

MEGGITT

Enabling the Extraordinary

To Fly To Power To Live



Annual Report
& Accounts 2018

Our Strategy

Enabling the Extraordinary To Fly To Power To Live

Working closely with our customers, we deliver technologically differentiated systems and products with high certification requirements in aerospace, defence and selected energy markets.

Through focusing on engineering and operational excellence, we build broad installed bases of equipment for which we provide support and services throughout their lifecycle.

Our ambitious and diverse teams act with integrity to create superior value for all of our stakeholders.

What's inside our report

STRATEGIC REPORT

- 03 Highlights
- 04 At a glance
- 06 Chairman's statement
- 08 Chief Executive's statement
- 12 Our business model
- 14 Our strategy
- 24 Market review
- 30 Divisional reviews
- 40 New organisational structure
- 42 Key performance indicators
- 46 Risk management
- 48 Principal risks and uncertainties
- 54 Chief Financial Officer's review
- 60 Corporate responsibility

GOVERNANCE

- 74 Chairman's introduction
- 76 Board of Directors
- 80 Corporate governance report
- 86 Audit Committee report
- 90 Nominations Committee report
- 92 Directors' remuneration report
- 115 Directors' report

GROUP FINANCIAL STATEMENTS

- 119 Independent auditors' report to the members of Meggitt PLC
- 129 Consolidated income statement
- 130 Consolidated statement of comprehensive income
- 131 Consolidated balance sheet
- 132 Consolidated statement of changes in equity
- 133 Consolidated cash flow statement
- 134 Notes to the consolidated financial statements

COMPANY FINANCIAL STATEMENTS

- 186 Company balance sheet
- 187 Company statement of changes in equity
- 188 Notes to the financial statements of the Company

OTHER INFORMATION

- 198 Five-year record
- 199 Investor information
- 200 Glossary



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www.meggitt.com

Chairman's statement

2018 has proved a successful year with the smooth and efficient handover of leadership to Tony Wood as Chief Executive and the rate of organic growth accelerating to 9%.

Sir Nigel Rudd
Chairman



→ See page 06

Our business model

Differentiated technology, world-class services and support and an installed base of over 71,000 aircraft provide annuity like revenues the returns from which are reinvested to sustain market-leading positions over the long term.



→ See page 12

Our strategy

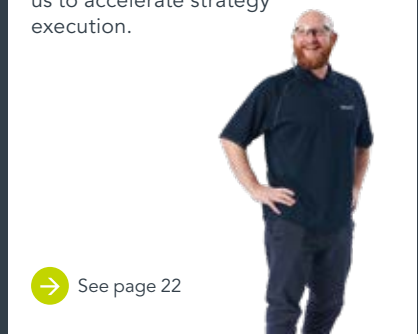
We are focused on enhancing our portfolio, improving our ability to serve customers, increasing our competitiveness and developing a high performance culture.



→ See page 14

Our culture

We are building a high performance culture, where high levels of employee engagement enable us to accelerate strategy execution.



→ See page 22

Our new structure

Increasing our alignment to our customers provides a unique opportunity to increase customer service and accelerate growth.

Airframe Systems

Engine Systems

Energy & Equipment

Services & Support

→ See page 40



To Fly

Expertise relied upon by customers to enable safe, cost-effective and environmentally responsible flight.

>90%

of western commercial aircraft are equipped with our fire and overheat detectors.



To Power

Products and services which enable customers to reliably operate critical infrastructure without disruption.

1bn

We keep the lights on for over 1 billion people worldwide.



To Live

Innovative technologies which enable a more secure world.

Zero

42% of survivable helicopter crashes used to result in death from fuel fires. Our crashworthy fuel tanks reduce this risk to almost zero.

Highlights

Operational highlights

- 2% net cost down on purchasing achieved in 2018, as a result of an increasingly centre-led approach to procurement.
- 2021 footprint consolidation target achieved – 20% reduction in sites.
- Inventory turns increased to 2.7x (2017: 2.5x) in parallel with investment to support accelerated growth and to build buffer stocks for future site consolidation and Brexit uncertainty.

1. As described in note 45 to the Group's consolidated financial statements, the Group has adopted IFRS 15 and IFRS 16 with effect from 1 January 2018, with prior year comparatives for 2017 restated. IFRS 15 is a complicated standard, requiring customer contracts to be reassessed against revised criteria for when, and for what value, revenue should be recognised. It is therefore not practical to provide a full restatement of KPIs presented for the years 2014-2016 inclusive or for KPIs presented for 2017, which are calculated based on growth compared to performance in 2016. However, comparatives for these years have been restated where appropriate for the most significant impact of the new standards, the requirement to expense free of charge manufactured parts ('FOC') as incurred under IFRS 15.
2. Underlying earnings per share is reconciled to basic earnings per share in note 15 to the Group's consolidated financial statements on page 153.
3. Underlying operating profit is reconciled to operating profit in note 10 to the Group's consolidated financial statements on page 150.
4. Free cash flow is reconciled to cash from operating activities in note 42 to the Group's consolidated financial statements on page 178.

Financial highlights¹

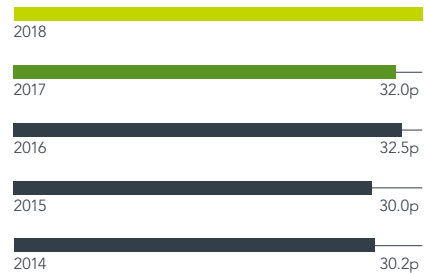
Revenue

£2,081m



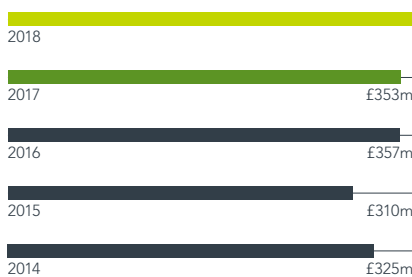
Underlying earnings per share²

34.2p



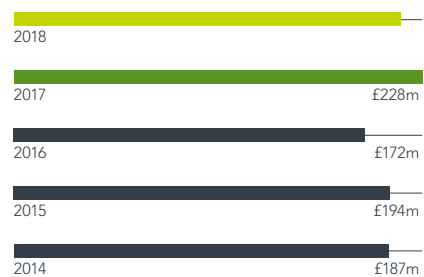
Underlying operating profit³

£367m



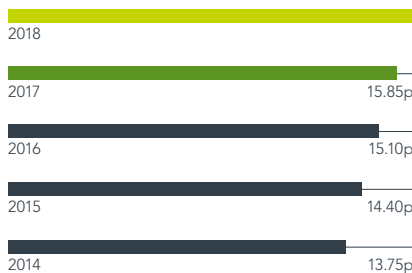
Statutory profit before tax

£216m



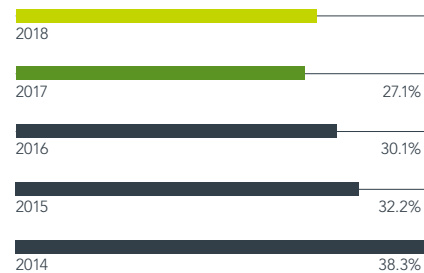
Dividend per share

16.65p



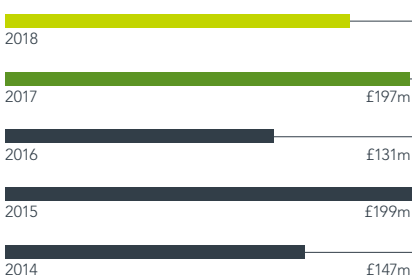
Return on trading assets

28.2%



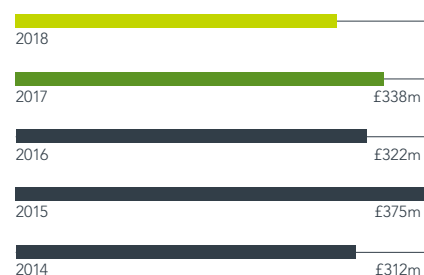
Free cash flow⁴

£167m



Cash from operating activities

£295m



At a glance

We deliver innovative solutions for the most demanding environments.

Our critical technology, products and services are relied upon by customers worldwide.

High performance culture

HPC training, known as “unfreezing”, is about building and nurturing a high performance culture, where high levels of employee engagement enable us to accelerate strategy execution.

Sarah Morris
HPC Facilitator



Our core markets



Aerospace

Through engineering expertise, we take the world further.

Civil aerospace accounts for 54% of Group revenue, with products and sub-systems installed on almost every jet airliner, regional aircraft and business jet in service.

→ See more on page 26



Defence

Trusted by defence forces worldwide

Defence accounts for 35% of Group revenue. We have equipment on an installed base of around 22,000 fixed wing and rotary aircraft and a significant number of ground vehicles and training applications.

→ See more on page 28



Energy

Keeping the lights on

Energy and other revenue comes from a variety of industries including power generation, oil and gas, and medical and accounted for 11% of Group revenue.

→ See more on page 29

Revenue by market



Market	Revenue by market
Civil OE	22%
Civil AM	32%
Defence	35%
Energy & Other	11%

Revenue by destination



Market	Revenue by market
UK	8%
US	59%
Rest of Europe	19%
Rest of World	14%

Our divisions

In 2019, the Group will transition from six capability based divisions to four vertically integrated customer-aligned divisions.

→ See more on page 40

Meggitt Aircraft Braking Systems (MABS)

One of the world's top providers of wheels, brakes and brake control systems to civil and defence aircraft manufacturers, airline and charter operators and distributors and repair stations.

18%

Percentage of revenue

→ See more on page 30

Meggitt Polymers & Composites (MPC)

A leading specialist in fuel containment for defence platforms, aircraft sealing solutions and advanced engine composite components.

19%

Percentage of revenue

→ See more on page 34

Meggitt Equipment Group (MEG)

Specialises in live-fire and virtual small arms weapons training, defence equipment ranging from electronics cooling to ammunition handling systems and heat transfer equipment for off-shore oil and gas facilities.

11%

Percentage of revenue

→ See more on page 38

Meggitt Control Systems (MCS)

Market leading provider of aircraft fire protection, thermal management systems and fluid control components and sub-systems for aerospace and energy applications.

28%

Percentage of revenue

→ See more on page 32

Meggitt Sensing Systems (MSS)

Provides high performance sensing and condition-monitoring systems for aero and industrial turbines, aircraft power management and storage technology, wireless safety systems, real-time remote aircraft surveillance and anti-collision equipment.

24%

Percentage of revenue

→ See more on page 36

Chairman's statement

// Our first priority is investing in the organic growth and operational efficiency of the business. //

A clear and disciplined approach to capital allocation.

01

Continued investment to drive sustainable long term organic growth

02

Grow our ordinary dividend in line with earnings through the cycle

03

Expand our portfolio through value accretive acquisitions

04

Maintain an efficient balance sheet



Accelerating value creation

2018 has proved a successful year with the smooth and efficient handover of leadership to Tony Wood as Chief Executive. The rate of organic revenue growth accelerated to 9%, thanks to the significant investments we have made in differentiated technology during an unprecedented product renewal by the major airframe and engine manufacturers.

We have seen strong demand in all of our end markets during 2018 despite the more challenging macro environment. Trade-tariffs, commodity price volatility and preparation for the UK's exit from the European Union have all increased uncertainty and added cost to the business. However, the strong progress we have made in executing our strategic priorities has enabled us to continue to build momentum in line with our 2021 targets for margin and cash improvement.

As we predominantly supply products on a sole-source basis, we are the sole provider of spare parts on the new platforms that will be in operation for decades. With an installed base of over 71,000 aircraft, this provides a highly resilient business model and means we are well positioned to weather the current uncertainty and sustain long term growth.

Capital allocation

The Board's priorities for capital allocation remain unchanged. Continued investment to drive sustainable long term organic growth is our first priority. Research into differentiated technology, investment in world class infrastructure and recruiting and developing the best talent are critical to our success.

Our second priority is to grow our ordinary dividend in line with earnings through the cycle. Over the past five years we have grown our dividend by 5% p.a. during a period of significant investment. During this period, free cash flow has exceeded the dividend by 1.5x, demonstrating the strong cash generative nature of our business model.

Reflecting the continued confident outlook, the Board is proposing a 5% increase to the full year dividend to 16.65p per share for 2018 (2017: 15.85p).

Our third priority is to expand our portfolio through value accretive acquisitions. Over the last two years, we have enhanced our focus on attractive aerospace, defence and selected energy markets where we have or can achieve a differentiated position. The Board meets regularly to discuss the Group's strategy and has a clear view on how we can further improve this position with carefully targeted acquisitions.

Finally, in the absence of any compelling investment opportunities for a prolonged period, our fourth priority is to maintain an efficient balance sheet in line with the Board's guidance range of 1.5x to 2.5x Net Debt:EBITDA, designed to ensure clear headroom against our covenants.

Board changes

In September, we announced that Doug Webb would retire from his role as Chief Financial Officer in December 2018. Doug served as our CFO for over five years, overseeing a critical period in our evolution from a holding company to an integrated group. We thank Doug for the significant role he has played in the development of the Group and we wish him well in his retirement.

Doug has been succeeded by Louisa Burdett who joined us after serving as Group Finance Director of Victrex, a FTSE 250 industrial polymers group. Louisa has extensive experience in senior financial roles at companies including the Financial Times Group, GE and GlaxoSmithKline and is also a Non-Executive Director and Chair of the Audit Committee of Electrocomponents plc.

Guy Hachey has joined the Board as a Non-Executive Director in January 2019. Previously President and Chief Operating Officer of Bombardier, Guy will bring extensive experience in aerospace and will be a strong successor for Paul Heiden who is retiring on 25 April 2019. We thank Paul for nine years of excellent service. Paul will be succeeded by Guy Berruyer as Senior Independent Director and Alison Goligher as Chairman of the Remuneration Committee.

We also recently announced the appointment of Caroline Silver as a Non-Executive Director from 25 April 2019. Caroline is a Senior Managing Director at Moelis & Company, and will bring 30 years of experience in investment banking to the Board.

Caroline is Non-Executive Chairman of FTSE 250 consumer products group, PZ Cussons plc and a Non-Executive Director of BUPA.

People

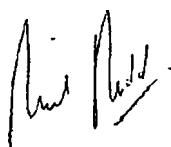
During 2018, the Board had the opportunity to meet our employees and experience the Meggitt culture during visits to a number of our sites including our recently expanded facilities in Vietnam and San Diego, our manufacturing campus in Xiamen, China, and our operations in Simi Valley and North Hollywood. Board members also undertook visits in smaller groups, to our Asia Pacific aftermarket hub in Singapore; and our sensing centre of excellence in Fribourg, Switzerland.

The Board continue to be impressed at the depth of our technology expertise, and our employees' passion and commitment. I am pleased with the results of the employee engagement survey which showed a 4% increase. I am sure that our newly designated Non-Executive Director for Employee Engagement, Nancy Gioia, will give further impetus for progress in this area.

The Board has discussed and reviewed the Group's progress on diversity and inclusion throughout the year – many of our Board members have direct experience of improving diversity in international companies and they have provided valuable input to our plans. At the end of the year, we approved a Diversity and Inclusion Policy to show our commitment to this important subject.

The Board recognises the increased emphasis on culture under the UK Corporate Governance Code. In 2017, Meggitt launched a high performance culture initiative, aimed at aligning and improving culture across the Group. The Board is pleased with the progress made with this excellent initiative, and will have the opportunity to experience a high performance culture session with our employees in 2019, as well as see our culture in person as we visit further sites.

I would like to thank all of our employees for their hard work this year, without which our many achievements would not have been possible.



Sir Nigel Rudd
 Chairman

Investment case

Meggitt PLC specialises in providing smart engineering for extreme environments. Having passed the peak of investment in R&D, our focus is on delivering on these new programmes to our customers and accelerating growth in returns to shareholders.

Focus on markets with high certification & long life assets

- Challenging technology and certification requirements mean few providers can do what we do
- Aerospace and defence focused (89% of revenue)

Strong positions in attractive markets

- 72% of revenue in attractive markets where Meggitt has a strong competitive position
- Competitive positions continue to be enhanced by the development of differentiated technology and operational performance improvements

Strength and depth of intellectual property supports long-term returns

- Proprietary product and manufacturing technologies
- Up-front investment delivers strong long term returns

Progress on strategic priorities

- Meggitt Production System, our lean improvement tool, reinforced across the portfolio with a focus on the red and yellow stage sites
- Inventory turns improved to 2.7x despite strong growth and investment in buffer stocks
- CSS launched Smart Support™, leading to a series of long term agreements with key aftermarket customers

Broad and balanced business

- 52:48 split between original equipment and aftermarket
- No one platform accounts for more than 5% of revenue
- Content on almost every western aircraft – installed base of over 71,000 civil and defence aircraft

High quality team

- High performance culture roll-out completed to 2,000 leaders supporting the transition to a new organisational structure with closer alignment to our customers and leaner ways of working

Chief Executive's statement



In 2018, we significantly increased the pace of organic revenue growth and accelerated progress on our strategic initiatives. 

In 2018, we significantly increased the pace of organic revenue growth and accelerated progress on our strategic initiatives. Our increased content on new platforms contributed to strong performance across each of our aerospace, defence and selected energy markets which grew in aggregate by 9%. As we continue to transition from a focus on product development to industrialisation and execution, we have also started to see the synergies from our strategic initiatives accelerate. During the past twelve months, we delivered both our target to reduce our footprint by 20% and achieved purchased cost savings of 2% p.a., which are starting to contribute to underlying margin improvement, and will be critical to our goal to improve operating margins by 200 basis points by 2021.

To sustain this growth over the medium term and improve return on capital employed, we remain focused on: continued investment in our technology and strategic portfolio; improving the service we offer to our customers; enhancing our competitiveness; and building a high performance culture, capable of delivering superior returns for shareholders.



Tony Wood
Chief Executive Officer

Portfolio Strategy

We have continued to make good progress on our goal to increase our exposure to attractive and growing markets where we have strong competitive positions, through both our investment in differentiated technology and programme of non-core disposals.

Developing innovative products and technologies which enable our customers to achieve a step change in the safety, efficiency and reliability of complex equipment continues to be a critical priority for the Group. In 2018, we made excellent progress on a carefully targeted group of technology innovation projects designed to enhance our long term competitive position in markets with strong growth potential.

Our applied research into next generation thermal systems is an excellent example of one such innovation project. Building on our strong pedigree in aero-engine thermal management, we are developing a thermal system capable of managing a two-fold increase in heat transfer which is two-thirds the size and weight of our current technology.

We also continued to execute a programme of non-core divestments. In March, we completed the sale of Thomson, a provider of precision engineered products, to Umbra and in April, we sold chemical etching subsidiary, Precision Micro to Lloyds Development Capital. As a result of these divestments and five others that preceded them since December 2016, we have increased our exposure to attractive markets where we have a strong competitive position from 66% to 72%, further enhancing our platform for long term growth and returns.

Customers

Organic book to bill of 1.08x in 2018 reflects good progress in growing our relationships with key customers across all market segments.

In the civil aftermarket, the launch of our Smart Support™ offering has been critical to securing a series of long term agreements with airlines and third party maintenance, repair and overhaul ('MRO') providers, including Emirates, SR Technics, Turkish Technic and Air France Services. Smart Support™ provides a flexible service and support package with a combination of new and surplus parts, specialist repairs, exchange pools and technology upgrades to optimise and increase the predictability of aircraft maintenance through the product lifecycle. Expanding the early success of Smart Support™ is a key priority for 2019.

Our 2021 targets

We remain confident in delivering our targets for cash and margin improvement by 2021



Improve underlying operating margin by

200+

basis points

Increase inventory turns from 2.3x to

4.0x

Reduce purchase costs by

2%

per annum

Reduce our footprint by

20%

And in the defence market, we have secured a number of new orders which have enabled us to significantly increase growth in 2018 and beyond. These include retrofit fuel tanks for the F/A-18 Super Hornet and UH-60 Black Hawk; a \$750m contract for composite parts for the F-119 and F-135 engines; and a \$320m extension of our contract to provide brakes across a wide range of platforms for the Defense Logistics Agency.

To further accelerate long term growth, we have adopted a new organisation structure in January 2019, moving from six capability based units to four market-facing divisions: Airframe Systems, Engine Systems, Energy & Equipment and Services & Support. This structural change continues our evolution to a more integrated and efficient Group and increases our alignment with customers whilst ensuring we maintain a strong focus on innovation across our businesses. Successfully implementing our new organisation and delivering the initial benefits of this transition are an important priority for 2019.

Competitiveness

In 2018, we delivered two notable achievements against the 2021 targets we announced at our Capital Markets Day in 2017.

As a result of our increasingly centre-led approach to procurement, we met our target to reduce direct purchased costs by 2%. Working with the Group's new

preferred suppliers in areas including electronics, fasteners and machining, we have been able to simplify our supply chain whilst better leveraging our scale to reduce cost.

This approach has been more than enough to offset some increases on raw materials and tariffs on products sourced from low cost countries, most notably China. Whilst we expect such costs to remain a headwind in 2019, we believe the progress we have made in centralised procurement will continue to support our goal to improve our underlying operating margin by 200 basis points by 2021.

During the past 12 months, we have also met our target to consolidate our footprint by 20% by 2021, with non-core disposals and the closure of our Maidenhead aftermarket facility contributing to a further reduction of three sites. With eight site consolidations currently in progress and due to complete over the next three years, there is good scope for further rationalisation of our footprint which currently stands at 45 sites.

An important contributor to our success in consolidating factories has been the progress in expanding capacity at some of our existing facilities. We have doubled the capacity of our low cost manufacturing capability in Vietnam and significantly expanded our composites facilities in Mexico and San Diego. We have also made excellent progress on our Ansty Park site, with construction activity

+7%

Underlying earnings per share

+9%

Increase in organic revenue



Meggitt Production System

MPS drives innovation in operational excellence, technology development, sales pipeline, functional excellence and customer experience, using our combined strengths in a standardised language and deployment approach.



Our fast growing engine composites site in Erlanger, KY incurred significantly higher costs in 2018 due to extended learning curve impacts but exited the year with improving yield and productivity which we expect to continue to steadily improve in the coming year. These costs were a 150 basis point headwind to Group margin in 2018. //

beginning, and which remains on schedule to complete in late 2019, for initial occupation in early 2020.

Inventory turns increased to 2.7x (2017: 2.5x) despite the significant increase in revenue during the year and our investment in buffer stocks to support growth, our site consolidation plans and as part of our contingency planning for a no-deal Brexit. We are making good progress at many of our sites but there is much improvement yet to come as we target 4.0x inventory turns by 2021.

Our efforts to increase competitiveness and reduce costs are underpinned by the Meggitt Production System, our global approach to continuous improvement. The financial and operational performance improvements at our most advanced facilities continue to demonstrate the potential we can achieve when we move a critical mass of sites to the latter phases of the programme.

In 2019, we are focusing central resources to increase MPS maturity and deliver sustainable operational improvements at eight large, but early stage sites, that constrained overall performance in 2018. This improvement will have a significant impact on customer service and will lay the foundation for future operational efficiency, critical to delivering our 2021 margin improvement target.

Five Polymer and Composites sites are included within these eight early stage MPS sites.

Our fast growing engine composites site in Erlanger, KY incurred significantly higher costs in 2018 due to extended learning curve impacts but exited the year with improving yield and productivity which we expect to continue to steadily improve in the coming year. These costs were a 150 basis point headwind to Group margin in 2018.

Greater levels of process reliability and increased volume output will also be key to securing the support of our customers to transfer high volume production to our recently expanded composite manufacturing facility in Mexico. We anticipate a progressive improvement in margin throughout 2019 as we execute this plan.

These complex components are reliant upon deep proprietary manufacturing know-how which continues to enhance our position in one of the fastest growing markets in aerospace.

Culture

Our high performance culture deployment made strong progress in 2018, with training rolled-out to over 2,000 of our leaders. This programme is already having a strong impact on our business with employee engagement up 4% during a period of significant change across many of our sites. Changing our culture will be a long journey but it is excellent to see the early impact of this programme which is equipping our teams to work more effectively and efficiently across a more integrated Group and increase the pace of strategy execution.

Inclusion is a key foundation of our high performance culture. We aspire to build a diverse workforce, where our people succeed based on their talent, skill, knowledge and application. Non-executive appointments during the last 12 months have increased the representation of female board members by 50% and in 2019, we will focus on building the pipeline of future leaders to ensure that we materially increase diversity amongst our executive workforce over the coming years.

A key principal of our corporate culture is our focus on health and safety. In 2018, we have seen our total reportable incident rate improve by 34% and our lost time incident rate improve by 78%. Whilst we are pleased with the progress we have made this year, we aspire to achieve a culture capable of sustaining upper quartile performance in terms of the safety of our employees and have targeted further improvements in 2019.

Performance

Reported revenue increased by 4% to £2,081m, after the adverse impact from currency translation and divestments.

After six years of modest organic growth, 2018 marked a significant acceleration with organic revenue up 9%, reflecting strong performance in growing markets. Underlying earnings per share increased by 7% to 34.2p (2017 restated: 32.0p).

Within civil aerospace, original equipment revenue grew organically by 6%, with increased shipset content on large jets and a return to growth in business jets offsetting further declines in regional jets. Aftermarket revenue increased organically by 8%, with particularly strong performance in large jets where growing air traffic demand and a record low retirement rate contributed to 10% growth which also benefitted from one-off stocking associated with new distributor agreements.

Performance in defence was also strong, with the rate of growth accelerating significantly after a slow first quarter. Original equipment growth benefitted from improving demand on fighter jet platforms, particularly the F-35. The trend for increased investment in fleet readiness in the US was a growth tailwind with new orders for retrofit fuel tanks on the F/A-18 and UH-60 contributing to healthy aftermarket demand.

After five years of declining revenue in energy, revenue grew by 19% organically in 2018 with the continued recovery at Heatric supplemented by growth in our sensor and valve businesses which offset falling demand from industrial gas turbines original equipment manufacturers by capturing growth from end-users.

Underlying operating margin was flat at 17.7%, with the growing financial contribution from the execution of our strategic initiatives enough to offset the extended learning curve costs at our Polymers & Composites division and higher levels of free of charge content supplied during 2018.

Outlook

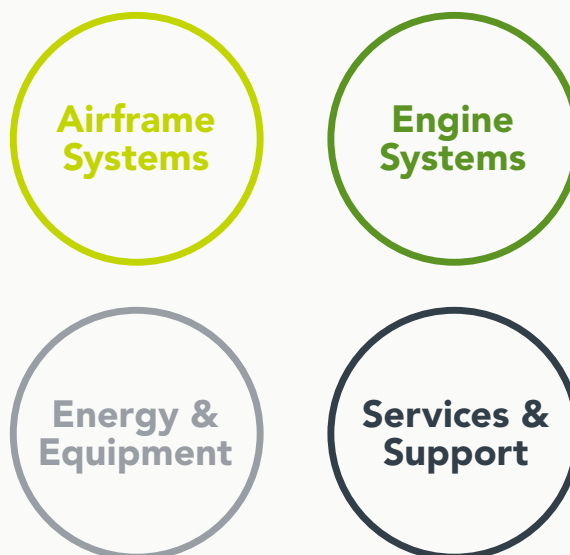
The outlook for our end markets remains encouraging. The fundamental driver of our business is air traffic, which continues to grow ahead of the long run average of 4 to 5% per annum. Over the medium term, production of large jets, underpinned by backlogs of up to eight years at current production rates, is expected to grow as airlines seek to increase capacity to support anticipated traffic growth. Our increased shipset content on the latest generation of aircraft supports a positive outlook for civil OE revenues. In 2019, we expect civil OE to grow organically by 4 to 6%.

Civil aftermarket revenues will continue to benefit from above average growth in traffic and the record low retirement rate in 2018. However, this growth will be partly offset by lower anticipated utilisation of both business jets and regional aircraft which account for 46% of Group aftermarket exposures; and a strong comparative period in 2018, in which aftermarket growth was supplemented by non-recurring revenue associated with new distributor agreements signed in late 2017. In 2019, we expect civil aftermarket to grow organically by 3 to 5%.

Our defence business is well positioned with significant exposure to the US Department of Defense and good content on all of the fastest growing and hardest worked platforms. We continue to benefit from the trend to invest in

Changes in our organisational structure

Continued journey from holding company to integrated group.



→ See more on page 40

improving fleet readiness and in 2019, we anticipate organic growth to increase by 4 to 6%.

The outlook in our energy markets is mixed. At Heatric we expect the recovery to continue into 2019 given organic order growth of 24% in 2018. This is likely to be offset by more challenging conditions in the Group's power generation exposures where we continue to offset falling demand from the industrial gas turbine OEMs with growth in sales to end users. In 2019, we expect organic energy growth of 0 to 5%.

The Group has carefully considered a range of scenarios and implemented mitigating actions that arise from the risk of a potential no-deal Brexit. These include investment in buffer inventories, the recruitment of additional customs administrators and application for third-country EASA status, enabling us to continue to support European registered aircraft under these circumstances. Given that less than 5% of the Group's revenues are transacted between the UK and the EU, this is not considered to be a significant risk for the Group in 2019.

On the basis of the above, the Group expects 3 to 5% overall organic revenue growth in 2019.

The Group expects margins to improve in 2019 by 0 to 50 basis points. The increasing momentum in our strategic initiatives, greater volume leverage and gradual improvement in margin in engine composites will be offset by continued growth of free of charge units and unfavourable revenue mix, with civil OE and defence growth expected to be our fastest growing segments.

Our medium term underlying operating margin targets remain unchanged with the Group targeting improvement of at least 200 basis points by 2021 to 19.9%.

Tony Wood
 Chief Executive Officer

Our business model

01

Our inputs & competitive strengths

Market-leading technology

#1 position in segments including business jet, regional jet and defence wheels & brakes, aerospace sensing & monitoring, fuel tanks, fire suppression & detection and advanced engine composites.

World-class services & support

High quality, timely service and support to promote customer satisfaction while maximising the value of our products through their lifecycles.

Global infrastructure

Manufacturing facilities in Asia, Europe and North America and regional bases in Mexico, India and the Middle East.

People and culture

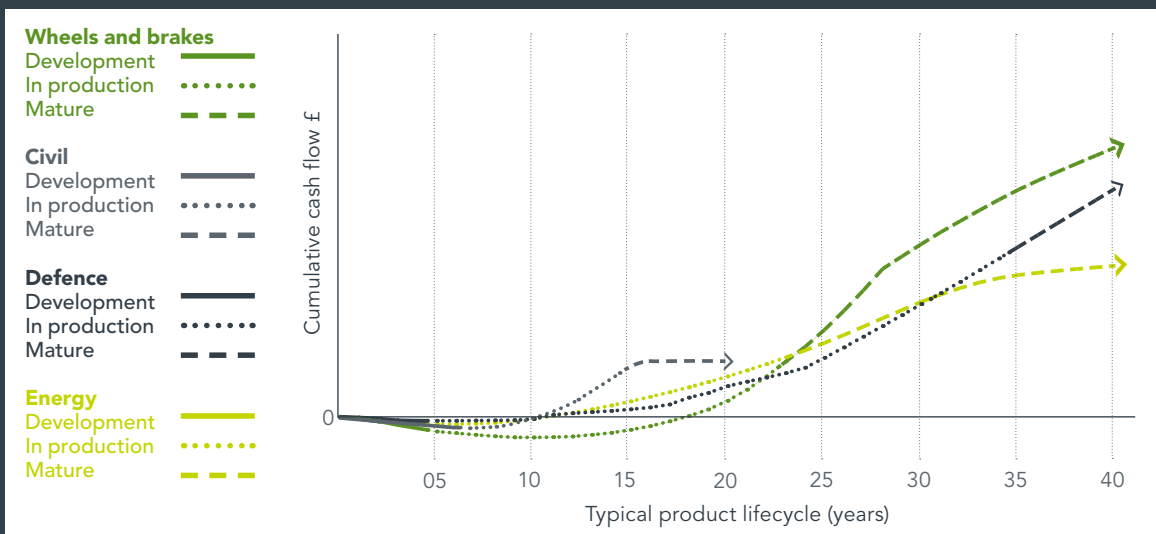
Our c.11,000 highly skilled people collaborate to create value by combining extensive technical capabilities and long-standing sector knowledge.

Long-standing relationships

With customers, suppliers and other strategic partners.

02

How we create value through the product life cycle



Develop differentiated technologies

Deploying our deep expertise to develop technology that anticipates future market demands, meets high certification requirements and is a source of competitive advantage to Meggitt and our customers.

Invest in operational excellence, infrastructure and supply chain

Investing in the people, tools, processes and facilities required to manufacture cost efficiently and deliver reliably to our customers. Building strong partnerships with suppliers to drive economies of scale and broaden our offering to customers.

Grow market share and our installed base

Competing effectively to increase our content on new platforms, typically as a sole-source provider for the life of programmes and platforms.

Provide through-life services

Providing world-class services and support to an installed base of more than 71,000 aircraft and other equipment throughout product lifecycles that can extend to more than 30 years, while capturing vital knowledge about how our products perform in the field.

02

Continued

Development

Investing in our customers' competitiveness

As our products require significant cash investments during the technology development phases of new programmes, we only commit to those offering visible, worthwhile returns. These are typically characterised by sole-source contracts for the life of programmes and platforms backed by established original equipment manufacturers targeting clear, addressable markets and with ambitious investment plans of their own.

Production

Revenues start

Revenue is usually generated when a programme moves into production. For civil aircraft, production of any one platform can last for up to ten years before it is replaced. Defence and industrial equipment is manufactured over much longer periods.

Maturity

Investing in our customers' competitiveness

As our products age, they require maintenance or replacement at varying intervals based on condition. This drives demand for spare parts and repair services over product lifecycles that can extend to over 30 years. Spare parts are priced to reflect the investment made during the development phase and as such, the maturity phase is typified by strong positive cash flows.

03

How we share value

Customers

- Innovative solutions
- Differentiated technology

Shareholders

- Dividend growth
- EPS accretion

Employees

- Engagement
- Training
- Development opportunities

Governments

- Employment
- Taxes

04

How do we do it

Clear strategy

We continue to make progress towards our 2021 goals by successful execution of our strategy.

Sound governance

High standards of governance are critical to our success.

Operating responsibly

Doing the right thing for people and the environment is a core part of our values.

Managing risk

We actively identify, manage and mitigate the risks to executing our strategy.

Rewarding success

Our people are rewarded fairly and incentivised to deliver our strategy.

Our strategy

Delivering competitive advantage at every stage

We are focused on enhancing our portfolio, improving our ability to serve customers, increasing our competitiveness and developing a high performance culture.

→ See more on pages 16 to 23



Portfolio Strategy

- Increasing our exposure to attractive markets where we have strong competitive positions
- Investment in differentiated technology

Focus areas



2018 progress

- 72% of the portfolio now in attractive markets where Meggitt has a strong position
- 3 non-core divestments completed
- Further progress on technology roadmaps (wireless systems, optical sensing, thermal systems)



2019 priorities

- Continued investment in braking systems, thermal management, fire protection, optical sensing, energy storage and engine composites
- Enhancing the portfolio through carefully targeted acquisitions
- Digital and additive manufacturing and digital services



Risks

- Technology strategy – Failure to develop meaningful technologies to meet customer needs

→ See more on page 16

Customers

- Moving from transactional approach to partnerships to accelerate aftermarket growth
- Upper quartile performance

- Organic order growth of 12%
- Wizz Air secured as launch customer for A321neo
- Smart Support™ contracts with Turkish Technic and SR Technics
- Defence awards include \$750m contract to supply composites for F-135 and awards to provide retrofit fuel tanks for F/A-18 and UH-60

- Successfully implement our transition to a customer-aligned organisation
- Expand routes to the aftermarket with further Smart Support™ wins

- Customer Satisfaction – Failure to meet customers' cost, quality and delivery standards as preferred suppliers

→ See more on page 18

Competitiveness

- Driving productivity improvements through the Meggitt Production System
- Increasing inventory turns
- Reducing purchased costs
- Optimised factory footprint

- 20% footprint reduction (compared to 2016) achieved with 45 sites at year end
- 2% purchased cost reduction achieved through centralised approach
- Inventory turns increased from 2.5x to 2.7x

- MPS focused on increasing maturity and building capability at early stage sites
- Further improvement in inventory turns
- Successfully deliver Ansty Park on plan

- Project / programme management – Failure to meet new product programme milestones or lower than expected production volumes

→ See more on page 20

Culture

- High performance culture
- Employee engagement
- Diverse talent

- HPC training deployed to 2,000 leaders
- Employee engagement score improved by 4%
- New organisation structure announced which will accelerate our journey to a more integrated Group

- Successfully implement our transition to a customer-aligned organisation and embed leaner ways of working
- Further roll-out of HPC and improvements in employee engagement

- People – Failure to attract, retain or mobilise people due to workforce demographics, lack of training

→ See more on page 22

Our strategy

BUILDING A STRONG PORTFOLIO



//

We have made good progress on our goal to increase our exposure to attractive markets, where we have strong competitive positions. //

* Case studies

Developing novel products and technologies which enable our customers to achieve a step change in the safety, efficiency and reliability of complex equipment.

Strong growth

Organic revenue growth was strong as a result of our increased shipset values and strong performance in all of our end markets.

9%

Revenue growth

→ See full review on page 55

Wireless tyre pressure monitoring system in development for Cessna business jets

The state-of-the-art connected system provides remote tyre pressure readings from a distance of up to 50 metres.



Thermal Management

Building on our 100 year pedigree to develop a thermal system capable of managing a two fold increase in the thermal transfer at two thirds the size and weight of current technology

Our strategy



DELIVERING THE HIGHEST QUALITY FOR OUR CUSTOMERS

//
Excellent progress in growing
our relationships with key
customers across all market
segments. //

* Case studies

Meggitt secured a number of transformational wins in 2018, increasing our long term partnerships with customers across our aerospace, defence and selected energy markets



1.08x

Organic book to bill in 2018

→ See page 09

\$750m order for advanced composites

Secured 10 year agreement to provide high temperature composites for the F-135 engine



SMART Support™

We work with customers to supply nose to tail reliability, performance and safety, from service entry to end of life.

MEGGITT

New organisation

We launched our new customer focused organisation in January 2019, delivering against our strategy.

→ See page 40

12%

Organic order growth in 2018

Our strategy



MAXIMISING COMPETITIVENESS

//

Strong progress against our 2021 targets for purchased costs reduction and site consolidation. //

* Case studies

We met our target to reduce purchased costs by 2% in 2018, as well as reaching the 20% milestone for footprint reduction.

2021 targets

We have made excellent progress on our 2021 targets achieving two of these in 2018.

2%

Purchased cost reduction

20%

Footprint reduction

Expanding low cost capacity and building centres of excellence

In 2018, Meggitt expanded four facilities in Vietnam, China, Mexico and San Diego, marking a significant increase in capability and capacity globally.



Inventory turns

In 2018 inventory turns improved from 2.5 to 2.7x, driving towards our target of 4.0x by 2021

2.7x

In 2018

Centralised purchasing

9%

reduction in direct materials suppliers in 2018

46%

spend with preferred suppliers

Our strategy



EMBEDDING A HIGH PERFORMANCE CULTURE

//
Our high performance culture deployment accelerated in 2018, with over 2,000 employees 'unfrozen'. //

* Case studies

High Performance Culture allows us to work effectively within Meggitt, and with our customers and suppliers.

High Performance Culture

By the end of 2020 we plan to have reached all employees with 'unfreezing' and 'reinforcement' sessions.

→ See page 64

This is how we work.
And this is who we are.



Employee Engagement

4%

In 2018 our employee engagement survey showed a 4% improvement in engagement scores across the Group.

→ See page 66



TRIR

Reduction in the total recordable incident rate

34%

Reduction in 2018

→ See full review on page 66



Health & Safety

Our continued efforts to raise awareness about health & safety have improved all of our safety metrics in 2018.

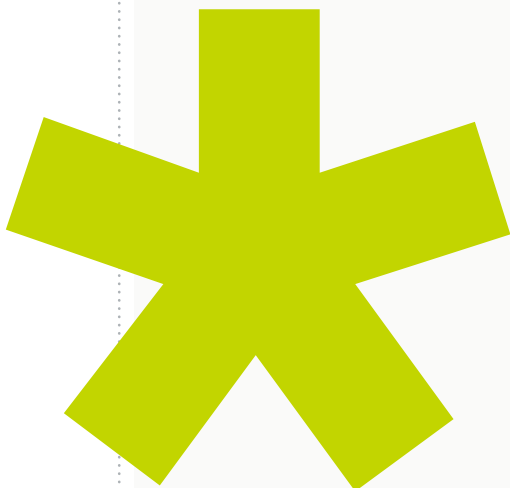
Introduction

Meggitt's core civil aerospace, defence and energy markets share a common requirement for smart engineering for extreme environments. These mission and safety critical components and sub-systems must perform to exacting requirements for many years in highly demanding operating conditions. Suppliers must be capable of meeting rigorous certification requirements. The environments in which many of our products operate result in high levels of wear and tear and demand for spares and repairs. This drives aftermarket revenues for decades after initial product delivery.

Group



Market	Revenue
MABS	18%
MCS	28%
MPC	19%
MSS	24%
MEG	11%

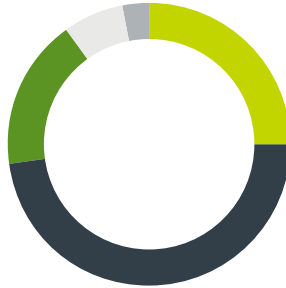


Meggitt Aircraft Braking Systems



Market	Revenue
Civil - Original equipment	4%
Civil - Aftermarket	72%
Defence	24%
Energy	0%
Other	0%

Meggitt Control Systems



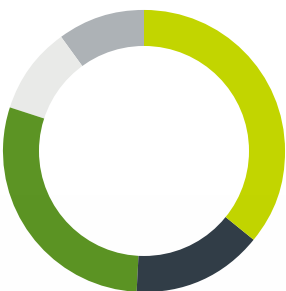
Market	Revenue
Civil - Original equipment	25%
Civil - Aftermarket	48%
Defence	17%
Energy	7%
Other	3%

Meggitt Polymers & Composites



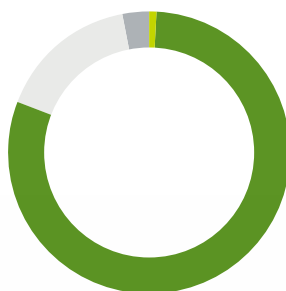
Market	Revenue
Civil - Original equipment	32%
Civil - Aftermarket	10%
Defence	54%
Energy	0%
Other	4%

Meggitt Sensing Systems



Market	Revenue
Civil - Original equipment	36%
Civil - Aftermarket	15%
Defence	29%
Energy	10%
Other	10%

Meggitt Equipment Group



Market	Revenue
Civil - Original equipment	1%
Civil - Aftermarket	0%
Defence	80%
Energy	16%
Other	3%





01

Civil original equipment

2018 market trends

- Large jet deliveries in 2018 stood at a record 1,600, 6% higher than in 2017.
- The key driver of large jet delivery growth has been demand for the new generation narrow-body aircraft, the Airbus A320neo and Boeing 737 MAX.
- Regional aircraft deliveries of 241 in 2018 declined by 11%, with fewer deliveries of both turboprop and other regional jet aircraft.
- Business jet deliveries declined modestly in 2018 in a transitional year where manufacturers reduced production of older variants and started to ramp up production of newer models.

2018 Meggitt performance

Civil OE revenue grew 6% organically.

Large jet OE, the most significant driver of our OE revenue, grew 5% driven principally by growth in Airbus A320neo and Boeing 737MAX platforms.

Business jet OE also saw strong growth of 20%, which was partly offset by declining revenue in regional jets (down 14%).

The strong order backlogs together with the increased shipset content we have secured in areas including advanced composites, sensors, engine controls, thermal management systems, seals and power electronics, gives us further confidence in the growth outlook for OE revenues.

Increased content on growing new platforms underpinned strong performance in civil OE.

OE segments

Large Jet >100 seats
Regional Jet <100 seats
Business Jet
Civil Helicopters

£464m

Revenue

2019 outlook

Strong underlying demand for the new generation large jet aircraft on which Meggitt has increased content by up to 250%.

Airbus taking a controlling stake in the Bombardier CSeries platform increases the potential for near term delivery growth on a platform where we provide free of charge equipment.

Continued softness in demand for regional jets likely to be a headwind to growth in 2019.

Introduction of new large cabin platforms during 2018 is likely to stimulate a return to growth in business jet deliveries.

We expect organic revenue growth of 4-6% in Civil OE in 2019.



02

Civil aftermarket

2018 market trends

- The civil aerospace aftermarket is driven primarily by aircraft utilisation which, for large jets, is measured using available seat kilometres. Given our strong wheel and brake franchise, we use take-offs and landings as a proxy for business jet and regional jet utilisation.
- ASKs in the large commercial aircraft fleet grew 6% in 2018, above the 4 to 5% long-term average.
- Growth in emerging markets continues to be a key driver of ASKs, particularly the Asia Pacific region which grew by 8% in 2018.
- Large regional jet utilisation increased by 5% demonstrating the trend of needing additional aircraft to fly and deliveries in large jets not satisfying this demand.
- Business jet utilisation increased modestly, with growth of 0.4% in take-offs and landings.

2018 Meggitt performance

Civil aftermarket revenue grew organically by 8% within which, large jets grew by 10%, driven by Boeing 777, B787 and the Bombardier CSeries, now the Airbus A220.

One-off provisioning relating to distributor agreements signed in late 2017 increased demand, particularly in the first half.

Revenue in regional jet aftermarket where we provide brakes for Embraer E-Jets and Bombardier CRJs, reflected strong growth in utilisation on these aircraft throughout 2018, which led to organic growth of 6%.

Business jet aftermarket revenue grew by 4%, as a result of good growth in Gulfstream G350/450 and G500 platforms, despite negligible growth in utilisation.

Meggitt has 70% of its revenues from sole-source, life of programme positions underpinning aftermarket demand for decades to come.

AM exposures

Large Jet >100 seats
 Regional Jet <100 seats
 Business Jet
 Civil Helicopters

£661m

Revenue

2019 outlook

Continued growth in traffic above the long run average of 4 to 5% and our increased content on large jets that entered service in the last decade will continue to grow.

Utilisation of business jets and regional jets is expected to grow more slowly than commercial air transport.

Growth in the large jet retirement rate during 2019 could increase the availability of used serviceable material which would increase competition for spare parts.

We expect organic revenue growth of 3-5% in Civil aftermarket in 2019.



03

Defence

Market trends

- US Department of Defense budget increased by 8% in 2018.
- Deliveries of new aircraft grew by 1% with strong growth in fighter jets (particularly the F-35) enough to offset declining demand for special mission aircraft.
- In contrast, demand for new rotorcraft decreased by 11% with lower volumes of UH-60 Black Hawk and AH-64 Apache during 2018.
- Increased focus in US for spend on increasing fleet readiness driving greater demand for spare and retrofit parts.
- Global defence spending increased by 5%.

2018 Meggitt performance

Defence revenue grew 10% organically. Original equipment revenue grew by 7%, with strong growth in parts for the F-35 Joint Strike Fighter and AH-64 Apache.

Aftermarket revenue (which accounts for 44% of total defence revenue) increased by 15% as a result of strong demand for retrofit fuel tanks for the F/A-18 Hornet, F-16 Falcon and F-15 Strike Eagle.

These were partly offset by lower demand on platforms such as BAE Hawk and AH-1 Cobra.

US defence spending accounts for 73% of defence revenue at Meggitt and growth in OE and AM came through in 2018.

Aerospace markets

Military Helicopters	Naval
Military Aircraft	Training
Ground Vehicles	Space

£731m

Revenue

2019 outlook

The outlook for defence expenditure in the US, our single most important defence market, remains healthy with the overall budget expected to grow to circa \$715bn in 2019.

The budget categories which most closely correlate with Meggitt growth are Procurement; Research, Development, Test & Evaluation; and Operations & Maintenance. 2019 spending in these areas is expected to grow by 3%.

Budget challenges outside of the US are likely to be a headwind to growth in 2019.

However, 6% organic growth in orders during 2018 provides momentum to sustain above market growth.

We expect organic revenue growth of 4-6% in defence in 2019.



04

Energy

Market trends

- Market conditions in oil and gas appear to have stabilised, with growth in the oil price through the summer of 2018.
- The demand for large frame industrial gas turbines remains suppressed but for small frame turbines has continued to grow.
- Emerging market demand continues to drive much of the growth opportunity.

2018 Meggitt performance

Energy revenue grew organically by 19% in 2018. Driven primarily by the recovery at Heatric which has operated in challenging end-markets following the collapse in the oil price in 2014.

Trading in the Group's valve and condition monitoring businesses grew 4% on an organic basis.

This reflects good success in supporting end users and growth in small frame turbines enough to offset declining demand for large frame gas turbines.

Recovery at Heatric and growth in supplying end users of industrial gas turbines saw energy revenue grow in 2018.

Energy & equipment markets

Power generation
 Oil & Gas

£128m

Revenue

2019 outlook

Long-term growth expectations for our energy businesses, particularly Heatric, remain good.

We have differentiated technology which plays a critical role in the extraction of deep-water offshore gas reserves and good opportunities in adjacent markets.

Our energy businesses will benefit from synergistic relationships across the Group e.g. optical sensing for the gas turbine market, as well as the long term demand for energy, particularly in emerging markets.

We expect organic revenue growth of 0-5% in energy in 2019.

Divisional reviews

Aircraft Braking Systems

£382m

Revenue

£122m

Underlying operating profit

Markets



Civil aerospace



Fixed wing military aircraft



Rotary wing military aircraft

Capabilities

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

Providing wheels, brakes and brake control systems for around 35,000 in-service aircraft.

Operational performance

Meggitt Aircraft Braking Systems (MABS) provides wheels, brakes and brake control systems for around 35,000 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 represents 18% of Group revenue, generating 91% of its revenue from the aftermarket and 9% from OE.

MABS civil revenue declined by 1% organically. Civil aftermarket revenue grew by 1% organically driven by good growth in regional jets, particularly Embraer E-170 which offset lower demand on Bombardier CRJ900 and a range of smaller aircraft. Large jet aftermarket reduced by 17% organically with strong growth on Airbus A220 offset by significantly lower demand for spares on mature platforms which had been strong during 2017.

MABS defence revenue increased by 8% organically, with increased aftermarket demand on A-10 Thunderbolt, F-16 Falcon, UH60 Black Hawk and Gripen aircraft partially offset by lower demand for Eurofighter Typhoon and BAE Hawk brakes.

Operating margin decreased from 35.0% to 31.8% in 2018 driven by unfavourable revenue mix and the accelerated growth of free of charge hardware. This represents a significant refresh of our installed base and dilutes near term margins, but will drive aftermarket growth for decades to come.

Carbon brakes

Proven in all operating environments, both commercial and defence applications, from small general aviation aircraft to large passenger jets, our carbon brake products are amongst the best in the world.

Our brake frame features include:

Latest generation NuCarb® carbon

Well-designed hydraulic seals

Carbon reinforcement clips to ensure the disks run correctly

A design that creates the greatest net space possible for carbon heat-sink within the customer's space envelope



Find out more online at
www.meggitt.com



Divisional reviews

Control Systems

£576m

Revenue

£127m

Underlying operating profit

Markets



Civil aerospace



Fixed wing military aircraft



Rotary wing military aircraft



Military ground vehicles



Energy and Industrial



Marine



Ground fuelling

Capabilities

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

A leading supplier of flow control, thermal management.

Operational performance

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 28% of Group revenue, generating 39% of its revenue from OE and 61% from the aftermarket.

Revenue was up by 13% organically. Civil aerospace grew by 15% organically, with strong performance in both OE and aftermarket.

OE revenue grew by 10% on an organic basis with good growth on A320neo family, 737MAX and A350XWB partially offset by lower demand on B787 and A320ceo aircraft.

Civil aftermarket revenue grew by 19% on an organic basis with strong growth in large jet demand, particularly on A320, A350XWB, B737, B777 and B787.

Defence revenue increased by 11% on an organic basis driven by good growth in spares on fighter jet programmes, including B1-B Lancer, UH-60 Black Hawk and C-130J Hercules.

Energy revenue increased organically by 5% driven by growth in demand for small industrial gas turbine valves.

Operating margin declined by 40 basis points to 22.1%.



Driving the future of fire suppression

Our fire detection systems have been protecting airline passengers, crew and defence personnel for more than forty years. Constantly evolving, we are exploring new green fire extinguishing agents and developing cutting edge fibre optic detection.

Fibre optics

Flexible and easy to install

Small, lightweight, durable, passive, and intrinsically safe

Faster, more accurate and versatile detection of fires and overheat

Can be integrated with other sensor applications, reducing required trunking and cabling



Find out more online at
www.meggitt.com

Divisional reviews

Polymers & Composites

£389m

Revenue

£6m

Underlying operating profit

Markets



Fixed wing defence aircraft



Rotary wing defence aircraft



Civil aerospace



Defence ground vehicles



Unmanned aerial vehicles



Automotive and industrial

Capabilities

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

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

Operational performance

Meggitt Polymers & Composites (MPC) supplies flexible bladder fuel tanks, complex composites and seals packages for a broad range of civil and defence platforms. These products are linked by their dependence on similar materials technology and manufacturing processes. It supplies over 80% of the US defence requirements for fuel bladders and ballistically-resistant and crashworthy fuel tanks. MPC represents 19% of Group revenue and generated 64% of its revenue from OE and 36% from the aftermarket.

On an organic basis, MPC revenue increased by 16% in 2018, reflecting the strong content we have on new generation civil platforms and growing demand for spares on defence aircraft. Civil revenue grew by 10% organically, as a result of strong demand for our engine composites on the fast growth CFM LEAP and Pratt & Whitney PurePower engine programmes. Organic order growth of 32% in civil OE underpins a healthy medium term outlook for MPC, with continued demand anticipated for our high temperature engine composites.

Defence revenue grew by 21% on an organic basis as a result of strong demand for composite components on the F-135 engine and for retrofit fuel tanks on programmes including F/A-18 Super Hornet, F-16 Falcon and UH-60 Black Hawk.

Operating margin decreased from 7.1% to 1.5% reflecting the full year impact of the elevated and extended learning curve costs at the Group's composite sites which began to impact financial performance in late 2017. The action we have taken during 2018 has delivered significant improvements in operational performance with yield improving across all major parts. The significant growth on these parts, associated with large shipset values on fast growing new engine programmes, means we have prioritised near term operational performance over cost reduction in 2018. Improving yield has enabled us to reduce scrap costs and with the transfer of production to low cost regions, increases in labour productivity and reductions in raw materials costs expected to provide good scope for cost reduction in 2019.

The outlook for MPC remains strong given the extensive capability we have acquired, strong platform positions and potential for significant market growth. This is particularly true for composite components on new engine programmes where technical barriers remain high and manufacturing know-how can be a critical differentiator.

Fuel tanks

Our ballistically-resistant fuel bladders will self-seal in less than two minutes. The wound is sealed using a proprietary treatment, which stops fuel leakage in minutes, allowing crews to return safely to base.

Our self-sealing fuel tanks:

Innovative material technology

Ballistically-resistant fuel bladders will self-seal in less than two minutes

Reduces the risk of fuel related incidents during flight

Crash resistant, improved survivability

Available for defence and civil applications



Find out more online at
www.meggitt.com



Divisional reviews

Sensing Systems

£499m

Revenue

£84m

Underlying operating profit

Markets



Civil aerospace



Defence aircraft, ships, ground vehicles and missiles



Energy and Industrial



Test and measurement



Medical

Capabilities

- High performance sensors
- Condition and health monitoring for air and land-based machinery
- Power generation, conversion and storage
- Aircraft surveillance and security systems
- Situational awareness systems
- Wireless control and monitoring systems
- Avionics and air data 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.

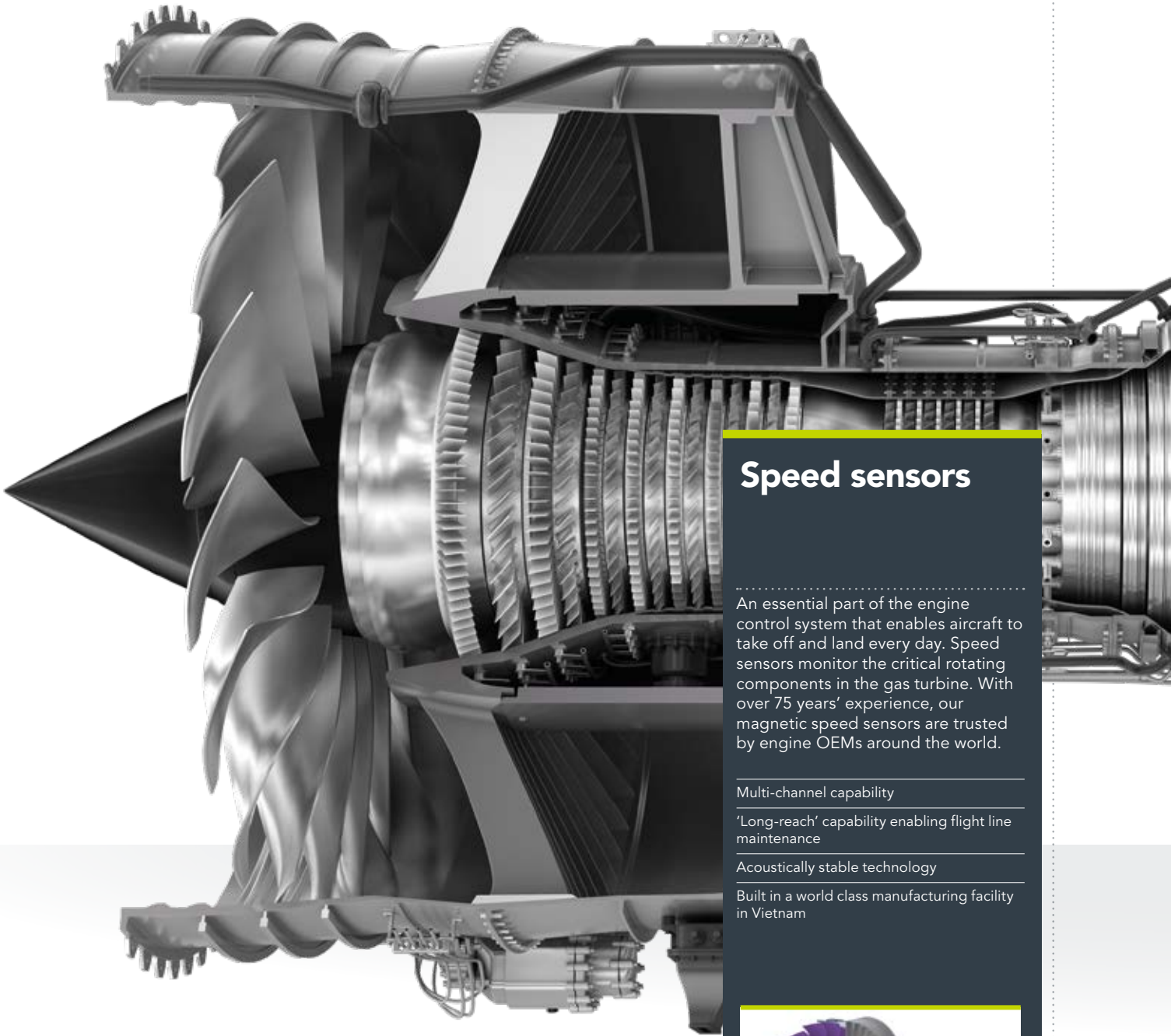
Operational performance

Meggitt Sensing Systems (MSS) designs and manufactures highly engineered sensors to measure a variety of parameters such as vibration, temperature, speed, 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, industrial 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 10 aircraft platforms. MSS represents 24% of Group revenue and generated 77% of its revenue from OE and 23% from the aftermarket.

MSS revenue increased by 4% organically, with 1% growth in civil aerospace driven by business jet OE growth, particularly on Bombardier Global 7500 and Embraer Legacy 450/500, which offset falling revenue on widebody aircraft. Defence revenue increased by 6%, with strong growth on F-35 sufficient to offset declining spares demand on fighter jet and rotorcraft platforms. In energy and other markets (including test and measurement, industrial and medical), MSS revenue increased organically by 4% reflecting success in reducing reliance on OEMs and targeting operators of industrial gas turbines; and growing demand in industrial and medical markets for our aero-derivative sensing capabilities.

Despite 98% growth in free of charge deliveries on new generation engine programmes, operating margin increased by 400 basis points to 16.8% reflecting lower new product introduction costs, purchasing savings from our centre-led approach to category management and good progress in reducing other costs. This was supported by our site consolidation activity, with investment to double capacity at our facility in Vietnam which opened in 2018.



Speed sensors

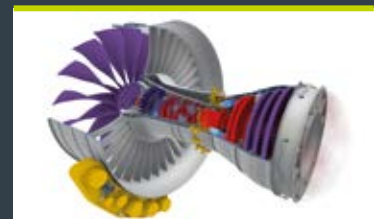
An essential part of the engine control system that enables aircraft to take off and land every day. Speed sensors monitor the critical rotating components in the gas turbine. With over 75 years' experience, our magnetic speed sensors are trusted by engine OEMs around the world.

Multi-channel capability

'Long-reach' capability enabling flight line maintenance

Acoustically stable technology

Built in a world class manufacturing facility in Vietnam



Find out more online at
www.meggitt.com

Divisional reviews

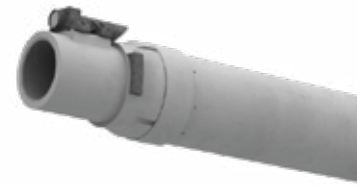
Equipment Group

£236m

Revenue

£29m

Underlying operating profit



Markets



Fixed wing defence aircraft



Rotary wing defence aircraft



Defence and security



Energy and Industrial

Capabilities

- Combat support (ammunition handling, electronics cooling and countermeasure launch and recovery systems)
- Live-fire and virtual training systems
- Heat transfer equipment for offshore oil and gas

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.

Operational performance

Meggitt Equipment Group (MEG) comprises our dedicated defence businesses and Heatric, a provider of printed circuit heat exchangers to the energy sector. The division represents 11% of Group revenue and generates 78% of its revenue from OE and 22% from the aftermarket.

MEG revenue grew by 12% organically, reflecting good growth in defence as a result of strong growth at Meggitt Defense Systems Inc (MDSI), a leading provider of thermal systems, ammunition handling and scoring technologies. In energy, revenue increased organically by 86% in 2018, driven by the recovery at Heatric which has operated in challenging end-markets following the collapse in the oil price in 2014.

Increased profitability at Heatric together with greater operational leverage at MDSI contributed to good growth in operating margin which increased from 5.8% to 12.2% in 2018.

In March 2018, we completed the sale of Thomson to Umbra and in April 2018, the sale of Precision Micro to Lloyds Development Capital. The two divested businesses generated £11.8m of revenue during 2018.

Environmental control system

Tried and tested in the hottest deserts in the world, our auxiliary cooling and power systems enable complete cooling systems to crews, combat equipment and electronics

Key features

Provides up to 7.5Kw cooling capacity

Hydraulically powered, electronically controlled

Automatic catastrophic hydraulic leak protection

Modular design adaptable to many platforms



Find out more online at
www.meggitt.com



Looking to 2019

Introducing the new organisational structure

Our new organisation structure is designed to accelerate growth by increasing alignment with our customers whilst simplifying our business.

Our new organisation is aligned with our strategy to accelerate our journey from a holding company to becoming an integrated group. We have created four customer-aligned divisions, three of which comprise product groups to maintain a strong focus on technology and innovation. Our Services & Support division provides after-sales support to customers across end markets.

CAPABILITY BASED BUSINESS UNITS

Aircraft Braking Systems

→ See more on page 30

18%
Group revenue

Polymers & Composites

→ See more on page 34

19%
Group revenue

Control Systems

→ See more on page 32

28%
Group revenue

Sensing Systems

→ See more on page 36

24%
Group revenue

Equipment Group

→ See more on page 38

11%
Group revenue

**CUSTOMER
 ALIGNED DIVISIONS**

Product Groups

- 1 Braking systems
- 2 Fire & safety
- 3 Power & motion
- 4 Avionics & sensing
- 5 Polymer seals
- 6 Fuel systems & composites

49%
 Group revenue

**Airframe
 Systems**

Product Groups

- 1 Flow control
- 2 Thermal systems
- 3 Engine composites
- 4 Engine sensing

14%
 Group revenue

**Engine
 Systems**

Product Groups

- 1 Energy sensing & controls
- 2 Heatric
- 3 Industrial equipment
- 4 Training systems
- 5 Defense systems

18%
 Group revenue

**Energy &
 Equipment**

Services

- 1 Global reach through our distribution and repair hubs, including authorised repair stations and distribution partners
- 2 24/7 customer response centre
- 3 Smart Support™ proposition to better create value for target customers across all Meggitt capabilities

19%
 Group revenue

**Services &
 Support**

Key performance indicators

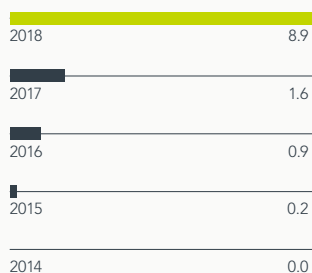
The Group uses a mix of financial and non-financial key performance indicators (KPIs) to measure execution against our strategic objectives. To ensure we deliver value to our shareholders over the cycle, financial KPIs balance short-term measures (underlying operating profit and free cash flow in the 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 described in note 45 to the Group's consolidated financial statements, the Group has adopted IFRS 15 and IFRS 16 with effect from 1 January 2018, with prior year comparatives for 2017 restated. IFRS 15 in particular is a complicated standard,

requiring customer contracts to be reassessed against revised criteria for when, and at what value, revenue should be recognised. It is therefore not practical to provide a full restatement of KPIs presented for the years 2014 to 2016 inclusive or for KPIs presented for 2017, which are calculated based on growth compared to performance in 2016. However, comparatives for these years have been restated where appropriate for the most significant impact of the new standards, the requirement to expense free of charge manufactured parts ('FOC') as incurred under IFRS 15, rather than initially recognising costs as an intangible asset and then amortising them over their useful lives.

Organic revenue growth

8.9%



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 55 for a reconciliation of organic revenue to revenue.

Target

Growth of 3% to 5% in 2019.

Result

Achieved 8.9% against a target of 7% to 8%. See page 55 for details.

Directors' incentive plans

Organic revenue growth is a performance measure for the 2018 LTIP. See pages 107 to 108 for details.

1

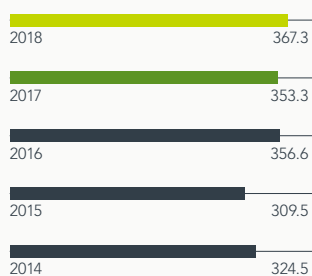
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Underlying operating profit

£367.3m



Definition and basis of calculation

Underlying operating profit is defined and reconciled to statutory measures in note 10 to the Group's consolidated financial statements on page 150.

Target

We do not publish profit targets.

Result

Achieved £367.3m. See pages 55 to 56 for details.

Directors' incentive plans

Underlying operating profit is a performance measure for both the 2018 and 2019 Short Term Incentive Plan (STIP). For the purpose of these plans, actual and target underlying operating profit figures are measured at constant currency. See pages 104 and 111 for details.

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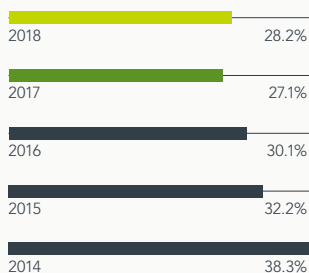
- 2018
- Restated to reflect the full impacts of IFRS 15 and IFRS 16, where appropriate.
- Restated only for the impact of expensing FOC as incurred.

Link to strategic priorities

- 1 Portfolio
- 2 Customers
- 3 Competitiveness
- 4 Culture

Return on trading assets (ROTA)

28.2%



Definition and basis of calculation

Underlying operating profit expressed as a percentage of average trading assets. Underlying operating profit is defined and reconciled to statutory measures in note 10 to the Group's consolidated financial statements on page 150.

Trading assets are defined as net assets adjusted to exclude goodwill, other intangible assets arising on the acquisition of businesses, investments, net debt, 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.

ROTA measures performance by linking operating performance to the amount of operating capital employed.

Target

The target is to achieve a 3 year average ROTA of 32.9%. The target recognises the need to continue to invest in trading assets during this period in the aerospace cycle.

Result

2018: 28.2% against a target of 26.8%. See pages 56 to 57 for details of the current high levels of investment to support future growth.

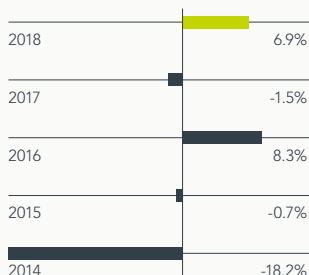
Directors' incentive plans

ROTA is a performance measure for both the 2018 and 2019 LTIP for employees excluding executive directors. For executive directors, the 2018 and 2019 LTIP includes a return on capital employed (ROCE) measure rather than ROTA. For the purpose of these plans, underlying operating profit and trading assets are measured at constant currency. See pages 107 to 108 and 111 for details.

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Underlying EPS growth

6.9%



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's consolidated financial statements on page 153.

Target

We do not publish profit targets. However, the proposed 2019 LTIP includes EPS targets equivalent to compound annual growth ranging from 3.0% to 9.0% over the next three years.

Result

2018: 6.9%. CAGR achieved over last three years: 4.5%. See page 56 for details.

Directors' incentive plans

Underlying EPS is a performance measure for both the 2018 and 2019 LTIP. See pages 107 to 108 and 111 for details.

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Key performance indicators continued

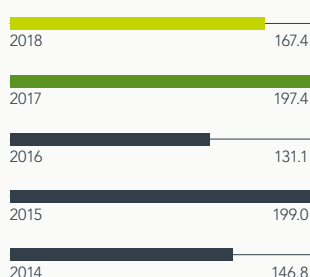
- 2018
- Restated to reflect the full impacts of IFRS 15 and IFRS 16, where appropriate.
- Restated only for the impact of expensing FOC as incurred.

Link to strategic priorities

- 1 Portfolio
- 3 Competitiveness
- 2 Customers
- 4 Culture

Free cash flow

£167.4m



Definition and basis of calculation

Cash generated excluding amounts in respect of the acquisition and disposal of businesses and payments to shareholders. Free cash flow is reconciled to statutory measures in note 42 to the Group's consolidated financial statements on page 178.

Target

We do not publish free cash flow targets.

Result

2018: £167.4m. See page 57 for details.

Directors' incentive plans

Free cash flow is a performance measure for both the 2018 and 2019 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 104 and 111 for details.

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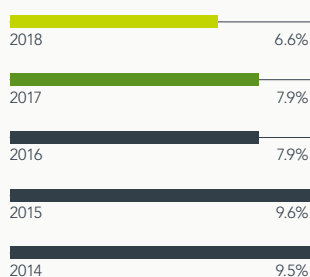
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R&D investment

6.6%



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 as disclosed in note 8 to the Group's consolidated financial statements on page 149. It is not adjusted for amounts capitalised, amortised, impaired or incurred on contracts funded by customers.

Target

Investment of 5% to 7% per annum. This range reflects typical investment fluctuation within the industry cycle.

Result

2018: 6.6%. Average over last five years: 8.3%. See pages 56 to 57 for details.

Directors' incentive plans

R&D investment is not a specific measure used in directors' incentive plans. However, the 2018 and 2019 LTIP both include programme performance measures which include the effective delivery of R&D programmes. See pages 107 to 108 and 111 for details.

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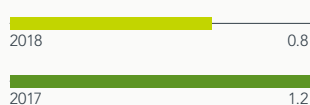
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Total recordable incident rate (TRIR)

0.8



Definition and basis of calculation

The total recordable incident rate calculated per 100 employees. It is calculated as the number of recordable incidents multiplied by 200,000 and then divided by the total number of hours worked during the year.

Target

To achieve a TRIR of 0.7 by 2019 which is considered upper quartile safety performance for our industry.

Result

2018: 0.8. The Group started collecting TRIR data for this new KPI at a Group level in 2017. See pages 66 to 67 for details.

Directors' incentive plans

Health and safety performance is not a specific measure used in directors' incentive plans. However, improvement in health and safety is included in the personal performance objectives for the Chief Executive in the 2019 STIP.

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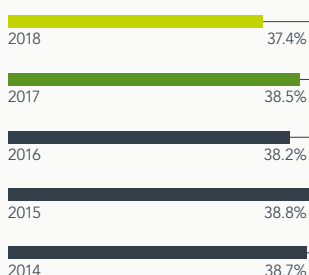
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Gross margin

37.4%



Definition and basis of calculation

Underlying gross profit expressed as a percentage of revenue. Underlying gross profit adjusts gross profit for the impact of items charged to cost of sales, but which are excluded from the Group's underlying profit measures as disclosed in note 10 to the Group's consolidated financial statements on page 150.

Target

Gross margin is no longer a performance measure in the 2019 LTIP and will no longer be considered a KPI from 2019. See page 103 for details.

Result

Achieved 37.4% against a target of 38.8%, reflecting the extended learning curve costs at our composites sites as discussed in the divisional review on page 34.

Directors' incentive plans

Gross margin is a performance measure for the 2018 LTIP. For the purpose of this plan, revenue and cost of sales reflect the impact were the Group to be able to apply hedge accounting for its foreign currency forward contracts. See pages 107 to 108 for details.

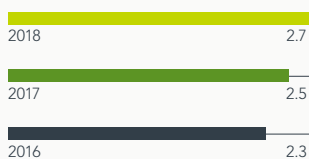
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Inventory turns

2.7x



Definition and basis of calculation

Underlying cost of sales divided by average inventory measured at constant currency and excluding businesses acquired or disposed of in the year.

Underlying cost of sales adjusts cost of sales for the impact of items which are excluded from the Group's underlying profit measures as disclosed in note 10 to the Group's consolidated financial statements on page 150.

Average inventory is calculated as the 13 month average of inventory, gross of provision, at the end of the previous financial year and at the end of each month of the current year. To measure inventory at constant currency, average inventory of foreign subsidiaries is translated at average exchange rates for the year.

An increase in inventory turns is considered by the Group to be one of the next key outputs from MPS.

Target

To achieve an inventory turn of 4.0 by 2021.

Result

2.7 turns. See page 10 for details.

Directors' incentive plans

Inventory reduction is a performance measure for both the 2018 and 2019 LTIP. See pages 107 to 108 and 111 for details.

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Risk management

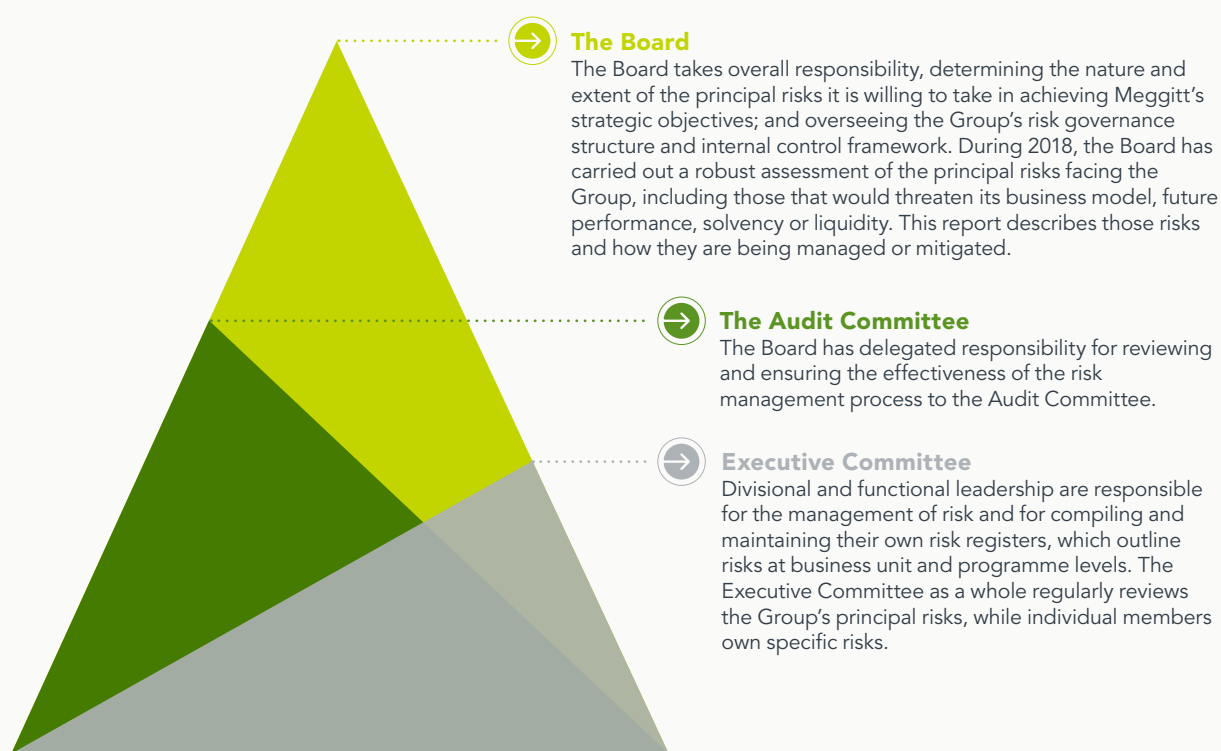
Meggitt seeks to operate within a low risk appetite range overall. Effective risk management is required to deliver to this appetite while supporting the achievement of the Group's strategy and business objectives. Our risk management framework is based on ISO 31000 and includes a formal process for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

During 2018, 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. Comfort over the management of these risks is demonstrated through the updated Group risk assurance map which summarises the

assurance activities taking place throughout the Group in relation to the principal risks. Where appropriate, insurance is used to manage risks and our risk management procedures are shared with our insurers when assessing any potential exposures. Our insurers have provided funding via a bursary to enable more detailed reviews of certain risks to increase understanding of the key drivers and enable more efficient action to address these, either through mitigation or insurance. These reviews have been well received by the risk owners for improving their ability to monitor and assess their risks and by the insurers for providing a more detailed analysis of the causes and their respective impacts.

Governance

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



Our process

Our risk management processes require 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 within other processes, including strategy, project and programme management, bid approvals and other operational activities. Risk tolerance levels are flowed down to the divisions and functions. The likely timeframe within which the impact of risks might be felt ('risk velocity') and how we prioritise risks is considered as part of our risk management strategy and feeds into our assessment of long term viability.

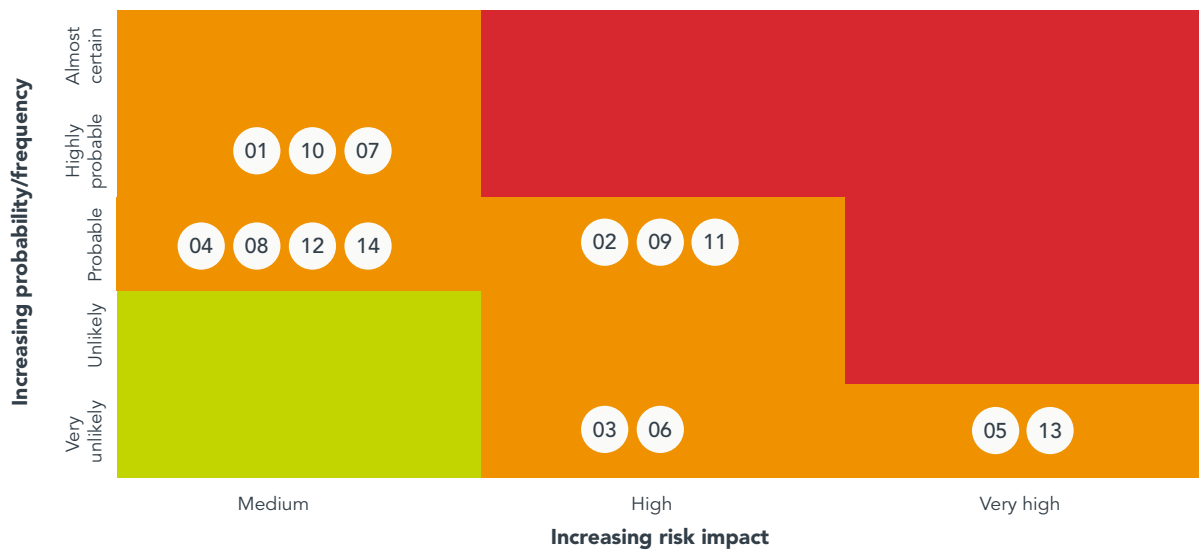
Once identified, risks are reviewed at a facility level and aggregated for review at divisional and functional levels on a consistent basis, before being submitted for the Group's regular review process.

The resultant Group Risk Register is subject to a detailed review and discussion by the Executive Committee which includes discussion of risks which may not have been identified through the normal channels. The Board assesses the outputs from this process and takes comfort from the '3 lines of defence' risk assurance model. The first line represents operational management who own and manage risk on a day-to-day basis, utilising effective internal controls. Group functions and divisions monitor and oversee these activities, representing governance and compliance at the second line. The third line is the independent assurance over these activities provided by internal and external audits.

Meggitt's corporate strategy is designed to optimise our business model and take risk, with the required controls, on an informed basis. See pages 12 to 23 for a full description of our business model and strategy. To enable value to be created for our shareholders, we set varying risk tolerances and associated criteria. We accept and manage risk as described on the following page.

Risk heat map

The heat map below shows the outcome of the risk identification and assessment processes used to compile the Group Risk Register. This shows the relative likelihood and impact of the principal risks identified. Risks rated as green or those with a low expected impact are not considered principal risks of the Group for inclusion in the Group Risk Register, although they may feature on divisional or functional risk registers and be managed at that level.



Strategic risks

Medium to low tolerance for risks arising from poor business decisions or sub-standard execution of business objectives.

- 01 Business model
- 02 Industry changes
- 03 Technology strategy

Operational risks

Low to near-zero tolerance for risks arising from business processes including the technical, quality, and project management or organisational risks associated with programmes and products.

- 04 Quality escape/equipment failure
- 05 Business interruption
- 06 Project/programme management
- 07 Customer satisfaction
- 08 Acquisition integration/performance
- 09 Cyber breach
- 10 Supply chain
- 11 Group change management
- 12 People

Corporate risks

Low to near-zero tolerance for compliance and reputational risks including those related to the law, health, safety and the environment.

- 13 Legal & compliance

Financial risks

Medium to low tolerance for financial risks including taxation, pension funding, failure to provide adequate liquidity to meet our obligations and managing currency, interest rate and credit risks.

- 14 Taxation

Principal risks and uncertainties

The Group's strategic objectives can only be achieved if certain risks are taken and managed effectively. We have listed below the most significant risks that may affect our business, although there may be other risks – of which the Group is unaware or are considered less significant – which may affect our performance. The potential impacts of each of our principal risks were considered as part of the viability stress testing and considered to be consistent with, analogous to or less significant than the scenarios modelled.

Strategic priorities

- 1 Portfolio
- 2 Customers
- 3 Competitiveness
- 4 Culture

Change in risk

- Increase
- No change
- Decrease

Risk velocity

- High: Impact within 6 months of risk occurring
- Medium: Impact between 6 and 36 months of risk occurring
- Low: Impact after more than 36 months of risk occurring

KPIs

- Financial performance (gross margin, organic revenue growth, underlying operating profit, return on trading assets, underlying EPS growth and free cash flow)
- R&D investment
- TRIR (total recordable incident rate)
- Inventory turns

Strategic risks

Risk	Description	Impact	How we manage it
Business model KPIs: <ul style="list-style-type: none"> • Financial performance • R&D investment 	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 and accelerated pace of new aircraft deliveries leading to the earlier retirement of older aircraft.	Decreased revenue and profit.	<ul style="list-style-type: none"> • Alignment of Group, divisional and functional strategy processes. • Dedicated full-service aftermarket organisation. • Long-term customer agreements as part of maintaining and monitoring pricing strategy. • Investment in research and development to maintain and enhance Meggitt's intellectual property.
Industry changes KPIs: <ul style="list-style-type: none"> • Financial performance 	Significant variation in demand for products should civil aerospace, defence and energy business downcycles coincide; a serious political, economic or terrorist event that adversely affects the aerospace industry occur or consolidation that materially changes the competitive landscape.	Volatility in underlying profitability.	<ul style="list-style-type: none"> • Monitoring external economic and commercial environment and long-lead indicators whilst maintaining focus on balanced portfolio. • EASA (European Aviation Safety Agency) has acknowledged our application for "third country" certification that mirrors the existing EASA certifications held by UK Meggitt sites. We have now started to be issued with the third country certificates which allow continued trading with our European customers. • Maintaining sufficient headroom in committed credit facilities and against covenants in those facilities whilst implementing appropriate cost-base contingency plans.
Technology strategy KPIs: <ul style="list-style-type: none"> • Financial performance • R&D investment 	Failure to develop and implement meaningful technology strategies to meet customers' needs.	Restriction of ability to compete on new programmes with consequent decrease in revenue and profit.	<ul style="list-style-type: none"> • Management of technology development plans that align technology readiness, market needs and financial returns using a gated process. • Recruiting and training first-class engineers and scientists with appropriate technology skills. • Ring-fenced budgets focused on longer-term technology developments. • Leveraging our R&D budget through partnerships including government, academia and other companies.

Operational risks

Risk	Description	Impact	How we manage it
<p>Quality escape/ equipment failure</p> <p>3</p> <p> </p> <p>KPIs:</p> <ul style="list-style-type: none"> Financial performance 	<p>Defective product leading to in-service failure, accidents, the grounding of aircraft or prolonged production shut-downs for the Group and its customers.</p>	<p>Decreased revenue and profit, damage to operational performance and reputation.</p>	<ul style="list-style-type: none"> System safety analysis, verification and validation policy and processes, combined with quality and customer audits and industry certifications. Meggitt Production System. Supplier quality assurance process.
<p>Business interruption</p> <p> </p> <p>KPIs:</p> <ul style="list-style-type: none"> Financial performance 	<p>A catastrophic event such as an earthquake (the Group has a significant operational presence in Southern California) or fire could lead to infrastructure and property damage which prevents the Group from fulfilling its contractual obligations.</p>	<p>Decreased revenue and profit, damage to operational performance and reputation.</p>	<ul style="list-style-type: none"> Group-wide business continuity and crisis management plans, subject to regular testing. Comprehensive insurance programme, renewed annually and subject to property risk assessment visits.
<p>Project/programme management</p> <p>3</p> <p> </p> <p>KPIs:</p> <ul style="list-style-type: none"> Financial performance R&D investment 	<p>Failure to meet new product development programme milestones and certification requirements and successfully transition new products into manufacturing as production rates increase. This also covers lower than expected production volumes, including programme cancellations.</p>	<p>Failure to deliver financial returns against investment and/or significant financial penalties leading to decreased profit and damage to reputation.</p>	<ul style="list-style-type: none"> Rigorous commercial and technological reviews of bids and contractual terms before entering into programmes. Continuous review of programme performance through the Programme Lifecycle Management (PLM) process including: <ul style="list-style-type: none"> regular monitoring of the end market performance of key OE programmes; internal review process, to stress-test readiness to proceed at each stage of key programmes; and regular monitoring of the financial health of customers.
<p>Customer satisfaction</p> <p>2</p> <p> </p> <p>KPIs:</p> <ul style="list-style-type: none"> Financial performance Inventory turns 	<p>Failure to meet customers' cost, quality and delivery standards or qualify as preferred suppliers.</p>	<p>Failure to win future programmes, decreased revenue and profit.</p>	<ul style="list-style-type: none"> Creation of a customer facing organisational structure including a dedicated aftermarket division. Regular monitoring of customer scorecards and ensuring responsiveness to issues via Voice of the Customer process. Functional excellence in operations, project management and engineering. Increased utilisation of low-cost manufacturing base.

Principal risks and uncertainties continued


Operational risks continued

Risk	Description	Impact	How we manage it
Acquisition integration/performance  KPIs: <ul style="list-style-type: none"> Financial performance 	Failure to effectively integrate acquisitions and failure to realise financial returns from the advanced composites acquisitions.	Decreased revenue and profit.	<ul style="list-style-type: none"> Internal pre-acquisition due diligence supplemented by external experts. Increase in local capabilities to manage production ramp-up and delivery of the financial model, including cost synergies, under Group PMO oversight. Standard Meggitt processes implemented as part of a proven post-merger process led by incumbent divisional management, supported by experienced dedicated operational teams with a senior oversight committee.
Cyber breach  KPIs: <ul style="list-style-type: none"> Financial performance 	A breach of IT security due to cyber crime/terrorism resulting in intellectual property or other sensitive information being lost, made inaccessible, corrupted or accessed by unauthorised users. This also includes the loss of critical systems such as SAP due to badly executed implementation or change of control; poor maintenance, business continuity or back-up procedures and the failure of third parties to meet service level agreements.	Decreased revenue and profit, damage to operational performance and reputation.	<ul style="list-style-type: none"> IT security infrastructure, policies and procedures. Group-wide intellectual property protection programme. Management of third party service providers and risks, including resilience and disaster recovery processes. Implementation of rolling programme of system upgrades (including SAP implementation) to replace legacy systems.
Supply chain  KPIs: <ul style="list-style-type: none"> Financial performance Inventory turns 	Failure or inability of critical suppliers to supply unique products, capabilities or services preventing the Group from satisfying customers or meeting contractual requirements.	Decreased revenue and profit, damage to operational performance and reputation.	<ul style="list-style-type: none"> Supplier excellence framework combined with integrated commercial and procurement approach to contractual terms and conditions including development of long-term agreements. Local sourcing strategy to improve operational efficiency and minimise potential impacts and disruption from cross-border tariffs. Maintenance of buffer inventory for critical and sole-source suppliers. Implementation of measures to mitigate counterfeit and fraudulent parts at high-risk facilities.
Group change management  KPIs: <ul style="list-style-type: none"> Financial performance Inventory turns 	Failure to successfully, simultaneously, deliver the significant change programmes currently in process and planned, including site consolidation activity such as Ansty Park.	Decreased revenue and profit, increased costs, damage to operational performance and reputation.	<ul style="list-style-type: none"> Creation of dedicated site consolidation and property management teams for Ansty Park. Regular monitoring by Executive Leadership Team through operational and project reviews. MPS implementation at new/expanded sites.
People  KPIs: <ul style="list-style-type: none"> Financial performance 	Failure to attract, retain or mobilise people due to factors including industrial action, workforce demographics, lack of training, availability of talent and inadequate compensation.	Decreased revenue and profit, damage to operational performance.	<ul style="list-style-type: none"> Roll-out of High Performance Culture. Employee engagement programmes. Graduate and apprentice programmes in partnership with schools and universities. Regular monitoring by Executive Leadership Team.

Corporate risks

Risk	Description	Impact	How we manage it
<p>Legal & compliance</p> <p>3</p> <p></p> <p>KPIs:</p> <ul style="list-style-type: none"> Financial performance TRIR 	<p>Significant breach of increasingly complex trade compliance, bribery and corruption, US Government contracting, ethics, intellectual property, data protection, competition/antitrust laws and facilitation of tax evasion.</p>	<p>Damage to reputation, loss of supplier accreditations, suspension of activity, fines from civil and criminal proceedings.</p>	<ul style="list-style-type: none"> Continuing investment in compliance programmes including Board approved policies and roll out of training and IT solutions. Regular monitoring by Ethics and Trade Compliance Committee, supported by ongoing trade compliance programme including third party audits. Comprehensive ethics programme including training, anti-corruption policy and Ethics line. Third party audits including HS&E and the Criminal Finance Act. MPS implementation to enhance safety measures, validated by third party audits.

Financial risks

<p>Taxation</p> <p>3</p> <p></p> <p>KPIs:</p> <ul style="list-style-type: none"> Financial performance 	<p>Tax legislation is complex and compliance can be subject to interpretation. Events such as the OECD BEPS programme, the US tax and tariff changes and the impact of Brexit create uncertainty which could negate the effectiveness of the Group's current, well established, tax-efficient international structures, including those used to finance acquisitions.</p>	<p>Higher effective tax rates resulting in decreased profit.</p>	<ul style="list-style-type: none"> 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. Use of multiple expert third party tax advisors.
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Principal risks and uncertainties continued

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 its 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 Guidance and Transparency Rules (DTR):

- 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 Finance Policies and Procedures Manual, the bid approval process, programme lifecycle management reviews, IT security framework and risk management; 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);
- Semi-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, programme management, IT, HR and ethics); 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 2018 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 2019 budget;
- Written reports to the Ethics and Trade Compliance Committee on the effectiveness and outcomes 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, 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:

- The Group's multi-year strategic plan covers an initial five-year period. Modelling by the Group for periods of over five years involves extrapolating the trend in years three to five and thus inevitably is more uncertain;
- The investment cycle for a typical engineering development programme is up to five years;
- Although individual platforms operate for periods of 30 years or more, our five-year viability period aligns with the typical aerospace cycle. The longer term nature of our platform cycles, and the support that brings to the expectation of viability beyond the formal five year assessment period, is explained elsewhere in the Annual Report; and
- 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:

- Discussed and agreed key assumptions in the stress testing model used by management;
- 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;
- Assessed the outcome of the stress-testing, carried out using the Group's five-year strategic plan as the base case. The five-year strategic plan considers the Group's cash flows, dividend cover, Net Debt:EBITDA covenant ratio and other key financial ratios over the period. These metrics are assessed against the Group Risk Register to determine the most impactful ones to stress test against, and this is carried out to evaluate the potential impact of the Group's principal risks actually occurring.
- Considered the Group Risk Register 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 defence 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 set of reverse engineered scenarios which deliberately stress test to break our banking covenants or our committed facility requirements, to assess the headroom against our risk based scenarios.


- 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;
- Assessed the exposure to cross border trade, in relation to potential changes to import and export tariffs; and
- Specifically assessed the impact of the UK's decision to leave the EU which is not expected to be significant, for three key reasons
 - From a trade perspective the WTO treaty for trade in civil aviation parts provides for tariff free trade (defence is generally covered under separate trade arrangements), with non-tariff barriers not expected to threaten our ability to operate;
 - Levels of trade between the UK and other EU countries are not especially significant to Meggitt (UK exports to the EU were 6% of Group revenues in 2018, whilst imports to the UK from the EU were under 1%); and
 - We have a significant amount of non-Sterling denominated revenue, costs and debt, meaning we have benefited from the weakening of the Pound since the UK's decision to leave the EU. Remaining net transaction exposures are hedged forward giving us time to respond to further movements over time.

In the event of an extension to the timeframe for the UK's withdrawal from the EU increasing the risks faced, the impact is still considered to remain within the scenarios modelled above.

Based on the results of its review and as set out above, 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.

Chief Financial Officer's review



The execution of the Group's key strategic priorities underpins margin. 

Louisa Burdett
Chief Financial Officer



Our growing installed base of over 71,000 civil and defence aircraft is driving strong growth in demand for both OE and aftermarket parts.

Financial highlights (Table 1)

	2018 £'m	2017 ⁴ £'m	Reported growth %	Organic growth ⁵ %
Revenue	2,080.6	1,994.4	+4	+9
Underlying ¹ :				
EBITDA ²	461.6	447.5	+3	+4
Operating profit	367.3	353.3	+4	+4
Profit before tax	334.8	320.2	+5	+4
Earnings per share (EPS)	34.2p	32.0p	+7	
Statutory:				
Operating profit	256.6	272.7	-6	
Profit before tax	216.1	228.3	-5	
EPS	23.2p	37.8p	-39	
Free cash flow ³	167.4	197.4	-15	
Net debt	1,074.1	1,060.8	+1	

1 Underlying profit and EPS are defined and reconciled to statutory measures in notes 10 and 15 respectively to the Group's consolidated 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 42 to the Group's consolidated financial statements.

4 Restated for the effects of IFRS 15 and IFRS 16 as described in note 45 to the Group's consolidated financial statements.

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

Revenue

Reported Group revenue of £2,080.6m (2017 restated: £1,994.4m) increased by 4%, despite the recovery of Sterling against our trading currencies, principally the US dollar, from the low levels in the first half of 2017. Organic growth of 9% reflects strong performance in all of the Group's end-markets. M&A had a £58.6m net adverse impact, and includes the disposals of Thomson (sold in March 2018) and Precision Micro (sold in April 2018).

Civil OE revenue grew 6% organically. Large jet OE, the most significant driver of our OE revenue, grew 5% driven principally by A320neo and B737MAX platforms. Business jet OE also saw strong growth of 20%, which was partly offset by declining revenue in regional jets (down 14%).

Civil aftermarket revenue grew organically by 8%, within which large jets grew by 10%, driven by B777, B787, A350 XWB and the A220 (formerly the Bombardier C Series), together with one-off stocking relating to distributor agreements signed in late 2017 which increased demand in the first half. Business jets also grew with revenue up 4% for the year with good growth in G350/450 and G500 platforms. Revenue in the regional jet aftermarket reflected a strong growth in traffic throughout 2018, which led to organic growth of 6%.

Overall civil aerospace revenue increased by 7% organically.

Defence revenue grew 10% organically. Original equipment revenue grew by 7%, with strong growth in parts for the F-35 Joint Strike Fighter and AH-64 Apache. Aftermarket revenue increased by 15% as a result of strong demand for retrofit fuel tanks for the F/A-18 Hornet and UH-60 Black Hawk. These were

Revenue growth (Table 2)

	2018 Revenue £'m	Growth %	Organic growth ^{1,2} %
Civil OE	464.3	+4	+6
Civil AM	660.5	+6	+8
Total civil aerospace	1,124.8	+5	+7
Defence	731.2	+7	+10
Energy	128.4	+9	+19
Other	96.2	-22	+9
Group	2,080.6	+4	+9

Organic growth (Table 3)

Revenue				Underlying operating profit		
2018 £'m	2017 ¹ £'m	Growth %		2018 £'m	2017 ¹ £'m	Growth %
2,080.6	1,994.4	+4	Reported	367.3	353.3	+4
(33.8)	(92.4)		Impact of M&A ²	0.3	0.1	
23.7	-		Impact of currency ³	1.4	-	
2,070.5	1,902.0	+9	Organic	369.0	353.4	+4

1 Restated for the effects of IFRS 15 and IFRS 16 as described in note 45 to the Group's consolidated financial statements.

2 Excludes the results of businesses acquired and disposed during the current and prior year.

3 Restates the current year using 2017 translation and transaction exchange rates.

partly offset by lower demand on platforms such as BAE Hawk and AH-1 Cobra.

Energy revenue grew organically by 19% in 2018, driven primarily by the recovery at Heatric which has operated in challenging end-markets following the sharp decline in the oil price in 2014. Trading in the Group's valve and condition monitoring businesses grew 4% on an organic basis, reflecting good success in supporting end users and growth in small frame turbines enough to offset declining demand for large frame gas turbines.

Profit

The Board's preferred non-statutory measure of the Group's trading performance is underlying profit. Underlying operating profit was up 4% to £367.3m (2017 restated: £353.3m), representing a margin of 17.7% (2017 restated: 17.7%). Margin performance reflects the growing financial contribution from the execution of the Group's key strategic priorities, including purchasing savings from a more centralised approach to category management and efficiencies from those sites in the latter most stages of MPS. These operational efficiencies were offset by extended learning curve costs required to ramp up production of

Operational highlights (Table 4)

Revenue					Underlying operating profit			
2018	2017 ¹	Growth	Organic growth ²		2018	2017 ¹	Growth	Organic growth ²
£'m	£'m	%	%		£'m	£'m	%	%
381.8	381.6	+0	+1	Aircraft Braking Systems	121.5	133.5	-9	-9
575.6	521.3	+10	+13	Control Systems	127.0	117.2	+8	+12
388.9	337.5	+15	+16	Polymers & Composites	6.0	23.8	-75	-76
498.6	501.2	-1	+4	Sensing Systems	84.0	64.2	+31	+32
235.7	252.8	-7	+12	Equipment Group	28.8	14.6	+97	+70
2,080.6	1,994.4	+4	+9	Group	367.3	353.3	+4	+4

1 Restated for the effects of IFRS 15 and IFRS 16 as described in note 45 to the Group's consolidated financial statements.

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

advanced engine composites; together with an increase in free of charge ('FOC') content on high volume civil programmes and an unfavourable revenue mix in the second half.

Underlying net finance costs were £32.5m (2017 restated: £33.1m) reflecting a lower net debt level, offset partly by an increase in interest rates. Underlying profit before tax increased by 5% to £334.8m (2017 restated: £320.2m).

On a statutory basis, operating profit for the year was £256.6m (2017 restated: £272.2m) and profit before tax was £216.1m (2017 restated: £228.3m). Statutory profit includes the £10.1m non-cash loss (2017: gain of £60.7m), from the marking to market of financial instruments, principally currency hedges, against future transaction exposures as well as the £25.1m gain (2017: gain of £25.3m) from disposals completed or agreed during the year.

Statutory profit for the year was £179.0m (2017 restated: £292.8m).

Taxation

The Group's underlying tax rate decreased to 21.0% (2017 restated: 22.7%) in line with our previous guidance and as a result of the US tax reforms enacted at the end of 2017. We expect the rate to increase to the 22-23% range in 2019.

Although the international tax position is clearer following enactment of the recommendations from the Base Erosion and Profit Shifting project in the UK, together with the US tax reforms, there are still uncertainties ahead – including the outcome of the EU's investigation of the UK CFC regime, the impact of Brexit and expected reforms in Swiss tax. On the first of these, the Group, in common with many other international companies, has taken advantage of the benefits available under the Group Financing Exemption provisions in the UK controlled foreign company rules.

Cash tax paid as a percentage of underlying profit before tax was 6% (2017 restated: 8%). The rate of cash tax is lower than our underlying tax rate due to tax deductible items which do not affect underlying profit, principally the amortisation of intangible assets arising on the acquisition of businesses and tax relief on retirement benefit deficit reduction payments. In addition, the 2018 cash tax rate benefitted from the impact of IFRS 15 which accelerated tax deductions arising from programme participation costs incurred in the UK.

These costs are now tax deductible as incurred, mirroring the tax treatment in the US.

Our statutory tax rate, which includes items excluded from underlying profit before tax, was a charge of 17.2% (2017 restated: credit of 28.3%). This is a more normal rate, following the one time distortion seen in 2017 due to the US tax reforms impact. Cash tax paid as a percentage of statutory profit before tax was 9% (2017 restated: 11%).

The Group is committed to complying fully with the laws in the countries in which it operates. We seek 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 & Customs and our tax policy seeks to retain this low risk rating. A copy of the Group's tax strategy is available on our website.

Earnings per share (EPS)

Underlying EPS increased by 7% to 34.2p (2017 restated: 32.0p) benefitting from the increase in underlying profit before tax and reduction in our underlying tax rate. On a statutory basis, EPS reduced to 23.2p (2017 restated: 37.8p) with the one off benefit in 2017 of remeasuring US deferred tax liabilities, following the reduction in US federal tax rate, accounting for 10.9p of the adverse movement. Sterling weakness at the end of 2018, was reflected in losses on the marking to market of the Group's forward contracts, resulting in an additional 7.3p reduction in EPS in the year.

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 11.35p (2017: 10.80p) which would result in a 5% increase in the full-year dividend to 16.65p (2017: 15.85p).

The Company has a balance on its profit and loss reserve at 31 December 2018 of £1,521m (2017: £1,146m), of which approximately £1,375m (2017: £1,000m) 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 2019. It provides an efficient reinvestment option for shareholders, without the need for new shares to be issued by the Company.

Investing for the future

Total R&D expenditure reduced in 2018 to £138.3m and was 6.6% of revenue (2017: £157.9m, 7.9%). Applied research, combined with targeted investment in the development of technology, remains critical to our long-term growth. We have significantly increased our content on new aircraft, which represents a major refresh of our in-service portfolio. Therefore, having passed the peak of technology development for the current generation of aircraft, we saw reduced spend on capitalised development costs (down 6% organically). However, we are still investing in our successful applied research and technology (AR&T) programmes, which will develop the next generation products and manufacturing technologies required to enable future programmes. We also anticipate that customer funded R&D will continue to support AR&T, given our past success in securing such customer funded development programmes and grants.

Analysis of R&D expenditure (Table 5)

	2018 £'m	2017 ¹ £'m	Growth %	Organic ² growth %
Total R&D expenditure	138.3	157.9	-12	-11
% of revenue	6.6%	7.9%		
Charged to Cost of sales / WIP	(31.8)	(38.8)	-18	-18
Capitalised	(58.6)	(62.5)	-6	-6
Amortisation/impairment ³	22.1	23.0	-4	-4
Charge to net operating costs³	70.0	79.6	-12	-9

¹ Restated for the effects of IFRS15 as described in note 45 to the Group's consolidated financial statements.

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

³ Excludes impairment loss charged to exceptional operating items and therefore excluded from the Group's underlying profit. See notes 10 and 11 to the Group's consolidated financial statements.

Movements in net debt (£'m) (Table 6)

	2018	2017
Underlying EBITDA	461.6	447.5
Working capital (outflow)/inflow	(30.0)	3.0
Post-retirement benefit deficit reduction payments	(67.6)	(33.5)
Cash flow from operations before exceptional and M&A costs	364.0	417.0
Exceptional operating items	(12.0)	(13.8)
Interest and tax	(52.9)	(61.4)
Capitalised development costs	(58.6)	(62.6)
Capitalised programme participation costs	(0.8)	(3.4)
Capital expenditure	(72.3)	(78.4)
Free cash flow	167.4	197.4
Net proceeds from M&A including costs	31.9	60.4
Dividends	(124.2)	(118.6)
Purchase of own shares for employee share schemes	(22.6)	(19.0)
Net cash flow	52.5	120.2
Currency movements	(65.5)	105.0
Other non-cash movements	(0.3)	(7.2)
Opening net debt	(1,060.8)	(1,278.8)
Closing net debt	(1,074.1)	(1,060.8)

The charge to net operating costs, including amortisation and impairment, decreased by 12% (9% organically) to £70.0m (2017: £79.6m).

Our investment in programme participation costs ('PPC') now only includes cash payments and excludes investment in FOC hardware which is expensed under IFRS 15. Such cash payments are typically associated with programmes in the development phase. In 2018 this investment declined to £0.8m.

Capital expenditure on property, plant and equipment and intangible assets was £72.3m (2017: £78.4m). This includes the investment required to support factory consolidations and the expansion at sites in Coventry, Vietnam, Mexico and San Diego. Capital expenditure is due to increase significantly in 2019, as we accelerate plans to consolidate the Group's manufacturing footprint, including investments at the Ansty Park site and completion of current construction and fit out projects to increase capacity in our existing estate.

Cash flow

Free cash flow decreased by 15% to £167.4m (2017 restated: £197.4m) as a result of an incremental £30.4m contribution to reduce US pension deficits and an increased working capital outflow of £30.0m (2017: £3.0m inflow). The working capital outflow is driven by growth in inventory, with an investment of £37.5m in buffer stocks ahead of a series of site consolidations and to support growth.

Inventory turns increased to 2.7x (2017 restated: 2.5x) which reduced the overall investment in inventory that would otherwise have been required to deliver growth by £43.0m in 2018.

The net cash inflow of £52.5m (2017: inflow of £120.2m) after dividend payments, includes the £31.9m net proceeds from the sales of Aviation Mobility, Thomson and Precision Micro.

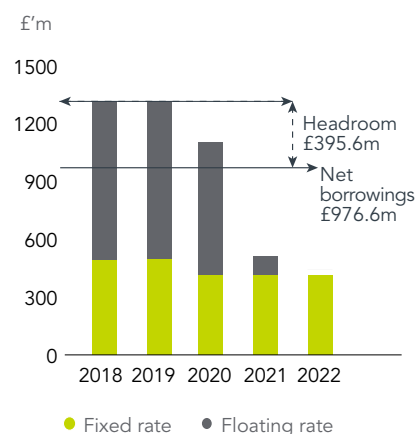
Debt structure and financing

The Group's borrowings comprise a combination of US private placement debt and syndicated and bilateral bank credit facilities. There were no changes during the year to the committed credit facilities available to the Group.

At 31 December 2018, the Group had undrawn committed credit facilities of £395.6m after taking account of surplus cash (2017: £331.4m). The Group has no committed facilities expiring in 2019.

Historically we have disclosed our net debt:EBITDA ratio on a covenant basis, which at 31st December 2018 was 1.8x (2017: 1.9x). This gives us significant headroom against our covenants which are not to exceed 3.5x. Going forwards, we will additionally disclose an unadjusted net debt to EBITDA metric, which decreased to 2.3x from 2.4x in 2017 and includes the impact of recognising additional lease liabilities within net debt following our early adoption of IFRS 16.

Facility headroom (Table 7)



● Fixed rate ● Floating rate

Capital structure

In addition to supporting our regular dividend, we seek to deploy cash by investing organically in technologies to accelerate the Group's growth as well as investing in the acquisition of complementary businesses which expand our offering to customers and deliver 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, of between 1.5x and 2.5x is appropriate, whilst retaining the flexibility to move outside the range if appropriate.

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 4% of the Group's total credit facilities and the credit rating of lenders is monitored by our treasury department. The Group's largest lenders are Bank of America, HSBC, Bank 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 £100m of undrawn committed facilities, net of cash, as a buffer.

b. Set-off arrangements

The Group utilises set-off and netting arrangements 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)

	2018	2017 ¹
Sterling	131.0	61.5
US Dollar	969.3	1,027.6
Euro	(9.5)	(14.5)
Swiss Franc	(3.8)	(3.3)
Other	(12.9)	(10.5)
Net debt	1,074.1	1,060.8

¹ Restated for the effects of IFRS 16 as described in note 45 to the Group's consolidated financial statements.

e. Covenant risk

Our committed credit facilities contain two financial ratio covenants – net debt:EBITDA and interest cover. 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 (Table 9)

	Covenant	2018	2017
Net debt:EBITDA	≤3.5x ¹	1.8x	1.9x
Interest cover	≥3.0x	14.7x	13.6x

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 volatility caused by interest rate fluctuations on net borrowings. 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 borrowings at fixed rates with a weighted average maturity of two years or more. At 31 December 2018, the percentage of net borrowings at fixed rates was 56% (2017: 66%) and the weighted average period to maturity for the first 25% was 7.5 years (2017: 8.3 years). A higher proportion of debt is held at fixed interest rates, than the minimum required under our policy, in anticipation of further increases in market interest rates.

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, principally 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)

	2018	2017
Average translation rates against Sterling:		
US Dollar	1.31	1.30
Euro	1.13	1.14
Swiss Franc	1.30	1.28
Average transaction rates:		
US Dollar/Sterling	1.44	1.47
US Dollar/Euro	1.21	1.19
US Dollar/Swiss Franc	1.06	1.06
Year-end rates against Sterling:		
US Dollar	1.28	1.35
Euro	1.11	1.13
Swiss Franc	1.25	1.32

The results of foreign subsidiaries are translated into Sterling at weighted average exchange rates. Sterling remained volatile throughout 2018 against all major currencies, trading at between \$1.25 and \$1.43 against the US Dollar. However, over the year as a whole, the average Sterling rate against the US Dollar was only marginally stronger at \$1.31 (2017: \$1.30) providing a modest adverse impact on our reported results for the year. Compared to 2017, the Group's revenue reduced by £15.2m and underlying profit before tax by £2.7m from currency translation movements. These adverse impacts include £13.4m and £2.1m respectively relating to US Dollar denominated revenues and profits.

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

	Revenue	PBT ¹
Impact of 10 cent movement ² :		
US Dollar	115.0	16.0
Euro	11.0	2.0
Swiss Franc	9.0	3.0

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

² As measured against the 2018 average translation rates against Sterling disclosed 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 2017, the Group's revenue was adversely impacted by £8.5m and underlying profit before tax for the year benefitted by £1.5m from currency transaction movements. These impacts include an adverse impact of £6.3m and a benefit of £2.8m respectively relating to US Dollar denominated revenues and profits. Each ten cent movement in the US Dollar against the average hedge rates achieved in 2018 would affect underlying profit before tax by approximately £9.0m in respect of US Dollar/Sterling exposure, £3.0m in respect of US Dollar/Euro exposure and £4.0m in respect of US Dollar/Swiss Franc exposure.

Transaction hedging (Table 12)

	Hedging in place % ¹	Average transaction rates ²
2019:		
US Dollar/Sterling	100	1.43
US Dollar/Euro	91	1.19
US Dollar/Swiss Franc	82	1.07
2020 – 2023 inclusive:		
US Dollar/Sterling	62	1.37
US Dollar/Euro	16	1.24
US Dollar/Swiss Franc	20	1.11

1 Based on forecast transaction exposures and hedging in place at 31 January 2019.

2 Based on hedging in place at 31 January 2019, with unhedged exposures at exchange rates at 31 January 2019.

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 decreased to £161.5m (2017: £258.3m). The principal drivers of the reduction in net deficit included:

- A reduction of £93.3m (2017: £9.8m) due to remeasurement gains on scheme liabilities. These principally arise from higher AA corporate bond yields in both the UK and the US. These bond yields form the basis of the rate at which scheme liabilities are discounted. The impact was partly mitigated by a remeasurement loss on scheme assets of £52.1m (2017: Gain of £56.8m) reflecting the global market volatility seen particularly in the latter part of the year.
- Net deficit reduction payments in the year of £65.7m (2017: £31.5m). Deficit payments in 2018 included additional contributions into two of the Group's US schemes of USD40.0m (£30.4m). These contributions, which represent an acceleration of amounts that would have been due over the next five years, are deductible against the Group's 2017 taxable profits and attract tax relief at the higher rates that prevailed prior to the US tax reforms. The contributions also reduce administrative expenses linked to scheme funding positions.

In the UK, the Group is currently making deficit payments in accordance with a recovery plan agreed with the trustees following the 2015 triennial funding valuation. The recovery plan provides for the deficit to be addressed by payments which gradually increase over the period to March 2024. Under this plan, the Group will make deficit contributions of £32.3m in 2019 (2018: £30.9m). The 2018

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

	2018	2017
Opening net deficit	258.3	360.2
Service cost	15.4	15.9
Group cash contributions	(81.1)	(47.4)
Deficit reduction payments ¹	(65.7)	(31.5)
Other amounts charged to income statement ²	5.3	6.5
Remeasurement losses/(gains) – schemes' assets	52.1	(56.8)
Remeasurement gains – schemes' liabilities	(93.3)	(9.8)
Currency movements	4.8	(10.3)
Closing net deficit	161.5	258.3
Assets	1,015.6	995.3
Liabilities	1,177.1	1,253.6
Closing net deficit	161.5	258.3
Assets as percentage of liabilities	86%	79%

1 Includes in 2018, an additional contribution of £30.4 million paid into two US schemes.

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

triennial valuation is currently in progress and preliminary results indicate a funding deficit of £163.0m at April 2018. This provisional funding position is £34.0m lower than that projected in the 2015 valuation at the same date. It is expected that a revised recovery plan, addressing this modest improvement in funding position, will be finalised with the trustees in the first half of 2019 although no change to the level of payments for 2019 is currently expected. The provisional buy-out deficit at April 2018, which assumes the Group transfers responsibility of the scheme to an insurance company, was measured at £395.0m. The Group has no current plans to make such a transfer.

In the US, the level of minimum annual payments is principally driven by regulations, although additional contributions in excess of legislative minimum amounts can be made. Following the additional USD40m contributions in 2018, amounts required to be paid will reduce to approximately £4.0m in 2019 and, absent any further changes in legislation, will remain broadly at this level for the next four years. Thereafter they are expected to increase to approximately £11.0m per annum for the remainder of the recovery period.

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 £47.6m (2017: £49.8m). Deficit payments during the year were £1.9m (2017: £2.0m).

Recent accounting developments

During 2018, the Group adopted a number of new accounting standards. The impact of these was in line with previous guidance and further details are provided in note 45 to the Group's consolidated financial statements.

The new standards resulted in a reduction in underlying profit compared to that which would have been reported under the Group's previous accounting policies. The reduction principally arises due to the requirement under IFRS 15, the new revenue standard, to expense, as incurred, the investment we make in supplying free of charge/deeply discounted OE parts, typically in our braking systems business. The Group's net debt has also increased modestly following the early adoption of IFRS 16, which results in liabilities now being recognised on the balance sheet for all of the Group's property leases.

Importantly however, the new standards do not impact the cash generated by the Group or the economic returns we derive from our programmes.

Non-financial information

Our non-financial information statement is contained in the Directors Report on page 116.



Louisa Burdett
Chief Financial Officer

Corporate responsibility

Recognising our responsibility

As a progressive, global technology company, we acknowledge our responsibility to shareholders, customers, suppliers, our employees and the wider community to conduct our operations safely, responsibly and sustainably.

The responsible and sustainable development of our business is essential for our continued long-term success. A highly focused approach to corporate responsibility helps us manage our business more efficiently, mitigate risks, reduce costs and better support the communities in which we operate – creating value for Meggitt and our stakeholders.

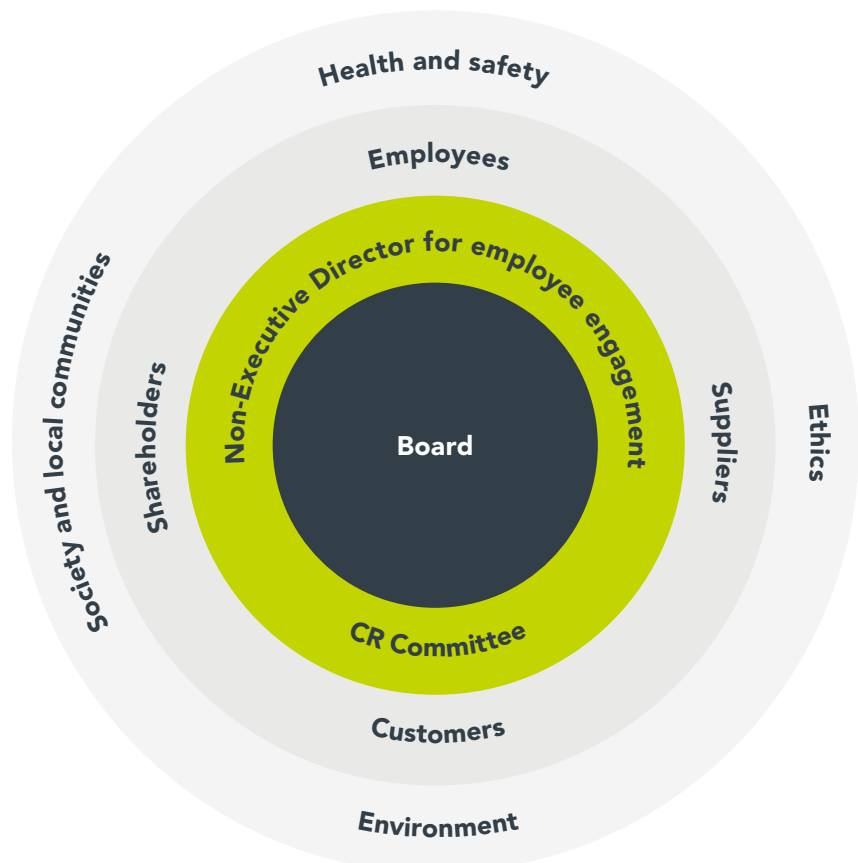
Our principal areas of focus are health and safety and our people, the environment, ethics and business conduct (including anti-corruption) and supporting the communities in which we operate. We review our values and commitments in these areas regularly and they are set out in our Corporate Responsibility Policy (CR Policy) (available at www.meggitt.com) and overseen by our Corporate Responsibility Committee (CR Committee).

Policy

We are committed to:

- upholding sound corporate governance principles and applying the UK Corporate Governance code;
- supporting the Ten Principles of the United Nations Global Compact, relating to human rights, labour, the environment and anti-corruption;
- upholding our employees' human rights;
- encouraging dialogue with employees;
- supporting our local communities;
- minimising the environmental impact of products and processes and maintaining internationally accredited environmental management systems;
- conducting business relationships ethically and responsibly;
- complying with the anti-slavery and human-trafficking legislation;
- acting as a responsible supplier and encouraging our contractors and suppliers to do the same; and
- building a more diverse and inclusive Meggitt and complying with reporting obligations including gender pay gap reporting and data submitted to the Hampton Alexander Review.

Our focus areas and governance



Our people deliver solutions for the most challenging environments in ways others cannot. Our technology and products are relied upon by customers worldwide. Our customers trust us to enhance lives and enable safe, cost-effective and environmentally responsible flight, power and defence systems.

Action

For our stakeholders this means:

- complying with relevant national laws and regulations;
- providing a supportive, rewarding and safe working environment;
- delivering comprehensive training for employees;
- developing communication and collaboration tools;
- maintaining modern, safe and efficient operational practices;
- contributing to the social and economic enrichment of local communities, focusing particularly on activities related to education;
- having effective risk identification and mitigation across all areas of the business;
- conducting independent audits in compliance areas;
- adopting robust internal and external reporting and controls, and ensuring financial probity; and
- supporting Business in the Community, the British business-community outreach charity, where members work together to tackle a range of issues that are essential to building a fairer society and a more sustainable future.

Governance and compliance

Ultimately, the Board is responsible for the implementation and performance of our Corporate Responsibility Policy. In 2018, we allocated the day-to-day responsibilities of the Board and the Chief Executive in relation to the Corporate Responsibility Policy in the following way:

- the Group Operations Strategy Director now has functional responsibility for health, safety and the environment;
- the Group HR Director led initiatives focused on culture, diversity, inclusion and employee engagement;
- the Group Company Secretary has functional responsibility for ethics and business conduct; and
- the Executive Director, Commercial & Corporate Affairs and Group Company Secretary have responsibility for charity and community activity.

Group support is provided to ensure we fulfil the requirements outlined in our Corporate Responsibility Policy, and divisional presidents and site directors take responsibility for implementing Group policies and procedures locally.

During 2018, the Ethics and Trade Compliance Committee became the Corporate Responsibility Committee (CR Committee), maintaining oversight of ethics and business conduct, and adding further responsibility for oversight of environment, charity and community activities.

The CR Committee will also oversee the Board's approach to implementing sections of the 2018 UK Corporate Governance Code and UK Companies Act 2006 relevant to stakeholder engagement. Key stakeholders identified by the Board during 2018 were our employees, shareholders, customers and suppliers.

Previously, the Ethics and Trade Compliance Committee reviewed Trade Compliance, but in 2018 the Executive Director, Commercial & Corporate Affairs regularly reported on this directly to the Board.

The Board has also agreed that Nancy Gioia will perform the role of Non-Executive Director responsible for Employee Engagement. The Board discussed and agreed a detailed role brief with Nancy and they are planning activities for 2019 (see page 62).

We have also formed a new Diversity and Inclusion Council to share learnings and coordinate diversity and inclusion initiatives across the Group.

In addition to financial KPIs, the Group has a non-financial KPI on health and safety (see pages 66 and 67), and we also include further data to help assess our performance in key areas, such as employees, environment, and charity and community, provided in this report and in the Nominations Committee report (see page 90).

Corporate Responsibility Committee

As Chairman of the Corporate Responsibility Committee, Nancy Gioia's role is to ensure that we oversee the Group's important activities in the areas of ethics and business conduct, environment and charity and community.



Nancy Gioia
Non-Executive Director

The Committee has oversight of ethics and business conduct, environment, charity and community. It also ensures that the Board meets its responsibilities under the 2018 UK Corporate Governance Code and UK Companies Act 2006 on stakeholder engagement, and other reporting requirements such as on greenhouse gas emissions, Modern Slavery Act 2015, gender pay gap and supplier payment practices.

During 2018, the Board identified key stakeholders as employees, shareholders, customers and suppliers and in 2019 we will report back in more detail on the way we engage with those stakeholders. The CR Committee will monitor the Board's engagement in these areas and suggest additional activities as appropriate:

- Employees – executive management engage regularly with employees, using employee engagement surveys, direct feedback and discussions, site visits, town halls, our intranet, and regularly cascaded communications, which also give the opportunity for employees to feed back and ask questions. We also have a whistleblowing hotline and a full ethics programme (see page 72). Nancy Gioia was also appointed by the Board as Non-Executive Director responsible for employee engagement and activities for 2019 will include reviewing detailed data from our employee engagement surveys, visiting a number of sites, holding skip level meetings during site visits to ensure a cross section of employees are engaged, and Board discussions on site culture – including attendance of a high performance culture session with employees in 2019.

- Investors / shareholders – extensive engagement already exists in this area and we describe our investor engagement activities on page 84. The CR Committee will continue to monitor this engagement to ensure it is appropriate, but the Group does not propose any specific additional activities for 2019.
- Customers – extensive engagement already exists in this area, and the Strategic Report includes an update on our markets and key customer activities. The CR Committee will continue to monitor this engagement to ensure it is appropriate, but the Group does not propose any specific additional activities for 2019.
- Suppliers – Meggitt's approach to supply chain management is evolving, with a targeted reduction in the cost and complexity of our supply chain. The Chief Procurement Officer presented to the Board in May 2018 and will provide a further update in 2019. Conferences for larger suppliers took place in 2018 and 2017, and more active engagement exists with preferred suppliers. The CR Committee will review this area in 2019.

Diversity and inclusion continues to be overseen by the Board and Nominations Committee. Health and safety is overseen by the Board.

Key stakeholders:

Employees

34%

reduction in Total Recordable Incident rate

2,000

leaders trained on High Performance Culture

34%

of employees have over 10 years length of service

>£1m

investment in employee training and development

£6.8m

total value of Share Incentive Plan shares

Customers

71,000+

civil and military aircraft with Meggitt products installed

£138.3m

total R&D expenditure

Shareholders

16.65p

dividend per share

34.2p

underlying earnings per share

33%

of executive remuneration linked to achievement of strategic priorities

Wider benefits to society:

Environment

-6%

greenhouse gas emission reduction relative to revenue

-14%

greenhouse gas emission reduction relative to 2015 baseline

£130m

investment in new world class manufacturing facility site at Ansty Park, UK

People

2018 highlights:

- Continued promotion of our safety culture through behaviour-based safety training across all of our sites, and an improvement in our total recordable incident rate (TRIR) of 34% in 2018
- Roll-out of High Performance Culture to over 2,000 leaders and managers across the organisation
- The Board approved our Diversity and Inclusion Policy, and we launched a Group Diversity and Inclusion Council
- A 4% increase in employee engagement



We recognise that our people are the driving force of Meggitt's progress. Our focus areas are on our duty of care to our employees to promote their health and safety, foster a high-performance culture that values diversity and inclusion, and an environment in which people can work free from bullying and discrimination. We seek the feedback of our employees directly and anonymously – with Group-wide employee engagement surveys in 2017 and 2018 to understand whether our employees feel engaged, empowered and satisfied in their work.

Culture

Culture is important to us, which is why it is one of our strategic priorities: culture is the way we do things at Meggitt. Embedding a high-performance culture will ensure that we meet the demands of our customers, improve our performance and make Meggitt a great place to work. Our values reference how we should work together and the behaviours that are integral to our drive for success (see opposite page).

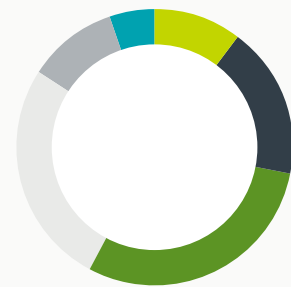
To accelerate our progress towards becoming a truly integrated global business, we initiated a High Performance Culture (HPC) across the Group in 2017, with the first wave of training targeted at senior leadership teams across the organisation. In just a couple of months more than 700 leaders in Meggitt participated in our HPC workshops. We launched wave two 'unfreezing' workshops in 2018, targeting an additional 1,500 managers. By the end

of 2020 we plan to have reached all employees with our 'unfreezing' sessions. We hope that HPC will deepen engagement, teamwork and improve problem-solving across our new customer-aligned divisions. Unlike other programmes of this kind, we decided at the outset to recruit employees to deliver the sessions to other employees – as a result we have a dedicated and passionate group of facilitators for our HPC programme. Our colleagues relate to workshops delivered by colleagues, who have a shared understanding and appreciation of our culture, our history and our future.

Embedded within our culture and values are diversity and inclusion. The Board, executive management, and leaders across the Group recognise that a diverse and inclusive workforce is critical to running a sustainable and successful business. To reinforce our commitment to creating a diverse and inclusive

Headcount by division

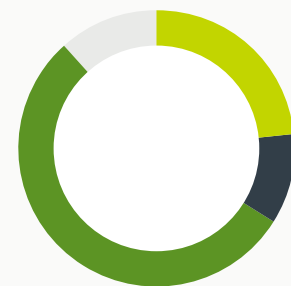
Number of employees & contractors



Aircraft Braking Systems	1,224
Control System	2,096
Polymers & Composites	3,484
Sensing Systems	3,086
Equipment Group	1,238
Cross-Group functions	611

Headcount by region

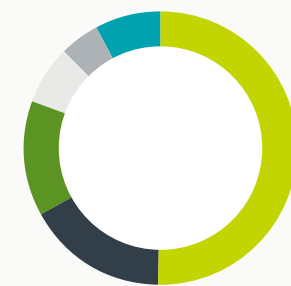
Number of employees & contractors



UK	2,763
Rest of Europe	1,226
USA	6,410
Rest of World	1,340

Headcount by length of service (years)

Number of employees & contractors



Less than 5	5,927
Between 5 and 10	1,962
Between 10 and 15	1,576
Between 15 and 20	817
Between 20 and 25	558
Over 25	899

Male/Female headcount

Board of directors*

30%

Executive team*

18%

Senior executives*

10%

Total headcount*

29%

* Percentage of female employees as at date of signing the accounts

Our values

Teamwork

At Meggitt, we support each other and recognise outstanding contributions. By working together, we bring extraordinary technology to our customers. We build great relationships with all of our stakeholders, providing the support they need to succeed. We build highly skilled teams passionate about what we do and how we do it.



Integrity

At Meggitt we do the right thing, in the right way wherever we operate. Our colleagues, customers and the communities we are part of can count on us to act with integrity, honesty and respect. We form lasting positive relationships built on open communication, understanding, fairness and impartiality. We conduct ourselves with integrity and the highest standards of ethical behaviour across the business.



Excellence

We enable the extraordinary at Meggitt. We're good at what we do and that's why customers come back to us. We are constantly working to improve our processes and attention to detail. As a result, we deliver the most ambitious technologies, products and services safely, efficiently and cost-effectively to our customers.



environment, in 2018 the Board approved a Diversity and Inclusion Policy. We also created divisional-level diversity plans, and established a Group-wide Diversity and Inclusion Council. The Council will provide overall guidance and a framework to help roll out Employee Resource Groups to facilitate discussions and initiatives on diversity and inclusion.

The aim of our Diversity and Inclusion Policy is to state our commitments at Board-level to making Meggitt a diverse and inclusive organisation, which in turn will support a successful and sustainable business. We should employ a diverse workforce that reflects the diverse communities within which we operate and always foster an inclusive culture where people are valued, respected and supported.

During 2019 we will encourage employee engagement in topics related to diversity and inclusion and seek employee feedback on our progress in our annual engagement survey.

Employee engagement and feedback

We recognise that our future success depends upon our shared sense of purpose and it is important that we find out from our employees what they think about Meggitt and how they feel about the work that they do.

The results of our 2018 annual employee engagement survey showed a 4% improvement in engagement since 2017 and reflected the effort made in a number of areas under engagement, alignment and agility. During 2019, we will invite all employees to participate in employee forums to further understand the engagement results and create action plans for improvement. We will continue to facilitate annual engagement surveys and 'pulse' surveys.

As well as encouraging employee feedback and engagement, in the UK we encourage investment in Meggitt through participation in the UK employee share ownership schemes. The total value of share incentive plan (SIP) shares held by UK employees is £6.8m.

Investment in employees through training and development

We invest time and energy into ensuring we attract, develop and retain the best talent to ensure people succeed based on their skills, behaviours, knowledge and experience. We recognise that a skilled workforce will help Meggitt achieve better results. During 2018 we invested over £1million in our employees through training and development.

We continue to develop employees' leadership capabilities and during the year implemented formal programmes to raise capability in functional teams, including procurement, project and programme management.

In 2018, our graduate programme received 2,000 applications for 15 places (a third of those places were allocated to females).

In 2018, we have launched the Meggitt Corporate Apprenticeship Programme in the UK; recruiting two cohorts, totalling 33 apprentices. We continue to work with the Warwick Manufacturing Group (WMG) Academy to encourage females between the ages of 14 to 17 to take up engineering as a career and help improve gender diversity in our industry.

Health and safety

The Board, executive management and all leaders across Meggitt are aware of their responsibility to ensure that employees work in a safe, supportive and healthy workplace. We work continuously with our employees to raise their awareness of potential risks in the workplace and promote our health and safety policy and programme to help individuals safeguard themselves, their colleagues and visitors. We achieve this by encouraging employees to take steps to prevent injuries in the workplace.

Risk awareness is an ever-evolving process that requires everyone's ongoing participation to demonstrate continually through their actions that safety in the workplace is a core value that we will never compromise. We will continue to focus on this in 2019 and beyond. We integrate health and safety measures into Daily Layered Accountability meetings and implement industry-leading health and safety practices at sites by issuing Meggitt health and safety procedures on relevant topics.

Case study

High Performance Culture Switzerland

Continuing to develop a high performance culture is important to our site in Fribourg, Switzerland. Collaboration and inclusivity have always been a key to the success of this business, in a site where 26 nationalities work together to support the growing aerospace industry and the fast-paced energy business.

In 2018, 92 employees (around 20% of our workforce) went through "unfreezing" sessions and around 20 volunteered to be culture champions. The culture community at the site meet every four to six weeks to reinforce the concepts, discuss their personal commitments and the challenges they face at individual or team levels. In June, the Executive Committee visited our site and met with the culture community, exchanging ideas on the application of high performance culture in day to day activities.

Here are some examples of how we have applied high performance culture concepts at our site:

- Feedback: all the employees at the site and visitors carry a feedback card on their access badge that has behaviours to be actively promoted and those to be discouraged.
- Appreciation: employees can nominate their colleagues for a "Living our Values" award which is handed out quarterly at Town Hall meetings. We also recognise and thank individuals and teams for their engagement and great work as part of Leader Standard Work (LSW), which is part of the Meggitt Production System.
- The site has also invested in developing coaching skills. Starting in 2017, all leaders have been through a multi-day coaching programme which has had a great impact on developing people, creating respect, mutual trust and a sense of belonging.

Find out more online at www.meggitt.com

In 2018, we conducted a number of 'safety stand downs', which involved employees taking a break from production to focus on specific risks. In April 2018, cuts and lacerations became the first area of focus, as the most frequent injury type that our sites reported. We issued tasks to all sites, including detailed discussions at daily morning safety meetings to review ways to reduce hazards, evaluation of safer cutting tools, conducting detailed risk assessments on cutting operations, and issuing new safety posters in areas that pose the greatest risk of these types of injuries. This initiative resulted in an average of 40% fewer cut and laceration injuries reported across the Group.

We have continued to implement our bespoke behaviour-based safety (BBS) training programme, which is designed to train employees on how to identify risk in the workplace that may not be apparent and to take immediate action to stop the conditions that may lead to injury. We anticipate that continued focus on preventing unsafe behaviours through BBS will help drive improvements in the TRIR and other health and safety key performance indicators.

We monitor the performance of our sites continually through our annual rolling-audit programme. Our manufacturing facilities are reviewed for their compliance with applicable health and safety regulatory requirements as well as compliance against industry best practice standards, as required by our health and safety procedures. We also have health, safety and environmental professionals available to support sites and help to share best practice across the Group. Our external auditing programme and use of third-party consultants supplements our internal monitoring and support teams.

We encourage excellence and our 'Safety Star' programme, recognises outstanding health and safety performance. It is based primarily on 'leading indicators', including the reporting and resolution of unsafe conditions and behaviours, and near-miss incidents. Additionally, we include safety training and education as one of our key metrics and consider this when determining 'Safety Star' level.

In 2018, 55% of our sites achieved a Platinum Safety Star, which is the highest level awarded under this programme.

Our continued efforts to raise awareness at sites about risks saw further increases in the number of unsafe and near miss conditions and behaviours reported and addressed by our employees in 2018, improving all safety metrics as shown opposite.

We aim to achieve 'best in class' health and safety performance through our continued focus on injury-prevention measures and by implementing industry-leading health and safety practices by the end of 2019.

Safety performance

Reduced the Total Recordable Incident Rate by

34%

Reduced the Lost Time Incident Rate by

27%

Reduced the number of days lost due to injury by

78%

Environment

2018 highlights:

- Investment in environmentally responsible products that challenge existing technologies in the aerospace industry
- Consolidation of sites to reduce our environmental footprint and optimise our manufacturing sites
- Investment in building centres of excellence
- Continued monitoring of environmental metrics and site clean-ups



We are committed to be proper stewards in the communities in which we operate and to minimise the environmental impacts of our products and operations.

Our Portfolio – developing differentiated technologies

As a global leader in braking systems, fire detection, sensing and control systems, thermal management and engine composites, we help to reduce weight, drag and fuel consumption, and minimise maintenance and the use of raw materials. By developing innovative, cutting-edge technology and 'enabling the extraordinary', we help our customers to do more with less to reduce their environmental footprint.

As part of our annual review of our environmental performance in 2018, we carried out a high-level review of our technology and products to assess their environmental impact. Carbon brake-disc manufacturing is the largest contributor to our carbon footprint. Carbon manufacturing at Coventry, Danville and Akron facilities accounts for approximately 40% of the Group's energy consumption and carbon emissions. Carbon manufacturing is the most significant area of focus for the Group in the pursuit of reducing our carbon emissions.

In 2018, we became an Industrial Member of the Manufacturing Technology Centre (MTC) located at Ansty Park, Coventry. The MTC was established as part of the UK government's national manufacturing strategy, with the aim of bridging the gap between academic discoveries and real-time industry innovation. Through our partnerships with the UK's leading aerospace research bodies and institutions we can help to develop new products that are more efficient and that are environmentally compatible.

Our footprint – investing in operational excellence

During 2018 we have expanded a number of our facilities to meet organic growth requirements, including in Mexico, Vietnam and San Diego. We made improvements at other sites, such as the refurbishment to our North Hollywood facility, and reduced other footprint through disposals and planned site closures.

Case study on UHBR Thermals

As engines become more efficient they are getting smaller and more powerful, but running ever hotter. Removing waste heat and recycling it into useful energy is where Meggitt's thermal systems excel: our solutions are 20 per cent smaller and lighter than comparable solutions, and also recycle 50 per cent more energy.

We have developed our solutions using whole-system optimisation, where we design and complete solutions using advanced modelling and optimisation methods to find the very best solutions. Together with our university research and technology partners, a dedicated team of subject experts from across the business designed our system, based at our Advanced Research & Technology facility in Coventry.

Our experts played a critical role in introducing a radical heat exchanger design for ultra-high-bypass ratio (UHBR) engines to reduce heat exchange by 15%. Our innovative new technologies will enable the design of increasingly lighter and smaller thermal management solutions to maximise engine performance and reduce fuel burn. This will enable our customers to do more with less and ultimately have a positive environmental impact.

Find out more online at
www.meggitt.com

As part of our footprint consolidation programme, we plan to design all new buildings/constructions to meet high levels of energy efficiency performance and 'best practice':

- Outside of the USA, we aim to achieve at least 'Very Good' Green Building Sustainability Standard under the BREEAM rating system for new buildings.
- In the USA, all new buildings will be required to meet at least 'Silver' LEED certification (LEED certification levels are similar to the BREEAM ratings referenced above).
- For existing buildings that are expanded, modified, or newly leased, we will use BREEAM and LEED 'In-Use' sustainability standards to assess operational efficiencies that are available for those buildings. Also, we will replace fluorescent lamps, motors and machinery/equipment with high-energy efficient replacements as needed.

In 2017, we announced a £130 million investment in our Ansty Park facility in the UK, bringing together a number of our existing operations. We plan to make the new facility operational from 2020, following full consultation with

employees and their representatives. It is our largest global infrastructure investment. The facility will position the business strategically for future growth and will serve as a hub for next-generation aerospace innovation and R&D and act as a catalyst for world-class operational performance. The 440,000 square foot facility aims to combine a range of operations and will be the new location for our global headquarters – within a world-class aerospace engineering and technology environment.

Plans for the site include an engineering and manufacturing Centre of Excellence for future aerospace thermal management technology – already supported by the UK Aerospace Technology Institute (ATI). This planned new facility, adjacent to the Manufacturing Technology Centre and Advanced Manufacturing Training Centre, marks a major advance in the development of our global manufacturing footprint and positions us strategically for sustainable growth. By bringing world-class innovation and operational delivery together on this site we will accelerate our ability to meet the current and future needs of our customers worldwide.

In August 2018, we opened our significantly expanded San Diego site, prior to being awarded a \$750m contract by Pratt & Whitney. This new facility was designed on lean principles, eliminating waste and complementing our high performance culture. In 2016, a cross-functional team were selected in San Diego to design the new facility using our Production Preparation Process (3P) to lay out each production line to eliminate waste in the form of footprint, walking distances and material travel. The new facility includes efficient production lines and environmentally controlled manufacturing space. In addition to part flow, teamwork is enhanced by locating production support functions on the product lines and establishing an open-concept office designed to foster communication, teamwork and a high performance culture. The San Diego MPC location is now a Meggitt Group Centre of Excellence for complex, molded aircraft engine components and structures used in extreme environments. Its expertise is in high-volume components for engines and adjacencies, missiles and munitions, and structural components on the industry-leading civil and defence aviation platforms.

Site expansion in 2018, at San Diego, USA.



Our site initiatives

As a manufacturing business, we are committed to ensuring that all of our sites operate in full compliance with all applicable environmental laws and regulations, and we reinforce this through our Environmental Policy and Corporate Responsibility Policy. We also require our manufacturing sites to maintain an environmental management system certified to the ISO 14001 international standard.

In addition to taking steps to achieve our strategic goals successfully by consolidating sites and investing in energy-efficient technologies, many of our sites implemented a number of energy-saving projects, including upgrading facilities to energy-efficient LED lighting and installing occupancy and machine sensors and timers.

In particular, our MDS Irvine facility approved a project to install a battery bank that will enable it to store electricity purchased in cheaper, off-peak consumption times for use in high-peak consumption times. Importantly, this project will allow for quicker and easier access to planned future solar projects.

In 2019, we will remain focused on operating more efficiently by consolidating our businesses and investing in modern energy-efficient technology. Our sites will also continue to minimise their environmental footprint.

Our Environmental Performance

In 2018, the Board reviewed and approved an update to our Environmental Policy (available on www.meggitt.com), which helps to reinforce our commitment as an organisation to protecting the environment.

In 2018, our auditing programme assessed 40% of our sites for compliance with applicable regulatory requirements, as well as compliance against industry best practice. All of our facilities certified successfully to the ISO 14001 international standard were recertified to the updated ISO 14001:2015 in late 2017 and throughout 2018. Despite numerous inspections by environmental authorities during 2018, our compliance record indicates no fines for breaches of environmental regulations.

We have measured our sites against our new performance targets.

Performance

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

We experienced an absolute increase in our GHG emissions, however, when normalised to revenue our performance improved. We also decreased our waste generated and water consumed normalised to revenue as shown in Table 1 opposite.

We achieved a 6% reduction in GHG emissions relative to revenue versus a targeted 2.5% year on year decrease.

This was largely due to footprint reduction activities occurring in 2017 and 2018. However, these activities were partly offset by an increase in our production of NuCarb® which requires an extra densification step in the carbon manufacturing process. As such, our absolute GHG emissions increased year on year. Notwithstanding, we have achieved a 14% reduction in GHG emissions relative to revenue as compared to our baseline year of 2015.

Water consumption increased slightly on an absolute basis due primarily to an increase in cooling water used at our Rockmart facility; our largest water consumer. Notwithstanding, our water consumed normalised to revenue showed a 5% decrease. Numerous water savings projects were completed in 2018. To name one, our North Hollywood site implemented a system that improved the efficiency of their cooling towers saving approximately 1.3 million gallons of water annually.

Site disposals in 2018 resulted in a decrease in absolute waste generated as well as waste generated relative to revenue. Our waste sent to landfill as a percentage of our overall waste generated did increase slightly by 1%. However, there were some examples of good waste management practice: our Heatric and North Hollywood locations purchased reusable water bottles for all of their employees which resulted in an approximate 99% reduction in plastic and Styrofoam cup waste.

All of our manufacturing facilities are required to have environmental management systems certified to ISO 14001 and to develop localised waste minimisation plans to identify opportunities for waste reduction as well as recycling.

Our Portland, Oregon location has been recognised as a Leader in Sustainability from their County Sustainability Department and achieved silver level certification for reducing consumption of natural resources, generation of waste and emissions of harmful substances to the environment. The location is well on their way to achieving gold level certification in 2019.

Environmental performance

GHG reduction relative to revenue¹

-6%

GHG reduction from 2015 baseline²

-14%

- 1 Based on year-on-year comparative data as reported in line with DEFRA guidance.
 2 Performance against internal 10-year target.

Environmental metrics¹ (Table 1)

	2018	Change	2017
Utilities			
Electricity – gWh	206		201
MWh per £m	99	-4%	103
Natural gas – gWh	197		186
MWh per £m	94	-1%	95
Greenhouse gas emissions (CO ₂ e) ¹ – tonnes	114,626		113,738
Tonnes per £m	54.8	-6%	58.1
Waste – tonnes	10,780		12,056
Tonnes per £m	5.16	-16%	6.16
Water – cubic metres	721,650		710,905
Cubic metres per £m	345	-5%	363

Internal targets (Table 2)

	Baseline year	Ten and five year performance periods (financial years)	Target improvement over performance period	Achieved as at 31.12.2018
GHG Emissions	2015	To 31 December 2025	-25%	-14%
Water consumption	2016	To 31 December 2021	-10%	-3%
Waste to landfill	2016	To 31 December 2021	-10%	+1%

Reportable GHG emissions¹ data (Table 3)²

	2018 Tonnes of CO ₂ e	2017 Tonnes of CO ₂ e
Combustion of fuel and operation of facilities ³	36,573	34,448
Electricity, heat, steam and cooling purchased for own use	78,053	79,290
	114,626	113,738

Intensity measurement:

Emissions reported above, normalised to tonnes per £m revenue	54.8	58.1
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- 1 GHG emissions are restated annually to use the most up to date conversion factors. Revenue figures for 2018 reporting use 2017 exchange rates. Emissions from overseas electricity are calculated using conversion factors published in the IEA Emissions factor 2018.
 2 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.
 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.

Ethics

Ethics and business conduct

2018 highlights:

- Ethics and business conduct training provided to all employees
- Ongoing active management of our whistleblowing hotline
- Continued commitment to reduce the number of commercial intermediaries in our supply chain to mitigate against potential risks of corruption and bribery
- Ongoing compliance with modern slavery requirements and supplier payment practices



We recognise that acting with integrity, honesty and respect for others in all of our business relationships is critical for our success, including those with customers, suppliers and our employees.

Throughout 2018, we continued to promote our ethics programme through training issued to all employees, more targeted training delivered at specific sites, and also briefings delivered to our Ethics Champions. Our training reminds employees about ethics and business conduct, and we provide examples of how to apply the principles laid out in our policies. Every employee receives a printed Ethics Guide on joining the Group, which is also available on our website.

Our programme is supported by our Group policies, including our Ethics and Business Conduct Policy, Code of Conduct and Anti-Corruption Policy (the latter of which the Board reviewed and updated in 2018).

Each Meggitt business site has a designated Ethics Champion who is available to assist employees with questions or concerns, and we operate an Ethics Line that enables employees to raise questions or concerns anonymously and confidentially, 24 hours a day, 7 days a week from anywhere in the world.

Employees are entitled to a thorough investigation of concerns raised and receive feedback whether the issues are substantiated or not. Our high performance culture concepts are strongly supportive of our ethics programme with their focus on how we treat each other (which is the main area for calls received on our Ethics Line).

We also continued to take steps to reduce the number of our commercial intermediaries to mitigate potential risks of corruption and bribery taking place within our business. As part of our commitment to acting as a responsible supplier, we commit to abstaining from practices such as slavery, human trafficking, forced labour and child labour. We also commit to take all reasonable measures to ensure that our suppliers and other entities acting on our behalf do not engage in practices that violate applicable laws and regulations relating to slavery, human trafficking, forced labour and child labour. Our statement made in compliance with the UK Modern Slavery Act is available on our website.

Ethics policies



Drives programme content and priorities



Leading to annual all-employee training



Impacts interaction with each other, our customers and suppliers

Social

Local communities and charitable donations

2018 highlights:

- Appointment of STEM ambassadors in the UK to encourage initiatives focused on promoting science, technology, engineering and mathematics education
- Continued support of the local communities where our sites are based



Our sites contribute to the communities in which our employees live and work, to enhance the well being of people living in our communities. We reinforce this through our Charitable Giving Policy. The policy includes our commitment to activities and fundraising to benefit the health and welfare of defence personnel and to support education initiatives, scholarships and competitions in science, technology, engineering and mathematics (STEM) subjects.

Each site is ultimately responsible for agreeing and administering its own budget for charitable donations and sponsorships to ensure they have a positive impact on the local community or support sectors in which their business operates. Annual reports reveal the exceptional generosity of many employees who give time and money to a wide range of national and local initiatives.

STEM forms the basis of everything we do at Meggitt, from manufacturing our NuCarb® brakes to analysing the systems that keep our intranet running. Having an active STEM programme within Meggitt is something that we value highly as we seek to create an innovative, engaging, inclusive and high-performing culture.

In 2018, we encouraged UK employees to become STEM Ambassadors. This targeted STEM programme is aiming to increase the diversity of the Meggitt workforce by engaging with schools and university communities and encouraging people from all backgrounds to apply for roles within Meggitt. Our investment in STEM outreach in 2018 has seen our employees support school science clubs and enrichment activities and attend

national events such as the Cosford and Farnborough air shows. These workshops and events give students the opportunity to meet inspirational and cutting-edge engineers from different backgrounds and at different stages in their careers.

We are also encouraging engineers who have left engineering for whatever reason to resume the career they trained for in the first place. For example, we have a ground-breaking programme showing career-break returners that we value those skills that they have gained whilst out of the industry. The programme is open to men and women in Hertfordshire and Leicestershire, UK and surrounding areas, who have taken any length career break, as well as those that wish to transfer sectors but lack the relevant work experience.

Examples of our ongoing STEM activities:

- Links with the University of Sheffield and sponsorship of the annual prize for the best Science and Engineering Foundation Year student in the Automated Controls and Systems Engineering department.
- The Arkwright Scholarship, which supports future engineers by facilitating work experience, mentoring and providing technical guidance on projects and advice on university selection and applications.
- Our involvement in encouraging students to take up engineering as a career through the Institution of Engineering and Technology's Engineering Horizon Bursaries, which offers support to students who have faced obstacles or challenges and require financial support as well as work placements.
- Sponsorship of the Schools Aerospace Challenge, which offers shortlisted 16 to 18 year olds the chance to experience what the aerospace world has to offer in a five-day Summer School at Cranfield University.

Find out more online at www.meggitt.com

Strategic report

This 2018 Strategic report on pages 2 to 73 is hereby signed on behalf of the Board.

Tony Wood
 Chief Executive

Corporate governance report



Sir Nigel Rudd
Chairman of the Board of Directors

Chairman's introduction

The Board is committed to maintaining 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 our activities as a Board throughout the year have supported our strategy.

Leadership

As part of the planned and continued evolution of the Board, there have been a number of Board changes in 2018. In September 2018, we announced that Louisa Burdett would join the Company as Chief Financial Officer-designate in late October, and succeed Doug Webb as Chief Financial Officer and join the Board as an Executive Director from 1 January 2019. Louisa brings significant relevant financial and commercial experience to the role. Most recently she was Group Finance Director of Victrex plc from January 2014 until April 2018. Doug Webb retired with effect from 31 December 2018 after five years at Meggitt.

In October 2018 we announced that Paul Heiden will retire from his position as Non-Executive Director, Senior Independent Director and Chairman of the Remuneration Committee on 25 April 2019, immediately prior to the Annual General Meeting (AGM). Guy Berruyer, who has been a Non-Executive Director since 2012, will become Senior Independent Director, and Alison Goligher, who has been a Non-Executive Director since 2014, will become Chairman of the Remuneration Committee. Alison has gained relevant experience of current remuneration trends and practices as a member of the Remuneration Committee since 2014.

Guy Hachey was appointed to the Board (and as a member of the Audit, Remuneration and Nominations Committees) with effect from 1 January 2019. Guy was President and Chief Operating Officer of Bombardier Aerospace from April 2008 to his retirement in 2014. Over a period of six years, Guy led the transformation of the entire product portfolio of Bombardier, overseeing product programme investments in excess of \$8bn. He is currently a Non-Executive Director of Hexcel Corporation, a global leader in manufacturing advanced composite materials for the commercial aerospace, space and defence, and industrial markets. Guy will bring valuable sector experience to the Board.

We recently announced that Caroline Silver will join the Board as a Non-Executive Director on 25 April 2019, immediately prior to the AGM. Caroline will also join the Audit, Remuneration and Nominations Committees. Caroline is a Senior Managing Director at Moelis & Company, a leading global independent investment bank, where she specialises in financial institutions and fintech advisory and capital raising. She has previously held senior investment banking roles at Bank of America Merrill Lynch and Morgan Stanley. She started her career as a chartered accountant with PricewaterhouseCoopers. Caroline is currently Non-Executive Chairman of FTSE 250 consumer products group, PZ Cussons plc, and Non-Executive Director of BUPA, the global healthcare company, where she serves on the audit and risk committees. Caroline will bring significant investment banking experience to the Board.

2018 Board attendance

Sir Nigel Rudd ¹ (Chairman)	7/7	Mr A Wood Chief Executive	7/7
Mr G S Berruyer Non-executive director	7/7	Mr C R Day ² Non-executive director	6/7
Mrs N L Gioia Non-executive director	7/7	Ms A J P Goligher Non-executive director	7/7
Mr P E Green Executive Director, Commercial & Corporate Affairs	7/7	Mr P Heiden Non-executive director	7/7
Mr D R Webb Chief Financial Officer	7/7		

- 1 Met the independence criteria on appointment as Chairman on 23 April 2015.
- 2 On personal leave of absence during one of the scheduled Board meetings.

Effectiveness

The Board conducted an internal evaluation for 2018. The positive progress made in Board succession, including improving the diversity of the Board and increasing domain knowledge in aerospace and defence was highlighted. Areas for improvement in 2019 include making sure that the 2019 agenda planner dedicated sufficient time for presentations during Board visits, continuing evolution of risk management and increasing the amount of customer satisfaction data visible to the Board. The evaluation also highlighted the importance for Board members to experience high performance culture sessions.

Accountability

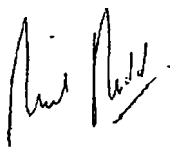
In 2018, the Audit Committee discussed the 2017 viability statement process and confirmed that it was appropriate to retain the same process for the 2018 viability statement. The impact of the UK's vote to leave the European Union was taken into account in the assessment of viability. A description of the process and the resulting statement is set out in the risk management report. That report also includes our annual confirmations on risk management and internal control.

This year we also held detailed briefing sessions on the 2018 UK Corporate Governance Code (the 2018 Code). A summary of our approach to implementing the 2018 Code in 2019 is included in this report and also in the Corporate Responsibility Report (see page 61).

The Board has confirmed that this Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy. You can find an explanation of the process we have used to make this determination on page 118.

Remuneration

During the year, executive management reviewed the structure of Group wide incentive plans: a number of recommended changes were proposed as a result, however none of these impact the executive directors (for a summary of the changes below executive level see page 103). The Committee also considered the impact of the 2018 Code and other reporting regulations and proxy advisor and investor guidance on remuneration governance. This is described in more detail in the Directors' remuneration report (see page 110).



Sir Nigel Rudd

Chairman of the Board of Directors
 25 February 2019

In this section

Board of Directors

This introduces our individual Board members by providing details of the skills and experience they bring to the Board and the Committees on which they serve.

→ See more on page 76

Corporate governance report

The Corporate governance report analyses the leadership provided by the Board, the steps taken to ensure that the Board is an effective one and the framework by which the Board manages relationships with shareholders.

→ See more on page 80

Audit Committee report

Introduced by its Chairman, Colin Day, this report describes the Audit Committee's work during the year by reference to the principal responsibilities of the Committee for financial reporting, external audit, the risk management process, internal controls and internal audit.

→ See more on page 86

Nominations Committee report

Introduced by its Chairman, Sir Nigel Rudd, this report outlines the Committee's philosophy on appointments and diversity and describes the activities of the Committee during the year.

→ See more on page 90

Directors' remuneration report

The Directors' remuneration report includes an introduction from its Chairman, Paul Heiden, summarising the Committee's overall approach to remuneration and the link between our strategy and remuneration plans. It also includes the remuneration policy which was approved by shareholders at the 2017 AGM and describes how the policy has been applied in 2018.

→ See more on page 92

Directors' report

The Directors' report is prepared in accordance with section 415 of the Companies Act 2006, and sets out information that the directors are required to present in accordance with the Act.

→ See more on page 115

Board of Directors



Committee membership

- A Audit
- N Nominations
- R Remuneration
- CR Corporate Responsibility
- F Finance
- D Disclosure

01

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.

Sir Nigel plays a critical role in managing the Board and the Nominations Committee, and brings decades of executive leadership and chairmanship experience, across many industrial companies including aerospace and defence, and other complex sectors. His commercial, financial and general business acumen and shareholder focus are extremely valuable to the Board.

Current appointments

Non-Executive Chairman of BBA Aviation plc and Sappi Limited.

Appointments in unlisted companies

Non-Executive Chairman of BGF PLC.

Previous appointments

Chairman of Williams Holdings plc, Kidde plc, Heathrow Airport Holdings Limited (formerly BAA Limited), The Boots Company, Pilkington PLC, Pendragon PLC, Invensys plc, Aquarius Platinum Limited and Destiny Pharma PLC. Deputy Chairman of Barclays PLC and Non-Executive Director of BAE Systems plc.

N

02

Tony Wood

Chief Executive

Appointed as CEO: 2018 | Nationality: British

CR F D

Skills and experience

Extensive aerospace industry experience gained with Rolls-Royce plc where he held a number of senior management positions, latterly as President, Aerospace. Previously spent 16 years at Messier-Dowty, now part of Safran Group.

Tony's significant operational experience both in aerospace and defence and other industrial sectors, extremely strong customer relationships and strategic oversight of the Group are critical to the Board as the business continues to grow. Tony's passion for high performance culture and diversity and inclusion, and experience of leading cultural change in previous roles has also brought the Meggitt culture into focus just as the expectations of the Board are being raised in these areas under the UK Corporate Governance Code.

No current or previous appointments to disclose.



03 **Guy Berruyer**

A CR R

Non-Executive Director
 Appointed: 2012 | Nationality: French

Skills and experience

Trained as an electrical engineer at the École Polytechnique Fédérale de Lausanne and holds a Harvard Business School MBA.

Guy brings his experience as a former Chief Executive of a FTSE 100 multinational enterprise software company to the Board. He is also due to become Senior Independent Director in April 2019.

Appointments in unlisted companies

Chairman of software engineering company Linaro Limited and Director of the French software and services company Berger Levrault. Senior adviser to the European software team at Warburg Pincus.

Previous appointments

Group Chief Executive of The Sage Group plc and Chief Executive of Sage Group plc's Europe and Asia division. Early career spent with software and hardware vendors in France and other European management roles.



04 **Louisa Burdett**

CR F D

Chief Financial Officer
 Appointed: 2019 | Nationality: British

Skills and experience

Louisa is a chartered accountant. She has held senior financial positions in industrial, manufacturing, publishing and pharmaceutical companies.

Louisa brings solid financial, commercial and M&A experience across a broad range of sectors, including aerospace, to the Board.

Current appointments

Non-Executive Director and Chair of the Audit Committee of Electrocomponents plc, a global distributor of industrial and electronic products.

Organisations

Member of the Institute of Chartered Accountants in England and Wales.

Previous appointments

Chief Financial Officer of Victrex plc, which provides innovative composite polymer solutions to a variety of end markets, including aerospace. CFO roles with Optos plc, the Financial Times Group, GE Healthcare and Chep Europe. She also spent time in various roles at GlaxoSmithKline, including Finance Integration Director.



05 **Colin Day**

A N R

Non-Executive Director
 Appointed: 2015 | Nationality: British

Skills and experience

Colin, a chartered certified accountant makes a significant contribution as Chairman of the Audit Committee, responsible for the interface between the Committee and the auditors and internal audit. He has more than 25 years experience in senior roles and non-executive positions at blue-chip companies across a wide range of industries, including engineering and technology, oil and gas and aerospace, he brings significant commercial and financial expertise to the Board.

Current appointments

Non-Executive Director of Euromoney International Investor PLC and Chair of their Audit Committee.

Appointments in unlisted companies

Non-Executive Director of FM Global. In March 2018, Colin was named Non-Executive Director for the Department for Environment, Food & Rural Affairs, chairing their Audit and Risk Assurance Committee. Chairman of MK:U Limited.

Organisations

Independent member of the Council of Cranfield University.

Previous appointments

Chief Executive of Essentra PLC, Chief Financial Officer of Reckitt Benckiser Group plc, Group Finance Director of Aegis Group plc, Non-Executive Director of WPP plc, Easyjet plc, Imperial Tobacco Group plc, Cadbury plc and Senior Independent Director of Amec Foster Wheeler plc.



06

A N R CR

Nancy Gioia**Non-Executive Director**

Appointed: 2017 | Nationality: American

Skills and experience

An electrical engineer, Nancy brings extensive engineering and operational experience in manufacturing to the Board. Her role in the fast paced automotive manufacturing area gives important perspective in Board discussions about strategic initiatives, and she also has a keen interest in cyber security. Nancy's prior roles also mean she understands the value of culture, diversity and inclusion and the Board recently appointed her as Chairman of the Corporate Responsibility Committee and as Non-Executive Director responsible for employee engagement.

Current appointments

Non-Executive Director of Brady Corporation and Chair of their Technology Committee.

Appointments in unlisted companies

Executive Chairman of Blue Current, a privately held start-up company focused on battery technologies. Principal of Gioia Consulting Services, LLC.

Organisations

Member of the University of Michigan-Dearborn Electrical and Computer Engineering Advisory Council and Engineering Dean's Advisory Board.

Previous appointments

Held several key executive positions at Ford Motor Company during a 33 year career. Non-Executive Director of Exelon Corporation, Chair of AutomotiveNEXT and Stanford University Alliance for Integrated Manufacturing.



07

A N R

Alison Goligher OBE**Non-Executive Director**

Appointed: 2014 | Nationality: British

Skills and experience

Trained engineer and holds a MEng Petroleum Engineering from Heriot-Watt University.

Alison brings important energy sector experience with her background in oil and gas, and she has a strong operations focus and makes an excellent contribution to strategic discussions. Alison is becoming Chairman of the Remuneration Committee in April 2019.

Current appointments

Non-Executive Director of United Utilities Group PLC and United Utilities Water Limited.

Appointments in unlisted companies

Executive Chair of Silixa Limited, a provider of distributed fibre optic monitoring solutions.

Organisations

Trustee of Edinburgh Business School, part of Heriot-Watt University.

Previous appointments

Various roles at Royal Dutch Shell from 2006 to 2015, most recently, Executive Vice President, Upstream International Unconventionals. Previously spent 17 years at Schlumberger, a supplier of technology, integrated project management and information solutions to oil and gas customers worldwide.



08

CR F D

Philip Green**Executive Director, Commercial & Corporate Affairs**

Appointed: 2001 | Nationality: British

Skills and experience

Fellow of the Institute of Chartered Secretaries and Administrators and the Institute of Directors. Philip has nearly 40 years experience across aerospace and defence. During his time at Meggitt, he has made a significant contribution to the Group, leading activities relating to commercial, contracts, legal, trade compliance, ethics, risk and government relations.

Organisations

Non-Executive Director and Vice Chairman of Poole Hospital NHS Foundation Trust since 25 April 2015 and Chairman of their Audit and Governance Committee since 1 December 2015. Member of the GC100 and the Research and Innovation Advisory Board of Leeds University Business School.

Previous appointments

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



09

A N R

Guy Hachey

Non-Executive Director

Appointed: 2019 | Nationality: Canadian

Skills and experience

Guy was president and Chief Operating Officer of Bombardier Aerospace from April 2008 to his retirement in 2014.

Current appointments

Guy is a Non-Executive Director of Hexcel Corporation and operating partner at Advent International.

Previous appointments

Prior to his retirement from Bombardier, Guy had significant operational roles at Delphi Corporation and General Motors Corporation.



10

A N R

Paul Heiden

Senior Independent Director

Appointed: 2010 | Nationality: British

Skills and experience

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

Paul is retiring from the Board in April 2019.

Current appointments

Paul is Senior Independent Director and Chairman of the Audit Committee of London Stock Exchange Group plc.

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 United Utilities Group PLC, Bunzl plc, Essentra PLC and Non-Executive Chairman of Talaris Topco Limited, A-Gas (Orb) and LB-shell plc.



11

A N R

Caroline Silver

Non-Executive Director

Appointed: 2019 | Nationality: British

Skills and experience

Chartered accountant with significant global investment banking experience specialising in financial institutions, financial technology and market infrastructure, and capital raising.

Current appointments

Senior Managing Director at Moelis & Company, a leading global independent investment bank. Non-Executive Chairman of FTSE 250 consumer products group, PZ Cussons plc. Non-Executive Director of BUPA, the global healthcare company, where she serves on their Audit, Remuneration and Risk committees.

Organisations

Reappointed as Trustee of the Victoria & Albert Museum in July 2018.

Previous appointments

Caroline was Vice Chairman of EMEA Investment Banking at Bank of America Merrill Lynch and spent 14 years at Morgan Stanley where she held a number of senior positions including Global Vice Chairman of Investment Banking and European Head of Financial Institutions. She started her career as a chartered accountant with PricewaterhouseCoopers.

Corporate governance report

Leadership

Our governance framework*:

Board of directors

Membership: Sir Nigel Rudd (Chairman), executive and independent non-executive directors

Chairman

Sir Nigel Rudd

- Leads the Board and sets the agenda;
- Ensures the Board is effective;
- Facilitates the contribution of non-executive directors and oversees the relationship between them and the executive directors; and
- Ensures there is an effective system for communication with shareholders.

Executive Directors

Tony Wood, Louisa Burdett and Philip Green

- Responsible for successful delivery of the Group's objectives and strategy; and
- Managing various functions and operations across the Group.

Company Secretary

Marina Thomas

- Acts as secretary to the Board and its Committees;
- Ensures compliance with Board procedures and advises on governance issues;
- Facilitates the induction process for new directors; and
- Ensures good information flow within the Board and between non-executive directors and senior management.

Creating and delivering sustainable shareholder value

- Retains full and effective control of the Group and collectively responsible for its success;
- Sets the Group's strategy, ensures appropriate resources are in place to achieve the Group's objectives;
- Reviews performance regularly;
- Sets the Group's values and standards; and
- Ensures obligations to shareholders, employees and other stakeholders are met.

Senior Independent Director

Paul Heiden

- Makes himself available to shareholders if they have concerns which cannot be resolved through the normal channels;
- Chairman of the Nominations Committee when it is considering the Chairman of the Board's succession;
- Appraises the Chairman's performance annually with the non-executive directors; and
- Acts, if necessary, as a focal point and intermediary for the other directors.

Independent Non-Executive Directors

Guy Berruyer, Colin Day, Nancy Gioia, Alison Goligher, Guy Hachey and Paul Heiden

- Constructively challenge management and scrutinise their performance;
- Contribute to the development of the Group's strategy;
- Monitor the Group's performance;
- Satisfy themselves on the integrity of financial information and the effectiveness of financial controls and risk management; and
- Determine appropriate levels of remuneration for executive directors and participate in the selection and recruitment of new directors and succession planning.

Chief Executive

Tony Wood

- Leads executive directors and the senior executive team in the day to day running of the Group's business;
- Ensures effective implementation of Board decisions;
- Regularly reviews the strategic direction and operational performance of the Group's business; and
- Keeps the Chairman informed on all important matters.

Employee Engagement

Non-Executive Director

Nancy Gioia

- Engage with employees through a range of formal and informal channels;
- Acts as the conduit for employees to share ideas and concerns with senior management and the Board;
- Ensure that employee policies and practices are in line with the Group's purpose and values and support the desired culture; and
- Regularly review ethics line reports.

* Accurate as at the date of signing the accounts.

Board Committees

Remuneration

The 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

The independent non-executive directors

Monitors the integrity of the Group's financial statements, the effectiveness of the external and internal auditors, risk and internal control processes, tax and treasury.

Nominations

Chairman and the 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.

Corporate Responsibility

Two independent non-executive directors and the executive directors

Oversight of ethics and business conduct, environmental, stakeholder engagement and charity and community activity.

Finance

The executive directors

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

Disclosure

The executive directors, Company Secretary, and Vice President, Strategy & Investor Relations

Discusses and approves all matters related to inside information under the market abuse regime.

Management Committees

Executive Committee

Chief Executive and his direct reports

The most senior decision-making and supervisory group, responsible for overall management of the Group, driving its vision and strategy and ensuring the organisational culture leverages diversity, industry knowledge, global perspective and customer insight of all colleagues.

Commercial Committee

Executive directors and Group Director, Engineering & Strategy

Reviews and approves bids and proposals of Group significance and any other significant commercial activity.

Technology Advisory Board

Group Director, Engineering & Strategy, Chief Technology Officer, between two and four external members with backgrounds in technology or academia, Meggitt engineering fellows and other appropriate employees.

Providing advice on the direction and pace of technology road maps, increasing awareness of disruptive technologies, business models or business trends and providing guidance on new areas and opportunities.

2018 Board activities

Strategic priority	Key Board activities in 2018
<p>Approve</p> 	<ul style="list-style-type: none"> • The 2019 budget. • The 2017 Annual Report and Accounts, 2017 full-year results and 2018 interim results announcement. • The April and October 2018 trading statements and July 2018 upgrade to revenue guidance. • The Group's new organisation structure announced in July 2018 (effective 1 January 2019). • Recommendations to shareholders on the final dividend payment for the year ended 31 December 2017 and approval of the interim dividend payment for the year ended 31 December 2018. • Resolutions to be put to shareholders at the 2018 AGM, including that PricewaterhouseCoopers LLP be reappointed as auditors of the Group for the 2018 financial year. • Terms of Reference for the Board Committees updated to reflect the 2018 Code (available on www.meggitt.com) and Schedule of Matters Reserved for the Board. • The Group's risk appetite statement and risk register. • The conflicts of interest register for the Board and the Modern Slavery Statement. • The Anti-Corruption Policy, Financial Crime Policy, Diversity and Inclusion Policy and Group Environmental Policy. • The appointment of new directors. • Since the year end, up to the date of the Annual Report, the Board has approved the 2018 Annual Report and Accounts, the 2018 full-year results announcement and the proposed final dividend for the year ended 31 December 2018. • During the year, no unresolved concerns were recorded in the Board's minutes.
<p>Reviews and updates</p> 	<ul style="list-style-type: none"> • Detailed strategy session, including external input on market trends and review of the Group's strategic plan. • Regular reports and a detailed presentation on health and safety and environment. • Regular reports on ethics and business conduct. • An update from investor relations and the joint corporate brokers. • An update from IT, and a focused review of cyber security. • Update on the Group's insurance arrangements. • Regular review of the Group's financial and non-financial dashboard. • Regular updates on the potential impacts of Brexit. • Divisional updates from Polymers & Composites, Control Systems and Services & Support. • Update on Group operations and procurement. • Trade Compliance, environmental and legal updates. • Engineering and technology updates and key programme status reports. • Detailed sessions on succession planning process and the output of that process (covered by Nominations Committee). • Regular reports from executive management on operations, financial performance, risk, legal, commercial, ethics and compliance activity. • Detailed post-acquisition report for the composites businesses acquired in 2015. • Regular updates on M&A. • Product safety and regulatory compliance update. • Reports on internal control, viability and going concern and reports from its Committees. • Briefing sessions and planning for the implementation of the 2018 Code. • Governance updates including Modern Slavery, General Data Protection Regulation, supplier payment practices, Hampton Alexander-Review and gender pay.
<p>Visits and culture</p> 	<ul style="list-style-type: none"> • In May 2018, the Board visited sites in the US including our engine composites site in San Diego, flow control site in North Hollywood and fire and safety systems site in Simi Valley. • In September 2018, the Board visited our Asian facilities in China and Vietnam. • During all of these visits, the Board received presentations about the sites and met a range of employees. The Board also received a detailed presentation on our China strategy and opened the new expanded facility in Vietnam. • A number of our Board members also visited our Services & Support facility in Singapore, our Fribourg facility in Switzerland and our Meggitt Avionics site in Fareham, UK. • High performance culture, diversity and employee engagement reviews.

AGM 2018 – Sir Nigel Rudd, significant vote against

At our AGM in 2018, 32% of shareholders voted against the re-election of Sir Nigel Rudd, our Chairman (with 68% voting for). Immediately prior to the AGM, a voting recommendation against the Chairman was issued by ISS proxy advisors, on the basis that he was also a Chairman of three other listed companies: BBA Aviation, Destiny Pharma and Sappi. The company engaged with a number of leading shareholders to discuss overboarding concerns. We also contacted shareholders in May 2018 to offer meetings with the Chairman and again in early 2019 to discuss this topic.

Subsequently, the Senior Independent Director has reviewed the position on behalf of the Board. This review has concluded that Sir Nigel has an excellent track record as the Chairman of Meggitt, reflecting his extensive experience chairing significant and complex global companies. The Board of Directors is completely satisfied that Sir Nigel has sufficient capacity to dedicate the appropriate amount of time to Meggitt as required. This was evident to the Board during the seamless transition of Chief Executive in 2018, in which Sir Nigel played a critical role. Sir Nigel continues to provide excellent leadership of the Board and his skill set, experience and knowledge remain of significant value to the Board.

Sir Nigel also reviewed his own portfolio of appointments during the year, and subsequently retired from the Board of Destiny Pharma, as announced in September 2018.

The Board is on this basis recommending to shareholders that they vote for the re-election of Sir Nigel Rudd at the 2019 AGM.

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 2016 UK Corporate Governance Code (the 2016 Code).

Board Committee disclosures:

- All non-executive directors are members of the Audit, Remuneration and Nominations Committees on appointment. Chairmanship of Committees is considered during discussions on composition and succession.
- No one other than Committee chairs and members are entitled to attend the meetings, although others can be invited.
- The Audit, Remuneration and Nominations Committees' written terms of reference were reviewed and updated in 2018 by the Board and are available on the investor section of our website.
- All Committee chairs report verbally on the proceedings of their Committee at the next meeting of the Board when members of the Board are present who were not in attendance at the Committee meetings. Where appropriate, the Committee chairs make recommendations to the Board on appropriate matters.

Further details of the composition and activities of these Committees are set out in the separate Committee reports.

Appointments and time commitment

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

Chief Financial Officer Induction Process**Key induction events**

- Comprehensive two month handover with the outgoing CFO;
- Tours of sites in Europe and the US including the new site at Ansty Park;
- Individual meetings with the Chairman and other directors;
- Individual meetings with members of the Executive Committee and other senior executives;
- Meetings with brokers and other advisers; and
- High performance culture unfreezing briefing.

Louisa was provided with access to our electronic Board paper system and the Group intranet which provided easy and immediate access to the following key documents:

- The Group's risk register;
- Our 2018 budget;
- Strategic priorities including the ten year plan;
- Recent broker reports and feedback from shareholder engagement; and
- Recent reports from the external auditor, PwC.

Find out more online at
www.meggitt.com

- The letters of appointment for the Chairman and non-executive directors set out the time they are expected to commit to Meggitt.
- The Chairman and non-executive directors undertake appointments in other listed and non-listed companies, which are declared on pages 76 to 79. The other external commitments of the Board members do not impact the time they can spend on Meggitt, and in fact the experience gained on other company boards is considered of benefit to Board discussions in many areas.
- Additional appointments by the Chairman require the approval of the Board. Appointments of non-executive directors require the approval of the Chairman.
- The Board has reviewed over-boarding guidance in the 2018 Code and in guidelines set out by institutional shareholder advisory organisations, and considers these when discussing new appointments.
- During 2018, the Chairman and non-executive directors attended all scheduled Board meetings except for Colin Day who missed a scheduled meeting held in December 2018 owing to a personal leave of absence. The Board also visited Meggitt sites in China and Vietnam and in the USA in San Diego, North Hollywood and Simi Valley.

- The Chairman independently visited our Fribourg site in Switzerland. The Chairman had regular meetings with the Chief Executive and attended shareholder meetings about governance and represented Meggitt and our interests at other events.
- The Chairman and Senior Independent Director have reviewed the time commitment of the Chairman and non-executive directors in 2018 and consider they have devoted an appropriate amount of time to Meggitt for the activities and issues that arose during the year.

Development

The Chairman agrees a personalised approach to the training and development of each director and reviews this regularly. The Company Secretary, who facilitates the induction of new directors and assists with professional development where required, continues 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 and is satisfied that effective communication, principally by the Chief Executive and Chief Financial Officer, is undertaken with shareholders.

The Board is supplied with the information it needs to discharge its duties. 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 discuss the effectiveness of the annual Board schedule during the Board evaluation.

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 evaluation

In order to evaluate its own effectiveness, the Board undertakes annual effectiveness reviews using a combination of independent externally facilitated and internally run evaluations over a three-year cycle.

November 2018

Internal Board evaluation planning by the Chairman and Company Secretary.

The questionnaires were reviewed to take account of the 2018 Code.

December 2018/January 2019

Questionnaires issued to the Board, Committees and other regular attendees.

The Board effectiveness questionnaire posed questions in the following areas ranked on a scale of 1 to 3 (with space for comments):

- How well the strategy process works and the Board's understanding of the core business and markets.
- To what extent Board meetings are engaging with high quality discussion and open debate and whether all Board members contribute to discussions and work together well.
- Whether the skills and experience on the Board are appropriate.
- How the Board responds to challenges.
- Whether the Chairman's leadership style and tone is effective and how he works with the Chief Executive.
- Whether the Company Secretary is performing effectively.
- Whether the Board schedule and papers are appropriate.
- If the recruitment and induction processes are working well.
- Whether risk management is undertaken appropriately.
- If succession planning is working well.

February 2019

A detailed discussion is held by the Board on their responses to the questionnaire and resulting actions are agreed.

The Senior Independent Director met with the non-executive directors to assess the performance of the Chairman and the Chairman held regular meetings with non-executive directors without the executive directors present where the performance of executive management was discussed.

Find out more online at
www.meggitt.com

Investor relations activity, 2018 highlights



February 2018

The preliminary results presentation took place on 27 February and included an overview of the 2017 full year financial performance of the business. This was presented by Tony Wood and Doug Webb.

At this presentation, we provided guidance on the outlook for the business in 2018 and covered progress made against strategy in 2017 and the medium-term goals for the Group. Investor roadshows took place in the UK (London) and US (East and West Coast) immediately following the preliminary results presentation.



April 2018

We engaged with our top 20 shareholders and proxy advisors, ISS (Institutional Shareholder Services), IVIS (Institutional Voting Information Service) of the Investment Association and Glass Lewis, before and after the AGM. In particular we discussed overboarding concerns around the Chairman. See page 82 for commentary about the 2018 AGM vote result on the re-election of the Chairman.

Following this, investor roadshows took place in Geneva and Zurich.



July 2018

On 2 July, we updated the market on our expectation for full year revenue following stronger than anticipated growth across the civil aftermarket, defence and energy end markets.

On the same day, it was announced that the current structure of the business would be replaced by four customer-aligned divisions effective from 1 January 2019.

At the Farnborough International Airshow, a number of investors met with management at the Meggitt chalet, showcasing our market-leading technology and discussing the upgrade to revenue guidance and the newly announced organisational structure.



August 2018

The interim results presentation took place on 7 August and included an overview of the first six months financial performance of the business in 2018. This was presented by Tony Wood and Doug Webb.

Following this, investor roadshows took place in the UK (London and Edinburgh), Europe (Frankfurt) and the US (East and West Coast).



October 2018

On 16 October, we further increased our expectation for full year revenue growth and reconfirmed guidance for underlying operating margin. This followed stronger than anticipated growth across the civil aftermarket and defence end markets.



November 2018

In November, we hosted a visit to our site in Fribourg, Switzerland to give a deeper understanding around our energy business, and experience what the High Performance Culture programme has enabled the site to achieve.



December 2018

On 10 December, we hosted an audio webcast teach-in session for the sell-side community to learn more about the new organisational structure announced in July.

Following this, we held investor meetings in Paris.

Board evaluation in 2018

In 2018, the Board evaluated its own effectiveness, together with the effectiveness of the Chairman, individual directors, its Committees, auditors and remuneration advisers. The process is described on page 83. The evaluation was carried out by way of questionnaire with open and closed questions, with follow up questions asked for clarity if needed.

Overall, the evaluation was positive, with progress noted in Board succession, including improving the gender diversity of the Board with the appointment of Louisa Burdett as Chief Financial Officer and Caroline Silver as a Non-Executive Director. Another highlight was the selection of Guy Hachey as Non-Executive Director, increasing the Board's domain knowledge in aerospace and defence. Areas for improvement in 2019 included making sure that the 2019 agenda planner dedicated sufficient time for presentations during Board visits, continuing evolution of the risk management process and increasing the amount of customer satisfaction data visible to the Board. The evaluation also highlighted the importance for Board members to experience high performance culture sessions to add to their existing knowledge of the Meggitt culture gained from site visits.

Relations with shareholders

The Board communicates with private investors via direct communication with the Company Secretary and the Vice President, Strategy & Investor Relations 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, the Vice President, Strategy & Investor Relations and the Group's brokers on the views of shareholders. The Chairman and other non-executive directors are available to attend meetings with shareholders. Directors' understanding of major shareholders' views is enhanced by reports from the Vice President, Strategy & Investor Relations, our brokers and attending analysts' briefings. Analysts' notes on the Group are made available to all directors during the year.

Shareholder documents

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 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.

Annual General Meeting

At the AGM to be held on 25 April 2019, in addition to the routine business, shareholder consent will be sought for resolutions which give the Company 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). The shorter notice period would not be used as a matter of routine for such meetings, but only where time-sensitive matters are to be discussed and where merited in the interests of shareholders as a whole. The directors also intend to follow other best practice recommendations as regards this authority's use.
- to dis-apply pre-emption rights for up to 10% of issued share capital in accordance with the latest guidance from the UK Pre-Emption Group. The first resolution will seek authorisation for 5% of the issued share capital to be issued without application of pre-emption rights. The second resolution seeks authority for an additional 5% of the issued share capital to be used for an acquisition or a specified capital investment of a kind contemplated by the Statement of Principles most recently

published by the UK Pre-Emption Group. The Board have considered shareholder feedback on this topic but continue to believe that, in order for the Board to have full strategic flexibility where acquisitions and capital investments are concerned, it continues to be appropriate to request this authority from shareholders. In asking shareholders to approve this additional authority, the directors confirm that they intend to adhere to the requirements set out in the Statement of Principles.

- to adopt revised articles in order to update Meggitt's current articles. Full details of the proposed amendments can be found in the Notice of AGM which, along with a copy of the proposed revised articles, are available at the Company's registered office prior to the AGM and on the Company's website at www.meggitt.com.

All directors are subject to election by shareholders at the first AGM after their appointment. After that, all directors are subject to re-election annually to comply with the 2016 Code. All directors in office at the date of the AGM will be subject to re-election.

2018 Code

The Board received detailed briefing sessions on the 2018 Code and has discussed how the 2018 Code will be implemented in 2019, the most significant action point being the appointment of Nancy Gioia as Non-Executive Director responsible for employee engagement (for details of 2019 activities see page 62) and ensuring continued focus on stakeholder duties already contained in the Companies Act 2006.

Statement of compliance

Throughout the financial year ended 31 December 2018 and to the date of this Annual Report, we have complied with the provisions set out in the 2016 Code published by the Financial Reporting Council. The Group has applied all the main and supporting principles set out in the 2016 Code and explanations are included in this report and in the Audit Committee, Nominations Committee and the Directors' remuneration reports. The information required under Rule 7.2.6 of the Disclosure Guidance and Transparency Rules is located in the Directors' report.

By order of the Board



M L Thomas

Company Secretary
 25 February 2019

Audit Committee report



Colin Day
Chairman of the Audit Committee

Chairman's introduction

I am pleased to present the report of the Audit Committee for 2018.

I chair the Audit Committee and as a Fellow of the Association of Chartered Certified Accountants, and previous Chief Executive Officer of Essentra plc and Chief Financial Officer of Reckitt Benckiser Group plc, I can confirm that I bring recent and relevant financial experience to the Committee.

Committee members throughout 2018 were Guy Berruyer, Nancy Gioia, Alison Goligher and Paul Heiden. Guy Hachey was appointed in January 2019.

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, Chief Executive, Executive Director, Commercial & Corporate Affairs and Chief Financial Officer-designate also attended meetings by invitation.

Responsibilities

The 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 report includes a description of the work of the Committee in 2018. It included advising the Board on whether these accounts are fair, balanced and understandable, reviewing the work carried out by executive management on the viability statement and oversight of the risk management process.

Effectiveness

The Committee reviewed its own effectiveness and was satisfied with the outcome. There were no significant actions to take as a result of this review.

Committee membership and attendance in 2018*

Mr C R Day (Committee Chairman)	3/3	Ms A J P Goligher	3/3
Mr G S Berruyer	3/3	Mr P Heiden	2/3
Mrs N L Gioia	3/3		

Committee activities



Approved

- The 2018 external audit fees.
- The internal audit plan for 2019.



Reviewed

- The financial information contained in the 2017 Annual Report and Accounts, 2017 full year and 2018 interim results announcements and recommended them to the Board for approval.
- Significant estimates and judgements in respect of the Group's financial statements.
- The independence and effectiveness of the external auditors, and agreed their terms of engagement.
- The adequacy and effectiveness of: (i) the systems of internal control; (ii) the risk management process; and (iii) the process executive management used to enable the Board to make the viability statement.
- The effectiveness of the Committee and external audit using the process described on page 89. There were no specific actions to take and the Committee confirmed it was satisfied with the outcome of the evaluation.
- The outcome of the externally facilitated internal audit review (see page 89).
- The external auditor's strategy memorandum and interim audit clearance report for 2018.
- A revised Group Treasury Policy which was recommended to the Board for approval.
- Terms of Reference for the Committee, which were recommended to the Board for approval.

Since the year end, the Committee has discussed the external auditor's final audit clearance report for 2018, reviewed the financial information contained in the 2018 Annual Report and Accounts and full year results announcement and recommended them to the Board for approval. The Committee also provided advice to the Board that the 2018 Annual Report and Accounts, taken as a whole, are fair, balanced and understandable. The Committee provided this advice having reviewed management's process and confirmed its output, and provided confirmation to the Board that this process was effective. The Committee also recommended that the Board approve the viability and going concern statements.



Updates and reports

- Received reports at every meeting from the Head of Internal Audit on progress with the internal audit plan and internal controls across the Group.
- Received an update on the results of the viability statement stress testing.
- Received updates on the risk management process.
- Received an update from the Head of Treasury & Tax.
- Received technical accounting and governance updates provided by the Group Financial Controller, Company Secretary and the external auditors, including the Criminal Finances Act 2017 and financial fraud.

FRC thematic review

The Committee received feedback from the Financial Reporting Council (FRC) following the inclusion of Meggitt in its thematic "Review of Interim Disclosures in the First Year of Adoption" relating to IFRS 15 "Revenue from Contracts with Customers". The FRC included areas of the Group's disclosures as examples of best practice within its final November 2018 report.

Significant estimates and judgements relating to the financial statements

The table below summarises the significant estimates and judgements reviewed by the Committee in respect of the Group's financial statements.

Area	Action
Goodwill	The principal judgement is management's determination of the level at which impairment testing should be performed. The Committee discussed and agreed with management's judgement that the EDAC/Advanced Composites business should be tested separately. Critical accounting estimates arise in determining the value in use for the goodwill balances tested, which require assessments of the achievability of business plans (and therefore future cash flows), growth rates beyond the period covered by the five-year business plans and appropriateness of the discount rates applied to future cash flows. The Committee discussed a report from management setting out the basis for the assumptions and confirmation that the cash flows used were derived from the 2019 budget and strategic plan (which in their role as members of the Board, Committee members had previously reviewed). Given the limited headroom when EDAC/Advanced Composites goodwill was tested for impairment, additional sensitivities were provided by management and discussed by the Committee. The Committee agreed with management that no impairment was required but that additional sensitivity disclosures should be provided.
Dassault 5X development costs	Following the Group's selection to provide the wheel and braking system for the Dassault Falcon 6X programme, a successor to the previously cancelled Falcon 5X aircraft, the Committee considered whether any element of the impairment recorded in 2017 against previously capitalised Falcon 5X development costs should be reversed. The Committee discussed a report from management setting out the Falcon 6X contractual position (which does not include any recovery of previously incurred 5X costs); the level of redesign and estimated development costs required to meet the 6X specifications, noting that a complete redesign of the braking system was required; and the cost recording system use to record the 5X development activities. The Committee concluded that no impairment reversal should be recognised.
Development costs	The Committee discussed a report from management covering exposure to different aircraft platforms and manufacturers, including a sensitivity analysis on specific programmes. The Committee focused in particular on the Airbus A220 (formerly the Bombardier CSeries), Embraer 450/500, Bombardier Global 7500/8000, Irkut MC-21 and Gulfstream G500/G600 in light of the material values capitalised on these platforms. The Committee concluded assumptions made by management were reasonable and the carrying values and estimated useful lives of the assets were appropriate.
Provision for environmental matters relating to historic sites and related insurance receivables	The Committee discussed a report from management setting out the basis for the estimates made and the extent to which these were supported by third party specialist advice. The Committee focused on the sensitivity of amounts recorded to increases in cost estimates, including those arising from extended periods of operations and maintenance activities. The sensitivities included the impact on insurance policy limits and insurance policy periods of cover. The Committee agreed with the estimates made by management.
Retirement benefit obligations	The Committee considered a report from management setting out the basis on which assumptions on mortality, inflation and the rates at which scheme liabilities are discounted had been determined, how the Group's assumptions used in its 2017 financial statements benchmarked against those disclosed by other large corporate entities in the UK and US and the sensitivity of amounts recorded in the balance sheet to changes in assumptions. The Committee also discussed the provisional results from the 2018 triennial valuation of its UK plan and the extent to which, where appropriate, these were reflected in the 2018 assumptions. The Committee concluded that the assumptions used, which were supported by third party actuarial advice, were appropriate.
Income taxes	Estimates 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 assessing the appropriateness of the provision recognised in respect of uncertain tax positions, the Committee received a presentation on the Group's tax position from the Head of Treasury & Tax and considered a report from management setting out the basis for the assumptions made. They discussed the assumptions in light of the current tax environment and the status of tax audits in the main jurisdictions in which the Group operates. The Committee concluded that the position taken on uncertain tax provisions was appropriate.
Treatment of items excluded from underlying profit measures	The Committee discussed the treatment and disclosure of amounts included within exceptional operating items. The Committee noted the items reflected the way in which they, as members of the Board, reviewed the underlying performance of the Group, were treated consistently year on year and disclosed appropriately.

Key areas of oversight

External audit

The external auditors are PwC who were first appointed for the financial year commencing 1 January 2003 after a competitive tender. The Committee undertook a further competitive tender in 2017 (described in our 2017 Audit Committee report) as a result of which it was agreed that PwC should be reappointed. There are no contractual obligations restricting the Committee's choice of external auditors.

The lead audit partner is Mr J Ellis whose appointment in this role commenced with the audit for the financial year ended 31 December 2018. Mr Ellis has had no previous involvement with the Group in any capacity. The mandatory rotation of auditor under EU rules will take place in 2023.

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.

The Committee assessed the effectiveness of PwC and the external audit process using a questionnaire and discussion of the responses. The Committee was satisfied with PwC's performance and that PwC had employed an appropriate level of professional challenge in fulfilling their role and there were no significant findings from the process. The Committee determined, on the basis of the satisfactory outcome of the evaluation, to recommend that the Board submit the reappointment of PwC to shareholders for approval at the AGM in 2019 for the 2019 financial 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 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 fees paid for audit services, audit-related services and non-audit services can be found in note 7 to the Group's consolidated financial statements. Fees paid for non-audit services in 2018 were less than £0.1 million (4% of the total audit fee) and average fees paid for non-audit services for the last three years to 2018 were less than £0.1 million (3% 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 services that can be provided and those which are generally prohibited (for example internal audit services and tax planning) and sets out the procedures for approving non-audit services. The full policy is available 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 to the PwC office conducting the audit, or PwC as a whole, and therefore the objectivity and independence of the external auditors was not compromised.

Internal audit

The Audit Committee agrees the annual internal audit plan which is developed according to a risk assessment process and ensures adequate resources are available to execute the plan. The risk assessment process initially divides our business units into three tiers determined by financial measures. Tier 1 businesses are visited annually, with Tier 2 businesses visited every other year and Tier 3 businesses every third year. This is then subject to a

further discretionary risk based adjustment if there are circumstances which suggest a business unit should have an audit accelerated. Reasons for this can include adverse prior audit findings, a change in IT system, site location moves, senior leadership changes or operational performance issues.

In 2018, internal audits were carried out for 32 Group locations as part of the rotational audit cycle. The business unit audit programme's scope includes finance, programme management, HR/payroll, sales agents/distributors and commercial bid & proposal activity. The scope of internal audit continues to develop with the business, particularly as a result of any acquisition and disposal activity. A key role of the Audit Committee is to monitor the level of internal audit resource to ensure it remains appropriate as both the Group and function evolve.

In addition to the site-based business unit reviews, internal audit has a co-source arrangement with Grant Thornton UK LLP to assist with resourcing specialist audits, such as IT, treasury and complex legislation such as DFARS and GDPR. The Audit Committee remains cognisant of increasing cyber complexity and associated risks. The approach for 2018 continued to be delivering these reviews using Grant Thornton's subject matter experts.

The results of the audits are regularly discussed with the Group Head of Internal Audit & Risk by the Chairman of the Audit Committee between Audit Committee meetings. At each meeting, the Committee receives a status update on the internal audit programme, discusses and challenges any significant issues arising and monitors implementation by the business of any recommendations made.

The Audit 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 Audit Committee considered the effectiveness of internal audit in 2018 and confirmed that they continue to be satisfied. This was supplemented by an independent external effectiveness review that was commissioned by the Audit Committee and supported by Group management. The external review considered that internal audit was effective in its current remit but supported management's efforts to continue to broaden its scope.

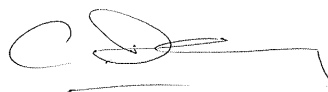
Whistleblowing

The Corporate Responsibility Committee is responsible for oversight and review of the process for handling allegations from whistleblowers. Whistleblowing is included in our Ethics and Business Conduct Policy and Code of Conduct, which is 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.

Compliance with Audit Services Order

We comply with the Competition and Market Authority Order 2014 relating to 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
 25 February 2019

Nominations Committee report



Sir Nigel Rudd
Chairman, Nominations Committee

Chairman's introduction

The Nominations Committee plays a leading role in assessing the balance of skills and experience on the Board and 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.

The Committee is comprised of the Non-Executive Chairman and the non-executive directors. During the year, the Committee had a detailed session on succession planning for executive management and reviewed and discussed the Board skills matrix.

All Board level appointment decisions were made following search processes using executive search firms The Zygos Partnership and Lygon Group. Both of these firms assist with other senior executive searches below Board level, but have no other connection with the Group.

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 Group HR Director and the Company Secretary and may seek external professional advice at the Group's expense.

2018 Board changes

The Committee has run detailed recruitment processes for two non-executive directors and the Chief Financial Officer in 2018, with support from our external executive search firms The Zygos Partnership and Lygon Group and the Group HR Director.

For the role of Chief Financial Officer, the Committee reviewed and agreed a detailed role brief, and a long list and short list of diverse candidates were considered and then interviewed, before selecting the final recommended candidate. Effective succession planning meant that there was a three month handover period between Louisa Burdett and Doug Webb.

For the non-executive roles, the Committee took into account the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board. As a result, the Committee focused on bringing more aerospace and defence and investment banking expertise to the Board.

Effectiveness

The Committee reviewed its own effectiveness and was satisfied with the outcome. The only action related to the continued need to improve succession planning discussions for senior executives.

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 December 2018, the Board reviewed detailed executive succession plans for each division and function with the Group HR Director, including plans for the executive directors and each member of the Executive Committee and other high potential individuals around the Group. Each individual on the succession plan has regular performance reviews and individual development plans.

Committee membership and attendance in 2018

Sir Nigel Rudd (Committee Chairman)	5/5	Mrs N L Gioia	5/5
Mr G S Berruyer	5/5	Ms A J P Goligher	4/5
Mr C R Day ¹	4/5	Mr P Heiden	5/5

¹ On personal leave of absence during one of the scheduled Committee meetings.

Board composition and succession for the Chairman and non-executive directors is regularly discussed by the Committee, and succession planning for Paul Heiden as Senior Independent Director and Chairman of the Remuneration Committee has been well planned, with Guy Berruyer and Alison Goligher due to assume those roles in April 2019 after a lengthy handover period.

UK Corporate Governance Code

At our December Committee meeting, we reviewed the changes introduced by the 2018 Code. The new UK Code emphasises the need to refresh boards and undertake succession planning. The new nine year independence rule will also be factored in to the Chairman's succession planning.

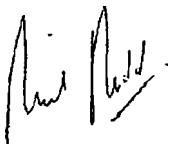
The 2018 Code also stated that the Committee should focus on succession for senior management positions and the development of a diverse pipeline. To fulfil this, the Committee will work closely with the Board and HR and take an active role in setting and meeting diversity objectives and strategies for the Group as a whole, and in monitoring the impact of diversity initiatives.

Diversity and Inclusion Policy

The Board, our executive leadership team, and management at all levels recognise that a diverse and inclusive workforce is critical to running a sustainable and successful business. In 2018, the Board approved a Diversity and Inclusion Policy (available on www.meggitt.com). The purpose of our Diversity and Inclusion Policy is to increase and leverage diversity in all respects, to help build a sustainable business by employing a diverse workforce that reflects the diverse communities within which we operate, and fostering an inclusive culture where people are valued, respected and supported. The Policy covers diversity and inclusion at all levels of the Group, from the Board to the shopfloor.

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. From April 2019, there will be four female directors on the Board. The Board remains committed to ensuring that the directors bring a diverse range of skills, knowledge, experience, backgrounds and perspectives. See pages 76 to 79 for more details of Board skills and experience.

There are currently no specific targets for the number of diverse candidates on our Executive Committee, but we do have a detailed strategy to improve diversity at all levels of the Group which is disclosed in the Corporate responsibility report. In terms of policy outcomes, the Corporate responsibility report also provides details of our 2018 gender diversity metrics.



Sir Nigel Rudd

Chairman of the Nominations Committee
 25 February 2019

Board diversity

By age (average)

61yrs

By gender (ratio)*

7:2

Male | Female

By nationality (ratio)

7:2

British | Other

By tenure (average)

5.4yrs

* Board diversity at 25 April 2019 – 6:4.

Diversity and inclusion

2018 Board focus

May 2018: The Board received a detailed update from Group HR on diversity and inclusion strategy and actions.

August 2018: The Board approved a Diversity and Inclusion Policy.

December 2018: The Board and Nominations Committee reviewed succession planning from a diverse pipeline perspective.

December 2018: A separate meeting was held between Nancy Gioia, Alison Goligher and Group HR to help guide and direct diversity and inclusion activities.

Find out more online at
www.meggitt.com

Directors' remuneration report



Paul Heiden
Chairman of the Remuneration Committee

Chairman's introduction and annual statement

It is my pleasure to present the Directors' remuneration report for the year ended 31 December 2018.

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 through sustainable performance for our customers.

Packages align with our strategy, are clear and transparent, and incentive plans aim to provide all participants with performance metrics which are relevant to their daily work. 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.

Performance in 2018

Revenue increased by 4%, despite adverse currency movements and the impact of M&A. Organic revenue growth of 9% included 7% growth in civil aerospace, 10% in defence and 19% in energy. Underlying operating profit increased organically by 4%, with benefits from strategic initiatives including supply chain rationalisation, the Meggitt Production System and increased pricing leverage. This was partly offset by headwinds from mix, depreciation and amortisation, an increase in expensed free-of-charge parts and continued product introduction costs at Meggitt Polymers & Composites.

Underlying EPS increased from 32.0p to 34.2p. The STIP and LTIP vesting for 2018 and 2016 awards reflects this strong Group performance (see pages 104 – 107).

2018 reviews

During the year, the Committee reviewed its own effectiveness and the effectiveness of Mercer and confirmed it was satisfied with both. A tender for our remuneration advisory services will be undertaken later in 2019 (after work is completed on reviewing our Remuneration Policy in advance of the 2020 AGM). We also reviewed the changes under the 2018 Corporate Governance Code, updated proxy advisor recommendations on remuneration and the Companies (Miscellaneous Reporting) Regulations 2018. Our Terms of Reference were revised to reflect the 2018 Code. The Committee also received reports from executive management on their review of Group incentive schemes (see page 103).

Executive directors

On 1 January 2019, Louisa Burdett was appointed as Chief Financial Officer. Her remuneration package was set in line with policy, except her pensions allowance which was set at 20% (instead of the existing policy level of 25%) to reflect levels other senior executives in the Company receive. Doug Webb retired on 31 December 2018, at which point all of his salary and benefits ceased to accrue. His outstanding incentive awards will be treated in line with the default 'good leaver' treatment set out in our Policy.

The Committee believes that our remuneration policy and approach to implementation remain aligned with our strategy and prevailing market practice. On behalf of the Board, I would like to thank shareholders for their continued support.

In 2019, the Committee, which will be led by our new chairman Alison Goligher from April 2019, will review our Remuneration Policy in advance of the 2020 AGM binding vote.

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 Guidance and Transparency Rules (DTR).

In this report we describe how the principles relating to directors' remuneration, as set out in the UK Corporate Governance Code 2016 (the 2016 Code), are applied in practice. There is also commentary on our work to meet the new compliance obligations in the UK Corporate Governance Code 2018 (the 2018 Code) and the Companies (Miscellaneous Reporting) Regulations 2018.

Paul Heiden
Chairman of the Remuneration Committee

2018 activity



Approved

- The 2017 STIP vesting and deferred bonus awards to executive directors and other Executive Committee members.
- The 2015 LTIP vesting.
- The 2018 STIP and LTIP performance targets.
- 2018 LTIP awards to executive directors and other Executive Committee members together with the application of a holding period to the 2018 LTIP awards to executive directors.
- Salaries for executive directors and other Executive Committee members, remuneration package for Louisa Burdett, retirement arrangements for Doug Webb and the Chairman's fee.
- The 2017 Directors' Remuneration Report, for submission to shareholders for approval at the 2018 AGM.
- The Meggitt 2018 Sharesave Plan, for submission to shareholders for approval at the 2018 AGM.
- Revised Terms of Reference to reflect the 2018 Code.
- Adjusting 2016 LTIP outcomes for recent M&A, a summary of which is provided on page 106.
- Since the year end, we have approved performance targets for the 2019 STIP and LTIP awards, agreed the salaries for the executive directors, and confirmed the vesting outcome of the 2018 STIP and 2016 LTIP awards. In determining the outcome of the 2018 STIP award, the Committee considered the impact of two items: (1) The Committee reviewed the work completed by the Audit Committee on the Dassault 5x/6x programmes and agreed no adjustments were necessary to the 2018 STIP (see the Audit Committee Report on page 88 and note 4 to the Group's consolidated financial statements on page 143). (2) The Committee also considered the treatment of an accelerated payment of £30m which the Group made into two of its US pension schemes during 2018. This payment has been included in the actual 2018 free cash flow performance, but had not been foreseen in the original 2018 free cash flow target. In determining that the original target should be adjusted to reflect the accelerated payment, the Committee considered the following: Committee members were made aware of the opportunity to make the accelerated payment, as members of the Board, prior to it being made; the payment has reduced administrative charges for the schemes; and the payment is deductible against 2017 profits at US tax rates applicable before the introduction of the Tax Cuts and Jobs Act.

Linking our remuneration to our strategy

Portfolio

Enhance our product and business portfolio
 Develop differentiated technology

LTIP: Innovation targets are measures in the LTIP. ROCE replaced ROTA for awards to executive directors in 2018 to better reflect the value of corporate acquisitions.

STIP: Personal objectives for the executive directors include portfolio related activity.

Customers

Improve customer service
 Mature CSS

LTIP: Quality and delivery targets.

STIP: Personal objectives for the executive directors include implementing customer aligned organisation and accelerating customer performance.

Growth & ROCE

Competitiveness

Deliver through MPS
 Invest in infrastructure and increase productivity
 Reduce inventory, footprint & purchased costs

LTIP: MPS as measured by quality and delivery targets, programme management, ROCE and inventory improvement targets are measures in the LTIP.

STIP: Personal objectives for the executive directors include operational performance, footprint consolidation and net purchasing costs.

Culture

Build an inclusive and engaged Meggitt
 Live high performance culture

STIP: Personal objectives for the executive directors include measures to improve employee engagement and to embed high performance culture.

Remuneration at a glance

How we performed in 2018

Organic revenue grew by

9%

Underlying operating profit rose by

4%

Underlying EPS up to

34.2p

ROCE

9.9%

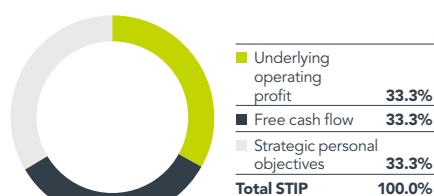
Free cash flow

£167m

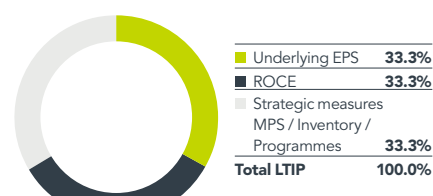
Employee engagement up

4%

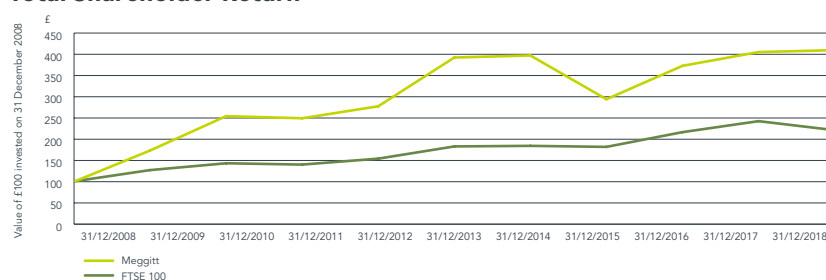
Short Term Incentive Plan (STIP)



Long Term Incentive Plan (LTIP)



Total Shareholder Return



CEO and CFO: single figure in 2018 (£'000)

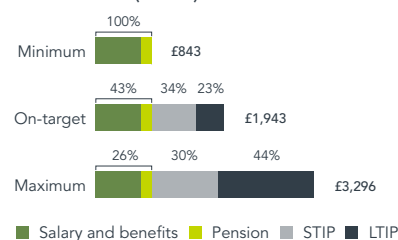
Executive	2018 Single figure	2017 Single figure
Tony Wood – CEO (2017 Stephen Young)	£2,200	£2,073
Doug Webb – CFO	£1,861	£1,281

CEO and CFO share ownership in 2018

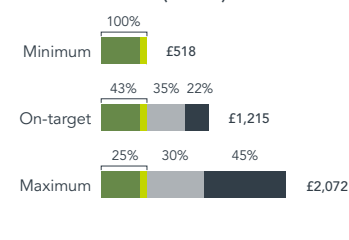
Name	Shareholding guideline (% 2018 salary)	Shares owned outright	Current shareholding (% 2018 salary)	Guideline met?
Mr A Wood	300%	11,308	8%	Building
Mr D R Webb	200%	145,228	144%	Building

CEO and CFO Pay for performance scenarios 2019

Mr A Wood (£'000)



Mrs L Burdett (£'000)



Components of executive directors' remuneration

Base salary	Set at a competitive level to attract and retain high calibre directors in the relevant talent market.
Pension	To provide post-retirement benefits for executive directors in a cost-efficient manner. New directors are eligible for a pension allowance of up to 25% of salary.
Benefits	Provides non-cash benefits which are competitive in the market where the director is employed.
Annual bonus (STIP)	Incentivises executive directors on delivering annual financial and personal targets set at the start of each year. There is a maximum award opportunity of up to 150% of salary.
LTIP	Aligns the interests of executive directors with shareholders in growing the value of the Group over the long term. Awards vest after three years and are subject to a two year holding period; directors are eligible for annual awards up to 220% of salary.
Sharesave Scheme and Share Incentive Plan (SIP)	To align the interests of UK employees and shareholders by encouraging all UK employees to own Meggitt shares.

The Policy report

This Policy was approved by shareholders at the AGM on 27 April 2017 and is effective for a period of three years from that date.

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	<p>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.</p> <p>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, prevailing market conditions, and market data for FTSE companies in similar industries and those with similar market capitalisation.</p> <p>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).</p>
Opportunity	The percentage salary increases for executive directors will not exceed those of the wider workforce over the life of this Policy in the normal course of business. Higher increases may be awarded (i.e. in excess of the wider employee population) in instances where, for example, there is a material change in the responsibility, size or complexity of the role, or if a new director was intentionally appointed on a below-market salary. The Committee will provide the rationale for any such higher increases 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	<p>The pension plans operated by the Group which executive directors are, or could be, members of are:</p> <ul style="list-style-type: none"> • Meggitt Pension Plan (defined benefit pension plan, closed to new members). • Meggitt Workplace Savings Plan (defined contribution personal pension scheme, open to new members). <p>Salary is the only element of remuneration that is pensionable. There are no unfunded pension promises or similar arrangements for directors.</p>
Opportunity	New executive director external appointments since 2013 are eligible for a pension allowance of 25% of salary, payable either as a pension contribution up to any limit set in current regulations or, above such limits, in cash. In 2018, the Committee decided that Mrs Burdett's pensions allowance should be set at 20% of salary to reflect the allowances given to other UK executives at Meggitt and it was agreed to further review the pensions allowance as part of the 2020 Policy review. Where agreements have been made prior to the approval of the Policy approved by shareholders in 2014 ("2014 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 Green had agreements prior to the approval of the 2014 Policy which entitled him to receive a pension allowance of 50% of salary and this arrangement will continue for Mr Green during the life of the Policy.
Performance metrics	None.

Benefits

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

Annual bonus (Short Term Incentive Plan – STIP)

Function	To incentivise executive directors on delivering annual financial and personal targets.
Operation	<p>Performance measures, targets and weightings are set at the start of the year.</p> <p>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.</p> <p>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.</p> <p>Deferred STIP awards may lapse in certain leaver circumstances.</p>
Opportunity	<p>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 performance.</p> <p>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).</p> <p>Dividends accrue on unvested deferred STIP awards over the vesting period and are released on the vesting date.</p>
Performance metrics	<p>STIP awards are based on the achievement of financial and personal performance targets. For the executive directors, the STIP will be based on a combination of the financial performance of the Group and 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. However, the weighting for personal performance will not exceed one-third of the maximum STIP opportunity in any year.</p> <p>The award for performance under each element of the STIP will be calculated independently. The Committee has 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.</p> <p>The personal performance element will typically be based on three to five objectives relevant to the executive's role and performance in core competency areas, which are seven core skills specifically selected as critical for the Group's employees.</p> <p>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).</p>

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 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 of conditional shares, market value share options and phantom awards.

Under the LTIP 2014 rules, 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.

LTIP awards made to executive directors from 2018 are subject to a two-year holding period after the three-year vesting 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 each 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 for awards made over the life of the Policy:

- Earnings per Share (EPS);
- Return on Capital Employed (ROCE); and
- Strategic goals (typically but not always to be based on strategic priorities around execution, growth and innovation), which will be explained in the relevant annual report on remuneration.

The way these measures link to our KPIs can be seen on pages 42 to 45. It is the 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.

Awards made under the LTIP 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, and which are not deemed commercially sensitive, are disclosed in the annual report on remuneration for the relevant year of grant. Any commercially sensitive information on measures, targets and performance will be disclosed retrospectively.

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 UK executive directors) may save up to a maximum monthly savings limit 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 UK executive directors) may contribute up to a monthly maximum to purchase shares monthly from pre-tax pay; and (ii) all UK employees (including UK executive directors) may receive free shares up to an annual maximum value.

Opportunity Savings, contributions and free shares are capped at or below the legislative maximum for tax-qualifying approved share plans at the time UK employees are invited to participate.

Performance metrics None.

Notes to the Policy table

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

Payments from outstanding awards

Outstanding awards are currently held by the directors under the Equity Participation Plan and the Executive Share Option Scheme which were the Group's long term incentive plans prior to the introduction of the LTIP in 2014. These awards have all vested in accordance with the applicable performance conditions and are capable of exercise during the period over which this Policy applies. The tables on pages 113 to 114 highlight outstanding and vested awards.

Approach to performance measure selection and target setting

Performance measures have been selected to closely align with, and reinforce, Meggitt's strategic priorities (see pages 14 to 15). 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, market practice and external expectations for growth in Meggitt's markets.

STIP

The performance measures used in 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 made during the life of this Policy will be linked to EPS, ROCE 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. ROCE helps to balance the achievement of growth and returns. The Committee believes ROCE is a good proxy for total shareholder return (TSR) which focuses executives on managing the balance sheet and Meggitt's operational performance. For executive directors, the use of ROCE targets reflects the fact that acquisition decisions come within the collective responsibility of the Board.

The Committee believes that the strategic goals component helps reinforce the realisation of the Group's strategy and the achievement of key non-financial and strategic goals over long product cycles which drive long-term value at Meggitt. This 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 enables 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 personal performance, 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 awards on similar terms to the executive directors (except some of the performance conditions may vary), 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.

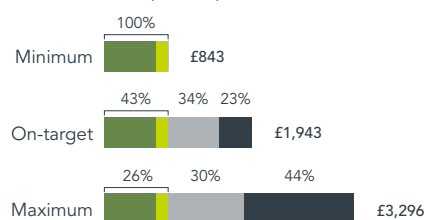
Share ownership guidelines

The minimum shareholding guideline for executive directors is 300% of base salary for the Chief Executive and 200% of base salary for each of the other executive directors. There is no set time frame within which executive 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 on page 113.

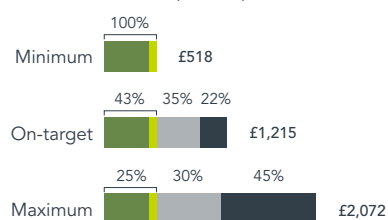
Pay-for-performance: scenario analysis

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: 'Minimum', 'On-target' and 'Maximum'. Potential reward opportunities are based on the Policy, applied to 2019 base salaries. 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 and dividend accrual.

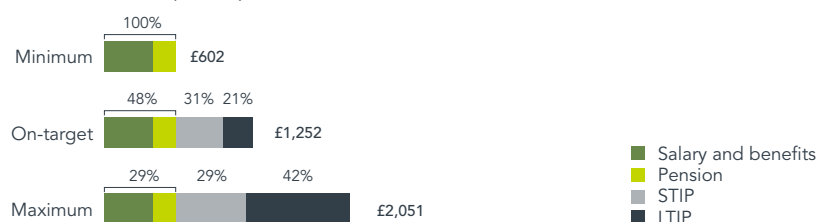
Mr A Wood (£'000)



Mrs L Burdett (£'000)



Mr P E Green (£'000)



The following assumptions have been made in compiling the above charts:

Scenario	Minimum	On-target	Maximum
Fixed pay	Latest known base salary, pension and value of benefits	Latest known base salary, pension and value of benefits	Latest known base salary, pension and value of benefits
STIP	No STIP payable	On-target STIP payable (67% of maximum)	Maximum STIP payable
LTIP	Threshold not achieved (0% vesting)	Performance warrants threshold vesting (30%)	Performance warrants full vesting (100%)

Non-executive directors – Remuneration Policy table

Non-executive directors stand 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	<p>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 the executive directors. Fees for the year under review and for the current year are disclosed in the annual report on remuneration on page 112.</p> <p>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. Additional fees may also be paid to non-executive directors to cover the cost of attendance at meetings which take place outside their continent of residence. In addition, non-executive directors are reimbursed for reasonable business-related expenses.</p> <p>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 Committee reserves 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).</p>
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 conditions 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 the year worked. 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 rules and 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 either in the RIS notification made at the time of appointment or 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 99.

Discretion

The Committee will operate the Group's incentive plans according to their respective rules and the Policy set out above, and in accordance with the Listing Rules and HMRC rules, where relevant. In line with common market practice, the Committee retains discretion as to the operation and administration of these incentive plans, including with respect to:

- Who participates;
- The timing of an award and/or payment;
- The size of an award and/or payment;
- The manner in which awards are settled;
- The choice of (and adjustment of) performance measures and targets in accordance with the Policy set out above and the rules of each plan;
- The measurement of performance in the event of a variation of share capital, change of control, special dividend, distribution or any other corporate event which may affect the current or future value of an award;
- Determination of a 'good leaver' (in addition to any specified categories) for incentive plan purposes, based on the rules of each plan and the circumstances of the individual leaving; and
- Adjustments required in certain circumstances (e.g. rights issues, share buybacks, special dividends, other corporate events, etc.).

Any use of the above discretion in relation to the executive directors would, where relevant, be explained in the annual report on remuneration for the year in which the discretion was exercised. As appropriate, it might also be the subject of consultation with the Group's major shareholders.

Minor changes

The Committee may make minor amendments to the rules of the Group's incentive plans (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without requiring prior shareholder approval for that amendment.

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 awards held by the executive directors:

- **Compensation for loss of office in service contracts**
 Except as set out in the table below, 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 Group 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 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 or any other circumstances in which the Committee exercises discretion to treat the executive director as a 'good leaver'. If the executive director is a 'good leaver' their award will vest on the normal vesting date and will not be subject to pro-rating. Awards normally vest early on a change of control of the Company.
- **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 LTIP, awards vest on the normal vesting date subject to performance over the normal performance period, unless the Committee decides otherwise. Awards normally vest early on a change of control of the Company subject to performance conditions and time pro-rating.

A summary of the key terms of the executive directors' service contracts on termination of employment or change of control is set out below. This table has been updated to reflect the retirement of Doug Webb and appointment of Louisa Burdett.

Name	Position	Notice period from employer	Notice period from employee	Compensation payable on termination of employment or change of control
Mr A Wood Service contract dated 13 November 2017	Chief Executive	12 months	6 months	As set out in the Policy. No change of control provisions.
Mrs L S Burdett Service contract dated 17 September 2018	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 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.	Executive Director, Commercial & Corporate Affairs	12 months	6 months	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 112.

Consideration of conditions elsewhere in the Group

The Committee does not consult with employees specifically on executive remuneration policy and framework but the Committee does review salary data from across the Group. The Committee seeks 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.

In making remuneration decisions for the executive directors the Committee considers the pay and employment conditions elsewhere in the Group. To assist in this, the Committee members receive updates from the executives on pay decisions throughout the Group, including STIP payments and share awards made to executives outside the Committee's remit.

Consideration of shareholder views

The Committee Chairman is available to discuss remuneration matters with the Group's major shareholders and is also regularly updated on feedback on remuneration received by the Chairman of the Board and executive directors directly from shareholders. The Committee Chairman ensures the Committee is kept informed of shareholder views. The Committee Chairman consulted with shareholders, reviewed their guidelines and also guidelines released by other shareholder representative bodies, before the Policy was put to shareholders for approval at the 2017 AGM.

Annual report on remuneration

The following report provides details of how our existing Policy was implemented during the year ended 31 December 2018.

Remuneration Committee – 2018 membership and attendance

Mr P Heiden (Chairman)	Mr G S Berruyer	Mr C R Day ¹
3/3	3/3	2/3
Mrs N L Gioia	Ms A J P Goligher	
3/3	3/3	

¹ On a personal leave of absence for the December meeting.

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, except Mrs Gioia, attended.

The Committee is responsible for determining the remuneration policy and packages for all executive directors and the Executive Committee, being the direct reports to the Chief Executive, and for agreeing the fees for the Chairman. The Chairman, Chief Executive, Chief Financial Officer, Chief Financial Officer Designate and Group HR Director attended meetings of the Committee by invitation; they were absent when their own remuneration was 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 Mercer (part of Marsh & McLennan Companies, Inc.) who were appointed in 2010 as a result of a competitive tender process. As Mercer has advised the Committee for nine years, it is proposed to tender the remuneration advisory services in the second half of 2019 with a start date for the appointed advisors straight after the AGM in 2020, after the vote on remuneration policy. During the year, the Committee confirmed it was satisfied with the independence of Mercer.

The Committee evaluated the support provided by Mercer in 2018 and was comfortable that they provide effective and independent remuneration advice to the Committee.

Mercer provide guidance on remuneration matters at Board level and below. Mercer do not have any other connection with the Group other than through their parent company, Marsh & McLennan Companies which is also the parent company of the Group's primary advisors on insurance (Marsh) and UK pensions and benefits (Mercer). Mercer are a member of the Remuneration Consultants Group and adhere to its code of conduct (www.remunerationconsultantsgroup.com). Their total fees in 2018 for remuneration advice to the Committee were £55,260 (2017: £54,947).

AGM voting

The following table shows the results of the advisory vote on the 2017 Directors' remuneration report at the 2018 AGM:

Resolution text	Votes for	% of votes cast for	Votes against	% of votes cast against	Total votes cast	Votes withheld ¹ (abstentions)
Approval of Directors' remuneration report	589,813,824	94.96	31,322,813	5.04	621,136,637	502,335

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 following table shows the results of the binding vote on the current Directors' remuneration policy at the 2017 AGM:

Resolution text	Votes for	% of votes cast for	Votes against	% of votes cast against	Total votes cast	Votes withheld ¹ (abstentions)
Approval of Directors' remuneration policy	548,956,542	90.34	58,674,318	9.66	607,630,860	43,942

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

Single total figure of remuneration for executive directors (audited)

The table below sets out a single figure for the total remuneration received by each executive director for the year ended 31 December 2018 and the prior year:

	Mr A Wood		Mr D R Webb		Mr P E Green	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Base salary	650	460	474	465	382	375
Taxable benefits ¹	14	20	14	14	14	14
Pension	163	115	118	116	191	187
STIP ²	800	467	570	505	460	395
LTIP ³	573	-	685	159	552	129
Total	2,200	1,062	1,861	1,259	1,599	1,100

¹ Taxable benefits consist primarily of company car or car allowance, fuel allowance and private health care insurance. For 2017 and 2018, it also included limited relocation expenses for Mr A Wood payable under his service contract until 31 December 2018.

² STIP paid for performance over the relevant financial year. Further details of the 2018 STIP, including performance measures, actual performance and bonus payouts, can be found on pages 104 to 106.

³ LTIP is calculated as the number of shares vesting based on certain performance measures and valued at the market value of the shares on the vesting date. For 2018, the figure represents the actual vesting outcome of the 2016 award, for which the performance measures were based on EPS, ROTA and strategic measures. Based on performance to 31 December 2018, the 2016 LTIP award will vest at 52.1%. The market value of vested shares has been estimated using the average share price over the last quarter of 2018 of 509.27p. This value will be trued up in next year's report to reflect the share price on the vesting date. For 2017, the figure represents the actual vesting of the 2015 award which has been trued up, compared to that reported last year, to reflect the share price on the date of vesting (434.26p). Further details on performance criteria, achievement and resulting vesting levels can be found on pages 106 to 107. The figures include the accrued distribution payable on the shares that vest (equivalent to a dividend paid as income).

Global incentives review

During 2018, executive management undertook a review of Group-wide remuneration schemes, to ensure close strategic alignment with the new organisation. This review resulted in a small number of changes which are outlined below. Where changes detailed in the following table apply to executive directors, the changes are within the current Remuneration Policy and no policy changes are proposed this year. A full policy review for executive directors will be conducted in 2019 which will continue to take into account shareholder feedback, market practice and alignment to our strategy. A revised Remuneration Policy for executive directors is due to be put before the shareholders at the AGM in 2020 for a binding vote.

Scheme	Changes	Executive director impact
STIP	The plan structure remains the same. Financial results for 2019 for divisional participants will be based on Group performance to foster collaboration and shared success in the new organisational structure.	None – financial performance is currently measured at the Group level for executive directors
LTIP – measures	The plan structure remains the same. Strategic measures will be simplified to increase focus on key areas: Meggitt Production System (measured by quality and delivery), inventory and programme excellence (which includes innovation and programme performance).	New simplified strategic measures will apply to executive directors. The weighting of strategic versus financial measures remains the same as for 2018 and 2017.
Deferred Bonus Plan	Leaver rules for bonus deferral awards are amended so that from 2019 deferred bonus is only lost on dismissal for cause/gross misconduct. Vesting of awards does not accelerate with good leaver status and malus and clawback provisions will continue to apply.	None of the changes to the deferred bonus plan apply to executive directors.
Other Incentives	Short term incentive structures and measures across our management and professional populations will be standardised from 2019.	None.

Directors' remuneration report continued

Chief Financial Officer retirement

Mr D R Webb retired from the Board and as an employee on 31 December 2018. Mr Webb submitted his notice to Meggitt on 17 September but agreed to waive the six month notice period he was entitled to, with all salary and benefits instead ceasing to accrue on 31 December 2018. The Committee confirmed that Mr Webb would be granted the normal rights for retirees under the executive and UK employee share plans from 31 December 2018, and so all awards vest at the appropriate time, subject to the normal pro-rating and other plan rules. As Mr Webb will no longer be an employee when the 2018 STIP is paid, it will not be subject to deferral. There are no other terms associated with his retirement to note.

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:

	2018 £'000	2017 £'000
Sir Nigel Rudd	355	350
Mr G S Berruyer	58	57
Mr C R Day	69	68
Mrs N L Gioia ¹	82	63
Ms A J P Goligher	58	57
Mr P Heiden	80	79
Ms B L Reichelderfer	–	18

¹ For 2018, includes fees to cover the cost of attendance at meetings that took place outside continent of residence.

Incentive outcomes for the year ended 31 December 2018

STIP in respect of 2018 performance

The Board set stretching financial and strategic targets for the STIP at the start of the 2018 financial year. These targets, and our performance against these, are summarised in the table below.

Executive directors

Measure	Weighting (as a percentage of target)	Threshold for 2018	Target for 2018	Stretch for 2018	Actual ¹	Percentage of maximum opportunity
Financial Underlying operating profit	33.3%	£353.3m	£372.8m	£395.4m	£382.7m	122%
Free cash	33.3%	£211.3m	£235.1m	£259.0m	£250.9m	133%
Personal See below	33.3%	See tables below				

¹ For the purpose of STIP, targets and actual performance for both underlying operating profit and free cash flow are measured on a constant currency basis, adjusted where appropriate for any M&A activity and, in the case of free cash flow, exclude interest and tax. The STIP targets and actual performance for underlying operating profit are measured before the impact of any share based payment expense. Other adjustments are also made at the discretion of the Remuneration Committee to ensure the outcome is a fair reflection of the underlying performance of the Group for the year. These are described on page 93 of this report.

A summary of the personal objectives applying to each executive director and the outcome is provided below:

Tony Wood Chief Executive

Overview

Review and implement portfolio actions to focus the Group, reduce debt and underpin EPS growth objectives (weighting: 15%).

Review business operating model to accelerate improvement in customer satisfaction and organic revenue growth whilst maintaining clarity of accountability around route to market and operating performance (weighting: 15%).

Accelerate improvements in the Group's operating performance for customers and competitiveness (weighting: 50%).

Improve inclusiveness and show demonstrable improvement in employee engagement and health and safety in 2018. Increase diversity and bench-strength of top 20 leaders through external hires and internal promotions (weighting: 20%).

Key achievements in the year

- Three non-core businesses sold in 2018.
- Other potential bolt on acquisition opportunities reviewed throughout the year.
- Strong organic revenue growth of 9% in 2018.
- Revised operating model taking the business to a fully customer aligned structure created with input from external consultants: approved by the Board in 2018 and launched on 1 January 2019.
- Operations dashboard metrics impacted by ramp up on key programmes below threshold including customer satisfaction and inventory turns. Performance on footprint, purchasing costs, reducing quality escapes and Services & Support revenue above target.
- Employee engagement index increased by 4%. Chief Financial Officer succession plan concluded with hire of Louisa Burdett.
- High performance culture programme rolled out to 2,000 leaders in 2018, health and safety total recordable incident rate reduced by 34% year on year, with a corresponding 78% reduction in lost time incidents.

Payout (% of maximum): 123%

Doug Webb
Chief Financial Officer

Overview

Manage Group financial structures in the context of the substantial changes to international tax regulations (weighting: 30%).

Embed new IFRS accounting standards in both internal and external reporting, including revised LTIP targets (weighting: 10%).

Manage investor relations programme to maintain balanced share register and ensure sell-side analysts and buy-side investors understand the impact of IFRS accounting changes on Meggitt (weighting: 30%).

Obtain Cyber Essentials Plus certification and identify and execute a plan to move the business towards ISO27001. Deliver key IT investment projects in 2018 (weighting: 10%).

Complete disposals of three non-core businesses and develop pipeline of bolt-on acquisitions (weighting: 10%).

Deliver 3% improvement in employee engagement score for Finance and IT and ensure high performance culture is rolled out to all relevant employees. Mature the finance talent process (weighting: 10%).

Payout (% of maximum): 120%

Key achievements in the year

- Prompt and effective action taken to respond to the implications of US tax reform and proactive measures taken to anticipate EU state aid ruling changes and Brexit.
- Very well executed analysis and restatement of accounts to meet the requirements of IFRS 15 and 16 changes – auditors agreed with approach and FRC highlighted Meggitt’s interim disclosures as examples of best practice.
- A well executed transition to new Chief Financial Officer over the last two months of the year and completed work to explain accounting impacts of new organisation.
- Good progress with conversion of our largest and most complex site in Simi Valley to SAP with relatively limited disruption.
- Excellent progress with disposals in 2018 as we refocused the portfolio.
- Improved talent and engagement across the finance and IT functions and high performance culture implemented amongst leadership.

Philip Green
Executive Director, Commercial & Corporate Affairs

Overview

Improve customer relationships (weighting: 20%).

Continue to develop a professional commercial function (weighting: 25%).

Build an engaged and inclusive function (weighting: 25%).

Develop and enhance appropriate commercial governance to support our business (weighting: 20%).

Ensure Bermite remediation is on track for successful completion by 30 June 2019 (weighting: 10%).

Payout (% of maximum): 120%

Key achievements in the year

- A number of critical Group agreements and commercial settlements with key customers were finalised during the year.
- Government relations in the UK and US progressed.
- Training relevant to the Commercial team delivered by Commercial, Legal and Trade Compliance of approximately 35 hours of CPD.
- All required members of the function have completed high performance culture unfreezing and five facilitators have been provided from the function.
- Sales representatives reduced from 65 to 16 at the end of the year (ahead of the planned reduction to 32). Good progress made in consolidating distributors in the aerospace and defence sector
- Bermite remediation remains on track to be completed by the end of June 2019.

Directors' remuneration report continued

The following STIP awards were received by directors in respect of 2018 performance:

Executive	% salary	£'000
Mr A Wood	123	800
Mr D R Webb	120	570
Mr P E Green	120	460

STIP – deferral into shares

As a result of the 2018 STIP vesting outcome described above, 25% of the STIP payout 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 2018, as a result of the 2017 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	Date of vesting
Mr A Wood	Award	27.03.2018	26,884	434.26p	117	25	27.03.2020
Mr D R Webb	Award	27.03.2018	29,072	434.26p	126	25	27.03.2020
Mr P E Green	Award	27.03.2018	22,739	434.26p	99	25	27.03.2020

1 The award price is the average close price for the five days prior to the award date.

LTIP 2016 outcome

The LTIP award made in April 2016 was subject to three-year cumulative underlying EPS, three-year average ROTA and a scorecard of strategic measures. The outcome of the EPS measure has been adjusted for disposals (see footnote 1 to the table). Performance against each of these measures over the completed performance period is summarised in the table below:

Element	Performance period			Weighting	Targets			Actual performance	% vesting (of LTIP)
	2016	2017	2018		Threshold	Mid-point	Stretch		
Underlying EPS (pence) three-year aggregate				33.3%	103.0p	108.0p	113.0p	107.1p ¹	19.6%
ROTA % average over three years				33.3%	19.0%	20.9%	23.0%	20.2%	17.5%
Strategic measures²									
Growth	Organic revenue growth % (CAGR)			5.6%	4.0%	5.5%	7.0%	3.6%	0.0%
	Programme management ³ (average performance score per programme, out of 5)			5.6%	2.0	3.0	4.0	2.48	2.6%
Innovation	Schedule ³			5.6%	2.0	3.0	4.0	3.82	5.2%
	MPS ³			5.6%	2.0	3.0	4.0	2.89	3.4%
Execution	Quality ³				57.0%	68.0%	80.0%	70.0%	1.3%
	Gross margin – delivery of % improvement			5.6%	38.7%	39.5%	40.3%	38.8%	0.6%
	Delivery ³				45.0%	61.0%	77.0%	47.0%	0.6%
	Inventory reduction			5.6%	£510.8m	£493.1m	£451.3m	£490.3m	1.2%
					£451.4m	£421.4m	£401.4m	£473.1m	0%
Overall outcome									52.1%

1 The Committee agreed that the EPS outcome for the 2016 LTIP should be adjusted for the impact of the disposal of Meggitt Target Systems, Piher, Piezotech, Meggitt (Maryland), Thomson and Precision Micro all of which were sold in the three year performance period. The Committee agreed that for small acquisitions and disposals, adjusting the outcome was more appropriate than adjusting the targets, however for more significant M&A adjusting the targets would be considered. EPS actual figures for the performance period also exclude the impacts of IFRS 15 and IFRS 16, to ensure they are on a basis consistent with how the targets were set. The resulting EPS in 2018 was 36.6p, versus the unadjusted EPS of 34.2p.

2 Progress against the targets for all strategic measures other than revenue growth are assessed annually, and the final vesting outcome based on performance in each period.

3 Performance score out of 5. Programme management vesting is an assessment of programme performance and is based on independent assessments of the performance of our largest programmes (approximately 100 in total) at formal programme gate reviews against standard gate exit criteria. MPS vesting is based on the number of our sites that have progressed up one stage of MPS in the year, against stretching targets set for overall progression. Innovation vesting is determined based on progress with certain important innovation projects against detailed milestone criteria, as assessed by our Chief Technology Officer. Quality and delivery vesting is based on progress against specific targets in each of these areas. For each of these measures, vesting criteria were set at the start of the year and assessed at the end of the year.

Based on these performance outcomes, 52.1% of the 2016 LTIP award will vest. Details of the awards vesting to executive directors are set out in the table below:

Executive	Interests held	Vesting %	Interests vesting	Date of vesting	Share price at vesting ¹	Value £'000 ²
Mr A Wood	215,944	52.1	112,506	01.12.2019	509.27p	627
Mr D R Webb	250,746	52.1	130,638	05.04.2019	509.27p	727
Mr P E Green	202,020	52.1	105,252	05.04.2019	509.27p	586

¹ The market value of vested stock is based on the average share price over the last quarter of 2018.

² The value includes the accrued distribution payable on the shares that vest (equivalent to a dividend paid as income).

Awards made in 2018 – STIP and LTIP measures and their rationale for selection

Measure	Rationale for selection	Targets set in the context of:
STIP		
Underlying operating profit	Measures relate to our short term financial and strategic priorities	• Our budget for the year
Free cash flow		• Our budget for the year
Personal performance		• Key priorities for each director
LTIP		
Underlying EPS	KPI Can be benchmarked externally	• Our strategic plan • External benchmarks, including analyst forecasts and EPS ranges for comparators
ROCE	Replaces ROTA for executive directors for awards made in 2018 and subsequent years, in response to investor feedback and to better reflect the value that acquisitions bring to Meggitt	• Our strategic plan
Strategic measures:	Drivers of operational performance that underpin deployment of our key strategic goals	
• Organic revenue growth	KPI	• Our strategic plan • External market trends
• Inventory	Reinforces operational excellence and Meggitt's overall competitiveness	• Our budget for the year
• Gross margin	KPI. Reinforces operational excellence and Meggitt's overall competitiveness	• Agreed annual target, updated at the start of each year of the performance period to ensure the LTIP targets remain relevant and stretching over the three-year period • Our budget for the year
• MPS	Measures our progress in deploying MPS across the Group, to drive operational improvements, including in quality and delivery	• Agreed annual targets, updated at the start of each year of the performance period to ensure the LTIP targets remain relevant and stretching over the three-year period
• Programme management	Measures our performance in passing programme gate reviews	• Calibrated as three sets of annual targets
• Innovation	Measures achievement of innovation programme milestones	• In determining the final vesting outcome at the end of the cycle, the Committee considers performance over the three-year performance period for each measure

Directors' remuneration report continued

Scheme interests awarded in the year ended 31 December 2018 (audited)

2018 LTIP¹

Executive	Form of award	Date of grant	Shares over which awards granted	Award price ²	Face value		Date of vesting
					£'000	% of salary ³	
Mr A Wood	Nil cost option	03.04.2018	332,852	429.62p	1,430	220	03.04.2021
Mr D R Webb	Nil cost option	03.04.2018	243,903	429.62p	1,048	220	03.04.2021
Mr P E Green	Nil cost option	03.04.2018	196,638	429.62p	845	220	03.04.2021

1 The 2018 LTIP measures were disclosed and explained in the 2017 Directors' remuneration report.

2 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.

3 Based on 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 3% to 9%)	101.6	107.7	114.0			
33.3%	ROCE average over three years	11.1%	11.5%	11.9%			
33.3%	Strategic measures¹ average over three years	Execution	Inventory ²	13-point inventory value ³	£451.4m	£421.4m	£401.4m
			Gross margin ²	Gross margin %	38.0%	38.8%	39.6%
			Meggitt Production System ²	Average status per schedule ¹	2.0	3.0	4.0
		Growth	Organic revenue growth	% organic revenue growth (CAGR over three years)	4.0%	5.5%	7.0%
			Programme management ²	Average status per reviews ¹	2.0	3.0	4.0
		Innovation	Schedule ²	Average status per reviews ¹	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 apply to year 1 of the 2018 LTIP award as well as year 2 of the 2017 LTIP award and year 3 of the 2016 LTIP award.

3 Inventory is measured at constant currency, gross of provisions, averaging month end balances over a year.

Total pension entitlements (audited)

The table below sets out details of the pension entitlements under the Meggitt Pension Plan (MPP) for Mr Green. Since reaching the government's Lifetime Allowance in April 2012, Mr Green ceased accruing further benefit under the MPP and receives a 50% pension allowance on his full salary which is a contractual requirement. Mr Green's dependants remain eligible for dependants' pensions and the payment of a lump sum on death in service.

Mr Webb and Mr Wood received a pensions allowance of 25% of base salary in 2018, but are not members of any defined benefit or defined contribution pension scheme operated by the Group.

Pension entitlements will be reviewed in 2019 as part of the 2020 Policy review, in light of the 2018 Code and recent proxy advisor guidelines.

The pension allowance payments made in 2018 are included in the single total figure of remuneration table.

	Mr P E Green ¹	
	2018 £'000	2017 £'000
Accrued benefit	80	76
Date benefit receivable	26.10.2018	26.10.2018
Total value of additional benefit if director retires early	Nil. Early retirement factors cost neutral	Nil. Early retirement factors cost neutral

1 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

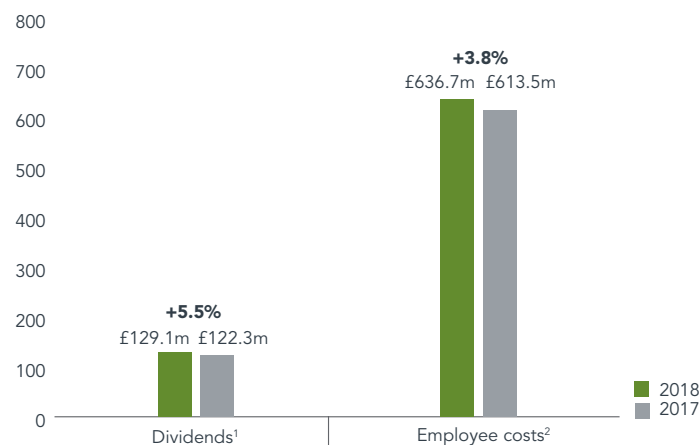
The table below shows the percentage change in CEO remuneration from the prior year compared to the average percentage change in remuneration for all executive employees. We have selected our senior executive population for this comparison because it is considered to be the most relevant, due to the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

	2018	2017	CEO % change 2017-2018	Executive employees % change 2017-2018
	£'000	£'000		
Base salary ¹	650	702	-7.4	+2.4
Taxable benefits ²	14	30	-53.3	+1.1
STIP ³	800	716	+11.7	+28.3
Total	1,464	1,448	+1.1	+8.6

- 1 The base salary for the Chief Executive is based on data for Mr Young in 2017 and Mr Wood in 2018. Base salary for Mr Wood as Chief Executive is disclosed on page 111. Base salary data for executive employees is calculated using the increase in the earnings of around 220 full-time executive employees using the same employee data set in 2017 and 2018.
- 2 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.
- 3 STIP for executive employees is calculated using the increase in the STIP payout to around 220 full-time executive employees using the same employee data set in 2017 and 2018.

Relative importance of spend on pay

The chart below shows shareholder distributions (i.e. dividends and share buybacks) and total employee expenditure for 2018 and the prior year, along with the percentage change in both.



- 1 See note 16 to the Group's consolidated financial statements.
- 2 Comprises wages and salaries and retirement benefit costs. See note 9 to the Group's consolidated financial statements.

Exit payments made in the year

No exit payments have been made in 2018.

Payments to past directors (audited)

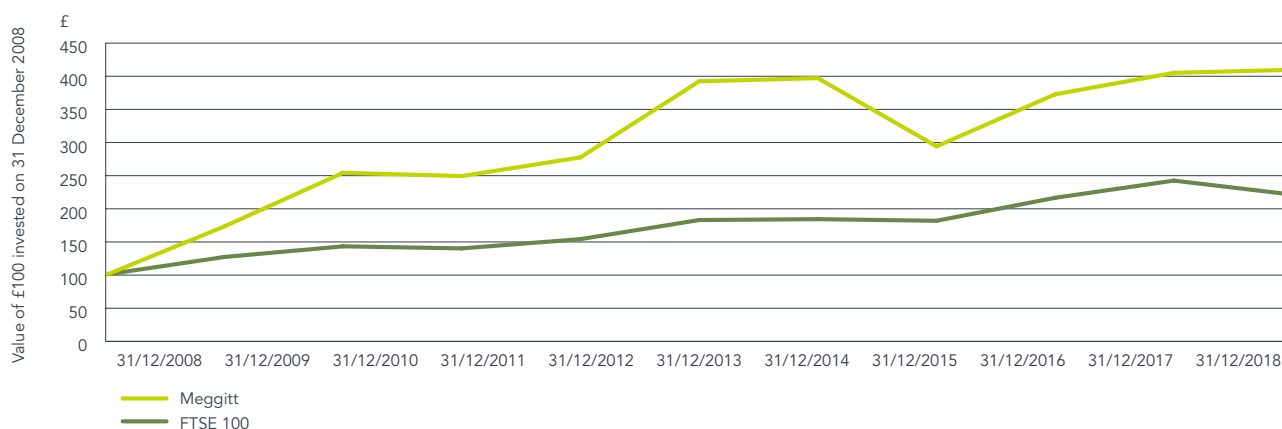
There were no payments to past directors in 2018. A de minimis of £10,000 applies to all disclosures under this note.

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 correlated to total shareholder return over the last ten years.

Directors' remuneration report continued

This graph illustrates the Group's performance compared to the FTSE 100 Index, which is considered an 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 ten year period from 1 January 2009 to 31 December 2018:



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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Mr A Wood¹										
Single total figure of remuneration (£'000)										2,200
STIP outcome ²										123%
LTIP vesting ²										52.1%
Mr S G Young¹										
Single total figure of remuneration (£'000)					1,296	1,232	1,347	1,969	2,040	
STIP outcome ²					39%	23%	31%	60%	68%	
EPP vesting ²					38%	0%	0%	N/A	N/A	
ESOS vesting ²					76%	0%	0%	N/A	N/A	
LTIP vesting ²					-	-	-	17%	19%	
Mr T Twigger¹										
Single total figure of remuneration (£'000)	1,758	2,947	4,252	3,812	1,845					
STIP outcome ²	86%	86%	100%	80%	35%					
EPP vesting ²	0%	50%	69%	88%	56%					
ESOS vesting ²	100%	100%	100%	100%	98%					

1 Figures are provided for Mr T Twigger for the period up to 1 May 2013, for Mr S G Young for the period up to 31 December 2017 and for Mr A Wood from his appointment as CEO on 1 January 2018.

2 The outcomes are for those awards which are included in the single figure of remuneration for that year. For 2018, this represents the outcome of the LTIP award which will vest in 2019. Outcomes are expressed as a percentage of maximum.

UK Corporate Governance Code and other developments

The Committee met in December 2018 and reviewed the changes introduced to the 2018 Code. The 2018 Code widens the remit of the Committee, with the requirement to take into account workforce remuneration and related policies when setting directors' remuneration, ensuring the remuneration policy aligns with company purpose and values and taking account of risk and sets out how wider remuneration schemes support strategy and long-term sustainable success.

As part of the remuneration policy review in 2019, we will consider the role of post-employment shareholding requirements and review executive pension contribution levels.

In December, we also reviewed and updated our annual schedule and Terms of Reference to take account of the 2018 Code changes. Amendments to reporting, including the CEO pay ratio and the impact of share price increases on executive remuneration will be first reported in our 2019 Directors' remuneration report.

Implementation of Remuneration Policy for 2019

Base salary, pension and benefits

Base salaries were reviewed in early 2019. The base salaries for executive directors will be increased by 2% from 1 April 2019. In agreeing these increases, the Committee took into account average expected salary increases across the general workforce (3% in the UK), industry benchmarks and broader retail price inflation, as well as the performance of the executive directors in 2018.

	2019 £'000	% change	2018 £'000
Mr A Wood	663	+2%	650
Mrs L S Burdett ¹	420	N/A	N/A
Mr D R Webb ²	N/A	N/A	476
Mr P E Green	392	+2%	384

1 Mrs Burdett became Chief Financial Officer on 1 January 2019.

2 Mr Webb retired on 31 December 2018.

The Committee periodically benchmarks executive director salaries against other FTSE companies of similar size, as well as a defined group of UK-listed industry comparators, comprising: BAE Systems, BBA Aviation, Cobham, Halma, IMI, Melrose, Rolls-Royce, Rotork, Senior, Spectris, Spirax-Sarco, Ultra Electronics and Weir Group.

There are no changes in pension contribution rates or benefit provision for 2019.

2019 Incentive Plan Measures

STIP measures for 2019 are unchanged from 2018, as follows:



2019 STIP measures

● Underlying operating profit	33.3%
● Free cash flow	33.3%
● Personal performance	33.3%

The STIP targets for 2019, together with details of whether they have been met, will be disclosed (subject to commercial sensitivity) in the 2019 Directors' remuneration report. STIP award opportunities will be in line with the Policy disclosed on page 96.

2019 LTIP measures

The LTIP measures for 2019 are 33% earnings per share, 33% ROCE and 33% based on three strategic measures, which are MPS, inventory and programme excellence. These strategic measures have been simplified in the following ways for the 2019 award, as a result of the incentives review:

- Organic revenue growth and gross margin: These measures have been removed from the LTIP, as they are considered to be duplicative of other profit measures in the LTIP and STIP.
- MPS: The underlying measure has changed from gate exits as sites progress through the process, which is an 'input' measure, to quality and delivery, which is an 'output' measure. On review, it was considered that setting quality and delivery targets is appropriate, as they capture two of the key outputs of MPS.
- Innovation and programme management: These measures have been merged to create a programme excellence measure (weighted 50/50 innovation and programme management). The Committee wanted to simplify the measures, but retaining both elements in a single measure will ensure the Group stays focused on customer satisfaction and efficient operation of current programmes and innovates to develop future products for our customers.

Plan element	Weight	Targets		
		Threshold	Target	Stretch
Financial measures				
EPS (3 year average)	33.33%	108.9	115.5	122.3
ROCE (3 year average)	33.33%	12.1%	12.5%	12.9%
Strategic measures*				
MPS	11.11%	40%	50%	60%
Inventory	11.11%	3.0	3.2	3.4
Programme excellence	11.11%	2.0	3.0	4.0
Total	100%			

*The targets apply to year 1 of the 2019 award, they also apply to year 2 of the 2018 LTIP and year 3 of the 2017 LTIP.

Directors' remuneration report continued

Chairman and non-executive director fees

The remuneration of the Chairman and non-executive directors in 2019 will be as follows:

	2019' £'000	2018' £'000
Chairman fee ²	364	357
Non-executive director base fee ³	60	58
Additional fee for chairing Audit or Remuneration Committee	11	11
Additional fee for Senior Independent Director	11	11

1 Fees shown 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 required for business purposes.

3 A fee of £4,000 is paid per meeting to US directors when travelling to meetings outside of their home continent.

Directors' beneficial interests (audited)

The beneficial interests of the directors and their connected persons in the ordinary shares of Meggitt at 31 December 2018, as notified under the Disclosure Guidance 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	
	2018	2017
Sir Nigel Rudd	133,850	124,650
Mr A Wood	11,308	10,479
Mr G S Berruyer	13,000	13,000
Mr C R Day	74,742	52,454
Mrs N L Gioia	3,090	3,000
Ms A J P Goligher	3,000	3,000
Mr P E Green	633,496	575,684
Mr P Heiden	6,675	6,470
Mr D R Webb	145,228	130,131

Between 1 January 2019 and 25 February 2019, the only changes to the beneficial interests of the directors in the ordinary shares of Meggitt are that Mr Green acquired 49 shares through the Meggitt PLC Share Incentive Plan.

External appointments held by executive directors as at 31 December 2018

Executive director	Company	Role	Fees retained 2018 £'000
Mr D R Webb	SEGRO plc	Non-executive director	60
		Chairman of Audit Committee	15
Total			75

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 2018. Mrs Burdett did not own any shares as at 31 December 2018:

Name	Shareholding guideline (% 2018 salary)	Shares owned outright ¹	Current shareholding (% 2018 salary) ²	Guideline met?
Mr A Wood	300%	11,308	8%	Building
Mr D R Webb	200%	145,228	144%	Building
Mr P E Green	200%	633,496	777%	Met

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

2 Assessment of shareholding is based on a share price of 471.00 pence (the value of a Meggitt share on 31 December 2018).

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 2018). The awards made up to and including 2015 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 2016 and later years were unvested as at 31 December 2018. Sharesave awards are not subject to performance conditions.

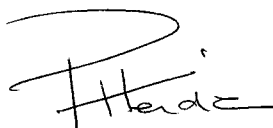
	Date of award	Number of shares under award			Exercise price	Market price at date of exercise	Date exercisable from	Expiry date
		At 1 January 2018	Awarded/ (exercised/ lapsed)	At 31 December 2018				
Mr A Wood								
LTIP (nil cost options)	01.12.16	215,944	-	215,944	-	-	01.12.19	01.12.21
	07.04.17	228,907	-	228,907	-	-	07.04.20	06.04.22
	03.04.18	-	332,852	332,852	-	-	03.04.21	03.04.23
Deferred Share Bonus Plan (awards)	27.03.18	-	26,884	26,884	-	-	27.03.20	27.03.20
Total		444,851	359,736	804,587				

	Date of award	Number of shares under award			Exercise price	Market price at date of exercise	Date exercisable from	Expiry date
		At 1 January 2018	Awarded/ (exercised/ lapsed)	At 31 December 2018				
Mr D R Webb								
LTIP (nil cost options)	01.04.15	176,598	(143,221)	33,377	-	-	01.04.18	01.04.20
	05.04.16	250,746	-	250,746	-	-	05.04.19	05.04.21
	07.04.17	232,390	-	232,390	-	-	07.04.20	07.04.22
	03.04.18	-	243,903	243,903	-	-	03.04.21	03.04.23
Deferred Share Bonus Plan (awards)	05.04.16	13,017	(13,017)	-	-	423.48p	05.04.18	05.04.18
	07.04.17	24,598	-	24,598	-	-	07.04.19	07.04.19
	27.03.18	-	29,072	29,072	-	-	27.03.20	27.03.20
Sharesave (options)	13.09.13	3,517	(3,517)	-	426.40p	505.40p	01.11.18	01.05.19
Total		700,866	113,220	814,086				

Directors' remuneration report continued

	Date of award	Number of shares under award			Exercise price	Market price at date of exercise	Date exercisable from	Expiry date
		At 1 January 2018	Awarded/ (exercised/ lapsed)	At 31 December 2018				
Mr P E Green								
ESOS 2005, Part A (options)	30.04.09	12,832	-	12,832	169.50p	-	30.04.12	30.04.19
ESOS 2005, Part B (stock SARs)	25.03.08	217,822	(217,822)	-	252.50p	452.24p	25.03.11	25.03.18
	30.04.09	214,306	-	214,306	169.50p	-	30.04.12	30.04.19
	12.03.10	192,240	-	192,240	286.10p	-	12.03.13	12.03.20
	02.03.11	124,902	-	124,902	351.70p	-	02.03.14	02.03.21
EPP – Basic (nil cost options)	05.08.09	88,167	-	88,167	-	-	05.08.12	05.08.19
	21.04.11	59,377	-	59,377	-	-	21.08.13	21.04.21
	17.08.11	22,693	-	22,693	-	-	17.08.14	17.08.21
EPP – Match (nil cost options)	12.08.09	49,163	-	49,163	-	-	12.08.12	12.08.19
	21.04.11	44,022	-	44,022	-	-	21.08.13	21.04.21
	17.08.11	15,915	-	15,915	-	-	17.08.14	17.08.21
LTIP (nil cost options)	22.05.14	28,003	-	28,003	-	-	22.05.17	22.05.19
	01.04.15	142,128	(115,266)	26,862	-	-	01.04.18	01.04.20
	05.04.16	202,020	-	202,020	-	-	05.04.19	05.04.21
	07.04.17	187,355	-	187,355	-	-	07.04.20	07.04.22
Deferred Share Bonus Plan (awards)	03.04.18	-	196,638	196,638	-	-	03.04.21	03.04.23
	05.04.16	11,965	(11,965)	-	-	423.48p	05.04.18	05.04.18
	07.04.17	19,989	-	19,989	-	-	07.04.19	07.04.19
	27.03.18	-	22,739	22,739	-	-	27.03.20	27.03.20
Sharesave (options)	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
	07.09.17	905	-	905	397.55p	-	01.11.20	01.05.21
Total		1,636,173	(125,676)	1,510,497				

By order of the Board


Paul Heiden

Chairman, Remuneration Committee
25 February 2019

Directors' report

The directors present their report with the Group's audited consolidated financial statements (prepared in accordance with International Financial Reporting Standards (IFRSs as adopted by the European Union and the Companies Act 2006)) and the Company's 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 2018.

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. Our non-financial information statement is on page 116 and 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 2 to 73)
Description of the Group's internal control and risk management systems	Risk management report (pages 46 to 53)
Employee information Employee involvement Employment of disabled persons	Corporate responsibility report (pages 60 to 73)
Greenhouse gas emissions	Corporate responsibility report (pages 70 to 71)
The Corporate governance report	Board of directors and Corporate governance report (pages 74 to 85)
A statement of how the Company has complied with the UK Corporate Governance Code and details of any non-compliance	Corporate governance report (page 85)
Details of long-term incentive plans	Directors' remuneration report (pages 92 to 114)
Statement of directors' interests	Directors' remuneration report (pages 112 to 114)
Details of directors' service contracts	Share capital and control (pages 116 to 117) and Directors' remuneration report (page 101)
Research and development	Note 8 to the Group's consolidated financial statements (page 149) and Chief Financial Officer's review (pages 56 to 57)
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 (pages 141 to 142)
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 156)
Details of allotments for cash of ordinary shares made during the period under review	Note 37 to the Group's consolidated financial statements (page 175)
Related parties disclosures	Note 17 to the Group's consolidated financial statements (page 154)
Details of share buy back programme	Not applicable – programme currently suspended
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	Doug Webb gave notice of his retirement on 17 September 2018. The Company agreed that he could reduce his contractual notice period of six months and cease to be employed by the Company on 31 December 2018. He waived all entitlement to his contractual notice pay and benefits from this date. (see also page 104 of the Directors' remuneration report)
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 the Company and a controlling shareholder	Nothing to disclose
Contracts for the provision of services to the Company by a controlling shareholder	Nothing to disclose
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 9.2.2A	Nothing to disclose
Post balance sheet events	Nothing to disclose

Directors' report continued

Non-financial information statement

We aim to comply with the new Non-Financial Reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006. The below table, and information it refers to, is intended to help stakeholders understand our position on key non-financial matters.

Reporting requirement	Policies and standards which govern our approach	Risk management and additional information
Environmental matters	Environmental Policy*	Environment (pages 68 to 71)
Employees	Ethics and Business Conduct Policy* Code of Conduct Health and Safety Policy*	People (pages 64 to 67) Ethics (page 72)
Human rights	Data Protection Policy* Modern Slavery Act Statement*	Ethics (page 72)
Social matters	Charitable Giving and Sponsorship Policy*	Social (page 73)
Anti-corruption and anti-bribery	Anti-Corruption Policy* Financial Crime Policy*	Ethics (page 72)
Policy embedding, due diligence and outcomes		Risk management (pages 46 to 53)
Description of principal risks and impact of business activity		Principal risks (pages 48 to 51) Creating value for our stakeholders/Direct and indirect economic contribution (page 63)
Description of the business model		Our business model (pages 12 to 13)
Non-financial KPIs		Key performance indicators (page 42 to 45)

* Copies of our policies are available on our website www.meggitt.com

Dividends

The directors recommend the payment of a final dividend of 11.35p per ordinary 5p share (2017: 10.80p), to be paid on 3 May 2019 to those members on the register at close of business on 22 March 2019. An interim dividend of 5.30p (2017: 5.05p) was paid on 28 September 2018. If the final dividend as recommended is approved, the total ordinary dividend for the year will amount to 16.65p per ordinary 5p share (2017: 15.85p).

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 2018, the Company made the DRIP available to shareholders for the dividends paid in May 2018 and September 2018. The Board currently intends to continue to make the DRIP available to shareholders in 2019 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 (Chairman), Mr A Wood, Mr G S Berruyer (becoming Senior Independent Director with effect from 25 April 2019), Mrs L S Burdett (appointed on 1 January 2019), Mr C R Day, Mrs N L Gioia, Ms A J P Goligher, Mr P E Green, Mr G C Hachey (appointed on 1 January 2019), Mr P Heiden (current Senior Independent Director, retiring on 25 April 2019) and Mr D R Webb (retired on 31 December 2018).

In January 2019, it was announced that Mrs C L Silver will join the Board on 25 April 2019. All of the directors listed above, including Mrs Silver, will be submitted for election or re-election at the Annual General Meeting (AGM) except for Mr Heiden and Mr Webb.

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 76 to 79 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

Neither the Group nor the Company made any political donations or incurred any political expenditure during the year (2017: None).

Share capital and control

As at 31 December 2018, the Company held 9,859 treasury shares with a nominal value of 5p each and the Company's issued share capital (excluding shares held as treasury shares) consisted of 776,855,463 shares with a nominal value of 5p each. As at 6 February 2019, the Company held 9,859 treasury shares with a nominal value of 5p each and the Company's issued share capital (excluding shares held as treasury shares) consisted of 776,882,695 shares with a nominal value of 5p each. The issued share capital of the Company at 31 December 2018 and details of shares issued during the financial year are shown in note 37 to the Group's consolidated financial statements.

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 Company's registered office. The holders of ordinary shares are entitled to receive the Company's Annual 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 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.

At the 2018 AGM, the Company was granted authority by shareholders to purchase up to 77,642,218 ordinary shares, being 10% of the Company's issued share capital, in accordance with the Articles. No shares were bought back under this authority during the year ended 31 December 2018. Shares purchased under this authority would have been cancelled or held as treasury shares to be sold at a later date or used to satisfy awards under the Company's share plans as the Board saw fit.

The directors were also granted authority by shareholders to allot securities in the Company up to a nominal amount of £12,940,370 and to allot securities, without the application of pre-emption rights, up to a nominal amount of £1,941,055 and a further £1,941,055 in connection with an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights. No such transaction is contemplated at present.

These authorities apply until the conclusion of the 2019 AGM or, if earlier, 30 June 2019. The Company will seek shareholder approval to renew these authorities at the 2019 AGM. Detailed explanatory notes are set out in the AGM notice.

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 USD600m note purchase agreement dated May 2016, a USD750m syndicated revolving credit agreement dated September 2014 and a USD400m note purchase agreement dated June 2010.

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 sensitive 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 A Wood	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.
Mrs L S Burdett	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 6 February 2019, the Company had been notified under the Disclosure Guidance 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)*	Other financial instruments with voting rights (m)*	Total voting rights (m)*	Percentage of total voting rights**
The Capital Group Companies, Inc.	-	77.0	-	77.0	9.91%
BlackRock, Inc.	-	41.9	6.9	48.8	6.28%
FMR LLC (FIL Limited)	-	43.2	0.4	43.6	5.61%
First Pacific Advisors, LLC	-	39.1	-	39.1	5.03%
T. Rowe Price Associates, Inc.	-	38.8	-	38.8	4.99%
Harris Associates L.P.	-	38.3	-	38.3	4.93%
Standard Life Investments Ltd	22.2	3.8	-	26.0	3.35%
Legal & General Group plc	23.7	-	-	23.7	3.05%
Norges Bank	23.5	-	-	23.5	3.02%

* One voting right per ordinary share.

** Attached to the issued ordinary share capital of the Company.

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 and the financial statements in accordance with applicable laws 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 as adopted by the European Union and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company 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.

The directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Each of the directors, whose names are listed in the Board of directors confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company; 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 and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the Directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the Group and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

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 Annual 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 31 (Bank and other borrowings) and note 33 (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 46 to 53, the likelihood of them arising and the mitigating actions available.

By order of the Board



M L Thomas
Company Secretary
25 February 2019

Report on the audit of the financial statements

Opinion

In our opinion:

- Meggitt PLC's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2018 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts 2018 (the "Annual Report"), which comprise: the Consolidated and Company balance sheets as at 31 December 2018; the Consolidated income statement and Consolidated statement of comprehensive income, the Consolidated cash flow statement, and the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in the Directors' report, we have provided no non-audit services to the Group or the Company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview

- Overall Group materiality: £16.0 million (2017: £17.0 million), based on 5% of underlying profit before tax.
- Overall Company materiality: £34.0 million (2017: £35.0 million), based on 1% of total assets.
- We identified 11 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 7 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 11 reporting units, with the Group team performing the remainder.
- 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.
- Reporting units where we performed audit procedures accounted for 61% of Group profit before tax; 62% of Group underlying profit before tax; and 80% 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.
- Goodwill impairment assessments (Group).
- Development costs and programme participation costs impairment assessments (Group).
- Environmental provisions (Group).
- Provisions for uncertain tax positions (Group).
- Retirement benefit obligation liabilities (Group and Company).



The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group/industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of increasingly complex trade compliance, environmental regulations, health and safety and unethical and prohibited business practices (see page 48 of the Annual Report), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006, the Listing Rules, pensions legislation, UK tax legislation and equivalent local laws and regulations applicable to in scope component teams. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, omitting, advancing or delaying recognition of events and transactions that have occurred and management bias in accounting estimates or judgments. The Group engagement team shared this risk assessment with the component auditors referred to in the scoping section of our report below, so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Discussions with management, internal audit and the Group's legal and tax advisors, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities, in particular their anti-bribery controls;
- Assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;
- Review of directors meeting minutes;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to impairment of goodwill, impairment of development costs, environmental provisions, provisions for uncertain tax positions and retirement benefit obligation liabilities (see related key audit matters below);
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management or individuals not authorised to post journals; and
- Incorporated elements of unpredictability into the audit procedures performed.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<p>Goodwill impairment assessments (Group) Refer also to note 18 of the consolidated financial statements (pages 154 to 155)</p> <p>The Group holds significant amounts of goodwill (£2,035.3m) on the balance sheet which is supported by an annual impairment review. No impairment charge has been recorded against goodwill in the current year.</p> <p>Our audit focused on the risk that the carrying value of goodwill could be overstated.</p> <p>Certain assumptions used in the impairment review are subjective and require estimates to be made to calculate the recoverable amount, as determined by value in use, of its cash generating units or groups of cash generating units ("CGUs"). The key estimates and assumptions assessed include:</p> <ul style="list-style-type: none"> • 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"); • the growth rate used beyond the period covered by the plan; and • the discount rate applied to future cash flows. 	<p>For all impairment assessments we:</p> <ul style="list-style-type: none"> • Evaluated the directors' future cash flow forecasts by <ul style="list-style-type: none"> – Testing the integrity of the underlying discounted cash flow model; – Comparing the forecasts used in the prior year model to the actual performance of the business in the current year to assess the historical accuracy of the plans and forecasts; and – Comparing the latest board approved budget to the 2019 forecast used in the model and used this as the basis to sensitise each model in line with the scoping criteria set out below. • Tested the discount rates used in the directors' impairment assessment as of 30 June 2018, 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 by the directors, and observed them to be within our expected range as of 30 June 2018. Following changes in market conditions in the second half of the year our expected range for discount rates as of 31 December 2018 increased, resulting in the UK and US rates used by the directors in their June assessment falling below our revised expected range. We assessed the directors' assessment of whether this change indicated the carrying value may not be recoverable, and confirmed that this was not an impairment trigger. • Considered the use of the long-term GDP growth rate for the countries in which the CGU operates for the growth rate used beyond the period covered by the plan, and observed these to be within our expected range. <p>We applied the following scoping criteria to identify those CGUs requiring additional audit procedures:</p> <ul style="list-style-type: none"> • CGUs that indicated a shortfall in value in use compared to the total CGU carrying value when the level of underlying profit growth for the period covered by the plans was capped at a weighted average market growth rate, using economic and industry forecasts. The weighted average market growth rates were derived as follows: <ul style="list-style-type: none"> – For CGUs operating predominantly in the civil aerospace market, we used the civil aerospace capacity long-term trend rate measured in available seat kilometres ("ASKs"); and – For CGUs operating predominantly in the defence, energy and other markets, we used territory Gross Domestic Product ("GDP") growth projections, based on our published economic projections. <p>This identified the EDAC & Advanced Composites CGU for further audit procedures, which has goodwill of £226.7m. In respect of this CGU, we assessed, in addition to the discount rate set out above, the following key assumptions used in the impairment assessment:</p> <ul style="list-style-type: none"> • Compound annual revenue growth over the five year plan period of approximately 15%. As this assumed growth is in excess of our weighted average market growth rate as defined above, we obtained corroborating evidence to support this assumption by: <ul style="list-style-type: none"> – Comparing planned revenue growth to past performance. Over the three year period since acquisition, compound annual revenue growth has been 11%. The revenue growth in 2018 was 17%, which is in excess of the compound annual revenue growth assumed of 15%; – Reviewing the USD750m multi-year contract with from Pratt & Whitney, which secures a portion of the planned growth included in the plan; and

Key audit matter	How our audit addressed the key audit matter
Goodwill impairment assessments (Group) continued	<ul style="list-style-type: none"> – Benchmarking the planned revenue growth against third party market analysis for growth in the advanced composite market for aerospace engines over the period covered by the plan. Applying these market growth rates to the CGU, based on its civil aerospace and military market mix, we calculated a growth rate that supports the assumption used. • An average gross margin over the five year plan period of approximately 24%. We obtained corroborating evidence to support this assumption, by: <ul style="list-style-type: none"> – Identifying the incremental costs incurred in 2018 related to operational challenges experienced in ramping up production to meet higher volume demand and considering the extent to which these costs can be eliminated in future periods. We examined the normalised gross profit calculations prepared by the directors and obtained support for significant adjustments. We also assessed the reasonableness of the cost reductions included in the plan related to the production of certain high volume parts being moved to low cost manufacturing facilities. We consider management's assumptions to be supportable. – Comparing planned gross margin to the actual margins achieved prior to the operational issues in 2018 (i.e. in 2016 and 2017) confirmed that the planned gross margin is aligned to performance in those years and so supports the assumptions used. • In respect of the key assumptions, we performed sensitivity analysis to ascertain the extent of change in those assumptions which, either individually or collectively, would be required for the goodwill to be impaired. Our analysis considered the risks that: <ul style="list-style-type: none"> – Volume growth does not meet expectations. We confirmed that if compound annual revenue growth decreased from 15% to 12%, without any mitigating action on costs, an impairment would be triggered; – Incremental costs associated with volume growth continue for longer than had been anticipated. We confirmed that if the gross margin over the period of the plan reduced from 24% to 21%, without any mitigating action on other operating costs, an impairment would be triggered; and – Discount rates increase. The Group has used a pre-tax discount rate of 8.6% in 2018 for its impairment testing. We have confirmed that were the discount rate to increase to 10.1% an impairment would be triggered. <p>We note the growth assumptions and margin improvements are supportable and therefore no impairment charge was required in 2018. Given the level of headroom we agree with the directors' assessment that additional disclosure is required to demonstrate the sensitivity of the level of headroom to the key assumptions. We determined that these disclosures appropriately draw attention to the significant areas of estimate and judgement.</p>

Key audit matter

Development costs impairment assessments (Group)

Refer also to note 19 of the consolidated financial statements (page 156)

The Group holds significant amounts of development costs (£557.1m) on the balance sheet. These intangible assets are subject to impairment testing at the individual asset ("programme") level, at least annually and, where the programme value in use headroom compared to its carrying value is limited, or if events or changes in circumstances indicate the carrying value may not be recoverable, more frequently. No impairment charge 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 hold an impairment provision, those with limited excess of value in use over carrying value and those with a significant carrying value.

The key estimates and assumptions assessed were:

- The estimated aircraft or engine volumes ("fleet forecasts") and the period over which future cash flows are forecast ("fleet lives");
- The sales price per part; and
- The discount rate applied to future cash flows.

How our audit addressed the key audit matter

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 2032 used in calculating the programme forecast cash flow to external market forecasts, taking into account the extent to which the Group has a sole-source position. We 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 supported by the evidence we obtained;
- Agreed the sales price per part to customer contract and did not identify any material exceptions in these tests;
- 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 our expected range; and
- Assessed whether the Group's disclosures regarding the extent to which key assumptions would need to change for the recoverable amount to fall below the programme carrying values, in particular in relation to those with a significant carrying value. We determined that these disclosures appropriately draw attention to the significant areas of estimate.

Specifically in respect of Dassault Aviation's ('Dassault') Falcon 5X ('5X') programme which was impaired in the prior year, we assessed whether there was any indication that the impairment should be reversed following the Group's selection for Dassault's new Falcon programme, the Falcon 6X ('6X'). To assess the directors' judgment that there are no indicators that the impairment should be reversed we:

- Reviewed the contractual terms agreed with Dassault for the 6X. The contractual terms do not refer to recovery of any previously incurred 5X costs and is clear that amounts contractually receivable relate to the 6X contract;
- Confirmed that the specification for the two programmes, particularly in respect of increased maximum take-off/landing weight, are different; and
- Compared the level of forecast development spend required to complete the 6X development to other new programmes the Group has been awarded in recent years.

Key audit matter	How our audit addressed the key audit matter
<p>Environmental provisions (Group) Refer also to note 34 of the consolidated financial statements (page 169)</p> <p>The Group has liabilities of £80.6m relating to environmental matters.</p> <p>The environmental matters primarily relate to known exposures arising from environmental investigation and remediation of certain sites in the US for which the Group has been identified as a potentially responsible party under US law. The liabilities are based on subjective estimates of the level and timing of remediation costs, including the period of operating and monitoring activities required. Our audit focused on the risk that the provisions in relation to these matters could be understated.</p> <p>The Group has separately recognised insurance and other receivables of £34.1m. We focused on the required asset recognition criteria being met and recoverability of these receivables.</p>	<p>Our work on the valuation of environmental liabilities comprised the following:</p> <ul style="list-style-type: none"> • We confirmed that the Group's external environmental consultants have sufficient expertise and are qualified and affiliated with the appropriate industry bodies in the respective local territory, and are independent of the Group; • 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 significant changes to the scope of remediation plans. We confirmed that the changes in scope have been appropriately reflected in the provision; • We reconciled the cost estimates and reports to the provision recorded and gained an understanding of all significant adjustments applied, such as differences in the period over which operating and monitoring activities are conducted and the application of additional provisions 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; and • Evaluated and concluded that the liabilities, related assets and potential exposures were appropriately disclosed in the financial statements. <p>Our work on the valuation of insurance and other receivables comprised the following:</p> <ul style="list-style-type: none"> • We obtained the insurance policies and confirmed 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; • We obtained evidence of the settlements and claims which resulted in the recognition of receivables in relation to the environmental provision and found that the evidence obtained supported asset recognition; • We obtained evidence of the insurers' financial position to assess their ability to meet the policy obligations and consider that this supports the recognition of the insurance receivable; and • We performed sensitivity analysis in relation to changes in the timings of costs and incremental increases in costs to assess the recoverability of the insurance receivables. From the evidence obtained we found the assumptions used to be appropriate.

Key audit matter	How our audit addressed the key audit matter
<p>Provisions for uncertain tax positions Refer also to note 4 of the consolidated financial statements (pages 142 to 144)</p> <p>The Group has a provision for uncertain tax positions of £39.2m.</p> <p>Estimates 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.</p> <p>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.</p> <p>Where the amount of tax payable or recoverable is uncertain, the Group establishes provisions based on the directors’ judgement of the probable amount of the liability, or expected amounts recoverable.</p> <p>Our audit procedures focussed on the risk that conclusion of the ultimate tax determination by tax authorities is at an amount materially different to the amount recorded.</p>	<p>In conjunction with our internal UK and international tax specialists we:</p> <ul style="list-style-type: none"> • 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. From the evidence obtained we found the assumptions and methodology used to be appropriate; • 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. Based on the work performed we found that this support had been appropriately considered in determining management’s provision; • 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 tax exposures; and • Evaluated and concluded that the liabilities and potential exposures were appropriately disclosed in the financial statements.
<p>Retirement benefit obligation liabilities (Group and parent) Refer also to note 36 of the consolidated financial statements (pages 171 to 175) and note 14 of the Company financial statements (pages 196 to 197)</p> <p>The Group has retirement benefit obligations with gross liabilities of £1,224.7m, of which £753.4 is recognised by the Company. The liabilities are significant in the context of the overall Group and Company balance sheet.</p> <p>The valuation of retirement benefit obligations requires significant levels of estimation and technical expertise, including the use of actuarial experts to support the directors in selecting appropriate assumptions. Small changes in a number of the key financial and demographic assumptions used to value the Group’s retirement benefit obligation, (including discount rates, inflation rates, salary increases and mortality) could have a material impact on the calculation of the liability.</p> <p>Our audit procedures focussed on the risk that the assumptions used result in an understatement of the retirement benefit obligation.</p>	<p>We evaluated the assumptions made in relation to the valuation of the liabilities, with input from our actuarial specialists. In particular we:</p> <ul style="list-style-type: none"> • Confirmed that the Group’s external specialists are qualified and affiliated with the appropriate industry bodies in the respective local territory, and are independent of the Group. • Tested the discount and inflation rate assumptions used by comparing them to our internally developed benchmarks, based on externally derived data and comparable organisations. We observed the significant assumptions to be within our expected range; • Compared assumed mortality rates to national and industry averages. From the evidence obtained we found the assumptions to be within our expected range and methodology used to be appropriate; • Assessed the assumption for salary increases against the Group’s historical trend and expected future outlook. The assumption used was supported by the evidence we obtained; • Considered the appropriateness of the methodology used to update estimates from the latest actuarial valuation and assessed changes in assumptions in aggregate from the prior year to assess the consistency of approach overall. From the evidence obtained we found the assumptions and methodology used to be appropriate; and • Evaluated and concluded that the liabilities and potential exposures were appropriately disclosed in the financial statements.

Independent auditors' report to the members of Meggitt PLC continued

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 structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

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 underlying profit before tax. We performed a full scope audit at a further 10 reporting units, based on their size or risk. Senior members of the Group audit engagement team visited a selection of these reporting units, including the significant component, to review the work undertaken by component auditors and assess the audit findings. We held a conference call with the remaining teams to discuss their approach to key audit matters and discuss audit findings. We performed a detailed review of the working papers for the significant component and other component teams as deemed

appropriate. We also performed specified procedures on 7 reporting units to address specific risk characteristics or to provide sufficient overall Group coverage of revenue. In addition to the work performed at the in-scope reporting units, there is a substantial amount of work performed at head office by the Group audit engagement team. 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, investments, derivative financial instruments and related hedge accounting, bank and other borrowings and related finance costs, leases, environmental provisions and related insurance receivables, certain onerous contracts and other provisions, retirement benefit obligations, current and deferred tax, share-based payments and central adjustments raised as part of the consolidation process.

These audit procedures accounted for 61% of Group profit before tax; 62% of Group underlying profit before tax; and 80% of Group total assets ("key coverage metrics"). As a result of its structure and size, the Group also has a large number of small reporting units that, in aggregate, make up a material portion of the key coverage metrics. These small reporting units are covered by the work performed by the Group audit engagement team, where we perform analytical review procedures. A significant proportion of these remaining reporting units not selected for local procedures were subject to an analysis of year on year movements, at a level of disaggregation to enable a focus on higher risk balances and unusual movements. 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 in aggregate on the financial statements as a whole.

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

	Group financial statements	Company financial statements
Overall materiality	£16.0 million (2017: £17.0 million).	£34.0 million (2017: £35.0 million).
How we determined it	5% of underlying profit before tax.	1% of total assets.
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, underlying profit before tax is the primary measure used by the shareholders in assessing the performance of the Group. Further, we consider it appropriate to eliminate volatility and to preserve the link between materiality and the performance of the underlying business.	We believe that total assets is the primary measure used by the shareholders in assessing the performance and position of the entity and reflects the Company's principal activity as a holding company.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £0.6 million and £14.4 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.80 million (Group audit) (2017: £0.85 million) and £1.70 million (Company audit) (2017: £1.75 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. As not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the Group's and Company's trade, customers, suppliers and the wider economy.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report. (CA06)

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

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 46 of the Annual Report 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.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 53 of the Annual Report 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 to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and 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 UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules).

Independent auditors' report to the members of Meggitt PLC continued

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 118, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on page 88 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 118, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company 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.

Appointment

Following the recommendation of the audit committee, we were appointed by the members on 2 October 2003 to audit the financial statements for the year ended 31 December 2003 and subsequent financial periods. The period of total uninterrupted engagement is 16 years, covering the years ended 31 December 2003 to 31 December 2018.



John Ellis (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading

25 February 2019

Consolidated income statement

For the year ended 31 December 2018

	Notes	2018 £'m	2017 Restated (see note 45) £'m
Revenue	5	2,080.6	1,994.4
Cost of sales		(1,320.1)	(1,235.2)
Gross profit		760.5	759.2
Net operating costs		(503.9)	(486.5)
Operating profit¹	6	256.6	272.7
Finance income	12	1.0	1.4
Finance costs	13	(41.5)	(45.8)
Net finance costs		(40.5)	(44.4)
Profit before tax²		216.1	228.3
Tax (charge)/credit	14	(37.1)	64.5
Profit for the year attributable to equity owners of the Company		179.0	292.8
Earnings per share:			
Basic ³	15	23.2p	37.8p
Diluted ⁴	15	22.8p	37.1p
Non-GAAP measures			
¹ Underlying operating profit	10	367.3	353.3
² Underlying profit before tax	10	334.8	320.2
³ Underlying basic earnings per share	15	34.2p	32.0p
⁴ Underlying diluted earnings per share	15	33.7p	31.3p

Consolidated statement of comprehensive income

For the year ended 31 December 2018

	Notes	2018 £'m	2017 Restated (see note 45) £'m
Profit for the year attributable to equity owners of the Company		179.0	292.8
Items that may be reclassified to the income statement in subsequent periods:			
Currency translation movements		90.7	(147.5)
Movements in fair value of financial liabilities arising from changes in credit risk	32	0.8	(2.1)
Cash flow hedge movements		(0.3)	(0.2)
Tax effect	14	2.5	(2.4)
		93.7	(152.2)
Items that will not be reclassified to the income statement in subsequent periods:			
Remeasurement of retirement benefit obligations	36	46.2	66.6
Tax effect	14	(7.3)	(27.1)
		38.9	39.5
Other comprehensive income/(expense) for the year		132.6	(112.7)
Total comprehensive income for the year attributable to equity owners of the Company		311.6	180.1

Consolidated balance sheet

At 31 December 2018

	Notes	31 December 2018 £'m	31 December 2017 Restated (see note 45) £'m	1 January 2017 Restated (see note 45) £'m
Non-current assets				
Goodwill	18	2,035.3	1,944.9	2,095.7
Development costs	19	557.1	495.8	543.0
Programme participation costs	19	18.2	17.1	17.0
Other intangible assets	20	610.4	672.1	817.6
Property, plant and equipment	21	404.0	406.2	424.4
Investments	22	12.9	13.6	14.8
Trade and other receivables	25	21.5	38.7	58.4
Contract assets	26	61.1	49.7	56.9
Derivative financial instruments	33	10.0	28.5	21.8
Deferred tax assets	35	16.3	26.3	28.8
		3,746.8	3,692.9	4,078.4
Current assets				
Inventories	24	441.2	393.4	443.0
Trade and other receivables	25	413.6	389.7	394.7
Contract assets	26	47.9	39.7	33.4
Derivative financial instruments	33	9.3	3.6	4.2
Current tax recoverable		6.4	4.3	4.4
Cash and cash equivalents	27	181.9	118.5	173.8
Assets classified as held for sale	23	10.3	9.7	-
		1,110.6	958.9	1,053.5
Total assets	6	4,857.4	4,651.8	5,131.9
Current liabilities				
Trade and other payables	28	(452.5)	(402.1)	(419.1)
Contract liabilities	29	(47.9)	(52.5)	(31.7)
Derivative financial instruments	33	(18.8)	(17.3)	(31.2)
Current tax liabilities		(39.5)	(39.6)	(35.6)
Lease liabilities	30	(16.1)	(16.9)	(17.8)
Bank and other borrowings	31	(10.2)	(71.4)	(175.7)
Provisions	34	(33.0)	(65.7)	(53.6)
Liabilities directly associated with assets classified as held for sale	23	-	(7.8)	-
		(618.0)	(673.3)	(764.7)
Net current assets		492.6	285.6	288.8
Non-current liabilities				
Trade and other payables	28	(1.3)	(5.5)	(4.8)
Contract liabilities	29	(43.9)	(23.1)	(19.3)
Derivative financial instruments	33	(17.4)	(14.6)	(45.7)
Deferred tax liabilities	35	(161.9)	(142.2)	(235.5)
Lease liabilities	30	(81.4)	(85.2)	(88.5)
Bank and other borrowings	31	(1,148.3)	(1,005.8)	(1,170.6)
Provisions	34	(83.7)	(82.5)	(131.8)
Retirement benefit obligations	36	(209.1)	(308.1)	(414.7)
		(1,747.0)	(1,667.0)	(2,110.9)
Total liabilities		(2,365.0)	(2,340.3)	(2,875.6)
Net assets		2,492.4	2,311.5	2,256.3
Equity				
Share capital	37	38.8	38.8	38.8
Share premium		1,223.9	1,222.2	1,219.8
Other reserves		15.7	15.7	15.7
Hedging and translation reserves		493.8	400.1	552.3
Retained earnings		720.2	634.7	429.7
Total equity attributable to owners of the Company		2,492.4	2,311.5	2,256.3

The financial statements on pages 129 to 185 were approved by the Board of Directors on 25 February 2019 and signed on its behalf by:



A Wood
Director



L Burdett
Director

Consolidated statement of changes in equity

For the year ended 31 December 2018

	Notes	Equity attributable to owners of the Company					Total equity
		Share capital	Share premium	Other reserves*	Hedging and translation reserves**	Retained earnings	
		£'m	£'m	£'m	£'m	£'m	
At 1 January 2017 (Restated – see note 45)		38.8	1,219.8	15.7	552.3	429.7	2,256.3
Profit for the year		-	-	-	-	292.8	292.8
Other comprehensive income for the year:							
Currency translation movements:							
Arising in the year		-	-	-	(138.9)	-	(138.9)
Transferred to the income statement		-	-	-	(8.6)	-	(8.6)
Movements in fair value of financial liabilities arising from changes in credit risk		-	-	-	(2.1)	-	(2.1)
Cash flow hedge movements:							
Transferred to the income statement		-	-	-	(0.2)	-	(0.2)
Remeasurement of retirement benefit obligations	36	-	-	-	-	66.6	66.6
Other comprehensive (expense)/income before tax		-	-	-	(149.8)	66.6	(83.2)
Tax effect	14	-	-	-	(2.4)	(27.1)	(29.5)
Other comprehensive (expense)/income for the year		-	-	-	(152.2)	39.5	(112.7)
Total comprehensive (expense)/income for the year		-	-	-	(152.2)	332.3	180.1
Employee share schemes:							
Value of services provided		-	-	-	-	12.7	12.7
Purchase of own shares for employee share schemes		-	-	-	-	(19.0)	(19.0)
Issue of equity share capital		-	2.4	-	-	(2.4)	-
Dividends	16	-	-	-	-	(118.6)	(118.6)
At 31 December 2017 (Restated – see note 45)		38.8	1,222.2	15.7	400.1	634.7	2,311.5
Profit for the year		-	-	-	-	179.0	179.0
Other comprehensive income for the year:							
Currency translation movements:							
Arising in the year		-	-	-	93.7	-	93.7
Transferred to the income statement	44	-	-	-	(3.0)	-	(3.0)
Movements in fair value of financial liabilities arising from changes in credit risk		-	-	-	0.8	-	0.8
Cash flow hedge movements:							
Transferred to the income statement		-	-	-	(0.3)	-	(0.3)
Remeasurement of retirement benefit obligations	36	-	-	-	-	46.2	46.2
Other comprehensive income before tax		-	-	-	91.2	46.2	137.4
Tax effect	14	-	-	-	2.5	(7.3)	(4.8)
Other comprehensive income for the year		-	-	-	93.7	38.9	132.6
Total comprehensive income for the year		-	-	-	93.7	217.9	311.6
Employee share schemes:							
Value of services provided		-	-	-	-	16.1	16.1
Purchase of own shares for employee share schemes		-	-	-	-	(22.6)	(22.6)
Issue of equity share capital		-	1.7	-	-	(1.7)	-
Dividends	16	-	-	-	-	(124.2)	(124.2)
At 31 December 2018		38.8	1,223.9	15.7	493.8	720.2	2,492.4

* Other reserves relate to capital reserves of £14.1m (2017: £14.1m) arising on the acquisition of businesses in 1985 and 1986 where merger accounting was applied and a capital redemption reserve of £1.6m (2017: £1.6m) created as a result of the share buyback programme which commenced in 2014 and completed in 2015.

** Hedging and translation reserves comprise a credit balance on the hedging reserve of £1.1m (2017 restated: £0.7m) and a credit balance on the translation reserve of £492.7m (2017 restated: £399.4m). Amounts recycled from the hedging reserve to the income statement, in respect of cash flow hedge movements, have been recognised in net finance costs. Amounts recycled from the translation reserve to the income statement, in respect of the disposal of foreign subsidiaries, have been recognised in net operating costs.

Consolidated cash flow statement

For the year ended 31 December 2018

	Notes	2018 £'m	2017 Restated £'m
Non-GAAP measures			
Cash inflow from operations before business acquisition and disposal expenses and exceptional operating items		364.0	417.0
Cash outflow from business acquisition and disposal expenses	44	(3.8)	(3.9)
Cash outflow from exceptional operating items	11	(12.0)	(13.8)
Cash inflow from operations	42	348.2	399.3
Interest received		0.2	0.2
Interest paid		(33.1)	(37.5)
Tax paid		(20.0)	(24.1)
Cash inflow from operating activities		295.3	337.9
Business acquired		-	(19.4)
Businesses disposed	44	35.7	83.7
Capitalised development costs	19	(58.6)	(62.6)
Capitalised programme participation costs		(0.8)	(3.4)
Purchase of intangible assets		(21.8)	(18.3)
Purchase of property, plant and equipment		(52.6)	(62.0)
Proceeds from disposal of property, plant and equipment		2.1	1.9
Cash outflow from investing activities		(96.0)	(80.1)
Dividends paid to Company's shareholders	16	(124.2)	(118.6)
Purchase of own shares for employee share schemes		(22.6)	(19.0)
Proceeds from bank and other borrowings		85.5	64.9
Repayments of bank and other borrowings		(66.8)	(224.2)
Repayments of lease liabilities		(14.3)	(11.4)
Cash outflow from financing activities		(142.4)	(308.3)
Net increase/(decrease) in cash and cash equivalents		56.9	(50.5)
Cash and cash equivalents at start of the year		118.5	173.8
Exchange gains/(losses) on cash and cash equivalents		6.5	(4.8)
Cash and cash equivalents at end of the year	27	181.9	118.5

Notes to the consolidated financial statements

1. General information and 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 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 and test.

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 financial 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.

Adoption of new and revised accounting standards

A number of new accounting standards have been adopted for the financial year. The standards which have been adopted for the first time and which have had a significant impact on the consolidated financial statements are:

- IFRS 15, 'Revenue from contracts with customers';
- IFRS 16, 'Leases'; and
- IFRS 9, 'Financial instruments'.

The Group has updated its accounting policies to reflect the impact of these standards. Comparative financial information for 2017 has been restated with a cumulative adjustment to equity at 1 January 2017 (see note 45).

IFRS 15, 'Revenue from contracts with customers'

The standard became effective for periods beginning on or after 1 January 2018. The Group has elected to apply the full retrospective approach upon adoption of IFRS 15. This approach required all open contracts with customers presented in the consolidated financial statements to be transitioned under the new standard. The Group has taken the following practical expedients permitted by the standard:

- Contracts completed prior to the earliest date presented have not been restated;
- Contracts modified prior to the earliest period presented have not been restated for such modifications;
- For contracts with variable consideration, and which completed in comparative reporting periods, the transaction price at the date of contract completion has been used as the revenue amount for all periods presented; and
- The transaction price allocated to remaining performance obligations, and when these outstanding obligations are expected to be recognised as revenue, are not presented for comparative periods.

IFRS 16, 'Leases'

The standard becomes effective for periods beginning on or after 1 January 2019 with early adoption permitted. The Group has early adopted IFRS 16 and elected to apply the full retrospective approach on transition. The Group has taken the following practical expedients permitted by the standard:

- IFRS 16 guidance has not been applied to short-term leases (lease contracts with less than one year to maturity on adoption) and leases of low-value assets;
- A single discount rate has been used for a portfolio of leases with reasonably similar characteristics; and
- Contracts at the date of transition, other than those previously accounted for as an operating or finance lease under the Group's previous accounting policy, have not been reassessed as to whether they contain a lease.

IFRS 9, 'Financial instruments'

The standard became effective for periods beginning on or after 1 January 2018 and required retrospective application.

Basis of consolidation

The Group's consolidated financial statements consolidate the financial statements of the Company, all of its subsidiaries and the Group's share of the results of its joint venture.

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 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.

A joint venture is a contractual arrangement between the Group and one or more other parties, under which control is shared between the parties and the Group and other parties have rights to the net assets of the arrangement. A joint venture is accounted for using the equity method whereby the Group's share of profits and losses of the joint venture is recognised in the income statement within net operating costs and its share of net assets and goodwill of the joint venture is recognised as an investment (see note 22).

The cost of an acquisition is the fair value of consideration provided, including the fair value of contingent consideration, measured at the acquisition date. Contingent consideration payable is measured at fair value at each subsequent balance sheet date, with 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. The extent to which the cost of an acquisition exceeds the fair value of net assets acquired is recorded as goodwill. Costs directly attributable to an acquisition are recognised in the income statement within net operating costs as incurred. Changes in fair value of contingent consideration payable and costs of an acquisition are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10).

2. Summary of significant accounting policies continued

Basis of consolidation continued

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 recognised with effect from the date of acquisition and consequently may result in the restatement of previously reported financial results. The accounting policies of acquired businesses are changed where necessary to be consistent with those of the Group.

When a subsidiary is disposed, the difference between the fair value of consideration receivable and the value at which the net assets of the subsidiary were recognised, immediately prior to disposal, is recognised in the income statement within net operating costs. Contingent consideration receivable is measured at fair value at the date of disposal in determining the gain or loss recognised. It is subsequently measured at fair value at each balance sheet date, with any changes in fair value recognised in the income statement within net operating costs. Changes in fair value of contingent consideration receivable are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10).

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 recognised 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, subsidiary companies are eliminated together with unrealised gains on intra-group transactions. Unrealised losses are eliminated to the extent the asset transferred is not impaired. Unrealised gains and losses on transactions with the joint venture are eliminated to the extent of the Group's interest in the arrangement.

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 recognised 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 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 net assets of foreign subsidiaries are recognised in hedging and translation reserves within other comprehensive income. Goodwill and fair value adjustments arising from the acquisition of a foreign subsidiary are treated as assets and liabilities of the subsidiary and retranslated at exchange rates prevailing at the balance sheet date.

Segment reporting

Operating segments are those segments for which results are reviewed by the Group's Chief Operating Decision Maker ('CODM') to assess performance and make decisions about resources to be allocated. The CODM has been identified as the Board (see page 80 of the Corporate governance report). The Group has determined that its segments for the year ended 31 December 2018 are Meggitt Aircraft Braking Systems, Meggitt Control Systems, Meggitt Polymers & Composites, Meggitt Sensing Systems and the Meggitt Equipment Group. Airframe Systems, Engine Systems, Energy & Equipment and Services & Support will be the Group's new segments from 1 January 2019, the effective date of the new divisional structure (see page 40 of the Strategic report).

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 consolidated financial statements (see note 6).

Segmental information on assets is provided in the notes to the consolidated 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 (see note 6). Excluded assets comprise centrally managed trading assets, goodwill, other intangible assets (excluding software assets), investments, derivative financial instruments, deferred tax assets, current tax recoverable, cash and cash equivalents and assets classified as held for sale.

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

2. Summary of significant accounting policies continued

Revenue from external customers

Revenue is recognised when control of goods or services provided by the Group is transferred to the customer and at an amount reflecting the consideration the Group expects to receive from the customer in exchange for those goods and services.

There are no significant judgements required in either determining the Group's performance obligations or, because the majority of the Group's revenue is recognised when goods or services are provided to the customer, in the timing of revenue recognition. As revenue is typically recognised at amounts agreed in advance with customers, no significant estimates are required in determining transaction prices.

Estimates of total contract costs are required to determine the extent to which revenue is recognised in a period on over time contracts. The Group does not consider there to be any reasonably foreseeable changes in these estimates that could give rise to a significant impact on revenue recognised in the period.

Transfer of control – At a point in time

For the majority of goods and services provided by the Group, transfer of control occurs when delivery to the customer takes place which, depending on the specific terms agreed with the customer, may be when goods are collected from the Group's facilities or when they are delivered either to the customer's facilities or to a third party transport agent. The more common exceptions to this assessment for the Group of when control passes are:

- *Bill and hold arrangements.* Where, under the terms of a contract, a customer agrees to accept title to goods which remain at the Group's facility, and normal credit terms apply, transfer of control occurs when these contractual terms have been met, which will typically be when goods are completed, packaged and segregated at the Group's facility;
- *Goods and services are not distinct performance obligations.* Where a contract involves the supply of multiple goods and services, the Group has concluded that typically each good and service supplied is a distinct performance obligation. However, contracts may require the Group to provide installation and other services specific to the goods but subsequent to their delivery. Where installation and other services are specialised, significant and not capable of being performed by another party, control of the goods transfers when installation and other services are completed by the Group and not when delivery of the goods takes place;
- *Goods are delivered subject to consignment arrangements.* Where the Group delivers goods to a customer facility, such as an airline operator, but retains control of those goods until they are used by the customer, control transfers when the Group is notified by the customer of their use; and
- *Goods supplied subject to customer acceptance.* Within the aerospace industry goods are frequently subject to customer acceptance testing on delivery, or at the Group's facilities. Normally the Group is able, through its own testing procedures, to predict with reasonable certainty that acceptance testing will be successful and accordingly acceptance testing will not affect the determination of when control passes. Where however the Group cannot predict the outcome with reasonable certainty, control is not considered to transfer until the goods have been accepted by the customer.

Transfer of control – Over time

The principal circumstances in which control transfers over time are where the Group provides goods or services for which it has no alternative use and has the enforceable right to payment, plus a reasonable profit margin, throughout the life of the contract.

Certain defence contracts include clauses entitling the Group to be awarded a reasonable profit margin in the event the customer cancels for convenience. Where the Group considers such rights to be enforceable; is confident that a reasonable profit margin would be awarded regardless of the stage of contract completion and would apply to all costs incurred by the Group; and the goods and services have no alternative use, control will transfer over time.

An alternative use exists where there are multiple potential customers, OEMs and/or aftermarket customers, to whom the Group could provide those goods or services.

Where a contract is structured such that non-refundable milestone payments are receivable from a customer in advance of work being performed, and the Group is reasonably certain at contract inception that the cumulative value of such milestone payments will exceed cumulative costs incurred throughout the duration of the contract, control will transfer over time.

Where control transfers over time, the Group considers costs incurred, as a proportion of total expected contract costs, to be the most appropriate measure of contract completion. For power by the hour and cost per brake landing contracts this results in revenue being recognised when maintenance events are performed.

Consideration expected to be received from the customer

The majority of the Group's contracts provide that consideration is payable within a short period after control of goods and services is transferred to the customer, typically up to three months, and accordingly no significant financing component to the consideration receivable exists.

Where a contract includes variable consideration, the Group estimates the variable consideration to which it will be entitled at contract inception and revises the estimate throughout the life of the contract. Estimates are constrained until it is highly probable that the uncertainty affecting the level of variable consideration has been resolved and a significant reversal of cumulative revenue recognised will not arise. For power by the hour and cost per brake landing contracts this requires the Group to estimate the number of aircraft flying hours or landings expected over the contract.

In certain instances the Group will receive contributions from customers during the development phase of an aerospace programme, typically in the form of cash, and where the Group expects to retain the intellectual property of the developed technology throughout the programme life. Such contributions are treated as customer consideration and initially recognised as a contract liability when receivable. Contributions are subsequently included in the transaction price attributable to goods and services provided to the customer during the production phase of the programme. Where the contribution is received more than 12 months in advance of goods and services being provided to the customer, the financing element of the contribution, if significant, is separately identified and recognised as finance income over the period goods and services are provided.

2. Summary of significant accounting policies continued

Revenue from external customers continued

Where the Group makes contributions to customers to participate in aerospace programmes, typically in the form of cash, such payments are initially recognised as a contract asset provided the Group has received, or it is highly probable that it will receive, contracts from the same customer and relating to the same aerospace programme (see also programme participation costs policy). Where the payment is made more than 12 months in advance of goods and services being provided to the customer, the financing element of the contribution, if significant, is separately identified and recognised as finance costs over the period goods and services are provided. Other than such payments, the Group does not incur significant incremental costs to obtain contracts.

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 and significant site consolidation and other restructuring costs. Additionally in 2017, given its significance, the impairment loss arising from cancellation by the customer of the Dassault Falcon 5X programme was treated as an exceptional operating item. Exceptional operating items are included within the appropriate consolidated income statement category but are highlighted separately in the notes to the consolidated financial statements.

Amounts arising on the acquisition, disposal and closure of businesses

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 or disposal of a business. Amounts arising on the acquisition, disposal and closure of businesses are included within the appropriate consolidated income statement category but are highlighted separately in the notes to the consolidated 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 held at cost less amortisation charged prior to 1 January 2004 and accumulated impairment losses. In the event a 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 benefits based on all relevant available information, are recognised as an intangible asset. Capitalised development costs are subsequently held at cost less accumulated amortisation and impairment losses. Amortisation is charged to net operating costs over 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.

Programme participation costs

Programme participation costs consist of cash payments made to OEMs in connection with their selection of the Group's products for installation onto new aircraft where the Group has obtained principal supplier status. The treatment of programme participation costs depends on the contractual relationship between the Group and the third party to whom the payment is made:

- Where the payment is made to a third party under a revenue contract (as defined by IFRS 15), or the award of future IFRS 15 revenue contracts on the programme from the same party is highly probable, payments are initially recognised as a contract asset (see 'Revenue from external customers' policy); and
- Other payments are initially recognised as an intangible asset and subsequently held at cost less accumulated amortisation and impairment losses. Amortisation is charged to net operating costs over 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 – Assets acquired as part of a business combination

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.

Amortisation is charged on a straight-line basis to net operating costs over the estimated useful economic lives of the assets. The nature of intangible assets recognised and their estimated useful lives are as follows:

Customer relationships	Up to 20 years
Technology	Up to 20 years
Trade names and trademarks	Up to 15 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).

Other intangible assets – Software and other intangible assets

Software and purchased licences, trademarks and patents are held at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over the estimated useful economic lives of the assets, typically over periods up to 10 years. Residual values and useful lives are reviewed annually and adjusted if appropriate.

2. Summary of significant accounting policies continued**Property, plant and equipment**

Property, plant and equipment is held at cost less accumulated depreciation and impairment losses. Cost includes expenditure directly attributable to the acquisition of the asset.

For right-of-use assets, cost comprises an amount equal to the initial lease liability recognised, adjusted to include any payments made for the right to use the asset, initial direct costs incurred and estimated costs for dismantling, removing and restoring the asset at the end of the lease term. Lease incentives receivable from the lessor are recognised as a reduction in cost.

Depreciation is charged on a straight-line basis over the estimated useful economic lives of the assets as follows:

Freehold buildings	Up to 50 years
Right-of-use assets	Shorter of the useful economic life of the asset and the lease term
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, typically at least 12 months. All other borrowing costs are recognised in the income statement within finance costs as incurred.

Taxation

Current tax 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 recognised in the Group's consolidated financial statements. It is calculated using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax is provided on unremitted earnings of foreign subsidiaries, except where the Group 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.

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. Given its significance, the tax credit recognised in the income statement arising from the reduction in the US federal corporate tax rate in 2017 has been excluded from the Group's underlying profit for the year (see note 10).

Provision is made for current tax liabilities when the Group has a present obligation as a result of past events, it is probable an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. The Group typically uses a weighted average of outcomes assessed as possible to determine the level of provision required, unless a single best estimate of the outcome is considered to be more appropriate. Assessments are made at the level of an individual tax uncertainty, unless uncertainties are considered to be related, in which case they are grouped together. Provisions, which are not discounted given the short period over which they are expected to be utilised, are included within current tax liabilities. Any liability relating to interest on tax liabilities is included within finance costs.

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 of an asset exceeds its recoverable amount, the difference is recognised as an expense in the income statement. The recoverable amount used for impairment testing is the higher of value in use and fair value less costs of disposal. For the purpose of impairment testing, assets are generally tested individually or at a CGU level which represents 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. Where it is not possible to allocate goodwill on a non-arbitrary basis to individual CGUs, it is allocated to the group of CGUs which represent the lowest level within the Group at which goodwill is monitored by management. At each balance sheet date, previously recognised 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 recognised at the lower of cost and net realisable value. Cost comprises 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. Provision is made for obsolete, slow moving or defective items where appropriate.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost less any impairment losses.

Where the Group recognises a provision, to the extent the outflows of economic benefits required to settle the obligation are recoverable from an insurer or other third party, an other receivable is recognised. Other receivables 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 receivable which have not been reflected in the undiscounted receivable. The impact of the unwinding of discounting is recognised in the income statement within finance income.

2. Summary of significant accounting policies continued

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

The majority of the Group's leases relate to property. A lease liability is recognised when the Group obtains control of the right-of-use asset, that is the subject of the lease. The lease liability is subsequently measured using the effective interest method, with interest charged to finance costs.

At inception, the Group evaluates whether it is reasonably certain that any option to extend a lease term will be exercised. Typically, where the initial lease term for a property used for the Group's manufacturing operations is for at least five years, the option to extend the lease term is at market rates and the right-of-use asset is not considered specialised, it is unusual for an extension of lease term to be reflected at lease inception.

The Group will however, continue to evaluate the likelihood of exercising such options throughout the initial lease term. When the Group is committed to extending the lease, having considered the alternative options available and, where appropriate, lessor consent to the extension has been obtained, the Group will consider the option to be reasonably certain to be exercised. When an option is reasonably certain to be exercised, the right-of-use asset and lease liabilities recognised are adjusted to reflect the extended term.

Leases, which at inception have a term of less than 12 months or relate to low-value assets, are not recognised on the balance sheet. Payments made under such leases are charged to the income statement on a straight-line basis over the period of the lease.

Borrowings

Borrowings are initially recognised at fair value, being proceeds received less directly attributable transaction costs incurred. Borrowings are generally subsequently held at amortised cost at each balance sheet date 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, where 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 held at fair value at each balance sheet date with any movement in fair value attributable to changes in credit risk recognised in other comprehensive income and any other movements in fair value recognised in the income statement within net operating costs. Movements in fair value recognised in net operating costs 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 and curtailment gains and losses 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 (as a reduction in future contributions, or as a refund to which the Group has an unconditional right either during the life of the scheme or when the scheme liabilities are settled), 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.

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 held 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 subsequent measurement at fair value 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 its inception, the economic 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 effective in offsetting changes in fair values or cash flows of hedged items as outlined in the objectives and strategy for undertaking the hedging transaction and any changes in fair values must not be dominated by the effect of credit risk.

To the extent the maturity of the derivative financial instruments are more than 12 months from the balance sheet date, they are classified as non-current assets or non-current liabilities. All other derivative financial instruments are classified as current assets or current liabilities.

Fair value hedges

Changes in fair value, not attributable to credit risk, 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 changes in fair value attributable to credit risk are recognised in other comprehensive income. Any difference recognised in the income statement between movements 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 applies fair value hedge accounting to the hedging of fixed interest rate risk on bank and other 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. If the hedging instrument is sold 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 within net operating costs. The Group no longer holds any derivative financial instruments for which cash flow hedge accounting is applied.

Net investment 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. 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-based compensation

The Group operates a number of share-based compensation schemes, which are subject to non-market based vesting conditions and are principally equity-settled.

For equity-settled schemes, at the date of grant, the Group estimates the number of awards expected to vest as a result of 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 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.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted from the proceeds recognised 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 recognised as a deduction from retained earnings.

Dividends

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

Recent accounting developments

A number of additional 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 early adopted in the consolidated financial statements. None of these are expected to have a significant impact on the consolidated financial statements when they are adopted.

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 57 to 58 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 expected exposures up to five years. Details of hedges in place are provided in note 33. The Group does not 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 borrowings at fixed rates. The Group mitigates interest rate risks through interest rate derivatives which have the economic effect of converting fixed rate borrowings into floating rate borrowings and floating rate borrowings into fixed rate borrowings. Details of hedges in place are provided in note 33.

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. Note 25 details the Group's credit risk exposures in relation to its customers. 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 assets which it controls through only dealing with highly rated counterparties and netting transactions on settlement wherever possible. The credit quality of the Group's counterparties is set out in notes 27 and 33.

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 tables analyse the Group's non-derivative financial liabilities and derivative assets and liabilities at the balance sheet date. The amounts disclosed in the tables are the contractual undiscounted cash flows:

	2018			
	Less than 1 year £'m	1-5 years £'m	Greater than 5 years £'m	Total £'m
Trade and other payables*	441.4	0.9	0.4	442.7
Contract liabilities (see note 29)	47.9	11.7	32.2	91.8
Derivative financial instruments (Inflows)**	(5.7)	(3.5)	-	(9.2)
Lease liabilities	19.2	60.7	34.1	114.0
Bank and other borrowings (see note 31)	-	907.9	235.2	1,143.1
Interest payments on borrowings	33.1	86.1	25.4	144.6
Total	535.9	1,063.8	327.3	1,927.0

	2017 (Restated)			
	Less than 1 year £'m	1-5 years £'m	Greater than 5 years £'m	Total £'m
Trade and other payables*	391.9	2.0	3.5	397.4
Contract liabilities (see note 29)	52.5	6.2	16.9	75.6
Derivative financial instruments (Inflows)**	(7.3)	(12.4)	-	(19.7)
Lease liabilities	20.5	59.5	42.4	122.4
Bank and other borrowings (see note 31)	61.7	551.3	444.4	1,057.4
Interest payments on borrowings	31.5	96.5	39.4	167.4
Total	550.8	703.1	546.6	1,800.5

* Excludes social security and other taxes of £11.1m (2017: £10.2m) (see note 28).

** Assumes no change in interest rates from those prevailing at the balance sheet date.

3. Financial risk management continued**Sensitivity analysis**

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

	2018		2017 Restated	
	Income statement	Equity	Income statement	Equity
	£'m	£'m	£'m	£'m
USD/Sterling exchange rate +/- 10%	48.9	107.9	39.6	103.9
US yield curve +/- 1%	14.2	-	17.8	0.3

The impact on equity from movements in the exchange rate comprises £100.2m (2017: £93.8m) in respect of US dollar net borrowings, and £7.7m (2017: £10.1m) in respect of other financial assets and liabilities. However, as all US dollar net borrowings are 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 foreign currency forward contracts and 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 assets. The strategy is designed to maximise shareholder return over the long term. The Group's post-tax weighted average cost of capital at 31 December 2018 is approximately 6.6% (2017: 6.2%) and its capital structure is as follows:

	2018	2017 Restated
	£'m	£'m
Net debt (see note 43)	1,074.1	1,060.8
Total equity	2,492.4	2,311.5
Debt/equity %	43.1%	45.9%

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 Group's strategy for delivering net debt:EBITDA in this range can be found on pages 57 to 58 of the Chief Financial Officer's review, which includes details on how the Group has complied with the two principal financial covenant requirements contained in its committed credit facilities.

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 the consolidated financial statements are described below. Further consideration of these critical estimates and judgements can be found in the Audit Committee report on page 88.

Critical accounting estimates**Impairment testing of goodwill**

Each year the Group carries out impairment tests of goodwill which require estimates to be made of the value in use of its CGUs or groups of 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. Further details on these estimates and sensitivities of the carrying value of goodwill to these estimates are provided in note 18.

4. Critical accounting estimates and judgements continued

Critical accounting estimates continued

Cancellation of Dassault Falcon 5X programme

In late 2017, Dassault Aviation ("Dassault") announced cancellation of its Falcon 5X programme and the launch of a new programme, the Falcon 6X, featuring the same cross section, but powered by Pratt & Whitney Canada engines rather than the Silvercrest engine selected for the Falcon 5X. The cancellation resulted in the Group recording an impairment charge in 2017 of £58.0m (restated), principally related to development costs incurred by Meggitt Aircraft Braking Systems ('MABS').

In 2018, MABS was selected to provide the wheel and braking system for the Falcon 6X. This aircraft is forecast to enter service in 2022. Following the selection of MABS for the Falcon 6X, the Group has reassessed the estimated recoverable value of the Falcon 5X development costs impaired in 2017. The Group has concluded there are no indicators that any element of the impairment should be reversed. In reaching this conclusion, the Group has considered the following:

- Contractual terms agreed with Dassault for the Falcon 6X. The contractual terms do not include any recovery of previously incurred 5X costs, either directly or through the pricing mechanism agreed with Dassault for the supply of OE/aftermarket parts on the Falcon 6X;
- Falcon 6X specifications. The increased maximum take-off/landing weight of the Falcon 6X, when compared to the Falcon 5X, will require a redesign of the braking system. The braking system for the Falcon 5X was the most significant and complex area of development activity for that programme.

Other know-how developed by MABS for the Falcon 5X is, at least to an extent, capable of being leveraged and applied to the Falcon 6X programme. However, the cost recording system used to track Falcon 5X development activities was not designed to retrospectively provide an analysis of costs incurred between those areas requiring different levels of redesign effort to meet the new Falcon 6X specifications. The Group has concluded it is not possible to derive a reliable estimate of any costs incurred during the Falcon 5X development that are directly attributable to the Falcon 6X specifications; and

- Forecast Falcon 6X development costs. The level of forecast development spend required by MABS to complete the Falcon 6X development, compared to other new programmes it has been awarded in recent years, does not indicate any significant transfer of know-how from the Falcon 5X programme.

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 36.

Environmental provisions

The Group is involved in the investigation and remediation of environmental contamination at certain sites for which it has been identified as a potentially responsible party under US law (see note 34). In determining the provision to be recognised, advice is received by the Group from its environmental consultants and legal advisors to assist in the estimate of the level and timing of remediation costs, including the period for which operations and monitoring activities will be required to be carried out. These estimates are revised regularly as remediation activities progress and further information is obtained on the extent of activities to be performed by the Group. In the last five years, annual reductions and annual increases in costs estimates have both been experienced. If the cost estimates on which the provision at 31 December 2018 is based were to change by 15%, the largest observed overall annual movement seen in this five year period, the provision recognised would need to change by approximately £12.0m. During the last five years, no significant changes to the estimated period for which operations and maintenance activities will be required have been necessary. However, as the period for which groundwater testing has been performed increases, the results of that testing provide a more reliable estimate of the extent to which such activities will continue to be required in the future. It is reasonably foreseeable that, depending on groundwater testing results in 2019, the periods for which operations and maintenance will be required could increase by up to five years. Were an increase of five years to be required, the provision recognised would need to increase by approximately £12.0m.

The Group has extensive insurance arrangements in place to mitigate the ongoing impact of historical environmental events on the Group (see note 34). These insurance policies however, have monetary caps and in some cases are term policies, whereby costs are only recoverable if incurred by specified dates. The estimates of the extent and timing of remediation costs, used to determine the provision, are also used in determining the level of receivable to recognise. If remediation cost estimates were to change by 15%, the receivable recognised would need to change by approximately £3.0m reflecting the impact of the insurance policy caps in place. If additionally, the estimated period for which operations and maintenance is required were to increase by five years, the receivable recognised would need to increase by £3.5m.

4. Critical accounting estimates and judgements continued

Critical accounting estimates continued

Income taxes

In determining the Group's tax provision, it is necessary to consider transactions in a small number of key tax jurisdictions for which the ultimate tax determination is uncertain. The Group's tax provision at 31 December 2018 is £39.2m (2017: £37.4m) and reflects a number of estimates where the amount of tax payable is either currently under audit by the tax authorities or relates to a period which has yet to be audited. These areas include the deductibility of interest on certain borrowings used to finance acquisitions made by the Group and the value at which goods and services are transferred between Group companies. The nature of the items, for which a provision is held, is such that the final outcome could vary from the amounts held once a final tax determination is made, although currently none of these exposures is considered individually material. Based on the Group's recent experience of revisions to previous tax estimates as more information has become available, and assuming no significant changes in legislation from those already announced, it currently expects the outcome across all open items to range from a potential increase of £16.0m in the provision to a potential reduction of £5.0m. To the extent the estimated 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.

Critical accounting judgements

Level at which impairment testing of goodwill is performed

Goodwill is required to be allocated to CGUs or groups of CGUs for the purpose of impairment testing. In the Group's judgement, with the exception of businesses within its Equipment Group segment and the advanced composite businesses acquired in late 2015, it is appropriate to allocate goodwill to the group of CGUs represented by its operating segments. In making this judgement, the Group considers the extent of consolidation of activities within each segment (other than in the Meggitt Equipment Group) is such that allocating goodwill to individual CGUs within that segment would require management to perform significant arbitrary allocations. The allocation of goodwill at a segment level is consistent with the level at which it is monitored by management.

The cash inflows of the advanced composites businesses are not considered independent of one another, and continue to be treated as a single CGU. Although integration of the activities of the CGU with the rest of the businesses within its operating segment is substantially complete, it is still possible to reliably allocate goodwill to the CGU and it continues to be monitored by management at this level. Accordingly impairment testing in the year has been performed at the CGU level. Due to the nature of CGUs within the Meggitt Equipment Group, which principally operate independently of one another, goodwill can be reliably allocated to each CGU within the segment for testing.

Capitalisation of development costs

The Group is required to make judgements as to when development costs meet the criteria to be recognised as intangible assets. 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 these costs. Post contract award, the Group will capitalise development costs provided it expects to retain the intellectual property in the technology throughout substantially all of 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 flow to the Group, the Group makes 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. During 2018, the Group recognised £58.6m of development costs as an intangible asset (see note 19).

Capitalisation of programme participation costs

Following the adoption of IFRS 15 in 2018, free of charge or deeply discounted manufactured parts ('FOC'), which represented approximately 85% of capitalised programme participation costs under the Group's previous accounting policy, are now expensed as incurred and no longer recognised as an intangible asset. Accordingly, the Group no longer considers the capitalisation of programme participation costs to be a critical judgement.

5. Revenue

The Group's revenue is analysed as follows:

	2018	2017
	£'m	Restated £'m
At a point in time	1,916.5	1,875.3
Over time: Power by the hour/Cost per brake landing	45.0	39.1
Over time: Other	119.1	80.0
Revenue	2,080.6	1,994.4

Revenue recognised in the current year relating to performance obligations satisfied or partially satisfied in the prior year was not significant.

6. Segmental analysis

Analysis by operating segment

The Group managed its businesses for the year ended 31 December 2018 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 30 to 39 of the Strategic report.

Year ended 31 December 2018: Analysis of income statement items

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	Meggitt Control Systems	Meggitt Polymers & Composites	Meggitt Sensing Systems	Meggitt Equipment Group	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Gross segment revenue	389.1	577.1	391.3	541.0	253.0	2,151.5
Inter-segment revenue	(7.3)	(1.5)	(2.4)	(42.4)	(17.3)	(70.9)
Revenue from external customers	381.8	575.6	388.9	498.6	235.7	2,080.6
At a point in time	349.3	570.7	385.0	489.9	121.6	1,916.5
Over time: Power by the hour/Cost per brake landing	31.9	4.9	–	8.2	–	45.0
Over time: Other	0.6	–	3.9	0.5	114.1	119.1
Revenue from external customers by basis of recognition	381.8	575.6	388.9	498.6	235.7	2,080.6
Civil OE	14.1	145.6	124.2	179.1	1.3	464.3
Civil Aftermarket	275.3	272.7	39.4	72.8	0.3	660.5
Defence	90.9	100.1	209.0	143.2	188.0	731.2
Energy	–	39.7	0.1	51.1	37.5	128.4
Other	1.5	17.5	16.2	52.4	8.6	96.2
Revenue from external customers by end market	381.8	575.6	388.9	498.6	235.7	2,080.6
Underlying operating profit (see note 10)*	121.5	127.0	6.0	84.0	28.8	367.3
Items not affecting underlying operating profit (see note 10)						(110.7)
Operating profit (see note 10)						256.6
Finance income (see note 12)						1.0
Finance costs (see note 13)						(41.5)
Net finance costs						(40.5)
Profit before tax						216.1
Tax charge (see note 14)						(37.1)
Profit for the year						179.0
Exceptional operating items**	3.9	4.5	3.5	7.1	0.5	19.5
Amortisation of intangible assets (see notes 19 and 20)***	62.9	21.3	21.4	20.2	6.4	132.2
Depreciation (see note 21)	9.2	9.6	12.3	15.8	6.7	53.6

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

** Central exceptional operating items of £14.7m were not included in segmental exceptional operating items reviewed by the CODM. Included within central exceptional operating items is an impairment loss of £8.2m (see notes 21 and 23).

*** Of the total amortisation in the year, £40.7m has been charged to underlying operating profit as defined in note 10.

The Group's largest customer accounts for 8.3% of revenue (£172.0m). Revenue from this customer arises across all segments.

Notes to the consolidated financial statements continued

6. Segmental analysis continued

Year ended 31 December 2018: Analysis of additions to non-current assets*

	Meggitt Aircraft Braking Systems £'m	Meggitt Control Systems £'m	Meggitt Polymers & Composites £'m	Meggitt Sensing Systems £'m	Meggitt Equipment Group £'m	Total £'m
Development costs (see note 19)	24.8	4.9	0.8	23.8	4.3	58.6
Programme participation costs (see note 19)	0.7	0.2	–	–	–	0.9
Other purchased intangible assets	0.1	8.7	1.0	2.1	0.4	12.3
Property, plant and equipment	11.0	14.4	23.4	9.3	3.1	61.2
Total	36.6	28.2	25.2	35.2	7.8	133.0

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

At 31 December 2018: Analysis of segmental trading assets

	Total £'m
Meggitt Aircraft Braking Systems	534.3
Meggitt Control Systems	418.2
Meggitt Polymers & Composites	282.5
Meggitt Sensing Systems	489.5
Meggitt Equipment Group	176.6
Total segmental trading assets	1,901.1
Centrally managed trading assets*	146.1
Goodwill (see note 18)	2,035.3
Other intangible assets	527.8
Investments (see note 22)	12.9
Derivative financial instruments – non-current (see note 33)	10.0
Deferred tax assets (see note 35)	16.3
Derivative financial instruments – current (see note 33)	9.3
Current tax recoverable	6.4
Cash and cash equivalents (see note 27)	181.9
Assets classified as held for sale (see note 23)	10.3
Total assets	4,857.4

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

Analysis by geography

	2018 £'m	2017 Restated £'m
UK	169.1	192.2
Rest of Europe	392.6	396.0
United States of America	1,220.6	1,133.5
Rest of World	298.3	272.7
Revenue	2,080.6	1,994.4

Revenue is based on the location of the customer.

	31 December 2018 £'m	31 December 2017 Restated £'m	1 January 2017 Restated £'m
UK	619.7	653.1	652.8
Rest of Europe	205.1	201.7	211.2
United States of America	2,782.8	2,669.9	3,020.8
Rest of World	17.4	11.4	12.9
Non-current assets	3,625.0	3,536.1	3,897.7

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

6. Segmental analysis continued

Year ended 31 December 2017 (Restated): Analysis of income statement items

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	388.1	522.5	339.4	525.8	266.4	2,042.2
Inter-segment revenue	(6.5)	(1.2)	(1.9)	(24.6)	(13.6)	(47.8)
Revenue from external customers	381.6	521.3	337.5	501.2	252.8	1,994.4
At a point in time	353.6	517.9	337.5	492.6	173.7	1,875.3
Over time: Power by the hour/Cost per brake landing	28.0	3.4	–	7.7	–	39.1
Over time: Other	–	–	–	0.9	79.1	80.0
Revenue from external customers by basis of recognition	381.6	521.3	337.5	501.2	252.8	1,994.4
Civil OE	17.9	134.4	111.1	178.8	4.9	447.1
Civil Aftermarket	276.5	235.1	38.6	73.0	1.7	624.9
Defence	85.5	92.9	174.1	138.1	191.1	681.7
Energy	–	38.3	0.3	57.5	21.6	117.7
Other	1.7	20.6	13.4	53.8	33.5	123.0
Revenue from external customers by end market	381.6	521.3	337.5	501.2	252.8	1,994.4
Underlying operating profit (see note 10)*	133.5	117.2	23.8	64.2	14.6	353.3
Items not affecting underlying operating profit (see note 10)						(80.6)
Operating profit (see note 10)						272.7
Finance income (see note 12)						1.4
Finance costs (see note 13)						(45.8)
Net finance costs						(44.4)
Profit before tax						228.3
Tax credit (see note 14)						64.5
Profit for the year						292.8
Exceptional operating items (see note 11)**	55.2	4.1	4.5	2.9	2.0	68.7
Amortisation of intangible assets (see notes 19 and 20)***	58.7	19.5	23.1	20.7	8.9	130.9
Impairment (gain)/loss (see note 19)****	(1.5)	1.7	–	0.7	–	0.9
Depreciation (see note 21)	10.1	9.5	10.8	16.0	7.5	53.9

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

** Central exceptional operating items of £4.4m were not included in segmental exceptional operating items reviewed by the CODM.

*** Of the total amortisation in the year, £37.4m was charged to underlying operating profit as defined in note 10.

**** Excludes amounts charged to exceptional operating items of £54.4m (see note 19).

The Group's largest customer accounts for 7.8% of revenue (£155.3m). Revenue from this customer arises across all segments.

Year ended 31 December 2017 (Restated): Analysis of additions to non-current assets*

	Meggitt Aircraft Braking Systems £'m	Meggitt Control Systems £'m	Meggitt Polymers & Composites £'m	Meggitt Sensing Systems £'m	Meggitt Equipment Group £'m	Total £'m
Development costs (see note 19)	29.5	5.1	0.6	24.4	1.9	61.5
Programme participation costs (see note 19)	1.8	–	0.2	–	–	2.0
Other purchased intangible assets	0.1	0.9	1.0	0.9	0.7	3.6
Property, plant and equipment	8.7	9.4	32.6	10.7	11.3	72.7
Total	40.1	15.4	34.4	36.0	13.9	139.8

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

Notes to the consolidated financial statements continued

6. Segmental analysis continued

At 31 December 2017 (Restated): Analysis of segmental trading assets

	Total £'m
Meggitt Aircraft Braking Systems	513.4
Meggitt Control Systems	346.0
Meggitt Polymers & Composites	234.1
Meggitt Sensing Systems	450.8
Meggitt Equipment Group	199.2
Total segmental trading assets	1,743.5
Centrally managed trading assets*	166.9
Goodwill (see note 18)	1,944.9
Other intangible assets	592.0
Investments (see note 22)	13.6
Derivative financial instruments – non-current (see note 33)	28.5
Deferred tax assets (see note 35)	26.3
Derivative financial instruments – current (see note 33)	3.6
Current tax recoverable	4.3
Cash and cash equivalents (see note 27)	118.5
Assets classified as held for sale (see note 23)	9.7
Total assets	4,651.8

At 1 January 2017 (Restated): Analysis of segmental trading assets

	Total £'m
Meggitt Aircraft Braking Systems	582.7
Meggitt Control Systems	370.8
Meggitt Polymers & Composites	239.9
Meggitt Sensing Systems	461.8
Meggitt Equipment Group	196.5
Total segmental trading assets	1,851.7
Centrally managed trading assets*	198.4
Goodwill (see note 18)	2,095.7
Other intangible assets	738.3
Investments (see note 22)	14.8
Derivative financial instruments – non-current	21.8
Deferred tax assets	28.8
Derivative financial instruments – current	4.2
Current tax recoverable	4.4
Cash and cash equivalents	173.8
Total assets	5,131.9

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

7. Auditor's remuneration

Payable to PricewaterhouseCoopers LLP and its associates:

	2018 £'m	2017 £'m
For the audit of the Company and consolidated financial statements in respect of the current year*	1.5	1.2
For the audit of the accounts of any subsidiary of the Company in respect of the current year	0.7	0.7
Auditor's remuneration	2.2	1.9

* Includes in 2018, amounts in respect of the transition to IFRS 9, IFRS 15 and IFRS 16.

Non-audit fees payable to PricewaterhouseCoopers LLP were £0.1m (2017: £0.1m).

8. Operating profit

Operating profit is stated after charging/(crediting):

	2018	2017
	£'m	Restated £'m
Raw materials and consumables used	635.3	564.4
Change in inventories of finished goods and work in progress	32.3	2.0
Free of charge/deeply discounted manufactured parts ('FOC')	66.5	56.5
Employee costs (see note 9)	749.9	724.4
Research and development costs*	79.7	95.4
Amortisation of capitalised development costs (see note 19)	22.1	22.1
Amortisation of programme participation costs (see note 19)	0.8	0.6
Amortisation of intangible assets acquired in business combinations (see note 10)	91.5	93.5
Amortisation of software and other intangible assets (see note 20)	17.8	14.7
Impairment loss on capitalised development costs (see note 19)	-	0.9
Depreciation (see note 21)	53.6	53.9
Impairment loss on property, plant and equipment (see note 21)	3.6	2.0
Loss on disposal of property, plant and equipment	3.0	0.8
Loss on disposal of software and other intangible assets	-	0.3
Exceptional operating items (see note 11)	34.2	73.1
Amounts arising on the acquisition, disposal and closure of businesses (see note 10)	(25.1)	(25.3)
Financial instruments (see note 10)	10.1	(60.7)
Net foreign exchange gains	(0.3)	(7.1)
Share of loss/(profit) after tax of joint venture (see note 22)	1.5	(0.6)
Other operating income	(3.6)	(5.4)

* Total research and development expenditure in the year is £138.3m (2017 restated: £157.9m) of which £31.8m (2017 restated: £38.8m) is charged to cost of sales or manufacturing work in progress, £47.9m (2017 restated: £56.6m) is charged to net operating costs and £58.6m (2017 restated: £62.5m) is capitalised as development costs (see note 19).

9. Employee information

	2018	2017
	£'m	£'m
Wages and salaries	593.4	574.8
Social security costs	99.7	102.9
Retirement benefit costs (see note 36)	43.3	38.7
Share-based payment expense (see note 38)	13.5	8.0
Employee costs including executive directors	749.9	724.4

	2018	2017
	Number	Number
Meggitt Aircraft Braking Systems	1,170	1,169
Meggitt Control Systems	1,651	1,695
Meggitt Polymers & Composites	3,082	2,632
Meggitt Sensing Systems	2,834	2,927
Meggitt Equipment Group	1,251	1,521
Corporate including shared services	498	457
Total persons employed	10,486	10,401
Other persons providing similar services	896	673
Average monthly number of persons employed including executive directors	11,382	11,074

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. Items excluded from underlying profit measures are treated consistently with the way performance is measured under the Group's short-term and long-term incentive plans and with covenant requirements defined in the Group's committed credit facilities.

	Notes	2018 £'m	2017 Restated £'m
Operating profit		256.6	272.7
Amounts arising on the acquisition, disposal and closure of businesses	a	(25.1)	(25.3)
Amortisation of intangible assets acquired in business combinations	b	91.5	93.5
Financial instruments	c	10.1	(60.7)
Exceptional operating items (see note 11)		34.2	73.1
Adjustments to operating profit*		110.7	80.6
Underlying operating profit		367.3	353.3
Profit before tax		216.1	228.3
Adjustments to operating profit per above		110.7	80.6
Net interest expense on retirement benefit obligations (see note 36)**		8.0	11.3
Adjustments to profit before tax		118.7	91.9
Underlying profit before tax		334.8	320.2
Profit for the year		179.0	292.8
Adjustments to profit before tax per above		118.7	91.9
Tax effect of adjustments to profit before tax		(29.1)	(49.0)
Impact of reduction in the US rate of federal corporate tax (see note 14)***		(4.1)	(88.3)
Adjustments to profit for the year		85.5	(45.4)
Underlying profit for the year		264.5	247.4

* Of the adjustments to operating profit, £18.1m (2017 restated: £8.5m) relating to exceptional operating items has been charged to cost of sales, with the balance of £92.6m (2017 restated: £72.1m) included within net operating costs.

** The Board considers net interest expense on retirement benefit obligations to be a non-trading item and accordingly excludes it from underlying profit measures.

*** Due to the significance of the tax credits arising from the reduction in the US rate of federal corporate tax, these amounts have been excluded from underlying profit measures.

- a. Delivery of the Group's strategy includes investment in acquisitions that enhance its technology portfolio. The exclusion of significant items arising from M&A activity is designed by the Board to align short-term operational decisions with this longer-term strategy. Accordingly amounts arising on the acquisition, disposal and closure of businesses are excluded from underlying profit measures. 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 and disposal of businesses.

	2018 £'m	2017 £'m
Gain on disposal of businesses before disposal expenses (see note 42)	(30.4)	(40.3)
Costs related to the disposal of businesses in the current period	2.5	0.6
Gain on disposal of businesses (see note 44)	(27.9)	(39.7)
Costs related to the disposal of businesses in prior periods	0.3	-
Costs related to the acquisition of businesses	-	0.2
Remeasurement of fair value of contingent consideration payable relating to previously acquired businesses	(3.6)	-
Impairment of assets classified as held for sale (see note 23)	6.1	14.2
Amounts arising on the acquisition, disposal and closure of businesses	(25.1)	(25.3)

10. Reconciliations between profit and underlying profit continued

- b. For the same reasons as described in note 10a, the Group also excludes from its underlying profit figures the amortisation of intangible assets acquired in business combinations.

	2018 £'m	2017 £'m
Amortisation of other intangible assets (see note 20)	109.3	108.2
Less amortisation of software and other intangible assets (see note 20)	(17.8)	(14.7)
Amortisation of intangible assets acquired in business combinations	91.5	93.5

- c. To ensure appropriate and timely commercial decisions are made as to when and how to mitigate the Group's foreign currency and interest rate exposures, gains and losses arising from the marking to market of financial instruments that are not hedge accounted are excluded from underlying profit measures.

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 IFRS 9 'Financial Instruments' are not merited. The Group's underlying profit figures exclude amounts which would not have been recognised if hedge accounting had been applied.

When interest rate derivatives qualify to be hedge accounted, any difference recognised in the income statement between the movements in fair value of the 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 fair value of the derivatives are excluded from underlying profit.

	2018 £'m	2017 Restated £'m
Movement in fair value of foreign currency forward contracts	27.9	(73.8)
Impact of retranslating net foreign currency assets and liabilities at spot rate	(1.0)	0.5
Movement in fair value of interest rate derivatives	5.4	8.1
Movement in fair value of fixed rate borrowings due to interest rate risk (see note 32)	(4.9)	(8.9)
Movement in fair value of cross currency derivatives	(16.8)	13.9
Movement in fair value of treasury lock derivative	(0.5)	(0.5)
Financial instruments – Loss/(gain)	10.1	(60.7)

11. Exceptional operating items

Delivery of the Group's strategy includes the restructuring of its cost base to deliver operational improvements. The exclusion from underlying profit measures of significant items arising from site consolidations and business restructuring is designed by the Board to align short-term operational decisions with this longer-term strategy. Due to the significance of the impairment loss in 2017 arising from cancellation of the Dassault Falcon 5X programme it was excluded from underlying profit measures. The Board considers the impact of the Court ruling on Guaranteed Minimum Pension equalisation in 2018 to be a non-trading item and accordingly has excluded it from underlying profit measures.

	Notes	Income statement		Cash expenditure	
		2018 £'m	2017 Restated £'m	2018 £'m	2017 £'m
Site consolidations	a	28.7	7.9	8.2	8.5
Impairment loss arising from cancellation of Dassault Falcon 5X programme	b	–	58.0	–	–
Business restructuring costs		3.1	2.7	3.1	0.8
Guaranteed Minimum Pension equalisation (see note 36)		1.7	–	–	–
Integration of acquired businesses		0.7	4.5	0.7	4.5
Exceptional operating items		34.2	73.1	12.0	13.8

- a. This relates to costs incurred in respect of the Group's previously announced plans to reduce its footprint by 20% by the end of 2021. Cumulative costs since the announcement are £43.6m (2017: £14.9m). In 2018, costs are principally in respect of the move to a new facility being constructed at Ansty Park in the West Midlands which will enable the Group to consolidate a range of manufacturing, engineering and support operations into a single centre of excellence. The charge in 2018 includes impairment losses in respect of property, plant and equipment of £3.6m (see note 21) and assets classified as held for sale of £4.6m (see note 23).
- b. On 13 December 2017, Dassault Aviation announced the cancellation of its Falcon 5X programme. The cancellation resulted in a cost of £58.0m being recognised in 2017, comprising an impairment loss of £54.4m in respect of capitalised development costs and £3.6m in respect of the reduction of inventory to net realisable value (see note 4).

The tax credit in respect of exceptional operating items is £4.8m (2017 restated: £25.3m).

Notes to the consolidated financial statements continued

12. Finance income

	2018 £'m	2017 £'m
Interest on bank deposits	–	0.1
Unwinding of interest on other receivables (see note 34)	0.8	1.2
Other finance income	0.2	0.1
Finance income	1.0	1.4

13. Finance costs

	2018 £'m	2017 Restated £'m
Interest on bank borrowings	2.6	2.2
Interest on senior notes	28.0	30.0
Interest on lease liabilities	3.7	3.8
Unwinding of discount on provisions (see note 34)	1.7	2.0
Net interest expense on retirement benefit obligations (see note 36)	8.0	11.3
Amortisation of debt issue costs	0.8	0.9
Less: amounts capitalised in the cost of qualifying assets (see note 19)	(3.3)	(4.4)
Finance costs	41.5	45.8

14. Tax

	2018 £'m	2017 Restated £'m
Current tax – current year	32.7	27.5
Current tax – adjustment in respect of prior years	(7.0)	4.2
Deferred tax – origination and reversal of temporary differences	2.2	(3.7)
Deferred tax – impact of reduction in the US rate of federal corporate tax (see note 10)	(4.1)	(88.3)
Deferred tax – effects of changes in other statutory tax rates	0.6	(2.7)
Deferred tax – adjustment in respect of prior years	12.7	(1.5)
Tax charge/(credit)	37.1	(64.5)

On 22 December 2017, the US government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act ("TCJA"). The TCJA made substantial changes to the Internal Revenue Code of 1986, as amended. Among those changes was a significant reduction in the generally applicable US federal corporate tax rate from 35% to 21%, with effect from 1 January 2018. The Group's deferred tax balances relating to its US operations were remeasured in 2017 to reflect this rate reduction, with the impact excluded from the Group's underlying tax charge (see note 10). In 2018, the Group made an additional USD40.0m deficit contribution into certain of its US pension schemes. This contribution is deductible against the Group's US taxable profits for the year ended 31 December 2017 and accordingly attracts federal tax relief at 35%. The difference between the tax relief at 35% and the deferred tax recognised on this deficit at 21% at 31 December 2017 of £4.1m has been excluded from the Group's underlying tax charge for 2018 (see note 10).

The Finance (No 2) Act 2015 and Finance Act 2016, included legislation to reduce the main rate of corporation tax in the UK from 19% to 17% with effect from 1 April 2020. As these changes were substantively enacted in prior years, they have had no significant impact on the tax charge for the current year.

Reconciliation of tax charge/(credit)

A reconciliation based on the weighted average tax rate applicable to the profits of the Group's consolidated businesses is as follows:

	2018 £'m	2017 Restated £'m
Profit before tax at weighted average tax rate of 22.2%* (2017 restated: 18.4%)	47.9	41.8
Effects of:		
Impact of reduction in the US rate of federal corporate tax (see note 10)	(4.1)	(88.3)
Changes in other statutory tax rates	0.6	(2.7)
Tax effect of share-based payments	(0.9)	1.1
Non-taxable gain on disposal of businesses	(5.0)	(0.4)
Tax concessions	(8.6)	(13.5)
Tax credits and incentives	(2.7)	(4.2)
Additional provisions in respect of historical tax uncertainties/(Unused amounts reversed)	0.9	(4.1)
Other permanent differences	3.3	3.1
Current tax – adjustment in respect of prior years	(7.0)	4.2
Deferred tax – adjustment in respect of prior years	12.7	(1.5)
Tax charge/(credit)	37.1	(64.5)

* Calculated as the weighted average tax rate applicable to profits of the Group's businesses in their respective countries in the year. It does not therefore reflect any changes in tax rates that have been substantively enacted, but are not applicable until future periods. 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 2018 to increase, or reduce respectively, by approximately £9.8m of which £7.6m arises from the impact of the change in tax rate on net deferred tax liabilities.

14. Tax continued

The tax reconciliation for 2018 includes £8.6m in respect of tax concessions in the UK and Switzerland which allow income to be taxed at beneficial rates, £2.7m in respect of tax credits and incentives in the US for items such as research & development expenditure and additional provisions of £0.9m in respect of various historical tax issues in the Group (see note 4).

Tax relating to components of other comprehensive income

	2018			2017 (Restated)		
	Before tax	Tax (charge)/ credit	After tax	Before tax	Tax (charge)/ credit	After tax
	£'m	£'m	£'m	£'m	£'m	£'m
Current tax – currency translation movements	92.4	2.4	94.8	(147.5)	(2.8)	(150.3)
Deferred tax – currency translation movements	(1.7)	0.2	(1.5)	–	–	–
Deferred tax – movements in fair value of financial liabilities arising from changes in credit risk	0.8	(0.2)	0.6	(2.1)	0.4	(1.7)
Deferred tax – cash flow hedge movements	(0.3)	0.1	(0.2)	(0.2)	–	(0.2)
Deferred tax – remeasurement of retirement benefit obligations	46.2	(7.3)	38.9	66.6	(27.1)	39.5
Other comprehensive income/(expense)	137.4	(4.8)	132.6	(83.2)	(29.5)	(112.7)
Current tax		2.4			(2.8)	
Deferred tax		(7.2)			(26.7)	
Total		(4.8)			(29.5)	

Tax relating to items recognised directly in equity

	2018 £'m	2017 £'m
Current tax credit relating to share-based payment expense	0.1	0.3
Deferred tax charge relating to share-based payment expense	(0.4)	(0.2)
Total	(0.3)	0.1

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 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 39). The weighted average number of treasury shares excluded is Nil shares (2017: Nil shares) and the weighted average number of own shares excluded is 4.1m shares (2017: 2.4m shares). The calculation of diluted EPS adjusts the weighted average number of shares to reflect the assumption that all potentially dilutive ordinary shares convert. For the Group, this means assuming all share awards in issue are exercised.

	2018 Profit* £'m	2018 Shares Number 'm	2018 EPS Pence	2017 Profit* Restated £'m	2017 Shares Number 'm	2017 EPS Restated Pence
Basic EPS	179.0	773.2	23.2	292.8	774.2	37.8
Potential effect of dilutive ordinary shares	–	12.7	(0.4)	–	15.0	(0.7)
Diluted EPS	179.0	785.9	22.8	292.8	789.2	37.1

* 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 used in the calculation of basic EPS. It is reconciled to basic EPS below:

	2018 Pence	2017 Restated Pence
Basic EPS	23.2	37.8
Adjust for effects of:		
Amounts arising on the acquisition, disposal and closure of businesses	(3.2)	(3.1)
Amortisation of intangible assets acquired in business combinations	9.1	7.8
Financial instruments	1.0	(6.3)
Exceptional operating items	3.8	6.2
Net interest expense on retirement benefit obligations	0.8	1.0
Impact of reduction in the US rate of federal corporate tax	(0.5)	(11.4)
Underlying basic EPS	34.2	32.0

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 is 33.7 pence (2017 restated: 31.3 pence).

Notes to the consolidated financial statements continued

16. Dividends

	2018 £'m	2017 £'m
In respect of earlier years	–	79.6
In respect of 2017:		
Interim of 5.05p per share	–	39.0
Final of 10.80p per share	83.3	–
In respect of 2018:		
Interim of 5.30p per share	40.9	–
Dividends paid in cash	124.2	118.6

A final dividend in respect of 2018 of 11.35p per share (2017: 10.80p), amounting to an estimated total final dividend of £88.2m (2017: £83.3m) is to be proposed at the Annual General Meeting on 25 April 2019. This dividend is not reflected in the consolidated financial statements as it has not been approved by the shareholders at the balance sheet date.

17. Related party transactions

During the year, the Group made sales to the joint venture of £3.3m (2017: £3.7m) and purchases from the joint venture of £0.2m (2017: £0.4m). Amounts due both from and to the joint venture at the balance sheet date are not significant. 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 2018 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 during the year.

	2018 £'m	2017 £'m
Salaries and other short-term employee benefits	11.1	11.7
Retirement benefit expense	–	0.2
Share-based payment expense	4.1	2.3
Total	15.2	14.2

Full details of all elements in the remuneration package of each director, together with directors' share interests and share awards, are disclosed in the Directors' remuneration report on pages 92 to 114 which forms part of these consolidated financial statements.

18. Goodwill

	2018 £'m	2017 Restated £'m
Cost at 1 January	1,944.9	2,095.7
Exchange rate adjustments	91.2	(140.9)
Business acquired	–	10.6
Businesses disposed (see note 44)	(0.8)	(20.5)
Cost at 31 December	2,035.3	1,944.9

The date at which the Group performs its annual impairment testing is 30 June. If any events or changes in circumstances subsequent to this date indicate the carrying value may not be recoverable, further testing is performed. No impairment charge was required in the year (2017: £Nil) and the cumulative impairment charge recognised to date is £Nil (2017: £Nil).

An analysis of goodwill by CGU or group of CGUs is shown below:

	2018 £'m	2017 Restated £'m
Meggitt Aircraft Braking Systems ('MABS')	807.2	766.5
Meggitt Control Systems ('MCS')	484.1	462.4
Meggitt Polymers & Composites ('MPC')		
Excluding EDAC & Advanced Composites	135.3	130.4
EDAC & Advanced Composites	236.2	226.7
Meggitt Sensing Systems ('MSS')	242.7	234.6
Meggitt Training Systems ('MTS')	81.6	77.1
Other	48.2	47.2
Total	2,035.3	1,944.9

For each CGU or group of CGUs, the Group has determined its recoverable amount from value in use calculations. The value in use calculations are based on cash flow forecasts derived from the most recent budgets and plans for the next five years, as approved by management in 2018. 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 to the relevant CGU or group of CGUs.

18. Goodwill continued

The key assumptions for the value in use calculations for all CGUs and groups of CGUs are as follows:

- Sales volumes over the five years covered by management's detailed plans
These are based on management estimates for growth in civil aerospace OE, civil aerospace aftermarket, defence and energy markets, and reflect the position each business has on individual aerospace and other programmes. They are derived from industry forecasts for deliveries of large jets, regional aircraft and business jets; air traffic growth; defence spending by the US DoD and other major governments; and oil prices. The exposure of MABS, MCS, MPC and MSS to these markets is set out in the Strategic report on page 25. MTS operates entirely within the defence market. The Group's medium term expectations for growth in each of these markets, is set out in the Strategic report on pages 26 to 29.
- Selling prices and production cost changes over the five years covered by management's detailed plans
These are based on contractual agreements with customers and suppliers; management's past experience and expectations of future market changes; and the continued maturity of the Meggitt Production System.
- 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 or group of CGUs operates; external industry forecasts of long-term growth in the aerospace and defence sectors; the extent to which a CGU or group of CGUs has sole-source positions on platforms where it is able to share in a continuing stream of highly profitable aftermarket revenues; the maturity of the platforms it supplies; and the technological content of its 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 or group of CGUs operates (UK: 1.8% (2017: 2.0%), US: 2.0% (2017: 2.3%), the latter has been used.
- Discount rates applied to future cash flows
The Group's post-tax weighted average cost of capital (WACC) is used as the foundation for determining the discount rates to be applied. The WACC is adjusted to a pre-tax rate and to reflect risks specific to the CGU or group of CGUs not already reflected in its future cash flows. The pre-tax discount rates used are as follows:

	2018*	2017
	%	%
MABS	9.0	10.0
MCS	9.7	10.7
MPC excluding EDAC & Advanced Composites	9.3	10.1
EDAC & Advanced Composites	8.6	10.1
MSS	8.0	8.3
MTS	10.5	11.9
Other	8.8-11.0	9.1-12.0

* Each CGU and group of CGUs listed above has significant cash flows that arise in the US. The reduction in US federal tax rate from 35% to 21% at the end of 2017 has accordingly resulted in the discount rates used for the Group's 2018 annual impairment testing being lower across all CGUs and groups of CGUs than those used for the 2017 impairment testing, which were performed prior to the tax reductions being enacted.

When the impairment testing was performed in 2018, the least headroom was in EDAC and Advanced Composites and MTS. EDAC and Advanced Composites had the least headroom in percentage terms at 56% of the carrying value of goodwill. Headroom was £132.1m (2017: £317.3m). The key assumptions used in the impairment testing were:

- Compound annual revenue growth over the five year plan period of approximately 15%
Over the three year period since acquisition, compound annual revenue growth has been 11%, with 17% growth in 2018. The plan reflects this past experience, together with recent contract awards, including the USD750m multi-year award from Pratt & Whitney for advanced composite parts for the F-119 and F-135 engines which power the F-22 Raptor and F-35 Lightning II aircraft. The level of growth has also been benchmarked against third party analysis for growth in advanced composite demand over the period covered by the plan. Compound annual revenue growth would need to reduce to 12%, without any mitigating action on costs, before an impairment would be triggered.
- An average gross margin over the five year plan period of approximately 24%
The plan assumes a gradual increase in gross margin over the plan period attributable to increased volumes; elimination of incremental costs incurred in recent years as operational challenges were experienced in ramping up production for higher volumes; and reductions in costs as production of certain high volume parts is moved to low cost manufacturing facilities, commencing in 2019. Average gross margin over the period would need to reduce to 21%, without any mitigating action on overhead costs, before an impairment would be triggered.
- Growth rates used for periods beyond those covered by the five year plan
Long-term growth rates for the period beyond five years have been restricted to the US GDP rate of 2.0%, significantly lower than industry data for the advanced composites market over this period.
- Discount rate applied to future cash flows
The Group has used a discount rate of 8.6% in 2018 for its impairment testing. Were the discount rate to increase to 10.1% an impairment would be triggered. This is the same rate used for impairment testing in 2017, albeit the rate derived for 2017 reflected the higher US tax rates prevailing at that date.

MTS headroom as a percentage of the carrying value of goodwill is 63%. Headroom was £51.8m (2017: £65.5m). No reasonably foreseeable change in key assumptions used in the impairment model would result in a significant impairment charge being recognised in the consolidated financial statements.

Notes to the consolidated financial statements continued

19. Development costs and programme participation costs

	Development costs £'m	Programme participation costs £'m
At 1 January 2017 (Restated)		
Cost	667.1	35.9
Accumulated amortisation	(124.1)	(18.9)
Net book amount	543.0	17.0
Year ended 31 December 2017 (Restated)		
Opening net book amount	543.0	17.0
Exchange rate adjustments	(36.8)	(1.3)
Additions – Internal development costs	62.6	–
– Cash payments	–	2.0
Interest capitalised (see note 13)	4.4	–
Impairment loss*	(55.3)	–
Amortisation*	(22.1)	(0.6)
Net book amount	495.8	17.1
At 31 December 2017 (Restated)		
Cost	683.0	34.6
Accumulated amortisation	(187.2)	(17.5)
Net book amount	495.8	17.1
Year ended 31 December 2018		
Opening net book amount	495.8	17.1
Exchange rate adjustments	24.1	1.0
Additions – Internal development costs	58.6	–
– Cash payments	–	0.9
Interest capitalised (see note 13)	3.3	–
Transfer to assets classified as held for sale (see note 23)	(2.6)	–
Amortisation*	(22.1)	(0.8)
Net book amount	557.1	18.2
At 31 December 2018		
Cost	774.9	38.0
Accumulated amortisation	(217.8)	(19.8)
Net book amount	557.1	18.2

* Charged to net operating costs. Of the 2017 impairment loss, £54.4m in respect of development costs was charged to exceptional operating items following cancellation of the Dassault Falcon 5X programme (see note 11).

The net book amount of development costs includes £246.8m (2017: £205.1m) in respect of Meggitt Aircraft Braking Systems which have an estimated weighted average remaining life of 13.4 years (2017: 14.7 years).

The programme with the largest capitalised balance is the Airbus A220 (previously known as the Bombardier CSeries) with a net book amount of £95.8m (2017 restated: £90.0m), comprising development costs of £85.1m (2017: £80.4m) and programme participation costs of £10.7m (2017 restated: £9.6m). Fleet volumes would need to fall to approximately 435 (a reduction of more than 50% from management estimates, which are based on public forecasts from industry experts), without any mitigation actions taken by the Group, before any impairment would need to be recognised.

Interest has been capitalised using the average rate payable on the Group's floating rate borrowings of 2.0% (2017: 2.0%). Tax relief claimed on interest capitalised in the year is £0.6m (2017: £0.8m).

20. Other intangible assets

	Acquired in business combinations*					Total £'m
	Customer relationships	Technology	Order backlogs	Trade names and trademarks	Software and other assets	
	£'m	£'m	£'m	£'m	£'m	
At 1 January 2017						
Cost	1,179.0	348.6	9.6	34.5	164.0	1,735.7
Accumulated amortisation	(602.9)	(196.4)	(4.4)	(29.7)	(84.7)	(918.1)
Net book amount	576.1	152.2	5.2	4.8	79.3	817.6
Year ended 31 December 2017						
Opening net book amount	576.1	152.2	5.2	4.8	79.3	817.6
Exchange rate adjustments	(40.0)	(9.8)	(0.3)	(0.4)	(2.7)	(53.2)
Business acquired	8.6	1.1	-	-	-	9.7
Businesses disposed	(7.6)	(4.4)	-	-	(0.7)	(12.7)
Additions	-	-	-	-	20.4	20.4
Transfer to assets classified as held for sale	-	-	-	-	(1.2)	(1.2)
Disposals	-	-	-	-	(0.3)	(0.3)
Amortisation – net operating costs	(67.7)	(21.6)	(3.5)	(0.7)	(14.7)	(108.2)
Net book amount	469.4	117.5	1.4	3.7	80.1	672.1
At 31 December 2017						
Cost	1,089.1	317.3	4.7	31.1	170.0	1,612.2
Accumulated amortisation	(619.7)	(199.8)	(3.3)	(27.4)	(89.9)	(940.1)
Net book amount	469.4	117.5	1.4	3.7	80.1	672.1
Year ended 31 December 2018						
Opening net book amount	469.4	117.5	1.4	3.7	80.1	672.1
Exchange rate adjustments	22.1	5.1	-	0.2	1.8	29.2
Businesses disposed (see note 44)	(0.1)	-	-	-	-	(0.1)
Additions	-	-	-	-	19.3	19.3
Transfer to assets classified as held for sale (see note 23)	-	-	-	-	(0.5)	(0.5)
Disposals	-	-	-	-	(0.3)	(0.3)
Amortisation – net operating costs	(66.6)	(22.8)	(1.4)	(0.7)	(17.8)	(109.3)
Net book amount	424.8	99.8	-	3.2	82.6	610.4
At 31 December 2018						
Cost	1,142.6	332.3	-	32.4	190.6	1,697.9
Accumulated amortisation	(717.8)	(232.5)	-	(29.2)	(108.0)	(1,087.5)
Net book amount	424.8	99.8	-	3.2	82.6	610.4

* Amortisation of these items is excluded from the Group's underlying profit figures (see note 10).

During 2018, cost and accumulated amortisation relating to completed order backlogs were eliminated.

The net book amount of customer relationships includes £220.2m (2017: £251.2m) in respect of Meggitt Aircraft Braking Systems, £119.6m (2017: £124.6m) in respect of Meggitt Polymers & Composites, £49.5m (2017: £54.6m) in respect of Meggitt Control Systems and £35.5m (2017: £39.0m) in respect of Meggitt Sensing Systems, which have estimated weighted average remaining lives of 5.0 years (2017: 6.0 years), 13.3 years (2017: 14.0 years), 7.2 years (2017: 7.0 years) and 7.2 years (2017: 8.2 years) respectively.

The net book amount of technology includes £44.6m (2017: £50.9m) in respect of Meggitt Aircraft Braking Systems and £35.9m (2017: £39.3m) in respect of Meggitt Polymers & Composites which have estimated weighted average remaining lives of 5.2 years (2017: 6.2 years) and 8.2 years (2017: 9.0 years) respectively.

Notes to the consolidated financial statements continued

21. Property, plant and equipment

	Land and buildings £'m	Plant, equipment and vehicles £'m	Right-of-use assets: property £'m	Right-of-use assets: other £'m	Total £'m
At 1 January 2017 (Restated)					
Cost	220.3	559.0	143.3	2.7	925.3
Accumulated depreciation	(79.1)	(365.4)	(56.4)	–	(500.9)
Net book amount	141.2	193.6	86.9	2.7	424.4
Year ended 31 December 2017 (Restated)					
Opening net book amount	141.2	193.6	86.9	2.7	424.4
Exchange rate adjustments	(5.8)	(10.9)	(6.5)	(0.1)	(23.3)
Businesses acquired	–	0.2	–	–	0.2
Businesses disposed	(1.9)	(5.8)	–	–	(7.7)
Additions	17.0	43.9	15.1	0.8	76.8
Transfer to assets classified as held for sale	(1.3)	(4.3)	–	–	(5.6)
Disposals	(0.6)	(2.1)	–	–	(2.7)
Impairment loss	–	(2.0)	–	–	(2.0)
Depreciation	(8.7)	(31.4)	(13.0)	(0.8)	(53.9)
Net book amount	139.9	181.2	82.5	2.6	406.2
At 31 December 2017 (Restated)					
Cost	219.3	518.2	147.0	3.4	887.9
Accumulated depreciation	(79.4)	(337.0)	(64.5)	(0.8)	(481.7)
Net book amount	139.9	181.2	82.5	2.6	406.2
Year ended 31 December 2018					
Opening net book amount	139.9	181.2	82.5	2.6	406.2
Exchange rate adjustments	3.7	8.4	4.0	0.1	16.2
Businesses disposed (see note 44)	(2.2)	(1.3)	–	–	(3.5)
Additions	12.9	44.1	4.0	0.6	61.6
Transfer to assets classified as held for sale (see note 23)	(14.0)	(0.6)	–	–	(14.6)
Disposals	(0.5)	(4.2)	–	–	(4.7)
Impairment loss*	(3.0)	(0.3)	(0.3)	–	(3.6)
Depreciation	(8.1)	(31.1)	(13.5)	(0.9)	(53.6)
Net book amount	128.7	196.2	76.7	2.4	404.0
At 31 December 2018					
Cost	218.5	553.6	158.7	4.1	934.9
Accumulated depreciation	(89.8)	(357.4)	(82.0)	(1.7)	(530.9)
Net book amount	128.7	196.2	76.7	2.4	404.0

* Charged to exceptional operating items (see note 11) and included within cost of sales.

22. Investments

The Group's investment in its joint venture, Parkway-HS, LLC is accounted for using the equity method and is stated as follows:

	2018 £'m	2017 £'m
At 1 January	13.6	14.8
Exchange rate adjustments	0.8	(1.3)
Share of (loss)/profit after tax	(1.5)	0.6
Dividends received	-	(0.5)
At 31 December	12.9	13.6

Summarised financial information for joint venture

The information below reflects amounts presented in the financial statements of the joint venture adjusted to reflect the Group's accounting policies (and not the Group's share of those amounts unless otherwise stated).

Summarised statement of comprehensive income for the year ended 31 December 2018

	2018 £'m	2017 £'m
Revenue	16.8	16.5
Operating (loss)/profit	(2.0)	1.1
Finance costs	(0.1)	(0.1)
(Loss)/profit before tax	(2.1)	1.0
Tax charge	(0.1)	(0.1)
(Loss)/profit after tax	(2.2)	0.9
Total comprehensive expense from continuing operations	(2.0)	(0.3)

Summarised balance sheet

At 31 December 2018

	2018 £'m	2017 £'m
Property, plant and equipment	1.8	1.4
Cash and cash equivalents	0.2	0.7
Other current assets	6.1	5.9
Total current assets	6.3	6.6
Financial liabilities (excluding trade payables)	(2.5)	(1.7)
Other current liabilities	(3.3)	(2.0)
Total current liabilities	(5.8)	(3.7)
Net assets	2.3	4.3

Reconciliation of summarised financial information

At 31 December 2018

	2018 £'m	2017 £'m
Net assets at 1 January	4.3	4.6
Total comprehensive expense	(2.0)	(0.3)
Net assets at 31 December	2.3	4.3
Group's interest in joint venture at 70%	1.6	3.0
Goodwill	11.3	10.6
Group's investment at 31 December	12.9	13.6

There are no contingent liabilities relating to the Group's interest in the joint venture.

Notes to the consolidated financial statements continued

23. Assets classified as held for sale

On 26 March 2018, the Group completed the disposal of Linear Motion LLC, previously classified as a disposal group.

During the year, the Group decided to dispose of the trade and assets of Meggitt (France) SAS, based in Fléac, France and at 31 December 2018, determined that a sale was highly probable. Accordingly, the related assets have been classified as a disposal group held for sale and are presented separately at the balance sheet date together with directly associated liabilities. An impairment loss of £6.1m was recognised to reduce the assets to their recoverable value (see note 10). The business is reported within Meggitt Sensing Systems.

Additionally, in 2018 the Group has transferred £14.0m in respect of land and buildings relating to its manufacturing facilities in Coventry, West Midlands, UK to assets classified as held for sale. An impairment loss of £4.6m was recognised to reduce the assets to their recoverable value (see note 11). These facilities were subject to a sale and leaseback transaction that commenced in the year and completed in January 2019 (see note 30).

	2018		Total
	Assets classified as held for sale	Liabilities directly associated with assets classified as held for sale	
	£'m	£'m	£'m
At 1 January 2018	9.7	(7.8)	1.9
Exchange rate adjustments	(0.5)	0.4	(0.1)
Change in carrying value of held for sale assets and liabilities up to date of disposal	0.8	4.1	4.9
Business disposed (see note 44)	(10.0)	3.3	(6.7)
Additions	21.1	(0.1)	21.0
Impairment loss	(10.8)	0.1	(10.7)
At 31 December 2018	10.3	-	10.3

	2018		Total
	Carrying value before classification as held for sale	Allocated impairment loss	
	£'m	£'m	£'m
Development costs (see note 19)	2.6	(2.6)	-
Other intangible assets (see note 20)	0.5	(0.5)	-
Property, plant and equipment (see note 21)	14.6	(5.2)	9.4
Inventories	2.9	(2.0)	0.9
Trade and other receivables	0.5	(0.5)	-
Assets classified as held for sale	21.1	(10.8)	10.3
Trade and other payables	0.1	(0.1)	-
Liabilities directly associated with assets classified as held for sale	0.1	(0.1)	-

24. Inventories

	2018	2017
	£'m	Restated £'m
Raw materials and bought-in components	169.5	159.2
Manufacturing work in progress	179.4	163.8
Finished goods and goods for resale	92.3	70.4
Total	441.2	393.4

The cost of inventories recognised as an expense and included in cost of sales is £1,226.3m (2017 restated: £1,158.7m). The cost of inventories recognised as an expense includes £3.8m (2017: £7.3m) in respect of write-downs of inventory to net realisable value of which £Nil (2017: £3.6m) has been recognised as an exceptional operating item (see note 11). The cost of inventories recognised as an expense has been reduced by £3.9m (2017: £2.5m) in respect of the reversal of write-downs of inventory to net realisable value made in previous years.

25. Trade and other receivables

	2018 £'m	2017 Restated £'m
Trade receivables	344.1	320.2
Prepayments	23.1	18.1
Other receivables	46.4	51.4
Current portion	413.6	389.7
Other receivables	21.5	38.7
Non-current portion	21.5	38.7
Total	435.1	428.4

Other receivables includes £34.1m (2017: £64.1m) in respect of amounts recoverable from insurers and other third parties principally relating to businesses sold by Whittaker Corporation prior to its acquisition by the Group of which £16.6m (2017: £30.1m) is shown as current (see note 34).

Trade receivables are stated after a provision for impairment of £7.1m (2017: £4.5m). Other balances within trade and other receivables do not contain impaired assets.

	2018 £'m	2017 £'m
At 1 January	4.5	6.1
Exchange rate adjustments	0.2	(0.4)
Businesses disposed	–	(0.2)
Charge/(credit) to income statement – net operating costs	2.4	(1.0)
At 31 December	7.1	4.5

At 31 December 2018, trade receivables of £73.3m (2017 restated: £66.6m) are past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2018 £'m	2017 Restated £'m
Up to 3 months overdue	65.6	54.4
Over 3 months overdue	7.7	12.2
Total	73.3	66.6

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:

	2018 £'m	2017 Restated £'m
Sterling	56.5	56.8
US dollar	340.8	331.2
Euro	23.0	25.3
Other	14.8	15.1
Total	435.1	428.4

26. Contract assets

	2018 £'m	2017 £'m
Conditional rights to consideration on over time contracts	45.1	36.9
Programme participation cash payments	2.8	2.8
Current portion	47.9	39.7
Conditional rights to consideration on over time contracts	34.1	22.9
Programme participation cash payments	27.0	26.8
Non-current portion	61.1	49.7
Total	109.0	89.4

Amortisation of programme participation cash payments of £2.8m (2017: £2.5m) has been recognised as a reduction in revenue in the year. No provision for impairment losses attributable to contract assets was recognised in the year (2017: Nil).

Notes to the consolidated financial statements continued

27. Cash and cash equivalents

	2018 £'m	2017 £'m
Cash at bank and on hand	150.5	118.5
Short-term bank deposits	31.4	–
Total	181.9	118.5

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

	2018 £'m	2017 £'m
Moody's rating:		
Aaa	0.1	3.2
Aa	131.9	44.0
A	49.9	71.3
Total	181.9	118.5

28. Trade and other payables

	2018 £'m	2017 Restated £'m
Trade payables	195.0	155.0
Social security and other taxes	11.1	10.2
Accrued expenses	70.7	81.8
Other payables	175.7	155.1
Current portion	452.5	402.1
Contingent consideration relating to acquired businesses	–	4.5
Other payables	1.3	1.0
Non-current portion	1.3	5.5
Total	453.8	407.6

29. Contract liabilities

	2018 £'m	2017 £'m
Contributions received from customers during development phase of programmes	0.4	0.3
Cost per brake landing/Power by the hour contracts	23.1	19.6
Other consideration received in advance of performance	24.4	32.6
Current portion	47.9	52.5
Contributions received from customers during development phase of programmes	27.6	13.2
Cost per brake landing/Power by the hour contracts	14.8	9.4
Other consideration received in advance of performance	1.5	0.5
Non-current portion	43.9	23.1
Total	91.8	75.6

Revenue recognised in the year relating to amounts recognised as a contract liability at the beginning of the period was £22.2m (2017: £20.9m).

The aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partly satisfied at 31 December 2018, is £236.5m. The Group has taken the practical expedients available in IFRS 15 not to include amounts relating to contracts which had an expected duration of less than 12 months when received or amounts relating to contracts for which revenue is recognised using a method whereby the value to the customer corresponds to the right to invoice the customer. Of the £236.5m, the Group expects to recognise £138.1m as revenue during 2019, with the balance recognised in more than one year but not more than 5 years.

30. Lease liabilities

The Group leases various factories, warehouses, offices, plant and equipment. The following amounts are included in the Group's consolidated financial statements in respect of its leases:

	2018 £'m	2017 £'m
Depreciation charge for right-of-use assets (see note 21)	14.4	13.8
Additions to right-of-use assets (see note 21)	4.6	15.9
Net book amount of right-of-use assets (see note 21)	79.1	85.1
Interest expense on lease liabilities (see note 13)	3.7	3.8
Expense related to short-term leases and low-value assets	0.7	0.7
Total cash outflow for leases comprising interest and capital payments	18.0	15.2

Analysis of lease liabilities:

	Present value of minimum lease payments	
	2018 £'m	2017 Restated £'m
In one year or less	16.1	16.9
In more than one year but not more than five years	52.3	48.8
In more than five years	29.1	36.4
Present value of lease liabilities	97.5	102.1
Current portion	16.1	16.9
Non-current portion	81.4	85.2

At 31 December 2018, the Group had the following significant lease commitments:

- A lease relating to its new facility being constructed at Ansty Park, West Midlands, UK (see note 11). The Group expects to recognise this lease in 2019, when it obtains control of the right-of-use asset and to recognise a lease liability and right-of-use asset of approximately £60.0m at that date. The lease term is 30 years. At the date the lease is recognised, the Group expects undiscounted cash flows to be: £9.0m inflow in one year or less; £11.0m outflow in more than one year but not more than five years; and £99.0m outflow in more than five years.
- In January 2019, the Group completed a sale and leaseback of its existing manufacturing facilities in Coventry, West Midlands, UK. Lease liabilities and right-of-use assets of approximately £11.0m will be recognised and the lease terms range from two years for the main manufacturing facilities to 25 years for one of the Group's specialised operations. An impairment loss of £7.6m has been recognised in 2018 in respect of the carrying value of the facilities and is included within exceptional operating items (see note 11). At the date the leases are recognised, the Group expects undiscounted cash outflows to be: £0.9m in one year or less; £2.4m in more than one year but not more than five years; and £13.4m in more than five years.

Notes to the consolidated financial statements continued

31. Bank and other borrowings

	2018 £'m	2017 £'m
Bank loans	0.4	62.1
Other loans	9.8	9.3
Current portion	10.2	71.4
Bank loans	358.5	254.1
Other loans	789.8	751.7
Non-current portion	1,148.3	1,005.8
Total	1,158.5	1,077.2
Analysis of bank and other borrowings repayable:		
In one year or less	10.2	71.4
In more than one year but not more than five years	913.5	562.4
In more than five years	234.8	443.4
Total	1,158.5	1,077.2
Analysis of bank and other borrowings:		
Drawn under committed facilities	1,143.1	995.7
Less unamortised debt issue costs	(1.5)	(2.3)
Fair value adjustment to fixed rate borrowings	6.7	12.4
Drawn under uncommitted facilities	-	61.7
Interest accruals	10.2	9.7
Total	1,158.5	1,077.2

Debt issue costs are amortised over the period of the facility to which they relate. The Group has no secured borrowings.

The Group has the following committed facilities:

	2018			2017		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
2010 Senior notes (USD400.0m)	313.7	-	313.7	296.3	-	296.3
2016 Senior notes (USD600.0m)	470.5	-	470.5	444.4	-	444.4
Syndicated credit facility (USD750.0m)	358.9	229.1	588.0	255.0	300.5	555.5
Committed facilities	1,143.1	229.1	1,372.2	995.7	300.5	1,296.2

The Group issued USD600.0m of loan notes to private placement investors in 2010. The notes were in four tranches as follows: USD200.0m carried an interest rate of 4.62% and were repaid in 2017; USD125.0m carry an interest rate of 5.02% and are due for repayment in 2020; USD150.0m carry an interest rate of 5.17% and are also due for repayment in 2020; and USD125.0m carry an interest rate of 5.12% and are due for repayment in 2022.

The Group issued USD600.0m of loan notes to private placement investors in 2016. The notes were in two tranches as follows: USD300.0m carry an interest rate of 3.31% and are due for repayment in 2023; and USD300.0m carry an interest rate of 3.60% and are due for repayment in 2026.

In 2014, the Group secured a five-year USD900.0m syndicated revolving credit facility which matures in 2021, following a one-year extension agreed during 2015 and a further one-year extension agreed during 2016. During 2017, the Group reduced the facility to USD750.0m. At 31 December 2018, the amounts drawn under the facility are £358.9m (2017: £255.0m) represented by borrowings denominated in US dollars of £238.1m and in Sterling of £120.8m. Borrowings under the facility are subject to interest at floating rates which are linked to LIBOR.

Committed facilities expire as follows:

	2018			2017		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
In more than one year but not more than five years	907.9	229.1	1,137.0	551.3	300.5	851.8
In more than five years	235.2	-	235.2	444.4	-	444.4
Committed facilities	1,143.1	229.1	1,372.2	995.7	300.5	1,296.2

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

31. Bank and other borrowings continued

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

	2018		2017	
	Book value £'m	Fair value £'m	Book value £'m	Fair value £'m
Current	10.2	10.2	71.4	71.4
Non-current	1,148.3	1,136.5	1,005.8	1,001.9
Total	1,158.5	1,146.7	1,077.2	1,073.3

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

At 31 December 2018:

	Floating	Fixed	Total	Fixed rate borrowings	
				Weighted average interest rate	Weighted average period for which rate is fixed
				%	Years
	£'m	£'m	£'m		
US dollar	262.4	558.7	821.1		
Swiss franc	-	159.7	159.7		
Euro	-	58.4	58.4		
Sterling	120.8	-	120.8		
Gross bank and other borrowings	383.2	776.8	1,160.0	2.6	4.0
Less unamortised debt issue costs	(0.6)	(0.9)	(1.5)		
Bank and other borrowings	382.6	775.9	1,158.5		

At 31 December 2017:

	Floating	Fixed	Total	Fixed rate borrowings	
				Weighted average interest rate	Weighted average period for which rate is fixed
				%	Years
	£'m	£'m	£'m		
US dollar	162.5	645.4	807.9		
Swiss franc	-	152.1	152.1		
Euro	-	57.8	57.8		
Sterling	61.7	-	61.7		
Gross bank and other borrowings	224.2	855.3	1,079.5	2.7	4.2
Less unamortised debt issue costs	(0.6)	(1.7)	(2.3)		
Bank and other borrowings	223.6	853.6	1,077.2		

The weighted average interest rate reflects the relative impact of interest rates based on the principal amounts and the duration of borrowings.

Hedges of net investments in foreign subsidiaries

The Group's bank and other borrowings of £1,158.5m are designated as hedges of net investments in the Group's foreign subsidiaries. The foreign exchange loss of £66.9m (2017: gain of £101.1m) on retranslation of these borrowings is recognised in other comprehensive income.

Notes to the consolidated financial statements continued

32. Financial instruments

At 31 December 2018:

	Held at fair value		Held at amortised cost		Total book value £'m	Total fair value £'m
	Through profit & loss £'m	Derivatives used for hedging £'m	Loans & receivables £'m	Liabilities £'m		
Non-current:						
Trade and other receivables (see note 25)	-	-	21.5	-	21.5	21.5
Contract assets (see note 26)	-	-	61.1	-	61.1	61.1
Derivative financial instruments (see note 33)	3.4	6.6	-	-	10.0	10.0
Current:						
Trade and other receivables*	-	-	390.5	-	390.5	390.5
Contract assets (see note 26)	-	-	47.9	-	47.9	47.9
Derivative financial instruments (see note 33)	9.3	-	-	-	9.3	9.3
Cash and cash equivalents (see note 27)	-	-	181.9	-	181.9	181.9
Financial assets	12.7	6.6	702.9	-	722.2	722.2
Current:						
Trade and other payables**	-	-	-	(441.4)	(441.4)	(441.4)
Contract liabilities (see note 29)	-	-	-	(47.9)	(47.9)	(47.9)
Derivative financial instruments (see note 33)	(18.8)	-	-	-	(18.8)	(18.8)
Lease liabilities (see note 30)	-	-	-	(16.1)	(16.1)	(16.1)
Bank and other borrowings (see note 31)	-	-	-	(10.2)	(10.2)	(10.2)
Non-current:						
Trade and other payables (see note 28)	-	-	-	(1.3)	(1.3)	(1.3)
Contract liabilities (see note 29)	-	-	-	(43.9)	(43.9)	(43.9)
Derivative financial instruments (see note 33)	(17.4)	-	-	-	(17.4)	(17.4)
Lease liabilities (see note 30)	-	-	-	(81.4)	(81.4)	(81.4)
Bank and other borrowings (see note 31)	(242.7)	-	-	(905.6)	(1,148.3)	(1,136.5)
Financial liabilities	(278.9)	-	-	(1,547.8)	(1,826.7)	(1,814.9)
Total	(266.2)	6.6	702.9	(1,547.8)	(1,104.5)	(1,092.7)

At 31 December 2017 (Restated):

	Held at fair value		Held at amortised cost		Total book value £'m	Total fair value £'m
	Through profit & loss £'m	Derivatives used for hedging £'m	Loans & receivables £'m	Liabilities £'m		
Non-current:						
Trade and other receivables (see note 25)	-	-	38.7	-	38.7	38.7
Contract assets (see note 26)	-	-	49.7	-	49.7	49.7
Derivative financial instruments (see note 33)	16.3	12.2	-	-	28.5	28.5
Current:						
Trade and other receivables*	-	-	371.6	-	371.6	371.6
Contract assets (see note 26)	-	-	39.7	-	39.7	39.7
Derivative financial instruments (see note 33)	3.2	0.4	-	-	3.6	3.6
Cash and cash equivalents (see note 27)	-	-	118.5	-	118.5	118.5
Financial assets	19.5	12.6	618.2	-	650.3	650.3
Current:						
Trade and other payables**	-	-	-	(391.9)	(391.9)	(391.9)
Contract liabilities (see note 29)	-	-	-	(52.5)	(52.5)	(52.5)
Derivative financial instruments (see note 33)	(17.3)	-	-	-	(17.3)	(17.3)
Lease liabilities (see note 30)	-	-	-	(16.9)	(16.9)	(16.9)
Bank and other borrowings (see note 31)	-	-	-	(71.4)	(71.4)	(71.4)
Non-current:						
Trade and other payables (see note 28)	-	-	-	(5.5)	(5.5)	(5.5)
Contract liabilities (see note 29)	-	-	-	(23.1)	(23.1)	(23.1)
Derivative financial instruments (see note 33)	(14.6)	-	-	-	(14.6)	(14.6)
Lease liabilities (see note 30)	-	-	-	(85.2)	(85.2)	(85.2)
Bank and other borrowings (see note 31)	(235.2)	-	-	(770.6)	(1,005.8)	(1,001.9)
Financial liabilities	(267.1)	-	-	(1,417.1)	(1,684.2)	(1,680.3)
Total	(247.6)	12.6	618.2	(1,417.1)	(1,033.9)	(1,030.0)

* Excludes prepayments of £23.1m (2017: £18.1m) (see note 25).

** Excludes social security and other taxes of £11.1m (2017: £10.2m) (see note 28).

32. Financial instruments continued

Fair value measurement and hierarchy

For trade and other receivables, contract assets, cash and cash equivalents, trade and other payables, contract liabilities and the current portion 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 their book value for credit risk. The fair values of lease liabilities approximate to their book values due to the measurement of lease liabilities at the Group's incremental borrowing rate, which has not changed significantly since the inception of the lease liabilities presented. Leases are also negotiated at market rates with independent, unrelated third parties and are subject to periodic rental reviews.

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 interest rate derivatives have been derived from forward interest rates based on yield curves observable at the balance sheet date and contractual interest rates. The fair values of foreign currency forward contracts have been derived from forward exchange rates observable at the balance sheet date and contractual forward rates. The fair values of cross currency derivatives have 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 contractual interest and forward 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 and contractual interest rates, 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 non-current portion of bank and other borrowings which is 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 in the year.

Financial liabilities designated as fair value through profit and loss

Cumulative unrealised changes in fair value of the non-current portion of bank and other borrowings arising from changes in credit risk are as follows:

	2018 £'m	2017 Restated £'m
Fair value at 1 January – arising from changes in credit risk	1.1	(1.0)
(Gain)/loss recognised in other comprehensive income	(0.8)	2.1
Fair value at 31 December – arising from changes in credit risk	0.3	1.1

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

	2018 £'m	2017 £'m
Fair value	242.7	235.2
Difference between fair value and contractual amount at maturity	(7.5)	(13.0)
Contractual amount payable at maturity	235.2	222.2

Financial liabilities classified as level 3 in the hierarchy

Changes in fair value are as follows:

	2018 £'m	2017 Restated £'m
Bank and other borrowings at fair value through profit and loss:		
At 1 January	235.2	344.3
Exchange rate adjustments	13.1	(25.3)
Settled upon maturity	–	(76.1)
Gain recognised in net operating costs (see note 10)	(4.9)	(8.9)
Loss/(gain) recognised in net finance costs	0.1	(0.9)
(Gain)/loss recognised in other comprehensive income	(0.8)	2.1
At 31 December	242.7	235.2

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 fair value at 31 December 2018, would impact other comprehensive income by approximately £3.6m.

Notes to the consolidated financial statements continued

33. Derivative financial instruments

At 31 December 2018:

	Contract or underlying principal amount		Fair value	
	Assets £'m	Liabilities £'m	Assets £'m	Liabilities £'m
Cross currency swaps – not hedge accounted	159.8	–	8.4	–
Foreign currency forward contracts – not hedge accounted	37.7	(229.6)	0.9	(18.8)
Current portion	197.5	(229.6)	9.3	(18.8)
Interest rate swaps – fair value hedges	235.2	–	6.6	–
Cross currency swaps – not hedge accounted	–	(58.4)	–	(3.6)
Foreign currency forward contracts – not hedge accounted	133.0	(306.2)	3.4	(13.8)
Non-current portion	368.2	(364.6)	10.0	(17.4)
Total	565.7	(594.2)	19.3	(36.2)

At 31 December 2017:

	Contract or underlying principal amount		Fair value	
	Assets £'m	Liabilities £'m	Assets £'m	Liabilities £'m
Interest rate swap – cash flow hedge	118.5	–	0.4	–
Cross currency swaps – not hedge accounted	–	(183.2)	–	(5.9)
Foreign currency forward contracts – not hedge accounted	92.3	(147.2)	3.2	(11.4)
Current portion	210.8	(330.4)	3.6	(17.3)
Interest rate swaps – fair value hedges	222.2	–	12.2	–
Cross currency swaps – not hedge accounted	–	(57.8)	–	(6.1)
Foreign currency forward contracts – not hedge accounted	233.8	(184.1)	16.3	(8.5)
Non-current portion	456.0	(241.9)	28.5	(14.6)
Total	666.8	(572.3)	32.1	(31.9)

Credit quality of derivative financial assets

The credit quality of derivative financial assets is as follows:

	2018 £'m	2017 £'m
Moody's rating:		
Aa	4.4	11.9
A	14.9	20.2
Total	19.3	32.1

The maximum exposure to credit risk at the balance sheet date is the fair value of the derivative financial instruments.

Interest rate swaps

The total notional principal amount of outstanding interest rate swap contracts at 31 December 2018 is £235.2m (2017: £340.7m), of which £137.2m will expire in 2020 and £98.0m will expire in 2022. The contracts are all denominated in US dollars. The interest rate contracts have the economic effect of converting fixed rate US dollar borrowings into floating rate US dollar borrowings. To the extent they continue to meet the criteria for hedge accounting, the fixed rate to floating rate swap contracts are accounted for as fair value hedges.

Cross currency swaps

The cross currency swaps have been used to synthetically convert US dollar denominated floating borrowings into Swiss franc and Euro denominated fixed borrowings to commercially hedge against Swiss franc and Euro denominated assets of foreign subsidiaries. The cross currency swaps do not qualify to be hedge accounted.

33. Derivative financial instruments continued

Foreign currency forward contracts

Although the Group uses foreign currency forward contracts to hedge against foreign currency exposures, it has decided the costs of meeting the extensive documentation requirements to be able to apply hedge accounting under IFRS 9 'Financial Instruments' are not merited. Foreign currency forward contracts are analysed as follows:

	2018 Assets £'m	2018 Liabilities £'m	2017 Assets £'m	2017 Liabilities £'m
Fair value:				
US dollar/Sterling forward sales	2.8	(29.1)	14.2	(17.6)
Forward sales denominated in other currencies	1.5	(3.5)	5.3	(2.3)
Total	4.3	(32.6)	19.5	(19.9)

34. Provisions

	Provisions				Total £'m	Environmental receivables (a) £'m
	Environmental	Onerous contracts	Warranty costs	Other		
	(a) £'m	(b) £'m	(c) £'m	(d) £'m		
At 1 January 2018 (Restated)	99.9	21.8	18.9	7.6	148.2	(64.1)
Exchange rate adjustments	5.0	0.4	0.7	0.2	6.3	(2.6)
Additional provisions/(receivables recognised) in year*	2.5	4.3	9.7	3.1	19.6	(2.5)
Unused amounts reversed*	-	(2.6)	(4.4)	(2.6)	(9.6)	-
Charge/(credit) to net finance costs (see notes 13 and 12 respectively)	1.7	-	-	-	1.7	(0.8)
Transfers to trade and other payables	-	(1.6)	(2.1)	-	(3.7)	-
Utilised	(28.5)	(8.6)	(7.1)	(1.6)	(45.8)	35.9
At 31 December 2018	80.6	13.7	15.7	6.7	116.7	(34.1)

	2018 £'m	2017 Restated £'m
Current	33.0	65.7
Non-current	83.7	82.5
At 31 December 2018	116.7	148.2

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

- Provision has been made for known exposures arising from environmental remediation at a number of sites (see note 4). 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 activities based on information currently available. 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. Movements in the receivable are shown in the table above (see note 25).
- Provision has been made for estimated losses under certain trading contracts. Provisions are expected to be substantially utilised over the next five years and are not discounted given the short period over which they will be utilised.
- Provision has been made for product warranty claims. Provisions are expected to be substantially utilised over the next three years and are not discounted given the short period over which they will be utilised.
- 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, included within other provisions, for certain claims which cannot be recovered from insurers. Provisions are expected to be substantially utilised over the next ten years and are discounted, where appropriate, using a discount rate appropriate to each provision.

Notes to the consolidated financial statements continued

35. Deferred tax

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

	Assets			Liabilities			Net
	Retirement benefit obligations	Other (*)	Total	Intangible assets	Other (**)	Total	
	£'m	£'m	£'m	£'m	£'m	£'m	
At 1 January 2017 (Restated)	107.7	113.8	221.5	(385.7)	(42.5)	(428.2)	(206.7)
Exchange rate adjustments	(4.7)	(4.0)	(8.7)	25.6	3.2	28.8	20.1
Reclassifications	-	0.6	0.6	(0.1)	(0.5)	(0.6)	-
Business acquired	-	-	-	(3.2)	-	(3.2)	(3.2)
Businesses disposed	-	(0.9)	(0.9)	1.8	0.4	2.2	1.3
Transfer to assets classified as held for sale	-	3.3	3.3	-	-	-	3.3
Credit to income statement – Impact of reduction in US federal corporate tax rate (see note 14)	(6.9)	(27.2)	(34.1)	110.3	12.1	122.4	88.3
Credit to income statement – Other (see note 14)	(5.9)	(24.5)	(30.4)	35.3	3.0	38.3	7.9
Charge to other comprehensive income (see note 14)	(27.1)	0.4	(26.7)	-	-	-	(26.7)
Charge to equity (see note 14)	-	(0.2)	(0.2)	-	-	-	(0.2)
At 31 December 2017 (Restated)	63.1	61.3	124.4	(216.0)	(24.3)	(240.3)	(115.9)
Exchange rate adjustments	1.8	3.5	5.3	(11.7)	(1.4)	(13.1)	(7.8)
Reclassifications	-	0.4	0.4	(0.4)	-	(0.4)	-
Transfer to assets classified as held for sale	-	(0.7)	(0.7)	(2.2)	-	(2.2)	(2.9)
Credit to income statement – Impact of reduction in US federal corporate tax rate (see note 14)	4.1	-	4.1	-	-	-	4.1
Charge to income statement – Other (see note 14)	(17.7)	34.9	17.2	(30.1)	(2.6)	(32.7)	(15.5)
Charge to other comprehensive income (see note 14)	(7.3)	0.1	(7.2)	-	-	-	(7.2)
Charge to equity (see note 14)	-	(0.4)	(0.4)	-	-	-	(0.4)
At 31 December 2018	44.0	99.1	143.1	(260.4)	(28.3)	(288.7)	(145.6)

* Includes balances arising from temporary differences in relation to provisions, accruals, share-based payments, finance costs and derivative financial instruments.

** Includes balances arising from accelerated tax depreciation and contract assets.

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:

	2018	2017
	£'m	Restated £'m
Deferred tax assets	16.3	26.3
Deferred tax liabilities	(161.9)	(142.2)
Net balance at 31 December	(145.6)	(115.9)

Deferred tax liabilities all fall due after more than one year. Deferred tax assets are analysed as follows:

	2018	2017
	£'m	Restated £'m
To be recovered within one year	11.4	0.3
To be recovered after more than one year	4.9	26.0
Total	16.3	26.3

The Group has unrecognised tax losses of £12.5m (2017: £24.3m) for which no deferred tax asset has been recognised. No asset has 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.

36. 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 consolidated 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. 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;
- In the US, the Group operates five defined benefit schemes, all of which are closed to new members. With one exception, these schemes are closed to future accrual. The schemes are a mixture of funded and unfunded schemes. The funded 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 schemes; and
- In Switzerland, the Group operates a funded defined benefit scheme which is open to new members and to future accrual. The 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. Responsibility for its governance lies with a foundation, which is similar in nature to a UK trustee board.

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. 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 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 and closed to new members.

Amounts recognised in the income statement

	2018 £'m	2017 £'m
Total charge in respect of defined contribution pension schemes	30.9	29.2
Service cost	15.4	15.9
Past service cost (see note 11)	1.7	–
Past service credit	(5.4)	(7.1)
Administrative expenses borne directly by schemes	2.7	4.2
Net interest expense on retirement benefit obligations	6.3	9.4
Total charge in respect of defined benefit pension schemes	20.7	22.4
Service cost	0.7	0.7
Net interest expense on retirement benefit obligations	1.7	1.9
Total charge in respect of healthcare schemes	2.4	2.6
Total charge	54.0	54.2

Of the total charge, £43.3m (2017: £38.7m) is included in employee costs (see note 9), of which £28.1m (2017: £26.4m) has been recognised in cost of sales and £15.2m (2017: £12.3m) in net operating costs. Of the remaining charge, £2.7m (2017: £4.2m) has been recognised in net operating costs in respect of scheme administration expenses and £8.0m (2017: £11.3m) is recognised in finance costs (see note 13).

Notes to the consolidated financial statements continued

36. Retirement benefit obligations continued

The past service cost relates to the impact of the UK High Court ruling on how UK pension schemes should equalise Guaranteed Minimum Pension benefits. This change, which had not been anticipated in prior year actuarial assumptions, has been treated as an exceptional operating item (see note 11). The past service credit in 2018 relates to the Group's decision to freeze two of the US schemes to future accrual for existing members.

Amounts recognised on the balance sheet

	2018			Total £'m
	UK pension scheme £'m	Overseas pension schemes £'m	Overseas healthcare schemes £'m	
Present value of liabilities	753.5	423.6	47.6	1,224.7
Fair value of assets	(669.0)	(346.6)	-	(1,015.6)
Retirement benefit obligations	84.5	77.0	47.6	209.1
	2017			Total £'m
	UK pension scheme £'m	Overseas pension schemes £'m	Overseas healthcare schemes £'m	
Present value of liabilities	814.5	439.1	49.8	1,303.4
Fair value of assets	(673.6)	(321.7)	-	(995.3)
Retirement benefit obligations	140.9	117.4	49.8	308.1

Of the total deficit of £209.1m (2017: £308.1m), £62.3m (2017: £64.9m) is in respect of unfunded schemes.

Changes in the present value of retirement benefit obligations

	2018			2017		
	Liabilities £'m	Assets £'m	Total £'m	Liabilities £'m	Assets £'m	Total £'m
At 1 January	1,303.4	(995.3)	308.1	1,367.2	(952.5)	414.7
Exchange rate adjustments	26.4	(18.6)	7.8	(40.0)	25.1	(14.9)
Service cost	16.1	-	16.1	16.6	-	16.6
Past service cost	1.7	-	1.7	-	-	-
Past service credit	(5.4)	-	(5.4)	(7.1)	-	(7.1)
Net interest cost (see note 13)	33.9	(25.9)	8.0	36.8	(25.5)	11.3
Contributions – Group	-	(83.7)	(83.7)	-	(50.1)	(50.1)
Contributions – Members	3.1	(3.1)	-	3.2	(3.2)	-
Benefits paid	(55.0)	55.0	-	(52.1)	52.1	-
Settlements	(1.2)	1.2	-	(11.4)	11.4	-
Remeasurement of retirement benefit obligations:						
Experience gain	(14.0)	-	(14.0)	(5.9)	-	(5.9)
Loss/(gain) from change in demographic assumptions	3.1	-	3.1	(17.9)	-	(17.9)
(Gain)/loss from change in financial assumptions	(87.4)	-	(87.4)	14.0	-	14.0
Return on schemes' assets excluding amounts included in finance costs	-	52.1	52.1	-	(56.8)	(56.8)
Total remeasurement (gain)/loss	(98.3)	52.1	(46.2)	(9.8)	(56.8)	(66.6)
Administrative expenses borne directly by schemes	-	2.7	2.7	-	4.2	4.2
At 31 December	1,224.7	(1,015.6)	209.1	1,303.4	(995.3)	308.1

36. Retirement benefit obligations continued

Analysis of pension scheme assets

	2018				2017			
	Quoted £'m	Unquoted £'m	Total £'m	%	Quoted £'m	Unquoted £'m	Total £'m	%
Equities	160.2	–	160.2	24.0	199.9	–	199.9	29.7
Government bonds	290.2	2.2	292.4	43.7	275.1	–	275.1	40.8
Corporate bonds	53.6	11.7	65.3	9.8	98.5	26.4	124.9	18.5
Hedge funds	–	60.9	60.9	9.1	–	17.2	17.2	2.6
Property	–	19.0	19.0	2.8	8.8	18.4	27.2	4.0
Cash	59.5	–	59.5	8.9	17.2	–	17.2	2.6
Other assets	–	11.7	11.7	1.7	2.8	9.2	12.0	1.8
UK pension scheme	563.5	105.5	669.0	100.0	602.3	71.2	673.5	100.0
Equities	48.0	4.1	52.1	15.0	82.8	1.2	84.0	26.1
Government bonds	153.2	–	153.2	44.2	88.8	–	88.8	27.6
Corporate bonds	79.0	–	79.0	22.8	87.0	–	87.0	27.0
Property	21.1	10.2	31.3	9.0	18.5	11.8	30.3	9.4
Cash	4.1	–	4.1	1.2	5.6	–	5.6	1.8
Other assets	26.9	–	26.9	7.8	26.1	–	26.1	8.1
Overseas pension schemes	332.3	14.3	346.6	100.0	308.8	13.0	321.8	100.0
Equities	208.2	4.1	212.3	20.9	282.7	1.2	283.9	28.5
Government bonds	443.4	2.2	445.6	43.8	363.9	–	363.9	36.6
Corporate bonds	132.6	11.7	144.3	14.2	185.5	26.4	211.9	21.3
Hedge funds	–	60.9	60.9	6.0	–	17.2	17.2	1.7
Property	21.1	29.2	50.3	5.0	27.3	30.2	57.5	5.8
Cash	63.6	–	63.6	6.3	22.8	–	22.8	2.3
Other assets	26.9	11.7	38.6	3.8	28.9	9.2	38.1	3.8
Total pension schemes' assets	895.8	119.8	1,015.6	100.0	911.1	84.2	995.3	100.0

Other assets principally comprise commodities and derivatives. The schemes have no investments in any assets of the Group.

Financial assumptions used to calculate scheme liabilities

	2018			2017		
	UK pension scheme	Overseas* pension schemes	Overseas healthcare schemes	UK pension scheme	Overseas* pension schemes	Overseas healthcare schemes
Discount rate	2.90%	4.15%	4.15%	2.55%	3.55%	3.55%
Inflation rate	3.20%	N/A	N/A	3.20%	N/A	N/A
Increases to deferred benefits during deferment**	2.20%	N/A	N/A	2.20%	N/A	N/A
Increases to pensions in payment**	3.10%	N/A	N/A	3.00%	N/A	N/A
Salary increases	2.95%	N/A	N/A	4.20%	4.43%	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 2018 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 2018 Social Security Administration's Intermediate-Cost Projections scale.

	2018		2017	
	UK scheme Years	Overseas* schemes Years	UK scheme Years	Overseas* schemes Years
Member age 45 (life expectancy at age 65) – male	23.1-24.9	21.4-22.1	22.8-24.4	21.5-22.1
Member age 45 (life expectancy at age 65) – female	25.6-26.9	23.5-23.7	25.3-27.0	23.5-23.7
Member age 65 (current life expectancy) – male	21.7-23.5	20.2-20.8	21.6-23.1	20.2-20.8
Member age 65 (current life expectancy) – female	24.1-25.4	22.3-22.6	23.9-25.5	22.3-22.6

* Provided in respect of the most significant overseas schemes.

36. Retirement benefit obligations continued

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

- The impact of a 50 basis point reduction in discount rate would cause scheme liabilities at 31 December 2018 to increase by approximately £97.0m.
- The impact of a 10 basis point increase in inflation and salary inflation rates would cause scheme liabilities at 31 December 2018 to increase by approximately £9.0m.
- The impact of assuming every scheme member were to live for an additional year would cause scheme liabilities at 31 December 2018 to increase by approximately £40.0m.

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 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 on the balance sheet. The methods and types of assumptions used in preparing the sensitivity analysis are consistent with the previous year. No change has been considered necessary to any sensitivity levels, given recent past experience.

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 unless otherwise stated.

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 classes 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 outperform 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. Both the UK and US schemes have purchased equity derivatives which enable the schemes to benefit from equity-like returns, subject to certain caps, whilst providing an element of protection against falls in equity markets. These derivatives cover approximately 29% of the total equities held by the schemes and have an average remaining life of 1.2 years at 31 December 2018. The Group actively monitors how the duration and expected yield of scheme assets match the expected cash outflows arising from its 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. The Group currently does not use derivatives to mitigate this risk.

Inflation risk

In determining the present value of schemes' defined benefit obligations, estimates are made as to the levels of salary inflation, increases in inflation 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 the UK by linking benefits in respect of future service to average salaries over a period of employment rather than final salary at retirement. In the US, the only scheme open to future accrual provides for a fixed benefit for each year of service. 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. The Group currently does not use derivatives to mitigate this risk.

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 these estimates, 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 to mitigate this risk.

36. Retirement benefit obligations continued

Other information

In the UK, at the date of the 2015 triennial valuation the deficit was measured for funding purposes at £249.4m. The buy-out valuation at the same date, which assumed the Group were to transfer responsibility of the scheme to an insurance company, was measured at £544.1m. The Group has no current plans to make such a transfer. The Group agreed with the trustees, following this valuation, to make annual deficit reduction payments commencing in 2016 with the aim of eliminating the deficit by March 2024. Under this agreement, deficit payments in 2019 will be £32.3m and will increase by approximately 5% per annum for the remainder of the recovery period. The present value of future deficit payments agreed as part of the 2015 actuarial valuation exceeds the scheme accounting deficit at 31 December 2018 by approximately £90.0m however, 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 2018 triennial valuation is in progress. Preliminary results indicate that the deficit on a funding basis was approximately £163.0m, an improvement of £34.0m compared to the projected funding deficit at that date based on the 2015 valuation. The preliminary buy-out valuation at the 2018 valuation date was approximately £395.0m. The 2018 valuation will be finalised in the first half of 2019 and is not currently anticipated to impact the level of deficit contributions payable in 2019, agreed following the 2015 valuation.

In the US, minimum deficit reduction payments are driven by regulations and provide for deficits to be eliminated over periods up to 15 years. In 2018, the Group made an accelerated cash contribution of USD40.0m (£30.4m) into two of its US schemes. As a result, and absent any changes in legislation, deficit payments in 2019 are expected to reduce to £4.0m and remain relatively stable at this level over the following four years. Thereafter, annual payments are expected to increase to approximately £11.0m per annum for the remainder of the recovery period. The present value of deficit payments due under legislation does not exceed the schemes' deficits at 31 December 2018 and accordingly no additional minimum funding liability arises.

The Swiss scheme has a surplus on a funding basis of approximately £11.0m and no additional minimum funding liability arises.

Estimated total Group contributions expected to be paid to the schemes during 2019 are £49.3m.

The weighted average duration of the UK schemes' defined benefit obligation is 18.6 years. The weighted average duration of the overseas schemes' defined benefit obligations is 11.3 years. The expected maturity of undiscounted pension and healthcare benefits at 31 December 2018 is as follows:

	Pension schemes £'m	Healthcare schemes £'m	Total £'m
Benefit payments expected to be made in 2019	46.8	3.6	50.4
Benefit payments expected to be made in 2020	48.0	3.6	51.6
Benefit payments expected to be made in 2021 to 2023	152.9	10.5	163.4
Benefit payments expected to be made in 2024 to 2028	274.3	15.4	289.7
Benefit payments expected to be made in 2029 to 2033	283.5	12.4	295.9
Benefit payments expected to be made in 2034 to 2038	268.8	9.8	278.6
Benefit payments expected to be made in 2039 to 2043	244.0	7.5	251.5
Benefit payments expected to be made from 2044 onwards	702.1	13.7	715.8
Total	2,020.4	76.5	2,096.9

37. Share capital

Issued share capital

	Ordinary shares of 5p each Number 'm	Nominal value £'m	Net consideration £'m
Allotted and fully paid:			
At 1 January 2017	775.7	38.8	
Issued on exercise of Sharesave awards	0.7	–	–
At 31 December 2017	776.4	38.8	
Issued on exercise of Sharesave awards	0.5	–	–
At 31 December 2018	776.9	38.8	

Notes to the consolidated financial statements continued

38. Share-based payment

The Group operates a number of share schemes for the benefit of its employees. The total expense recognised in net operating costs in respect of such schemes is £13.5m (2017: £8.0m) (see note 9) and is analysed as follows:

	2018 £'m	2017 £'m
Meggitt Long-Term Incentive Plan 2014 – Equity settled	12.5	5.8
Meggitt Long-Term Incentive Plan 2014 – Cash settled	0.5	0.5
Deferred Share Bonus Plan – Equity settled	0.3	0.7
Sharesave Plans – Equity settled	0.3	0.5
Other	(0.1)	0.5
Total	13.5	8.0

Meggitt Long-Term Incentive Plan 2014: Equity settled

Under this plan, 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).

Each of the conditions is measured over a three-year performance period. 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 2018 has been estimated at the market price of the share on the date of grant, which was 429.60 pence (2017: 442.10 pence). Movements in the number of outstanding shares that may potentially be released to employees are as follows:

	2018 Number of shares under award outstanding 'm	2017 Number of shares under award outstanding 'm
At 1 January	15.2	13.7
Awarded	5.7	6.1
Exercised	(0.6)	(0.5)
Lapsed	(3.6)	(4.1)
At 31 December	16.7	15.2

At 31 December 2018, 0.1m of the shares under award are eligible for release.

39. Own shares

Own shares represent shares in the Company that are held by an independently managed Employee Share Ownership Plan Trust ('the trust') formed to acquire shares to be used to satisfy share options and awards under the employee share schemes as described in the Directors' remuneration report on pages 92 to 114. At 31 December 2018, the trust holds 5.6m ordinary shares (2017: 4.2m ordinary shares) of which 5.0m are unallocated (2017: 3.8m), being retained by the trust for future use. The balance is held for employees in a vested share account to satisfy particular awards which have fully vested. All shares, whether or not allocated, are held for the benefit of employees. The shares held at 31 December 2018 were purchased during 2017 and 2018 at a cost of £26.7m. The market value of the shares at 31 December 2018 is £26.2m (2017: £20.1m) representing 0.72% of the issued share capital of the Company (2017: 0.54%).

40. Contractual commitments**Capital commitments**

	2018 £'m	2017 £'m
Contracted for but not incurred:		
Intangible assets	0.6	2.8
Property, plant and equipment	14.3	18.8
Total	14.9	21.6

40. Contractual commitments continued

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 35 years. The directors are satisfied that, at this time, there are no significant contingent liabilities arising from these commitments. Programme costs comprise programme participation costs and the supply of initial manufactured parts ('FOC') on a free of charge or deeply discounted basis to OEMs in connection with their selection of the Group's products for installation onto new aircraft, where the Group has obtained principal supplier status. Programme participation costs are accounted for as described in note 2, FOC costs are expensed as incurred. Based on latest OE delivery forecasts from external agencies, the future estimated expenditure under contractual commitments to incur development costs and programme costs at 31 December 2018, are shown in the table below.

	2018 Development costs £'m	2018 Programme costs £'m	2017 Development costs £'m	2017 Programme costs £'m
In one year or less	49.0	77.0	56.5	48.4
In more than one year but not more than five years	16.9	227.3	22.8	241.5
In more than five years	11.2	825.5	9.9	932.3
Total	77.1	1,129.8	89.2	1,222.2

41. Contingent liabilities

The Company has given guarantees in respect of credit facilities for certain of its subsidiaries, some property and other leases, 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.

42. Cash inflow from operations

	2018 £'m	2017 Restated £'m
Profit for the year	179.0	292.8
Adjustments for:		
Finance income (see note 12)	(1.0)	(1.4)
Finance costs (see note 13)	41.5	45.8
Tax (see note 14)	37.1	(64.5)
Depreciation (see note 21)	53.6	53.9
Amortisation (see notes 19 and 20)	132.2	130.9
Impairment loss (see notes 19 and 21)	3.6	57.3
Loss on disposal of property, plant and equipment	3.0	0.8
Loss on disposal of software and other intangible assets	-	0.3
Gain on disposal of businesses (see note 10)	(30.4)	(40.3)
Impairment of assets classified as held for sale (see note 23)	10.7	14.2
Remeasurement of fair value of contingent consideration payable (see note 10)	(3.6)	-
Financial instruments (see note 10)	10.1	(60.7)
Share of loss/(profit) after tax of joint venture (see note 22)	1.5	(0.6)
Dividend income from joint venture (see note 22)	-	0.5
Change in carrying value of held for sale assets and liabilities up to date of disposal	(2.0)	-
Retirement benefit obligation deficit payments	(67.6)	(33.5)
Share-based payment expense (see note 38)	13.5	8.0
Changes in working capital:		
Inventories	(33.5)	(11.6)
Trade and other receivables	17.2	7.9
Contract assets	(18.0)	(10.5)
Trade and other payables	30.0	26.0
Contract liabilities	9.0	11.8
Provisions	(37.7)	(27.8)
Cash inflow from operations	348.2	399.3

Notes to the consolidated financial statements continued

42. Cash inflow from operations continued

The Board uses free cash flow to monitor and measure the underlying trading cash performance of the Group. It is reconciled to cash from operating activities below:

	2018 £'m	2017 Restated £'m
Cash inflow from operating activities	295.3	337.9
Add back cash outflow from business acquisition and disposal expenses	3.8	3.9
Capitalised development costs	(58.6)	(62.6)
Capitalised programme participation costs	(0.8)	(3.4)
Purchase of intangible assets	(21.8)	(18.3)
Purchase of property, plant and equipment	(52.6)	(62.0)
Proceeds from disposal of property, plant and equipment	2.1	1.9
Free cash inflow	167.4	197.4

43. Movements in net debt

	2018 £'m	2017 Restated £'m
At 1 January	1,060.8	1,278.8
Cash inflow from operating activities	(295.3)	(337.9)
Cash outflow from investing activities	96.0	80.1
Dividends paid to Company's shareholders (see note 16)	124.2	118.6
Purchase of own shares for employee share schemes	22.6	19.0
Net cash generated	(52.5)	(120.2)
Debt acquired with business	–	0.6
Debt disposed with businesses	–	(0.8)
Lease liabilities entered (see note 21)	4.6	15.9
Exchange rate adjustments	65.5	(105.0)
Other non-cash movements	(4.3)	(8.5)
At 31 December	1,074.1	1,060.8

	Bank and other borrowings: Current £'m	Bank and other borrowings: Non-current £'m	Lease liabilities: Current £'m	Lease liabilities: Non-current £'m	Total debt £'m	Cash and cash equivalents £'m	Net debt £'m
At 1 January 2017 (Restated)	175.7	1,170.6	17.8	88.5	1,452.6	(173.8)	1,278.8
Exchange rate adjustments	(12.7)	(88.4)	(1.0)	(7.7)	(109.8)	4.8	(105.0)
Business acquired	0.6	–	–	–	0.6	(0.5)	0.1
Businesses disposed	(0.1)	(0.7)	–	–	(0.8)	3.2	2.4
Cash flows from financing activities*	(88.1)	(71.2)	(11.4)	–	(170.7)	47.8	(122.9)
Other movements	(4.0)	(4.5)	11.5	4.4	7.4	–	7.4
At 31 December 2017 (Restated)	71.4	1,005.8	16.9	85.2	1,179.3	(118.5)	1,060.8
Exchange rate adjustments	5.1	61.8	0.7	4.4	72.0	(6.5)	65.5
Businesses disposed (see note 44)	–	–	–	–	–	0.7	0.7
Cash flows from financing activities*	(66.8)	85.5	(14.3)	–	4.4	(57.6)	(53.2)
Other movements	0.5	(4.8)	12.8	(8.2)	0.3	–	0.3
At 31 December 2018	10.2	1,148.3	16.1	81.4	1,256.0	(181.9)	1,074.1

* Cash flows relating to bank and other borrowings are disclosed in the cash flow statement as proceeds from borrowings of £85.5m (2017: £64.9m) and repayments of borrowings of £66.8m (2017: £224.2m).

44. Business disposals

On 12 January 2018, the Group disposed of 100% of the equity in Aviation Mobility, LLC ('Aviation Mobility') for a consideration of USD14.0m. Aviation Mobility was previously reported within Meggitt Control Systems.

On 14th November 2017, the Group agreed to the disposal of 100% of the equity of Linear Motion LLC ('Linear Motion') subject to certain regulatory clearances being obtained. The related assets were classified as a disposal group held for sale and were presented separately at 31 December 2017 together with directly associated liabilities. The disposal subsequently completed on 26 March 2018 for a consideration of USD4.2m. Linear Motion was previously reported within the Meggitt Equipment Group.

On 21 April 2018, the Group disposed of 100% of the ordinary shares of Precision Micro Limited ('Precision Micro') for a consideration of £21.9m. The company specialised in production photo etching for the automotive and medical sectors, where synergies with the rest of the Group were limited. Precision Micro was previously reported within the Meggitt Equipment Group.

On 24 December 2018, the Group disposed of a small number of product lines from within one of its sensing systems businesses for a consideration of USD10.0m. These product lines were reported within Meggitt Sensing Systems.

The businesses disposed were not a major line of business or geographical area of operation of the Group. The net assets of the businesses at the date of disposal were as follows:

	Aviation Mobility	Linear Motion	Precision Micro	Sensing product lines	Total
	£'m	£'m	£'m	£'m	£'m
Goodwill (see note 18)	-	-	0.8	-	0.8
Other intangible assets (see note 20)	-	-	0.1	-	0.1
Property, plant and equipment (see note 21)	-	-	3.5	-	3.5
Inventories	-	-	1.1	0.8	1.9
Trade and other receivables – current	0.3	-	3.4	-	3.7
Cash and cash equivalents (see note 43)	-	-	0.7	-	0.7
Assets classified as held for sale (see note 23)	-	10.0	-	-	10.0
Trade and other payables – current	-	-	(1.9)	-	(1.9)
Liabilities directly associated with assets classified as held for sale (see note 23)	-	(3.3)	-	-	(3.3)
Net assets	0.3	6.7	7.7	0.8	15.5
Currency translation gain transferred from equity					(3.0)
Business disposal expenses					2.5
Deferred consideration receivable					(7.9)
Difference between fair value of consideration and amounts received					1.8
Gain on disposal (see note 10)					27.9
Total consideration received in cash					36.8
Cash inflow arising on disposal:					
Total consideration received in cash					36.8
Less: cash and cash equivalents disposed of (see note 43)					(0.7)
Less: cash paid in respect of businesses disposed in prior periods					(0.4)
Businesses disposed					35.7
Less: business disposal expenses paid					(3.8)
Total cash inflow					31.9

Notes to the consolidated financial statements continued

45. Restatement of prior year comparatives

This note explains the impact on the consolidated financial statements of the adoption of IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments' which became effective for the financial year beginning 1 January 2018 and of IFRS 16 'Leases' which the Group has early adopted. As a result of changes required to the Group's accounting policies arising from adoption of these standards, prior period comparatives have been restated.

In addition, in 2018 the Group finalised the fair values of assets and liabilities of Elite Aerospace, Inc. ('Elite') which was acquired on 28 March 2017. IFRS 3 requires fair value adjustments to be recorded with effect from the date of acquisition and consequently has resulted in a restatement of previously reported results.

The following tables show the impact of these changes on each line item affected. Line items which are not impacted by the restatement have been aggregated within the relevant sub-totals. The impact of each new standard is also explained in more detail within the footnotes that follow the tables.

Consolidated income statement (extract)

	2017 As previously reported £'m	IFRS 15 £'m	IFRS 16 £'m	IFRS 9 £'m	Elite £'m	2017 Restated £'m
Revenue	2,027.3	(32.9)	-	-	-	1,994.4
Cost of sales	(1,234.0)	(1.2)	-	-	-	(1,235.2)
Gross profit	793.3	(34.1)	-	-	-	759.2
Net operating costs	(489.1)	(0.2)	0.7	2.1	-	(486.5)
Operating profit	304.2	(34.3)	0.7	2.1	-	272.7
Net finance costs	(41.8)	-	(2.6)	-	-	(44.4)
Profit before tax	262.4	(34.3)	(1.9)	2.1	-	228.3
Tax credit/(charge)	87.6	(21.2)	(0.2)	(0.4)	(1.3)	64.5
Profit for the year	350.0	(55.5)	(2.1)	1.7	(1.3)	292.8
Earnings per share:						
Basic (pence)	45.2	(7.2)	(0.2)	0.2	(0.2)	37.8
Diluted (pence)	44.3	(7.0)	(0.2)	0.2	(0.2)	37.1
Non-GAAP measures:						
Underlying operating profit	388.4	(35.8)	0.7	-	-	353.3
Underlying profit before tax	357.9	(35.8)	(1.9)	-	-	320.2
Underlying basic earnings per share (pence)	35.3	(3.2)	(0.1)	-	-	32.0
Underlying diluted earnings per share (pence)	34.6	(3.2)	(0.1)	-	-	31.3

Consolidated statement of comprehensive income (extract)

	2017 As previously reported £'m	IFRS 15 £'m	IFRS 16 £'m	IFRS 9 £'m	Elite £'m	2017 Restated £'m
Profit for the year	350.0	(55.5)	(2.1)	1.7	(1.3)	292.8
Items that may be reclassified to the income statement in subsequent periods:						
Currency translation movements	(161.6)	13.7	0.4	-	-	(147.5)
Movements in fair value of financial liabilities arising from changes in credit risk	-	-	-	(2.1)	-	(2.1)
Cash flow hedge movements	(0.2)	-	-	-	-	(0.2)
Tax effect	(2.8)	-	-	0.4	-	(2.4)
	(164.6)	13.7	0.4	(1.7)	-	(152.2)
Items that will not be reclassified to the income statement in subsequent periods	39.5	-	-	-	-	39.5
Other comprehensive (expense)/income	(125.1)	13.7	0.4	(1.7)	-	(112.7)
Total comprehensive income for the year	224.9	(41.8)	(1.7)	-	(1.3)	180.1

45. Restatement of prior year comparatives continued
Consolidated balance sheets (extracts)

	1 January 2017 As previously reported £'m	IFRS 15 £'m	IFRS 16 £'m	IFRS 9 £'m	Elite £'m	1 January 2017 Restated £'m
Net assets	2,456.4	(196.5)	(3.6)	-	-	2,256.3
Equity						
Hedging and translation reserves	551.5	-	-	0.8	-	552.3
Retained earnings	630.6	(196.5)	(3.6)	(0.8)	-	429.7
Other equity	1,274.3	-	-	-	-	1,274.3
Total equity	2,456.4	(196.5)	(3.6)	-	-	2,256.3
	31 December 2017 As previously reported £'m	IFRS 15 £'m	IFRS 16 £'m	IFRS 9 £'m	Elite £'m	31 December 2017 Restated £'m
Non-current assets						
Goodwill	1,947.0	-	-	-	(2.1)	1,944.9
Development costs	482.3	13.5	-	-	-	495.8
Programme participation costs	332.1	(315.0)	-	-	-	17.1
Property, plant and equipment	322.9	-	83.3	-	-	406.2
Trade and other receivables	39.2	(0.5)	-	-	-	38.7
Contract assets	-	49.7	-	-	-	49.7
Deferred tax assets	11.5	14.7	0.1	-	-	26.3
Other non-current assets	714.2	-	-	-	-	714.2
	3,849.2	(237.6)	83.4	-	(2.1)	3,692.9
Current assets						
Inventories	404.1	(10.7)	-	-	-	393.4
Trade and other receivables	437.1	(47.4)	-	-	-	389.7
Contract assets	-	39.7	-	-	-	39.7
Other current assets	136.1	-	-	-	-	136.1
	977.3	(18.4)	-	-	-	958.9
Total assets	4,826.5	(256.0)	83.4	-	(2.1)	4,651.8
Current liabilities						
Trade and other payables	(445.5)	37.6	5.8	-	-	(402.1)
Contract liabilities	-	(52.5)	-	-	-	(52.5)
Lease liabilities	(0.1)	-	(16.8)	-	-	(16.9)
Provisions	(64.2)	-	-	-	(1.5)	(65.7)
Other current liabilities	(136.1)	-	-	-	-	(136.1)
	(645.9)	(14.9)	(11.0)	-	(1.5)	(673.3)
Net current assets	331.4	(33.3)	(11.0)	-	(1.5)	285.6
Non-current liabilities						
Contract liabilities	-	(23.1)	-	-	-	(23.1)
Deferred tax liabilities	(201.7)	55.7	1.5	-	2.3	(142.2)
Lease liabilities	(6.0)	-	(79.2)	-	-	(85.2)
Other non-current liabilities	(1,416.5)	-	-	-	-	(1,416.5)
	(1,624.2)	32.6	(77.7)	-	2.3	(1,667.0)
Total liabilities	(2,270.1)	17.7	(88.7)	-	0.8	(2,340.3)
Net assets	2,556.4	(238.3)	(5.3)	-	(1.3)	2,311.5
Equity						
Hedging and translation reserves	386.9	13.7	0.4	(0.9)	-	400.1
Retained earnings	892.8	(252.0)	(5.7)	0.9	(1.3)	634.7
Other equity	1,276.7	-	-	-	-	1,276.7
Total equity	2,556.4	(238.3)	(5.3)	-	(1.3)	2,311.5

Notes to the consolidated financial statements continued

45. Restatement of prior year comparatives continued

Impact of IFRS 15

In accordance with the transition provisions in IFRS 15, the standard has been adopted retrospectively with restatements made to prior year comparatives. A summary of the principal areas of IFRS 15 that have impacted the Group are shown in the tables below and footnotes that follow:

	Programme participation costs (a) £'m	Programme participation costs (b) £'m	Customer funding on development programmes (c) £'m	Other (d) £'m	Reclassifications (e) £'m	2017 Impact £'m
Revenue	-	(2.5)	-	(30.4)	-	(32.9)
Cost of sales	(21.4)	2.5	-	17.7	-	(1.2)
Gross loss	(21.4)	-	-	(12.7)	-	(34.1)
Net operating costs	-	-	-	(0.2)	-	(0.2)
Operating loss	(21.4)	-	-	(12.9)	-	(34.3)
Tax charge						(21.2)
Loss for the year						(55.5)

	Programme participation costs (a) £'m	Programme participation costs (b) £'m	Customer funding on development programmes (c) £'m	Other (d) £'m	Reclassifications (e) £'m	1 January 2017 Impact £'m
Net assets	(188.3)	-	-	(8.2)	-	(196.5)

	Programme participation costs (a) £'m	Programme participation costs (b) £'m	Customer funding on development programmes (c) £'m	Other (d) £'m	Reclassifications (e) £'m	31 December 2017 Impact £'m
Development costs	-	-	13.5	-	-	13.5
Programme participation costs	(285.4)	(29.6)	-	-	-	(315.0)
Trade and other receivables – non-current	-	-	-	8.9	(9.4)	(0.5)
Contract assets – non-current	-	26.8	-	(6.5)	29.4	49.7
Deferred tax assets	14.7	-	-	-	-	14.7
Inventories	-	-	-	4.5	(15.2)	(10.7)
Trade and other receivables – current	-	-	-	(16.6)	(30.8)	(47.4)
Contract assets – current	-	2.8	-	7.8	29.1	39.7
Trade and other payables – current	-	-	-	(17.5)	55.1	37.6
Contract liabilities – current	-	-	(0.3)	6.0	(58.2)	(52.5)
Contract liabilities – non-current	-	-	(13.2)	(9.9)	-	(23.1)
Deferred tax liabilities	50.8	-	-	4.9	-	55.7
Net Assets	(219.9)	-	-	(18.4)	-	(238.3)

a) Programme participation costs – Free of charge/deeply discounted manufactured parts

Programme participation costs consist of incentives given to OEMs in connection with their selection of the Group's products for installation onto new aircraft where the Group has obtained principal supplier status. Where these incentives comprise the supply of initial manufactured parts on a free of charge or deeply discounted basis, amounts are recognised within costs of sales as incurred. Under the Group's previous accounting policy, amounts were recognised as an intangible asset and amortised over their useful lives to cost of sales over periods typically up to 15 years.

b) Programme participation costs – Cash payments

Where programme participation costs are in the form of cash payments, the treatment depends on the contractual relationship between the Group and the third party to whom the payment is made. Where the payment is made to a third party under a revenue contract (as defined by IFRS 15), or the award of future IFRS 15 revenue contracts on the programme from the same party is highly probable, payments are recognised as a contract asset and amortised, as a deduction from revenue, over the periods expected to benefit from those contracts. This situation most frequently arises where the payment is made to the same party to whom original equipment and/or aftermarket parts are sold. Other payments are recognised as an intangible asset and amortised as a charge to cost of sales. Under the Group's previous accounting policy, all programme participation cash payments were recognised as intangible assets and amortised as a charge to cost of sales.

45. Restatement of prior year comparatives continued

Impact of IFRS 15 continued

c) Customer funding towards development costs

Where a customer contributes to the Group's development costs and those costs meet the criteria under IAS 38 to be recognised as an intangible asset, the funding is recognised as a contract liability and is amortised, as an increase to revenue, over the periods expected to benefit from future revenue from the customer over the life of the programme. Under the Group's previous accounting policy, customer funding was netted off amounts recognised as development costs and accordingly reduced the subsequent amortisation charged to net operating costs.

d) Other

A number of other revenue timing differences, none of which is individually significant, arose from the adoption of IFRS 15:

i. Revenue recognised over time

The Group recognises revenue under power by the hour and cost per brake landing type contracts over time using costs incurred as the measure of contract completion. Under the Group's previous accounting policy, revenue was recognised based on the number of aircraft flying hours or the number of aircraft landings.

Where the Group builds a product with no alternative use and has an enforceable right to payment from the customer for costs incurred, plus a reasonable margin, throughout the life of the contract then revenue is recognised over time using costs incurred as the measure of contract completion. Under the Group's previous accounting policy, the majority of contracts that met this requirement were accounted for in a similar way using contract accounting, although the method of measuring progress has, in some cases, changed. For instance, funded research and development contracts were previously recognised as revenue over time using customer agreed milestones achieved as a measure of contract completion. Additionally a small number of contracts for which contract accounting was previously applied no longer meet the IFRS 15 criteria to be recognised over time, particularly certain contracts in the Heatric business, and are now recognised at a point in time, usually when the goods are delivered to the customer. Conversely, certain defence contracts for which revenue was previously recognised as goods were delivered to the customer meet the IFRS 15 over time criteria and accordingly revenue is recognised as costs are incurred.

ii. Revenue recognised at a point in time

The timing of revenue on the substantial majority of the Group's contracts, previously recognised at a point in time, has not been significantly affected by IFRS 15, with revenue continuing to be recognised as goods are delivered to the customer and at the price agreed with the customer for those goods. A minority of contracts required changes to the timing of revenue recognition to reflect IFRS 15 guidance on areas such as whether multiple deliveries and services provided to a customer should be accounted for individually or as a single performance obligation, variable consideration and material rights.

e) Reclassifications

Certain balances representing amounts recoverable on contracts, previously included within trade and other receivables and deferred income and advance payments received from customers, previously included within trade and other payables, have been reclassified to contract assets and contract liabilities as appropriate.

Impact of IFRS 16

The Group has early adopted IFRS 16 using the full retrospective approach on transition. Under IFRS 16, except for certain short term leases and leases of low-value assets, a liability is recognised at lease inception equal to the present value of payments due under the lease. The lease liability is subsequently measured using the effective interest rate method, with interest charged to finance costs. At lease inception, a right-of-use asset is recognised equal to the lease liability, adjusted to reflect any lease incentives paid to or received from the lessor, asset restoration and other direct costs. The right-of-use asset is depreciated over the shorter of the life of the asset or the lease term to either costs of sales or net operating costs as appropriate.

Under the Group's previous accounting policy, the majority of the Group's leases were accounted for as operating leases with rentals charged to cost of sales or net operating costs on a straight-line basis over the lease term, with no element of the rentals charged to finance costs. No right-of-use asset or lease liability was recognised on the Group's balance sheet for these leases.

Impact of IFRS 9

Under IFRS 9, where financial liabilities are subsequently measured at fair value, any element of the fair value gain or loss arising that is attributable to changes in credit risk is recognised in other comprehensive income. Under the Group's previous accounting policy, such amounts were recognised within net operating costs. Overall, IFRS 9 does not have a significant impact since the majority of the Group's financial assets continue to be held at amortised cost. The Group is also not exposed to a significant concentration of credit risk, as outlined in note 3, and accordingly the impact of applying an expected credit loss model to its financial assets was not significant.

46. Related undertakings

In accordance with section 409 of the Companies Act 2006, a full list of related undertakings at 31 December 2018 is disclosed below. Unless otherwise stated, undertakings listed below are registered at Atlantic House, Aviation Park West, Bournemouth International Airport, Christchurch, Dorset BH23 6EW, United Kingdom, and have a single class of ordinary share with 100% of the equity owned by the Group. No subsidiary undertakings have been excluded from the consolidation.

Subsidiaries – directly owned

Avica Limited
 Dunlop Aerospace Limited
 Integrated Target Services Limited
 KDG Holdings Limited
 Meggitt (Pamphill) Limited
 Meggitt (Wimborne) Limited
 Meggitt Engineering Limited
 Meggitt International Holdings Limited
 Meggitt Pension Trust Limited
 Negretti & Zambra Limited
 Negretti Limited
 Phoenix Travel (Dorset) Limited¹
 The Microsystems Group Limited

Subsidiaries – indirectly owned

ABL Systems (USA)²
 1204 Massillon Road, Akron, Ohio 44306
 Aero-Tech Composites de Mexico, S. de R.L. de C.V. (Mexico)³
 Carretera 54 a Zacatecas 5690, Parque Industrial Amistad Sur Saltillo, Coahuila 25070
 Aircraft Braking Systems Europe Limited
 Aircraft Braking Systems Services Limited
 Alston Properties LLC (USA)⁴
 14600 Myford Road, Irvine, California 92606
 Artus SAS (France)
 Chemin du Champ des Martyrs, 49240 Avrillé
 Atlantic House Pension Trustee Limited
 BAJ Coatings Limited⁵
 Bells Engineering Limited
 Bestobell Aviation Products Limited
 Bestobell Engineering Products Limited
 Bestobell Insulation Limited
 Bestobell Meterflow Limited
 Bestobell Mobrey Limited
 Bestobell Service Co Limited
 Bestobell Spurling Limited
 Cavehurst (Finance) Ireland Unlimited Company (Republic of Ireland)
 Gorse Valley, Tipperkevin, Ballymore Eustace, Co Kildare
 Cavehurst Limited
 Dunlop Aerospace Group Limited
 Dunlop Aerospace Holdings Limited
 Dunlop Aerospace Overseas Investments Limited
 Dunlop Aerospace Overseas Limited
 Dunlop Holdings Limited
 Dunlop Limited
 Endevo U.K. Limited
 Endevo Vertriebs GmbH (Germany)
 Kaiserleistraße 51, 63067 Offenbach/Main
 Erlanger Acquisition Corporation (USA)⁶
 1955 Surveyor Avenue, Simi Valley, California 93063
 Européenne de Conception d'Etudes Technologiques SAS (France)
 8 Chemin de l'Etang, BP 15, F-16730 FLEAC
 Evershed & Vignoles Limited
 GB Aero Engine LLC (USA)⁴
 1955 Surveyor Avenue, Simi Valley, California 93063
 Heatric Limited⁷
 King Tool International Limited
 Meggitt (Baltimore) Inc. (USA)⁶
 3310 Carlins Park Drive, Baltimore, Maryland 21215
 Meggitt (Canford) Limited
 Meggitt (Colehill) Limited
 Meggitt (Erlanger), LLC (USA)⁴
 1400 Jamike Avenue, Erlanger, Kentucky 41018
 Meggitt (France) SAS (France)
 10 rue Mercoeur, 75011 Paris
 Meggitt (Hurn) Limited
 Meggitt (Korea) Limited
 Meggitt (North Hollywood), Inc. (USA)⁶
 12838 Satcoy Street, North Hollywood, California 91605
 Meggitt (Orange County), Inc. (USA)⁶
 14600 Myford Road, Irvine, California 92606
 Meggitt Overseas Limited
 Meggitt (Rockmart), Inc. (USA)⁶
 669 Goodyear Street, Rockmart, Georgia 30153
 Meggitt (San Diego), Inc. (USA)⁶
 6650 Top Gun Street, San Diego, California 92121
 Meggitt (Sensorex) SAS (France)
 196 rue Louis Rustin, Archamps Technopole, 74160 Archamps
 Meggitt (Shapwick) Limited
 Meggitt (Simi Valley), Inc. (USA)⁶
 1955 Voyager Avenue, Simi Valley, California 93063
 Meggitt (Tarrant) Limited
 Meggitt (Troy), Inc. (USA)⁸
 3 Industrial Drive, Troy, Indiana 47588
 Meggitt (UK) Limited
 Meggitt (Vietnam) Co., Limited (Vietnam)⁸
 No 7, 16A Road, Industrial Zone 2 of Bienhoa, Dongnai
 Meggitt (Xiamen) Sensors & Controls Co Limited (China)⁹
 No.230 South 5 Gaoqi Road, Xiamen Area of China (Fujian) Pilot Free Trade Zone 361006
 Meggitt A/S (Denmark)
 Porthusvej 4, 3490 Kvistgaard
 Meggitt Acquisition (Erlanger), Inc. (USA)¹⁰
 1955 Surveyor Avenue, Simi Valley, California 93063
 Meggitt Acquisition (France) SAS (France)
 Chemin du Champ des Martyrs, 49240 Avrillé
 Meggitt Acquisition Limited
 Meggitt Advanced Composites Limited
 Meggitt Aerospace Asia Pacific Pte Ltd (Singapore)
 1A Seletar Aerospace Link, Seletar Aerospace Park, Singapore 797552
 Meggitt Aerospace Holdings Limited
 Meggitt Aerospace Limited
 Meggitt Aircraft Braking Systems Corporation (USA)⁶
 1204 Massillon Road, Akron, Ohio 44306
 Meggitt Aircraft Braking Systems Kentucky Corporation (USA)⁶
 190 Corporate Drive, Danville, Kentucky 40422
 Meggitt Aircraft Braking Systems Queretaro, S. de R.L. de C.V. (Mexico)³
 Carretera Estatal 200 Queretaro-Tequisquiapan, KM 22 547 Interior A, Parque Aeroespacial, Queretaro, CP 76278
 Meggitt Asia Pacific Pte Ltd (Singapore)
 1A Seletar Aerospace Link, Seletar Aerospace Park, Singapore 797552
 Meggitt Brasil Solucoes de Engenharia Ltda. (Brazil)⁹
 Avenida João Cabral de Mello Neto, No. 850, Suites 815 and 816, Barra da Tijuca, CEP 22.775-057, City and State of Rio de Janeiro
 Meggitt Defense Systems, Inc. (USA)⁶
 9801 Muirlands Boulevard, Irvine, California 92618
 Meggitt Filtration & Transfer Limited
 Meggitt Finance (Beta)
 Meggitt Finance Limited
 Meggitt Finance S.a.r.l (Luxembourg)
 20 Rue des Peupliers, L-2328
 Meggitt GmbH (Germany)
 Kaiserleistraße 51, 63067 Offenbach
 Meggitt Holdings (France) SNC (France)
 Chemin du Champ des Martyrs, 49240 Avrillé
 Meggitt Holdings (USA) Inc. (USA)⁶
 1955 Surveyor Avenue, Simi Valley, California 93063
 Meggitt India Pvt Limited (India)¹¹
 901, Brigade Rbix, No. 20. HMT Main Road, HMT Township, North Bangalore Karnataka 560022
 Meggitt International Limited
 Meggitt Investments Limited
 Meggitt-Oregon, Inc. (USA)⁶
 2010 Lafayette Avenue, McMinnville, Oregon 97128
 Meggitt Properties PLC
 Meggitt Queretaro LLC (USA)⁴
 1204 Massillon Road, Akron, Ohio 44306
 Meggitt SA (Switzerland)
 Rte de Moncor 4, PO Box 1616, CH-1701 Fribourg
 Meggitt Safety Systems, Inc. (USA)⁶
 1785 Voyager Avenue, Simi Valley, California 93063

Meggitt Training Systems (Quebec) Inc.
(Canada)⁶
6140 Henri Bourassa West, Saint-Laurent, Quebec,
H4R 3A6

Meggitt Training Systems Australia Pty Limited
(Australia)
Unit 2, 48 Conrad Place, Lavington, New South Wales
2641

Meggitt Training Systems Europe BV
(The Netherlands)

Ringweistraat 7, 4181CL Waardenburg
Meggitt Training Systems, Inc. (USA)⁶
296 Brogdon Road, Suwanee, Georgia 30024

Meggitt Training Systems Limited

Meggitt Training Systems Pte Limited

(Singapore)
1A Seletar Aerospace Link, Seletar Aerospace Park,
Singapore 79752

Meggitt-USA Services, Inc. (USA)⁶
1955 Surveyor Avenue, Simi Valley, California 93063

Meggitt-USA, Inc. (USA)⁶
1955 Surveyor Avenue, Simi Valley, California 93063

Miller Insulation & Engineering Limited¹³

NASCO Aircraft Brake, Inc. (USA)⁶
13300 Estrella Avenue, Gardena, California 90248

OECO, LLC (USA)⁴
4607 SE International Way, Milwaukie, Oregon 97222

Pacific Scientific Company (USA)⁶
1785 Voyager Avenue, Simi Valley, California 93063

Park Chemical Company (USA)⁶
1955 Surveyor Avenue, Simi Valley, California 93063

Piher International Limited

Precision Engine Controls Corporation (USA)⁶
11661 Sorrento Valley Road, San Diego,
California 92121

Securaplane Technologies, Inc. (USA)⁶
12350 N. Vistoso Park Road, Oro Valley, Arizona 85755

Serck Aviation Limited

Target Technology Petrel Limited

TFE Techniques et Fabrications Electroniques
SAS (France)
Rue Jean Perrin Zone Industrielle Actisud Le Capitre,
31100 Toulouse

Tri-scan Limited

Vibro-Meter Limited

Vibro-Meter S.a.r.l (Switzerland)
Rte de Moncor 4, PO Box 1616, CH-1701 Fribourg

Wallaby Grip (NSW) Pty Limited (in liquidation)
(Australia)

Bradley Tonks, PKF Sydney, Level 8, 1 O'Connell
Street, Sydney, New South Wales 2000

Wallaby Grip Australia Pty Limited (in
liquidation) (Australia)

Bradley Tonks, PKF Sydney, Level 8, 1 O'Connell
Street, Sydney, New South Wales 2000

Wallaby Grip B.A.E. Pty Limited (in liquidation)
(Australia)

Bradley Tonks, PKF Sydney, Level 8, 1 O'Connell
Street, Sydney, New South Wales 2000

Wallaby Grip Industries Australia Pty Limited
(in liquidation) (Australia)

Bradley Tonks, PKF Sydney, Level 8, 1 O'Connell
Street, Sydney, New South Wales 2000

Wallaby Grip Limited

Whittaker Aerospace

Whittaker Corporation (USA)⁶
1955 Surveyor Avenue, Simi Valley, California 93063

Whittaker Development Co. (USA)⁶
1955 Surveyor Avenue, Simi Valley, California 93063

Whittaker Ordnance, Inc. (USA)⁶
1955 Surveyor Avenue, Simi Valley, California 93063

Whittaker Technical Products, Inc. (USA)⁶
1955 Surveyor Avenue, Simi Valley, California 93063

Zambra Legal Pty Limited (Australia)
Suite 2, Level 11, 60 Castlereagh Street, Sydney,
New South Wales 2000

Equity accounted investments

Meggitt UTC Aerospace Systems, LLC (USA)¹⁴
1400 Jamike Avenue, Erlanger, Kentucky 41018
Parkway-Hamilton Sundstrand Mexico S.
de R.L. de C.V. (Mexico)¹⁵
Carretera 54 a Zacatecas 5690, Parque Industrial
Amistad Sur Saltillo, Coahuila 25070
Valley Association Corporation (USA)¹⁶
1204 Massillon Road, Akron, Ohio 44306

Private company limited by guarantee without share capital

Meggitt Pension Plan Trustees Limited

Registered charity

Evershed & Ayrton Fund

Notes

- 1 Ownership held as ordinary B shares (50%).
- 2 Ownership held as ordinary shares (50%).
- 3 Ownership held as quota interest (100%).
- 4 Ownership held as membership interest (100%).
- 5 Ownership held as deferred shares (55.55%) and ordinary shares (44.45%).
- 6 Ownership held as common stock (100%).
- 7 Ownership held as ordinary A shares (60%) and ordinary B shares (40%).
- 8 Ownership held as owner's capital.
- 9 Ownership held as registered capital (100%).
- 10 Ownership held as class A shares (67.5%), class B shares (12.5%) and class C shares (20%).
- 11 Ownership held as equity shares (100%).
- 12 Ownership held as registered shares (100%).
- 13 Registered at 125 West Regent Street, Glasgow, Lanarkshire, G2 2SA, Scotland.
- 14 Joint venture with Hamilton Sundstrand Corporation – ownership held as membership interest (70%).
- 15 Subsidiary of Parkway-HS, LLC – ownership held as quota interest (99.97%).
- 16 Ownership held as ordinary shares (33.33%).

Company balance sheet

At 31 December 2018

	Notes	2018 £'m	2017 £'m
Non-current assets			
Intangible assets	4	38.6	42.0
Property, plant and equipment	5	1.4	1.9
Investments	6	2,081.2	2,074.5
Derivative financial instruments	10	14.8	30.6
Deferred tax assets	13	16.7	22.7
		2,152.7	2,171.7
Current assets			
Other receivables	7	1,281.2	1,378.2
Derivative financial instruments	10	36.6	20.7
Current tax recoverable		-	5.0
Cash and cash equivalents		37.0	5.3
		1,354.8	1,409.2
Total assets		3,507.5	3,580.9
Current liabilities			
Trade and other payables	8	(98.2)	(146.1)
Derivative financial instruments	10	(20.2)	(20.3)
Current tax liabilities		(5.0)	(0.1)
Lease liabilities	9	(0.2)	-
Bank and other borrowings	11	(7.9)	(70.9)
		(131.5)	(237.4)
Net current assets		1,223.3	1,171.8
Non-current liabilities			
Derivative financial instruments	10	(18.3)	(24.4)
Lease liabilities	9	(0.2)	-
Bank and other borrowings	11	(469.6)	(751.7)
Provisions	12	(0.2)	-
Retirement benefit obligations	14	(84.5)	(140.9)
		(572.8)	(917.0)
Total liabilities		(704.3)	(1,154.4)
Net assets		2,803.2	2,426.5
Equity			
Share capital	15	38.8	38.8
Share premium		1,223.9	1,222.2
Capital redemption reserve		1.6	1.6
Other reserves		17.5	17.5
Retained earnings:			
At 1 January		1,146.4	996.7
Profit for the year attributable to owners of the Company		481.2	243.0
Other changes in retained earnings		(106.2)	(93.3)
Total equity attributable to owners of the Company		2,803.2	2,426.5

The financial statements on pages 186 to 197 were approved by the Board of Directors on 25 February 2019 and signed on its behalf by:



A Wood
Director

L Burdett
Director

Company statement of changes in equity

For the year ended 31 December 2018

	Notes	Equity attributable to owners of the Company					Total equity £'m
		Share capital	Share premium	Capital redemption reserve	Other reserves*	Retained earnings	
		£'m	£'m	£'m	£'m	£'m	
At 1 January 2017		38.8	1,219.8	1.6	17.5	996.7	2,274.4
Profit for the year		-	-	-	-	243.0	243.0
Other comprehensive income for the year:							
Cash flow hedge movements:							
Movement in fair value		-	-	-	-	(0.2)	(0.2)
Remeasurement of retirement benefit obligations	14	-	-	-	-	46.6	46.6
Other comprehensive income before tax		-	-	-	-	46.4	46.4
Tax effect	13	-	-	-	-	(8.6)	(8.6)
Other comprehensive income for the year		-	-	-	-	37.8	37.8
Total comprehensive income for the year		-	-	-	-	280.8	280.8
Employee share schemes:							
Value of subsidiary employee services		-	-	-	-	6.2	6.2
Value of services provided		-	-	-	-	2.7	2.7
Purchase of own shares for employee share schemes		-	-	-	-	(19.0)	(19.0)
Issue of equity share capital		-	2.4	-	-	(2.4)	-
Dividends		-	-	-	-	(118.6)	(118.6)
At 31 December 2017		38.8	1,222.2	1.6	17.5	1,146.4	2,426.5
Profit for the year		-	-	-	-	481.2	481.2
Other comprehensive income for the year:							
Movements in fair value of financial liabilities arising from changes in credit risk:							
Arising in the year		-	-	-	-	0.5	0.5
Transferred to the income statement		-	-	-	-	(0.5)	(0.5)
Cash flow hedge movements:							
Transferred to the income statement		-	-	-	-	(0.3)	(0.3)
Remeasurement of retirement benefit obligations	14	-	-	-	-	33.0	33.0
Other comprehensive income before tax		-	-	-	-	32.7	32.7
Tax effect	13	-	-	-	-	(5.1)	(5.1)
Other comprehensive income for the year		-	-	-	-	27.6	27.6
Total comprehensive income for the year		-	-	-	-	508.8	508.8
Employee share schemes:							
Value of subsidiary employee services		-	-	-	-	10.2	10.2
Value of services provided		-	-	-	-	4.5	4.5
Purchase of own shares for employee share schemes		-	-	-	-	(22.6)	(22.6)
Issue of equity share capital		-	1.7	-	-	(1.7)	-
Dividends		-	-	-	-	(124.2)	(124.2)
At 31 December 2018		38.8	1,223.9	1.6	17.5	1,521.4	2,803.2

* Other reserves relate to the cancellation of the Company's share premium account in 1988, which was transferred to a non-distributable capital reserve.

Notes to the financial statements of the Company

1. Basis of preparation

These financial statements have been prepared on a going concern basis and under the historical cost 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 and not to publish a separate statement of comprehensive income.

The Company has prepared its financial statements in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards ('IFRSs') as adopted by the European Union, but has taken the following disclosure exemptions permitted by FRS 101:

- Paragraphs 10(d), 111 and 134-136 of IAS 1, 'Presentation of financial statements';
- IAS 7, 'Statement of cash flows';
- 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;
- Paragraphs 45(b) and 46-52 of IFRS 2, 'Share-based payment'; and
- IFRS 7, 'Financial Instruments: Disclosures'.

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.

Adoption of new and revised accounting standards

The following new standards have been adopted for the first time but have had no significant impact on amounts included in the Company's financial statements:

- IFRS 16, 'Leases'; and
- IFRS 9, 'Financial instruments'.

Investments

Investments in subsidiaries are stated at cost less accumulated impairment losses, 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, which comprise software, are recorded at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over the estimated useful economic lives of the assets, typically over periods up to 5 years. Residual values and useful lives are reviewed annually and adjusted if appropriate.

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.

For right-of-use assets, cost comprises an amount equal to the initial lease liability recognised, adjusted to include any payments made for the right to use the asset, initial direct costs incurred and estimated costs for dismantling, removing and restoring the asset at the end of the lease term. Lease incentives receivable from the lessor are recognised as a reduction in cost.

Depreciation is charged on a straight-line basis over the estimated useful economic lives of the assets as follows:

Right-of-use assets	Shorter of the useful economic life of the asset and the lease term
Plant and equipment	3 to 5 years
Motor vehicles	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.

Cash and cash equivalents

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

Leases

The majority of the Company's leases relate to property. A lease liability is recognised when the Company obtains control of the right-of-use asset, that is the subject of the lease. The lease liability is subsequently measured using the effective interest method, with interest charged to finance costs.

At inception, the Company evaluates whether it is reasonably certain that any option to extend a lease term will be exercised. Typically, where the initial lease term for a property used for the Company's operations is for at least five years, the option to extend the lease term is at market rates and the right-of-use asset is not considered specialised, it is unusual for an extension of lease term to be reflected at lease inception. The Company will however, continue to evaluate the likelihood of exercising such options throughout the initial lease term. When the Company is committed to extending the lease, having considered the alternative options available and, where appropriate, lessor consent to the extension has been obtained, the Company will consider the option to be reasonably certain to be exercised. When an option is reasonably certain to be exercised, the right-of-use asset and lease liabilities recognised are adjusted to reflect the extended term.

Leases, which at inception have a term of less than 12 months or relate to low-value assets, are not recognised on the balance sheet. Payments made under such leases are charged to the income statement on a straight-line basis over the period of the lease.

2. Summary of significant accounting policies continued

Taxation

Current tax 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 recognised in the Company's financial statements. It is calculated using tax rates enacted or substantively enacted at the balance sheet date. 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.

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.

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.

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 and curtailment gains and losses are recognised immediately in the income statement.

Retirement benefit obligations represent the difference between the fair value of the scheme assets and the present value of the scheme 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 (as a reduction in future contributions or as a refund, to which the Company has an unconditional right either during the life of the scheme or when the scheme liabilities are settled), 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.

Share-based compensation

The Company operates a number of share-based compensation schemes, which are subject to non-market based vesting conditions and are principally equity-settled.

For equity-settled schemes, at the date of grant, the Company estimates the number of awards expected to vest as a result of vesting conditions and the fair value of this estimated number of awards is recognised as an expense in the income statement on a straight-line basis over the period for which services are received. At each balance sheet date, the Company revises its estimate of the number of awards expected to vest 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 measured 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 subsequent measurement at fair value 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 its inception, the economic 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 effective in offsetting changes in fair values or cash flows of hedged items as outlined in the objectives and strategy for undertaking the hedging transaction and any changes in fair values must not be dominated by the effect of credit risk.

To the extent the maturity of the derivative financial instruments are more than 12 months from the balance sheet date, they are classified as non-current assets or non-current liabilities. All other derivative financial instruments are classified as current assets or current liabilities.

Fair value hedges

Changes in fair value, not attributable to credit risk, of derivative financial instruments, that are designated and qualify as fair value hedges, are recognised in the income statement together with changes in the fair value of the hedged item. Any changes in fair value attributable to credit risk are recognised in other comprehensive income. The Company no longer holds any derivative financial instruments for which fair value hedge accounting is applied.

2. Summary of significant accounting policies continued**Derivative financial instruments and hedging continued****Cash flow hedges**

Changes in fair value of the effective portion of derivative financial instruments, that are designated and qualify as cash flow hedges, are initially recognised in other comprehensive income. Changes in fair value of any ineffective portion are recognised immediately in the income statement. To the extent changes in fair value are recognised in other comprehensive income, they are recycled to the income statement in the periods in which the hedged item affects the income statement. If the hedging instrument is sold 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. The Company no longer holds any derivative financial instruments for which cash flow hedge accounting is applied.

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 under IFRS 9 'Financial Instruments' are not merited.

Borrowings

Borrowings are initially recognised at fair value, being proceeds received less directly attributable transaction costs incurred. Borrowings are generally subsequently held at amortised cost at each balance sheet date 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, where 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 attributable to changes in credit risk recognised in other comprehensive income and any other movements in fair value recognised in the income statement.

Any related interest accruals are included within borrowings. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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. Details of own shares in the Company are disclosed in note 39 to the Group's consolidated financial statements.

Dividends

Interim dividends are recognised as liabilities when approved by the Board. Final dividends are recognised as liabilities when approved by the shareholders. Details of dividends paid and proposed by the Company are disclosed in note 16 to the Group's consolidated financial statements.

3. Critical accounting estimates and judgements

In applying the Company's accounting policies set out in note 2, the Company is required to make certain estimates and judgements concerning the future. These estimates and judgements are regularly reviewed and revised as necessary.

The estimates that have the most significant effect on the amounts included in the financial statements are described below. There are no judgements considered to be critical relating to the year.

Critical accounting estimates**Retirement benefit obligations**

The liability recognised in respect of retirement benefit obligations is dependent on a number of estimates including those relating to mortality, inflation, salary increases and the rate at which liabilities are discounted. 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 disclosed in note 14.

4. Intangible assets

	Software £'m
At 1 January 2017	
Cost	56.5
Accumulated amortisation	(22.1)
Net book amount	34.4
Year ended 31 December 2017	
Opening net book amount	34.4
Additions	14.1
Amortisation	(6.5)
Net book amount	42.0
At 31 December 2017	
Cost	70.6
Accumulated amortisation	(28.6)
Net book amount	42.0
Year ended 31 December 2018	
Opening net book amount	42.0
Additions	5.6
Amortisation	(9.0)
Net book amount	38.6
At 31 December 2018	
Cost	76.2
Accumulated amortisation	(37.6)
Net book amount	38.6

Software assets include costs relating to the Group's enterprise resource planning system. The asset has a net book amount of £19.2m (2017: £24.1m) and a remaining amortisation period of 4 years (2017: 5 years).

Notes to the financial statements of the Company continued

5. Property, plant and equipment

	Land and buildings £'m	Plant, equipment and vehicles £'m	Right-of-use assets: property £'m	Right-of-use assets: other £'m	Total £'m
At 1 January 2017					
Cost	0.8	6.6	–	–	7.4
Accumulated depreciation	(0.4)	(3.8)	–	–	(4.2)
Net book amount	0.4	2.8	–	–	3.2
Year ended 31 December 2017					
Opening net book amount	0.4	2.8	–	–	3.2
Additions	0.1	0.2	–	–	0.3
Disposals	–	(0.3)	–	–	(0.3)
Depreciation	(0.1)	(1.2)	–	–	(1.3)
Net book amount	0.4	1.5	–	–	1.9
At 31 December 2017					
Cost	0.9	6.1	–	–	7.0
Accumulated depreciation	(0.5)	(4.6)	–	–	(5.1)
Net book amount	0.4	1.5	–	–	1.9
Year ended 31 December 2018					
Opening net book amount	0.4	1.5	–	–	1.9
Additions*	–	–	0.4	0.1	0.5
Depreciation	(0.2)	(0.7)	(0.1)	–	(1.0)
Net book amount	0.2	0.8	0.3	0.1	1.4
At 31 December 2018					
Cost	0.9	6.1	0.4	0.1	7.5
Accumulated depreciation	(0.7)	(5.3)	(0.1)	–	(6.1)
Net book amount	0.2	0.8	0.3	0.1	1.4

* During the year the Company adopted IFRS 16 'Leases'. As the impact on the prior year was not significant, prior year figures have not been restated.

6. Investments

	2018 £'m	2017 £'m
Shares in subsidiary undertakings:		
At 1 January	2,074.5	2,074.0
Capital contributions	9.1	3.7
Less contributions from subsidiary undertakings	(2.4)	(3.2)
At 31 December	2,081.2	2,074.5

A list of all subsidiary undertakings is disclosed in note 46 to the Group's consolidated financial statements on pages 184 to 185.

7. Other receivables

	2018 £'m	2017 £'m
Amounts owed by subsidiary undertakings	1,275.4	1,372.0
Prepayments and accrued income	3.9	4.4
Other receivables	1.9	1.8
Total	1,281.2	1,378.2

Amounts owed by subsidiary undertakings are unsecured.

8. Trade and other payables – current

	2018 £'m	2017 £'m
Trade payables	5.3	6.0
Amounts owed to subsidiary undertakings	80.8	128.6
Social security and other taxes	3.5	3.2
Accrued expenses	8.2	8.0
Other payables	0.4	0.3
Total	98.2	146.1

Amounts owed to subsidiary undertakings are unsecured.

9. Lease liabilities

The following amounts are included in the Company's financial statements in respect of its leases:

	2018 £'m	2017 £'m
Depreciation charge for right-of-use assets (see note 5)	0.1	–
Additions to right-of-use assets (see note 5)	0.5	–
Carrying amount of right-of-use assets (see note 5)	0.4	–
Short-term lease expense	0.1	0.1

Analysis of lease liabilities:

	Present value of minimum lease payments	
	2018 £'m	2017 £'m
In one year or less	0.2	–
In more than one year but not more than five years	0.2	–
Present value of lease liabilities	0.4	–
Current portion	0.2	–
Non-current portion	0.2	–

10. Bank and other borrowings

	2018 £'m	2017 £'m
Bank loans	–	61.6
Other loans	7.9	9.3
Current portion	7.9	70.9
Other loans	469.6	751.7
Non-current portion	469.6	751.7
Total	477.5	822.6

Analysis of bank and other borrowings repayable:

In one year or less	7.9	70.9
In more than one year but not more than five years	234.8	308.3
In more than five years	234.8	443.4
Total	477.5	822.6

Analysis of bank and other borrowings:

Drawn under committed facilities	470.5	740.7
Less unamortised debt issue costs	(0.9)	(1.4)
Fair value adjustments to fixed rate borrowings	–	12.4
Drawn under uncommitted facilities	–	61.6
Interest accruals	7.9	9.3
Total	477.5	822.6

Debt issue costs are amortised over the period of the facility to which they relate. The Company has no secured borrowings (2017: £Nil).

Notes to the financial statements of the Company continued

10. Bank and other borrowings continued

The Company has the following committed facilities:

	2018			2017		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
2010 Senior notes (USD400.0m)	-	-	-	296.3	-	296.3
2016 Senior notes (USD600.0m)	470.5	-	470.5	444.4	-	444.4
Committed facilities	470.5	-	470.5	740.7	-	740.7

During the year, the Company novated USD400.0m of Private Placement loan notes to its subsidiary, Meggitt Holdings (USA) Inc. This reduction in debt obligations was funded through a USD400.0m dividend from Meggitt International Holdings Ltd. In addition, to ensure all lenders to the Group remained pari passu, the Company, Meggitt Finance Ltd and Meggitt Holdings (USA) Inc all guaranteed each others' debt obligations under the Group's private placement issuances and USD750.0m revolving credit facility. Guarantee fees are payable between the parties as a result of these new arrangements.

Further details on each of the committed facilities are disclosed in note 31 to the Group's consolidated financial statements on page 164.

The committed facilities expire as follows:

	2018			2017		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
In more than one year but not more than five years	235.3	-	235.3	296.3	-	296.3
In more than five years	235.2	-	235.2	444.4	-	444.4
Committed facilities	470.5	-	470.5	740.7	-	740.7

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

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

	2018		2017	
	Book value £'m	Fair value £'m	Book value £'m	Fair value £'m
Current	7.9	7.9	70.9	70.9
Non-current	469.6	456.0	751.7	747.8
Total	477.5	463.9	822.6	818.7

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

At 31 December 2018:

	Floating	Fixed	Total	Fixed rate borrowings	
				Weighted average interest rate	Weighted average period for which rate is fixed
	£'m	£'m	£'m	%	Years
US dollar	-	478.4	478.4	3.5	6.0
Less unamortised debt issue costs	-	(0.9)	(0.9)		
Bank and other borrowings	-	477.5	477.5		

At 31 December 2017:

	Floating	Fixed	Total	Fixed rate borrowings	
				Weighted average interest rate	Weighted average period for which rate is fixed
	£'m	£'m	£'m	%	Years
US dollar	235.6	526.8	762.4	3.8	6.4
Sterling	61.6	-	61.6		
Gross bank and other borrowings	297.2	526.8	824.0		
Less unamortised debt issue costs	(0.3)	(1.1)	(1.4)		
Bank and other borrowings	296.9	525.7	822.6		

The weighted average interest rate reflects the relative impact of interest rates based on the principal amounts and the duration of borrowings.

11. Derivative financial instruments

	2018 Assets £'m	2018 Liabilities £'m	2017 Assets £'m	2017 Liabilities £'m
Interest rate swap – cash flow hedge	–	–	0.4	–
Cross currency swaps – not hedge accounted	8.4	–	–	(5.9)
Foreign currency forward contracts – not hedge accounted	28.2	(20.2)	20.3	(14.4)
Current portion	36.6	(20.2)	20.7	(20.3)
Interest rate swaps – fair value hedges	–	–	12.2	–
Interest rate swaps – not hedge accounted	6.6	–	–	–
Cross currency swaps – not hedge accounted	–	(3.6)	–	(6.1)
Foreign currency forward contracts – not hedge accounted	8.2	(14.7)	18.4	(18.3)
Non-current portion	14.8	(18.3)	30.6	(24.4)
Total	51.4	(38.5)	51.3	(44.7)

The Company is exempt from certain FRS 101 disclosures as the Group's consolidated financial statements provide the disclosures required by IFRS 7 (see note 33 to the Group's consolidated financial statements on pages 168 to 169).

The gain recorded in the income statement, recognised in net operating costs, arising from the measurement at fair value of derivative financial instruments is £19.6m (2017: loss £15.3m).

The contract or underlying principal amount of foreign currency forward contracts in respect of derivative financial assets is £612.7m (2017: £637.7m) and in respect of derivative financial liabilities is £629.5m (2017: £522.6m).

The fair value of foreign currency forward contracts is analysed as follows:

	2018 Assets £'m	2018 Liabilities £'m	2017 Assets £'m	2017 Liabilities £'m
Fair value:				
US dollar forward sales and purchases (USD/£)	34.0	(31.3)	32.6	(28.8)
Forward sales and purchases denominated in other currencies	2.4	(3.6)	6.1	(3.9)
Total	36.4	(34.9)	38.7	(32.7)

12. Provisions

	2018 £'m	2017 £'m
Onerous contracts:		
At 1 January	–	–
Additional provision in year	0.2	–
At 31 December	0.2	–

13. Deferred tax

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

	Assets			Liabilities			Net £'m
	Retirement benefit obligations £'m	Other £'m	Total £'m	Accelerated tax depreciation £'m	Other £'m	Total £'m	
At 1 January 2017	37.0	–	37.0	(2.1)	(0.1)	(2.2)	34.8
Charge to income statement	(3.8)	–	(3.8)	0.2	0.1	0.3	(3.5)
Charge to other comprehensive income	(8.6)	–	(8.6)	–	–	–	(8.6)
At 31 December 2017	24.6	–	24.6	(1.9)	–	(1.9)	22.7
Charge to income statement	(4.2)	2.7	(1.5)	0.8	–	0.8	(0.7)
Charge to other comprehensive income	(5.3)	0.2	(5.1)	–	–	–	(5.1)
Charge to equity	–	(0.2)	(0.2)	–	–	–	(0.2)
At 31 December 2018	15.1	2.7	17.8	(1.1)	–	(1.1)	16.7

Notes to the financial statements of the Company continued

13. Deferred tax continued

After taking account of the offsetting of balances, deferred tax assets are analysed as follows:

	2018 £'m	2017 £'m
To be recovered within one year	6.0	–
To be recovered after more than one year	10.7	22.7
Total	16.7	22.7

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.

14. 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 in respect of the Meggitt Pension Plan in these financial statements. Further details on the plan are disclosed in note 36 to the Group's consolidated financial statements on pages 171 to 175 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 is £1.9m (2017: £1.7m).

Changes in the present value of retirement benefit obligations

	2018			2017		
	Liabilities (*) £'m	Assets (**) £'m	Total £'m	Liabilities (*) £'m	Assets (**) £'m	Total £'m
At 1 January	814.5	(673.6)	140.9	829.1	(619.5)	209.6
Service cost	7.5	–	7.5	7.8	–	7.8
Past service cost	1.7	–	1.7	–	–	–
Net interest cost	20.5	(17.4)	3.1	21.7	(16.6)	5.1
Contributions – Company	–	(36.3)	(36.3)	–	(35.6)	(35.6)
Benefits paid	(26.2)	26.2	–	(25.3)	25.3	–
Remeasurement of retirement benefit obligations:						
Experience gain	(9.8)	–	(9.8)	(5.0)	–	(5.0)
Loss/(gain) from change in demographic assumptions	4.4	–	4.4	(13.3)	–	(13.3)
(Gain)/loss from change in financial assumptions	(59.2)	–	(59.2)	(0.5)	–	(0.5)
Return on scheme assets excluding amounts included in finance costs	–	31.6	31.6	–	(27.8)	(27.8)
Total remeasurement (gain)/loss	(64.6)	31.6	(33.0)	(18.8)	(27.8)	(46.6)
Administrative expenses borne directly by scheme	–	0.6	0.6	–	0.6	0.6
At 31 December	753.4	(668.9)	84.5	814.5	(673.6)	140.9

* Present value of scheme liabilities.

** Fair value of scheme assets.

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

- The impact of a 50 basis point reduction in discount rate would cause scheme liabilities at 31 December 2018 to increase by approximately £68.0m.
- The impact of a 10 basis point increase in inflation and salary inflation rates would cause scheme liabilities at 31 December 2018 to increase by approximately £8.0m.
- The impact of assuming every scheme member were to live for an additional year would cause scheme liabilities at 31 December 2018 to increase by approximately £26.0m.

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 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 on the balance sheet. The methods and types of assumptions used in preparing the sensitivity analysis are consistent with the previous year. No change has been considered necessary to sensitivity levels, given recent past experience.

The weighted average duration of the UK scheme defined benefit obligation is 18.6 years.

14. Retirement benefit obligations continued

The expected maturity of undiscounted pension benefits at 31 December 2018 is as follows:

	Total £'m
Benefit payments expected to be made in 2019	21.6
Benefit payments expected to be made in 2020	22.2
Benefit payments expected to be made in 2021 to 2023	76.7
Benefit payments expected to be made in 2024 to 2028	153.6
Benefit payments expected to be made in 2029 to 2033	175.4
Benefit payments expected to be made in 2034 to 2038	181.3
Benefit payments expected to be made in 2039 to 2043	177.6
Benefit payments expected to be made from 2044 onwards	584.3
Total	1,392.7

15. Share capital

Disclosures in respect of share capital of the Company are provided in note 37 to the Group's consolidated financial statements on page 175.

16. Share-based payment

Share options have been granted to employees of the Company under various plans. Details of the general terms and conditions of each share-based payment plan are provided in the Directors' remuneration report on pages 92 to 114. Disclosure is also made in the Group's consolidated financial statements in note 38 on page 176

17. Commitments

The Company has no capital commitments (2017: Nil).

18. Other information

Directors' remuneration

Details of the remuneration paid to directors of the Company are provided in the Directors' remuneration report on pages 92 to 114.

Auditor's remuneration

Details of remuneration paid for the audit of the Company are disclosed in note 7 to the Group's consolidated financial statements on page 148.

Employee information

The average number of persons employed by the Company in the year is 204 (2017: 185). Total staff costs, excluding share-based payment charges, for the year are £35.6m (2017: £31.5m).

Five-year record

	2018 £'m	2017 £'m	2016 £'m	2015 £'m	2014 £'m
Revenue and profit					
Revenue	2,080.6	1,994.4	1,992.4	1,647.2	1,553.7
Underlying profit before tax	334.8	320.2	352.1	310.3	328.7
Amounts arising on the acquisition, disposal and closure of businesses	25.1	25.3	39.1	(0.2)	(3.5)
Amortisation of intangible assets acquired in business combinations	(91.5)	(93.5)	(98.6)	(71.9)	(68.1)
Disposal of inventory revalued in business combinations	-	-	(4.6)	(1.6)	-
Financial instruments	(10.1)	60.7	(66.4)	(4.8)	(29.2)
Exceptional operating items	(34.2)	(73.1)	(15.5)	(10.4)	(9.0)
Net interest expense on retirement benefit obligations	(8.0)	(11.3)	(10.6)	(11.2)	(10.0)
Profit before tax	216.1	228.3	195.5	210.2	208.9
Earnings and dividends					
Earnings per share – basic	23.2p	37.8p	22.1p	23.2p	22.0p
Earnings per share – underlying	34.2p	32.0p	34.8p	31.6p	32.4p
Dividends per ordinary share in respect of the year	16.65p	15.85p	15.10p	14.40p	13.75p
Gearing ratio					
Net debt as a percentage of total equity	43.1%	45.9%	48.0%	48.3%	26.9%

As described in note 45 to the Group's consolidated financial statements, the Group has adopted IFRS 15 and IFRS 16 with effect from 1 January 2018, with prior year comparatives for 2017 restated. IFRS 15 in particular is a complicated standard, requiring customer contracts to be reassessed against revised criteria for when, and at what value, revenue should be recognised. It is therefore not practical to provide a restatement of the numbers presented above for the years 2014 to 2016 inclusive.

Contacts

Investor relations

T: 01202 597597
E: investors@meggitt.com

Information on Meggitt PLC, including the latest share price: www.meggitt.com

Shareholder enquiries

Registrar:
Computershare Investor
Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

Enquiries about the following 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. Quarterly statements will be available online at www.investorcentre.co.uk. Shareholders will need their Shareholder Reference Number (SRN) and registered address details to get started. Statements will be available from 30 April, 31 July, 31 October and 31 January each year.
- Amalgamation of shareholdings. Shareholders who receive more than one copy of the annual report are invited to amalgamate their accounts on the share register.

T: 0370 703 6210
E: www.investorcentre.co.uk/contactus

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, 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 may be sent to the shareholder's registered address to enable the shareholder to manage their holding.

Other useful contacts

Share dealing services are provided for shareholders by Computershare Investor Services PLC. These services are provided by telephone (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 2018 final dividend of 11.35p per ordinary share, if approved, will be paid on 3 May 2019 to shareholders on the register on 22 March 2019. The expected payment date for the 2019 interim dividend is 4 October 2019.

2019 financial calendar

Full-year results for year ended 31 December 2018

Report and accounts for year ended 31 December 2018 despatched
2018 Final dividend ex-dividend date
2018 Final dividend record date
Deadline for receipt of dividend reinvestment plan elections

AGM

2018 Final dividend payment date

Interim results for period ended 30 June 2019

2019 Interim dividend ex-dividend date
2019 Interim dividend record date
Deadline for receipt of dividend reinvestment plan elections
2019 Interim dividend payment date

26 February

21 March
21 March
22 March
10 April

25 April

3 May

6 August

5 September
6 September
20 September
4 October

Key dates 2019

February 26 2018 Full-year results	April 25 AGM	May 3 2018 Final dividend payment
May 8 Capital Markets Day	August 6 2019 Interim results	October 4 2019 Interim dividend payment

Glossary

ADS	Aerospace, Defence, Security and Space Organisation	DoD	(United States) Department of Defense
Aftermarket (AM)	Spares and repairs	DPPM	Defective parts per million, a measure of quality
AGM	Annual general meeting	DRIP	Dividend reinvestment plan
AR&T	Applied research and technology	DTR	Disclosure Guidance and Transparency Rules
ASK	Available seat kilometres	EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
Basis point	One-hundredth of a percent	ECR	(US) Export Controls Reform
BEPS	Base Erosion and Profit Shifting	EPP	Equity Participation Plan
Board	Board of directors	EPS	Earnings per Share
Book to bill	The ratio of orders received to revenue recognised in a period	ESOS	Energy Savings Opportunity Scheme
Bronze stage	Fourth stage of MPS	ESOS	Executive Share Option Scheme
Business jets	Aircraft used for non-commercial operations	EU	European Union
CAGR	Compound annual growth rate	Executive Committee	Assists the Chief Executive to develop and implement the Group's strategy, manage operations and discharge responsibilities delegated by the Board
Capability	Expertise in technology and manufacturing	FCA	Financial Conduct Authority
CGU	Cash generating unit	FIFO	First-in first-out
CHF	Swiss franc	FIRST	For Inspiration and Recognition of Science and Technology
CI	Continuous improvement	FOC	Free of charge
CO₂	Carbon dioxide	FRC	Financial Reporting Council
Code	UK Corporate Governance Code 2018	FRS	Financial Reporting Standard
CODM	Chief operating decision maker	FTSE	Share index of companies listed on the London Stock Exchange
Company	Meggitt PLC	GAAP	Generally Accepted Accounting Practice
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	GBP	British pound or pound sterling
Continuing Resolution	Appropriations legislation restricting modification from prior-year funding patterns	GDP	Gross domestic product
CR	Corporate responsibility	GHG	Greenhouse gas
CREST	Certificateless Registry for Electronic Share Transfer	Group	Meggitt PLC and its subsidiaries
CSS	Customer Services & Support, Meggitt's centralised aftermarket organisation	HMRC	HM Revenue & Customs
D&A	Depreciation and amortisation	HSE	Health, safety and environment
DECC	Department of Energy & Climate Change	IAS	International Accounting Standards
DEFRA	Department for Environment, Food & Rural Affairs	IET	Institution of Engineering and Technology
DFARS	Defense Federal Acquisition Relation Supplement	IFBEC	International Forum on Business Ethical Conduct
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	IFRS	International Financial Reporting Standards
		Installed base	The sum total of the Meggitt products and sub-systems installed on customers' equipment
		IP	Intellectual property
		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
		LIBOR	London Inter-Bank Offered Rate
		LTIP	Long Term Incentive Plan

MABS	Meggitt Aircraft Braking Systems, one of five Meggitt divisions	PMO	Project management office
M&A	Mergers and acquisitions	PPC	Programme Participation Cost
MCS	Meggitt Control Systems, one of five Meggitt divisions	Programme	The production and utilisation lifecycle of an aircraft model or ground vehicle
MEG	Meggitt Equipment Group, one of five Meggitt divisions	PwC	PricewaterhouseCoopers LLP
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	R&D	Research and development
Mix	The impact on performance of revenue streams with higher or lower profitability growing at differing rates	REACH	Registration, Evaluation and Authorisation of Chemicals
MoD	UK Ministry of Defence	Regional aircraft	Commercial aircraft with fewer than 100 seats
MPC	Meggitt Polymers & Composites, one of five Meggitt divisions	Registrar	Computershare Investor Services PLC
MPP	Meggitt Pension Plan	RIDDOR	The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations
MRO	Maintenance, repair and overhaul	RIS	Regulatory Information Service
MSS	Meggitt Sensing Systems, one of five Meggitt divisions	RMU	Retrofit, modification and upgrade
Net borrowings	Net debt adjusted to exclude lease liabilities	ROCE	Return on capital employed
NPI	New product introduction	ROTA	Return on trading assets
OE	Original equipment	RPH	Retirement Plan Headcount
OECD	Organisation for Economic Cooperation and Development	SAP	The Group's selected enterprise management system
OEM	Original equipment manufacturer	SARs	Share appreciation rights
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	Shipset	Value of Meggitt's content on aircraft platforms
Organic growth	Growth excluding the impact of currency and acquisitions and disposals of businesses	SIP	Share Incentive Plan
OSHA	Occupational Safety and Health Administration	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
OTD	On-time delivery	SRN	Shareholder Reference Number
PBT	Profit before tax	STIP	Short Term Incentive Plan
PCHE	Printed circuit heat exchanger – a block of flat, diffusion bonded plates on to which fluid flow channels have been chemically milled	TSR	Total shareholder return
PFEP	Plan for every part	UAV	Unmanned aerial vehicle
Platform	Aircraft or ground vehicle model incorporating Meggitt products	UKLA	UK Listing Authority
		USD	United States dollar
		WACC	Weighted average cost of capital
		WBCSD	World Business Council for Sustainable Development
		WRI	World Resources Institute

MEGGITT

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