

MEGGITT



Enabling the Extraordinary

To Fly To Power To Live

Annual Report & Accounts 2019

OUR STRATEGY

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 and sustainable value for all of our stakeholders.

What's in the report

page 02 Our Vision

With innovation at the heart of what we do, we've been enabling the extraordinary for over 160 years and continue to redefine *our world* through pioneering, sustainable technology for the most extreme environments.

page 08 CEO Statement

In 2019, we delivered another year of strong organic growth and made continued progress on our strategic initiatives.

page 12 Business Model

Differentiated technology, world-class services and support and an installed base of over 73,000 aircraft provide annuity-like revenues, the returns from which are reinvested to sustain market-leading positions over the long term.

page 30 Divisional Reviews

Our new, customer-aligned organisation has supported a year of further important wins, built around our differentiated technology and closer alignment with our customers.

page 14 Our Strategy

We are focused on enhancing our portfolio, improving our ability to serve customers, increasing our competitiveness and developing a High Performance Culture.

page 22 Our Culture

We continue to build our High Performance Culture, with a focus on diversity & inclusion and improved employee engagement enabling us to accelerate strategy execution.

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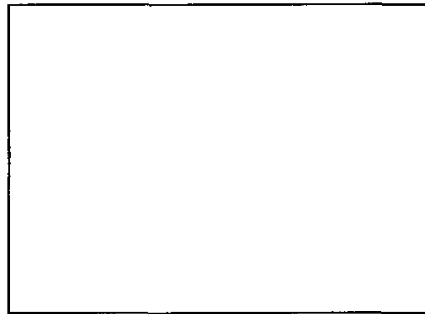
OUR VISION

Enabling the Extraordinary

To Fly To Power To Live

To Fly

Expertise relied upon by Customers to enable safe, sustainable and cost-effective flight.

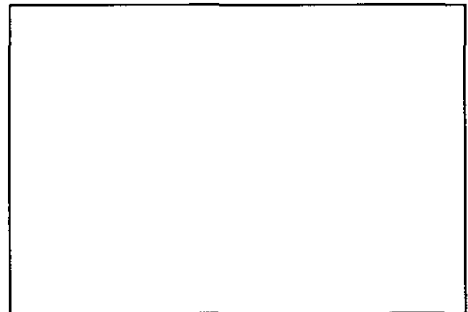


Every second of every day a Meggitt enabled-aircraft takes off.

To Power

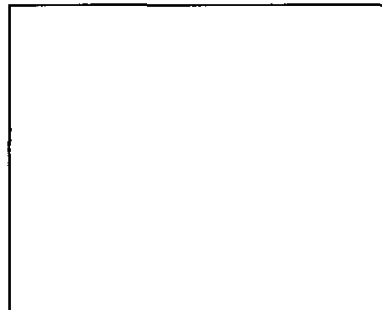
Products and Services that enable Customers to reliably operate critical infrastructure without disruption.

Enabling advances in cleaner energy with innovative technology.



To Live

Innovative technologies which enhance lives and make the world more secure.



Investing at least two-thirds of our innovation budget on technologies for sustainable aviation; working to ensure a sustainable future for generations to come.

2019 HIGHLIGHTS

Operational

- Continued deployment of the Meggitt Production System ('MPS'), with 33% of sites now in the Bronze or above stages of the programme.
- 2.2% net cost down on purchasing achieved in 2019.
- 2021 footprint consolidation target surpassed – 25% reduction in sites since 2016.
- Over 1 million production hours completed in our low cost manufacturing site in Vietnam in 2019.

Financial

£2,276m

Revenue

2018: £2,081million

37.3p

Underlying basic earnings per share¹

2018: 34.2p

£403m

Underlying operating profit²

2018: £367million

£287m

Statutory profit before tax

2018: £216million

17.50p

Dividend per share

2018: 16.65p

29.5%

Return on trading assets⁴

2018: 28.2%

£268m

Free cash flow³

2018: £167million

£367m

Cash from operating activities

2018: £295million

1. Underlying earnings per share is reconciled to basic earnings per share in note 14 to the Group's consolidated financial statements on page 155.
2. Underlying operating profit is reconciled to operating profit in note 9 to the Group's consolidated financial statements on page 151.
3. Free cash flow is reconciled to cash from operating activities in note 41 to the Group's consolidated financial statements on page 182.
4. The calculation of return on trading assets is detailed within the KPIs on page 38.

AT A GLANCE

We deliver innovative solutions for the most demanding environments

Our differentiated products and technologies satisfy the highest requirements for product safety, performance and reliability and we continue to prioritise investment in sustainable solutions for our customers. In 2019, the Group transitioned to four vertically integrated customer-aligned divisions.

Our Divisions

01 Airframe Systems

Market-leading industry provider of braking systems for commercial, business and defence aircraft, fire protection and safety systems, power and motion, fuel systems, avionics and sensors and advanced polymer seals for around 51,000 in-service civil and 22,000 defence aircraft.

47%

of revenue

➔ See more on page 30

02 Engine Systems

Market-leading position in aero engine sensing and safety systems with a broad range of technologies and sensor applications including vibration monitoring and engine health management systems. This division also provides aerospace engine heat exchangers, flow control and advanced engine composites.

14%

of revenue

➔ See more on page 32

03 Energy & Equipment

Specialises in energy and defence equipment ranging from electronics cooling to ammunition handling systems and heat transfer equipment for off-shore oil and gas facilities and renewable energy applications.

18%

of revenue

➔ See more on page 34

04 Services & Support

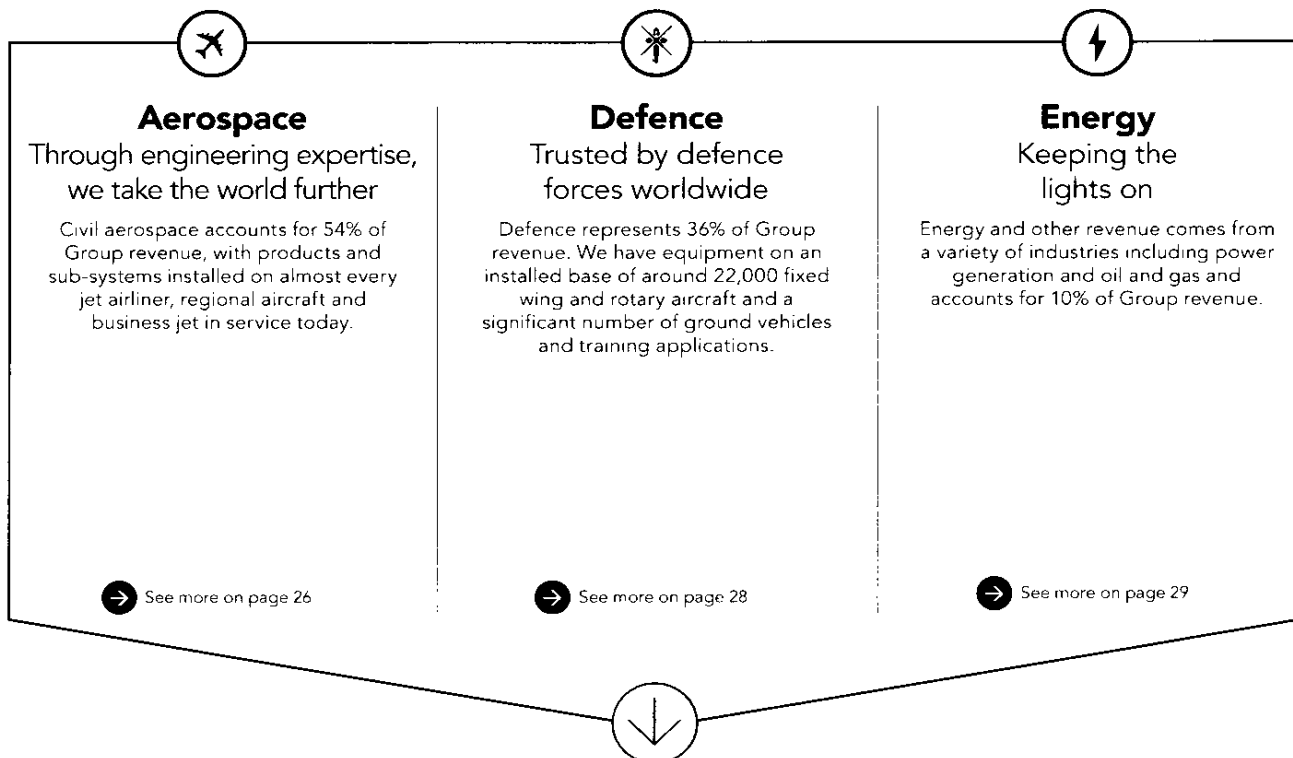
Provides a full service aftermarket offering including spares distribution and maintenance, repair and overhaul (MRO) to our commercial, business jet and defence customers throughout the lifecycle of our products.

21%

of revenue

➔ See more on page 36

Our Markets



Global Solutions, Local Support.

North America

19
Locations
6,765
Employees

UK
11
Locations
2,988
Employees

Europe
5
Locations
1,172
Employees

Rest of World

7
Locations
1,674
Employees

Over
12,500
Employees worldwide

CHAIRMAN'S STATEMENT

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Continuing to develop sustainable and differentiated technologies, world-class facilities and recruiting and retaining the best talent are critical to our future success

//

Sir Nigel Rudd
Chairman

A driving force for sustainable aviation

Aerospace is a remarkable industry connecting countries, populations and families. Over the years it has played a vital role enriching lives and as a facilitator of global trade it has been a key driver of global economic growth; and with a significant proportion of the world's population yet to take their first flight, it will remain an important industry in the future.

As we look back on 2019 in years to come, it will be remembered as a year with a significant increase in the quantity and breadth of news flow about climate change, greater awareness of its causes, the threat it poses to our way of life and the challenge this provides to a number of industries, including aerospace.

Against this backdrop, Meggitt is ideally positioned to continue to play a leading role in helping the aerospace industry meet this ongoing challenge through its long track record of developing technologies that enable our customers to make their platforms more sustainable. This is something we have been doing for years, for example, through our products which reduce the weight and improve fuel efficiency of aircraft. We invest over two-thirds of our innovation budget in technologies for sustainable aviation, and we will continue to strengthen our position as a key partner for our customers in this area in the years to come.

Continued value creation

I am pleased to report that 2019 has been a successful year for the Group delivering another strong financial performance alongside continued progress on our strategic initiatives.

Organic revenue growth of 8%, double-digit underlying profit growth and strong cash generation was delivered against a backdrop of increased uncertainty caused by global trade tariffs, the grounding of the Boeing 737 MAX and a softening in air traffic growth. The progress we have made through our strategic initiatives is creating a more resilient business and one that is better able to leverage growth opportunities as they arise as well as withstand and mitigate the challenges posed by external pressures and changes in global macroeconomic conditions.

A key area of focus in 2019 has been to ensure the smooth transition to our new, customer-aligned organisation enabling us to simplify our customer interactions and I am pleased to report that the new structure has been successfully embedded and very well received by customers. This will remain a key focus area for us as we look to further strengthen our relationships with customers in 2020 and beyond.

We have also been busy preparing for the move to our UK campus at Ansty Park, and remain on track to conduct a phased transfer into the site from April 2020. This represents an important and exciting milestone for Meggitt and we look forward to realising the benefits from bringing together people from a number of our UK facilities in one central location, further consolidating our footprint and providing a platform for continued growth and success for years to come.

Capital allocation

The Board's priorities for capital allocation remain unchanged. Our first priority remains to invest in the business to drive sustainable, long-term organic growth. Continuing to develop sustainable and differentiated technologies, investing in world-class facilities and recruiting and retaining the best talent are critical to our future success.

Our second priority is to grow the 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. Reflecting the continued confident outlook, the Board is proposing a 5% increase to the full year dividend to 17.50p per share for 2019 (2018: 16.65p).

Thirdly, we continue to target value accretive acquisitions which complement our existing portfolio. Over the last three years, through a number of divestments, we have enhanced our focus on attractive aerospace, defence and selected energy markets where we have or can achieve a differentiated position. The Board regularly discusses the Group's strategy and has a clear view on how we can improve this position with carefully targeted acquisitions.

Our fourth and final priority is to maintain an efficient balance sheet, with the Board having provided a guidance range of 1.5x to 2.5x Net Debt:EBITDA, designed to ensure clear headroom against our covenants.

Board developments

In August, we announced the retirement of Philip Green who stepped down from the Board of Directors and Executive Committee on 31 December 2019. Philip joined Meggitt in 1994 as Group Company Secretary and joined the Board in 2001. He has had responsibility for many key functions throughout his distinguished career and I would like to thank Philip for his significant contribution to the Group and the Board and wish him well for his retirement.

2019 was also the year in which we welcomed Caroline Silver as Non-Executive Director. Caroline's strong background in investment banking brings invaluable experience and insights to the Board.

2019 was the first year for Nancy Gioia as Non-Executive Director for Employee Engagement. Nancy undertook regular employee engagement activities during the year, sharpening the Board's focus on this important area as described further in the Corporate Governance Report on page 80.

People

The Board is very focused on ensuring that we operate a safe environment for all our employees. While we are pleased with the progress we have made this year in improving our safety performance, we continue to develop a culture capable of sustaining best in class performance and have targeted further improvements in 2020.

During the year, the Board had the opportunity to visit a number of sites including our operations in Loughborough in the UK and Avirille in France, with individual Board members having also visited Rockmart in the US and Fareham in the UK. The Board continue to be impressed with the passion and commitment demonstrated by our employees and the strength and depth of our technology expertise.

As well as providing an opportunity to meet the talent within our business, each Board member has also had the chance to experience a High Performance Culture session. This initiative continues to make great progress with over 8,000 employees having been through the initial phase of the programme. We have also increased our focus on diversity and inclusion across the Group in 2019, including the launch of several Employee Resource Groups and unconscious bias training. The Board were

pleased to note that for the second year in succession, the results of these initiatives have been reflected in a 4% increase in employee engagement. The improvements build on a similar increase in 2018 and demonstrate the importance of developing a High Performance Culture and we look forward to further progress in 2020.

On 25 February 2020, Meggitt will announce my intention to step down as Chairman of the Board to spend more time on my business and other interests. I will remain as Chairman until my successor is appointed, but will not seek re-election at the 2021 AGM. It has been a privilege and a pleasure to serve as the Chairman of Meggitt. Since 2015, we have focused on establishing Meggitt as a truly world-class, innovative, global aerospace, defence and selected energy business and I am very proud that in 2019 the Company returned to the FTSE 100 index. It has been a pleasure to work alongside the Board and senior management team during this time to determine and deliver the Group's vision and strategy, and lay the groundwork for future growth.

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, as well as their dedication throughout a period of significant change.

Sir Nigel Rudd
Chairman

Investment case

Meggitt PLC specialises in providing innovative solutions for the most demanding 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 and long life assets

- Challenging technology and certification requirements mean few providers can do what we do
- Aerospace and defence focused (90% of revenue)
- Significant exposure to aftermarket

Strength and depth of intellectual property supports long-term returns

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

Broad and balanced business

- 48/52 split between aftermarket and original equipment
- Content on an east/western aircraft – installed base of over 73,000 civil and defence aircraft

Strong positions in attractive markets

- 77% of revenue in attractive markets where Meggitt has a strong competitive position
- Competitive positions continue to be enhanced by the development of sustainable and differentiated technology and operational performance improvements

Progress on strategic priorities

- Meggitt Product on System, our lean improvement tool, reinforced across the portfolio with a focus on improving maturity at the Red and Yellow stages
- Purchase cost reduction of a further 2.2% in 2019, with further potential savings identified
- SMART Support continues to gain traction within our new Services & Support division, with a further increase in the number of long-term agreements with key aftermarket customers

High-quality team

- High Performance Culture rollout completed to over 8,000 employees supporting the transition to a new organisational structure with closer alignment to our customers and leaner ways of working

CHIEF EXECUTIVE'S STATEMENT

“
Strong performance
across each of
our aerospace,
defence and selected
energy markets
”

Tony Wood
Chief Executive

In 2019, we delivered another year of *strong organic growth and made continued progress on our strategic initiatives*. Our wide installed base and exposure to growing end markets, combined with increased content on new platforms, contributed to strong performance across each of our aerospace, defence and selected energy markets, with organic revenue growing in aggregate by 8%. This growth also reflects the benefits of becoming a more focused business with greater exposure to attractive markets and the transition to our new customer-aligned organisation, which I am pleased to say has now been successfully embedded.

During the past 12 months, we have also continued to make progress on our *strategic initiatives*. 33% of our sites are now operating at Meggitt Production System level Bronze or above, delivering enhanced levels of operating performance. Following the disposals of two non-core businesses, our footprint as at the end of the year was 25% lower than the baseline in 2016 and well ahead of our initial target of 20%. We also achieved annual purchased cost savings of 2.2%, delivering our purchased cost reduction target for a third year in succession. These initiatives, along with continued operational improvements within our Engine Composites business, will continue to drive improvements in our underlying margin in 2020 and over the medium-term.

To sustain this growth over the long-term and *improve return on capital employed* for the benefit of all of our stakeholders, we remain focused on continued investment in sustainable and differentiated technology, as showcased at our 2019 Capital Markets Day. We also continue to focus on our broader strategic portfolio, improving the service we offer to our customers,

enhancing our competitiveness, and building a *High Performance Culture*, capable of delivering attractive returns for shareholders.

Strategic Portfolio

In 2019, we continued to make good progress on our goal to increase our exposure to attractive and growing markets where we have strong competitive positions, through our investment in differentiated technology, our programme of non-core disposals and targeted partnerships and acquisitions.

The markets we serve have some of the highest requirements for product safety, performance and reliability and developing differentiated products and technologies for these markets continues to underpin our approach of securing sole-source, life-of-programme positions and remains a strategic priority. Over two-thirds of our innovation budget is focused on the environmental performance and sustainability of our products and we continue to prioritise investment in areas such as light-weighting, fuel efficiency and greenhouse gas (GHG) reduction and the ability to sustainably produce at rate and at cost. We have maintained our focus on investing in nine key technology areas that we see as critical to addressing future market needs and where we have a technologically differentiated position: thermal systems, safety systems, fuel systems, optical sensing, engine composites, braking systems, high-temperature control technology, electrical machines and batteries, additive and digital manufacturing.

In 2019, we made good progress in moving key technologies into the customer demonstration phase: examples of this include successfully completing customer pilots with our next generation of heat exchangers on development engines and fire suppression systems flown on demonstrator aircraft. We have also made significant progress with industrialisation of additive manufacturing with widespread development use of this new technology in our production facilities together with our investment in HiETA Technologies Limited, a UK-based company specialising in using additive manufacturing technology to produce high performance thermal systems. Further to the announcement at the half year of our exclusive agreement with Luna Innovations, we continue to make excellent progress in developing our fibre optic sensing technology with customer trials for both aerospace and industrial applications scheduled for 2020.

As announced at the half year, we have also strengthened the portfolio with the sale of two non-core businesses. In April 2019, we completed the sale of the trade and assets of Meggitt France SAS (Angoulême), a provider of ignition systems and in August 2019, we completed the sale of our non-aerospace test and measurement sensing business.

As a result of these divestments and others since December 2016, and a review of the market position and growth characteristics of our product groups, we have increased our exposure to attractive markets where we have a strong competitive position to 77% (2018: 72%), further enhancing our platform for long-term growth and returns.

To complement our internal investment in technology to underpin organic growth, we will look to augment our existing portfolio with selective acquisitions of businesses with strong technology and IP, leading market positions – or a clear path to achieving this – and those which demonstrate a high degree of exposure to the aftermarket. With continuing strong levels of organic growth and cash flow generation we are well placed to take advantage of acquisition opportunities as and when they arise.

Customers

Organic book to bill of 1.09x reflects good progress in growing our relationships and securing new orders with key customers across all market segments in 2019 including: in defence, fuel bladders for the FA18; in civil aerospace, wheels and brakes for the G700 business jet; and in energy, a number of orders for our thermal systems for the oil and gas market.

During the year we successfully embedded our new organisation structure moving from capability-based units to customer-aligned divisions. We have started to realise the benefits of this more integrated and aligned structure as evidenced by the strength of our order book, positive feedback from our customers and a number of long-term agreements in our aftermarket business.

Within our Services & Support division, we have made excellent progress during the year consolidating our aftermarket services into our three regional hubs. In July 2019, we opened our expanded US hub in Miami and in 2020 we will be formally opening our newly expanded regional centres for Asia in Singapore and for Europe at Ansty Park, UK. These regional hubs allow us to provide a dedicated and full-service offering to our customers in region, enhance our visibility of near-term customer requirements and to support the demand for spare parts, maintenance, repair and overhaul ('MRO') and technical support. They also provide the platform for us to focus on a number of routes to market including: airlines and defence departments; third party 'nose to tail' MRO providers; engine MRO providers; and original equipment manufacturers. In civil aerospace, we continue to build on the success of our SMART Support® offering through our Services & Support division securing 21 multi-year agreements during the year including those with Lufthansa Technik, Pratt & Whitney, Emirates, JAL and Lion Air. SMART Support® provides

customers with a flexible service and support package enabling us to tailor the services we provide to their operations. In providing better access to new and surplus parts, specialist repairs, exchange pools and technology upgrades, SMART Support® enables our customers to plan and carry out their aircraft maintenance more accurately and efficiently. As well as deepening our relationships with customers, through collaboratively leveraging both our own and our customers' available data these long-term agreements will help to mitigate the impact of surplus parts and alternative repair schemes in the event that retirements of older aircraft increase, and enable us to secure future growth from the aftermarket. We now have a total of 25 SMART Support® contracts with a total aggregate value of £155 million.



The move to our new state-of-the-art manufacturing site at Ansty Park in 2020 represents an important milestone for the Group



Competitiveness

In 2019, we continued to make further progress on a range of operational initiatives and targets as announced at our Capital Markets Day in 2017.

As well as delivering our commitment to sustainability through developing new technologies, we continue to prioritise and promote sustainable initiatives throughout our operations, both through a reduction in our overall global footprint and the amount and type of resources that we use within our sites. Our sites continue to identify projects that reduce their greenhouse gas emissions, water usage and waste.

Our actions to increase competitiveness and reduce cost continue to be underpinned by the Meggitt Production System ('MPS'), 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. At the end of the year, we had 57% of our sites in the Green stages or later and of these, 14 sites in the Bronze and Silver phases equivalent to 33% of the Group (compared with 29% at the end of 2018). We remain firmly committed to MPS and our target remains for all sites to be at least in the Green stages by the end of 2021.

Our centre-led approach to procurement continues to enable the Group to reduce net purchased costs and in the year we delivered a 2.2% reduction, exceeding our annual target. We continue to work closely with preferred suppliers in a number of areas including electronics, fasteners, machining and factory

77%

Exposure to attractive markets where we have a strong competitive position

25%

Reduction in footprint vs 2016 baseline

We have a strong track record built over decades of developing new and differentiated technology to help make our customers' products safer, more efficient and sustainable. Whether delivering significant weight reduction through our composites expertise or supporting the development of more fuel efficient engines through our advanced thermal management capabilities, helping our customers respond to the challenges posed by climate change has always been at the very heart of what we do. Consistent with our strategy to position our world-class business as a leading voice in the industry's journey to sustainable aviation, we have increased investment in this area to support our own pipeline of new products and that of our airframe and engine customers.

CHIEF EXECUTIVE'S STATEMENT CONTINUED

consumables, where we have been able to simplify and improve the performance of our supply chain whilst better leveraging growth to reduce cost. We have also increased the proportion of our expenditure linked to long-term agreements and low cost sources and realised further savings in our indirect expenditure.

We have made further progress consolidating our footprint. During the year we exited three sites in Angoulême, France; Miami, US; and Miramar Sunnyvale, US reducing our overall footprint to 42 sites representing a 25% reduction from our 2016 baseline.

We made very good progress on the construction of our new, state-of-the-art manufacturing campus at Ansty Park in the UK with work on the main building and office fit out now complete and we remain on track to begin the phased transfer of activities from April. The move to Ansty Park represents an important milestone for the Group and will enable us to derive a number of operating benefits which we expect to start realising in 2021 and beyond.

During the year, we have also continued to invest in our braking systems business through the expansion of our carbon furnace capacity in Danville, US and Coventry, UK to support the strong demand from new platforms such as the Airbus A220 and business jets, with expenditure on this initiative increasing in 2020.

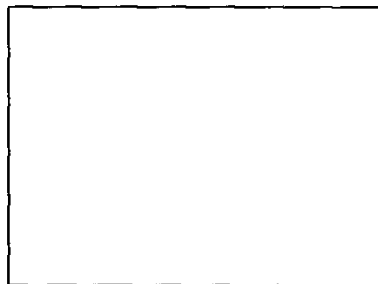
Our strategy to expand and transfer activities to our lower cost manufacturing facilities also continued during the year, with the number of production hours at our sites in Asia increasing by over 25%, with



Below:

Our High Performance Culture

We continue to build our shared sense of purpose as our High Performance Culture (HPC) roll-out continues with well over 8,000 employees having now participated in an 'unfreezing' workshop. We've again improved our employee engagement scores to support the acceleration of our strategy execution.



Vietnam reaching a significant milestone of completing over one million production hours in 2019. Looking ahead, we will continue to invest further in these sites in 2020 and beyond in terms of both capacity and capability.

Within our advanced Engine Composites product group we have made good progress in improving operational performance, with ultimate yield reaching over 90% across the majority of core parts, against a backdrop of continued rapid growth in demand given our strong positions on growth platforms including the F-135, P&W GTF and LEAP engines.

As previously announced, we incurred additional costs in the first half, particularly at our recently expanded factory in Mexico, where the replication of capability has enabled us to secure the approval we need from our customers to progressively move volume production to the site in 2020. We have started to see the investment made in this part of the business reflected in its financial performance, with margins improving during the second half.

Inventory turns were flat at 2.7x reflecting the investment in buffer stocks to support our ongoing site consolidation plans and our contingency planning for a no-deal Brexit, together with investment in spare parts to serve our growing number of SMART Support® contracts in the aftermarket. On an underlying basis and excluding the impact of buffer stocks, inventory turns were 2.9x in 2019. We anticipate buffer stocks to progressively unwind over the next two years and we continue to target inventory turns of around 4.0x by 2021.

Culture

We continued to make good progress with the roll-out of our High Performance Culture programme to accelerate the execution of our strategy. The success we have seen during the year moving to our new organisation structure has been underpinned by High Performance Culture sessions which have now been rolled out to over 8,000 employees (representing approximately two-thirds of the Group). This has proven highly effective in helping our teams work productively together to deliver common goals as a more integrated group.

As part of our High Performance Culture we continue to build a more diverse workforce, where our people succeed based on their talent, skills, knowledge and experience. In 2019, we launched five new Employee Resource Groups each of which will focus on a particular area to promote and reinforce an environment of diversity and inclusion. These programmes are having a direct impact on our business with employee engagement up a further 4% during a period of significant change across many of our sites, building on the same level of improvement seen in

2018. As a result, we are now at the 'Global high performance norm' level based on a comparative data set of employees working for highly regarded international businesses that perform well in this area.

A key principle of our corporate culture is our focus on health and safety. In 2019, our total recordable incident rate reduced from 0.82 to 0.74, an improvement of 10% and while we are pleased with this performance, we still have more to do and remain focused on delivering further improvements in 2020.

Performance

Reported revenue increased by 9% to £2,276m, after the impact of currency and divestments.

2019 marked another year of strong organic growth with revenue increasing by 8%, reflecting strong performance in growing end markets and our increasing focus on attractive markets where we have strong market positions. Underlying earnings per share increased by 9% to 37.3p (2018: 34.2p).

Within civil aerospace, original equipment revenue grew organically by 8%, with increased shipset content supporting growth on large jets and strong growth in both regional and business jets. Aftermarket revenue increased organically by 8%, with particularly strong performance in large jets where growing air traffic demand and a low retirement rate contributed to 14% growth.

Performance in defence was also strong with organic revenue growth of 11%, once again reflecting the supportive backdrop in our key defence markets, particularly the US where outlays remained healthy. Original equipment (OE) growth benefited from continued strong demand on fighter jet platforms, particularly the F-35, ground vehicles and training systems. Aftermarket demand was also strong, driven by a number of fighter platforms and transport vehicles.

Our energy business delivered another good performance in 2019, with organic revenue growth of 10% with the continued recovery at Heatric which continues to benefit from the stable oil price underpinning oil and gas capex and associated infrastructure projects. This, together with growth in renewables and more sustainable power generation systems saw increasing demand for small frame turbines, with emerging markets continuing to drive much of the growth opportunity.

Underlying operating margin was in-line with the prior year at 17.7%, with the financial contribution from the execution of our strategic initiatives offsetting a number of headwinds including supply chain disruption in our braking systems business, adverse revenue mix reflecting high growth in both civil OE and defence, the grounding of the 737 MAX and increased trade tariffs.

Outlook

The overall environment for the global aerospace industry continues to be supportive, with new aircraft deliveries and air traffic both expected to continue to grow and robust defence spending over the medium term.

However, against this backdrop, a number of headwinds have emerged in recent months as we look ahead to 2020 and beyond: the halting of production of the 737 MAX and uncertainty on the timing of its return to service is set to dampen OE growth in 2020; in the second half of 2019 the rate of air traffic growth, an important driver of our aftermarket business, started to soften and the forecast for 2020 is below the growth trend in recent years; and, noting the impact of SARS in 2003 and H1N1 in 2009, the outbreak of COVID-19 is likely to soften global air traffic growth.

The production backlog created by the supply chain disruption experienced in the second half of 2019, particularly for forgings and castings, is also likely to be a factor for the industry and for the Group in the first part of 2020, as will potential supply chain issues resulting from COVID-19.

While recognising the above factors, and our strong organic revenue growth rates in the last two years, we remain confident in our ability to sustainably deliver organic revenue growth ahead of the market over the medium-term, driven by our exposure to the fastest growing and hardest worked platforms, market share gains and our strong market positions.

Outlook for 2020

While the production halt of the 737 MAX will impact overall new large jet deliveries across the industry in 2020, the increased shipset values we have secured on the latest generation of aircraft will help to underpin organic civil OE revenues. Deliveries of regional jets are expected to increase by low-single digit % in 2020 after three years where the number of deliveries has declined, with business jet deliveries expected to grow by the same amount after a strong 2019.

In 2020, we expect civil OE revenue to grow organically by 1 to 3%.

The outbreak of COVID-19 is expected to soften air traffic growth in 2020. Conversely, continued low levels of surplus parts, our strong content and continued momentum on SMART Support® is expected to underpin large jet civil aftermarket revenues. In both business jets and regional aircraft, which account for 44% of Group civil aftermarket revenue, we anticipate utilisation levels to be broadly in line with 2019.

In 2020, we expect organic civil aftermarket revenue growth of 2 to 4%.

In defence, the medium-term outlook remains positive, particularly in our largest market the US, which accounts for 73% of defence revenue. Book to bill of 1.17x and organic order growth of 23% in 2019, a strong technology offering and broad platform exposure should enable us to outgrow the market and in 2020 we expect to grow organic defence revenue by 3 to 5%.

The outlook in our energy markets is mixed. At Heatric, we expect the recovery to continue into 2020 underpinned by good demand from the oil and gas sector, although we expect this to be partially offset by more challenging conditions in power generation. In 2020, we expect organic revenue growth in energy of 0 to 5%.

On the basis of the above, the Group expects organic revenue growth of 2 to 4% in 2020.

We expect to increase operating margins by 30 to 50 basis points in 2020, driven by continued momentum in the delivery of our strategic initiatives. Our cash conversion is expected to be lower than in 2019 at around 60% reflecting: an increase in capital expenditure and operating expenses as we complete the move to Ansty Park, continue further site consolidations and our carbon furnace capacity expansion; the one-off cash receipts in 2019 related to the sale of Holbrook Lane and reverse lease premium associated with Ansty Park; and an expected increase in the level of cash tax paid.

Outlook for 2021 and over the medium-term

Recognising the material uncertainties that currently exist in the civil aero market and the challenges of forecasting their impact two years out, we are more cautious about our 2021 outlook, particularly given that we have a specific margin target for that year. We have therefore taken a view of the current softness in air traffic growth and the anticipated return to service and production of the 737 MAX, and extrapolated this into our assumptions for 2021. Specifically, we have assumed a progressive return to service and production of the 737 MAX across 2020 and 2021 and RPK growth rates comparable to the second half of 2019. As a result, we now expect to deliver: low to mid-single digit percentage organic revenue growth; operating margins between 18.5% and 19.0%; and cash conversion of around 70% in 2021.

Over the last two years, we have demonstrated the successful delivery of our strategic initiatives and our confidence remains high for further progress in 2020 and beyond, including margin expansion as we complete the bulk of our footprint moves, drive the continued recovery in Engine Composites and move sites into the latter stages of MPS.

Over the medium term, with a more focused and resilient business, strong technology and exposure to the right platforms, we expect to be able to continue to deliver good levels of organic growth, an attractive margin profile and to sustainably generate good levels of cash flow with cash conversion of at least 70% per annum over the same period.

Tony Wood
Chief Executive Officer

OUR BUSINESS MODEL

Creating value for our stakeholders

01

What we do

Innovation is at the heart of what we do with safety, reliability, and operating and environmental performance underpinning our approach. By investing in and developing sustainable and differentiated technologies for application in our selected markets, including civil aerospace, defence and energy, we develop pioneering products in collaboration with our customers. Our products are manufactured in our globally located facilities and we go to market through our four customer-aligned business divisions: Airframe Systems, Engine Systems, Energy and Equipment and Services & Support. Through our Services & Support division and SMART Support[®] (our brand name for a range of tailored, longer term, aftermarket offerings), we provide a tailored package of spare parts and repair services to our customers depending on their requirements to fit their operational model.

02

How we create value through the investment cycle

We invest in market-leading technology and spend, on average, 5-7% of revenue on R&D through the cycle. Over two-thirds of our innovation budget is invested in technologies for sustainable aviation.

Wheels and brakes
Development
In production
Mature

Civil
Development
In production
Mature

Defence
Development
In production
Mature

Energy
Development
In production
Mature



Technology

We invest to develop differentiated technologies in order to create competitive advantage for Meggitt and its Customers in areas of future market growth.



Operations

Through partnerships with suppliers and best-in-class manufacturing we seek to deliver equipment reliably and efficiently to our Customers.



04

Maintaining a competitive advantage

We seek strong, collaborative and close relationships with our Customers and suppliers

Our business cycle is multi-year, and we seek relationships to support this.

We invest in market-leading technology through the cycle, and robustly defend our intellectual property rights

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

→ See more on page 19

→ See more on page 65

03

How we share value

Customers

We develop innovative and differentiated technology for our customers, that anticipate future market demand and meet high certification requirements.

Shareholders

Over the last five years we have returned c. £600m to our shareholders through dividends, and paid c. £150m in interest to our holders of debt.

Employees

We employ over 12,000 people and in 2019 paid over £800m in wages, salaries, and employee benefits.

Governments

We paid over £70m in social security and corporation taxes to governments in 2019. The Group's employees also paid a share of their wages and salaries to governments through income taxes.

**Content**

We maximise our content on new-to-market platforms, where possible as a sole-source provider.

**Lifecycle support**

The business provides aftermarket services and support to our wide installed base using our product knowledge to optimise equipment performance and a network of regional hubs to provide aftermarket spares and repair services where our customers need it.

**We manufacture globally**

We have manufacturing facilities in North America, Europe, Asia and Mexico. This allows us to support our global customer base, access the best talent and maximise quality and value.

→ See more on page 21

We seek to deliver world-class services and support

Our customers demand high quality, timely service and support to maximise the value of our products through their lifecycles.

→ See more on page 36

We invest in our people and believe our culture is a strength

Our more than 12,000 highly skilled people collaborate to create value by combining extensive technical capabilities and long standing sector knowledge.

→ See more on page 69

OUR STRATEGY

Delivering our commitments

We are focused on enhancing our portfolio, improving our ability to serve customers, increasing our competitiveness and developing a High Performance Culture.

Innovation remains at the heart of what we do and Meggitt technology continues to set new standards as we design and deliver differentiated, sustainable world-class technologies. We have successfully aligned our organisation, made further progress in footprint consolidation and cost reduction, achieved more strategic customer contract wins, and made significant progress in developing our Culture.

01

Strategic Portfolio

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



- 77% of the portfolio now in attractive markets where Meggitt has a strong position
- Two non-core divestments completed
- Investment in HiETA, a specialist in additive layer manufacturing, to accelerate the development of the next generation of thermal systems for aerospace and energy applications
- Excellent progress in developing our fibre optic sensing technology with customer trials for both aerospace and industrial applications scheduled for 2020

- Invest at least two-thirds of our innovation budget in technologies for sustainable aviation
- Continued investment in thermal systems, safety systems, fuel systems, optical sensing, engine composites, braking systems, high-temperature control technology, electrical machines and batteries, additive and digital manufacturing
- Enhancing the portfolio through carefully targeted acquisitions

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

→ See more on page 17

Focus areas

2019 progress

2020 priorities

Key Risks

02

Customers

- Consolidating our move from a transactional approach to partnerships to accelerate OE and aftermarket growth
- Upper quartile performance



- Organic order growth of 10%
- Selected by Gulfstream to supply the braking system for the new G700 business jet
- 21 new SMART Support contracts signed (now 25 in total with a total aggregate value of £155m)
- Defence awards include aerial weapons scoring system for the US Army and auxiliary cooling and power for ground based applications

- Secure additional SMART Support and other long-term agreements with customers
- Further enhance our service offering through our three recently expanded regional hubs

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

→ See more on page 19

03

Competitiveness

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



- 57% of sites now MPS Green or above, with 33% MPS Bronze or above
- 25% footprint reduction (compared to 2016) achieved with 42 sites at year end
- 2% purchased cost reduction achieved through centralised approach
- Increased production hours at our low cost manufacturing sites in Asia, with Vietnam completing over 1 million production hours in 2019

- Successfully deliver Ansty Park on plan
- MPS focused on increasing maturity and building capability at early stage sites
- Further improvement in inventory turns
- Transfer further production hours to low cost manufacturing
- Make progress towards targets to reduce total greenhouse gas emissions as a percentage of revenue by 50% by 2025, against a 2015 baseline

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

→ See more on page 21

04

Culture

- High Performance Culture (HPC)
- Improve employee engagement
- Focus on diversity and inclusion



- HPC sessions deployed to over 8,000 employees worldwide
- Employee engagement score improved by a further 4%
- Transition to new organisation structure complete with minimal disruption and improved integration
- Promotion of Diversity & Inclusion with five Employee Resource Groups making a real impact and significant employee engagement benefits

- Successfully complete the transition to Ansty Park and embed leaner ways of working
- Roll-out HPC to all our global employees
- Continue momentum of improvements in employee engagement

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

→ See more on page 23

STRATEGY IN ACTION

**Enabling the
Extraordinary
for a cleaner
future***

01

Strategic Portfolio – Sustainability

Innovation at the heart of what we do

Sustainability is at the core of our innovation and technology focus. We are committed to investing at least two-thirds of our innovation investment in technologies and products required for sustainable aviation and low-carbon power generation.

Our advanced thermal systems technology is making a significant contribution to the industry-wide goal of reducing aircraft fuel consumption and GHG emissions, enabling engine manufacturers to introduce new power gearboxes and slimline nacelles to support a targeted 10% improvement in specific fuel consumption for the next generation of engines.

Our green fire suppression systems replace halon gas with a clean agent for engine, cargo hold and APU applications. Unlike other green solutions, it does not leave corrosive residues after application, performs at low temperatures and, most importantly, has zero impact on critical ozone levels.

Sustainable operations

We are focused on reducing the environmental impact of our facilities world wide through adopting high standards of responsible operations. At Ansty Park we have installed one of the largest photovoltaic roofs in the UK, generating power equivalent to 20% of the facility's requirements.

We are pursuing aggressive targets to reduce energy consumption, water usage and waste across the business. We aim to reduce total greenhouse gas emissions of our global operations relative to revenue by 50% by 2025, against a 2015 baseline.



2/3

of our innovation budget is focused on environmental performance and sustainability

STRATEGY IN ACTION

**Enabling the
Extraordinary
by strengthening
our Customer
relationships***

02

Customers – simplifying and strengthening our relationships

In January 2019 we launched our new customer-aligned organisation which has enabled us to simplify our Customer interactions and deliver a year of further important wins. The new structure has been successfully embedded and was very well-received by our Customers. We anticipate further strengthening of relationships with customers in 2020.

We are proud that our Customers continue to recognise Meggitt's achievements through their own recognition programmes, such as our Toulouse facility's continuous performance and excellence award from Airbus.

We continued to strengthen relationships and our proximity to Customers through specific regional investments in 2019. In July we opened our expanded Services & Support centre of excellence in Miami, Florida, USA which, together with the doubling in size of our Singapore site and the opening of the EMEA hub in Ansty Park, UK later in 2020, completes three state-of-the art regional aftermarket hubs in the Americas, Asia and EMEA; improving our responsiveness to customers in their timezone.



Successfully aligned customer organisation

1.09x

Book to bill in 2019

STRATEGY IN ACTION

**Enabling the
Extraordinary
through
improving our
Competitiveness***

03

Competitiveness

Driving improvements and investing for growth

We have made further progress through the deployment of the Meggitt Production System (MPS) with seven MPS stage exits in 2019. The sustained roll-out of MPS continues to drive improvements in Customer and operating performance. We continue to drive down cost with further purchase cost reduction of 2.2% across the year, which was above our target.

We have made progress in implementing our global footprint strategy. We continue to focus on our manufacturing facilities as we create the capacity, capability and the right global footprint to best serve the needs of our Customers. Three further sites in Angoulême, France; Miami, Florida; and in Sunnyvale, California were exited in 2019, reducing our overall footprint to 42 sites and representing a 25% reduction from our 2016 baseline. Work has begun in Danville, US as we expand our carbon brake manufacturing facility and our single biggest investment to date – Ansty Park, UK – nears completion.

2.2%

Purchase cost
reduction in 2019



Further progress
against targets for
footprint and cost
reduction

42

Sites

STRATEGY IN ACTION

Enabling the Extraordinary through our High Performance Culture*

04

Moving the needle on engagement

Our High Performance Culture (HPC) rollout continues apace with over 8,000 employees having now participated in our HPC workshops.

The employee engagement needle has moved positively again with a further 4% improvement in engagement scores across the Group in 2019.

We have improved our focus on Diversity & Inclusion in 2019, as a critical component of our High Performance Culture. There is a strong correlation between diverse organisations and stronger than average financial returns.

Five employee resource groups have been launched this year, reflecting the importance we place on building a diverse and inclusive workforce.

Through raising awareness of and valuing differences – we are fostering a more inclusive and collaborative High Performance Culture.

Diversity

There's a statistically significant relationship between diversity and innovation. The more dimensions of diversity represented, the stronger the relationship is. For a company with innovation at its heart, that's a pretty powerful statistic.

4%**
Improvement
in employee
engagement

MARKET REVIEW

Enabling the Extraordinary

To Fly To Power To Live

Our core Civil aerospace, Defence and Energy markets share a common requirement for innovative solutions for demanding 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 revenue



Market

Airframe Systems
Engine Systems
Energy & Equipment
Services & Support

Revenue

47%
14%
18%
21%

Airframe Systems revenue



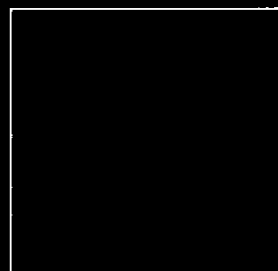
Market

Civil/OP
Civil/AM
Defence
Energy & Other

Revenue

30%
31%
36%
3%

Engine Systems revenue



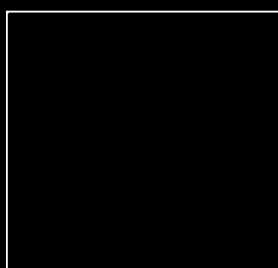
Market

Civil/OP
Civil/AM
Defence
Energy & Other

Revenue

57%
2%
33%
8%

Energy & Equipment revenue



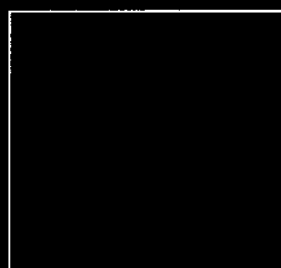
Market

Civil/OP
Defence
Energy & Other

Revenue

3%
58%
39%

Services & Support revenue



Market

Civil/AM
Defence

Revenue

81%
19%

MARKET REVIEW CONTINUED

Civil original equipment

01

OE segments

Large jet >100 seats
Regional jet <100 seats
Business jet
Civil helicopters

£519m
Revenue

2019 market trends

- Large jet deliveries in 2019 stood at 1,195, 25% lower than in 2018; deliveries increased by 6% excluding the 737 platform.
- The key driver of the reduction in large jet deliveries has been within the narrow body market caused by the grounding of the Boeing 737 MAX in March.
- Regional aircraft deliveries in 2019 were 214, a reduction of 8% compared with 2018, primarily driven by fewer deliveries of turboprops.
- Business jet deliveries increased by 12% in 2019 reflecting a ramp up of production of newer models.

2019 Meggitt performance

Civil OE revenue grew 8% organically. Large jet OE, the largest component of our OE revenue, grew 4% organically driven principally by growth in the Boeing 787 and 737 MAX and the Airbus A330 and A350 XWB platforms. Additionally, both regional jet and business jet OE saw strong organic growth of 23% and 14% respectively, driven primarily by the Q-Series and ARJ21 in regional jets and the G-650, Falcon 7X and Citation, in business jets.

2020 outlook

Deliveries of large jets underpinned by a firm order backlog extending over a number of years.

The halting of production and uncertainty around the return to service of the 737 MAX will continue to dominate the overall delivery rates of narrow-body aircraft in 2020, with slightly lower level of deliveries expected in wide-body aircraft.

Our increased content of up to 250% on the new generation of aircraft will continue to support underlying demand for our original equipment.

Deliveries of regional jets are expected to increase by low-single digits % in 2020 after three years of declining delivery growth, with business jet deliveries expected to grow by the same amount after a strong 2019.

We expect organic revenue growth of 1 to 3% in Civil OE in 2020.

Civil aftermarket

02

AM exposures

Large jet >100 seats
Regional jet <100 seats
Business jet
Civil helicopters

£716m
Revenue

2019 market trends

- The civil aerospace aftermarket is driven primarily by aircraft utilisation which, for large jets, is measured using revenue passenger kilometres (RPKs). Given our strong wheel and brake business, we use take-offs and landings as a proxy for business jet and regional jet utilisation.
- RPKs in the commercial aircraft fleet grew 4% in 2019, with slower growth in the second half of the year and somewhat below the average growth rate over the last five years of 6-7%.
- RPK growth outpaced available seat kilometre (ASK) growth, leading to higher load factors.

- Large regional jet utilisation was marginally ahead of 2018, increasing by 1%.
- Business jet utilisation, as measured by the number of take-offs and landings, was slightly down, largely driven by the market in Europe.

2019 Meggitt performance

Civil aftermarket revenue grew organically by 8%, within which large jets grew by 14%, driven by the A220, A330 and the B787. Business jets also saw good growth with organic revenue up 6% driven by the Falcon 7X and various Gulfstream platforms. Growth in large and business jets was partially offset by a slight decline in regional jets against a strong comparator in the prior year.

2020 outlook

While the degree to which COVID-19 will dilute the rate of commercial air traffic growth in 2020 is uncertain, our increased content on large jets that entered service in the last decade and growth in the number of SMART Support® deals will continue to support our aftermarket revenues.

Civil aftermarket revenues continue to benefit from the reduced availability of used serviceable material given the continued low retirement rate in 2019.

For business jets and regional jets, utilisation levels in 2020 are expected to be in line with 2019 levels.

We expect organic revenue growth of 2% to 4% in Civil aftermarket in 2020.

MARKET REVIEW CONTINUED

Defence

03

Defence markets

Military helicopters
Military aircraft
Ground vehicles
Naval
Training
Space

£825m
Revenue

2019 market trends

- US Department of Defense budget increased by 2% in 2019, with outlays remaining strong.
- Deliveries of new aircraft grew by 21% with strong growth in fighter jets (particularly the F-35).
- In contrast, demand for new military helicopters decreased by 12% driven by lower volumes of UH-60 Black Hawk.
- Increased focus in US for spend on increasing fleet readiness driving greater demand for spare and retrofit parts.

2019 Meggitt performance

Defence revenue grew 11% organically. Original equipment revenue grew organically by 12%, with strong growth in parts for the F-35 Joint Strike Fighter and M1A Abrams Tank as well as across other fighter jets, ground vehicles and training systems.

Aftermarket revenue (which accounts for 43% of total defence revenue) increased by 11% organically driven by the F-35, F-15, Typhoon, V22 Osprey and a number of transport vehicles.

2020 outlook

The outlook for defence expenditure in the US, our single most important defence market, remains healthy and this is expected to continue given the increases in the FY2020 budget and the President's proposed budget for FY2021.

The budget categories which most closely correlate for Meggitt are Procurement; Research, Development, Test & Evaluation; and Operations & Maintenance. 2020 spending in these areas is expected to grow by around 4%.

Lower levels of budget growth outside of the US are likely to be a headwind in 2020.

We expect organic revenue growth of 3% to 5% in defence in 2020.

Energy

04

Energy markets

Power generation
Oil & Gas

£143m
Revenue

2019 market trends

- Market conditions in oil and gas remain supportive, with the oil price relatively stable.
- 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.
- Opportunities emerging for new applications in more sustainable power generation systems.

2019 Meggitt performance

Energy revenue grew organically by 10% in 2019, driven by another strong performance in our Heatric business with revenue from the Group's valve and condition monitoring businesses slightly ahead of the prior year.

2020 outlook

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

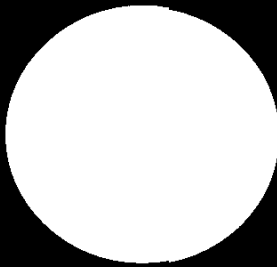
We have differentiated technology which plays a critical role in the extraction of deep water offshore gas reserves and good opportunities in adjacent markets including LNG.

Our energy businesses benefit from synergistic relationships across the Group, e.g. thermal systems for the aerospace market, as well as the long-term demand for energy, particularly in emerging markets.

We expect organic revenue growth of 0% to 5% in energy in 2020

DIVISIONAL REVIEWS

Airframe Systems



President: Chris Allen

Divisional Capabilities:

- Wheels and brakes (including control and monitoring systems)
- Aircraft fire protection and safety systems
- Smart electro-thermal ice protection
- Power generation, conversion and storage
- Avionics and air data systems
- High performance sensors
- Flexible fuel tanks for defence and civil aircraft
- Airframe sealing solutions

Markets



Civil aerospace



Fixed wing
defence aircraft



Rotary wing
defence aircraft



Unmanned
aerial vehicles

Providing core components for original equipment airframe manufacturers across multiple platforms, and specialising in products designed to operate in demanding conditions across a diverse range of applications.

Operational performance

Airframe Systems provides Braking Systems, Fire Protection & Safety Systems, Power & Motion, Fuel Systems, Avionics & Sensors and Polymer Seals for around 51,000 in-service civil and 22,000 defence aircraft. Having increased our content on the new generation aircraft by as much as 250%, Airframe Systems is well positioned to grow as the OEMs increase production rates. We also have a strong presence on all of the fastest-growing and hardest-worked defence platforms. As such, we have strong relationships with all of the major OEMs, whether commercial, defence or business jet; fixed wing or rotorcraft; US, European or Rest of World. The division represents 47% of Group revenue, generating 51% of its revenue from OE sales and 49% from the aftermarket. In 2020, revenue related to MRO activities for wheels and brakes, which is currently included within Airframe Systems, will transfer into our Services & Support division.

Revenue was up by 2% organically. Civil aerospace grew organically by 3%, driven principally by 6% growth in civil OE, with good growth on Boeing 787, 737 MAX and 777 platforms and the Airbus A330 and A350 XWB. OE revenue growth also benefited from strong demand in business jets (Cessna Citation, Gulfstream G-650 and Falcon 7X) and regional jets (ARJ-21 and Q400) which in aggregate accounted for 28% of divisional civil OE revenue.

Integrated Secondary Flight Display *Three becomes one*

Our innovative integrated Secondary Flight Display (iSFD) offers the best solution for stand-by flight information for both altitude and airspeed. It replaces up to three electro-mechanical cockpit stand-by instruments with a single 3ATI display unit and provides excellent reliability.

Key highlights

6% growth in Civil OE

Strong demand in business jets and regional jets for civil OE

Good demand in civil aftermarket for newer platforms, such as the A220 in large jets, as well as good business jet growth

£1,057m

Revenue

£251m

Underlying operating profit

Optical Sensing

Improving safety for generations to come

Aircraft overheat detection systems detect leaks along the bleed air ducts; this is critical to the integrity and safety of the aircraft structure. Our pioneering fibre optic technology provides real-time temperature measurement continuously along the sensor length, providing a far quicker, more accurate and versatile detection of fires and overheat.

Optical Sensing key benefits

- Accuracy
- Weight savings
- Immune to EMI (electro-magnetic interference)
- One continuous length thermometer
- Reduced maintenance

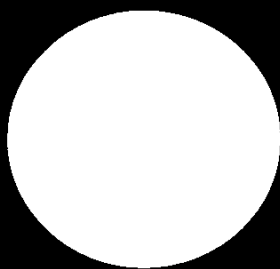
Civil aftermarket revenue increased by 1% on an organic basis. In large jets, good demand for newer platforms such as the A220 were partially offset by declines in older generation platforms with aftermarket revenue from regional jets 7% lower than the prior year. Organic revenue from business jets grew by 6% driven by a number of Gulfstream platforms.

Defence revenue grew by 1%, with good demand for OE parts on fighter jets and military transports offset by lower revenue across a number of platforms. In the aftermarket, which represents 50% of Airframe Systems defence revenue, revenues were also 1% ahead of the prior year with growth on Typhoon and F-35 platforms offset by declining demand on other fighter jets.

Underlying operating margin declined by 200 basis points to 23.7%, reflecting higher growth in civil OE vs AM and supply chain disruption which impacted the delivery of forgings and castings to our braking systems business. These headwinds more than offset the growing efficiencies from strategic initiatives, the transfer of production to low-cost countries and production efficiencies from more mature MPS sites.

DIVISIONAL REVIEWS CONTINUED

Engine Systems



President: Dennis Hutton

Divisional Capabilities:

- Complex high-temperature engine composite components
- Control valves and sub-systems
- Engine sensors
- Thermal management
- Electro-mechanical controls
- Environmental control
- Fuel handling

Markets



Civil aerospace



Fixed wing
defence aircraft



Rotary wing
defence aircraft



Marine

A leading supplier of core technologies for engine manufacturers across a broad range of competencies including thermal management, engine sensing and advanced composites.

Operational performance

Engine Systems has a leading position in aero sensing with a broad range of technologies and sensor applications including vibration monitoring and engine health management systems. This division also provides aero-engine heat exchangers, flow control and advanced engine composites. Strong positions on high volume platforms mean we are well positioned for growth in Engine Systems. The division represents 14% of Group revenue, generating 91% of its revenue from OE and 9% from the aftermarket, as a result of its principal route to the aftermarket being through the Services & Support division in the new reporting structure.

Engine Systems

Shaping the future of next generation engine design

Our unique compression moulding process allows us to form highly complex cross-sections and shapes using high temperature composite materials to replace precision machined metals. The resulting weight, maintenance and performance improvements are pivotal to securing the industry goal of sustainable aviation.

Key highlights

16% increase in organic revenue

Particularly strong growth in civil OE and defence

Underlying operating margin increased to 8.3%

Improved operational performance in Engine Composites

£330m

Revenue

£27m

Underlying operating profit

Air-Oil Mini System

System expertise that generates a cleaner future

Our advanced thermal systems technology is making a significant contribution to the industry-wide goal of reducing CO₂ emissions. The unique design acts as an enabler for the introduction of the new power gearboxes and slim-line nacelles that are at the centre of engine manufacturers efforts to deliver a 10% improvement in specific fuel consumption for the next generation of engines.

Air-oil mini system key benefits

- Smaller
- Lighter
- Reduced fuel burn
- Increased efficiency

Revenue increased by 16% on an organic basis, with particularly strong growth in civil OE and defence segments.

Civil OE revenue increased organically by 11%, driven by strong demand for parts on large jet engine programmes, principally the LEAP and GEnx engines. Demand for regional and business jet programmes was also strong.

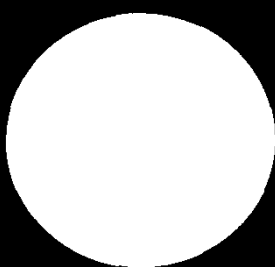
In defence, revenue grew by 28% on an organic basis, with particularly strong growth on the F-135 programme.

Underlying operating margin increased to 8.3% (2018: 6.6%), with year-on-year improvements across our Flow Controls, Thermal Systems and Engine Composites product groups.

Within our Engine Composites business we saw a progressive improvement in operating margins throughout the second half reflecting the investment we have made to improve operational performance with a focus on driving manufacturing efficiencies and productivity gains. Having secured customer support for the site, we have now begun progressive transfer of volume production of certain parts to Mexico and we expect this to continue to drive improvements in financial performance for this product group and the division during 2020 and 2021.

DIVISIONAL REVIEWS CONTINUED

Energy & Equipment







President: Paul Devaux

Divisional Capabilities:

- Combat support (ammunition handling, electronics cooling and countermeasure launch and recovery systems)
- Live fire and virtual training systems
- Energy sensing and controls
- Vibration condition monitoring systems for energy markets
- Heat transfer equipment for offshore oil and gas
- High-temperature sensors

Markets

-  Defence ground vehicles
-  Defence and security
-  Energy and industrial
-  Ground fuelling

Providing innovative, aero-derivative technologies with applications across the energy and defence sectors.

Operational performance

Energy & Equipment consists of our energy product groups and businesses that provide products directly to defence customers. Energy Sensors & Controls provides a range of valves, actuators and sensor and condition monitoring systems for oil and gas and power generation applications, and Heatric provides innovative printed circuit heat exchanger technology for offshore gas applications. Training Systems is a market leader in providing small arms virtual training systems with major contracts for the US Army and Marine Corps, and Defense Systems provides a series of complex engineered products to defence agencies in electronic cooling, ammunition handling and scoring systems. Energy & Equipment represents 18% of Group revenue and generates 84% of its revenue from OE and 16% from the aftermarket.

Energy & Equipment
Cool in the extreme

Our high performance complete cooling solutions are used on the most advanced Light Armoured Vehicles (LAV) and military personnel carriers in the world, keeping crews and mission critical equipment cool under pressure, even in the most extreme environments.

Key highlights

11% increase in organic revenue

20% increase in organic defence revenue

Continued good performance at Heatric

Underlying operating margin increased by 460bps

£412m

Revenue

£53m

Underlying operating profit

Printed Circuit Heat Exchanger

Operating efficiency in the most demanding environments

Our Heatric organisation pioneered the development of stainless steel diffusion bonded printed circuit heat exchangers (PCHE) to support efficiency improvements in the oil and gas industry. Diffusion bonding creates a heat exchanger core with no joint, welds or points of failure, resulting in exceptional performance.

PCHE key benefits

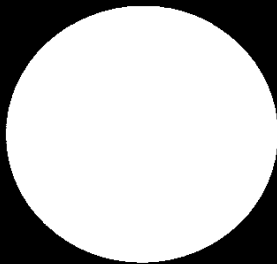
- Enhanced efficiency
- 85% smaller than conventional solutions
- Improved durability
- Tailor made to suit specific heat transfer duty

Revenue grew by 11% on an organic basis, with strong growth in defence and energy and declining revenue in other markets. Defence revenue grew by 20% on an organic basis with strong demand for both Defense Systems and Training Systems equipment. Within Defense Systems, key growth platforms include the M1A Abrams and other ground vehicles which offset declining demand on the P-8. In energy, good performance at Heatric together with growth in services revenue offset lower demand for large-frame gas turbine OE parts.

Underlying operating margin increased by 460 basis points to 12.9%, reflecting strong operational leverage from increased volume across the division.

DIVISIONAL REVIEWS CONTINUED

Services & Support



President: Stewart Watson

Divisional Capabilities:

- ~ Maintenance, Repair and Overhaul (MRO)
- ~ Spares provisioning
- ~ SMART Support

Markets



Civil aftermarket



Military aftermarket

Providing throughlife MRO and spares services across our extensive installed base.

Operational performance

Services & Support provides a full service aftermarket offering including spares distribution and MRO to our commercial, business jet and defence customer base, throughout the lifecycle of our products. With an extensive installed base of over 73,000 aircraft equipped by our technology this provides a significant opportunity for profitable growth over decades to come. The division represents 21% of Group revenue and generates 100% of its revenue from the aftermarket.

Revenue grew by 16% on an organic basis, with good growth in both civil and defence aftermarkets.

SMART Support®
*Smart solutions for our
aftermarket customers*

Our unique value proposition, SMART Support®, enables our customers to configure an aftermarket care package tailored to their specific needs. Operating from three global hubs, we offer a complete portfolio of products and services for both spares and MRO incorporating fixed pricing, material scoping and asset management.

Key highlights

16% increase in organic revenue

Strong demand across large, regional and business jets for civil aftermarket

Defence revenue grew by 24% with strong demand on fighter jet and transport aircraft

£471m

Revenue

£71m

Underlying operating profit

SMART Support®

Smart solutions for our aftermarket customers

Our SMART Support® value proposition is designed to give our customers the freedom to configure a personalised aftermarket care package, tailored to their specific operational needs. It enables civil and defence aviation customers to create a long-term aftermarket agreement for a selected portfolio of products and services, both spares and MRO (Maintenance, Repair and Overhaul).

SMART Support® Key Benefits

- Tailor-made solutions
- Fixed pricing
- Material scoping
- Asset management
- Speedier turn-around times

In the civil aftermarket, revenue grew organically by 15% driven by strong underlying demand in large jets which accounts for 87% of civil revenue. Key platforms were the Airbus A330, A350XWB and the A321; and the Boeing 787 and 737 MAX. While we saw the benefits from 737 MAX volumes in the first quarter as airlines took delivery of initial provisioning spares as the aircraft entered service, following its grounding in March 2019, and subsequent cessation of production, initial provisioning spares have been deferred, limiting growth on this platform for the remainder of the year.

In defence, revenue grew by 24% on an organic basis with strong demand on fighter jets (principally the F-15, F-16) and transport (KC-135 and C-130J) aircraft. Underlying operating margin increased by 40 basis points to 15.1%.

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, return on capital employed 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.

The Group 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 2015 or 2016 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.

KPI	Performance	Definition and basis of calculation
Organic revenue growth 1 2 3 4	8.3% 	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 53 for a reconciliation of organic revenue to revenue.
Underlying operating profit 1 3 4	£402.8m 	Underlying operating profit is defined and reconciled to statutory measures in note 9 to the Group's consolidated financial statements on page 151.
Return on trading assets (ROTA) 1 3 4	29.5% 	Underlying operating profit expressed as a percentage of average trading assets. Underlying operating profit is defined and reconciled to statutory measures in note 9 to the Group's consolidated financial statements on page 151. 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	Result	Directors' incentive plans	Link to strategic priorities
Growth of 2% to 4% in 2020. See page 11 for details.	Achieved 8.3% against a target of 3% to 5%. See page 53 for details.	Organic revenue growth is a performance measure for the 2018 LTIP.	<div> <div>1</div> <div>Strategic Portfolio</div> </div> <div> <div>2</div> <div>Customers</div> </div> <div> <div>3</div> <div>Competitiveness</div> </div> <div> <div>4</div> <div>Culture</div> </div>
We do not publish profit targets.	Achieved £402.8m. See page 53 for details. We achieved 94.8% of the target in the 2019 STIP. See page 106 for details.	Underlying operating profit is a performance measure for both the 2019 and 2020 STIP. For the purpose of these plans, actual and target underlying operating profit figures are measured at constant currency. See pages 106 and 113 for details.	<div> <div>2019</div> <div>Reflect the full impacts of IFRS 15 and IFRS 16, where appropriate.</div> <div>Restated only for the impact of expensing FOC as incurred.</div> </div>
ROTA is no longer a performance measure for the 2020 LTIP and will no longer be considered a KPI from 2020.	2019: 3 year average ROTA of 28.3% against a target of 32.9%. See page 54 for details of the current high levels of investment to support future growth.	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 93, 108 and 109 for details. ROCE will be the performance measure for all LTIP members, including executive directors, for the 2020 LTIP.	

KEY PERFORMANCE INDICATORS CONTINUED

KPI

Performance

Definition and basis of calculation

Return on Capital Employed (ROCE)

11.0%

1 3 4



Underlying operating profit expressed as a percentage of average capital employed. Underlying operating profit is defined and reconciled to statutory measures in note 9 to the Group's consolidated financial statements on page 151.

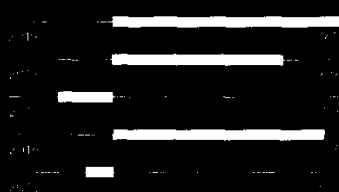
Capital employed is defined as net assets adjusted to exclude net debt; retirement benefit obligations, net of associated deferred tax; and derivative financial instruments. Average capital employed is calculated as the average capital employed at the start and end of the year.

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

Underlying EPS growth

9.1%

1 2 3 4

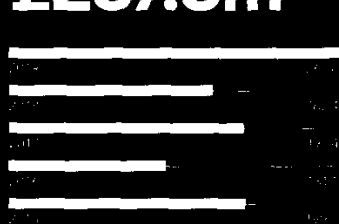


The percentage change in underlying earnings per share (EPS) from the previous year. Underlying EPS is defined and reconciled to statutory measures in note 14 to the Group's consolidated financial statements on page 155.

Free cash flow

£267.8m

1 2 3 4



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 41 to the Group's consolidated financial statements on page 182.



Target

The target is to achieve a 3 year average ROCE of 11.5%. The target recognises the need to continue to invest during this period in the aerospace cycle. See page 109 for details.

We do not publish profit targets. However, the proposed 2020 LTIP includes an EPS target equivalent to compound annual growth of 6% over the next three years. See page 113 for details.

We do not publish free cash flow targets.

Result

2019: 3 year average ROCE of 10.1%. See page 54 for details of the current high levels of investment to support future growth.

2019: 9.1% CAGR achieved over last three years: 4.7%. See page 54 for details.

Achieved: £267.8m. See pages 54 and 55 for details. We achieved 106.8% of the target in the 2019 STIP. See page 106 for details.

Directors' incentive plans

ROCE is a performance measure for executive directors in the 2018 and 2019 LTIP. ROCE will be the performance measure for the 2020 LTIP. For the purpose of these plans, underlying operating profit and capital employed are measured at constant currency. See pages 109 and 113 for details.

Underlying EPS is a performance measure for both the 2019 and 2020 LTIP. See pages 109 and 113 for details.




Free cash flow is a performance measure for both the 2019 and 2020 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 106 and 113 for details.

Link to strategic priorities

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

2019
Reflect the full impacts of IFRS 15 and IFRS 16, where appropriate.
Restated only for the impact of expensing FOC as incurred.

KEY PERFORMANCE INDICATORS CONTINUED

KPI	Performance	Definition and basis of calculation										
R&D investment 1 2 3 4	5.2%  <table><tr><th>Year</th><th>R&D investment (%)</th></tr><tr><td>2019</td><td>5.2</td></tr><tr><td>2018</td><td>4.7</td></tr><tr><td>2017</td><td>4.4</td></tr><tr><td>2016</td><td>4.9</td></tr></table>	Year	R&D investment (%)	2019	5.2	2018	4.7	2017	4.4	2016	4.9	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 7 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.
Year	R&D investment (%)											
2019	5.2											
2018	4.7											
2017	4.4											
2016	4.9											
Total recordable incident rate (TRIR) 1 2 3 4	0.7  <table><tr><th>Year</th><th>TRIR</th></tr><tr><td>2019</td><td>0.7</td></tr><tr><td>2018</td><td>0.6</td></tr><tr><td>2016</td><td>0.7</td></tr></table>	Year	TRIR	2019	0.7	2018	0.6	2016	0.7	The total recordable safety 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.		
Year	TRIR											
2019	0.7											
2018	0.6											
2016	0.7											
Inventory turns 1 2 3 4	2.7x  <table><tr><th>Year</th><th>Inventory turns (x)</th></tr><tr><td>2019</td><td>2.7</td></tr><tr><td>2018</td><td>2.6</td></tr><tr><td>2017</td><td>2.7</td></tr><tr><td>2016</td><td>2.6</td></tr></table>	Year	Inventory turns (x)	2019	2.7	2018	2.6	2017	2.7	2016	2.6	<p>Underlying cost of sales divided by average inventory measured at constant currency and excluding businesses acquired or disposed of in the year.</p> <p>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 9 to the Group's consolidated financial statements on page 151.</p> <p>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.</p> <p>An increase in inventory turns is considered by the Group to be one of the next key outputs from MPS.</p>
Year	Inventory turns (x)											
2019	2.7											
2018	2.6											
2017	2.7											
2016	2.6											

Target

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

Result

2019: 5.2%. Average over last three years: 6.6%. See page 54 for details.

Directors' incentive plans

R&D investment is not a specific measure used in directors' incentive plans. However, the 2019 and 2020 LTIP both include programme performance measures which include the effective delivery of R&D programmes. See pages 109 and 113 for details.

Link to strategic priorities

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

To achieve a TRIR of less than or equal to 0.7 in 2020, which is considered upper quartile safety performance for our industry.

2019: 0.7. The Group started collecting TRIR data for this new KPI at a Group level in 2017. See page 71 for details.

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 and 2020 STIP.

- 2019
- Reflect the full impacts of IFRS 15 and IFRS 16, where appropriate.
- Restated only for the impact of expensing FOC as incurred.

To achieve an inventory turn of around 4.0 by 2021.

2019: 2.7 turns. See page 55 for details.

Inventory reduction is a performance measure for both the 2019 and 2020 LTIP. See pages 109 and 113 for details.

RISK MANAGEMENT

Meggitt seeks to operate within a low risk appetite range overall. Effective risk management is required to deliver this 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 2019, 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 bursaries 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.

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 emerging 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 site 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 'three 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 15 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.

Governance

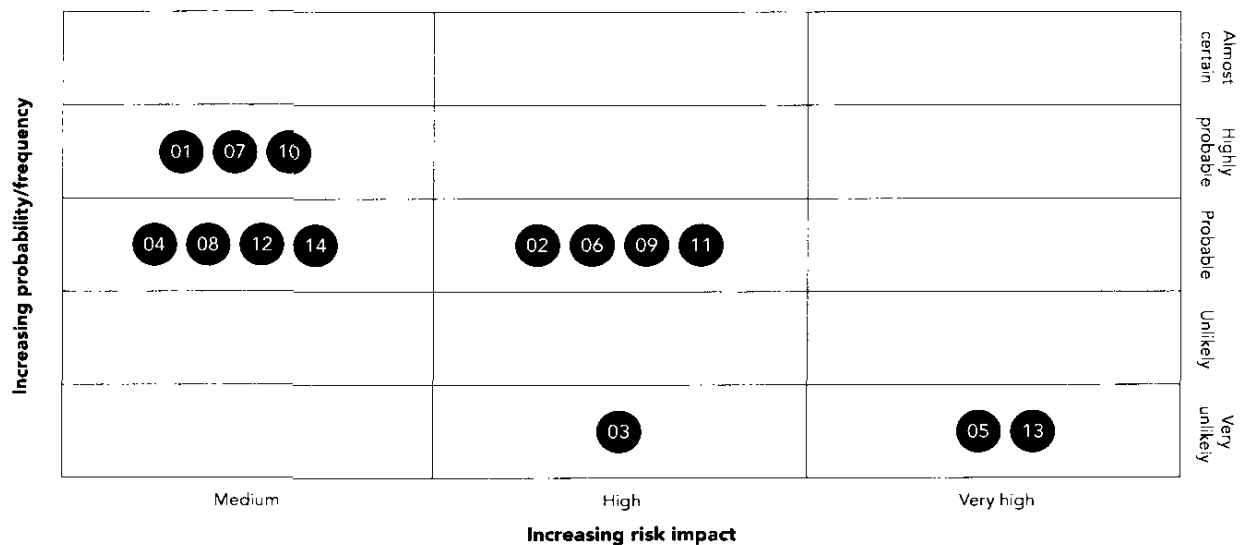
Responsibility for risk management operates at all levels throughout Meggitt:

The Board	The Board takes overall responsibility, determining the nature and extent of the principal risks it is willing to take in achieving our strategic objectives; and overseeing the Group's risk governance structure and internal control framework. During 2019, the Board carried out a robust assessment of the principal risks facing the Group, including those emerging, that would threaten its business model, future performance, solvency or liquidity. This report describes those risks and how they are being managed or mitigated.
Audit Committee	The Board has delegated responsibility for reviewing and ensuring the effectiveness of the risk management process to the Audit Committee.
Executive Committee	Divisional and functional leadership are responsible for the management of risk and for compiling and maintaining their own risk registers, which outline risks at business unit and programme levels. The Executive Committee as a whole regularly reviews the Group's principal risks, while individual members own specific risks.



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 and regulations, health, safety and the environment.

- 13 Legal and 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 & 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	Change in risk	Risk velocity	KPIs
<ol style="list-style-type: none"> 1 Strategic Portfolio 2 Customers 3 Competitiveness 4 Culture 	<ol style="list-style-type: none"> ↑ Increase — No change ↓ Decrease 	<ol style="list-style-type: none"> H High: Impact within 6 months of risk occurring M Medium: Impact between 6 and 36 months of risk occurring L Low: Impact after more than 36 months of risk occurring 	<ul style="list-style-type: none"> Financial performance (organic revenue growth, underlying operating profit, ROTA, ROCE, 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 2 — (M) KPIs: <ul style="list-style-type: none"> Financial performance R&D investment 	<p>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.</p>	<p>Decreased revenue and profit.</p>	<ul style="list-style-type: none"> Alignment of Group, divisional and functional strategy processes. Dedicated full-service aftermarket organisation Long-term customer agreements including SMART Support[®] packages to create tailored solutions for customers throughout the product lifecycle enabling more effective performance monitoring and more predictable pricing. Investment in research and development to maintain and enhance Meggitt's intellectual property
Industry changes 1 ↑ (M) KPIs: <ul style="list-style-type: none"> Financial performance 	<p>Significant variation in demand for air travel and/or our products due to aerospace and defence business downcycles coinciding; serious political, economic, pandemic or terrorist events; greenhouse gas emission regulations or shifting societal attitudes to air travel; or industry consolidation that materially changes the competitive landscape.</p>	<p>Volatility in underlying profitability</p>	<ul style="list-style-type: none"> Demand is managed by monitoring external economic and commercial environment and long-lead indicators whilst maintaining focus on balanced portfolio. EASA (European Aviation Safety Agency) has issued "third country" certification to allow continued trading with our European customers post-Brexit. Reduction in Group carbon footprint through new facilities and more efficient production processes. Maintaining sufficient headroom in committed credit facilities and against covenants in those facilities whilst implementing appropriate cost-base contingency plans.
Technology strategy 1 — (L) KPIs: <ul style="list-style-type: none"> Financial performance R&D investment 	<p>Failure to develop and implement meaningful technology strategies to meet evolving industry, customer and societal demands.</p>	<p>Restriction of ability to compete on new programmes with consequent decrease in revenue and profit</p>	<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. Budgets focused on longer-term technology developments. Leveraging our R&D budget through partnerships including government, academia and other companies. Allocation of 2/3rds of innovation budget to sustainable solutions.

Operational risks

Risk	Description	Impact	How we manage it
Quality escape/ equipment failure 3 — (H) KPIs: <ul style="list-style-type: none"> Financial performance 	Defective product leading to in-service failure, accidents, the grounding of aircraft or prolonged production shut-downs for the Group and its customers.	Decreased revenue and profit, damage to operational performance and reputation.	<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.
Business interruption 3 — (H) KPIs: <ul style="list-style-type: none"> Financial performance 	A catastrophic event such as natural disasters, including earthquake (the Group has a significant operational presence in Southern California), hurricane or fire; military conflict or terrorist activity; or a pandemic could lead to infrastructure disruption and/or property damage which prevents the Group from fulfilling its contractual obligations.	Decreased revenue and profit, damage to operational performance and reputation.	<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.
Project/ programme management 3 ↑ (M) KPIs: <ul style="list-style-type: none"> Financial performance R&D investment 	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 or delays, notably the 737 MAX.	Failure to deliver financial returns against investment and/or significant financial penalties leading to decreased profit and damage to reputation.	<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.
Customer satisfaction 2 — (M) KPIs: <ul style="list-style-type: none"> Financial performance Inventory turns 	Failure to meet customers' cost, quality and delivery standards or qualify as preferred suppliers.	Failure to win future programmes, decreased revenue and profit.	<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.
Acquisition integration/ performance 3 — (M) 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 project management office (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.

PRINCIPAL RISKS & UNCERTAINTIES CONTINUED

Strategic priorities

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

Change in risk

- ↑ Increase
— No change
↓ Decrease

Risk velocity

- (H) High: Impact within 6 months of risk occurring
(M) Medium: Impact between 6 and 36 months of risk occurring
(L) Low: Impact after more than 36 months of risk occurring

KPIs

- Financial performance (organic revenue growth, underlying operating profit, ROTA, ROCE, underlying EPS growth and free cash flow)
- R&D investment
- TRIR (total recordable incident rate)
- Inventory turns

Operational risks continued

Risk	Description	Impact	How we manage it
Cyber breach 1 ↑ (H) KPIs: • Financial performance	A breach of IT security due to increasingly more sophisticated 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 poorly 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. Rolling programme of system upgrades (including SAP implementation) to replace legacy systems. Defined patching schedule and policy with monitoring capability to ensure that vulnerabilities are identified and appropriately patched.
Supply chain 3 — (M) KPIs: • 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 3 — (M) KPIs: • 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 and investments in new carbon manufacturing facilities in the USA.	Decreased revenue and profit, increased costs, damage to operational performance and reputation.	<ul style="list-style-type: none"> PMO oversight of large capital projects. 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.

Operational risks continued

Risk

People

4 — (H)

KPIs:

- Financial performance

Description

Failure to attract, retain or mobilise people due to factors including industrial action, workforce demographics, lack of training, availability of talent and inadequate compensation.

Impact

Decreased revenue and profit, damage to operational performance.

How we manage it

- Roll-out of High Performance Culture
- Employee engagement programmes
- Graduate and apprentice programmes in partnership with schools and universities.
- Regular oversight by Executive Leadership Team.
- Creation of Employee Resource Groups to foster diversity, boost employee engagement and enable global collaboration

Corporate risks

Legal and compliance

3 — (H)

KPIs:

- Financial performance
- TRIR

Significant breach of increasingly complex trade compliance, bribery and corruption, US Government contracting, ethics, intellectual property, data protection or competition/antitrust laws and facilitation of tax evasion.

Damage to reputation, loss of supplier accreditations, suspension of activities, fines from civil and criminal proceedings.

- Continuing investment in compliance programmes including Board-approved policies and roll out of training and IT solutions.
- Regular monitoring by Corporate Responsibility Committee, supported by on-going 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

Taxation

3 — (H)

KPIs:

- Financial performance

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 diminish the tax effectiveness of the Group's international structures, including those used to finance acquisitions.

Higher effective tax rates resulting in decreased profit.

- Monitoring international tax developments to assess implications of future legislation
- Seeking to achieve either a low or medium risk rating in each country in which we operate 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.

PRINCIPAL RISKS & 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 (DGTR):

- 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, ethics and business continuity); 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 2019 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 2020 budget;
- Written reports to the Corporate Responsibility 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 the provision 31 of the 2018 Code, as part of their assessment of the Group's viability, the directors have assessed the prospects of the Group and its ability to meet its liabilities as they fall due.

Assessment of prospects

The Board continues to believe that the prospects for the Group are favourable in the medium to long term.

We supply into a growing sector

- Aviation is growing at 4-5%; we provide equipment to all major new platforms entering service in the near future;
- The Group has equipment on over 73,000 in service aircraft; and
- With an average aircraft lifespan of 25 years, our aftermarket annuity will be providing meaningful revenues to the Group for decades to come.

We are diversified by end market and by customer

- We supply into both civil (54% revenue) and defence (36%) aircraft markets, and into selected energy markets (10%);
- Our revenues are split evenly between equipment sales and aftermarket; and
- We work with a diverse group of customers from across the globe. Our top 10 customers generate less than 50% of our revenue.

We invest for the long-term and protect our know-how

- We invest in market leading technology. We spend, on average, 5-7% of revenue on R&D through the cycle;
- Our physical capital base is renewed regularly. Around 20% of underlying operating profit is re-invested into the physical capital base of the Group each year;
- We grow, manage and defend our intellectual property portfolio robustly;
- We invest in next generation technologies to support a sustainable future for aviation; and
- We seek to attract and retain colleagues who can enable the extraordinary.

We manufacture based on quality, consistency and value

- We manage our manufacturing facilities using MPS, a tiered improvement programme, providing a roadmap to best in class manufacturing; and
- We operate a globally distributed manufacturing infrastructure, producing both in the OECD and in lower cost locations.

We have a strong financial position

- The Group is growing revenues above market rates, whilst continuing to deliver post tax-cash conversion in line with peers;
- Gearing, at < 2x EBITDA, is in line with expectations for sustainable debt levels; and
- We have £1.6bn of committed facilities as at 31 December 2019; we delivered post tax free cash flow of £268m in 2019.

Assessment period

The Board considered the Group's principal risks as detailed in our risk register, and assessed the impact, likelihood and timeframe over which the risks might crystallise. It also considered over what timeframe certain business and sector changes currently impacting the Group would be likely to be resolved:

- Global aviation fleet: By when will a substantial portion of new A220, A321neo and 737 MAX jets be flying?
- Evolution of Meggitt: By when will the Group's current change initiatives be expected to be finished?
- Refinancing: By when will the Group have refinanced the majority of its private placement portfolio (USD700m) and its USD750m revolving credit facility?
- Programme investment: Over what timeframe would the Group typically expect to see investments into new aircraft platform generating cash?

The Board concluded that these four major activities would be largely resolved within five years and as such, this was the correct timeframe over which to assess viability and risk impact.

Assessment of viability and risk stress tests

Using the output of the Group's long-term planning activity, the Group created two materially adverse downside scenarios which were unlikely but plausible, and modelled the financial impact should a number of risks within those scenarios actually crystallise within a five-year period.

1. Major business disruption event:

As has been observed in the past, the aviation sector is exposed to events which have a material adverse impact on the world's willingness to fly. Events such as the 9/11 attacks in 2001, SARS outbreak in 2003 and the global financial crisis in 2008-9 all saw a material drop off in flight demand and aircraft deliveries which in turn impacted both OE deliveries and aftermarket sales.

On the Group's risk matrix, business disruption is one of the highest impacting risks on the Group's financial performance, and also can impact the way in which the Group's business model works, trigger major M&A events and disrupt relationships with both major customers and suppliers.

The Group used knowledge of previous business disruption events to model the impact on the Group's future plans.

2. Loss of a major customer

The aviation sector is reliant on a well-developed system of global regulations and equipment qualifications to ensure confidence in the sector's functioning. In addition, particularly when working with the defence arms of governments, security of data and adherence to military protocols is critical.

The Group has modelled the impact of a significant loss of revenue following a regulatory or compliance failure from Meggitt. Censure for non-compliance is severe, whether through the loss of access to government contracts, or the grounding of fleet which are deemed to be unsafe.

Legal and compliance failure is, again, a risk which has a significant impact on the Group's financial performance. In addition, customer satisfaction, the Group's change management programme and its people strategy would all be impacted by such an event.

The Group has also modelled the above scenarios at the same time as assuming a partial inability to refinance a proportion of its debt up for renewal, in order to fully understand the impact of these events should the Group ever be unable to access debt markets.

When modelling the above, the Group has considered mitigating levers available to it such as materially cutting its investment in capital equipment or R&D, sharply reducing its level of indirect expenditure, or reducing or suspending its dividend for a short period of time in such atypical and unplanned circumstances. Given the Group's business model, its long-dated aftermarket annuity, diverse technology and customer base, and the scale of the potential mitigating levers available to it in the event of either of these events occurring, the Group is reassured that it could mitigate the impact of these scenarios.

Statement of viability

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

CHIEF FINANCIAL OFFICER'S REVIEW



Organic revenue growth
of 8% reflects strong
performance in all of the
Group's end markets



Louisa Burdett
Chief Financial Officer

Financial highlights (Table 1)

	2019	2018	Reported growth	Organic growth
	£m	£m	%	%
Revenue	2,276.2	2,080.6	+9	+8
Underlying ¹ :				
EBITDA ²	507.3	461.6	+10	+8
Operating profit	402.8	367.3	+10	+7
Profit before tax	370.3	334.8	+11	+8
Earnings per share (EPS)	37.3p	34.2p	+9	
Statutory:				
Operating profit	325.3	256.6	+27	
Profit before tax	286.7	216.1	+33	
EPS	28.8p	23.2p	+24	
Free cash flow ³	267.8	167.4	+60	
Net debt	911.2	1,074.1	-15	

- 1 Underlying profit and EPS are defined and reconciled to statutory measures in notes 9 and 14 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 41 to the Group's consolidated financial statements.
- 4 Organic growth excludes the impact of M&A and currency and is reconciled in Table 3.

Revenue

Reported Group revenue of £2,276.2m (2018: £2,080.6m) increased by 9%. Currency movements reflect the weakening of Sterling against our trading currencies, principally the US Dollar. Acquisitions and disposals includes the net impact of the disposals of Angoulême (sold in April 2019) and at Orange County (a number of separate business line disposals in 2019), together with the full year impact of disposals completed in 2018. Organic growth of 8% reflects strong performance in all of the Group's end-markets. In civil aerospace, organic revenue grew by 8%, in defence by 11% and in energy by 10%.

Civil OE revenue grew 8% organically. Large jet OE, the largest component of our OE revenue, grew 4% organically driven principally by growth in the Boeing 787 and 737 MAX and the Airbus A330 and A350 XWB platforms. Additionally, both regional jet and business jet OE saw strong organic growth of 23% and 14% respectively, driven primarily by the Q-Series and ARJ21 in regional jets and the G-650, Falcon 7X and Citation in business jets.

Civil aftermarket revenue grew organically by 8%, within which large jets grew by 14%, driven by the A220, A330 and the B787. Business jets also saw good growth with organic revenue up 6% driven by the Falcon 7X and various Gulfstream platforms. Growth in large and business jets was partially offset by a slight decline in regional jets against a strong comparator in the prior year.

Overall civil aerospace revenue increased by 8% organically.

Defence revenue grew 11% organically. Original equipment revenue grew organically by 12%, with strong growth in parts for the F-35 Joint Strike Fighter and M1A Abrams Tank as well as across other fighter jets, ground vehicles and training systems. Aftermarket revenue (which accounts for 43% of total defence revenue) increased by 11% organically driven by the

Revenue growth (Table 2)

	2019 Revenue £'m	Growth %	Organic growth ¹ %
Civil OE	518.6	+12	+8
Civil AM	715.9	+8	+8
Total civil aerospace	1,234.5	+10	+8
Defence	824.6	+13	+11
Energy	142.7	+11	+10
Other	74.4	-23	-18
Group	2,276.2	+9	+8

Organic growth (Table 3)

Revenue			Underlying operating profit		
2019 £'m	2018 £'m	Growth %	2019 £'m	2018 £'m	Growth %
2,276.2	2,080.6	+9	402.8	367.3	+10
(28.9)	(56.5)		(3.7)	(5.6)	
(54.4)	-		(11.7)	-	
2,192.9	2,024.1	+8	387.4	361.7	+7

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

2 Restates the current year using 2018 translation and transaction exchange rates

F-35, F-15, Typhoon, V22 Osprey and a number of transport vehicles.

Energy revenue grew organically by 10% in 2019, driven by another strong performance in our Heatric business, with revenue from the Group's valve and condition monitoring businesses slightly ahead of the prior year.

Profit

The Board's preferred non-statutory measure of the Group's trading performance is underlying profit. Underlying operating profit was up 10% to £402.8m (2018: £367.3m), representing a margin of 17.7% in line with the prior year (2018: 17.7%), with the financial contribution from the Group's key strategic priorities offsetting a number of headwinds including higher Free of Charge content, adverse mix, the grounding of the 737 MAX and supply disruption within our brakes business. Underlying net finance costs were £32.5m (2018: £32.5m) reflecting a lower net

debt level, offset by an increase in interest rates. Underlying profit before tax increased by 11% to £370.3m (2018: £334.8m).

On a statutory basis, operating profit for the year increased by 27% to £325.3m (2018: £256.6m) and profit before tax by 33% to £286.7m (2018: £216.1m). Statutory profit includes a £15.0m noncash gain (2018: loss of £10.1m) from the marking to market of financial instruments, principally currency hedges against future transaction exposures, a £23.5m gain (2018: gain of £25.1m) from disposals completed during the year and operating exceptional costs of £26.2m (2018: £34.2m), primarily related to the new Ansty site.

Statutory profit for the year was £222.6m (2018: £179.0m).

Operational highlights (Table 4)

Revenue				Underlying operating profit			
2019	2018	Growth	Organic growth ¹	2019	2018	Growth	Organic growth ¹
£'m	£'m	%	%	£'m	£'m	%	%
1,057.4	1,009.3	+5	+2	250.5	259.2	-3	-6
329.5	278.6	+18	+16	27.2	18.4	+48	+51
412.5	371.5	+11	+11	53.4	31.0	+72	+77
471.2	394.8	+19	+16	71.2	58.1	+23	+19
5.6	26.4	-79		0.5	0.6	-17	
2,276.2	2,080.6	+9	+8	402.8	367.3	+10	+7

1 Restated to reflect the new divisional structure which became effective on 1 January 2019

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

3 Represents businesses disposed of prior to the effective date of the new divisional structure or which were classified as held for sale at that date.

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

Taxation

The Group's underlying tax rate increased slightly to 22.0% (2018: 21.0%) reflecting provisions recognised in the year following the EU Commission ruling that the UK CFC regime constituted partial state aid. The Group now holds a provision of £18.3m in respect of this matter, and expects it to be collected by the UK tax authorities in 2020, as instructed by the EU Commission. We have appealed against the ruling in parallel with the UK government's own appeal.

In 2020, we expect the underlying tax rate to be between 19% and 21%.

Cash tax paid as a percentage of underlying profit before tax was 4% (2018: 6%). 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. We expect our cash tax paid rate to increase significantly in 2020, as we make the CFC payments, pending appeals, and amounts fall due in respect of taxable gains made on disposals in 2019.

Our statutory tax rate, which includes items excluded from underlying profit before tax, was 22.3% (2018: 17.1%). Cash tax paid as a percentage of statutory profit before tax was 5% (2018: 9%).

The Group is committed to complying fully with the laws in the countries in which it operates. We are currently rated as moderate risk by the UK tax authorities and our tax policy seeks to achieve either a low or medium risk rating in each country in which we operate. A copy of the Group's tax strategy is available on our website.

Earnings per share (EPS)

Underlying EPS increased by 9% to 37.3p (2018: 34.2p). Statutory earnings per share increased by 24% to 28.8p (2018: 23.2p). A reconciliation between underlying EPS and statutory EPS is provided in note 14 to the Group's consolidated financial statements.

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 11.95p (2018: 11.35p) which would result in a 5% increase in the full-year dividend to 17.50p (2018: 16.65p).

The Company has a balance on its profit and loss reserve at 31 December 2019 of £1,460m (2018: £1,521m), of which approximately £1,310m (2018: £1,375m) 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 2020. 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 2019 to £118.5m and was 5.2% of revenue (2018: £138.3m, 6.6%). 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 9% organically). We continue to invest in our successful Applied Research and Technology (ART) programmes, and are devoting at least two-thirds of our innovation budget to technologies focused on making aviation more sustainable. These programmes will enable the development of next generation products and manufacturing technologies required to enable future platforms.

We also anticipate that externally funded R&D will continue to support AR&T, given our past success in securing such funded development programmes and grants.

Our investment in programme participation costs (PPC) excludes investment in FOC hardware which is expensed under IFRS 15 and only comprises cash payments. Such costs are typically associated with programmes in the development phase and in 2019 this investment was £2.0m (2018: £0.8m).

The charge to net operating costs, including amortisation and impairment, decreased by 2% (2% organically) to £68.7m (2018: £70.0m).

Gross capital expenditure on property, plant and equipment and intangible assets increased by 27% to £94.4m (2018: £74.4m). This increase includes the investment required to support factory consolidation, the build and fit out of our state-of-the-art manufacturing campus at Ansty Park, the expansion of our carbon furnace capacity to support the anticipated growth in large jets such as the Airbus A220 and business jets and a number of productivity initiatives.

Capital expenditure is due to increase significantly in 2020 to between £120 million and £140 million, largely driven by the aforementioned factors which, together with the non-repeat of one-off property-related items in 2019 and an increase in cash tax, will hold back the level of free cash flow generation and our cash conversion ratio which we expect to be in the region of 60% in 2020.

Cash flow

Free cash flow increased by 60% to £267.8m (2018: £167.4m) driven by the growth in operating profit, a reduction in the working capital outflow (with an increase in inventory more than offset by a reduction in receivables), a reduction in pension deficit payments (reflecting the one-off payment into the US schemes in 2018) and lower net capital expenditure reflecting the sale of Holbrook Lane (£21.0m). Free cash flow also benefited from a reverse lease premium receipt relating to our new manufacturing site at Ansty Park (£18.9m).

Analysis of R&D expenditure (Table 5)

	2019 £'m	2018 £'m	Growth %	Organic growth %
Total R&D expenditure	118.5	138.3	-14	-16
% of revenue	5.2%	6.6%		
Charged to Cost of sales / WIP	(23.8)	(31.8)	-25	-26
Capitalised	(54.7)	(58.6)	-7	-9
Amortisation/impairment	28.7	22.1	+30	+28
Charge to net operating costs	68.7	70.0	-2	-2

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

	2019	2018
Underlying EBITDA	507.3	461.6
Working capital outflow	(21.0)	(30.0)
Post-retirement benefit deficit reduction payments	(35.2)	(67.6)
Cash flow from operations before exceptional and M&A costs	451.1	364.0
Exceptional operating items	(27.3)	(12.0)
Interest and tax	(47.5)	(52.9)
Capitalised development costs	(54.7)	(58.6)
Capitalised programme participation costs	(2.0)	(0.8)
Net capital expenditure	(71.3)	(72.3)
Reverse lease premium received	18.9	-
Impact of retranslating net foreign currency cash at spot rate	0.6	-
Free cash flow	267.8	167.4
Net proceeds from M&A including costs	68.9	31.9
Dividends	(130.4)	(124.2)
Purchase of own shares for employee share schemes	-	(22.6)
Impact of retranslating net foreign currency cash at spot rate	(0.6)	-
Net cash flow	205.7	52.5
Currency movements	31.2	(65.5)
Lease liabilities entered (excluding reverse lease premium)	(54.2)	(4.6)
Reverse lease premium received	(18.9)	-
Other non-cash movements	(0.9)	4.3
Opening net debt	(1,074.1)	(1,060.8)
Closing net debt	(911.2)	(1,074.1)

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
GDP	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
GDP	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
GDP	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
GDP	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
GDP	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
GDP	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
GDP	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
GDP	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
GDP	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
GDP	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
GDP	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
GDP	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
GDP	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
GDP	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
GDP	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
GDP	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
GDP	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
GDP	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
GDP	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
GDP	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
GDP	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
GDP	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
GDP	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
GDP	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
GDP	1,000,000	1,000,000	1,											

CHIEF FINANCIAL OFFICER'S REVIEW CONTINUED

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)

	2019	2018
Sterling	128.5	131.0
US Dollar	807.8	969.3
Euro	(12.7)	(9.5)
Swiss Franc	(2.3)	(3.8)
Other	(10.1)	(12.9)
Net debt	911.2	1,074.1

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	2019	2018
Net debt:EBITDA	≤3.5x ¹	1.5x	1.8x
Interest cover	≥3.0x	16.3x	14.7x

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 2019, the percentage of net borrowings at fixed rates was 70% (2018: 56%) and the weighted average period to maturity for the first 25% was 6.5 years (2018: 7.5 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)

	2019	2018
Average translation rates against Sterling:		
US Dollar	1.28	1.31
Euro	1.14	1.13
Swiss Franc	1.27	1.30

Average transaction rates:		
US Dollar/Sterling	1.42	1.44
US Dollar/Euro	1.19	1.21
US Dollar/Swiss Franc	1.06	1.06

Year-end rates against Sterling:		
US Dollar	1.32	1.28
Euro	1.18	1.11
Swiss Franc	1.28	1.25

The results of foreign subsidiaries are translated into Sterling at weighted average exchange rates. Sterling remained volatile throughout 2019, trading at between \$1.21 and \$1.33 against the US Dollar. Over the year as a whole, the average Sterling rate against the US Dollar was \$1.28 (2018: \$1.31) providing a modest positive impact on our reported results for the year. Compared to 2018, the Group's revenue increased by £39.8m and underlying profit before tax by £7.4m from currency translation movements. These favourable impacts include £39.5m and £7.0m 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	120.0	20.0
Euro	11.0	2.0
Swiss Franc	8.0	3.0

¹ Underlying profit before tax as defined and reconciled to statutory measures in note 9 to the Group's consolidated financial statements.
² As measured against the 2019 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 2018, the Group's revenue was favourably impacted by £14.6m and underlying profit before tax for the year benefited by £3.6m from currency transaction movements. These favourable impacts include £14.8m and £3.1m respectively relating to US Dollar denominated revenues and profits. Each ten cent movement in the US Dollar against the average hedge rates achieved in 2019 would affect underlying profit before tax by approximately £12.0m in respect of US Dollar/Sterling exposure, £4.0m 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
2020:		
US Dollar/Sterling	99	1.38
US Dollar/Euro	100	1.15
US Dollar/Swiss Franc	68	1.07
2021 – 2024 inclusive:		
US Dollar/Sterling	55	1.33
US Dollar/Euro	6	1.15
US Dollar/Swiss Franc	7	1.07

¹ Based on forecast transaction exposures and hedging in place at 4 February 2020.
² Based on hedging in place at 4 February 2020, with unhedged exposures at exchange rates at 4 February 2020

Post-retirement benefit schemes

The Group's principal defined benefit pension schemes are in the UK and US and are closed to new members. Total pension scheme deficits increased to £222.0m (2018: £161.5m). The principal drivers of the increase in net deficit included:

- An increase of £143.3m (2018: reduction of £93.3m) due to remeasurement losses on scheme liabilities. These principally arose from significant reductions in the AA corporate bond yields, in both the UK and the US, used to discount scheme liabilities and which are now at the lowest year-end levels seen since this method of measurement of scheme deficits was introduced in 2004. The impact was partly mitigated by a remeasurement gain on scheme assets of £53.5m (2018: loss of £52.1m) reflecting a strong performance in equity markets and increases in the value of government bonds that partly hedge the exposure of liabilities to movements in discount rates.

- Net deficit reduction payments in the year of £34.0m (2018: £65.7m). In 2018, additional contributions were made into two of the Group's US schemes of USD40.0m (£30.4m). These contributions, represented an acceleration of amounts that would have been due over the next five years, and were deductible against the Group's 2017 taxable profits, attracting attract tax relief at the higher rates that prevailed prior to the US tax reforms.

In the UK, the 2018 actuarial funding valuation was finalised during the year. The funding shortfall at the valuation date was £171.8m, modestly below that projected under the previous 2015 valuation. To address the revised lower shortfall, the Group agreed with the trustees to maintain annual deficit payments at the same levels as those under the previous 2015 recovery plan, but that these payments would now be projected to end in August 2023 (March 2024 under the 2015 valuation). Under the recovery plan, the Group will make deficit contributions of £31.9m in 2020 (2019: £31.2m) and these will increase gradually over the remaining recovery period. Since the date of the valuation, UK gilt rates have however fallen significantly and the funding position at 31 December 2019 is currently £72.0m lower than that projected under the 2018 valuation. This funding shortfall is not expected to impact the level of deficit reduction payments for 2020 and will, should it remain, be addressed through a revised recovery plan agreed as part of the 2021 valuation.

The buy-out valuation at the 2018 valuation date, which assumes the Group were to transfer responsibility of the scheme to an insurance company, was measured at £467.9m. 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. Deficit contributions in 2020 are expected to be £3.8m (2019: £4.0m) and, absent any further changes in legislation, will remain broadly at this level for the next three 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 £45.9m (2018: £47.6m). Deficit payments during the year were £1.2m (2018: £1.9m).

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

	2019	2018
Opening net deficit	161.5	258.3
Service cost	12.1	15.4
Group cash contributions	(46.1)	(81.1)
Deficit reduction payments ¹	(34.0)	(65.7)
Other amounts charged to income statement ²	7.0	5.3
Remeasurement (gains)/losses – schemes' assets	(53.5)	52.1
Remeasurement losses/(gains) – schemes' liabilities	143.3	(93.3)
Currency movements	(2.3)	4.8
Closing net deficit	222.0	161.5
Assets	1,079.6	1,015.6
Liabilities	1,301.6	1,177.1
Closing net deficit	222.0	161.5
Assets as percentage of liabilities	83%	86%

- 1 In 2018, includes an additional deficit 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

Recent accounting developments

Following the Group's early adoption of IFRS 16 'Leases' in 2018, there have been no significant changes to the Group's accounting policies in the current year.

There are no new standards, amendments or revisions to existing standards or interpretations published that will be effective for future accounting periods and which are expected to have a material impact on the Group's consolidated financial statements when adopted.

Non-financial information

Our non-financial information statement is contained in the Directors Report on page 63.

Louisa Burdett
Chief Financial Officer

CORPORATE RESPONSIBILITY

Recognising our responsibility

As an innovative, 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.

As we enhance our strategic portfolio and invest in differentiated technologies we recognise the need to ensure that the decisions that we make benefit the long-term interests of Meggitt and its stakeholders. Responsible and sustainable development of our business is a key to our continued long-term success.

Our corporate responsibility policy focuses on three key areas: Sustainability (environment and social), Employees and Business Conduct. We aim for continuous improvement of our product offering which includes the design and production of the next generation of technological developments in aviation. Operational improvements such as reduction of carbon emissions, footprint optimisation, reduction of procurement costs in a sustainable way and the development of long-term partnerships with customers and suppliers help us to create long-term value for Meggitt and our stakeholders. Support within the communities in which we operate is also key: through more efficient use of resources, reduction of waste and water, and through active participation by employees in local initiatives which contributes to the well-being in the communities in which we operate.

Our values and commitments are set out in our Corporate Responsibility and Sustainability Policy (CR&S Policy) which was updated in 2019 to ensure it reflects our strategic goal to conduct business in a sustainable, long-term manner while demonstrating a high degree of social responsibility. Our approach and performance in this area is reviewed by the Board as well as our Corporate Responsibility Committee (CR Committee).

01

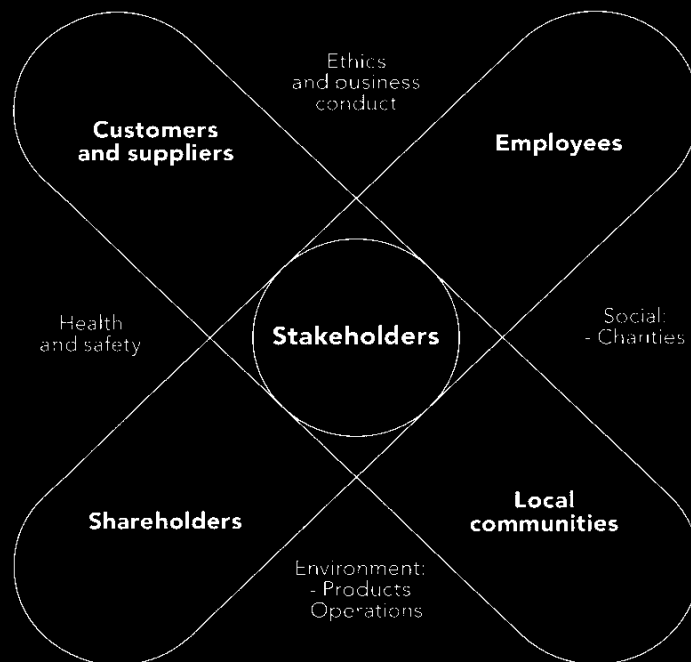
CR&S Policy

CR&S Policy:

- a sustainability strategy that takes into consideration our wider stakeholder groups: Shareholders, Employees, Suppliers, Customers and the Community;
- 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;
- 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;
- minimising the environmental impact of products and processes and maintaining internationally accredited environmental management systems such as ISO 140001;
- conducting business relationships ethically and responsibly;
- complying with anti-slavery and human-trafficking legislation;
- acting as a responsible supplier and encouraging our contractors and suppliers to do the same; and
- supporting our local communities.

02

Our focus areas and governance



Our people deliver solutions for the most challenging environments. 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.

03

Action

For our stakeholders this means:

- committing to invest over two-thirds of our innovation budget on technologies for sustainable aviation;
- doubling our target for reducing GHG emissions from our operations (relative to revenue) to a 50% reduction by 2025 (compared to 2015);
- improving the environmental sustainability and resilience of our sites around the world;
- 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; and
- adopting robust internal and external reporting and controls, and ensuring financial probity.

04

Governance and compliance

Ultimately, the Board is responsible for the implementation and performance of our CR&S Policy.

On-going monitoring of CR activities has been delegated by the Board to the Corporate Responsibility Committee (CR Committee) to maintain oversight of ethics and business conduct, sustainability, charity and community activities.

The CR Committee also oversees the Board's approach to implementing sections of the UK Corporate Governance Code and UK Companies Act 2006 relevant to stakeholder engagement.

Nancy Gioia, the Chair of the CR Committee also performs the role of Non- Executive Director responsible for Employee Engagement. The role and activities undertaken by Nancy in 2019 are outlined on page 64.

In 2019, a new Diversity & Inclusion Council was also formed to share learnings and coordinate diversity and inclusion initiatives across the Group. Whilst the CR Committee receives updates on diversity and inclusion activities, the undertakings continue to be overseen by the Board and Nominations Committee. Health and safety reporting is also overseen directly by the Board.

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

Day-to-day responsibilities of the Board and the Chief Executive for overseeing the CR&S Policy in 2019 were delegated as follows:

- the Group Operations Strategy Director had functional responsibility for health, safety and the environment;
- the Group HR Director led initiatives focused on culture, diversity, inclusion and employee engagement; and
- the Group Company Secretary had functional responsibility for charity and community matters and ethics and business conduct.

In 2019, health and safety was a key strategic non-financial KPI (see page 42). Data in other key areas, such as employees, environment, and charity and community were monitored and assessed at a Group level and our Group progress is reported in this section and in the Nominations Committee report (see page 90). Our non-financial information statement as required by sections 414CA and 414CB of the Companies Act 2006 is set out on page 63.

CORPORATE RESPONSIBILITY CONTINUED

Stakeholder engagement

Stakeholder engagement

Our purpose at Meggitt is to enable the extraordinary: to deliver solutions for the most challenging environments in ways others cannot. Our technology and products are relied upon by customers worldwide and our customers trust us to enhance lives and enable safe, cost-effective and environmentally responsible flight, power and defence systems. Effective engagement with our stakeholders is crucial to the delivery of our purpose and our strategy.

The Directors understand their responsibilities to promote the success of the Company in accordance with Section 172 of the Companies Act 2006. Section 172 of the Companies Act 2006 requires the Directors to have regard to a number of factors including taking into consideration the interests of stakeholders in their decision-making. Further information on how the Directors oversee stakeholder engagement and discharge their duties and responsibilities are included in the Corporate governance report on pages 80 to 85.

How we engage with our stakeholders and why

The Board has identified our key stakeholders as: our employees, shareholders, customers, suppliers and the communities within which we operate.

Stakeholders

Employees

Having engaged employees with aligned values and a desire to be at our best, drives performance which ultimately drives results.

Why we engage

- To help us to create a positive working environment through a truly high performing culture.
- To attract a diverse range of talent and perspectives.
- To ensure employees are engaged in their roles.
- To understand what motivates employees and reflect that in the way we operate.
- To enable us to more effectively invest in personal development and career progression.
- To support diversity and inclusion goals.

How we engage

- Site visits by the whole Board to our two sites in Shepshed and our site in Avrille, France, including lunches with a cross-section of employees enabling employees to engage directly with Board members. Discussions are strictly confidential and help improve Board members' understanding of employee feedback.
- Nancy Gioia, the Chair of the Corporate Responsibility Committee and Non-Executive Director responsible for employee engagement, acts as a conduit between the Board and employees (full details of Nancy's role are set out on page 64).
- A detailed plan for the year was agreed with Nancy, and ratified by the Corporate Responsibility Committee in April 2019.
- In 2019, Nancy met with our HR team at our Coventry site to discuss the Coventry employee council and their current priorities (particularly in light of the transition to Ansty Park).
- In December 2019, Nancy attended a detailed session on employee engagement with the HR team.
- Nancy also attended a session with our graduates and apprentices to discuss a range of issues including what motivates them and why they are attracted to Meggitt.
- Nancy regularly reports back to the Board on her engagement with employees and future employees allowing the Board to ask questions and learn more about what is important to our employees. The Board also receives regular feedback from HR on culture, general employment engagement and diversity related initiatives.
- All employees receive a full induction, including a video message from Tony Wood, a Group overview presentation, a video on diversity and inclusion at Meggitt, details of our policies and processes, health and safety and more.
- Biannual employee engagement surveys, and more frequent 'pulse' surveys, are issued to employees with the results discussed by the Board. Specific actions are then agreed and progress reported to the Board.
- An independently run whistleblowing hotline is in place with regular reports to the Corporate Responsibility Committee and the Board.

Stakeholders

Shareholders

Having supportive shareholders, both institutional and individual, is vital to the achievement of our strategy.

Why we engage

- Continued access to capital is important to our business.
- To ensure shareholders have a good understanding of our strategy, business model and culture.
- To provide clear communication and ensure overall value for shareholders.

Customers

Our customers want us to understand and anticipate their changing technology requirements. They want us to help them deliver the next generation of sustainable aviation.

- To provide sustainable technology solutions and anticipate future demand.
- To obtain feedback on where we are performing well and any areas where we can improve.
- To ensure effective two way communication and manage expectations.

Suppliers

Our suppliers enable us to deliver on our commitments responsibly and sustainably.

- To ensure high standards throughout our supply chain.
- To ensure compliance with recognised standards that uphold human rights and safety, prohibit modern slavery and promote sustainable sourcing.
- To reduce the number of commercial intermediaries in our supply chain to mitigate against potential risks of corruption and bribery.

Local communities

As a global Group we are members of a diverse range of communities and have a responsibility to champion and represent local issues.

- To understand how we can contribute positively and sustainably to our local communities.
- To enhance the well-being of local residents.

How we engage

- Our CEO, CFO and VP, Strategy & Investor Relations meet regularly with our key shareholders and report regularly to the Board.
- The Chairman also engages with major shareholders on an annual basis on matters related to governance.
- In 2019, the Senior Independent Director engaged with shareholders on their overboarding concerns for Sir Nigel Rudd with the result that the Board reviewed Sir Nigel's time commitments and concluded that he does have sufficient capacity to dedicate to Meggitt.
- Regular updates to the Board from our brokers and Investor Relations team with key feedback discussed.
- In 2019 and 2020, our Chair of the Remuneration Committee engaged with our major shareholders, and proxy advisors, on our Directors' Remuneration Policy with changes being proposed to it at this year's AGM.
- The AGM is also an opportunity for our shareholders to engage with members of the Board.
- A Capital Markets Day was held in May 2019. Please see the Investor Relations summary in the Corporate Governance Report on page 84.

- Continuous engagement by our CEO and divisional presidents via face-to-face and telephone meetings, to discuss performance and technologies.
- The Board receives reports on customer satisfaction KPIs and actions set as a result.
- The Board has overseen the implementation of the Meggitt Production System (MPS) since it was launched in 2012, and provides continuous improvement to our manufacturing processes for the benefit of the customer. MPS measures are included in the Long Term Incentive Plan and progress with MPS is discussed in detail by the Board and Remuneration Committee.
- The Board has also overseen the creation and development of the Services & Support division, which is entirely focused on civil and military aerospace aftermarket customer service. The Board receives regular updates on progress.

- Annual update from our Chief Procurement Officer and regular monitoring by the Corporate Responsibility Committee.
- Attendance by the CEO and Chief Procurement Officer at our global supplier conferences, which includes two-way engagement with key suppliers.
- Payment practices are highlighted to the Corporate Responsibility Committee and the Chief Financial Officer monitors actions to improve payments to suppliers.

- Board oversight of the CR&S Policy.
- Our approach to local communities and charities and implementation of the Group Sponsorship and Charitable Giving Policy is discussed at each meeting of the Corporate Responsibility Committee.
- Monitoring the environmental impact of our facilities and agreeing targets on greenhouse gas emissions, water and waste.

CORPORATE RESPONSIBILITY CONTINUED

How we have embedded the consideration of stakeholder interests in our decision-making

The Board has adopted a more formalised procedure for Board and Committee papers and discussions which seek to highlight the impact of key decisions on its key stakeholders and to more effectively assist the Board or Committee in having regard to those factors set out in Section 172 of the Companies Act 2006. A briefing was provided to those that draft proposals for the Board and its Committees (including key executive committees). In adopting this more formalised approach, we have embedded the consideration of stakeholder interests at key decision-making levels (not just Board level) and Board papers now reflect the impact of decision-making on key stakeholders.



Below:

Employee engagement:

Site visits by our Board enable employees to engage directly with Board members.

How we ensure the highest standards of business conduct are upheld

Our comprehensive ethics programme, which includes an independently run whistleblowing hotline, promotes high standards of business conduct across the Group. The programme is monitored by the Board on a quarterly basis and by the Corporate Responsibility Committee at a more detailed level at every meeting. It is reinforced through our policies, regular ethics training and our values (reinforced by our high performance culture programme). To date, over 8,000 employees have attended High Performance Culture 'unfreezing' sessions including the Board who participated in sessions in 2019.

Case studies:

Sale of Meggitt (France) SAS

In April 2019 we completed the sale of Meggitt (France) SAS, a non-core provider of ignition systems based in Angoulême. For the transaction to be successful, it needed to work for all of our stakeholders.

For shareholders this continued our strategy of focusing investment in attractive markets where we have, or can develop, a leading position and consolidation of our footprint.

The project team met with key customers and suppliers who were supportive and had pledged to continue their existing relationships.

The deal benefited employees and the local community over the long-term as the buyer had committed to retaining employees and maintaining the existing site in Angoulême. There was regular engagement with the Angoulême employees on the progress with the project.

Together, with a multi-party project team, this enabled a smooth transition with the effect that all stakeholders received the same experience before and after the sale.

Investment in HIETA Technologies

In January 2020 we announced a joint venture investment in HIETA Technologies, a UK company with world leading capabilities in meta-additive manufacturing. This strategic investment will help position us as a leader in using additive and advanced technologies to produce the next generation of thermally resistant systems at a time of great demand by our customers for truly differentiated technologies for sustainable aviation and lower carbon power generation to be brought to market. For our shareholders this investment will drive long-term sustainable returns and the joint venture structure will help mitigate risk.

Non-financial information statement

We comply with the new Non-Financial Reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006. The table below, and information to which it refers, 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* CR&S Policy*	Sustainability (pages 65 to 68)
Employees	Ethics & Business Conduct Policy* Code of Conduct* Health & Safety Policy* Diversity & Inclusion Policy*	Employees (pages 69 to 72) Business Conduct (page 73)
Human rights	Ethics & Business Conduct Policy* CR&S Policy* Code of Conduct*	Employees (page 72)
Social matters	Group Sponsorship & Charitable Giving Policy*	Sustainability (page 68)
Anti-corruption and anti-bribery	Anti-Corruption Policy* Financial Crime Policy* Ethics & Business Conduct Policy* Code of Conduct	Business Conduct (page 73)
Policy embedding, due diligence and outcomes		Risk management (pages 44 to 45)
Description of principal risks and impact of business activity		Principal risks (pages 46 to 51)
Description of the business model		Our business model (pages 12 to 13)
Non-financial KPIs		Key performance indicators (page 38 to 43)

* Copies of our policies are available on our website www.meggitt.com

Our Policies

Code of Conduct – sets out expectations for Meggitt PLC and all subsidiary companies to conduct business fairly, impartially, and in full compliance with all applicable laws and regulations. The highest standard of ethical behaviour is expected from our employees, directors and from those who act on the Group's behalf in the performance of their professional responsibilities and in their own personal conduct. The Code was reviewed and updated in 2019 to ensure it includes reference to our Values of Teamwork, Integrity and Excellence and our High Performance Culture programme.

Anti-corruption Policy – covers bribery, gifts and entertainment, conflicts of interest, competition and anti-trust, operating with intermediaries such as sales representatives and distributors, offset contracting, political contributions and lobbying activities and breaches of this policy and reporting obligations.

CR&S Policy – updated in 2019, this sets out our position in relation to conducting all business in a manner that achieves sustainable growth whilst demonstrating a high degree of social responsibility. It aims to balance the interests of all our stakeholders including shareholders, employees, customers, suppliers and the wider community in matters of law and governance, ethics, diversity and the environment.

Group Sponsorship & Charitable Giving Policy – this policy was also reviewed in 2019 and contains guidance about the types of organisations (charitable and non-charitable) that we will consider funding and which are aligned to our Values.

Data Protection Policy – sets out the obligations of the Group and its employees when processing personal information or personal data about individuals. The policy provides guidance to help employees understand the rules about personal data.

Diversity & Inclusion Policy – the purpose of this policy is to increase and leverage diversity in all respects, to help build a sustainable business by: 1) employing a diverse workforce that reflects the diverse communities within which we operate, and 2) fostering an inclusive culture where people are valued, respected and supported.

Ethics & Business Conduct Policy – this policy was reviewed in 2019 and sets out that all of our business dealings will be conducted fairly, impartially and in full compliance with applicable laws whilst also being guided by common industry standards adopted by the Aerospace and Defence Industries Association of Europe (ASD) and the global principles adopted by the International Forum on Business Ethical Conduct (IFBEC). This policy applies to all employees and those that work on our behalf and whom we work with.

Environmental Policy – this sets out a commitment to incorporate environmental considerations, sustainability and responsibility in all aspects of our business by including environmental protection, resource conservation and waste reduction in our strategic planning. It also requires all manufacturing facilities to comply with relevant legislation, promote environmental stewardship and achieve recognised certification of their environmental management systems. Our policy also commits us to work with our suppliers to minimise any adverse impact of their products and operations on the environment.

Health & Safety Policy – our policy sets out responsibilities at all levels towards health and safety and the prevention of injury to our employees, visitors, contractors, customers and others who may be affected by our activities.

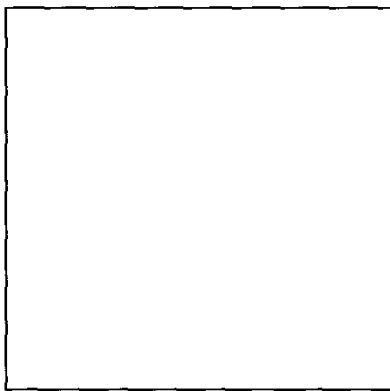
Financial Crime Policy – our policy covers anti-money laundering, fraud prevention and corporate tax evasion. The policy sets out clear escalation procedures, where employees have concerns about financial crime, either through management or via the independently run ethics hotline.

Trade Compliance – our policy outlines our commitment to comply fully with the laws and regulations governing trade controls in the jurisdictions in which we operate.

CORPORATE RESPONSIBILITY CONTINUED

Corporate Responsibility Committee

As Chairman of the Corporate Responsibility Committee, Nancy Gioia's role is to ensure that we oversee the Group's 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 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 2019, the CR Committee monitored the Board's engagement with various stakeholder groups and suggested additional activities as appropriate.

Key activities of the CR Committee and engagement with stakeholders in 2019 are outlined below:

- **Shareholders** – the CR Committee determined that the regular reports to the Board on shareholder engagement during 2019 were sufficient. Our shareholder engagement activities are described on page 84.
- **Customers** – the Board discussed engagement with customers at every meeting during 2019. The CR Committee determined that the regular reports to the Board on customers were sufficient. Our markets and key customer activities are outlined in our Strategic Report (page 24).
- **Suppliers** – the Chief Procurement Officer presented an update to the Board and a written report was provided to the CR Committee in 2019. This highlighted that Meggitt's approach to supply chain management is evolving, with a targeted reduction in the cost and complexity of our supply chain. Conferences for larger suppliers also took place in 2019 with more active engagement taking place with preferred suppliers.
- **Employees** – the CR Committee reviewed the activities of executive management engaging with employees using employee engagement surveys, direct feedback and discussions and site visits. The results of the employee engagement survey as well as the

whistleblowing hotline and ethics programme were also reviewed by the Board and CR Committee (see page 70 and 73). Nancy Gioia was also appointed by the Board as Non-Executive Director responsible for employee engagement and activities. In 2019, the Board visited our two sites in Shephed in the UK and our site in Avrillé in France. In addition, Nancy and other Board members visited our sites in North Hollywood and Rockmart in the US and Coventry and Fareham in the UK. Nancy also met and engaged with graduates and apprentices. She also had a detailed session with the HR team about the results of our employment engagement survey.

Other activities of the CR Committee during 2019 included:

- Receiving progress reports on environment and ethics and business conduct.
- Reviewing the progress and statements on modern slavery, gender pay gap and payment practices reporting.

The CR Committee will continue to focus on the same areas as in 2020.

Committee membership and attendance in 2019

Mrs N L Gioia (Committee Chairman)	
Mr A Wood	
Mrs L S Burdett	
Mr G S Berruyer	
Mr P E Green	
Meetings attended	

Teamwork:

In 2019, a new Diversity & Inclusion Council was formed to share learnings and coordinate diversity and inclusion initiatives.

Sustainability

2019 highlights

Investment in environmentally responsible products that challenge existing technologies in the aerospace industry

Consolidation of sites to reduce our environmental footprint

Investment in building centres of excellence

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

Aviation connects countries, populations and families; it enriches lives, enables global trade and, with increasing efficiency and shorter lead times, underpins the internet economy by enabling the swift shipment of goods around the world. Since the invention of the aircraft by the Wright brothers, our industry has been characterised by innovation – propelling aircraft safely, reliably and increasingly efficiently. Climate change is now recognised as a significant threat: our sustainable technologies can help deliver a sustainable future for aviation.

Meggitt's 160-year history is built upon the invention and development of technologies that enable aircraft to fly safely, reliably and increasingly efficiently. Our portfolio includes some of the very best technologies that enable flight. Meggitt delivers technologies and the supply chain capabilities to realise next generation aircraft designs; with a depth and breadth of technology from across our portfolio.

We are also focused on the way we run our facilities world-wide. We are consolidating our facilities into larger, more capable, more efficient sites and in doing so we're bringing higher standards of responsible operations. We expect to reduce the consumption of energy and greenhouse gas emissions as well as our footprint. We are particularly focused on our braking systems product group which today produces around 50% of our total carbon emissions from our production operations. We are working at pace to improve our carbon brake disc production process and to substantially reduce the GHG emissions from this part of our business.

Our Portfolio – developing differentiated technologies

In 2019, we continued to develop differentiated technologies and products yielding a positive impact on fuel efficiency and weight savings to positively impact our effect on climate change and the environment. Our focus has been on the development of technologies supporting geared turbofan engines, hybrid electric propulsion, lighter and more efficient aircraft as well as sustainable aviation fuels and safety systems. Our research and development activities are focused on maturing technology concepts until they are ready to be developed by our businesses for specific customer applications.

Highlights for 2019 include:

Thermal systems – advanced thermal systems are critical enabling technology for high performance geared turbofan engines, the next generation of which will require at least double the current thermal capacity. To build on our pedigree in thermal system solutions for aerospace, we are developing new heat exchanger configurations and complete mini-system designs for the engine. These will provide a number of advantages over current technology, double the performance and halve the size and weight. We are adopting new manufacturing technologies, have filed patents and made good progress in developing the engine models, system designs and optimisation techniques that are critical to meet this challenge. Our patented Air/Oil Mini System is showing >40% performance improvement over datums and two engine customers have selected our thermals technology for their demonstrator engines in 2020.

Compact heat exchangers for power generation – our Heatric Printed Circuit Heat Exchangers (PCHes) are all bespoke to the customers' demands and process. Heatric PCHes are robust and 25% the size of equivalent shell and tube exchangers. A technology proving programme is also being progressed with our partner HiETA Technologies Ltd to reduce overall volume and weight further through additive manufacturing.

Lithium batteries – good progress has been made with testing on our state-of-the-art aerospace lithium battery providing confidence that our design can meet certification requirements. Lithium batteries are considered to be a greener technology due to the elimination of cadmium, and being lighter, they result in fuel efficiency savings.

Environmental performance

GHG reduction in 2019 relative to revenue¹

6%

GHG reduction in 2019 from 2015 baseline²

19%

¹ Based on year-on-year comparative data as reported in line with DEFRA guidance

² Performance against internal 10-year target.

CORPORATE RESPONSIBILITY CONTINUED

Green fire suppression – Boeing's *ecoDemonstrator* flight test with our proprietary green fire suppression agent was successfully completed in December. The agent, which has already passed the Federal Aviation Administration (FAA) minimum fire suppression performance standards provides an effective and more sustainable replacement for ozone-depleting halon. We are engineering the most competitive, lightweight system to deploy these compounds in fire extinguishing applications in cargo, engine and auxiliary power unit (APU) applications whilst continuing to innovate in fire detection technologies.

Optical sensors – are lighter, can operate at higher temperatures and are immune to electromagnetism. We are taking technology that has been developed in other industrial applications and further developing it to meet the needs of safety critical aerospace and energy applications where improved sensing can deliver real operational benefits. Applications include pressure sensing in aero and ground-based gas turbines and overheat and fire detection in aerospace applications.

As well as developing differentiated technologies, we are assessing our manufacturing processes as we recognise that our carbon manufacturing operations located in Coventry UK, and Akron and Danville US currently generate approximately 50% of our total GHG emissions.

Natural gas and propane are used as process gases in the electrically heated chemical vapour infiltration (CVI) and heat treat

furnaces which are operated at temperatures exceeding 2,000°C over long periods of time for the manufacture of carbon brakes. To reduce the GHG emissions from the production of carbon brakes, improvement projects have been carried out to increase the amount of carbon components per furnace and reduce run times of the furnaces. We have also been investigating installing PV panels and implementing combined power and heat (CHP) units at our carbon operations. We have partnered with the School of Engineering at the University of California, Irvine to identify viable options in which we could reuse the gases generated from our carbon furnaces. The partnership has identified multiple options for reuse of the gas either to generate power or as a feed to other local plants and we intend to proceed with installation of the chosen renewable energy option in 2020.

Our footprint – investing in operational excellence

During 2019, we further consolidated our portfolio through the divestment of facilities at Angoulême in France and Sunnyvale in the US. Further product line divestments were made from our Orange County facility and we have started relocating the remaining product lines and Group support functions to a facility adjacent to our nearby Defense Systems facility in Irvine.

During the year, we concluded the transition of Elite Aerospace in Miramar to our Service & Support facility in Miami. Further transitions have also enabled the exit of

our Heater Court unit in San Diego and the sub-lease of space in Braking Systems Akron. Significant progress has been made on our largest investment in the UK with occupancy planned at Ansty Park for April 2020 and subsequent transfers of colleagues and capability from Birmingham, Coventry and our Bournemouth HQ during 2020. Ansty Park and the retained Coventry carbon capability represent the first of a multi-divisional operations campus model for Meggitt.

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

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 CR&S Policy. We also require our manufacturing sites to maintain an environmental management system certified to the ISO 14001 international standard. To date, 75% of our facilities have achieved this certification with the remainder targeted to achieve certification by the end of 2020.

In 2019, there were a number of projects that were completed or initiated by our sites that contribute to our overall strategic goals of reducing our environmental impacts:

- As part of the construction of our new UK Centre of Excellence building at Ansty Park, we are installing photovoltaic (PV) panels.
- Our MDS Irvine facility is working in partnership with local utility companies and others to install a hybrid electric building at the site. The aim of the project will enable the site to purchase and store electricity from the grid during off-peak consumption hours, resulting in cost savings on electricity purchased. The project also provides the site with a battery storage system that will be utilised in future renewable energy projects.
- A project initially implemented at our Xiamen facility has been extended to our Oregon facility. The project involves converting electrically heated press platens to electromagnetically heated platens, resulting in a 45% reduction in the power consumption of the press.



Left:
Photovoltaic roof at Ansty Park
The new 440,000sq.ft. facility at Ansty Park is the largest global infrastructure investment being made by Meggitt as part of its site consolidation programme. Once installed, it will be one of the largest roof-covered PV systems in the UK, with panels covering an area of 167,000sq.ft. One of the advantages of the industrial rooftop photovoltaic systems is that it will help to reduce our carbon footprint through the reduction of GHG emissions as well as Meggitt's reliance and dependence on the electrical grid. Any excess electricity produced by the PV plant can also be used by the national electricity grid.

Our environmental performance

In 2019, we revised our target from reducing our GHG emissions relative to revenue by 25% by 2025 (versus 2015) to a more ambitious target of reducing our GHG emissions by 50% during the same period to ensure we focus on our environmental commitments.

Our progress on meeting internal targets is monitored by the CR Committee. Our Environmental Policy (available on www.meggitt.com) also helps to reinforce our commitment as an organisation to protecting the environment. Furthermore, our auditing programme assesses our sites for compliance against our internal policies, applicable regulatory requirements, as well as compliance against industry best practice. We are also subject to numerous inspections by environmental authorities. Our compliance record indicates no fines for breaches of environmental regulations during the year.

Performance

Table 1 shows our performance against key environmental metrics, table 2 shows our progress towards achieving internally set targets and table 3 presents the GHG emissions data that we are required to report to meet statutory requirements.

In 2019, our absolute GHG emissions increased by 1% compared to 2018. This was due to carbon manufacturing operations (accounting for approximately 50% of our overall GHG emissions) increasing in 2019. Notwithstanding this, we achieved a 6% reduction in GHG emissions relative to revenue in 2019 compared to 2018. This was largely due to consolidation activities at our China, Mexico and Vietnam sites. We have also achieved a 19% reduction in GHG emissions relative to revenue between 2015 and 2019.

Water consumption increased significantly in 2019. This was due to our Rockmart facility, the largest water consumer in the Group, increasing their water consumption by 27% due to increases in production at the site. Our carbon manufacturing operations in Coventry also discontinued extracting water from an onsite bore hole which increased our reliance on using water provided by utility companies.

Our absolute waste generated as well as waste generated relative to revenue increased in 2019 compared to 2018. This was as a result of site disposals and consolidation activities in 2019. In contrast, our waste sent to landfill as a percentage of our overall waste generated decreased by 11%.

Environmental metrics¹ (Table 1)

	2019	Change	20 ¹⁸
Utilities			
Electricity – gWh	210		206
MWh per £m	92	-5%	97
Natural gas – gWh	199		197
MWh per £m	88	-6%	93
Greenhouse gas emissions (CO ₂ e) ¹ – tonnes	115,557		114,626
Tonnes per £m	50.8	-6%	54.1
Waste – tonnes	17,785		10,780
Tonnes per £m	7.8	54%	5.1
Water – cubic metres	913,854		721,650
Cubic metres per £m	401	18%	341

Internal targets (Table 2)

	Baseline year	Ten and five year performance periods (financial years)	Target improvement over performance period	Achieved as at 31.12.2019
GHG emissions	2015	To 31 December 2025	-50%	-19%
Water consumption	2016	To 31 December 2021	-10%	+16%
Waste to landfill	2016	To 31 December 2021	-10%	-12%

Reportable GHG emissions¹ data (Table 3)²

	2019 Tonnes of CO ₂ e	2018 Tonnes of CO ₂ e
Combustion of fuel and operation of facilities ³	36,733	36,573
Electricity, heat, steam and cooling purchased for own use	78,824	78,054
	115,557	114,626

Intensity measurement:

Emissions reported above, normalised to tonnes per £m revenue

50.8 **54.1**

1 Global GHG emissions were calculated using conversion factors published in the Guidelines to DEFRA/DECC's GHG Conversion Factors for Company Reporting and the WRI/WBCSD Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard. Emissions from overseas electricity are calculated using conversion factors published in the IEA Emissions factor 2019. Amounts per £m revenue have been calculated using 2019 exchange rates for both years.

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 owned and operated vehicles or refrigerant gases as these emissions are not material to the Group's emissions.

CORPORATE RESPONSIBILITY CONTINUED

Community activities

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

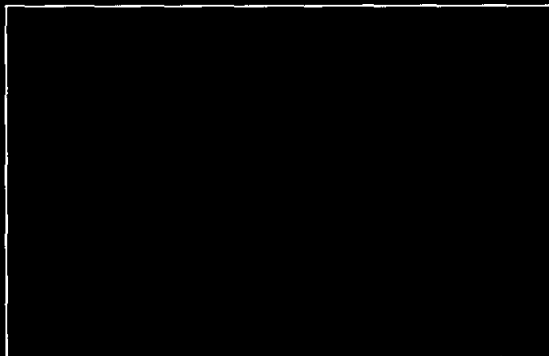
In 2019, our sites around the world organised events to support employees and local communities. A few highlights from 2019 are outlined:

- Our Rockmart (US) site is a major employer in the local area – during 2019 the site made various charitable donations to not-for-profit community assistance groups and libraries while also organising community events such as painting school days, hosting of blood drives and the facilitation of a mammogram event for female employees.
- Our Coventry (UK) site held charity events for Mind and the Samaritans during 2019. These were organised by our Mental Health Employee Resource Group; SHINE.
- Our Troy (US) site focused on employee engagement by arranging a fun day for their families. The donations from the day were given to the local fire department. The event had a significant impact on improving engagement and morale across the site.

Excellence:

Aim to inspire the next generations of school leavers to pursue further studies and careers in engineering.

Community activities



Our North Hollywood site hosted a Toy and Bike Drive Competition to support the California Highway Patrol "CHiPs for Kids" programme for underprivileged children.

The Big Bang Fair is the UK's biggest science and engineering fair which brings over 80,000 school children to Birmingham over four days to experience the exciting opportunities available in the STEM industries (science, technology, engineering and maths). This year's event was held March 13-16.

A team of Meggitt engineers, apprentices and graduates volunteered to run the stand for a day each, with some supporting their Saturday help out. Our volunteers helped children build their very own aeroplane wheel and challenged them to test their strength in our 'impossible egg crush challenge'.

By attending events such as the Big Bang Fair our employees aim to inspire future generations of school leavers to pursue further studies and careers in the engineering industry to help address the global shortfall of engineers. We recognise that events like the Big Bang Fair are hugely important to help encourage young people to deepen their understanding about what a career in engineering involves and the opportunities it can create for them. The Big Bang Fair is just one event of a number of events that our employees and sites globally get involved in to encourage students to take steps to pursue a career in engineering. For example, several of our sites in the US regularly support events such as For Inspiration and Recognition of Science and Technology (FIRST). Other activities include encouraging employees signing up to become STEM Ambassadors. We have also set up an ERG solely focused on STEM and encourage employees to become active members.

Employees

2019 highlights

We improved our Total Recordable Incident Rate (TRIR) by 10% in 2019 through continued promotion of our safety culture through behaviour-based safety training across all of our sites

Roll-out of High Performance Culture to over 8,000 employees across the organisation

Five active diversity and inclusion employee groups with Executive Sponsors set up to discuss topics relevant to LBGTQ+, STEM, young professionals, mental health and gender balance

Joined Women in Aviation and Aerospace Charter

Achieved a 4% increase in employee engagement

Gender Diversity % Female*

Board of directors
4 out of 10

40%

Executive Committee
2 out of 11

18%

Direct reports to the Executive Committee*
15 out of 90

17%

Total headcount
3,862 out of 12,599

31%

* All as at 31 December 2019 except direct reports to the Executive Committee which is from 1 July 2019, aligned to Hampton-Alexander reporting

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, on fostering a High Performance Culture that reinforces our values of teamwork, integrity and excellence and promotes diversity and inclusion, and on creating 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 to understand whether our employees feel engaged, empowered and satisfied in their work.

Living 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.

Culture

Culture is important to us, which is why it is one of our strategic priorities. 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.

To accelerate our progress towards becoming a truly integrated global business, we launched our High Performance Culture (HPC) programme across the Group in 2017, with the first wave targeted at the senior leadership teams across the organisation. Since launching the workshops in 2017, over 8,000 employees have attended unfreezing sessions and 1,200 colleagues have

received reinforcement training. By the end of 2020 we plan to have reached all employees with our 'unfreezing' and reinforcement 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 HPC facilitators. Our employees relate to workshops delivered by their colleagues, who have a shared understanding and appreciation of our culture, our history and our future.

CORPORATE RESPONSIBILITY CONTINUED

Headcount by division

Number of employees and contractors

■ Airframe Systems	6,596
■ Engine Systems	2,605
■ Energy & Equipment	2,055
■ Services & Support	617
■ Central	726
■ Legacy Businesses	-
Total	12,599

Headcount by region

Number of employees and contractors

■ UK	2,988
■ Rest of Europe	1,172
■ USA	6,765
■ Rest of World	1,674
Total	12,599

Headcount by length of service (years)

Number of employees and contractors

■ Less than 5	7,019
■ Between 5 and 10	2,022
■ Between 10 and 15	1,392
■ Between 15 and 20	762
■ Between 20 and 25	638
■ Over 25	766
Total	12,599

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 environment, we have created divisional-level diversity plans, and established a Group-wide Diversity & Inclusion Council. We also have a Diversity & Inclusion Policy that sets out our commitments at Board-level to making Meggitt a diverse and inclusive organisation. The policy reinforces that 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 encouraged employee engagement in topics related to diversity and inclusion and sought employee feedback on our progress in our annual engagement survey.

We are committed to building a more diverse and inclusive Meggitt and complying with reporting obligations including gender pay gap reporting and the Hampton Alexander Review.

Meggitt does not discriminate on the grounds of age, colour, disability, ethnic or national origin, gender, gender expression, gender identity, marital status, pregnancy,

race, religion or belief, or sexual orientation and new hires are offered positions based on merit, taking account of their specific skills, experience and knowledge. All individuals are supported during their employment through training, career development and awareness of diversity and inclusion groups are promoted to all employees through ERGs. Should an accident occur at work, our specialist health and safety teams work with employees, HR and managers to support affected employees to help them return to work. See our Diversity & Inclusion Policy that supports diversity, inclusion and non-discrimination.

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 2019 annual employee engagement survey showed a 4% improvement in engagement compared to 2018. The feedback shows strong improvement in a number of areas and we have committed to making further improvements in communications at site level, focusing on improving the efficiency of our processes and embedding our High Performance Culture with a particular focus on coaching and feedback. We will

continue to invite all employees to participate in employee forums to further understand the engagement results and create action plans for improvement.

As well as asking for 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 £8.8m.

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 2019, 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 2019, our graduate programme received 1,000 applications for 18 places (40% of those places were filled by females).

In 2019, we have continued our efforts with the Meggitt Corporate Apprenticeship Programme in the UK; recruiting another cohort of 23, totalling 71 apprentices in the UK, 110 apprentices globally. 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. Our commitments are set out in our Health & Safety Policy. Due to the importance of health and safety of employees, the Board receives regular updates on the number of incidents.

We recognise the importance of strong leadership support for health and safety across our Group and have revised the criteria under our Meggitt Safety Star programme to include a "Safety Leadership Index" KPI which consists of leadership leading indicators such as safety leadership walks, safe observation days conducted by site Safety Champions and the number of safety stand downs conducted each month. This additional leading indicator will be applied commencing in 2020 to increase our focus on a strong, supportive safety culture throughout our organisation. In addition, we are targeting all of our sites to implement and obtain an occupational health and safety management system that is certified to the new ISO 45001 by 2022. In 2019, we had four sites achieve this milestone, and now have nine of our sites certified to OHSAS 18001 or ISO 45001 standard.

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.

Our TRIR improved in 2019 to 0.74 (0.8 in 2018 and 1.2 in 2017). We also reported record lows in our Total Recordable Incident Rate (TRIR) for our US locations.

In 2019, slip, trip and fall type injuries were the primary contributor of all recordable incidents reported within the Group. This was attributed to a number of factors occurring within the reported period as a result of inclement weather. Safety stand downs, safety alerts and visual aids were issued during the year to address this risk.

Additionally, a review of our preventative maintenance procedures for addressing snow and ice in car park areas was conducted and improvements made to allow each site to address inclement weather conditions affecting outdoor walking surfaces before ice develops and snow accumulates.

As in previous years, we continue to monitor and record the number of reported opportunities for improvement. This is because we actively encourage employees to take steps to prevent injuries in the workplace. In 2019, the number of reported opportunities for improvement increased by 29% compared to 2018. This shows good engagement by our employees in our H&S education programme. During 2019, the topic most promoted was ergonomic and manual handling risks which saw a 37% decrease in ergonomic issues.

We also have safety-focused cultural initiatives including behaviour-based safety programmes which encourage employees to "Stop it Now" and "Deal with It" when they see unsafe conditions and behaviours in the workplace before an accident occurs.



Below:

Employees are encouraged to take steps to prevent injuries in the workplace through 'Stop it Now' and 'Deal with It'.

Safety performance

Reduced the Total Recordable Incident Rate in 2019 by:

10%

Global Total Recordable Incident Rate in 2019:

0.7

Driving excellence

Opportunities for improvements in health and safety are monitored monthly against set targets.

CORPORATE RESPONSIBILITY CONTINUED

We promote safety awareness through various means:

- Leadership safety walks conducted at least monthly with site senior managers
- Weekly "Safety Talks" conducted at least twice per week at each production area to review incidents and injuries and to share lessons learned and best practices across the Group
- Safety Stand Downs conducted whereby operations are paused for a period of time where the whole site focuses on specific risk areas and interactive discussions are held with all managers and employees to review ways to minimise or eliminate the specific risk
- Safety Learning Sessions (SLS) conducted monthly with all HSE professionals across the Group to provide training on specific topics and to review significant near miss incidents reported across the Group during the prior month and corrective actions implemented.

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 actively encourage employees to take steps to prevent injuries in the workplace.

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.

Human rights

We recognise that as a large international business, our business operations can impact the lives and rights of other people (not just our employees). As such, we support the Ten Principles of the United Nations Global Compact, relating to human rights, labour, the environment and anti-corruption.

In 2019, we held training sessions on data protection and modern slavery awareness. Our code of conduct training also reinforces the behaviour that we expect from our employees as well as suppliers and contractors. We encourage suppliers and contractors to be responsible and adhere to our values and principles to ensure our business relationships are responsible and ethical. We are committed to complying with anti-slavery and human-trafficking legislation and we will continue to work with our suppliers to engage on this topic.

We provide all employees with support to raise any concerns through our ethics speak up line (more information on page 73)

Case study

Promotion of Women in Engineering – US event

For the second year running, Meggitt employees attended the Society of Women Engineers (SWE) Conference in November 2019. This is the largest event in the world for women engineers and employers who want to leverage the potential of this demographic.

The event welcomed over 15,000 male and female attendees who came together for training, networking opportunities and professional development with leading engineering and technology companies from around the world. Active participation in the event provided us with an opportunity to connect to a large pool of potential candidates for our graduate program and site internship programs. Participation in the conference also helps us to increase our opportunities for candidates seeing us as an employer of choice.

The theme of this year's event was "We Live, We Learn, We Lead" – this was followed up by Sara Sperling, founder of Diversity & Inclusion for Facebook, sharing her expertise in the importance of being innovative and courageous in supporting diversity and inclusion. As Meggitt continues to focus on expanding our Employee Resource Groups (ERGs), this provided an excellent platform for us to build on and share our experiences.

Business Conduct

We commit to conducting business fairly, impartially, and in compliance with all applicable laws and regulations. Our Values of Teamwork, Integrity and Excellence are at the heart of how we do things and underpin our policies which are reinforced by applying our High Performance Culture principles throughout the working day.

In addition to the updated Ethics & Business Conduct Policy in 2019, we continued to promote our ethics programme and Code of Conduct through training issued to all employees, more targeted training delivered at specific sites, and also briefings delivered to our Ethics Champions who are located at every site. 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 an Ethics Guide upon joining the Group, which is also available on our intranet.

Our programme also sets out the names and contact information for people who can help employees if there are any concerns. This information is available on our intranet, throughout the policies and on posters located around all sites.

Each Meggitt business site has a designated Ethics Champion who is available to assist employees with questions or concerns, and ethical behaviour is also drawn out in our employee engagement surveys which are monitored and impact future strategy decisions with our stakeholders.

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).

Commercial intermediaries

2019 saw us introduce our Continuous Improvement Plan for Commercial Intermediaries which not only looks at potential corruption and bribery risks across our business but also how we can work better with such appointed parties. We continued to take steps to reduce the number of our commercial intermediaries. Further efforts will continue in 2020 including reviewing our distributor footprint globally in order to best serve our customers, while minimising potential corruption risks. The continuous improvement plan has strengthened our work with independent organisations assessing potential country corruption risk, which leads to enhanced due diligence and alerts in our customer relationship management tool which is reviewed by internal and external auditors. The changes to the governance process in this area have led to an increase in risk analysis which is driving our future commercial intermediary strategy and how we operate in potential higher risk locations.

Modern slavery

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 and reduce offset contracting. 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. As such, we ask our suppliers to comply with our Code of Conduct or similar standards. Steps that we are taking to combat anti-slavery and human trafficking in our supply chain are set out in our Modern Slavery Act statement available on our website.

Strategic report

This 2019 Strategic report on pages 2 to 73 is hereby signed on behalf of the Board.



Tony Wood

Ethics policies



Drives programme content and priorities



Leading to annual all-employee training



Impacts interaction with each other, our customers and suppliers

INTRODUCTION TO GOVERNANCE

Chairman's introduction

Sir Nigel Rudd
Chairman

We strive to uphold the highest standards of corporate governance and business conduct that *underpin successful and sustainable long-term businesses*. Whilst we remain accountable to our shareholders, we recognise the value of strong relationships with our workforce and wider stakeholders built on a culture of openness and trust. In this report, we set out our governance framework and explain how our activities throughout the year underpin our strategy.

Leadership and company purpose

Our employees are attracted to Meggitt because of our technology but are equally motivated by the impact they can have on the world. We have taken time to clarify our vision, purpose and strategy. We have also focused a lot on our culture since 2017, reinforcing our values of teamwork, integrity and excellence. Together, with our continued focus on strategic planning and operational excellence, technology and specific areas of climate change, we are well positioned for long-term sustainable success.

During the year, Nancy Gioia, our non-executive director responsible for employee engagement, has undertaken a number of specific engagement activities, including site visits, employee lunches, meetings with HR, graduates and apprentices, together with a detailed review of our engagement survey results. Additionally, the Board have all undertaken 'unfreezing' activities. Guy Hachey and Nancy Gioia attended 'unfreezing' sessions with employees in the USA, and Alison Goligher and Caroline Silver attended sessions with employees in the UK. All of these activities have increased the Board's engagement with employees, and is fed back into Board discussions. Our focus on wider stakeholders is described in the Corporate Responsibility Report.

Composition, succession and evaluation












On 25 February 2020, Meggitt will announce my intention to step down as Chairman of the Board to spend more time on my business and other interests. I will remain as Chairman until my successor is appointed, but will not seek re-election at the 2021 AGM. I will work to ensure a seamless transition to my successor as Chairman; the succession process is being led by Guy Berruyer, Senior Independent Director.

In August 2019, we announced that Philip Green would retire from the Board on 31 December 2019 and from the Company on 31 March after 25 years' service. I would like to thank Philip for his significant contribution during that time. Philip has been instrumental in developing our highly regarded commercial and corporate affairs function and played a key role in our evolution from a holding company to an integrated group.




Audit, risk and internal control

In 2019, the Audit Committee reviewed the 2018 viability statement process and confirmed it remained appropriate for the 2019 statement. The potential impact of a major business disruption event and loss of a major customer were considered as part of the assessment on viability. A description of the process and the resulting statement are set out in the risk management report which also includes our annual confirmations on risk management and internal control.

2019 Board attendance

Sir Nigel Rudd¹ Chairman	
Mr A Wood Chief Executive	
Mr G S Berruyer Non-executive director	
Mrs L S Burdett Chief Financial Officer	
Mr C R Day Non-executive director	
Mrs N L Gioia Non-executive director	
Ms A J P Goligher Non-executive director	
Mr P E Green Executive Director, Commercial & Corporate Affairs	
Mr G C Hachey Non-executive director	
Mr P Heiden Non-executive director	
Mrs C L Silver² Non-executive director	

- Met the independence criteria on appointment as Chairman on 23 April 2015.
- Absence due to a pre-existing Board meeting for another company that was in the diary when appointed to Meggitt

 Meetings attended  Non attendance  Not required

The Board has confirmed that this Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance and business model and strategy.

Remuneration

During 2019, the Remuneration Committee undertook a comprehensive review of our Directors' Remuneration policy that will be submitted to shareholders at our 2020 AGM. As a result, we have recommended various changes to our policy largely to reflect latest investor best practice including changes to pension provision, malus and clawback and the introduction of post-cessation shareholding requirements.

Sir Nigel Rudd

Chairman of the Board of Directors
24 February 2020

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.

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.

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.

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.

page **90**

Directors' remuneration report

The Directors' remuneration report includes an introduction from its Chairman, Alison Goligher, summarising the Committee's overall approach to remuneration and the link between our strategy and remuneration. It also includes the remuneration policy which will be submitted to shareholders at the 2020 AGM and describes how the current policy has been applied in 2019.

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.

page **117**

BOARD OF DIRECTORS

Committee membership

- A** Audit
- N** Nominations
- R** Remuneration
- C** Corporate Responsibility
- F** Finance
- D** Disclosure
- Denotes Chairman

Sir Nigel Rudd DL

Non-Executive Chairman

Appointed: 2015 | Nationality: British

We have announced that Sir Nigel Rudd has indicated his intention to step down as Chairman of the Board and that he will not seek re-election at the 2021 AGM.

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 Signature Aviation plc and Sappi Limited.

Appointments in unlisted companies

Non-Executive Chairman of BGF PLC (due to retire on 30 June 2020).

Previous appointments

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

N

Tony Wood

Chief Executive

Appointed as CEO: 2018 | Nationality: British

Skills and experience

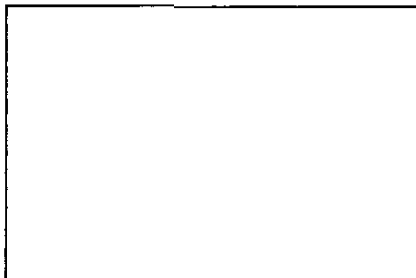
Extensive aerospace industry experience gained with Rolls-Royce plc where he held a number of senior management positions, latterly as President, Aerospace. Previously spent 16 years at Messier-Dowty, now part of Safran Group.

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

Organisations

President of ADS, the UK trade organisation representing the aerospace, defence, security and space sectors.

C F D



Guy Berruyer

A N C R

Senior Independent 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 significant experience to the Board as a former Chief Executive of a FTSE 100 multinational enterprise software company.

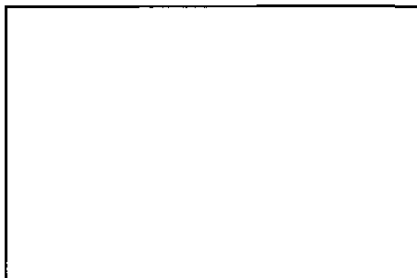
He was appointed Senior Independent Director in April 2019.

Appointments in unlisted companies

Non-Executive Chairman of robotic process automation company Softomotive Holding Limited. Non-Executive Chairman of Brandwatch, a digital consumer intelligence company. Non-Executive Director of Berger Levraut, a French software and services company, and Non-Executive Director of Civica Group. 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.



Louisa Burdett

C F D

Chief Financial Officer

Appointed: 2019 | Nationality: British

Skills and experience

Chartered accountant who 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

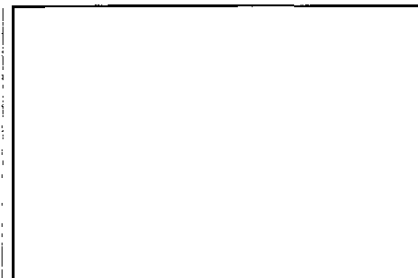
Non-Executive Director and Chair of the Audit Committee of Electrocomponents plc, a global distributor of industrial and electronic products.

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.



Colin Day

A N R

Non-Executive Director

Appointed: 2015 | Nationality: British

Skills and experience

Chartered certified accountant who makes a significant contribution as Chairman of the Audit Committee, responsible for the interface between the Committee and the external and internal auditors. 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, pharmaceuticals, oil and gas and aerospace. He brings significant commercial and financial expertise to the Board.

Current appointments

Non-Executive Chairman of Premier Foods plc. Non-Executive Director of Euromoney Institutional Investor PLC and Chair of the Audit Committee.

Appointments in unlisted companies

Non-Executive Director for the Government's Department for Environment, Food & Rural Affairs and Chair of the Audit and Risk Assurance Committee. Appointed to FM Insurance Company Limited and FM Insurance Europe S.A. 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, FM Global and Senior Independent Director of Amec Foster Wheeler plc.

BOARD OF DIRECTORS CONTINUED

Committee membership

- A** Audit
- N** Nominations
- R** Remuneration
- C** Corporate Responsibility
- F** Finance
- D** Disclosure
- Denotes Chairman

Nancy Gioia

A N R C

Non-Executive Director

Appointed: 2017 | Nationality: American

Skills and experience

Electrical engineer, who 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 that she brings an understanding of the value of culture, diversity and inclusion to her role as Chair of the Corporate Responsibility Committee and as Non-Executive Director responsible for employee engagement.*

Current appointments

Non-Executive Director of Brady Corporation, Chair of the Technology Committee and member of the Management Development and Compensation Committee.

Appointments in unlisted companies

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

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, former Chair of AutomotiveNEXT and Stanford University Alliance for Integrated Manufacturing.

Alison Goligher OBE

A N R

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, has a strong operations focus and makes an excellent contribution to strategic discussions.

She was appointed Chair of the Remuneration Committee in April 2019.

Current appointments

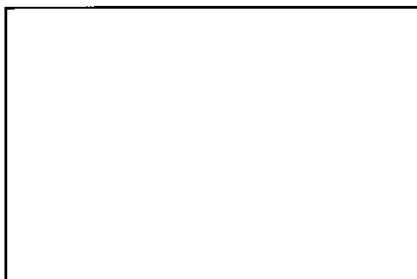
Non-Executive Director of United Utilities Group PLC.

Appointments in unlisted companies

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

Previous appointments

Various roles at Royal Dutch Shell from 2006 to 2015, most recently as 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.



Guy Hachey

A N R

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

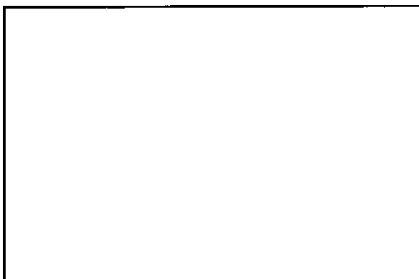
Non-Executive Director of Hexcel Corporation and Chair of the Compensation Committee.

Appointments in unlisted companies

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.



Caroline Silver

A N R

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

Interim Executive Chair of FTSE 250 consumer products group, PZ Cussons plc, and Chair of the Nominations Committee. This position is temporary whilst a successor for the chief executive is identified. Senior Independent Director of M&G PLC and member of the Audit, Remuneration, Risk and Nominations Committees. Caroline will step down from the Board at M&G PLC's AGM on 27 May 2020.

Appointments in unlisted companies

Non-Executive Director of BUPA, Chair of the Risk Committee and member of the Audit and Remuneration Committees. Part-time Managing Director at Moelis & Company, a leading global investment bank.

Organisations

Trustee of the Victoria & Albert Museum, Chair of the Finance and Investment Committees and member of the Audit Committee.

Previous appointments

Caroline was Vice Chair 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 Chair of Investment Banking and European Head of Financial Institutions. She started her career as a chartered accountant with PricewaterhouseCoopers LLP.

CORPORATE GOVERNANCE REPORT

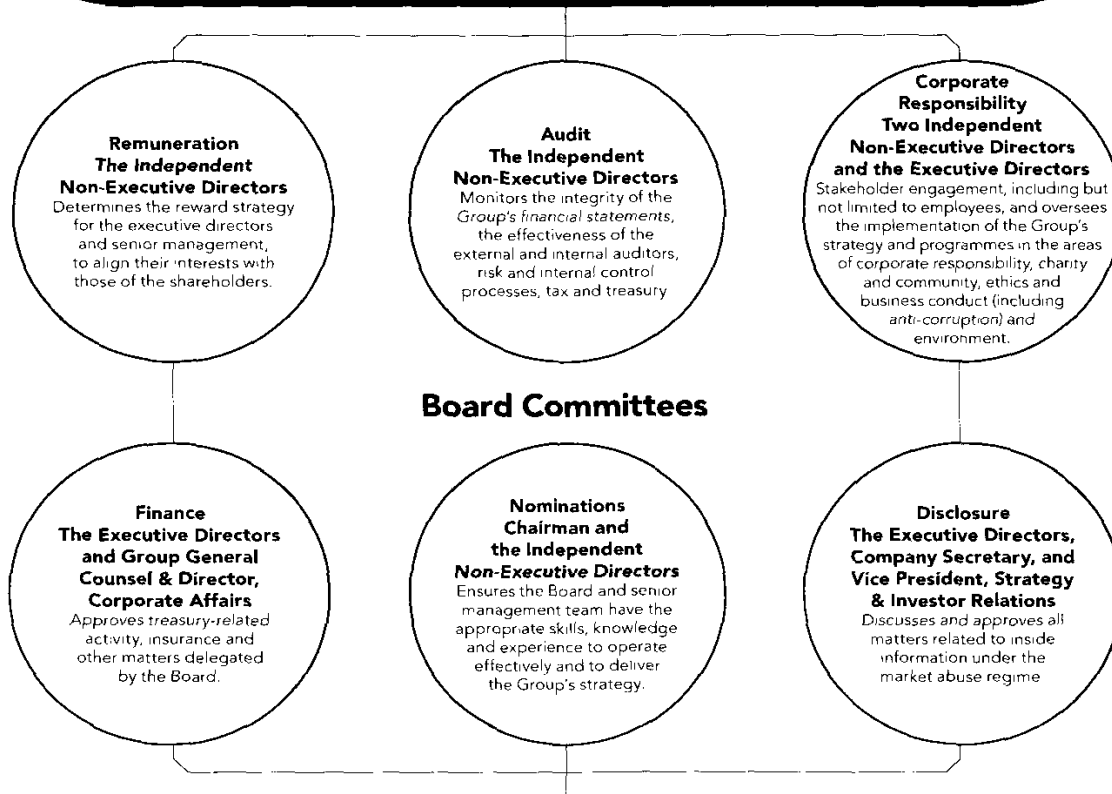
Our governance framework

Board of Directors

Membership: Sir Nigel Rudd (Chairman), Executive and Independent Non-Executive Directors

Creating and delivering sustainable value

- Collectively setting the strategy and directing the Group, while meeting the appropriate interests of its shareholders and relevant stakeholders;
- Sets the Group's values and standards; and
- Ensures obligations to shareholders, employees and other stakeholders are met



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, Group General Counsel and Director, Corporate Affairs and Group Director, Engineering & Strategy and Group Operations Director

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.

Provides advice on the direction and pace of technology road maps, increases awareness of disruptive technologies, business models or business trends and provides guidance on new areas and opportunities.

Roles and responsibilities

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.

Senior Independent Director

Guy Berruyer

- 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.

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.

Executive Directors

Tony Wood and Louisa Burdett

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

Independent Non-Executive Directors

Guy Berruyer, Colin Day, Nancy Gioia, Alison Goligher, Guy Hachey and Caroline Silver

- 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.

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.

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.

2019 Board activities

Approved

- The 2020 budget
- The 2018 Annual Report and Accounts, 2018 full-year results and 2019 interim results announcement.
- The April 2019 trading statement and November 2019 trading statement and upgrade to revenue guidance
- Recommendations to shareholders on the final dividend payment for the year ended 31 December 2018 and approval of the interim dividend payment for the year ended 31 December 2019
- Resolutions to be put to shareholders at the 2019 AGM, including that PricewaterhouseCoopers LLP be reappointed as auditors of the Group for the 2019 financial year
- The sale of our non-core business in Angoulême.
- The sale and internal transfer of product lines from our site in Orange County.
- A joint venture in HiETA Technologies Limited, a UK company with world-leading capabilities in metal additive manufacturing.
- Terms of Reference for the Disclosure and Finance Committees (available on www.meggitt.com)
- The Group's risk appetite statement and risk register.
- The Group's tax strategy.
- The conflicts of interest register for the Board and the Modern Slavery Statement
- The Corporate Responsibility and Sustainability Policy, Ethics & Business Conduct Policy and Code of Conduct, and Trade Compliance Policy.
- The appointment of new directors
- Since the year end, up to the date of the Annual Report, the Board has approved the 2019 Annual Report and Accounts, the 2019 full-year results announcement and the proposed final dividend for the year ended 31 December 2019
- During the year, no unresolved concerns were recorded in the Board's minutes.

Reviewed

- Detailed strategy session, market trends, the impact of climate change and subsequent review of the Group's strategic plan.
- Ansty Park programme review.
- 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.
- An 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
- Updates on procurement and Group operations
- High Performance Culture, diversity and employee engagement 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
- Reports on internal control, viability and going concern and reports from its Committees.
- Refreshers on the Guidance on Board Effectiveness and directors' duties
- Governance updates including Modern Slavery, General Data Protection Regulation, supplier payment practices, Hampton-Alexander-Review and gender pay

Visits and culture

- In June 2019, the Board visited our UK polymers site in Loughborough and advanced composites site in Shepshed
- In October 2019, the Board visited our French facility in Avillé.
- During all of these visits, the Board received presentations about the sites and met a range of employees.
- A number of our Board members also visited our sites in Rockmart, Erlanger and North Hollywood in the US, Fareham in the UK and Fribourg in Switzerland.
- All Board members have participated in High Performance Culture, 'unfreezing' sessions, with most attending with employees.
- Nancy Gioia attended lunches with our graduate students and apprentices, and met with our HR team at our Coventry site to set up an employee council and attend a detailed session on employee engagement

CORPORATE GOVERNANCE REPORT CONTINUED

AGM 2019 – Sir Nigel Rudd, significant vote against

In accordance with the requirement of Provision 4 of the 2018 Code, Meggitt PLC (“the Company”) is providing this update following a significant vote (defined as above 20%) against the resolution to re-elect Sir Nigel Rudd (Chairman) at its annual general meeting held on 25 April 2019. We also provided an update in a stock exchange announcement on 9 October 2019 but the Public Register maintained by The Investment Association has not yet been updated to reflect this.

In advance of our AGM held on 25 April 2019, ISS proxy advisors had recommended that shareholders abstain from voting on the resolution to re-elect Sir Nigel Rudd due to concerns regarding perceived ‘overboarding’.

Prior to and following the AGM, the Board reviewed Sir Nigel’s time commitments and engaged extensively with significant shareholders on this topic.

The Board’s unanimous conclusion remains that Sir Nigel has sufficient capacity to dedicate the appropriate amount of time to Meggitt. Many of our major shareholders share the Board’s view that Sir Nigel continues to provide excellent leadership of the Board and his skill set, experience and knowledge are of significant value to the Company.

On 25 February 2020, we will announce that Sir Nigel intends to step down as Chairman of the Board to spend more time on his business and other interests. The search process will be led by Guy Berruyer as Senior Independent Director. Sir Nigel will not seek re-election at the 2021 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 2018 UK Corporate Governance Code (the “2018 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.
- Only 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.
- The letters of appointment for the Chairman and non-executive directors set out the time they are expected to commit to Meggitt.

Board attend HPC sessions

In July, Guy Hachey visited our US site in Rockmart for a tour of the facility and to attend a one-day High Performance Culture ‘unfreezing’ session. Since joining Meggitt, Guy has been impressed with the emphasis and focus on culture and is confident that increased employee engagement and accountability will drive better results. In particular, Guy cited daily layered accountability meetings, held as part of the Meggitt Production System, as a powerful tool by which employees can see tangible solutions to problems and relate their role to the Group’s purpose. He believes the next challenge will be reinforcing and maintaining our High Performance Culture concepts and our values of teamwork, integrity and excellence.

- 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 dedicate to 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.
- Caroline Silver is currently performing a temporary role as Executive Chairman of PZ Cussons plc whilst a successor for the Chief Executive is identified. Caroline will step down from the Board of M&G PLC at the AGM on 27 May 2020.
- 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 2019, the Chairman and non-executive directors attended all scheduled Board meetings, except Caroline Silver who was unable to attend the meeting in December due to a pre-existing meeting with another board that existed on appointment. The Board also visited our sites in Loughborough and Shepshed in the UK and Avrillé in France.
- The Chairman had regular meetings with the Chief Executive, 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 non-executive directors in 2019 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. Mr Hachey and Mrs Silver both undertook tailored induction activities in 2019.

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 2019

In 2019 the Board appointed Clare Chalmers Limited to externally facilitate their Board review. The process is described in the case study on this page.

The external evaluation made a number of suggestions to strengthen what was described as an already high performing Board. The Board have discussed and agreed the following actions:

- Ensuring succession planning is started well in advance of when vacancies arise, for both executive and non-executive roles. Ensure short-term plans are in place to cover top executive posts and ensure there are opportunities for the Board to spend time with top talent and consider the use of Board mentoring.
- Increasing Board focus on resilience around processes and people.
- Ensure the Board understand the Group-wide plan for identifying and nurturing in-house talent.
- Developing metrics to enable the Board to measure its impact on engagement, productivity and customer experience and continuing the momentum with the High Performance Culture programme.
- Ensuring strategy and risk management discussions have appropriate capacity for horizon-scanning to identify opportunities and threats which are further ahead.
- Ways to modernise systems and processes around internal audit should be reviewed, including making better use of technology.
- Consider further raising the profile of the Board by contributing to newsletters, blogs or podcasts and by holding occasional Q&A sessions.
- Review the remit of the Employee engagement Non-Executive Director and Corporate Responsibility Committee to ensure it is appropriate one year on.

Board and committee evaluation process

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.



April 2019

External Board evaluation planning by the Chairman and Company Secretary.



June to September 2019

Selection of external Board evaluator: Clare Chalmers Limited.

Detailed planning session with Clare Chalmers Limited as a briefing on the current Company and Board focus areas and what the Board hopes to achieve with the effectiveness review.



November to December 2019

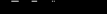
Consistent interview format prepared by Clare Chalmers Limited.

Clare Chalmers Limited interviewed all Board members and the Company Secretary, external auditor, Group HR Director and Head of Audit & Risk. The review focused on:

- Composition, skills and diversity
- Board and executive skills and succession including the Chairman, CEO and the executive team and succession planning
- Strategic focus
- Culture and behaviours
- The visibility of the Board
- The Nominations, Remuneration, Audit and Corporate Responsibility Committees, including employee engagement, internal audit and risk management
- Communications with shareholders and other stakeholders
- Information quality and papers including administrative arrangements

In addition, Clare Chalmers Limited reviewed:

- The Annual Report and Accounts
- Board meeting papers



February 2020

- Clare Chalmers Limited reported back to the Chairman, Company Secretary and the Board
- Agree actions to take as a result.

CORPORATE GOVERNANCE REPORT CONTINUED

Shareholder engagement 2019 highlights



February 2019

The preliminary results presentation took place on 26 February and included an overview of the 2018 full year financial performance of the business. This was presented by Tony Wood and Louisa Burdett.

At this presentation, we provided guidance on the outlook for the business in 2019 and covered progress made against our strategic objectives in 2018 and the medium-term goals for the Group.

An investor roadshow took place in the UK immediately following the preliminary results presentation.



March 2019

In March, we met with investors in North America (Toronto, New York, Chicago and Los Angeles) and in Edinburgh to close out the post-results investor road shows.

We also invited a small group of investors to our San Diego facility, to demonstrate some of the world-class capabilities we have at our global sites.



April 2019

We engaged with our top 20 shareholders and proxy advisors, ISS (Institutional Shareholder Services), IVIS (Institutional Voting Information Service) of the Investor 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 2019 AGM vote result on the re-election of the Chairman.



May 2019

On 15 May, we hosted a Capital Markets Day in London, where we showcased some of our key technologies and highlighted a number of important growth drivers for the business including technology, operations strategy and procurement initiatives.



June 2019

At the Paris International Airshow, a number of investors met with management at the Meggitt chalet where they discussed, among other things, the impact of macro effects such as industry consolidation and the Boeing 737MAX grounding.

We invited our top 20 shareholders to meetings with the Chairman on governance which were held later in the year.



August 2019

The interim results presentation took place on 6 August and included an overview of the financial performance of the business for the first six months of 2019. This was presented by Tony Wood and Louisa Burdett.

Following this, an investor roadshow took place in the UK.



September 2019

In mid-September, we welcomed a new Vice President, Strategy & Investor Relations.

We also held a North American roadshow towards the end of the month and met with investors.



October 2019

At the beginning of October, we participated in an investor roadshow in Switzerland hosted by Berenberg, engaging with key investors in Zurich and Geneva.



November 2019

On 12 November, we released our Q3 trading update, increasing our expectation for full-year revenue growth and confirming our guidance for underlying operating margin. The revenue upgrade followed stronger than anticipated growth across all end-market segments and a particularly strong performance in defence.



December 2019

In December, we met with investors at conferences hosted by Goldman Sachs and Berenberg where discussions centred around our strategic initiatives and progress towards achieving our targets.

Shareholder engagement (continued)

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, together 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 23 April 2020, 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.

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 2018 Code. All directors in office at the date of the AGM will be subject to re-election.

Statement of compliance

Throughout the financial year ended 31 December 2019 and to the date of this Annual Report, we have complied with the provisions set out in the 2018 Code published by the Financial Reporting Council. The Group has applied all the principles set out in the 2018 Code and further details 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 disclosed in the Directors' report.

By order of the Board

M L Thomas
Company Secretary
24 February 2020

AUDIT COMMITTEE REPORT



Chairman's introduction

Colin Day
Chairman of the Audit Committee

I am pleased to present the report of the Audit Committee for 2019.

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. Members of the Committee also bring a breadth of experience across the aerospace and engineering sectors through their current and previous roles – further details are included in their profiles on pages 76 to 79.

Committee members throughout 2019 were Guy Berruyer, Nancy Gioia, Alison Goligher and Guy Hachey. In April 2019, Paul Heiden retired and Caroline Silver was appointed.

By invitation, there were a number of other regular attendees including the Chief Financial Officer, the Group Financial Controller, the internal and external auditors. The Chairman of the Board, Chief Executive, Executive Director, Commercial & Corporate Affairs and Head of Treasury & Tax 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 2019. 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.

Key activities in 2019 and areas of focus for 2020

During the year, as well as the matters described on the next page, significant progress has been made to improve internal controls at our Engine Composites site in Erlanger in the US. Internal audit have also reviewed IT user access controls, Group procurement processes and the project to transition to Ansty to provide real time assurance to the Committee.

In 2020, we will continue to improve internal and operational controls. We will also continue to monitor the controls around the Ansty transition project as it moves into the key execution phase. Further reviews will be undertaken on our general risk management processes in light of the grounding of the 737 MAX and the COVID-19 outbreak.

Committee membership and attendance in 2019

Mr C R Day Committee Chairman	
Mr G S Berruyer Non-executive director	
Mrs N L Gioia¹ Non-executive director	
Ms A J P Goligher Non-executive director	
Mr G Hachey Non-executive director	
Mr P Heiden Non-executive director	
Mrs C L Silver Non-executive director	

¹ Absence due to a pre-existing Board meeting for another company that was in the diary when appointed to Meggitt

Meetings attended Non-attendance Not required

Committee activities

Approved

- The 2019 external audit fees
- The internal audit plan for 2020.
- The terms of engagement for the external auditors.

Reviewed

- The financial information contained in the 2018 Annual Report and Accounts, 2018 full year and 2019 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
 - 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 using the process described on page 83. There were no specific actions to take and the Committee confirmed it was satisfied with the outcome of the evaluation.
 - The external auditor's strategy memorandum and interim audit clearance report for 2019
- Since the year end, the Committee has discussed the external auditor's final audit clearance report for 2019, reviewed the financial information contained in the 2019 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 2019 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 Audit & Risk 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 Brydon Review, CMA and Kingman recommendations

Effectiveness

The Audit Committee review was externally facilitated by Clare Chalmers Limited. The report has concluded that the Audit Committee is well run and focuses on the right issues. It benefits from being led by a capable Chairman, who has a long and credible track record in this area. Audit disciplines at Meggitt were perceived as open and the non-executives stated that they had full access to the management team dealing with this aspect of the business. There were no concerns or issues identified, however it was felt that there was an opportunity to modernise systems around internal audit and control including better use of technology and the external auditors could inform on how audit and control techniques were evolving.

AUDIT COMMITTEE REPORT CONTINUED

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	<p>The principal judgement is management's determination of the level at which impairment testing should be performed. The Committee discussed and agreed with management, that following the introduction of the Group's new divisional structure, testing should be performed at the operating segment level except for the Energy & Equipment division where testing should be at the individual CGU level. The Committee agreed it was no longer appropriate to test the EDAC/Advanced Composites businesses, acquired in 2015, separately, recognising the level of integration of those businesses across two new divisions would require a significant level of arbitrary allocations to be made and that they, in their role as members of the Board, no longer regularly reviewed the businesses at this level. In advance of the annual impairment testing exercise, the Committee agreed with management that using the Group's five-year 2019 strategic plan as a basis for allocating, on a relative fair value basis, goodwill and other intangible assets arising on an acquisition to the new levels at which testing was to be performed, was appropriate.</p> <p>Critical accounting estimates arise in determining the value in use for goodwill 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 2020 budget and strategic plan (which in their role as members of the Board, Committee members had previously reviewed). The Committee discussed the sensitivity analysis performed by management, which included modelling discount rates and long term growth rates at which an impairment could potentially be triggered and stress testing the results by capping growth in the five-year plan period at long term inflation forecasts for the countries in which each business operates. The Committee agreed with management's conclusion that no reasonably foreseeable change in assumptions would lead to a material impairment in the next 12 months.</p>
Development costs	<p>The Committee discussed a report from management analysing amounts capitalised across different aircraft platforms and manufacturers, including a sensitivity analysis for specific programmes. This analysis set out the extent to which estimates of fleet volumes used by management for impairment testing would need to fall before any potential impairment would be triggered. The Committee focused in particular on the Airbus A220, Bombardier Global 7500/8000, Embraer 450/500, Irkut MC 21 and Gulfstream G500/G600 in light of the material values capitalised on these platforms, and additionally in the case of the MC-21, delays to its entry to service following the introduction of US sanctions. The Committee concluded assumptions made by management were reasonable and the carrying values and estimated useful lives of the assets were appropriate.</p>
Provision for environmental matters relating to historic sites and related insurance receivables	<p>The Committee discussed a report from management setting out the basis for 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.</p>
Retirement benefit obligations	<p>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 2018 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 concluded the assumptions used, which were supported by third-party actuarial advice, were appropriate. It also agreed with management that no changes should be made to the methodology for determining UK inflation assumptions, following announcement by the Government that it was consulting on potential changes to RPI as an inflation measure.</p>
Income taxes	<p>In assessing the appropriateness of the provision recognised in respect of uncertain tax positions, the Committee considered a report from management setting out the basis for the assumptions made for each significant area of tax exposure. It 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. Particular focus was given to the Group's potential liability under the UK CFC regime following the European Commission ruling in 2019 that the regime constituted partial state aid. The Committee agreed with management that the provision recognised for the Group's exposure in this area represented the most likely outcome for the Group.</p>
Treatment of items excluded from underlying profit measures	<p>The Committee discussed the treatment and disclosure of amounts included within exceptional operating items. It noted the items continued to reflect 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.</p>

Key areas of oversight

External audit

The external auditors are PricewaterhouseCoopers LLP ("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 2020 for the 2020 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 £0.1million.

Details of fees paid for audit services, audit-related services and non-audit services can be found in note 6 to the Group's consolidated financial statements. Fees paid for non-audit services in 2019 were less than £0.1 million (2% of the total audit fee) and average fees paid for non-audit services for the last three years to 2019 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 has been updated to reflect the latest FRC Guidance on Audit Committees and revised Ethical Standard. The prohibited list of non-audit services has been removed and the policy now covers a shorter list of permitted non-audit services and sets out the procedures for approving non-audit services.

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 2019, internal audits were carried out for 25 Group locations as part of the rotational audit cycle, including shared service functions. The business unit audit programme's scope includes finance, programme management, HR/payroll, sales agents/distributors, commercial bid and proposal activity and business continuity. The scope of internal audit continues to expand and develop with the business. 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 for areas such as IT, treasury and complex legislation such as Defense Federal Acquisition Relation Supplement ("DFARS") and the General Data Protection Regulation ("GDPR"). The Audit Committee remains cognisant of increasing cyber complexity and associated risks. The approach for 2019 continued to be delivering these reviews using Grant Thornton's subject matter experts, including IT, procurement and project management.

The results of the audits are regularly discussed with the Group Head of 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 2019 and confirmed that they continue to be satisfied.

Communications with the FRC

In July 2019, the FRC wrote to the Group informing us that it had carried out a review of our 2018 Annual Report and Accounts and wished to raise no questions or queries with the Group. A small number of matters were noted by the FRC where improvements to the Group's disclosures could be made and these have been reflected in our 2019 Annual report and Accounts.

In September 2019, the FRC wrote to the Group informing us that, as part of its thematic reviews of revenue disclosures following the adoption of IFRS 15 'Revenue from Contracts with Customers', it would like to include a certain disclosure from our 2018 Annual Report and Accounts as an example of better practice in its thematic report. This disclosure was subsequently included within the FRC's final report published in October 2019.

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 & Business Conduct Policy and Code of Conduct, which are available on our website. The Group sponsors an independently operated and monitored Ethics Line, enabling employees to report concerns about possible misconduct, with proportionate and independent investigation and appropriate follow-up action.

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
24 February 2020

NOMINATIONS COMMITTEE REPORT



Chairman's introduction

Sir Nigel Rudd
Chairman, Nominations Committee

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.

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.

Effectiveness

The Nominations Committee review was externally facilitated by Clare Chalmers Limited. The Committee was generally felt to be working well and its processes were viewed as being transparent and fair. There was good dialogue and debate about prospective new members of the Board. There were no concerns or issues identified.

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 2019, 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.

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 was well planned, with Guy Berruyer and Alison Goligher assuming those roles in April 2019 after an appropriate transition.

On 25 February 2020, we will announce that Sir Nigel intends to step down as Chairman of the Board to spend more time on his business and other interests. A full external search process will be led by Guy Berruyer as Senior Independent Director, assisted by executive search firms. Sir Nigel will not seek re-election at the 2021 AGM.

Committee membership and attendance in 2019

Sir Nigel Rudd Committee Chairman	
Mr G S Berruyer Non-executive director	
Mr C R Day Non-executive director	
Mrs N L Giola Non-executive director	
Mrs A J P Goligher Non-executive director	
Mr G Hachey Non-executive director	
Mr P Heiden Non-executive director	
Mrs C L Silver Non-executive director	

Meetings attended Non attendance Not required

UK Corporate Governance Code

The 2018 Code also states 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 & 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. Our Diversity & Inclusion Policy seeks to increase and leverage diversity 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.

This year, Meggitt PLC appeared 23rd in the list of FTSE 100 companies on the Hampton-Alexander gender diversity rankings. This was a lot higher than our position a year ago because the main rankings table is determined by the number of females on our Board of Directors which was at 40% when the data was taken (now 44%). However, the combined Executive Committee and direct reports statistic for Meggitt has improved (16.8%), but could improve further. The Board and Executive Committee remain focused on this area.

The Board of Directors has discussed the suggested target set out in the Parker Review of having "at least one director of colour on the Board by the end of 2021" and will take this into account, alongside diversity of gender, nationality, skills and experience, in filling Board positions in 2020 and 2021.

Our employee engagement survey in 2019 asked six questions about diversity and inclusion in Meggitt, including whether people of all backgrounds can succeed, whether we seek differing viewpoints, whether employees support our efforts to promote diversity and inclusion and whether we are clear that discrimination will not be tolerated. As this was the first time these questions had been asked, progress can be tracked into 2020.

Sir Nigel Rudd

Chairman of the Nominations Committee
24 February 2020

Diversity and inclusion activities

- Diversity Council formed with regular meetings to discuss progress on initiatives
- Diverse slates of qualified candidates required for all senior positions
- Targeted outreach calendar of events
- Talking Talent sessions for divisions and functions where diversity is discussed
- Diversity and inclusion is built into our HPC framework
- Leaders have been required in 2019 to participate in unconscious bias training
- An intranet content and collaboration page has been created
- Diversity and inclusion content has been built into our MPS stage exit criteria for sites
- Attended Society of Women Engineers Outreach event
- Interaction with 6,000 students at national events in the US
- Joined Women in Aviation and Aerospace Charter
- Employee Resource Groups formed

DIRECTORS' REMUNERATION REPORT



Chairman's introduction & annual statement

Alison Goligher

Chairman of the Remuneration Committee

It is my pleasure to present the Directors' remuneration report for the year ended 31 December 2019.

Pay philosophy

We are committed to ensuring fair and consistent compensation practices and to provide all employees with a competitive level of compensation, based on their position, competencies, performance and contribution. We strive to:

- Provide competitive and equitable compensation that attracts, motivates, engages and retains high performing employees;
- Differentiate rewards based on performance; and
- Align rewards to business goals.

Performance in 2019

The Committee is confident that the 2019 remuneration outcome for executive directors is appropriate given the internal and external context.

We evaluate the fixed and variable remuneration packages of the executive directors when setting salaries each year, and both the CEO and CFO's total target and maximum remuneration opportunities remain below median when compared to market peers.

Wider workforce compensation measures

We are committed to transparency in our compensation practices and monitoring how they benchmark externally with our peer group. Our CEO pay ratio is 58:1. This was reported for the first time in 2019 and full details can be found on page 110. Our gender pay gap in the UK reduced from 23.1% to 14.9% in 2019. Our progress was driven by several senior executive changes and our increased focus on diversity and inclusion. Our full gender pay gap statement will be available on our website by April 2020.

Overall the Committee believes that the remuneration delivered compared to performance in 2019 is appropriate and moderate in comparison with our peers.

We conclude that the current Directors' remuneration policy ("Remuneration Policy") has operated as intended in 2019.

Discretion exercised

In summary, in 2019 the Committee exercised its discretion to:

- Agree adjustments to the EPS outcome for the 2017 LTIP to take account of disposals during the performance period and the impact of IFRS 9, 15 and 16;
- Agree adjustments to ROTA for the 2017 LTIP to take account of the impact of IFRS 9, 15 and 16;
- Agree changes to the LTIP strategic measures, permitted under the implementation of the agreed Remuneration Policy; and
- Agree good leaver status for Philip Green.

Further details of the discretion exercised can be found on page 93.

2020 Remuneration Policy update

In 2019, the Committee also conducted a thorough review of our Remuneration Policy, which took into account the effectiveness of the Remuneration Policy in practice as well as the wider market context and developments in remuneration governance over the last three years. I wrote to our major shareholders in the Autumn and received useful feedback, which formed part of a Committee discussion in December to finalise our Remuneration Policy. It was agreed that pension benefits would be aligned to the current wider workforce level immediately for new executive directors and that incumbent directors would be aligned with the wider workforce levels over a number of years. Following engagement with our major shareholders, we amended our original proposal for incumbent executive directors (which were based previously on a monetary cap of pensions) so that the pension contributions for our CEO and CFO (currently 25% and 20% of salary respectively) will be reduced to 15% of salary over the course of the new Remuneration Policy. The Committee also proposed post-cessation shareholding rules along with increased malus and clawback provisions in both the STIP and LTIP.

In considering the design and implementation of the Remuneration Policy, the Committee considered a range of factors, including clarity, simplicity, risk, predictability, proportionality and alignment to culture.

Remuneration advisor

The Committee discussed the tenure of Mercer, the current remuneration consultants, who have been in position since 2010. It was agreed that a tender process should be undertaken in 2019 to ensure the Committee continues to receive the best and most appropriate advice.

After a thorough review, involving proposals from six advisors, the Committee concluded that Mercer continue to offer the best and most appropriate service at present.

Executive directors

Philip Green stepped down from the Board on 31 December 2019 and will retire as an employee at the end of March 2020, at which point all of his salary and benefits cease to accrue. His outstanding incentive awards will be treated in line with the default good leaver treatment set out in our Remuneration Policy.

New Committee Chairman

Paul Heiden retired from the Board and as Chairman of the Committee in April 2019. I would like to express my personal thanks and also that of the whole Committee to Paul for his guidance and stewardship.

Having been on the Board since 2014, I was delighted to be appointed Chairman of the Committee with effect from 25 April 2019. I have gained relevant experience of current remuneration trends and practices as a member of the Committee since 2014 and from my experience as a member of the Remuneration Committee of another FTSE 100 Board. I also attended sessions with Mercer and a detailed handover from Paul, after a year working closely with him as part of the succession planning process.

Alison Goligher

Chairman of the Remuneration Committee

2019 activity



Approved

- The 2018 STIP vesting and deferred bonus awards.
- The 2016 LTIP vesting.
- The 2019 STIP and LTIP performance targets.
- 2019 LTIP awards together with the application of a holding period for the 2019 LTIP awards to executive directors.
- Salaries for executive directors and other Executive Committee members, retirement arrangements for Philip Green and the Chairman's fee.
- The 2018 Directors' remuneration report, which was approved by shareholders at the 2019 AGM.
- Since the year end, we have approved targets for the 2020 STIP and LTIP awards, agreed salaries for executive directors, and confirmed the vesting outcome of the 2019 STIP and 2017 LTIP awards.



Discretion exercised

- Agreed the 2020 STIP financial targets for the wider executive population be based on Group performance, consistent with the targets used for executive directors and other Executive Committee members.
- Agreed changes to the LTIP strategic measures (i.e. MPS to Q&D, programme management changes etc.) within policy.
- Agreed that ROTA targets in the LTIP should be replaced with ROCE for all LTIP participants to bring them in line with executive directors' targets from 2020, further enhancing the alignment of goals between executive directors and the wider executive population.
- Agreed good leaver status for Philip Green.
- Since the year end, we have agreed adjustments to the LTIP 2017 outcome driven by disposals and IFRS adjustments within the performance period, and exceptional adjustments to the STIP 2019 outturn.

DIRECTORS' REMUNERATION REPORT CONTINUED

2019 activity continued



Policy review

- Reviewed the Remuneration Policy, including discussions around the need to balance shareholder sentiment with contractual commitments to the CEO and the CFO.
- Discussed the outcome of the incentive plans in terms of pay for performance to ensure that the mathematical outcomes of the plans fully reflect individual performance and that of the Group.
- Considered total remuneration and concluded the Remuneration Policy is sufficiently prescriptive in terms of limits for each element of remuneration.
- Presented the proposal for the revised Remuneration Policy in October 2019 to major shareholders and considered their written and verbal feedback. Clarified and simplified the proposal and issued a second letter to major shareholders in January 2020.
- Ensured that the review included an analysis of how director remuneration is operated in the context of the wider workforce and to ensure alignment with our values of teamwork, integrity and excellence (reinforced by our High Performance Culture), and the Meggitt Production System. These form the backbone of our global culture. Over 8,000 employees have attended 'unfreezing' sessions, and all leaders' (including the CEO and CFO) performance is judged in the context of whether their behaviours align with our values. Annual goals are cascaded from our Executive Committee, and through all management levels to ensure alignment of all leaders with our strategic priorities each year. Our incentive measures are strongly linked to our strategy, as shown below:

Linking our remuneration to our strategy



Remuneration at a glance

How we performed in 2019

Organic revenue grew by

8%

Underlying operating profit rose by

10%

Underlying EPS up to

37.3p

ROCE up to

11.0%

Free cash flow increased to

£267.8m

Employee engagement up

4%

Short Term Incentive Plan (STIP)

Underlying operating profit	33.3%
Free cash flow	33.3%
Strategic and financial personal objectives	33.3%
Total STIP	100.0%

Long Term Incentive Plan (LTIP)

Underlying EPS	33.3%
ROCE	33.3%
Strategic measures: MPS / Inventory / Programmes	33.3%
Total LTIP	100.0%

Total Shareholder Return

Single figure in 2019 (£'000)

Executive director	2019 Single figure	2018 Single figure
Mr A Wood	£2,490	£2,334
Mrs L S Burdett	£946	-

1 Appointed to the Board on 1 January 2019

Share ownership in 2019

Executive director	Shareholding guideline (% 2019 salary)	Shares owned outright	Current shareholding (% 2019 salary)	Guideline met?
Mr A Wood	300%	106,154	106%	Building
Mrs L S Burdett	200%	3,133	5%	Building

1 Assessment of directors' shareholdings includes shares held outright, unvested shares which are not subject to a further performance condition and shares which have vested but which remain subject to a holding period and/or clawback on a net of tax basis.

Pay for performance scenarios 2020

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 at the same level as the wider workforce. Pension allowances for incumbent executive directors will be reduced to 15% by 2022.

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; executive directors are eligible for annual awards of up to 220% of salary. From the AGM in 2020, the executive directors will be subject to post-cessation shareholding requirements.

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.

DIRECTORS' REMUNERATION REPORT CONTINUED

The Remuneration Policy

Remuneration Policy determination and improvement process

Changes to Remuneration Policy

2020 sees the three-year binding vote on our Remuneration Policy.

In order to determine the Remuneration Policy, the Committee considered shareholder sentiment in the UK listed company environment, specific feedback from our major shareholders, benchmark policy and implementation of policy by our peers along with cultural alignment of the Remuneration Policy with the remuneration arrangements for the rest of our employees, although they were not directly consulted. We considered whether the current Remuneration Policy's implementation fairly reflected performance and was adequately aligned with shareholder interests.

In early 2019, we reviewed our Remuneration Policy through each of these lenses as we considered the 2018 outturn and set 2019 targets. Through this review, we determined the best fit proposal whilst maintaining a strong linkage for the CEO and CFO to continue to drive performance in the interest of our shareholders and wider stakeholders. We reviewed this proposal at our July meeting. Between July and October, when we issued our first shareholder consultation letter, shareholder sentiment around the pensions provision sharpened.

We received written and verbal feedback on our proposals in December and met to consider these further. The majority of the feedback received was in regard to our lack of specificity on the harmonisation of the pension provision for executive directors with the pension arrangements for our wider workforce. In January 2020, we addressed these concerns with a second letter which both clarified our approach and accelerated the proposed timetable.

Given the direct link of executive director incentive plan design and that of our top management, we are always mindful of potential conflicts of interest when considering management's proposal for plan design and targets. When individual remuneration matters are discussed, no executive director is present and neither the CEO nor CFO were present in the Committee meetings when the harmonisation of their pension provision was discussed and agreed.

The Committee feels this robust Remuneration Policy review process results in the appropriate remuneration package for our executive directors for the next Remuneration Policy period.

The Committee proposes the following changes to the Remuneration Policy as compared to our current Remuneration Policy:

Pension allowance for executive directors

New directors are eligible for a pension allowance at the same level as the wider workforce. For incumbent executive directors, we propose to align their allowances to 15% of salary by the end of this Remuneration Policy period. This is a reduction of 10% of salary for the CEO and 5% for the CFO. A review of UK pension provision is currently taking place, and so the Committee will review pension allowances again prior to the next Remuneration Policy period.

Post-cessation shareholding requirements

Shareholding requirements will be extended post-cessation such that departing executive directors will be required to hold vested Company shares, received through incentive plans, for two years at a level equal to the lower of: the shareholding requirement immediately prior to departure; and the actual shareholding on departure.

Malus and clawback provisions

Malus and clawback triggers contained in the STIP and LTIP rules are to be updated to include additional specific circumstances in which malus and clawback could be used:

- (a) The participant leaves employment and facts emerge which, if known earlier, would have caused the award to lapse or caused the Committee to exercise discretion differently;
- (b) Any error in the assessment of a performance condition or vesting calculation that resulted in an overpayment;
- (c) The Group being the subject of a regulatory investigation or in breach of any applicable laws, rules or codes of conduct or the standards reasonably expected of it;
- (d) A material failure of risk management for any period which caused serious harm to the reputation of the Group and/or significant financial loss to the Group;
- (e) A serious breach of health and safety which caused serious harm to the reputation of the Group and/or significant financial loss to the Group;
- (f) The Committee determines that the underlying financial health of the Group has significantly deteriorated such that there are severe financial constraints on payment of awards; and
- (g) The participant, after having left employment, is found to be in breach of any restrictive covenant, non-solicitation, anti-disparagement or confidentiality undertakings.

Non-executive directors' expenses

Non-executive directors are already reimbursed for reasonable business-related expenses and, under the proposed Remuneration Policy, the Group may decide to pay any tax that is due on such expenses on behalf of the non-executive director.

Executive Directors 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 executive directors in GBP, however the Committee reserves the right to pay future and existing executive 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 Remuneration 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 executive 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 directors are eligible for a pension allowance at the same level as the wider workforce. For incumbent executive directors, we propose to align their allowances to 15% of salary by the end of this Remuneration Policy period. This is a reduction of 10% of salary for the CEO and 5% for the CFO. A review of UK pension provision is currently taking place, and so the Committee will review pension allowances again prior to the next Policy period.
Performance metrics	None.

Benefits

Function	To provide post-retirement benefits for executive directors in a cost-efficient manner.
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.
Operation	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 Remuneration 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.

DIRECTORS' REMUNERATION REPORT CONTINUED

Annual bonus (Short Term Incentive Plan – STIP)

Function	To provide non-cash benefits which are competitive in the market in which the executive director is employed.
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, 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:</p> <ul style="list-style-type: none"> (a) The participant leaves employment and facts emerge which, if known earlier, would have caused the award to lapse or caused the Committee to exercise discretion differently; (b) Any error in the assessment of a performance condition or vesting calculation that resulted in an overpayment; (c) The Group being the subject of a regulatory investigation or in breach of any applicable laws, rules or codes of conduct or the standards reasonably expected of it; (d) A material failure of risk management for any period which caused serious harm to the reputation of the Group and/or significant financial loss to the Group; (e) A serious breach of health and safety which caused serious harm to the reputation of the Group and/or significant financial loss to the Group; (f) The Committee determines that the underlying financial health of the Group has significantly deteriorated such that there are severe financial constraints on payment of awards; and (g) The participant, after having left employment, is found to be in breach of any restrictive covenant, non-solicitation, anti-disparagement or confidentiality undertakings. <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 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, both financial and strategic, relevant to the executive director's role cascaded from the Group's strategy.</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	<p>Under the LTIP, executive directors are eligible to receive annual awards over the Company's shares vesting after three years, subject to the achievement of stretching performance targets.</p> <p>Under the LTIP 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:</p> <ul style="list-style-type: none"> (a) The participant leaves employment and facts emerge which, if known earlier, would have caused the award to lapse or caused the Committee to exercise discretion differently; (b) Any error in the assessment of a performance condition or vesting calculation that resulted in an overpayment; (c) The Group being the subject of a regulatory investigation or in breach of any applicable laws, rules or codes of conduct or the standards reasonably expected of it; (d) A material failure of risk management for any period which caused serious harm to the reputation of the Group and/or significant financial loss to the Group; (e) A serious breach of health and safety which caused serious harm to the reputation of the Group and/or significant financial loss to the Group; (f) The Committee determines that the underlying financial health of the Group has significantly deteriorated such that there are severe financial constraints on payment of awards; and (g) The participant, after having left employment, is found to be in breach of any restrictive covenant, non-solicitation, anti-disparagement or confidentiality undertakings. <p>LTIP awards made to executive directors are subject to a two-year holding period after the three-year vesting period.</p>
Opportunity	<p>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).</p> <p>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.</p> <p>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.</p>
Performance metrics	<p>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 Remuneration Policy but are subject to change at the discretion of the Committee:</p> <ul style="list-style-type: none"> • 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. <p>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.</p> <p>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 conditions are not met at the end of the relevant performance period, awards will lapse.</p> <p>Vesting of the strategic objectives element will also be subject to a discretionary assessment by the Committee of the extent to which achievement is consistent with the Group's underlying financial performance over the three-year period.</p> <p>The measures and targets in operation for grants 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.</p>
Sharesave Scheme and Share Incentive Plan (SIP)	
Function	To align the interests of employees and shareholders by encouraging all employees to own the Company's shares.
Operation	<p>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.</p> <p>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.</p>
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.

DIRECTORS' REMUNERATION REPORT CONTINUED

Notes to the Policy table

The Committee is satisfied that the above Remuneration 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.

Approach to performance measure selection and target setting

Performance measures have been selected to closely align with, and reinforce, our 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 the Group and its sector comparators, historical growth achieved by the Group and its sector comparators, market practice and external expectations for growth in our markets.

STIP

The performance measures used in the STIP reflect financial targets for the year and non-financial performance objectives. The Remuneration 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 Remuneration 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 our 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 our 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 the Group'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 for the Group. 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 the Group's underlying financial performance over the performance period.

Remuneration policy for other employees

In light of the 2018 UK Corporate Governance Code (the "2018 Code") extending expectations of the Committee to review and consider "workforce remuneration and related policies and the alignment of incentives and rewards with culture", the Committee agreed the approach to executive remuneration with management in 2019.

In setting the Remuneration Policy, the Committee reviewed:

- Our Global Compensation Policy – it noted alignment between pay for performance provisions for executive directors and the wider workforce, along with an alignment of historic average pay increases;
- Our incentive plans (STIP and LTIP) – it noted alignment between the plans for the top 200 senior managers and the executive directors and that work is underway to align other short-term incentive plans lower down the organisation; and
- Alignment of reward with Culture, Values and long-term success – it noted the successful implementation of our High Performance Culture programme (which is linked to our culture strategic priority) which is embedded in performance and talent processes across the Group. The success of our High Performance Culture is enhanced by the increase in employee engagement.

A report will be provided each year to the Committee, ensuring it is updated on remuneration of the wider workforce and ensuring context as it makes remuneration decisions related to the executive directors.

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.

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'. This chart also shows the effect of future share price increases on executive pay outcomes under The Companies (Miscellaneous Reporting) Regulations 2018. Potential reward opportunities are based on the Policy, applied to 2020 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 dividend accrual.

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

Scenario	Minimum	On-target	Maximum	Maximum +50% share price increase
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	Latest known base salary, pension and value of benefits
STIP	No STIP payable	On-target STIP payable (67% of maximum)	Maximum STIP payable	Maximum STIP payable
LTIP	Threshold not achieved (0% vesting)	Performance warrants threshold vesting (30%)	Performance warrants full vesting (100%)	Performance warrants full vesting plus 50% share price appreciation

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.

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 114.</p> <p>Additional fees are paid to the Chairman of the Remuneration Committee; Chairman of the Audit Committee; Chairman of the Corporate Responsibility Committee and non-executive director responsible for employee engagement; 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. The Group may pay any tax due on these expenses on behalf of non-executive directors.</p> <p>In deciding fee increases, the Committee considers external market benchmarks as well as 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.

Non-executive director expenses

Non-executive directors are already reimbursed for reasonable business-related expenses. The Group may decide to pay any tax that is due on such expenses on behalf of the non-executive director.

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 Remuneration Policy, new appointees will be entitled to become members of the Meggitt Workplace Savings Plan (defined contribution plan) or receive a cash pension allowance at the same level as the wider workforce in lieu of salary.	N/A
Benefits/ Sharesave/SIP	New appointees will be eligible to receive benefits in line with the Remuneration Policy and any applicable UK all-employee share plans.	N/A
STIP	The structure described in the Remuneration 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 Remuneration 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 shareholders and employees. 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 the Group's existing share plans, 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 Remuneration 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 Remuneration 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 Remuneration 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 of the remuneration structure of any new executive director, including details of any exceptional payments, will be disclosed either in the RNS 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 Remuneration Policy as set out in the table on page 101.

Exercise of discretion

The Committee will operate the Group's incentive plans according to their respective rules and the Remuneration Policy set out above, and in accordance with the Listing Rules and HMRC rules, where relevant. The Group's incentive plans enable the use of discretionary override and the directors exercise independent judgement and discretion when authorising remuneration outcomes, taking account of Group and individual performance, and wider circumstances. In line with common market practice, the Committee retains discretion as to the operation and administration of these incentive plans, including routine administration matters such as the participating employees, timing of awards and the manner in which they are settled. The Committee also retains discretion over the choice of performance measures and targets in accordance with the Remuneration Policy set out above and the rules of each plan and 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.

The Committee also has discretion over 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 LTIP is governed by the rules of the plan which have been approved by shareholders and are 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 Philip Green.

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 Remuneration 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 Remuneration Policy. No change of control provisions.

DIRECTORS' REMUNERATION REPORT CONTINUED

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 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 associated fees received are included in the annual report on remuneration on page 114.

With the exception of Guy Hachey, 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. Mr Hachey holds a directorship with Hexcel Corporation which has announced a possible merger with Woodward, Inc., a competitor of the Group.

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 consulted with shareholders, reviewed their guidelines and also guidelines released by other shareholder representative bodies, as part of the process of reviewing the Remuneration Policy which is being put to shareholders for approval at the 2020 AGM.

Specifically, we consulted with all major shareholders in writing. In October 2019, our first proposal for policy adjustments was issued to shareholders. We received verbal and written feedback on these proposals and met to consider these further. The majority of the feedback received was in regard to our lack of specificity on the harmonisation of the pension provision for executive directors with the pension arrangements for the wider workforce. In January 2020, we addressed these concerns with a second letter which both clarified our approach and accelerated the proposed timetable.

Link to strategy and long-term sustainable success

The Group's remuneration arrangements are designed to support strategy and promote long-term sustainable success and are also aligned to the Group's purpose and values and clearly linked to successful delivery of long-term strategy. This approach is evident in our proposed Remuneration Policy which links through metrics to our strategy and through personal performance to our High Performance Culture.

Annual report on remuneration

The following report provides details of how our existing Remuneration Policy was implemented during the year ended 31 December 2019.

Remuneration Committee – 2019 membership and attendance

Ms A J P Goligher (Chairman)



Mr G S Berruyer



Mr C R Day



Mrs N L Gioia¹



Mr G C Hachey



Mr P Heiden



Mrs C L Silver



Meetings attended Non attendance Not required

¹ Absence due to a pre-existing Board meeting for another company that was in the diary when appointed to Meggitt

The Committee also met on 19 February 2020.

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 CEO, and for agreeing the fees for the Chairman. The Chairman, CEO, CFO and Group HR Director attended meetings of the Committee by invitation; they were absent when their own remuneration was under consideration.

2019 externally facilitated evaluation

The Committee effectiveness review was externally facilitated by Clare Chalmers Limited. Overall, the Committee was considered to be effective, with the consensus being that decision-making about directors' pay was pragmatic, transparent and fair. The Committee Chairman was new in the role, and was viewed as open, well-organised and strategic, and the review of the Remuneration Policy had been carried out effectively, albeit with some difficult issues to tackle. There were no major issues or concerns noted for the Committee. The remuneration advisors were fully assessed as part of the tender process earlier in the year and so there was no formal review of the advisors during the externally facilitated evaluation.

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. During the year, the Committee confirmed it was satisfied with the independence of Mercer.

Given that Mercer has advised the Committee for nine years, a tender of the remuneration advisory services was conducted in the second half of 2019. A request for proposals was issued to six firms at the end of July, inviting them to submit proposals by the end of August. Shortlisted firms presented to key stakeholders including the Chairman of the Committee, the Company Secretary, Group HR Director and Group Head of Reward in October. Each firm was evaluated using the tender criteria and the Committee agreed that Mercer continued to provide the most appropriate service. The decision to reappoint Mercer was based on a number of factors including: their understanding of the business and industry, their ability to leverage the skills and experience of the wider Mercer firm, their highly regarded and trusted team, an assessment of their independence from the Group, their client base and their proposed fees.

Mercer have no direct individual relationships with any of our directors. Mercer's fees are determined on an hourly rate basis, and monitored against an agreed scope of work and fee estimate during the year.

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, Inc., 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 2019 for remuneration advice to the Committee were £72,608 (2018: £55,260). The increased fees were as a result of their additional work advising on the Remuneration Policy review.

AGM voting

The following table shows the results of the advisory vote on the 2018 Directors' remuneration report at the 2019 AGM:

Resolution text	Votes for	% of votes cast for	Votes against	% of votes cast against	Total votes cast	Votes withheld (abstentions)
Approval of Directors' remuneration report	566,152,657	93.25	40,976,841	6.75	607,129,498	8,047,728

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 (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 2019 and the prior year:

	Mr A Wood		Mrs L S Burdett/Mr D R Webb ¹		Mr P E Green	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Salary	660	650	420	474	390	382
Taxable benefits ²	14	14	14	14	14	14
Pension	165	163	84	118	195	191
Total fixed	839	827	518	606	599	587
Annual bonus ³	507	600	321	570	412	345
Deferred bonus ³	169	200	107	–	–	115
LTIP ⁴	975	707	–	688	798	554
Other ⁵	–	–	–	–	6	4
Total variable	1,651	1,507	428	1,258	1,216	1,018
Total remuneration	2,490	2,334	946	1,864	1,815	1,605

1 Figures for 2019 are for Mrs Burdett, who joined the Board on 1 January 2019. Figures for 2018 are for Mr Webb, who retired from the Board on 31 December 2018.

2 Taxable benefits consist primarily of company car or car allowance, fuel allowance and private health care insurance. Since 2016, it also included limited relocation expenses for Mr Wood payable under his service contract. This agreement has been extended to 31 March 2020 to align with the move to Ansty Park.

3 STIP paid for performance over the relevant financial year. 25% of the payout was deferred into shares, except for Mr Green who retired from the Board on 31 December 2019. Further details of the 2019 STIP, including performance measures, actual performance and bonus payouts, can be found on pages 106 to 107.

4 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 2019, the figure represents the actual vesting outcome of the 2017 award. Based on performance to 31 December 2019, the 2017 LTIP award will vest at 62.4%. The market value of vested shares has been estimated using the average share price over the last quarter of 2019 of 632.32p. This value will be trueed up in next year's report to reflect the share price on the vesting date. For 2018, the figure represents the actual vesting of the 2016 award which has been trueed up, compared to that reported last year, to reflect the share price on the date of vesting (628.40p for Mr Wood and 526.80p for Mr Green). For 2019, the figure includes the accrued distribution payable on the shares that vested (equivalent to a dividend and paid as income). For 2018, the figure includes the actual distribution paid on for shares that vested in 2018. Further details on performance criteria, achievement and resulting vesting levels can be found on page 108.

5 Represents the value of distributions paid on deferred bonus awards that vested in the year.

DIRECTORS' REMUNERATION REPORT CONTINUED

Executive Director, Commercial & Corporate Affairs retirement

Philip Green stepped down from the Board on 31 December 2019 and will retire on 31 March 2020. Mr Green confirmed his intention to retire on 6 August 2019 after 26 years of service. The Committee confirmed that Mr Green would be granted the normal rights for retirees under the Group's share plans from 31 March 2020, and so all awards vest at the appropriate time, subject to the normal pro-rating and other plan rules. 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:

	2019 £'000	2018 £'000
Sir Nigel Rudd	362	355
Mr G S Berruyer	68	58
Mr C R Day	71	69
Mrs N L Gioia ¹	84	82
Ms A J P Goligher	68	58
Mr G Hachey ^{1,2}	88	-
Mr P Heiden ²	27	80
Mrs C L Silver ²	41	-

¹ Includes fees to cover the cost of attendance at meetings that took place outside continent of residence

² Mr Hachey was appointed to the Board on 1 January 2019, Mr Heiden retired on 25 April 2019 and Mrs Silver was appointed to the Board on 25 April 2019.

Incentive outcomes for the year ended 31 December 2019 (audited)

STIP in respect of 2019 performance

The Board set stretching financial and strategic targets for the STIP at the start of the 2019 financial year. These targets, and the performance against these, are summarised in the table below.

Executive directors

Measure	Weighting (as a percentage of target)	Threshold for 2019	Target for 2019	Stretch for 2019	Actual ¹	Percentage of maximum opportunity
Financial Underlying operating profit	33.3%	£402.8m	£428.5m	£454.2m	£406.2m	37.8%
Free cash flow	33.3%	£251.2m	£279.1m	£307.0m	£298.2m	89.8%
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, excludes 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 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

Objectives

Financial goals

- Successfully implement new customer aligned organisation and operating model, targeting revenue growth ahead of budget.
- Further reduction in purchasing costs.

Strategic goals

- Accelerate improvements in performance for customers focusing on OTD and customer scorecards.
- Accelerate improvements in the Group's operating performance focusing on inventory turns, quality and MPS maturity.
- Implement global footprint consolidation strategy to plan, without disruption to customers.
- Improve inclusiveness and engagement to show demonstrable improvement in employee satisfaction and Health & Safety.

Performance against objectives

Financial goals

- Strong revenue growth: 8% organic growth compared to 2018.
- Target for reduction in purchasing costs exceeded.

Strategic goals

- Group OTD improved over the year, but closed under the target.
- Inventory turns were in line with 2018, largely constrained by our decision to reduce risk for customers related to Brexit and the Ansty Park site move.
- MPS maturity schedule was on target.
- Group footprint down to 42 sites, a 25% reduction compared to the 2016 baseline, exceeding our external commitment to reduce our footprint by 20% by 2021.
- Significant improvement in measured Employee Engagement Index through all employee survey in October 2019, increasing in all categories and notably up 4% overall following targeted improvement efforts across the year.

Payout (% of maximum): 77%

Louisa Burdett
Chief Financial Officer
Objectives
Financial goals

- Successfully implement new customer aligned organisation and operating model, targeting revenue growth ahead of budget.
- Further reduction in purchasing costs.
- Accelerate improvements in the Group's operating performance including improvements in cash flow.

Strategic goals

- Develop visible and valued business partnerships with leaders in the Group, Board and investors.
- Manage the move of HQ finance to Ansty Park whilst maintaining external statutory reporting and related obligations.
- Improve employee engagement.
- Identify a pipeline of talent in finance and MIS.

Performance against objectives
Financial goals

- Strong revenue growth: 8% organic growth compared to 2018.
- Target for reduction in purchasing costs exceeded.
- Exceeded cash flow targets.

Strategic goals

- Positive feedback from investors and the Board. A seamless transition from previous CFO.
- Transition plan in place and on track for the transfer of the HQ finance function to Ansty Park in 2020.
- Significant improvement in measured Employee Engagement Index through all employee survey in October 2019, increasing in all categories and notably up 4% overall following targeted improvement efforts across the year.

Payout (% of maximum): 77%
Philip Green
Executive Director, Commercial & Corporate Affairs
Objectives
Strategic goals

- Improve customer relationships.
- Continue to develop a professional commercial function.
- Build an engaged and inclusive function.
- Develop and enhance appropriate governance to support our business.
- Develop and implement a strategy for UK government relations.

Performance against objectives
Strategic goals

- Good progress on Group level terms advancement and negotiations with many major customers enabling a simpler contracting template for the future.
- Strong progress on the advancement of capabilities and professionalism across the commercial function.
- Significant improvement in employee engagement, alignment and agility scores year over year.
- Strong progress across the various compliance and governance improvement targets for 2019.
- Strategy developed, refined and agreed with the Executive Committee. Continued strong progress and engagement in the USA across a wide range of political stakeholders.

Payout (% of maximum): 83%

The following STIP awards were received by executive directors in respect of 2019 performance:

Executive	% salary	£'000
Mr A Wood	102.4	676
Mrs L S Burdett	101.9	428
Mr P E Green	105.6	412

STIP – deferral into shares

As a result of the 2019 STIP vesting outcome described above, and in line with the Remuneration Policy, 25% of the payout will be deferred into shares and released (with no further performance conditions attached) after two years. Deferred STIP awards may lapse in certain leaver circumstances. Mr Green's 2019 STIP will be paid entirely in cash due to his retirement.

In 2019, as a result of the 2018 STIP vesting, the following share awards were made under the Share Incentive and Retention 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	08.04.2019	38,155	523.84p	200	25	08.04.2021
Mrs L S Burdett	Award	08.04.2019	5,913	523.84p	31	25	08.04.2021
Mr P E Green	Award	08.04.2019	21,930	523.84p	115	25	08.04.2021

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

DIRECTORS' REMUNERATION REPORT CONTINUED

LTIP 2017 outcome

The LTIP award granted in April 2017 was subject to performance measures comprising 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. 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)
	2017	2018	2019		Threshold	Mid-point	Stretch		
Underlying EPS (pence) three-year aggregate				33.33%	113.0p	118.7p	124.3p	116.2	16.60%
ROTA % average over three years				33.33%	17.70%	18.70%	19.70%	19.30%	28.20%
Strategic measures¹									
Organic revenue growth				5.56%	4.00%	5.50%	7.00%	6.30%	4.60%
Programme management ²				5.56%	2	3	4	2017: 2.3 2018: 2.5	1.60%
Gross margin ³				5.56%	38.70%	39.50%	40.30%	2017: 38.8% 2018: 37.2%	0.60%
Inventory				5.56%	510.8	493.1	451.3	2017: 490.3 2018: 473.1	1.20%
MPS gate exits ⁴				5.56%	2	3	4		1.90%
Innovation ⁵				5.56%	2	3	4	2017: 3.9 2018: 4.0	3.60%
Programme excellence ⁶				9.26%	2	3	4		2.10%
MPS (Quality and Delivery) ⁶				9.26%	40%	50%	60%		2.00%
Inventory Turns				9.26%	3.0	3.2	3.4		0.00%
Overall outcome									62.40%

- 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.
- 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.
- 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.
- Vesting is determined based on progress with certain important innovation projects against detailed milestone criteria, as assessed by our Chief Technology Officer.
- Programme excellence is the combined score of programmes and AR&T programmes (previously "Innovation" weighted 50/50).
- MPS (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 and reviewed by internal audit.

Based on these performance outcomes, 62.4% of the 2017 LTIP award will vest. Details of the awards vesting for executive directors are set out in the table below:

Executive ¹	Interests held	Vesting %	Interests vesting	Date of vesting	Share price at vesting ²	Value £'000 ³
Mr A Wood	228,907	62.4	142,837	07.04.2020	632.32p	975
Mr P E Green	187,355	62.4	116,909	07.04.2020	632.32p	798

- The market value of vested stock is based on the average share price over the last quarter of 2019.
- The value includes the accrued distribution payable on the shares that vest (equivalent to a dividend, paid as income).
- Mrs Burdett was appointed on 1 January 2019 and did not receive a 2017 LTIP award.
- The value of vested shares has increased by £272,000 for Mr Wood and £222,000 for Mr Green since the award date as a result of share price appreciation. The value on the award date has been calculated using the award price of 442.10p, being the average close price for the five days prior to the award date.

Awards made in 2019 – STIP and LTIP measures and their rationale for selection

Measure	Rationale for selection	Targets set in the context of:
STIP		
Underlying operating profit		• Our budget for the year
Free cash flow		• Our budget for the year
Personal performance	Measures relate to our short term financial and strategic priorities Financial measures Strategic measures	• Key financial and strategic 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	Replaced ROTA for executive directors for awards made in 2018 and subsequent years and for all participants for awards made from 2020, in response to investor feedback and to better reflect the value that acquisitions bring to the Group	• Our strategic plan
Strategic measures:	Drivers of operational performance that underpin deployment of our key strategic goals	
• 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
• Inventory	Reinforces operational excellence and the Group's overall competitiveness	• 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 • Our budget for the year

Scheme interests awarded in the year ended 31 December 2019 (audited)
2019 LTIP¹

Executive	Form of award	Date of award	Shares over which awards granted	Award price ²	Face value		Date of vesting
					£'000	% of salary	
Mr A Wood	Nil cost option	08.04.2019	278,443	523.84p	1,459	220	08.04.2022
Mrs L S Burdett	Nil cost option	08.04.2019	176,389	523.84p	924	220	08.04.2022
Mr P E Green	Nil cost option	08.04.2019	164,496	523.84p	862	220	08.04.2022

¹ The 2019 LTIP measures were disclosed in the 2018 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 ending 31 December 2021 based on the following performance measures:

Weighting	Measure		Threshold	Mid-point	Stretch	
33.3%	Underlying EPS (pence) three-year aggregate		112.8	125.4	137.9	
33.3%	ROCE average over three years		11.0%	11.5%	12.0%	
33.3%	Strategic measures average over three years	MPS	Site targets on Quality and Delivery	40%	50%	60%
		Inventory	Inventory turns	3.0	3.3	3.6
		Programme excellence	Average status of programmes and AR&T programmes	2.0	3.0	4.0

DIRECTORS' REMUNERATION REPORT CONTINUED

Total pension entitlements (audited)

Mr Wood and Mrs Burdett received pensions allowances of 25% and 20% respectively. The pension allowance payments made in 2019 are included in the single total figure of remuneration table.

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

	Mr P E Green ¹	
	2019 £'000	2018 £'000
Accrued benefit	81	80
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; our senior executives receive benefits under the same STIP and LTIP structure as our CEO, although award levels differ.

	2019 £'000	2018 £'000	CEO % change 2018-2019	Executive employees % change 2018-2019
Base salary ¹	660	650	+1.5	+4.0
Taxable benefits ²	14	14	-	+5.6
STIP ³	676	800	-15.5	-14.8
Total	1,350	1,464	-7.8	-1.6

¹ Base salary for Mr Wood as Chief Executive is disclosed on page 105. Base salary data for executive employees is calculated using the increase in the earnings of around 240 full-time executive employees, using the same employee data set in 2018 and 2019.

² This information is not collected for the executive employee population and is therefore derived from executive employees in the UK, 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 2018 and 2019.

CEO Pay ratio

The lower quartile, median and upper quartile employees were determined using calculation method A, which involved calculating the actual full-time equivalent remuneration for all UK employees for the year ending 31 December 2019. Where variable pay data was available for the FY2019 outturn (to be paid in March 2020 in respect of executive and senior management annual bonus and LTIP), actual amounts were used. Where the outturn of variable pay for FY2019 was unknown at the date of calculation (for managerial, professional and direct workforce), the amount paid in FY2019 was used.

From this analysis, three employees were then identified as representing the 25th, 50th and 75th percentile of the UK employee population. The Group chose this method as it is the preferred approach of the Government and that of institutional shareholders, and the Group has the systems in place to undertake this method.

The Committee considered the pay data for the three employees identified and believes that it fairly reflects pay at the relevant quartiles amongst our UK workforce. The three individuals identified were full-time employees during the year and did not receive any exceptional incentive award which would otherwise inflate their pay figures. No adjustments or assumptions were made by the Committee, with the total remuneration of these employees calculated in accordance with the methodology used to calculate the single figure of the CEO.

As this is the first year of reporting the CEO pay ratio using the above methodology, there is no comparative data available for the pay ratios below. The Committee will consider the median pay ratio in the context of the ratio reported in future years as well as the figures produced by sector comparators and across the FTSE more generally.

The pay ratio was determined on 14 February 2020.

The CEO pay ratio is based on comparing the CEO's pay to that of the Group's UK-based workforce, a large proportion of whom are production workers. The Committee expects that the ratios will be largely driven by the CEO's incentive pay outcomes, which will likely lead to greater variability in his pay than that observed at lower levels who, consistent with market practices, have a greater proportion of their pay linked to fixed components. The Committee takes into account these ratios when making decisions around the executive director pay packages, and the Group takes seriously the need to ensure competitive pay packages across the organisation.

(£)	Method	Lower quartile (25th percentile)		Median		Upper quartile (75th percentile)	
		Total Pay & Benefits	Total Salary	Total Pay & Benefits	Total Salary	Total Pay & Benefits	Total Salary
2019	A	32,879	27,986	42,861	41,317	58,479	52,776

(£)	Method	Pay Ratio 25th Percentile	Pay Ratio 50th Percentile	Pay Ratio 75th Percentile
2019	A	76:1	58:1	43:1

Relative importance of spend on pay

The chart below shows shareholder distributions (i.e. dividends) and total employee expenditure for 2019 and the prior year, along with the percentage change in both.

1 See note 15 to the Group's consolidated financial statements

2 Comprises wages and salaries and retirement benefit costs. See note 8 to the Group's consolidated financial statements

Exit payments made in the year (audited)

No exit payments have been made in 2019.

Payments to past directors (audited)

There were no payments to past directors in 2019. 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.

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 2010 to 31 December 2019:

DIRECTORS' REMUNERATION REPORT CONTINUED

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

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Mr A Wood¹										
Single total figure of remuneration (£'000)									2,334	2,490
STIP outcome ²									82%	68%
LTIP vesting ²									52.1%	62.4%
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)	2,947	4,252	3,812	1,845						
STIP outcome ²	86%	100%	80%	35%						
EPP vesting ²	50%	69%	88%	56%						
ESOS vesting ²	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 2019, this represents the outcome of the 2017 LTIP and the 2019 STIP. Outcomes are expressed as a percentage of maximum.

Implementation of Remuneration Policy for 2020

The changes proposed to the Remuneration Policy described on page 96 will be implemented.

Base salary, pension and benefits

Base salaries were reviewed in early 2020. The base salaries for executive directors will be increased by 3% from 1 April 2020. 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 2019.

	2020 £'000	% change	2019 £'000
Mr A Wood	683	+3%	663
Mrs L S Burdett	433	+3%	420

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.

From 1 January 2020, the Committee agreed a reduced pensions allowance for the CEO to 21.5%, as part of a three year reduction to 15% of salary by 2022. The pension allowance for the CFO remains at 20% in 2020, but will also reduce to 15% by 2022. A review of UK pension provision is currently taking place and so the Committee will review pension allowances again prior to the next Remuneration Policy period.

There are no other changes to benefit provisions for 2020.

UK Corporate Governance Code

The Committee met in December 2018 and reviewed the changes introduced by the 2018 Code and The Companies (Miscellaneous Reporting) Regulations 2018, both of which became effective for the 2019 financial year. Throughout the financial year ended 31 December 2019 and to the date of this Annual Report, we have complied with the 2018 Code and all applicable regulations.

2020 Incentive Plan Measures

STIP measures for 2020 are unchanged from 2019, as follows:

2019 STIP measures

• Underlying operating profit	33.3%
• Free cash flow	33.3%
• Strategic and financial personal objectives	33.3%

The STIP targets for 2020, together with details of whether they have been met, will be disclosed (subject to commercial sensitivity) in the 2020 Directors' remuneration report. STIP award opportunities will be in line with the Policy disclosed on page 98.

2020 LTIP measures

The LTIP measures for 2020 are 33% earnings per share, 33% ROCE and 33% based on three strategic measures, which are MPS, inventory and programme excellence:

- MPS: site specific Quality and Delivery targets measure two of the key outputs of MPS.
- Programme excellence: this measure scores the health of all of the Group's programmes and is weighted 50% on AR&T programmes and 50% on programme management.
- Inventory: based on inventory turns.

Plan element	Targets			
	Weight	Threshold	Target	Stretch
Financial measures				
EPS (3 year average)	33.33%	112.8	125.4	137.9
ROCE (3 year average)	33.33%	11.0%	11.5%	12.0%
Strategic measures*				
MPS	11.11%	40%	50%	60%
Inventory	11.11%	3.0	3.3	3.6
Programme excellence	11.11%	2.0	3.0	4.0
Total	100%			

*The targets apply to year 1 of the 2020 award, they also apply to year 2 of the 2019 LTIP and year 3 of the 2018 LTIP

DIRECTORS' REMUNERATION REPORT CONTINUED

Chairman and non-executive director fees and benefits

The remuneration of the Chairman and non-executive directors in 2020 will be as follows:

	2020' £'000	2019' £'000
Chairman fee ²	375	364
Non-executive director base fee ³	65	60
Additional fee for chairing Audit or Remuneration Committee	16	11
Additional fee for chairing Corporate Responsibility Committee and Non-Executive Director responsible for Employee Engagement	16	–
Additional fee for Senior Independent Director	14	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 non-UK directors when travelling to meetings outside of their home continent.

After receiving 2% increases, lower than the wider workforce, for a number of years, our fees are below the median levels of our industry peers and companies of a similar size. To ensure we continue to appropriately remunerate our non-executives, and to ensure the ability to recruit top talent in this area, we have chosen to increase fee levels in 2020 to be more in line with median levels.

Share ownership guidelines (audited)

The minimum shareholding guideline for executive directors is 300% of base salary for the CEO and 200% of base salary for the CFO. 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. When a director leaves the Group during the 2020 Remuneration Policy period, the post-cessation shareholding guidelines will apply should the Remuneration Policy be approved at the AGM. Further information on how the executive directors currently meet the shareholding guideline is in the annual report on remuneration on page 115.

As at 31 December 2019, the CEO's shareholding was 105% of base salary and the CFO's shareholding was 5% of base salary.

Directors' beneficial interests (audited)

The beneficial interests of the directors and their connected persons in the ordinary shares of the Group at 31 December 2019, 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	
	2019	2018
Sir Nigel Rudd	150,000	133,850
Mr A Wood	12,056	11,308
Mr G S Berruyer	13,000	13,000
Mrs L S Burdett	–	–
Mr C R Day	76,937	74,742
Mrs N L Gioia	3,188	3,090
Ms A J P Goligher	3,000	3,000
Mr P E Green	635,628	633,496
Mr G Hachey	3,000	–
Mr P Heiden	6,675	6,675
Mrs C L Silver	–	–

Between 1 January 2020 and 24 February 2020, the only changes to the beneficial interests of the directors in the ordinary shares of the Company are that Mr Wood acquired 44 shares through the Meggitt PLC Share Incentive Plan.

External appointments held by executive directors as at 31 December 2019

Executive director	Company	Role	Fees retained 2019 £'000
Mrs L S Burdett	Electrocomponents plc	Non-executive director	59
		Chairman of Audit Committee	10
		Total	69

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.

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 2019). The awards made up to and including 2016 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 2017 and later years were unvested as at 31 December 2019. Sharesave awards are not subject to performance conditions

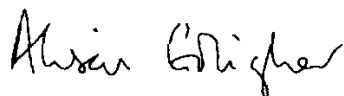
	Date of award	Number of shares under award			Exercise price	Market price at date of exercise	Date exercisable from	Expiry date
		At 1 January 2019	Awarded/ (exercised/ lapsed)	At 31 December 2019				
Mr A Wood								
LTIP (nil cost options)	01.12.16	215,944	[103,438]	112,506	–	–	01.12.19	01.12.21
	07.04.17	228,907	–	228,907	–	–	07.04.20	06.04.22
	03.04.18	332,852	–	332,852	–	–	03.04.21	03.04.23
	08.04.19	–	278,443	278,443	–	–	08.04.22	08.04.24
Share Incentive and Retention Plan (awards)	27.03.18	26,884	–	26,884	–	–	27.03.20	27.03.20
	08.04.19	–	38,155	38,155	–	–	08.04.21	08.04.21
Sharesave (options)	13.09.18	847	–	847	425.02p	–	01.11.21	01.05.22
	17.09.19	–	1,826	1,826	492.80p	–	01.11.24	01.05.25
Total		805,434	214,986	1,020,420				

	Date of award	Number of shares under award			Exercise price	Market price at date of exercise	Date exercisable from	Expiry date
		At 1 January 2019	Awarded/ (exercised/ lapsed)	At 31 December 2019				
Mrs L S Burdett								
LTIP (nil cost options)	08.04.19	–	176,389	176,389	–	–	08.04.22	08.04.24
Share Incentive and Retention (awards)	08.04.19	–	5,913	5,913	–	–	08.04.21	08.04.21
Sharesave (options)	17.09.19	–	1,826	1,826	492.80p	–	01.11.22	01.05.23
Total		–	184,128	184,128				

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 2019	Awarded/ (exercised/ lapsed)	At 31 December 2019				
Mr P E Green								
ESOS 2005, Part A (options)	30.04.09	12,832	[12,832]	-	169.50p	524.46p	30.04.12	30.04.19
ESOS 2005, Part B (stock SARs)	30.04.09	214,306	[214,306]	-	169.50p	524.46p	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]	-	-	523.00p	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]	-	-	523.00p	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]	-	-	524.46p	22.05.17	22.05.19
	01.04.15	26,862	-	26,862	-	-	01.04.18	01.04.20
	05.04.16	202,020	[96,768]	105,252	-	-	05.04.19	05.04.21
	07.04.17	187,355	-	187,355	-	-	07.04.20	07.04.22
	03.04.18	196,638	-	196,638	-	-	03.04.21	03.04.23
	08.04.19	-	164,496	164,496	-	-	08.04.22	08.04.24
Share Incentive and Retention Plan (awards)	07.04.17	19,989	[19,989]	-	-	524.46p	07.04.19	07.04.19
	27.03.18	22,739	-	22,739	-	-	27.03.20	27.03.20
	08.04.19	-	21,930	21,930	-	-	08.04.21	08.04.21
Sharesave (options)	12.09.14	1,619	[1,619]	-	374.19p	637.80p	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		1,510,497	[324,421]	1,186,076				

By order of the Board



Alison Goligher
Chairman, Remuneration Committee
24 February 2020

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 2019.

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 63 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)
Employee information Employee engagement Employment of disabled persons	Corporate responsibility report (pages 58 to 73)
Engagement with suppliers, customers and others in a business relationship with the Company	Corporate responsibility report (pages 60 to 62 and page 64)
Greenhouse gas emissions	Corporate responsibility report (pages 67)
The Corporate governance report	Board of directors and Corporate governance report (pages 74 to 85)
Details of long term incentive plans	Directors' remuneration report (pages 92 to 116)
Research and development	Note 7 to the Group's consolidated financial statements (page 149) and Chief Financial Officer's review (pages 54)
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 18 to the Group's consolidated financial statements (page 158)
Overseas branches	Note 44 to the Group's consolidated financial statements (page 185)

Dividends

The directors recommend the payment of a final dividend of 11.95p per ordinary 5p share (2018: 11.35p), to be paid on 1 May 2020 to those members on the register at close of business on 20 March 2020. An interim dividend of 5.55p (2018: 5.30p) was paid on 4 October 2019. If the final dividend as recommended is approved, the total ordinary dividend for the year will amount to 17.50p per ordinary 5p share (2018: 16.65p).

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 2019, the Company made the DRIP available to shareholders for the dividends paid in May 2019 and October 2019. The Board currently intends to continue to make the DRIP available to shareholders in 2020 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, announced his intention to retire and will not seek re-election at the 2021 AGM), Mr A Wood, Mr G S Berruyer (appointed Senior Independent Director with effect from 25 April 2019), Mrs L S Burdett (appointed with effect from 1 January 2019), Mr C R Day, Mrs N L Gioia, Ms A J P Goligher, Mr P E Green (retired on 31 December 2019), Mr G C Hachey (appointed with effect from 1 January 2019), Mr P Heiden (former Senior Independent Director, retired on 25 April 2019) and Mrs C L Silver (appointed with effect from 25 April 2019).

Except for Mr Green and Mr Heiden, all of the directors listed above will be submitted for election or re-election at the Annual General Meeting (AGM).

Details of any unexpired terms of the directors' service contracts are in the Directors' remuneration report. Membership of committees and biographical information is disclosed on pages 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.

DIRECTORS' REPORT CONTINUED

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 (2018: None).

Share capital and control

As at 31 December 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 in treasury) consisted of 777,536,948 shares with a nominal value of 5p each. As at 9 February 2020, the Company held 9,859 treasury shares with a nominal value of 5p each and the Company's issued share capital (excluding shares held in treasury) consisted of 777,563,130 shares with a nominal value of 5p each. The issued share capital of the Company at 31 December 2019 and details of shares issued during the financial year are shown in note 36 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 2019 AGM, the Company was granted authority by shareholders to purchase up to 77,688,269 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 2019. 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 £12,948,045 and to allot securities, without the application of pre-emption rights, up to a nominal amount of £1,942,207 and a further £1,942,207 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 2020 AGM or, if earlier, 30 June 2020. The Company will seek shareholder approval to renew these authorities at the 2020 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 USD400m note purchase agreement dated June 2010, a USD750m syndicated revolving credit agreement dated September 2014, a USD600m note purchase agreement dated May 2016 and three new term loan facility agreements in the amounts of GBP45m, GBP100m and USD125m and all dated December 2019.

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.
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 9 February 2020, 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.	–	93.7	–	93.7	12.05%
BlackRock, Inc.	–	41.9	6.9	48.8	6.29%
FMR LLC (FIL Limited)	–	43.2	0.4	43.6	5.60%
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	3.33%
York Capital Management Global Advisors, LLC	–	–	24.3	24.3	3.12%
Legal & General Group plc	23.7	–	–	23.7	3.05%
Norges Bank	23.3	–	–	23.3	3.00%

* 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 in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and 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 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 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 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.

Directors' confirmations

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's position and performance, business model and strategy. Each of the directors, whose names and functions are listed in the Board of directors confirm that, to the best of their knowledge:

- 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;
- 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; and
- the Strategic report and this Directors' Report includes 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.

DIRECTORS' REPORT CONTINUED

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 30 (Bank and other borrowings) and note 32 (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 49, the likelihood of them arising and the mitigating actions available.

By order of the Board



M L Thomas
Company Secretary
24 February 2020

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MEGGITT PLC

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 2019 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 & Accounts 2019 (the "Annual Report"), which comprise: the Consolidated and Company balance sheets as at 31 December 2019; the Consolidated income statement, the 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 note 6 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 January 2019 to 31 December 2019.

Our audit approach Overview

- Overall Group materiality: £17.0 million (2018: £16.0 million), based on 5% of underlying profit before tax.
- Overall Company materiality: £34.0 million (2018: £34.0 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 4 reporting units to address specific risk characteristics and provide sufficient overall Group coverage of particular revenue streams and/or working capital balances.
- We used component teams in 4 countries to perform a combination of full scope audits and specified procedures at 15 reporting units.
- The Group team performed procedures over several different financial statement line items, including complex areas prepared by the head office finance function, to provide sufficient overall Group coverage.
- The consolidation and financial statement disclosures were audited by the group engagement team.
- Reporting units where we performed audit procedures accounted for 62 % of Group profit before tax; 60% of Group underlying profit before tax; and 76% 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 impairment assessments (Group).
- Environmental provisions (Group).
- Provisions for uncertain tax positions (Group).
- Retirement benefit obligation liabilities (Group and Company).

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MEGGITT PLC
continued

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 and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of increasingly complex trade compliance, bribery and corruption, US Government contracting, ethics, intellectual property, data protection, competition/antitrust laws and facilitation of tax evasion (see page 49 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 preparation of the financial statements such as the Companies Act 2006, the Listing Rules, pensions legislation, tax legislation and environmental laws and regulations. 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, omitting, advancing or delaying recognition of events and transactions that have occurred during the reporting period and management bias in accounting estimates or judgments to manipulate results. The Group engagement team shared this risk assessment with the component auditors 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:

- Holding discussions with Meggitt PLC's Group management, Head of Internal Audit, 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;
- Review of Board meeting minutes;
- Challenging assumptions and judgements made by management in their significant accounting estimates and judgments, particularly in relation to the key audit matters below;
- Identifying and testing journal entries based on our risk assessment and evaluating whether there was evidence of management bias that represents a risk of material misstatement due to fraud; and
- Incorporating 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)</p> <p>The Group holds significant amounts of goodwill (£1,966.6m) on the balance sheet which is supported by an annual impairment review.</p> <p>No impairment charge has been recorded against goodwill in the current year.</p> <p>A new divisional structure was implemented on 1 January 2019 which resulted in additional considerations for the impairment assessment. These include:</p> <ul style="list-style-type: none"> Identifying the level at which impairment testing is to be performed; and Allocating goodwill and other non-current, non-financial assets ('assets') to each cash generating unit ('CGU') or group of CGUs under the new structure. <p>Where a CGU under the old divisional structure does not migrate fully into a CGU or group of CGUs in the new structure, management have allocated assets using their relative value in use derived from the 2019 five-year strategic plan approved by management (the 'five-year plan'). Both the impairment assessment as at 30 June 2019 and the allocation of assets include the following estimates:</p> <ul style="list-style-type: none"> The forecast cash flows in the five-year plan; The growth rate applied to extrapolate forecasts beyond the plan; and The discount rate applied to future cash flows. <p>Our audit focused on the allocation of assets and the risk that the carrying value of goodwill could be overstated.</p> <p>Refer also to note 4 and 17 to the consolidated financial statements (page 144 and pages 156 to 157).</p>	<p>Management identified the level at which testing to be performed was at an operating segment level, except for the CGUs within Energy & Equipment ('E&E'), which principally operate independently of one another. The key judgment in 2019 is the split of the advanced composites businesses, which were previously considered a separate group of CGUs for the purposes of impairment testing, into two operating segments. We have confirmed the following principal factors applied by management in reaching this judgment:</p> <ul style="list-style-type: none"> The acquired businesses are now managed operationally within two operating segments; Product lines acquired as part of the acquisitions have been transferred to other business units within the Group; and Consolidated management information for the advanced composites businesses is no longer regularly reviewed by management. <p>In assessing these factors, we have not identified management bias which would prevent a goodwill impairment being recorded.</p> <p>In addition, we have compared management's allocation of assets to a CGU or group of CGUs based on relative value in use with an allocation based on underlying profitability. We have not identified any indication of management bias.</p> <p>We have performed the following procedures over the value in use model which supports both the allocation of assets and the impairment assessment:</p> <ul style="list-style-type: none"> Evaluated management's future cash flow forecasts by: <ul style="list-style-type: none"> Testing the mathematical integrity of the model; Comparing the forecasts used in the prior year to the actual performance of the Group in the current year to assess the historical accuracy of forecasting; and Comparing the latest board approved budget to the 2020 forecast used in the five-year plan. <p>We do not have any reportable findings in regard to management's future cash flow forecasts.</p> <ul style="list-style-type: none"> Compared the long-term growth rate used for each territory to long term inflation projections for the countries in which the CGUs operate. We did not identify any differences. Tested the discount rates used in management's impairment assessment by comparing key inputs, where relevant, to externally derived data or data for comparable listed organisations. Our specialists reviewed the discount rates and management's estimates were within our expected range. <p>We have calculated a value in use independent to management's calculation. This was designed to identify those CGUs or groups of CGUs which have key estimates in relation to the assumptions used in management's cashflow forecasts and required additional audit procedures. Our value in use is calculated by growing 2019 underlying profits into perpetuity using the weighted average market growth rate. The weighted average market growth rates were derived as follows:</p> <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 long term inflation projections, based on our published economic projections.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MEGGITT PLC
continued

Key audit matter	How our audit addressed the key audit matter
<p>Goodwill impairment assessments (Group) continued</p>	<p>Each CGU or group of CGUs had significant headroom based on our value in use.</p> <p>We have performed a sensitivity analysis on our independent value in use calculation by applying the top end of the discount rate which did not result in any impairment of the CGUs or groups of CGUs.</p> <p>We concur with management's assessment that there are no significant estimates in relation to their forecasted cashflows, discount rate or long-term growth rates.</p> <p>We have not identified impairment triggers which would necessitate an updated impairment assessment in the intervening period to year end.</p> <p>We have evaluated and concluded that the significant judgements in relation to goodwill were appropriately disclosed in the financial statements.</p>
<p>Development costs impairment assessments (Group)</p> <p>The Group holds significant amounts of development costs (£575.9m) on the balance sheet. These intangible assets are subject to impairment testing at the individual asset ("programme") level, at least annually. Where headroom is limited, when comparing its value in use to its carrying value, or if events or changes in circumstances indicate the carrying value may not be recoverable, an impairment test is performed more frequently.</p> <p>No impairment charge has been recorded against development costs in the current year.</p> <p>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 management hold an impairment provision, those with limited headroom and those with a significant carrying value. The key estimates and assumptions assessed were:</p> <ul style="list-style-type: none"> • 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 where a purchase price has not yet been agreed; • The cost per part where the programme is still in development; and • The discount rate applied to future cash flows. <p>Refer also to note 18 to the consolidated financial statements page 158).</p>	<p>We have performed the following procedures over the value in use models which support management's impairment assessment:</p> <ul style="list-style-type: none"> • Testing the mathematical integrity of the model; • Tested the discount rates used in management's impairment assessment by comparing key inputs, where relevant, to externally derived data or data for comparable listed organisations. Our specialists reviewed the discount rates and management's estimates were within our expected range; and • Agreed fleet forecast data used in calculating the programme forecast cash flow up to 2033 to external market forecasts for all heightened risk programmes (defined below) and on a sample basis over the remaining programme population. We corroborated any significant deviations applied by management 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. <p>We identified those programmes which we considered to be of heightened risk based on their value or potential for the carrying amount not being recovered. For these models we performed the following additional audit procedures:</p> <ul style="list-style-type: none"> • Agreed the sales price per part to customer contract or alternative supporting evidence; • Agreed cost per part to inventory bill of materials or alternative supporting evidence; and • We have performed a sensitivity analysis over the discount rates and fleet forecasts. <p>We did not identify any material exceptions in these tests.</p> <p>Given the level of exposure on at-risk programmes and the provision previously recorded by management, we concur with management's conclusion that there are no significant accounting estimates to disclose in relation to development costs and no additional impairment or provision is required.</p>

Key audit matter	How our audit addressed the key audit matter
<p>Environmental provisions (Group)</p> <p>The Group has liabilities of £66.7m 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 £17.0m. We focused on the required asset recognition criteria being met and recoverability of these receivables.</p> <p>Refer also to note 4 and 33 of the consolidated financial statements (pages 143 and page 172).</p>	<p>Our work on the valuation of environmental liabilities comprised the following:</p> <ul style="list-style-type: none"> • 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. In addition, we have held discussions with management's external expert for the most significant site to further understand the cost estimates provided; • 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; and • 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. <p>We obtained evidence of the settlements and claims which resulted in the recognition of receivables and found that the evidence obtained supported asset recognition. We evaluated and concluded that the liabilities, related assets and potential exposures, including significant estimates, were appropriately disclosed in the financial statements.</p>
<p>Provisions for uncertain tax positions (Group)</p> <p>The Group has a provision for uncertain tax positions of £47.0m.</p> <p>Judgements and estimates have to be made by management 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 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 management's judgement of the probable amount of the liability or expected amounts recoverable.</p> <p>Our audit procedures focused 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>Refer also to note 4 of the consolidated financial statements (page 143).</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 management, in conjunction with their advisors, calculated each tax exposure and assessed the appropriateness of assumptions made. 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 whether management's treatment is consistent with the advice obtained. We also considered the evidence of changing tax practices, recent tax audits and external tax cases which may have an impact on existing tax exposures. Based on the work performed we found that these factors 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 management 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MEGGITT PLC
continued

Key audit matter	How our audit addressed the key audit matter
<p>Retirement benefit obligation liabilities (Group and Company) The Group has retirement benefit obligations with gross liabilities of £1,347.5m, of which £855.7m 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 management 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 could have a material impact on the calculation of the liability. These include:</p> <ul style="list-style-type: none"> • Discount rates; • Inflation rates; • Salary increases; and • Mortality. <p>Our audit procedures focused on the risk that the assumptions used result in an understatement of the retirement benefit obligation.</p> <p>Refer also to note 35 of the consolidated financial statements (pages 175 to 179) and note 12 of the Company financial statements (page 196).</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. In addition, we have held discussions with management's external expert for the UK, US and Swiss pension schemes to further understand the key assumptions; • Tested the discount and inflation rate assumptions used by comparing them to our internally developed benchmarks, which are based on externally derived data, and to comparable organisations. We observed the 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.

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 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 audit procedures addressing a specific risk characteristic or financial statement line item would be sufficient. Those where a full scope audit was required included two reporting units which each contribute more than 15% of the Group's underlying profit before tax and are considered to be individually financially significant (Airframe Systems based in Akron and Airframe Systems and Services & Support based in Ventura County). We performed a full scope audit at a further 9 reporting units selected by their size or risk and reviewed certain working papers for those contributing material amounts to Group underlying profit before tax. We determined that specified audit procedures were required on a further 4 reporting units to address specific risk characteristics or to provide sufficient overall group coverage of revenue streams and/or working capital balances.

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 team performs audit procedures over the Company's financial position and results and several financial statement line items, including complex areas prepared by the head office finance function, to provide sufficient overall Group coverage. These include goodwill, other intangible assets, investments, derivative financial instruments and related hedge accounting, bank and other borrowings and related finance costs, certain IFRS16 leases, environmental provisions and related insurance receivables, certain onerous contracts and other provisions, retirement benefit obligations, certain current tax charges, deferred tax and share-based payments. The Group team also performs procedures over the consolidation and financial statement disclosures.

These audit procedures covered 62% of Group profit before tax; 60% of Group underlying profit before tax; and 76% 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. The Group engagement team perform analytical review procedures over a significant proportion of these with the remaining population of reporting units contributing insignificant underlying profit before tax individually and in aggregate. These procedures include an analysis of year on year movements, at a level of disaggregation to enable a focus on higher risk balances and unusual movements. 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	£17.0 million (2018: £16.0 million).	£34.0 million (2018: £34.0 million).
How we determined it	Approximately 5% of underlying profit before tax.	Approximately 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 £1.2 million and £15.3 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 £0.85 million (Group audit) (2018: £0.8 million) and £1.7 million (Company audit) (2018: £1.7 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

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 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.

Outcome

We have nothing material to add or to draw attention to.

However, because 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 of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.

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 2019 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 44 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 51 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)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 119, 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 in respect of the financial statements set out on page 119, 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 directors 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 17 years, covering the years ended 31 December 2003 to 31 December 2019.



John Ellis (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
24 February 2020

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2019

Strategic Report

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	Notes	2019 £'m	2018 £'m
Revenue	5	2,276.2	2,080.6
Cost of sales	7	(1,458.0)	(1,320.1)
Gross profit		818.2	760.5
Operating costs	7	(541.9)	(532.9)
Operating income	7	49.0	29.0
Net operating costs		(492.9)	(503.9)
Operating profit¹	5	325.3	256.6
Finance income	11	2.2	1.0
Finance costs	12	(40.8)	(41.5)
Net finance costs		(38.6)	(40.5)
Profit before tax²		286.7	216.1
Tax charge	13	(64.1)	(37.1)
Profit for the year attributable to equity owners of the Company		222.6	179.0
Earnings per share:			
Basic ³	14	28.8p	23.2p
Diluted ⁴	14	28.3p	22.8p
Non-GAAP measures			
¹ Underlying operating profit	9	402.8	367.3
² Underlying profit before tax	9	370.3	334.8
³ Underlying basic earnings per share	14	37.3p	34.2p
⁴ Underlying diluted earnings per share	14	36.7p	33.7p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019

	Notes	2019 £'m	2018 £'m
Profit for the year attributable to equity owners of the Company		222.6	179.0
Items that may be reclassified to the income statement in subsequent periods:			
Currency translation movements		(68.7)	90.7
Movements in fair value of financial liabilities arising from changes in credit risk	31	-	0.8
Cash flow hedge movements		-	(0.3)
Tax effect	13	0.3	2.5
		(68.4)	93.7
Items that will not be reclassified to the income statement in subsequent periods:			
Remeasurement of retirement benefit obligations	35	(89.2)	46.2
Tax effect	13	11.9	(7.3)
		(77.3)	38.9
Other comprehensive (expense)/income for the year		(145.7)	132.6
Total comprehensive income for the year attributable to equity owners of the Company		76.9	311.6

CONSOLIDATED BALANCE SHEET
At 31 December 2019

Strategic Report

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	Notes	2019 £'m	2018 £'m
Non-current assets			
Goodwill	17	1,966.6	2,035.3
Development costs	18	575.9	557.1
Programme participation costs	18	18.0	18.2
Other intangible assets	19	503.6	610.4
Property, plant and equipment	20	449.4	404.0
Investments	21	14.1	12.9
Other receivables	24	17.0	21.5
Contract assets	25	55.2	61.1
Derivative financial instruments	32	14.6	10.0
Deferred tax assets	34	23.3	16.3
		3,637.7	3,746.8
Current assets			
Inventories	23	489.8	441.2
Trade and other receivables	24	379.9	413.6
Contract assets	25	66.3	47.9
Derivative financial instruments	32	3.8	9.3
Current tax recoverable		11.1	6.4
Cash and cash equivalents	26	155.3	181.9
Assets classified as held for sale	22	-	10.3
		1,106.2	1,110.6
Total assets	5	4,743.9	4,857.4
Current liabilities			
Trade and other payables	27	(464.5)	(452.5)
Contract liabilities	28	(50.5)	(47.9)
Derivative financial instruments	32	(16.5)	(18.8)
Current tax liabilities		(81.6)	(39.5)
Lease liabilities	29	(16.4)	(16.1)
Bank and other borrowings	30	(219.4)	(10.2)
Provisions	33	(36.2)	(33.0)
		(885.1)	(618.0)
Net current assets		221.1	492.6
Non-current liabilities			
Other payables	27	(2.1)	(1.3)
Contract liabilities	28	(77.0)	(43.9)
Derivative financial instruments	32	(4.6)	(17.4)
Deferred tax liabilities	34	(155.3)	(161.9)
Lease liabilities	29	(136.2)	(81.4)
Bank and other borrowings	30	(694.5)	(1,148.3)
Provisions	33	(64.4)	(83.7)
Retirement benefit obligations	35	(267.9)	(209.1)
		(1,402.0)	(1,747.0)
Total liabilities		(2,287.1)	(2,365.0)
Net assets		2,456.8	2,492.4
Equity			
Share capital	36	38.8	38.8
Share premium		1,226.5	1,223.9
Other reserves		15.7	15.7
Hedging and translation reserves		425.4	493.8
Retained earnings		750.4	720.2
Total equity attributable to owners of the Company		2,456.8	2,492.4

The financial statements on pages 129 to 185 were approved by the Board of Directors on 24 February 2020 and signed on its behalf by:

Toughwood. L Burdett

A Wood
Director

L Burdett
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019

	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	£'m
At 1 January 2018		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		-	-	-	(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	35	-	-	-	-	46.2	46.2
Other comprehensive income before tax		-	-	-	91.2	46.2	137.4
Tax	13	-	-	-	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	15	-	-	-	-	(124.2)	(124.2)
At 31 December 2018		38.8	1,223.9	15.7	493.8	720.2	2,492.4
Profit for the year		-	-	-	-	222.6	222.6
Other comprehensive income for the year:							
Currency translation movements:							
Arising in the year		-	-	-	(68.7)	-	(68.7)
Remeasurement of retirement benefit obligations	35	-	-	-	-	(89.2)	(89.2)
Other comprehensive expense before tax		-	-	-	(68.7)	(89.2)	(157.9)
Tax	13	-	-	-	0.3	11.9	12.2
Other comprehensive expense for the year		-	-	-	(68.4)	(77.3)	(145.7)
Total comprehensive (expense)/income for the year		-	-	-	(68.4)	145.3	76.9
Employee share schemes:							
Value of services provided		-	-	-	-	17.9	17.9
Issue of equity share capital		-	2.6	-	-	(2.6)	-
Dividends	15	-	-	-	-	(130.4)	(130.4)
At 31 December 2019		38.8	1,226.5	15.7	425.4	750.4	2,456.8

* Other reserves relate to capital reserves of £14.1m (2018: £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 (2018: £1.6m) created as a result of the share buyback programme in 2014 and 2015

** Hedging and translation reserves comprise a credit balance on the hedging reserve of £1.1m (2018: £1.1m) and a credit balance on the translation reserve of £424.3m (2018: £492.7m). Amounts recycled from the hedging reserve to the income statement, in respect of cash flow hedge movements, are recognised in net finance costs. Amounts recycled from the translation reserve to the income statement, in respect of the disposal of foreign subsidiaries, are recognised in net operating costs.

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 December 2019

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	Notes	2019 £'m	2018 £'m
Non-GAAP measures			
Cash inflow from operations before business disposal expenses and exceptional operating items		451.1	364.0
Cash outflow from business disposal expenses	43	(9.4)	[3.8]
Cash outflow from exceptional operating items	10	(27.3)	[12.0]
Cash inflow from operations	41	414.4	348.2
Interest received		1.8	0.2
Interest paid		(34.9)	[33.1]
Tax paid		(14.4)	[20.0]
Cash inflow from operating activities		366.9	295.3
Businesses disposed	43	78.3	35.7
Capitalised development costs	18	(54.7)	[58.6]
Capitalised programme participation costs		(2.0)	[0.8]
Purchase of intangible assets	19	(17.2)	[21.8]
Purchase of property, plant and equipment		(77.2)	[52.6]
Proceeds from disposal of property, plant and equipment		23.1	2.1
Cash outflow from investing activities		(49.7)	[96.0]
Dividends paid to Company's shareholders	15	(130.4)	[124.2]
Purchase of own shares for employee share schemes		-	[22.6]
Proceeds from bank and other borrowings		0.4	85.5
Repayments of bank and other borrowings		(213.0)	[66.8]
Reverse lease premium received	41	18.9	-
Repayments of lease liabilities		(16.2)	[14.3]
Cash outflow from financing activities		(340.3)	[142.4]
Net (decrease)/increase in cash and cash equivalents		[23.1]	56.9
Cash and cash equivalents at start of the year		181.9	118.5
Exchange (losses)/gains on cash and cash equivalents		(3.5)	6.5
Cash and cash equivalents at end of the year	26	155.3	181.9

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 and incorporated in the United Kingdom 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 European Union adopted International Financial Reporting Standards ('IFRSs'), interpretations issued by the IFRS Interpretations Committee 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.

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 consolidated from the date on which control transfers to the Group. The results of subsidiaries disposed are 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 21).

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 the 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 9).

When a business 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 business is disposed, the difference between the fair value of consideration receivable and the value at which the net assets of the business 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 the 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 9).

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 foreign subsidiaries are treated as assets and liabilities of those subsidiaries and retranslated at exchange rates prevailing at the balance sheet date.

2. Summary of significant accounting policies continued

Segment reporting

Operating segments are those segments for which results are reviewed by the Group's Chief Operating Decision Maker ('CODM') to assess performance and make decisions about resources to be allocated. The CODM has been identified as the Board (see page 80 of the Corporate governance report). The Group has determined that its segments for the year ended 31 December 2019 are Airframe Systems, Engine Systems, Energy & Equipment and Services & Support.

The principal profit measure reviewed by the CODM is 'underlying operating profit' as defined in note 9. A segmental analysis of underlying operating profit is accordingly provided in the notes to the consolidated financial statements (see note 5).

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 regularly review at a segmental level (see note 5). 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.

Revenue from external customers

Revenue is recognised when control of goods or services provided by the Group is transferred to the customer, 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 delivered 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.

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 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 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 to the customer 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 the 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 customer acceptance testing will be successful and accordingly customer acceptance testing will not affect the determination of when control passes. However, where 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. An alternative use exists where there are multiple potential OEMs and/or aftermarket customers, to whom the Group could provide those goods or services.

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.

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.

Estimates of total contract costs are required to determine the extent to which revenue is recognised in a period. The Group does not consider that any reasonably foreseeable changes in these estimates could give rise to a significant impact on revenue recognised in the current period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

2. Summary of significant accounting policies continued *Revenue from external customers* continued

Consideration expected to be received from the customer

The majority of the Group's contracts provide that consideration is receivable by the Group 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, and where the Group expects to retain the intellectual property of the developed technology throughout the programme life. Such contributions, typically in the form of cash, 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 within finance costs over the period beginning with the receipt of the contribution and ending when the goods and services are provided by the Group to the customer.

Where the Group makes contributions to customers to participate in aerospace programmes, typically in the form of cash, such contributions 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 relating to the same aerospace programme (see also 'Programme participation costs' policy). Where the contribution 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 within finance income over the period beginning with the payment of the contribution and ending when the goods and services are provided by the Group to the customer. Other than such contributions, the Group does not typically incur significant incremental costs to obtain contracts.

Exceptional operating items

Items which are significant by virtue of their size or nature 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 9), are classified as exceptional operating items. They include, for instance, costs directly attributable to the integration of acquired businesses and significant site consolidation and other restructuring costs. 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 9). They comprise gains or losses made on the disposal or closure of businesses, adjustments to the fair value of contingent consideration payable in respect of acquired businesses or receivable in respect of disposed businesses and costs directly attributable to the acquisition or disposal of businesses. 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 business to which goodwill relates is disposed, its attributable goodwill is included in the determination of the gain or loss on disposal.

Where the Group restructures or reorganises its operations, goodwill relating to affected businesses is reallocated using a relative fair value basis (see note 4 for details of the reallocation of goodwill following the adoption of the Group's new divisional structure).

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 the periods expected to benefit, typically up to 15 years, commencing with launch of the product. Development costs not meeting the criteria for capitalisation are expensed as incurred.

Programme participation costs

Programme participation costs are contributions made to OEMs, typically in the form of cash, in connection with their selection of the Group's products for installation onto new aircraft where the Group has obtained principal supplier status. The recognition of programme participation costs depends on the contractual relationship between the Group and the third party to whom the contribution is made:

- Where the contribution 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 same aerospace programme from the same customer is highly probable, contributions are initially recognised as contract assets (see 'Revenue from external customers' policy).
- Other contributions are initially recognised as intangible assets 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.

2. Summary of significant accounting policies continued

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

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 9).

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.

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.

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.

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, together with any liability for penalties, which to date have not been significant. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

2. Summary of significant accounting policies continued Impairment of financial assets

The Group's financial assets, which are subject to the expected credit loss ('ECL') model, are:

- Trade receivables;
- Other receivables;
- Contract assets relating to conditional rights to consideration on over time contracts; and
- Cash and cash equivalents.

For trade receivables and contract assets, the simplified method has been applied whereby ECLs are measured using a lifetime expected loss allowance. Contract assets relating to conditional rights to consideration on over time contracts are subject to substantially the same risks as trade receivables on the same types of contracts. The Group therefore applies the same loss rates to these contract assets that it uses for trade receivables. Expected loss rates are based on historical loss rates observed over the past five years adjusted, where appropriate, to reflect reasonable expectations that future loss rates will differ from historical loss rates. For other receivables, which principally relate to amounts recoverable from insurers, ECLs are measured using those expected to arise in the 12 months subsequent to the balance sheet date.

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.

To the extent outflows of economic benefits required to settle an obligation recognised as a provision 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.

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 and other payables

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

The Group operates a supplier financing programme whereby suppliers can elect, on an invoice by invoice basis, to receive discounted early payment from a bank, rather than being paid directly by the Group in line with agreed payment terms. In the event the option for early payment is taken by a supplier, the amount payable by the Group remains unchanged but is assigned by the supplier under the programme as payable by the Group to the bank.

The Group assesses the programme against indicators to assess if liabilities should be classified as other payables or borrowings. Under the Group's current supplier financing programme, contractual rights and obligations of the supplier and Group are not substantively modified when a supplier elects to participate in the programme, credit terms agreed between the Group and the bank do not differ significantly from those agreed by the Group with suppliers who do not participate in the programme; no additional security is provided by the Group to the bank; and to the extent the Group has existing committed or uncommitted facility arrangements with the same bank, the amounts due under the supplier financing programme are not considered by the bank to represent utilisation of those existing facilities. Accordingly, provided amounts due to the bank do not exceed agreed credit terms, they are classified as other payables. If the Group exceeds agreed credit terms, amounts that are overdue are classified as bank borrowings.

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 initial lease liability recognised represents the discounted value of payments due under the lease less any incentives receivable. Where lease payments are variable, often because they are based on future inflation rates or indices, they are initially measured using the inflation rate or index value at lease inception. Typically the interest rate implicit in the Group's leases cannot be easily determined and accordingly the Group's incremental borrowing rate, for borrowings of similar amounts and maturity periods, is used to discount amounts due under the lease. The lease liability is subsequently measured using the effective interest method, with interest recognised within 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, the Group will not assess the likelihood of the lease being extended at inception as reasonably certain. The Group continues to evaluate the likelihood of exercising such options however 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.

2. Summary of significant accounting policies continued

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 9).

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.

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 the 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 9). The Group currently applies fair value hedge accounting to the hedging of fixed interest rate risk on bank and other borrowings.

The Group has early adopted 'Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform', applying the amendments retrospectively to hedging relationships that existed at the start of the current year. The interest rates on which the cash flows of the Group's derivative financial instruments are based are currently linked to LIBOR, which is expected to cease as a benchmark at the end of 2021. By early adopting these amendments, the impact for the Group is that it does not need to assume any impacts from LIBOR reform in assessing whether its existing instruments continue to meet the hedging criteria. The notional value at 31 December 2019 of the Group's instruments, which mature after the end of 2021 and which are designated as fair value hedges, is £94.6m, their fair value at that date is a non-current asset of £5.2m and the movement in fair value that has been recognised in the income statement in the year is £1.0m.

Cash flow hedges

Changes in the fair value of the effective portion of derivative financial instruments, that are designated and qualify as cash flow hedges, are initially recognised in other comprehensive income. Changes in 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 currently holds any derivative financial instruments for which cash flow hedge accounting is applied.

Net investment hedges

Changes in the fair value of the effective portion of any net investment hedge are recognised in other comprehensive income. Changes in the 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 9).

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 9).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

2. Summary of significant accounting policies continued Provisions

Provision is made for environmental liabilities, onerous contracts, product warranty claims and other liabilities when the Group has a present obligation as a result of past events, it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. Provisions are discounted to present value where the impact is significant, using a pre-tax rate. The discount rate used is based on current market assessments of the time value of money, adjusted to reflect any risks specific to the obligation which have not been reflected in the undiscounted provision. The impact of the unwinding of discounting is recognised in the income statement within finance costs.

Retirement benefit schemes

For defined benefit schemes, pension costs and the costs of providing other post-retirement benefits, principally healthcare, are charged to the income statement in accordance with the advice of qualified independent actuaries. Past service credits and costs are recognised immediately in the income statement.

Retirement benefit obligations represent, for each scheme, the difference between the fair value of the schemes' assets and the present value of the schemes' defined benefit obligations measured at the balance sheet date. The defined benefit obligation is measured 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.

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. 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 paid to shareholders. Final dividends are recognised as liabilities when approved by the shareholders.

Adoption of new and revised accounting standards

During the year, no new accounting standards, amendments or revisions to existing standards, or interpretations have become effective which had a significant impact on the Group's consolidated financial statements. The Group early adopted IFRS 16 'Leases' in its 2018 consolidated financial statements.

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. These have not been early adopted and are not expected to have a significant impact on the Group's 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 55 to 56 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 exposures based on historical experience and projections. The Group hedges at least 70% of the next 12 months anticipated exposures and can hedge expected exposures up to five years. Details of hedges in place are provided in note 32. 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 principal exposure is to changes in US interest rates. The Group's policy is to generally maintain at least 25% of its net borrowings at fixed rates and 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 32.

Sensitivity analysis

The table below illustrates the sensitivity of the Group's results to changes in the exchange rate between the US dollar and Pound sterling and to changes in US interest rates 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, assuming no hedge ineffectiveness.

	2019		2018	
	Income statement £'m	Equity £'m	Income statement £'m	Equity £'m
USD/Sterling exchange rate +/- 10%	55.5	86.7	48.9	107.9
US yield curve +/- 1%	10.4	-	14.2	-

The impact on equity from movements in the exchange rate comprises £81.5m (2018: £100.2m) in respect of US dollar net borrowings, and £5.2m (2018: £7.7m) in respect of other financial assets and liabilities. However, as all US dollar net borrowings are designated as a net investment hedge, or are held by US subsidiaries, 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.

Credit risk

The Group is not subject to significant concentration of credit risk on its trade receivables and contract assets 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 31 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 and financial liabilities 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 31 and 32.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

3. Financial risk management continued

Liquidity risk

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

	2019			
	Less than 1 year £'m	1-5 years £'m	Greater than 5 years £'m	Total £'m
Trade and other payables*	452.0	1.7	0.4	454.1
Contract liabilities (see note 28)	50.5	20.5	56.5	127.5
Derivative financial instruments (Inflows)**	(4.9)	(2.9)	-	(7.8)
Lease liabilities	22.9	76.9	110.7	210.5
Bank and other borrowings (see note 30)	208.2	463.1	227.1	898.4
Interest payments on borrowings	26.1	62.5	16.4	105.0
Total	754.8	621.8	411.1	1,787.7

	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 28)	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 30)	-	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

* Excludes social security and other taxes of £12.5m (2018: £11.1m) (see note 27)

** Assumes no change in interest rates from those prevailing at the balance sheet date.

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 2019 is approximately 7.3% (2018: 6.6%) and its capital structure is as follows:

	2019 £'m	2018 £'m
Net debt (see note 42)	911.2	1,074.1
Total equity	2,456.8	2,492.4
Debt/equity %	37.1%	43.1%

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 55 to 56 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

Retirement benefit obligations

The liability recognised in respect of retirement benefit obligations is dependent on a number of estimates, principally 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 35.

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 33). 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 ("O&M") activities will be required. These estimates are revised regularly as remediation activities progress and further information is obtained on the extent of activities for which the Group is responsible.

During the last five years, the estimated period for which O&M activities will be required has increased by five years at a small number of sites, although to date the impact of these changes has not been significant in any one year. As the cumulative period for which groundwater testing has been performed increases, the results of the testing provide a more reliable estimate of the extent to which these activities will continue to be required in the future. It is reasonably foreseeable that, depending on groundwater testing results in 2020, the periods for which O&M will be required could increase in the next 12 months by up to five years across those remaining sites which have not recently seen any extension to O&M periods. Were an increase of five years to be required, the provision recognised would need to increase by approximately £10.0m. In the last five years, annual reductions and increases in costs estimates have both been experienced. If cost estimates on which the provision at 31 December 2019 is based were to change by 13%, the largest observed overall annual movement seen in this five year period, the provision recognised would need to change by approximately £7.3m. It is reasonably foreseeable that both an increase in O&M periods and change in costs could occur in the next 12 months.

The Group has insurance arrangements in place which, together with other agreements with third parties, partly mitigates the on-going impact of historical environmental events on the Group (see note 33). 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 the estimated period for which O&M is required were to increase by five years, the receivable recognised would need to increase by approximately £3.3m. If additionally, remediation cost estimates were to change by 13%, the receivable recognised would need to change by approximately £2.0m.

Income taxes

a) UK Controlled Foreign Company ('CFC') regime

In April 2019, the European Commission announced its decision that state aid partially applies to one of the UK's CFC exemptions that was utilised by the Group. This decision has been appealed by the UK government and the Group has also lodged its own separate appeal. Pending the outcome of these appeals, the UK tax authorities have an obligation to collect amounts due from UK businesses and the Group expects to make these payments in 2020. There are a number of uncertainties that remain to be resolved, including the results of the appeals processes and, should these be unsuccessful, the extent to which historical tax benefits received by the Group are deemed to have derived from financing activities performed in the UK rather than overseas. In making an assessment of the appropriate tax provision related to historical tax benefits received by the Group under the CFC regime, the Group has estimated that the most likely outcome is that the appeals will not be successful and accordingly a provision for the Group's estimated exposure of £18.3m is held at 31 December 2019 (2018: £6.1m) within current tax liabilities. The Group does not consider there to be a significant risk of a material adjustment to the liability recognised within the next 12 months.

b) Other uncertain tax provisions

In determining the Group's tax provision, it is also necessary to consider other transactions in key tax jurisdictions for which the ultimate tax determination is uncertain. The Group's tax provision for these matters at 31 December 2019 is £28.7m (2018: £31.3m), of which £28.5m is recognised within current tax liabilities (2018: £30.0m) and £0.2m within deferred tax liabilities (2018: £1.3m). The provision 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 recognised once a final tax determination is made, although currently none of these exposures are 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 these open items to range from a potential increase of £9.0m in the provision to a potential reduction of £10.0m.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

4. Critical accounting estimates and judgements continued

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 Energy & Equipment segment, 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 Energy & Equipment) 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. Due to the nature of CGUs within Energy & Equipment, which principally operate independently of one another, goodwill can be reliably allocated to each CGU within the segment for testing.

In 2018, the Group identified the advanced composites businesses acquired in 2015 as a CGU, separate from the rest of the operating segment in which it was reported. Under the new divisional structure, the Group has concluded that the advanced composites businesses are no longer a separate CGU. The principal factors considered in reaching this judgement were: the acquired businesses are now managed operationally within two operating segments (Airframe Systems and Engine Systems) created to increase the level of integration between business units within each division, product lines acquired as part of the acquisitions have been transferred to other business units within the Group and their performance is no longer separately reported; and consolidated management information for the advanced composites business is no longer regularly reviewed by management. An impairment test was performed immediately before the new divisional structure was implemented and no impairment of the advanced composites CGU was required.

Impairment testing of non-current non-financial assets

Following the introduction of the new divisional structure with effect from 1 January 2019, it has been necessary to make judgements as to the goodwill and intangible assets arising on an acquisition that should be reallocated to each of the new CGUs and groups of CGUs identified. Where goodwill and intangible assets arising on an acquisition were previously allocated to a group of CGUs under the previous divisional structure, they have been reallocated to the groups of CGUs identified under the new divisional structure using the relative fair value of these new CGUs. This has required estimates to be made of future cash flows, long-term growth rates and appropriate discount rates to be applied to future cash flows. Where a CGU has been unaffected by the changes to the divisional structure, no changes were made to the assets allocated to that CGU.

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 costs. Post contract award, the Group capitalises 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 2019, the Group recognised £54.7m (2018: £58.6m) of development costs as an intangible asset (see note 18).

5. Segmental analysis

Analysis by operating segment

The Group adopted a new organisation structure on 1 January 2019 and now manages its businesses under four customer-aligned divisions: Airframe Systems, Engine Systems, Energy & Equipment and Services & Support. Prior year comparatives have been restated to reflect this change. Details of the Group's divisions can be found on pages 30 to 37 of the Strategic report. Transactions between divisions are reflected in the segmental information below and are measured at arms length. The transactions are eliminated on consolidation.

Year ended 31 December 2019: 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 9.

	Airframe Systems £'m	Engine Systems £'m	Energy & Equipment £'m	Services & Support £'m	Other* £'m	Total £'m
Gross segment revenue	1,479.6	341.2	450.3	491.1	5.6	2,767.8
Inter-segment revenue	[422.2]	[11.7]	[37.8]	[19.9]	–	[491.6]
Revenue from external customers	1,057.4	329.5	412.5	471.2	5.6	2,276.2
At a point in time	1,012.2	312.6	244.3	459.6	5.6	2,034.3
Over time: Power by the hour/Cost per brake landing	35.2	7.2	–	11.6	–	54.0
Over time: Other	10.0	9.7	168.2	–	–	187.9
Revenue from external customers by basis of recognition	1,057.4	329.5	412.5	471.2	5.6	2,276.2
Civil OE	317.6	188.5	10.4	–	2.1	518.6
Civil Aftermarket	327.2	5.9	–	382.5	0.3	715.9
Defence	385.0	109.6	239.2	88.4	2.4	824.6
Energy	10.8	1.0	130.9	–	–	142.7
Other	16.8	24.5	32.0	0.3	0.8	74.4
Revenue from external customers by end market	1,057.4	329.5	412.5	471.2	5.6	2,276.2
Underlying operating profit (see note 9)**	250.5	27.2	53.4	71.2	0.5	402.8
Items not affecting underlying operating profit (see note 9)						[77.5]
Operating profit (see note 9)						325.3
Finance income (see note 11)						2.2
Finance costs (see note 12)						[40.8]
Net finance costs						[38.6]
Profit before tax						286.7
Tax charge (see note 13)						[64.1]
Profit for the year						222.6
Exceptional operating items***	3.2	5.7	1.5	1.4	–	11.8
Amortisation of intangible assets (see notes 18 and 19)****	102.9	22.1	12.0	1.3	0.1	138.4
Depreciation (see note 20)	28.9	13.7	12.0	2.7	–	57.3

* Those businesses which were disposed of prior to the effective date of the new divisional structure, or were classified as held for sale at that date, are presented separately as 'Other'

** 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 £14.4m were not included in segmental exceptional operating items reviewed by the CODM.

**** Of the total amortisation in the year, £48.6m has been charged to underlying operating profit as defined in note 9.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

5. Segmental analysis continued

The Group's largest customer accounts for 8.1% of revenue (£184.3m). Revenue from this customer arises across all segments. Revenue recognised in the current year relating to performance obligations satisfied or partially satisfied in the prior year was £3.4m.

*Year ended 31 December 2019: Analysis of additions to non-current assets**

	Airframe Systems £'m	Engine Systems £'m	Energy & Equipment £'m	Services & Support £'m	Total £'m
Development costs (see note 18)	40.4	2.5	11.7	0.1	54.7
Programme participation costs (see note 18)	1.6	–	–	–	1.6
Other purchased intangible assets	0.6	0.7	0.5	1.8	3.6
Property, plant and equipment	38.0	21.7	10.7	5.9	76.3
Total	80.6	24.9	22.9	7.8	136.2

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

At 31 December 2019: Analysis of segmental trading assets

	Total £'m
Airframe Systems	1,147.4
Engine Systems	437.5
Energy & Equipment	306.8
Services & Support	77.3
Total segmental trading assets	1,969.0
Centrally managed trading assets*	162.1
Goodwill (see note 17)	1,966.6
Other intangible assets excluding software assets	424.0
Investments (see note 21)	14.1
Derivative financial instruments – non-current (see note 32)	14.6
Deferred tax assets (see note 34)	23.3
Derivative financial instruments – current (see note 32)	3.8
Current tax recoverable	11.1
Cash and cash equivalents (see note 26)	155.3
Total assets	4,743.9

* 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.

Analysis by geography

	2019 £'m	2018 £'m
UK	178.6	169.1
Rest of Europe	414.0	392.6
United States of America	1,342.5	1,220.6
Rest of World	341.1	298.3
Revenue	2,276.2	2,080.6

Revenue is based on the location of the customer.

	31 December 2019 £'m	31 December 2018 £'m
UK	668.3	619.7
Rest of Europe	203.2	205.1
United States of America	2,613.5	2,782.8
Rest of World	28.5	17.4
Non-current assets	3,513.5	3,625.0

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.

5. Segmental analysis continued**Year ended 31 December 2018 (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 9.

	Airframe Systems £'m	Engine Systems £'m	Energy & Equipment £'m	Services & Support £'m	Other** £'m	Total £'m
Gross segment revenue	1,369.5	289.2	407.2	416.0	26.4	2,508.3
Inter-segment revenue	(360.2)	(10.6)	(35.7)	(21.2)	-	(427.7)
Revenue from external customers	1,009.3	278.6	371.5	394.8	26.4	2,080.6
At a point in time	968.3	269.5	257.5	394.8	26.4	1,916.5
Over time: Power by the hour/Cost per brake landing	35.9	9.1	-	-	-	45.0
Over time: Other	5.1	-	114.0	-	-	119.1
Revenue from external customers by basis of recognition	1,009.3	278.6	371.5	394.8	26.4	2,080.6
Civil OE	280.3	165.8	10.9	-	7.3	464.3
Civil Aftermarket	325.8	6.9	-	324.3	3.5	660.5
Defence	375.3	84.0	194.7	69.6	7.6	731.2
Energy	8.7	1.2	117.9	-	0.6	128.4
Other	19.2	20.7	48.0	0.9	7.4	96.2
Revenue from external customers by end market	1,009.3	278.6	371.5	394.8	26.4	2,080.6
Underlying operating profit (see note 9)**	259.2	18.4	31.0	58.1	0.6	367.3
Items not affecting underlying operating profit (see note 9)						(110.7)
Operating profit (see note 9)						256.6
Finance income (see note 11)						1.0
Finance costs (see note 12)						(41.5)
Net finance costs						(40.5)
Profit before tax						216.1
Tax charge (see note 13)						(37.1)
Profit for the year						179.0
Exceptional operating items***	6.6	11.0	1.5	0.2	0.2	19.5
Amortisation of intangible assets (see notes 18 and 19)****	94.2	22.0	14.4	1.3	0.3	132.2
Depreciation (see note 20)	27.0	11.6	12.4	2.2	0.4	53.6

* Those businesses which were disposed of prior to the effective date of the new divisional structure, or were classified as held for sale at that date, are presented separately as 'Other'.

** 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 was an impairment loss of £8.2m.

**** Of the total amortisation in the year, £40.7m was charged to underlying operating profit as defined in note 9.

The Group's largest customer accounted for 8.3% of revenue (£172.0m). Revenue from this customer arises across all segments. Revenue recognised in 2018 relating to performance obligations satisfied or partially satisfied in the prior year was not significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5. Segmental analysis continued

*Year ended 31 December 2018 (Restated): Analysis of additions to non-current assets**

	Airframe Systems £'m	Engine Systems £'m	Energy & Equipment £'m	Services & Support £'m	Total £'m
Development costs (see note 18)	44.6	2.9	11.1	–	58.6
Programme participation costs (see note 18)	0.9	–	–	–	0.9
Other purchased intangible assets	9.0	0.6	1.9	0.8	12.3
Property, plant and equipment	25.0	23.2	8.1	4.9	61.2
Total	79.5	26.7	21.1	5.7	133.0

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

At 31 December 2018 (Restated): Analysis of segmental trading assets

	Total £'m
Airframe Systems	1,107.6
Engine Systems	402.2
Energy & Equipment	344.1
Services & Support	69.9
Total segmental trading assets	1,923.8
Centrally managed trading assets*	123.4
Goodwill (see note 17)	2,035.3
Other intangible assets excluding software assets	527.8
Investments (see note 21)	12.9
Derivative financial instruments – non-current (see note 32)	10.0
Deferred tax assets (see note 34)	16.3
Derivative financial instruments – current (see note 32)	9.3
Current tax recoverable	6.4
Cash and cash equivalents (see note 26)	181.9
Assets classified as held for sale (see note 22)	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

6. Auditor's remuneration

Payable to PricewaterhouseCoopers LLP and its associates:

	2019 £'m	2018 £'m
For the audit of the Company and consolidated financial statements in respect of the current year	1.9	1.5
For the audit of the accounts of any subsidiary of the Company in respect of the current year	0.8	0.7
Auditor's remuneration	2.7	2.2

Non-audit fees payable to PricewaterhouseCoopers LLP were £0.1m (2018: £0.1m), consisting of other assurance services, tax compliance services and other services, none of which were individually significant.

7. Operating profit

For 2019, an additional analysis of net operating costs has been provided, separately presenting operating costs and operating income. 2018 comparative figures have been restated on the same basis.

Operating profit is stated after charging:

	2019 £'m	2018 £'m
Raw materials and consumables used	726.5	635.3
Employee costs (see note 8)	815.4	749.9
Site related costs	153.0	141.4
Change in inventories of finished goods and work in progress	(64.1)	(32.3)
Capitalisation of development costs (see note 18)	(54.7)	(58.6)
Free of charge/deeply discounted manufactured parts ('FOC')	72.7	66.5
Amortisation of capitalised development costs (see note 18)	28.7	22.1
Amortisation of programme participation costs (see note 18)	1.1	0.8
Amortisation of intangible assets acquired in business combinations (see note 9)	89.8	91.5
Amortisation of software and other intangible assets (see note 19)	18.8	17.8
Depreciation (see note 20)	57.3	53.6
Impairment loss on property, plant and equipment (see note 20)	-	3.6
Loss on disposal of property, plant and equipment	-	3.0
Exceptional operating items (see note 10)	26.2	34.2
Financial instruments - loss (see note 9)	-	10.1
Share of loss after tax of joint venture (see note 21)	-	1.5
Other costs	129.2	112.6
Total	1,999.9	1,853.0

Disclosed as:

	2019 £'m	2018 £'m
Cost of sales	1,458.0	1,320.1
Other costs	541.9	532.9
Total	1,999.9	1,853.0

Total research and development expenditure in the year is £118.5m (2018: £138.3m) of which £23.8m (2018: £31.8m) is charged to cost of sales or manufacturing work in progress, £40.0m (2018: £47.9m) is charged to net operating costs and £54.7m (2018: £58.6m) is capitalised as development costs (see note 18).

Operating profit is stated after crediting:

	2019 £'m	2018 £'m
Gain on disposal of property, plant and equipment	0.9	-
Amounts arising on the acquisition, disposal and closure of businesses (see note 9)	23.5	25.1
Financial instruments - gain (see note 9)	15.0	-
Net foreign exchange gains	3.4	0.3
Share of profit after tax of joint venture (see note 21)	1.7	-
Other income	4.5	3.6
Operating income	49.0	29.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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8. Employee information

	2019 £'m	2018 £'m
Wages and salaries	660.4	593.4
Social security costs	59.6	57.6
Retirement benefit costs (see note 35)	47.3	43.3
Share-based payment expense (see note 37)	10.1	13.5
Other benefits including US medical costs	38.0	42.1
Employee costs including executive directors	815.4	749.9

Prior year comparatives have been restated to separately disclose other benefits including US medical costs.

	2019 Average Monthly Number	2018 Average Monthly Number
Airframe Systems	5,935	5,529
Engine Systems	2,344	2,058
Energy & Equipment	1,911	1,921
Services & Support	523	480
Corporate including shared services	546	498
Total persons employed including executive directors	11,259	10,486
Other persons providing similar services	965	896
Total	12,224	11,382

Prior year comparatives have been restated to reflect the new divisional structure which became effective on 1 January 2019.

9. 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	2019 £'m	2018 £'m
Operating profit		325.3	256.6
Amounts arising on the acquisition, disposal and closure of businesses	a	(23.5)	(25.1)
Amortisation of intangible assets acquired in business combinations	b	89.8	91.5
Financial instruments - (gain)/loss	c	(15.0)	10.1
Exceptional operating items (see note 10)		26.2	34.2
Adjustments to operating profit*		77.5	110.7
Underlying operating profit		402.8	367.3
Profit before tax		286.7	216.1
Adjustments to operating profit per above		77.5	110.7
Net interest expense on retirement benefit obligations (see note 35)**		6.1	8.0
Adjustments to profit before tax		83.6	118.7
Underlying profit before tax		370.3	334.8
Profit for the year		222.6	179.0
Adjustments to profit before tax per above		83.6	118.7
Tax effect of adjustments to profit before tax		(17.5)	(29.1)
Impact of reduction in the US rate of federal corporate tax (see note 13)***		-	(4.1)
Adjustments to profit for the year		66.1	85.5
Underlying profit for the year		288.7	264.5

* Of the adjustments to operating profit, £8.1m (2018: £18.1m) relating to exceptional operating items has been charged to cost of sales, with the balance of £69.4m (2018: £92.6m) 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 on US pension deficit contributions made in 2018, these amounts were 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 businesses, adjustments to the fair value of contingent consideration payable in respect of acquired businesses or receivable in respect of disposed businesses and costs directly attributable to the acquisition and disposal of businesses.

	2019 £'m	2018 £'m
Gain on disposal of businesses before disposal expenses (see note 41)	(35.7)	(30.4)
Costs related to the disposal of businesses in the current period (see note 43)	12.2	2.5
Gain on disposal of businesses (see note 43)	(23.5)	(27.9)
Costs related to the disposal of businesses in prior periods	-	0.3
Remeasurement of fair value of contingent consideration payable relating to previously acquired businesses	-	(3.6)
Impairment of assets classified as held for sale	-	6.1
Amounts arising on the acquisition, disposal and closure of businesses	(23.5)	(25.1)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

9. Reconciliations between profit and underlying profit continued

- b. For the same reasons as described in note 9a, the Group also excludes from its underlying profit figures the amortisation of intangible assets acquired in business combinations.

	2019 £'m	2018 £'m
Amortisation of other intangible assets (see note 19)	108.6	109.3
Less amortisation of software and other intangible assets (see note 19)	(18.8)	(17.8)
Amortisation of intangible assets acquired in business combinations	89.8	91.5

- 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.

	2019 £'m	2018 £'m
Movement in fair value of foreign currency forward contracts	(25.7)	27.9
Impact of retranslating net foreign currency assets and liabilities at spot rate	(0.2)	(1.0)
Movement in fair value of interest rate derivatives	(0.3)	5.4
Movement in fair value of fixed rate borrowings due to interest rate risk (see note 31)	(0.1)	(4.9)
Movement in fair value of cross currency derivatives	11.8	(16.8)
Movement in fair value of treasury lock derivative	(0.5)	(0.5)
Financial instruments – (gain)/loss	(15.0)	10.1

10. 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, business restructuring and integration of acquired businesses is designed by the Board to align short-term operational decisions with this longer-term strategy. In 2018, the Board considered the impact of the Court ruling on Guaranteed Minimum Pension equalisation to be a non-trading item and accordingly excluded it from underlying profit measures.

	Note	Income statement		Cash expenditure	
		2019 £'m	2018 £'m	2019 £'m	2018 £'m
Site consolidations	a	20.1	28.7	22.4	8.2
Business restructuring costs		6.1	3.1	4.9	3.1
Guaranteed Minimum Pension equalisation (see note 35)		–	1.7	–	–
Integration of acquired businesses		–	0.7	–	0.7
Exceptional operating items		26.2	34.2	27.3	12.0

- 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 £63.7m (2018: £43.6m). In 2019, costs are principally in respect of the move to a new facility being constructed at Ansty Park in the West Midlands, UK, which will enable the Group to consolidate a range of manufacturing, engineering and support operations into a single centre of excellence.

The tax credit in respect of exceptional operating items is £5.0m (2018: £4.8m).

11. Finance income

	2019 £'m	2018 £'m
Interest on bank deposits	1.4	–
Unwinding of interest on other receivables (see note 33)	0.5	0.8
Other finance income	0.3	0.2
Finance income	2.2	1.0

12. Finance costs

	2019 £'m	2018 £'m
Interest on bank borrowings	1.2	2.6
Interest on senior notes	29.4	28.0
Interest on lease liabilities	5.0	3.7
Unwinding of discount on provisions (see note 33)	1.2	1.7
Net interest expense on retirement benefit obligations (see note 35)	6.1	8.0
Amortisation of debt issue costs	0.7	0.8
Less: amounts capitalised in the cost of qualifying assets (see note 18)	(2.8)	(3.3)
Finance costs	40.8	41.5

13. Tax

	2019 £'m	2018 £'m
Current tax – current year	60.2	32.7
Current tax – adjustment in respect of prior years	(2.2)	(7.0)
Deferred tax – origination and reversal of temporary differences	6.4	2.2
Deferred tax – impact of reduction in the US rate of federal corporate tax (see note 9)	–	(4.1)
Deferred tax – effects of changes in other statutory tax rates	(2.4)	0.6
Deferred tax – adjustment in respect of prior years	2.1	12.7
Tax charge	64.1	37.1

In 2018, the Group made an additional USD40.0m deficit contribution into certain of its US pension schemes. This contribution was deductible against the Group's US taxable profits for the year ended 31 December 2017 and accordingly attracted federal tax relief at 35%. The difference between this tax relief and the deferred tax recognised on the deficit at 21% at 31 December 2017 of £4.1m was excluded from the Group's underlying tax charge for 2018 (see note 9).

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

A reconciliation based on the weighted average tax rate applicable to the profits of the Group's consolidated businesses is as follows:

	2019 £'m	2018 £'m
Profit before tax at weighted average tax rate of 23.0%* (2018: 22.2%)	65.9	47.9
Effects of:		
Impact of reduction in the US rate of federal corporate tax (see note 9)	–	(4.1)
Deferred tax – effects of changes in other statutory tax rates	(2.4)	0.6
Tax effect of share-based payments	(0.5)	(0.9)
Non-taxable gain on disposal of businesses	0.1	(5.0)
Tax concessions	(3.5)	(8.6)
Tax credits and incentives	(6.2)	(2.7)
Additional provisions in respect of historical tax uncertainties	6.5	0.9
Other permanent differences	4.3	3.3
Current tax – adjustment in respect of prior years	(2.2)	(7.0)
Deferred tax – adjustment in respect of prior years	2.1	12.7
Tax charge	64.1	37.1

* Calculated as the weighted average tax rate applicable to profits of the Group's businesses in their respective countries in the year. Accordingly it does not 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 2019 to increase, or reduce respectively, by approximately £11.4m of which £8.5m arises from the impact of the change in tax rate on net deferred tax liabilities.

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13. Tax continued

Reconciliation of tax charge continued

The tax reconciliation for 2019 includes £3.5m in respect of tax concessions in the UK and Switzerland which allow for income to be taxed at beneficial rates, £6.2m in respect of tax credit and incentives in the US for items such as research & development and certain foreign derived income, and additional provisions of £6.5m in respect of various historical tax issues in the Group (see note 4).

Tax relating to components of other comprehensive income

	2019			2018		
	Before tax £'m	Tax (charge)/ credit £'m	After tax £'m	Before tax £'m	Tax (charge)/ credit £'m	After tax £'m
Current tax – currency translation movements	(66.7)	–	(66.7)	92.4	2.4	94.8
Deferred tax – currency translation movements	(2.0)	0.3	(1.7)	(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
Deferred tax – cash flow hedge movements	–	–	–	(0.3)	0.1	(0.2)
Deferred tax – remeasurement of retirement benefit obligations	(89.2)	11.9	(77.3)	46.2	(7.3)	38.9
Other comprehensive (expense)/income	(157.9)	12.2	(145.7)	137.4	(4.8)	132.6
Current tax		–			2.4	
Deferred tax		12.2			(7.2)	
Total		12.2			(4.8)	

Tax relating to items recognised directly in equity

	2019 £'m	2018 £'m
Current tax credit relating to share-based payment expense	1.0	0.1
Deferred tax credit/(charge) relating to share-based payment expense (see note 34)	2.0	(0.4)
Total	3.0	(0.3)

14. 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 38). The weighted average number of treasury shares excluded is Nil shares (2018: Nil shares) and the weighted average number of own shares excluded is 4.0m shares (2018: 4.1m 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.

	2019 Profit* £'m	2019 Shares Number 'm	2019 EPS Pence	2018 Profit* £'m	2018 Shares Number 'm	2018 EPS Pence
Basic EPS	222.6	773.7	28.8	179.0	773.2	23.2
Potential effect of dilutive ordinary shares	–	12.1	(0.5)	–	12.7	(0.4)
Diluted EPS	222.6	785.8	28.3	179.0	785.9	22.8

* Profit for the year attributable to equity owners of the Company.

14. Earnings per ordinary share continued

Underlying EPS is based on underlying profit for the year (see note 9) and the same number of shares used in the calculation of basic EPS. It is reconciled to basic EPS below:

	2019 Pence	2018 Pence
Basic EPS	28.8	23.2
Adjust for effects of:		
Amounts arising on the acquisition, disposal and closure of businesses	(2.0)	(3.2)
Amortisation of intangible assets acquired in business combinations	8.8	9.1
Financial instruments - (gain)/loss	(1.6)	1.0
Exceptional operating items	2.7	3.8
Net interest expense on retirement benefit obligations	0.6	0.8
Impact of reduction in the US rate of federal corporate tax	-	(0.5)
Underlying basic EPS	37.3	34.2

Diluted underlying EPS is based on underlying profit for the year (see note 9) and the same number of shares used in the calculation of diluted EPS. Diluted underlying EPS for the year is 36.7 pence (2018: 33.7 pence).

15. Dividends

	2019 £'m	2018 £'m
In respect of earlier years	-	83.3
In respect of 2018:		
Interim of 5.30p per share	-	40.9
Final of 11.35p per share	87.5	-
In respect of 2019:		
Interim of 5.55p per share	42.9	-
Dividends paid in cash	130.4	124.2

A final dividend in respect of 2019 of 11.95p per share (2018: 11.35p), amounting to an estimated total final dividend of £92.5m (2018: £87.5m) is to be proposed at the Annual General Meeting on 23 April 2020. This dividend is not reflected in the consolidated financial statements as it has not been approved by the shareholders at the balance sheet date.

16. Related party transactions

During the year, the Group made sales to the joint venture of £2.9m (2018: £3.3m) and purchases from the joint venture of £0.1m (2018: £0.2m). 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 2019 as members of the Board and the Group Executive Committee, is set out below.

	2019 £'m	2018 £'m
Salaries and other short-term employee benefits	10.8	11.1
Share-based payment expense	2.5	4.1
Total	13.3	15.2

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 116 which forms part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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17. Goodwill

	2019 £'m	2018 £'m
Cost at 1 January	2,035.3	1,944.9
Exchange rate adjustments	(57.9)	91.2
Businesses disposed (see note 43)	(10.8)	(0.8)
Cost at 31 December	1,966.6	2,035.3

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. The Group previously concluded that no impairment charge was required at 31 December 2018 under the Group's previous divisional structure in place at that date. As the new divisional structure became effective on 1 January 2019, no additional impairment test was therefore considered necessary on transition to this structure.

No impairment charge was required in the year (2018: £Nil) and the cumulative impairment charge recognised to date is £Nil (2018: £Nil).

An analysis of goodwill by CGU or group of CGUs is shown below:

	2019 £'m	2018* £'m
Airframe Systems ('AS')	1,253.2	1,293.3
Engine Systems ('ES')	316.9	327.0
Services & Support ('S&S')	209.9	213.8
Training Systems ('MTS')	78.8	81.6
Defence Systems	31.2	32.3
Other	76.6	87.3
Total	1,966.6	2,035.3

* Restated to reflect the new divisional structure effective on 1 January 2019

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 2019. 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.

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 AS, ES and S&S to each of these markets is set out in the Strategic report on page 25. MTS and Defence Systems operate 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.

17. Goodwill continued

- Growth rates used for periods beyond those covered by management's detailed budgets and plans

Growth rates are initially 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 long-term inflation forecasts for the principal countries in which the CGU or group of CGUs operates, the latter has been used. The growth rates used for impairment testing are as follows:

	2019* %
AS	2.2
ES	2.0
S&S	2.1
MTS	2.3
Defence Systems	2.3
Other	1.0-2.3

- * The new divisional structure became effective on 1 January 2019. Directly comparative data for 2018 is not available under this structure. Under the previous divisional structure, growth rates ranged from 1.8% to 2.0% for the principal CGUs.

- 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:

	2019* %
AS	10.1
ES	9.2
S&S	10.2
MTS	10.9
Defence Systems	10.8
Other	5.9-10.8

- * The new divisional structure became effective on 1 January 2019. Directly comparative data for 2018 is not available under this structure. Under the previous divisional structure, discount rates ranged from 8.0% to 10.5% for the principal CGUs.

The results of the impairment testing were that, with the exception of MTS, headroom measured in percentage terms for each of the significant CGUs and groups of CGUs was greater than 100% of the carrying value of goodwill. For MTS, headroom was £44.5m (54% of the carrying value of goodwill).

Having modelled a number of sensitivities, it was concluded that 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.

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18. Development costs and programme participation costs

	Development costs £'m	Programme participation costs £'m
At 1 January 2018		
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 12)	3.3	–
Transfer to assets classified as held for sale	(2.6)	–
Amortisation*	(22.1)	(0.8)
Net book amount	557.1	18.2
At 1 January 2019		
Cost	774.9	38.0
Accumulated amortisation	(217.8)	(19.8)
Net book amount	557.1	18.2
Year ended 31 December 2019		
Opening net book amount	557.1	18.2
Exchange rate adjustments	(16.3)	(0.7)
Additions – Internal development costs	54.7	–
– Cash payments	–	1.6
Transfers from contract assets	7.2	–
Interest capitalised (see note 12)	2.8	–
Businesses disposed (see note 43)	(0.9)	–
Amortisation*	(28.7)	(1.1)
Net book amount	575.9	18.0
At 31 December 2019		
Cost	814.4	38.4
Accumulated amortisation	(238.5)	(20.4)
Net book amount	575.9	18.0

* Charged to net operating costs

The net book amount of development costs includes £447.1m (2018: £416.7m) in respect of Airframe Systems which have an estimated weighted average remaining life of 13.0 years (2018: 13.4 years).

The programme with the largest capitalised balance is the Airbus A220 with a net book amount of £93.0m (2018: £95.8m), comprising development costs of £82.1m (2018: £85.1m) and programme participation costs of £10.9m (2018: £10.7m). No reasonably foreseeable change in the key assumptions used in the impairment model would result in a significant impairment charge being recorded in the financial statements.

Interest has been capitalised using the average rate payable on the Group's floating rate borrowings of 2.0% (2018: 2.0%). Tax relief claimed on interest capitalised in the year is £0.5m (2018: £0.6m).

19. Other intangible assets

	Acquired in business combinations*					Total £'m
	Customer relationships £'m	Technology £'m	Order backlogs £'m	Trade names and trademarks £'m	Software and other assets £'m	
At 1 January 2018						
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	(0.1)	–	–	–	–	(0.1)
Additions	–	–	–	–	19.3	19.3
Transfer to assets classified as held for sale	–	–	–	–	(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 1 January 2019						
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
Year ended 31 December 2019						
Opening net book amount	424.8	99.8	–	3.2	82.6	610.4
Exchange rate adjustments	(11.4)	(2.5)	–	(0.1)	(1.0)	(15.0)
Additions	–	–	–	–	17.2	17.2
Disposals	–	–	–	–	(0.4)	(0.4)
Amortisation – net operating costs	(68.0)	(21.1)	–	(0.7)	(18.8)	(108.6)
Net book amount	345.4	76.2	–	2.4	79.6	503.6
At 31 December 2019						
Cost	1,099.9	321.8	–	30.0	202.4	1,654.1
Accumulated amortisation	(754.5)	(245.6)	–	(27.6)	(122.8)	(1,150.5)
Net book amount	345.4	76.2	–	2.4	79.6	503.6

* Amortisation of these items is excluded from the Group's underlying profit figures (see note 9).

The net book amount of customer relationships comprises £243.0m (2018: £308.7m) in respect of Airframe Systems, £87.7m (2018: £98.5m) in respect of Engine Systems, £8.0m (2018: £10.1m) in respect of Energy & Equipment and £6.7m (2018: £7.5m) in respect of Services & Support. These have estimated weighted average remaining lives of 5.0 years (2018: 5.9 years), 12.8 years (2018: 13.7 years), 4.9 years (2018: 5.8 years) and 12.3 years (2018: 13.3 years) respectively.

The net book amount of technology includes £49.4m (2018: £68.4m) in respect of Airframe Systems and £24.2m (2018: £28.0m) in respect of Engine Systems. These have estimated weighted average remaining lives of 3.8 years (2018: 4.6 years) and 8.6 years (2018: 9.6 years) respectively.

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20. 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 2018					
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	[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	[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 1 January 2019					
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
Year ended 31 December 2019					
Opening net book amount	128.7	196.2	76.7	2.4	404.0
Exchange rate adjustments	[3.1]	[5.8]	[2.1]	[0.2]	[11.2]
Businesses disposed (see note 43)	[4.8]	[1.3]	[0.1]	–	[6.2]
Additions	16.8	60.6	54.1	1.4	132.9
Disposals	[11.7]	[1.1]	–	–	[12.8]
Transfers	8.8	[9.1]	0.3	–	–
Depreciation**	[8.6]	[32.2]	[15.4]	[1.1]	[57.3]
Net book amount	126.1	207.3	113.5	2.5	449.4
At 31 December 2019					
Cost	221.7	570.3	203.8	4.6	1,000.4
Accumulated depreciation	[95.6]	[363.0]	[90.3]	[2.1]	[551.0]
Net book amount	126.1	207.3	113.5	2.5	449.4

* Charged to exceptional operating items and included within cost of sales.

** The depreciation charge for the year includes £1.4m in respect of property right-of-use assets which has been charged to exceptional operating items.

21. Investments

The Group's investment in its joint venture, Meggitt UTC Aerospace Systems, LLC is accounted for using the equity method and is stated as follows:

	2019 £'m	2018 £'m
At 1 January	12.9	13.6
Exchange rate adjustments	(0.5)	0.8
Share of profit/(loss) after tax	1.7	(1.5)
At 31 December	14.1	12.9

Summarised financial information for the 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 2019

	2019 £'m	2018 £'m
Revenue	24.1	16.8
Operating profit/(loss)	2.8	(2.0)
Finance costs	(0.1)	(0.1)
Profit/(loss) before tax	2.7	(2.1)
Tax charge	(0.2)	(0.1)
Profit/(loss) after tax	2.5	(2.2)
Total comprehensive income/(expense) from continuing operations	2.4	(2.0)

Summarised balance sheet

At 31 December 2019

	2019 £'m	2018 £'m
Property, plant and equipment	2.0	1.8
Cash and cash equivalents	3.2	0.2
Other current assets	9.1	6.1
Total current assets	12.3	6.3
Financial liabilities (excluding trade payables)	(3.1)	(2.5)
Other current liabilities	(6.5)	(3.3)
Total current liabilities	(9.6)	(5.8)
Net assets	4.7	2.3

Reconciliation of summarised financial information

At 31 December 2019

	2019 £'m	2018 £'m
Net assets at 1 January	2.3	4.3
Total comprehensive income/(expense)	2.4	(2.0)
Net assets at 31 December	4.7	2.3
Group's interest in joint venture at 70%	3.3	1.6
Goodwill	10.8	11.3
Group's investment at 31 December	14.1	12.9

There are no contingent liabilities relating to the Group's interest in the joint venture.

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22. Assets classified as held for sale

On 16 January 2019, the Group completed the sale and leaseback of land and buildings relating to its manufacturing facilities in Coventry, West Midlands, UK, including properties which were classified as held for sale at 31 December 2018. Following completion of the sale and leaseback transaction, right-of-use assets have been recognised.

On 1 April 2019, the Group completed the disposal of the trade and assets of Meggitt (France) SAS previously classified as held for sale (see note 43).

	Assets classified as held for sale £'m
At 1 January 2019	10.3
Change in carrying value up to date of disposal	0.5
Business disposed (see note 43)	(1.4)
Property disposed	(9.4)
At 31 December 2019	-

23. Inventories

	2019 £'m	2018 £'m
Raw materials and bought-in components	175.8	169.5
Manufacturing work in progress	205.8	179.4
Finished goods and goods for resale	108.2	92.3
Total	489.8	441.2

The cost of inventories recognised as an expense and included within cost of sales is £1,353.3m (2018: £1,226.3m). The cost of inventories recognised as an expense includes £7.2m (2018: £3.8m) in respect of write-downs of inventory to net realisable value. The cost of inventories recognised as an expense has been reduced by £3.6m (2018: £3.9m) in respect of the reversal of write-downs of inventory to net realisable value made in previous years.

24. Trade and other receivables

	2019 £'m	2018 £'m
Trade receivables	330.4	344.1
Prepayments	18.2	23.1
Other receivables	31.3	46.4
Current portion	379.9	413.6
Other receivables	17.0	21.5
Non-current portion	17.0	21.5
Total	396.9	435.1

As at 31 December 2019, £4.2 million was due from the joint venture (2018: £0.8 million) and included within trade receivables.

Other receivables include £17.0m (2018: £34.1m) 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 £2.2m (2018: £16.6m) is shown as current (see note 33).

The Group does not hold any collateral as security. Trade and other receivables are denominated in the following currencies:

	2019 £'m	2018 £'m
Sterling	51.7	56.5
US dollar	309.7	340.8
Euro	23.2	23.0
Other	12.3	14.8
Total	396.9	435.1

25. Contract assets

	2019 £'m	2018 £'m
Conditional rights to consideration on over time contracts	63.8	45.1
Programme participation cash payments	2.5	2.8
Current portion	66.3	47.9
Conditional rights to consideration on over time contracts	25.4	34.1
Programme participation cash payments	29.8	27.0
Non-current portion	55.2	61.1
Total	121.5	109.0

Amortisation of programme participation cash payments of £2.6m (2018: £2.8m) has been recognised as a reduction in revenue in the year. Cumulative catch-up adjustments to revenue recognised in a prior period, arising from changes in the current year in the measure of progress or contract price on contract assets were £1.2m (2018: Nil).

26. Cash and cash equivalents

	2019 £'m	2018 £'m
Cash at bank and on hand	136.2	150.5
Short-term bank deposits	19.1	31.4
Total	155.3	181.9

Cash and cash equivalents are subject to interest at floating rates.

27. Trade and other payables

	2019 £'m	2018 £'m
Trade payables	222.0	195.0
Social security and other taxes	12.5	11.1
Accrued expenses	72.2	70.7
Other payables	157.8	175.7
Current portion	464.5	452.5
Other payables	2.1	1.3
Non-current portion	2.1	1.3
Total	466.6	453.8

Other payables include £48.3m (2018: £42.9m) due to banks in respect of the Group's supplier financing programme. No amounts due under the programme met the requirements to be classified as bank borrowings (2018: £Nil).

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28. Contract liabilities

	2019 £'m	2018 £'m
Contributions received from customers during development phase of programmes	1.0	0.4
Cost per brake landing/Power by the hour contracts	6.6	23.1
Other consideration received in advance of performance	42.9	24.4
Current portion	50.5	47.9
Contributions received from customers during development phase of programmes	40.9	27.6
Cost per brake landing/Power by the hour contracts	9.1	14.8
Other consideration received in advance of performance	27.0	1.5
Non-current portion	77.0	43.9
Total	127.5	91.8

Revenue recognised in the year relating to amounts recognised as a contract liability at the beginning of the period was £43.9m (2018: £22.2m). Cumulative catch-up adjustments to revenue recognised in a prior period, arising from changes in the current year in the measure of progress or contract price on contract liabilities were £2.6m (2018: Nil).

The aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partly satisfied at 31 December 2019, is £366.1m (2018: £236.5m). Of this aggregate amount, the Group expects to recognise £112.5m (2018: £138.1m) as revenue during 2020, with the balance recognised in more than one year but not more than five years. The Group has taken the practical expedients available in IFRS 15 not to include amounts relating to contracts which have 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.

29. 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:

	2019 £'m	2018 £'m
Depreciation charge for right-of-use assets (see note 20)	16.5	14.4
Additions to right-of-use assets (see note 20)*	55.5	4.6
Net book amount of right-of-use assets (see note 20)	116.0	79.1
Interest on lease liabilities (see note 12)	5.0	3.7
Expense related to short-term leases and low-value assets	0.1	0.1
Net cash outflow for leases**	1.4	18.0

* Includes £38.4m relating to the new Ansty Park site (see note 10a) which has a lease term of 30 years.

** Comprises capital payments of £16.2m and interest payments of £4.1m, less a reverse lease premium received of £18.9m relating to the new Ansty Park site (see note 41)

Analysis of lease liabilities:

	Present value of minimum lease payments	
	2019 £'m	2018 £'m
In one year or less	16.4	16.1
In more than one year but not more than five years	51.8	52.3
In more than five years	84.4	29.1
Present value of lease liabilities	152.6	97.5
Current portion	16.4	16.1
Non-current portion	136.2	81.4

30. Bank and other borrowings

	2019 £'m	2018 £'m
Bank loans	0.2	0.4
Other loans	219.2	9.8
Current portion	219.4	10.2
Bank loans	141.4	358.5
Other loans	553.1	789.8
Non-current portion	694.5	1,148.3
Total	913.9	1,158.5
Analysis of bank and other borrowings repayable:		
In one year or less	219.4	10.2
In more than one year but not more than five years	467.8	913.5
In more than five years	226.7	234.8
Total	913.9	1,158.5
Analysis of bank and other borrowings:		
Drawn under committed facilities	898.4	1,143.1
Less unamortised debt issue costs	(0.8)	(1.5)
Fair value adjustment to fixed rate borrowings	6.7	6.7
Interest accruals	9.6	10.2
Total	913.9	1,158.5

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:

	2019			2018		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
2010 Senior notes (USD400.0m)	302.8	–	302.8	313.7	–	313.7
2016 Senior notes (USD600.0m)	454.2	–	454.2	470.5	–	470.5
Syndicated credit facility (USD750.0m)	141.4	426.4	567.8	358.9	229.1	588.0
Bilateral facility (USD125.0m)	–	94.6	94.6	–	–	–
Bilateral facility (GBP100.0m)	–	100.0	100.0	–	–	–
Bilateral facility (GBP45.0m)	–	45.0	45.0	–	–	–
Committed facilities	898.4	666.0	1,564.4	1,143.1	229.1	1,372.2

The Group issued USD400.0m of loan notes to private placement investors in 2010. The notes are in three tranches as follows: USD125.0m carry an interest rate of 5.02% and are due for repayment in June 2020; USD150.0m carry an interest rate of 5.17% and are due for repayment in October 2020; and USD125.0m carry an interest rate of 5.12% and are due for repayment in June 2022.

The Group issued USD600.0m of loan notes to private placement investors in 2016. The notes are in two tranches as follows: USD300.0m carry an interest rate of 3.31% and are due for repayment in July 2023; and USD300.0m carry an interest rate of 3.60% and are due for repayment in July 2026.

In 2014, the Group secured a five-year USD900.0m syndicated revolving credit facility which matures in September 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 2019, the amounts drawn under the facility are £141.4m (2018: £358.9m) represented by borrowings denominated in US dollars of £60.8m and in Sterling of £80.6m. Borrowings under the facility are subject to interest at floating rates which are linked to LIBOR.

During 2019, the Group signed three new committed term loan bilateral facility agreements with its relationship banks. They comprise a USD125m facility with Bank of America, a GBP100m facility with Sumitomo Mitsui Banking Corporation and a GBP45m facility with CaixaBank. Each facility has a term of three years from the date of drawdown. Borrowings under the facilities are subject to interest at floating rates which are linked to LIBOR.

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30. Bank and other borrowings continued

Committed facilities expire as follows:

	2019			2018		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
In one year or less	208.2	–	208.2	–	–	–
In more than one year but not more than five years	463.1	666.0	1,129.1	907.9	229.1	1,137.0
In more than five years	227.1	–	227.1	235.2	–	235.2
Committed facilities	898.4	666.0	1,564.4	1,143.1	229.1	1,372.2

The Group also has various uncommitted facilities with its relationship banks. There were no amounts drawn under these facilities at 31 December 2019 (2018: Nil).

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 2019:

	Floating	Fixed	Total	Fixed rate borrowings	
				Weighted average interest rate	Weighted average period for which rate is fixed
	£'m	£'m	£'m	%	Years
US dollar	76.1	546.1	622.2		
Swiss franc	–	156.6	156.6		
Euro	–	55.2	55.2		
Sterling	80.7	–	80.7		
Gross bank and other borrowings	156.8	757.9	914.7	2.5	3.2
Less unamortised debt issue costs	(0.1)	(0.7)	(0.8)		
Bank and other borrowings	156.7	757.2	913.9		

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	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		

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

Of the Group's gross bank and other borrowings of £914.7m, £461.1m are designated as hedges of net investments in the Group's foreign subsidiaries. The balance of £453.6m comprises sterling borrowings of £80.7m and US dollar denominated borrowings of £372.9m held by US subsidiary undertakings. The foreign exchange gain of £32.0m (2018: loss of £66.9m) on retranslation of the Group's gross bank and other borrowings is recognised in other comprehensive income (see note 42) and includes a gain of £26.2m (2018: loss of £51.8m) on bank and other borrowings which are designated as net investment hedges.

31. Financial instruments**At 31 December 2019:**

	Held at fair value		Held at amortised cost		Total book value	Total fair value
	Through profit & loss	Derivatives designated for hedging	Assets	Liabilities		
	£'m	£'m	£'m	£'m	£'m	£'m
Non-current:						
Other receivables (see note 24)	-	-	17.0	-	17.0	17.0
Contract assets*	-	-	25.4	-	25.4	25.4
Derivative financial instruments (see note 32)	9.5	5.1	-	-	14.6	14.6
Current:						
Trade and other receivables**	-	-	361.7	-	361.7	361.7
Contract assets*	-	-	63.8	-	63.8	63.8
Derivative financial instruments (see note 32)	2.0	1.8	-	-	3.8	3.8
Cash and cash equivalents (see note 26)	-	-	155.3	-	155.3	155.3
Financial assets	11.5	6.9	623.2	-	641.6	641.6
Current:						
Trade and other payables***	-	-	-	(452.0)	(452.0)	(452.0)
Contract liabilities (see note 28)	-	-	-	(50.5)	(50.5)	(50.5)
Derivative financial instruments (see note 32)	(16.5)	-	-	-	(16.5)	(16.5)
Lease liabilities (see note 29)	-	-	-	(16.4)	(16.4)	(16.4)
Bank and other borrowings (see note 30)	(134.7)	-	-	(84.7)	(219.4)	(220.7)
Non-current:						
Other payables (see note 27)	-	-	-	(2.1)	(2.1)	(2.1)
Contract liabilities (see note 28)	-	-	-	(77.0)	(77.0)	(77.0)
Derivative financial instruments (see note 32)	(4.6)	-	-	-	(4.6)	(4.6)
Lease liabilities (see note 29)	-	-	-	(136.2)	(136.2)	(136.2)
Bank and other borrowings (see note 30)	(99.9)	-	-	(594.6)	(694.5)	(702.7)
Financial liabilities	(255.7)	-	-	(1,413.5)	(1,669.2)	(1,678.7)
Total	(244.2)	6.9	623.2	(1,413.5)	(1,027.6)	(1,037.1)

* Excludes non-current programme participation costs of £29.8m and current programme participation costs of £2.5m (see note 25)

** Excludes prepayments of £18.2m (see note 24)

*** Excludes social security and other taxes of £12.5m (see note 27).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

31. Financial instruments continued At 31 December 2018:

	Held at fair value		Held at amortised cost		Total book value	Total fair value
	Through profit & loss	Derivatives designated for hedging	Assets	Liabilities		
	£'m	£'m	£'m	£'m	£'m	£'m
Non-current:						
Other receivables (see note 24)	-	-	21.5	-	21.5	21.5
Contract assets*	-	-	34.1	-	34.1	34.1
Derivative financial instruments (see note 32)	3.4	6.6	-	-	10.0	10.0
Current:						
Trade and other receivables**	-	-	390.5	-	390.5	390.5
Contract assets*	-	-	45.1	-	45.1	45.1
Derivative financial instruments (see note 32)	9.3	-	-	-	9.3	9.3
Cash and cash equivalents (see note 26)	-	-	181.9	-	181.9	181.9
Financial assets	12.7	6.6	673.1	-	692.4	692.4
Current:						
Trade and other payables***	-	-	-	(441.4)	(441.4)	(441.4)
Contract liabilities (see note 28)	-	-	-	(47.9)	(47.9)	(47.9)
Derivative financial instruments (see note 32)	(18.8)	-	-	-	(18.8)	(18.8)
Lease liabilities (see note 29)	-	-	-	(16.1)	(16.1)	(16.1)
Bank and other borrowings (see note 30)	-	-	-	(10.2)	(10.2)	(10.2)
Non-current:						
Other payables (see note 27)	-	-	-	(1.3)	(1.3)	(1.3)
Contract liabilities (see note 28)	-	-	-	(43.9)	(43.9)	(43.9)
Derivative financial instruments (see note 32)	(17.4)	-	-	-	(17.4)	(17.4)
Lease liabilities (see note 29)	-	-	-	(81.4)	(81.4)	(81.4)
Bank and other borrowings (see note 30)	(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	673.1	(1,547.8)	(1,134.3)	(1,122.5)

* Excludes non-current programme participation costs of £27.0m and current programme participation costs of £2.8m (see note 25)

** Excludes prepayments of £23.1m (see note 24)

*** Excludes social security and other taxes of £11.1m (see note 27)

Prior year comparatives have been restated to exclude programme participation costs from contract assets.

Fair value measurement and hierarchy

For trade and other receivables, contract assets, cash and cash equivalents, trade and other payables, contract liabilities and 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 and contract assets, 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. 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. Credit risk is not significant for these instruments.

The current and non-current elements of fixed rate bank and other borrowings measured at fair value, are classified as level 3 in the fair value measurement hierarchy, as they have 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 values attributable to interest rate risk have 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 values attributable to credit risk have 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 values of the current and non-current elements of fixed rate bank and other borrowings which are held at amortised cost, but for which fair values are provided in the table above.

There were no transfers of assets or liabilities between levels of the fair value hierarchy in the year.

31. Financial instruments continued**Impairment of financial assets**

Trade receivables and contract assets are stated after a loss allowance of £6.1m (2018: £7.1m). Movements in the loss allowance during the year are as follows:

	2019 £m	2018 £m
At 1 January	7.1	4.5
Exchange rate adjustments	(0.1)	0.2
Utilised	(1.6)	(0.6)
Charge to income statement – net operating costs	0.7	3.0
At 31 December	6.1	7.1

The loss allowance is determined by reference to the ageing of the gross balances which at 31 December 2019 is as follows:

	2019 £m	2018 £m
Current	351.0	349.9
Up to 1 month past due	41.3	46.7
Up to 2 months past due	14.3	13.3
Up to 3 months past due	5.1	6.9
More than 3 months past due	14.0	13.6
Gross balances	425.7	430.4
Loss allowance	(6.1)	(7.1)
Total	419.6	423.3

Represented by:

Trade receivables – current (see note 24)	330.4	344.1
Contract assets – current (see note 25)	63.8	45.1
Contract assets – non-current (see note 25)	25.4	34.1
At 31 December	419.6	423.3

The maximum exposure to credit risk at the balance sheet date is the fair value of each class of financial asset reported above.

Other receivables and cash and cash equivalents are also subject to the impairment requirements of IFRS 9, however the identified impairment loss was not significant. The credit quality of the financial institutions where cash and cash equivalents is held are as follows:

	2019 £m	2018 £m
Moody's rating:		
Aaa	–	0.1
Aa	122.3	131.9
A	33.0	49.9
Total	155.3	181.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

31. Financial instruments continued

Financial liabilities designated as fair value through profit and loss

Cumulative unrealised changes in fair values of the current and non-current elements of bank and other borrowings arising from changes in credit risk are as follows:

	2019 £'m	2018 £'m
Fair value at 1 January – arising from changes in credit risk	0.3	1.1
Gain recognised in other comprehensive income	–	(0.8)
Fair value at 31 December – arising from changes in credit risk	0.3	0.3

The difference between fair values and contractual amounts at maturity of the current and non-current elements of bank and other borrowings is as follows:

	2019 £'m	2018 £'m
Fair value	234.6	242.7
Difference between fair values and contractual amounts at maturity	(7.5)	(7.5)
Contractual amount payable at maturity	227.1	235.2

Financial liabilities classified as level 3 in the hierarchy

Changes in fair value are as follows:

	2019 £'m	2018 £'m
Bank and other borrowings at fair value through profit and loss:		
At 1 January	242.7	235.2
Exchange rate adjustments	(8.1)	13.1
Gain recognised in net operating costs (see note 9)	(0.1)	(4.9)
Loss recognised in net finance costs	0.1	0.1
Gain recognised in other comprehensive income	–	(0.8)
At 31 December	234.6	242.7

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 values at 31 December 2019, would impact other comprehensive income by approximately £2.2m.

32. Derivative financial instruments

At 31 December 2019:

	Contract or underlying principal amount		Fair value	
	Assets £'m	Liabilities £'m	Assets £'m	Liabilities £'m
Interest rate swaps – fair value hedges	132.4	–	1.8	–
Cross currency swaps – not hedge accounted	–	(211.8)	–	(6.8)
Foreign currency forward contracts – not hedge accounted	56.2	(216.5)	2.0	(9.7)
Current portion	188.6	(428.3)	3.8	(16.5)
Interest rate swaps – fair value hedges	94.6	–	5.1	–
Foreign currency forward contracts – not hedge accounted	207.4	(199.2)	9.5	(4.6)
Non-current portion	302.0	(199.2)	14.6	(4.6)
Total	490.6	(627.5)	18.4	(21.1)

32. Derivative financial instruments continued**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)

Credit quality of derivative financial assets

The credit quality of derivative financial assets is as follows:

	2019 £'m	2018 £'m
Moody's rating:		
Aa	6.6	4.4
A	11.8	14.9
Total	18.4	19.3

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 2019 is £227.1m (2018: £235.2m), of which £132.5m will expire in 2020 and £94.6m 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 contracts are accounted for as fair value hedges.

Cross currency swaps

The cross currency swap contracts are 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 contracts do not qualify to be hedge accounted.

Foreign currency forward contracts

Although the Group uses foreign currency forward contracts to hedge against foreign currency exposures, it has decided 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:

	2019 Assets £'m	2019 Liabilities £'m	2018 Assets £'m	2018 Liabilities £'m
Fair value:				
US dollar/Sterling forward sales	11.4	(10.8)	2.8	(29.1)
Forward sales denominated in other currencies	0.1	(3.3)	1.5	(3.5)
Total	11.5	(14.1)	4.3	(32.6)

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33. Provisions

	Provisions				Total £'m	Environmental receivables (a) £'m
	Environmental (a) £'m	Onerous contracts (b) £'m	Warranty costs (c) £'m	Other (d) £'m		
At 1 January 2019	80.6	13.7	15.7	6.7	116.7	(34.1)
Exchange rate adjustments	(2.5)	(0.3)	(0.5)	0.1	(3.2)	0.7
Businesses disposed (see note 43)	–	2.0	–	–	2.0	–
Additional provisions/(receivables recognised) in year*	7.3	3.6	7.5	4.9	23.3	(7.3)
Unused amounts reversed*	–	(2.0)	(1.2)	(3.5)	(6.7)	–
Charge/(credit) to net finance costs (see notes 12 and 11 respectively)	1.2	–	–	–	1.2	(0.5)
Transfers from/(to) trade and other payables	–	0.8	(0.2)	–	0.6	–
Utilised	(19.9)	(4.5)	(6.5)	(2.4)	(33.3)	24.2
At 31 December 2019	66.7	13.3	14.8	5.8	100.6	(17.0)
					2019 £'m	2018 £'m
Current					36.2	33.0
Non-current					64.4	83.7
At 31 December 2019					100.6	116.7

* 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 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 24).
- 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.

34. Deferred tax

Movements in deferred tax assets and liabilities without taking into consideration the offsetting of balances, are as follows. Prior year comparatives have been restated to provide further analysis of amounts previously disclosed within 'other':

	Assets £'m	Liabilities £'m	Net £'m
At 1 January 2018	124.4	{240.3}	{115.9}
Exchange rate adjustments	4.8	{12.6}	{7.8}
Reclassifications	0.4	{0.4}	-
Transfer to assets classified as held for sale	{0.7}	{2.2}	{2.9}
Credit to income statement – Impact of reduction in US federal corporate tax rate (see note 13)	4.1	-	4.1
Charge to income statement – Other (see note 13)	-	{15.5}	{15.5}
Charge to other comprehensive income (see note 13)	{7.2}	-	{7.2}
Charge to equity (see note 13)	{0.4}	-	{0.4}
At 31 December 2018	125.4	{271.0}	{145.6}
Exchange rate adjustments	{2.7}	8.2	5.5
Reclassifications	2.5	{2.5}	-
Charge to income statement (see note 13)	{15.2}	9.1	{6.1}
Credit to other comprehensive income (see note 13)	12.2	-	12.2
Credit to equity (see note 13)	2.0	-	2.0
At 31 December 2019	124.2	{256.2}	{132.0}

Movements in gross deferred tax assets are analysed as follows:

	Assets			Total
	Provisions	Retirement benefit obligations	Other (*)	
	£'m	£'m	£'m	£'m
At 1 January 2018	27.4	63.1	33.9	124.4
Exchange rate adjustments	1.7	1.8	1.3	4.8
Reclassifications	-	-	0.4	0.4
Transfer to assets classified as held for sale	-	-	{0.7}	{0.7}
Credit to income statement – Impact of reduction in US federal corporate tax rate	-	4.1	-	4.1
Charge to income statement – Other	5.8	{17.7}	11.9	-
Charge to other comprehensive income	-	{7.3}	0.1	{7.2}
Charge to equity	-	-	{0.4}	{0.4}
At 31 December 2018	34.9	44.0	46.5	125.4
Exchange rate adjustments	{0.9}	{1.0}	{0.8}	{2.7}
Reclassifications	-	-	2.5	2.5
Charge to income statement	{3.2}	{2.7}	{9.3}	{15.2}
Credit to other comprehensive income	-	11.9	0.3	12.2
Credit to equity	-	-	2.0	2.0
At 31 December 2019	30.8	52.2	41.2	124.2

* Includes balances arising from temporary differences in relation to accruals, share-based payments, finance costs and derivative financial instruments, none of which are individually material at either balance sheet date or include any material movements during either year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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34. Deferred tax continued

Movements in gross deferred tax liabilities are analysed as follows:

	Liabilities			Total £'m
	Intangible assets £'m	Contract assets £'m	Accelerated tax depreciation £'m	
At 1 January 2018	(206.9)	(9.1)	(24.3)	(240.3)
Exchange rate adjustments	(10.6)	(0.6)	(1.4)	(12.6)
Reclassifications	(0.4)	–	–	(0.4)
Transfer to assets classified as held for sale	(2.2)	–	–	(2.2)
Charge to income statement	(11.4)	(1.5)	(2.6)	(15.5)
At 31 December 2018	(231.5)	(11.2)	(28.3)	(271.0)
Exchange rate adjustments	7.0	0.4	0.8	8.2
Reclassifications	(8.3)	–	5.8	(2.5)
Charge to income statement	10.4	(0.1)	(1.2)	9.1
At 31 December 2019	(222.4)	(10.9)	(22.9)	(256.2)

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:

	2019 £'m	2018 £'m
Deferred tax assets	23.3	16.3
Deferred tax liabilities	(155.3)	(161.9)
Net balance at 31 December	(132.0)	(145.6)

Deferred tax liabilities all fall due after more than one year. Deferred tax assets are analysed as follows:

	2019 £'m	2018 £'m
To be recovered within one year	11.0	11.4
To be recovered after more than one year	12.3	4.9
Total	23.3	16.3

The Group has unrecognised tax losses of £9.9m (2018: £12.5m) 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 probable 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.

35. 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

	2019 £m	2018 £m
Total charge in respect of defined contribution pension schemes	34.5	30.9
Service cost	12.1	15.4
Past service cost (see note 10)	-	1.7
Past service credit	-	(5.4)
Administrative expenses borne directly by schemes	2.7	2.7
Net interest expense on retirement benefit obligations	4.3	6.3
Total charge in respect of defined benefit pension schemes	19.1	20.7
Service cost	0.7	0.7
Net interest expense on retirement benefit obligations	1.8	1.7
Total charge in respect of healthcare schemes	2.5	2.4
Total charge	56.1	54.0

Of the total charge, £47.3m (2018: £43.3m) is included in employee costs (see note 8), of which £29.3m (2018: £28.1m) has been recognised in cost of sales and £18.0m (2018: £15.2m) in net operating costs. Of the remaining charge, £2.7m (2018: £2.7m) has been recognised in net operating costs in respect of scheme administration expenses and £6.1m (2018: £8.0m) is recognised in finance costs (see note 12).

The past service cost in 2018 related to the impact of the UK High Court ruling on how UK pension schemes should equalise Guaranteed Minimum Pension benefits. That change, which had not been anticipated in prior year actuarial assumptions, was treated as an exceptional operating item (see note 10). The past service credit in 2018 related to the Group's decision to freeze two of the US schemes to future accrual for existing members.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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35. Retirement benefit obligations *continued*
Amounts recognised on the balance sheet

	2019			
	UK pension scheme £'m	Overseas* pension schemes £'m	US healthcare schemes £'m	Total £'m
Present value of liabilities	855.7	445.9	45.9	1,347.5
Fair value of assets	(705.1)	(374.5)	-	(1,079.6)
Retirement benefit obligations	150.6	71.4	45.9	267.9

	2018			
	UK pension scheme £'m	Overseas* pension schemes £'m	US healthcare schemes £'m	Total £'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

* Comprises £51.0m (2018: £56.2m) in respect of US schemes and £20.4m (2018: £20.8m) in respect of the Swiss scheme.

Of the total deficit of £267.9m (2018: £209.1m), £60.9m (2018: £62.3m) is in respect of unfunded schemes.

Changes in the present value of retirement benefit obligations

	2019			2018		
	Liabilities £'m	Assets £'m	Total £'m	Liabilities £'m	Assets £'m	Total £'m
At 1 January	1,224.7	(1,015.6)	209.1	1,303.4	(995.3)	308.1
Exchange rate adjustments	(15.3)	11.3	(4.0)	26.4	(18.6)	7.8
Service cost	12.8	-	12.8	16.1	-	16.1
Past service cost	-	-	-	1.7	-	1.7
Past service credit	-	-	-	(5.4)	-	(5.4)
Net interest expense (see note 12)	36.0	(29.9)	6.1	33.9	(25.9)	8.0
Contributions – Group	-	(48.0)	(48.0)	-	(83.7)	(83.7)
Contributions – Members	2.7	(2.7)	-	3.1	(3.1)	-
Benefits paid	(56.1)	56.1	-	(55.0)	55.0	-
Settlements	-	-	-	(1.2)	1.2	-
Administrative expenses borne directly by schemes	-	2.7	2.7	-	2.7	2.7
Remeasurement of retirement benefit obligations:						
Experience gain	(0.9)	-	(0.9)	(14.0)	-	(14.0)
(Gain)/loss from change in demographic assumptions	(8.9)	-	(8.9)	3.1	-	3.1
Loss/(gain) from change in financial assumptions	152.5	-	152.5	(87.4)	-	(87.4)
Return on schemes' assets excluding amounts included in finance costs	-	(53.5)	(53.5)	-	52.1	52.1
Total remeasurement loss/(gain)	142.7	(53.5)	89.2	(98.3)	52.1	(46.2)
At 31 December	1,347.5	(1,079.6)	267.9	1,224.7	(1,015.6)	209.1

35. Retirement benefit obligations continued

Analysis of pension scheme assets

	2019				2018			
	Quoted £'m	Unquoted £'m	Total £'m	%	Quoted £'m	Unquoted £'m	Total £'m	%
Equities	231.0	–	231.0	32.8	160.2	–	160.2	24.0
Government bonds	284.9	2.3	287.2	40.7	290.2	2.2	292.4	43.7
Corporate bonds	63.6	1.8	65.4	9.3	53.6	11.7	65.3	9.8
Hedge funds	–	51.8	51.8	7.4	–	60.9	60.9	9.1
Property funds	–	26.4	26.4	3.7	–	19.0	19.0	2.8
Cash	46.7	–	46.7	6.6	59.5	–	59.5	8.9
Derivative assets/(liabilities)	2.9	(13.7)	(10.8)	(1.5)	–	4.6	4.6	0.7
Other assets	–	7.4	7.4	1.0	–	7.1	7.1	1.0
UK pension scheme	629.1	76.0	705.1	100.0	563.5	105.5	669.0	100.0
Equities	55.9	4.2	60.1	16.1	48.0	4.1	52.1	15.0
Government bonds	94.5	–	94.5	25.2	153.2	–	153.2	44.2
Corporate bonds	160.8	–	160.8	42.9	79.0	–	79.0	22.8
Property funds	22.6	3.8	26.4	7.0	21.1	10.2	31.3	9.0
Cash	7.7	–	7.7	2.1	4.1	–	4.1	1.2
Derivative assets	–	2.6	2.6	0.7	5.1	–	5.1	1.5
Other assets	22.4	–	22.4	6.0	21.8	–	21.8	6.3
Overseas pension schemes	363.9	10.6	374.5	100.0	332.3	14.3	346.6	100.0
Equities	286.9	4.2	291.1	27.0	208.2	4.1	212.3	20.9
Government bonds	379.4	2.3	381.7	35.4	443.4	2.2	445.6	43.8
Corporate bonds	224.4	1.8	226.2	20.9	132.6	11.7	144.3	14.2
Hedge funds	–	51.8	51.8	4.8	–	60.9	60.9	6.0
Property funds	22.6	30.2	52.8	4.9	21.1	29.2	50.3	5.0
Cash	54.4	–	54.4	5.0	63.6	–	63.6	6.3
Derivative assets/(liabilities)	2.9	(11.1)	(8.2)	(0.8)	5.1	4.6	9.7	1.0
Other assets	22.4	7.4	29.8	2.8	21.8	7.1	28.9	2.8
Total pension schemes' assets	993.0	86.6	1,079.6	100.0	895.8	119.8	1,015.6	100.0

Other assets principally comprise mortgage-backed securities and commodities, no category of which is individually significant. The schemes have no investments in any assets of the Group.

Financial assumptions used to calculate scheme liabilities

	2019			2018		
	UK pension scheme	US pension schemes	US healthcare schemes	UK pension scheme	US pension schemes	US healthcare schemes
Discount rate*	2.05%	3.10%	3.10%	2.90%	4.15%	4.15%
Inflation rate	3.00%	N/A	N/A	3.20%	N/A	N/A
Increases to deferred benefits during deferment**	2.10%	N/A	N/A	2.20%	N/A	N/A
Increases to pensions in payment**	2.90%	N/A	N/A	3.10%	N/A	N/A
Salary increases	2.85%	N/A	N/A	2.95%	N/A	N/A

* The discount rate for the Swiss scheme was 0.32% (2018: 0.95%).

** 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 Pri-2012 headcount weighted table, for schemes where benefits are not salary-linked, and the Pri-2012 table for other schemes, with both tables projecting rates of mortality to fall using the 2019 Social Security Administration's Intermediate-Cost Projections scale.

In Switzerland, mortality assumptions are based on the LPP 2015 (Generational) tables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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35. Retirement benefit obligations continued
Financial assumptions used to calculate scheme liabilities continued

	2019			2018		
	UK scheme Years	US schemes Years	Swiss scheme Years	UK scheme Years	US schemes Years	Swiss scheme Years
Member age 45 (life expectancy at age 65) – male	22.9-24.8	21.0-21.9	24.4	23.1-24.9	21.4-22.1	24.3
Member age 45 (life expectancy at age 65) – female	25.5-26.8	23.4-23.6	26.4	25.6-26.9	23.5-23.7	26.3
Member age 65 (current life expectancy) – male	21.6-23.4	19.8-20.6	22.6	21.7-23.5	20.2-20.8	22.4
Member age 65 (current life expectancy) – female	24.0-25.3	22.2-22.5	24.7	24.1-25.4	22.3-22.6	24.4

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

- The impact of a 50 basis point reduction in discount rate, the average annual movement in discount rates observed over the last five years, would cause scheme liabilities at 31 December 2019 to increase by approximately £114.0m.
- The impact of a 10 basis point increase in inflation and salary inflation rates would cause scheme liabilities at 31 December 2019 to increase by approximately £10.0m.
- The impact of assuming every scheme member were to live for an additional year would cause scheme liabilities at 31 December 2019 to increase by approximately £48.0m.

The above sensitivities 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 funds, hedge funds, mortgage-backed securities, 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 26% of the total equities held by the schemes and have an average remaining life of 2.8 years at 31 December 2019. 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. For the UK scheme, the Group has additionally entered into interest rate derivatives in 2019 which cover approximately 30% of the scheme liabilities.

35. Retirement benefit obligations continued

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. For the UK scheme, the Group has additionally entered into inflation rate derivatives in 2019 which cover approximately 30% of the scheme liabilities.

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.

Other information

In the UK, the 2018 triennial valuation was finalised during the year. At the date of this valuation, the deficit was measured for funding purposes at £171.8m. The funding shortfall had improved modestly from that projected under the previous 2015 valuation. Accordingly, the Group agreed with the trustees that it will continue to make annual deficit reduction payments at the same levels as those under the previous recovery plan, agreed as part of the 2015 valuation, but that these payments would now be expected to eliminate the deficit by August 2023 (March 2024 under the 2015 recovery plan). Under the current recovery plan, the Group will make deficit contributions of £31.9m in 2020 and these 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 2018 actuarial valuation does not exceed the scheme accounting deficit at 31 December 2019 and accordingly no additional minimum funding liability arises. At 31 December 2019, principally due to the recent fall in bond yields the current funding position is approximately £72.0m lower than that projected in the 2018 valuation. This funding shortfall is not expected to impact the level of deficit reduction payments for 2020 and it is currently expected the shortfall will, should it remain, be addressed through a revised recovery plan agreed as part of the 2021 valuation. The buy-out valuation at the 2018 valuation date, which assumed the Group were to transfer responsibility of the scheme to an insurance company, was measured at £467.9m. The Group has no current plans to make such a transfer.

In the US, minimum deficit reduction payments are driven by regulations and provide for deficits to be eliminated over periods up to 15 years. Absent any changes in legislation, deficit payments in 2020 are expected to be £3.8m and remain relatively stable at this level over the following three years. Thereafter, annual payments are expected to be 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 2019 and accordingly no additional minimum funding liability arises.

The Swiss scheme has a surplus on a funding basis of approximately £20.7m and no additional minimum funding liability arises.

Estimated total Group contributions expected to be paid to the schemes during 2020 are £51.0m.

The weighted average duration of the UK schemes' defined benefit obligation is 19.1 years. The weighted average duration of the overseas schemes' defined benefit obligations is 12.1 years. The expected maturity of undiscounted pension and healthcare benefits at 31 December 2019 is as follows:

	Pension schemes £'m	Healthcare schemes £'m	Total £'m
To be made in 2020	46.9	3.1	50.0
To be made in 2021	47.9	3.1	51.0
To be made in 2022 to 2024	151.9	9.1	161.0
To be made in 2025 to 2029	267.7	13.2	280.9
To be made in 2030 to 2034	271.0	10.7	281.7
To be made in 2035 to 2039	252.2	8.5	260.7
To be made in 2040 to 2044	224.8	6.4	231.2
To be made from 2045 onwards	609.6	11.9	621.5
Total expected benefit payments	1,872.0	66.0	1,938.0

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36. 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 2018	776.4	38.8	
Issued on exercise of Sharesave awards	0.5	–	–
At 31 December 2018	776.9	38.8	
Issued on exercise of Sharesave awards	0.6	–	–
At 31 December 2019	777.5	38.8	

The Company does not have an authorised share capital.

37. 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 £10.1m (2018: £13.5m) (see note 8) and is analysed as follows:

	2019 £'m	2018 £'m
Meggitt Long-Term Incentive Plan 2014 – Equity settled	9.3	12.5
Meggitt Long-Term Incentive Plan 2014 – Cash settled	0.1	0.5
Deferred Share Bonus Plan – Equity settled	–	0.3
Sharesave Plans – Equity settled	0.7	0.3
Other	–	(0.1)
Total	10.1	13.5

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 measure (33% of the award);
- A return on assets 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. There is no exercise price payable by the employees. The fair value of the award made in 2019 has been estimated at the market price of the share on the date of grant, which was 523.80 pence (2018: 429.60 pence). Movements in the number of outstanding shares that may potentially be released to employees are as follows:

	2019 Number of shares under award outstanding 'm	2018 Number of shares under award outstanding 'm
At 1 January	16.7	15.2
Awarded	4.6	5.7
Exercised	(2.1)	(0.6)
Lapsed	(3.2)	(3.6)
At 31 December	16.0	16.7

At 31 December 2019, 0.7m of the shares under award are eligible for release. The remaining 15.3m shares under award have a weighted average life of 420 days until they are eligible for release.

38. 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 116. At 31 December 2019, the trust holds 3.1m ordinary shares (2018: 5.0m ordinary shares) which are unallocated, being retained by the trust for future use. The shares are held for the benefit of employees. The shares held at 31 December 2019 were purchased during 2018 at a cost of £14.9m. Their market value at 31 December 2019 is £20.3m (2018: £26.2m) representing 0.40% of the issued share capital of the Company (2018: 0.72%).

39. Contractual commitments

Capital commitments

	2019 £'m	2018 £'m
Contracted for but not incurred:		
Intangible assets	3.7	0.6
Property, plant and equipment	46.9	14.3
Total	50.6	14.9

Other financial commitments

The Group enters into long-term arrangements with aircraft and original equipment manufacturers to design, develop and supply products to them for the life of the aircraft. This represents a significant long-term financial commitment for the Group and requires the consideration of a number of uncertainties including the feasibility of the product and the ultimate commercial viability over a period which can extend over 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 2019, are shown in the table below.

	2019 Development costs £'m	2019 Programme costs £'m	2018 Development costs £'m	2018 Programme costs £'m
In one year or less	42.2	81.5	49.0	77.0
In more than one year but not more than five years	35.3	305.3	16.9	227.3
In more than five years	7.9	899.2	11.2	825.5
Total	85.4	1,286.0	77.1	1,129.8

40. 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 believe that the probability of an outflow of economic benefits arising from the guarantees is remote.

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.

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41. Cash inflow from operations

	2019 £'m	2018 £'m
Profit for the year	222.6	179.0
Adjustments for:		
Finance income (see note 11)	(2.2)	[1.0]
Finance costs (see note 12)	40.8	41.5
Tax (see note 13)	64.1	37.1
Depreciation (see note 20)	57.3	53.6
Amortisation (see notes 18 and 19)	138.4	132.2
Impairment loss (see note 20)	-	3.6
(Gain)/loss on disposal of property, plant and equipment	(0.9)	3.0
Gain on disposal of businesses (see note 9)	(35.7)	(30.4)
Impairment of assets classified as held for sale	-	10.7
Remeasurement of fair value of contingent consideration payable (see note 9)	-	(3.6)
Financial instruments - (gain)/loss (see note 9)	(15.0)	10.1
Impact of retranslating net foreign currency cash at spot rate	(0.6)	-
Share of (profit)/loss after tax of joint venture (see note 21)	(1.7)	1.5
Change in carrying value of held for sale assets and liabilities up to date of disposal (see note 22)	(0.5)	(2.0)
Retirement benefit obligation deficit payments	(35.2)	(67.6)
Share-based payment expense (see note 37)	10.1	13.5
Changes in working capital:		
Inventories	(75.6)	(33.5)
Trade and other receivables	20.4	17.2
Contract assets	(15.7)	(18.0)
Trade and other payables	29.3	30.0
Contract liabilities	31.1	9.0
Provisions	(16.6)	(37.7)
Cash inflow from operations	414.4	348.2

The Board uses free cash flow to monitor and measure the underlying trading cash performance of the Group. It excludes amounts received and/or paid in respect of M&A activity for the reasons set out in note 9a. It is reconciled to cash from operating activities below:

	2019 £'m	2018 £'m
Cash inflow from operating activities	366.9	295.3
Add back cash outflow from business disposal expenses	9.4	3.8
Add back impact of retranslating net foreign currency cash at spot rate	0.6	-
Capitalised development costs (see note 18)	(54.7)	(58.6)
Capitalised programme participation costs	(2.0)	(0.8)
Purchase of intangible assets (see note 19)	(17.2)	(21.8)
Purchase of property, plant and equipment	(77.2)	(52.6)
Proceeds from disposal of property, plant and equipment	23.1	2.1
Reverse lease premium received*	18.9	-
Free cash inflow	267.8	167.4

* Prior to any discussions with the lessor, the Group had negotiated terms for the purchase of land and subsequent construction of the building at Ansty Park, with a number of third parties. The lessor received the benefit of these negotiated terms when it contracted with those same third parties, and in return agreed to make a reverse lease premium payment to the Group at inception of the lease. The receipt of the reverse lease premium of £18.9m has been included in free cash flow, consistent with the treatment of capital expenditure incurred by the Group relating to the Ansty Park site.

42. Movements in net debt

	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 2018	71.4	1,005.8	16.9	85.2	1,179.3	(118.5)	1,060.8
Cash inflow from operating activities	–	–	–	–	–	(295.3)	(295.3)
Cash outflow from investing activities	–	–	–	–	–	96.0	96.0
Cash (inflow)/outflow from financing activities*	(66.8)	85.5	(14.3)	–	4.4	142.4	146.8
Lease liabilities entered	–	–	–	4.6	4.6	–	4.6
Exchange rate adjustments	5.1	61.8	0.7	4.4	72.0	(6.5)	65.5
Other movements	0.5	(4.8)	12.8	(12.8)	(4.3)	–	(4.3)
At 31 December 2018	10.2	1,148.3	16.1	81.4	1,256.0	(181.9)	1,074.1
Cash inflow from operating activities	–	–	–	–	–	(366.9)	(366.9)
Cash outflow from investing activities	–	–	–	–	–	49.7	49.7
Cash (inflow)/outflow from financing activities*	–	(212.6)	(0.2)	2.9	(209.9)	340.3	130.4
Lease liabilities entered	–	–	–	54.2	54.2	–	54.2
Exchange rate adjustments	(5.6)	(26.4)	(0.4)	(2.3)	(34.7)	3.5	(31.2)
Other movements	214.8	(214.8)	0.9	–	0.9	–	0.9
At 31 December 2019	219.4	694.5	16.4	136.2	1,066.5	(155.3)	911.2

* Cash flows relating to bank and other borrowings are disclosed in the cash flow statement as proceeds from borrowings of £0.4m (2018: £85.5m) and repayments of borrowings of £213.0m (2018: £66.8m).

43. Business disposals

During 2018, the Group decided to dispose of the trade and assets of Meggitt (France) SAS, a producer of engine ignition technology, and at 31 December 2018 determined that a sale was highly probable. The related assets were classified as a disposal group held for sale and were presented separately together with directly associated liabilities. The disposal subsequently completed on 1 April 2019 for a consideration of EUR1.0m. Additionally, during the year, the Group disposed of a number of product lines, principally from within one of its Energy and Equipment businesses for a total consideration of USD85.4m. These product lines met the requirements of IFRS 3 to be considered a business.

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:

	Meggitt (France) SAS £'m	Energy & Equipment product lines £'m	Total £'m
Goodwill (see note 17)	–	10.8	10.8
Development costs (see note 18)	–	0.9	0.9
Property, plant and equipment (see note 20)	–	6.2	6.2
Inventories	–	13.5	13.5
Assets classified as held for sale (see note 22)	1.4	–	1.4
Provisions assumed on disposal – current (see note 33)	–	2.0	2.0
Net assets	1.4	33.4	34.8
Business disposal expenses (see note 9)			12.2
Gain on disposal (see note 9)			23.5
Total consideration received in cash			70.5
Cash inflow arising on disposal:			
Total consideration received in cash			70.5
Add: deferred consideration received in respect of business disposed of in prior period			7.8
Businesses disposed			78.3
Less: business disposal expenses paid			(9.4)
Total cash inflow			68.9

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44. Related undertakings

In accordance with section 409 of the Companies Act 2006, a full list of related undertakings as at 31 December 2019 is disclosed below. Unless otherwise stated, undertakings have their registered office at Atlantic House, Aviation Park West, Bournemouth International Airport, Christchurch, Dorset BH23 6EW, United Kingdom, and have a single class of ordinary shares 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) Limited
The Microsystems Group Limited

Subsidiaries – indirectly owned

ABL Systems (USA)⁷
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)²
14600 Myford Road, Irvine, California 92606
Artus SAS (France)
Chemin du Champ des Martyrs, 49240 Avrillé
Atlantic House Pension Trustee Limited⁵
BAJ Coatings Limited⁶
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 Sparling Limited
Cavehurst (Finance) Ireland Unlimited Company (in liquidation) (Republic of Ireland)
Gorse Valley, Tipperkevin, Ballymore Eustace, Co Kildare
Cavehurst Limited⁵
Dunlop Aerospace Group Limited⁵
Dunlop Aerospace Holdings Limited⁵
Dunlop Aerospace Overseas Investments Limited
Dunlop Aerospace Overseas Limited⁵
Dunlop Holdings Limited⁵
Dunlop Limited⁵
Endevco Vertriebs GmbH (Germany)
Kaiserleistraße 51, 63067 Offenbach/Main
Erlanger Acquisition Corporation (USA)⁷
1955 Surveyor Avenue, Simi Valley, California 93063
Europenne 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 Limited⁶
King Tool International Limited
Meggitt (Baltimore) Inc. (USA)⁷
3310 Carllins 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 Mercœur, 75011 Paris
Meggitt (Hurn) Limited
Meggitt (Korea) Limited
Meggitt (North Hollywood), Inc. (USA)⁷
12838 Satcoy Street, North Hollywood, California 91605
Meggitt (Orange County), Inc. (USA)⁷
14600 Myford Road, Irvine, California 92606

Meggitt Overseas Limited
Meggitt (Rockmart), Inc. (USA)⁷
669 Goodyear Street, Rockmart, Georgia 30153
Meggitt (San Diego), Inc. (USA)⁷
6650 Top Gun Street, San Diego, California 92121
Meggitt (Sapphire) Limited
Meggitt (Sensorex) SAS (France)
196 rue Louis Rustin, Archamps Technopole, 74160 Archamps
Meggitt (Shapwick) Limited
Meggitt (Simi Valley), Inc. (USA)⁷
1955 Voyager Avenue, Simi Valley, California 93063
Meggitt (Tarrant) Limited
Meggitt (Troy), Inc. (USA)⁷
3 Industrial Drive, Troy, Indiana 47588
Meggitt (UK) Limited
Meggitt (Vietnam) Co., Ltd (Vietnam)⁹
No 7, 16A Road, Industrial Zone 2 of Bienhoa, Dongnai
Meggitt (Xiamen) Sensors & Controls Company Limited (China)¹⁰
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)⁷
1955 Surveyor Avenue, Simi Valley, California 93063
Meggitt Acquisition (France) SAS (France)
Chemin du Champ des Martyrs, 49240 Avrillé
Meggitt Acquisition Limited⁵
Meggitt Advanced Composites Limited⁵
Meggitt Aerospace Asia Pacific Pte. Ltd. (Singapore)
1A Seletar Aerospace Link, Seletar Aerospace Park, Singapore 797552
Meggitt Aerospace Holdings Limited⁵
Meggitt Aerospace Limited
Meggitt Aircraft Braking Systems Corporation (USA)⁷
1204 Massillon Road, Akron, Ohio 44306
Meggitt Aircraft Braking Systems Kentucky Corporation (USA)⁷
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 54/ 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)¹⁰
Avenida João Cabral de Melo 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)⁷
9801 Muirlands Boulevard, Irvine, California 92618
Meggitt Filtration & Transfer Limited
Meggitt Finance (Beta)
Meggitt Finance Limited
Meggitt GmbH (Germany)
Kaiserleistraße 51, 63067 Offenbach

44. Related undertakings continued

Meggitt Holdings (France) SAS (France)
Chemin du Champ des Martyrs, 49240 Avrillé

Meggitt Holdings (USA) Inc. (USA)¹
1955 Surveyor Avenue, Simi Valley, California 93063

Meggitt India Pvt Ltd (India)²
901, Brigade Roix, No. 20 HMT Main Road, HMT Township, North Bangalore Karnataka 560022

Meggitt International Holdings Limited³

Meggitt International Limited³

Meggitt Investments Limited³

Meggitt-Oregon, Inc. (USA)⁴
2010 Lafayette Avenue, McMinnville, Oregon 97128

Meggitt Properties PLC

Meggitt Queretaro LLC (USA)⁵
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)⁷
6140 Henri Bourassa West, Saint-Laurent, Quebec, H4R 3A6

Meggitt Training Systems Australia Pty Ltd (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)⁸
296 Brogdon Road, Suwanee, Georgia 30024

Meggitt Training Systems Limited

Meggitt Training Systems Pte. Ltd. (Singapore)
1A Seletar Aerospace Link, Seletar Aerospace Park, Singapore 797552

Meggitt-USA Services, Inc. (USA)⁹
1955 Surveyor Avenue, Simi Valley, California 93063

Meggitt-USA, Inc. (USA)⁹
1955 Surveyor Avenue, Simi Valley, California 93063

Miller Insulation & Engineering Limited¹⁴

NASCO Aircraft Brake, Inc. (USA)¹
13300 Estrella Avenue, Gardena, California 90248

OECO, LLC (USA)⁵
4607 SE International Way, Milwaukie, Oregon 97222

Pacific Scientific Company (USA)¹
1785 Voyager Avenue, Simi Valley, California 93063

Park Chemical Company (USA)¹
1955 Surveyor Avenue, Simi Valley, California 93063

Piher International Limited

Precision Engine Controls Corporation (USA)¹
11661 Sorrento Valley Road, San Diego, California 92121

Securaplane Technologies, Inc. (USA)¹
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 Ltd (in liquidation) (Australia)
Bradley Tonks, PKF Sydney, Level 8, 1 O'Connell Street, Sydney, New South Wales 2000

Wallaby Grip Australia Pty Ltd (in liquidation) (Australia)
Bradley Tonks, PKF Sydney, Level 8, 1 O'Connell Street, Sydney, New South Wales 2000

Wallaby Grip B A.E. Pty Ltd (in liquidation) (Australia)
Bradley Tonks, PKF Sydney, Level 8, 1 O'Connell Street, Sydney, New South Wales 2000

Wallaby Grip Industries Australia Pty Ltd (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)⁷
1955 Surveyor Avenue, Simi Valley, California 93063

Whittaker Development Co. (USA)⁷
1955 Surveyor Avenue, Simi Valley, California 93063

Whittaker Ordnance, Inc. (USA)⁷
1955 Surveyor Avenue, Simi Valley, California 93063

Whittaker Technical Products, Inc. (USA)⁷
1955 Surveyor Avenue, Simi Valley, California 93063

Zambra Legal Pty Ltd (Australia)
Suite 2, Level 11, 60 Castlereagh Street, Sydney, New South Wales 2000

Equity accounted investments

Meggitt UTC Aerospace Systems, LLC (USA)⁹
*400 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 Saitillo, Coahuila 25070

Valley Association Corporation (USA)¹⁷
1204 Massillon Road, Akron, Ohio 44306

Private company limited by guarantee without share capital

Meggitt Pension Plan Trustees Limited

Registered charity

Evershed & Ayrton Fund

Registered branches

Meggitt (Korea) Ltd has a branch in South Korea

Meggitt Training Systems Ltd has a branch in the United Arab Emirates

Meggitt (Xiamen) Sensors & Controls Ltd has a branch in Shanghai



Notes

- Ownership held as ordinary B shares (50%).
- Ownership held as ordinary shares (50%).
- Ownership held as quota interest (100%).
- Ownership held as membership interest (100%).
- The entity has taken the audit exemption under section 479A of the Companies Act 2006 in respect of the financial year ended 31 December 2019.
- Ownership held as deferred shares (55.55%) and ordinary shares (44.45%).
- Ownership held as common stock (100%).
- Ownership held as ordinary A shares (60%) and ordinary B shares (40%).
- Ownership held as owner's capital
- Ownership held as registered capital (100%).
- Ownership held as class A shares (67.5%), class B shares (12.5%) and class C shares (20%).
- Ownership held as equity shares (100%).
- Ownership held as registered shares (100%).
- Registered at 125 West Regent Street, Glasgow, Lanarkshire, G2 2SA, Scotland.
- Joint venture with Hamilton Sundstrand Corporation – ownership held as membership interest (70%).
- Subsidiary of Parkway-HS, LLC – ownership held as quota interest (99.97%).
- Ownership held as ordinary shares (33.33%).

COMPANY BALANCE SHEET
At 31 December 2019

	Notes	2019 £'m	2018 £'m
Non-current assets			
Intangible assets	4	43.4	38.6
Property, plant and equipment	5	0.9	1.4
Investments	6	2,082.7	2,081.2
Derivative financial instruments	10	16.5	14.8
Deferred tax assets	11	27.4	16.7
		2,170.9	2,152.7
Current assets			
Other receivables	7	1,325.9	1,281.2
Derivative financial instruments	10	6.6	36.6
Current tax recoverable		9.3	-
Cash and cash equivalents		32.9	37.0
		1,374.7	1,354.8
Total assets		3,545.6	3,507.5
Current liabilities			
Trade and other payables	8	(158.7)	(98.2)
Derivative financial instruments	10	(18.2)	(20.2)
Current tax liabilities		-	(5.0)
Lease liabilities		(0.2)	(0.2)
Bank and other borrowings	9	(7.6)	(7.9)
		(184.7)	(131.5)
Net current assets		1,190.0	1,223.3
Non-current liabilities			
Derivative financial instruments	10	(11.7)	(18.3)
Lease liabilities		(0.2)	(0.2)
Bank and other borrowings	9	(453.5)	(469.6)
Provisions		(0.2)	(0.2)
Retirement benefit obligations	12	(150.6)	(84.5)
		(616.2)	(572.8)
Total liabilities		(800.9)	(704.3)
Net assets		2,744.7	2,803.2
Equity			
Share capital	13	38.8	38.8
Share premium		1,226.5	1,223.9
Capital redemption reserve		1.6	1.6
Other reserves		17.5	17.5
Retained earnings:			
At 1 January		1,521.4	1,146.4
Profit for the year attributable to owners of the Company		139.7	481.2
Other changes in retained earnings		(200.8)	(106.2)
Total equity attributable to owners of the Company		2,744.7	2,803.2

The financial statements on pages 186 to 197 were approved by the Board of Directors on 24 February 2020 and signed on its behalf by:

A Wood
Director

L Burdett
Director

COMPANY STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019

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	Notes	Equity attributable to owners of the Company					Total equity
		Share capital	Share premium	Capital redemption reserve	Other reserves*	Retained earnings	
		£'m	£'m	£'m	£'m	£'m	£'m
At 1 January 2018		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	12	-	-	-	-	33.0	33.0
Other comprehensive income before tax		-	-	-	-	32.7	32.7
Tax	11	-	-	-	-	(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
Profit for the year		-	-	-	-	139.7	139.7
Other comprehensive expense for the year:							
Remeasurement of retirement benefit obligations	12	-	-	-	-	(94.5)	(94.5)
Other comprehensive expense before tax		-	-	-	-	(94.5)	(94.5)
Tax	11	-	-	-	-	14.0	14.0
Other comprehensive expense for the year		-	-	-	-	(80.5)	(80.5)
Total comprehensive income for the year		-	-	-	-	59.2	59.2
Employee share schemes:							
Value of subsidiary employee services		-	-	-	-	10.0	10.0
Value of services provided		-	-	-	-	2.7	2.7
Issue of equity share capital		-	2.6	-	-	(2.6)	-
Dividends		-	-	-	-	(130.4)	(130.4)
At 31 December 2019		38.8	1,226.5	1.6	17.5	1,460.3	2,744.7

* 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.

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 five 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.

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.

Impairment of non-current, non-financial assets

At each balance sheet date, the Company reviews the carrying amounts of its non-current, non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ('CGU') to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount.

An impairment loss is recognised immediately in the income statement. Where an impairment loss is no longer required, it is reversed with a corresponding credit to the income statement.

2. Summary of significant accounting policies continued

Other receivables

Other receivables are initially recognised at fair value and subsequently measured at amortised cost less any impairment losses. The Company applies the IFRS 9 simplified approach to measuring expected credit losses ('ECLs'), which uses a lifetime expected loss allowance. To measure ECLs, other receivables have been grouped based on shared credit risk characteristics and their ageing. For amounts owed by subsidiary undertakings, which are repayable on demand, ECLs are based on the assumption that repayment is demanded at the balance sheet date. The subsidiary undertaking's access to sufficient accessible highly liquid assets in order to repay the amounts due if demanded at the balance sheet date, is assessed. The expected manner of recovery is considered when measuring ECLs. If these indicate that the Company would fully recover the outstanding amounts due, ECLs will be limited to the effect of discounting the amounts due using the effective interest rate, over the period until cash is expected to be realised.

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 Company participates in offset arrangements with certain banks whereby cash and overdraft amounts are offset against each other.

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 the Company's defined benefit scheme, pension costs are charged to the income statement in accordance with the advice of qualified independent actuaries. Past service credits and costs are recognised immediately in the income statement.

Retirement benefit obligations represent 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 measured 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 UK corporate bonds 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.

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY
continued

2. Summary of significant accounting policies continued
Derivative financial instruments and hedging

Derivative financial instruments are 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.

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.

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. Therefore changes in fair value are recognised immediately in the income statement.

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.

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 38 to the Group's consolidated financial statements.

Dividends

Interim dividends are recognised when paid to shareholders. Final dividends are recognised as liabilities when approved by the shareholders. Details of dividends paid and proposed by the Company are disclosed in note 15 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 12.

4. Intangible assets

	Software £'m
At 1 January 2018	
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 1 January 2019	
Cost	76.2
Accumulated amortisation	(37.6)
Net book amount	38.6
Year ended 31 December 2019	
Opening net book amount	38.6
Additions	13.2
Amortisation	(8.4)
Net book amount	43.4
At 31 December 2019	
Cost	89.4
Accumulated amortisation	(46.0)
Net book amount	43.4

Software assets include costs relating to the Group's enterprise resource planning system. The asset has a net book amount of £16.2m (2018: £19.2m) and a remaining amortisation period of 5 years (2018: 4 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 2018					
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 1 January 2019					
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
Year ended 31 December 2019					
Opening net book amount	0.2	0.8	0.3	0.1	1.4
Additions	–	0.3	–	0.4	0.7
Depreciation	(0.2)	(0.7)	(0.1)	(0.2)	(1.2)
Net book amount	–	0.4	0.2	0.3	0.9
At 31 December 2019					
Cost	0.9	6.4	0.4	0.5	8.2
Accumulated depreciation	(0.9)	(6.0)	(0.2)	(0.2)	(7.3)
Net book amount	–	0.4	0.2	0.3	0.9

6. Investments

	2019 £'m	2018 £'m
Shares in subsidiary undertakings:		
At 1 January	2,081.2	2,074.5
Capital contributions	7.3	9.1
Less contributions from subsidiary undertakings	(5.8)	(2.4)
At 31 December	2,082.7	2,081.2

Each year, the Company carries out impairment tests of its investments which require estimates to be made of the value in use of its CGUs and groups of CGUs. The 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. Having modelled a number of sensitivities, it was concluded that no reasonably foreseeable change in the key assumptions used in the impairment model would result in a significant impairment charge being recorded in the financial statements.

A list of all subsidiary undertakings is disclosed in note 44 to the Group's consolidated financial statements on pages 184 to 185.

7. Other receivables

	2019 £'m	2018 £'m
Amounts owed by subsidiary undertakings	1,325.1	1,275.4
Prepayments and accrued income	0.2	3.9
Other receivables	0.6	1.9
Total	1,325.9	1,281.2

Amounts owed by subsidiary undertakings are unsecured and are stated net of amounts due to subsidiary undertakings, where a right of set off exists. Within amounts owed by subsidiary undertakings are amounts totalling £1,342.9m (2018: £1,296.5m) which are interest bearing, have no fixed date for repayment and are repayable on demand. Interest accrues at rates ranging from 2% to 3%. Other receivables are stated net of a loss allowance of £1.9m (2018: £1.9m).

8. Trade and other payables – current

	2019 £'m	2018 £'m
Trade payables	7.4	5.3
Amounts owed to subsidiary undertakings	132.6	80.8
Social security and other taxes	4.8	3.5
Accrued expenses	13.5	8.2
Other payables	0.4	0.4
Total	158.7	98.2

Amounts owed to subsidiary undertakings are unsecured. They include amounts totalling £22.6m (2018: £24.6m) which are interest bearing, have no fixed date for repayment and are repayable on demand. Interest accrues at rates ranging from 2% to 3%.

9. Bank and other borrowings

	2019 £'m	2018 £'m
Other loans – current	7.6	7.9
Other loans – non-current	453.5	469.6
Total	461.1	477.5

Analysis of bank and other borrowings repayable:

In one year or less	7.6	7.9
In more than one year but not more than five years	226.8	234.8
In more than five years	226.7	234.8
Total	461.1	477.5

Analysis of bank and other borrowings:

Drawn under committed facilities	454.2	470.5
Less unamortised debt issue costs	(0.7)	(0.9)
Interest accruals	7.6	7.9
Total	461.1	477.5

Debt issue costs are amortised over the period of the facility to which they relate. The Company has no secured borrowings (2018: £Nil).

The Company has the following committed facilities:

	2019			2018		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
2016 Senior notes (USD600.0m)	454.2	–	454.2	470.5	–	470.5
Committed facilities	454.2	–	454.2	470.5	–	470.5

Further details of the committed facilities are disclosed in note 30 to the Group's consolidated financial statements on page 165. The committed facilities expire as follows:

	2019			2018		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
In more than one year but not more than five years	227.1	–	227.1	235.3	–	235.3
In more than five years	227.1	–	227.1	235.2	–	235.2
Committed facilities	454.2	–	454.2	470.5	–	470.5

The Company also has various uncommitted facilities with its relationship banks. No amounts had been drawn under these facilities at 31 December 2019 (2018: £Nil).

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY
continued

9. Bank and other borrowings continued

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

	2019		2018	
	Book value £'m	Fair value £'m	Book value £'m	Fair value £'m
Current	7.6	7.6	7.9	7.9
Non-current	453.5	461.7	469.6	456.0
Total	461.1	469.3	477.5	463.9

All borrowings are subject to interest at fixed rates. The interest rate exposure on bank and other borrowings is:

At 31 December 2019:

	Total	Fixed rate borrowings	
		Weighted average interest rate	Weighted average period for which rate is fixed
	£'m	%	Years
US dollar denominated other loans	461.8	3.5	5.0
Less unamortised debt issue costs	(0.7)		
Bank and other borrowings	461.1		

At 31 December 2018:

	Total	Fixed rate borrowings	
		Weighted average interest rate	Weighted average period for which rate is fixed
	£'m	%	Years
US dollar denominated other loans	478.4	3.5	6.0
Less unamortised debt issue costs	(0.9)		
Bank and other borrowings	477.5		

The weighted average interest rate reflects the relative impact of interest rates based on the principal amounts and the duration of borrowings.

10. Derivative financial instruments

	2019 Assets £'m	2019 Liabilities £'m	2018 Assets £'m	2018 Liabilities £'m
Interest rate swaps	1.8	–	–	–
Cross currency swaps	–	(7.0)	8.4	–
Foreign currency forward contracts	4.8	(11.2)	28.2	(20.2)
Current portion	6.6	(18.2)	36.6	(20.2)
Interest rate swaps	5.1	–	6.6	–
Cross currency swaps	–	–	–	(3.6)
Foreign currency forward contracts	11.4	(11.7)	8.2	(14.7)
Non-current portion	16.5	(11.7)	14.8	(18.3)
Total	23.1	(29.9)	51.4	(38.5)

The Company does not use hedge accounting for any of its derivative financial instruments. It is exempt from certain FRS 101 disclosures as the Group's consolidated financial statements provide the disclosures required by IFRS 7 (see note 32 to the Group's consolidated financial statements on pages 170 to 171).

The loss recorded in the income statement, recognised in net operating costs, arising from the measurement at fair value of derivative financial instruments is £19.1m (2018: gain £19.6m).

The contract or underlying principal amount of foreign currency forward contracts in respect of derivative financial assets is £405.6m (2018: £612.7m) and in respect of derivative financial liabilities is £627.0m (2018: £629.5m).

The fair value of foreign currency forward contracts is analysed as follows:

	2019 Assets £'m	2019 Liabilities £'m	2018 Assets £'m	2018 Liabilities £'m
Fair value:				
US dollar forward sales and purchases (USD/£)	15.5	(19.7)	34.0	(31.3)
Forward sales and purchases denominated in other currencies	0.7	(3.2)	2.4	(3.6)
Total	16.2	(22.9)	36.4	(34.9)

11. 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
	Retirement benefit obligations £'m	Other £'m	Total £'m	Accelerated tax depreciation £'m	£'m
At 1 January 2018	24.6	–	24.6	(1.9)	22.7
Charge to income statement	(4.2)	2.7	(1.5)	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)	16.7
Reclassifications	–	(1.1)	(1.1)	1.1	–
Charge to income statement	(3.3)	(0.6)	(3.9)	–	(3.9)
Credit to other comprehensive income	14.0	–	14.0	–	14.0
Credit to equity	–	0.6	0.6	–	0.6
At 31 December 2019	25.8	1.6	27.4	–	27.4

After taking account of the offsetting of balances, deferred tax assets are analysed as follows:

	2019 £'m	2018 £'m
To be recovered within one year	5.9	6.0
To be recovered after more than one year	21.5	10.7
Total	27.4	16.7

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.

NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY continued

12. 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 35 to the Group's consolidated financial statements on pages 175 to 179 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 £2.1m (2018: £1.9m).

Changes in the present value of retirement benefit obligations

	2019			2018		
	Liabilities (*) £'m	Assets (**) £'m	Total £'m	Liabilities (*) £'m	Assets (**) £'m	Total £'m
At 1 January	753.4	(668.9)	84.5	814.5	(673.6)	140.9
Service cost	6.7	–	6.7	7.5	–	7.5
Past service cost	–	–	–	1.7	–	1.7
Net interest cost	21.5	(19.6)	1.9	20.5	(17.4)	3.1
Contributions – Company	–	(37.8)	(37.8)	–	(36.3)	(36.3)
Benefits paid	(26.2)	26.2	–	(26.2)	26.2	–
Administrative expenses borne directly by scheme	–	0.8	0.8	–	0.6	0.6
Remeasurement of retirement benefit obligations:						
Experience gain	–	–	–	(9.8)	–	(9.8)
(Gain)/loss from change in demographic assumptions	(2.5)	–	(2.5)	4.4	–	4.4
Loss/(gain) from change in financial assumptions	102.8	–	102.8	(59.2)	–	(59.2)
Return on scheme assets excluding amounts included in finance costs	–	(5.8)	(5.8)	–	31.6	31.6
Total remeasurement loss/(gain)	100.3	(5.8)	94.5	(64.6)	31.6	(33.0)
At 31 December	855.7	(705.1)	150.6	753.4	(668.9)	84.5

* 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, the average annual movement in discount rates observed over the last five years, would cause scheme liabilities at 31 December 2019 to increase by approximately £84.0m.
- The impact of a 10 basis point increase in inflation and salary inflation rates would cause scheme liabilities at 31 December 2019 to increase by approximately £10.0m.
- The impact of assuming every scheme member were to live for an additional year would cause scheme liabilities at 31 December 2019 to increase by approximately £32.0m.

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 defined benefit obligation is 19.1 years.

The expected maturity of undiscounted pension benefits at 31 December 2019 is as follows:

	Total £'m
To be made in 2020	21.8
To be made in 2021	23.3
To be made in 2022 to 2024	79.0
To be made in 2025 to 2029	152.9
To be made in 2030 to 2034	170.9
To be made in 2035 to 2039	172.2
To be made in 2040 to 2044	165.1
To be made from 2045 onwards	506.9
Total	1,292.1

13. Share capital

Disclosures in respect of share capital of the Company are provided in note 36 to the Group's consolidated financial statements on page 180.

14. Share-based payment

Share awards 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 116. Disclosure is also made in the Group's consolidated financial statements in note 37 on page 180.

15. Commitments

The Company has no capital commitments (2018: Nil).

16. 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 116.

Auditor's remuneration

Remuneration payable to PricewaterhouseCoopers LLP and its associates for the audit of the Company was £27,000 (2018: £25,000).

Employee information

	2019 £'m	2018 £'m
Wages and salaries	31.2	29.0
Social security costs	4.2	4.4
Retirement benefit costs	8.8	11.1
Share-based payment expense	2.7	4.5
Employee costs including executive directors	46.9	49.0

The average number of persons employed by the Company in the year is 241 (2018: 204).

FIVE-YEAR RECORD

	2019 £'m	2018 £'m	2017 £'m	2016 £'m	2015 £'m
Revenue and profit					
Revenue	2,276.2	2,080.6	1,994.4	1,992.4	1,647.2
Underlying profit before tax	370.3	334.8	320.2	352.1	310.3
Amounts arising on the acquisition, disposal and closure of businesses	23.5	25.1	25.3	39.1	[0.2]
Amortisation of intangible assets acquired in business combinations	(89.8)	[91.5]	[93.5]	[98.6]	[71.9]
Disposal of inventory revalued in business combinations	–	–	–	(4.6)	[1.6]
Financial instruments	15.0	(10.1)	60.7	(66.4)	[4.8]
Exceptional operating items	(26.2)	[34.2]	[73.1]	[15.5]	[10.4]
Net interest expense on retirement benefit obligations	(6.1)	[8.0]	[11.3]	(10.6)	[11.2]
Profit before tax	286.7	216.1	228.3	195.5	210.2
Earnings and dividends					
Earnings per share – basic	28.8p	23.2p	37.8p	22.1p	23.2p
Earnings per share – underlying	37.3p	34.2p	32.0p	34.8p	31.6p
Dividends per ordinary share in respect of the year	17.50p	16.65p	15.85p	15.10p	14.40p
Gearing ratio					
Net debt as a percentage of total equity	37.1%	43.1%	45.9%	48.0%	48.3%

The Group 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 2015 or 2016.

INVESTOR INFORMATION

Contacts**Investor relations**

T: 01202 597597
E: investors@meggitt.com

Information on Meggitt PLC, including the latest share price: www.meggitt.com

Shareholder enquiries

Registrar:
Computershare Investor
Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

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.

Future payment of dividends - mandatory direct credit

From 2021, the Company is simplifying the way in which it pays dividends to shareholders by only paying cash dividends directly into a shareholder's nominated bank account. This is known as Mandatory Direct Credit. The Company will no longer be issuing dividend cheques. Shareholders recorded on the register of members as receiving dividend payments by cheque will be contacted by Computershare. Those shareholders will need to take the required action by selecting the appropriate option as set out in the Computershare notification.

Shareholders on the register of members who already have their dividends paid by any of the options set out below are not required to take any action unless they choose to withdraw from the Dividend Reinvestment Plan (DRIP).

Dividends

The proposed 2019 final dividend of 11.95p per ordinary share, if approved, will be paid on 1 May 2020 to shareholders on the register on 20 March 2020. The expected payment date for the 2020 interim dividend is 2 October 2020.

2020 financial calendar**Full-year results for year ended 31 December 2019**

Report and accounts for year ended 31 December 2019 despatched
2019 Final dividend ex-dividend date
2019 Final dividend record date
Deadline for receipt of dividend reinvestment plan elections

AGM

2019 Final dividend payment date

Interim results for period ended 30 June 2020

2020 Interim dividend ex-dividend date
2020 Interim dividend record date
Deadline for receipt of dividend reinvestment plan elections
2020 Interim dividend payment date

25 February

19 March
19 March
20 March
8 April

23 April

1 May

5 August

3 September
4 September
18 September
2 October

Key dates 2020

February 25 2019 Full-year results	April 23 AGM	May 1 2019 Final dividend payment
August 5 2020 Interim results	October 2 2020 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	DGTR	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	Executive Share Option Scheme
Bronze stage	Fourth stage of MPS	EU	European Union
Business jets	Aircraft used for non-commercial operations	Executive Committee	Assists the Chief Executive to develop and implement the Group's strategy, manage operations and discharge responsibilities delegated by the Board
CAGR	Compound annual growth rate	FCA	Financial Conduct Authority
Capability	Expertise in technology and manufacturing	FIFO	First-in first-out
CGU	Cash generating unit	FIRST	For Inspiration and Recognition of Science and Technology
CHF	Swiss franc	FOC	Free of charge
CI	Continuous improvement	FRC	Financial Reporting Council
CO₂	Carbon dioxide	FRS	Financial Reporting Standard
Code	UK Corporate Governance Code 2018	FTSE	Share index of companies listed on the London Stock Exchange
CODM	Chief operating decision maker	GAAP	Generally Accepted Accounting Practice
Company	Meggitt PLC	GBP	British pound or pound sterling
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	GDP	Gross domestic product
Continuing Resolution	Appropriations legislation restricting modification from prior-year funding patterns	GDPR	General Data Protection Regulation
CR	Corporate responsibility	GHG	Greenhouse gas
CREST	Certificateless Registry for Electronic Share Transfer	Group	Meggitt PLC and its subsidiaries
D&A	Depreciation and amortisation	HMRC	HM Revenue & Customs
DECC	Department of Energy & Climate Change	HSE	Health, safety and environment
DEFRA	Department for Environment, Food & Rural Affairs	IAS	International Accounting Standards
DFARS	(US) Defense Federal Acquisition Relation Supplement	IET	Institution of Engineering and Technology
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	IFBEC	International Forum on Business Ethical Conduct
		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