restated to reflect this new divisional structure.

Year ended 31 December 2015

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	353.3	398.8	178.0	480.8	244.9	1,655.8
Inter-segment revenue	(0.2)	(0.9)	(0.6)	(6.0)	(0.9)	(8.6)
Revenue from external customers	**353.1**	**397.9**	**177.4**	**474.8**	**244.0**	**1,647.2**
Underlying operating profit (see note 10)*	**131.7**	**97.0**	**15.4**	**72.3**	**9.1**	**325.5**
Items not affecting underlying operating profit (see note 10)						(88.9)
Operating profit (see note 10)						**236.6**
Finance income (see note 12)						2.7
Finance costs (see note 13)						(29.1)
Net finance costs						(26.4)
Profit before tax						**210.2**
Tax (see note 14)						(28.1)
Profit for the year						**182.1**
Exceptional operating items (see note 11)	0.9	1.2	0.8	4.9	2.6	**10.4**
Amortisation of intangible assets (see notes 19 and 20)**	77.7	16.0	6.9	15.1	5.3	**121.0**
Impairment loss (see note 19)	–	–	–	6.4	–	**6.4**
Depreciation (see note 21)***	7.3	6.4	4.1	10.1	5.6	**33.5**

* 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, £49.1 million has been charged to underlying operating profit as defined in note 10.
*** All of the total depreciation in the year has been charged to underlying operating profit as defined in note 10.

The Group's largest customer accounts for 6.6% of revenue (£109.0 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 net of customer funding (see note 19)	37.5	7.4	1.6	25.5	8.5	**80.5**
Programme participation costs (see note 19)	37.4	4.8	–	0.8	–	**43.0**
Other purchased intangible assets	2.0	1.2	0.4	1.2	0.9	**5.7**
Property, plant and equipment	8.5	8.0	6.9	11.9	4.2	**39.5**
Total	**85.4**	**21.4**	**8.9**	**39.4**	**13.6**	**168.7**

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

6. Segmental analysis continued

As at 31 December 2015

	Total £'m
Meggitt Aircraft Braking Systems	666.6
Meggitt Control Systems	303.7
Meggitt Polymers & Composites	187.5
Meggitt Sensing Systems	387.7
Meggitt Equipment Group	145.9
Total segmental trading assets	**1,691.4**
Centrally managed trading assets*	179.8
Goodwill (see note 18)	1,866.0
Other intangible assets	612.0
Derivative financial instruments – non-current (see note 30)	25.5
Deferred tax assets (see note 32)	0.3
Derivative financial instruments – current (see note 30)	8.4
Current tax recoverable	5.5
Cash and cash equivalents (see note 24)	145.4
Total assets	**4,534.3**

* 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 2014 (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	327.1	349.7	163.2	456.5	265.4	1,561.9
Inter-segment revenue	(0.1)	(1.0)	(0.9)	(5.5)	(0.7)	(8.2)
Revenue from external customers	327.0	348.7	162.3	451.0	264.7	1,553.7
Underlying operating profit (see note 10)*	127.5	91.8	20.2	75.7	30.8	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	0.2	0.3	7.0	1.0	9.0
Amortisation of intangible assets (see notes 19 and 20)**	70.9	12.2	6.4	16.2	6.9	112.6
Impairment loss (see note 19)	–	4.0	–	4.0	–	8.0
Depreciation (see note 21)***	6.7	6.1	3.3	9.9	5.2	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.

Notes to the consolidated financial statements continued

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)	30.1	16.5	4.1	23.8	3.2	77.7
Programme participation costs (see note 19)	40.4	5.6	–	–	–	46.0
Other purchased intangible assets	0.3	1.3	0.5	1.2	0.9	4.2
Property, plant and equipment	6.1	4.5	5.9	9.9	6.9	33.3
Total	76.9	27.9	10.5	34.9	11.0	161.2

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

As at 31 December 2014 (Restated)

	Total £'m
Meggitt Aircraft Braking Systems	568.3
Meggitt Control Systems	295.6
Meggitt Polymers & Composites	94.0
Meggitt Sensing Systems	365.8
Meggitt Equipment Group	160.0
Total segmental trading assets	**1,483.7**
Centrally managed trading assets*	181.4
Goodwill (see note 18)	1,534.7
Other intangible assets	609.3
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	**3,949.5**

* 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

	2015 £'m	2014 £'m
Revenue		
UK	**153.9**	152.4
Rest of Europe	**357.6**	338.1
United States of America	**854.9**	771.1
Rest of World	**280.8**	292.1
Total	**1,647.2**	1,553.7

Revenue is based on the location of the customer.

	2015 £'m	2014 Restated (see note 43) £'m
Non-current assets		
UK	**677.7**	602.0
Rest of Europe	**182.2**	203.6
United States of America	**2,650.2**	2,240.9
Rest of World	**11.3**	9.5
Total	**3,521.4**	3,056.0

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

7. Auditor's remuneration

Payable to PricewaterhouseCoopers LLP and its associates:

	2015 £'m	2014 £'m
For the audit of the Company and consolidated financial statements in respect of the current year	**0.8**	0.7
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	**0.6**	0.7
Total	**1.5**	1.4

Non-audit fees payable to PricewaterhouseCoopers LLP were £Nil million (2014: £Nil million).

8. Operating profit

Operating profit is stated after charging/(crediting):

	2015 £'m	2014 £'m
Raw materials and consumables used	**492.5**	423.2
Change in inventories of finished goods and work in progress	**(34.0)**	(13.4)
Employee costs (see note 9)	**590.6**	541.8
Research and development costs*	**73.9**	70.6
Amortisation of capitalised development costs (see note 19)	**7.9**	8.8
Amortisation of programme participation costs (see note 19)	**28.9**	24.9
Amortisation of other purchased intangible assets (see note 20)	**12.3**	10.8
Amortisation of intangible assets acquired in business combinations (see note 10)	**71.9**	68.1
Impairment loss on capitalised development costs (see note 19)	**6.4**	8.0
Depreciation (see note 21)	**33.5**	31.2
Loss on disposal of property, plant and equipment	**–**	0.4
Exceptional operating items (see note 11)	**10.4**	9.0
Amounts arising on the acquisition, disposal and closure of businesses (see note 10)	**0.2**	3.5
Financial instruments (see note 10)	**4.8**	29.2
Net foreign exchange (gain)/loss	**(2.6)**	0.6
Operating lease rentals	**14.9**	15.3
Other operating income	**(1.9)**	(3.1)

* Total research and development expenditure in the year was £158.7 million (2014: £148.3 million) of which £26.8 million (2014: £28.9 million) was charged to cost of sales, £47.1 million (2014: £41.7 million) was charged to net operating costs and £84.8 million (2014: £77.7 million) was capitalised as development costs (see note 19).

9. Employee information

	2015 £'m	2014 £'m
Employee costs including executive directors:		
Wages and salaries	**464.5**	434.7
Social security costs	**82.6**	78.8
Retirement benefit costs (see note 33)	**39.4**	26.6
Share-based payment expense (see note 35)	**4.1**	1.7
Total	**590.6**	541.8

Details of directors' remuneration is provided in the Directors' remuneration report on pages 60 to 80 which forms part of these financial statements.

	2015 Number	2014 Restated Number
Average monthly number of persons employed including executive directors:		
Meggitt Aircraft Braking Systems	**1,300**	1,228
Meggitt Control Systems	**1,835**	1,811
Meggitt Polymers & Composites	**1,818**	1,876
Meggitt Sensing Systems	**3,365**	3,367
Meggitt Equipment Group	**1,798**	1,746
Corporate including shared services	**735**	657
Total	**10,851**	10,685

Prior period comparatives have been restated to reflect the change to the divisional structure described in note 6.

Notes to the consolidated financial statements continued

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	2015 £'m	2014 £'m
Operating profit		**236.6**	236.2
Exceptional operating items (see note 11)		**10.4**	9.0
Amounts arising on the acquisition, disposal and closure of businesses	a	**0.2**	3.5
Amortisation of intangible assets acquired in business combinations	b	**71.9**	68.1
Disposal of inventory revalued in business combinations	c	**1.6**	–
Financial instruments	d	**4.8**	29.2
Adjustments to operating profit*		**88.9**	109.8
Underlying operating profit		**325.5**	346.0
Profit before tax		**210.2**	208.9
Adjustments to operating profit per above		**88.9**	109.8
Net interest expense on retirement benefit obligations (see note 33)		**11.2**	10.0
Adjustments to profit before tax		**100.1**	119.8
Underlying profit before tax		**310.3**	328.7
Profit for the year		**182.1**	177.0
Adjustments to profit before tax per above		**100.1**	119.8
Tax effect of adjustments to profit before tax		**(33.9)**	(36.6)
Adjustments to profit for the year		**66.2**	83.2
Underlying profit for the year		**248.3**	260.2

* Of the adjustments to operating profit, £4.0 million (2014: £5.5 million) relating to exceptional operating items and £1.6 million (2014: £Nil million) relating to the disposal of inventory revalued in business combinations has been charged to cost of sales, with the balance of £83.3 million (2014: £104.3 million) included within net operating costs.

a. In 2015, the Group has decided to separately present amounts arising on the acquisition, disposal and closure of businesses. These include 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 and costs directly attributable to the acquisition of a business. Such amounts were previously recorded as exceptional operating items. Prior year comparatives have been restated to reflect this change.

	2015 £'m	2014 £'m
Costs related to the acquisition of businesses	**3.9**	0.6
Remeasurement of fair value of contingent consideration receivable relating to previously disposed businesses	**(2.5)**	–
(Gain)/loss on closure of businesses	**(1.2)**	2.9
Amounts arising on the acquisition, disposal and closure of businesses	**0.2**	3.5

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

	2015 £'m	2014 £'m
Amortisation of other intangible assets (see note 20)	**84.2**	78.9
Less amortisation of other purchased intangible assets (see note 20)	**(12.3)**	(10.8)
Amortisation of intangible assets acquired in business combinations	**71.9**	68.1

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

10. Reconciliations between profit and underlying profit continued

d. 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. Where cross currency derivatives and treasury lock derivatives do not qualify to be hedge accounted, movements in the fair value of the derivatives are excluded from underlying profit.

Gains or losses arising from the remeasurement of the fair value of close period share buyback commitments are excluded from underlying profit.

	2015 £'m	2014 £'m
Movement in the fair value of foreign currency forward contracts	**16.1**	31.1
Impact of retranslating net foreign currency assets and liabilities at spot rate	**(0.1)**	(1.9)
Movement in the fair value of interest rate derivatives	**2.2**	(4.2)
Movement in the fair value of fixed rate borrowings	**(1.1)**	4.2
Movement in the fair value of cross currency derivative	**(4.4)**	–
Movement in the fair value of treasury lock derivative	**(3.7)**	–
Remeasurement of share buyback close period commitment	**(4.2)**	–
Financial instruments – loss	**4.8**	29.2

11. Exceptional operating items

		Income statement		Cash expenditure	
	Note	2015 £'m	2014 £'m	2015 £'m	2014 £'m
Site consolidations	a	**0.9**	7.5	**0.9**	7.5
Business restructuring costs	b	**9.2**	–	**4.8**	–
Integration of acquired businesses		**0.3**	1.5	**0.1**	4.4
Raw material supply issue		**–**	–	**4.9**	4.7
Exceptional operating items		**10.4**	9.0	**10.7**	16.6

a. This relates to the movement of production to the Group's low cost manufacturing locations and, in 2014, to the consolidation of the Group's two North American sensor businesses onto a single new site in California, USA.

b. This principally relates to costs incurred as part of a Group-wide initiative to structurally reduce its cost base announced on 28 October 2015. A further cost of approximately £8.0 million is expected to be incurred in 2016.

The tax credit in respect of exceptional operating items was £3.2 million (2014: £4.1 million).

12. Finance income

	2015 £'m	2014 £'m
Interest on bank deposits	**0.1**	0.1
Unwinding of interest on other receivables (see note 31)	**2.5**	0.9
Other finance income	**0.1**	0.2
Finance income	**2.7**	1.2

Notes to the consolidated financial statements continued

13. Finance costs

	2015 £'m	2014 £'m
Interest on bank borrowings	**4.1**	2.7
Interest on senior notes	**11.7**	12.7
Interest on obligations under finance leases	**1.0**	0.9
Unwinding of discount on provisions (see note 31)	**3.2**	1.1
Net interest expense on retirement benefit obligations (see note 33)	**11.2**	10.0
Amortisation of debt issue costs*	**0.8**	3.1
Less: amounts capitalised in the cost of qualifying assets (see note 19)	**(2.9)**	(2.0)
Finance costs	**29.1**	28.5

* 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

	2015 £'m	2014 £'m
Current tax – current year	**21.4**	20.4
Current tax – adjustment in respect of prior years	**(2.9)**	0.2
Deferred tax – origination and reversal of temporary differences	**6.3**	17.2
Deferred tax – effects of changes in tax rates	**(1.0)**	–
Deferred tax – adjustment in respect of prior years	**4.3**	(5.9)
Total taxation	**28.1**	31.9

The Finance (No 2) Act 2015, included legislation to reduce the main rate of corporation tax in the UK from 20% to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. As these changes were substantively enacted during 2015, they are reflected in the tax charge for the year. The impact of this change on net deferred tax liabilities at 31 December 2015, profit for the year (underlying and statutory) and comprehensive income for the year was not significant.

Reconciliation of total tax charge

A reconciliation of the tax charge based on the UK standard rate of tax to the actual tax charge is as follows:

	2015 £'m	2014 £'m
Profit on ordinary activities before tax at UK corporation tax rate of 20.25%* (2014: 21.50%)	**42.6**	44.9
Effects of:		
Different tax rates of subsidiaries operating in other jurisdictions	**11.4**	12.5
Changes in statutory tax rates	**(1.0)**	–
Reversal of provisions against historical tax issues	**(11.4)**	–
Tax credits and incentives	**(4.1)**	(3.2)
Other permanent differences	**(10.8)**	(16.0)
Temporary differences	**–**	(0.6)
Current tax – adjustment in respect of prior years	**(2.9)**	0.2
Deferred tax – adjustment in respect of prior years	**4.3**	(5.9)
Total taxation	**28.1**	31.9

* 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 2015 to increase, or reduce respectively, by approximately £2.1 million.

Tax relating to components of other comprehensive income

	2015			2014		
	Before tax £'m	Tax credit/ (charge) £'m	After tax £'m	Before tax £'m	Tax credit/ (charge) £'m	After tax £'m
Current tax – currency translation differences	**80.3**	**2.4**	**82.7**	77.0	(0.3)	76.7
Deferred tax – currency translation differences	**2.4**	**(0.4)**	**2.0**	0.4	–	0.4
Deferred tax – cash flow hedge movements	**(0.7)**	**0.1**	**(0.6)**	(0.8)	0.1	(0.7)
Deferred tax – remeasurement of retirement benefit obligations	**29.4**	**(9.5)**	**19.9**	(97.7)	24.2	(73.5)
Other comprehensive income	**111.4**	**(7.4)**	**104.0**	(21.1)	24.0	2.9
Current tax		**2.4**			(0.3)	
Deferred tax		**(9.8)**			24.3	
Total		**(7.4)**			24.0	

14. Tax continued

Tax relating to items recognised directly in equity

	2015 £'m	2014 £'m
Current tax credit relating to share-based payment expense	**0.5**	1.2
Deferred tax charge relating to share-based payment expense	**(2.5)**	(1.8)
Total	**(2.0)**	(0.6)

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 treasury shares and 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 treasury shares excluded was 0.3 million shares (2014: Nil million) and the weighted average number of own shares excluded was 0.7 million shares (2014: 0.1 million). 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.

	2015 Profit* £'m	2015 Shares Number 'm	2015 EPS Pence	2014 Profit* £'m	2014 Shares Number 'm	2014 EPS Pence
Basic EPS	**182.1**	**785.4**	**23.2**	177.0	804.1	22.0
Potential effect of dilutive ordinary shares	**–**	**10.9**	**(0.3)**	–	11.0	(0.3)
Diluted EPS	**182.1**	**796.3**	**22.9**	177.0	815.1	21.7

* 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:

	2015 Pence	2014 Pence
Basic EPS	**23.2**	22.0
Adjust for effects of:		
Exceptional operating items	**0.9**	0.8
Amounts arising on the acquisition, disposal and closure of businesses	**0.2**	0.3
Amortisation of intangible assets acquired in business combinations	**5.8**	5.5
Disposal of inventory revalued in business combinations	**0.1**	–
Financial instruments	**0.4**	2.9
Net interest expense on retirement benefit obligations	**1.0**	0.9
Underlying basic EPS	**31.6**	32.4

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 31.2 pence (2014: 31.9 pence).

16. Dividends

	2015 £'m	2014 £'m
In respect of earlier years	**–**	70.2
In respect of 2014:		
Interim of 4.25p per share	**–**	34.2
Final of 9.50p per share	**75.6**	–
In respect of 2015:		
Interim of 4.60p per share	**35.5**	–
Dividends paid	**111.1**	104.4
Less paid as scrip dividend (see note 41)	**–**	(53.0)
Dividends paid in cash	**111.1**	51.4

A final dividend in respect of 2015 of 9.80p per share (2014: 9.50p), amounting to an estimated total final dividend of £76.0 million (2014: £76.2 million) is to be proposed at the Annual General Meeting on 21 April 2016. This dividend is not reflected in these financial statements as it is has not been approved by the shareholders at the balance sheet date.

Notes to the consolidated financial statements continued

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 2015 as members of the Board and the Group Executive Committee, 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:

	2015 £'m	2014 £'m
Salaries and other short-term employee benefits	**9.0**	7.3
Retirement benefit expense	**0.3**	0.3
Share-based payment expense	**1.3**	0.6
Total	**10.6**	8.2

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

	2015 Average exercise price Pence	**2015 Number outstanding 'm**	2014 Average exercise price Pence	2014 Number outstanding 'm
Share options	**N/A**	**-**	393.00	0.1
Share appreciation rights – equity-settled	**349.19**	**3.2**	359.71	5.1
Equity participation plan shares	**–**	**1.6**	–	2.5
Meggitt Long Term Incentive Plan 2014	**–**	**3.0**	–	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 60 to 80 which forms part of these financial statements.

18. Goodwill

	2015 £'m	2014 Restated (see note 43) £'m
Cost at 1 January	**1,534.7**	1,457.1
Exchange rate adjustments	**70.5**	64.1
Businesses acquired (see notes 42 and 43)	**260.8**	13.5
Cost at 31 December	**1,866.0**	1,534.7

Goodwill is tested for impairment annually or more frequently if there is any indication of impairment. No impairment charge was required in the year (2014: £Nil million) and the cumulative impairment charge recognised to date is £Nil million (2014: £Nil million). The total amounts of goodwill and other intangible assets acquired as part of the acquisitions in the year of the advanced composites businesses of Cobham plc ("Advanced Composites") and the composites division of EDAC ("EDAC") that are expected to be deductible for tax purposes will be assessed during 2016. The total amount of goodwill and other intangible assets acquired as part of the acquisition of Precision Engine Controls Corporation in 2014 that is deductible for tax purposes is £Nil million.

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:

	2015 £'m	2014 Restated (see note 43) £'m
Meggitt Aircraft Braking Systems ('MABS')	**734.0**	699.9
Meggitt (North Hollywood), Inc.	**198.8**	188.0
EDAC	**159.7**	–
Meggitt Safety Systems, Inc.	**145.7**	137.7
Advanced Composites	**103.6**	–
Meggitt Sensing Systems ('MSS')*	**83.9**	81.9
Meggitt (Rockmart), Inc.	**77.1**	72.8
Meggitt Training Systems, Inc.	**70.6**	66.8
Other	**292.6**	287.6
Total	**1,866.0**	1,534.7

* During 2014, the power businesses were moved from Meggitt Equipment Group to Meggitt Sensing Systems. 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.

18. Goodwill continued

For each CGU, the Group has determined its recoverable amount from value in use calculations. Such calculations were not performed for Advanced Composites or EDAC due to the proximity of their acquisition to the balance sheet date. 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 2015. 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. 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. 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. 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 they are a leading supplier of flexible fuel tanks. Meggitt Training Systems, Inc. supplies integrated live and virtual training packages for armed forces and law enforcement agencies across the world.

  In civil aerospace, growth in capacity terms, measured in available seat kilometres (ASKs), is forecast to grow in line with the long-term trend rate of 5%, which together with the Group's growing fleet, price increases and the expected output of the formation of the customer services and support organisation, should facilitate revenue growth in excess of the overall market for civil spares over the medium term. The Group's continuing confidence in air passenger travel growth is supported by the sustained high levels of order intake at Boeing and Airbus. Large jet deliveries increased by 1% in 2015, and the Group expects good delivery growth over the next five years underpinned by continued strong recent order intake and a backlog at Boeing and Airbus which equates to over eight years of deliveries at current production rates. Deliveries of regional aircraft increased by 10% in 2015, with modest growth anticipated over the next few 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 2015. Further growth is anticipated in this market over the next five years, driven by increasing globalisation of the customer base and the ongoing improvement in the US economy, partially offset by the impact of a weaker oil and gas sector. Military markets look to be entering a more benign phase, with the expectation of a return to growth in military budgets in a number of regions. The Group has key positions on a broad range of military applications, including future growth platforms and is likely to benefit from increased expenditure on the retrofit and reset of repatriated military equipment. The Group therefore continues to anticipate average compound organic military percentage growth in low single digits 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 principal countries in which the CGU operates (UK: 2.3% (2014: 2.3%), US: 2.5% (2014: 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 10.1% (2014: 10.2%), Meggitt (North Hollywood), Inc., 11.3% (2014: 10.9%), Meggitt Safety Systems, Inc. 11.1% (2014: 10.9%), MSS 10.0% (2014: 10.1%), Meggitt (Rockmart), Inc. 10.7% (2014: 10.4%), and Meggitt Training Systems, Inc. 10.0% (2014: 9.8%). The discount rates used for 'Other' CGUs ranged between 9.2% to 11.1% (2014: 8.3% to 11.0%).

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 in respect of the principal CGU's described above. The principal CGU with the least headroom in percentage terms is MABS followed by Meggitt (Rockmart), Inc. then Meggitt (North Hollywood), Inc.. To require an impairment in the Group financial statements, one of the following would be required:

	MABS	Meggitt (Rockmart) Inc.	Meggitt (North Hollywood) Inc.
Reduction in estimates of cash flows (more than)	19%	21%	25%
Reduction of long-term growth rates (more than)	62%	66%	100%
Increase in the discount rate applied to future cash flows (more than)	14%	16%	23%
Headroom	£356.3m	£39.0m	£100.8m

Notes to the consolidated financial statements continued

18. Goodwill continued

'Other' goodwill of £292.6 million (2014: £287.6 million) relates to approximately 10 individual CGUs. The CGU with the least headroom in percentage terms has a goodwill balance of £58.0 million and limited headroom of £4.6 million based on value in use calculations and using a discount rate of 10.8%. A potential impairment would be required if there were more than a 4% reduction in estimated cash flows, 10% reduction in long-term growth rates or 2% increase in the discount rate applied. Restructuring of the way the business operates in 2016, which is not reflected in the five year plan, is expected to lead to further headroom being created, when impairment testing is carried out in future years.

19. Development costs and programme participation costs

		Development costs £'m	Programme participation costs £'m
At 1 January 2014			
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
Year ended 31 December 2015			
Opening net book amount		342.9	242.4
Exchange rate adjustments		17.7	11.1
Additions	– Internal development costs	84.8	–
	– Free of charge/deeply discounted manufactured parts	–	41.4
	– Cash payments	–	1.6
Funding from customers		(4.3)	–
Interest capitalised		2.9	–
Transfers to inventory		(21.3)	–
Impairment loss*		(6.4)	–
Amortisation*		(7.9)	(28.9)
Net book amount		**408.4**	**267.6**
At 31 December 2015			
Cost		506.9	479.7
Accumulated amortisation		(98.5)	(212.1)
Net book amount		**408.4**	**267.6**

* 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% (2014: 1.5%).

The net book amount of development costs includes £182.0 million (2014: £125.5 million) in respect of Meggitt Aircraft Braking Systems which have an estimated weighted average remaining life of 14.1 years (2014: 14.2 years). The net book amount of programme participation costs includes £248.3 million (2014: £228.6 million) in respect of Meggitt Aircraft Braking Systems which have an estimated weighted average remaining life of 8.6 years (2014: 9.0 years).

20. Other intangible assets

	Customer relationships (*) £'m	Technology (*) £'m	Order backlogs (*) £'m	Trade names and trademarks (*) £'m	Other purchased (**) £'m	Total £'m
At 1 January 2014						
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	1.0	28.7
Businesses acquired as restated (see note 43)	12.6	2.9	0.3	–	–	15.8
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 – restated	476.2	125.6	0.3	7.2	75.6	684.9
At 31 December 2014						
Cost	859.4	252.5	0.3	29.0	124.2	1,265.4
Accumulated amortisation	(383.2)	(126.9)	–	(21.8)	(48.6)	(580.5)
Net book amount – restated	476.2	125.6	0.3	7.2	75.6	684.9
Year ended 31 December 2015						
Opening net book amount	476.2	125.6	0.3	7.2	75.6	684.9
Exchange rate adjustments	21.0	5.2	–	0.2	1.7	28.1
Businesses acquired (see note 42)	29.3	18.3	–	0.6	0.2	48.4
Additions	–	–	–	–	11.9	11.9
Amortisation – net operating costs (see note 10)	(53.4)	(16.2)	(0.3)	(2.0)	(12.3)	(84.2)
Net book amount	**473.1**	**132.9**	**–**	**6.0**	**77.1**	**689.1**
At 31 December 2015						
Cost	928.5	282.2	0.3	30.7	138.8	1,380.5
Accumulated amortisation	(455.4)	(149.3)	(0.3)	(24.7)	(61.7)	(691.4)
Net book amount	**473.1**	**132.9**	**–**	**6.0**	**77.1**	**689.1**

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

The net book amount of customer relationships includes £310.0 million (2014: £332.1 million) in respect of Meggitt Aircraft Braking Systems and £56.5 million (2014: £60.3 million) in respect of Meggitt Control Systems which have an estimated weighted average remaining life of 8.0 years (2014: 9.0 years) and 9.0 years (2014: 10.3 years) respectively. The net book amount of technology includes £61.8 million (2014: £66.4 million) in respect of Meggitt Aircraft Braking Systems and £28.2 million (2014: £10.7 million) in respect of Meggitt Polymers & Composites which have an estimated weighted average remaining life of 8.0 years (2014: 9.0 years) and 5.8 years (2014: 6.8 years) respectively.

Notes to the consolidated financial statements continued

21. Property, plant and equipment

	Land and buildings £'m	Plant, equipment and vehicles £'m	Total £'m
At 1 January 2014			
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	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**
Year ended 31 December 2015			
Opening net book amount	123.1	128.0	251.1
Exchange rate adjustments	2.8	4.4	7.2
Businesses acquired (see note 42)	7.3	14.6	21.9
Additions	4.8	39.5	44.3
Disposals	–	(0.7)	(0.7)
Depreciation	(7.0)	(26.5)	(33.5)
Net book amount	**131.0**	**159.3**	**290.3**
At 31 December 2015			
Cost	197.8	467.4	665.2
Accumulated depreciation	(66.8)	(308.1)	(374.9)
Net book amount	**131.0**	**159.3**	**290.3**

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 (2014: £4.4 million) and £Nil million (2014: £0.1 million) included within plant, equipment and vehicles.

22. Inventories

	2015 £'m	2014 Restated (see note 43) £'m
Contract costs incurred	**37.1**	9.3
Less progress billings	**(1.7)**	–
Net contract costs	**35.4**	9.3
Raw materials and bought-in components	**141.2**	121.1
Manufacturing work in progress	**167.6**	141.6
Finished goods and goods for resale	**71.0**	55.9
Total	**415.2**	327.9

The cost of inventories recognised as an expense and included in cost of sales was £956.3 million (2014: £897.6 million). The cost of inventories recognised as an expense includes £2.8 million (2014: £6.4 million) in respect of write-downs of inventory to net realisable value, and has been reduced by £3.8 million (2014: £3.0 million) in respect of the reversal of write-downs made in previous years.

23. Trade and other receivables

	2015 £'m	2014 Restated (see note 43) £'m
Trade receivables	**265.9**	232.2
Amounts recoverable on contracts	**25.7**	55.1
Prepayments and accrued income	**17.9**	14.5
Other receivables	**103.1**	123.4
Total	**412.6**	425.2
Less non-current portion:		
Other receivables	**58.9**	93.4
Non-current portion	**58.9**	93.4
Current portion	**353.7**	331.8

Other receivables includes £80.1 million (2014: £102.8 million) in respect of insurance receivables arising on environmental issues relating principally to businesses sold by Whittaker Corporation prior to its acquisition by the Group (see note 31) of which £23.4 million (2014: £11.1 million) is shown as current. Other receivables are discounted where the impact is significant.

Trade receivables are stated after a provision for impairment of £4.9 million (2014: £3.8 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:

	2015 £'m	2014 Restated £'m
At 1 January	**3.8**	4.1
Exchange rate adjustments	**0.1**	0.1
Businesses acquired as restated (see note 43)	**–**	0.1
Charge/(credit) to income statement – net operating costs	**1.0**	(0.5)
At 31 December	**4.9**	3.8

At 31 December 2015, trade receivables and amounts recoverable on contracts of £49.9 million (2014: £67.5 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:

	2015 £'m	2014 £'m
Up to 3 months overdue	**44.0**	41.5
Over 3 months overdue	**5.9**	26.0
Total	**49.9**	67.5

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:

	2015 £'m	2014 Restated £'m
Sterling	**70.9**	87.9
US dollar	**303.8**	295.8
Euro	**29.8**	28.6
Other	**8.1**	12.9
Total	**412.6**	425.2

Notes to the consolidated financial statements continued

24. Cash and cash equivalents

	2015 £'m	2014 £'m
Cash at bank and on hand	**123.3**	95.4
Short-term bank deposits	**22.1**	10.1
Total	**145.4**	105.5

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

	2015 £'m	2014 £'m
Moody's rating:		
Aaa	**0.8**	0.3
Aa	**64.4**	25.5
A	**36.0**	77.4
Baa	**44.2**	2.3
Total	**145.4**	105.5

25. Trade and other payables – current

	2015 £'m	2014 £'m
Payments received on account	**29.2**	31.5
Trade payables	**165.1**	127.3
Social security and other taxes	**10.3**	8.4
Accrued expenses	**57.3**	52.6
Share buyback - close period commitment	**–**	20.0
Other payables	**140.2**	118.7
Total	**402.1**	358.5

26. Trade and other payables – non-current

	2015 £'m	2014 £'m
Deferred consideration relating to acquired businesses	**3.2**	3.0
Other payables	**1.0**	2.9
Total	**4.2**	5.9

27. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2015 £'m	2014 £'m	2015 £'m	2014 £'m
Amounts payable under finance leases:				
In one year or less	**1.1**	1.1	**0.1**	0.1
In more than one year but not more than five years	**4.2**	4.0	**0.2**	0.2
In more than five years	**12.1**	12.4	**5.2**	5.1
Total	**17.4**	17.5	**5.5**	5.4
Less: future finance charges	**(11.9)**	(12.1)		
Present value of lease obligations	**5.5**	5.4		
Less non-current portion	**5.4**	5.3		
Current portion	**0.1**	0.1		

Obligations under finance leases are US dollar denominated. The weighted average period to maturity is 14.8 years (2014: 15.4 years) and the weighted average interest rate is 18.4% (2014: 18.0%).

28. Bank and other borrowings

	2015 £'m	2014 £'m
Current		
Bank loans	**0.7**	10.8
Other loans	**3.3**	48.1
Total current	**4.0**	58.9
Non-current		
Bank loans	**763.2**	212.6
Other loans	**425.8**	404.1
Total non-current	**1,189.0**	616.7
Total	**1,193.0**	675.6
Analysis of bank and other borrowings repayable:		
In one year or less	**4.0**	58.9
In more than one year but not more than five years	**1,097.2**	344.4
In more than five years	**91.8**	272.3
Total	**1,193.0**	675.6
Analysis of bank and other borrowings:		
Drawn under committed facilities	**1,172.8**	644.9
Less unamortised debt issue costs	**(3.1)**	(3.6)
Fair value adjustment to fixed rate borrowings	**18.4**	19.5
Drawn under uncommitted facilities	**1.1**	11.6
Interest accruals	**3.8**	3.2
Total	**1,193.0**	675.6

Debt issue costs are amortised over the period of the facility to which they relate. The Group has no secured borrowings (2014: £Nil million).

The Group has the following committed facilities:

	2015			2014		
	Drawn £'m	**Undrawn £'m**	**Total £'m**	Drawn £'m	Undrawn £'m	Total £'m
Senior notes (USD 70.0 million)	**–**	**–**	**–**	44.9	–	44.9
Senior notes (USD 600.0 million)	**407.1**	**–**	**407.1**	384.8	–	384.8
Syndicated credit facility (USD 900.0 million)	**358.6**	**252.0**	**610.6**	215.2	362.0	577.2
Bilateral credit facilities (USD 600.0 million)	**407.1**	**–**	**407.1**	–	–	–
Total	**1,172.8**	**252.0**	**1,424.8**	644.9	362.0	1,006.9

The Group issued USD 70.0 million of loan notes to private placement investors in 2003. The notes carried an interest rate of 5.46% and were repaid 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 five-year USD 900.0 million syndicated revolving credit facility which matures in 2020, following a one-year extension which was agreed during 2015. The facility includes a further one-year extension option at the end of the second year. At 31 December 2015, the amounts drawn under the revolving credit facility were £358.6 million (2014: £215.2 million) represented by borrowings denominated in US dollars of £312.4 million (2014: £142.5 million), in Euros of £46.2 million (2014: £50.4 million), in Swiss francs of £Nil million (2014: £10.3 million) and in Sterling of £Nil million (2014: £12.0 million). Borrowings under the facility are subject to interest at floating rates.

During 2015, the Group secured two new USD 300.0 million bilateral credit facilities which mature in 2017. At 31 December 2015, the facilities were fully drawn and borrowings are all denominated in US dollars. Borrowings under the facilities are subject to interest at floating rates.

Notes to the consolidated financial statements continued

28. Bank and other borrowings continued

The committed facilities available at each balance sheet date expire as follows:

	2015			2014		
	Drawn £'m	**Undrawn £'m**	**Total £'m**	Drawn £'m	Undrawn £'m	Total £'m
In one year or less	**–**	**–**	**–**	44.9	–	44.9
In more than one year but not more than five years	**1,088.0**	**252.0**	**1,340.0**	343.5	362.0	705.5
In more than five years	**84.8**	**–**	**84.8**	256.5	–	256.5
Total	**1,172.8**	**252.0**	**1,424.8**	644.9	362.0	1,006.9

The Group also has various uncommitted facilities with its relationship banks.

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

	2015		2014	
	Book value £'m	**Fair value £'m**	Book value £'m	Fair value £'m
Current	**4.0**	**4.0**	58.9	61.6
Non-current	**1,189.0**	**1,196.9**	616.7	625.7
Total	**1,193.0**	**1,200.9**	675.6	687.3

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 2015:

					Fixed rate borrowings	
	Floating £'m	**Fixed £'m**	**Non-interest bearing £'m**	**Total £'m**	**Weighted average interest rate %**	**Weighted average period for which rate is fixed Years**
US dollar	**839.2**	**244.3**	**–**	**1,083.5**		
Swiss franc	**–**	**65.3**	**–**	**65.3**		
Euro	**46.2**	**0.3**	**0.8**	**47.3**		
Gross bank and other borrowings	**885.4**	**309.9**	**0.8**	**1,196.1**	**3.4**	**2.5**
Less unamortised debt issue costs	**(2.0)**	**(1.1)**	**–**	**(3.1)**		
Bank and other borrowings	**883.4**	**308.8**	**0.8**	**1,193.0**		

As at 31 December 2014:

					Fixed rate borrowings	
	Floating £'m	Fixed £'m	Non-interest bearing £'m	Total £'m	Weighted average interest rate %	Weighted average period for which rate is fixed Years
US dollar	317.6	277.4	–	595.0		
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	3.7	3.3
Less unamortised debt issue costs	(2.8)	(0.8)	–	(3.6)		
Bank and other borrowings	398.1	276.6	0.9	675.6		

The weighted average interest rate reflects the relative impact of interest rates based on the principal amounts and the duration of borrowings. The weighted average period to maturity for non-interest bearing borrowings is 3.8 years (2014: 4.4 years).

29. Financial instruments

As at 31 December 2015:

	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)	–	–	58.9	–	58.9	58.9
Derivative financial instruments (see note 30)	24.8	0.7	–	–	25.5	25.5
Current:						
Trade and other receivables*	–	–	335.8	–	335.8	335.8
Derivative financial instruments (see note 30)	8.4	–	–	–	8.4	8.4
Cash and cash equivalents (see note 24)	–	–	145.4	–	145.4	145.4
Financial assets	**33.2**	**0.7**	**540.1**	**–**	**574.0**	**574.0**
Current:						
Trade and other payables**	–	–	–	(391.8)	(391.8)	(391.8)
Derivative financial instruments (see note 30)	(12.7)	–	–	–	(12.7)	(12.7)
Obligations under finance leases (see note 27)	–	–	–	(0.1)	(0.1)	(0.1)
Bank and other borrowings (see note 28)	–	–	–	(4.0)	(4.0)	(4.0)
Non-current:						
Trade and other payables (see note 26)	–	–	–	(4.2)	(4.2)	(4.2)
Derivative financial instruments (see note 30)	(13.7)	–	–	–	(13.7)	(13.7)
Obligations under finance leases (see note 27)	–	–	–	(5.4)	(5.4)	(5.4)
Bank and other borrowings (see note 28)	(290.8)	–	–	(898.2)	(1,189.0)	(1,196.9)
Financial liabilities	**(317.2)**	**–**	**–**	**(1,303.7)**	**(1,620.9)**	**(1,628.8)**
Total	**(284.0)**	**0.7**	**540.1**	**(1,303.7)**	**(1,046.9)**	**(1,054.8)**

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*	–	–	317.3	–	317.3	317.3
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	516.2	–	546.9	546.9
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	516.2	(760.1)	(502.6)	(514.3)

* Excludes prepayments and accrued income of £17.9 million (2014: £14.5 million) (see note 23).
** Excludes social security and other taxes of £10.3 million (2014: £8.4 million) (see note 25).

Notes to the consolidated financial statements continued

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 and the treasury lock derivative, have been derived from forward interest rates based on yield curves observable at the balance sheet date together with the contractual interest rates. The fair value of the cross currency derivative has been derived from forward interest rates based on yield curves observable at the balance sheet date, forward exchange rates observable at the balance sheet date and the contractual interest and forward exchange 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 and 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:

	2015 £'m	2014 £'m
Fair value at 1 January	**7.7**	7.0
(Gain)/loss recognised in net operating costs	**(1.1)**	0.7
Fair value at 31 December	**6.6**	7.7

The difference between the fair value and contractual amount at maturity of the non-current portion of bank and other borrowings is as follows:

	2015 £'m	2014 £'m
Fair value	**290.8**	276.9
Difference between fair value and contractual amount at maturity	**(18.4)**	(19.5)
Contractual amount payable at maturity	**272.4**	257.4

Financial liabilities classified as level 3 in the hierarchy

Changes in fair value are as follows:

	2015 £'m	2014 £'m
Bank and other borrowings at fair value through profit and loss:		
At 1 January	**276.9**	256.8
Exchange rate adjustments	**16.0**	16.1
(Gain)/loss recognised in net operating costs	**(2.1)**	4.0
At 31 December	**290.8**	276.9

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 2015, would impact profit before tax by approximately £7.6 million.

30. Derivative financial instruments

As at 31 December 2015:

	Contract or underlying principal amount		**Fair value**	
	Assets £'m	**Liabilities £'m**	**Assets £'m**	**Liabilities £'m**
Interest rate swaps – cash flow hedges	**108.5**	**–**	**0.7**	**–**
Interest rate swaps – fair value hedges	**271.4**	**–**	**24.8**	**–**
Cross currency swap - not hedge accounted	**61.0**	**–**	**4.5**	**–**
Treasury lock - not hedge accounted	**135.7**	**–**	**3.7**	**–**
Foreign currency forward contracts – not hedge accounted	**8.5**	**(596.9)**	**0.2**	**(26.4)**
Total	**585.1**	**(596.9)**	**33.9**	**(26.4)**
Less non-current portion:				
Interest rate swaps – cash flow hedges	**108.5**	**–**	**0.7**	**–**
Interest rate swaps – fair value hedges	**271.4**	**–**	**24.8**	**–**
Foreign currency forward contracts – not hedge accounted	**3.2**	**(391.6)**	**–**	**(13.7)**
Non-current portion	**383.1**	**(391.6)**	**25.5**	**(13.7)**
Current portion	**202.0**	**(205.3)**	**8.4**	**(12.7)**

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)

Interest rate swaps

The total notional principal amount of outstanding interest rate swap contracts at 31 December 2015 is £379.9 million (2014: £359.1 million), of which £67.8 million will expire in 2017, £108.6 million will expire in 2018, £118.7 million will expire in 2020 and £84.8 million will expire in 2022. The contracts are all denominated in US dollars. Of the notional principal amount outstanding, £108.5 million (2014: £102.6 million) has the economic effect of converting floating rate US dollar borrowings into fixed rate US dollar borrowings and £271.4 million (2014: £256.5 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.

Cross currency swap

The cross currency swap has been used to synthetically convert US dollar denominated floating borrowings into Swiss franc denominated fixed borrowings to hedge against Swiss franc denominated assets of overseas subsidiaries. The cross currency swap does not qualify to be hedge accounted.

Treasury lock

The treasury lock has been used to secure current market interest rates for specified amounts of future fixed-rate funding. The treasury lock does not qualify to be hedge accounted.

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.

	2015 Assets £'m	**2015 Liabilities £'m**	2014 Assets £'m	2014 Liabilities £'m
Fair value:				
US dollar forward sales (USD/£)	**–**	**(13.0)**	2.3	(3.8)
Forward sales denominated in other currencies	**0. 2**	**(13.4)**	0.1	(8.7)
Total	**0.2**	**(26.4)**	2.4	(12.5)

Notes to the consolidated financial statements continued

30. Derivative financial instruments continued

Credit quality of derivative financial assets

The credit quality of derivative financial assets is as follows:

	2015 £'m	2014 £'m
Moody's rating:		
Aa	**8.2**	4.0
A	**25.7**	26.7
Total	**33.9**	30.7

31. Provisions

	Provisions					Environmental insurance receivables (a) £'m
	Environmental (a) £'m	Onerous contracts (b) £'m	Warranty costs (c) £'m	Other (d) £'m	Total £'m	
At 1 January 2015	133.0	22.3	13.0	7.3	175.6	(102.8)
Exchange rate adjustments	6.6	0.5	0.5	0.1	7.7	(4.9)
Businesses acquired (see note 42)	–	0.6	–	–	0.6	–
Additional provision in year*	–	0.6	6.8	3.8	11.2	–
Unused amounts reversed*	(15.9)	(1.9)	(0.7)	(2.8)	(21.3)	15.9
Charge/(credit) to net finance costs (see notes 13 and 12)	3.2	–	–	–	3.2	(2.5)
Transfer (to)/from trade and other payables	–	(0.6)	0.4	–	(0.2)	–
Utilised	(15.9)	(5.2)	(5.8)	(2.9)	(29.8)	14.2
At 31 December 2015	**111.0**	**16.3**	**14.2**	**5.5**	**147.0**	**(80.1)**

	2015 £'m	2014 £'m
Current	**36.0**	45.1
Non-current	**111.0**	130.5
At 31 December 2015	**147.0**	175.6

* Amounts in respect of onerous contracts and warranty costs have been recorded in cost of sales. Amounts in respect of environmental and other provisions have been recorded in net operating costs.

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 and for which movements in that receivable are shown in the table above (see also note 23). During the year, further information regarding the extent of remediation required was received, which resulted in the reversal of £15.9 million of provision previously held. As the revision of cost estimates related to sites which are insured, there was a corresponding reduction in the insurance receivable and no net impact on net operating costs.

b. Provision has been made for estimated losses under certain trading contracts. 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. The provisions are not discounted given the short period over which they will be utilised.

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 certain 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 approved certain past or future remedial costs incurred or to be incurred by the Group's US subsidiaries. Such approval was received during the year. In addition, the Group was required to implement additional future compliance measures. 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.

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 2014	68.1	16.0	84.1
Exchange rate adjustments	2.7	0.3	3.0
Reclassifications	–	(3.7)	(3.7)
Businesses acquired as restated (see note 43)	–	(0.2)	(0.2)
(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 as restated	87.7	12.9	100.6
Exchange rate adjustments	2.7	0.7	3.4
Reclassifications	(1.1)	0.5	(0.6)
Businesses acquired (see note 42)	–	0.2	0.2
(Charge)/credit to income statement (see note 14)	(1.6)	0.4	(1.2)
Charge to other comprehensive income (see note 14)	(9.5)	(0.2)	(9.7)
Charge to equity (see note 14)	–	(2.5)	(2.5)
At 31 December 2015	**78.2**	**12.0**	**90.2**

Deferred tax liabilities	Accelerated tax depreciation £'m	Intangible assets (*) £'m	Total £'m
At 1 January 2014	(19.3)	(275.0)	(294.3)
Exchange rate adjustments	(0.9)	(14.1)	(15.0)
Reclassifications	(0.1)	0.9	0.8
Businesses acquired as restated (see note 43)	–	(5.9)	(5.9)
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 as restated	(22.1)	(298.5)	(320.6)
Exchange rate adjustments	(1.2)	(15.1)	(16.3)
Reclassifications	–	0.5	0.5
Businesses acquired (see note 42)	(0.8)	–	(0.8)
Charge to income statement (see note 14)	(4.2)	(4.2)	(8.4)
Charge to other comprehensive income (see note 14)	–	(0.1)	(0.1)
At 31 December 2015	**(28.3)**	**(317.4)**	**(345.7)**

* 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:

	2015 £'m	2014 Restated £'m
Deferred tax assets	**0.3**	0.9
Deferred tax liabilities	**(255.8)**	(220.9)
Net balance at 31 December	**(255.5)**	(220.0)

Deferred tax assets are analysed as follows:

	2015 £'m	2014 £'m
To be recovered within one year	**0.2**	0.2
To be recovered after more than one year	**0.1**	0.7
Total	**0.3**	0.9

Deferred tax liabilities all fall due after more than one year.

The Group has unrecognised tax losses of £24.3 million (2014: £23.5 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.

Notes to the consolidated financial statements continued

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.

The Swiss scheme is a tax qualified pension plan subject to the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans which constitutes a legal framework setting out the minimum requirements for occupational pension plans. The responsibility for its governance lies with a foundation, which is similar in nature to a UK trustee board.

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

	2015 £'m	2014 £'m
Total charge in respect of defined contribution pension schemes	**23.8**	21.7
Defined benefit pension schemes:		
Service cost	**14.5**	11.9
Past service cost	**–**	1.1
Net interest expense on retirement benefit obligations	**9.5**	7.8
Total charge in respect of defined benefit pension schemes	**24.0**	20.8
Healthcare schemes:		
Service cost	**0.8**	0.8
Past service cost/(credit)*	**0.3**	(8.9)
Net interest expense on retirement benefit obligations	**1.7**	2.2
Total charge/(credit) in respect of healthcare schemes	**2.8**	(5.9)
Total charge	**50.6**	36.6

* In 2014, 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, which is included within the amounts shown in the table.

Of the total charge, £39.4 million (2014: £26.6 million) has been charged to operating profit (see note 9), of which £22.2 million (2014: £19.5 million) has been included in cost of sales and £17.2 million (2014: £7.1 million) in net operating costs. The remaining £11.2 million (2014: £10.0 million) is included in finance costs (see note 13).

33. Retirement benefit obligations continued

Amounts recognised in the balance sheet

	2015			
	UK pension scheme £'m	**Overseas pension schemes £'m**	**Overseas healthcare schemes £'m**	**Total £'m**
Present value of scheme liabilities	**637.1**	**396.1**	**45.4**	**1,078.6**
Fair value of scheme assets	**(515.0)**	**(279.1)**	**-**	**(794.1)**
Retirement benefit obligations	**122.1**	**117.0**	**45.4**	**284.5**

	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

Of the total deficit of £284.5 million (2014: £317.8 million), £62.0 million (2014: £63.8 million) is in respect of unfunded schemes.

Changes in the present value of retirement benefit obligations

	2015			2014		
	Liabilities (*) £'m	**Assets (**) £'m**	**Total £'m**	Liabilities (*) £'m	Assets (**) £'m	Total £'m
At 1 January	**1,078.9**	**(761.1)**	**317.8**	926.5	(688.4)	238.1
Exchange rate adjustments	**20.7**	**(13.4)**	**7.3**	15.6	(7.9)	7.7
Service cost	**15.3**	**–**	**15.3**	12.7	–	12.7
Past service cost/(credit)	**0.3**	**–**	**0.3**	(7.8)	–	(7.8)
Interest expense/(income) (see note 13)	**37.9**	**(26.7)**	**11.2**	38.9	(28.9)	10.0
Contributions – Group	**–**	**(39.7)**	**(39.7)**	–	(42.0)	(42.0)
Contributions – members	**2.9**	**(2.9)**	**–**	3.2	(3.2)	–
Benefits paid	**(40.8)**	**40.8**	**–**	(38.8)	38.8	–
Remeasurement of retirement benefit obligations:						
Experience losses	**11.4**	**–**	**11.4**	–	–	–
(Gain)/loss from change in demographic assumptions	**(6.3)**	**–**	**(6.3)**	10.8	–	10.8
(Gain)/loss from change in financial assumptions	**(41.7)**	**–**	**(41.7)**	117.8	–	117.8
Return on schemes' assets excluding amounts included in finance income	**–**	**7.2**	**7.2**	–	(30.9)	(30.9)
Total remeasurement (gain)/loss	**(36.6)**	**7.2**	**(29.4)**	128.6	(30.9)	97.7
Administrative expenses borne directly by schemes	**–**	**1.7**	**1.7**	–	1.4	1.4
At 31 December	**1,078.6**	**(794.1)**	**284.5**	1,078.9	(761.1)	317.8

* Present value of schemes' liabilities.
** Fair value of schemes' assets.

Notes to the consolidated financial statements continued

33. Retirement benefit obligations continued

Analysis of pension scheme assets

	2015				2014			
	Quoted £'m	**Unquoted £'m**	**Total £'m**	**%**	Quoted £'m	Unquoted £'m	Total £'m	%
Equities	**156.6**	**–**	**156.6**	**30.4**	146.0	–	146.0	29.1
Government bonds	**221.6**	**2.1**	**223.7**	**43.4**	196.6	1.9	198.5	39.6
Corporate bonds	**81.0**	**26.5**	**107.5**	**20.9**	80.1	18.9	99.0	19.8
Cash	**6.7**	**–**	**6.7**	**1.3**	35.7	–	35.7	7.1
Other assets	**8.9**	**11.6**	**20.5**	**4.0**	8.2	14.0	22.2	4.4
UK pension scheme	**474.8**	**40.2**	**515.0**	**100.0**	466.6	34.8	501.4	100.0
Equities	**62.9**	**–**	**62.9**	**22.5**	58.0	–	58.0	22.3
Government bonds	**69.4**	**–**	**69.4**	**24.9**	67.5	–	67.5	26.0
Corporate bonds	**94.4**	**–**	**94.4**	**33.8**	85.2	–	85.2	32.8
Property	**13.3**	**13.4**	**26.7**	**9.6**	8.9	13.5	22.4	8.7
Cash	**3.3**	**–**	**3.3**	**1.2**	2.2	–	2.2	0.8
Other assets	**22.4**	**–**	**22.4**	**8.0**	24.4	–	24.4	9.4
Overseas pension schemes	**265.7**	**13.4**	**279.1**	**100.0**	246.2	13.5	259.7	100.0
Equities	**219.5**	**–**	**219.5**	**27.6**	204.0	–	204.0	26.8
Government bonds	**291.0**	**2.1**	**293.1**	**36.9**	264.1	1.9	266.0	34.9
Corporate bonds	**175.4**	**26.5**	**201.9**	**25.4**	165.3	18.9	184.2	24.2
Property	**13.3**	**13.4**	**26.7**	**3.4**	8.9	13.5	22.4	3.0
Cash	**10.0**	**–**	**10.0**	**1.3**	37.9	–	37.9	5.0
Other assets	**31.3**	**11.6**	**42.9**	**5.4**	32.6	14.0	46.6	6.1
Total pension schemes' assets	**740.5**	**53.6**	**794.1**	**100.0**	712.8	48.3	761.1	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

	2015			2014		
	UK pension scheme	**Overseas* pension schemes**	**Overseas healthcare schemes**	UK pension scheme	Overseas* pension schemes	Overseas healthcare schemes
Discount rate	**3.85%**	**4.20%**	**4.20%**	3.60%	3.85%	3.85%
Inflation rate	**3.10%**	**N/A**	**N/A**	3.10%	N/A	N/A
Increases to deferred benefits during deferment**	**2.10%**	**N/A**	**N/A**	2.10%	N/A	N/A
Increases to pensions in payment**	**3.00%**	**N/A**	**N/A**	3.00%	N/A	N/A
Salary increases	**4.10%**	**4.66%**	**N/A**	4.10%	4.74%	N/A

* Provided in respect of the most significant overseas schemes.

** 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 an analysis of members used to support the 2015 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 are 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').

33. Retirement benefit obligations continued

	2015		2014	
	UK scheme Years	**Overseas* schemes Years**	UK scheme Years	Overseas* schemes Years
Member age 45 (life expectancy at age 65) – male	**23.3-25.0**	**21.6-22.2**	23.6-25.3	21.6-22.2
Member age 45 (life expectancy at age 65) – female	**26.2-28.0**	**23.5-23.7**	26.4-28.0	23.4-23.7
Member age 65 (current life expectancy) – male	**21.9-23.4**	**20.3-21.0**	21.9-23.6	20.3-20.9
Member age 65 (current life expectancy) – female	**24.4-26.1**	**22.3-22.6**	24.5-26.1	22.3-22.5

* Provided in respect of the most significant overseas schemes.

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 2015 to increase by approximately £17.8 million.
- The impact of a 10 basis point increase in inflation and salary inflation rates would cause scheme liabilities at 31 December 2015 to increase by approximately £11.7 million.
- The impact of assuming every scheme member were to live for an additional year would cause scheme liabilities at 31 December 2015 to increase by approximately £31.7 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. The Group has not changed the process 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. In 2014, part of the equity portfolio held by the UK and US schemes was disinvested. The amounts disinvested totalled approximately £100.0 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 UK and US 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 the 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.

Notes to the consolidated financial statements continued

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 2016 will be £21.9 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. The 2015 triennial valuation is approaching completion and discussions with the trustees have commenced over a revised recovery plan to address the additional deficit of approximately £70.0 million arising since the 2012 valuation. Assuming the additional deficit is funded on a similar basis to the existing recovery plan, additional annual deficit payments of approximately £7.5 million would be required, commencing in 2016.

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 2016 are expected to be £Nil million and, absent any changes in legislation, will then increase over the following two years to £8.0 million by 2018. 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 2015 and accordingly no additional minimum funding liability arises.

The Swiss scheme has a surplus on a funding basis.

The estimated total Group contributions expected to be paid to the schemes during 2016 are £42.3 million, assuming the additional deficit under the 2015 UK valuation is funded on a similar basis to the existing recovery plan.

The weighted average duration of the UK schemes' defined benefit obligation is 19.3 years. The weighted average duration of the overseas schemes' defined benefit obligation is 11.0 years. The expected maturity of undiscounted pension and healthcare benefits at 31 December 2015 is as follows:

	Pension schemes £'m	Healthcare schemes £'m	Total £'m
Less than a year	35.0	3.5	38.5
Between 1-2 years	35.9	3.3	39.2
Between 2-5 years	115.9	9.9	125.8
Between 5-10 years	220.9	15.5	236.4
Between 10-15 years	244.1	12.2	256.3
Between 15-20 years	249.4	9.4	258.8
Between 20-25 years	238.2	7.3	245.5
Over 25 years	828.9	13.4	842.3
Total	**1,968.3**	**74.5**	**2,042.8**

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 2014	797.1	39.9	
Issued on exercise of executive share awards	0.4	–	0.1
Share buyback – purchased	(6.8)	(0.3)	(33.7)
Scrip dividends	11.6	0.5	53.0
At 31 December 2014	802.3	40.1	
Share buyback – purchased	(28.3)	(1.3)	(146.4)
Share buyback – transfer to treasury shares	1.5	–	
At 31 December 2015	**775.5**	**38.8**	

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	Exercise period To
Meggitt 2008 Sharesave Scheme				
2008	9,365	171.40p	01.11.15	30.04.16
2010	47,797	222.35p	01.11.15	30.04.16
2010	50,781	222.35p	01.11.17	30.04.18
2012	68,791	326.94p	01.11.15	30.04.16
2012	342,190	326.94p	01.11.17	30.04.18
2013	340,901	426.40p	01.11.16	30.04.17
2013	111,596	426.40p	01.11.18	30.04.19
2014	480,435	374.19p	01.11.17	30.04.18
2014	320,863	374.19p	01.11.19	30.04.20
2015	594,046	399.79p	01.11.18	30.04.19
2015	245,818	399.79p	01.11.20	30.04.21
Meggitt Executive Share Option Scheme 2005 Part A				
2006	5,687	263.67p	27.09.09	26.09.16
2007	7,459	299.00p	29.03.10	28.03.17
2009	12,832	169.50p	30.04.12	29.04.19
2011	16,556	351.70p	02.03.14	01.03.21
2013	200,555	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 3.0 years (2014: 3.4 years).

Share Appreciation Rights – Equity-settled

Year of grant	Indicative number of shares to be released*	Number of ordinary shares under award	Exercise price per share	Exercise period From	Exercise period To
Meggitt Executive Share Option Scheme 2005 Part B					
2006	56,073	189,233	263.67p	27.09.09	26.09.16
2007	75,243	372,437	299.00p	29.03.10	28.03.17
2007	8,340	36,359	288.75p	17.08.10	16.08.17
2008	268,044	821,898	252.50p	25.03.11	24.03.18
2008	92,331	202,673	204.00p	07.08.11	06.08.18
2009	595,285	1,087,004	169.50p	30.04.12	29.04.19
2010	310,881	1,314,752	286.10p	12.03.13	11.03.20
2011	73,217	1,192,808	351.70p	02.03.14	01.03.21
2011	13,297	170,629	345.50p	17.08.14	16.08.21
2012	–	96,884	397.20p	10.04.15	09.04.22
2013	–	3,283,948	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 374.70p, the share price at 31 December 2015.

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 5.1 years (2014: 6.3 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 £4.1 million (2014: £1.7 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. 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).

Notes to the consolidated financial statements continued

35. Share-based payment continued

Each of the conditions is measured over a three year performance period. An expense of £2.4 million (2014: £1.7 million) was recorded in the year. Awards are made as nil cost options. An employee is generally entitled to a payment at the end of the vesting period, equivalent to dividends that would have been paid during the vesting period, on any shares that vest. The fair value of the award made in 2015 has been estimated at the market price of the share on the date of grant, which was 559.10 pence (2014: 467.54 pence). Movements in the number of outstanding shares that may potentially be released to employees are as follows:

	2015 Number of shares under award outstanding 'm	2014 Number of shares under award outstanding 'm
At 1 January	**4.2**	–
Awarded	**3.9**	4.2
Lapsed	**(0.1)**	–
At 31 December	**8.0**	4.2

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

Deferred Share Bonus Plan

Equity-settled

Under the Deferred Share Bonus Plan, an award of shares may be made to certain senior executives. The number of shares, if any that an executive ultimately receives, depends on them remaining in service for a specified period of time. There are no other significant performance conditions.

An expense of £1.1 million (2014: £0.1 million) 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 awards made in 2015 were estimated at the market price of the share on the date of each grant. The average price at the date of grant was 540.00 pence. No significant grants were made in 2014. Movements in the number of outstanding shares that may potentially be released to employees are as follows:

	2015 Number of shares under award outstanding 'm	2014 Number of shares under award outstanding 'm
At 1 January	**–**	0.1
Awarded	**0.5**	–
Exercised	**–**	(0.1)
At 31 December	**0.5**	–

At 31 December 2015, 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.

No charge (2014: £0.9 million credit) was recorded in the year. Movements in the number of outstanding awards and their related weighted average exercise prices are as follows:

	2015 Average exercise price Pence	**2015 Number of awards outstanding 'm**	2014 Average exercise price Pence	2014 Number of awards outstanding 'm
At 1 January	**373.89**	**15.7**	360.49	21.1
Lapsed	**406.36**	**(5.0)**	371.43	(2.0)
Exercised	**290.60**	**(1.6)**	292.76	(3.4)
At 31 December	**370.89**	**9.1**	373.89	15.7

At 31 December 2015, of the total number of awards outstanding, 5.6 million are exercisable at an average exercise price of 273.19 pence (2014: 7.1 million at an average exercise price of 274.59 pence).

36. Own shares and treasury 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 60 to 80. At 31 December 2015, the trust held 1.9 million ordinary shares (2014: 0.3 million ordinary shares) of which 1.7 million were unallocated (2014: 0.3 million), being retained by the trust for future use. The balance were held for employees in a vested share account to satisfy particular awards which had fully vested. All shares, whether or not allocated, are held for the benefit of employees. The shares held at 31 December 2015 were purchased during the year at a cost of £9.7 million (2014: £1.7 million). The market value of the shares at 31 December 2015 was £7.2 million (2014:£1.8 million) representing 0.25% of the issued share capital of the Company (2014: 0.04%).

During the Group's share buyback programme, 1.5 million of the shares purchased in 2015 were not cancelled but retained as treasury shares. Of these, 1.1 million were used to satisfy share options and awards under the UK Share Incentive Plan and Sharesave Scheme. At 31 December 2015, 0.4 million shares remained in treasury with a market value of £1.3 million, representing 0.05% of the issued share capital of the Company.

37. Contractual commitments

Capital commitments

	2015 £'m	2014 £'m
Contracted for but not incurred:		
Intangible assets	**0.6**	0.9
Property, plant and equipment	**8.2**	11.0
Total	**8.8**	11.9

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:

	2015 £'m	2014 £'m
In one year or less	**15.6**	12.7
In more than one year but not more than five years	**43.4**	37.2
In more than five years	**32.0**	24.1
Total	**91.0**	74.0

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 2015, which are expected to be recognised as intangible assets when incurred are as follows:

	2015 Development costs £'m	**2015 Programme participation costs £'m**	2014 Development costs £'m	2014 Programme participation costs £'m
In one year or less	**38.7**	**49.4**	62.0	40.1
In more than one year but not more than five years	**10.5**	**209.5**	19.2	220.5
In more than five years	**8.6**	**909.1**	2.7	732.4
Total	**57.8**	**1,168.0**	83.9	993.0

38. Contingent liabilities

The Company has given guarantees in respect of credit facilities for certain of its subsidiaries, some property leases, other leasing arrangements and the performance by some current and former subsidiaries of certain contracts. Also, there are similar guarantees given by certain other Group companies. The 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.

Notes to the consolidated financial statements continued

39. Cash inflow from operations

	2015 £'m	2014 £'m
Profit for the year	**182.1**	177.0
Adjustments for:		
Finance income (see note 12)	**(2.7)**	(1.2)
Finance costs (see note 13)	**29.1**	28.5
Tax (see note 14)	**28.1**	31.9
Depreciation (see note 21)	**33.5**	31.2
Amortisation (see notes 19 and 20)	**121.0**	112.6
Impairment loss (see note 19)	**6.4**	8.0
Loss on disposal of property, plant and equipment	**–**	0.4
Remeasurement of fair value of contingent consideration receivable*	**(2.5)**	–
(Gain)/loss on closure of businesses (see note 10)	**(1.2)**	2.9
Financial instruments (see note 10)	**4.8**	29.2
Retirement benefit obligation deficit payments	**(24.4)**	(29.3)
Share-based payment expense (see note 35)	**4.1**	1.7
Changes in working capital:		
Inventories	**(14.6)**	(17.7)
Trade and other receivables	**55.8**	9.8
Trade and other payables	**27.3**	(10.1)
Provisions	**(40.1)**	(28.0)
Cash inflow from operations	**406.7**	346.9

* In respect of previously disposed businesses (see note 10).

40. Movements in net debt

	2015 £'m	2014 £'m
At 1 January	**575.5**	564.6
Free cash inflow	**(199.0)**	(146.8)
Businesses acquired (see note 42)	**362.7**	28.6
Business acquisition expenses	**2.5**	–
Businesses disposed	**(2.0)**	–
Business disposal expenses	**–**	0.5
Dividends paid to Company's shareholders (see note 16)	**111.1**	51.4
Purchase of own shares	**9.7**	11.6
Issue of equity share capital	**–**	(0.1)
Share buyback - purchased (see note 34)	**146.4**	33.7
Net cash generated – outflow/(inflow)	**431.4**	(21.1)
Debt acquired with businesses (see note 42)	**6.3**	–
Exchange rate adjustments	**39.6**	24.7
Other non-cash movements	**0.3**	7.3
At 31 December	**1,053.1**	575.5

Analysed as:

	2015 £'m	2014 £'m
Bank and other borrowings – current (see note 28)	**4.0**	58.9
Bank and other borrowings – non-current (see note 28)	**1,189.0**	616.7
Obligations under finance leases – current (see note 27)	**0.1**	0.1
Obligations under finance leases – non-current (see note 27)	**5.4**	5.3
Cash and cash equivalents (see note 24)	**(145.4)**	(105.5)
Total	**1,053.1**	575.5

41. Major non-cash transactions

During 2014, the Company issued 11.6 million shares worth £53.0 million in respect of scrip dividends (see notes 16 and 34). In 2015, the scrip dividend plan was replaced by a dividend reinvestment plan which provides an efficient reinvestment option for shareholders without the need for new shares to be issued.

42. Business combinations

On 25 November 2015, the Group acquired the advanced composites businesses of Cobham plc ("Advanced Composites") for USD 200 million in cash, subject to an adjustment for working capital in the business at completion. The acquisition comprised 100% of the voting rights of Cobham Advanced Composites Limited and Cobham Composites Products Inc. together with certain assets of Cobham Advanced Electronic Solutions Inc.

Advanced Composites is a global leader in the design, development and production of highly engineered aerospace composite engine components (spinners, internal multi-stage components, exhaust flaps), radomes (C4I and defensive measures radomes, with a growing position in civil radomes) and complex secondary structures (air-to-air refuelling, structural munitions components). It has operating facilities located in the UK and United States. Advanced Composites is being integrated into the Meggitt Polymers & Composites division.

On 21 December 2015, the Group acquired 100% of the voting rights in EDAC Composites LLC ("EDAC"), the owner and operator of the former EDAC composites business, formerly known as Parkway Aerospace & Defense, from Greenbriar Equity Group and other associated sellers for USD 340 million in cash, subject to an adjustment for working capital in the business at completion.

EDAC produces highly engineered aerospace components for jet engine and airframe applications, with over 85% of revenues in civil aerospace composites. It has a substantial presence, via multi-year long-term agreements, on high-growth jet engine platforms including the GEnX, Pratt & Whitney PurePower family and LEAP engines. It has operating facilities in the USA and Mexico. EDAC is being integrated into the Meggitt Polymers & Composites division.

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

	2015 £'m	2014 £'m
Cash paid in respect of Advanced Composites	**132.1**	–
Cash paid in respect of EDAC	**231.0**	–
Cash (received)/paid in respect of PECC	**(0.4)**	28.3
Cash paid in respect of other acquisitions	**–**	0.3
Total	**362.7**	28.6

Due to the proximity of the acquisitions of Advanced Composites and EDAC 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 2016, 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.

Notes to the consolidated financial statements continued

42. Business combinations continued

The assets and liabilities at the date of acquisition, including the goodwill arising on consolidation, were as follows:

	Notes	Advanced Composites £'m	EDAC £'m	**Total £'m**
Non-current assets				
Goodwill	18	102.8	158.0	**260.8**
Other intangible assets	20	1.0	47.4	**48.4**
Property, plant and equipment	21	12.3	9.6	**21.9**
		116.1	215.0	**331.1**
Current assets				
Inventories		20.8	16.9	**37.7**
Trade and other receivables		10.6	12.7	**23.3**
Current tax recoverable		–	0.1	**0.1**
		31.4	29.7	**61.1**
Total assets		147.5	244.7	**392.2**
Current liabilities				
Trade and other payables		(9.5)	(11.5)	**(21.0)**
Current tax liabilities		(0.6)	–	**(0.6)**
Bank and other borrowings	40	(4.1)	(2.2)	**(6.3)**
		(14.2)	(13.7)	**(27.9)**
Net current assets		17.2	16.0	**33.2**
Non-current liabilities				
Deferred tax liabilities	32	(0.6)	–	**(0.6)**
Provisions	31	(0.6)	–	**(0.6)**
		(1.2)	–	**(1.2)**
Total liabilities		(15.4)	(13.7)	**(29.1)**
Net assets		132.1	231.0	**363.1**
Consideration satisfied in cash		132.1	231.0	**363.1**
Total consideration payable satisfied in cash		132.1	231.0	**363.1**

For the period from acquisition to 31 December 2015, Advanced Composites contributed revenue of £7.1 million, an underlying profit before tax of £0.4 million and a profit before tax of £0.2 million. The pro forma consolidated results of the Group, had Advanced Composites been acquired on 1 January 2015, would show an increase in revenue of £46.7 million and a reduction in profit before tax of £3.0 million.

Due to the timing of the acquisition of EDAC, the impact on the results of the Group for the year is not significant. The pro forma consolidated results of the Group, had EDAC been acquired on 1 January 2015, would show an increase in revenue of £69.4 million and a reduction in profit before tax of £0.7 million.

Pro forma information above has not been adjusted to reflect the Group's accounting policies (due to the proximity of the acquisitions to the balance sheet date), to eliminate any costs that are not expected to recur, to adjust for any item that the Group would exclude from its underlying profit measures or to reflect any synergies arising from the acquisitions. It includes however, acquisition related expenses incurred by the Group of £3.9 million (see note 10) and finance costs that would have been payable in respect of borrowings incurred to finance the acquisitions had they completed on 1 January 2015. The information therefore is for illustrative purposes only and is not indicative of the results of the Group, had the acquisitions been made on 1 January 2015.

43. Restatement of prior year comparatives

IFRS 3 requires fair values of assets and liabilities acquired to be finalised within 12 months of the acquisition date. All fair value adjustments are required to be recorded with effect from the date of acquisition and consequently result in the restatement of previously reported financial results. During 2015, the Group finalised the fair values of PECC which completed on 31 December 2014 and this resulted in adjustments to the balance sheet at that date. These amendments primarily relate to the recognition of intangible assets separately from goodwill and associated deferred tax liabilities. Goodwill is attributable to the profitability of the acquired business and expected future synergies arising following the acquisition.

The impact of the restatements is shown below:

	2014 As reported £'m	2014 Fair value adjustments £'m	2014 As restated £'m
Goodwill (see note 18)	19.9	(6.4)	13.5
Other intangible assets (see note 20)	3.9	11.9	15.8
Property, plant and equipment	0.4	–	0.4
Inventories	3.0	0.7	3.7
Trade and other receivables - current	1.4	(0.1)	1.3
Trade and other payables - current	(0.6)	–	(0.6)
Provisions - non-current	(0.1)	–	(0.1)
Deferred tax liabilities (see note 32)	–	(6.1)	(6.1)
Net assets	27.9	–	27.9

The finalisation of fair value adjustments had no impact on the 2014 income statement.

44. Group companies

The Group and its subsidiaries are involved in 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. Certain subsidiary companies provide ancillary functions which support these operations.

Unless otherwise indicated, the Group percentage of equity capital and voting rights is 100%. All entities primarily operate in their country of incorporation and all companies listed are included in the consolidation.

Subsidiaries: Direct holdings of the Company

Incorporated in the United Kingdom

Entity Name	Description and proportion of shares held (%)
Avica Limited	Ordinary shares
Dunlop Aerospace Limited	Ordinary shares
Integrated Target Services Limited	Ordinary shares
KDG Holdings Limited	Ordinary shares
Meggitt (Pamphill) Limited	Ordinary shares
Meggitt (Wimborne) Limited	Ordinary shares
Meggitt Engineering Limited	Ordinary shares
Meggitt International Holdings Limited	Ordinary shares
Meggitt Pension Trust Limited	Ordinary shares
Negretti & Zambra Limited	Ordinary shares
Negretti Limited	Ordinary shares
Phoenix Travel (Dorset) Limited	The Group's holding is comprised of ordinary B shares (50%)
The Microsystems Group Limited	Ordinary shares

Subsidiaries: Indirect holdings of the Company

Incorporated in the United Kingdom

Entity Name	Description and proportion of shares held (%)
Aircraft Braking Systems Europe Limited	Ordinary shares
Aircraft Braking Systems Service Limited	Ordinary shares
Atlantic House Pension Trustee Limited	Ordinary shares
BAJ Coatings Limited	The Group's holding is comprised of deferred shares (55.55%) and ordinary shares (44.45%)
Bells Engineering Limited	Ordinary shares
Bestobell Aviation Products Limited	Ordinary shares
Bestobell Engineering Products Limited	Ordinary shares
Bestobell Insulation Limited	Ordinary shares
Bestobell Meterflow Limited	Ordinary shares
Bestobell Mobrey Limited	Ordinary shares
Bestobell Service Co Limited	Ordinary shares
Meggitt (Tarrant) Limited	Ordinary shares
Meggitt (UK) Limited	Ordinary shares
Meggitt Acquisition Limited	Ordinary shares
Meggitt Advanced Composites Limited	Ordinary shares
Meggitt Aerospace Holdings Limited	Ordinary shares
Meggitt Aerospace Limited	Ordinary shares
Meggitt Defence Systems Limited	Ordinary shares
Meggitt Filtration & Transfer Limited	Ordinary shares
Meggitt Finance (Beta)	Ordinary shares
Meggitt Finance Limited	Ordinary shares
Meggitt International Limited	Ordinary shares
Meggitt Investments Limited	Ordinary shares
Meggitt Pension Plan Trustees Limited	Private company limited by guarantee

Notes to the consolidated financial statements continued

44. Group companies continued

Subsidiaries: Indirect holdings of the Company

Incorporated in the United Kingdom

Entity Name	Description and proportion of shares held (%)
Bestobell Sparling Limited	Ordinary shares
Cavehurst Limited	Ordinary shares
Chempix Limited	Ordinary shares
Dunlop Aerospace Group Limited	Ordinary shares
Dunlop Aerospace Holdings Limited	Ordinary shares
Dunlop Aerospace Overseas Investments Limited	Ordinary shares
Dunlop Aerospace Overseas Limited	Ordinary shares
Dunlop Holdings Limited	Ordinary shares
Dunlop Limited	Ordinary shares
Endevco UK Limited	Ordinary shares
Evershed & Ayrton Fund	Registered charity
Evershed & Vignoles Limited	Ordinary shares
Firearms Training Systems Limited	Ordinary shares
Fotomechanix Limited	Ordinary shares
Heatric Limited	The Group's holding is comprised of ordinary A shares (60%) and ordinary B shares (40%)
King Tool International Limited	Ordinary shares
Meggitt (Canford) Limited	Ordinary shares
Meggitt (Colehill) Limited	Ordinary shares
Meggitt (Hurn) Limited	Ordinary shares
Meggitt (Shapwick) Limited	Ordinary shares
Meggitt Properties PLC	Ordinary shares
Metal Maps Limited	Ordinary shares
Micro Metallic Limited	Ordinary shares
Microponent Development Limited	Ordinary shares
Microponents (Plates) Limited	The Group's holding is comprised of ordinary A shares (0.04%), ordinary B shares (0.04%), ordinary C shares (59.95%) and redeemable preference shares (39.97%)
Microponents Limited	Ordinary shares
Miller Insulation & Engineering Limited	Ordinary shares
Piher International Limited	Ordinary shares
Precision Micro Limited	Ordinary shares
Serck Aviation Limited	Ordinary shares
Sparkleglen Limited	Ordinary shares
Target Technology Petrel Limited	Ordinary shares
The Rotameter Manufacturing Co Limited	Ordinary shares
Triscan Limited	Ordinary shares
Vibro-Meter Limited	Ordinary shares
Wallaby Grip Limited	Ordinary shares
Whittaker Aerospace	Ordinary shares

Incorporated in Rest of Europe

Entity Name	Description and proportion of shares held (%)
Artus SAS – France	Ordinary shares
Cavehurst (Finance) Ireland Unlimited Company - Ireland	Ordinary shares
Endevco Vertriebs GmbH – Germany	Ordinary shares
Europeenne de Conception d'Etudes Technologiques SAS – France	Ordinary shares
Meggitt (France) SAS – France	Ordinary shares
Meggitt (Sensorex) SAS – France	Ordinary shares
Meggitt A/S – Denmark	Ordinary shares
Meggitt Acquisition (France) SAS – France	Ordinary shares
Meggitt Finance S.a.r.l – Luxembourg	Ordinary shares
Meggitt GmbH – Germany	Ordinary shares
Meggitt Holdings (France) SNC – France	Ordinary shares
Meggitt SA – Switzerland	The Group's holding is comprised of bearer shares
Meggitt Training Systems Europe BV – Holland	Ordinary shares
Piher International GmbH – Germany	Ordinary shares
Piher Sensors & Controls SA – Spain	Ordinary shares
Techniques et Fabrications Electroniques SAS – France	Ordinary shares
Vibro-Meter SARL – Switzerland	Ordinary shares

Incorporated in North America

Entity Name	Description and proportion of shares held (%)
ABL Systems – USA	The Group's holding is comprised of ordinary shares (50%)
Alston Properties, LLC – USA	Membership interest
Aviation Mobility, LLC – USA	Membership interest
Erlanger Acquisition Corporation – USA	Common stock
GB Aero Engine, LLC – USA	Membership interest
Linear Motion, LLC – USA	Membership interest
Meggitt (Baltimore), Inc. – USA	Common stock
Meggitt (Maryland), Inc. – USA	Common stock
Meggitt (North Hollywood), Inc. USA	Common stock
Meggitt (Orange County), Inc. – USA	Common stock
Meggitt (Rockmart), Inc. – USA	Common stock
Meggitt (Erlanger), LLC – USA	Membership interest
Meggitt Holdings (USA), Inc. – USA	Common stock
Meggitt Holdings Canada Inc. – Canada	Common stock
Meggitt-Oregon, Inc. – USA	Common stock
Meggitt Queretaro, LLC – USA	Membership interest
Meggitt Safety Systems, Inc. – USA	Common stock
Meggitt Training Systems (Quebec), Inc. – Canada	Common stock
Meggitt Training Systems Canada Inc. – Canada	Common stock
Meggitt-USA Holdings, LLC – USA	Membership interest
Meggitt-USA Services, Inc. – USA	Common stock
Meggitt-USA, Inc. – USA	Common stock
Nasco Aircraft Brake, Inc. – USA	Common stock

44. Group companies continued

Incorporated in North America

Entity Name	Description and proportion of shares held (%)
Meggitt (San Diego), Inc. – USA	Common stock
Meggitt (Simi Valley), Inc. – USA	Common stock
Meggitt (Troy), Inc. – USA	Common stock
Meggitt Acquisition (Erlanger), Inc. – USA	The Group's holding is comprised of class A shares (67.5%), class B shares (12.5%) and class C shares (20%)
Meggitt Aircraft Braking Systems Corporation – USA	Common stock
Meggitt Aircraft Braking Systems Kentucky Corporation – USA	Common stock
Meggitt Defense Systems, Inc. – USA	Common stock
Meggitt GP, Inc. – USA	Common stock
Meggitt Training Systems, Inc. – USA	Common stock
OECO, LLC – USA	Membership interest
Pacific Scientific Company – USA	Common stock
Park Chemical Company – USA	Common stock
Parkway-HS, LLC – USA	Membership interest (70%)
Piezotech, LLC – USA	Membership interest
Precision Engine Controls Corporation – USA	Common stock
Radatec, Inc. – USA	Common stock
Securaplane Technologies, Inc. – USA	Common stock
Valley Association Corporation – USA	The Group's holding is comprised of ordinary shares (33%)
Whittaker Corporation – USA	Common stock
Whittaker Development Co – USA	Common stock
Whittaker Ordnance, Inc. – USA	Common stock
Whittaker Technical Products, Inc. – USA	Common stock

Incorporated in other overseas countries

Entity Name	Description and proportion of shares held (%)
Aero-Tech Composites de Mexico, S. de R.L. de C.V. – Mexico	Quota interest
Artus Vietnam Co Limited – Vietnam	The Group's holding is comprised of owner's capital
Meggitt (Xiamen) Sensors & Controls Co Limited – China	The Group's holding is comprised of registered capital
Meggitt Aerospace Asia Pacific Pte Limited – Singapore	Ordinary shares
Meggitt Aircraft Braking Systems Queretaro, S. de R.L. de C.V. – Mexico	Quota interest
Meggitt Asia Pacific Pte Limited – Singapore	Ordinary shares
Meggitt Brasil Solucoes de Engenharia Ltda – Brazil	The Group's holding is comprised of registered capital
Meggitt India Private Limited – India	The Group's holding is comprised of equity shares
Meggitt Training Systems Australia Pty Limited – Australia	Ordinary shares
Meggitt Training Systems Pte Limited – Singapore	Ordinary shares
Parkway-Hamilton Sundstrand Mexico S. de R.L. de C.V. – Mexico	Quota interest (70%)
Wallaby Grip Australia Pty Limited (in liquidation) – Australia	Ordinary shares
Wallaby Grip Industries Australia Pty Limited (in liquidation) – Australia	Ordinary shares
Zambra Legal Pty Limited – Australia	Ordinary shares

Independent auditors' report to the members of Meggitt PLC

Report on the company financial statements

Our opinion

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

- give a true and fair view of the state of the parent company's affairs as at 31 December 2015;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Company balance sheet as at 31 December 2015;
- the Company statement of changes in equity; 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, 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 United Kingdom Accounting Standards, comprising FRS 101: "Reduced Disclosure Framework", and applicable law (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 parent company acquired in the course of performing our audit; or
- 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 parent 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 83 to 84, 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 parent 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 parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

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 2015.

Andrew Paynter (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 February 2016

Company balance sheet

As at 31 December 2015

	Notes	2015 £'m	2014 £'m
Fixed assets			
Intangible assets	3	**34.2**	32.7
Property, plant and equipment	4	**4.0**	1.8
Derivative financial instruments	9	**28.5**	30.6
Investments	5	**2,070.9**	2,070.1
		2,137.6	2,135.2
Current assets			
Other receivables	6	**1,161.0**	1,030.2
Derivative financial instruments	9	**33.8**	6.6
Cash and cash equivalents		**34.5**	3.8
		1,229.3	1,040.6
Creditors - amounts falling due within one year:			
Trade and other payables	7	**(60.9)**	(145.0)
Derivative financial instruments	9	**(12.9)**	(10.4)
Current tax liabilities		**(17.9)**	(13.1)
Bank and other borrowings	8	**(3.4)**	(54.1)
		(95.1)	(222.6)
Net current assets		**1,134.2**	818.0
Total assets less current liabilities		**3,271.8**	2,953.2
Creditors - amounts falling due after more than one year:			
Derivative financial instruments	9	**(13.7)**	(3.1)
Bank and other borrowings	8	**(831.5)**	(403.3)
Retirement benefit obligations	11	**(122.1)**	(180.0)
		(967.3)	(586.4)
Net assets		**2,304.5**	2,366.8
Equity			
Share capital	12	**38.8**	40.1
Share premium		**1,218.9**	1,218.9
Capital redemption reserve		**1.6**	0.3
Other reserves		**17.5**	17.5
Retained earnings		**1,027.7**	1,090.0
Total equity attributable to owners of the Company		**2,304.5**	2,366.8

The financial statements on pages 144 to 156 were approved by the Board of Directors on 22 February 2016 and signed on its behalf by:

S G Young
Director

D R Webb
Director

Company statement of changes in equity

As at 31 December 2015

	Notes	Equity attributable to owners of the Company					
		Share capital	Share premium	Capital redemption reserves	Other reserves*	Retained earnings	Total equity
	Notes	£'m	£'m	£'m	£'m	£'m	£'m
At 1 January 2014		39.9	1,166.3	–	17.5	1,017.2	2,240.9
Profit for the year		–	–	–	–	298.2	298.2
Other comprehensive income for the year:							
Currency translation differences:							
Arising in the year		–	–	–	–	0.1	0.1
Cash flow hedge movements:							
Movement in fair value		–	–	–	–	(0.8)	(0.8)
Remeasurement of retirement benefit obligations	11	–	–	–	–	(71.1)	(71.1)
Other comprehensive expense before tax		–	–	–	–	(71.8)	(71.8)
Tax effect		–	–	–	–	14.4	14.4
Other comprehensive expense for the year		–	–	–	–	(57.4)	(57.4)
Total comprehensive income for the year		–	–	–	–	240.8	240.8
Employee share schemes:							
Value of subsidiary employee services		–	–	–	–	1.2	1.2
Value of services provided		–	–	–	–	0.5	0.5
Purchase of own shares		–	–	–	–	(11.6)	(11.6)
Issue of equity share capital		–	0.1	–	–	–	0.1
Share buyback – purchased and cancelled		(0.3)	–	0.3	–	(33.7)	(33.7)
Share buyback – close period commitment		–	–	–	–	(20.0)	(20.0)
Dividends		0.5	52.5	–	–	(104.4)	(51.4)
At 31 December 2014		40.1	1,218.9	0.3	17.5	1,090.0	2,366.8
Profit for the year		**–**	**–**	**–**	**–**	**149.7**	**149.7**
Other comprehensive income for the year:							
Cash flow hedge movements:							
Movement in fair value		–	–	–	–	(0.7)	(0.7)
Remeasurement of retirement benefit obligations	11	–	–	–	–	44.1	44.1
Other comprehensive income before tax		–	–	–	–	43.4	43.4
Tax effect		–	–	–	–	(9.1)	(9.1)
Other comprehensive income for the year		**–**	**–**	**–**	**–**	**34.3**	**34.3**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**184.0**	**184.0**
Employee share schemes:							
Value of subsidiary employee services		–	–	–	–	2.8	2.8
Value of services provided		–	–	–	–	2.3	2.3
Purchase of own shares		–	–	–	–	(9.7)	(9.7)
Share buyback – purchased and cancelled		(1.3)	–	1.3	–	(138.8)	(138.8)
Share buyback – purchased and transferred to treasury shares		–	–	–	–	(7.6)	(7.6)
Share buyback – movement in close period commitment		–	–	–	–	15.8	15.8
Dividends		–	–	–	–	(111.1)	(111.1)
At 31 December 2015		**38.8**	**1,218.9**	**1.6**	**17.5**	**1,027.7**	**2,304.5**

* Other reserves relate to the cancellation of the Company's share premium account during 1988, which was transferred to a non-distributable capital reserve at that time.

Notes to the financial statements of the Company

1. Basis of preparation

The Company transitioned from UK GAAP to Financial Reporting Standard 101' Reduced Disclosure Framework' (FRS 101) for all periods presented. Transition reconciliations showing all material adjustments are disclosed in note 15. 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 has taken advantage of the legal dispensation contained in Section 408 of the Companies Act 2006 allowing it not to publish a separate income statement 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 other comprehensive income.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46-52 of IFRS 2, 'Share-based payment'
- IFRS 7, 'Financial Instruments: Disclosures'
- Paragraphs 10(d), 10(f) and 134-136 of IAS 1 'Presentation of financial statements
- IAS 7, 'Statement of cash flows'
- Paragraphs 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
- Paragraph 17 of IAS 24, 'Related party disclosures'
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group

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 using the deemed cost exemption in IFRS 1 on transition to FRS 101.

Intangible assets

Intangible assets, consisting of software are recorded 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. 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:

Leasehold property	Over period of lease
Plant and equipment	3 to 10 years
Motor vehicles	5 years

Operating leases

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.

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 Company's financial statements. Deferred tax is provided on unremitted earnings of foreign subsidiaries, except where the Company can control the remittance and it is probable that 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 ion the income statement, other comprehensive income or directly in equity depending on where the item to which they relate has been recognised.

Foreign currencies

The Company's financial statements are presented in pounds sterling. Transactions in foreign currencies are recorded at exchange rates prevailing at 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 in which case the exchange differences are recognised in other comprehensive income.

Retirement benefit schemes

For defined benefit schemes, pension costs 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 Company 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 Company 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 Company has an unconditional 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 Company has no further obligations once the contributions have been paid.

2. Summary of significant accounting policies continued

Share-based compensation

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 income statement 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 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.

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 retained earnings.

Derivative financial instruments and hedging

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 Company 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 creditor falling due after more than one year. All other derivative financial instruments are reported as current assets or creditors falling due within one year.

Fair value hedges
Changes in fair value of derivative financial instruments, that are designated and qualify as fair value hedges, are recognised in the income statement together with changes in the fair value of the hedged item. The Company 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 recorded in other comprehensive income. Changes in fair value of any ineffective portion are recognised immediately in the income statement. To the extent changes in fair value are recognised in other comprehensive income,they are recycled to the income statement in the periods in which the hedged item affects the income statement. The Company 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.

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 Company utilises a large 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 in order to apply hedge accounting are not merited. Additionally, in 2015 the Company has entered a cross currency derivative and a treasury lock derivative (as described in note 30 to the Group consolidated financial statements on page 125) which do not meet the criteria for hedge accounting.

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 Company 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.

Any related interest accruals are included within borrowings. Borrowings are classified as creditors falling due within one year unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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 Trust. Consideration paid for own shares, including any incremental directly attributable costs, is recorded as a deduction from retained earnings.

Dividends

Interim dividends are recognised when they are approved by the Board. Final dividends are recognised when they are approved by the shareholders. Details of the dividends paid and proposed by the Company are disclosed in note 16 to the Group consolidated financial statements on page 113.

Share buyback

The total consideration payable for shares purchased is deducted from retained earnings. The shares when purchased are generally cancelled, unless they are to be used to satisfy obligations under employee share plans. The nominal value of 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 income statement.

Notes to the financial statements of the Company continued

3. Intangible assets

	Software £'m
At 1 January 2014	
Cost	36.7
Accumulated amortisation	(6.8)
Net book amount	29.9
Year ended 31 December 2014	
Opening net book amount	29.9
Additions	6.3
Amortisation	(3.5)
Net book amount	32.7
At 31 December 2014	
Cost	43.0
Accumulated amortisation	(10.3)
Net book amount	**32.7**
Year ended 31 December 2015	
Opening net book amount	32.7
Additions	6.1
Amortisation	(4.6)
Net book amount	**34.2**
At 31 December 2015	
Cost	49.1
Accumulated amortisation	(14.9)
Net book amount	**34.2**

Software assets include costs relating to the Group's enterprise resource planning system. The asset has a net book amount of £24.1 million (2014: £25.0 million) and has a remaining amortisation period of 5 years (2014: 6 years).

4. Property, plant and equipment

	Leasehold property £'m	Plant, equipment and vehicles £'m	Total £'m
At 1 January 2014			
Cost	0.7	2.3	3.0
Accumulated depreciation	(0.4)	(1.4)	(1.8)
Net book amount	0.3	0.9	1.2
Year ended 31 December 2014			
Opening net book amount	0.3	0.9	1.2
Additions	–	1.2	1.2
Disposals	–	(0.1)	(0.1)
Depreciation	–	(0.5)	(0.5)
Net book amount	0.3	1.5	1.8
At 31 December 2014			
Cost	0.6	3.3	3.9
Accumulated depreciation	(0.3)	(1.8)	(2.1)
Net book amount	0.3	1.5	1.8
Year ended 31 December 2015			
Opening net book amount	0.3	1.5	1.8
Additions	–	2.9	2.9
Depreciation	–	(0.7)	(0.7)
Net book amount	**0.3**	**3.7**	**4.0**
At 31 December 2015			
Cost	0.6	6.2	6.8
Accumulated depreciation	(0.3)	(2.5)	(2.8)
Net book amount	**0.3**	**3.7**	**4.0**

5. Investments

	2015 £'m	2014 £'m
Shares in subsidiaries:		
At 1 January	**2,070.1**	2,069.9
Capital contributions	**2.8**	1.2
Less contributions from subsidiary companies	**(2.0)**	(1.0)
At 31 December	**2,070.9**	2,070.1

A list of all subsidiaries is included in note 44 to the Group consolidated financial statements on pages 139 to 141.

6. Other receivables

	2015 £'m	2014 £'m
Amounts owed by subsidiary undertakings	**1,135.5**	993.4
Prepayments and accrued income	**6.3**	3.3
Deferred tax assets (see note 10)	**18.7**	33.2
Other receivables	**0.5**	0.3
Total	**1,161.0**	1,030.2

Amounts owed by subsidiary undertakings are unsecured. Deferred tax assets include £15.7 million receivable in more than one year (2014: £28.8 million).

Notes to the financial statements of the Company continued

7. Trade and other payables - current

	2015 £'m	2014 £'m
Trade payables	**6.8**	1.4
Amounts owed to subsidiary undertakings	**44.9**	115.6
Social security and other taxes	**2.1**	2.7
Accrued expenses	**4.3**	3.6
Share buyback – close period commitment	**–**	20.0
Other payables	**2.8**	1.7
Total	**60.9**	145.0

Amounts owed to subsidiary undertakings are unsecured.

8. Bank and other borrowings

	2015 £'m	2014 £'m
Creditors - amounts falling due within one year:		
Bank loans	**0.3**	6.1
Other loans	**3.1**	48.0
Total	**3.4**	54.1
Creditors - amounts falling due after more than one year:		
Bank loans	**406.7**	–
Other loans	**424.8**	403.3
Total	**831.5**	403.3
Analysis of bank and other borrowings repayable:		
In one year or less	**3.4**	54.1
In more than one year but not more than five years	**739.9**	131.3
In more than five years	**91.6**	272.0
Total	**834.9**	457.4
Analysis of bank and other borrowings:		
Drawn under committed facilities	**814.2**	429.7
Less unamortised debt issue costs	**(1.1)**	(0.9)
Fair value adjustments to fixed rate borrowings	**18.4**	19.5
Drawn under uncommitted facilities	**–**	6.1
Interest accruals	**3.4**	3.0
Total	**834.9**	457.4

Debt issue costs are amortised over the period of the facility to which they relate. The Company has no secured borrowings (2014: £Nil).

The Company has the following committed facilities:

	2015			2014		
	Drawn £'m	**Undrawn £'m**	**Total £'m**	Drawn £'m	Undrawn £'m	Total £'m
Senior notes (USD 70.0 million)	**–**	**–**	**–**	44.9	–	44.9
Senior notes (USD 600.0 million)	**407.1**	**–**	**407.1**	384.8	–	384.8
Bilateral credit facilities (USD 600.0 million)	**407.1**	**–**	**407.1**	–	–	–
Total	**814.2**	**–**	**814.2**	429.7	–	429.7

Further details on each of the above committed facilities can be found in note 28 to the Group consolidated financial statements on page 121.

8. Bank and other borrowings continued

The committed facilities available at each balance sheet date expire as follows:

	2015			2014		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
In one year or less	–	–	–	44.9	–	44.9
In more than one year but not more than five years	729.4	–	729.4	128.3	–	128.3
In more than five years	84.8	–	84.8	256.5	–	256.5
Total	**814.2**	**–**	**814.2**	429.7	–	429.7

The Company also has various uncommitted facilities with its relationship banks.

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

	2015		2014	
	Book value £'m	Fair value £'m	Book value £'m	Fair value £'m
Current	3.4	3.4	54.1	56.8
Non-current	831.5	839.4	403.3	412.3
Total	**834.9**	**842.8**	457.4	469.1

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

As at 31 December 2015:

	Floating £'m	Fixed £'m	Total £'m	Fixed rate borrowings: Weighted average interest rate %	Fixed rate borrowings: Weighted average period for which rate is fixed Years
US dollar	591.7	244.3	836.0	4.2	2.9
Less unamortised debt issue costs	–	(1.1)	(1.1)		
Bank and other borrowings	**591.7**	**243.2**	**834.9**		

As at 31 December 2014:

	Floating £'m	Fixed £'m	Total £'m	Fixed rate borrowings: Weighted average interest rate %	Fixed rate borrowings: Weighted average period for which rate is fixed Years
US dollar	174.8	277.4	452.2	3.7	3.3
Sterling	6.1	–	6.1		
Gross bank and other borrowings	180.9	277.4	458.3		
Less unamortised debt issue costs	(0.1)	(0.8)	(0.9)		
Bank and other borrowings	180.8	276.6	457.4		

The weighted average interest rate reflects the relative impact of interest rates based on the principal amounts and the duration of borrowings.

Notes to the financial statements of the Company continued

9. Derivative financial instruments

	2015 Assets £'m	2015 Liabilities £'m	2014 Assets £'m	2014 Liabilities £'m
Interest rate swaps - cash flow hedges	**0.7**	**–**	1.3	–
Interest rate swaps - fair value hedges	**24.7**	**–**	27.0	–
Cross currency swaps - not hedge accounted	**4.5**	**–**	–	–
Treasury lock - not hedge accounted	**3.7**	**–**	–	–
Foreign currency forward contracts - not hedge accounted	**28.7**	**(26.6)**	8.9	(13.5)
Total	**62.3**	**(26.6)**	37.2	(13.5)
Less non-current portion:				
Interest rate swaps - cash flow hedges	**0.7**	**–**	1.3	–
Interest rate swaps - fair value hedges	**24.7**	**–**	27.0	–
Foreign currency forward contracts - not hedge accounted	**3.1**	**(13.7)**	2.3	(3.1)
Non-current portion	**28.5**	**(13.7)**	30.6	(3.1)
Current portion	**33.8**	**(12.9)**	6.6	(10.4)

The Company is exempt from certain FRS 101 disclosures as the Group consolidated financial statements give the disclosures required by IFRS 7 (see Group consolidated financial statements notes 29 and 30 on pages 123 to 126).

The gain recorded in the income statement within net operating costs in respect of derivative financial instruments was £12.8 million (2014: Loss £3.0 million).

The contract or underlying principal amount of foreign currency forward contracts in respect of assets was £497.3 million (2014: £501.2 million) and in respect of liabilities £598.3 million (2014: £330.3 million).

Foreign currency forward contracts

	2015 Assets £'m	2015 Liabilities £'m	2014 Assets £'m	2014 Liabilities £'m
Fair value:				
US dollar forward sales and purchases (USD/£)	**21.2**	**(13.0)**	4.2	(5.2)
Forward sales and purchases denominated in other currencies	**7.5**	**(13.6)**	4.7	(8.3)
Total	**28.7**	**(26.6)**	8.9	(13.5)

10. 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 2014	24.7	0.8	25.5
Charge to income statement	(2.9)	(0.9)	(3.8)
Credit to other comprehensive income	14.2	0.2	14.4
At 31 December 2014	36.0	0.1	36.1
Charge to income statement	(4.0)	(0.1)	(4.1)
Charge to other comprehensive income	(9.2)	–	(9.2)
At 31 December 2015	**22.8**	**–**	**22.8**

Deferred tax liabilities	Accelerated tax depreciation £'m	Other £'m	Total £'m
At 1 January 2014	(2.5)	–	(2.5)
Charge to income statement	(0.4)	–	(0.4)
At 31 December 2014	(2.9)	–	(2.9)
Charge to income statement	–	(1.2)	(1.2)
Charge to other comprehensive income	–	(0.3)	(0.3)
Credit to equity	–	0.3	0.3
At 31 December 2015	**(2.9)**	**(1.2)**	**(4.1)**

10. Deferred tax continued

Deferred tax assets are analysed as follows:

	2015 £'m	2014 £'m
To be recovered within one year	**3.0**	4.4
To be recovered after more than one year	**15.7**	28.8
Total	**18.7**	33.2

The Company has unrecognised tax losses of £7.3 million (2014: £7.3 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.

11. Retirement benefit obligations

The Company is the sponsoring employer of the Meggitt Pension Plan, a funded defined benefit plan. Each participating company in the Meggitt Pension Plan bears employer contributions in respect of future service. No other amounts are recharged by the Company to any other participating employer. The Company has recognised the total deficit on the Meggitt Pension Plan in its financial statements. The directors believe the FRS 101 deficit for the plan would be consistent with the IAS 19 deficit reported in note 33 to the Group consolidated financial statements on pages 128 to 132 in respect of the UK scheme.

The total charge to net operating expenses in respect of the defined contribution scheme in which employees of the Company participate was £1.0 million (2014: £0.7 million). At 31 December 2015, an amount of £0.1 million (2014: £0.1 million) relating to contributions payable in respect of the scheme were outstanding.

Changes in the present value of retirement benefit obligations

	2015			2014		
	Liabilities (*) £'m	**Assets (**) £'m**	**Total £'m**	Liabilities (*) £'m	Assets (**) £'m	Total £'m
At 1 January	**681.4**	**(501.4)**	**180.0**	573.5	(450.0)	123.5
Service cost	**7.1**	**–**	**7.1**	6.1	–	6.1
Past service cost	**–**	**–**	**–**	0.6	–	0.6
Interest expense/(income)	**24.2**	**(18.2)**	**6.0**	26.0	(20.9)	5.1
Contributions – Company	**–**	**(27.7)**	**(27.7)**	–	(27.2)	(27.2)
Contributions – members	**0.1**	**(0.1)**	**–**	–	–	–
Benefits paid	**(20.0)**	**20.0**	**–**	(19.0)	19.0	–
Remeasurement of retirement benefit obligations:						
Experience gains	**(22.6)**	**–**	**(22.6)**	–	–	–
Gain from change in demographic assumptions	**(1.3)**	**–**	**(1.3)**	–	–	–
Gain from change in financial assumptions	**(31.8)**	**–**	**(31.8)**	94.2	–	94.2
Return on scheme assets excluding amounts included in finance income	**–**	**11.6**	**11.6**	–	(23.1)	(23.1)
Total remeasurement (gain)/loss	**(55.7)**	**11.6**	**(44.1)**	94.2	(23.1)	71.1
Administrative expenses borne directly by scheme	**–**	**0.8**	**0.8**	–	0.8	0.8
At 31 December	**637.1**	**(515.0)**	**122.1**	681.4	(501.4)	180.0

* Present value of scheme liabilities.
** Fair value of scheme assets.

The liability recognised in respect of the plan is dependent on a number of estimates including those relating to mortality, inflation, salary inflation and the rate at which liabilities are discounted. External actuarial advice is taken with regard to the most appropriate assumptions to use. 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 2015 to increase by approximately £12.4 million;
- The impact of a 10 basis point increase in inflation and salary inflation rates would cause scheme liabilities at 31 December 2015 to increase by approximately £11.6 million;
- The impact of assuming every scheme member were to live for an additional year would cause scheme liabilities at 31 December 2015 to increase by approximately £18.8 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.

The weighted average duration of the UK scheme defined benefit obligation is 19.3 years.

Notes to the financial statements of the Company continued

11. Retirement benefit obligations continued

The expected maturity of undiscounted pension benefits at 31 December 2015 is as follows:

	Total £'m
Less than a year	17.4
Between 1-2 years	18.1
Between 2-5 years	61.4
Between 5-10 years	129.0
Between 10-15 years	157.9
Between 15-20 years	176.1
Between 20-25 years	181.4
Over 25 years	728.9
Total	**1,470.2**

12. Share capital

Disclosures in respect of share capital of the Company are provided in note 34 to the Group consolidated financial statements on pages 132 to 133.

13. Commitments

Capital commitments

	2015 £'m	2014 £'m
Contracted for but not incurred:		
Plant, equipment and vehicles	**–**	0.2
Total	**–**	0.2

Operating lease commitments

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

	2015 £'m	2014 £'m
In one year or less	**0.1**	0.1
In more than one year but not more than five years	**0.4**	0.4
In more than five years	**0.1**	0.2
Total	**0.6**	0.7

14. Profit of the Company

The profit attributable to the shareholders of Meggitt PLC was £149.7 million (2014: £298.2 million).

15. Transition to FRS 101

For all periods up to and including the year ended 31 December 2014, the Company prepared its financial statements in accordance with the previously extant United Kingdom generally accepted accounting practice (UK GAAP). These financial statements, for the year ended 31 December 2015, are the first the Company has prepared in accordance with FRS 101. Accordingly, the Company has prepared individual financial statements which comply with FRS 101 applicable for periods beginning on or after 1 January 2014 and the significant accounting policies meeting those requirements are described in the relevant notes.

In preparing these financial statements, the Company has started from an opening balance sheet as at 1 January 2014, the Company's date of transition to FRS 101, and made those changes in accounting policies and other restatements required for the first-time adoption of FRS 101. As such, this note explains the principal adjustments made by the Company in restating its balance sheet at 1 January 2014 prepared under previously extant UK GAAP and its previously published UK GAAP financial statements for the year ended 31 December 2014.

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

15. Transition to FRS 101 continued

Reconciliation of equity at 1 January 2014

	Notes	UK GAAP £'m	Adjustments £'m	FRS 101 £'m
Fixed assets				
Intangible assets	a	–	29.9	29.9
Property, plant and equipment	a	31.1	(29.9)	1.2
Derivative financial instruments		35.5	–	35.5
Investments		2,069.9	–	2,069.9
		2,136.5	–	2,136.5
Current assets				
Other receivables	c	940.0	23.0	963.0
Derivative financial instruments		11.4	–	11.4
Cash and cash equivalents		17.0	–	17.0
		968.4	23.0	991.4
Creditors - amounts falling due within one year				
Trade and other payables		(60.3)	–	(60.3)
Derivative financial instruments		(9.3)	–	(9.3)
Current tax liabilities		(16.2)	–	(16.2)
Bank and other borrowings		(3.0)	–	(3.0)
		(88.8)	–	(88.8)
Net current assets		879.6	23.0	902.6
Total assets less current liabilities		3,016.1	23.0	3,039.1
Creditors - amounts falling due after more than one year				
Derivative financial instruments		(10.2)	–	(10.2)
Deferred tax liabilities	c	(1.7)	1.7	–
Bank and other borrowings		(664.5)	–	(664.5)
Retirement benefit obligations	b	–	(123.5)	(123.5)
		(676.4)	(121.8)	(798.2)
Net assets		2,339.7	(98.8)	2,240.9
Equity				
Share capital		39.9	–	39.9
Share premium		1,166.3	–	1,166.3
Other reserves		17.5	–	17.5
Retained earnings		1,116.0	(98.8)	1,017.2
Total equity attributable to owners of the Company		2,339.7	(98.8)	2,240.9

a. Reclassification of software assets to intangible assets.

b. Recognition of retirement benefit obligations.

c. Recognition of deferred tax asset relating to retirement benefit obligations.

Notes to the financial statements of the Company continued

15. Transition to FRS 101 continued

Reconciliation of equity at 31 December 2014

	Notes	UK GAAP £'m	Adjustments £'m	FRS 101 £'m
Fixed assets				
Intangible assets	a	–	32.7	32.7
Property, plant and equipment	a	34.5	(32.7)	1.8
Derivative financial instruments		30.6	–	30.6
Investments		2,070.1	–	2,070.1
		2,135.2	–	2,135.2
Current assets				
Other receivables	c	997.0	33.2	1,030.2
Derivative financial instruments		6.6	–	6.6
Cash and cash equivalents		3.8	–	3.8
		1,007.4	33.2	1,040.6
Creditors - amounts falling due within one year				
Trade and other payables		(145.0)	–	(145.0)
Derivative financial instruments		(10.4)	–	(10.4)
Current tax liabilities		(13.1)	–	(13.1)
Bank and other borrowings		(54.1)	–	(54.1)
		(222.6)	–	(222.6)
Net current assets		784.8	33.2	818.0
Total assets less current liabilities		2,920.0	33.2	2,953.2
Creditors - amounts falling due after more than one year				
Derivative financial instruments		(3.1)	–	(3.1)
Deferred tax liabilities	c	(2.8)	2.8	–
Bank and other borrowings		(403.3)	–	(403.3)
Retirement benefit obligations	b	–	(180.0)	(180.0)
		(409.2)	(177.2)	(586.4)
Net assets		2,510.8	(144.0)	2,366.8
Capital and reserves				
Share capital		40.1	–	40.1
Share premium		1,218.9	–	1,218.9
Capital redemption reserve		0.3	–	0.3
Other reserves		17.5	–	17.5
Retained earnings		1,234.0	(144.0)	1,090.0
Total equity attributable to owners of the Company		2,510.8	(144.0)	2,366.8

Reconciliation of comprehensive income for the year ended 31 December 2014

	Notes	UK GAAP £'m	Adjustments £'m	FRS 101 £'m
Profit for the year	b	286.5	11.7	298.2
Other comprehensive income (net of tax):				
Currency translation differences		0.1	–	0.1
Cash flow hedge movements		(0.6)	–	(0.6)
Remeasurement of retirement benefit obligations	b	–	(56.9)	(56.9)
		(0.5)	(56.9)	(57.4)
Total comprehensive income for the year		286.0	(45.2)	240.8

a. Reclassification of software assets to intangible assets.

b. Recognition of retirement benefit obligations.

c. Recognition of deferred tax asset relating to retirement benefit obligations.

Five-year record

	2015 £'m	2014 £'m	2013 £'m	2012 £'m	2011 £'m
Revenue and profit					
Revenue	**1,647.2**	1,553.7	1,637.3	1,605.8	1,455.3
Underlying profit before tax	**310.3**	328.7	377.8	366.0	325.3
Exceptional operating items*	**(10.4)**	(9.0)	(36.7)	(15.2)	(14.3)
Amounts arising on the acquisition, disposal and closure of businesses*	**(0.2)**	(3.5)	8.3	1.9	(6.0)
Amortisation of intangible assets acquired in business combinations	**(71.9)**	(68.1)	(74.3)	(80.6)	(75.1)
Disposal of inventory revalued in business combinations	**(1.6)**	–	(0.3)	(0.2)	(11.3)
Financial instruments	**(4.8)**	(29.2)	6.1	23.4	9.7
Net interest expense on retirement benefit obligations	**(11.2)**	(10.0)	(11.5)	(14.0)	(12.1)
Profit before tax	**210.2**	208.9	269.4	281.3	216.2
Earnings and dividends					
Earnings per share – basic	**23.2p**	22.0p	29.4p	30.1p	23.1p
Earnings per share – underlying	**31.6p**	32.4p	37.5p	36.5p	32.1p
Dividends per ordinary share (paid or proposed in respect of the year)	**14.40p**	13.75p	12.75p	11.80p	10.50p
Gearing ratio					
Year end net debt as a percentage of capital employed	**48.3%**	26.9%	27.2%	33.7%	44.0%

* Comparative figures have been restated to present "Amounts arising on the acquisition, disposal and closure of businesses" separately from "Exceptional operating items", consistent with the treatment adopted in 2015.

Investor information

Contacts

Investor relations

Information on Meggitt PLC, including the latest share price: www.meggitt.com

T: 01202 597597
E: investors@meggitt.com

Shareholder enquiries

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. Dividend confirmations are sent directly to shareholders' registered addresses. From April 2016, dividend tax vouchers will be replaced by dividend confirmations in line with changes to dividend tax credits announced as part of the UK Government Budget in July 2015.
- 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 or dividend confirmation, 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.

Registrar:
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

T: 0370 703 6210
E: www.investorcentre.co.uk/contactus

Other useful contacts

Share dealing services are provided for shareholders by Computershare Investor Services PLC. These services are provided by telephone (0370 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): PO Box 72253, London, SW1P 9LQ (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 2015 final dividend of 9.80p per ordinary share, if approved, will be paid on 6 May 2016 to shareholders on the register on 29 March 2016. The expected payment date for the 2016 interim dividend is 30 September 2016.

2016 provisional financial calendar

Event	Date
Full-year results for year ended 31 December 2015	**23 February**
Report and accounts for year ended 31 December 2015 despatched	18 March
2015 Final dividend ex-dividend date	24 March
2015 Final dividend record date	29 March
Deadline for receipt of dividend reinvestment plan elections	14 April
AGM	**21 April**
2015 Final dividend payment date	6 May
Interim results for period ended 30 June 2016	**2 August**
2016 Interim dividend ex-dividend date	8 September
2016 Interim dividend record date	9 September
Deadline for receipt of dividend reinvestment plan elections	16 September
2016 Interim dividend payment date	30 September

Key dates 2016

FEBRUARY 23 Full-year results

APRIL 21 AGM

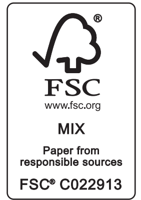
AUGUST 2 Interim results

Glossary

Aftermarket	Spares and repairs
AGM	Annual general meeting
ALM	Additive layer manufacturing
AOG	Aircraft-on-ground emergency
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
BEPS	Base Erosion and Profit Shifting
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
CI	Continuous improvement
CO_2	Carbon dioxide
Code	UK Corporate Governance Code 2014
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
CREST	Certificateless Registry for Electronic Share Transfer
CSS	Customer Services & Support, Meggitt's new centralised aftermarket organisation
DECC	Department of Energy & Climate Change
DEFRA	Department for Environment, Food & Rural Affairs
DLA	Daily layered accountability, the nervous system of the Meggitt Production System, DLA is a multi-layered structure of interlocking meetings at the start of each working day that flows fresh, accurate performance and operational information up and down the business enabling problems to be solved quickly by those best equipped to do so
DoD	(United States) Department of Defense
DPPM	Defective parts per million, a measure of quality
DRIP	Dividend reinvestment plan
DTR	Disclosure and Transparency Rules
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EPP	Equity Participation Plan
EPS	Earnings per Share
ERP	Enterprise resource planning
ESOP	Employee Share Ownership Plan
ESOS	Energy Savings Opportunity Scheme
ESOS	Executive Share Option Scheme
EU	European Union
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
GAINS	Green Airframe Icing Novel Systems, the name of a 'green' de-and anti-ice systems research project funded by the European Union. Meggitt Polymers & Composites, a 'Core Partner', leads a consortium of industry and academic partners
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
Group Executive Committee	Assists the Chief Executive to develop and implement the Group's strategy, manage operations and discharge responsibilities delegated by the board
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 Service
ISA	International Standards on Auditing
KPI	Key performance indicator
Large jets	Commercial aircraft with greater than 100 seats
Lean	A method for the continual elimination of waste within a manufacturing system

Glossary continued

LIBOR	London Inter-Bank Offered Rate
LNG	Liquefied natural gas
LTIP	Long Term Incentive Plan
MAAP	Meggitt Aerospace Asia Pacific, the Group's maintenance, repair and overhaul hub in Singapore
MABS	Meggitt Aircraft Braking Systems, one of five Meggitt divisions
M&A	Mergers and acquisitions
MCS	Meggitt Control Systems, one of five Meggitt divisions
MEG	Meggitt Equipment Group, one of five Meggitt divisions
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
MHSP	Meggitt Health and Safety Procedure, procedures and practices to protect employees, visitors and contractors from occupational safety and health risks, and ensure compliance with all applicable health and safety laws and regulations
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, one of five Meggitt divisions
MPP	Meggitt Pension Plan
MRO	Maintenance, repair and overhaul
MSS	Meggitt Sensing Systems, one of five Meggitt divisions
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
OE	Original equipment
OECD	Organisation for Economic Cooperation and Development
OEM	Original equipment manufacturer
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 Group Executive Committee
ORB	The Group's Obsolescence Review Board
Organic growth	Growth excluding the impact of currency and acquisitions and disposal of businesses
OSHA	Occupational Safety and Health Administration
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
SIOP	Sales, inventory and operations planning, a structured method of regularly translating customer demands into deliverable action plans for production internally and throughout the supply chain
SIP	Share Incentive Plan
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
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
Value stream	Customer-facing organisations within Meggitt divisions that include sales and marketing, programme management, customer service and design engineering. Value streams are served by operations which focus on safety, quality, delivery, inventory and cost reduction
WACC	Weighted average cost of capital



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