MEGGITT

smart engineering for
extreme environments

ANNUAL REPORT AND ACCOUNTS **2016**

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Forward-looking statements

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

Meggitt's *smart engineering for extreme environments* has resulted in the Group securing strong positions on the latest wave of new aircraft platforms. 2016 has been a year of consolidating these positions by focusing relentlessly on the product development processes and manufacturing capability needed to industrialise the unprecedented number of parts and sub-systems won from the current development cycle.

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

Group at a glance

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

Over 11,000 people are employed across manufacturing facilities in Asia, Europe and North America and in sales offices in Brazil, India and the Middle East.

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

Our military markets encompass all aircraft types, land systems, naval platforms and scoring systems used for training and weapons systems development. Training also extends to law enforcement and security organisations.

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

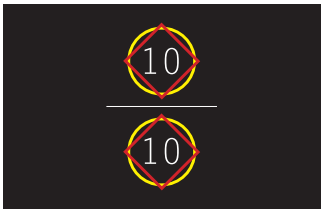
The transfer of Meggitt's core technologies to other markets includes sensing materials for breakthrough medical devices and the test and measurement industry worldwide.

Our capabilities

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

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

Aircraft safety and security



Avionics

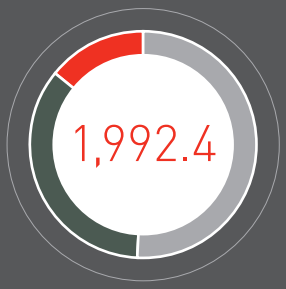
Combat support

Fire protection

Fuel containment

Heat transfer engineering

Revenue by market Total revenue (£ millions)



- **Civil aerospace** 1,009.3 | 51%
- **Military** 697.1 | 35%
- **Energy and other** 286.0 | 14%

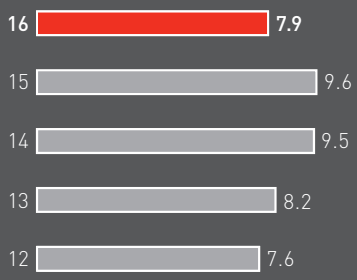
Employees by region Number of employees

- **USA** 5,920 | 53%
- **UK** 2,699 | 24%
- **Rest of Europe** 1,503 | 13%
- **Rest of World** 1,088 | 10%

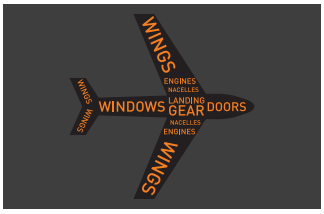
Revenue by destination Total revenue (£ millions)

- **USA** 1,081.7 | 54%
- **UK** 201.8 | 10%
- **Rest of Europe** 422.2 | 21%
- **Rest of World** 286.7 | 15%

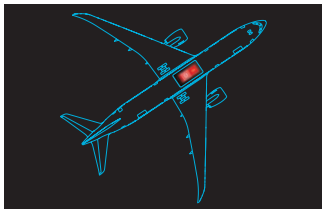
Total R&D as a % of revenue



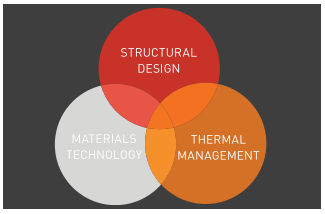
Composites



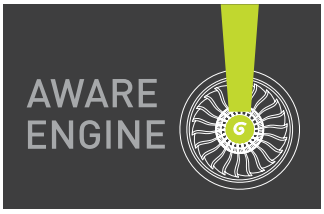
Polymer seals



Power products



Wheels, brakes and brake control



Sensing and health monitoring

Small arms training systems

Thermal management and fluid control

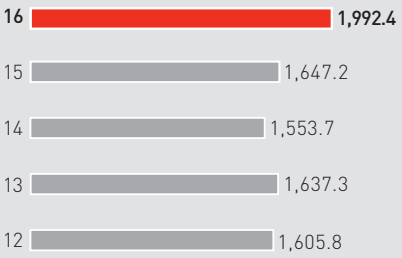
Precision micro metal engineering

Financial highlights

Meggitt's 2016 results reflect good momentum in civil aerospace enhanced by currency and the composites acquisitions completed in late 2015. We are a long-term business. Our installed base on over 67,000 aircraft worldwide, with a strong and growing presence on the wave of new aerospace platforms entering into service over the next few years, demonstrates the fundamental strength of our business model.

Revenue
(£ millions)

1,992.4



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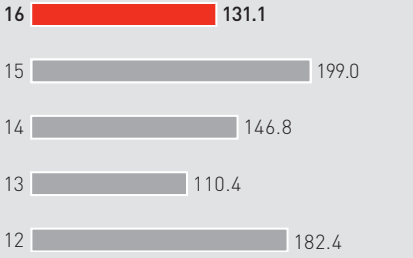
Free cash flow
(£ millions)

131.1



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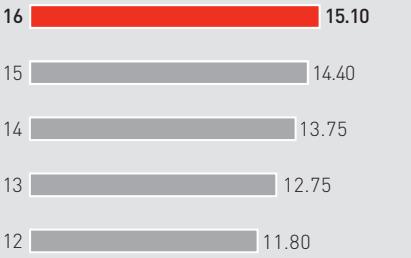
Dividend per share
(pence)

15.10



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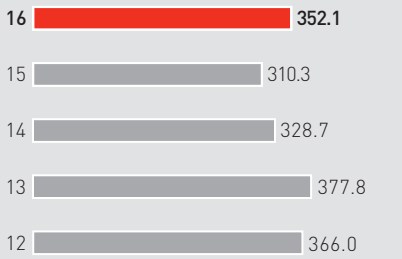
Underlying profit before tax [1]
(£ millions)

352.1



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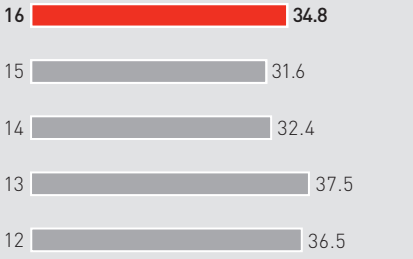
Underlying earnings per share [1]
(pence)

34.8



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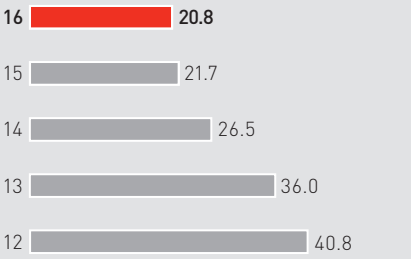
Return on trading assets
(%)

20.8



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[1] The definition of 'underlying' is provided in notes 10 and 15 to the consolidated financial statements on pages 119 and 123 respectively.

Chairman's statement

Over the past four years, Meggitt has secured increased content on a new generation of large civil aircraft during a period of unprecedented product renewal by the major airframe and engine manufacturers. The value of our products that will be installed on each of these aircraft has increased between 20% and an outstanding 250%. As we mostly supply products as sole-source provider, we will be the only provider of spare parts.

With Meggitt products installed on over 67,000 military and civil aircraft, increased content on over 20 new aircraft platforms and the continued growth in demand for air travel, Meggitt is well-positioned for growth over the coming years and decades.

Winning contracts triggers significant investment. Designing and developing products is complex and painstaking work that is highly regulated and subject to onerous certification. Manufacturing capability and capacity is needed to bring these products to market.

Meggitt has now passed the peak of investment in research and development, with capital expenditure ramping up to ensure that we have the capability and capacity to deliver these new programmes to our customers.

Progress on strategic initiatives

While we have been winning new business and investing in new programmes from the current cycle, we have continued to invest across the Group to leverage our scale and boost customer satisfaction.

After its formal launch in 2015, our centralised Customer Services & Support (CSS) organisation has made great progress, growing revenues ahead of its core markets. CSS launched its regional model halfway through 2016 and is now responsible for 40% of Meggitt's aftermarket operations. In a trading environment that differs profoundly from that of Meggitt's original equipment operations, CSS is meeting the targets we set for it and improving the level of service we provide to our aftermarket customers.

Through the Meggitt Production System (MPS), we have made excellent progress on safety, quality and delivery, and this has played no small part in our recent programme wins. As the first of our sites enters the Bronze stage of the MPS, our focus turns to accelerating the financial benefits. During 2016, a series of pilots have demonstrated the potential of the programme to drive meaningful reductions in inventory and improvements in productivity. As more of our sites enter the latter stages of MPS over the coming years, we expect to see margin and cash move decisively as a result.

The lifeblood of Meggitt is *smart engineering for extreme environments*. What we are today represents the efforts of past generations of engineers. Given an increasingly global approach to doing business, our centralised Applied Research & Technology (AR&T) function is investing now for the next bid cycle, likely to begin in the mid to late 2020s. Meggitt's AR&T programmes closely follow our customers' technology roadmaps and are further validated by contributions from EU and UK funding institutions.

Board changes

In December, Tony Wood was appointed as an executive director and Group Chief Operating Officer. Tony has outstanding experience in civil aerospace and defence. In senior leadership positions at Rolls-Royce and Messier-Dowty, he has run aftermarket businesses, consolidated production across sites and introduced continuous improvement systems. Now that we have passed the peak of investment in new product development, Tony's appointment enables Meggitt to accelerate the pace of operational initiatives, whilst ensuring that we deliver on our commitments to our customers.

In April, Nancy Gioia will join the Board of Directors and will serve on the Audit, Remuneration and Nominations Committees. She offers the critical US and manufacturing experience currently provided by Brenda Reichelderfer, who is retiring on 27 April 2017. We thank Brenda for six years of excellent service and contribution to the Board. Nancy's experience in the fast-moving automotive industry will help sharpen Meggitt's operational focus.

Results

Group revenue increased by 21% to £1,992m, driven by foreign currency translation and the composites acquisitions completed in late 2015. Organic revenue grew by 1% with 4% growth in civil aerospace and 1% in military, partially offset by continued challenges in the Group's energy markets. Underlying operating profit increased by 17% to £380m and underlying earnings per share by 10% to 34.8 pence.

In a year, where we have seen the UK public vote to leave the EU and a significant change in the political landscape in the US, Meggitt remains a resilient business that is well positioned for the future. We are pleased to see the UK Government's Industrial Strategy has committed £3.9bn of funding to aerospace and defence. We have had good recent success in securing research grants and will continue to benefit from funding as we look to develop further the technologies that will propel our growth into the future.

Reflecting this confidence in the medium term outlook, the Board is proposing a final dividend of 10.3p per share (2015: 9.8p per share), taking the full-year dividend up 5% to 15.1p per share (2015: 14.4p per share).

On behalf of the Board, I would like to thank all of the Group's employees for their significant contribution to Meggitt's performance over the past year.

Sir Nigel Rudd Chairman

Chief Executive's review

Strategy

Meggitt is a leading provider of *smart engineering for extreme environments*. We invest in technologies and capabilities for complex and highly regulated markets and in industry-leading levels of operational excellence and customer service.

Over the past five years, this investment has enabled us to significantly increase the number of Meggitt parts on engine and aircraft platforms. At the same time, we have focused our operations on delivering for our customers, on-time and to the required specification. We continue to leverage our scale, integrating our businesses and creating the infrastructure needed to grow a world-class organisation.

We will achieve superior financial performance and returns for shareholders over the medium and longer term by delivering cash sustainably, from mostly sole-source original equipment business which we have won across a broad spread of platforms. We will protect and extend the value of our intellectual property throughout the in-service lives of platforms; and continue to increase the sophistication, efficiency and pace of the Group as we focus on our strategic fundamentals of: customer focus, operations excellence, technology and strengthening our portfolio of businesses.

Customer Focus

Airlines are taking an increasingly sophisticated approach to maintaining and operating their aircraft. To serve these customers better, we launched our Customer Services & Support (CSS) organisation in 2015 to protect and grow our share of Meggitt spares and repairs, and to realise the full value of our significant and growing installed base.

In its first full year, CSS has significantly improved our understanding of what drives aftermarket supply and demand. Our real-time insight into surplus part availability has enabled us to price more effectively and to purchase our own surplus parts for resale. We believe CSS supplied approximately 10% of the addressable market of Meggitt surplus parts in 2016 and we plan to capture a much greater share as our capability matures.

CSS will also target a greater share of the market for repair and overhaul of Meggitt components, which account for over 20% of our aftermarket as a whole. Repair work provides an opportunity for growth, greater understanding of the market for piece parts and significant insight into in-service performance. This additional intelligence will help our engineers to design better products for new aircraft platforms, as well as modify and upgrade existing products to refresh our existing product pipelines and improve our customers' operating economics.

Operations Excellence

Defined by quality, cost, efficiency and on-time delivery, we are determined to make operations excellence a core competitive strength. This is key to meeting our commitments to customers and delivering growing returns for shareholders.

The Meggitt Production System (MPS) — our global approach to continuous improvement — is far more than a roll-out of lean manufacturing tools. It is a comprehensive operating system built on work, people and improvement systems. Work is undertaken to a set of standards, proven to deliver results. The system defines how we acquire, develop, coach, place and motivate talent. In essence, it is a major culture change programme. MPS provides a framework in which our employees are equipped to identify, deliver and sustain the thousands of incremental improvements which, in aggregate, drive significant results at Group level.

MPS has achieved good results in customer service, with on-time delivery up 15% and quality, measured in defective parts per million, improved by 87% since 2012. At the end of 2016, we saw our first factory successfully complete the Bronze (fourth) phase of the system. As a critical mass of our business enters this phase over the next few years, we expect to see cash conversion and margin improvement as sites focus increasingly on inventory management and productivity gains. Examples of this improvement can be seen at some of our more advanced sites, such as Fareham UK, where MPS has contributed to a gross margin improvement of 5% since the early stages of MPS, and Meggitt Sensing Systems in Orange County, California where a pilot programme on inventory management has enabled a 22% reduction in inventory during 2016.

In 2016, we announced the closure of four sites. We plan to reduce our manufacturing footprint by a further 20% by 2021 as part of a continuous effort to improve our efficiency.

In addition to MPS and factory consolidation, we continue to focus on building a robust and high performing supply chain. This is key to meeting customers' demands in an era in which our customers expect us to perform, without fail, on quality and delivery whilst accepting a greater share of risk than we did five to ten years ago. At the same time, reducing fragmentation provides an opportunity to reduce cost, share risk and increase the pace of strategy deployment.

We have continued to work closely with suppliers to drive performance improvements. Their on-time delivery has increased by a further 6% and quality by 64% since January 2015. We reduced the number of suppliers that make up 80% of spend from 601 to 570 and have consolidated more of our purchasing with preferred suppliers who work on the same terms we have committed to with our customers. We have much more to do here, including reducing the long tail of small suppliers.

Technology

Our technology strategy is designed to drive long term organic growth through investments in core products and manufacturing capabilities in line with our customers' technology roadmaps.

Strong success in winning new aircraft contracts has meant that we have invested significantly in research and development. We have now passed the peak of investment in technology for platforms entering service this decade. Several major new development programmes entered service in the year, notably the Bombardier CSeries incorporating Meggitt's pioneering e-Brake™ technology and the Airbus A320neo. Within Meggitt Aircraft Braking Systems (MABS), we have passed a number of critical programme milestones, with an unprecedented six first flights for aircraft equipped with

Meggitt braking systems. These included the Boeing TX trainer, Gulfstream's new G500 and G600 business jets; and the Global 7000, Bombardier's large widebody business jet. Our R&D spend in 2016 amounted to 7.9% of revenue, down from 9.6% in 2015 and back within our normal range of 6-8%. We expect this investment to reduce further, but to do so gradually as a series of further programmes, including the Boeing 737MAX and 777X, Embraer E2 and Dassault Falcon 5X, enter service.

For several years now, we have set aside 'ring-fenced' funds for applied research and technology investment. This money is supplemented by partner and EU/ Government contributions and funds our development of next generation product and manufacturing technologies. This will enable Meggitt to increase its content on the next generation aircraft that are likely to be bid in the mid to late 2020s.

Acquisitions and Disposals

In late 2015, the acquisition of the advanced composites businesses of EDAC and those previously owned by Cobham, enhanced our position in complex composite structures and engine composites, one of the fastest growing areas of the aerospace market.

Integrated into our Meggitt Polymers & Composites (MPC) division, the new businesses have performed in line with expectations, despite some delays to new engine programmes where the EDAC acquisition, in particular, has good content. We have made good progress in realising initial synergies, for example by avoiding the costly expansion of one of the acquired sites and leveraging existing operations to halve the time required to manufacture a composite radome by moving the product line to an established MPC facility. The integration of these businesses has made good progress and we have increased our synergy target by 30% to $12.7m of savings by the end of 2018, with the one-off costs to achieve these higher synergies increasing to $14m.

In December 2016, we completed the disposal of Meggitt Target Systems (MTS) to QinetiQ Group plc for £58.6m. MTS was built from acquisitions completed in 1989 and 2004 and developed a range of targets used by military customers for training and weapons evaluation. MTS had limited synergies with the broader Group and would have diluted our ability to sustain our targeted growth rates over the long term.

Performance

Revenue increased by 21%, driven by currency and the composites acquisitions. Organic revenue growth of 1% was in line with expectations, including 4% growth in civil aerospace. Underlying earnings per share increased by 3.2p to 34.8p, while net debt to EBITDA at the end of the year was 2.1x (2015: 2.3x).

Within civil aerospace, original equipment revenue grew organically by 3%, with increased shipset content on large jets offsetting a decline in business jets. Aftermarket revenue increased organically by 5%, with strong performance in large and regional jets offsetting lower demand for business jet spares.

Military revenues recovered well in the second half of the year. Broad demand for original equipment and spares increased steadily across the majority of equipment types, with the exception of helicopters. The Continuing Resolution passed in late 2016, ahead of the 2017 budget agreement, continues to challenge the release of funds from the growing US Department of Defense budget, but we remain confident that this will benefit us in future years. Revenue for the year increased by 1% but was up 7% in the second half after a challenging first half.

As anticipated, energy revenues continued to decline, with the Heatric business having another challenging year as oil price weakness continued to severely suppress customers' appetites for investment. The power generation part of our energy business also saw reduced investment, primarily from the utility companies, with slow demand for gas turbines contributing to a particularly weak first half. Overall energy revenues declined by 17% during the year.

Outlook

The outlook for our civil markets is encouraging despite recent delays to some civil aircraft programmes. In the medium term, production of large jets is expected to continue to grow and our increased shipset content on the latest generation of aircraft supports a positive outlook for civil OE revenues. In 2017, we expect civil OE to grow organically by 6 to 8%.

Available seat kilometres, an important driver of our large and regional jet aftermarket, continue to grow above the long-term trend of 5% per annum. This, combined with the effect of our new CSS organisation and expanded content on new aircraft, signals that we will outgrow the market for civil spares in the medium term. In 2017, we will continue to be affected by the availability of surplus parts and lack of demand from younger fleets under warranty. This is expected to limit organic aftermarket growth in 2017 to 4 to 6%.

In military markets, the long-term budget outlook is positive with organic orders up 6% and a book-to-bill ratio of 1.06 in 2016. Our strong technology offering and broad platform exposure should enable us to outgrow the market overall. However, we remain cautious for 2017, reflecting delays to budget approvals as the new administration takes over in the US. We therefore anticipate organic growth in 2017 of 1 to 3%.

Our energy businesses continue to operate in a difficult market characterised by a lack of investment in infrastructure. This is particularly so for Heatric, which depends on large capital projects in the oil and gas sector where a recovery is unlikely in the near term. Continued decline in oil and gas will be only partially offset by power generation where we expect modest recovery with slow growth anticipated in demand for gas turbines in the US, Middle East and China. As a result, we expect further organic revenue decline of 5 to 10% in the energy market overall in 2017, although multiple cost reduction activities in 2015 and 2016 will help mitigate the financial impact of this decline. Medium term, Heatric's strong technology franchise and growth opportunities in energy condition monitoring give us confidence that our energy revenues will resume their growth trajectory.

On the basis of the above, the Group expects overall 2 to 4% organic revenue growth in 2017 and that growth will accelerate into the medium term. Also, on the basis of these growth rates and our key strategic initiatives, we are targeting 2017 operating margin between 19.1% and 19.4%, and we are targeting a 200-250 basis point margin improvement by 2021.

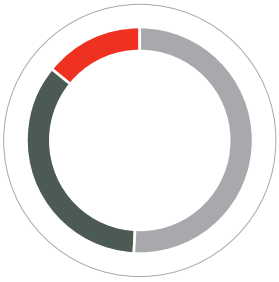
Stephen Young Chief Executive

Our business model

We deliver *smart engineering for extreme environments*. This comprises primarily components and sub-systems for commercial aero-engines and airframes that perform to specification in severe conditions over an aircraft's lifetime.

Revenues come principally from two sources: supplying original equipment to aircraft manufacturers for brand-new platforms; and delivering spares and repairs to airlines for as long as an aircraft is in service. This can range from at least 20 to over 50 years.

We supply similar products to military aircraft, land-based defence vehicles, hydro, gas and steam turbines and markets requiring highly specified sensors such as test and measurement, industrial process control and clinical instruments.



Revenue by market

- **Civil aerospace** 51%
- **Military** 35%
- **Energy and other** 14%

What our customers are looking for

While the emphasis varies by market, our customers come to us for products that perform critical functions in severe conditions, safely, reliably, economically and cleanly.

Civil aircraft manufacturers want products that help develop more competitive aircraft and engines. Our components and systems must be lightweight and yet perform at high temperatures and pressures. They must reduce emissions and noise. They must be easy to install and maintain. They must be reliable enough to ensure that aircraft are ready to dispatch without fail, boosting the economics of airline performance by helping to optimise the use of very costly assets.

Defence manufacturers choose Meggitt technology to extend aircraft range, capacity and speed but are increasingly concerned about minimising the cost of repairs and spares through the operating life of their assets.

Gas turbine manufacturers focus on reliability, enabling them to deliver energy profitably and safely.

Please refer to the Market review on pages 18 to 22 for more detail on our markets.

Our investment cycle

1. Pre-bid »

Investing for insight and technology and manufacturing readiness

We develop close customer relationships to anticipate and influence technology requirements. We are increasingly required to invest in working prototypes that engender confidence in our ability to meet programme deadlines and to show how our innovations can be made cost-effectively.

We usually win business as a sole-source provider in exchange for differentiated technology and the significant investment required from us during subsequent development phases.

The value of Meggitt products installed on major new commercial aircraft platforms has risen between 20% and 250%.

Cumulative cash flow

Our business model requires significant cash investment in the development phase of programmes.

We deliver strong positive cash flow within our civil aerospace and military end-markets during the in-service phase, breaking even on cumulative cash between years 11 and 18 typically, and around five years earlier in the energy market where upfront investments are lower.

Investments and rates of return differ according to the dynamics of market segments. However, the cycle of investment in relationship-building, research and development, product industrialisation and maintenance and support is common. This results in highly attractive, annuity-like returns in the form of recurring aftermarket demand (i.e. spares and repairs) over product lifecycles measured in decades.

2. Development »

Investing in our customers' competitiveness

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

Military customers often fund developments to secure a lower through-life cost on original equipment production and spares.

By contrast, we tend to bear the majority of development costs for civil airframe and engine manufacturers. In return for helping them secure competitive prices for production aircraft, we receive sole-source contracts for original equipment and its aftermarket.

7.9% of 2016 revenue was invested in new development programmes.

3. Production »

Revenues start

Revenue is usually generated when a programme moves into production. For civil aircraft, production of any one platform can last for up to ten years before it is replaced. Military equipment is manufactured over much longer periods. Ground-based gas turbines tend to be in production for around five years.

In many instances, we continue to subsidise the original equipment to help our customers compete, notably in wheels and brakes where original equipment is often provided to aircraft manufacturers free of charge.

When an operator takes delivery of a new aircraft platform it will typically order a series of spare parts to ensure that it has sufficient inventory to enable initial maintenance activity. This initial provisioning activity drives early demand for our spare parts.

Over 2,000 new aircraft entered service in 2016, supported by Meggitt products and technologies.

4. Maturity

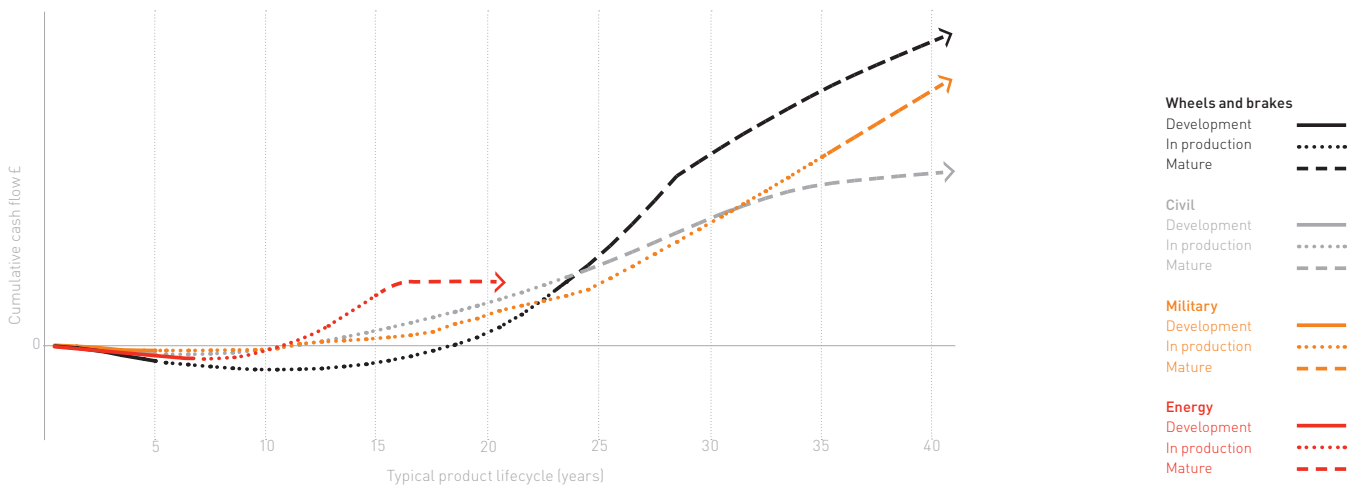
Revenues gain momentum

As our products age, they require maintenance or replacement at varying intervals based on condition.

In the case of a highly-utilised aircraft braking system, this can be every 18 months, offering an early start to returns on our significant investments. Spares make up the bulk of this aftermarket segment.

Many of our other products must be designed to last for ten years or more and so spare parts are priced to reflect the investment made and the long pay-back period.

We own around 75% of the intellectual property used in our products which are in service on an installed base of over 67,000 aircraft.



Group strategy

Our strategy is designed to achieve competitive advantage at every stage of our business model (see pages 8 to 9).

We aim to grow or develop leading positions in attractive markets with *smart engineering for extreme environments* that must meet the complex regulation and certification associated with safety- and mission-critical products.

We invest in operations excellence as a core competitive strength and in the people and culture needed to deliver our strategy through our world-class operating model, the Meggitt Production System.

We invest in high-quality, timely service and support to promote customer satisfaction while maximising the value of our products throughout their lifecycles.

Our focus today

With some 22 new aircraft platforms entering service between 2014 and 2019, the civil aerospace market is experiencing an unprecedented phase of product renewal. Meggitt content on these platforms has reached record highs with increases of between 20% and 250%.

Accordingly, we are prioritising activities that will enable us to drive superior shareholder returns from these excellent positions over the medium to long term. They conform to Meggitt's strategic themes of customer focus, targeted and timely technology development and operations excellence from factories to functions.

People and culture

Engaging and developing our workforce for current and future business is key to successfully delivering our strategy and meeting customer commitments. Examples of how we are investing in our people and managing our talent effectively can be found in the Corporate responsibility section (pages 44 to 52).

Customer focus

The launch of our **Customer Services & Support** (CSS) organisation is enabling Meggitt to accelerate aftermarket growth. CSS is changing the way we serve and develop our aftermarket. We are participating in the trade for new and refurbished spare parts; growing our share of repair business; forming partnerships with the integrators of maintenance, repair and overhaul services; and using field performance data to identify opportunities for product upgrades during the life of an aircraft programme, cutting costs for customers and extending our product pipeline. In addition, deployment of the Meggitt Production System, tuned to the aftermarket, is enabling CSS to boost operational performance, improve turnaround times and reduce inventory.

Please refer to the customer focus feature on pages 12 and 13.

Case study

Development of retrofit, modification and upgrade ('RMU') parts is a critical priority for CSS, as we look to improve customer support whilst developing effective countermeasures to the redeployment of used Meggitt surplus parts in the fleet. Effective engagement with customers and a close working partnership with our product engineering teams has enabled CSS to build a solid pipeline of RMUs which will drive growth over the coming years.

Technology and portfolio

Our **technology** strategy will see Meggitt continue to invest in attractive market segments where we lead or can develop leading positions. These investments will enable us to enhance further our competitive position on next generation aircraft, focusing on core capabilities in, say, the high temperature systems needed to realise radical improvements in operating performance and fuel efficiency – just one amongst a dozen of Meggitt's core capabilities.

Please refer to the technology feature on pages 14 and 15.

Having entered into service in 2016, the Bombardier CSeries showcases a range of leading edge aircraft technologies and promises 20% reduced fuel burn and 15% lower direct operating costs than previous generation aircraft. We have secured excellent content including complex composites, power systems, valves, sensors and our first electrically actuated braking system, complete with integrated tyre pressure monitoring systems.

Operations excellence

The **Meggitt Production System** (MPS), underpins our goal to make operations excellence a core competitive strength. Our *continuous improvement* system has been launched across the Group and is stimulating the behavioural change across factories and functions which are resulting in thousands of incremental process and other improvements. This adds up to big gains in safety, quality and delivery at Group level. Now in its fourth year, we are seeing our first factories reach the Meggitt Production System's more mature *Bronze* and *Silver* stages. Here, the focus widens from the day-to-day delivery of product on time and to the required specification, to productivity growth, inventory reduction and long-term strategic business development.

Meggitt Avionics in Fareham, UK is our most advanced MPS site and is currently working towards its Silver exit. The site has made significant gains in performance by synchronising every functional activity (including factory operations) to deliver a focused set of breakthrough performance goals. Since the Red phase, the site has increased gross margin by 5% and secured a landmark win on the Boeing 777X for its vGen standby flight display.

Our **integrated supply chain** initiative, which addresses the way we deploy our manufacturing strategy, will enable us to streamline the fragmented supply base that characterises our primary aerospace market and to build a high-performance supply chain capable of sharing the commitments we make to our customers whilst delivering substantial operating efficiencies. The efforts of external suppliers and our factories are inextricably linked so the initiative will ensure our own manufacturing footprint is fit for purpose. There will be greater utilisation of our low-cost manufacturing facilities while others will be consolidated to leverage our scale, enabling more automation, for example, and higher usage of under-exploited capital assets.

Please refer to the operations excellence feature on pages 16 and 17.

Meggitt Sensing Systems in Orange County, California has delivered meaningful savings through the deployment of the Group's supply chain strategy in 2016, executed in tandem with the roll-out of MPS. The site has reduced inventory by 22% and materially reduced the price of critical parts for civil aerospace programmes through the deployment of tools and processes including buyer/planner standard work and plan for every part ('PFEP') strategies; whilst leveraging preferred suppliers in low cost regions and e-auction procurement campaigns.

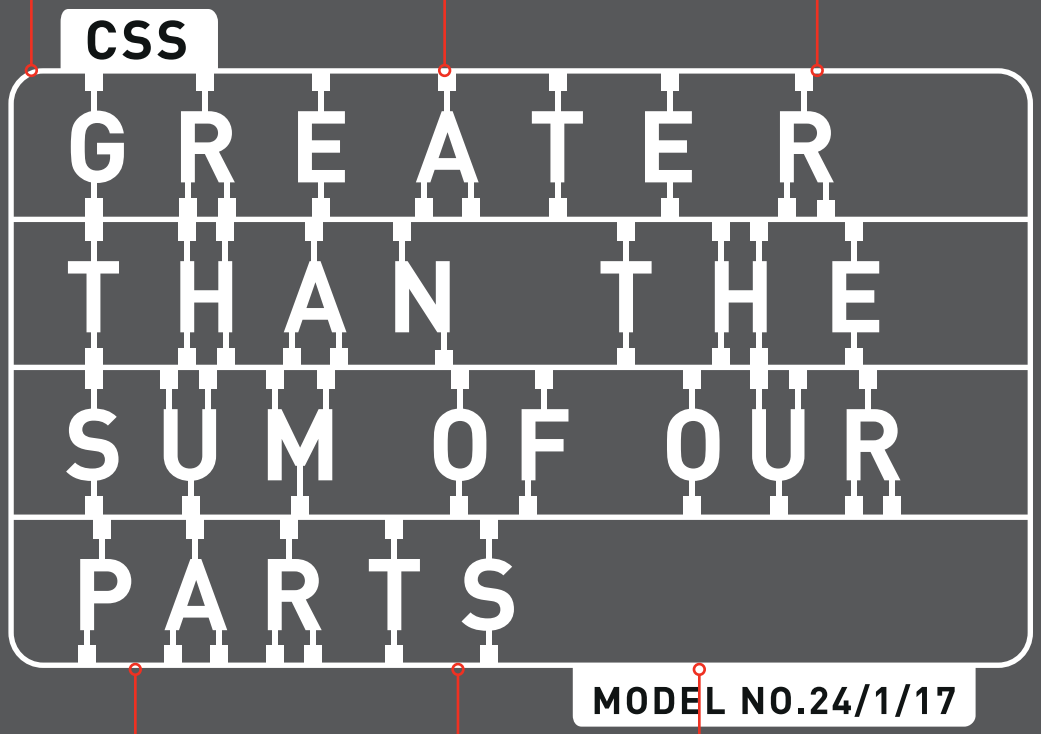
CUSTOMER FOCUS

Greater intelligence
Being in the MRO business gives Meggitt vital intelligence on how our parts are used in service.

Participating in the surplus market worldwide gives us additional information on demand and fair market value.

The right talent
CSS is now responsible for some 23 MRO and distribution facilities and over 400 employees.

Global reach
Dedicated maintenance, repair and overhaul (MRO) centres in Singapore, Miami, Florida and Maidenhead, UK.



Owning the aftermarket
To generate top-line revenue growth, CSS is building a capability to enable it to trade in surplus parts.

Knowledge
We designed and developed many of the products our customers depend on. We know them best. The OEM tag, representing quality and reliability, still matters.

Proactive
Dynamic, fast response service.

ACG

Intelligence-gathering: To enhance performance data, CSS has now put the tools in place to identify repair patterns so it can develop product upgrades and modifications. "Meggitt has never been able to connect the dots like this before."

Support for life: More than 67,000 aircraft in service today carry Meggitt parts. Our global CSS team keep them flying at the lowest possible operating cost.

partnership

To generate top-line revenue growth, CSS is building a capability to enable it to trade in surplus parts. It is building partnerships with the maintenance integrators and the airlines themselves to strengthen access to the market and actively target component retrofit, modification and upgrade opportunities. CSS is improving operations by optimising its distribution and facility footprint and by implementing the Meggitt Production System. It is strengthening its commercial capability to protect Meggitt's intellectual property.

"It is a full-service organisation built on firm foundations, designed right from the start, with a strategy and plans that are starting to work," says CSS President, Lorraine Rienecker.

Vital part: With thousands of individual parts, in almost every respect, our work boils down to a part number. There is no silver bullet to aftermarket success—it's the attention to detail across many fronts that counts.

V2500 High Pressure Compressor Bleed Valve. Four of these valves are fitted per engine, three at the HP7 stage and one at the HP10 stage. Previously Meggitt supplied the three HP7 valves, but we have recently been able to displace another manufacturer's offering and now supply all four.

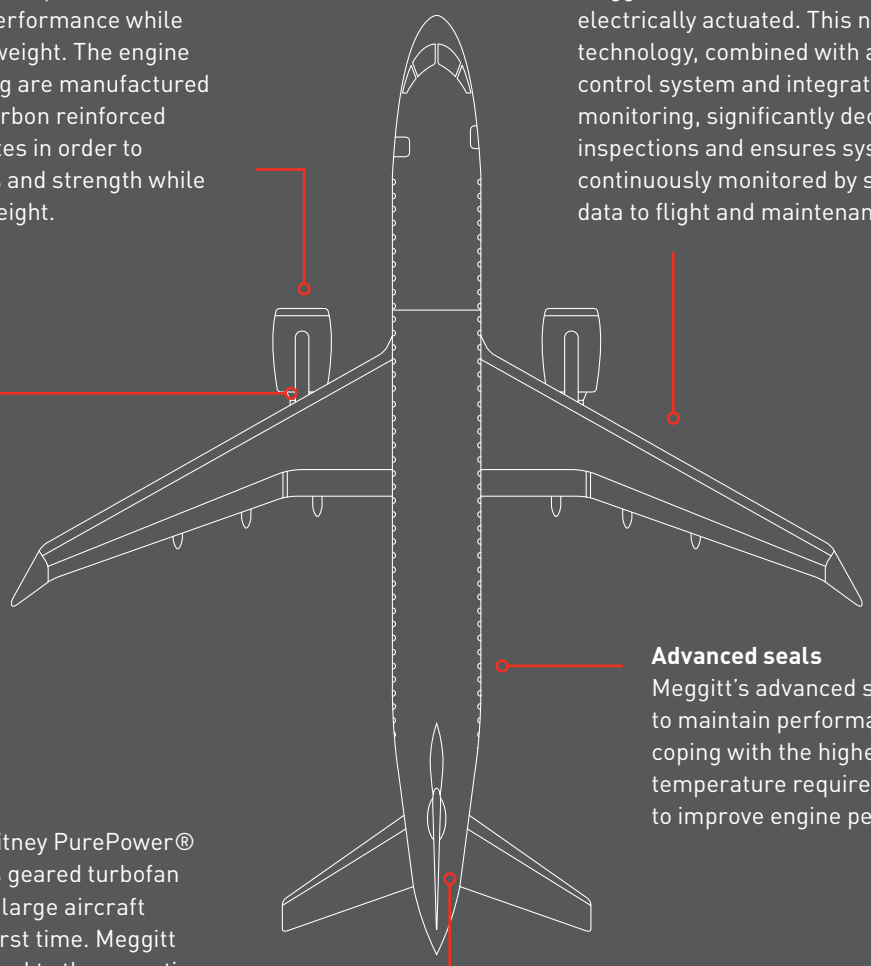
TECHNOLOGY AND PORTFOLIO

Leading edge technology

The Bombardier CSeries is optimised for the 100 to 150 seat market segment, showcasing a range of leading edge aircraft technologies and achieving 20% reduced fuel burn and 15% lower direct operating costs than previous generation aircraft.

Complex composites
Meggitt's advanced materials technology can be found in the ultra-lightweight components used to improve engine performance while reducing overall weight. The engine spinner and fairing are manufactured from advanced carbon reinforced polymer composites in order to increase stiffness and strength while vastly reducing weight.

Brakes
Leading the industry trend towards more electric aircraft, the braking system provided by Meggitt is both electronically controlled and electrically actuated. This novel brake technology, combined with a fly-by-wire brake control system and integrated tyre pressure monitoring, significantly decreases the need for inspections and ensures system health can be continuously monitored by sending real-time data to flight and maintenance crews.

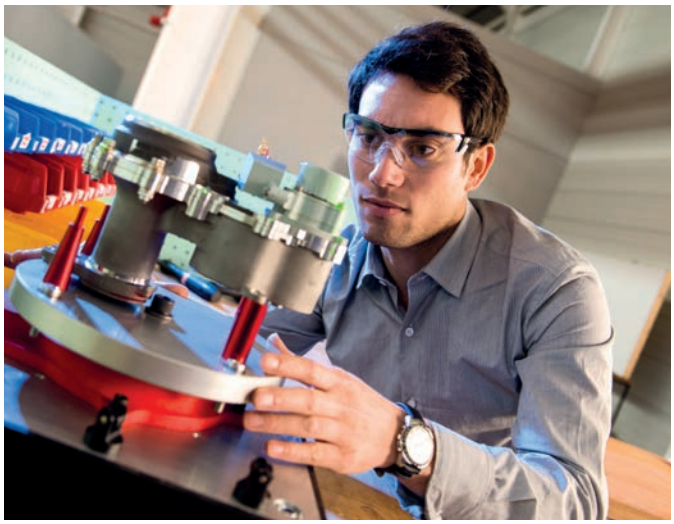


Advanced seals
Meggitt's advanced seals are used to maintain performance while coping with the higher pressure and temperature requirements required to improve engine performance.

Engines
The Pratt and Whitney PurePower® engine introduces geared turbofan technology to the large aircraft segment for the first time. Meggitt technology is critical to the operation of these engines. Meggitt Sensing Systems provides key sensor technology solutions for engine control and monitoring. Meggitt Control Systems provides valves for engine starting, and regulation and provides bleed air to power aircraft pneumatic systems as well as systems to manage the thermal performance of the engine's oil, air and fuel systems.

Power sub systems
Meggitt's power sub-systems ensure reliable and efficient operation of the auxiliary power systems on the CSeries. Our high-tech battery system and power controllers ensure seamless electrical power transitions while the aircraft is on the ground.

The Bombardier CSeries entered into service in 2016, with Swiss International Air Lines, and promises good growth, given the strong positions Meggitt technology has secured across the airframe and its engine.



The e-Brake™ has been central to Meggitt research into advanced manufacturing technologies, such as our Closed Loop Adaptive Assembly Workbench (CLAAW) prototype.

aircraft

Our applied research and technology programme extends beyond the development of next generation product technologies, such as the e-Brake™, which is now successfully deployed in service on the Bombardier CSeries. We are also looking at the advanced manufacturing capabilities needed to industrialise them.

Meggitt Modular Modifiable Manufacturing (M4) is a pioneering programme designed to give operators the right tools, parts, and information at the right time so they can radically improve performance. At a site level it will enable us to reconfigure our factories in real time, adjusting plans to satisfy customer requirements and optimise inventory. The CLAAW workbench is a good example. It uses laser and video projected guides, plus enabled smart assembly fixtures, which allow operators to build a wider variety of products, faster and more accurately.

e-Brake™: Electrically-actuated brakes enhance braking efficiency and aircraft dispatch reliability. They are easier to install and remove than hydraulic brakes, which saves time in the aircraft manufacturing process and aircraft maintenance.

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

OPERATIONS EXCELLENCE

Managing the future

We've been securing positions that will provide a strong order backlog for many years. We are confident in delivering these programmes through our solid foundation of operations excellence enabled by MPS.

Financial benefit
During the Bronze stage, sites deliver improvements in inventory and productivity.

Transparency
Through Daily Layered Accountability (DLA) we are delivering a culture that fosters complete transparency from the shop floor to the general manager's office.

Never missing a beat
Great operational performance allows the sales and marketing team to be on the front foot. That enables us to bring new business ideas to the meeting room, rather than excuses and workaround plans.

Across all functions
MPS enables all functions to connect and align, allowing everyone to focus on what really makes an impact in delivering promises to customers.

First class business
MPS enables sites to keep strategic objectives front and centre of every management conversation, constantly reviewing progress and iterating it where needed based on good insight.

The Avionics team: Collaboration between functions enables integrated teams to deliver smart solutions to our customers.

Excellence room: The Business Development Excellence Room is not only linked to the shop floor, where electronic DLA boards are now universal, but also to excellence rooms for programme management and engineering.

factories

After four years of focusing on making our factories better, by improving quality and delivery, we are now seeing our first sites move into the latter stages of the Meggitt Production System (MPS). The first site to complete the Bronze stage is Meggitt Avionics (part of Meggitt Sensing Systems) in Fareham. This site shows what is possible when MPS moves from a focus on operations improvement at the factory level, towards delivering enhanced financial performance by improving and integrating functions.

Visiting the site the evidence of this shift is clear, with engineering, finance and business development all working in collaboration with 'Excellence Rooms', where you can see how data flows through and between functions. Through MPS, Meggitt Avionics has now become what customers really like: a non-issue supplier, where the focus of the team is about managing the future for growth and not trying to smooth over the issues of the past.

Meggitt Avionics has secured landmark wins for its new generation secondary flight display on the new Boeing 777X and air data attitude heading reference system (ADAHRS) on the Airbus Helicopters H125 and H130 platforms.

"Transparency and the involvement of all the members of management as a team is what the process is all about. It works because of the rigour that DLA imposes on it. And it is that constant rigour—attention to detail—that gets stuff done."

Louis Chavez, Director of Meggitt Production Systems

Market review

Meggitt's core civil aerospace, military and energy markets share a common requirement for *smart engineering for extreme environments*. These mission- and safety-critical components and sub-systems must perform to exacting requirements for many years in highly demanding operating conditions. Suppliers must be capable of meeting rigorous certification. 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.

Civil aerospace

Civil aerospace accounts for 51% of Group revenue, with products and sub-systems installed on almost every jet airliner, regional aircraft and business jet in service. The global fleet has grown significantly in recent years, totalling over 45,000 aircraft compared with 31,000 a decade ago. New aircraft deliveries drive sales of original equipment. Aircraft utilisation generates demand for spare parts and repairs. The growth of our fleet, therefore, is a strong indication of future aftermarket revenue.

Original equipment

We classify civil aircraft by seat capacity: large jets (>100 seats), regional aircraft (<100 seats) and business jets. Large jet deliveries in 2016 stood at a record 1,452, 5% higher than in 2015. Growth in new deliveries of an estimated 4% per annum to 2021 is driven by demand for large jets. This is underpinned by the order books of Boeing and Airbus, the two major civil aircraft manufacturers, which extend to between five and eight years based on forecast production rates. Other manufacturers investing in the large jet market include Bombardier, Irkut and COMAC. Deliveries of new aircraft have grown at an average of over 6% per annum during the last five years. This has been influenced by high oil prices, the low cost of debt and newer, more advanced aircraft coming to market. Offering greater fuel efficiency, lower maintenance costs and quicker gate turnaround times, Boeing's 737MAX, Airbus' A320neo and the CSeries from Bombardier enable operators to reduce operating costs. Despite recent decreases in the oil price, no significant reduction in new aircraft demand is expected in the short term.

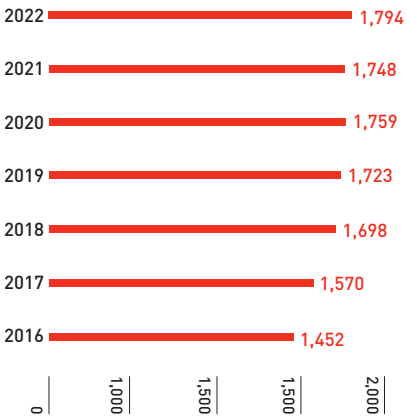
Regional aircraft deliveries of 259 in 2016 declined by 13% on the previous year, but included an increasing proportion of 70-plus seat aircraft where we have a particularly strong market share. Deliveries should continue at this level over the medium term.

Business jet deliveries totalled 646 in 2016, compared with 717 in 2015. Inventories of used aircraft are continuing to decline, although market drivers such as falling commodity prices and a relatively benign M&A market have suppressed recent demand. Ten years ago, the Americas represented 84% of the global fleet. However, the fleet is becoming increasingly global. Order trends suggest that this will reduce to around 60% over the next decade, driven principally by the economic growth outlook and potential for airspace deregulation in developing economies such as China.

Meggitt performance

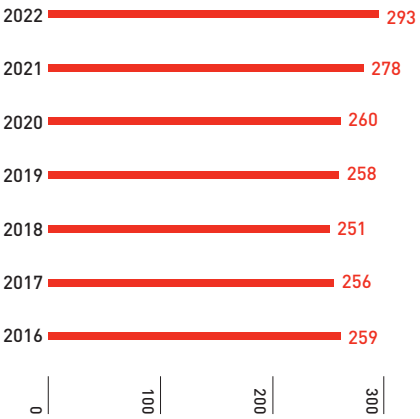
Meggitt's civil original equipment (OE) revenue grew organically by 3% in 2016. Good growth in parts for Airbus A320, A350XWB and A380, Boeing 737 and initial deliveries on Bombardier CSeries offset a slow-down in demand for Boeing 777 and Airbus A330 parts, where deliveries are decreasing ahead of the introduction of the 777X and A330neo respectively. Large jet deliveries drive the majority of our OE revenues, involving the supply of products and sub-systems on engines and airframes covering thermal management and fluid control, fire protection, condition-monitoring and high-integrity electronics. Strong OE

Large jet delivery forecast



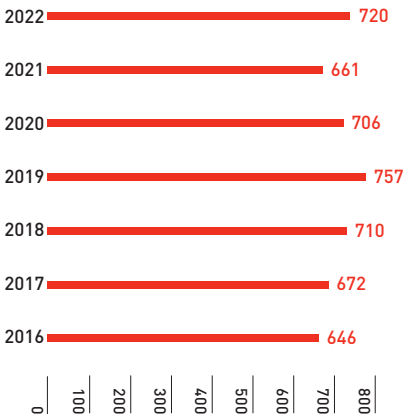
Source: Meggitt management estimates

Regional aircraft delivery forecast



Source: Meggitt management estimates

Business jet delivery forecast

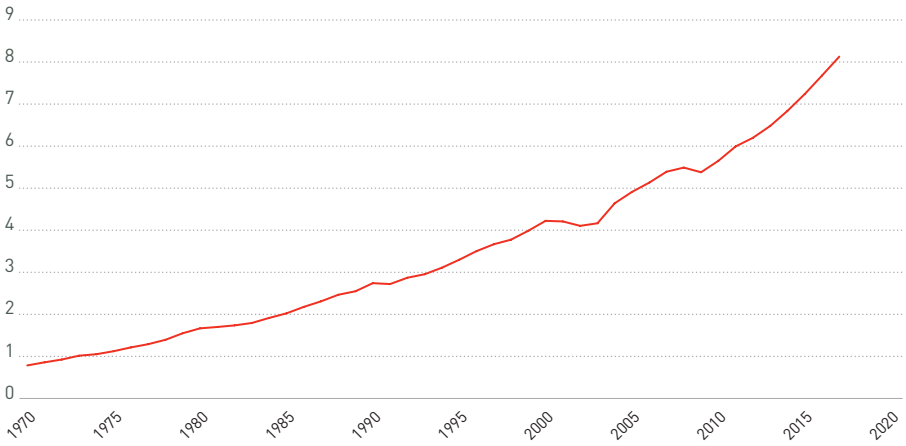


Source: Meggitt management estimates

performance, particularly in large jets is magnified by increasing shipset values on new aircraft. Given robust order books and healthy growth in forecast deliveries, we are confident that these market share gains will enable organic growth to exceed market growth over the medium term.

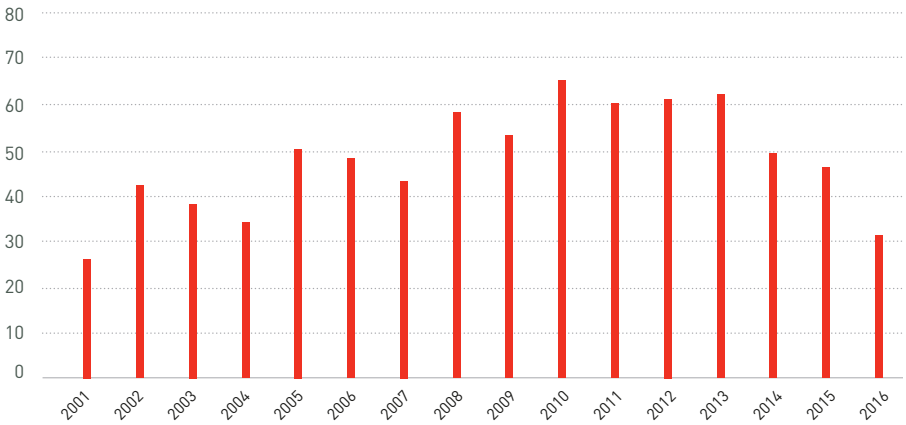
Our largest exposure to regional aircraft and business jets is through our wheels and brakes business. Here the market model dictates the provision of most original equipment free of charge to civil aircraft manufacturers for which no revenue is recognised. Good success in recent competitive tenders means we have also expanded the number of new business jet platforms with Meggitt wheels and brakes.

Available seat kilometres (ASKs) (billions)



Source: Meggitt management estimates

Retirements as a percentage of deliveries



Source: Meggitt management estimates

Aftermarket

The civil aerospace aftermarket is driven primarily by aircraft utilisation which, for large jets and regional aircraft, is measured using available seat kilometres (ASKs). We use take-offs and landings as a proxy for business jet utilisation. ASKs in the large commercial aircraft fleet grew 6.2% in 2016, above the 5% long-term average. Traffic continues to grow rapidly in the Middle East, Asia Pacific and Africa, offsetting slower growth of 4% in US and European markets. Regional aircraft utilisation decreased by 4.8% during the year but, within this, larger (>70 seat) aircraft grew modestly at 1.4%, demonstrating the continued move away from smaller aircraft. The recent recovery in business jet utilisation in the US and Europe slowed during 2016, with take-offs and landings unchanged compared to 2015. We would normally expect our aftermarket revenues to follow these leading indicators after a lag of a few months. However, revenue can be impacted by short-term fluctuations arising from destocking and restocking cycles, increased pooling of spares between airlines and maintenance, repair and overhaul providers and surplus spare parts arising from the retirement of old aircraft.

Meggitt performance

Meggitt's organic aftermarket revenue was up 5% for the year, with strong ASK growth partly eroded by the use of surplus materials and increased pooling of parts by airlines.

Large jet aftermarket demand increased compared to prior years when the effect of parting out had the greatest impact on demand for some of our high value spares. Large jet aftermarket revenue grew organically by 14%. Healthy demand for spares and repairs on parts for the Airbus A320 and A380, Boeing 747, 757 and 787 combined with initial spares provisioning for the CSeries and A320neo (which contributed 3% of the growth), more than offset lower revenue on Airbus A330 and DC9 aircraft. The regional aircraft aftermarket grew organically by 3% with modest growth in utilisation driving continued demand for our braking systems and other spares where we are weighted towards larger regional jets.

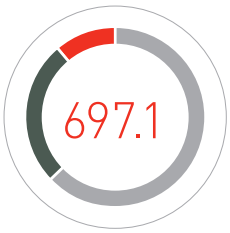
Our Customer Services & Support ('CSS') organisation has made good progress during 2016, having completed its transition to manage the complete customer value chain for MRO and spares distribution for over 40% of Group aftermarket revenue. In its first full year, CSS has more than doubled the volume of revenue from trade in used Meggitt surplus parts; consolidated three repair facilities into regional hubs; and made good progress in delivering operational improvements through the deployment of MPS.

Commercial aircraft utilisation remains encouraging, with ASKs continuing to track above the long-term average. The continued reduction in aircraft retirements over the last twelve months is an encouraging indicator that the headwind we have been experiencing from the premature parting out of younger aircraft may subside although, structurally, the greater levels of parting out seen in recent years will not reverse. Over the medium term, we are confident about growing aftermarket revenue above the broader civil spares market. Rising content on new platforms and the younger average age of the aircraft on which our products are installed, offers strong future growth in large and regional jets.

Business jet aftermarket was down 8%, with a particularly weak first half against

Market review continued

Military revenue by region Total revenue (£ millions)



USA
439.2 | 63%

Europe
181.2 | 26%

Rest of World
76.7 | 11%

an exceptionally strong performance during the same period in 2015. The business jet aftermarket is much more concentrated than commercial air transport, as the OEMs often meet the servicing requirements of their customers. As a result, they aggregate demand for spares and can often make large purchases to build up inventory in order to meet their commitments to provide maintenance, repair and overhaul (MRO) for their customers, leading to lumpy demand from one year to the next. Nevertheless, our strong gains in market share, particularly in wheels and brakes, underpin future growth. This should exceed the growth rate in business jet utilisation over the medium term.

Military

Military accounts for 35% of Group revenue. Meggitt has equipment on around 21,000 aircraft and a variety of ground vehicles, naval vessels and training installations worldwide. During 2016, 63% of our military revenue came from the US, with 26% from Europe and 11% from the rest of the world.

The release of funds from increasing defence budgets in some key markets remained under pressure in 2016, notably in the US where the effect of the Continuing Resolution in the latter part of the year impacted the timing and size of orders. The overall outlook for defence spending, however, is more positive than it has been for a number of years. The change of President in the US looks likely to be positive for military spending, with President Trump calling for an end to sequestration and increased funding for manpower and equipment during his pre-election campaign. Increasing global security threats are driving other nations to prioritise defence spending. For example, the UK government has announced plans to increase defence spending by 0.5% above inflation for each of the next five years.

Increases in global defence budgets suggest military revenues will grow in the medium term. In 2017 though we expect the flow of funds to again lag behind the top-line budget growth. Opportunities remain for the reset and upgrade of repatriated equipment and the supply of new products as a significant tranche of military assets reach the end of their service lives.

Meggitt performance

Meggitt's military revenue grew at 1% on an organic basis in 2016, with the expected challenging first half offset by good growth in the second. The first half weakness was, in part, relative to strong growth of 6% in the first half of 2015 when we benefited from the catch-up on prior year delays and a large order for T-50 braking systems from the Korean Air Force. Our exposure to a broad range of fixed and rotary wing aircraft, ground vehicles, training facilities and naval vessels across original equipment and aftermarket spares and repairs has continued to provide resilience in an uncertain funding environment, with increased demand across our portfolio driving the stronger second half.

Growth varied across the business with particularly strong organic growth in MPC, driven by strong demand for V-22, F-18 and Apache. In contrast, MSS suffered from declines in demand for some legacy avionics repairs and OE power systems for NH90 and V22 platforms; and revenues at MEG were flat, driven by a series of delays for defence systems across a range of helicopter and land vehicle programmes.

With military markets returning to growth, we are well positioned to capitalise from the expansion of the fleet of programmes on which we have good content, such as the F-35 and Typhoon, retrofit work arising from the repatriation of equipment from the conflict in Afghanistan and the reinvestment in military training systems by a number of armed forces. Accordingly, we expect to outperform the market in the medium term. The future outlook is also supported by good growth in military orders during 2016 (book-to-bill of 1.06).

Energy

Energy accounted for 7% of Group revenue in 2016. We target power generation and oil and gas markets with condition-monitoring, control valves and printed circuit heat exchanger technology.

Investment in capital equipment in the oil and gas sector has remained under significant pressure during 2016.

Over the long term, the energy sector remains attractive with increasing global demand for power driven by population growth and rising levels of industrialisation in emerging economies. This demand will be satisfied in part through increased production of industrial gas turbines that require Meggitt valves, actuators and condition-monitoring systems.

We are well positioned when there is a return to investment in infrastructure, including deep-water reserve exploration and extraction. This capital investment would drive strong opportunities for the advanced high-performance, compact heat exchangers produced by our Heatric business. Growth potential is further enhanced by development of innovative new power generation technologies that depend on heat transfer engineering which enable turbines to operate at extreme temperatures and pressures, not possible with traditional heat exchangers.

Meggitt performance

Meggitt's energy revenue declined 17% on an organic basis in 2016. Revenue at Heatric, which accounts for around 25% of our overall energy revenue, declined by 36% as the oil and gas investment projects that drive demand for our printed circuit heat exchangers continue to face cancellations and deferrals. Our broader power generation revenue declined by 7% driven by continued reduction in demand for gas turbines.

Market matrix

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

	Civil		Military	Energy	Other
	Original equipment	Aftermarket			
Meggitt Aircraft Braking Systems	6%	70%	24%	–	–
Meggitt Control Systems	26%	36%	26%	8%	4%
Meggitt Polymers & Composites	31%	10%	53%	–	6%
Meggitt Sensing Systems	33%	16%	26%	12%	13%
Meggitt Equipment Group	2%	2%	66%	14%	16%
Group	22%	29%	35%	7%	7%

The **Boeing 737MAX** aircraft will enter into service in 2017 and will operate with nearly 60% more Meggitt content than its predecessor the 737NG. Strong positions across the airframe and engine, including in valves, sensors, safety systems, seals and composites, will drive good growth for decades.

Meggitt divisions

Meggitt Aircraft Braking Systems (MABS)

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

Capabilities

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

Operational performance

MABS provides wheels, brakes and brake control systems for around 34,000 in-service aircraft. Underscored by strong gains in recent years, notably on super mid-size and long-range business jets, it continues to develop innovative technology for new programmes enabling the business to expand market share.

MABS targets sole-source programmes and is particularly strong in regional aircraft, large business jets and military aircraft. The division represents 20% of Group revenue and generated 88% of its revenue from the aftermarket in 2016. MABS' civil revenue grew by 5% on an organic basis, with 7% growth in civil AM driven by strong demand for Boeing 757, DC10, MD90, Embraer E-170/175 and Bombardier CRJ aircraft together with initial provisioning for the CSeries.

In contrast, the business jet aftermarket declined by 8% with a particularly weak first half against very strong growth in 2015. MABS' military revenue declined organically by 2%. Strong aftermarket growth driven by healthy demand for Typhoon brakes was offset by weaker OE revenues where declines across a broad spectrum of fighter and trainer aircraft was partly offset by growth on F-35.

Operating margins declined from 37.3% to 36.1% in 2016, with unfavourable mix driven principally by lower demand for business jet spares, where margins are higher, and the first half production inefficiencies. Margins in the second half increased in line with recovery in business jet aftermarket, where revenues increased by 2%.

Markets

Civil aerospace

Fixed wing military aircraft

Rotary wing military aircraft

Revenue (£ millions)	% of Group revenue	Underlying operating profit (£ millions)
406.1	20	146.6

Revenue by end market

- **Civil OE** 6%
- **Civil AM** 70%
- **Military** 24%
- **Energy** 0%
- **Other** 0%

Meggitt divisions continued

Meggitt Control Systems (MCS)

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

Capabilities

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

Operational performance

MCS designs and manufactures products which manage the flow of liquids and gases around aero and industrial turbines and control the temperature of oil, fuel and air in aircraft engines. The division, which also provides fire protection equipment to engines and airframes, represents 24% of Group revenue, generating 54% of its revenue from the aftermarket.

Revenue was up by 6% on an organic basis. Civil aerospace grew by 7% overall, with good growth in OE driven by initial deliveries on A320neo and continued demand for A350 and A320. Aftermarket growth was also strong, with good demand for Boeing 787, 747 and 777, together with Airbus A320, A330 and A380, further supplemented by initial provisioning on the A320neo.

Military revenue grew by 7% driven by strong aftermarket growth in the second half. MCS' energy revenues declined by 3% during the year with a challenging first half partly offset by a recovery in the valves business during the second half. Operating margins increased from 24.4% to 24.7%.

Markets

Civil aerospace

Military aircraft

Military ground vehicles

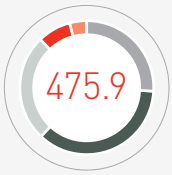
Energy and industrial

Marine

Ground fuelling

Revenue (£ millions)	% of Group revenue	Underlying operating profit (£ millions)
475.9	24	117.6

Revenue by end market



- **Civil OE** 26%
- **Civil AM** 36%
- **Military** 26%
- **Energy** 8%
- **Other** 4%

Meggitt Polymers & Composites (MPC)

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

Capabilities

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

Operational performance

MPC supplies flexible fuel tanks and systems, ice protection equipment and advanced composite assemblies for fixed and rotary wing aircraft and complex seals packages for civil and military customers. These products are linked by materials technology and manufacturing processes. MPC represents 17% of Group revenue. It generated 34% of revenue from the aftermarket.

MPC revenue increased by 3% on an organic basis. Military revenues grew by 7%, particularly fuel tanks, offsetting weakness in the civil aerospace business. Reported revenue increased by 86% including the full year benefit of the composites acquisitions and foreign exchange movements. Operating margins increased from 8.7% to 12.0% due to accretive margins from the acquired composites businesses and the recovery in our fuel systems business.

Markets

Civil aerospace

Military aircraft

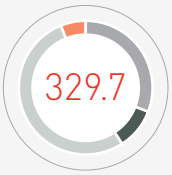
Military ground vehicles

Military systems and UAVs

Automotive and industrial

Revenue (£ millions)	% of Group revenue	Underlying operating profit (£ millions)
329.7	17	39.5

Revenue by end market



- **Civil OE** 31%
- **Civil AM** 10%
- **Military** 53%
- **Energy** 0%
- **Other** 6%

Meggitt divisions continued

Meggitt Sensing Systems (MSS)

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

Capabilities

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

Operational performance

MSS designs and manufactures highly engineered sensors that measure virtually all physical parameters including vibration, temperature, pressure, fluid level and flow. These are designed to operate effectively in the extreme conditions of aircraft or ground-based turbine engines. Sensors are combined into broader electronics packages, providing condition data to operators and maintainers, contributing to improved safety and up-time, and lower operating costs.

Meggitt's sensors are in demand from other specialist markets requiring products with similar characteristics. These include test, measurement and medical. The division also includes capabilities in power storage, conversion and distribution systems and avionics.

MSS represents 27% of Group revenue and generated 25% of its revenue from the aftermarket.

MSS revenue declined 1% on an organic basis, with growth of 4% in civil aerospace driven by modest growth in OE relating to A320 and A350 and 8% growth in the aftermarket. Military revenue declined by 4% on an organic basis, driven by decreasing demand for Typhoon and a broad range of helicopters. Within energy and other markets (including test, measurement and medical), MSS revenues decreased by 6%.

Operating margins decreased from 15.2% to 13.8% reflecting unfavourable mix.

Markets

Civil aerospace

Military aircraft, ships, ground vehicles and missiles

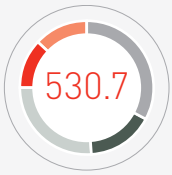
Energy and industrial

Test and measurement

Medical

Revenue (£ millions)	% of Group revenue	Underlying operating profit (£ millions)
530.7	27	73.0

Revenue by end market



- **Civil OE** 33%
- **Civil AM** 16%
- **Military** 26%
- **Energy** 12%
- **Other** 13%

Meggitt Equipment Group (MEG)

Created to enable a set of strong, technologically-distinct businesses to market their offerings to specialist customers, while benefiting from the wider Meggitt Group's investment in shared services and common processes.

Capabilities

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

Operational performance

MEG mostly comprises our non-engine actuation capability, dedicated military businesses and Heatric, a provider of diffusion-bonded heat exchangers for energy markets. The division represents 12% of Group revenue and generates 82% of its revenue from OE.

Revenue in MEG declined by 7% on an organic basis. The principal driver was a 36% decline in Heatric resulting from a continued lack of investment in large capital projects in the oil and gas sector.

Programme delays in the training businesses and reduced demand for defence systems in helicopter, ground vehicle and scoring sub-systems, offset growth in target systems to deliver flat organic military revenue.

Meggitt Target Systems generated £29.8m of revenue during the year, prior to its disposal to QinetiQ Group plc in December 2016, realising a profit on sale of £40.7m.

Operating margins decreased from 3.7% to 1.2% driven principally by the weakness in Heatric, which made a loss in the year.

Markets

Civil aerospace | Fixed and rotary wing military aircraft | Defence and security | Energy | Automotive and industrial

Revenue (£ millions)	% of Group revenue	Underlying operating profit (£ millions)
250.0	12	3.0

Revenue by end market

- **Civil OE** 2%
- **Civil AM** 2%
- **Military** 66%
- **Energy** 14%
- **Other** 16%

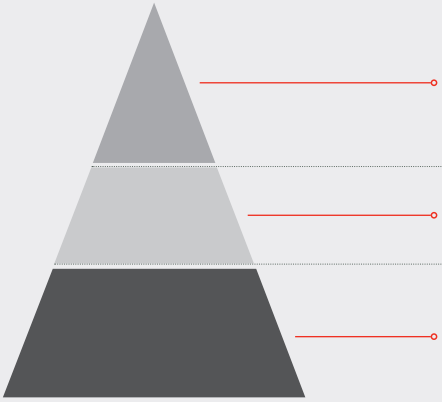
Risk management

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

During 2016, 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. Where appropriate, insurance is used to manage risks and our risk management procedures are shared with our insurers when assessing any potential exposures.

Governance

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



The Board – The Board takes overall responsibility, determining the nature and extent of the principal risks it is willing to take in achieving Meggitt's strategic objectives; and overseeing the Group's risk governance structure and internal control framework. During 2016, the Board has carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. This report describes those risks and how they are being managed or mitigated.

The Audit Committee – The Board has delegated responsibility for reviewing and ensuring the effectiveness of the risk management process to the Audit Committee.

Management committees – Divisional and functional leadership are responsible for the management of risk and for compiling and maintaining their own risk registers, which outline risks at business unit and programme levels. The Group Leadership Team as a whole regularly reviews the Group's principal risks, while individual members own specific risks.

Our risk management processes require identified risks throughout the Group to be owned by a named individual. They must review them regularly and consider related new risks. Risk identification is embedded in 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.

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

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

Meggitt's corporate strategy is designed to optimise our business model and take risk, with the required controls, on an informed basis. See pages 8 to 11 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 on the following basis:

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

Principal risks and uncertainties

In accordance with the Group's risk management procedures, we have evaluated our risk disclosures and focused this report on the principal risks. Financial risks associated with a multinational business, including foreign exchange, are disclosed in the Chief Financial Officer's review on pages 38 to 43.

The risks posed by the UK Brexit vote and the US presidential election have been considered in the risk assessment process and, where appropriate, their impacts reflected in the relevant existing risks rather than being presented as standalone new risks.

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

Change in risk in year

No change ← →

Increase in risk ↑

Decrease in risk ↓

KPIs

- Financial performance (organic revenue growth, underlying operating profit, return on trading assets, underlying EPS growth and free cash flow)
- R&D investment
- Accident/incident rate
- DPPM (defective parts per million)
- OTD (on-time delivery)

Risk velocity

High	Impact within 6 months of risk occurring
Medium	Impact between 6 and 36 months of risk occurring
Low	Impact after more than 3 years of risk occurring

Risk	Description and impact	How we manage it
Strategic **Business model** KPIs: – Financial performance – R&D investment Velocity: Medium	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. Impact: *decreased revenue and profit*	• Alignment of Group, divisional and functional strategy processes • Establishment of dedicated full-service aftermarket organisation • Implementation of long-term customer agreements as part of maintaining and monitoring pricing strategy • Implementation of Meggitt Production System (MPS) in aftermarket operations • Investment in research and development to maintain and enhance Meggitt's intellectual property • Strengthened commercial function
Product demand KPIs: – Financial performance Velocity: Medium	Significant variation in demand for products should civil aerospace, military and energy business downcycles coincide, a serious political, economic or terrorist event take place or industry consolidation materially change the competitive landscape. Impact: *volatility in underlying profitability*	• Monitoring external economic and commercial environment and long-lead indicators whilst maintaining focus on balanced portfolio • Regularly communicating strategy to shareholders • Maintaining sufficient headroom in committed bank facilities and against bank covenants whilst implementing appropriate cost-base contingency plans
Technology strategy KPIs: – Financial performance – R&D investment Velocity: Low	Failure to develop and implement meaningful technology strategies to meet customers' needs. Impact: *restriction of ability to compete on new programmes with consequent decrease in revenue and profit*	• Creation of technology roadmaps with customers and investment in applied research and technology • Focus on technology during Group strategy process • Recruiting first-class engineers with appropriate technology skills • Ring-fenced budgets focused on longer-term technology developments • Partnerships with government, academia and other companies to leverage our R&D budgets

Group strategy

Technology Operations excellence Customer focus

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

See pages 8 to 11 for a full description of our business model and strategy.

Risk management continued

Risk	Description and impact	How we manage it
Operational **Quality escape/ equipment failure** KPIs: – Financial performance – DPPM Velocity: High	Defective product leading to in-service failure, accidents, the grounding of aircraft or prolonged production shut-downs for the Group and its customers. Impact: *decreased revenue and profit, damage to operational performance and reputation*	• Implementation of well-developed system safety analysis, verification and validation policy and processes, combined with quality and customer audits and industry certifications • Implementing MPS across the Group • Implementation of enhanced supplier quality assurance process
Project/programme management *Programme management risk has reduced as a result of enhanced procedures and progress on existing projects* KPIs: – Financial performance – R&D investment Velocity: Medium	Failure to meet new product development programme milestones and certification requirements and successfully transition new products into manufacturing as production rates increase. Impact: *significant financial penalties leading to decreased profit and damage to reputation*	• Implementation of a programme lifecycle management process and engineering support applications, combined with enhanced internal review process to stress-test readiness to proceed at each stage of key programmes • Implementation of improved technology readiness and bid approval diligence methodology • Delivery of applied research and technology objectives in line with Group strategy • Incremental improvement in performance following MPS implementation and reorganisation of programme management to increase capability and focus on delivery and governance • Active participation in customer rate-readiness processes
Business interruption *Whilst not a new risk for Meggitt, it has been separately disclosed for 2016, rather than being included within other risks* KPIs: – Financial performance Velocity: High	A catastrophic event such as an earthquake (The Group has a significant operational presence in Southern California) or fire could lead to infrastructure and property damage which prevents the Group from fulfilling its contractual obligations. Impact: *decreased revenue and profit, damage to operational performance and reputation*	• Group-wide business continuity and crisis management plans, subject to regular testing • Comprehensive insurance programme, renewed annually and subject to property risk assessment visits

Group strategy

Technology

Operations excellence

Customer focus

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See pages 8 to 11 for a full description of our business model and strategy.

Risk	Description and impact	How we manage it
Customer satisfaction KPIs: – Financial performance – DPPM – OTD Velocity: Medium	Failure to meet customers' cost, quality and delivery standards or qualify as preferred suppliers. Impact: *failure to win future programmes, decreased revenue and profit*	• Creation of dedicated aftermarket organisation • Implementation of supplier excellence framework following risk analysis and on-site assessments • Implementation of MPS combined with a programme lifecycle management process leading to step change in performance • Reorganisation of programme management to increase capability and focus on delivery and governance • Development of commercial function and engineering capability • Increased utilisation of low-cost manufacturing base • Regular monitoring of customer scorecards and ensuring responsiveness to issues via Voice of the Customer process
Acquisition integration KPIs: – Financial performance Velocity: Medium	Failure to integrate effectively the composites acquisitions and realise expected financial returns in line with business case. Impact: *decreased revenue and profit*	• Internal pre-acquisition due diligence supplemented by external experts • Implementation of MPS as part of proven post-merger integration process led by incumbent divisional management, supported by experienced dedicated integration teams with a senior oversight committee • PMO established to manage integration and delivery of financial model, including cost synergies
IT/systems failure KPIs: – Financial performance Velocity: High	Prolonged lack of availability of critical systems such as SAP due to badly-executed implementation or change of control; poor maintenance, business continuity or back-up procedures; failure of third-parties to meet service level agreements; or cyber-attack including failure to protect IP or other sensitive information. Impact: *decreased revenue and profit, damage to operational performance and reputation*	• Implementation of rolling programme of system upgrades (including SAP implementation) to replace legacy systems • Ongoing implementation of IT security strategy and enhancement of IT security infrastructure, policies and procedures • Establishment of Group-wide intellectual property protection programme • Review of existing systems, third-party service providers and risks, including resilience and disaster recovery processes, undertaking mitigating action where appropriate • Roll-out of deployment and architectural review processes
Supply chain KPIs: – Financial performance – OTD Velocity: Medium	Failure or inability of critical suppliers to supply unique products, capabilities or services preventing the Group from satisfying customers or meeting contractual requirements. Impact: *decreased revenue and profit, damage to operational performance and reputation*	• Implementation of supplier excellence framework combined with integrated commercial and procurement approach to contractual terms and conditions including development of long-term agreements • Maintenance of buffer inventory for critical and sole-source suppliers • Implementation of measures to mitigate counterfeit and fraudulent parts at high-risk facilities

Risk management continued

Risk	Description and impact	How we manage it
Corporate **Legal & regulatory** *Legal & regulatory risk has increased with complex legislation such as the US government's DFARS data security requirements* KPIs: – Financial performance – Accident/ incident rate Velocity: High	Significant breach of increasingly complex trade compliance, bribery & corruption, ethics, environmental and health & safety laws. Impact: *damage to reputation, loss of supplier accreditations, suspension of activity, fines from civil and criminal proceedings*	• Continuing investment in compliance programmes • Implementation of Board-approved trade compliance, ethics and anti-corruption policies • Roll-out of global trade compliance IT solution and import compliance programme • Regular monitoring by Ethics and Trade Compliance Committee, supported by ongoing trade compliance programme including third party audits; and comprehensive ethics programme including training, anti-corruption policy, external audits and Ethics line • MPS implementation to enhance safety measures validated by third party audits
Financial **Taxation** *Taxation uncertainty has increased following political regime changes in key markets* KPIs: – Financial performance Velocity: Medium	Tax legislation is complex and compliance can be subject to interpretation. Legislation, including response to the OECD BEPS programme and the new US Presidential administration, is subject to change which could negate the effectiveness of the Group's current, well-established, tax-efficient international structures, including those used to finance acquisitions. Impact: *higher effective tax rates resulting in decreased profit*	• Monitoring international tax developments to assess implications of future legislation • Maintenance of a low-risk rating with UK HMRC and other tax authorities through open dialogue and, where possible, pre-agreement of arrangements to confirm compliance with legislation • Assessment of options to mitigate impact of legislative changes on the Group's effective tax rate • Use of multiple expert third party tax advisors

Group strategy

Technology

Operations excellence

Customer focus

Meggitt's corporate strategy is designed to optimise our business model and mitigate the risk inherent in it.
See pages 8 to 11 for a full description of our business model and strategy.

Oversight of risk and internal control

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

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

- Group policies—key policies are approved by the Board and other policies are approved by Group functions;
- Process controls—for example financial controls including the Group Financial Policies and Procedures Manual, the bid approval process, programme lifecycle management reviews, IT security framework and risk management. The risk management process, which enables

the Group to identify, evaluate and manage the Group's principal risks was in place for 2016 and up to the date of approval of the Annual Report and has been regularly reviewed by the Audit Committee and approved by the Board; and

- The forecasting, budget and strategic plan processes.

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

The following features allow the Group to monitor the effective implementation of policies and process controls by business units:

- A business performance review process (including financial, operational and compliance performance);
- 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, IT, HR, ethics and the bid process); and
- A whistleblowing line to enable employees to raise concerns.

To review the effectiveness of the system of internal controls, the Board and Audit Committee applied the following processes and activities in 2016 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 2017 budget;
- Written reports to the Ethics and Trade Compliance Committee on the effectiveness and outcomes of whistleblowing procedures; and
- Reports on insurance coverage and uninsured risks.

The risk management and internal control systems have been in place for the year under review and up to the date of approval of the Annual Report, and are regularly reviewed by the Board. The Board monitors executive management's action plans to implement improvements in internal controls that have been identified following the above-mentioned reviews and reports. The Board confirms that it has not identified any significant failings or weaknesses in the Group's systems of risk management or internal control as a result of information provided to the Board and resulting discussions.

Viability statement

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

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

i) The Group's five-year strategic plan covers an initial five-year period. Modelling by the Group for periods of over five years involves extrapolating the trend in years three to five and thus inevitably is more uncertain;

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

iii) Although individual platforms operate for periods of 30 years or more, our five-year viability period aligns with the typical aerospace cycle, and the longer term nature of our platform cycles is explained elsewhere in the Annual Report; and

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

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

- Discussed and agreed key assumptions in the stress testing model used by management;
- Considered the Group's current position and future prospects, the Group's strategy and principal risks and how these are managed as detailed in the Strategic report;
- Assessed the outcome of the stress-testing, carried out using the Group's five-year strategic plan as the base case. The five-year strategic plan considers the Group's cash flows, dividend cover, Net Debt:EBITDA covenant ratio and other key financial ratios over the period. These metrics are assessed against the Group Risk Register to determine the most impactful ones to stress test against, and this is carried out to evaluate the potential impact of the Group's principal risks actually occurring.
- Considered the Group Risk Register to determine those risks which could potentially pose the most significant threat to viability across the Group over this period and which should be modelled, including:
  - A significant market downturn, of greater magnitude than both the after effects of 9/11 and the global recession in 2008. The downturn was assumed to last for the full stress testing period, impacting both civil aerospace and energy, with military being unaffected (as history has shown);
  - A decline commensurate with losing one of our most significant customers, leading to a sharp loss of revenue across the full stress test period; and
  - A combination of these two scenarios to provide an indication of a plausible "worst case".
- Assessed the likelihood of bank and other debt facilities continuing to be available to the Group as existing facilities mature over the next five years; and
- Specifically assessed the impact of the UK's decision to leave the EU which is not expected to be significant, for two key reasons (i) from a trade perspective the World Trade Organisation treaty for trade in civil aviation parts provides for tariff free trade (military is generally covered under separate trade arrangements), and (ii) the Group has a significant amount of non-GBP denominated revenue, and non-GBP denominated debt, meaning it is naturally hedged against material, persistent foreign exchange movements.
- Specifically assessed the exposure to cross border trade, in relation to potential changes to import and export tariffs.

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

Key performance indicators

The Group uses a mix of financial and non-financial key performance indicators (KPIs) to measure execution against its strategic objectives. To ensure that we deliver value to our shareholders over the cycle, financial KPIs balance short-term measures (underlying operating profit and free cash flow in the year) with longer-term measures (organic revenue growth, return on trading assets and underlying EPS growth). Non-financial KPIs focus on investment in R&D to drive future revenues, the health and safety of our employees and raising standards of operational performance to satisfy our customers. There have been no changes to the KPIs used in the year or to how they are measured. In 2016, given the proximity of the date of disposal of Meggitt Target Systems to the balance sheet date, its results are included within the organic figures calculated.

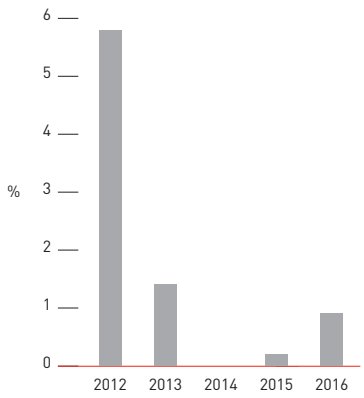
Strategic objectives

Technology

Operations excellence

Customer focus

Organic revenue growth



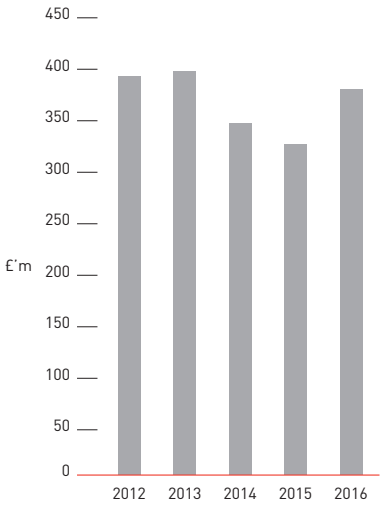
Definition and basis of calculation
Revenue growth calculated by measuring current and prior year revenue at constant currency, excluding revenue from any businesses acquired or disposed of in those periods. To measure revenue at constant currency, current year revenue is restated using translation and transaction exchange rates prevailing in the prior year. See page 39 for a reconciliation of organic revenue to revenue.

Target
Growth of 2% to 4% in 2017.

Result
Achieved 0.9% (2015: 0.2%) against a target of low single digit. Average achieved over last five years: 1.6%. See page 38 for details.

Directors' incentive plans
Organic revenue growth is a performance measure for both the 2016 and 2017 Long Term Incentive Plan (LTIP). See pages 80 and 84 to 85 for details.

Underlying operating profit



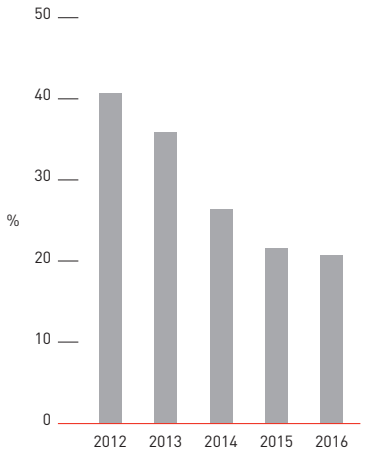
Definition and basis of calculation
Underlying operating profit is defined and reconciled to statutory measures in note 10 to the Group consolidated financial statements on page 119.

Target
We do not publish profit targets.

Result
Achieved £379.7m (2015: £325.5m). See page 39 for details.

Directors' incentive plans
Underlying operating profit is a performance measure for both the 2016 and 2017 Short Term Incentive Plan (STIP). For the purpose of these plans, actual and target underlying operating profit figures are measured at constant currency. See pages 78 and 83 for details.

Return on trading assets



Definition and basis of calculation
Underlying operating profit after tax expressed as a percentage of average trading assets. Underlying operating profit is defined and reconciled to statutory measures in note 10 to the Group consolidated financial statements on page 119. Underlying operating profit after tax applies the Group's underlying tax rate for the year to underlying operating profit. (For 2016, the underlying tax rate was 23.5%. For 2015, it was 20.0%).

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.

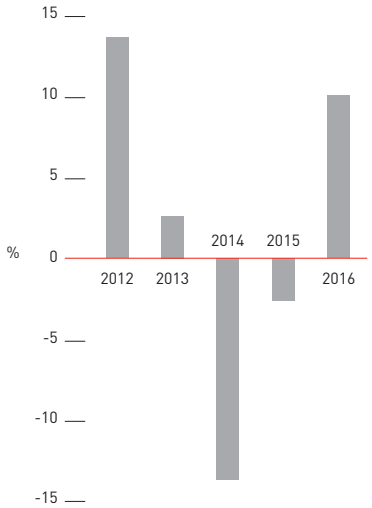
Return on trading assets measures performance by linking operating performance to the amount of operating capital employed.

Target
To achieve an average return on trading assets of 18.7% over the three-year period starting with 2017. The target recognises the need to continue to invest in trading assets during this elevated period in the aerospace cycle.

Result
2016: 20.8% (2015: 21.7%). See page 40 for details of the current high levels of investment to support future growth.

Directors' incentive plans
Return on trading assets is a performance measure for both the 2016 and 2017 LTIP. For the purpose of these plans, underlying operating profit after tax and trading assets are measured at constant currency. See pages 80 and 84 to 85 for details.

Underlying EPS growth



Definition and basis of calculation
The percentage change in underlying earnings per share (EPS) from the previous year. Underlying EPS is defined and reconciled to statutory measures in note 15 to the Group consolidated financial statements on page 123.

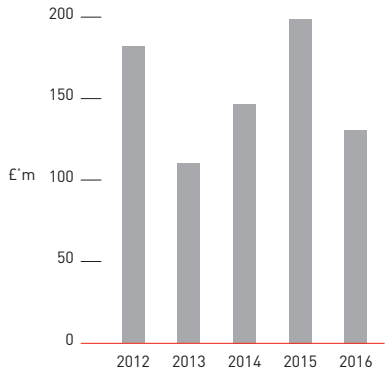
Target
We do not publish profit targets. However, the proposed 2017 LTIP includes EPS targets equivalent to growth ranging from 4.0% to 9.0% per annum over the next three years.

Result
2016: 10.1% (2015: -2.5%). CAGR achieved over last five years: 1.6%. See page 40 for details.

Directors' incentive plans
Underlying EPS is a performance measure for both the 2016 and 2017 LTIP. See pages 80 and 84 to 85 for details.

Key performance indicators continued

Free cash flow



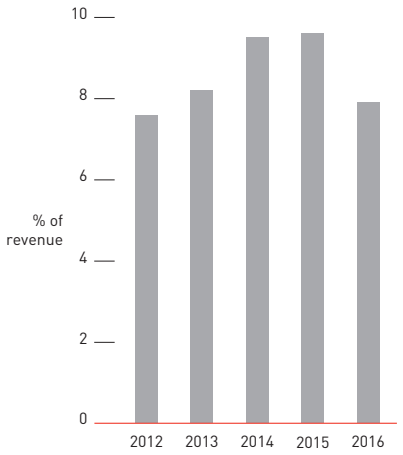
Definition and basis of calculation
Cash generated excluding amounts in respect of the acquisition and disposal of businesses and payments to shareholders. Free cash flow is presented in note 41 to the Group consolidated financial statements on page 146.

Target
We do not publish free cash flow targets.

Result
2016: £131.1m (2015: £199.0m). See page 41 for details.

Directors' incentive plans
Free cash flow is a performance measure for both the 2016 and 2017 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 78 and 83 for details.

R&D investment



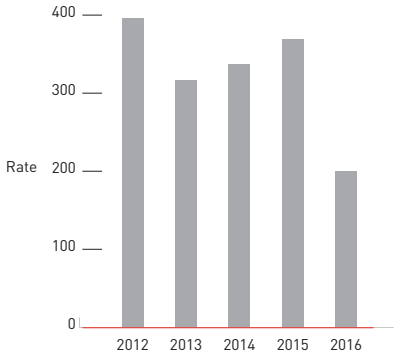
Definition and basis of calculation
Investment in research and development (R&D) expressed as a percentage of revenue. Investment is measured as total expenditure in the year and is not adjusted for amounts capitalised, amortised, impaired or incurred on contracts funded by customers.

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

Result
2016: 7.9% (2015: 9.6%). Average achieved over last five years: 8.6%. See page 40 for details.

Directors' incentive plans
R&D investment is not a specific measure used in directors' incentive plans. However, the 2016 and 2017 LTIP both include measures focused on the effective delivery of R&D programmes. See pages 80 and 84 to 85 for details.

Accident/incident rate



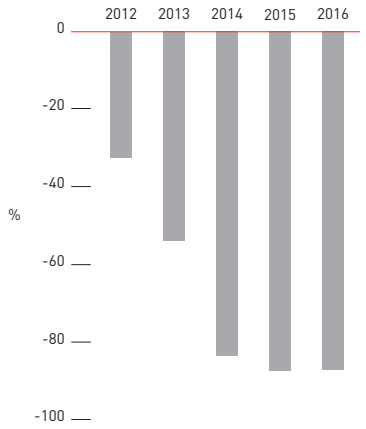
Definition and basis of calculation
The number of injuries reportable under local laws and regulations multiplied by 100,000 and then divided by the average employee headcount during the year.

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

Result
2016: 200 (2015: 369). See page 47 for details.

Directors' incentive plans
Health and safety performance is not a specific measure used in directors' incentive plans. However, it is integrated into the Meggitt Production System (MPS) and both the 2016 and 2017 LTIP include measures focused on MPS execution. MPS execution was also included in the personal performance conditions for the Chief Executive in the 2016 STIP. See pages 78, 80 and 84 to 85 for details.

Reduction in defective parts per million (DPPM)



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

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

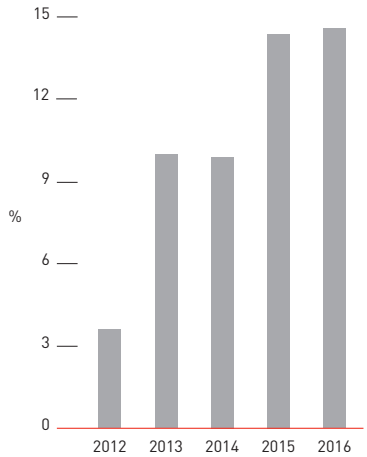
This KPI monitors the success of MPS.

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

Result
Cumulative improvement since 31 December 2011: 87% (2015: 87%). See page 6 for details.

Directors' incentive plans
DPPM is a performance measure for the 2016 LTIP. See page 80 for details. Quality, as measured by DPMM, is now embedded in the Group's MPS criteria for moving through the six-phase programme. Whilst MPS will therefore continue to focus on further improvements in quality performance, the strategic measures considered by the Group to be the next key outputs from MPS are gross margin improvement and reductions in inventory levels. Such measures are being introduced for the 2017 LTIP and will be reported as new KPI's from 2017. See pages 84 to 85 for details.

On-time delivery improvement



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

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

This KPI monitors the success of MPS.

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

Result
Cumulative improvement since 31 December 2011: 15% (2015: 14%). See page 6 for details.

Directors' incentive plans
On-time delivery is a performance measure for the 2016 LTIP. See page 80 for details. It is now embedded in the Group's MPS criteria for moving through the six-phase programme. Whilst MPS will therefore continue to focus on further improvements in on-time delivery, the strategic measures considered by the Group to be the next key outputs from MPS are gross margin improvement and reductions in inventory levels. Such measures are being introduced for the 2017 LTIP and will be reported as new KPI's from 2017. See pages 84 to 85 for details.

Chief Financial Officer's review

Overall performance

Reported revenue grew strongly during the year, with the benefit of foreign currency and acquisitions contributing to 21% growth overall. On an organic basis, revenue grew 1% with good growth in our civil aerospace markets offset by continued challenges in our energy markets, particularly oil and gas. Underlying profit before tax increased by 13%, with a 10% increase in underlying EPS reflecting the full year impact of debt from the composites acquisitions completed in late 2015 and a higher tax rate.

Financial highlights (Table 1)

	2016 £'m	2015 £'m	Reported growth %	Organic[4] growth %
Revenue	**1,992.4**	1,647.2	+21	+1
Underlying[1]:				
EBITDA[2]	**487.8**	414.5	+18	-1
Operating profit	**379.7**	325.5	+17	-3
Profit before tax	**352.1**	310.3	+13	-3
Earnings per share (EPS)	**34.8p**	31.6p	+10	
Statutory:				
Operating profit	**233.7**	236.6	-1	
Profit before tax	**195.5**	210.2	-7	
EPS	**22.1p**	23.2p	-5	
Free cash flow[3]	**131.1**	199.0	-34	-35
Net debt[5]	**1,179.1**	1,051.2	+12	

1 Underlying profit and EPS are defined and reconciled to statutory measures in notes 10 and 15 respectively to the Group financial statements.
2 Underlying EBITDA represents underlying operating profit adjusted to add back depreciation, amortisation and impairment losses.
3 Free cash flow is defined and reconciled to statutory measures in note 41 to the Group financial statements.
4 Organic numbers exclude the impact of acquisitions and foreign exchange. The results of Meggitt Target Systems, which was disposed of by the Group on 21 December 2016, have been included in organic performance for the year given the proximity of the disposal to the balance sheet date.
5 Restated following the finalisation of fair values and alignment to the Group's accounting policies of businesses acquired in late 2015. See note 44 to the Group financial statements.

Revenue

Reported revenue increased by 21% to £1,992.4m in 2016 (2015: £1,647.2m). Table 2 details the revenue performance by end market.

As expected, revenue benefited from foreign exchange and the full-year effect of acquisitions completed in late 2015. Currency movements, allowing for the fall in sterling against the Group's major operating currencies, which accelerated post the UK's EU referendum, contributed £203.7m to reported revenue. Acquisitions contributed a further £134.4m. Organic revenue growth of 4% in our civil aerospace business and 1% growth in our military end-markets was offset by a continued decline in energy.

Civil OE revenue grew 3% on an organic basis. Large jet OE, the most significant driver of our OE revenue, grew 10% driven principally by growth in Airbus A320, A350XWB and A380, Boeing 737 and initial deliveries on the Bombardier CSeries. Strong growth in large jet OE revenue was offset by business jet and general aviation which decreased by 11% during the year. Regional aircraft OE revenue was flat.

Civil aftermarket revenue grew organically by 5% with very strong large jet growth of 14%, driven in part by good demand on older aircraft and initial provisioning to support entry into service of the A320neo and CSeries, offset by business jets which were down 8% for the year. Business jet aftermarket, which is weighted towards wheel and brake products, recovered well in the second half of the year (up 6%) after a weak first half (down 21% against a very strong first half in 2015).

Military revenue was up 1% on an organic basis, with the expected challenging first half of the year offset by 7% growth in the second half. The second half recovery was particularly strong, with increase in demand in Meggitt Aircraft Braking Systems (MABS) for Typhoon and F-35, and in Meggitt Control Systems (MCS) driven by strong demand within military transport aircraft.

Energy revenue declined by 17% in 2016, on an organic basis, including a 36% decline at Heatric, our printed circuit heat exchanger business, reflecting continued challenges in the global oil and gas market. Organic revenues in power generation segments also declined during the year (down 7%), but were flat in the second half, driven by increased demand for gas turbines which contributed to growth of 12% at MCS. We continue to expect headwinds in the energy businesses in the short term, largely driven by the continued absence of capital expenditure on significant new gas projects, on which Heatric's technology is deployed. We have taken further action on costs within Heatric, while retaining the long-term capability of the business to respond when the market turns.

Meggitt's other specialist markets saw an organic revenue decline of 2%, with growth in automotive products offset by a decline in medical and other industrial end-markets.

Revenue growth (Table 2)

	2016 Revenue £'m	Growth %	Organic[1,2] growth %
Civil OE	**432.0**	+33	+3
Civil AM	**577.3**	+20	+5
Total civil aerospace	**1,009.3**	+25	+4
Military	**697.1**	+22	+1
Energy	**137.9**	-8	-17
Other	**148.1**	+25	-2
Total	**1,992.4**	+21	+1

Organic growth (Table 3)

Revenue				Underlying profit before tax		
2016 £'m	2015 £'m	Growth %		**2016 £'m**	2015 £'m	Growth %
1,992.4	1,647.2	+21.0	Reported	**352.1**	310.3	+13.5
(134.4)	(7.2)		Impact of M&A[1]	**(9.3)**	(0.4)	
(203.7)	–		Impact of currency[2]	**(43.3)**	–	
1,654.3	1,640.0	+0.9	Organic	**299.5**	309.9	-3.4

[1] Excludes the results of businesses acquired during the current and prior year. The results of Meggitt Target Systems, which was disposed of by the Group on 21 December 2016, have been included in organic performance for the year given the proximity of the disposal to the balance sheet date.

[2] Restates the current year using 2015 translation and transaction exchange rates.

Profit

The Board's preferred measure of the Group's trading performance is underlying profit. Underlying operating profit for the year was £379.7m (2015: £325.5m), representing a margin of 19.1% (2015: 19.8%). The margin decline reflects unfavourable mix in energy and civil aerospace, the expected dilution from acquisitions, and increased depreciation and amortisation (D&A) charges. The divisional results are shown in table 4 and discussed further on pages 23 to 27.

Underlying net finance costs increased to £27.6m (2015: £15.2m) reflecting a full year interest charge on the higher debt from the financing of the composites acquisitions, which was refinanced in July 2016 at higher, fixed interest rates, and a stronger US dollar.

Underlying profit before tax was £352.1m (2015: £310.3m).

On a statutory basis, profit before tax was £195.5m (2015: £210.2m). The reduction (vs. underlying) in profit reflects the £66.4m negative (2015: £4.8m negative) non-cash marking to market of financial instruments, principally currency hedges against our future transaction exposures, and the full year amortisation of intangible assets arising on the acquisitions of the advanced composites businesses, partially offset by a £40.7m gain on the disposal of Meggitt Target Systems.

Taxation

Meggitt's underlying tax rate increased to 23.5% (2015: 20.0%), reflecting the growth in the proportion of profit generated in the US following the two composites acquisitions completed in 2015, the strengthening of the US dollar and the absence of any significant one-off items this year. Our guidance for 2017 remains unchanged at 24% but, as highlighted last year and below, the international tax environment is currently very unclear following the publication of the recommendations from the Base Erosion and Profit Shifting project (the "BEPS project") together with the statements about fundamental change to the US tax system from the new US administration.

Cash tax paid as a percentage of underlying profit before tax was 8% (2015: 5%). The rate of cash tax is typically lower than our underlying tax rate due to tax deductible items which do not affect underlying profit including amortisation of intangible assets arising on the acquisition of businesses and tax relief on retirement benefit reduction payments.

Our statutory tax rate, which includes items reported below underlying profit before tax, was 12.4% (2015: 13.4%). Cash tax paid as a percentage of statutory profit before tax was 14% (2015: 7%).

The Group is committed to complying fully with the laws in the countries in which it operates. It seeks to achieve a competitive tax rate by maintaining appropriate levels of debt in high tax jurisdictions, claiming available tax credits and incentives and utilising common financing structures where appropriate. We are rated as low risk by HM Revenue & Customs and our tax policy seeks to retain this low risk rating.

As for all companies, the Group is exposed to changing tax legislation in the territories in which we operate and, being multinational, also to international initiatives such as the BEPS project. Out of the 15 strands covered by the project, at least three will impact the Group.

Divisional results (Table 4)

Revenue					Underlying operating profit			
2016 £'m	2015 £'m	Growth %	Organic growth[1] %		**2016 £'m**	2015 £'m	Growth %	Organic growth[1] %
406.1	353.1	+15.0	+2.7	Aircraft Braking Systems	**146.6**	131.7	+11.3	-0.9
475.9	397.9	+19.6	+5.6	Control Systems	**117.6**	97.0	+21.2	+5.4
329.7	177.4	+85.9	+2.5	Polymers & Composites	**39.5**	15.4	+156.5	+15.6
530.7	474.8	+11.8	-1.1	Sensing Systems	**73.0**	72.3	+1.0	-13.6
250.0	244.0	+2.5	-6.8	Equipment Group	**3.0**	9.1	-67.0	-78.0
1,992.4	1,647.2	+21.0	+0.9		**379.7**	325.5	+16.7	-3.3

[1] Organic growth excludes the impact of M&A and currency and is reconciled in Table 3. The results of Meggitt Target Systems, which was disposed of by the Group on 21 December 2016, have been included in organic performance for the year given the proximity of the disposal to the balance sheet date.

Chief Financial Officer's review continued

These three strands are those covering hybrid mismatch arrangements, interest deductibility and transfer pricing/country by country reporting. The Group is currently monitoring these developments, participating in public consultations where appropriate, reviewing data collection systems and developing contingencies to mitigate the impact, should our existing arrangements be made ineffective. In addition, with the majority of the Group's profits generated in the US, a significant debt shield in place and substantial cross border transactions (US imports and exports), changes to the US tax landscape could have a significant impact on the Group. Given the current uncertainty as to the nature and timing of any such changes, it is not possible to determine whether any impact would be positive or negative for the Group.

Earnings per share (EPS)

Underlying EPS increased by 10% to 34.8p (2015: 31.6p). The EPS increase was lower than the increase in underlying profit before tax mainly due to the increase in underlying tax rate.

Statutory EPS reduced by 5% to 22.1p (2015: 23.2p). The reduction is lower than in statutory profit before tax mainly due to the reduction in the statutory tax rate driven by the non-taxable gain of £40.7m made on the disposal of the Target Systems business.

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 10.30p (2015: 9.80p) which would result in a 5% increase in the full-year dividend to 15.10p (2015: 14.40p).

The Company has a balance on its profit and loss reserve at 31 December 2016 of £996.7m (2015: £1,027.7m), of which approximately £850.0m (2015: £900.0m) 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 2017. It provides an efficient reinvestment option for shareholders, without the need for new shares to be issued by the Company.

Investing for the future

Targeted investment in technology development remains critical to our long-term organic growth. Total R&D expenditure reduced in 2016 to £157.8m representing 7.9% of revenue (2015: £158.7m, 9.6%), of which 20% (2015: 17%) was funded by customers. The charge to net operating costs, including amortisation and impairment, increased by 4% on an organic basis to £71.0m (2015: £61.4m).

Reduced spend on R&D reflects the progress made on development programmes for major new aircraft platforms including the A320neo and CSeries which entered service in 2016 and the 737MAX which is due to begin service in 2017. As more programmes pass key milestones over the next few years, we expect R&D to reduce further as a percentage of revenue. The new product introduction (NPI) expenditure associated with these platforms will peak in 2018. This reflects the increased content we have secured on a wide range of new platforms which is good for future revenues but the cost of introducing record numbers of new parts impacts profitability in the short term. We continue to expect growth in expensed R&D relating to our successful applied research and technology (AR&T) programmes which will develop the next generation products and manufacturing technologies required to enable future aircraft programmes.

Our investment in programme participation costs including the supply of equipment free of charge to new aircraft, mostly in MABS, increased by 19% organically reflecting growth in new platforms where we have strong positions, particularly the CSeries that entered service in 2016. Growth is expected to continue into 2017 and well beyond as deliveries of aircraft equipped with our wheels and brakes increase further, which in turn will drive aftermarket revenue stretching out for decades. Our market share of wheels and brakes on the fleet of super mid-size and large business jets in 2016 was 65%, supportive of our expectation that we will have a market share on the overall fleet in excess of 70% by 2021.

Capital expenditure on property, plant and equipment and intangible assets was £65.5m (2015: £55.4m). This includes investment required to support factory consolidations and the integration of the composites acquisitions. It also includes initial investment in the expansion of our Vietnam facility and in new plant and equipment to build global capacity to support new engine programmes. Capital expenditure will increase in 2017, as we accelerate plans to consolidate the Group's manufacturing footprint and increase investment in building capacity and capability across our existing sites, some of which had been anticipated, but not spent, during 2016.

Debt structure and financing

The Group's borrowings comprise a combination of US private placement debt and syndicated and bilateral bank credit facilities. During the year, the two USD300m bilateral credit facilities, raised in 2015 to fund the acquisitions of the composites businesses of Cobham plc and EDAC, were repaid. They were refinanced in the US private placement market through the issue of USD300m seven-year notes with a coupon of 3.31% and USD300m ten-year notes with a coupon of 3.60%. The terms of the new notes, including covenants, are substantially similar to our existing 2010 US private placement issuance. In addition, and as provided under the

Analysis of R&D expenditure (Table 5)

	2016 £'m	2015 £'m	Growth %	Organic[1] growth %
Total R&D expenditure	**157.8**	158.7	-1	-12
% of revenue	**7.9%**	9.6%		
Customer-funded R&D	**(31.7)**	(26.8)	+18	-1
Capitalised	**(72.4)**	(84.8)	-15	-24
Amortisation/impairment	**17.3**	14.3	+21	+7
Charge to net operating costs	**71.0**	61.4	+16	+4

[1] Organic growth excludes the impact of M&A and currency and is reconciled in Table 3. The results of Meggitt Target Systems, which was disposed of by the Group on 21 December 2016, have been included in organic performance for the year given the proximity of the disposal to the balance sheet date.

Movements in net debt (£'m) (Table 6)	2016	2015 Restated[1]
Underlying EBITDA	**487.8**	414.5
Working capital (outflow)/inflow	**(57.0)**	29.8
Post-retirement benefit deficit reduction payments[2]	**(35.0)**	(24.4)
Cash flow from operations before exceptional and M&A costs	**395.8**	419.9
Exceptional operating costs	**(18.3)**	(10.7)
Interest and tax	**(53.8)**	(31.3)
Capitalised development costs	**(69.6)**	(80.5)
Capitalised programme participation costs	**(57.5)**	(43.0)
Capital expenditure	**(65.5)**	(55.4)
Free cash flow	**131.1**	199.0
Net proceeds from/(investment in) M&A including costs	**59.8**	(363.2)
Dividends	**(113.0)**	(111.1)
Share buyback/Purchase of own shares	**–**	(156.1)
Net cash flow	**77.9**	(431.4)
Net debt acquired with businesses	**–**	(4.4)
Currency movements	**(195.4)**	(39.6)
Other non-cash movements	**(10.4)**	(0.3)
Opening net debt	**(1,051.2)**	(575.5)
Closing net debt	**(1,179.1)**	(1,051.2)

[1] Restated following the finalisation of the fair values and alignment to the Group's accounting policies of businesses acquired in late 2015. See note 44 to the Group financial statements.

[2] Includes in 2016, an additional one-off payment of £10.2m paid into the UK scheme upon the disposal of the UK Target Systems business.

facility agreement, the Group requested a one year extension of its USD900m committed revolving credit facility. This request was approved by all of the participating banks and accordingly the facility now matures in September 2021. During the year, the Group accepted a commitment letter from Sumitomo Mitsui Banking Corporation under which the bank offered the Group a £75m three-year bilateral facility to commence in the second half of 2017, aligned to the date on which USD200m of the 2010 private placement debt is due to be repaid. The loan agreement terms will be based on the acquisition bilateral agreements refinanced during 2016.

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

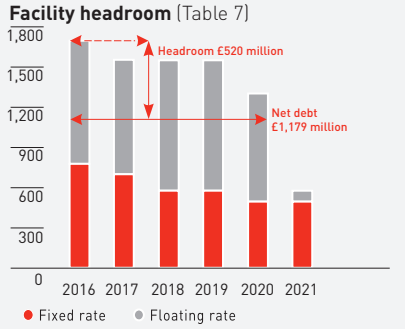
At 31 December 2016, the Group had undrawn committed credit facilities of £520m after taking account of surplus cash (2015: £372m).

Capital structure

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

The Board believes that in maintaining an efficient balance sheet with appropriate covenant headroom and investment capacity, a net debt/EBITDA ratio, as measured on a bank covenant basis, of between 1.5x and 2.5x is appropriate, whilst retaining the flexibility to move outside the range if appropriate. Net debt/EBITDA was 2.1x at 31 December (2015: 2.3x).

Facility headroom (Table 7)



Debt financing risks

The Group seeks to minimise debt financing risk as follows:

a. Concentration of risk

We raise funds through private placement issuances and committed bank facilities to reduce reliance on any one market. Bank financing is sourced from 13 international institutions spread across North America, Europe and Asia. No single bank accounts for more than 8% of the Group's total credit facilities and the credit rating of lenders is monitored by our treasury department. The Group's largest lenders are Bank of America, HSBC, Bank of China, Barclays, BNP Paribas, Crédit Industriel et Commercial, JP Morgan, Bank of Tokyo-Mitsubishi and Sumitomo Mitsui Banking Corporation. We seek to maintain at least £100m of undrawn committed facilities, net of cash, as a buffer.

b. Set-off arrangements

The Group utilises set-off and netting arrangements to reduce the potential effect of counterparty defaults. All treasury transactions are settled on a net basis where possible and surplus cash is generally deposited with our lenders up to the level of their current exposure to us.

c. Refinancing risk

We seek to ensure the maturity of our facilities is staggered and any refinancing is concluded in good time, typically more than 12 months before expiry.

d. Currency risk

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

Net debt by drawn currency (£'m) (Table 8)	2016	2015[1]
Sterling	**(49.9)**	(33.6)
US Dollar	**1,260.3**	1,062.8
Euro	**(21.1)**	36.4
Swiss Franc	**(3.6)**	(6.8)
Other	**(6.6)**	(7.6)
Net debt	**1,179.1**	1,051.2

[1] Restated following the finalisation of fair values and alignment to the Group's accounting policies of businesses acquired in late 2015. See note 44 to the Group financial statements.

e. Covenant risk

Our committed credit facilities contain two financial ratio covenants—net debt to EBITDA and interest cover. The covenant

Chief Financial Officer's review continued

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	2016	2015
Net debt/EBITDA	≤3.5x[1]	**2.1x**	2.3x
Interest cover	≥3.0x	**14.5x**	21.4x

[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 debt. Our US private placements are subject to fixed interest rates, whereas borrowings under our syndicated and bilateral bank credit facilities are at floating rates. To manage interest rate volatility, we use interest rate derivatives to either convert floating rate interest into fixed rate or vice versa. Our policy is to generally maintain at least 25% of net debt at fixed rates with a weighted average maturity of two years or more. At 31 December 2016, the percentage of net debt at fixed rates was 66% (2015: 23%) and the weighted average period to maturity was 5.7 years (2015: 2.9 years). The floating rate bilateral bank credit facilities taken out to fund the acquisitions last year, resulted in a reduction in the proportion of net debt at fixed rates to below 25% at 31 December 2015. During 2016, this floating rate debt has been repaid and replaced with fixed rate private placement debt. The substantial increase in the proportion of debt held at fixed rates will help to insulate the Group from the effects of any further increases in US 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)

	2016	2015
Average translation rates against Sterling:		
US Dollar	**1.33**	1.53
Euro	**1.21**	1.38
Swiss Franc	**1.32**	1.47
Average transaction rates:		
US Dollar/Sterling	**1.49**	1.57
US Dollar/Euro	**1.21**	1.36
US Dollar/Swiss Franc	**1.08**	1.08
Year-end rates against Sterling:		
US Dollar	**1.24**	1.47
Euro	**1.17**	1.36
Swiss Franc	**1.26**	1.48

The results of foreign subsidiaries are translated into Sterling at weighted average exchange rates. The weakening of Sterling against all of the Group's major currencies has had a significant benefit to our reported results for the year. Compared to 2015, the Group's revenue increased by £176.6m and underlying profit before tax for the year by £33.2m from currency translation movements. These benefits include favourable impacts of £144.4m and £28.1m respectively relating to US Dollar denominated revenues and profits.

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

	Revenue	PBT[1]
Impact of 10 cent movement[2]:		
US Dollar	**95.0**	**17.0**
Euro	**11.0**	**1.0**
Swiss Franc	**8.0**	**2.0**

[1] Underlying profit before tax as defined and reconciled to statutory measures in note 10 to the Group financial statements.
[2] As measured against the 2016 average translation rates against Sterling set out in Table 10.

Transaction risk arises where revenues and/or costs of our businesses are denominated in a currency other than their own. We hedge known, and some anticipated transaction currency exposures, based on historical experience and projections. Our policy is to hedge at least 70% of the next 12 months' anticipated exposure and to permit the placing of cover up to five years ahead. Compared to 2015, the Group's revenue benefitted by £27.1m and underlying profit before tax for the year by £10.1m from currency transaction movements. These benefits include favourable impacts of £24.4m and £10.8m respectively relating to US Dollar denominated revenues and profits. Each ten cent movement in the US Dollar against the average hedge rates achieved in 2016, would affect underlying profit before tax by approximately £9.0m in respect of US Dollar/Sterling exposure, £3.0m in respect of US Dollar/Euro exposure and £5.0m in respect of US Dollar/Swiss Franc exposure.

Transaction hedging (Table 12)

	Hedging in place %[1]	Average transaction rates[2]
2017:		
US Dollar/Sterling	**90**	**1.49**
US Dollar/Euro	**100**	**1.18**
US Dollar/Swiss Franc	**96**	**1.06**
2018 – 2021 inclusive:		
US Dollar/Sterling	**67**	**1.39**
US Dollar/Euro	**48**	**1.18**
US Dollar/Swiss Franc	**29**	**1.08**

[1] Based on forecast transaction exposures and hedging in place at 31 December 2016.
[2] Based on hedging in place at 31 December 2016, with unhedged exposures based on exchange rates at 31 December 2016.

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 £360.2m (2015: £239.1m). Drivers of the movement in net deficit included:

- An increase of £193.1m (2015: Reduction of £32.6m) due to remeasurement losses on scheme liabilities. The main cause of the increase was a fall in the rates used to discount scheme liabilities. Accounting standards require these liabilities to be discounted using the yields on high quality AA corporate bonds, with a maturity that reflects the duration of the scheme liabilities. The fall in yields was most noticeable in the UK, particularly following Brexit, with rates 120 basis points lower than at the end of 2015 and almost 100 basis points lower than those seen in the 12 years since this method of measurement of liabilities was introduced in 2004. Coupled with a modest increase in inflation rates, this resulted in remeasurement losses on the UK scheme of £183.2m (2015: Gain £55.6m).
- A reduction of £72.4m (2015: Increase of £7.2m) due to remeasurement gains on scheme assets, principally driven by strong performance from equity and bond markets.

- Net deficit reduction payments of £33.3m (2015: £22.4m). Upon the sale of the Group's UK Target Systems business in December 2016 and the withdrawal of that company from the scheme, an additional one-off payment of £10.2m was agreed with the trustees and made to the UK scheme.
- An increase of £22.7m (£2015: £4.8m) from exchange differences arising on the translation of deficits in the US and Switzerland.

Regulations in the UK and US require repayment of deficits over time. During the year, the Group reached an agreement with the trustees of the UK scheme following the 2015 triennial actuarial valuation. Under the agreed recovery plan, the funding deficit measured at April 2015 at £249.4m, will be addressed by payments which gradually increase over the period to 2024. This compares with an accounting deficit at 31 December 2016 of £209.6m (December 2015: £122.1m).

Since the date of the 2015 actuarial valuation, it is estimated that the funding deficit has increased further, and an additional £80.0m is not covered by the agreed recovery plan. This increase, which is driven principally by the fall in gilt yields seen in the latter part of 2016, does not have an immediate impact on Group cash requirements but, were financial conditions to remain at current levels when the next valuation is completed in 2019, would likely have an impact on cash payments from that year.

At the date of the valuation, the buy-out deficit, which assumes the Group was to transfer the responsibility of the scheme to an insurance company, was measured at £544.1m. The Group has no current plans to make such a transfer.

In the US, the level of deficit payments is principally driven by regulations. Amounts required to be paid reduced in the year to £2.0m, as expected, reflecting the impact of legislation implemented in the latter part of 2014. Absent any further changes in legislation, annual payments are expected to increase to £10.0m in 2017 and will increase gradually over the following four years to £23.0m by 2019, before stabilising around this level.

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 £54.5m (2015: £45.4m), with the increase principally driven by exchange differences. Deficit payments during the year were £1.7m (2015: £2.0m).

Recent accounting developments

IFRS 15, the new revenue accounting standard, comes into effect from 2018. It is a complicated standard, requiring the terms of every customer contract to be considered against new revenue recognition rules. Fortunately, more than 90% of our revenue is derived from the sale of goods where we recognise revenue when we ship product and we do not currently expect this to change significantly under the new standard.

The area likely to be most impacted for the Group is programme participation costs, where the manufactured cost of free of charge or heavily discounted hardware will no longer be capitalised and then amortised, but instead expensed as incurred. Most typically found in MABS, these account for the majority of our programme participation costs. Had the Group adopted this policy for 2016, its profit before tax and total assets would be lower by £23.4 million and £283.4 million respectively.

Other areas of revenue recognition which are likely to be affected by the new standard include power by the hour and cost per brake landing contracts, those for which contract accounting is currently applied and funded R&D contracts.

It is difficult to be precise about the overall impact of IFRS 15 on revenue and profit, but with the exception of the accounting for free of charge or heavily discounted hardware, we expect it to be relatively small in a Group context.

IFRS 16, the new leasing standard, comes into effect from 2019 and will require certain operating leases to be recognised on the balance sheet. Rather than make accounting changes in successive years, it is our plan to early adopt IFRS 16 in 2018, to align with the timetable for implementation of IFRS 15.

Most critically, neither standard will have an impact on cash or the economic return from a programme and therefore on the intrinsic value of Meggitt.

Further details on the potential impact of both IFRS 15 and IFRS 16 are provided in note 2 to the Group financial statements on page 110.

Doug Webb Chief Financial Officer

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

	2016	2015
Opening net deficit	**239.1**	271.0
Service cost	**15.3**	14.5
Group cash contributions[1]	**(48.6)**	(36.9)
Deficit reduction payments	**(33.3)**	(22.4)
Other amounts charged to income statement[2]	**11.0**	11.1
Remeasurement (gains)/losses – schemes' assets	**(72.4)**	7.2
Remeasurement losses/(gains) – schemes' liabilities	**193.1**	(32.6)
Currency movements	**22.7**	4.8
Closing net deficit	**360.2**	239.1
Assets	**952.5**	794.1
Liabilities	**1,312.7**	1,033.2
Closing net deficit	**360.2**	239.1
Assets as percentage of liabilities	**73%**	77%

[1] Includes in 2016, an additional one-off payment of £10.2m paid into the UK scheme upon the disposal of the UK Target Systems business.

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

Corporate responsibility

We recognise our responsibility to shareholders, employees, customers, suppliers and the wider community to conduct our operations in a safe, responsible and sustainable manner. We believe that our approach to corporate responsibility creates value for Meggitt and our stakeholders. It helps us to manage our businesses more efficiently, which in turn helps us to mitigate risks, reduce costs and support the communities in which we operate.

Policy

We are committed to:

- Upholding sound corporate governance principles;
- Upholding our employees' human rights;
- Encouraging dialogue with employees;
- Supporting the Ten Principles outlined in the United Nations Global Compact, relating to human rights, labour, the environment and anti-corruption;
- Complying with the Modern Slavery Act 2015;
- Supporting our local communities;
- Conducting business relationships in an ethical and responsible manner;
- Minimising the environmental impact of products and processes and maintaining internationally-accredited environmental management systems;
- Acting as a responsible supplier and encouraging our contractors and suppliers to do the same; and
- Improving our financial, social and environmental performance.

Action

For our stakeholders this means:

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

Governance and compliance

In 2016, the Board approved a revised Corporate Responsibility Policy to include a statement on modern slavery. The revised policy highlights our commitment to abstain from practices such as slavery, human trafficking, forced labour and child labour, and our commitment 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. In February 2017, the Board approved a statement in compliance with the Modern Slavery Act 2015 which is available on our website. The Board also approved updates to the the Ethics and Business Conduct Policy, Code of Conduct and Anti-Corruption Policy in 2016. These updated policies and all other Board-approved policies are published on our website.

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

Activity in 2016

Environment

We are committed to achieving and maintaining a culture that places a high priority on environmental performance and being proper stewards in the communities and locations in which we operate. Our commitment is demonstrated by our compliance record which shows no fines for breaches of environmental regulations during 2016 after numerous inspections by environmental authorities. This achievement is due, in part, to our comprehensive rolling environmental auditing programme which assessed 40% of our sites in 2016 for compliance with

Learning from robotic teens

Meggitt volunteers who mentor teenagers in a nationwide robotics challenge are learning new lessons for advanced automation.

The first robot is set to arrive at Meggitt Polymers & Composites, Oregon in early 2017. It's designed to automate trimming on the sealing skirts for in-flight internet radomes, a new product line that arrived with the 2015 advanced composites acquisitions.

To help ensure a pipeline of talented young engineers who can drive further advances in robotics, MPC Oregon mentors two local high-school teams, known as 'Hotwire Robotics' and the 'Nerd Herd'. Each year, they battle against more than 3,000 competitors in a robotics challenge run by For Inspiration and Recognition of Science & Technology (FIRST).

"The students get a very specific brief from FIRST, detailing what the robot must do. A team of about ten Meggitt volunteers from engineering, finance and customer service help them refine their thinking and crack the problems that come up as they plan and build," explains Steve Fackler, MPC Oregon's Director of Advanced Technology. "It's the perfect way to learn real-world technical and business skills."

"In return, we get in front of some of the best young talent in the local community and show them what's on offer here," adds Engineering Manager Trevor Crumrine. "And we get to learn from them too."

Tapping into tomorrow's generation

Mentoring not only helps MPC Oregon engineers to stretch their thinking generally. It has also helped to improve the technology behind a new equipment tracking system at the site.

"Gathering data about temperature and running time on our presses is essential for optimising performance," says Crumrine.

"Working with the two FIRST teams showed us ways to create a wireless monitoring network which is much more accurate and efficient than the wired counterpart we were looking to install."

"We're also talking to the schools about the possibility of students helping us build and programme the 200 or so circuit boards we need to implement the system."

"3M, Boeing, Rockwell, UTC, Google... many of the country's biggest engineering businesses work with FIRST. And for good reason too: it helps nurture the next generation of engineers, it's good for recruitment and it's good for our engineers too—the lessons we learn can often be put into practice right away," says Andrew Barnes, one of MPC Oregon's engineering mentors on the programme.

"Hotwire Robotics finished 16th in 2016 which was an amazing result. And a tough one to beat next year. But that's the challenge!"

Corporate responsibility continued

applicable regulatory requirements as well as compliance against industry best practice.

Beyond compliance, we require our manufacturing facilities to maintain an environmental management system certified to the ISO 14001 international standard. All of our manufacturing facilities, excluding the 2015 composites acquisitions, have obtained this certification with those newly acquired businesses set to achieve certification by the end of 2017.

Performance

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

Our environmental performance in 2016 was good and we achieved decreases in all metrics relative to revenue, as shown in Table 1.

The decrease in greenhouse gas (GHG) emissions meant we started our internally set 10-year plan strongly, achieving a 5% reduction relative to revenue against an annual target of 2.5%. We exceeded our target through the continued implementation of energy conservation measures across the Group. These included installation of energy efficient lighting and occupancy sensors in both factories and offices and upgrading compressors to more energy efficient systems. We also continue to investigate sources of alternative energy and other energy savings measures as these will be crucial to achieving our 10-year target.

In terms of our performance for our other five-year targets in Table 2, we exceeded our gas target. We also beat our target for water consumption. We saved a significant amount of water usage as we expanded the use of closed loop recycling systems across the Group and we hope to see further gains in this area as this technology is introduced to the composites acquisitions.

We did not achieve our electricity usage target, largely due to the energy intensive carbon brake disk manufacturing process at MABS. However, in 2016 we did achieve a 2% reduction in electricity consumption.

Waste produced during 2016 declined by 14% relative to revenue. However, we fell short on our performance against our waste recycled five-year target, and our waste to landfill was also below target. Our manufacturing facilities are now required to develop waste minimisation plans and identify and implement opportunities for waste reduction and recycling. We expect to see improvement in waste performance as these plans are implemented.

GHG emissions

Table 3 shows the GHG emissions data as per 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.

The composites acquisitions, which were not included in the Group's reporting for 2015, led to a small increase in overall GHG emissions during 2016. Excluding the acquisitions, absolute emissions declined by 2% and we aim to build on the strong start to our 10-year reduction plan.

Saving energy

In 2016, we focused on lighting projects at our facilities such as upgrading current fixtures to LED or other more efficient technology and the installation of occupancy sensors. Together, these projects saved approximately 620 tonnes of GHG emissions. In addition, our MABS carbon refurbishment programme contributed to a saving of approximately 3,865 tonnes of GHG emissions.

Environmental metrics[1] (Table 1)

	2016	Change	2015
Utilities			
Electricity—gWh	213		201
MWh per £m	**120**	-2%	122
Natural gas—gWh	189		203
MWh per £m	**107**	-13%	123
Greenhouse gas emissions (CO_2e)[1]—tonnes	135,026		132,074
Tonnes per £m	**76.1**	-5%	80.2
Waste—tonnes	11,224		12,098
Tonnes per £m	**6.32**	-14%	7.34
Water—cubic metres	705,279		711,385
Cubic metres per £m	**397**	-8%	432

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

Targets (Table 2)

	Baseline year	Performance period (financial years)	Target improvement over performance period	Achieved as at 31 December 2016
GHG emissions – tonnes per £m	2015	To 31 December 2025	-25%	-5%
Electricity – MWh per £m	2011	To 31 December 2016	-15%	+8%
Gas – MWh per £m	2011	To 31 December 2016	-15%	-18%
Water consumption – cubic metres per £m	2011	To 31 December 2016	-10%	-16%
Waste to landfill – as a % of total waste	2011	To 31 December 2016	-10%	-5%
Waste recycled – as a % of total waste	2011	To 31 December 2016	+10%	+9%

GHG emissions[1] data (Table 3)

	2016 Tonnes of CO_2e	2015 Tonnes of CO_2e
Combustion of fuel and operation of facilities[2]	**35,186**	37,796
Electricity, heat, steam and cooling purchased for own use	**99,840**	94,278
	135,026	132,074
Intensity measurement:		
Emissions reported above, normalised to tonnes per £m revenue	**76.1**	80.2

[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 factors from overseas electricity are in CO_2 only (not CO_2e).
[2] Does not include GHG emissions generated from Meggitt-owned and operated vehicles or refrigerant gases as these emissions are not material to the Group's emissions – this is evaluated annually and continues to be the case.

REACH

Compliance with the European Community regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) is managed by the Group's REACH Steering Committee which continues to address risks associated with the potential obsolescence of chemicals used by aerospace manufacturers. We continuously track substances regulated under REACH and work closely with our chemical suppliers to ensure substances are registered and will be approved for continued use, or identify suitable alternatives. We participate in aerospace industry trade groups in the US and Europe that are involved in researching replacements for hexavalent chromium and other substances targeted for restrictions.

Obsolescence

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

Health and safety

As a Group, we strive to ensure our employees can lead safe, healthy and productive lives by actively promoting policies and programmes that help individuals safeguard themselves, their co-workers and visitors.

In 2016, further health and safety measures were integrated into DLA including standardising and improving how we report, action and close out near miss and unsafe conditions identified by employees. We continued implementation of industry leading health and safety practices by issuing new Meggitt Health and Safety Procedures applicable to all sites on the topics of blood-borne pathogen exposure control and managing change to ensure that health, safety and environmental impacts are assessed prior to any operational change being implemented.

We focus on preventative health and safety measures, and have revised our incident investigation procedures to include human factors analysis in any reported near miss incidents and unsafe conditions. Since 2015, we have rolled out Behaviour Based Safety training in 56% of our manufacturing facilities, and more of this training is planned for 2017.

These measures have resulted in significant improvement in all health and safety performance measures throughout the Group.

Compared to 2015, we achieved:

- A reduction of 37% in the number of lost time cases reported and associated incident rate;
- A reduction of 36% in the number of RIDDOR equivalent cases and associated incident rate;
- A reduction of 69% in the number of days absent due to injury; and
- A reduction of 48% in the number of OSHA recordable cases reported by our US sites.

Similarly, our total reportable incidents and associated incident rate decreased by 43% and 46% respectively (see Table 4). These incidents include all injuries globally that were required to be reported directly to a regulatory authority.

During 2016, 76% of our manufacturing facilities achieved Platinum level (35% in 2015) in our Meggitt Safety Star award programme which recognises proactive measures that sites have taken in respect of accident prevention. Platinum is the highest level of achievement that can be awarded within the programme.

Our comprehensive auditing programme also covers health and safety, and 40% of our manufacturing facilities were reviewed in 2016 for their compliance with applicable regulatory requirements as well as compliance against industry best practice standards, as required by our Meggitt Health and Safety Procedures.

Reportable accidents and incidents (Table 4)

	2016	Change	2015
Reportable accidents and incidents[1]	**23**	-43%	40
Reportable accident/incident rate[2]	**200**	-46%	369

[1] Reportable accidents and incidents are those directly reportable to a regulatory authority.
[2] The accident/incident rate is the number of reportable accidents/incidents per 100,000 employees.

Corporate responsibility continued

Ethics and business conduct and trade compliance

Our Ethics Programme is built on the foundation of honesty, integrity and respect for others. We reaffirm those principles through our Group policies and regular training. In addition, every employee receives a printed Ethics Guide, available in seven languages. The Guides, also available on our website, are a resource containing our Ethics and Business Conduct Policy, Code of Conduct and Anti-Corruption Policy.

Each Meggitt business site has a designated Ethics Coordinator who is available to assist employees who have questions or concerns. If they prefer, we operate an Ethics Line which enables employees to raise questions or concerns confidentially or anonymously, 24 hours a day, 7 days a week from anywhere in the world. Employees are entitled to a thorough investigation and receive feedback whether the issues are substantiated or not.

Through industry associations like the Aerospace, Defence, Security and Space organisation (ADS) and the International Forum on Business Ethical Conduct (IFBEC), Meggitt has taken a leadership position with others in our industries when it comes to conducting business ethically and in compliance with laws and regulations. During 2016, Meggitt was invited to join Transparency International's Business Integrity Forum.

We have a highly-developed trade compliance programme, based on guidelines issued by the regulatory authorities and the Nunn-Wolfowitz Task Force Report of 2000 (the influential report on export compliance best practice). During 2016, we continued to incorporate new regulatory requirements associated with the US Export Controls Reform (ECR) initiative, expanded implementation of our global trade management software solution and continued to implement our import compliance programme at facilities in the US and the UK.

Local communities and charitable donations

Meggitt has a policy which underpins our approach to charitable giving and charitable sponsorship which was approved in 2014 and updated in 2016 with associated guidance provided. This policy encourages our facilities to contribute to

Training for the future

Turmoil in the energy sector has been a challenge for Heatric, Meggitt's specialist heat exchanger business. But continued investment in the apprentice scheme is helping to ready the business for growth when the market recovers.

Racing the family stock car since the age of 11, Natasha Churchill also liked to get her hands dirty with the repairs. "I got into welding very early," she smiles.

Her experience and enthusiasm helped her win a place on the four-year Heatric apprentice programme in 2015. "Heatric welding is some of the highest standard in the world because our exchangers have to withstand such extreme pressures (up to 8700 psi) and temperatures (-150 to 900°C)," she explains.

After six months in the training school, apprentices are given starter projects to build up their skills. Assignments on the factory floor start after a year. "I've just finished modifying a travel cradle for one of our exchangers. They're all bespoke and this one had a specification change halfway through manufacture. It was only a short job but I learned so much from the senior welder as we went through it."

Looking ahead, Natasha is interested in design for manufacture and how advanced automation can improve productivity. "Working alongside robots is the future for high-specification welding. My ambition is to lead the field in this area one day."

Colleague Ashley Whittaker finished the apprentice scheme in 2016 and joined Heatric's nine-person innovation team in December. Earlier in the year, he was assigned an £80,000 research project to trial a keyhole tungsten inert gas welding system. A month's trial on site proved Ashley's cost benefit and break-even analysis was correct.

"This system can significantly reduce lead time and consumables, resulting in a cost saving of up to 90%," he said.

In 2017, Ashley will be helping his team expand business with existing customers, exploring new opportunities in areas like nuclear waste disposal and helping to cross-sell with other Meggitt businesses. In terms of his own future, Ashley would like to begin a part-time undergraduate degree in engineering as other apprentices have before him. Nearly 50 young people have joined the programme over the last 13 years.

"The training and support here helped me tackle much bigger challenges than I thought possible," he says. "So it's very satisfying to now be running projects that are cutting costs and developing growth for the future."

Meggitt on the move

We all know how important a healthy lifestyle is. Sometimes, however, it can be hard to find the time or the motivation to make wellness a priority. What's more, with so much health information available, it can be hard to separate fact from fiction. That's where Vitality comes in.

Vitality is a wellness programme we offer to nearly 6,000 US employees to help them become healthy, stay healthy and receive rewards along the way. By completing the Vitality Health Review, employees find out what areas of their lifestyle they need to focus on, and get a programme with health goals tailored just for them.

Vitality initially piloted in late 2012 and offers on-line courses to help employees make informed choices about health and achieve individual health goals. Now well-embedded and into its 4th year, each US Meggitt site has Vitality Wellness Champions who organise events from pot luck lunches and daily walks to 'Biggest Loser' contests and charity fun runs.

Employees across all of our US facilities are making positive changes to their lifestyles and reaping the rewards. As well as earning Vitality points as they exercise (individually, or in a group or club), employees can take part in ongoing education programmes—such as heart health, maternity care and nutrition/diet, use preventive screening and study for certificates: cardiopulmonary resuscitation training (CPR) and First Aid.

The great news is that Vitality is making a difference to the health of our US employees. Overall physical activity levels have risen (our US employees are 150% more active than 2013), while blood cholesterol and stress levels are down, as is the overall risk to health. Meggitt people are stepping up and completing more physical activities every month, resulting in more Platinum members (the highest level possible in the Vitality programme) than ever before. As well as the physical benefits of weight loss and body toning, employees testify to the many other benefits their healthier lifestyles entail—including enhanced memory, concentration, energy and improved relationships, to name a few.

Some of the 2016 programme highlights include:

- At the beginning of the year, our US employees were challenged to walk to the moon five times (a distance of 1,179,275 miles). They completed the challenge by July and by the end of the year had walked a total of seven times to the moon.
- Several US sites ran 'Get Moving' challenges: an eight week challenge put on by the local gym or wellness centre during which time participants aimed to complete at least 150 minutes of activity each week, by any means—walking, aerobics class, swimming or whatever they fancy.
- Our Kentucky facility held 'Biggest Loser' contests, where employees vie to win the coveted title by losing the most body fat over the competition. This year's winners lost 13% and 16% body fat respectively – and their health improvements continue long after the contest is over.
- Securaplane ran a first-of-its-kind wellness expo where employees toured a selection of health and wellbeing booths, at each of which they had to get a signature on their 'Health Passport'. Vendors included acupuncture, elderly care, chiropractor, gym, doctors and dentists, and after the expo, participants tucked into a complimentary healthy lunch.
- Two California sites, North Hollywood and Orange County, offer weekend hiking clubs which not only boost fitness by offering progressively challenging hikes around the local hills and canyons, but also foster cross-functional communication and relationship-building as employees from different departments get to know each other better. Our OECO facility in Oregon holds monthly 'Stair Crawls' at a local railway station, where participants work in teams to complete eight laps of the station's five flights of stairs.
- Meggitt's Piezo Technologies site supported Colorado's Ride To Work Day, with almost 60% of their office joining in to cycle distances of between 5 and 65 miles in the challenge.
- Many sites participate in 'Go Red' walks to raise awareness of heart health.

Corporate responsibility continued

Here's the challenge ... here's the training

Garret Mertz's first assignment at Meggitt was managing a hydrogen reformer prototype project as a 20-year old intern. "It was a big stretch but I learned a lot because the training dovetailed with the opportunity. I've been here ten years now and with each new role, I've always had the training I need to succeed."

At the beginning of 2016, I was given the opportunity to become General Manager at the Meggitt Control Systems (MCS) facility in San Diego, California. It specialises in all-electric fuel control valves and actuators and we acquired it at the end of 2014.

Meggitt valued the business's technology, culture and customer relationships and the strategy has been to use the Meggitt Production System to build on these strengths and transform the business into a centre of excellence. Twelve months later, we are well on the way: on-time-delivery, for example, rose from the high 80s at the start of 2016 to average 99% from July onwards.

Within weeks of starting my new role, I was selected to go on the Oxford Leadership Programme. It gave me the tools and contacts I needed to lead transformation. It's a demanding programme – three week-long sessions during the year, extensive hours, live business assignments, workshops and several presentations to deliver. But the instructor and facilitators from the Said Business School at the University of Oxford are excellent. In addition, 25 senior managers from Meggitt attended so there was no shortage of mental firepower!

Maximise the potential, at every level

The most useful lessons I learned on the programme were about motivation and delegation: how to lead by instruction, how to empower others to tackle new challenges and how to adapt my style to suit the situation.

When it came to the workshop we ran with the San Diego senior management to develop a common vision and strategy, I would not have succeeded without having attended the programme. I would have run into many more difficulties without being able to pick up the phone to colleagues on the course. They had the experience I needed to lead transformation at the facility.

The programme has also been great personally, helping me think about how I balance the demands of a young child with a busy professional life. It inspired me to further my formal education and I am now enrolled on an MBA and I look forward to taking on bigger challenges at Meggitt in the future.

the communities in which our employees live and work, aiming to enhance the well-being of people living in our communities. The policy also encourages facilities to undertake activities and fundraising to benefit the health and welfare of military personnel and to support education initiatives, scholarships and competitions in science, technology, engineering and mathematics subjects.

Each Meggitt business is responsible for agreeing and administering its own budget for charitable donations and sponsorships to have a positive impact on its local community or to support the sectors in which the business operates. Yearly reports reveal the exceptional generosity of many employees who give time and money to a wide range of national and local initiatives. Activity in 2016 included:

- Meggitt US businesses and employees have donated over USD1m in the past five years to the United Way, a US-based non-profit organisation focusing on resolving local community issues through partnerships with local schools, government agencies and voluntary and neighbourhood associations. Several Meggitt US businesses hold annual United Way drives to encourage employee engagement in local community activities and initiatives designed to improve education, financial stability and health care for local families. In 2016 our businesses raised over USD 180,000.
- MABS Akron sponsor the All-American Soap Box Derby which has a newly created 'Meggitt Braking Zone' at the end of the world famous Derby Downs track. A safety video, presented by Meggitt, is viewed by all drivers participating in the many events at Derby Downs throughout the year. The site is also a partner of the Derby's 'Gravity Racing Challenge' (a science, technology, engineering and mathematics themed event) and three cars have been provided to schools who participate in the challenge each year.
- For more than a decade, our Heatric facility has entered teams into the annual Poole Lions Swimathon event, where entrants swim laps for an hour, relay-style, to raise money for several local causes including two hospices, a school and a community group for young adults with learning disabilities.

In the 2016 event Heatric entered three teams, swimming a combined total of 186 laps, and were awarded the Harold Brown Cup for being the company who raised the most money at the event.

- A group from Meggitt's head office took part in a 100km bike ride to raise money for the Julia's House children's hospices in Dorset and Wiltshire. The team comprising experienced riders, those who had never done an activity like this before and even one person on a folding Brompton commuter bike, ended up at the charity's new hospice in Devizes, Wiltshire. The team raised over £15,000 to support the charity which is dedicated to helping life-limited children and their families across the two counties.

Although our Policy allows a broader range of charitable activity, the Group's priority is to support charities or community organisations which focus on science, technology, engineering and mathematics education initiatives:

- Meggitt has many links with the University of Sheffield and from 2016 is the sponsor of the annual prize for the best Science and Engineering Foundation Year student in the Automated Controls and Systems Engineering department. In 2016, previous graduates attended the prize giving to present the award to its inaugural recipient, Beth Jenkinson.
- Meggitt supports several future engineers identified through the Arkwright Scholarship, facilitating work experience, mentoring, providing technical guidance on projects and advice on university selection and applications.
- We are now expanding our involvement in encouraging students to take up engineering as a career through IET's Engineering Horizon Bursaries, offering support to students who have faced obstacles or challenges and require financial support as well as work placements.
- We continue to sponsor the School's Aerospace Challenge, which offers shortlisted 16-18 year olds the chance to experience what the aerospace world has to offer in a five day Summer School at Cranfield University.

A new generation of operations excellence

The three-year international Graduate Programme gives graduates tough, real life assignments. Graduate Ypatia Limniati is learning operations excellence the best possible way: by making it happen.

As vice-captain of the Greek U20 basketball team I looked everywhere for incremental improvement: warm-up techniques, kinesio tape for boosting muscle elasticity, joint protection and video performance review. We had tricks and tools for improving every aspect of individual and team performance.

It's very similar to my first assignment on Meggitt's three-year international Graduate Programme. Based at the Meggitt Sensing Systems facility in Fribourg, Switzerland, my brief was to deepen and widen the practice of DLA—the series of tiered meetings that kicks off each working day.

DLA ensures that quality and delivery issues are identified and addressed immediately—at the right level by the right people. As problems are solved, employees gain more confidence that their skills and experience are capable of improving their team's performance: it's their knowledge that shapes the tools and processes we need to succeed.

Observing that first-hand, was the best introduction to corporate change management I could have had. Working with site leadership, my task was to establish a standard assessment process, coaching the leader of each DLA and sharing best practice. We also helped bring the total number of employees participating in DLA to over 70%.

New machining produces complex parts, faster and at low volumes

One of the strategic goals at Fribourg last year was to reduce inventory. Our 'planning for every part' process corroborated what many of our operators were saying: old turning and milling machines were taking too long to set (up to 10 hours in some cases).

Working with the plant's manufacturing director and two in-house experts, I was tasked with putting together the business case for an investment in new machinery. By sourcing a second-hand machine, we estimated savings of more than CHF400,000, inventory savings of more than CHF80,000 and a return on investment within two years. It's now installed and producing parts.

Talking to others on the programme, it's clear that working closely with Meggitt leaders on critical strategic projects is standard for this programme—it's key to our rapid growth and development. I've learned a lot about myself and about operations excellence and am looking forward to the next chapter.

Corporate responsibility continued

Our employees

Equal opportunities

The Group supports equal employment opportunities and opposes all forms of unlawful or unfair discrimination.

It is Group policy to give full and fair consideration to job applications from disabled people, to provide opportunities for their training, career development and promotion and to continue wherever possible to employ staff who become disabled.

We require all Meggitt employees, reinforced through our ethics training programme and its values, to treat all colleagues fairly and with respect. We recognise the value of diversity amongst our employees. Table 6 shows the number of women employed at all levels of the workforce. The Board's approach to diversity is discussed in the Nominations Committee report (see pages 64 and 65).

Table 6

Level	% of females at 31 December 2016	Number of females	Number of males
Board of Directors	20%	2	8
Group Leadership Team	15%	2	11
Senior executives	8%	23	252
All employees	28%	3,146	8,064

Human rights

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

Our updated Policy includes a statement on slavery and human trafficking, committing to our abstention from practices such as slavery, human trafficking, forced labour and child labour, and taking all reasonable measures to ensure that our suppliers and other entities acting on our behalf do not engage in practices or violate applicable laws and regulations relating to slavery, human trafficking, forced labour and child labour.

Employee consultation

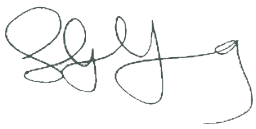
The Group regards employee communication as a vital business function. Communication and consultation is carried out at facilities by operations directors and other line managers using a variety of formats including daily meetings on shop floors, all-employee 'Town Hall' meetings, team briefings and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

Corporate communications take a variety of forms, including presentations from the Chief Executive via audio-visual media, global web-enabled conferences, top-down strategy dissemination from the Chief Executive, publications such as the Meggitt Review and a variety of electronically-distributed newsletters. Results presentations are disseminated across the Group, which enhance our employees' understanding of the financial and economic factors affecting its performance.

The directors encourage employees to become shareholders to improve active participation in, and commitment to, the Group's success. This policy has been pursued for all UK employees through the Share Incentive Plan and the Sharesave Scheme.

Strategic report

This 2016 Strategic report on pages 1 to 52 is hereby signed on behalf of the Board.



Stephen Young

Chief Executive
27 February 2017

Analysis of employees (Table 5)[1]

Employees by division

Number of employees

Aircraft Braking Systems	1,265	11%
Control Systems	1,853	17%
Polymers & Composites	2,712	24%
Sensing Systems	3,224	29%
Equipment Group	1,662	15%
Cross-Group functions	494	4%

Employees by length of service (years)

Number of employees

Less than 5	4,866	43%
Between 5 and 10	2,325	21%
Between 10 and 15	1,293	12%
Between 15 and 20	1,050	9%
Between 20 and 25	446	4%
Over 25	1,230	11%

Employees by region

Number of employees

USA	5,920	53%
UK	2,699	24%
Rest of Europe	1,503	13%
Rest of World	1,088	10%

[1] As at 31 December 2016.

Corporate governance report

Chairman's introduction

Throughout the financial year ended 31 December 2016 and to the date of this report, we have complied with the provisions set out in the UK Corporate Governance Code 2014 (the Code) published by the Financial Reporting Council (FRC). The Group has applied all the main and supporting principles set out in the Code and explanations are included in this report and in the Audit Committee, Nominations Committee and the Directors' remuneration reports. The information required under Disclosure Guidance and Transparency Rule 7.2.6 is located in the Directors' report.

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

Leadership

As part of the planned and continued evolution of the Board, there have been a number of Board changes in 2016. On 1 December 2016, Tony Wood was appointed as Chief Operating Officer. Tony has significant business and operational experience in the aerospace industry, most recently at Rolls-Royce plc where he held a number of senior management positions during a 16-year career, latterly as President, Aerospace. Tony reports to Stephen Young, Chief Executive and was also appointed to the Board of Directors as an Executive Director effective 1 December 2016. Tony has a specific focus on accelerating the operational performance of the Group.

We also announced in December that Brenda Reichelderfer would retire from her position as Non-Executive Director on 27 April 2017, immediately prior to the AGM. Brenda has brought significant US, engineering and operational experience from the aerospace industry to the Board and her independent advice and counsel since her appointment in 2011 has been invaluable. On behalf of the Board, I would like to extend our sincere thanks to Brenda for the excellent contribution she has made to the Board and to wish her all the best for the future.

The Board has agreed to appoint Nancy Gioia to the Board of Directors (and as a member of the Audit, Remuneration and Nominations Committees) immediately before the AGM on 27 April 2017 (with her due for first election by shareholders at the 2017 AGM). Nancy, a US citizen and an electrical engineer, joined Ford Motor Company in 1982 and worked there until 2014 in a number of senior roles across engineering and manufacturing/operations. Retired for just over two years, Nancy is currently a non-executive at US businesses Exelon Corporation and Brady Corporation, as well as holding several non-profit advisory roles. Nancy's appointment enables the Board to retain critical US and engineering experience. Nancy's experience in the fast-moving automotive industry is also important for Meggitt with our current focus on accelerating the operational performance of the Group.

Effectiveness

During 2016, we carried out an externally facilitated Board evaluation. Overall the evaluation was positive, but further details can be found later in this report.

Accountability

In 2016, the Audit Committee discussed the 2015 viability statement process and confirmed that it was appropriate to retain the same process for the 2016 viability statement. The impact of the UK's vote to leave the European Union was taken into account in the assessment of viability. A description of the process and the resulting statement is set out in the Risk management report (pages 28 to 33). That report also includes our annual confirmations on risk management and internal control.

During the year, the Audit Committee reviewed the changes being made to the Code which were published by the FRC in 2016 and are effective for the financial year commencing 1 January 2017 (the 2016 Code). The Committee also reviewed the FRC's Guidance on Audit Committees. The Audit Committee was satisfied that we comply with the 2016 Code, and has considered the Guidance on Audit Committees.

The Committee intends to put the external audit for the financial year ending 31 December 2018 out to tender and to commence that process in 2017. At the end of the year, the Committee considered and agreed an audit tender timetable which indicates that the tender process will commence in 2017 after our half year results are released, and finish before the end of the year.

The Board has confirmed that this Annual Report is fair, balanced and understandable. You can find an explanation of the process we have used to make this determination on page 61.

Remuneration

At our AGM in 2016, shareholders approved our Directors' remuneration report. We are due to present our Remuneration Policy for approval at the 2017 AGM, as it has been three years since our Policy was approved in 2014. The 2016 remuneration report (pages 66 to 88) provides details of our proposed Policy and a detailed review of the Remuneration Committee's activities, and bonus and share scheme performance in 2016. Prior to submitting the Policy to shareholders for approval, we have consulted with our major shareholders. As a result of this consultation, we have decided to (i) introduce a two year post-vesting holding period into our Long Term Incentive Plan (LTIP); (ii) change the ROTA performance target in our LTIP to ROCE for executive directors. Both changes are applicable for awards made after the approval of the new Policy.

Sir Nigel Rudd
Chairman of the Board of Directors
27 February 2017

Board of directors

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

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

Sir Nigel Rudd DL

Non-Executive Chairman + §
Appointed: 2015 | Nationality: British

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

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

Appointments in unlisted companies: Non-Executive Chairman of Business Growth Fund Plc.

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

Stephen Young

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

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

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

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

Guy Berruyer

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

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

Current appointments
Appointments in unlisted companies: Chairman of software engineering company Linaro Limited, director of the French software and services company Berger Levrault and member of the Council of the University of Southampton.

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

Colin Day

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

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

Current appointments
Colin served as Chief Executive of Essentra PLC until 31 December 2016 and will remain on the Board until the conclusion of Essentra's AGM on 20 April 2017.

Senior Independent Director of Amec Foster Wheeler plc.

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

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

Alison Goligher OBE

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

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

Current appointments
Non-Executive Director of United Utilities Group PLC, the UK's largest listed water company.

Appointments in unlisted companies: Executive Chairman 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, 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.

Philip Green

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

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

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

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

Paul Heiden

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

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

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

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

Previous appointments
Chief Executive of FKI Plc, senior positions, including Director, Industrial Business and Finance Director of Rolls-Royce plc and senior financial positions with Peat Marwick, Mitchell and Co, Hanson Plc and Mercury Communications. Non-Executive Director of United Utilities Group PLC, Bunzl plc, Essentra PLC and Chairman of Talaris Topco Limited.

Brenda Reichelderfer

Non-Executive Director * + ‡ §
Appointed: 2011 | Nationality: American
Retiring from the Board on 27 April 2017

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

Current appointments
Non-Executive Director of Federal Signal Corporation and Chairman of their Compensation and Benefits Committee and Non-Executive Director of Moog, Inc.

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

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

Doug Webb

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

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

Current appointments
Non-Executive Director of SEGRO Plc, Chairman of their Audit Committee and member of their Nominations Committee.

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

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

Tony Wood

Chief Operating Officer § ◊
Appointed: 2016 | Nationality: British

Skills and experience
Extensive aerospace industry experience gained during a 15-year career 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.

No other current or previous appointments to disclose.

Nancy Gioia

To be appointed as Non-Executive Director on 27 April 2017
Nationality: American

Skills and experience
Electrical engineer who has held senior engineering and operational roles with a strong background in manufacturing.

Current appointments
Non-Executive Director of Exelon Corporation and Brady Corporation and Chairman of their Technology Committee.

Appointments in unlisted companies: Member of the University of Michigan Electrical and Computer Engineering Advisory Council and Dearborn Engineering Dean's Advisory Board. Principal of Gioia Consulting Services, LLC., a strategic business advisory company.

Previous appointments
Held several key executive positions at Ford Motor Company during a 33-year career. Chairman of AutomotiveNEXT and Stanford University Alliance for Integrated Manufacturing.

Corporate governance report continued

Leadership | Our governance framework:

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
Paul Heiden
- Makes himself available to shareholders if they have concerns which cannot be resolved through the normal channels;
- Chairs 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
Stephen Young
- 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.

Board of directors

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

Creating and delivering sustainable shareholder value

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

Executive Directors
Stephen Young, Doug Webb, Tony Wood and Philip Green
- Responsible for successful achievement of the Group's objectives and strategy; and
- Managing various functions and operations across the Group.

Non-Executive Directors
Guy Berruyer, Colin Day, Alison Goligher, Paul Heiden and Brenda Reichelderfer
- Constructively challenge management and scrutinise their performance;
- Contribute to the development of the Group's strategy;
- Monitor reporting of 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.

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.

Board committees

Remuneration
The independent non-executive directors

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

Audit
The independent non-executive directors

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

Nominations
Chairman and the independent non-executive directors

Ensures the Board and senior management team have the appropriate skills, knowledge and experience to operate effectively and to deliver the Group's strategy.

Ethics and trade compliance
Chairman, one independent non-executive director and the executive directors

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

Finance
The executive directors

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

Disclosure
Chairman, Senior Independent Director, Chairman of the Audit Committee and the executive directors

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

Management committees

Group Leadership Team
Chief Executive and his direct reports plus the direct reports of the Chief Operating Officer

The most senior decision-making and supervisory group, responsible for oversight of the Group's implementation of the strategies, aims and objectives of the Board, and other matters as specified by the Chief Executive.

Operations Leadership Team
Chief Operating Officer and his direct reports

The operational decision-making and supervisory group, responsible for implementing the strategies, aims and objectives of the Board and Group Leadership Team, and other matters as specified by the Chief Operating Officer.

Commercial Committee
Executive directors, Group Head of Sales & Marketing and Group Director, Engineering & Strategy

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

Board membership, attendance and governance

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

1 Met the independence criteria on appointment as Chairman on 23 April 2015.
2 Retiring from the Board on 27 April 2017.
3 Appointed on 1 December 2016.

Board governance documents

Document	Last reviewed and approved by the Board	Notes
Roles of the Chairman and Chief Executive	2016	These document the separate and clear division of responsibilities that have been approved by the Board.
Non-executive directors terms of appointment	On appointment and re-confirmed on a three-yearly basis	Available for inspection at the Company's registered office during normal business hours and at the AGM.
Service contracts for executive directors	• On appointment • Not routinely reviewed but would be updated on role change or if legislation required	Available for inspection at the Company's registered office during normal business hours and at the AGM.
Schedule of matters reserved for the Board[1]	2015	• Setting the Group strategy, approving the annual budget; • Changing the Group's capital structure and capital allocation policy; • Approving acquisitions and disposals above a certain threshold; and • Approving results announcements, annual reports and dividends.
Terms of Reference	2016	For Board Committees.
Articles of Association	2010	Available for inspection at the Company's registered office during normal business hours and at the AGM. Also available on Companies House online.

1 If a decision is not reserved for the Board, authority lies, in accordance with authorisation policies and terms of reference, with a Board committee, a management committee, the Chief Executive or other executive director, divisional president or site director.

Corporate governance report continued

2016 activity

In 2016, the Board visited facilities in the US and UK and received regular reports from executive management on strategy and business performance, financial performance (including treasury activity) and commercial and corporate affairs (including commercial, legal and compliance).

The Board covered the following specific items during 2016:

- In October, there was a Board session dedicated to a detailed review and discussion of the Group's strategy including a full portfolio review;
- The Board also received information on the new market abuse regime and took into consideration the impact of those new requirements (which came into effect in July 2016), approved a new Disclosure Committee which would be responsible for matters relating to inside information and listing, and approved a revised Share Dealing Policy;
- Divisional and functional updates and presentations on operational performance, Customer Services & Support (aftermarket), engineering and technology, programme management, senior executive succession, operations, IT and investor relations;
- The Group's strategic plan;
- Reports on internal control, risk management and going concern; and
- Reports on the activities of its committees.

In 2016, the Board reviewed and approved:

- The appointment of Tony Wood as Chief Operating Officer (effective from 1 December 2016) and Nancy Gioia as a non-executive director (effective from 27 April 2017);
- The sale of Meggitt Target Systems businesses in the UK and Canada;
- The 2017 budget;
- The 2015 Annual Report and Accounts, 2015 full-year results and 2016 interim results announcement;
- The April and November 2016 trading statements;
- Recommendations to shareholders on the final dividend payment for the year ended 31 December 2015 and approval of the interim dividend payment for the year ended 31 December 2016;
- The Group's risk appetite and risk register;
- The conflicts of interest register for the Board;
- The Treasury Policy, Risk Management Policy, Anti-Corruption Policy, Ethics and Business Conduct Policy, Code of Conduct and Share Dealing Policy;
- Terms of Reference for the Committees of the Board;
- The documents defining the roles of the Chairman and CEO; and
- Resolutions to be put to shareholders at the AGM.

Since the year-end, up to the date of the Annual Report, the Board has approved the 2016 Annual Report and Accounts, the 2016 full-year results announcement and the proposed final dividend for the year ended 31 December 2016.

In 2016, the Senior Independent Director met with the non-executive directors to assess the performance of the Chairman and the Chairman held regular meetings with non-executive directors without the executive directors present. The Chairman and the non-executive directors find it useful to have the opportunity to review and discuss the performance of executive management regularly.

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

Effectiveness

Composition

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

All non-executive directors are considered independent under the Code.

Board Committee disclosures:

- All non-executive directors are members of the Audit, Remuneration and Nominations Committees on appointment. Chairmanship of Committees is considered during discussions on composition and succession.
- No one other than Committee chairmen and members are entitled to attend the meetings, although others can be invited.
- Each of these Committees' written terms of reference were reviewed and updated in 2016 by the Board and are available on our website.
- All Committee chairmen report orally on the proceedings of their Committees at the next meeting of the Board. Where appropriate, the Committee chairmen make recommendations to the Board on appropriate matters.

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 pages 64 and 65. 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. The Chairman and non-executive directors may undertake several appointments, which require approval of the Board and are reported on pages 54 and 55.

During 2016, the Chairman attended all scheduled Board and Committee meetings, including a tour of several of our US and UK sites. He also had regular meetings with the Chief Executive, attended multiple shareholder meetings about governance and represented Meggitt and our interests at other events. The Chairman holds other appointments, but the Board and the Senior Independent Director can confirm that the time dedicated to Meggitt matters in 2016 by the Chairman was significant and appropriate 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.

Since Tony Wood joined the Board, he has been through a comprehensive formal induction programme, including meetings with other directors, senior management, investors, auditors, brokers and other professional advisors, as well as extensive site visits in the UK, US and Europe.

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.

During the 2016 Board evaluation, the content of the Board papers and annual Board schedule were reviewed by the directors and assessed by the external facilitators. It was determined that both were working well and enabled the Board to carry out its business effectively and efficiently.

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.

During 2016, the Board and Committees held specific governance discussions on the 2016 Code and Guidance for Audit Committees, the Market Abuse Regulation and the requirements related to the Modern Slavery Act and Gender Pay Gap.

The Board allows all directors to take external independent professional advice at the Group's expense.

Board evaluation

The Board conducted an externally facilitated review in 2016. Independent Audit were selected as external facilitators, and they interviewed all of the Board members and the Company Secretary. Independent Audit have no other connection with the Group.

Key themes identified in the report from Independent Audit:

- The Board benefits from a good balance of skills in terms of industry focus and functional expertise.
- The non-executives have diverse backgrounds and are able to tackle issues from a range of perspectives.
- Meeting dynamics are positive with a good level of contribution and constructive challenge.
- The Board is led by a skilled Chairman who is appreciated by his colleagues. The Chief Executive and Chairman enjoy a good working relationship and, more generally, relationships between non-executives and executives appear to be working well.
- The non-executives perception of the executive team is that they are professional and hard-working and they particularly value their openness and the way the Chief Executive has driven improvements on a variety of fronts.
- Processes around deliberating and approving strategic decisions and risk management continue to evolve positively.
- The Board sets itself high standards of integrity, and a clear and rigorous ethics programme is in place.
- Committees at Meggitt work well, and Committee chairmen are highly regarded.

Opportunities to improve:

- Continuing to evolve Board discussions on succession planning, strategy and risk management. The evaluation found that significant progress had been made in all of these areas over the last few years, and that the Board agreed that there is always scope to further progress the depth and quality of discussions in these areas.

Accountability

Financial and business reporting

The financial statements contain an explanation of the directors' responsibilities in preparing the Annual Report and the financial statements (pages 91 and 92) and a statement by the auditors concerning their responsibilities (page 99). The directors also report that the business is a going concern (page 92), detail how the Group generates and preserves value over the longer term (the business model) and describe the Group's strategy for delivering its objectives in the Strategic report (pages 1 to 52). The directors have also made a statement about the long-term viability of the Group, as required under the Code (page 33).

Relations with shareholders

The Group values its dialogue with institutional and private investors.

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

Corporate governance report continued

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

Investor relations activity, 2016 highlights:

- An investor day was held in April 2016 and covered an update on our Customer Services & Support organisation, an overview of our applied research and technology activities (including a focus on research in manufacturing technologies), and profiles of both our Meggitt Aircraft Braking Systems and Meggitt Polymers & Composites divisions, which included an overview of the expanded composites capability following the acquisitions completed in late 2015. It was attended by 26 sell-side analysts and eight buy-side investors who also participated in tours of our two facilities in Shepshed, UK. The feedback from the day was positive and the presentation on our Customer Services & Support function was particularly well received. All of the presentations are available on the investors page on our website.
- A specific letter was issued to major shareholders after the AGM in 2016, offering a meeting with the Chairman. As a result, the Chairman met with a number of our major shareholders to discuss matters relating to governance and strategy. We will continue to offer these meetings annually.
- A consultation letter was issued on our revised Remuneration Policy in the Autumn, as a result of which, a number of policy changes have been proposed to shareholders for approval (see page 68).

We also engaged with ISS (Institutional Shareholder Services), IVIS (Institutional Voting Information Service) of the Investment Association and Glass Lewis before and after the AGM.

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 2016 and the Notice of AGM will be posted on our website, with announcements, press releases and other investor information, including an analysis of ordinary shareholders by size of holdings and shareholder type.

Constructive use of the Annual General Meeting

The Board uses the AGM to communicate with its shareholders.

Proxy appointment forms for each resolution provide shareholders with the option to direct their proxy to vote on resolutions or to withhold their vote. All proxy votes for, against and withheld are counted by the Company's Registrars and the level of voting for, against and withheld on each resolution is made available after the meeting and on the Group's website.

The proxy form and the voting results announcement make it clear that a vote withheld is not a vote in law and will not be counted in the calculation of the proportion of votes for and against the resolution.

Separate resolutions are proposed at the AGM on substantially separate issues and there is a resolution relating to the financial statements. The Notice of AGM and related papers are sent to shareholders at least 20 working days before the meeting.

Meggitt encourages shareholders to vote at the AGM and provides a facility for electronic proxy voting. Shareholders who are not CREST members can vote online on resolutions proposed at the AGM via our website, after voting has opened. Proxy cards contain further details on how and when to vote and further information for CREST members.

The respective Chairmen of the Audit, Remuneration and Nominations committees are available at the AGM to respond to questions. It is customary for all other directors to attend.

At the AGM to be held on 27 April 2017, in addition to the routine business, shareholder consent will be sought on the authority to convene general meetings on 14 clear days' notice in accordance with the Articles (on the terms set out in the Notice of Meeting). 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.

At the 2017 AGM, in line with emerging best practice, the Company has split the dis-application of pre-emption rights resolution into two separate resolutions. The first resolution seeks authorisation for 5% of the issued share capital to be issued without application of pre-emption rights, whilst 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. This is in accordance with the Statement of Principles issued by the UK's Pre-Emption Group in 2015. 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 their first AGM after their appointment, as will be the case in 2017 for Mr A Wood and Ms N Gioia. After that, all directors are subject to re-appointment annually to comply with the Code. All directors in office at the date of the AGM will be subject to election or re-election with the exception of Ms B Reichelderfer who is retiring from the Board on 27 April 2017 and will not stand for re-election.

By order of the Board

M L Thomas
Company Secretary
27 February 2017

Audit Committee report

Chairman's introduction

I am pleased to present the report of the Audit Committee for 2016.

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

Committee members throughout 2016 were Guy Berruyer, Alison Goligher, Paul Heiden and Brenda Reichelderfer.

By invitation, there were a number of other regular attendees including the Chief Financial Officer, the Group Financial Controller and the internal and external auditors. The Chairman of the Board, the Chief Executive, Chief Operating Officer and the Executive Director, Commercial & Corporate Affairs also attended meetings by invitation.

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

The work of the Committee in 2016 is described below in detail. It included advising the Board on whether these accounts are fair, balanced and understandable, review of the work carried out by executive management on the viability statement and oversight of the risk management process.

Committee membership and attendance in 2016

Name	Meetings eligible to attend	Meetings attended
Mr C R Day (Committee chairman)	3	3
Mr G S Berruyer	3	3
Ms A J P Goligher	3	3
Mr P Heiden	3	3
Ms B L Reichelderfer	3	3

Terms of Reference

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

The Terms of Reference were reviewed and updated in 2016. Since their last review in 2014, the Committee has taken on responsibility for the oversight of risk management processes, and the FRC's viability statement requirements have come into force, so the Terms of Reference were amended to reflect the Committee's increased responsibilities in these areas.

Work of the committee in 2016

In 2016, the Audit Committee:

- Reviewed the financial information contained in the 2015 Annual Report and Accounts, 2015 full-year and 2016 interim results announcements and recommended them to the Board for approval;
- Negotiated and approved the 2016 external audit fees;
- Discussed the external auditor's strategy memorandum and interim audit clearance report for 2016;
- Reviewed the independence and effectiveness of the external auditors, and agreed their terms of engagement;
- Received reports from internal audit at each meeting, discussed significant items and the effectiveness of internal audit, and approved the 2017 internal audit plan;
- Received a treasury update from the Head of Tax and Treasury;
- Reviewed and approved updated Terms of Reference;
- Received technical accounting and governance updates provided by the Group Financial Controller, Group Company Secretary and the external auditors. This included a presentation from the Group Financial Controller on IFRS 15, the new revenue accounting standard that becomes effective for the Group in 2018. The Committee discussed with management its process to date, preliminary conclusions and implementation plan;
- Discussed and agreed the timetable for external audit tender;
- Discussed the impact of the amendments in the 2016 Code and the FRC's Guidance on Audit Committees;
- Reviewed 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; and
- Reviewed the effectiveness of the Committee, external and internal audit using the process described on page 63. There were no significant findings and the Committee confirmed it was satisfied with the outcome of the evaluation.

Since the year end, the Committee has approved the 2016 Annual Report and Accounts and full-year results announcement and recommended them to the Board for approval and provided advice to the Board that the 2016 Annual Report and Accounts, taken as a whole, is fair, balanced and understandable. The Committee provided this advice having reviewed managements' 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 statement, having overseen the viability statement process throughout the year (as described on page 33) and confirmed their agreement to propose the reappointment of the external auditors to shareholders for the 2017 financial year.

Audit Quality Review

In 2016, the FRC's Audit Quality Review team reviewed the audit work carried out by PwC on our 2015 Annual Report and Accounts. The Committee discussed the FRC review with PwC. There were no significant findings arising from the review. As a result, there were no significant actions identified, by either the auditors or the Committee, to be undertaken.

Audit Committee report continued

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

Significant judgements	Action
Goodwill and other intangible assets arising on an acquisition	The principal judgements are management's determination of the level at which impairment testing should be performed, the achievability of business plans (and therefore future cash flows), growth rates beyond the period covered by the five-year business plans and the appropriateness of the discount rates applied to future cash flows. The Committee discussed a report from management setting out the basis for the assumptions, confirmation that the cash flows used were derived from the 2017 budget and strategic plan (which in their role as members of the Board, Committee members had previously reviewed), a sensitivity analysis on key assumptions and an analysis of the headroom at each significant level at which testing was performed. During the year, management determined that certain CGU's should be grouped together for impairment testing, reflecting the extent to which the Group had become more integrated and these were set out in the report to the Committee. The Committee agreed the judgements made by management were appropriate, including the change to the level at which impairment testing was performed, and that no impairment was required.
Development costs and programme participation costs	The Committee discussed a report from management covering exposure to different aircraft platforms and manufacturers and a sensitivity analysis on specific programmes. The Committee focused in particular on the Bombardier CSeries and Dassault 5X in light of the values capitalised on these platforms. Further analysis was also requested of management on amounts capitalised in the year and the extent to which the level of capitalisation, excluding the impact of exchange differences, was starting to reduce as aircraft programmes entered service. The Committee concluded assumptions made by management were reasonable and the carrying value and estimated useful lives of the assets were appropriate.
Provision for environmental matters relating to historic sites and related insurance receivables	The Committee discussed a report from management setting out the basis for the judgements made and the extent to which these were supported by third party specialist advice. The Committee discussed with management the sensitivity of amounts recorded to increases in cost estimates and delays to the timing of clean-up activities, including the impact on insurance policy limits and insurance policy periods of cover. The Committee agreed with the judgements made by management.
Retirement benefit obligations	Assumptions on mortality, inflation and, particularly in the current market environment, the rates at which scheme liabilities are discounted have a significant impact on the value at which retirement benefit obligations are included in the financial statements. The Committee considered a report from management setting out the basis on which the 2016 assumptions had been determined, how the Group's assumptions used in its 2015 financial statements benchmarked against those disclosed by other large corporate entities and, for the UK scheme, the extent to which demographic assumptions reflected the results of the triennial actuarial valuation completed in the year. The Committee concluded that the assumptions used, which were supported by third party actuarial advice, were appropriate.
Fair value of assets and liabilities acquired in business combinations	The Committee discussed a report from management setting out the principal areas of judgement applied in finalising the fair values of the assets and liabilities of the businesses acquired in late 2015. These included attributing fair values to intangible assets acquired in the business combinations, the method of accounting and fair value of the joint venture arising from the EDAC acquisition and assumptions made on anticipated sales volumes, future pricing and the outcome of ongoing discussions with third parties in respect of onerous production contracts. The Committee agreed with the conclusions reached by management on the method of accounting for the joint arrangement and concluded that the fair values attributable to the acquired assets and liabilities, which in the case of the acquired intangible assets and joint venture were supported by third party valuation advice, were appropriate.
Income taxes	Judgements have to be made by management on the tax treatment of a number of transactions in advance of the ultimate tax determination being known. In 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. They discussed the assumptions in light of the current tax environment and the status of tax audits in the main jurisdictions in which the Group operates. The Committee concluded that the position taken on uncertain tax provisions was appropriate.
Treatment of items excluded from underlying profit measures	The Committee discussed the treatment and disclosure of costs and income included within exceptional operating items and merger and acquisition (M&A) related items. The Committee noted the items reflected the way in which they, as members of the Board, reviewed the underlying performance of the Group, were treated consistently year on year and were disclosed appropriately.

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

Key areas of oversight

External audit

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

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

During the year the Committee discussed and agreed an outline audit tender process to select the Group's auditors for the 2018 financial year, the key dates of which are:

- Determination of selection panel/criteria, short list for tender – June 2017
- Issue RFP, meetings, presentations and responses from invited parties – July to September 2017
- Committee decision/recommendation – end of October 2017
- Board approval – November 2017

The tender process will take into account FRC audit quality review reports. The mandatory rotation of auditor under EU rules does not take place until 2023.

Under the current regulations, the Committee is required to tender and rotate the external audit by 2023. However, the Committee determined that as the audit had been with PwC since 2003 and was reaching the end of the current audit partner rotation period, it was appropriate and in the best interests of the Company and our shareholders to tender the audit for the 2018 financial year.

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 a Committee discussion on responses to the questionnaire. The Committee was satisfied with PwC's performance and the external audit process, that PwC had employed an appropriate level of professional challenge in fulfilling their role and there were no significant findings from the evaluation process. The Committee also considered the result of the FRC's Audit Quality Review (see above). The Committee has determined, on the basis of the satisfactory outcome of the evaluation and the Audit Quality Review, that it will recommend that the Board submit the re-appointment of PwC to shareholders for approval at the AGM in 2017 for the 2017 financial year.

Non-audit services

The Group places great importance on the independence of its external auditors and is careful to ensure their objectivity is not compromised. The Committee agrees fees paid to external auditors for their services as auditors and is required to approve, in advance, any fees to the external auditors for non-audit services in excess of £0.1 million.

Details of fees paid for audit services, audit-related services and non-audit services can be found in note 7 to the Group's consolidated financial statements. Fees paid for non-audit services in 2016 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 2016 were less than £0.1 million (1% 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 was updated in 2016 to reflect the latest regulatory position, and covers services that can be provided and which are generally prohibited (for example internal audit services and tax planning) and sets out the procedures for approving non-audit services. The full policy is available on our website (under Audit Committee in the Governance section).

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

Internal audit

The Committee agrees the annual internal audit plan which is developed according to a risk assessment process and ensures that adequate resources are available to execute the plan. The risk assessment process divides our business units into three tiers determined by financial measures, but subject to a discretionary risk based adjustment if there are circumstances which suggest a site should have an audit accelerated. Tier 1 businesses are visited annually, with Tier 2 businesses visited every other year and Tier 3 businesses every third year.

In 2016, internal audits were carried out at 27 Group sites, including the UK and US finance shared service centres, as part of the three year rotational audit cycle. The business unit audit programme's scope includes finance, sales agents/distributors, HR/payroll and commercial bid & proposal activity. The scope of internal audit continues to develop with the business, particularly as a result of any acquisition and disposal activity. A key role of the Committee is to monitor the level of internal audit resource to ensure it remains appropriate as both the Group and internal audit evolve.

The Committee remains cognisant of increasing cyber complexity and associated risks. Internal audit have a co-source arrangement with Grant Thornton UK LLP to assist with resourcing specialist audits, such as IT. The 2016 IT audit plan included reviews of IT security, IT strategy, third party providers, data protection, policies & procedures and disaster recovery.

The results of these 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 businesses of any recommendations made.

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

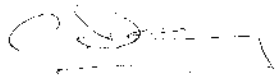
Whistleblowing

The Ethics and Trade Compliance Committee is responsible for reviewing the process for handling allegations from whistleblowers. In February 2017, the Ethics and Trade Compliance Committee confirmed that it was satisfied with the Group's process for handling whistleblowing allegations. Whistleblowing is included in our Ethics and Business Conduct Policy and Code of Conduct, which are available on our website. The Group sponsors an independently operated and monitored Ethics Line, enabling employees to report concerns about possible misconduct, with proportionate and independent investigation and appropriate follow-up action. Whistleblowing reports are received regularly by the Ethics and Trade Compliance Committee as part of the report from the Executive Director, Commercial and Corporate Affairs.

Compliance with Audit Services Order

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

On behalf of the Audit Committee



Colin Day
Chairman of the Audit Committee
27 February 2017

Nominations Committee report

Chairman's introduction

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

In December 2016, the Board, taking into account investor feedback on the Chief Executive being a member of the Nominations Committee, reviewed the Terms of Reference for the Committee and amended them to remove the Chief Executive as a member. As a result, Stephen Young stepped down as a member of the Committee in December 2016. There were no further changes to the Committee, which is now comprised of the Non-Executive Chairman and the non-executive directors.

All appointment decisions were made following a rigorous search process using executive search firm The Zygos Partnership. The Zygos Partnership assists with other senior executive searches below Board level, but has no other connection with the Group.

Committee membership and attendance during 2016

Name	Meetings eligible to attend	Meetings attended
Sir Nigel Rudd (Chairman)	4	4
Mr S G Young[1]	4	4
Mr G S Berruyer	4	4
Mr C R Day	4	4
Ms A J P Goligher	4	4
Mr P Heiden	4	4
Ms B L Reichelderfer	4	4

[1] Stephen Young stepped down from the Committee on 14 December 2016.

Terms of Reference

The Committee operates within agreed terms of reference. These were reviewed and updated in 2016 and are published on our website.

Responsibilities

The Committee reviews the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and, in consultation with the directors, makes recommendations to the Board on any proposed changes. Decisions on Board changes are taken by the Board as a whole.

2016 Board changes

Who?	Key facts	Relevant experience for Meggitt
Tony Wood	• Chief Operating Officer • UK citizen • Engineer • Joined the Board on 1 December 2016	• Significant business and operational experience in the aerospace industry, most recently at Rolls-Royce plc where he held a number of senior management positions during a 15-year career, latterly as President, Aerospace. • Extensive industry experience invaluable to support our customers with the unprecedented ramp-ups of their new programmes, whilst accelerating the progress of our strategic initiatives.
Nancy Gioia	• Non-executive director • US citizen • Electrical engineer • Joining the Board on 27 April 2017	• A number of senior roles across engineering and manufacturing/operations most recently at Ford Motor Company during a 30-year career. • Enables the Board to retain critical US and engineering experience and gain the benefit of experience from the fast-moving automotive industry as we accelerate the pace on our key strategic initiatives.

It was also announced that Brenda Reichelderfer will retire from the Board in April 2017. Brenda has brought significant US, engineering and operational experience from the aerospace industry to the Board and her independent advice and counsel since her appointment in 2011 has been invaluable to the Board.

In performing its duties, the Committee has access to the services of the Company Secretary and may seek external professional advice at the Group's expense.

Board diversity

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

- Ensuring the selection and appointment process for employees and directors includes a diverse range of candidates;
- Disclosing statistics on gender diversity in every Annual Report (see page 52); and
- Reviewing this policy from time to time and continuing to disclose this policy in the Annual Report.

Based on the current size and composition of the Board and taking into account current succession plans, the Board has determined that there should be a minimum of two female directors, which is currently the case, and will continue to be the case when Brenda Reichelderfer is replaced by Nancy Gioia. The Board remains committed to ensuring that the directors bring a wide range of skills, knowledge, experience, backgrounds and perspectives. Our directors are from the UK, US and France, and have a range of different skills and experience.

The Committee notes the updated requirement under the Disclosure Guidance and Transparency Rules (DTR) for our 2017 Annual Report to disclose our diversity policies with regard to aspects such as, for instance, age, gender, educational and professional backgrounds. Our diversity data is disclosed in our Corporate responsibility report.

The Board appointment process for the Nominations Committee is to engage an external recruitment consultant and agree a role specification for the role to be filled. A sub-committee of directors are then usually engaged to conduct a search for a long-list of candidates, which is then reduced to a short-list of candidates whom are interviewed. As well as their experience and suitability for the role, the Committee and the Board take account of the number of positions a director already holds in other companies, to ensure that they will have sufficient time to fulfil their role at Meggitt.

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 2016, the Board reviewed detailed executive succession plans for each division and function with the Group Organisational Development Director, including plans for the executive directors and each member of the Group Leadership Team 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 Nominations Committee.

Evaluation

During 2016, the Board used Independent Audit to perform an external evaluation using the process described on page 59. One of the outcomes of the evaluation is that the Nominations Committee should continue to evolve discussions around succession planning for the Board and senior executives.

Sir Nigel Rudd
Chairman of the Nominations Committee
27 February 2017

Directors' remuneration report

Chairman's introduction and annual statement

It is my pleasure to present the Directors' remuneration report for the year ended 31 December 2016.

Pay philosophy

Executive remuneration packages at Meggitt are designed to attract, motivate and retain directors of a high calibre, to recognise the international nature of the Group's business and to reward the directors for delivering value to shareholders through sustainable performance for our customers. The package aligns with our strategy (see below), is clear and transparent, and aims to provide all participants with performance metrics which are relevant to their daily work. The package targets fixed pay at market competitive levels to companies of a similar size and with similar operating characteristics, supplemented by performance-related annual bonuses and an equity-based long term incentive plan designed to reward and incentivise growth.

Strategy	Remuneration
Operations excellence	LTIP: MPS execution targets, quality and delivery improvement targets, programme management targets based on gate review progress, ROTA, gross margin and inventory improvement targets are measures in the LTIP. STIP: Underlying operating profit and free cash flow. MPS, quality and delivery, programme management, improvement in supply chain quality and delivery are covered in Chief Executive's personal performance measures. Integration and financial returns from acquisitions in both Chief Executive's and Chief Financial Officer's personal performance measures.
Technology	LTIP: Innovation targets are measures in the LTIP. STIP: Applied research and technology targets are covered in the Chief Executive's personal performance measures.
Customer focus	LTIP: Organic revenue growth, quality, delivery and Meggitt Production System execution targets are measures in the LTIP. STIP: Quality, delivery and MPS execution targets plus performance of our new CSS division are in the Chief Executive's personal performance measures.

Pay environment

The Committee is mindful of the continuing debate around executive remuneration and recent updates to remuneration governance and shareholder guidance, and the implications of these for Meggitt. During the year the Committee reviewed the latest guidelines published by investors, the Investment Association (shareholder representative body) and Institutional Shareholder Services (proxy advisor), together with the Corporate Governance Green Paper published by the Department of Business, Energy, & Industrial Strategy. The Committee will continue to keep remuneration under review in the context of governance developments, as we consider the appropriateness of our remuneration practices each year.

2016 activity

The 2015 Directors' remuneration report was submitted to shareholders for approval at our 2016 AGM, gaining an approval rating of 91.25%. The Committee reviewed its Terms of Reference and no significant updates were needed. We also finalised the effectiveness review of the Committee and Kepler, our advisers, which was carried out using questionnaires and through Committee discussion. Overall, the ratings for the Committee and Kepler were satisfactory and no significant areas were highlighted for improvement.

We approved awards under the LTIP and confirmed the vesting outcomes of the STIP award for 2015 and awards made in 2013 under our legacy share plans (the Executive Share Option Scheme (ESOS) and Equity Participation Plan (EPP)). Since the year end, we have approved performance targets for the 2017 STIP and LTIP awards which are detailed in this report, agreed the salaries for the executive directors and confirmed the vesting outcome of the 2016 STIP and 2014 LTIP awards.

On 1 December 2016, Tony Wood was appointed as Chief Operating Officer. In agreeing his remuneration, the Committee took into account the size and responsibilities of the role, Tony's extensive industry experience and market data for comparable roles, among other factors. His salary will be eligible for an increase in 2018 (and annually thereafter), or sooner in the event his responsibilities change. He was not eligible for a 2016 STIP award, but was awarded a 2016 LTIP award on appointment, to align his interests with those of his executive colleagues and shareholders from the date of his joining Meggitt. Details of Tony's package are set out in the Annual Report on Remuneration.

2017 Remuneration Policy Update

In 2016, the Committee also conducted a thorough review of our Remuneration Policy, which took into account the effectiveness of the Policy in practice at Meggitt 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 Policy. It was agreed as a result of the consultation process, that for the LTIP we would put in place a two-year post-vesting holding period for executive directors after the three-year vesting period. We also agreed to replace, for executive directors only, the ROTA performance measure with ROCE, following feedback from some shareholders, and to better reflect the value that our acquisitions bring to Meggitt. These changes will take effect for any LTIP awards made after the revised policy is approved at the 2017 AGM.

2016 Group performance

Revenue increased by 21%, driven by currency and the composites acquisitions. Organic revenue growth of 1% was in line with expectations, including 4% growth in civil aerospace but a 17% decline in energy as customers continue to reduce capital expenditure in response to low commodity prices. Underlying operating profit declined organically by 3%, reflecting unfavourable product mix (including the continued challenges in the energy market) and a growing headwind from depreciation and amortisation. Underlying earnings per share increased by 3.2p to 34.8p.

The EPS and ROTA elements of the LTIP award made in 2014 (accounting for two thirds of the award) have failed to meet their performance conditions. The strategic measures in the LTIP (one third of the award) have partially met their targets, to the extent noted on page 79, and therefore the Committee has confirmed that the 2014 LTIP award will vest at 17.3%. For the 2016 STIP award, the profit element vested at 62.4% of target, the free cash flow element vested at 109.2% of target and personal measures vested as disclosed later in this report.

2016 Remuneration at a glance – executive directors

Remuneration at a glance is a summary of remuneration activity in the year. For more detailed disclosures and commentary, see the relevant section of the annual report on remuneration, which starts on page 76.

2016 Single total figure of remuneration

	Mr S G Young £'000	Mr D R Webb £'000	A Wood[1] £'000	Mr P E Green £'000
Base salary	688	456	38	367
Taxable benefits	28	14	1	14
Pension	344	114	10	184
STIP	625	435	–	354
LTIP	247	164	–	128
Total	1,932	1,183	49	1,047

[1] Mr A Wood was appointed on 1 December 2016.

2016 STIP outcomes

Financial targets

	Performance targets						
Measure	Weighting	Threshold	Target	Stretch	Actual performance	Vesting (% salary)	Vesting for financial performance
Underlying operating profit	33.3%	£342.0m	£360.0m	£387.0m	£346.4m	20.8%	57.2%
Free cash flow	33.3%	£139.5m	£164.5m	£189.5m	£169.2m	36.4%	

[1] Mr A Wood was appointed on 1 December 2016 and so did not receive a 2016 STIP award.

Overall STIP outcomes

			Overall bonus outcomes		
Executive Director	Vesting for financial performance (% of salary)	Vesting for personal performance (% of salary)	% of salary	% of maximum	£
Mr S G Young	57.2%	33.3%	90.5%	60.3%	625
Mr D R Webb	57.2%	37.8%	95.0%	63.3%	435
Mr A Wood[1]	Nil	Nil	Nil	Nil	–
Mr P E Green	57.2%	38.6%	95.8%	63.9%	354

[1] Mr A Wood was appointed on 1 December 2016 and so did not receive a 2016 STIP award.

2014 LTIP outcomes

Executive Director	Overall % vesting (% of maximum)	Interests vesting	Date vesting	Estimated value £'000
Mr S G Young	17.3%	54,052	22.05.17	£247
Mr D R Webb	17.3%	35,818	22.05.17	£164
Mr A Wood[1]	Nil	Nil	Nil	–
Mr P E Green	17.3%	28,003	22.05.17	£128

[1] Mr A Wood was appointed on 1 December 2016 and so did not receive a 2014 LTIP award.

Executive share ownership

Name	Shareholding guideline (% 2016 salary)	Shares owned outright	Current shareholding (% 2016 salary)	Guideline met?
Mr S G Young	300%	638,514	424%	Met
Mr D R Webb	200%	102,235	102%	Building
Mr A Wood[1]	200%	–	–	Building
Mr P E Green	200%	572,934	712%	Met

[1] Mr A Wood was appointed on 1 December 2016.

Directors' remuneration report continued

This Directors' remuneration report has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The report also meets the requirements of the UK Listing Authority's Listing Rules and the Disclosure Guidance and Transparency Rules (DTR). In this report we describe how the principles relating to directors' remuneration, as set out in the UK Corporate Governance Code 2014 (the Code), are applied in practice.

The Policy report

This section of the report sets out the proposed Policy for the directors, which is being put to shareholders for approval at the 2017 AGM. If approved, this Policy will be effective for a period of three years from the date of the 2017 AGM. The Policy applicable for 2014, 2015 and 2016 can be viewed in the Directors' remuneration reports for 2013, 2014 and 2015 respectively.

Changes to Policy

The Committee commenced its review of the remuneration Policy earlier in 2016, and consulted shareholders in Autumn 2016. As a result of that consultation, the Committee discussed various matters in December 2016 and agreed certain changes should be made to the LTIP awards to executive directors during the life of the proposed Policy. These changes are as follows:

LTIP	The Committee proposes to amend the rules of the LTIP (subject to the approval of this Policy) to apply a two-year post-vesting holding period to future awards. It was agreed that two-year holding periods for executive directors are increasingly common and accepted 'best practice', and that a holding period further helps to ensure close alignment of executive director and shareholder interests.
LTIP	The Committee proposes to replace the Return on Trading Assets (ROTA) performance measure (subject to the approval of this Policy) with a Return on Capital Employed (ROCE) performance measure to ensure the way executive directors' performance is measured aligns more directly to the performance of corporate acquisitions.

Executive Director Remuneration Policy Table

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

Pension	
Function	To provide post-retirement benefits for executive directors in a cost-efficient manner.
Operation	The pension plans operated by the Group which executive directors are, or could be, members of are: —Meggitt Pension Plan (defined benefit pension plan, closed to new members). —Meggitt Workplace Savings Plan (defined contribution personal pension scheme, open to new members). Salary is the only element of remuneration that is pensionable. There are no unfunded pension promises or similar arrangements for directors.
Opportunity	New executive director external appointments since 2013 are eligible for a pension allowance of 25% of salary, payable either as a pension contribution up to any limit set in current regulations or, above such limits, in cash. Where agreements have been made prior to the approval of the Policy approved by shareholders in 2014 ("2014 Policy") which entitle an executive to receive a pension allowance higher than 25% of salary, pension allowances up to a maximum of 50% of salary will be paid. Mr Young and Mr Green had agreements prior to the approval of the 2014 Policy which entitle them to receive a pension allowance of 50% of salary and this arrangement will continue for these directors during the life of the new proposed Policy.
Performance metrics	None.

Benefits	
Function	To provide non-cash benefits which are competitive in the market in which the executive director is employed.
Operation	The Group may provide benefits including, but not limited to, a company car or car allowance, private medical insurance, permanent health insurance, life assurance, a fuel allowance, a mobile phone, relocation costs and any other future benefits made available either to all employees globally or all employees in the region in which the executive director is employed.
Opportunity	Benefits vary by role and individual circumstances; eligibility and cost is reviewed periodically. Benefits in respect of the year under review are disclosed in the annual report on remuneration. It is not anticipated that the costs of benefits provided will increase significantly in the financial years over which this new proposed 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 incentivise executive directors on delivering annual financial and personal targets.
Operation	Performance measures, targets and weightings are set at the start of the year. The performance period of the STIP is a financial year. After the end of the financial year, to the extent that the performance criteria have been met, 75% of the STIP award is paid in cash to the director. The remaining 25% of the award will be deferred into shares and released (with no further performance conditions attached, and no matching shares provided) after a further period of two years. Under the STIP 2014 rules as approved by the Committee, the Committee may decide to apply malus and/or clawback to STIP awards and deferred STIP awards to reduce the vesting of awards and/or require repayment of awards in the event of a review of the conduct, capability or performance of the director where there has been misconduct by the director or material misstatement of the Company's or a Group member's financial results for any period. Deferred STIP awards may lapse in certain leaver circumstances.
Opportunity	The STIP provides for a maximum award opportunity of up to 150% of salary in normal circumstances, with an on-target opportunity of 100% of salary and an opportunity of 50% of salary at threshold performance. The Committee has discretion to make a STIP award of up to 200% of salary in exceptional circumstances (e.g. a substantial contract win which has a significant positive financial impact in the long term but which has no, or negative, short term financial impact). Dividends accrue on unvested deferred STIP awards over the vesting period and are released on the vesting date.
Performance metrics	STIP awards are based on the achievement of financial and personal performance targets. For the executive directors, 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. 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. The personal performance element will typically be based on three to five objectives relevant to the executive's role and performance in core competency areas, which are seven core skills specifically selected as critical for the Group's employees. Details of the measures, weightings and targets applicable to the STIP for each year, including a description of how they were chosen and whether they were met, will be disclosed retrospectively in the annual report on remuneration for the following year (subject to commercial sensitivity).

Long Term Incentive Plan (LTIP)	
Function	To align the interests of executive directors with shareholders in growing the value of the Group over the long term.
Operation	Under the LTIP, executive directors are eligible to receive annual awards over Meggitt shares vesting after three years, subject to the achievement of stretching performance targets. Whilst it is the current intention that LTIP awards will be in the form of nil cost options, the LTIP provides, at the absolute discretion of the Committee, for awards of conditional shares, market value share options and phantom awards. Under the LTIP 2014 rules, the Committee may decide to apply malus and/or clawback to awards to reduce the vesting of awards and/or require repayment of awards in the event of a review of the conduct, capability or performance of the director where there has been misconduct by the director or material misstatement of the Company's or a Group member's financial results for any period. LTIP awards made to executive directors over the life of the new proposed Policy will be subject to a two-year holding period after the three-year vesting period. The rules of the LTIP will be amended to implement this.
Opportunity	Executive directors will normally be eligible for annual LTIP awards of 220% of salary. Awards up to a maximum of 300% of salary may be granted in exceptional circumstances (e.g. to support the recruitment of a key executive or to recognise exceptional individual performance). 30% of an award will vest if performance against each performance condition is at threshold and 100% if each is at maximum, with straight line vesting in between. Dividends accrue on unvested LTIP awards over the vesting period and are released, to the extent the LTIP award vests, on the vesting/exercise date.
Performance metrics	Vesting of LTIP awards is subject to continued employment and performance against three measures, which are intended to be as follows for awards made over the life of the new proposed Policy: • Earnings per Share (EPS); • Return on Capital Employed (ROCE); and • Strategic goals (typically but not always to be based on strategic priorities around execution, growth and innovation), which will be explained in the relevant annual report on remuneration. The way these measures link to our KPIs can be seen on pages 34 to 37. It is the intention that the weighting of the measures will be equal (i.e. one third each) but that the Committee will consider, and adjust if deemed appropriate, the weighting at the start of each LTIP cycle. Awards made under the LTIP have a performance period of three financial years, starting from 1 January of the year in which the award is made and ending on 31 December of the third year. If no entitlement has been earned at the end of the relevant performance period, awards will lapse. Vesting of the strategic element will also be subject to a discretionary assessment by the Committee of the extent to which achievement of the strategic objectives is consistent with the underlying financial performance over the three-year period. The measures and targets in operation for grants made under the LTIP, and which are not deemed commercially sensitive, are disclosed in the annual report on remuneration for the relevant year of grant. Any commercially-sensitive information on measures, targets and performance will be disclosed retrospectively.

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

Directors' remuneration report continued

Notes to the Policy table

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

Payments from outstanding awards

Outstanding awards are currently held by the directors under the Equity Participation Plan and the Executive Share Option Scheme, the Group's long term incentive plans which operated prior to the introduction of the LTIP in 2014. These awards have all vested in accordance with the applicable performance conditions and are capable of exercise during the period over which this Policy applies. The tables on pages 87 and 88 highlight outstanding and vested awards.

Approach to target setting and performance measure selection

Performance measures have been selected to closely align with, and reinforce, Meggitt's strategic priorities. Targets applying to the STIP and LTIP are reviewed annually, based on a number of internal and external reference points, including the Group's strategic plan, analyst forecasts for Meggitt and its sector comparators, historical growth achieved by Meggitt and its sector comparators, market practice and external expectations for growth in Meggitt's markets.

STIP

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

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

LTIP

The vesting of LTIP awards to be made during the life of this Policy will be linked to EPS, ROCE and the achievement of long-term strategic goals.

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

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

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

Remuneration policy for other employees

The remuneration policy for other employees is based on broadly consistent principles as that for executive directors. Annual salary reviews take into account 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 as the executive directors (except some of the performance conditions may vary), although award opportunities are lower and vary by organisational level. All UK employees are eligible to participate in the Sharesave Scheme and SIP on identical terms.

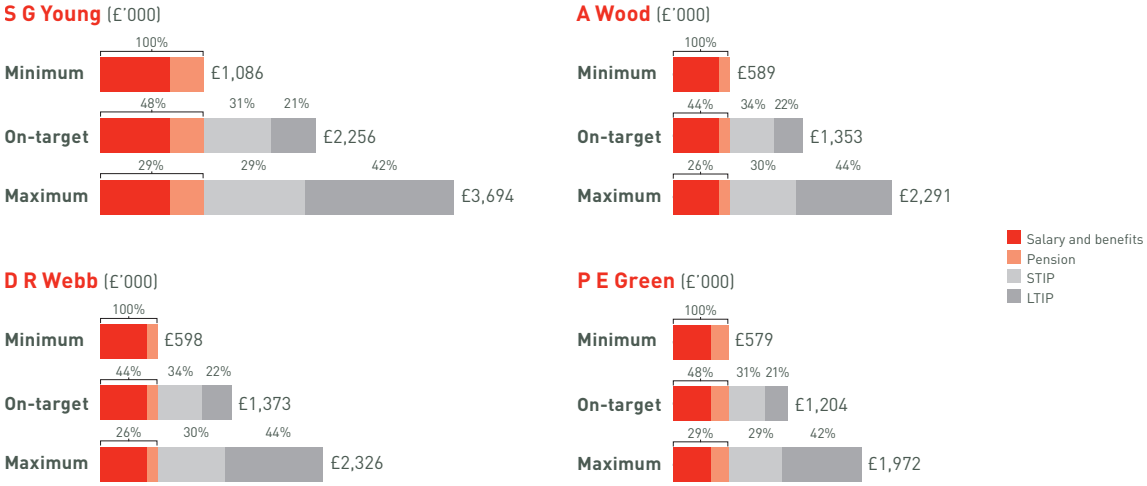
Share ownership guidelines

The minimum shareholding guideline for executive directors are 300% of base salary for the Chief Executive and 200% of base salary for each of the other executive directors. There is no set time frame within which executive directors have to meet the guideline, however until they meet the guideline they are not permitted to sell more than 50% of the after-tax value of a vested share award. The shareholding requirement ceases when a director leaves the Group. Further information on the shareholding requirement is in the annual report on remuneration (see page 86).

Pay-for-performance: scenario analysis

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

Potential reward opportunities are based on the Policy, applied to 2017 base salaries and 2017 incentive opportunities. Note that the LTIP awards granted in a year will not normally vest until the third anniversary of the date of grant, and the projected value excludes the impact of share price movement or dividend accrual.



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

Scenario	STIP	LTIP	Fixed pay
Minimum	No STIP payout	Nil vesting	Latest disclosed base salary, benefits and pension
On-target	On-target STIP payout (two-thirds of Maximum)	Threshold vesting (30% of award)	
Maximum	Maximum STIP payout (150% of base salary)	Full vesting (220% of base salary)	

Non-Executive Directors'—Remuneration Policy Table

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

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

Directors' remuneration report continued

Recruitment

External appointments

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

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

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

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

Internal promotion

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

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

Non-executive directors

In recruiting a new non-executive director, the Committee will use the Policy as set out in the table on page 73.

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

Name	Position	Notice period from employer	Notice period from employee	Compensation payable on termination of employment or change of control
Mr S G Young Service contract dated 1 May 2013	Chief Executive	12 months	6 months	As set out in the Policy, but service contract includes an obligation for the Committee to allow Mr Young to exercise awards under the Group's share plans that have already vested at the point of termination. No change of control provisions.
Mr D R Webb Service contract dated 6 June 2013	Chief Financial Officer	12 months	6 months	As set out in the Policy. No change of control provisions.
Mr A Wood Service contract dated 14 November 2016	Chief Operating Officer	12 months	6 months	As set out in the Policy. No change of control provisions.
Mr P E Green Service contract dated 26 February 2001	Executive Director, Commercial & Corporate Affairs	12 months	6 months	Mr Green's service contract was entered into before 27 June 2012 and has not been modified or renewed after that date. As such, remuneration or payments for loss of office that are required to be made under Mr Green's service contract are not required to be consistent with the Policy. Payments to Mr Green under his service contract differ from the Policy in the following respects: On termination of employment, Mr Green is entitled to a liquidated damages payment equal to his salary and the value of his contractual benefits (bonus, pension allowance, insurance and company car or car allowance) at the date of termination, pro-rated to the remaining notice period less an amount equal to 5% of the aggregate sum and the Committee shall exercise its discretion under the Group's share plans to treat Mr Green as a 'good leaver'. On change of control, Mr Green may give notice to terminate his employment within six months of the event and upon such termination he shall become entitled to the liquidated damages payment summarised above.

External appointments held by executive directors

The Board believes that the Group can benefit from experience gained when executive directors hold external non-executive directorships. Executive directors are allowed to hold external appointments and to receive payment provided such appointments are agreed by the Board or Committee in advance, there are no conflicts of interests and the appointment does not lead to deterioration in the individual's performance. Details of external appointments and the associated fees received are included in the annual report on remuneration on page 86.

Consideration of conditions elsewhere in the Group

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

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

Consideration of shareholder views

The Committee Chair 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 Chair ensures the Committee is kept informed of shareholder views. The Committee Chair has consulted with shareholders, reviewed their guidelines and guidelines released by other shareholder representative bodies, before putting this 2017 Policy to shareholder approval in 2017.

Directors' remuneration report continued

Annual report on remuneration

The following report provides details of how our existing Policy was implemented during the year ended 31 December 2016.

Remuneration Committee—2016 membership and attendance

Name	Meetings eligible to attend	Meetings attended
Mr P Heiden (Chairman)	4	4
Mr G S Berruyer	4	4
Mr C R Day	4	4
Ms A J P Goligher	4	4
Ms B L Reichelderfer	4	4

There was one meeting between the end of the financial year and the date of signing of this report, which all current members of the Committee attended. The Committee operates within agreed Terms of Reference, which are available on our website and were reviewed and reapproved in 2016 (with no significant amendments made).

The Committee is responsible for determining the remuneration policy and packages for all executive directors and senior executive direct reports to the Chief Executive and Chief Operating Officer (covering the most senior executives across the Group) and for agreeing the fees for the Chairman. The Chairman, Chief Executive and HR Director attend meetings of the Committee by invitation; they are absent when their own remuneration is under consideration. The Chief Financial Officer attended the meetings in December 2016 and February 2017 to provide cover whilst a new HR Director was appointed.

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

Advisors to the Committee

During the year, the Committee's independent remuneration advisors were Kepler (part of Marsh & McLennan Companies, Inc.) who were appointed in 2010 as a result of a competitive tender process. The Committee regularly reviews Kepler's independence and is satisfied that Kepler continue to act as independent advisors to the Committee. The Committee evaluates the support provided by Kepler annually and is comfortable that they provide effective and independent remuneration advice to the Committee. Kepler provide guidance on remuneration matters at Board level and below. Kepler do not have any other connection with the Group other than through their parent company, Marsh & McLennan Companies, the Group's primary advisors on insurance (Marsh) and UK pensions and benefits (Mercer). Kepler are a member of the Remuneration Consultants Group and adhere to its code of conduct (www.remunerationconsultantsgroup.com). Their total fees in 2016 were £47,364 (2015: £41,000).

2016 AGM voting

The following table shows the results of the advisory vote on the 2015 Directors' remuneration report at the 2016 AGM:

Resolution text	Votes for	% of votes cast for	Votes against	% of votes cast against	Total votes cast	Votes withheld (abstentions)[1]
Approval of Directors' remuneration report	571,589,195	91.25	54,793,990	8.75	626,383,185	3,392,829

[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 2014 Remuneration Policy was approved by shareholders at the 2014 AGM, receiving support from 98.95% of the votes cast (1.05% voted against, and 30.5 million votes were withheld).

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 2016 and the prior year:

	Mr S G Young		Mr D R Webb		Mr A Wood[1]		Mr P E Green	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000
Base salary	**688**	674	**456**	447	**38**	–	**367**	357
Taxable benefits[2]	**28**	24	**14**	13	**1**	–	**14**	14
Pension	**344**	337	**114**	112	**10**	–	**184**	178
STIP[3]	**625**	312	**435**	209	**–**	–	**354**	192
LTIP[4]	**247**	–	**164**	–	**–**	–	**128**	–
Total	**1,932**	1,347	**1,183**	781	**49**	–	**1,047**	741

1 Mr A Wood was appointed on 1 December 2016.
2 Taxable benefits consist primarily of company car or car allowance, fuel allowance and private health care insurance.
3 STIP paid for performance over the relevant financial year. Further details of the 2016 STIP, including performance measures, actual performance and bonus payouts, can be found on page 78.
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 2016, the figure represents the actual vesting outcome of the 2014 award, for which the performance measures were based on EPS, ROTA and strategic measures. Based on performance to 31 December 2016, the 2014 LTIP award will vest at 17.3%. The market value of vested shares has been estimated using the average share price over the last quarter of 2016 of 457.18p. This value will be trued up in next year's Report to reflect the share price on the vesting date. Further details on performance criteria, achievement and resulting vesting levels can be found on pages 79 and 80.

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

The table below sets out a single figure for the total remuneration received by each non-executive director for the year ended 31 December 2016 and the prior year:

	2016 £'000	2015 £'000
Sir Nigel Rudd[1]	**350**	306
Mr G S Berruyer	**56**	55
Mr P G Cox[2]	**–**	4
Mr C R Day[3]	**67**	16
Ms A J P Goligher	**56**	55
Mr P Heiden	**78**	65
Ms B L Reichelderfer	**56**	55
Sir Colin Terry[4]	**–**	56
Mr D M Williams[5]	**–**	73

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

Directors' remuneration report continued

Incentive outcomes for the year ended 31 December 2016

STIP in respect of 2016 performance

The Board set stretching financial and strategic targets for the STIP at the start of the 2016 financial year. These targets, and our performance against these, are summarised in the table below.

Measure	Performance targets			Actual performance
	Threshold	Target	Stretch	
Underlying operating profit[1] (Weighting: one-third of the award)	£342.0m	£360.0m	£387.0m	£346.4m
Free cash flow[1] (Weighting: one-third of the award)	£139.5m	£164.5m	£189.5m	£169.2m
Personal performance[2] (Weighting: one third of the award)				
Mr S G Young	2	3	4	Target
Mr D R Webb	2	3	4	Between target and stretch
Mr P E Green	2	3	4	Between target and stretch

1 Measured at constant currency at exchange rates set prior to the UK's decision to leave the EU in June 2016.

2 Individual personal performance is measured on a scale of 1 to 5. There is also a weighting applied to the outcome of performance against seven core competencies which are specific characteristics and behaviours in how executive directors performed their work and accomplished their goals (collaboration, driving results, ensuring accountability, being resilient, situational adaptability, customer focus and decision quality). The average of all ratings drives the STIP outcome, where 2 indicates expectations are partially met, 3 is fully met and 4 exceeds expectations.

In terms of personal performance conditions, the following is a summary of the conditions which applied in 2016 to each executive director:

Mr Young: (i) achieve Customer Services & Support (CSS) revenue target and CSS implementation phase two working well; (ii) MPS launches, quality and delivery targets and improvement in operating profit/cash from MPS; (iii) progress with AR&T and programme management against specific schedules; (iv) continue improvement in supply chain quality and delivery; and (v) financial performance of the 2015 composites businesses and progress with the integration programme. Overall, Mr Young's achievement against these goals was determined to be on target, and progress made in 2016 in many of these areas is described elsewhere in the Annual Report.

Mr Webb: (i) ensure CSS has the right IT solutions and financial reporting systems in place, and providing support on delivering the appropriate operating model for CSS; (ii) continue to progress IT security and optimise IT assets to support the businesses; (iii) deliver the integration plan for the composites acquisitions and make progress with the portfolio strategy; (iv) refinance the acquisition bridge finance and reassess interest rate hedging arrangements; and (v) finance and investor relations – goals related to IFRS 15 and IFRS 16 accounting changes and simplify the forecasting and budgeting process. Overall, Mr Webb's achievement against these goals was determined to be between target and stretch.

Mr Green: (i) continue to improve the professionalism and effectiveness of the commercial function; (ii) improve broad based commercial awareness across the Group; (iii) begin implementation of regionalisation of import compliance activity; (iv) effectively manage the DFARS cyber security project relating to safeguarding US defense information; and (v) develop government relations activity in the US and UK. Overall, Mr Green's achievement against these goals was determined to be between target and stretch.

The following STIP awards were received by directors in respect of 2016 performance:

	% salary	£'000
Mr S G Young	90.5	625
Mr D R Webb	95.0	435
Mr P E Green	95.8	354

STIP—deferral into shares

As a result of the 2016 STIP vesting outcome described above, 25% of the STIP payout will be deferred into shares and released (with no further performance conditions attached) after a further period of two years, in line with the Policy. In 2016, as a result of the 2015 STIP vesting, the following share awards were made under the Deferred Share Bonus Plan:

Executive	Form of award	Date of grant	Shares over which awards granted	Award price[1]	£'000	% of bonus[2]	Date of vesting
Mr S G Young	Award	05.04.2016	19,382	401.84p	78	25	05.04.2018
Mr D R Webb	Award	05.04.2016	13,017	401.84p	52	25	05.04.2018
Mr P E Green	Award	05.04.2016	11,965	401.84p	48	25	05.04.2018

1 The award price is the average close price for the five days prior to the award date.
2 Based on 2015 STIP outcomes.

2014 LTIP

The LTIP award made in May 2014 was subject to 3-year cumulative underlying EPS, 3-year average ROTA and a scorecard of strategic measures. Performance against each of these measures over the completed performance period is summarised in the table below:

Element		Weighting		Targets: Threshold	Targets: Mid-point	Targets: Stretch	Actual performance	% vesting (of LTIP)
Underlying EPS (pence) three-year aggregate		**33.3%**		124.0p	130.5p	137.0p	Below threshold	**0%**
ROTA average over three years		**33.3%**		33.0%	34.5%	36.0%	Below threshold	**0%**
Strategic measures (Progress against the targets for all strategic measures other than revenue growth are assessed annually, and the final vesting outcome based on performance period)	**Organic revenue growth** (CAGR)	**5.6%**		5.0%	6.5%	8.0%	Below threshold	**0%**
	Programme management (average performance score per programme, out of 5)	**5.6%**	Yr 1	2.0	3.0	4.0	2.80	3.1%
			Yr 2	2.0	3.0	4.0	2.47	2.6%
			Yr 3	2.0	3.0	4.0	2.66	3.0%
							Average	**2.9%**
	MPS (average performance score per schedule, out of 5)	**5.6%**	Yr 1	2.0	3.0	4.0	3.50	4.5%
			Yr 2	2.0	3.0	4.0	3.79	5.2%
			Yr 3	2.0	3.0	4.0	3.49	4.6%
							Average	**4.7%**
	Innovation (average performance score per schedule, out of 5)	**5.6%**	Yr 1	2.0	3.0	4.0	3.10	3.9%
			Yr 2	2.0	3.0	4.0	3.60	4.8%
			Yr 3	2.0	3.0	4.0	3.67	4.9%
							Average	**4.5%**
	Quality (% of sites on target)	**5.6%**	Yr 1	57%	71%	86%	64%	2.6%
			Yr 2	57%	71%	86%	68%	3.2%
			Yr 3	57%	68%	80%	70%	4.0%
							Average	**3.2%**
	Delivery (% of sites on target)	**5.6%**	Yr 1	43%	57%	71%	29%	0.0%
			Yr 2	36%	50%	65%	54%	4.0%
			Yr 3	45%	61%	77%	47%	1.9%
							Average	**2.0%**
Overall outcome								**17.3%**

Directors' remuneration report continued

Based on these performance outcomes, 17.3% of the 2014 LTIP award will vest. Details of the awards vesting to executive directors are set out in the table below:

Executive	Interests held	Vesting %	Interests vesting	Date of vesting	Share price at vesting[1]	Value £'000
Mr S G Young	312,443	17.3	54,052	22.05.17	457.18	247
Mr D R Webb	207,041	17.3	35,818	22.05.17	457.18	164
Mr P E Green	161,868	17.3	28,003	22.05.17	457.18	128

1 The market value of vested stock is based on the average share price over the last quarter of 2016.

Scheme interests awarded in the year ended 31 December 2016 (audited)

2016 LTIP[1]

Executive	Form of award	Date of grant	Shares over which awards granted	Award price[2]	Face value £'000	Face value % of salary[3]	Date of vesting
Mr S G Young	Nil cost option	05.04.16	378,309	401.84p	1,520	220	05.04.19
Mr D R Webb	Nil cost option	05.04.16	250,746	401.84p	1,008	220	05.04.19
Mr A Wood[4]	Nil cost option	01.12.16	215,944	468.64p	1,012	220	01.12.19
Mr P E Green	Nil cost option	05.04.16	202,020	401.84p	812	220	05.04.19

1 The 2016 LTIP measures were disclosed and explained in the 2015 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.
4 A 2016 LTIP award was made to Mr A Wood on appointment, to align his interests with those of his executive colleagues and shareholders from the date of his joining Meggitt. This award vests three years from the date of grant and is subject to the same performance conditions as the LTIP awards made in 2016 to other executive directors.

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

Weighting	Measure				Threshold	Mid-point	Stretch
33.3%	**Underlying EPS** (pence) three-year aggregate (equivalent to CAGR range of 4% to 9%)				103.0	108.0	113.0
33.3%	**ROTA** average over three years				19.0%	20.9%	23.0%
33.3%	**Strategic measures**[1] average over three years	Execution	Quality	% sites on target[2]	57.0%	68.0%	80.0%
			Delivery	% sites on target[2]	45.0%	61.0%	77.0%
			Meggitt Production System	Average status per schedule[2]	2.0	3.0	4.0
		Growth	Organic revenue growth	% organic revenue growth (CAGR over three years)	4.0%	5.5%	7.0%
			Programme management	Average status per reviews[2]	2.0	3.0	4.0
		Innovation	Schedule	Average status per schedule[2]	2.0	3.0	4.0

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

2 The targets apply to year 1 of the 2016 LTIP award, they also apply to year 2 of the 2015 LTIP award and year 3 of the 2014 LTIP award.

Total pension entitlements (audited)

The table below sets out details of the pension entitlements under the Meggitt Pension Plan (MPP) for Mr Young and Mr Green. Mr Webb and Mr Wood receive a pension allowance of 25% of base salary, but are not members of any defined benefit or defined contribution pension scheme operated by the Group.

Since reaching the government's Lifetime Allowance in April 2012, Mr Young and Mr Green ceased accruing further benefit under the MPP and receive a 50% pension allowance on their full salary. Mr Young and Mr Green's dependants remain eligible for dependants' pensions and the payment of a lump sum on death in service.

The pension allowance payments made in 2016 are included in the single total figure of remuneration table.

	Mr S G Young[1]		Mr P E Green[2]	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Accrued benefit	**29**	28	**76**	76
Date benefit receivable	**05.04.2012**	05.04.2012	**26.10.2018**	26.10.2018
Total value of additional benefit if director retires early	**Left MPP and taken benefits**	Left MPP and taken benefits	**Nil. Early retirement factors cost neutral**	Nil. Early retirement factors cost neutral

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

Percentage change in CEO cash remuneration

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

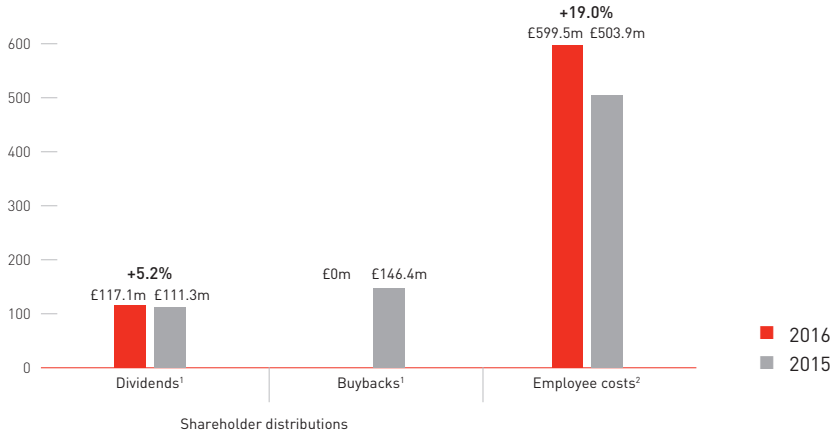
	2016 £'000	2015 £'000	**CEO % change 2015-2016**	**Executive employees % change 2015-2016**
Base salary[1]	**688**	674	**+2.0**	**4.5**
Taxable benefits[2]	**28**	24	**+13.8**	**4.0**
STIP[3]	**625**	312	**+100.3**	**44.1**
Total	**1,341**	1,010	**+32.8**	**10.8**

1 The base salary for executive employees is calculated using the increase in the earnings of around 220 full-time executive employees using the same employee data set in 2015 and 2016. Half of the executives received pay rises of up to 2%, with the other half receiving pay rises above 2% based on merit and change of responsibilities.
2 For benefits, this information is not collected for the executive employee population and is therefore estimated from a sample of executive employees, using a consistent set of employees.
3 The 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 2015 and 2016. The percentage change in the Chief Executive's STIP payment between 2015 and 2016 would have been 50% if Mr Young had not voluntarily reduced his 2015 STIP payment by 25% as reported in our 2015 Directors remuneration report.

Directors' remuneration report continued

Relative importance of spend on pay

The chart below shows shareholder distributions (i.e. dividends and share buybacks) and total employee expenditure for 2016 and the prior year, along with the percentage change in both.



1 See notes 16 and 41 respectively to the Group consolidated financial statements.

2 Comprises wages and salaries and retirement benefit costs. See note 9 to the Group consolidated financial statements. Contributory factors to the increase in employee costs between 2015 and 2016 were currency movements and that 2016 includes a full year of employee costs for the 2015 composites acquisitions.

Exit payments made in the year

No exit payments have been made in 2016.

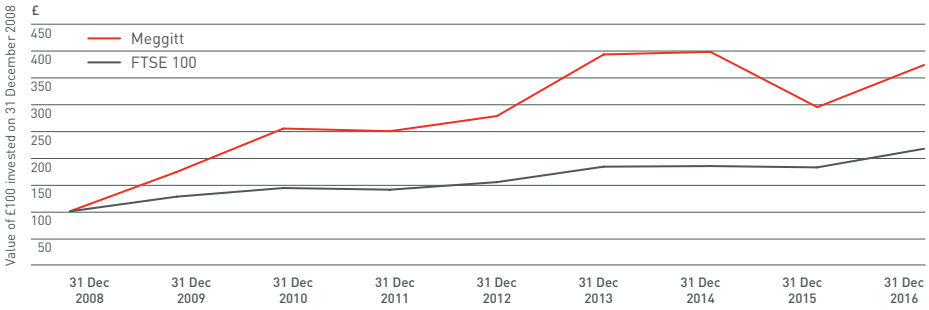
Payments to past directors (audited)

There were no payments to past directors in 2016. A de minimis of £10,000 applies to all disclosures under this note.

Review of past performance

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

This graph illustrates the Group's performance compared to the FTSE 100 Index, which is considered the most appropriate broad equity market index against which the Group's performance should be measured. Performance, as required by legislation, is measured by TSR over the eight-year period from 1 January 2009 to 31 December 2016:



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

	2009	2010	2011	2012	2013[2]	2014	2015	**2016**
Mr S G Young								
Single total figure of remuneration (£'000)	–	–	–	–	1,296	1,232	1,347	**1,932**
STIP outcome[1] (% of maximum)	–	–	–	–	39%	23%	31%	**60%**
EPP vesting[1] (% of maximum)	–	–	–	–	38%	0%	0%	**N/A**
ESOS vesting[1] (% of maximum)	–	–	–	–	76%	0%	0%	**N/A**
LTIP vesting[1] (% of maximum)	–	–	–	–	–	–	–	**17%**
Mr T Twigger								
Single total figure of remuneration (£'000)	1,758	2,947	4,252	3,812	1,845			
STIP outcome[1] (% of maximum)	86%	86%	100%	80%	35%			
EPP vesting[1] (% of maximum)	0%	50%	69%	88%	56%			
ESOS vesting[1] (% of maximum)	100%	100%	100%	100%	98%			

1 The outcomes are for those awards which are included in the single figure of remuneration for that year. For 2016, this represents the outcome of the LTIP award which will vest in 2017.

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

Implementation of Remuneration Policy for 2017

Base salary, pension and benefits

Base salaries are reviewed taking into account personal performance, employment conditions and salary levels across the Group and prevailing market conditions. Base salaries were reviewed in early 2017 and, effective 1 April 2017, will be as follows:

	2017 £'000	**% change**	2016 £'000
Mr S G Young	**705**	+2.0	691
Mr D R Webb	**467**	+2.0	458
Mr A Wood	**460**	+0.0	460
Mr P E Green	**377**	+2.0	369

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.

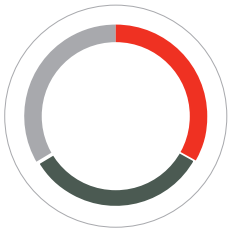
The Committee decided to award Mr Young, Mr Webb and Mr Green a 2% salary increase for 2017. In agreeing these increases the Committee took into account average expected salary increases across the general workforce, industry benchmarks and broader retail inflation, as well as the performance of executive directors in 2016. The agreed salary adjustments for the executive directors are lower than the expected increase across the general workforce.

Mr A Wood's salary was set on appointment on 1 December 2016, in the context of salaries for other Chief Operating Officer roles and his extensive past experience in aerospace. His salary was not reviewed for 2017 but he will be eligible for a salary increase in 2018, or sooner in the event his responsibilities change.

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

2017 STIP measures

STIP measures for 2017 are based on underlying operating profit (one third), free cash flow (one third) and personal performance (one third). The STIP targets for 2017, together with details of whether they have been met, will be disclosed (subject to commercial sensitivity) in the 2017 Directors' remuneration report. STIP award opportunities will be in line with the Policy disclosed on page 70.



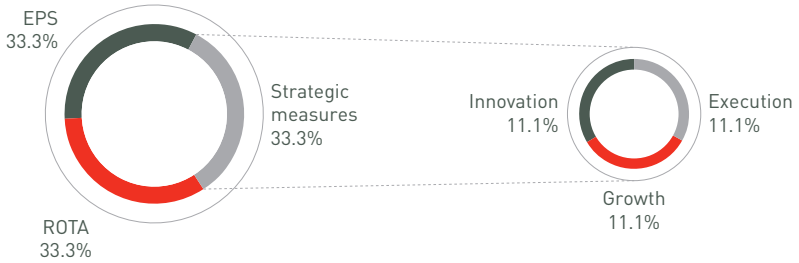
2017 STIP measures

- Underlying operating profit 33.3%
- Free cash flow 33.3%
- Personal performance 33.3%

Directors' remuneration report continued

2017 LTIP measures

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



Measures chosen

The measures used in our incentive plans continue to capture key aspects of our business strategy that will, if realised, create sustainable shareholder value over the longer term. The underlying earnings per share measure has been included in the LTIP since inception in 2014. Elsewhere in this report we have explained that subject to the proposed new Policy being approved at our AGM in April 2017, LTIP awards for executive directors from 2018 onwards will include ROCE as a measure instead of ROTA.

The strategic measures selected for inclusion in the 2017 LTIP have been selected because they are key drivers to accelerate operational performance and critical to the deployment of our key strategic goals. Organic revenue growth has been included in the strategic measures since 2014. For 2017, the Committee is introducing two new strategic measures – inventory and gross margin. The operating review which commenced late last year has determined that these measures are critical to improving our focus on margin and cost. These new measures replace the separate quality and delivery targets, which are effectively covered by the metric relating to MPS launches (as quality and delivery is a core part of MPS). Programme management and innovation are our other strategic goals and these targets are set to measure our performance in successfully passing programme gate reviews and innovation programme milestones respectively.

Target setting

For 2017 awards, the Committee has set performance measures for underlying EPS, ROTA, organic revenue growth and gross margin using a consistent method, with reference to actual performance in 2016 and the Group's budget for 2017. For EPS, the Committee takes into account other external benchmarks such as analyst consensus EPS, and EPS ranges for comparator companies. The organic growth range also takes into account external market trends. The 2017 targets for ROTA start from a lower base than the 2016 targets because of the continuing organic investment in the business. The targets for the 2017 LTIP award have been set in relation to these reference points and the 2016 outturn and are considered by the Committee to be appropriately stretching for the three-year cycle.

The inventory target is a 13-point target based on the end of month Group inventory value from December 2016 to December 2017, measured at constant currency.

A number of the strategic measures have agreed annual schedules, to ensure that the LTIP targets for these measures remain relevant and stretching over the entire three-year performance period. Targets for these measures will be set as three sets of annual targets (i.e. at the start of each year and measured over a 12-month period). Therefore, some of the measures shown below are effective for year 1 of the 2017 LTIP award, year 2 of the 2016 LTIP award and year 3 of the 2015 LTIP award. In determining the final vesting outcome at the end of each LTIP cycle, the Committee will consider performance over the three-year performance period for each strategic measure.

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

Weighting	Measure				Threshold	Mid-point	Stretch
33.3%	**Underlying EPS** (pence) three-year aggregate (equivalent to CAGR range of 4% to 9%)				113.0	118.7	124.3
33.3%	**ROTA** average over three years[1]				17.7%	18.7%	19.7%
33.3%	**Strategic measures**[2] average over three years	Execution	Inventory[3]	13-point inventory value[4]	£514.0m	£496.4m	£454.3m
			Gross margin[3]	Gross margin percentage	38.7%	39.5%	40.3%
			Meggitt Production System[3]	Average status per schedule	2.0	3.0	4.0
		Growth	Organic revenue growth	% organic revenue growth (CAGR over three years)	4.0%	5.5%	7.0%
			Programme management[3]	Average status per reviews	2.0	3.0	4.0
		Innovation	Schedule[3]	Average status per schedule	2.0	3.0	4.0

1 ROTA performance measure will be replaced by ROCE for 2018 awards if the revised Policy is approved.

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

3 The targets apply to year 1 of the 2017 LTIP award, year 2 of the 2016 LTIP award and year 3 of the 2015 LTIP award.

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

Chairman and non-executive director fees

The remuneration of the Chairman and non-executive directors in 2017 will be as follows:

	2017[1] £'000	2016[1] £'000
Chairman fee[2]	**350**	350
Non-executive director base fee[3]	**57**	56
Additional fee for chairing Audit or Remuneration Committee	**11**	11
Additional fee for Senior Independent Director	**11**	11

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

2 Sir Nigel Rudd receives additional benefits of £20,000 per annum for secretarial and car services required for business purposes.

3 It has been agreed, subject to the approval of the proposed new Policy at the AGM, to pay a fee of £4,000 per meeting to US directors when travelling to meetings outside of their home continent.

Directors' remuneration report continued

Directors' beneficial interests (audited)

The beneficial interests of the directors and their connected persons in the ordinary shares of the Company at 31 December 2016, 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 2016	2015
Sir Nigel Rudd	**122,000**	97,000
Mr S G Young	**638,514**	637,486
Mr G S Berruyer	**13,000**	13,000
Mr C R Day	**25,868**	25,000
Ms A J P Goligher	**3,000**	3,000
Mr P E Green	**572,934**	565,139
Mr P Heiden	**6,275**	6,064
Ms B L Reichelderfer	**6,000**	6,000
Mr D R Webb	**102,235**	78,307
Mr A Wood[1]	**–**	–

[1] Appointed on 1 December 2016.

Between 1 January 2017 and 17 February 2017, the only changes to the beneficial interests of the directors in the ordinary shares of the Company are that Mr Young and Mr Webb acquired 56 shares, and Mr Green acquired 57 shares through the Meggitt PLC Share Incentive Plan.

External appointments held by executive directors

Executive Director	Company	Role	Fees retained 2016 £'000
Mr S G Young	Derwent London plc	Non-executive director	42
		Chairman of Audit Committee	8
		Member of Remuneration, Audit and Risk Committees	12
		Total	**62**
Mr D R Webb	SEGRO plc	Non-executive director	55
		Chairman of Audit Committee	10
		Total	**65**

Directors' shareholding requirements (audited)

Shares which are included within the shareholding requirement are:

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

The table below shows the shareholding of each executive director against their respective shareholding requirement as at 31 December 2016:

Name	Shareholding guideline (% 2016 salary)	Shares owned outright[1]	Current shareholding (% 2016 salary)[2]	Guideline met?
Mr S G Young	300	638,514	424%	Met
Mr D R Webb	200	102,235	102%	Building
Mr A Wood	200	–	–	Building
Mr P E Green	200	572,934	712%	Met

[1] Includes shares invested to be eligible for outstanding EPP matching awards.
[2] Assessment of shareholding is based on a share price of 458.60 pence (the value of a Meggitt share on 31 December 2016).

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 2016.

The awards made up to and including 2013 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 2014, 2015 and 2016 were unvested as at 31 December 2016.

Sharesave awards are not subject to performance conditions.

		Number of shares under award						
	Date of award	At 1 Jan 2016	Awarded/ (exercised/ lapsed)	At 31 Dec 2016	Exercise price	Market price at date of exercise	Date exercisable from	Expiry date
Mr S G Young								
ESOS 2005, Part B (stock SARs)	29.03.07	192,642	–	192,642	299.00p	–	29.03.10	28.03.17
	25.03.08	285,149	–	285,149	252.50p	–	25.03.11	24.03.18
	30.04.09	297,345	–	297,345	169.50p	–	30.04.12	29.04.19
	12.03.10	251,660	–	251,660	286.10p	–	12.03.13	11.03.20
	02.03.11	160,341	–	160,341	351.70p	–	02.03.14	01.03.21
	05.09.13	243,114	(243,114)	–	526.50p	–	05.09.16	04.09.23
EPP—Basic (nil cost options)	05.08.09	115,418	–	115,418	–	–	05.08.12	04.08.19
	21.04.11	77,729	–	77,729	–	–	21.08.13	20.04.21
	17.08.11	29,131	–	29,131	–	–	17.08.14	16.08.21
	18.03.13	114,556	(114,556)	–	–	–	18.03.16	17.03.23
EPP—Match (nil cost options)	12.08.09	64,359	–	64,359	–	–	12.08.12	04.08.19
	21.04.11	57,630	–	57,630	–	–	21.08.13	20.04.21
	17.08.11	20,431	–	20,431	–	–	17.08.14	16.08.21
	18.03.13	66,946	(66,946)	–	–	–	18.03.16	17.03.23
LTIP (nil cost options)	22.05.14	312,443	–	312,443	–	–	22.05.17	21.05.19
	01.04.15	266,503	–	266,503	–	–	01.04.18	31.03.20
	05.04.16	–	378,309	378,309	–	–	05.04.19	04.04.21
Deferred Share Bonus Plan (awards)	01.04.15	9,897	–	9,897	–	–	01.04.17	15.03.18
	05.04.16	–	19,382	19,382	–	–	05.04.18	15.03.19
Sharesave (options)	12.09.14	2,405	–	2,405	374.19p	–	01.11.17	01.05.18
Total		**2,567,699**	**(26,925)**	**2,540,774**				

		Number of shares under award						
	Date of award	At 1 Jan 2016	Awarded/ (exercised/ lapsed)	At 31 Dec 2016	Exercise price	Market price at date of exercise	Date exercisable from	Expiry date
Mr D R Webb								
ESOS 2005, Part A (options)	05.09.13	5,698	(5,698)	–	526.50p	–	05.09.16	04.09.23
ESOS 2005, Part B (stock SARs)	05.09.13	155,745	(155,745)	–	526.50p	–	05.09.16	04.09.23
EPP-Basic (nil cost options)	05.09.13	60,281	(60,281)	–	–	–	05.09.16	04.09.23
EPP-Match (nil cost options)	05.09.13	39,868	(39,868)	–	–	–	05.09.16	04.09.23
LTIP (nil cost options)	22.05.14	207,041	–	207,041	–	–	22.05.17	21.05.19
	01.04.15	176,598	–	176,598	–	–	01.04.18	31.03.20
	05.04.16	–	250,746	250,746	–	–	05.04.19	05.04.21
Deferred Share Bonus Plan (awards)	01.04.15	8,853	–	8,853	–	–	01.04.17	15.03.18
	05.04.16	–	13,017	13,017	–	–	05.04.18	15.03.19
Sharesave (options)	13.09.13	3,517	–	3,517	426.40p	–	01.11.18	01.05.19
Total		**657,601**	**2,171**	**659,772**				

Directors' remuneration report continued

	Date of award	Number of shares under award: At 1 Jan 2016	Awarded/ (exercised/ lapsed)	At 31 Dec 2016	Exercise price	Market price at date of exercise	Date exercisable from	Expiry date
Mr A Wood								
LTIP (nil cost options)	01.12.16	–	215,944	215,944	–	–	01.12.19	30.11.21
Total		**–**	**215,944**	**215,944**				

	Date of award	Number of shares under award: At 1 Jan 2016	Awarded/ (exercised/ lapsed)	At 31 Dec 2016	Exercise price	Market price at date of exercise	Date exercisable from	Expiry date
Mr P E Green								
ESOS 2005, Part A (options)	29.03.07	2,759	–	2,759	299.00p	–	29.03.10	28.03.17
	30.04.09	12,832	–	12,832	169.50p	–	30.04.12	29.04.19
ESOS 2005, Part B (stock SARs)	27.09.06	23,365	(23,365)	–	263.67p	461.10p	27.09.09	26.09.16
	25.03.08	217,822	–	217,822	252.50p	–	25.03.11	24.03.18
	30.04.09	214,306	–	214,306	169.50p	–	30.04.12	29.04.19
	12.03.10	192,240	–	192,240	286.10p	–	12.03.13	11.03.20
	02.03.11	124,902	–	124,902	351.70p	–	02.03.14	01.03.21
	05.09.13	123,456	(123,456)	–	526.50p	–	05.09.16	04.09.23
EPP – Basic (nil cost options)	05.08.09	88,167	–	88,167	–	–	05.08.12	04.08.19
	21.04.11	59,377	–	59,377	–	–	21.08.13	20.04.21
	17.08.11	22,693	–	22,693	–	–	17.08.14	16.08.21
	18.03.13	58,173	(58,173)	–	–	–	18.03.16	17.03.23
EPP – Match (nil cost options)	12.08.09	49,163	–	49,163	–	–	12.08.12	11.08.19
	21.04.11	44,022	–	44,022	–	–	21.08.13	20.04.21
	17.08.11	15,915	–	15,915	–	–	17.08.14	16.08.21
	18.03.13	33,996	(33,996)	–	–	–	18.03.16	17.03.23
LTIP (nil cost options)	22.05.14	161,868	–	161,868	–	–	22.05.17	21.05.19
	01.04.15	142,128	–	142,128	–	–	01.04.18	31.03.20
	05.04.16	–	202,020	202,020	–	–	05.04.19	04.04.21
Deferred Share Bonus Plan (awards)	01.04.15	7,434	–	7,434	–	–	01.04.17	15.03.18
	05.04.16	–	11,965	11,965	–	–	05.04.18	15.03.19
Sharesave (options)	06.09.10	1,389	(1,389)	–	222.35p	411.40p	01.11.15	01.05.16
	14.09.12	1,835	–	1,835	326.94p	–	01.11.17	01.05.18
	12.09.14	1,619	–	1,619	374.19p	–	01.11.19	01.05.20
	11.09.15	750	–	750	399.79p	–	01.11.20	01.05.21
Total		**1,600,211**	**(26,394)**	**1,573,817**				

By order of the Board

Paul Heiden
Chairman, Remuneration Committee
27 February 2017

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 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 2016.

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

Incorporation by reference

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

Information incorporated into the Directors' report by reference	Location and page
Likely future developments in the Group's business	Strategic report (pages 1 to 52)
The Corporate governance report	Board of directors and Corporate governance report (pages 53 to 60)
Research and development	Note 8 to the Group's consolidated financial statements (page 118) and Chief Financial Officer's review (page 40)
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 110 to 112)
Greenhouse gas emissions	Corporate responsibility report (pages 46 and 47)
Employee information Employee involvement Employment of disabled persons	Corporate responsibility report (page 52)
Statement of the amount of interest capitalised by the Group during the year with an indication of the amount and treatment of any related tax relief	Note 19 to the Group's consolidated financial statements (page 126)
Details of long-term incentive plans	Directors' remuneration report (pages 66 to 88)
Details of any arrangements under which a director of the Company has waived or agreed to waive any emoluments from the Company or any subsidiary undertaking	Nothing to disclose
Details of allotments for cash of ordinary shares made during the period under review	Note 35 to the Group's consolidated financial statements (page 143)
Contracts of significance to which the Company is a party and in which a director is materially interested	Nothing to disclose
Contracts of significance between a Company and a controlling shareholder	Nothing to disclose
Contracts for the provision of services to the Company by a controlling shareholder	Nothing to disclose
Details of any arrangement under which a shareholder has waived or agreed to waive dividends	Nothing to disclose
Agreements related to controlling shareholder requirements under LR 9.2.2 A	Nothing to disclose
Statement of directors' interests	Directors' remuneration report (pages 87 and 88)
A statement of how the Company has complied with the Code and details of any non-compliance	Corporate governance report (page 53)
Details of directors' service contracts	Share capital and control (pages 90 and 91) and Directors' remuneration report (pages 66 to 88)
Related parties disclosures	Note 17 to the Group's consolidated financial statements (page 124)
Share buyback disclosures	Note 35 to the Group's consolidated financial statements (page 143)
Company registration information	Note 1 to the Group's consolidated financial statements (page 105)

Directors' report continued

Dividends

The directors recommend the payment of a final dividend of 10.30p net per ordinary 5p share (2015: 9.80p), to be paid on 5 May 2017 to those members on the register at close of business on 24 March 2017. An interim dividend of 4.80p (2015: 4.60p) was paid on 30 September 2016. If the final dividend as recommended is approved, the total ordinary dividend for the year will amount to 15.10p net per ordinary 5p share (2015: 14.40p).

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 2016, the Company made the DRIP available to shareholders for the dividends paid in May 2016 and September 2016. The Board currently intends to continue to make the DRIP available to shareholders in 2017, and the date by which relevant DRIP elections must be received is disclosed on the financial calendar page on our website.

Directors

The directors of the Company in office during the year and up to the date of signing the financial statements were:

Sir Nigel Rudd (Chairman), Mr S G Young (Chief Executive), Mr G S Berruyer, Mr C R Day, Ms A J P Goligher, Mr P E Green, Mr P Heiden (Senior Independent Director from 1 January 2016), Ms B L Reichelderfer (retiring from the Board on 27 April 2017), Mr D R Webb, and Mr A Wood (appointed to the Board as Chief Operating Officer on 1 December 2016).

All directors will be submitted for election or re-election at the annual general meeting (AGM). Nancy Gioia is due to be appointed as a non-executive director immediately before the AGM on 27 April 2017 and will also be submitted for election. 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 54 to 55 and in the AGM notice.

The directors benefit from qualifying third-party indemnity provisions for the purposes of Section 236 of the Companies Act 2006 pursuant to the Articles in effect throughout the financial year and up to the date of this Directors' report. The Company also purchased and maintained throughout the year Directors' and Officers' liability insurance. No indemnity is provided for the Company's auditors.

Conflicts of interest

The Company has a procedure for the disclosure, review, authorisation and management of directors' conflicts of interest and potential conflicts of interest, in accordance with the provisions of the Companies Act 2006. In deciding whether to authorise a conflict or potential conflicts, the directors must have regard to their general duties under the Companies Act 2006. The authorisation of any conflict matter, and the terms of authorisation, are regularly reviewed by the Board.

Political donations

No political donations were made during the year (2015: None).

Share capital and control

As at 31 December 2016, the Company held 20,541 treasury shares with a nominal value of 5p each, and the Company's issued share capital (excluding shares held as treasury shares) consisted of 775,709,804 shares with a nominal value of 5p each. As at 15 February 2017, the Company held 20,541 treasury shares with a nominal value of 5p each, and the Company's issued share capital (excluding shares held as treasury shares) consisted of 775,718,157 shares with a nominal value of 5p each. The issued share capital of the Company at 31 December 2016 and details of shares issued during the financial year are shown in note 35 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 registered office. The holders of ordinary shares are entitled to receive the Company's report and accounts, to attend and speak at general meetings of the Company, to appoint proxies to exercise full voting rights and to participate in any distribution of income or capital.

There are no restrictions on transfer, or limitations on holding ordinary shares and no requirements for prior approval of any transfers. There are no known arrangements under which financial rights are held by persons other than holders of the shares and no known agreements or restrictions on share transfers or on voting rights. Shares acquired through Company share plans rank pari passu (on an equal footing) with the shares in issue and have no special rights.

Rules about the appointment and replacement of Company directors are contained in the Articles which provide that a director may be appointed by ordinary resolution of the shareholders or by the existing directors, either to fill a vacancy or as an additional director. Changes to the Articles must be submitted to the shareholders for approval by way of special resolution. The directors may exercise all the powers of the Company subject to the provisions of relevant legislation, the Articles and any directions given by the Company in general meeting.

The powers of the directors include those in relation to the issue and buyback of shares. At each AGM, the shareholders are requested to renew the directors' powers to allot securities in the Company up to the value specified in the Notice of Meeting and to renew the directors' powers to allot securities, without the application of pre-emption rights, up to the value specified in the Notice of Meeting in accordance with the Articles. The Company also seeks authority at each AGM from shareholders to purchase its own shares up to the limits set out in the Notice of Meeting.

The Group has significant financing agreements which include change of control provisions which, should there be a change of ownership of the Company, could result in renegotiation, withdrawal or early repayment of these financing agreements. These are a USD600m note purchase agreement dated May 2016, a USD900m syndicated revolving credit agreement dated September 2014 and a USD600m note purchase agreement dated June 2010.

Share capital and control continued

There are a number of other long-term commercial agreements that may alter or terminate upon a change of control of the Company following a successful takeover bid. These arrangements are commercially confidential and their disclosure could be seriously prejudicial to the Company.

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

Director	Contractual entitlement
Mr S G Young	None except that provisions in the Company's share plans may cause options and/or awards granted to employees under such plans to vest on a takeover.
Mr D R Webb	None except that provisions in the Company's share plans may cause options and/or awards granted to employees under such plans to vest on a takeover.
Mr 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.
Mr P E Green	Mr Green may terminate his employment within six months and would be entitled to compensation from the Company for loss of office. The compensation would be annual remuneration plus the value of benefits for the unexpired notice period less 5%. In addition, provisions in the Company's share plans may cause options and/or awards granted to employees under such plans to vest on a takeover.
Non-executive directors	None.
All other employees	There are no agreements that would provide compensation for loss of employment resulting from a takeover except that provisions in the Company's share plans may cause options and/or awards granted to employees under such plans to vest on a takeover.

Substantial shareholdings

At 15 February 2017, 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)*	Percentage of total voting rights attaching to the issued ordinary share capital of the Company
The Capital Group Companies, Inc.	–	75.2	9.69%
BlackRock, Inc.	–	48.9	6.30%
Harris Associates L.P.	–	41.3	5.32%
First Pacific Advisors, LLC	–	39.1	5.04%
FMR LLC	–	38.1	4.91%
Standard Life Investments Ltd	22.2	3.8	3.34%
Legal & General Group plc	23.7	–	3.06%
Norges Bank	23.6	–	3.04%

*One voting right per ordinary share.

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

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- state whether IFRSs as adopted by the European Union and applicable United Kingdom Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the Group and Company financial statements respectively.

Directors' report continued

Statement of directors' responsibilities continued

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

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed in the Board of directors on pages 54 to 55 who is a director in office at the date of this report, confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic report and this Directors' report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

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

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

(b) the director has taken all steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

Fair, balanced and understandable

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

Going concern

The directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for a period of at least 12 months from the date of this report. For this reason, the directors continue to adopt the going concern basis in preparing the Group and Company financial statements.

In reaching this conclusion, the directors have considered:

- the financial position of the Group as set out in this report and additional information provided in the financial statements including note 3 (Financial risk management), note 29 (Bank and other borrowings) and note 31 (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 28 to 33, the likelihood of them arising and the mitigation actions available.

By order of the Board

M L Thomas
Company Secretary

27 February 2017

Independent auditors' report to the members of Meggitt PLC

Report on the Group financial statements

Our opinion

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

- give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

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

- the Consolidated balance sheet as at 31 December 2016;
- the Consolidated income statement and the Consolidated statement of comprehensive income for the year then ended;
- the Consolidated cash flow statement for the year then ended;
- the Consolidated statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Our audit approach

Overview

Materiality	• Overall Group materiality: £17 million which represents 5% of underlying profit before tax.
Audit Scope	• We identified 12 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 5 reporting units to address specific risk characteristics or to provide sufficient overall Group coverage of particular financial statement line items. • We used component teams in 4 countries to perform a combination of full scope audits and specified procedures at 13 reporting units, with the Group team performing the remainder. • The Group consolidation, financial statement disclosures and a number of complex items, prepared by the head office finance function, were audited by the Group engagement team. • Reporting units where we performed audit procedures accounted for 64% of Group profit before tax; 63% of Group underlying profit before tax; and 82% of Group total assets. Our audit scope provided sufficient appropriate audit evidence as a basis for our opinion on the Group financial statements as a whole.
Areas of focus	• Goodwill impairment assessments • Development costs and programme participation costs impairment assessments • Environmental provisions • Retirement benefit obligation liabilities • Provisions for uncertain tax positions

The scope of our audit and our areas of focus

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

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

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

Independent auditors' report to the members of Meggitt PLC continued

Area of focus	How our audit addressed the area of focus
Goodwill impairment assessments *Refer to note 18 (pages 124 to 125)*	
The Group holds significant amounts of goodwill (£2,095.7m) on the balance sheet which is supported by an annual impairment review. No impairment charge has been recorded against goodwill in the current year. Our audit focused on the risk that the carrying value of goodwill could be overstated. Certain assumptions used in the impairment review are subjective and require estimates to be made to calculate the recoverable amount, determined by value in use, of its cash generating units ("CGUs") or groups of CGUs. The key estimates and assumptions assessed include: • the future cash flow growth assumptions used in the Group's most recent budgets and plans for the next five years approved by management (the "plan"); • the growth rate used beyond the period covered by the plan; and • the discount rate applied to future cash flows. We applied the following scoping criteria to identify those CGUs requiring additional audit procedures: • CGUs that indicated a shortfall in value in use compared to total CGU carrying value when, for the period covered by the plan, the level of underlying profit growth was capped at a weighted average market growth rate, using economic and industry forecasts. The weighted average market growth rates were derived as follows: • For CGUs operating predominantly in the civil aerospace market, the civil aerospace capacity long-term trend rate measured in available seat kilometres (ASKs); and • For CGUs operating predominantly in the military, energy and other markets, territory Gross Domestic Product ("GDP") growth projections, based on our published economic projections. This identified the following CGUs for further consideration: • EDAC and Advanced Composites. This CGU has goodwill of £241.7m; • Meggitt Training Systems. This CGU has goodwill of £84.2m; and • One CGU within "Other". This group of CGUs has total goodwill of £37.7m.	We evaluated the directors' future cash flow forecasts and the process by which they were drawn up, and tested the integrity of the underlying discounted cash flow model. We compared the forecasts used in this model to the plan and assessed the actual performance in the year against the prior year budgets to evaluate historical forecasting accuracy. In respect of the three CGUs we focused our additional audit procedures on, we assessed the directors' assumptions for future cash flow growth in the plan, by: • Obtaining corroborating evidence to support growth assumptions in excess of our assumed weighted average market growth rate. Based on the evidence obtained we found that the directors' assumptions were not unreasonable; and • Performing sensitivity analysis in respect of the key assumptions to ascertain the extent of change in those assumptions which, either individually or collectively, would be required for the goodwill to be impaired. It would require significant downside changes before a material impairment was required. We assessed the likelihood of these changes in assumptions arising and concluded that these are not considered to be reasonably possible. For all impairment assessments we: • Tested the discount rates, by comparing key inputs, where relevant, to externally derived data or data for comparable listed organisations. We used our specialists in assessing the overall discount rates used, and observed them to be within a reasonable range; • Considered the use of the long-term GDP growth rate for the country in which the CGU operates for the growth rate used beyond the period covered by the plan, and observed these to be within a reasonable range; and • Assessed the Group's disclosures regarding the extent to which key assumptions would need to change for the recoverable amount to fall below the carrying value of goodwill, in particular in relation to those CGUs with the lowest percentage headroom. We determined that these disclosures appropriately draw attention to the significant areas of estimate and judgement.

Area of focus	How our audit addressed the area of focus
Development costs and programme participation costs impairment assessments *Refer also to note 19 (page 126)*	
The Group holds significant amounts of development costs (£533.5m) and programme participation costs (£333.5m) on the balance sheet. These intangible assets are subject to impairment testing at the individual asset ("programme") level, at least annually and, where the programme value in use compared to its carrying value is limited, or if events or changes in circumstances indicate the carrying value may not be recoverable, more frequently. An impairment charge of £3.3m has been recorded against these balances in the current year. Our audit focused on the risk that the carrying value of these intangible assets could be overstated. We focused our audit procedures on those programmes against which the directors have recorded an impairment provision and those with limited excess of value in use over carrying value, or significant carrying value. The key estimates and assumptions assessed were: • The estimated aircraft or engine volumes ("fleet forecasts") and the period over which future cash flows are forecast ("fleet lives"); • The sales price per part; and • The discount rate applied to future cash flows.	We evaluated the directors' future cash flow forecasts and the process by which they were drawn up, and tested the integrity of the underlying discounted cash flow model. In respect of the programme impairment assessments tested we: • Agreed the fleet forecast data up to 2031 used in calculating the programme forecast cash flow to external market forecasts, taking into account the extent to which the Group has a sole-source position. We corroborated any significant deviations applied by the directors to supporting evidence. We assessed fleet forecasts used beyond the period covered by the external market forecasts, considering average aircraft lives and trend analysis and considered them to be reasonable; • Agreed the sales price per part to customer contract and did not identify any material exceptions in these tests; • Tested the discount rates, by comparing key inputs, where relevant, to externally derived data or data for comparable listed organisations. We used our specialists in assessing the overall discount rates used, and observed them to be within a reasonable range; and • Assessed the Group's disclosures regarding the extent to which key assumptions would need to change for the recoverable amount to fall below the programme carrying values, in particular in relation to those with a significant carrying value. We determined that these disclosures appropriately draw attention to the significant areas of estimate.

Independent auditors' report to the members of Meggitt PLC continued

Area of focus	How our audit addressed the area of focus
Environmental provisions *Refer also to note 32 (page 137)*	
The Group has liabilities of £121.7m relating to environmental matters. 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. The Group has separately recognised insurance and other third party receivables of £77.4m. We focused on the required asset recognition criteria being met and recoverability of these receivables.	Our work on the valuation of environmental liabilities comprised the following: • We obtained the cost estimates and reports prepared by the Group's external environmental consultants for the most significant sites. We assessed the consistency of the cost estimates year on year and the level of costs incurred compared to the prior year estimates to assess the historical accuracy of the estimates and understand changes to the scope of remediation plans. The changes in scope have been appropriately reflected in the provision; • We confirmed that the Group's external environmental consultants are qualified and affiliated with the appropriate industry bodies in the respective local territory, and are independent of the Group; and • We reconciled the cost estimates and reports to the provision recorded and gained an understanding of all significant adjustments applied by the directors such as differences in the 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. Our work on the valuation of insurance and other third party receivables comprised the following: • We obtained the insurance policies to confirm the coverage limits; • We obtained confirmation from the insurer of the claims and settlements to date, and assessed the extent of insurance coverage against the known exposures, including the likelihood of reimbursement; and • We obtained evidence of the insurers' financial position to assess their ability to meet the policy obligations and consider the recognition of the insurance and other third party receivable is supportable.
Retirement benefit obligation liabilities *Refer also to note 34 (pages 139 to 143)*	
The Group has retirement benefit obligations with gross liabilities of £1,367.2m, which are significant in the context of the overall Group balance sheet. The valuation of retirement benefit obligations requires significant levels of judgement and technical expertise, including the use of actuarial experts to support the directors in selecting appropriate assumptions. Small changes in a number of the key financial and demographic assumptions used to value the Group's retirement benefit obligation, (including discount rates, inflation rates, salary increases and mortality) could have a material impact on the calculation of the liability. Our audit procedures focused on the risk that the assumptions used result in an understatement of the retirement benefit obligation.	We evaluated the assumptions made in relation to the valuation of the liabilities, with input from our actuarial specialists. In particular we: • Agreed the discount and inflation rates used to our internally developed benchmarks, based on externally derived data and comparable organisations; • Compared assumed mortality rates to national and industry averages; • Assessed the assumption for salary increases against the Group's historical trend and expected future outlook; and • 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. Based on the evidence obtained, we found that the assumptions used by the directors were reasonable.

Area of focus	How our audit addressed the area of focus
Provisions for uncertain tax positions *Refer also to note 4 (page 114)* The Group has a provision for uncertain tax positions of £43.4m. Estimates have to be made by the directors on the tax treatment of a number of transactions in advance of the ultimate tax determination being certain. This is due to the complexity of the Group's legal structure (including multiple legal entities), the number of tax jurisdictions (primarily the UK and US) in which the Group operates, the complexity of international tax legislation and the changing tax environment. In addition, uncertainty arises from intergroup transactions relating to goods, services and internal financing. Where the amount of tax payable or recoverable is uncertain, the Group establishes provisions based on the directors' judgement of the probable amount of the liability, or expected amounts recoverable. 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.	In conjunction with our internal UK and international tax specialists we: • Evaluated the process by which the directors calculated each tax exposure and assessed whether the assumptions they have used, in conjunction with their advisors, in developing the estimated exposure, provided a supportable and reasonable basis to calculate the provision for uncertain tax positions; • Considered any tax opinions or other tax advice the Group had received from its tax advisors in relation to the exposures identified to determine that the treatment is consistent with the advice obtained. We also considered the evidence of recent tax audits and external tax cases which may have an impact on existing tax exposures; • Assessed and formed our own views on the key judgements with respect to open and uncertain tax positions and concluded that the judgements made by the directors were materially consistent with our own views in respect of the tax exposures; and • Evaluated and concluded that the liabilities and potential exposures were appropriately disclosed in the financial statements. We evaluated that the directors' judgements in respect of the Group's position on uncertain tax items are supportable and reasonable in the context of the information currently available to them and no material matters were identified by our work that the directors had not adequately reflected in their estimate.

How we tailored the audit scope

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

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

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

For each reporting unit we determined whether we required an audit of their complete financial information ("full scope") or whether specified procedures addressing specific risk characteristics or particular financial statement line items would be sufficient. Those where a full scope audit was required included the largest reporting unit (Meggitt Aircraft Braking Systems in Akron), determined as individually financially significant because it contributes more than 15% of the Group's underlying profit before tax. We performed a full scope audit at a further 11 reporting units, based on their size or risk. Senior members of the Group audit engagement team visited all of these reporting units, to review the work undertaken by component auditors and assess the audit findings. We also performed specified procedures on 5 reporting units to address specific risk characteristics or to provide sufficient overall Group coverage of revenue. In addition to the work performed at the in-scope reporting units, there is a substantial amount of work performed at head office by the Group audit engagement team. The Group consolidation, financial statement disclosures and a number of complex items, prepared by the head office finance function, were audited by the Group engagement team. These included goodwill, other intangible assets, investments, derivative financial instruments and related hedge accounting, bank and other borrowings and related finance costs, environmental provisions and related insurance receivables, certain onerous contracts and other provisions, retirement benefit obligations, share based payments and central adjustments raised as part of the consolidation process. These audit procedures accounted for 64% of Group profit before tax; 63% of Group underlying profit before tax; and 82% 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 are individually immaterial but, in aggregate, make up a material portion of the key coverage metrics. These small reporting units are covered by the work performed by the Group audit engagement team, where we perform analytical review procedures. A significant proportion of these remaining reporting units not selected for local procedures were subject to an analysis of year on year movements, at a level of

Independent auditors' report to the members of Meggitt PLC continued

disaggregation to enable a focus on higher risk balances and unusual movements. Those not subject to analytical review procedures were individually, and in aggregate, immaterial. This gave us the evidence we needed for our opinion on the financial statements as a whole.

Materiality

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

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

Overall Group materiality	£17 million (2015: £10 million).
How we determined it	5% of underlying profit before tax.
Rationale for benchmark applied	We applied this benchmark, which is different from the benchmark we applied in the prior year (statutory profit before tax), because we consider that underlying profit before tax is the primary performance measure considered by the primary users of the Annual Report and Accounts. Further, we consider it appropriate to eliminate volatility and to preserve the link between materiality and the performance of the underlying business.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £850,000 (2015: £500,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 92, in relation to going concern. We have nothing to report having performed our review.

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

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic report and the Directors' report. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

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

• information in the Annual Report and Accounts is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
• the statement given by the directors on page 92, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report.
• the section of the Annual Report and Accounts on page 61, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

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

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

• the directors' confirmation on page 28 of the Annual Report and Accounts, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.

• the disclosures in the Annual Report and Accounts that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the directors' explanation on page 33 of the Annual Report and Accounts, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

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

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

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

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Statement of directors' responsibilities set out on pages 91 and 92, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

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

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

In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic report and Directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the parent company financial statements of Meggitt PLC for the year ended 31 December 2016 and on the information in the Directors' remuneration report that is described as having been audited.

Andrew Paynter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 February 2017

Consolidated income statement

For the year ended 31 December 2016

	Notes	2016 £'m	2015 £'m
Revenue	5	**1,992.4**	1,647.2
Cost of sales		**(1,217.2)**	(997.2)
Gross profit		**775.2**	650.0
Net operating costs		**(541.5)**	(413.4)
Operating profit[1]	6	**233.7**	236.6
Finance income	12	**2.0**	2.7
Finance costs	13	**(40.2)**	(29.1)
Net finance costs		**(38.2)**	(26.4)
Profit before tax[2]		**195.5**	210.2
Tax	14	**(24.3)**	(28.1)
Profit for the year attributable to equity owners of the Company		**171.2**	182.1
Earnings per share:			
Basic[3]	15	**22.1p**	23.2p
Diluted[4]	15	**21.8p**	22.9p

1 Underlying operating profit	10	**379.7**	325.5
2 Underlying profit before tax	10	**352.1**	310.3
3 Underlying basic earnings per share	15	**34.8p**	31.6p
4 Underlying diluted earnings per share	15	**34.3p**	31.2p

Consolidated statement of comprehensive income

For the year ended 31 December 2016

	Notes	2016 £'m	2015 £'m
Profit for the year attributable to equity owners of the Company		**171.2**	182.1
Items that may be reclassified to the income statement in subsequent periods:			
Currency translation differences		**312.1**	82.7
Cash flow hedge movements		**(0.2)**	(0.7)
Tax effect	14	**(3.6)**	2.1
		308.3	84.1
Items that will not be reclassified to the income statement in subsequent periods:			
Remeasurement of retirement benefit obligations	34	**(120.7)**	29.4
Tax effect	14	**20.1**	(9.5)
		(100.6)	19.9
Other comprehensive income for the year		**207.7**	104.0
Total comprehensive income for the year attributable to equity owners of the Company		**378.9**	286.1

Consolidated balance sheet

As at 31 December 2016

	Notes	2016 £'m	2015 Restated (see note 44) £'m
Non-current assets			
Goodwill	18	**2,095.7**	1,815.5
Development costs	19	**533.5**	408.4
Programme participation costs	19	**333.5**	267.6
Other intangible assets	20	**817.6**	800.0
Property, plant and equipment	21	**336.9**	288.8
Investments	22	**14.8**	11.4
Trade and other receivables	24	**58.4**	62.2
Derivative financial instruments	31	**21.8**	25.5
Deferred tax assets	33	**15.9**	0.3
		4,228.1	3,679.7
Current assets			
Inventories	23	**468.5**	401.6
Trade and other receivables	24	**434.5**	351.4
Derivative financial instruments	31	**4.2**	8.4
Current tax recoverable		**4.4**	5.5
Cash and cash equivalents	25	**173.8**	147.3
		1,085.4	914.2
Total assets	6	**5,313.5**	4,593.9
Current liabilities			
Trade and other payables	26	**(464.0)**	(401.8)
Derivative financial instruments	31	**(31.2)**	(12.7)
Current tax liabilities		**(35.6)**	(35.1)
Obligations under finance leases	28	**(0.1)**	(0.1)
Bank and other borrowings	29	**(175.7)**	(4.0)
Provisions	32	**(53.6)**	(40.0)
		(760.2)	(493.7)
Net current assets		**325.2**	420.5
Non-current liabilities			
Trade and other payables	27	**(5.0)**	(4.2)
Derivative financial instruments	31	**(45.7)**	(13.7)
Deferred tax liabilities	33	**(322.6)**	(278.8)
Obligations under finance leases	28	**(6.5)**	(5.4)
Bank and other borrowings	29	**(1,170.6)**	(1,189.0)
Provisions	32	**(131.8)**	(146.1)
Retirement benefit obligations	34	**(414.7)**	(284.5)
		(2,096.9)	(1,921.7)
Total liabilities		**(2,857.1)**	(2,415.4)
Net assets		**2,456.4**	2,178.5
Equity			
Share capital	35	**38.8**	38.8
Share premium		**1,219.8**	1,218.9
Other reserves		**15.7**	15.7
Hedging and translation reserves		**551.5**	243.2
Retained earnings		**630.6**	661.9
Total equity attributable to owners of the Company		**2,456.4**	2,178.5

The financial statements on pages 100 to 152 were approved by the Board of Directors on 27 February 2017 and signed on its behalf by:

S G Young
Director

D R Webb
Director

Consolidated statement of changes in equity

For the year ended 31 December 2016

		Equity attributable to owners of the Company					
		Share capital	Share premium	Other reserves*	Hedging and translation reserves**	Retained earnings	Total equity
	Notes	£'m	£'m	£'m	£'m	£'m	£'m
At 1 January 2015		40.1	1,218.9	14.4	159.1	708.3	2,140.8
Profit for the year		–	–	–	–	182.1	182.1
Other comprehensive income for the year:							
Currency translation differences:							
Arising in the year		–	–	–	82.7	–	82.7
Cash flow hedge movements:							
Movement in fair value		–	–	–	(1.5)	–	(1.5)
Transferred to the income statement		–	–	–	0.8	–	0.8
Remeasurement of retirement benefit obligations	34	–	–	–	–	29.4	29.4
Other comprehensive income before tax		–	–	–	82.0	29.4	111.4
Tax effect	14	–	–	–	2.1	(9.5)	(7.4)
Other comprehensive income for the year		–	–	–	84.1	19.9	104.0
Total comprehensive income for the year		–	–	–	84.1	202.0	286.1
Employee share schemes:							
Value of services provided		–	–	–	–	3.0	3.0
Purchase of own shares		–	–	–	–	(9.7)	(9.7)
Share buyback – purchased and cancelled		(1.3)	–	1.3	–	(138.8)	(138.8)
Share buyback – purchased and transferred to treasury shares		–	–	–	–	(7.6)	(7.6)
Share buyback – movement in close period commitment		–	–	–	–	15.8	15.8
Dividends	16	–	–	–	–	(111.1)	(111.1)
At 31 December 2015		38.8	1,218.9	15.7	243.2	661.9	2,178.5
Profit for the year		**–**	**–**	**–**	**–**	**171.2**	**171.2**
Other comprehensive income for the year:							
Currency translation differences:							
Arising in the year		–	–	–	312.6	–	312.6
Transferred to the income statement	43	–	–	–	(0.5)	–	(0.5)
Cash flow hedge movements:							
Movement in fair value		–	–	–	(0.6)	–	(0.6)
Transferred to the income statement		–	–	–	0.4	–	0.4
Remeasurement of retirement benefit obligations	34	–	–	–	–	(120.7)	(120.7)
Other comprehensive income/(expense) before tax		–	–	–	311.9	(120.7)	191.2
Tax effect	14	–	–	–	(3.6)	20.1	16.5
Other comprehensive income/(expense) for the year		**–**	**–**	**–**	**308.3**	**(100.6)**	**207.7**
Total comprehensive income for the year		**–**	**–**	**–**	**308.3**	**70.6**	**378.9**
Employee share schemes:							
Value of services provided		–	–	–	–	12.0	12.0
Issue of equity share capital		–	0.9	–	–	(0.9)	-
Dividends	16	–	–	–	–	(113.0)	(113.0)
At 31 December 2016		**38.8**	**1,219.8**	**15.7**	**551.5**	**630.6**	**2,456.4**

* Other reserves relate to capital reserves of £14.1 million (2015: £14.1 million) arising on the acquisition of businesses in 1985 and 1986 where merger accounting was applied and a capital redemption reserve of £1.6 million (2015: £1.6 million) created as a result of the share buyback programme which commenced in 2014 and was completed in 2015.

** Hedging and translation reserves comprise a credit balance on the hedging reserve of £1.8 million (2015: £1.9 million) and a credit balance on the translation reserve of £549.7 million (2015: £241.3 million). Amounts recycled from the hedging reserve to the income statement, in respect of cash flow hedge movements, have been recorded in net finance costs. Amounts recycled from the translation reserve to the income statement, in respect of the disposal of foreign subsidiaries, have been recorded in net operating costs.

Consolidated cash flow statement

For the year ended 31 December 2016

	Notes	2016 £'m	2015 Restated (see note 44) £'m
Cash inflow from operations before business acquisition and disposal expenses and exceptional operating items		**395.8**	419.9
Cash outflow from business acquisition and disposal expenses		**(1.9)**	(2.5)
Cash outflow from exceptional operating items	11	**(18.3)**	(10.7)
Cash inflow from operations	40	**375.6**	406.7
Interest received		**0.2**	0.2
Interest paid		**(26.6)**	(16.2)
Tax paid		**(27.4)**	(15.3)
Cash inflow from operating activities		**321.8**	375.4
Businesses acquired	42	**2.1**	(362.7)
Businesses disposed	43	**59.6**	2.0
Capitalised development costs net of funding from customers	19	**(69.6)**	(80.5)
Capitalised programme participation costs		**(57.5)**	(43.0)
Purchase of intangible assets		**(14.7)**	(10.4)
Purchase of property, plant and equipment		**(51.7)**	(45.8)
Proceeds from disposal of property, plant and equipment		**0.9**	0.8
Cash outflow from investing activities		**(130.9)**	(539.6)
Dividends paid to Company's shareholders	16	**(113.0)**	(111.1)
Purchase of own shares		**–**	(9.7)
Share buyback – purchased in year	35	**–**	(146.4)
Proceeds from borrowings		**466.0**	537.0
Debt issue costs		**(1.2)**	(0.4)
Repayments of borrowings		**(537.5)**	(65.5)
Cash (outflow)/inflow from financing activities		**(185.7)**	203.9
Net increase in cash and cash equivalents		**5.2**	39.7
Cash and cash equivalents at start of the year		**147.3**	105.5
Exchange gains on cash and cash equivalents		**21.3**	2.1
Cash and cash equivalents at end of the year	25	**173.8**	147.3

Notes to the consolidated financial statements

1. General information and basis of preparation

Meggitt PLC is a public limited company listed on the London Stock Exchange, domiciled in the United Kingdom and incorporated in England and Wales with the registered number 432989. Its registered office is Atlantic House, Aviation Park West, Bournemouth International Airport, Christchurch, Dorset, BH23 6EW.

Meggitt PLC is the parent company of a Group whose principal activities during the year were the design and manufacture of high performance components and sub-systems for aerospace, defence and other specialist markets, including energy, medical, industrial, test and automotive.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative instruments) at fair value.

2. Summary of significant accounting policies

The principal accounting policies adopted by the Group in the preparation of the consolidated financial statements are set out below. These policies have been applied consistently to all periods presented unless stated otherwise.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all of its subsidiaries together with 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 it has the power over the entity to affect those returns. The results of subsidiaries acquired are fully consolidated from the date on which control transfers to the Group. The results of subsidiaries disposed are fully consolidated up to the date on which control transfers from the Group.

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 of accounting whereby the Group's share of the profits and losses of the joint venture are recognised in the income statement within net operating costs and its share of the net assets and goodwill of the joint venture are recognised as an investment.

The cost of an acquisition is the fair value of consideration provided, including the fair value of any contingent consideration, as measured at the acquisition date. Contingent consideration payable is measured at fair value at each subsequent balance sheet date, with any changes in fair value recorded in the income statement within net operating costs. Identifiable assets and liabilities of an acquired business meeting the conditions for recognition under IFRS 3 are recognised at fair value at the date of acquisition. To the extent the cost of an acquisition exceeds the fair value of net assets acquired, the difference is recorded as goodwill. To the extent the fair value of net assets acquired exceeds the cost of an acquisition, the difference is recorded immediately in the income statement within net operating costs. Costs directly attributable to an acquisition are recognised in the income statement within net operating costs as incurred.

When a subsidiary is acquired, the fair value of its identifiable assets and liabilities are finalised within 12 months of the acquisition date. All fair value adjustments are recorded with effect from the date of acquisition and consequently may result in the restatement of previously reported financial results. The accounting policies of acquired businesses are changed where necessary to be consistent with those of the Group.

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

When a foreign subsidiary is disposed, the cumulative exchange differences relating to the retranslation of the net investment in the foreign subsidiary are recognised in the income statement as part of the gain or loss on disposal. This applies only to exchange differences recorded in equity after 1 January 2004. Exchange differences arising prior to 1 January 2004 remain in equity on disposal as permitted by IFRS 1 ('First time Adoption of International Financial Reporting Standards').

Transactions between, and balances with, subsidiary companies are eliminated together with unrealised gains on inter-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 recorded at exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are reported at exchange rates prevailing at the balance sheet date. Exchange differences on retranslating monetary assets and liabilities are recognised in the income statement within net operating costs except where they relate to qualifying net investment hedges in which case exchange differences are recognised in hedging and translation reserves within other comprehensive income.

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

Goodwill and fair value adjustments arising from the acquisition of a foreign subsidiary are treated as assets and liabilities of the subsidiary and are retranslated at exchange rates prevailing at the balance sheet date.

Notes to the consolidated financial statements continued

2. Summary of significant accounting policies continued

Segment reporting

Operating segments are those segments for which results are reviewed by the Group's Chief Operating Decision Maker ('CODM') to assess performance and make decisions about resources to be allocated. The CODM has been identified as the Board (see page 56 of the Corporate governance report). The Group has determined that its segments are Meggitt Aircraft Braking Systems, Meggitt Control Systems, Meggitt Polymers & Composites, Meggitt Sensing Systems and the Meggitt Equipment Group.

The principal profit measure reviewed by the CODM is 'underlying operating profit' as defined in note 10. A segmental analysis of underlying operating profit is accordingly provided in the notes to the financial statements.

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

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

Revenue recognition

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

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

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

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

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

Exceptional operating items

Items which are significant by virtue of their size or nature, which are considered non-recurring and which are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10) are classified as exceptional operating items. They include, for instance, costs directly attributable to the integration of an acquired business, significant site consolidation costs and other significant restructuring costs. Exceptional operating items are included within the appropriate consolidated income statement category but are highlighted separately in the notes to the financial statements.

Amounts arising on the acquisition, disposal and closure of businesses

These items are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10). They include, for instance, gains or losses made on the disposal or closure of a business, adjustments to the fair value of contingent consideration payable in respect of an acquired business or receivable in respect of a disposed business and costs directly attributable to the acquisition of a business. Amounts arising on the acquisition, disposal and closure of businesses are included within the appropriate consolidated income statement category but are highlighted separately in the notes to the financial statements.

Intangible assets

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of identifiable assets acquired and liabilities and contingent liabilities assumed. Goodwill is tested annually for impairment, and also whenever events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is carried at cost less amortisation charged prior to 1 January 2004 less accumulated impairment losses. In the event the subsidiary to which goodwill relates is disposed, its attributable goodwill is included in the determination of the gain or loss on disposal.

Research and development
Research expenditure is recognised as an expense in the income statement as incurred. Development costs incurred on projects where the related expenditure is separately identifiable, measurable and management are satisfied as to the ultimate technical and commercial viability of the project and that the asset will generate future economic benefit based on all relevant available information, are recognised as an intangible asset. Capitalised development costs are carried at cost less accumulated amortisation and impairment losses. Amortisation is charged over the periods expected to benefit, typically up to 15 years, commencing with launch of the product. Development costs not meeting the criteria for capitalisation are expensed as incurred.

2. Summary of significant accounting policies continued

Programme participation costs
Programme participation costs consist of incentives given to Original Equipment Manufacturers in connection with their selection of the Group's products for installation onto new aircraft where the Group has obtained principal supplier status. These incentives comprise cash payments and/or the supply of initial manufactured parts on a free of charge or deeply discounted basis. Programme participation costs are recognised as an intangible asset and carried at cost less accumulated amortisation and impairment losses. For manufactured parts supplied on a free of charge or deeply discounted basis, cost represents the cost of manufacture transferred from inventory less the value of any revenue received or receivable. Amortisation is charged over the periods expected to benefit from receiving the status of principal supplier, through the sale of replacement parts, typically up to 15 years.

Other intangible assets
a) Intangible assets acquired as part of a business combination
For acquisitions, the Group recognises intangible assets separately from goodwill provided they are separable or arise from contractual or other legal rights and their fair value can be measured reliably. Intangible assets are initially recognised at fair value, which is regarded as their cost. Intangible assets are subsequently held at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight line basis over their estimated useful economic lives. The nature of intangible assets recognised and their estimated useful lives are as follows:

Customer relationships	Up to 25 years
Technology	Up to 25 years
Trade names and trademarks	Up to 25 years
Order backlogs	Over period of backlog (typically up to 3 years)

Amortisation of intangible assets acquired as part of a business combination is excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10).

b) Software and other intangible assets
Software and purchased licences, trademarks and patents are recorded at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful economic lives, 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 recorded at cost less accumulated depreciation and impairment losses, except for land which is recorded at cost less accumulated impairment losses. Cost includes expenditure directly attributable to the acquisition of the asset. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Freehold buildings	Up to 50 years
Leasehold property	Over period of lease
Plant and machinery	3 to 10 years
Furnaces	Up to 20 years
Fixtures and fittings	3 to 10 years
Motor vehicles	4 to 5 years

Residual values and useful lives are reviewed annually and adjusted if appropriate. When property, plant and equipment is disposed, the difference between sale proceeds, net of related costs, and the carrying value of the asset is recognised in the income statement.

Borrowing costs

Borrowing costs directly attributable to the construction or production of qualifying assets, are capitalised as part of the cost of those assets until such time as the assets are substantially ready for their intended use. Qualifying assets are those that necessarily take a substantial period of time to get ready for their intended use, which would generally be at least 12 months. All other borrowing costs are recognised in the income statement as incurred.

Taxation

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

Deferred tax is provided in full using the liability method on temporary differences between the tax bases of assets and liabilities and their corresponding book values as recorded in the Group's financial statements. Deferred tax is provided on unremitted earnings of foreign subsidiaries, except where the Group can control the remittance and it is probable that the earnings will not be remitted in the foreseeable future. Deferred tax assets are recognised only to the extent it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is calculated using tax rates enacted or substantively enacted at the balance sheet date.

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

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 are not discounted given the short period over which they are expected to be utilised and are included within current tax liabilities. Any liability relating to interest or penalties on tax liabilities is included in the tax charge.

Impairment of non-current non-financial assets

Assets are reviewed for impairment annually and also whenever events or changes in circumstances indicate their carrying value may not be recoverable. To the extent the carrying value exceeds the recoverable amount, the difference is recorded as an expense in the income statement. The recoverable amount used for impairment testing is the higher of the value in use and fair value less costs of disposal. For the purpose of impairment testing, assets are 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 recorded impairment losses, other than any relating to goodwill, are reviewed and if no longer required reversed with a corresponding credit to the income statement.

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost represents materials, direct labour, other direct costs and related production overheads, based on normal operating capacity, and is determined using the first-in first-out (FIFO) method. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal.

Notes to the consolidated financial statements continued

2. Summary of significant accounting policies continued

Inventories continued

Provision is made for obsolete, slow moving or defective items where appropriate.

When a subsidiary is acquired, finished goods are recorded at fair value, which is typically estimated selling price less costs of disposal and a reasonable profit allowance for the selling effort. Work in progress is also recorded at fair value at acquisition, which is typically estimated selling price less costs to complete, costs of disposal and a reasonable profit allowance for work not yet completed. When such inventory is subsequently disposed post acquisition, the fair value is charged to the income statement. The difference between the fair value of the inventory disposed and its actual cost of manufacture is excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10).

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost less any impairment losses. An impairment is recognised in the income statement, within net operating costs, when there is objective evidence the Group will not be able to collect all amounts due according to the original terms of the receivables. The impairment recorded is the difference between the carrying value of the receivable and its estimated future cash flows discounted where appropriate.

Where the Group recognises a provision, to the extent the outflows of economic benefits required to settle the obligation are recoverable from an insurer or other third party, an other receivable is recognised. Other receivables are discounted to present value where the impact is significant, using a pre-tax rate. The discount rate used is based on current market assessments of the time value of money, adjusted to reflect any risks specific to the receivable which have not been reflected in the undiscounted receivable. The impact of the unwinding of discounting is recognised in the income statement within finance income.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks. Bank overdrafts are disclosed as current liabilities, within bank and other borrowings, except where the Group participates in offset arrangements with certain banks whereby cash and overdraft amounts are offset against each other.

Trade payables

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

Leases

Leases where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at commencement of the lease at the lower of fair value of the leased asset and present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding lease obligations, net of finance charges, are included in liabilities. Assets acquired under finance leases are depreciated on a straight-line basis over the shorter of the useful life of the asset or the lease term.

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

Borrowings

Borrowings are initially recognised at fair value, being proceeds received less directly attributable transaction costs incurred. Borrowings are generally subsequently measured at amortised cost 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 measured at fair value at each balance sheet date with any movement in fair value recorded in the income statement within net operating costs. Movements in fair value are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10).

Any related interest accruals are included within borrowings. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Provisions

Provision is made for environmental liabilities, onerous contracts, product warranty claims and other liabilities when the Group has a present obligation as a result of past events, it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. Provisions are discounted to present value where the impact is significant, using a pre-tax rate. The discount rate used is based on current market assessments of the time value of money, adjusted to reflect any risks specific to the obligation which have not been reflected in the undiscounted provision. The impact of the unwinding of discounting is recognised in the income statement within finance costs.

Retirement benefit schemes

For defined benefit schemes, pension costs and the costs of providing other post-retirement benefits, principally healthcare, are charged to the income statement in accordance with the advice of qualified independent actuaries.

Past service credits and costs and curtailment gains and losses are recognised immediately in the income statement.

Retirement benefit obligations represent, for each scheme, the difference between the fair value of the schemes' assets and the present value of the schemes' defined benefit obligations measured at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the defined benefit obligations using interest rates of high quality corporate bonds denominated in the currency in which the benefits will be paid and with terms to maturity comparable with the terms of the related defined benefit obligations. Where the Group has a statutory or contractual minimum funding requirement to make contributions to a scheme in respect of past service and any such contributions are not available to the Group once paid (either as a reduction in future contributions or as a refund during the life of the scheme or when the scheme liabilities are settled, to which the Group has an unconditional right), an additional liability for such amounts is recognised.

Remeasurement gains and losses are recognised in the period in which they arise in other comprehensive income.

For defined contribution schemes, payments are recognised in the income statement when they fall due. The Group has no further obligations once the contributions have been paid.

2. Summary of significant accounting policies continued

Share-based compensation

The Group operates a number of share-based compensation schemes, which are principally equity-settled.

For equity-settled schemes, the fair value of an award is measured at the date of grant and reflects any market-based vesting conditions. At the date of grant, the Group estimates the number of awards expected to vest as a result of non market-based vesting conditions and the fair value of this estimated number of awards is recognised as an expense in the income statement on a straight-line basis over the period for which services are received. At each balance sheet date, the Group revises its estimate of the number of awards expected to vest as a result of non market-based vesting conditions and adjusts the amount recognised cumulatively in the income statement to reflect the revised estimate. When awards are exercised and the Company issues new shares, the proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium.

Derivative financial instruments and hedging

The Group uses derivative financial instruments to hedge its exposure to interest rate risk and foreign currency transactional risk. Derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value at each balance sheet date using values determined indirectly from quoted prices that are observable for the asset or liability.

The method by which any gain or loss arising from remeasurement is recognised, depends on whether the instrument is designated as a hedging instrument and if so the nature of the item hedged. The Group recognises an instrument as a hedging instrument by documenting, at inception of the instrument, the relationship between the instrument and the hedged item and the objectives and strategy for undertaking the hedging transaction. To be designated as a hedging instrument, an instrument must also be assessed, at inception and on an ongoing basis, to be highly effective in offsetting changes in fair values or cash flows of hedged items.

To the extent the maturity of the financial instrument is more than 12 months from the balance sheet date, the fair value is reported as a non-current asset or non-current liability. All other derivative financial instruments are reported as current assets or current liabilities.

Fair value hedges
Changes in fair value of derivative financial instruments, that are designated and qualify as fair value hedges, are recognised in the income statement within net operating costs together with changes in fair value of the hedged item. Any difference between the movement in fair value of the derivative and the hedged item is excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10). The Group currently only applies fair value hedge accounting to the hedging of fixed interest rate risk on bank and other borrowings.

Cash flow hedges
Changes in fair value of the effective portion of derivative financial instruments, that are designated and qualify as cash flow hedges, are initially recognised in other comprehensive income. Changes in fair value of any ineffective portion are recognised immediately in the income statement within net operating costs.

To the extent changes in fair value are recognised in other comprehensive income, they are recycled to the income statement in the periods in which the hedged item affects the income statement. The Group currently only applies cash flow hedge accounting to the hedging of floating interest rate risk on bank and other borrowings.

If the forecast transaction to which the cash flow hedge relates is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is transferred to the income statement immediately. If the hedging instrument is sold, expires or no longer meets the criteria for hedge accounting, the cumulative gain or loss previously recognised in other comprehensive income is transferred to the income statement when the forecast transaction is recognised in the income statement.

Net investment hedges
Hedges of net investments of foreign subsidiaries are accounted for in a similar way to cash flow hedges. Changes in fair value of the effective portion of any hedge are recognised in other comprehensive income. Changes in fair value of any ineffective portion are recognised immediately in the income statement within net operating costs. Cumulative gains and losses previously recognised in other comprehensive income are transferred to the income statement if the foreign subsidiary to which they relate is disposed. Any such gains or losses are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10).

Derivatives not meeting the criteria for hedge accounting
Where derivatives do not meet the criteria for hedge accounting, changes in fair value are recognised immediately in the income statement within net operating costs. The Group utilises a large number of foreign currency forward contracts to mitigate against currency fluctuations. The Group has determined the additional costs of meeting the extensive documentation requirements in order to apply hedge accounting under IAS 39 'Financial Instruments: Recognition and Measurement' are not merited. Additionally, the Group utilises cross currency derivatives and treasury lock derivatives (as described in note 31) which do not meet the criteria for hedge accounting. Gains and losses arising from measuring these derivatives at fair value are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10).

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted from the proceeds recorded in equity.

Own shares represent shares in the Company that are held by an independently managed Employee Share Ownership Plan. Consideration paid for own shares, including any incremental directly attributable costs, is recorded as a deduction from retained earnings.

Dividends

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

Share buyback

The total consideration payable for shares purchased is deducted from retained earnings. The shares when purchased are generally cancelled, unless they are to be used to satisfy obligations under employee share plans. The nominal value of cancelled shares is transferred from share capital to a separate capital redemption reserve. Where the Group has entered into an irrevocable non-discretionary contract to purchase for cancellation shares on its behalf during a close period, the obligation to purchase shares is recognised in full at inception of the contract, even when the obligation is conditional on the share price. The obligation is remeasured at each balance sheet date with changes recognised in the income statement. Any gain or loss arising from the remeasurement of the obligation is excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10).

Notes to the consolidated financial statements continued

2. Summary of significant accounting policies continued

Adoption of new and revised accounting standards

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

Recent accounting developments

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

- IFRS 9, 'Financial instruments'. The Group is continuing to assess the full impact of IFRS 9 which becomes effective for accounting periods beginning on or after 1 January 2018. The main change is expected to relate to the way in which movements in the fair value of the Group's fixed rate borrowings, attributable to changes in the Group's own credit risk, are accounted for.
- IFRS 15, 'Revenue from contracts with customers'. This standard establishes principles for reporting the nature, amount and timing of revenue arising from an entity's contracts with customers. The Group is continuing to assess the full impact of IFRS 15. The principal areas of the Group's existing accounting that are currently expected to be affected include:
  - Programme participation costs. It is likely that the cost of free of charge/deeply discounted manufactured parts (but generally not cash programme payments) will be expensed as incurred under IFRS 15, rather than being recognised as an intangible asset and amortised over their useful lives. Had the Group adopted this policy for 2016, its profit before tax and net assets (after taking account of related deferred tax balances) would be lower by £23.4 million and £195.1 million respectively.
  - Revenue from sale of goods (2016 revenue: £1,798.8 million). The timing of revenue recognised on the substantial majority of such contracts is not expected to be significantly affected by IFRS 15 with revenue continuing to be recognised as goods are delivered to the customer. A minority of contracts will require changes to the timing of recognition of revenue to reflect IFRS 15 guidance on areas such as the accounting for customer price changes and whether multiple deliveries and services provided to a customer should be accounted for individually or aggregated.
  - Contract accounting revenue (2016 revenue: £59.8 million). It is likely that revenue on most contracts for which revenue is currently recognised using contract accounting will continue to be accounted for as performance occurs, although the method by which the stage of completion is measured may change on certain contracts. A small number of contracts may no longer qualify to be contract accounted and revenue will instead be deferred until completion of the contract.
  - Revenue from power by the hour and cost per brake landing type contracts (2016 revenue: £39.0 million). An element of revenue on these contracts is likely to no longer be recognised by reference to the number of aircraft flying hours or aircraft landings but when maintenance events are carried out. This will lead to revenue being recognised in different accounting periods to those in which it is currently recognised. Across all cost per brake landing contracts (2016 revenue: £29.1 million), the impact in any one period is likely however, to be mitigated by virtue of the large number of aircraft covered by such contracts and the relatively short period between maintenance events.
  - Revenue from other services (2016 revenue: £56.0 million). No significant changes are currently expected.
  - Revenue from funded research and development contracts (2016 revenue: £38.8 million). Revenue from certain contracts is likely to no longer be recognised as contractually agreed milestones are achieved, but either as costs are incurred (thus accelerating the recognition of revenue) or when the contract is completed (thus delaying the recognition of revenue).
  - The adoption of the standard may also require certain reclassifications between revenue, cost of sales and net operating costs, but which have no overall impact on operating profit.

  The standard becomes effective for accounting periods beginning on or after 1 January 2018.
- IFRS 16, 'Leases'. The Group is continuing to assess the full impact of IFRS 16 which becomes effective for accounting periods beginning on or after 1 January 2019. The main change is expected to relate to the recognition on the Group's balance sheet of assets and liabilities relating to leases which are currently being accounted for as operating leases. As at 31 December 2016, the Group has a future commitment in respect of operating leases which expire more than 12 months from the balance sheet date of £110.2 million, mainly in respect of property leases, and for which the present value is likely to be recognised on the balance sheet at transition. This standard is subject to endorsement by the European Union. Subject to such endorsement, it is the Group's current intention to early adopt this standard in its accounting periods beginning on or after 1 January 2018.

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 41 to 42 of the Chief Financial Officer's review). Regular reports monitor exposures and assist in managing the associated risks.

3. Financial risk management continued

Market risk

Foreign exchange risk

The Group operates internationally and is subject to foreign exchange risks on future commercial transactions and the retranslation of the results of, and net investments in, foreign subsidiaries. The principal exposure arises with respect to the US dollar against the Pound sterling. To mitigate risks associated with future commercial transactions, the Group policy is to hedge known and certain forecast transaction exposure based on historical experience and projections. The Group hedges at least 70% of the next 12 months anticipated exposure and can hedge up to five years ahead. Details of hedges in place are provided in note 31. The Group does not currently hedge exposure arising from the retranslation of the results of foreign subsidiaries. The Group uses borrowings denominated in the relevant currencies to partially hedge its net investments in foreign subsidiaries.

Interest rate risk

The Group has borrowings issued at both fixed and floating rates of interest. Borrowings issued at fixed rates expose the Group to fair value interest rate risk, whereas borrowings issued at floating rates expose the Group to cash flow interest rate risk. The Group's policy is to generally maintain at least 25% of its net debt at fixed rates. The Group mitigates interest rate risks through interest rate derivatives which have the economic effect of converting fixed rate borrowings into floating rate borrowings and floating rate borrowings into fixed rate borrowings. Details of hedges in place are provided in note 31.

Credit risk

The Group is not subject to significant concentration of credit risk with exposure spread across a large number of customers across the world. In addition, many of the Group's principal customers are either government departments or large multinationals. Note 24 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 instruments 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 25 and 31.

Liquidity risk

The Group maintains sufficient committed facilities to meet projected borrowing requirements based on cash flow forecasts. Additional headroom is maintained to protect against the variability of cash flows and to accommodate small bolt-on acquisitions. Key ratios are monitored to ensure continued compliance with covenants contained in the Group's principal credit agreements. The following table analyses the Group's non-derivative financial liabilities and derivative assets and liabilities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows:

	2016				
	Less than 1 year £'m	**1-2 years £'m**	**2-5 years £'m**	**Greater than 5 years £'m**	**Total £'m**
Trade and other payables*	**453.1**	**1.2**	**1.8**	**2.0**	**458.1**
Bank and other borrowings	**162.0**	**0.2**	**569.0**	**586.9**	**1,318.1**
Interest payments on borrowings	**41.8**	**33.3**	**86.0**	**62.4**	**223.5**
Obligations under finance leases (see note 28)	**1.2**	**1.7**	**3.4**	**13.1**	**19.4**
Derivative financial instruments:					
Inflows**	**(11.6)**	**(7.1)**	**(14.1)**	**(1.3)**	**(34.1)**
Total	**646.5**	**29.3**	**646.1**	**663.1**	**1,985.0**

	2015				
	Less than 1 year £'m	1-2 years £'m	2-5 years £'m	Greater than 5 years £'m	Total £'m
Trade and other payables as restated (see note 44)*	391.5	0.9	1.4	1.9	395.7
Bank and other borrowings	0.1	543.2	545.6	84.9	1,173.8
Interest payments on borrowings	21.5	20.1	39.5	6.5	87.6
Obligations under finance leases (see note 28)	1.1	1.0	3.2	12.1	17.4
Derivative financial instruments:					
Inflows**	(8.4)	(8.2)	(17.6)	(4.0)	(38.2)
Outflows**	0.5	0.4	0.2	–	1.1
Total	406.3	557.4	572.3	101.4	1,637.4

* Excludes social security and other taxes of £10.9 million (2015: £10.3 million) (see note 26).

** Assumes no change in interest rates from those prevailing at year end.

Notes to the consolidated financial statements continued

3. Financial risk management continued

Sensitivity analysis

The Group's principal exposure in relation to market risks are to changes in the exchange rate between the US dollar and Pound sterling and to changes in US interest rates. The table below illustrates the sensitivity of the Group's results to changes in these key variables at the balance sheet date. The analysis covers only financial assets and liabilities held at the balance sheet date and is made on the basis of the hedge designations in place on those dates and assuming no hedge ineffectiveness.

	2016		2015	
	Income statement £'m	**Equity £'m**	Income statement £'m	Equity £'m
USD/GBP exchange rate +/- 10%	**49.0**	**123.0**	32.8	101.5
US yield curve +/- 1%	**14.2**	**3.3**	21.7	5.0

The impact on equity from movements in the exchange rate comprises £124.8 million (2015: £106.9 million) in respect of US dollar net debt, offset by £1.8 million (2015: £5.4 million) in respect of other financial assets and liabilities. However, as all US dollar net debt is designated as a net investment hedge, this element of the impact is entirely offset by the retranslation of foreign subsidiaries. The impact shown above of a 1% movement in the US yield curve includes the effect on the Group's foreign currency forward contracts as well as other financial assets and liabilities.

Capital risk management

The Group's objective when managing its capital structure is to minimise the cost of capital whilst maintaining adequate capital to protect against volatility in earnings and net asset values. The strategy is designed to maximise shareholder return over the long-term. The Group's current post-tax average cost of capital is approximately 6.2% (2015: 8.0%) and its capital structure at 31 December is as follows:

	2016 £'m	2015 Restated (see note 44) £'m
Net debt (see note 41)	**1,179.1**	1,051.2
Total equity	**2,456.4**	2,178.5
Debt/equity %	**48.0%**	48.3%

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 page 41 and 42 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 for the year ended 31 December 2016.

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 level at which impairment testing of goodwill is performed and the use of the equity accounting method for one of the businesses acquired as part of EDAC, the accounting for which was finalised in the year, are considered by management to be additional critical judgements in the current year. The decrease in the proportion of contract accounting revenue and the level of provision for legal, regulatory and other similar matters, included within other provisions, are such that they are no longer considered to be critical estimates.

The estimates and judgements that have the most significant effect on the amounts included in these financial statements are described below. Further consideration of these critical estimates and judgements can be found in the Audit Committee report on page 62.

Critical accounting estimates and assumptions

Impairment testing of goodwill

Each year the Group carries out impairment tests of goodwill which require estimates to be made of the value in use of its CGU's or groups of CGU's. These value in use calculations are dependent on estimates of future cash flows, long-term growth rates and appropriate discount rates to be applied to future cash flows. Further details on these estimates and sensitivities of the carrying value of goodwill to these estimates are provided in note 18.

4. Critical accounting estimates and judgements continued

Fair value of intangible assets acquired in a business combination

On the acquisition of a business, it is necessary to attribute fair values to any intangible assets acquired, provided they meet the criteria to be recognised. The fair values of these assets are dependent on estimates of attributable future revenues, margins, cash flows and appropriate discount rates to be applied to future cash flows. Intangible assets are subject to impairment testing at least annually or if events or changes in circumstances indicate their carrying value may not be recoverable. Estimates of remaining useful lives of assets are also reviewed at least annually, and revised if appropriate (see note 20 for further details).

During the year, the Group finalised the fair values and estimated lives of the intangible assets arising from its acquisition of the advanced composite businesses in late 2015, after taking advice from a third party valuation specialist (see note 42). The third party provided a range of discount rate assumptions that could reasonably have been used to determine the fair value of customer relationships (the most significant intangible asset arising on acquisition). Using the lower or upper end of this range would have increased or reduced the fair value recognised by £17.0 million or £14.0 million respectively. A change in the estimated future cash flows, used to determine the fair value of customer relationships of 10% would have increased or reduced the fair value recognised by approximately £11.0 million.

Impairment testing of development costs

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

At 31 December 2016, the programme with the largest capitalised development balance is the Bombardier CSeries which has a net book value of £85.5 million. The most critical estimate is considered to be the size of the future fleet for this aircraft, which has now entered service. Fleet volumes would need to reduce however, by approximately 60% from management estimates (which are based on public forecasts, from independent industry experts), without any mitigation actions taken by the Group, before any impairment would need to be recognised.

At 31 December 2016, the programme with the next largest capitalised development balance is the Dassault 5X which has a net book value of £52.7 million. This aircraft is yet to enter service and a two year delay was announced by the aircraft manufacturer at the start of 2016. The most critical estimates are considered to be the date of entry into service and the size of the future fleet, both of which are based on public forecasts, from independent industry experts. If entry into service were delayed by a further two years, without any mitigation actions taken by the Group, an impairment of approximately £8.0 million would need to be recognised. The largest observed annual movement in fleet estimates for this aircraft in the last five years has been 8%. A reduction of this level in 2017, without any mitigation actions taken by the Group, would not result in a significant impairment.

No reasonably foreseeable change in assumptions relating to any other capitalised development costs would cause a significant impairment to be recognised.

Impairment testing of programme participation costs

Capitalised programme participation costs are subject to impairment testing at least annually and, where headroom is limited or if events or changes in circumstances indicate the carrying value may not be recoverable, more frequently. Estimates of remaining useful lives of assets are also reviewed at least annually, and revised if appropriate. Impairment testing requires estimates of aftermarket revenues which are dependent on aircraft utilisation, fleet lives and operator service routines and the appropriate discount rates applied to future cash flows.

At 31 December 2016, the programme with the largest capitalised programme participation balance has a net book value of £44.1 million. No reasonably foreseeable change in assumptions would cause an impairment to be recognised. No reasonably foreseeable change in assumptions relating to any other capitalised programme participation costs would cause a significant impairment to be recognised.

Retirement benefit obligations

The liability recognised in respect of retirement benefit obligations is dependent on a number of estimates including those relating to mortality, inflation, salary increases and the rate at which liabilities are discounted. External actuarial advice is taken with regard to the most appropriate assumptions to use. Further details on these estimates and sensitivities of the retirement benefit obligations to these estimates are provided in note 34.

Environmental provisions

The Group is involved in the investigation and remediation of certain sites for which it has been identified as a potentially responsible party under US law (see note 32 for further details). In determining the provision to be recognised, advice is received by the Group from its environmental consultants and legal advisors to assist in the estimate of the level and timing of remediation costs, including the period for which operations and monitoring activities will be required to be carried out. In the last five years, annual reductions and increases in costs estimates have both been experienced. If cost estimates were to change by 15%, the largest observed overall annual movement seen in this period, the provision recognised would need to change by approximately £18.0 million.

The Group has extensive insurance arrangements in place to mitigate the on-going impact of historical environmental events on the Group (see note 32 for further details). These insurance policies have monetary caps and in some cases are term policies, whereby costs are only recoverable if incurred by specified dates. The estimates of the level and timing of remediation costs, used to determine the provision, are also used in determining the level of receivable to recognise. If remediation cost estimates were to reduce by 15%, the receivable recognised would need to reduce by approximately £15.0 million. If remediation cost estimates were to increase by 15%, the receivable recognised would need to increase by approximately £2.0 million, reflecting the impact of the insurance policy caps that are in place. Whilst the timing of remediation is based on advice from third party environmental consultants, it is possible that delays of up to 12 months could occur. If ongoing remediation activities were to be delayed by 12 months, without any mitigating action taken by the Group, a reduction in the receivable recognised of approximately £10.0 million would need to be recorded, reflecting the impact of policy expiration dates.

Notes to the consolidated financial statements continued

4. Critical accounting estimates and judgements continued

Onerous contract provisions

The Group makes provision for any expected losses arising from onerous contracts, which require estimates to be made of future contract revenues, margins, potential claims from third parties and cash flows. These estimates are dependent on a number of factors including anticipated sales volumes, future pricing, production costs and the outcome of negotiations with third parties. To the extent these estimates change as more information becomes available, adjustments are made to the carrying value of these provisions. Whilst each contract provision is subject to its own unique risks, none are individually material. Accordingly whilst a range of outcomes on each contract is reasonably possible, the Group would expect, based on its recent past experience, the net outcome across all onerous contracts to range from a potential increase of £5.0 million in the provision to a potential reduction of £9.0 million (see note 32 for further details).

Income taxes

In determining the Group's tax provision, it is necessary to consider transactions in a small number of key tax jurisdictions for which the ultimate tax determination is uncertain. The Group's tax provision at 31 December 2016 is £43.4 million and reflects a number of areas of judgement 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 price at which goods and services are transferred between Group companies. The nature of the items, for which a provision is held, is such that the final outcome could vary from the amounts held once a final tax determination is made, although currently none of these exposures is considered individually material. Based on the Group's recent experience of revisions to previous tax estimates as more information has become available, and assuming no significant changes in legislation, it currently expects the outcome across all open items to range from a potential increase of £4.0 million in the provision to a potential reduction of £10.0 million. To the extent the estimated final outcome differs from the tax that has been provided, adjustments will be made to income tax and deferred tax balances held in the period the determination is made.

Critical accounting judgements

Level at which impairment testing of goodwill is performed

Goodwill is required to be allocated to CGUs or groups of CGUs for the purpose of impairment testing. In the Group's judgement, with the exception of businesses within its Equipment Group segment and the advance composite businesses acquired in late 2015 (see note 42), it is appropriate to allocate goodwill to the group of CGUs represented by its operating segments. In making this judgement, the Group has considered the extent to which the increasing recent consolidation of activities within each segment (other than in the Meggitt Equipment Group) has meant it is no longer possible in 2016 to allocate goodwill to individual CGU's within that segment without the need 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 the Meggitt Equipment Group, which principally operate independently of one another, goodwill can be reliably allocated to each CGU within the segment for testing.

The cash inflows of the two advanced composites businesses are not considered independent of one another, and accordingly are treated as a single CGU in 2016. Although integration of the activities of the CGU with the rest of the businesses within its operating segment is progressing well, it is still possible to reliably allocate goodwill to the CGU and it continues to be monitored by management at this level. Accordingly impairment testing in the year has been performed at the CGU level.

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 those costs. Post contract award, the Group will capitalise development costs provided it expects to retain the intellectual property in the technology throughout substantially all of the life of the aircraft or engine and it is probable that future economic benefits will flow to the Group. In making a judgement as to whether economic benefits will arise, the Group will make estimates of aircraft or engine volumes (taking into account the extent to which the Group has a sole-source position), aftermarket revenues which are dependent on aircraft utilisation, fleet lives and operator service routines, costs of manufacture and costs to complete the development activity. During 2016, the Group recognised £72.4 million of development costs as an intangible asset (see note 19).

Capitalisation of programme participation costs

The Group is required to make judgements as to when programme participation costs meet the criteria to be recognised as intangible assets. Approximately 85% of capitalised programme participation costs relate to free of charge or deeply discounted manufactured parts ('FOC'), with the balance relating to cash programme payments. All amounts relate to aerospace programmes. FOC costs are typically incurred just prior to individual aircraft entering service and only where the Group is satisfied it is probable the costs will be recovered through incremental aftermarket revenues generated over the life of the part, will amounts be capitalised. In making this judgement, the Group makes estimates of aftermarket revenues which are dependent on aircraft utilisation, fleet lives and operator service routines. The capitalisation of cash payments is subject to similar judgements to those described for development costs above. During 2016, the Group recognised £57.9 million of programme participation costs as an intangible asset (see note 19).

Accounting for joint venture

As part of the acquisition of EDAC, the Group acquired 70% of the equity shares in a joint arrangement. The arrangement is structured as a legal entity and the contractual agreements between the Group and the other equity holder, provide both with rights to the net assets of the entity. Although the Group owns 70% of the equity, unanimous consent of both parties to the arrangement is required in respect of the entities relevant activities including approval of the annual business plan and strategy, significant funding decisions affecting the entity, the appointment of key management, distributions to shareholders and changes in share capital. In the Group's judgement, the entity meets the definition of a joint venture and accordingly has been accounted for using the equity method (see note 22 for further details).

5. Revenue

The Group's revenue is analysed as follows:

	2016 £'m	2015 £'m
Sale of goods	**1,798.8**	1,470.4
Contract accounting revenue	**59.8**	66.7
Revenue from services – Power by the hour/Cost per brake landing	**39.0**	38.8
Revenue from services – Other	**56.0**	40.1
Revenue from funded research and development	**38.8**	31.2
Total	**1,992.4**	1,647.2

6. Segmental analysis

Analysis by operating segment

The Group manages its businesses under the key segments of Meggitt Aircraft Braking Systems, Meggitt Control Systems, Meggitt Polymers & Composites, Meggitt Sensing Systems and the Meggitt Equipment Group. Details of the Group's divisions can be found on pages 23 to 27 of the Strategic report.

Year ended 31 December 2016

The key performance measure reviewed by the CODM is underlying operating profit. A detailed reconciliation of operating profit to underlying operating profit is provided in note 10.

	Meggitt Aircraft Braking Systems £'m	Meggitt Control Systems £'m	Meggitt Polymers & Composites £'m	Meggitt Sensing Systems £'m	Meggitt Equipment Group £'m	Total £'m
Gross segment revenue	406.2	476.7	331.2	543.6	262.8	2,020.5
Inter-segment revenue	(0.1)	(0.8)	(1.5)	(12.9)	(12.8)	(28.1)
Revenue from external customers	**406.1**	**475.9**	**329.7**	**530.7**	**250.0**	**1,992.4**
Underlying operating profit (see note 10)*	**146.6**	**117.6**	**39.5**	**73.0**	**3.0**	**379.7**
Items not affecting underlying operating profit (see note 10)						(146.0)
Operating profit (see note 10)						**233.7**
Finance income (see note 12)						2.0
Finance costs (see note 13)						(40.2)
Net finance costs						(38.2)
Profit before tax						**195.5**
Tax (see note 14)						(24.3)
Profit for the year						**171.2**
Exceptional operating items (see note 11)	3.3	0.2	7.0	2.7	2.3	**15.5**
Amortisation of intangible assets (see notes 19 and 20)**	87.8	19.2	23.6	20.8	10.7	**162.1**
Impairment loss/(reversal of impairment loss) (see note 19)	1.5	(1.5)	–	3.3	–	**3.3**
Depreciation (see note 21)	7.7	7.6	7.9	11.6	6.5	**41.3**

* Central costs are allocated using a variety of bases designed to reflect the beneficial relationship between the costs and the segments. Bases include headcount, payroll costs, gross assets and revenue.

** Of the total amortisation in the year, £63.5 million has been charged to underlying operating profit as defined in note 10.

The Group's largest customer accounts for 6.6% of revenue (£132.4 million). Revenue from this customer arises across all segments.

	Meggitt Aircraft Braking Systems £'m	Meggitt Control Systems £'m	Meggitt Polymers & Composites £'m	Meggitt Sensing Systems £'m	Meggitt Equipment Group £'m	Total £'m
Additions to non-current assets*						
Development costs net of customer funding (see note 19)	34.0	2.0	0.7	27.3	5.6	**69.6**
Programme participation costs (see note 19)	49.0	6.1	0.2	2.6	–	**57.9**
Other purchased intangible assets	1.3	0.3	0.9	1.1	0.5	**4.1**
Property, plant and equipment	8.4	10.7	14.8	14.6	4.8	**53.3**
Total	**92.7**	**19.1**	**16.6**	**45.6**	**10.9**	**184.9**

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

Notes to the consolidated financial statements continued

6. Segmental analysis continued

As at 31 December 2016

	Total £'m
Meggitt Aircraft Braking Systems	832.6
Meggitt Control Systems	364.2
Meggitt Polymers & Composites	230.0
Meggitt Sensing Systems	463.2
Meggitt Equipment Group	178.6
Total segmental trading assets	**2,068.6**
Centrally managed trading assets*	176.0
Goodwill (see note 18)	2,095.7
Other intangible assets	738.3
Investments (see note 22)	14.8
Derivative financial instruments – non-current (see note 31)	21.8
Deferred tax assets (see note 33)	15.9
Derivative financial instruments – current (see note 31)	4.2
Current tax recoverable	4.4
Cash and cash equivalents (see note 25)	173.8
Total assets	**5,313.5**

* 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.

Year ended 31 December 2015

The key performance measure reviewed by the CODM is underlying operating profit. A detailed reconciliation of operating profit to underlying operating profit is provided in note 10.

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

* Central costs are allocated using a variety of bases designed to reflect the beneficial relationship between the costs and the segments. Bases include headcount, payroll costs, gross assets and revenue.

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

The Group's largest customer accounts for 6.6% of revenue (£109.0 million). Revenue from this customer arises across all segments.

6. Segmental analysis continued

	Meggitt Aircraft Braking Systems £'m	Meggitt Control Systems £'m	Meggitt Polymers & Composites £'m	Meggitt Sensing Systems £'m	Meggitt Equipment Group £'m	Total £'m
Additions to non-current assets*						
Development costs net of customer funding (see note 19)	37.5	7.4	1.6	25.5	8.5	80.5
Programme participation costs (see note 19)	37.4	4.8	–	0.8	–	43.0
Other purchased intangible assets	2.0	1.2	0.4	1.2	0.9	5.7
Property, plant and equipment	8.5	8.0	6.9	11.9	4.2	39.5
Total	85.4	21.4	8.9	39.4	13.6	168.7

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

As at 31 December 2015 (As restated – see note 44)

	Total £'m
Meggitt Aircraft Braking Systems	666.6
Meggitt Control Systems	303.7
Meggitt Polymers & Composites	173.6
Meggitt Sensing Systems	387.7
Meggitt Equipment Group	145.9
Total segmental trading assets	1,677.5
Centrally managed trading assets*	179.8
Goodwill (see note 18)	1,815.5
Other intangible assets	722.7
Investments (see note 22)	11.4
Derivative financial instruments – non-current (see note 31)	25.5
Deferred tax assets (see note 33)	0.3
Derivative financial instruments – current (see note 31)	8.4
Current tax recoverable	5.5
Cash and cash equivalents (see note 25)	147.3
Total assets	4,593.9

* 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

	2016 £'m	2015 £'m
Revenue		
UK	**201.8**	153.9
Rest of Europe	**422.2**	357.6
United States of America	**1,081.7**	854.9
Rest of World	**286.7**	280.8
Total	**1,992.4**	1,647.2

Revenue is based on the location of the customer.

	2016 £'m	2015 Restated (see note 44) £'m
Non-current assets		
UK	**700.8**	698.3
Rest of Europe	**211.2**	182.2
United States of America	**3,194.1**	2,688.5
Rest of World	**11.1**	11.3
Total	**4,117.2**	3,580.3

Segmental non-current assets are based on the location of the assets. They exclude the investment in the Group's joint venture, trade and other receivables, derivative financial instruments and deferred tax assets.

Notes to the consolidated financial statements continued

7. Auditor's remuneration

Payable to PricewaterhouseCoopers LLP and its associates:

	2016 £'m	2015 £'m
For the audit of the Company and consolidated financial statements in respect of the current year	**1.2**	0.8
For the audit of the Company and consolidated financial statements in respect of the prior year	**0.2**	0.1
For the audit of the accounts of any subsidiary of the Company in respect of the current year	**0.7**	0.6
Total	**2.1**	1.5

Non-audit fees payable to PricewaterhouseCoopers LLP were £Nil million (2015: £Nil million).

8. Operating profit

Operating profit is stated after charging/(crediting):

	2016 £'m	2015 £'m
Raw materials and consumables used	**588.5**	492.5
Change in inventories of finished goods and work in progress	**24.0**	(34.0)
Employee costs (see note 9)	**708.2**	590.6
Research and development costs*	**85.4**	73.9
Amortisation of capitalised development costs (see note 19)	**14.0**	7.9
Amortisation of programme participation costs (see note 19)	**33.4**	28.9
Amortisation of other purchased intangible assets (see note 20)	**16.1**	12.3
Amortisation of intangible assets acquired in business combinations (see note 10)	**98.6**	71.9
Impairment loss on capitalised development costs (see note 19)	**3.3**	6.4
Depreciation (see note 21)	**41.3**	33.5
Loss on disposal of property, plant and equipment	**1.4**	–
Exceptional operating items (see note 11)	**15.5**	10.4
Amounts arising on the acquisition, disposal and closure of businesses (see note 10)	**(39.1)**	0.2
Financial instruments (see note 10)	**66.4**	4.8
Net foreign exchange gains	**(5.3)**	(2.6)
Operating lease rentals	**16.9**	14.9
Share of profit after tax of joint venture (see note 22)	**1.2**	–
Other operating income	**(2.3)**	(1.9)

* Total research and development expenditure in the year was £157.8 million (2015: £158.7 million) of which £31.7 million (2015: £26.8 million) was charged to cost of sales, £53.7 million (2015: £47.1 million) was charged to net operating costs and £72.4 million (2015: £84.8 million) was capitalised as development costs (see note 19).

9. Employee information

	2016 £'m	2015 £'m
Employee costs including executive directors:		
Wages and salaries	**554.3**	464.5
Social security costs	**100.7**	82.6
Retirement benefit costs (see note 34)	**45.2**	39.4
Share-based payment expense (see note 36)	**8.0**	4.1
Total	**708.2**	590.6

Details of directors' remuneration is provided in the Directors' remuneration report on pages 66 to 88 which forms part of these financial statements.

9. Employee information continued

	2016 Number	2015 Restated Number
Average monthly number of persons employed including executive directors:		
Meggitt Aircraft Braking Systems	**1,280**	1,300
Meggitt Control Systems	**1,845**	1,885
Meggitt Polymers & Composites	**2,730**	1,818
Meggitt Sensing Systems	**3,272**	3,365
Meggitt Equipment Group	**1,872**	2,042
Corporate including shared services	**480**	441
Total	**11,479**	10,851

Prior year comparatives have been restated to reflect the transfer of Meggitt Xiamen into Meggitt Equipment Group and Meggitt Aerospace Asia Pacific into Meggitt Control Systems. Both businesses were previously reported within 'Corporate including shared services'. The transfers did not have any significant impact on segmental information provided in note 6 and accordingly comparative information in that note has not been restated.

10. Reconciliations between profit and underlying profit

Underlying profit is used by the Board to monitor and measure the underlying trading performance of the Group. It excludes certain items as described below.

Delivery of the Group's strategy includes investment in acquisitions that enhance its technology portfolio and the restructuring of its cost base to deliver operational improvements. The exclusion of significant items arising from M&A activity and business restructuring 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, amortisation of intangible assets acquired in business combinations, disposal of inventory revalued in business combinations, business restructuring and site consolidation costs are excluded from underlying profit measures.

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, any gains and losses arising from the marking to market of financial instruments that are not hedge accounted are also excluded from underlying profit measures.

The Board considers net interest expense on retirement benefit obligations to be a non-cash, non-trading item and accordingly excludes it from underlying profit measures.

The 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 covenant requirements defined in the Group's committed credit facilities.

	Note	2016 £'m	2015 £'m
Operating profit		**233.7**	236.6
Exceptional operating items (see note 11)		**15.5**	10.4
Amounts arising on the acquisition, disposal and closure of businesses	a	**(39.1)**	0.2
Amortisation of intangible assets acquired in business combinations	b	**98.6**	71.9
Disposal of inventory revalued in business combinations	c	**4.6**	1.6
Financial instruments	d	**66.4**	4.8
Adjustments to operating profit*		**146.0**	88.9
Underlying operating profit		**379.7**	325.5
Profit before tax		**195.5**	210.2
Adjustments to operating profit per above		**146.0**	88.9
Net interest expense on retirement benefit obligations (see note 34)		**10.6**	11.2
Adjustments to profit before tax		**156.6**	100.1
Underlying profit before tax		**352.1**	310.3
Profit for the year		**171.2**	182.1
Adjustments to profit before tax per above		**156.6**	100.1
Tax effect of adjustments to profit before tax		**(58.4)**	(33.9)
Adjustments to profit for the year		**98.2**	66.2
Underlying profit for the year		**269.4**	248.3

* Of the adjustments to operating profit, £3.6 million (2015: £4.0 million) relating to exceptional operating items and £4.6 million (2015: £1.6 million) relating to the disposal of inventory revalued in business combinations has been charged to cost of sales, with the balance of £137.8 million (2015: £83.3 million) included within net operating costs.

Notes to the consolidated financial statements continued

10. Reconciliations between profit and underlying profit continued

a. The Group separately presents amounts arising on the acquisition, disposal and closure of businesses. These include gains or losses made on the disposal or closure of a business, adjustments to the fair value of contingent consideration payable in respect of an acquired business or receivable in respect of a disposed business and costs directly attributable to the acquisition of a business.

	2016 £'m	2015 £'m
Gain on disposal of businesses (see note 43)	**(40.7)**	(1.2)
Remeasurement of fair value of contingent consideration receivable relating to previously disposed businesses	**0.3**	(2.5)
Costs related to the acquisition of businesses	**1.3**	3.9
Amounts arising on the acquisition, disposal and closure of businesses	**(39.1)**	0.2

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

	2016 £'m	2015 £'m
Amortisation of other intangible assets (see note 20)	**114.7**	84.2
Less amortisation of other purchased intangible assets (see note 20)	**(16.1)**	(12.3)
Amortisation of intangible assets acquired in business combinations	**98.6**	71.9

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

d. Although the Group uses foreign currency forward contracts to hedge against foreign currency exposures, it has decided that the costs of meeting the extensive documentation requirements to be able to apply hedge accounting under IAS 39 'Financial Instruments: Recognition and Measurement' are not merited. The Group's underlying profit figures exclude amounts which would not have been recorded if hedge accounting had been applied.

Where interest rate derivatives do qualify to be hedge accounted, any difference between the movement in the fair value of derivatives and in the fair value of fixed rate borrowings is excluded from underlying profit. Where cross currency derivatives and treasury lock derivatives do not qualify to be hedge accounted, movements in the fair value of the derivatives are excluded from underlying profit.

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

	2016 £'m	2015 £'m
Movement in the fair value of foreign currency forward contracts	**48.0**	16.1
Impact of retranslating net foreign currency assets and liabilities at spot rate	**2.3**	(0.1)
Movement in the fair value of interest rate derivatives	**3.8**	2.2
Movement in the fair value of fixed rate borrowings	**0.8**	(1.1)
Movement in the fair value of cross currency derivatives	**2.9**	(4.4)
Movement in the fair value of treasury lock derivative	**8.6**	(3.7)
Remeasurement of share buyback close period commitment	**–**	(4.2)
Financial instruments – loss	**66.4**	4.8

11. Exceptional operating items

	Note	Income statement 2016 £'m	Income statement 2015 £'m	Cash expenditure 2016 £'m	Cash expenditure 2015 £'m
Business restructuring costs	a	**5.7**	9.2	**6.2**	4.8
Integration of acquired businesses	b	**6.6**	0.3	**6.6**	0.1
Site consolidations	c	**7.0**	0.9	**4.7**	0.9
Raw material supply issue	d	**(3.8)**	–	**0.8**	4.9
Exceptional operating items		**15.5**	10.4	**18.3**	10.7

a. This relates to costs incurred as part of a Group-wide initiative to structurally reduce its cost base announced on 28 October 2015, which completed in 2016. Total costs incurred since the announcement in 2015 are £11.0 million.

b. This relates to costs incurred in respect of the on-going integration of the Advanced Composites and EDAC businesses acquired in November and December 2015 respectively.

c. This principally relates to the closure of the Group's sensor operations in Rugby, UK and control systems operations in Corona, USA and transfer of their activities to the Group's existing operations in Hampshire, UK and California, USA together with the consolidation of the Group's US braking systems maintenance, repair and overhaul services onto a single site in Kentucky.

d. This relates to unused amounts reversed in the year in respect of the provision originally created in 2013 relating to the supply from a vendor of non-conforming raw materials in one of our businesses (see note 32).

The tax credit in respect of exceptional operating items was £4.9 million (2015: £3.2 million).

12. Finance income

	2016 £'m	2015 £'m
Interest on bank deposits	**0.1**	0.1
Unwinding of interest on other receivables (see note 32)	**1.8**	2.5
Other finance income	**0.1**	0.1
Finance income	**2.0**	2.7

13. Finance costs

	2016 £'m	2015 £'m
Interest on bank borrowings	**7.0**	4.1
Interest on senior notes	**21.8**	11.7
Interest on obligations under finance leases	**1.1**	1.0
Unwinding of discount on provisions (see note 32)	**2.5**	3.2
Net interest expense on retirement benefit obligations (see note 34)	**10.6**	11.2
Amortisation of debt issue costs	**1.2**	0.8
Less: amounts capitalised in the cost of qualifying assets (see note 19)	**(4.0)**	(2.9)
Finance costs	**40.2**	29.1

14. Tax

	2016 £'m	2015 £'m
Current tax – current year	**26.2**	21.4
Current tax – adjustment in respect of prior years	**1.6**	(2.9)
Deferred tax – origination and reversal of temporary differences	**1.7**	6.3
Deferred tax – effects of changes in tax rates	**(1.2)**	(1.0)
Deferred tax – adjustment in respect of prior years	**(4.0)**	4.3
Total taxation	**24.3**	28.1

The Finance (No 2) Act 2015, included legislation to reduce the main rate of corporation tax in the UK from 20% to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. As these changes were substantively enacted during 2015, they are reflected in the tax charge for the prior year. The Finance Act 2016, included legislation to further reduce the main rate of corporation tax in the UK to 17% from 1 April 2020. As this change was substantively enacted during 2016, it has been reflected in the tax charge for the current year. The impact of this change on net deferred tax liabilities at 31 December 2016, profit for the year (underlying and statutory) and comprehensive income for the year was not significant.

Notes to the consolidated financial statements continued

14. Tax continued

Reconciliation of total tax charge

A reconciliation of the tax charge based on the weighted average tax rate applicable to the profits of the Group's consolidated businesses is as follows:

	2016 £'m	2015 £'m
Profit on ordinary activities before tax at weighted average tax rate of 27.0%* (2015: 25.7%)	**52.8**	54.0
Effects of:		
Changes in statutory tax rates	**(1.2)**	(1.0)
Share-based payment tax relief	**(0.8)**	0.6
Non taxable gain on disposal of businesses	**(7.9)**	–
Tax concessions	**(16.8)**	(14.5)
Tax credits and incentives	**(4.4)**	(4.1)
Additional provisions/(unused amounts reversed) in respect of historical tax uncertainties	**3.1**	(11.4)
Other permanent differences	**1.9**	1.1
Tax losses not recognised in deferred tax	**–**	2.0
Current tax – adjustment in respect of prior years	**1.6**	(2.9)
Deferred tax – adjustment in respect of prior years	**(4.0)**	4.3
Total taxation	**24.3**	28.1

* The sensitivity of the tax charge to changes in the tax rate is such that a one percentage point increase, or reduction, in the tax rate would cause the total taxation charge for 2016 to increase, or reduce respectively, by approximately £2.0 million.

The tax reconciliation for 2016 includes £7.9 million in respect of the benefit of a UK capital gains exemption on the disposal of Meggitt Target Systems (see note 43), £16.8 million in respect of tax concessions in the UK and Switzerland which allow income to be taxed at beneficial rates, £4.4 million in respect of tax credits and incentives in the UK and US for items such as research & development expenditure and a provision of £3.1 million in respect of various historical tax issues in the Group.

Tax relating to components of other comprehensive income

	2016			2015		
	Before tax £'m	Tax (charge)/ credit £'m	After tax £'m	Before tax £'m	Tax credit/ (charge) £'m	After tax £'m
Current tax – currency translation differences	**310.9**	**(3.5)**	**307.4**	80.3	2.4	82.7
Deferred tax – currency translation differences	**1.2**	**(0.2)**	**1.0**	2.4	(0.4)	2.0
Deferred tax – cash flow hedge movements	**(0.2)**	**0.1**	**(0.1)**	(0.7)	0.1	(0.6)
Deferred tax – remeasurement of retirement benefit obligations	**(120.7)**	**20.1**	**(100.6)**	29.4	(9.5)	19.9
Other comprehensive income	**191.2**	**16.5**	**207.7**	111.4	(7.4)	104.0
Current tax		**(3.5)**			2.4	
Deferred tax		**20.0**			(9.8)	
Total		**16.5**			(7.4)	

Tax relating to items recognised directly in equity

	2016 £'m	2015 £'m
Current tax credit relating to share-based payment expense	**0.2**	0.5
Deferred tax credit/(charge) relating to share-based payment expense	**0.4**	(2.5)
Total	**0.6**	(2.0)

15. Earnings per ordinary share

Earnings per ordinary share ('EPS') is calculated by dividing the profit attributable to owners of the Company by the weighted average number of shares in issue during the year. The weighted average number of shares used excludes treasury shares and any shares bought by the Group and held during the year by an independently managed Employee Share Ownership Plan Trust (see note 37). The weighted average number of treasury shares excluded was 0.2 million shares (2015: 0.3 million shares) and the weighted average number of own shares excluded was 1.5 million shares (2015: 0.7 million shares). The calculation of diluted EPS adjusts the weighted average number of shares to reflect the assumption that all potentially dilutive ordinary shares convert. For the Group this means assuming all share awards in issue are exercised.

	2016 Profit* £'m	**2016 Shares Number 'm**	**2016 EPS Pence**	2015 Profit* £'m	2015 Shares Number 'm	2015 EPS Pence
Basic EPS	**171.2**	**774.7**	**22.1**	182.1	785.4	23.2
Potential effect of dilutive ordinary shares	**–**	**11.3**	**(0.3)**	–	10.9	(0.3)
Diluted EPS	**171.2**	**786.0**	**21.8**	182.1	796.3	22.9

* Profit for the year attributable to equity owners of the Company.

Underlying EPS is based on underlying profit for the year (see note 10) and the same number of shares as is used in the calculation of basic EPS. It is reconciled to basic EPS below:

	2016 Pence	2015 Pence
Basic EPS	**22.1**	23.2
Adjust for effects of:		
Exceptional operating items	**1.4**	0.9
Amounts arising on the acquisition, disposal and closure of businesses	**(5.1)**	0.2
Amortisation of intangible assets acquired in business combinations	**8.2**	5.8
Disposal of inventory revalued in business combinations	**0.4**	0.1
Financial instruments	**6.8**	0.4
Net interest expense on retirement benefit obligations	**1.0**	1.0
Underlying basic EPS	**34.8**	31.6

Diluted underlying EPS is based on underlying profit for the year (see note 10) and the same number of shares used in the calculation of diluted EPS. Diluted underlying EPS for the year was 34.3 pence (2015: 31.2 pence).

16. Dividends

	2016 £'m	2015 £'m
In respect of earlier years	**–**	75.6
In respect of 2015:		
Interim of 4.60p per share	**–**	35.5
Final of 9.80p per share	**75.8**	–
In respect of 2016:		
Interim of 4.80p per share	**37.2**	–
Dividends paid in cash	**113.0**	111.1

A final dividend in respect of 2016 of 10.30p per share (2015: 9.80p), amounting to an estimated total final dividend of £79.9 million (2015: £75.8 million) is to be proposed at the Annual General Meeting on 27 April 2017. This dividend is not reflected in these financial statements as it had not been approved by the shareholders at the balance sheet date.

Notes to the consolidated financial statements continued

17. Related party transactions

During the year, the Group made sales to the joint venture of £3.4 million and purchases from the joint venture of £0.7 million. Amounts due from the joint venture at the balance sheet date are shown in note 24. There are no amounts due to the joint venture at the balance sheet date.

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 2016 as members of the Board and the Group Leadership Team, is set out below:

	2016 £'m	2015 £'m
Salaries and other short-term employee benefits	**11.3**	9.0
Retirement benefit expense	**0.3**	0.3
Share-based payment expense	**2.7**	1.3
Total	**14.3**	10.6

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

	2016 Average exercise price Pence	**2016 Number outstanding 'm**	2015 Average exercise price Pence	2015 Number outstanding 'm
Share appreciation rights – equity-settled	**263.54**	**2.1**	349.19	3.2
Equity participation plan shares	**–**	**0.7**	–	1.6
Meggitt Long Term Incentive Plan 2014	**–**	**5.1**	–	3.0

Full details of all elements in the remuneration package of each director, together with directors' share interests and share awards, are given in the Directors' remuneration report on pages 66 to 88 which forms part of these financial statements.

18. Goodwill

	2016 £'m	2015 Restated (see note 44) £'m
Cost at 1 January	**1,815.5**	1,534.7
Exchange rate adjustments	**282.8**	69.8
Businesses acquired as restated (see note 42)	**–**	211.0
Businesses disposed (see note 43)	**(2.6)**	–
Cost at 31 December	**2,095.7**	1,815.5

Goodwill is tested for impairment annually or more frequently if there is any indication of impairment. No impairment charge was required in the year (2015: £Nil) and the cumulative impairment charge recognised to date is £Nil (2015: £Nil).

An analysis of goodwill by CGU or group of CGUs is shown below:

	2016 £'m	2015 Restated £'m
Meggitt Aircraft Braking Systems ('MABS')	**854.2**	734.0
Meggitt Control Systems ('MCS')*	**474.9**	406.3
Meggitt Polymers & Composites ('MPC')		
Excluding EDAC & Advanced Composites*	**138.2**	123.4
EDAC & Advanced Composites**	**241.7**	212.9
Meggitt Sensing Systems ('MSS')*	**264.8**	231.4
Meggitt Training Systems ('MTS')	**84.2**	70.6
Other*	**37.7**	36.9
Total	**2,095.7**	1,815.5

* During the year, the Group determined that certain CGUs are now so highly integrated with one another that allocating goodwill on a non-arbitrary basis to individual CGUs was no longer possible. Accordingly, goodwill is allocated to the group of CGUs which represents the lowest level at which goodwill is monitored by management.

** Following the acquisition of the EDAC and Advanced Composites businesses in 2015, management has continued to monitor the goodwill of the combined acquired businesses separately from the rest of the division during 2016.

18. Goodwill continued

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 December 2016. 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 CGU's.

The key assumptions for the value in use calculations 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, military 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, military spending by the US DoD and other major governments and oil prices. The exposure of MABS, MCS, MPC and MSS to these markets, is set out in the Strategic report on pages 23 to 27. MTS operates entirely within the military market. The Group's medium term expectations for growth in these markets, is set out in the Strategic report on pages 18 to 21.
- Selling prices and production cost changes over the five years covered by management's detailed plans. These are based on contractual agreements with customers and suppliers, management's past experience and expectations of future market changes and the continued maturity of the Meggitt Production System.
- Growth rates used for periods beyond those covered by management's detailed budgets and plans. Growth rates are derived from management's estimates which take into account the long-term nature of the industry in which each CGU or group of CGUs operates, external industry forecasts of long-term growth in the aerospace and defence sectors, the extent to which a CGU or group of CGUs has sole-source positions on platforms where it is able to share in a continuing stream of highly profitable aftermarket revenues, the maturity of the platforms it supplies and the technological content of its products. For the purpose of impairment testing, a conservative approach has been used and where the derived rate is higher than the long-term GDP growth rates for the principal countries in which the CGU or group of CGUs operates (UK: 2.1% (2015: 2.3%), US: 2.3% (2015: 2.5%)), the latter has been used.
- Discount rates applied to future cash flows. The Group's pre-tax weighted average cost of capital (WACC) was used as the foundation for determining the discount rates to be applied. The WACC was then adjusted to reflect risks specific to the CGU or group of CGUs not already reflected in its future cash flows. The discount rates used were as follows: MABS 9.6% (2015: 10.1%), MCS 10.2% (2015: 10.8%), MPC 9.9% (2015: 10.1%), MSS 8.4% (2015: 10.2%), EDAC & Advanced Composites 10.1% (In 2015, no testing was performed due to the proximity of the acquisitions to the balance sheet date) and MTS 11.3% (2015: 10.0%). The discount rates used for 'Other' CGUs ranged between 8.7% to 12.0% (2015: 8.7% to 11.1%).

A sensitivity analysis was carried out at each level at which impairment testing was performed to determine the extent to which assumptions would need to change for the calculated recoverable amounts from value in use, to fall below its carrying value of goodwill. Management has concluded that no reasonably foreseeable change in the key assumptions used in the impairment model would result in a significant impairment charge being recorded in the financial statements. The least headroom in percentage terms are in MABS, MTS and EDAC & Advanced Composites. To require an impairment in the Group financial statements, one of the following would be required:

	MABS	MTS	EDAC & Advanced Composites
Reduction in estimates of cash flows (more than)	**25%**	**27%**	**38%**
Reduction of long-term growth rates (more than)	**49%**	**100%**	**100%**
Increase in the discount rate applied to future cash flows (more than)	**25%**	**31%**	**41%**
Headroom	**£593.5m**	**£42.6m**	**£240.4m**

Notes to the consolidated financial statements continued

19. Development costs and programme participation costs

	Development costs £'m	Programme participation costs £'m
At 1 January 2015		
Cost	431.2	419.2
Accumulated amortisation	(88.3)	(176.8)
Net book amount	342.9	242.4
Year ended 31 December 2015		
Opening net book amount	342.9	242.4
Exchange rate adjustments	17.7	11.1
Additions – Internal development costs	84.8	–
– Free of charge/deeply discounted manufactured parts	–	41.4
– Cash payments	–	1.6
Funding from customers	(4.3)	–
Interest capitalised	2.9	–
Transfers to inventory	(21.3)	–
Impairment loss*	(6.4)	–
Amortisation*	(7.9)	(28.9)
Net book amount	408.4	267.6
At 31 December 2015		
Cost	506.9	479.7
Accumulated amortisation	(98.5)	(212.1)
Net book amount	408.4	267.6
Year ended 31 December 2016		
Opening net book amount	408.4	267.6
Exchange rate adjustments	68.8	41.4
Additions – Internal development costs	72.4	–
– Free of charge/deeply discounted manufactured parts	–	53.5
– Cash payments	–	4.4
Funding from customers	(2.8)	–
Interest capitalised	4.0	–
Impairment loss*	(3.3)	–
Amortisation*	(14.0)	(33.4)
Net book amount	**533.5**	**333.5**
At 31 December 2016		
Cost	657.1	609.1
Accumulated amortisation	(123.6)	(275.6)
Net book amount	**533.5**	**333.5**

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

Interest has been capitalised using the average rate payable on the Group's floating rate borrowings of 1.5% (2015: 1.5%). Tax relief claimed on interest capitalised in the year was £0.8 million (2015: £0.6 million).

The net book amount of development costs includes £246.3 million (2015: £182.0 million) in respect of Meggitt Aircraft Braking Systems which have an estimated weighted average remaining life of 14.6 years (2015: 14.1 years).

The net book amount of programme participation costs comprises £283.4 million (2015: £226.4 million) in respect of free of charge/deeply discounted manufactured parts and £50.1 million (2015: £41.2 million) in respect of cash programme payments. The net book amount of programme participation costs includes £303.5 million (2015: £248.3 million) in respect of Meggitt Aircraft Braking Systems which have an estimated weighted average remaining life of 9.2 years (2015: 8.6 years).

20. Other intangible assets

	Customer relationships (*) £'m	Technology (*) £'m	Order backlogs (*) £'m	Trade names and trademarks (*) £'m	Software and other (**) £'m	Total £'m
At 1 January 2015						
Cost	859.4	252.5	0.3	29.0	124.2	1,265.4
Accumulated amortisation	(383.2)	(126.9)	–	(21.8)	(48.6)	(580.5)
Net book amount	476.2	125.6	0.3	7.2	75.6	684.9
Year ended 31 December 2015 (As restated)						
Opening net book amount	476.2	125.6	0.3	7.2	75.6	684.9
Exchange rate adjustments	22.2	5.4	0.1	0.3	1.7	29.7
Businesses acquired as restated (see note 42)	113.5	36.0	7.8	–	0.4	157.7
Additions	–	–	–	–	11.9	11.9
Amortisation – net operating costs	(53.4)	(16.2)	(0.3)	(2.0)	(12.3)	(84.2)
Net book amount – As restated	558.5	150.8	7.9	5.5	77.3	800.0
At 31 December 2015 (As restated)						
Cost	1,013.9	300.1	8.2	30.2	139.0	1,491.4
Accumulated amortisation	(455.4)	(149.3)	(0.3)	(24.7)	(61.7)	(691.4)
Net book amount – As restated	558.5	150.8	7.9	5.5	77.3	800.0
Year ended 31 December 2016						
Opening net book amount	558.5	150.8	7.9	5.5	77.3	800.0
Exchange rate adjustments	89.1	23.2	1.0	0.9	6.3	120.5
Businesses disposed (see note 43)	–	–	–	–	(0.1)	(0.1)
Additions	–	–	–	–	11.9	11.9
Amortisation – net operating costs	(71.5)	(21.8)	(3.7)	(1.6)	(16.1)	(114.7)
Net book amount	**576.1**	**152.2**	**5.2**	**4.8**	**79.3**	**817.6**
At 31 December 2016						
Cost	1,179.0	348.6	9.6	34.5	164.0	1,735.7
Accumulated amortisation	(602.9)	(196.4)	(4.4)	(29.7)	(84.7)	(918.1)
Net book amount	**576.1**	**152.2**	**5.2**	**4.8**	**79.3**	**817.6**

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

The net book amount of customer relationships includes £317.0 million (2015: £310.0 million) in respect of Meggitt Aircraft Braking Systems, £147.1 million (2015: £135.8 million) in respect of Meggitt Polymers & Composites, £57.4 million (2015: £56.5 million) in respect of Meggitt Control Systems and £54.4 million (2015: £17.0 million) in respect of Meggitt Sensing Systems, which have estimated weighted average remaining lives of 7.0 years (2015: 8.0 years), 11.9 years (2015: 12.9 years), 8.0 years (2015: 9.0 years) and 8.2 years (2015: 9.0 years) respectively.

The net book amount of technology includes £62.7 million (2015: £61.8 million) in respect of Meggitt Aircraft Braking Systems and £48.0 million (2015 as restated: £46.1 million) in respect of Meggitt Polymers & Composites which have estimated weighted average remaining lives of 7.0 years (2015: 8.0 years) and 8.4 years (2015 as restated: 9.1 years) respectively.

Notes to the consolidated financial statements continued

21. Property, plant and equipment

	Land and buildings £'m	Plant, equipment and vehicles £'m	Total £'m
At 1 January 2015			
Cost	179.6	413.8	593.4
Accumulated depreciation	(56.5)	(285.8)	(342.3)
Net book amount	123.1	128.0	251.1
Year ended 31 December 2015 (As restated)			
Opening net book amount	123.1	128.0	251.1
Exchange rate adjustments	2.8	4.4	7.2
Businesses acquired as restated (see note 42)	6.9	13.5	20.4
Additions	4.8	39.5	44.3
Disposals	–	(0.7)	(0.7)
Depreciation	(7.0)	(26.5)	(33.5)
Net book amount – As restated	130.6	158.2	288.8
At 31 December 2015 (As restated)			
Cost	197.4	466.3	663.7
Accumulated depreciation	(66.8)	(308.1)	(374.9)
Net book amount – As restated	130.6	158.2	288.8
Year ended 31 December 2016			
Opening net book amount	130.6	158.2	288.8
Exchange rate adjustments	14.2	23.2	37.4
Businesses disposed (see note 43)	(0.6)	(1.3)	(1.9)
Additions	8.3	47.9	56.2
Disposals	(1.3)	(1.0)	(2.3)
Depreciation	(7.9)	(33.4)	(41.3)
Net book amount	**143.3**	**193.6**	**336.9**
At 31 December 2016			
Cost	224.5	559.0	783.5
Accumulated depreciation	(81.2)	(365.4)	(446.6)
Net book amount	**143.3**	**193.6**	**336.9**

The Group's obligations under finance leases (see note 28) are secured by the lessors' title to the leased assets, which have a carrying amount of £4.9 million included within land and buildings (2015: £4.4 million).

22. Investments

The Group's investment in its joint venture, Parkway-HS, LLC has been accounted for using the equity method and is stated as follows:

	2016 £'m	2015 Restated (see note 44) £'m
At 1 January	**11.4**	–
Exchange rate adjustments	**2.2**	0.1
Arising on the acquisition of EDAC (see note 42)	**–**	11.3
Share of profit after tax	**1.2**	–
At 31 December	**14.8**	11.4

Summarised financial information for joint venture

Set out below is summarised financial information for the joint venture which is accounted for using the equity method. The information reflects amounts presented in its financial statements adjusted to reflect the Group's accounting policies (and not the Group's share of those amounts). Due to the timing of the acquisition of the joint venture, its impact on the results of the Group for the year-ended 31 December 2015 was not significant.

22. Investments continued

Summarised statement of comprehensive income
for the year ended 31 December 2016

	2016 £'m
Revenue	**20.8**
Operating profit*	**1.8**
Finance costs	**(0.1)**
Profit before tax	**1.7**
Tax	**(0.1)**
Profit after tax	**1.6**
Total comprehensive income from continuing operations	**2.1**

* After charging depreciation and amortisation of £0.2 million.

Summarised balance sheet
as at 31 December 2016

	2016 £'m	2015 £'m
Property, plant and equipment	**1.7**	1.5
Cash and cash equivalents	**0.1**	–
Other current assets	**6.3**	6.5
Total current assets	**6.4**	6.5
Financial liabilities (excluding trade payables)	**(0.9)**	(1.9)
Other current liabilities	**(2.6)**	(3.6)
Total current liabilities	**(3.5)**	(5.5)
Net assets	**4.6**	2.5

Reconciliation of summarised financial information
as at 31 December 2016

	2016 £'m
Net assets at 1 January	**2.5**
Total comprehensive income	**2.1**
Net assets at 31 December	**4.6**
Group's interest in joint venture at 70%	**3.2**
Goodwill	**11.6**
Group's investment at 31 December	**14.8**

There are no contingent liabilities relating to the Group's interest in the joint venture.

23. Inventories

	2016 £'m	2015 Restated (see note 44) £'m
Contract costs incurred	**40.3**	32.3
Less progress billings	**(1.3)**	(1.7)
Net contract costs	**39.0**	30.6
Raw materials and bought-in components	**170.3**	137.4
Manufacturing work in progress	**185.4**	163.5
Finished goods and goods for resale	**73.8**	70.1
Total	**468.5**	401.6

The cost of inventories recognised as an expense and included in cost of sales was £1,169.8 million (2015: £956.3 million). The cost of inventories recognised as an expense includes £5.0 million (2015: £2.8 million) in respect of write-downs of inventory to net realisable value, and has been reduced by £4.3 million (2015: £3.8 million) in respect of the reversal of write-downs made in previous years.

Notes to the consolidated financial statements continued

24. Trade and other receivables

	2016 £'m	2015 Restated (see note 44) £'m
Trade receivables	**334.1**	263.2
Amounts recoverable on contracts	**40.6**	25.7
Prepayments and accrued income	**21.6**	18.0
Other receivables	**96.6**	106.7
Total	**492.9**	413.6
Less non-current portion:		
Other receivables	**58.4**	62.2
Non-current portion	**58.4**	62.2
Current portion	**434.5**	351.4

Other receivables includes £77.4 million (2015: £83.4 million) 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 (see note 32) of which £21.7 million (2015: £23.4 million) is shown as current. Other receivables are discounted where the impact is significant.

Trade receivables include £0.4 million due from the joint venture (2015: £Nil million). Trade receivables are stated after a provision for impairment of £6.1 million (2015: £6.1 million as restated). Other balances within trade and other receivables do not contain impaired assets. The provision for impairment against trade receivables is based on a specific risk assessment taking into account past default experience and is analysed as follows:

	2016 £'m	2015 Restated £'m
At 1 January	**6.1**	3.8
Exchange rate adjustments	**0.7**	0.1
Businesses acquired as restated	**–**	1.2
(Credit)/charge to income statement – net operating costs	**(0.7)**	1.0
At 31 December	**6.1**	6.1

At 31 December 2016, trade receivables and amounts recoverable on contracts of £57.1 million (2015: £49.8 million as restated) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade and other receivables is as follows:

	2016 £'m	2015 Restated £'m
Up to 3 months overdue	**49.2**	43.9
Over 3 months overdue	**7.9**	5.9
Total	**57.1**	49.8

The maximum exposure to credit risk at the balance sheet date is the fair value of each class of receivable reported above. The Group does not hold any collateral as security. Trade and other receivables are denominated in the following currencies:

	2016 £'m	2015 Restated £'m
Sterling	**71.7**	70.9
US dollar	**380.6**	304.8
Euro	**30.8**	29.8
Other	**9.8**	8.1
Total	**492.9**	413.6

25. Cash and cash equivalents

	2016 £'m	2015 Restated (see note 44) £'m
Cash at bank and on hand	**142.8**	125.2
Short-term bank deposits	**31.0**	22.1
Total	**173.8**	147.3

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

	2016 £'m	2015 Restated £'m
Moody's rating:		
Aaa	**0.2**	0.8
Aa	**51.1**	66.3
A	**65.8**	36.0
Baa	**56.7**	44.2
Total	**173.8**	147.3

26. Trade and other payables – current

	2016 £'m	2015 Restated (see note 44) £'m
Payments received on account	**27.2**	29.5
Trade payables	**172.9**	161.9
Social security and other taxes	**10.9**	10.3
Accrued expenses	**81.9**	59.6
Other payables	**171.1**	140.5
Total	**464.0**	401.8

27. Trade and other payables – non-current

	2016 £'m	2015 £'m
Contingent consideration relating to acquired businesses	**3.8**	3.2
Other payables	**1.2**	1.0
Total	**5.0**	4.2

28. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2016 £'m	2015 £'m	2016 £'m	2015 £'m
Amounts payable under finance leases:				
In one year or less	**1.2**	1.1	**0.1**	0.1
In more than one year but not more than five years	**5.1**	4.2	**0.3**	0.2
In more than five years	**13.1**	12.1	**6.2**	5.2
Total	**19.4**	17.4	**6.6**	5.5
Less: future finance charges	**(12.8)**	(11.9)		
Present value of lease obligations	**6.6**	5.5		
Less non-current portion	**6.5**	5.4		
Current portion	**0.1**	0.1		

Obligations under finance leases are US dollar denominated. The weighted average period to maturity is 14.0 years (2015: 14.8 years) and the weighted average interest rate is 18.6% (2015: 18.4%).

Notes to the consolidated financial statements continued

29. Bank and other borrowings

	2016 £'m	2015 £'m
Current		
Bank loans	**0.3**	0.7
Other loans	**175.4**	3.3
Total current	**175.7**	4.0
Non-current		
Bank loans	**344.6**	763.2
Other loans	**826.0**	425.8
Total non-current	**1,170.6**	1,189.0
Total	**1,346.3**	1,193.0
Analysis of bank and other borrowings repayable:		
In one year or less	**175.7**	4.0
In more than one year but not more than five years	**577.0**	1,097.2
In more than five years	**593.6**	91.8
Total	**1,346.3**	1,193.0
Analysis of bank and other borrowings:		
Drawn under committed facilities	**1,317.2**	1,172.8
Less unamortised debt issue costs	**(3.2)**	(3.1)
Fair value adjustment to fixed rate borrowings	**19.2**	18.4
Drawn under uncommitted facilities	**0.8**	1.1
Interest accruals	**12.3**	3.8
Total	**1,346.3**	1,193.0

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:

	2016			2015		
	Drawn £'m	**Undrawn £'m**	**Total £'m**	Drawn £'m	Undrawn £'m	Total £'m
2010 Senior notes (USD 600.0 million)	**485.6**	**–**	**485.6**	407.1	–	407.1
2016 Senior notes (USD 600.0 million)	**485.6**	**–**	**485.6**	–	–	–
Syndicated credit facility (USD 900.0 million)	**346.0**	**382.2**	**728.2**	358.6	252.0	610.6
Bilateral credit facilities (USD 600.0 million)	**–**	**–**	**–**	407.1	–	407.1
Total	**1,317.2**	**382.2**	**1,699.4**	1,172.8	252.0	1,424.8

The Group issued USD 600.0 million of loan notes to private placement investors in 2010. The notes are in four tranches as follows: USD 200.0 million carry an interest rate of 4.62% and are due for repayment in 2017, USD 125.0 million carry an interest rate of 5.02% and are due for repayment in 2020, USD 150.0 million carry an interest rate of 5.17% and are also due for repayment in 2020 and USD 125.0 million carry an interest rate of 5.12% and are due for repayment in 2022.

During the year, the Group issued USD 600.0 million of loan notes to private placement investors to replace the two USD 300 million bilateral credit facilities which were due to mature in 2017. The notes are in two tranches as follows: USD 300.0 million carry an interest rate of 3.31% and are due for repayment in 2023 and USD 300.0 million carry an interest rate of 3.60% and are due for repayment in 2026.

During 2014, the Group secured a five-year USD 900.0 million syndicated revolving credit facility which matures in 2021, following a one-year extension agreed during 2015 and a further one-year extension agreed during 2016. At 31 December 2016, the amounts drawn under the revolving credit facility were £346.0 million (2015: £358.6 million) represented by borrowings denominated in US dollars of £346.0 million (2015: £312.4 million) and in Euros of £Nil million (2015: £46.2 million). Borrowings under the facility are subject to interest at floating rates which are linked to LIBOR.

During the year, the Group executed a commitment offer letter from Sumitomo Mitsui Banking Corporation for the provision of a three-year £75.0 million committed bilateral facility to commence between 1st September 2017 and 15th October 2017.

29. Bank and other borrowings continued

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

	2016			2015		
	Drawn £'m	**Undrawn £'m**	**Total £'m**	Drawn £'m	Undrawn £'m	Total £'m
In one year or less	**161.9**	**–**	**161.9**	–	–	–
In more than one year but not more than five years	**568.6**	**382.2**	**950.8**	1,088.0	252.0	1,340.0
In more than five years	**586.7**	**–**	**586.7**	84.8	–	84.8
Total	**1,317.2**	**382.2**	**1,699.4**	1,172.8	252.0	1,424.8

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

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

	2016		2015	
	Book value £'m	**Fair value £'m**	Book value £'m	Fair value £'m
Current	**175.7**	**177.2**	4.0	4.0
Non-current	**1,170.6**	**1,160.2**	1,189.0	1,196.9
Total	**1,346.3**	**1,337.4**	1,193.0	1,200.9

After taking account of financial derivatives that alter the interest basis of the financial liabilities entered into by the Group, the interest rate exposure on bank and other borrowings is:

As at 31 December 2016:

					Fixed rate borrowings	
	Floating £'m	**Fixed £'m**	**Non-interest bearing £'m**	**Total £'m**	**Weighted average interest rate %**	**Weighted average period for which rate is fixed Years**
US dollar	**346.9**	**787.0**	**–**	**1,133.9**		
Swiss franc	**–**	**159.3**	**–**	**159.3**		
Euro	**–**	**55.5**	**0.8**	**56.3**		
Gross bank and other borrowings	**346.9**	**1,001.8**	**0.8**	**1,349.5**	**2.8**	**4.7**
Less unamortised debt issue costs	**(1.2)**	**(2.0)**	**–**	**(3.2)**		
Bank and other borrowings	**345.7**	**999.8**	**0.8**	**1,346.3**		

As at 31 December 2015:

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

The weighted average interest rate reflects the relative impact of interest rates based on the principal amounts and the duration of borrowings. The weighted average period to maturity for non-interest bearing borrowings is 3.3 years (2015: 3.8 years).

Hedges of net investments in foreign subsidiaries

The Group's bank and other borrowings as disclosed above includes £1,345.5 million designated as hedges of net investments in the Group's foreign subsidiaries. The foreign exchange loss of £195.4 million (2015: £39.6 million) on retranslation of these borrowings during the year is recognised in other comprehensive income.

Notes to the consolidated financial statements continued

30. Financial instruments

As at 31 December 2016:

	Held at fair value		Held at amortised cost			
	Through profit & loss £'m	Derivatives used for hedging £'m	Loans & receivables £'m	Liabilities £'m	Total book value £'m	Total fair value £'m
Non-current:						
Trade and other receivables (see note 24)	–	–	58.4	–	58.4	58.4
Derivative financial instruments (see note 31)	2.3	19.5	–	–	21.8	21.8
Current:						
Trade and other receivables*	–	–	412.9	–	412.9	412.9
Derivative financial instruments (see note 31)	2.3	1.9	–	–	4.2	4.2
Cash and cash equivalents (see note 25)	–	–	173.8	–	173.8	173.8
Financial assets	4.6	21.4	645.1	–	671.1	671.1
Current:						
Trade and other payables**	–	–	–	(453.1)	(453.1)	(453.1)
Derivative financial instruments (see note 31)	(31.2)	–	–	–	(31.2)	(31.2)
Obligations under finance leases (see note 28)	–	–	–	(0.1)	(0.1)	(0.1)
Bank and other borrowings (see note 29)	(83.3)	–	–	(92.4)	(175.7)	(177.2)
Non-current:						
Trade and other payables (see note 27)	–	–	–	(5.0)	(5.0)	(5.0)
Derivative financial instruments (see note 31)	(45.7)	–	–	–	(45.7)	(45.7)
Obligations under finance leases (see note 28)	–	–	–	(6.5)	(6.5)	(6.5)
Bank and other borrowings (see note 29)	(261.0)	–	–	(909.6)	(1,170.6)	(1,160.2)
Financial liabilities	(421.2)	–	–	(1,466.7)	(1,887.9)	(1,879.0)
Total	(416.6)	21.4	645.1	(1,466.7)	(1,216.8)	(1,207.9)

As at 31 December 2015 (As restated):

	Held at fair value		Held at amortised cost			
	Through profit & loss £'m	Derivatives used for hedging £'m	Loans & receivables £'m	Liabilities £'m	Total book value £'m	Total fair value £'m
Non-current:						
Trade and other receivables (see note 24)	–	–	62.2	–	62.2	62.2
Derivative financial instruments (see note 31)	0.1	25.4	–	–	25.5	25.5
Current:						
Trade and other receivables*	–	–	333.4	–	333.4	333.4
Derivative financial instruments (see note 31)	8.4	–	–	–	8.4	8.4
Cash and cash equivalents (see note 25)	–	–	147.3	–	147.3	147.3
Financial assets	8.5	25.4	542.9	–	576.8	576.8
Current:						
Trade and other payables**	–	–	–	(391.5)	(391.5)	(391.5)
Derivative financial instruments (see note 31)	(12.7)	–	–	–	(12.7)	(12.7)
Obligations under finance leases (see note 28)	–	–	–	(0.1)	(0.1)	(0.1)
Bank and other borrowings (see note 29)	–	–	–	(4.0)	(4.0)	(4.0)
Non-current:						
Trade and other payables (see note 27)	–	–	–	(4.2)	(4.2)	(4.2)
Derivative financial instruments (see note 31)	(13.7)	–	–	–	(13.7)	(13.7)
Obligations under finance leases (see note 28)	–	–	–	(5.4)	(5.4)	(5.4)
Bank and other borrowings (see note 29)	(290.8)	–	–	(898.2)	(1,189.0)	(1,196.9)
Financial liabilities	(317.2)	–	–	(1,303.4)	(1,620.6)	(1,628.5)
Total	(308.7)	25.4	542.9	(1,303.4)	(1,043.8)	(1,051.7)

* Excludes prepayments and accrued income of £21.6 million (2015: £18.0 million) (see note 24).
** Excludes social security and other taxes of £10.9 million (2015: £10.3 million) (see note 26).

Fair value measurement and hierarchy

For trade and other receivables, cash and cash equivalents, trade and other payables, obligations under finance leases and the current element of floating rate bank and other borrowings, fair values approximate to book values due to the short maturity periods of these financial instruments. For trade and other receivables, allowances are made within book value for credit risk.

30. Financial instruments continued

Derivative financial instruments measured at fair value, are classified as level 2 in the fair value measurement hierarchy, as they have been determined using significant inputs based on observable market data. The fair values of foreign currency forward contracts have been derived from forward exchange rates observable at the balance sheet date together with the contractual forward rates. The fair values of interest rate derivatives and the treasury lock derivative, have been derived from forward interest rates based on yield curves observable at the balance sheet date together with the contractual interest rates. The fair value of 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 the contractual interest and forward exchange rates.

The current and non-current portion of 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 value attributable to interest rate risk has been derived from forward interest rates based on yield curves observable at the balance sheet date together with the contractual interest rates and with the credit risk margin kept constant. The fair value attributable to credit risk has been derived from quotes from lenders for borrowings of similar amounts and maturity periods. The same methods of valuation have been used to derive the fair value of the current and non-current element of bank and other borrowings which are held at amortised cost, but for which fair values are provided in the table above.

There were no transfers of assets or liabilities between levels of the fair value hierarchy during the year.

Financial liabilities designated as fair value through profit and loss

Cumulative unrealised changes in fair value of the current and non-current portions of bank and other borrowings arising from changes in credit risk are as follows:

	2016 £'m	2015 Restated £'m
Fair value at 1 January	**3.3**	5.0
Loss recognised in net operating costs	**(2.3)**	(1.7)
Fair value at 31 December	**1.0**	3.3

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

	2016 £'m	2015 £'m
Fair value	**344.3**	290.8
Difference between fair value and contractual amount at maturity	**(20.6)**	(19.4)
Contractual amount payable at maturity	**323.7**	271.4

Financial liabilities classified as level 3 in the hierarchy

Changes in fair value are as follows:

	2016 £'m	2015 £'m
Bank and other borrowings at fair value through profit and loss:		
At 1 January	**290.8**	276.9
Exchange rate adjustments	**52.3**	14.9
Loss/(gain) recognised in net operating costs	**0.8**	(1.1)
Loss recognised in net finance costs	**0.4**	0.1
At 31 December	**344.3**	290.8

The largest movement in credit spread seen in a six month period since inception of the borrowings is 70 basis points. A 70 basis point movement in the credit spread used as an input in determining fair value at 31 December 2016, would impact net operating costs by approximately £7.0 million.

Notes to the consolidated financial statements continued

31. Derivative financial instruments

As at 31 December 2016:

	Contract or underlying principal amount		Fair value	
	Assets £'m	**Liabilities £'m**	**Assets £'m**	**Liabilities £'m**
Interest rate swap – cash flow hedge	**129.5**	**–**	**0.5**	**–**
Interest rate swaps – fair value hedges	**323.7**	**–**	**20.9**	**–**
Cross currency swaps – not hedge accounted	**214.7**	**–**	**1.9**	**–**
Foreign currency forward contracts – not hedge accounted	**88.4**	**(687.2)**	**2.7**	**(76.9)**
Total	**756.3**	**(687.2)**	**26.0**	**(76.9)**
Less non-current portion:				
Interest rate swap – cash flow hedge	**129.5**	**–**	**0.5**	**–**
Interest rate swaps – fair value hedges	**242.8**	**–**	**19.0**	**–**
Cross currency swaps – not hedge accounted	**159.2**	**–**	**0.4**	**–**
Foreign currency forward contracts – not hedge accounted	**69.5**	**(456.0)**	**1.9**	**(45.7)**
Non-current portion	**601.0**	**(456.0)**	**21.8**	**(45.7)**
Current portion	**155.3**	**(231.2)**	**4.2**	**(31.2)**

As at 31 December 2015:

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

Credit quality of derivative financial assets

The credit quality of derivative financial assets is as follows:

	2016 £'m	2015 £'m
Moody's rating:		
Aa	**4.9**	8.2
A	**21.1**	25.7
Total	**26.0**	33.9

Interest rate swaps

The total notional principal amount of outstanding interest rate swap contracts at 31 December 2016 is £453.2 million (2015: £379.9 million), of which £80.9 million will expire in 2017, £129.5 million will expire in 2018, £141.6 million will expire in 2020 and £101.2 million will expire in 2022. The contracts are all denominated in US dollars. Of the notional principal amount outstanding, £129.5 million (2015: £108.5 million) has the economic effect of converting floating rate US dollar borrowings into fixed rate US dollar borrowings and £323.7 million (2015: £271.4 million) has the economic effect of converting fixed rate US dollar borrowings into floating rate US dollar borrowings. To the extent they meet the criteria for hedge accounting, the floating rate to fixed rate swap contract is accounted for as a cash flow hedge and the fixed rate to floating rate swap contracts as fair value hedges.

Cross currency swaps

The cross currency swaps have been used to synthetically convert US dollar denominated floating borrowings into Swiss franc and Euro denominated fixed borrowings to commercially hedge against Swiss franc and Euro denominated assets of foreign subsidiaries. The cross currency swaps do not qualify to be hedge accounted.

31. Derivative financial instruments continued

Treasury lock

The treasury lock was entered into in 2015 to secure current market interest rates for specified amounts of future fixed rate funding. It matured in 2016 and did not qualify for hedge accounting.

Foreign currency forward contracts

Although the Group uses foreign currency forward contracts to hedge against foreign currency exposures, it has decided that the costs of meeting the extensive documentation requirements to be able to apply hedge accounting under IAS 39 'Financial Instruments: Recognition and Measurement' are not merited.

	2016 Assets £'m	**2016 Liabilities £'m**	2015 Assets £'m	2015 Liabilities £'m
Fair value:				
US dollar forward sales (USD/£)	**1.5**	**(60.5)**	–	(13.0)
Forward sales denominated in other currencies	**1.2**	**(16.4)**	0.2	(13.4)
Total	**2.7**	**(76.9)**	0.2	(26.4)

32. Provisions

	Provisions					**Environmental receivables**
	Environmental (a) £'m	**Onerous contracts (b) £'m**	**Warranty costs (c) £'m**	**Other (d) £'m**	**Total £'m**	**(a) £'m**
At 1 January 2016 (As restated – see note 44)	117.8	45.9	17.0	5.4	186.1	(83.4)
Exchange rate adjustments	21.3	4.3	2.3	0.4	28.3	(14.3)
Businesses disposed (see note 43)	–	–	(0.2)	–	(0.2)	–
Additional provision in year*	2.7	1.3	6.6	5.6	16.2	(4.7)
Unused amounts reversed*	–	(7.7)	(0.8)	(2.0)	(10.5)	2.0
Charge/(credit) to net finance costs (see notes 13 and 12 respectively)	2.5	–	–	–	2.5	(1.8)
Transfer to trade and other payables	–	(0.1)	(0.1)	–	(0.2)	–
Utilised	(22.6)	(5.6)	(7.0)	(1.6)	(36.8)	24.8
At 31 December 2016	**121.7**	**38.1**	**17.8**	**7.8**	**185.4**	**(77.4)**

	2016 £'m	2015 Restated £'m
Current	**53.6**	40.0
Non-current	**131.8**	146.1
At 31 December 2016	**185.4**	186.1

* Amounts in respect of environmental and other provisions have been recorded in net operating costs. Amounts in respect of onerous contracts and warranty costs have been recorded in cost of sales. Included within unused amounts reversed for onerous contracts is £3.8 million which has been treated as an exceptional operating item (see note 11).

a. Provision has been made for known exposures arising from environmental remediation in a number of businesses. The Group's operations and facilities are subject to laws and regulations that govern the discharge of pollutants and hazardous substances into the ground, air and water as well as the handling, storage and disposal of such materials and other environmental matters. Failure to comply with its obligations potentially exposes the Group to serious consequences, including fines, other sanctions and limitations on operations. The Group is involved in the investigation and remediation of current and former sites for which it has been identified as a potentially responsible party under US law. Provision has been made for the expected costs arising from these sites based on information currently available. The provisions are expected to be substantially utilised over the next fifteen years and are discounted, where appropriate, using an appropriate discount rate. A receivable has been established to the extent these costs are recoverable under the Group's environmental insurance policies or from other parties. Movements in the receivable are shown in the table above (see also note 24).

b. Provision has been made for estimated losses under certain trading contracts. Onerous trading contract 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.

c. Provision has been made for product warranty claims. These provisions are expected to be utilised over the next three years. The provisions are not discounted given the short period over which they will be utilised.

d. A number of asbestos-related claims have been made against subsidiary companies of the Group. To date, the amount connected with such claims in any year has not been material and many claims are covered fully or partly by existing insurance and indemnities. There is a provision, included within other provisions, for certain claims which cannot be recovered from insurers. The provisions are expected to be substantially utilised over the next ten years and are discounted, where appropriate, using a discount rate appropriate to each provision.

Notes to the consolidated financial statements continued

33. Deferred tax

Movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances, are as follows:

Deferred tax assets

	Retirement benefit obligations £'m	Other (*) £'m	Total £'m
At 1 January 2015	87.7	69.0	156.7
Exchange rate adjustments	2.7	4.3	7.0
Reclassifications	(1.1)	0.5	(0.6)
Businesses acquired as restated (see note 42)	–	16.1	16.1
(Charge)/credit to income statement (see note 14)	(1.6)	2.9	1.3
Charge to other comprehensive income (see note 14)	(9.5)	(0.2)	(9.7)
Charge to equity (see note 14)	–	(2.5)	(2.5)
At 31 December 2015 (As restated)	78.2	90.1	168.3
Exchange rate adjustments	12.2	14.1	26.3
Reclassifications	–	(0.2)	(0.2)
(Charge)/credit to income statement (see note 14)	(2.8)	6.4	3.6
Credit to other comprehensive income (see note 14)	20.1	0.1	20.2
Credit to equity (see note 14)	–	0.4	0.4
At 31 December 2016	**107.7**	**110.9**	**218.6**

* Includes balances arising from temporary differences in relation to provisions, accruals, share based payments, finance costs and derivative financial instruments.

Deferred tax liabilities

	Accelerated tax depreciation £'m	Intangible assets £'m	Total £'m
At 1 January 2015	(22.1)	(354.6)	(376.7)
Exchange rate adjustments	(1.2)	(19.0)	(20.2)
Reclassifications	–	0.5	0.5
Businesses acquired as restated (see note 42)	(1.6)	(37.8)	(39.4)
Charge to income statement (see note 14)	(4.2)	(6.7)	(10.9)
Charge to other comprehensive income (see note 14)	–	(0.1)	(0.1)
At 31 December 2015 (As restated)	(29.1)	(417.7)	(446.8)
Exchange rate adjustments	(4.5)	(74.1)	(78.6)
Reclassifications	–	0.2	0.2
Businesses disposed (see note 43)	–	0.2	0.2
Credit/(charge) to income statement (see note 14)	1.6	(1.7)	(0.1)
Charge to other comprehensive income (see note 14)	–	(0.2)	(0.2)
At 31 December 2016	**(32.0)**	**(493.3)**	**(525.3)**

During 2016, the Group reassessed the way in which deferred tax liabilities relating to development costs and programme participation costs are presented. Such items are now disclosed within the 'Intangible assets' category, previously having been reported within 'Other.' Prior year comparatives have been restated to reflect this change. The change had no impact on balances reported after allowing for the offsets referred to below. 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:

	2016 £'m	2015 Restated £'m
Deferred tax assets	**15.9**	0.3
Deferred tax liabilities	**(322.6)**	(278.8)
Net balance at 31 December	**(306.7)**	(278.5)

Deferred tax assets are analysed as follows:

	2016 £'m	2015 £'m
To be recovered within one year	**1.4**	0.2
To be recovered after more than one year	**14.5**	0.1
Total	**15.9**	0.3

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

The Group has unrecognised tax losses of £24.3 million (2015: £24.3 million) for which no deferred tax asset has been recognised. Deferred tax assets have not been recognised in respect of these losses, as it is not regarded as more likely than not that they will be recovered. Deferred tax assets not recognised, would be recoverable in the event they reverse and suitable taxable profits are available. There are no unremitted earnings in foreign subsidiaries that would give rise to a tax liability in the event of those subsidiaries remitting their earnings.

34. Retirement benefit obligations

Pension schemes

The Group operates a number of pension schemes for the benefit of its employees. The nature of each scheme which has a significant impact on the financial statements is as follows:

- In the UK, the Group operates a funded defined benefit scheme which is closed to new members but open to future accrual for existing members;
- In the US, the Group operates five defined benefit schemes, all of which are closed to new members. With two exceptions, these schemes are open to future accrual for existing members. The schemes are a mixture of funded and unfunded schemes; and
- In Switzerland, the Group operates a funded defined benefit scheme which is open to new members and to future accrual.

The UK and US schemes provide benefits to members in the form of a guaranteed level of pension payable for life. The benefits provided depend on a member's length of service. For the majority of schemes, the benefits are also dependent on salary at retirement or average salary over employment in the final years leading up to retirement. In the US, one scheme provides a fixed benefit for each year of service. The Swiss scheme has many of the characteristics of a defined contribution scheme but provides for certain minimum benefits to be guaranteed to members.

For all funded schemes, benefit payments are made from funds administered by third parties unrelated to the Group. The assets of such schemes are held in trust funds, or their equivalent, separate from the Group's finances.

The UK scheme is a registered scheme and subject to the statutory scheme-specific funding requirements outlined in UK legislation, including the payment of levies to the Pension Protection Fund. It is established under trust and the responsibility for its governance lies with the trustees who also agree funding arrangements with the Group.

The funded US schemes are tax-qualified pension schemes regulated by the Pension Protection Act 2006 and are insured by the Pension Benefit Guarantee Corporation up to certain limits. They are established under, and governed by, the US Employee Retirement Income Security Act 1974. Meggitt is a named fiduciary with the authority to manage the operation of the US schemes.

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

For all unfunded schemes, benefit payments are made by the Group as obligations fall due. The Group also operates a number of defined contribution schemes under which the Group has no further obligations once the contributions have been paid.

Healthcare schemes

The Group has two principal other post-retirement benefit schemes providing medical and life assurance benefits to certain employees, and former employees, of Meggitt Aircraft Braking Systems Corporation and Meggitt (Rockmart), Inc. These schemes are unfunded.

Amounts recognised in the income statement

	2016 £'m	2015 £'m
Total charge in respect of defined contribution pension schemes	**30.2**	23.8
Defined benefit pension schemes:		
Service cost	**15.3**	14.5
Curtailment gain (see note 43)	**(1.2)**	–
Net interest expense on retirement benefit obligations	**8.6**	9.5
Total charge in respect of defined benefit pension schemes	**22.7**	24.0
Healthcare schemes:		
Service cost	**0.9**	0.8
Past service cost	**–**	0.3
Net interest expense on retirement benefit obligations	**2.0**	1.7
Total charge in respect of healthcare schemes	**2.9**	2.8
Total charge	**55.8**	50.6

Of the total charge, £45.2 million (2015: £39.4 million) has been charged to operating profit (see note 9), of which £26.7 million (2015: £22.2 million) has been included in cost of sales and £18.5 million (2015: £17.2 million) in net operating costs. The remaining £10.6 million (2015: £11.2 million) is included in finance costs (see note 13).

Notes to the consolidated financial statements continued

34. Retirement benefit obligations continued

Amounts recognised in the balance sheet

	2016			
	UK pension scheme £'m	Overseas pension schemes £'m	Overseas healthcare schemes £'m	Total £'m
Present value of scheme liabilities	829.1	483.6	54.5	1,367.2
Fair value of scheme assets	(619.5)	(333.0)	–	(952.5)
Retirement benefit obligations	**209.6**	**150.6**	**54.5**	**414.7**

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

Of the total deficit of £414.7 million (2015: £284.5 million), £70.7 million (2015: £62.0 million) is in respect of unfunded schemes.

Changes in the present value of retirement benefit obligations

	2016			2015		
	Liabilities (*) £'m	Assets (**) £'m	Total £'m	Liabilities (*) £'m	Assets (**) £'m	Total £'m
At 1 January	1,078.6	(794.1)	284.5	1,078.9	(761.1)	317.8
Exchange rate adjustments	83.4	(51.9)	31.5	20.7	(13.4)	7.3
Service cost	16.2	–	16.2	15.3	–	15.3
Past service cost	–	–	–	0.3	–	0.3
Curtailment gain	(1.2)	–	(1.2)	–	–	–
Interest expense/(income) (see note 13)	40.3	(29.7)	10.6	37.9	(26.7)	11.2
Contributions – Group	–	(51.2)	(51.2)	–	(39.7)	(39.7)
Contributions – members	3.2	(3.2)	–	2.9	(2.9)	–
Benefits paid	(46.4)	46.4	–	(40.8)	40.8	–
Remeasurement of retirement benefit obligations:						
Experience (gain)/loss	(11.7)	–	(11.7)	11.4	–	11.4
Gain from change in demographic assumptions	(12.2)	–	(12.2)	(6.3)	–	(6.3)
Loss/(gain) from change in financial assumptions	217.0	–	217.0	(41.7)	–	(41.7)
Return on schemes' assets excluding amounts included in finance costs	–	(72.4)	(72.4)	–	7.2	7.2
Total remeasurement loss/(gain)	193.1	(72.4)	120.7	(36.6)	7.2	(29.4)
Administrative expenses borne directly by schemes	–	3.6	3.6	–	1.7	1.7
At 31 December	**1,367.2**	**(952.5)**	**414.7**	1,078.6	(794.1)	284.5

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

34. Retirement benefit obligations continued

Analysis of pension scheme assets

	2016				2015			
	Quoted £'m	Unquoted £'m	Total £'m	%	Quoted £'m	Unquoted £'m	Total £'m	%
Equities	149.6	–	149.6	24.2	156.6	–	156.6	30.4
Government bonds	274.0	2.5	276.5	44.6	221.6	2.1	223.7	43.4
Corporate bonds	81.1	43.4	124.5	20.1	81.0	26.5	107.5	20.9
Cash	40.8	–	40.8	6.6	6.7	–	6.7	1.3
Other assets	11.2	16.9	28.1	4.5	8.9	11.6	20.5	4.0
UK pension scheme	556.7	62.8	619.5	100.0	474.8	40.2	515.0	100.0
Equities	78.6	–	78.6	23.6	62.9	–	62.9	22.5
Government bonds	102.5	–	102.5	30.8	69.4	–	69.4	24.9
Corporate bonds	92.4	–	92.4	27.7	94.4	–	94.4	33.8
Property	14.3	13.6	27.9	8.4	13.3	13.4	26.7	9.6
Cash	2.4	–	2.4	0.7	3.3	–	3.3	1.2
Other assets	29.2	–	29.2	8.8	22.4	–	22.4	8.0
Overseas pension schemes	319.4	13.6	333.0	100.0	265.7	13.4	279.1	100.0
Equities	228.2	–	228.2	24.0	219.5	–	219.5	27.6
Government bonds	376.5	2.5	379.0	39.8	291.0	2.1	293.1	36.9
Corporate bonds	173.5	43.4	216.9	22.8	175.4	26.5	201.9	25.4
Property	14.3	13.6	27.9	2.9	13.3	13.4	26.7	3.4
Cash	43.2	–	43.2	4.5	10.0	–	10.0	1.3
Other assets	40.4	16.9	57.3	6.0	31.3	11.6	42.9	5.4
Total pension schemes' assets	876.1	76.4	952.5	100.0	740.5	53.6	794.1	100.0

Other assets principally comprise hedge funds, commodities and derivatives. The schemes have no investments in any assets of the Group.

Financial assumptions used to calculate scheme liabilities

	2016			2015		
	UK pension scheme	Overseas* pension schemes	Overseas healthcare schemes	UK pension scheme	Overseas* pension schemes	Overseas healthcare schemes
Discount rate	2.65%	3.95%	3.95%	3.85%	4.20%	4.20%
Inflation rate	3.30%	N/A	N/A	3.10%	N/A	N/A
Increases to deferred benefits during deferment**	2.30%	N/A	N/A	2.10%	N/A	N/A
Increases to pensions in payment**	3.20%	N/A	N/A	3.00%	N/A	N/A
Salary increases	4.30%	4.51%	N/A	4.10%	4.66%	N/A

* Provided in respect of the most significant overseas schemes.
** To the extent not overridden by specific scheme rules.

In determining the fair value of scheme liabilities, the Group uses mortality assumptions which are based on published mortality tables adjusted to reflect the characteristics of the scheme populations. The Group's mortality assumptions in the UK are based on recent mortality investigations of Self Administered Pension Schemes adjusted to reflect the profile of the membership of the scheme, which include the results of an analysis of members used to support the 2015 triennial UK actuarial valuation. Allowance has been made for rates of mortality to continue to fall at the rate of 1.25% per annum.

In the US, mortality assumptions are based on the RPH-2014 headcount weighted table, for schemes where benefits are not salary-linked, and the RP-2014 table for other schemes, with both tables projecting rates of mortality to fall using the 2016 Social Security Administration's projection scale ('Scale SSA').

	2016		2015	
	UK scheme Years	Overseas* schemes Years	UK scheme Years	Overseas* schemes Years
Member age 45 (life expectancy at age 65) – male	23.1-24.9	21.5-22.1	23.3-25.0	21.6-22.2
Member age 45 (life expectancy at age 65) – female	26.0-27.8	23.4-23.7	26.2-28.0	23.5-23.7
Member age 65 (current life expectancy) – male	21.7-23.2	20.2-20.8	21.9-23.4	20.3-21.0
Member age 65 (current life expectancy) – female	24.1-25.8	22.3-22.6	24.4-26.1	22.3-22.6

* Provided in respect of the most significant overseas schemes.

Notes to the consolidated financial statements continued

34. Retirement benefit obligations continued

Details on the sensitivity of scheme liabilities to changes in assumptions are provided below:

- The impact of a 50 basis point reduction in discount rate would cause scheme liabilities at 31 December 2016 to increase by approximately £129.0 million.
- The impact of a 10 basis point increase in inflation and salary inflation rates would cause scheme liabilities at 31 December 2016 to increase by approximately £16.0 million.
- The impact of assuming every scheme member were to live for an additional year would cause scheme liabilities at 31 December 2016 to increase by approximately £44.0 million.

The above sensitivity analyses are based on a change in a single assumption while keeping all other assumptions constant. In practice, this is unlikely to occur, and changes in some assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method of calculating the defined benefit obligation has been used as when calculating the retirement benefit obligations recognised in the balance sheet. The methods and types of assumptions used in preparing the sensitivity analysis are consistent with the previous year. The sensitivity provided in respect of the discount rate has been increased to 50 basis points this year, reflecting the average movement experienced over the last five years. No change has been considered necessary to other 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.

Asset volatility
In determining the present value of schemes' defined benefit obligations, liabilities are discounted using interest rates of high quality corporate bonds. To the extent the actual return on schemes' assets is below this yield, the retirement benefit obligations recognised in the consolidated financial statements would increase. This risk is partly mitigated by funded schemes investing in matching corporate bonds, such that changes in asset values are offset by similar changes in the value of scheme liabilities. However, the Group also invests in other asset types such as equities, property, hedge funds, commodities and derivatives where movements in asset values may be uncorrelated to movements in the yields on high quality corporate bonds. The Group believes that, due to the long-term nature of its scheme liabilities, it is appropriate to invest in assets which are expected to out-perform corporate bonds over this timeframe. Scheme assets are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. In 2014, part of the equity portfolio held by the UK and US schemes was disinvested. The amounts disinvested totalled approximately £100.0 million. The proceeds were used to purchase structured investments consisting of high quality government bonds together with equity derivatives. The structured investments enable the schemes to benefit from equity-like returns, subject to certain caps, on the amounts invested, whilst providing an element of protection against falls in equity markets. The Group actively monitors how the duration and expected yield of scheme assets are matching the expected cash outflows arising from the pension obligations. For each UK and US funded scheme, there is a 'glide-path' in place which provides, to the extent the funding position improves, for asset volatility to be reduced by increased investment in long-term index linked securities with maturities that match the benefit payments as they fall due.

Interest risk
In determining the present value of schemes' defined benefit obligations, liabilities are discounted using interest rates of high quality corporate bonds. If these yields fall, the retirement benefit obligations recognised in the consolidated financial statements would increase. This risk is partly mitigated through the funded schemes investing in matching assets as described above. The Group currently does not use derivatives to mitigate this risk.

Inflation risk
In determining the present value of schemes' defined benefit obligations, estimates are made as to the levels of salary inflation, inflation increases that will apply to deferred benefits during deferment and pensions in payment, and healthcare cost inflation. To the extent actual inflation exceeds these estimates, the retirement benefit obligations recognised in the consolidated financial statements would increase. Salary inflation risk is partly mitigated in both the UK and US schemes by linking benefits in respect of future service to average salaries over a period of employment rather than final salary at retirement. Benefits in respect of certain periods of past service are still linked to final salary at retirement. In the UK, inflation risk in respect of deferred benefits and pensions in payment is mitigated by caps on the levels of inflation under the scheme rules. In the US and Switzerland, the schemes provide for no inflation to be applied to benefits in deferment or retirement. Exposure to inflation on US healthcare costs has been mitigated by freezing Group contributions to medical costs at 2011 cost levels. The Group currently does not use derivatives to mitigate this risk.

Longevity risk
In determining the present value of schemes' defined benefit obligations, assumptions are made as to the life expectancy of members during employment and in retirement. To the extent life expectancy exceeds this estimate, the retirement benefit obligations recognised in the consolidated financial statements would increase. This risk is more significant in the UK plan, where inflationary increases result in higher sensitivity to changes in life expectancy. The Group currently does not use derivatives to mitigate this risk.

34. Retirement benefit obligations continued

Other information

In the UK, the 2015 triennial actuarial valuation was completed during 2016. At the date of the valuation, the deficit was measured for funding purposes at £249.4 million. The buy-out valuation at the same date, which assumes the Group were to transfer the responsibility of the scheme to an insurance company, was measured at £544.1 million. The Group has no current plans to make such a transfer. The Group agreed with the trustees to finance the increase in funding deficit experienced since the previous 2012 valuation, through increased annual deficit reduction payments commencing in 2016 with the aim of eliminating the scheme deficit by 2024. Under the agreement with the trustees, deficit payments in 2017 will be £27.4 million and will increase by approximately 5% per annum until 2024. The present value of future deficit payments agreed as part of the 2015 actuarial valuation exceeds the scheme accounting deficit at 31 December 2016 by approximately £8.0 million however, such amounts would be recoverable by the Group under the scheme rules once the last member has died and accordingly no additional minimum funding liability arises. Following the disposal of Meggitt Defence Systems Limited (see note 43), the Group agreed with the trustees to make a one-off additional payment into the UK scheme of £10.2 million which was made in December 2016.

In the US, 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 2017 are expected to be £6.3 million and will then increase over the following four years to £19.0 million by 2021. Thereafter, annual payments are expected to remain relatively stable for the remainder of the recovery period. The present values of deficit payments due under legislation do not exceed the schemes' deficits at 31 December 2016 and accordingly no additional minimum funding liability arises.

The Swiss scheme has a surplus on a funding basis of £22.6 million which has not been recognised in the financial statements.

The estimated total Group contributions expected to be paid to the schemes during 2017 are £49.4 million.

The weighted average duration of the UK schemes' defined benefit obligation is 20.2 years. The weighted average duration of the overseas schemes' defined benefit obligation is 12.1 years. The expected maturity of undiscounted pension and healthcare benefits at 31 December 2016 is as follows:

	Pension schemes £'m	Healthcare schemes £'m	Total £'m
Less than a year	44.3	3.8	48.1
Between 1-2 years	45.6	3.8	49.4
Between 2-5 years	143.4	11.6	155.0
Between 5-10 years	267.6	17.7	285.3
Between 10-15 years	286.9	14.0	300.9
Between 15-20 years	286.4	11.0	297.4
Between 20-25 years	269.1	8.4	277.5
Over 25 years	879.8	15.6	895.4
Total	**2,223.1**	**85.9**	**2,309.0**

35. 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 2015	802.3	40.1	
Share buyback – purchased	(28.3)	(1.3)	(146.4)
Share buyback – transfer to treasury shares	1.5	–	
At 31 December 2015	775.5	38.8	
Issued on exercise of Sharesave awards	0.2	–	–
At 31 December 2016	**775.7**	**38.8**	

Notes to the consolidated financial statements continued

36. Share-based payment

The Group operates a number of share schemes for the benefit of its employees. The total expense recorded in the income statement in respect of such schemes was £8.0 million (2015: £4.1 million) (see note 9). The nature of each scheme which has a significant impact on the expense recorded in the income statement is set out below.

Meggitt Long Term Incentive Plan 2014

Equity-settled

Under the Meggitt Long Term Incentive Plan 2014, an annual award of shares may be made to certain senior executives. The number of shares, if any, that an executive ultimately receives, depends on three performance conditions:

- An earnings per share (EPS) measure (33% of the award);
- A return on trading assets (ROTA) measure (33% of the award); and
- A strategic goals measure (33% of the award).

Each of the conditions is measured over a three year performance period. An expense of £5.4 million (2015: £2.4 million) was recorded in the year. An employee is generally entitled to a payment at the end of the vesting period, equivalent to dividends that would have been paid during the vesting period, on any shares that vest. The fair value of the award made in 2016 has been estimated at the market price of the share on the date of grant, which was 401.84 pence (2015: 559.10 pence). Movements in the number of outstanding shares that may potentially be released to employees are as follows:

	2016 Number of shares under award outstanding 'm	2015 Number of shares under award outstanding 'm
At 1 January	**8.0**	4.2
Awarded	**6.0**	3.9
Lapsed	**(0.3)**	(0.1)
At 31 December	**13.7**	8.0

At 31 December 2016, none of the shares under award are eligible for release.

Deferred Share Bonus Plan

Equity-settled

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

An expense of £1.8 million (2015: £1.1 million) was recorded in the year. An employee is generally entitled to a payment at the end of the vesting period, equivalent to dividends that would have been paid during the vesting period, on any shares that vest. The fair value of the awards made in 2016 were estimated at the market price of the share on the date of each grant. The average price at the date of grant was 350.00 pence. Movements in the number of outstanding shares that may potentially be released to employees are as follows:

	2016 Number of shares under award outstanding 'm	2015 Number of shares under award outstanding 'm
At 1 January	**0.5**	–
Awarded	**0.3**	0.5
Exercised	**(0.1)**	–
At 31 December	**0.7**	0.5

At 31 December 2016, none of the shares under award are eligible for release.

37. Own shares and treasury shares

Own shares represent shares in the Company that are held by an independently managed Employee Share Ownership Plan Trust ('the trust') formed to acquire shares to be used to satisfy share options and awards under the employee share schemes as described in the Directors' remuneration report on pages 66 to 88. At 31 December 2016, the trust held 1.4 million ordinary shares (2015: 1.9 million ordinary shares) of which 1.3 million were unallocated (2015: 1.7 million), being retained by the trust for future use. The balance was held for employees in a vested share account to satisfy particular awards which had fully vested. All shares, whether or not allocated, are held for the benefit of employees. The shares held at 31 December 2016 were purchased during 2015 at a cost of £7.0 million. The shares held at 31 December 2015 were purchased during 2015 at a cost of £9.7 million. The market value of the shares at 31 December 2016 was £6.5 million (2015: £7.2 million) representing 0.18% of the issued share capital of the Company (2015: 0.25%).

During the Group's share buyback programme, which was suspended in 2015, 1.5 million purchased ordinary shares were not cancelled but retained as treasury shares. Of these, 0.4 million shares (2015: 1.1 million shares) were used to satisfy share options and awards in the year under the UK Share Incentive Plan and Sharesave Scheme. At 31 December 2016, less than 0.1 million shares (2015: 0.4 million shares) remained in treasury with a market value of £0.1 million (2015: £1.3 million), representing less than 0.01% (2015: 0.05%) of the issued share capital of the Company.

38. Contractual commitments

Capital commitments

	2016 £'m	2015 £'m
Contracted for but not incurred:		
Intangible assets	**1.3**	0.6
Property, plant and equipment	**13.5**	8.2
Total	**14.8**	8.8

Operating lease commitments

The Group leases various factories, warehouses and offices under non-cancellable operating leases. These leases have various lease periods, escalation clauses and renewal rights. None of these terms represent unusual arrangements or create material onerous or beneficial rights or obligations. Additionally the Group leases various items of plant and machinery under both cancellable and non-cancellable operating leases. Expenditure on operating leases is charged to the income statement as incurred and is disclosed in note 8.

The future aggregate minimum lease payments under non–cancellable operating leases are as follows:

	2016 £'m	2015 £'m
In one year or less	**17.4**	15.6
In more than one year but not more than five years	**54.4**	43.4
In more than five years	**55.8**	32.0
Total	**127.6**	91.0

Other financial commitments

The Group enters into long-term arrangements with aircraft and original equipment manufacturers to design, develop and supply products to them for the life of the aircraft. This represents a significant long-term financial commitment for the Group and requires the consideration of a number of uncertainties including the feasibility of the product and the ultimate commercial viability over a period which can extend over 40 years. The directors are satisfied that, at this time, there are no significant contingent liabilities arising from these commitments. Based on latest OE delivery forecasts from external agencies, the future estimated expenditure under contractual commitments to incur development costs and programme participation costs at 31 December 2016, which under the Group's current accounting polices (prior to any impact the adoption of IFRS 15 may have on the future accounting for certain programme participation costs), are expected to be recognised as intangible assets when incurred are as follows:

	2016 Development costs £'m	**2016 Programme participation costs £'m**	2015 Development costs £'m	2015 Programme participation costs £'m
In one year or less	**51.8**	**43.5**	38.7	49.4
In more than one year but not more than five years	**17.4**	**220.2**	10.5	209.5
In more than five years	**3.4**	**1,051.0**	8.6	909.1
Total	**72.6**	**1,314.7**	57.8	1,168.0

Notes to the consolidated financial statements continued

39. Contingent liabilities

The Company has given guarantees in respect of credit facilities for certain of its subsidiaries, some property leases, other leasing arrangements and the performance by some current and former subsidiaries of certain contracts. Also, there are similar guarantees given by certain other Group companies. The directors do not believe that the effect of giving these guarantees will have a material adverse effect upon the Group's financial position.

The Company and various of its subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the ordinary course of business. The directors do not anticipate that the outcome of these proceedings, actions and claims, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.

40. Cash inflow from operations

	2016 £'m	2015 £'m
Profit for the year	**171.2**	182.1
Adjustments for:		
Finance income (see note 12)	**(2.0)**	(2.7)
Finance costs (see note 13)	**40.2**	29.1
Tax (see note 14)	**24.3**	28.1
Depreciation (see note 21)	**41.3**	33.5
Amortisation (see notes 19 and 20)	**162.1**	121.0
Impairment loss (see note 19)	**3.3**	6.4
Loss on disposal of property, plant and equipment	**1.4**	–
Gain on disposal and closure of businesses (see note 10)	**(40.7)**	(1.2)
Remeasurement of fair value of contingent consideration receivable (see note 10)	**0.3**	(2.5)
Financial instruments (see note 10)	**66.4**	4.8
Share of profit after tax of joint venture (see note 22)	**(1.2)**	–
Retirement benefit obligation deficit payments	**(35.0)**	(24.4)
Share-based payment expense (see note 36)	**8.0**	4.1
Changes in working capital:		
Inventories	**(12.5)**	(14.6)
Trade and other receivables	**(31.3)**	55.8
Trade and other payables	**11.3**	27.3
Provisions	**(31.5)**	(40.1)
Cash inflow from operations	**375.6**	406.7

41. Movements in net debt

	2016 £'m	2015 Restated (see note 44) £'m
At 1 January	**1,051.2**	575.5
Free cash inflow	**(131.1)**	(199.0)
Businesses acquired (see note 42)	**(2.1)**	362.7
Business acquisition expenses	**1.6**	2.5
Businesses disposed (see note 43)	**(59.6)**	(2.0)
Business disposal expenses	**0.3**	–
Dividends paid to Company's shareholders (see note 16)	**113.0**	111.1
Purchase of own shares	**–**	9.7
Share buyback – purchased (see note 35)	**–**	146.4
Net cash generated – (inflow)/outflow	**(77.9)**	431.4
Debt acquired with businesses (see note 42)	**–**	4.4
Exchange rate adjustments	**195.4**	39.6
Other non-cash movements	**10.4**	0.3
At 31 December	**1,179.1**	1,051.2

41. Movements in net debt continued

Analysed as:

	2016 £'m	2015 Restated £'m
Bank and other borrowings – current (see note 29)	**175.7**	4.0
Bank and other borrowings – non-current (see note 29)	**1,170.6**	1,189.0
Obligations under finance leases – current (see note 28)	**0.1**	0.1
Obligations under finance leases – non-current (see note 28)	**6.5**	5.4
Cash and cash equivalents (see note 25)	**(173.8)**	(147.3)
Total	**1,179.1**	1,051.2

42. Business combinations

IFRS 3 requires fair values of assets and liabilities acquired to be finalised within 12 months of the acquisition date. During 2016, the Group finalised the fair values of the assets and liabilities of the advanced composites businesses of Cobham plc ('Advanced Composites') which completed on 25 November 2015 and of EDAC Composites LLC ('EDAC') which completed on 21 December 2015. Changes were made as necessary to align the accounting policies of the acquired businesses with those of the Group. The adjustments made in finalising fair values primarily relate to the recognition of intangible assets separately from goodwill, obligations in respect of onerous production contracts and associated deferred tax liabilities. Additionally, with regards to EDAC, it was determined that one of the businesses acquired met the criteria to be treated as a joint venture and accounted for using the equity method. Goodwill is attributable to the profitability of the acquired businesses and expected future synergies arising following their acquisition. The total amount of goodwill and other intangible assets acquired as part of the acquisitions that is deductible for tax purposes is £Nil. Fair values as at the date of each acquisition are shown below:

Advanced Composites	As reported £'m	Adjustments* £'m	Fair value £'m
Goodwill (see note 18)	102.8	(8.7)	94.1
Other intangible assets (see note 20)	1.0	49.8	50.8
Property, plant and equipment (see note 21)	12.3	(0.3)	12.0
Trade and other receivables – non-current	–	2.3	2.3
Inventories	20.8	(10.4)	10.4
Trade and other receivables – current	10.6	(1.4)	9.2
Current tax recoverable	–	1.7	1.7
Trade and other payables – current	(9.5)	(2.9)	(12.4)
Current tax liabilities	(0.6)	0.6	–
Bank and other borrowings – current	(4.1)	–	(4.1)
Provisions – current	–	(4.0)	(4.0)
Deferred tax liabilities (see note 33)	(0.6)	(2.3)	(2.9)
Provisions – non-current	(0.6)	(25.7)	(26.3)
Net assets	132.1	(1.3)	130.8
Total consideration payable satisfied in cash	132.1	(1.3)	130.8

* Adjustments relate to finalisation of fair values and alignment with the Group's accounting policies.

Notes to the consolidated financial statements continued

42. Business combinations continued

EDAC	As reported £'m	Adjustments* £'m	Fair value £'m
Goodwill (see note 18)	158.0	(41.1)	116.9
Other intangible assets (see note 20)	47.4	59.5	106.9
Property, plant and equipment (see note 21)	9.6	(1.2)	8.4
Investments (see note 22)	–	11.3	11.3
Trade and other receivables – non-current	–	1.0	1.0
Inventories	16.9	(3.0)	13.9
Trade and other receivables – current	12.7	(2.8)	9.9
Current tax recoverable	0.1	(0.1)	–
Trade and other payables – current	(11.5)	3.2	(8.3)
Bank and other borrowings – current	(2.2)	1.9	(0.3)
Deferred tax liabilities (see note 33)	–	(20.4)	(20.4)
Provisions – non-current	–	(8.9)	(8.9)
Net assets	231.0	(0.6)	230.4
Total consideration payable satisfied in cash	231.0	(0.6)	230.4

* Adjustments relate to finalisation of fair values and alignment with the Group's accounting policies. It includes the elimination of assets and liabilities of the business which it has been determined should be accounted for using the equity method. The assets and liabilities eliminated are not significantly different to those at 31 December 2015 disclosed in note 22.

The adjustments to consideration in respect of Advanced Composites and EDAC of £1.3 million and £0.6 million respectively, relate to agreement of final working capital adjustments in respect of the acquired businesses. These amounts were received by the Group in cash in 2016.

Total consideration received/(paid) in respect of acquisitions was as follows:

	2016 £'m	2015 £'m
In respect of Advanced Composites*	**1.4**	(132.1)
In respect of EDAC*	**0.7**	(231.0)
In respect of an acquisition in prior years	**–**	0.4
Total	**2.1**	(362.7)

* The amounts received during the year differ from those recorded at the date of acquisition due to the effect of exchange rate movements.

43. Business disposals

On 21 December 2016, the Group disposed of 100% of the ordinary shares of Meggitt Defence Systems Ltd and Meggitt Training Systems Canada Inc, (collectively 'Meggitt Target Systems') for an initial consideration of £58.6 million which is subject to an adjustment for the working capital in the businesses at the date of disposal. Meggitt Target Systems was engaged in the provision of unmanned target packages for weapon simulation and training programmes. The businesses, which were not a major line of business or geographical area of operation of the Group, were no longer considered core to the Group's operations. The net assets of Meggitt Target Systems at the date of disposal were as follows:

	Total £'m
Goodwill (see note 18)	2.6
Other intangible assets (see note 20)	0.1
Property, plant and equipment (see note 21)	1.9
Inventories	8.6
Trade and other receivables – current	6.9
Current tax recoverable	1.1
Cash and cash equivalents	1.5
Trade and other payables – current	(3.7)
Current tax liabilities	(0.8)
Provisions – current (see note 32)	(0.2)
Deferred tax liabilities (see note 33)	(0.2)
Net assets	**17.8**
Currency translation gain transferred from equity	(0.5)
Curtailment gain (see note 34)	(1.2)
Business disposal expenses	1.8
Gain on disposal (see note 10)	40.7
Total consideration received in cash	**58.6**

Net cash inflow arising on disposal:	
Total consideration received in cash	58.6
Less: cash and cash equivalents disposed of	(1.5)
Businesses disposed	57.1
Less: business disposal expenses paid	(0.3)
Total cash inflow	**56.8**

Total consideration received in respect of disposed businesses was as follows:

	2016 £'m	2015 £'m
In respect of Meggitt Target Systems	**57.1**	–
In respect of a business disposed of in prior years	**2.5**	2.0
Total	**59.6**	2.0

Notes to the consolidated financial statements continued

44. Restatement of prior year comparatives

As described in note 42, the fair values of the assets and liabilities of Advanced Composites and EDAC were finalised during 2016. IFRS 3 requires fair value adjustments to be recorded with effect from the date of acquisition and consequently result in the restatement of previously reported financial results. The impact on the balance sheet as at 31 December 2015 is shown below:

	2015					
	As Reported 31 December £'m	Advanced Composites Adjustments £'m	EDAC Adjustments £'m	Total adjustments as at acquisition £'m	Other* £'m	As Restated 31 December £'m
Goodwill	1,866.0	(8.7)	(41.1)	(49.8)	(0.7)	1,815.5
Other intangible assets	689.1	49.8	59.5	109.3	1.6	800.0
Property, plant and equipment	290.3	(0.3)	(1.2)	(1.5)	–	288.8
Investments	–	–	11.3	11.3	0.1	11.4
Trade and other receivables – non-current	58.9	2.3	1.0	3.3	–	62.2
Inventories	415.2	(10.4)	(3.0)	(13.4)	(0.2)	401.6
Trade and other receivables – current	353.7	(1.4)	(2.8)	(4.2)	1.9	351.4
Current tax recoverable	5.5	1.7	(0.1)	1.6	(1.6)	5.5
Cash and cash equivalents	145.4	–	–	–	1.9	147.3
Trade and other payables – current	(402.1)	(2.9)	3.2	0.3	–	(401.8)
Current tax liabilities	(37.3)	0.6	-	0.6	1.6	(35.1)
Bank and other borrowings – current	(4.0)	–	1.9	1.9	(1.9)	(4.0)
Provisions – current	(36.0)	(4.0)	–	(4.0)	–	(40.0)
Deferred tax liabilities	(255.8)	(2.3)	(20.4)	(22.7)	(0.3)	(278.8)
Provisions – non-current	(111.0)	(25.7)	(8.9)	(34.6)	(0.5)	(146.1)
Other net liabilities - not affected by restatement	(799.4)	–	–	–	–	(799.4)
Net assets	2,178.5	(1.3)	(0.6)	(1.9)	1.9	2,178.5

* Represents the impact of exchange rate movements on the Advanced Composites and EDAC adjustments from the date of acquisition to the balance sheet date and other reclassifications.

The Group has not restated the income statement for the year ended 31 December 2015, as the impact on underlying profit and statutory profit was not significant.

45. Information about related undertakings

In accordance with section 409 of the Companies Act 2006, a full list of subsidiaries and equity accounted investments as at 31 December 2016 is disclosed below. Unless otherwise stated, ownership comprises ordinary shares representing 100% of the issued share capital and the registered office is Atlantic House, Aviation Park West, Bournemouth International Airport, Christchurch, Dorset, BH23 6EW. 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[1]

The Microsystems Group Limited

Subsidiaries – indirectly owned

ABL Systems (USA)[2]
1204 Massillon Road, Akron, Ohio 44306

Aero-Tech Composites de Mexico, S. de R.L. de C.V. (Mexico)[3]
Carretera a Zacatecas 5570-1, Parque Industrial Amistad Sur, Saltillo, CA 250701

Aircraft Braking Systems Europe Limited

Aircraft Braking Systems Services Limited

Alston Properties LLC (USA)[4]
14600 Myford Road, Irvine, California 92606

Artus SAS (France)
37 Chemin du Champ des Martyrs, BP 20009, 49241 Avrillé Cedex

Artus Vietnam Co Ltd (Vietnam)[5]
#7-9, Road 16A, Industrial Zone 2 of Bienhoa, Bienhoa, Dong Nai Province

Atlantic House Pension Trustee Limited

Aviation Mobility, LLC (USA)[4]
8041 Arrowridge Boulevard, Suite A, Charlotte, North Carolina 28273

BAJ Coatings Limited[6]

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 (Ireland)[7]
Gorse Valley, Tipperkevin, Ballymore Eustace, Co Kildare

Cavehurst Limited

Chempix Limited

Dunlop Aerospace Group Limited

Dunlop Aerospace Holdings Limited

Dunlop Aerospace Overseas Investments Limited

Dunlop Aerospace Overseas Limited

Dunlop Holdings Limited

Dunlop Limited

Endevco U.K. Limited

Endevco Vertriebs GmbH (Germany)
Kaiserleistraße 51, 63067 Offenbach/Main

Erlanger Acquisition Corporation (USA)[8]
1955 N. Surveyor Avenue, Simi Valley, California 93063

Europeenne de Conception d'Etudes Technologiques SAS (France)
8 Chemin de l'Etang, BP 15, F-16730 FLEAC

Evershed & Vignoles Limited

45. Group Companies continued

Subsidiaries – indirectly owned continued

Fotomechanix Limited

GB Aero Engine LLC (USA)[4]
1955 N. Surveyor Avenue, Simi Valley, California 93063

Heatric Limited[9]

King Tool International Limited

Linear Motion LLC (USA)[4]
628 N. Hamilton Street, Saginaw, Michigan 48602

Meggitt (Baltimore) Inc. (USA)[8]
3310 Carlins Park Drive, Baltimore, Maryland 21215

Meggitt (Canford) Limited

Meggitt (Colehill) Limited

Meggitt (Erlanger), LLC (USA)[4]
1400 Jamike Avenue, Erlanger, Kentucky 41018

Meggitt (France) SAS (France)
8 Chemin de l'Etang, BP 15, F-16730 FLEAC

Meggitt (Hurn) Limited

Meggitt (Maryland), Inc. (USA)[8]
20511 Seneca Meadows Parkway, Germantown, Maryland 20876

Meggitt (North Hollywood), Inc. (USA)[8]
12838 Saticoy Street, North Hollywood, California 91605

Meggitt (Orange County), Inc. (USA)[8]
14600 Myford Road, Irvine, California 92606

Meggitt (Rockmart), Inc. (USA)[8]
669 Goodyear Street, Rockmart, Georgia 30153

Meggitt (San Diego), Inc. (USA)[8]
10540 Heater Court, San Diego, California 92121

Meggitt (Sensorex) SAS (France)
196 Rue Louis Rustin, BP 63108, F-74166 Archamps Cedex

Meggitt (Shapwick) Limited

Meggitt (Simi Valley), Inc. (USA)[8]
1955 N. Surveyor Avenue, Simi Valley, California 93063

Meggitt (Tarrant) Limited

Meggitt (Troy), Inc. (USA)[8]
3 Industrial Drive, Troy, Indiana 47588

Meggitt (UK) Limited

Meggitt (Xiamen) Sensors & Controls Co 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)[11]
1955 N. Surveyor Avenue, Simi Valley, California 93063

Meggitt Acquisition (France) SAS (France)
37 Chemin du Champ des Martyrs, BP 20009, 49241 Avrillé Cedex

Meggitt Acquisition Limited

Meggitt Advanced Composites Limited

Meggitt Aerospace Asia Pacific Pte Limited (Singapore)
1A Seletar Aerospace Link, Singapore 797552

Meggitt Aerospace Holdings Limited

Meggitt Aerospace Limited

Meggitt Aircraft Braking Systems Corporation (USA)[8]
1204 Massillon Road, Akron, Ohio 44306

Meggitt Aircraft Braking Systems Kentucky Corporation (USA)[8]
190 Corporate Drive, Danville, Kentucky 40422

Meggitt Aircraft Braking Systems Queretaro, S. de R.L. de C.V. (Mexico)[3]
Carretera Estatal 200 Queretaro-Tequisquiapan, KM 22 547 Interior A, Parque Aeroespacial, Queretaro, CP 76278

Meggitt Asia Pacific Pte Ltd (Singapore)
1A Seletar Aerospace Link, Singapore 797552

Meggitt Brasil (Solucoes de Engenharia) Ltda. (Brazil)[10]
Avenida João Cabral de Mello Neto, No. 850, Suites 815 and 816, Barra da Tijuca, CEP 22.775-057, City and State of Rio de Janeiro

Meggitt Defense Systems, Inc. (USA)[8]
9801 Muirlands Boulevard, Irvine, California 92618

Meggitt Filtration & Transfer Limited

Meggitt Finance (Beta)

Meggitt Finance Limited

Meggitt Finance S.a.r.l (Luxembourg)
20 Rue des Peupliers, L-2328

Meggitt GmbH (Germany)
Kaiserleistraße 51, 63067 Offenbach/Main

Meggitt GP Inc. (USA)[8]
1955 N. Surveyor Avenue, Simi Valley, California 93065

Meggitt Holdings (France) SNC (France)
37 Chemin du Champ des Martyrs, BP 20009, 49241 Avrillé Cedex

Meggitt Holdings (USA) Inc. (USA)[8]
1955 N. Surveyor Avenue, Simi Valley, California 93065

Meggitt India Pvt Ltd (India)[12]
901, Brigade Road, No. 20. HMT Main Road, HMT Township, North Bangalore 560022

Meggitt International Limited

Meggitt Investments Limited

Meggitt-Oregon, Inc. (USA)[8]
2010 Lafayette Avenue, McMinnville, Oregon 97128

Meggitt Properties PLC[13]

Meggitt Queretaro LLC (USA)[4]
1204 Massillon Road, Akron, Ohio 44306

Meggitt SA (Switzerland)[14]
Rte de Moncor 4, PO Box 1616, CH-1701 Fribourg

Meggitt Safety Systems, Inc. (USA)[8]
1785 Voyager Avenue, Simi Valley, California 93063

Meggitt Training Systems (Quebec) Inc. (Canada)[8]
6140 Henri Bourassa West, Montreal, Quebec, H4R3A6

Meggitt Training Systems Australia Pty Limited (Australia)
Unit 2, 48 Conrad Place, Lavington, New South Wales 2641

Meggitt Training Systems Europe BV (The Netherlands)
Ringweistraat 7, 4181CL Waardenburg

Meggitt Training Systems, Inc. (USA)[8]
296 Brogdon Road, Suwanee, Georgia 30024

Meggitt Training Systems Limited

Meggitt Training Systems Pte Limited (Singapore)
1A Seletar Aerospace Link, Singapore 797552

Meggitt-USA Holdings LLC (USA)[4]
1955 N. Surveyor Avenue, Simi Valley, California 93063

Meggitt-USA Services, Inc. (USA)[8]
1955 N. Surveyor Avenue, Simi Valley, California 93063

Meggitt-USA, Inc. (USA)[8]
1955 N. Surveyor Avenue, Simi Valley, California 93063

Metal Maps Limited

Micro Metallic Limited

Microponent Development Limited

Microponents (Plates) Limited

Microponents Limited

Miller Insulation & Engineering Limited

Nasco Aircraft Brake, Inc. (USA)[8]
13300 Estrella Avenue, Gardena, California 90248

OECO, LLC (USA)[4]
4607 SE International Way, Milwaukie, Oregon 97222

Pacific Scientific Company (USA)[8]
1785 Voyager Avenue, Simi Valley, California 93063

Park Chemical Company (USA)[8]
1955 N. Surveyor Avenue, Simi Valley, California 93063

Piezotech, LLC (USA)[4]
8431 Georgetown Road, Suite 300, Indianapolis, Indiana 46268

Piher International GmbH (Germany)
Orchideenstrasse 6, 90542 Eckental

Piher International Limited

Piher Sensors & Controls SA (Spain)
Poligono Industrial Municipal, Vial Transversal 2, s/n 31500 Tudela, Navarra

Precision Engine Controls Corporation (USA)[8]
11661 Sorrento Valley Road, San Diego, California 92121

Precision Micro Limited

Securaplane Technologies, Inc. (USA)[8]
12350 N. Vistoso Park Road, Oro Valley, Arizona 85755

Serck Aviation Limited

Sparkleglen Limited

Target Technology Petrel Limited

Techniques et Fabrications Electroniques SAS (France)
Zone Actisud, 18 rue Jean Perrin, 31100 Toulouse

The Rotameter Manufacturing Co Limited

Tri-scan Limited

Valley Association Corporation (USA)[15]
1204 Massillon Road, Akron, Ohio 44306

Vibro-Meter Limited

Vibro-Meter S.a.r.l (Switzerland)
Rte de Moncor 4, PO Box 1616, CH-1701 Fribourg

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 Industries Australia Pty Limited (in liquidation) (Australia)
Bradley Tonks, PKF Sydney, Level 8, 1 O'Connell Street, Sydney, New South Wales 2000

Wallaby Grip Limited

Whittaker Aerospace[16]

Whittaker Corporation (USA)[8]
1955 N. Surveyor Avenue, Simi Valley, California 93063

Whittaker Development Co. (USA)[8]
1955 N. Surveyor Avenue, Simi Valley, California 93063

Notes to the consolidated financial statements continued

45. Group Companies continued

Subsidiaries – indirectly owned continued

Whittaker Ordnance, Inc. (USA)[8]
1955 N. Surveyor Avenue, Simi Valley, California 93063

Whittaker Technical Products, Inc. (USA)[8]
1955 N. Surveyor Avenue, Simi Valley, California 93063

Zambra Legal Pty Limited (Australia)
Suite 2, Level 11, 60 Castlereagh Street, Sydney, New South Wales 2000

Equity accounted investments

Parkway-HS, LLC (USA)[17]
1400 Jamike Avenue, Erlanger, Kentucky 41018

Parkway-Hamilton Sundstrand Mexico S. de R.L. de C.V. (Mexico)[18]
Carretera 54 a Zacatecas SN, Colonia Las Teresitas, Saltillo, Coahuila, CP 25084

Registered charity

Evershed & Ayrton Fund

Private company limited by guarantee without share capital

Meggitt Pension Plan Trustees Limited

Notes

1. Ownership held as ordinary B shares (50%)
2. Ownership held as ordinary shares (50%)
3. Ownership held as quota interest (100%)
4. Ownership held as membership interest (100%)
5. Ownership held as owner's capital (100%)
6. Ownership held as deferred shares (55.55%) and ordinary shares (44.45%)
7. Private unlimited company
8. Ownership held as common stock (100%)
9. Ownership held as ordinary A shares (60%) and ordinary B shares (40%)
10. Ownership held as registered capital (100%)
11. Ownership held as class A shares (67.5%), class B shares (12.5%) and class C shares (20%)
12. Ownership held as equity shares (100%)
13. Public limited company
14. Ownership held as bearer shares (100%)
15. Ownership held as ordinary shares (33%)
16. Private unlimited company
17. Joint venture with Hamilton Sundstrand Corporation – ownership held as membership interest (70%)
18. Subsidiary of Parkway-HS, LLC – ownership held as quota interest (99.97%)

Independent auditors' report to the members of Meggitt PLC

Report on the parent company financial statements

Our opinion

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

- give a true and fair view of the state of the parent company's affairs as at 31 December 2016;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

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

- the Company balance sheet as at 31 December 2016;
- the Company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic report and the Directors' report. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)") we are required to report to you if, in our opinion, information in the Annual Report and Accounts is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the parent company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 91 and 92, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

Independent auditors' report to the members of Meggitt PLC continued

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

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

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

In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic report and Directors' report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the Group financial statements of Meggitt PLC for the year ended 31 December 2016.

Andrew Paynter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 February 2017

Company balance sheet

As at 31 December 2016

	Notes	2016 £'m	2015 £'m
Non-current assets			
Intangible assets	4	**34.4**	34.2
Property, plant and equipment	5	**3.2**	4.0
Investments	6	**2,074.0**	2,070.9
Derivative financial instruments	9	**44.7**	28.5
Deferred tax assets	11	**34.8**	18.7
		2,191.1	2,156.3
Current assets			
Other receivables	7	**1,380.5**	1,142.3
Derivative financial instruments	9	**63.9**	33.8
Current tax recoverable		**3.0**	–
Cash and cash equivalents		**48.5**	34.5
		1,495.9	1,210.6
Total assets		**3,687.0**	3,366.9
Current liabilities			
Trade and other payables	8	**(123.3)**	(60.9)
Derivative financial instruments	9	**(32.3)**	(12.9)
Current tax liabilities		**–**	(17.9)
Bank and other borrowings	10	**(175.2)**	(3.4)
		(330.8)	(95.1)
Net current assets		**1,165.1**	1,115.5
Non-current liabilities			
Derivative financial instruments	9	**(46.9)**	(13.7)
Bank and other borrowings	10	**(825.3)**	(831.5)
Retirement benefit obligations	12	**(209.6)**	(122.1)
		(1,081.8)	(967.3)
Total liabilities		**(1,412.6)**	(1,062.4)
Net assets		**2,274.4**	2,304.5
Equity			
Share capital	13	**38.8**	38.8
Share premium		**1,219.8**	1,218.9
Capital redemption reserve		**1.6**	1.6
Other reserves		**17.5**	17.5
Retained earnings:			
At 1 January		**1,027.7**	1,090.0
Profit for the year attributable to owners of the company		**173.8**	149.7
Other changes in retained earnings		**(204.8)**	(212.0)
Total equity attributable to owners of the Company		**2,274.4**	2,304.5

The financial statements on pages 155 to 165 were approved by the Board of Directors on 27 February 2017 and signed on its behalf by:

S G Young
Director

D R Webb
Director

Company statement of changes in equity

As at 31 December 2016

		Equity attributable to owners of the Company					
	Notes	Share capital £'m	Share premium £'m	Capital redemption reserve £'m	Other reserves* £'m	Retained earnings £'m	Total equity £'m
At 1 January 2015		40.1	1,218.9	0.3	17.5	1,090.0	2,366.8
Profit for the year		–	–	–	–	149.7	149.7
Other comprehensive income for the year:							
Cash flow hedge movements:							
Movement in fair value		–	–	–	–	(0.7)	(0.7)
Remeasurement of retirement benefit obligations	12	–	–	–	–	44.1	44.1
Other comprehensive income before tax		–	–	–	–	43.4	43.4
Tax effect		–	–	–	–	(9.1)	(9.1)
Other comprehensive income for the year		–	–	–	–	34.3	34.3
Total comprehensive income for the year		–	–	–	–	184.0	184.0
Employee share schemes:							
Value of subsidiary employee services		–	–	–	–	2.8	2.8
Value of services provided		–	–	–	–	2.3	2.3
Purchase of own shares		–	–	–	–	(9.7)	(9.7)
Share buyback – purchased and cancelled		(1.3)	–	1.3	–	(138.8)	(138.8)
Share buyback – purchased and transferred to treasury shares		–	–	–	–	(7.6)	(7.6)
Share buyback – movement in close period commitment		–	–	–	–	15.8	15.8
Dividends		–	–	–	–	(111.1)	(111.1)
At 31 December 2015		38.8	1,218.9	1.6	17.5	1,027.7	2,304.5
Profit for the year		**–**	**–**	**–**	**–**	**173.8**	**173.8**
Other comprehensive income for the year:							
Cash flow hedge movements:							
Movement in fair value		–	–	–	–	(0.2)	(0.2)
Remeasurement of retirement benefit obligations	12	–	–	–	–	(120.2)	(120.2)
Other comprehensive income before tax		–	–	–	–	(120.4)	(120.4)
Tax effect		–	–	–	–	20.4	20.4
Other comprehensive income for the year		**–**	**–**	**–**	**–**	**(100.0)**	**(100.0)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**73.8**	**73.8**
Employee share schemes:							
Value of subsidiary employee services		–	–	–	–	6.3	6.3
Value of services provided		–	–	–	–	2.8	2.8
Issue of equity share capital		–	0.9	–	–	(0.9)	–
Dividends		–	–	–	–	(113.0)	(113.0)
At 31 December 2016		**38.8**	**1,219.8**	**1.6**	**17.5**	**996.7**	**2,274.4**

* Other reserves relate to the cancellation of the Company's share premium account during 1988, which was transferred to a non-distributable capital reserve at that time.

Notes to the financial statements of the Company

1. Basis of preparation

These financial statements have been prepared on a going concern basis and under the historical cost accounting convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative financial instruments) at fair value, in accordance with the Companies Act 2006. The Company has prepared its financial statements in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).

The Company has taken advantage of the legal dispensation contained in Section 408 of the Companies Act 2006 allowing it not to publish a separate income statement and related notes. The Company has also taken advantage of the legal dispensation contained in Section 408 of the Companies Act 2006 allowing it not to publish a separate statement of other comprehensive income.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46-52 of IFRS 2, 'Share-based payment',
- IFRS 7, 'Financial Instruments: Disclosures',
- Paragraphs 10(d) 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 requirement in paragraph 38 of IAS 1 'Presentation of financial statements' to present comparative information in respect of: (i) paragraph 73(e) of IAS 16 'Property, Plant and Equipment'; and (ii) paragraph 118(e) of IAS 38 'Intangible assets', and
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

2. Summary of significant accounting policies

The principal accounting policies adopted by the Company in the preparation of the financial statements are set out below. These policies have been applied consistently to all periods presented unless stated otherwise.

Investments

Investments in subsidiaries are stated at cost less provision for impairment in value, except for investments acquired before 1 January 1988 where Section 612 merger relief has been taken and investments are stated at the nominal value of the shares issued in consideration, using the deemed cost exemption in IFRS 1 on transition to FRS 101.

Intangible assets

Intangible assets, consisting of software, are recorded at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful economic lives, 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 recorded at cost less accumulated depreciation and impairment losses. Cost includes expenditure directly attributable to the acquisition of the asset. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Leasehold property..... Over period of lease
Plant and equipment..... 3 to 10 years
Motor vehicles..... 5 years

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.

Operating leases

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

Taxation

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

Deferred tax is provided in full using the liability method on temporary differences between the tax bases of assets and liabilities and their corresponding book values as recorded in the Company's financial statements. Deferred tax is provided on unremitted earnings of foreign subsidiaries, except where the Company can control the remittance and it is probable that earnings will not be remitted in the foreseeable future. Deferred tax assets are recognised only to the extent it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is calculated using tax rates enacted or substantively enacted at the balance sheet date.

Current tax and deferred tax are recognised 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, except where they relate to qualifying cash flow hedges in which case exchange differences are recognised in other comprehensive income.

Retirement benefit schemes

For defined benefit schemes, pension costs are charged to the income statement in accordance with the advice of qualified independent actuaries. Past service credits and costs and curtailment gains and losses are recognised immediately in the income statement.

Retirement benefit obligations represent, for each scheme, the difference between the fair value of the schemes' assets and the present value of the schemes' defined benefit obligations measured at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the defined benefit obligations using interest rates of high quality corporate bonds denominated in the currency in which the benefits will be paid and with terms to maturity comparable with the terms of the related defined benefit obligations. Where the Company has a statutory or contractual minimum funding requirement to make contributions to a scheme in respect of past service and any such contributions are not available to the Company once paid (either as a reduction in future contributions or as a refund during the life of the scheme or when the scheme liabilities are settled, to which the Company has an unconditional right), an additional liability for such amounts is recognised.

Remeasurement gains and losses are recognised in the period in which they arise in other comprehensive income.

For defined contribution schemes, payments are recognised in the income statement when they fall due. The Company has no further obligations once the contributions have been paid.

Notes to the financial statements of the Company continued

2. Summary of significant accounting policies continued

Share-based compensation

Awards made to employees of the Company are equity settled. The fair value of an award is measured at the date of grant and reflects any market-based vesting conditions. At the date of grant, the Company estimates the number of awards expected to vest as a result of non market-based vesting conditions and the fair value of this estimated number of awards is recognised as an expense in the income statement on a straight-line basis over the period for which services are provided. At each balance sheet date, the Company revises its estimate of the number of awards expected to vest as a result of non market-based vesting conditions and adjusts the amount recognised cumulatively in the income statement to reflect the revised estimate. When awards are exercised and the Company issues new shares, the proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium.

The grant by the Company of options over its equity instruments to employees of subsidiary undertakings, is treated as a capital contribution. The fair value of the awards made is recognised, over the vesting period, as an increase in investment in subsidiary undertakings, with a corresponding credit to retained earnings.

Derivative financial instruments and hedging

Derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value at each balance sheet date using values determined indirectly from quoted prices that are observable for the asset or liability.

The method by which any gain or loss arising from remeasurement is recognised, depends on whether the instrument is designated as a hedging instrument and if so the nature of the item hedged. The Company recognises an instrument as a hedging instrument by documenting, at inception of the instrument, the relationship between the instrument and the hedged item and the objectives and strategy for undertaking the hedging transaction. To be designated as a hedging instrument, an instrument must also be assessed, at inception and on an ongoing basis, to be highly effective in offsetting changes in fair values or cash flows of hedged items.

To the extent the maturity of the financial instrument is more than 12 months from the balance sheet date, the fair value is reported as a non-current asset or non-current liability. All other derivative financial instruments are reported as current assets or current liabilities.

Fair value hedges
Changes in fair value of derivative financial instruments, that are designated and qualify as fair value hedges, are recognised in the income statement together with changes in the fair value of the hedged item. The Company currently only applies fair value hedge accounting to the hedging of fixed interest rate risk on borrowings.

Cash flow hedges
Changes in fair value of the effective portion of derivative financial instruments, that are designated and qualify as cash flow hedges, are initially recognised in other comprehensive income. Changes in fair value of any ineffective portion are recognised immediately in the income statement. To the extent changes in fair value are recognised in other comprehensive income, they are recycled to the income statement in the periods in which the hedged item affects the income statement. The Company currently only applies cash flow hedge accounting to the hedging of floating interest rate risk on certain loans due to subsidiary undertakings and bank and other borrowings.

If the forecast transaction to which the cash flow hedge relates is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is transferred to the income statement immediately. If the hedging instrument is sold, expires or no longer meets the criteria for hedge accounting the cumulative gain or loss previously recognised in other comprehensive income is transferred to the income statement when the forecast transaction is recognised in the income statement.

Derivatives not meeting the criteria for hedge accounting
Where derivatives do not meet the criteria for hedge accounting, changes in fair value are recognised immediately in the income statement. The Company utilises a large number of foreign currency forward contracts to mitigate against currency fluctuations. The Company has determined that the additional costs of meeting the extensive documentation requirements in order to apply hedge accounting under IAS 39 'Financial Instruments: Recognition and Measurement' are not merited.

Borrowings

Borrowings are initially recognised at fair value, being proceeds received less directly attributable transaction costs incurred. Borrowings are generally subsequently measured at amortised cost at each balance sheet date with any transaction costs amortised to the income statement over the period of the borrowings using the effective interest method. Certain borrowings however are designated as fair value through profit and loss at inception, where the Company has interest rate derivatives in place which have the economic effect of converting fixed rate borrowings into floating rate borrowings. Such borrowings are measured at fair value at each balance sheet date with any movement in fair value recorded in the income statement.

Any related interest accruals are included within borrowings. Borrowings are classified as current liabilities falling due within one year unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted from the proceeds recorded in equity.

Own shares represent shares in the Company that are held by an independently managed Employee Share Ownership Trust. Consideration paid for own shares, including any incremental directly attributable costs, is recorded as a deduction from retained earnings. Details of own shares in the Company is presented in note 37 to the Group consolidated financial statements.

Dividends

Interim dividends are recognised as liabilities when they are approved by the Board. Final dividends are recognised as liabilities when they are approved by the shareholders. Details of the dividends paid and proposed by the Company are disclosed in note 16 to the Group consolidated financial statements.

Share buyback

The total consideration payable for shares purchased is deducted from retained earnings. The shares when purchased are generally cancelled, unless they are to be used to satisfy obligations under employee share plans. The nominal value of cancelled shares is transferred from share capital to a separate capital redemption reserve. Where the Company has entered into an irrevocable non-discretionary contract to purchase for cancellation, shares on its behalf during a close period, the obligation to purchase shares is recognised in full at inception of the contract, even when that obligation is conditional on the share price. The obligation is remeasured at each balance sheet date with changes recognised in the income statement.

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 and assumptions that have the most significant effect on the amounts included in these financial statements are described below. There are no judgements considered to be critical relating to the year.

Critical accounting estimates and assumptions

Investment in subsidiaries

At least annually, the Company assesses the carrying value of its investments in subsidiaries, which requires estimates to be made of the value in use of each entity. These value in use calculations are dependent on estimates of future cash flows, long-term growth rates and appropriate discount rates to be applied to future cash flows. No reasonably foreseeable change in assumptions would cause a significant impairment to be recognised.

Retirement benefit obligations

The liability recognised in respect of retirement benefit obligations is dependent on a number of estimates including those relating to mortality, inflation, salary increases and the rate at which liabilities are discounted. External actuarial advice is taken with regard to the most appropriate assumptions to use. Further details on these estimates, and sensitivities of the retirement benefit obligations to these estimates, are provided in note 12.

4. Intangible assets

	Software £'m
At 1 January 2015	
Cost	43.0
Accumulated amortisation	(10.3)
Net book amount	32.7
Year ended 31 December 2015	
Opening net book amount	32.7
Additions	6.1
Amortisation	(4.6)
Net book amount	34.2
At 31 December 2015	
Cost	49.1
Accumulated amortisation	(14.9)
Net book amount	34.2
Year ended 31 December 2016	
Opening net book amount	34.2
Additions	7.4
Amortisation	(7.2)
Net book amount	**34.4**
At 31 December 2016	
Cost	56.5
Accumulated amortisation	(22.1)
Net book amount	**34.4**

Software assets include costs relating to the Group's enterprise resource planning system. The asset has a net book amount of £22.7 million (2015: £24.1 million) and has a remaining amortisation period of 4 years (2015: 5 years).

Notes to the financial statements of the Company continued

5. Property, plant and equipment

	Leasehold property £'m	Plant, equipment and vehicles £'m	Total £'m
At 1 January 2015			
Cost	0.6	3.3	3.9
Accumulated depreciation	(0.3)	(1.8)	(2.1)
Net book amount	0.3	1.5	1.8
Year ended 31 December 2015			
Opening net book amount	0.3	1.5	1.8
Additions	–	2.9	2.9
Depreciation	–	(0.7)	(0.7)
Net book amount	0.3	3.7	4.0
At 31 December 2015			
Cost	0.6	6.2	6.8
Accumulated depreciation	(0.3)	(2.5)	(2.8)
Net book amount	0.3	3.7	4.0
Year ended 31 December 2016			
Opening net book amount	0.3	3.7	4.0
Additions	0.2	0.8	1.0
Disposals	–	(0.1)	(0.1)
Depreciation	(0.1)	(1.6)	(1.7)
Net book amount	**0.4**	**2.8**	**3.2**
At 31 December 2016			
Cost	0.8	6.6	7.4
Accumulated depreciation	(0.4)	(3.8)	(4.2)
Net book amount	**0.4**	**2.8**	**3.2**

6. Investments

	2016 £'m	2015 £'m
Shares in subsidiaries:		
At 1 January	**2,070.9**	2,070.1
Capital contributions	**5.2**	2.8
Less contributions from subsidiary companies	**(2.1)**	(2.0)
At 31 December	**2,074.0**	2,070.9

A list of all subsidiaries is included in note 45 to the Group consolidated financial statements on pages 150 to 152.

7. Other receivables

	2016 £'m	2015 £'m
Amounts owed by subsidiary undertakings	**1,374.4**	1,135.5
Prepayments and accrued income	**4.2**	6.3
Other receivables	**1.9**	0.5
Total	**1,380.5**	1,142.3

Amounts owed by subsidiary undertakings are unsecured.

8. Trade and other payables – current

	2016 £'m	2015 £'m
Trade payables	**3.5**	6.8
Amounts owed to subsidiary undertakings	**108.7**	44.9
Social security and other taxes	**3.0**	2.1
Accrued expenses	**6.3**	4.3
Other payables	**1.8**	2.8
Total	**123.3**	60.9

Amounts owed to subsidiary undertakings are unsecured.

9. Derivative financial instruments

	2016 Assets £'m	2016 Liabilities £'m	2015 Assets £'m	2015 Liabilities £'m
Interest rate swap – cash flow hedge	**0.5**	**–**	0.7	–
Interest rate swaps – fair value hedges	**20.9**	**–**	24.7	–
Cross currency swaps – not hedge accounted	**1.9**	**–**	4.5	–
Treasury lock – not hedge accounted	**–**	**–**	3.7	–
Foreign currency forward contracts – not hedge accounted	**85.3**	**(79.2)**	28.7	(26.6)
Total	**108.6**	**(79.2)**	62.3	(26.6)
Less non-current portion:				
Interest rate swap – cash flow hedge	**0.5**	**–**	0.7	–
Interest rate swaps – fair value hedges	**19.0**	**–**	24.7	–
Cross currency swaps – not hedge accounted	**0.4**	**–**	–	–
Foreign currency forward contracts – not hedge accounted	**24.8**	**(46.9)**	3.1	(13.7)
Non-current portion	**44.7**	**(46.9)**	28.5	(13.7)
Current portion	**63.9**	**(32.3)**	33.8	(12.9)

The Company is exempt from certain FRS 101 disclosures as the Group consolidated financial statements give the disclosures required by IFRS 7 (see note 31 to the Group consolidated financial statements on pages 136 to 137).

The loss recorded in the income statement within net operating costs arising from the remeasurement at fair value of derivative financial instruments was £12.1 million (2015: Gain £12.8 million).

The contract or underlying principal amount of foreign currency forward contracts in respect of assets was £678.3 million (2015: £497.3 million) and in respect of liabilities was £762.4 million (2015: £598.3 million).

Foreign currency forward contracts

	2016 Assets £'m	2016 Liabilities £'m	2015 Assets £'m	2015 Liabilities £'m
Fair value:				
US dollar forward sales and purchases (USD/£)	**76.4**	**(61.8)**	21.2	(13.0)
Forward sales and purchases denominated in other currencies	**8.9**	**(17.4)**	7.5	(13.6)
Total	**85.3**	**(79.2)**	28.7	(26.6)

Notes to the financial statements of the Company continued

10. Bank and other borrowings

	2016 £'m	2015 £'m
Current		
Bank loans	–	0.3
Other loans	175.2	3.1
Total	175.2	3.4
Non-current		
Bank loans	–	406.7
Other loans	825.3	424.8
Total	825.3	831.5
Analysis of bank and other borrowings repayable:		
In one year or less	175.2	3.4
In more than one year but not more than five years	231.8	739.9
In more than five years	593.5	91.6
Total	1,000.5	834.9
Analysis of bank and other borrowings:		
Drawn under committed facilities	971.1	814.2
Less unamortised debt issue costs	(1.7)	(1.1)
Fair value adjustments to fixed rate borrowings	19.2	18.4
Interest accruals	11.9	3.4
Total	1,000.5	834.9

Debt issue costs are amortised over the period of the facility to which they relate. The Company has no secured borrowings (2015: £Nil).

The Company has the following committed facilities:

	2016			2015		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
2010 Senior notes (USD 600.0 million)	485.6	–	485.6	407.1	–	407.1
2016 Senior notes (USD 600.0 million)	485.6	–	485.6	–	–	–
Bilateral credit facilities (USD 600.0 million)	–	–	–	407.1	–	407.1
Total	971.2	–	971.2	814.2	–	814.2

Further details on each of the above committed facilities can be found in note 29 to the Group consolidated financial statements on page 132.

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

	2016			2015		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
In one year or less	161.9	–	161.9	–	–	–
In more than one year but not more than five years	222.6	–	222.6	729.4	–	729.4
In more than five years	586.7	–	586.7	84.8	–	84.8
Total	971.2	–	971.2	814.2	–	814.2

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

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

	2016		2015	
	Book value £'m	Fair value £'m	Book value £'m	Fair value £'m
Current	175.2	176.7	3.4	3.4
Non-current	825.3	814.9	831.5	839.4
Total	1,000.5	991.6	834.9	842.8

10. Bank and other borrowings continued

After taking account of financial derivatives that alter the interest basis of the financial liabilities entered into by the Company, the interest rate exposure on gross bank and other borrowings is:

As at 31 December 2016:

				Fixed rate borrowings	
	Floating	Fixed	Total	Weighted average interest rate	Weighted average period for which rate is fixed
	£'m	£'m	£'m	%	Years
US dollar	**344.8**	**657.4**	**1,002.2**	**3.8**	**6.6**
Less unamortised debt issue costs	**(0.4)**	**(1.3)**	**(1.7)**		
Bank and other borrowings	**344.4**	**656.1**	**1,000.5**		

As at 31 December 2015:

				Fixed rate borrowings	
	Floating	Fixed	Total	Weighted average interest rate	Weighted average period for which rate is fixed
	£'m	£'m	£'m	%	Years
US dollar	591.7	244.3	836.0	4.2	2.9
Less unamortised debt issue costs	–	(1.1)	(1.1)		
Bank and other borrowings	591.7	243.2	834.9		

The weighted average interest rate reflects the relative impact of interest rates based on the principal amounts and the duration of borrowings.

11. Deferred tax

Movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances, are as follows:

Deferred tax assets

	Retirement benefit obligations	Other	Total
	£'m	£'m	£'m
At 1 January 2015	36.0	0.1	36.1
Charge to income statement	(4.0)	(0.1)	(4.1)
Charge to other comprehensive income	(9.2)	–	(9.2)
At 31 December 2015	22.8	–	22.8
Charge to income statement	(6.2)	–	(6.2)
Credit to other comprehensive income	20.4	–	20.4
At 31 December 2016	**37.0**	**–**	**37.0**

Deferred tax liabilities

	Accelerated tax depreciation	Other	Total
	£'m	£'m	£'m
At 1 January 2015	(2.9)	–	(2.9)
Charge to income statement	–	(1.2)	(1.2)
Charge to other comprehensive income	–	(0.3)	(0.3)
Credit to equity	–	0.3	0.3
At 31 December 2015	(2.9)	(1.2)	(4.1)
Credit to income statement	0.8	0.8	1.6
Credit to other comprehensive income	–	0.1	0.1
Credit to equity	–	0.2	0.2
At 31 December 2016	**(2.1)**	**(0.1)**	**(2.2)**

After taking account of the offsetting of balances, deferred tax assets are analysed as follows:

	2016 £'m	2015 £'m
To be recovered within one year	**–**	3.0
To be recovered after more than one year	**34.8**	15.7
Total	**34.8**	18.7

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 on the Meggitt Pension Plan in these financial statements. Further details on the plan are reported in note 34 to the Group consolidated financial statements on pages 139 to 143 in respect of the UK scheme.

The total charge to net operating expenses in respect of the defined contribution scheme in which employees of the Company participate was £1.1 million (2015: £1.0 million).

Changes in the present value of retirement benefit obligations

	2016			2015		
	Liabilities (*) £'m	**Assets (**) £'m**	**Total £'m**	Liabilities (*) £'m	Assets (**) £'m	Total £'m
At 1 January	**637.1**	**(515.0)**	**122.1**	681.4	(501.4)	180.0
Service cost	**6.8**	**–**	**6.8**	7.1	–	7.1
Interest expense/(income)	**24.0**	**(20.0)**	**4.0**	24.2	(18.2)	6.0
Contributions – Company	**–**	**(43.0)**	**(43.0)**	–	(27.7)	(27.7)
Contributions – members	**–**	**–**	**–**	0.1	(0.1)	–
Benefits paid	**(20.9)**	**20.9**	**–**	(20.0)	20.0	–
Curtailments	**(1.2)**	**–**	**(1.2)**	–	–	–
Remeasurement of retirement benefit obligations:						
Experience gains	**(9.3)**	**–**	**(9.3)**	(22.6)	–	(22.6)
Gain from change in demographic assumptions	**(9.8)**	**–**	**(9.8)**	(1.3)	–	(1.3)
Loss/(Gain) from change in financial assumptions	**202.3**	**–**	**202.3**	(31.8)	–	(31.8)
Return on scheme assets excluding amounts included in finance income	**–**	**(63.0)**	**(63.0)**	–	11.6	11.6
Total remeasurement loss/(gain)	**183.2**	**(63.0)**	**120.2**	(55.7)	11.6	(44.1)
Administrative expenses borne directly by scheme	**–**	**0.7**	**0.7**	–	0.8	0.8
At 31 December	**829.0**	**(619.4)**	**209.6**	637.1	(515.0)	122.1

* Present value of scheme liabilities.
** Fair value of scheme assets.

Details on the sensitivity of scheme liabilities to changes in assumptions are provided below:

- The impact of a 50 basis point reduction in discount rate would cause scheme liabilities at 31 December 2016 to increase by approximately £94.0 million.
- The impact of a 10 basis point increase in inflation and salary inflation rates would cause scheme liabilities at 31 December 2016 to increase by approximately £16.0 million.
- The impact of assuming every scheme member were to live for an additional year would cause scheme liabilities at 31 December 2016 to increase by approximately £29.0 million.

The above sensitivity analyses are based on a change in a single assumption while keeping all other assumptions constant. In practice, this is unlikely to occur, and changes in some assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method of calculating the defined benefit obligation has been used as when calculating the retirement benefit obligations recognised in the balance sheet. The methods and types of assumptions used in preparing the sensitivity analysis are consistent with the previous year. The sensitivity provided in respect of the discount rate has been increased to 50 basis points this year, reflecting the average movement experienced over the last five years. No change has been considered necessary to other sensitivity levels, given recent past experience.

The weighted average duration of the UK scheme defined benefit obligation is 20.2 years.

The expected maturity of undiscounted pension benefits at 31 December 2016 is as follows:

	Total £'m
Less than a year	18.5
Between 1-2 years	19.7
Between 2-5 years	65.3
Between 5-10 years	137.2
Between 10-15 years	165.2
Between 15-20 years	183.6
Between 20-25 years	188.3
Over 25 years	725.2
Total	**1,503.0**

13. Share capital

Disclosures in respect of share capital of the Company are provided in note 35 to the Group consolidated financial statements on page 143.

14. Share-based payment

Share options have been granted to employees of the Company under various plans. Details of the general terms and conditions of each share-based payment plan are given in the Director's remuneration report on pages 66 to 88. Disclosure is also made in the Group consolidated financial statements in note 36 on page 144.

15. Commitments

Capital commitments

The Company has no capital commitments (2015: Nil).

Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2016 £'m	2015 £'m
In one year or less	**0.1**	0.1
In more than one year but not more than five years	**0.4**	0.4
In more than five years	**–**	0.1
Total	**0.5**	0.6

16. Other information

Directors' remuneration

Details of the remuneration paid to directors of the Company has been presented in the Directors' remuneration report on pages 66 to 88.

Auditor's remuneration

Details of remuneration paid for the audit of the Company is given in note 7 to the Group consolidated financial statements on page 118.

Employee information

The average number of persons employed by the Company in the financial year was 183 (2015: 175). Total staff costs, excluding share-based payment charges, for the year were £26.5 million (2015: £21.4 million).

Five-year record

	2016 £'m	2015 £'m	2014 £'m	2013 £'m	2012 £'m
Revenue and profit					
Revenue	**1,992.4**	1,647.2	1,553.7	1,637.3	1,605.8
Underlying profit before tax	**352.1**	310.3	328.7	377.8	366.0
Exceptional operating items	**(15.5)**	(10.4)	(9.0)	(36.7)	(15.2)
Amounts arising on the acquisition, disposal and closure of businesses	**39.1**	(0.2)	(3.5)	8.3	1.9
Amortisation of intangible assets acquired in business combinations	**(98.6)**	(71.9)	(68.1)	(74.3)	(80.6)
Disposal of inventory revalued in business combinations	**(4.6)**	(1.6)	–	(0.3)	(0.2)
Financial instruments	**(66.4)**	(4.8)	(29.2)	6.1	23.4
Net interest expense on retirement benefit obligations	**(10.6)**	(11.2)	(10.0)	(11.5)	(14.0)
Profit before tax	**195.5**	210.2	208.9	269.4	281.3
Earnings and dividends					
Earnings per share – basic	**22.1p**	23.2p	22.0p	29.4p	30.1p
Earnings per share – underlying	**34.8p**	31.6p	32.4p	37.5p	36.5p
Dividends per ordinary share in respect of the year	**15.10p**	14.40p	13.75p	12.75p	11.80p
Gearing ratio					
Net debt as a percentage of total equity	**48.0%**	48.3%	26.9%	27.2%	33.7%

Investor information

Contacts

Investor relations

T: 01202 597597
E: investors@meggitt.com

Information on Meggitt PLC, including the latest share price: www.meggitt.com

Shareholder enquiries

Registrar:
Computershare Investor
Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

T: 0370 703 6210
E: www.investorcentre.co.uk/contactus

Enquiries about the following administrative matters should be addressed to Meggitt PLC's registrar:

- Change of address notification.
- Lost share certificates.
- Dividend payment enquiries.
- Dividend mandate instructions. Shareholders may have their dividends paid directly into their bank or building society accounts by completing a dividend mandate form. Dividend confirmations are sent directly to shareholders' registered addresses. In April 2016, dividend tax vouchers were replaced by dividend confirmations in line with the introduction of a tax-free dividend allowance which replaced dividend tax credits, announced as part of the UK Government Budget in July 2015.
- Amalgamation of shareholdings. Shareholders who receive more than one copy of the annual report are invited to amalgamate their accounts on the share register.

Shareholders can view and manage their shareholdings online at www.investorcentre.co.uk, including updating address records, making dividend payment enquiries, updating dividend mandates and viewing the latest share price. Shareholders will need their Shareholder Reference Number (SRN), which can be found on their share certificate or a recent dividend tax voucher or dividend confirmation, to access this site. Once signed up to Investor Centre, an activation code will be sent to the shareholder's registered address to enable the shareholder to manage their holding.

Other useful contacts

Share dealing services are provided for shareholders by Computershare Investor Services PLC. These services are provided by telephone (0370 703 0084) and online (to access the service, shareholders should have their SRN and log onto www.computershare.com/dealing/uk).

ShareGift (www.sharegift.org, registered charity number 1052686): PO Box 72253, London, SW1P 9LQ (0207 930 3737). ShareGift, the independent share donation charity, is especially useful for those who may want to dispose of a small number of shares which are uneconomic to sell on their own. Shares which have been donated to ShareGift are aggregated and sold when practicable, with the proceeds passed on to a wide range of UK registered charities.

Other Information

Dividends

The proposed 2016 final dividend of 10.30p per ordinary share, if approved, will be paid on 5 May 2017 to shareholders on the register on 24 March 2017. The expected payment date for the 2017 interim dividend is 29 September 2017.

2017 provisional financial calendar

Full-year results for year ended 31 December 2016	**28 February**
2016 Final dividend ex-dividend date	23 March
2016 Final dividend record date	24 March
Report and accounts for year ended 31 December 2016 despatched	24 March
Deadline for receipt of dividend reinvestment plan elections	11 April
AGM	**27 April**
2016 Final dividend payment date	5 May
Interim results for period ended 30 June 2017	**1 August**
2017 Interim dividend ex-dividend date	7 September
2017 Interim dividend record date	8 September
Deadline for receipt of dividend reinvestment plan elections	15 September
2017 Interim dividend payment date	29 September

Key dates 2017

FEBRUARY	APRIL	MAY
28 Full-year results	27 AGM	5 2016 Final dividend payment

AUGUST	SEPTEMBER
1 Interim results	29 2017 Interim dividend payment

Glossary

ADS	Aerospace, Defence, Security and Space Organisation
Aftermarket (AM)	Spares and repairs
AGM	Annual general meeting
AR&T	Applied research and technology
ASK	Available seat kilometres
Basis point	One-hundredth of a percent
BEPS	Base Erosion and Profit Shifting
Board	Board of directors
Book to bill	The ratio of orders received to revenue recognised in a specific period
Bronze stage	Fourth stage of MPS
Business jets	Aircraft used for non-commercial operations
CAGR	Compound annual growth rate
Capability	Expertise in technology and manufacturing
CGU	Cash generating unit
CHF	Swiss franc
CI	Continuous improvement
CLAAW	Closed loop adaptive assembly workbench
CO_2	Carbon dioxide
Code	UK Corporate Governance Code 2014
CODM	Chief operating decision maker
Company	Meggitt PLC
Condition-monitoring	Monitoring the condition of aerospace and land-based turbines and supporting equipment to predict wear and tear, promoting safety, up-time and planned maintenance
Continuing Resolution	Appropriations legislation restricting modification from prior-year funding patterns
CR	Corporate responsibility
CREST	Certificateless Registry for Electronic Share Transfer
CSS	Customer Services & Support, Meggitt's centralised aftermarket organisation
D&A	Depreciation and amortisation
DECC	Department of Energy & Climate Change
DEFRA	Department for Environment, Food & Rural Affairs
DFARS	Defense Federal Acquisition Relation Supplement
DLA	Daily layered accountability, the nervous system of the Meggitt Production System, DLA is a multi-layered structure of interlocking meetings at the start of each working day that flows fresh, accurate performance and operational information up and down the business enabling problems to be solved quickly by those best equipped to do so
DoD	(United States) Department of Defense
DPPM	Defective parts per million, a measure of quality
DRIP	Dividend reinvestment plan
DTR	Disclosure Guidance and Transparency Rules
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
ECR	(US) Export Controls Reform
EPP	Equity Participation Plan
EPS	Earnings per Share
ESOS	Energy Savings Opportunity Scheme
ESOS	Executive Share Option Scheme
EU	European Union
FCA	Financial Conduct Authority
FIFO	First-in first-out
FIRST	For Inspiration and Recognition of Science and Technology
FOC	Free of charge
FRC	Financial Reporting Council
FRS	Financial Reporting Standard
FTSE	Share index of companies listed on the London Stock Exchange
GAAP	Generally Accepted Accounting Practice
GBP	British pound or pound sterling
GDP	Gross domestic product
GHG	Greenhouse gas
Group	Meggitt PLC and its subsidiaries
Group Leadership Team	Assists the Chief Executive to develop and implement the Group's strategy, manage operations and discharge responsibilities delegated by the board
HMRC	HM Revenue & Customs
HSE	Health, safety and environment
IAS	International Accounting Standards
IET	Institution of Engineering and Technology
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
MABS	Meggitt Aircraft Braking Systems, one of five Meggitt divisions
M&A	Mergers and acquisitions

MCS	Meggitt Control Systems, one of five Meggitt divisions
MEG	Meggitt Equipment Group, one of five Meggitt divisions
Meggitt Production System (MPS)	Our single global approach to continuous improvement using tools and processes tailored for the Group, and extending from the factory floor into every function
Mix	The impact on performance of revenue streams with higher or lower profitability growing at differing rates
MoD	UK Ministry of Defence
MPC	Meggitt Polymers & Composites, one of five Meggitt divisions
MPP	Meggitt Pension Plan
MRO	Maintenance, repair and overhaul
MSS	Meggitt Sensing Systems, one of five Meggitt divisions
MTS	Meggitt Target Systems
M^4	Meggitt Modular Modifiable Manufacturing, an advanced manufacturing engineering concept that will underpin the more efficient aerospace factories of the future. They will continue to accommodate low volumes of largely handmade products but those products will become increasingly complex and often involve new manufacturing technologies requiring new kinds of factory operators and managers and new standards of traceability
NPI	New product introduction
OE	Original equipment
OECD	Organisation for Economic Cooperation and Development
OEM	Original equipment manufacturer
Operations excellence	A system of tools and processes that embraces the way in which every aspect of Meggitt is managed from the factory floor to all functions and every level of leadership from supervisors to the Group Executive Committee
Organic growth	Growth excluding the impact of currency and acquisitions and disposals of businesses
OSHA	Occupational Safety and Health Administration
OTD	On-time delivery
PBT	Profit before tax
PCHE	Printed circuit heat exchanger – a block of flat, diffusion bonded plates on to which fluid flow channels have been chemically milled
PFEP	Plan for every part
Platform	Aircraft or ground vehicle model incorporating Meggitt products
PMO	Project management office
PPC	Programme Participation Cost
Programme	The production and utilisation lifecycle of an aircraft model or ground vehicle
PwC	PricewaterhouseCoopers LLP
R&D	Research and development
REACH	Registration, Evaluation and Authorisation of Chemicals
Regional aircraft	Commercial aircraft with fewer than 100 seats
Registrar	Computershare Investor Services PLC
RIDDOR	The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations
RIS	Regulatory Information Service
RMU	Retrofit, modification and upgrade
ROCE	Return on capital employed
ROTA	Return on trading assets
RPH	Retirement Plan Headcount
SAP	The Group's selected enterprise management system
SARs	Share appreciation rights
Shipset	Value of Meggitt's content on aircraft platforms
SIP	Share Incentive Plan
Smart engineering for extreme environments	What Meggitt specialises in: long-life, highly reliable, often mission-critical products that must operate effectively in the harsh conditions of aero-engines, oil and gas and power generation environments and combat
SRN	Shareholder Reference Number
STIP	Short Term Incentive Plan
TSR	Total shareholder return
UAV	Unmanned aerial vehicle
UKLA	UK Listing Authority
USD	United States dollar
WACC	Weighted average cost of capita
WBCSD	World Business Council for Sustainable Development
WRI	World Resources Institute

Company information

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

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

www.meggitt.com

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Company number 432989

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