

MEGGITT

# Enabling the Extraordinary

To Fly To Power To Live

# Introduction

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


Through focusing on **engineering and operational excellence**, we build broad installed bases of equipment for which we provide **through life services and support**.

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




### Strong portfolio

Diverse end market exposure  
with four aligned divisions

 See more on page 20


### Focus on sustainability

Next-generation technologies  
that create more sustainable  
and efficient aircraft, engines,  
power and defence systems

 See more on page 68

### Strong leadership

Leading through the  
pandemic: responding and  
adapting to the external  
environment

 See more on page 14



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We deliver innovative solutions for the most demanding environments. Our differentiated products and technologies satisfy the highest requirements for product safety, performance and reliability and we continue to prioritise investment in sustainable solutions for our customers.

## CEO statement

Continuing to support our customers while keeping our employees safe.

 See page 10



## Response to COVID-19

Adapting and responding to the sudden change in the external environment.

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## Our strategy

Remaining focused on operational execution and our four strategic priorities.

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## Business model

Innovation is at the heart of what we do with safety, reliability and operating and environmental performance underpinning our approach.

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## Delivering the future

Remaining committed to our investment in technology.

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## Corporate responsibility

We are committed to protecting our people and planet to develop technologies for the benefit of future generations.

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## Our vision

# Enabling the Extraordinary

To Fly To Power To Live

# 01

## To Fly

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

Every second of every day a Meggitt enabled aircraft takes off.<sup>1</sup>

# 02

## To Power

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

Enabling advances in cleaner energy with innovative technology.

Strategic Report – 1-89



<sup>1</sup> Reflects pre-COVID-19 normalised traffic in 2019.

# 03

## To Live

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

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



## Performance

### Financial summary

**£1,684m**

Revenue  
2019: £2,276m

**£191m**

Underlying operating profit<sup>1</sup>  
2019: £403m

**£773m**

Net debt  
2019: £911m

**£32m**

Free cash flow<sup>2</sup>  
2019: £268m

**16.5p**

Underlying basic earnings per share<sup>3</sup>  
2019: 37.3p

**£908m**

Liquidity headroom<sup>4</sup>  
2019: £806m

**2.2x**

Net debt: EBITDA<sup>5</sup>  
2019: 1.5x

**£334m**

Statutory loss before tax  
2019: Profit of £287m

### Strategic highlights

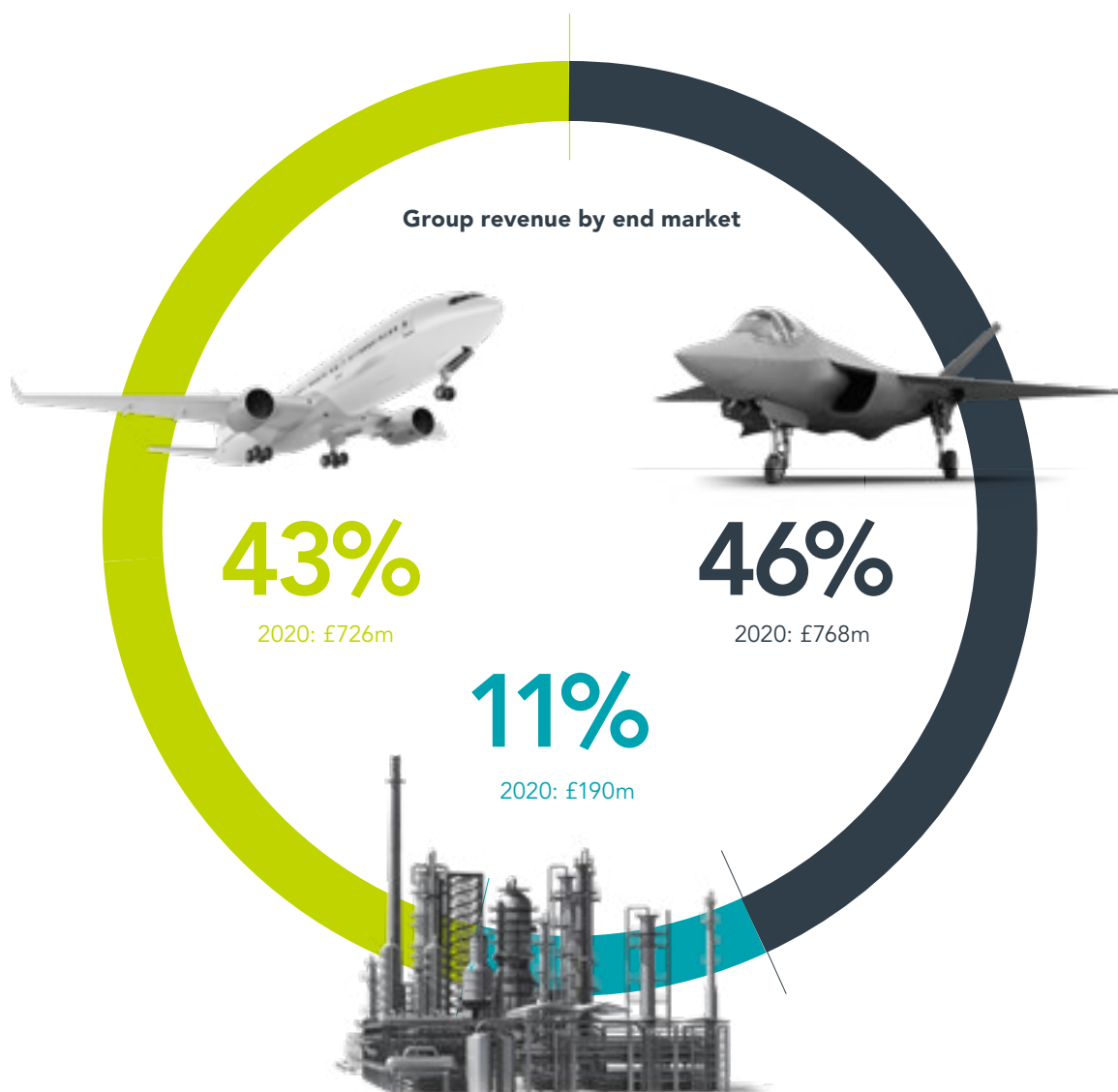
- Kept our people safe while continuing to support our global customers
- Lowered net debt by £138m
- Completed the streamlining of our portfolio with the sale of Training Systems
- Addition of 14 SMARTSupport® contracts, securing market share in the aftermarket
- Investment in operational capability with the opening of our new Ansty Park campus
- Accelerated sustainability strategy under People, Planet and Technology framework

- 1 Underlying operating profit is reconciled to operating profit in note 9 to the Group's consolidated financial statements on page 180.
- 2 Free cash flow is reconciled to cash from operating activities in note 42 to the Group's consolidated financial statements on page 214.
- 3 Underlying earnings per share is reconciled to basic earnings per share in note 14 to the Group's consolidated financial statements on page 184.
- 4 Liquidity headroom is the difference between the Group's committed credit facilities and its net borrowings (excluding lease liabilities).
- 5 As calculated in accordance with covenants in the Group's committed credit facilities as described on page 49.

## At a glance

# Diverse end-market exposure

Group revenue by end market



### Aerospace

#### Unique technologies for aerospace

Civil aerospace accounts for 43% of Group revenue, with products and sub-systems installed on almost every jet airliner, regional aircraft and business jet in service today.

### Energy & other

#### Keeping the lights on

Energy & Other accounts for 11% of Group revenue. We supply unique technology to enable clean and efficient production and use of natural gas and support nuclear, hydro-electric and novel clean-energy power generation.

### Defence

#### Protecting defence forces worldwide

Defence represents 46% of Group revenue. We have equipment on an installed base of around 22,000 fixed wing and rotary aircraft and a significant number of ground vehicles.



# Four vertically integrated customer aligned divisions

## Airframe Systems

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

**47%**  
of revenue

## Engine Systems

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

**14%**  
of revenue

## Energy & Equipment

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

**20%**  
of revenue

## Services & Support

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

**19%**  
of revenue

## Global coverage



Total Group

Employees  
**9,280**

North America

Employees Locations

**4,871 17**

United Kingdom

Employees Locations

**2,305 10**

Rest of World

Employees Locations

**1,111 6**

Europe

Employees Locations

**993 4**

## Chairman's statement

**“I am extremely grateful to our employees for their dedication throughout an extremely tough year.”**



### Introduction

While 2019 will be remembered as the year that saw a step change in awareness of the threat posed by climate change, the events of 2020 will also go down in history as a time when the world faced one of its biggest challenges for generations.

And just as climate change requires the collective actions of individuals, businesses and governments worldwide, so too has the outbreak of COVID-19 and the knock-on impact this has had on peoples' lives everywhere.

While there is no doubt that the impact of the pandemic on civil aerospace has been unprecedented, the breadth of the Group's end-market exposure across civil aerospace, defence and energy, coupled with the work we have done in recent years to streamline and strengthen the Group, has been key in helping us navigate our way successfully through the crisis.

Having been asked by the Board to stay on as Chairman to provide stability and continuity throughout this difficult period, I have ensured that the Board's number one priority has been, and continues to be, to keep our employees and sites safe, while continuing to meet the needs of customers through the adoption of a number of new working practices across the Group.

Meggitt has also played an important role in supporting our local communities, whether utilising our facilities and employees for the production of personal protective equipment or through participation in initiatives like the Ventilator Challenge in the UK.

In light of the significant reduction in demand in our civil aerospace business, we had to take a number of actions during the year in order to protect cash, reduce our cost base and position ourselves for the recovery. Part of this has meant taking the difficult, but necessary decision to reduce the size of the Group and our headcount, to ensure that we are well placed in 2021 as the recovery in civil aerospace gathers momentum.

I am extremely grateful to and proud of our employees for demonstrating outstanding levels of determination and dedication throughout what has been an extremely challenging 2020.

While we remain vigilant and agile to changes in the external environment, there is significant pent-up demand to travel and as a result of the development and rollout of a number of vaccines, improvements in testing and treating COVID-19, as well as stable conditions across our defence and energy end markets, the outlook for the Group is encouraging.



## 2020 performance

Having delivered another year of strong organic growth across our end markets and record profits for the Group in 2019, we saw another good performance from our defence business in 2020, which represented 46% of Group revenue, and which, along with energy, helped to mitigate the significant reduction in end-market demand and revenue in our civil aerospace business.

The overall performance of the Group in the year not only demonstrates our diverse end-market exposure, but also the fact that we entered the year in a strong position, reflecting the progress we have made in executing our strategy in recent years, making the business more resilient and more competitive.

As a result of our focus on managing costs and preserving cash, along with the divestment of our Training Systems business as we continued to optimise our portfolio, we have reduced our year-end net debt levels with our key balance sheet ratios remaining well within covenant limits. This represents a significant achievement and testament to the work done by our employees in moving quickly to adjust to the rapid change in market conditions.

Where possible, we have sought to safeguard future growth by protecting investment in new technologies, an important measure as we look to support our customers in new projects, including those focused on making aviation more sustainable and the development of talent through continued investment in both our graduate and apprentice programmes.

As we look ahead, and as the recovery continues, we have already reinstated a number of key projects, most notably the move to Ansty Park which we look forward to completing in 2021.

## Capital allocation

As a consequence of the Group's focus on preserving cash and protecting profit, the Board and the Group had to adjust the allocation of capital in 2020.

On our first priority, investing in the business to deliver future long-term sustainable growth, we entered 2020 at a peak in the investment cycle with a significant amount of expenditure already committed to key projects such as the move to Ansty Park and expansion of our carbon furnace capacity in the UK and US. Clearly, the decision to delay these important projects has meant that expenditure has been scaled back compared with our original plans at the start of the year. Looking forward, while we will maintain a disciplined approach to capital expenditure, we will continue to invest in developing sustainable and differentiated technologies, world-class facilities and recruiting and retaining the best talent, all of which are critical to our future success.

The Board recognises the importance of the dividend to shareholders and so our decisions to cancel the final dividend for 2019 and the interim and final dividends for 2020 were difficult. Subject to prevailing market conditions, it is the Board's intention to restore the payment of a dividend at the appropriate time.

Thirdly, the Board regularly discusses the Group's strategy and has a clear view on how we can improve and strengthen its position with carefully targeted acquisitions to complement our existing portfolio. During the year, we continued to enhance and optimise our portfolio through the sale of Training Systems, enabling us to further sharpen our focus on attractive aerospace, defence and selected energy markets where we have or can leverage our differentiated technology to achieve a strong position. The core focus of the Board throughout 2020 has been to ensure we navigate the downturn in civil aerospace and maintain sufficient headroom between our net debt levels and covenants. As we look ahead to 2021, we will continue to ensure we manage the balance sheet effectively and appropriately as the recovery continues.

## Board interaction/developments

The Board has operated effectively during the year through virtual meetings, with a higher cadence of interactions necessitated by the market environment. In particular, both Alison Goligher, Chair of the Remuneration Committee and Colin Day, Chair of the Audit Committee, have had to dedicate additional time to their duties because of the impact of COVID-19 on the Group.

As in previous years, I have continued the process of direct engagement with our top shareholders throughout the year, discussing a range of topics.

Alongside continuing the implementation of our strategy, the main focus areas for the Board throughout 2020 were monitoring progress on the recovery, maintenance of a robust balance sheet and right-sizing the business to ensure we are well placed for the recovery.

With no changes to the membership of the Board in 2020, this has provided important continuity and consistency throughout the year and will continue to do so as we move through 2021.

I am also pleased to report that Nancy Gioia, Chair of the Corporate Responsibility Committee and Non-Executive Director responsible for employee engagement, was able to continue her engagement activities across the Group remotely.

## People

We have no higher priority than ensuring a safe and secure working environment for all employees. As well as the introduction of additional measures at each site to protect our people and reduce the risk of infection, I am also pleased to report an improvement in our overall safety performance during the year, with a reduction in our Total Recordable Incident Rate to 0.70 (2019: 0.74).

The Board is pleased that our work on culture could continue during the crisis, not only through monthly culture briefings run for all of our leaders, but also through our Inclusion Week in October, which had a real impact in helping to introduce and connect more of our employees across Meggitt to our eight Employee Resource Groups.

I am also very encouraged that the work we have done to create a positive culture has been reflected in our Employee Engagement score which, despite extremely challenging circumstances, remained high and above the 2018 level with a very good participation rate.

Although no site visits have been possible in 2020, the Board has been able to monitor the impacts of COVID-19 on employee morale and culture. This has been achieved through direct engagement with senior executives as well as the ongoing activities of Nancy Gioia, which included virtual meetings with cross sections of employees from the UK, US and Asia, as well as more specific engagements with HR, graduates, apprentices and those involved in our culture programme and Employee Resource Groups for diversity and inclusion.

Navigating the crisis has required agility in establishing strong leadership across the Group, particularly our line managers, operational leaders, finance and human resources teams. On behalf of the Board, I would like to thank these leaders and indeed all employees for their resilience, dedication and hard work during the most testing circumstances.

In particular, I'd like to thank those that have continued to work at our sites from the very beginning of the crisis to deliver for our customers throughout the year.

## Looking ahead

With a focused portfolio, strong market positions and diverse end-market exposure and having moved quickly and decisively in response to the crisis, Meggitt is well placed to benefit from the recovery as air travel returns in 2021 and beyond.

**Sir Nigel Rudd**  
Chairman

## CEO's statement



**"Continuing to support customers while keeping our employees safe."**

### Introduction

Our focus throughout 2020 and as we move into 2021 continues to be ensuring the safety and well-being of our people, protecting our sites, serving our customers and communities and executing our strategy. I want to thank all of my colleagues for their hard work and dedication in helping us navigate our way through the year.

Faced with a reduction in activity and demand in one of our core markets, we acted fast, executed well operationally and took decisive action to position the Group for the recovery in civil aerospace. While our full-year performance has clearly been impacted by the ongoing effects of COVID-19, it also reflects the resilience and diverse nature of the Group and the mitigating impact of our defence and energy businesses.

The rollout of vaccines, coupled with significant pent-up demand to travel, provides a supportive backdrop for the recovery in civil aerospace in 2021, albeit this positive development is likely to take time to feed through into growth in global flight activity and the aftermarket.

Based on the significant progress we've made over the last four years to transform the Group, the effective actions we've taken in 2020, diverse end-market exposure and leading market positions, we are well placed to benefit from the recovery and to continue to deliver long-term profitable growth.

### Our response to the crisis

Leveraging our experience of navigating previous downturns in civil aerospace and through close communication with our customers and supply chain, the Group moved quickly to implement a revised demand scenario for planning purposes and adjusted production levels early in the second quarter.

We took a series of decisive actions focused on safeguarding our people, supporting the community, ensuring that our sites continued to operate and a number of specific actions to preserve cash, reduce cost and reposition the Group for the recovery. Details of our response is set out later in this report.

As a result of the hard work and focus of our global teams to deliver our in-year cash savings, the Group generated £32m of free cash flow which was slightly better than our expectations at the half year. The free cash inflow, combined with proceeds from the sale of Training Systems, meant the Group ended the year with net debt of £773m, some £138m lower than 2019, testament to the Group's focus on tight management of the balance sheet during the most challenging of times.



## Enabling our sustainable future

At Meggitt, we work in partnership with all our stakeholders to enable a sustainable future and have adopted a framework to support our ambition of net zero greenhouse gas emissions by 2050, focusing on three core pillars: People, Planet and Technology. This framework is aligned with the United Nations Sustainability Development Goals and the Taskforce on Climate Related Financial Disclosures:

- **People** – through our core values of Teamwork, Integrity and Excellence and our High Performance Culture we are committed to creating a rewarding, safe and productive working environment for our employees and supporting our local communities. During 2020, we started the rollout of our leadership programme in Operations, introduced our Extraordinary People recognition scheme and expanded the number of Employee Resource Groups to eight with further initiatives planned for 2021.
- **Planet** – our goal is to contribute to a cleaner future by continuously improving and adapting our operational systems across our sites to promote efficiencies and improvements by harnessing green energy, driving operational excellence and reducing harmful emissions, where we have set a target to reduce net carbon emissions by 50% by 2025. While we made progress in a number of areas during the year, including the completion of several sustainability projects at our sites, and from March 2021 sourcing 100% of electricity from green sources in the UK, we recognise that we still have more work to do. We have set reduction targets for our sites in 2021 covering reducing our electricity and natural gas usage, consumption of water and rates of waste to landfill, as we look to build on the progress we have made over the last few years.
- **Technology** – to support the evolving needs of our global customers and building on our rich heritage, we continue to invest in innovative new technologies to support and enable sustainable aviation in areas including thermal and electric aircraft systems, fire protection, composites and optical sensing. In 2020, we made very good progress on a number of these technologies and specific customer projects as set out in our Strategy section.

## Strategy update

### Strategic portfolio

We focus investment in attractive markets where we have, or can develop, a leading position. This encompasses organic investment in differentiated products and manufacturing technologies; targeted, value-enhancing acquisitions; and selective non-core disposals. More than 70% of revenue is generated from sole-source, life-of-programme positions underpinned by Meggitt-owned intellectual property. As such, the continued strengthening of our technology portfolio remains a critical priority of the Group.

In June 2020, we further focused our portfolio with the sale of Training Systems, consistent with our strategy to focus on businesses of scale in markets where leading positions offer exposure to aftermarket revenue, greater potential for growth and operational efficiencies. In January 2021, we completed the sale of our Dunstable (UK) business of designing and manufacturing ducting for a range of space, defence and civil customers. As a result of these disposals, over 80% of our revenue is now generated from businesses in attractive markets and where we have a strong competitive position, above our target set out three years ago.

Despite the challenges posed by COVID-19 and the need to preserve cash, we sustained our investment in differentiated technology. During the year, we met our target of prioritising at least two-thirds of our investment in Applied Research & Technology to enable our customers to deliver the next generation of more sustainable aircraft. Despite changes in normal working patterns, we also maintained strong milestone adherence on our major development and customer programmes. A summary of our key highlights and progress is as follows:

- **Next generation of fuel-efficient engines** – we are positioning and promoting the breadth of our technology with our customers to play a critical role in enabling the development of the next generation of fuel-efficient engines specifically leveraging our capabilities in thermal management, high temperature optical sensing and engine composites. For example, in 2020, our Thermal Systems programme patented technology for six products which will allow a step change in engine thermal management applications.
- **Green fire suppression** – we have made good progress working with major aircraft OEMs with VERDAGENT™, Meggitt's new, proprietary 'green' fire suppressant agent to replace ozone-depleting Halon 1301, with further tests in Europe and the US to approve its engine APU and cargo applications scheduled for 2021.
- **Optical sensing** – we successfully completed the first customer trials of our optical dynamic pressure sensing system for ground-based industrial gas turbines and now have an installation running with a major energy customer. We also remain on track to install this new technology on a demonstrator aero engine with a major OEM in 2021.
- **Engine composites** – significant progress in development of manufacturing processes for advanced gas path engine composite components with thin wall, high structural integrity requirements.
- **Electric flight** – working closely with a customer we have supplied electric motors and motor drive units to support the development of a leading electric urban/air mobility prototype which is undergoing trials.



## CEO's statement continued

# 39

SMARTSupport® contracts  
with an aggregate value of  
c. £190m

# 34%

Reduction in the number of  
global sites since 2016,  
ahead of our original target  
reduction of 25%

We have also continued to leverage advanced manufacturing technology and processes across our sites:

- Additive layer manufacturing (ALM) – working with our UK joint venture partner HiETA, we have applied ALM to build prototype heat exchangers to operate at high temperatures for industrial and aero applications. We have also expanded our US additive manufacturing capability to develop flow valves and production tooling.
- Digital manufacturing – the rollout of advanced digital work instructions and greater use of automation at our sites has resulted in a meaningful increase in productivity and quality, and we are working on plans to deploy this technology more extensively across the Group in 2021.

As reported at the half year, we have intensified our focus on driving improved margin and return on capital in braking systems, while continuing to remain selective on investing in new opportunities. Recognising the change in fleet dynamics as a result of the downturn in civil aerospace, where possible we have re-phased our investment in production capacity with a proportion of our capital commitments moving into 2021 and beyond.

While our focus remains on three core markets: aerospace, defence and selected energy, over the medium term we also look to increase the application of our aero-derivative intellectual property and technology in adjacent markets, including space and ground vehicles, to further strengthen the portfolio.

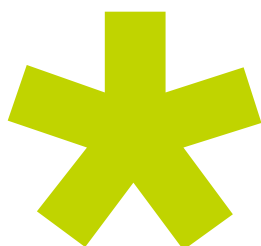
### Customers

Our success in moving from a transactional approach to building long-term relationships through our customer aligned divisions extends our visibility of near-term customer requirements and has enabled us to better support the demand for original equipment and spare parts and maintenance, repair and overhaul (MRO) from our three global hubs for the aftermarket.

During the year, we maintained close contact with our customers which was critical in the creation of our scenarios for planning purposes, including the adjustment of production schedules for original equipment based on new build rates from the OEMs and tracking customer sentiment and buying behaviour by region in the aftermarket. In the period, we continued to win a number of new customer contracts including:

- \$73m from Bell Textron Inc for the supply of composite ice protection components on the V-22 Osprey;
- \$27m for the supply of liquid palletised cooling units for the Boeing P-8A aircraft;
- \$21m for the supply of high-temperature cables for a nuclear energy application;
- \$20m from Northrop Grumman for the supply of fuel bladders on the F/A-18 Super Hornet;
- \$15m from the Defence Logistics Agency to support the supply of fuel bladders; and
- £8m from MODEC for the supply of Heatric printed circuit heat exchangers, representing the largest order for that business in over five years

In Services & Support, we saw continued momentum with SMARTSupport®, our long-term contract offering for aftermarket customers, adding an additional 14 agreements, including those with ST Aerospace, Derco and Ameco Beijing, taking the total number to 39 with an aggregate value of £187m, with a number of additional opportunities in the pipeline. These long-term contracts underpin our aftermarket and market share growth in the future and provide better insights into customer requirements and order patterns.





## Competitiveness

While our priority during the year has been to ensure that people and sites operate safely as we respond to the challenges posed by COVID-19, we remained focused on driving operational improvements in line with our strategy.

We made further progress reducing our global footprint, with site closures and consolidations in the UK (Basingstoke) and the US (Orange County) and the divestment of Training Systems. As a result of these actions and the recent sale of our Dunstable (UK) business, we now have 37 Meggitt manufacturing sites, reduced from our original 56 sites in 2016 and 42 sites at the end of December 2019 and have identified additional opportunities to reduce our footprint by 50% from our 2016 baseline by 2023.

In June 2020, we opened our new UK manufacturing and engineering centre for Braking Systems, Thermal Systems and Services & Support together with our relocated Group Headquarters at Ansty Park in the West Midlands, UK, providing office-based employees that have been working from home with the flexibility to return to the workplace as restrictions allowed. The successful relocation of our teams to Ansty Park will promote more integrated and efficient ways of working across both the Group central functions and the divisions.

Having been deferred due to the disruption caused by COVID-19, the full transition of manufacturing from four UK sites into Ansty Park is well underway, with the capital expenditure associated with this transition also moving into 2021. The transition to Ansty Park is scheduled to be completed by the end of the third quarter in 2021.

On inventory, where we have brought significant improvements in recent years and steadily increased inventory turns from just above 2.0x in 2016 to 2.7x in 2019, our priority in 2020 was to reduce absolute inventory levels as part of our cash preservation measures as we responded to the change in demand from our customers. We used the change in market conditions as an opportunity to tighten our supply parameters and production scheduling (including moving from monthly to weekly deliveries of raw materials). While we made very good progress reducing absolute inventory levels during the year, this will remain a focus area in 2021.

Within purchasing, we offered our suppliers access to an ePayables scheme and supported them gaining access to government schemes in the US, UK and France. Alongside this, we have taken the opportunity to further strengthen and consolidate our supply chain, including identifying opportunities to derive further savings by moving more of our supply base to low-cost countries where appropriate.

Our recovery plan in Engine Composites continued as we applied engineering and process improvements to achieve higher quality and further improvements in yields. During the year, our facility in Saltillo, Mexico, received approval for the manufacture and direct shipment of additional high-volume composite parts to end customers. In addition, lower production of aircraft engines caused by COVID-19 allowed us to accelerate the adoption of new manufacturing technology and transfer of production lines to Mexico, with further high-volume parts transitioning in 2021.

## Culture

Our priority in 2020 was to ensure the health and well-being of our people across our sites and their response to the crisis has been outstanding, enabling us to support all our stakeholders in what have been extremely challenging circumstances.

During the year, our teams used their capabilities to support our local communities in a variety of ways – from supporting the production of critical ventilators for the NHS in the UK, to visors, masks and other protective equipment for key workers.

Over the last three years we have worked hard to build and nurture a High Performance Culture (HPC) and improve engagement where our ambitious and diverse teams help us to accelerate the execution of our strategy. The progress we have made in this area and the support of our employees has been instrumental in the Group being able to respond strongly to the crisis during 2020. While our focus on responding to the crisis necessitated deferring a lot of planned HPC activities into 2021, we did deliver a number of training sessions virtually and in person during the year.

In addition, our customer aligned organisational structure and more integrated approach to working across teams has been a key enabler as we moved quickly to respond to a significant adjustment in demand across our civil business. Despite the huge challenges presented by the need to respond to the pandemic and the re-sizing of the business, our Group-wide Engagement score was maintained at the 'High Performance Norm'<sup>1</sup> with our scores for Alignment and Agility increasing by 2% and 4% respectively, providing reassuring feedback on the manner in which the Group engaged with all employees as we responded to the COVID-19 crisis.

We further strengthened our commitment to Diversity and Inclusion, including a series of activities during Inclusion Week in October 2020 and the introduction of an additional three Employee Resource Groups bringing the total number of groups to eight.

1 Culture IQ employee survey benchmark.

## Outlook

While the rollout of vaccines is expected to ease lockdowns and drive a gradual increase in air traffic activity, which is a positive indicator for the civil aerospace sector and the Group, uncertainties remain in predicting the timing and pace of the civil recovery. At the current time, our assumption is that the trends seen in civil aerospace during the second half of 2020 are likely to continue in the first half of 2021, with recovery weighted more towards the second half of the year. Conditions in our defence and energy end markets are expected to remain robust in 2021.

Assuming no further disruption to normal operations during the year as a result of additional lockdowns, in 2021 we expect the Group to generate:

- Revenue broadly in line with 2020;
- An increase in underlying operating profit versus 2020; and
- Positive free cash flow

We will continually review our assumptions as the year progresses and as we gain greater clarity on the path to recovery in civil aerospace.

While we recognise the need to remain agile and respond quickly to changes in the external environment, based on the significant progress we have made over the last four years to transform the Group, the effective actions we've taken in 2020, our diverse end-market exposure and leading market positions, we are well placed to benefit from the recovery in civil aerospace and to deliver long-term profitable growth.

## Tony Wood

Chief Executive Officer



## Our response to COVID-19

Nobody could have predicted the events of the last 12 months and their impact across the world. Faced with an unprecedented challenge, our Crisis Management Team (CMT) moved quickly to respond and adapt to the sudden change in the external environment and the associated impact on our colleagues, customers and communities.

**"Looking after the well-being of all our colleagues was our first priority. We stringently adhered to national and local health authority guidelines across our global sites, introducing a number of measures including: social distancing, provision of personal protective equipment, changes to work patterns and home working."**



**Andrew Garard,**  
Group General Counsel and Director Corporate Affairs, Chair Crisis Management Team

### 01

Customer aligned and engaged organisation

- Provided highly effective communication channels
- Allowed us to respond quickly and decisively to the anticipated reduction in demand

### 02

Crisis management teams

- Twice-weekly meetings focused on employee safety and business continuity
- Directly reporting to the Board on progress

### 03

Scenario planning and execution

- Developed business scenarios allowing us to manage production levels across the Group
- Output was converted into a number of targeted actions

## Protecting our people and our sites

- Our number one priority remains the well-being of our employees
- Protected colleagues who remained on-site as manufacturing continued right from the start of the crisis
- Introduced global 'Stay the Distance' campaign, social distancing measures including split shifts and one-way systems
- Provided hand sanitiser and temperature stations at all sites, masks and other Personal Protective Equipment
- Enabled office-based employees to work from home
- Provided global support networks to promote and protect the physical and mental well-being of colleagues, including mental health first aiders

## Supporting our communities

- Founding member of a consortium of leading UK businesses on Ventilator Challenge UK
- Our Coventry teams stitched over 49,000 straps for a UK supplier of medical visors to help them meet the demands of health care workers
- Our colleagues in the US made masks for team members and local communities
- Our Rockmart team in Georgia, USA mixed and supplied hand sanitiser for the local community
- Supported food drives for those in need
- Our site in Fribourg provided free meals for emergency services
- Our colleagues in Xiamen, China collected and distributed school uniforms and equipment for children in need

## Preserving cash

- Reduced size of our global workforce
- Reduced pay for Board and Executive Committee; salary sacrifice for senior managers
- Reduced discretionary expenditure including travel and pay freezes
- Cancelled final dividend for 2019 and interim dividend for 2020
- Reduced capital expenditure through re-phasing of projects
- Reduced gross inventory levels across the Group
- Secured forward start on our Revolving Credit Facility
- Accessed Bank of England's and HM Treasury's COVID Corporate Finance Facility and other government support schemes
- Issued \$300m of senior notes in USPP market
- Ended the year with positive free cash flow and substantially lower net debt

## Well placed for the recovery

- Continued to execute our focused strategy to emerge stronger from the crisis
- Remained agile and adaptable to changes in the external environment
- Continued our focus on our values and High Performance Culture with employees and communities at the heart of this
- Positioned to continue to deliver value for all our stakeholders: employees, customers, shareholders, local communities, suppliers and governments
- Strong fundamentals including diverse end-market exposure across civil aerospace, defence and selected energy means we are well placed for the recovery
- Progressive recovery anticipated in the second half of 2021, with positive news on vaccines and significant pent-up demand to travel



## Market review

# 01

## Civil original equipment

### 2020 market trends

- The outbreak of COVID-19 caused a significant reduction in civil air traffic and a dramatic reduction in airline and operator revenue.
- Reduction in demand for new-build aircraft across large, regional and business jets as airlines and operators deferred orders to preserve cash.
- Airframe and engine OEMs significantly cut back production rates, with Airbus and Boeing reducing delivery rates by 34% and 59% respectively.
- 737 MAX returned to service in the US in December 2020 and was authorised to return to service in Europe by EASA in early 2021.

### Meggitt performance in 2020

- Civil OE revenue was down 40% organically, reflecting lower demand for original equipment from the airframe and engine manufacturers.
- In large jets, which is the largest component of our civil OE revenue (68%), revenue was down 44%.
- Revenue from regional jets (6% of civil OE revenue) was 46% lower.
- Revenue from business jets (26% of civil OE revenue) was down 25%, outperforming commercial on a relative basis.
- Within the year, civil OE was down 29% and 51% in the first and second halves respectively, reflecting more normal trading in the first quarter of 2020 before the impact of COVID-19 was felt in civil aerospace markets.

### 2021 outlook

OEM production rates expected to be in line with or slightly up on 2020 levels, as airframe and engine manufacturers begin to gradually increase supply to match demand for new aircraft as air traffic recovers.

Deliveries of new commercial aircraft are expected to exceed production rates as large jet numbers are supported by the delivery of previously manufactured 737 MAX from inventory.

Both production rates and deliveries of commercial aircraft are expected to remain below 2019 levels.

Business jet deliveries are expected to be in line with, or slightly up on, 2020 levels.

Over the medium term, deliveries of new aircraft are expected to take a few years to recover to pre-COVID levels, with most industry commentators estimating this taking place in 2024/2025.

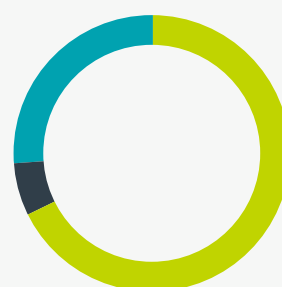
### Revenue

£306m

### Market segments

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

### Group OE revenue by platform category



Large jets	68%
Regional jets	6%
Business jets	26%

### Annual commercial deliveries

Year	Large jets	Regional jets
'20	687	119
'19	1,188	219
'18	1,581	234
'17	1,472	259
'16	1,420	289
'15	1,372	287

■ Large jets  
■ Regional jets

### Annual business jet deliveries

Year	Deliveries
'20	556
'19	707
'18	625
'17	643
'16	651
'15	714

# 02

## Civil aftermarket

### 2020 market trends

COVID-19 and the subsequent imposition of global lockdowns and border closures resulted in a significant reduction in commercial air traffic with ASKs and RPKs down 57% and 66% respectively for the full year vs 2019.

- Flight activity levels started to decline in Q1, with ASKs down 9% and 39% in February and March 2020, respectively.
- Air traffic started to recover at the end of Q2 and through Q3 before plateauing in Q4 as infection levels increased and national lockdowns returned.
- Domestic ASKs down 49% with international traffic down 76% reflecting widespread travel restrictions.
- Business jets outperformed, with total flights in this category down 21% in the year compared with the wider global commercial fleet, which was down 48%.

### Meggitt performance in 2020

- As a result of the reduction in air traffic activity in 2020, Group civil aftermarket revenue was down 41% organically as airlines and other aftermarket customers deferred orders for spare parts and repairs.
- Regionally, within our dedicated Services & Support division, civil aftermarket revenue (excluding Braking Systems) was down 32%, 36% and 34% across APAC, EMEA and the US, respectively.
- Aftermarket revenue for large jets was down 41%, regional jets down 49% and business jets down 32%.
- Civil AM revenue was down 26% and 54% in the first and second halves, respectively, reflecting more normal trading in the first quarter of 2020 before the impact of COVID-19 was felt in civil aerospace markets.

### 2021 outlook

Rollout of vaccines underpins a positive outlook for the continued recovery in civil aerospace.

Expectation that lockdown restrictions could be eased and passenger confidence returns in the second half of 2021.

Looking further ahead, most industry commentators now expect air traffic to return to 2019 levels by around 2023/2024.

Business jet activity to remain robust having recovered well in 2020 (with activity levels in December close to the comparative period in 2019).

In any recovery, we expect regional jets and narrow body aircraft to recover first as short haul and domestic routes are restored, while the recovery in wide body activity will take longer reflecting a change in consumer attitudes towards long haul and business travel.

Beyond the recovery period, key drivers supporting air traffic growth over the long term remain intact with IATA forecasting a growth rate in global passenger journeys of 3.7% per annum over the next 20 years.

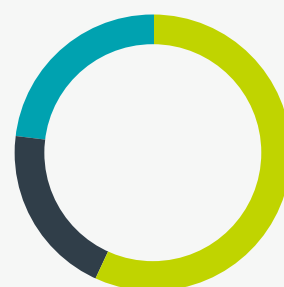
### Revenue

£420m

### Market segments

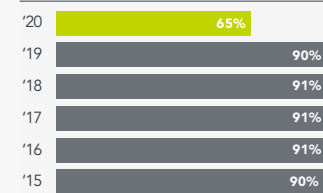
Large jet >100 seats  
Regional jet <100 seats  
Business jet  
Civil helicopters

### Group AM revenue by platform category

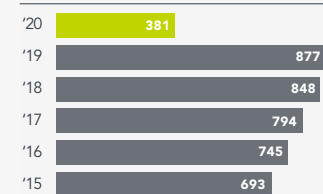


Large jets	57%
Regional jets	20%
Business jets	23%

### Commercial active fleet



### Commercial ASKs (Bn)



## Market review

# 03 Defence

### 2020 market trends

- US Department of Defense (DOD) outlays for fiscal 2020 up 6%.
- Outlays for Research, Development, Test & Evaluation and Procurement both up 12%.
- 2% growth in size of global military fixed wing fleet.
- Slight decline in non-US defence spending vs. 2019, with Europe and Rest of World down and 6% and 1%, respectively.

### Meggitt performance in 2020

- Defence revenue grew 4% on an organic basis with strong growth of 8% in the first half.
- In OE, revenue grew 14% organically driven by continuing strong growth on the F-35 Joint Strike Fighter, the F-135 engine, Eurofighter, F/A-18 Hornet and in rotary wing, the AH-64 Apache.
- Good performance from our Defense Systems business, particularly in countermeasures, ammunition handling and cooling systems for ground vehicles.
- Aftermarket revenue was 7% lower organically, reflecting some disruption to military exercises caused by COVID-19, with growth in fighters more than offset by lower revenue in rotary wing and military transports.

### 2021 outlook

Global defence spending expected to grow around 3%, crossing the \$2 trillion mark.

The outlook for defence expenditure in the US, our single most important defence market, remains healthy.

With the US defence budget for 2021 approved at \$696 billion, outlays are expected to be in line with 2020.

US foreign military sales expected to increase, continuing the trend seen in 2020.

Most major defence spending nations remain committed to strengthening military presence.

### Revenue

£768m

### Market segments

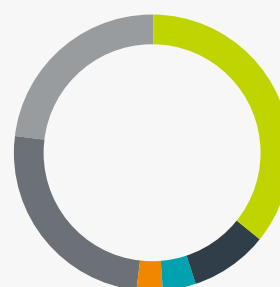
Military helicopters  
Military aircraft  
Ground vehicles  
Naval  
Space

### US DoD Spending (US\$Bn)

FY21	143	107	446
FY20	146	105	444
FY19	147	95	442
FY18	147	92	432

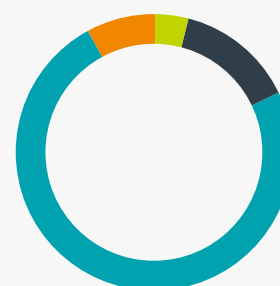
■ Procurement  
■ Research, Development, Test & Eval  
■ Other

### Group defence revenue by platform category



Fighter jet	36%
Transport	9%
Light attack	4%
Special mission	3%
Rotary wing	25%
Ground/naval	23%

### Group defence revenue by geography



UK	4%
Rest of Europe	14%
US	74%
Rest of World	8%



# 04

## Energy & other

### 2020 market trends

In energy, both supply and demand side factors led to volatility in the oil price moving from \$57 in January to below \$20 per barrel in April.

- While the oil price subsequently increased off its lows, and traded in a range of \$37 to \$49 in the second half, this dampened overall capital expenditure levels and delayed certain projects across the oil and gas sector during the year.
- Growth in sales opportunities for new energy applications and more sustainable power generation systems.

### Meggitt performance in 2020

Energy revenue was down 8% on an organic basis, reflecting volatile end-market conditions in the first half and some disruption in the supply chain caused by COVID-19 towards the end of the year.

- In Heatric, organic revenue was down 7% and revenue derived from our valve and condition monitoring business 12% lower on an organic basis.
- Revenue from other markets was up 11% on the comparative period.

### 2021 outlook

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

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

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

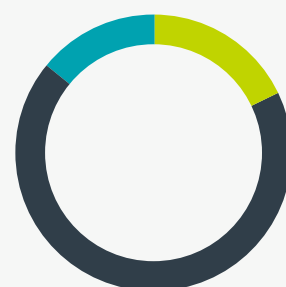
### Revenue

£190m

### Market segments

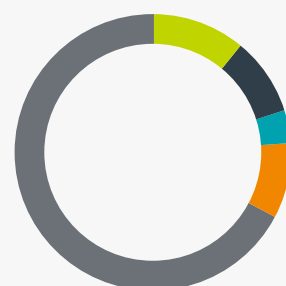
Power generation  
Oil & Gas  
Renewables

### Group energy revenue by application



Oil	18%
Low carbon	68%
Other	14%

### 2020 Global investment in power generation\*



Coal	11%
Gas	9%
Oil	4%
Nuclear	9%
Renewables	67%

\* Source: IEA (2020) World Energy Investment

# Strategy

Whilst we experienced the disruption in civil aerospace in the year, we remained focused on operational execution and our four strategic priorities to accelerate growth, increase cash flow and improve return on capital employed.

These priorities are: **Strategic Portfolio, Customers, Competitiveness and Culture.**

## 01

### Strategic portfolio

#### Focus areas

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


#### 2020 progress

- Over 80% of portfolio now in attractive markets where Meggitt has a strong position
- Sale of Meggitt Training Systems and ducting businesses
- Continued investment in differentiated technologies including those to support development of next generation of fuel efficient engines, use of optical sensing in ground-based power generation and aero engines, certification of VERDAGENT™ green fire suppression, and deployment of electric motors and control systems in electric flight applications
- Intensified focus on returns across product portfolio

 See more on page 11

#### 2021 priorities

- Continue to invest at least two-thirds of our Research and Technology budget in technologies for sustainable aviation and low-carbon energy
- Progress technology and product development programmes with customers
- Focus on opportunities to grow revenue in defence and energy

 See more on page 11

#### Key risks

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

## 02


### Customers

#### Focus areas

- Growing market share in the aftermarket
- Consolidating our customer-aligned organisation

#### 2020 progress

- Customer aligned organisation key to navigating the crisis
- 14 SMARTSupport® deals signed in the year taking total number of contracts to 39 with a total aggregate value of £187m
- Secured a number of new customer contract awards in defence and energy across our four divisions
- Investment in capability across our three aftermarket hubs in Singapore, UK and the US creating Centres of Excellence

 See more on page 12

#### 2021 priorities

- Grow our market share in the aftermarket by securing additional SMARTSupport® agreements
- Continued investment in systems and capability across our three aftermarket hubs to improve competitiveness and enhance our offering
- Continued focus on operational improvements to drive customer satisfaction

 See more on page 12

#### Key risks

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

# 03

## Competitiveness

### Focus areas

- Driving productivity improvements across all sites
- Improving inventory management
- Rationalise supply chain and deliver further purchasing cost savings
- Optimise factory footprint

### 2020 progress

- Ansty Park office opened to employees
- Transfer of high volume engine composite parts to our facility in Saltillo, Mexico
- Further reduction in our global footprint with 37 sites at the end of 2020, representing a 34% reduction compared with our 2016 baseline
- Reduction in absolute inventory levels in response to dramatic reduction in civil aerospace volumes to preserve cash
- Implementation of greater automation and advanced digital manufacturing at our sites driving greater efficiency
- Launched Spitfire Programme to promote next generation of operations leaders

 See more on page 13

### 2021 priorities

- Complete the transfer of production from four UK sites into Ansty Park
- Drive environmental and sustainability improvements across our sites including meeting our 2021 targets
- Drive further operational improvements across all sites

 See more on page 13

### Key risks

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

# 04

## Culture

### Focus areas

- Protect our people and sites
- Support our local communities
- High Performance Culture
- Improve employee engagement
- Focus on Diversity & Inclusion

### 2020 progress

- High Performance Culture (HPC) critical in navigating the crisis and keeping our sites open
- Supported our communities across the world including production of personal protective equipment
- Engagement score at High Performance Norm<sup>1</sup> level with scores for Alignment and Agility up 2% and 4%, testament to the way we continue to handle the COVID-19 crisis
- Strengthened commitment to Diversity & Inclusion with introduction of Inclusion Week and three additional Employee Resource Groups

 See more on page 13

### 2021 priorities

- Continue to protect employees across our global sites and support our local communities
- Roll out 'LeadX', our leadership development programme, across the Group
- Drive engagement across the Group through continued rollout of HPC

 See more on page 13

### Key risks

- People – failure to attract, motivate and retain people due to lack of opportunities and/or training

1 Culture IQ employee survey benchmark.



# Business model

## 01

### What we do

Innovation is at the heart of what we do with safety, reliability, and operating and environmental performance underpinning our approach.

By investing in and developing sustainable and differentiated technologies for application in our selected markets, including civil aerospace, defence and energy, we develop pioneering products in collaboration

with our customers. Our products are manufactured in our globally located facilities and we go to market through our four customer aligned business divisions:

## 02

### How we create value through the investment cycle



## 04

### Maintaining a competitive advantage

#### Strong partnerships

We seek strong, collaborative and close relationships with our customers and suppliers. Our business cycle is multi-year, and we seek relationships to support this.

See more on page 11

#### Market-leading technology

We invest in market-leading technology and robustly defend our intellectual property rights. We hold leading market positions across a number of product lines.

See more on page 24

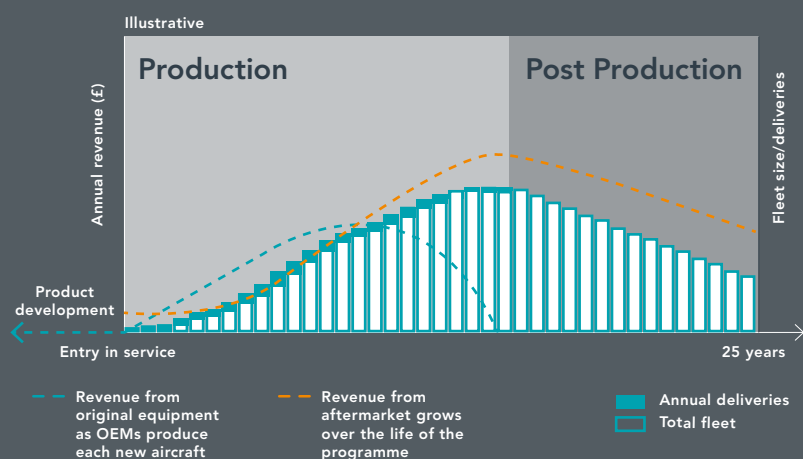
- Airframe Systems
- Engine Systems
- Energy & Equipment
- Services & Support

Through our Services & Support division and SMARTSupport® (our brand name for a range of tailored, longer term, aftermarket offerings), we provide a tailored

package of spare parts and repair services to our customers depending on their requirements to fit their operational model.

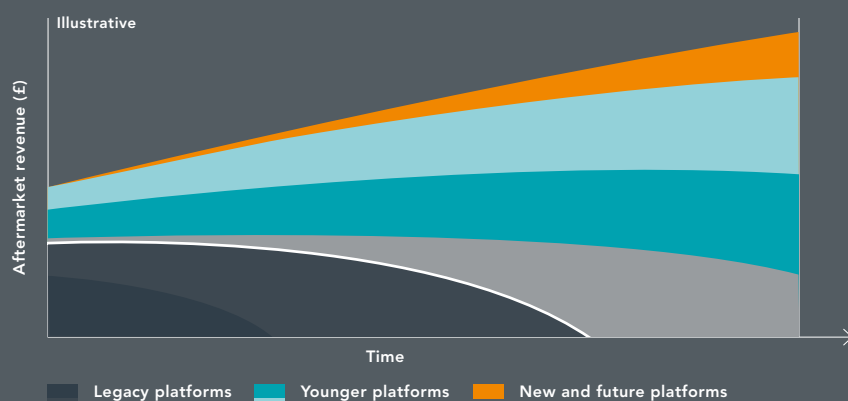
## Aerospace, defence and aero-derived energy

We secure content across a broad range of platforms in civil aerospace, defence and selected energy end markets, generating original equipment (OE) revenue from day one and a growing aftermarket (AM) revenue stream as the fleet grows over time.



## Aftermarket annuity

Leveraging our long-term customer relationships, strong IP and differentiated technology we have secured increased content on the latest generation of platforms. Our business model is to grow and constantly refresh our aftermarket revenue providing a strong annuity revenue stream for years to come.



## Diverse end markets

We have diverse end-market exposure with our technology and products utilised in a large fleet across civil, defence and selected energy markets.

See more on page 6

## World-class services and support

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

See more on page 34

## Strong values

Our values underpin what we do and are supported by HPC. Our people collaborate to create value by combining extensive technical capabilities and long-standing sector knowledge.

See more on page 28

# 03

## How we share value

### Customers

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

### Equity and debt holders

Over the last five years we have returned c. £486m to our shareholders through dividends, and paid c. £164m in interest to our holders of debt.

### Employees

We employ over 9,000 people and in 2020 paid over £659m in wages, salaries, and employee benefits.

### Governments

We paid over £95m in social security and corporation taxes to governments in 2020. The Group's employees also paid a share of their wages and salaries to governments through income taxes.

### Suppliers

Over the last five years, through our central procurement function, we have paid c. £4.6Bn to our suppliers.

## Innovating for the future

# Ongoing focus on sustainable aviation and low carbon energy.

Our 170-year history is built on the invention and development of technologies that bring our vision to life and 'enable the extraordinary' across our end markets of aerospace, defence and selected energy. From the world's first altimeter nearly two centuries ago, to today's next-generation technologies that create more sustainable and efficient aircraft, engines, power and defence systems, innovation is in our DNA.



### Fundamental to this is our belief that designing future technologies must support a more sustainable future.

That is why this is at the heart of our innovation strategy as we anticipate and prepare for the new challenges our customers face. With an accelerating need to address climate change we are focusing two-thirds of our investment in Research & Technology on developing the products and capabilities needed to support a net-zero future.

Our design and manufacture of pioneering technology for the most extreme environments improves safety, reliability, life cycle management and operating and environmental performance, enabling our customers around the world to deliver on their commitments and ensuring a more sustainable future for the generations to come.

### Shaping the future of heat exchanger technology.

Additive manufacturing is enabling much greater flexibility in the way products are conceived, designed and manufactured. This makes it the ideal process to support production of our next generation of valves and heat exchangers. Additive manufacturing allows us to produce more complex shapes which improve thermal and flow properties to produce parts that have both improved performance and are shaped to fit our customers' increasingly challenging applications.

Using our additive manufacturing facilities in California and working with HiETA Technologies, our UK joint venture partner, we are developing the next generation of high-performance and light-weight thermal and flow systems with the right performance and cost to be brought to the market at a critical time for sustainable aviation and lower carbon power generation solutions.



# Heat exchangers for the most demanding applications.

Meggitt's Heatric business is recognised as an industry leader in Printed Circuit Heat Exchanger technology. With 3,000 units in operation in some of the most demanding high-pressure applications this technology is playing a key role in the transition to low-carbon energy.



We have a 30-year history in providing high performance heat exchangers for demanding applications. The increased offshore production of natural gas and LNG continues to drive demand, and as decarbonisation accelerates we are increasingly providing advanced heat exchangers to low-carbon power generation and energy storage plants.

Printed Circuit Heat Exchangers are a high-performance compact heat exchanger that combine the thermal performance associated with compact heat exchangers, the mechanical capabilities traditionally reserved for shell and tube exchangers and a superior safety and integrity to all other heat exchanger types.

A bespoke design for every exchanger is tailored to the process requirements yielding high thermal effectiveness and process efficiencies as flow arrangements are custom designed to optimise heat transfer and pressure drop performance with pressure capability in excess of 1,000 bar.

Our heat exchangers are used in the production of liquefied natural gas, a fuel that is being increasingly used to replace coal and in power generation, our heat exchangers are used to pre-heat fuel within combined cycle plants to improve efficiency and reduce emissions. We are also actively involved in supplying heat exchangers to novel new power plants that are capturing the CO<sub>2</sub> instead of allowing it to be released to the atmosphere and supplying equipment to plants using thermal energy storage to provide grid-scale energy storage.

Innovating for the future

# Optical sensing technology for power generation.

Meggitt advanced optical sensors enable improved control of combustion in gas turbines which reduces emissions and improves efficiency.

Strategic Report – 1-89



As more and more renewable energy is added to electrical grids around the world, modern gas turbines need to be able to flex their output in response to changes of supply. This in turn requires increasingly sophisticated control of the combustor system to maximise efficiency and minimise emissions.

Accurately measuring the dynamic pressures within the harsh environment of the combustor is key to the real-time monitoring of these critical combustor components, and our team in Fribourg, Switzerland, has successfully developed high-temperature fibre optic pressure sensing systems for gas turbines which are now operating at customer sites. Our pioneering optical sensing technology offers significant advantages over traditional sensing technologies: fibre-optics are more sensitive, more accurate and can be installed much closer to the combustion process.

We continue to invest in optical sensing for both ground and air applications and see it as a promising technology to help improve monitoring and sensing accuracy and efficiency.



# Composite radomes protecting the Typhoon's new advanced radar.

We have been selected by BAE Systems and Leonardo to supply a pioneering radome for their Typhoon upgrade to support the operation of a sophisticated Active Electronically Scanned Array (AESA) system, which allows pilots to locate, identify and suppress enemy air defence radar.

The radome is a composite structure at the nose of the aircraft that houses the radar systems and antennae and protects them when the Typhoon jet is flying at speeds in excess of 2,000 km/h.

Meggitt's composite radome technology is used to build a robust and lightweight nose cone that helps to ensure the jet's aerodynamic stability whilst ensuring that the critical electronic signals can pass through it.

## 01 Culture

# Embedding our High Performance Culture

Strategic Report – 1-89

## Our culture is shaped by our shared values, goals and practices.

It's the glue that binds us and the secret to making good extraordinary. It breathes life into our values of Teamwork, Integrity and Excellence and is the heartbeat that powers our vision: Enabling the Extraordinary, To Fly To Power To Live.

We've done further positive work to build our Culture in 2020, creating our shared sense of purpose and emotional connection with what we do. Teamwork and collaboration are the hallmarks of this Culture and have enabled us to move with pace and purpose during 2020.

Our Culture journey started in 2017, with the launch of our global High Performance Culture workshops. This has created a strong foundation that has proved invaluable in the face of the COVID-19 pandemic.

Applying the principles learned to real life situations has enabled our global teams to navigate the pandemic successfully and build the necessary flexibility to allow them to respond at pace to our customers' changing needs.

We have continued our Culture-building activity virtually throughout the past 12 months as we continue to equip our colleagues with the essential tools to propagate our High Performance Culture. More than two-thirds of our colleagues have now been through the workshop and we have more than 40 internal facilitators who continue to deliver our Culture concepts to our colleagues worldwide.

Celebrating and valuing our differences are crucial to our High Performance Culture and our Employee Resource Groups (ERGs) underpin this. This year our ERGs have grown in number to eight, with more in creation, and in October we held our very first Inclusion Week as we continue to create more opportunities for voices to be heard.







2020 also saw the launch of our 'Extraordinary People' recognition programme, giving colleagues the opportunity to acknowledge the extraordinary people they work with every day and in turn be recognised for their own contributions. 2,353 colleagues have already been nominated, and 536 colleagues have received awards.

Launching "Our Green Future" is one further step on our culture journey as we build a framework for our commitment to sustainability, through caring for our people and communities; our environmental responsibility to better protect our planet; or investing in next-generation technologies that create more sustainable and efficient aircraft, engines, power and defence systems.

It's the power of our diverse thinking together with our individual behaviours, continuing to value our differences and the respect we show to each other that is enabling us to build our inclusive, diverse and progressive culture.

6,400

The number of colleagues who have attended our culture workshops.

1,100

The number of leaders who have attended culture reinforcement workshops.

## 02 Strategy

# Fire suppression that protects the environment

Strategic Report – 1-89

### Our patented VERDAGENT™ solution

Global regulations on ozone-depleting substances are leading aircraft OEMs to phase-out the use of Halon 1301 in aircraft fire suppression systems. We are working closely with the major OEMs to develop a new solution that is both an efficient way of extinguishing aircraft fires and protecting the environment for future generations. Our patented green fire suppression solution, VERDAGENT™, can be used to extinguish cargo bay, engine and Auxillary Power Unit (APU) fires. Unlike other green solutions, it does not leave corrosive residues after application, performs at low temperatures and can be delivered using existing ancillary equipment, such as cylinders and bottles, making it an easy retrofit option for operators worldwide.

VERDAGENT™ has passed US Federal Aviation Agency (FAA) Minimum Performance Standard (MPS) testing for cargo applications and is part of Boeing's Eco-Demonstrator project. We are now in the process of soliciting approval for use as an alternative to Halon 1301 by the US Environmental Protection Agency and in 2021 we will be conducting further tests with the European Aviation Safety Agency for cargo applications and with the FAA for engine and APU applications.



1

VERDAGENT™ is currently the only agent that has passed FAA MPS testing for cargo applications.

2,035

Is the anticipated goal to retrofit all aircraft with green agent.

## 03 Competitiveness

# Continuous improvements and investing for growth

### Letting the robot take the strain

Advanced manufacturing technologies create many opportunities for us to improve productivity and meet tighter tolerances. Sealants used for bonding aerospace composites are inherently expensive, and manual application of these advanced materials can result in a significant amount of waste. We recently designed and installed a robotic system in our Saltillo composites facility which resulted in a 90% saving in the amount of sealant being used. Good for the financials and good for the environment.

We have also successfully delivered robotic capability to build advanced composite structures which provides a cost saving of 60% compared to conventional manual lay-up methods along with weight savings and reduced material waste. In addition, we have

installed new paint spray machines to support our radome production, capable of operating to the fine tolerances required to support product functionality whilst reducing waste.

We have similarly validated the automation of the ferruling and dimpling processes used in the manufacture of our current air/oil heat exchangers for implementation in our state-of-the-art facilities at Ansty Park.



90%

Saving in the amount of  
material used.

60%

Cost saving compared to  
conventional manual methods.

## 04 Customer

# Customer-led forecasting in a digital age

## Specialist knowledge, with three global hubs

Strategic Report – 1-89

Effectively managing customer requirements across regions requires the best software solutions to ensure accurate forecasting and optimisation of inventory around the world. Having the right parts, in the right place, at the right time, is critical to our customers and our business model.

To achieve this, Services & Support has established three global hubs in Asia, North America and Europe, creating regional MRO centres of excellence and allowing us to support and understand better the unique needs of our customers and markets. To improve forecast accuracy we segment our customers to gain greater insight into their bespoke material requirements. Whether they are an engine MRO provider, distributor or an operator,

it is important that the offering is customised to support their demand needs. This is where our digital journey starts.

Using customer-led forecasting tools, we collate all our customers' forecast information centrally, incorporate platform knowledge, and produce an accurate rolling forecast at a customer level. This data is then fed into our innovative new software solution that is supporting our delivery of reliable and accurate part and MRO services around the world. The system takes the sales data and refines it by incorporating known maintenance events, flight hours, fleet lifecycle, growth rates, fleet concentration and part reliability information.

Managing this process needs specialist knowledge and we have established a team of global

material experts in our new Ansty Park headquarters who take this information down to a detailed part-level forecast. Centralising this activity means our OE manufacturing facilities deal with a single customer, facilitating the process and building greater transparency. This improved forecast accuracy enables the sites to forward-plan more effectively leading to improved on-time delivery, optimised inventory, and satisfied customers.

This digital evolution has been fundamental to the efficient navigation of fluctuating demand during the COVID-19 pandemic and due to the new system's success there are plans to extend its use to other parts of the business.







# 10,000+

The number of components available to our customers.

# 3

Regional Centres of Excellence for Maintenance, Repair and Overhaul operations.



## Divisional reviews

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

# Airframe Systems\*

A man with a beard and safety glasses, wearing a grey polo shirt with the Meggitt logo, is holding a small, black, rectangular engine component. He is standing against a dark blue background with a light blue geometric shape behind him.

## £793m

Revenue  
(2019: £1,030m)





**President: Chris Allen**

**Divisional capabilities:**

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

**Divisional revenue by market**



Market	Revenue
Civil OE	26%
Civil AM	22%
Defence OE	26%
Defence AM	22%
Energy & Other	4%

**Markets**

-  Civil aerospace
-  Fixed wing defence aircraft
-  Rotary wing defence aircraft
-  Unmanned aerial vehicles

**What does the division do?**

Provides Braking Systems, Fire Protection & Safety Systems, Power & Motion, Fuel Systems, Avionics & Sensors and Polymer Seals for around 51,000 in-service civil and 22,000 defence aircraft. As well as increasing our content on the new generation aircraft by as much as 250%, we also have a strong presence on all of the fastest growing and hardest worked defence platforms.

As such, we have strong relationships with all of the major OEMs, whether commercial, defence or business jet; fixed wing or rotorcraft; US, European or Rest of World. The division represents 47% of Group revenue, generating 55% of its revenue from OE sales and 45% from the aftermarket derived mainly from Braking Systems, with the remaining aftermarket revenue from other product groups reported in Services & Support.

**Operational and strategic highlights**

- Protected our people and kept our sites open to support Airframe Systems' customers
- Responded quickly to reduce costs and preserve cash in response to the reduction in civil demand
- Good progress on development of new technologies, including new green fire suppression agent VERDAGENT™
- Continued to support customers on new product development and testing across a number of platforms
- Transfer of products associated with further footprint consolidation, including moves out of Orange County, US, to Airframe Systems sites in Simi Valley, US, Fareham, UK and Fribourg, Switzerland
- Secured \$15m of funding under the CARES Act to support critical industrial base capability for military grade fuel bladders at our Rockmart, US, facility
- Deferral of capital expenditure relating to carbon capacity expansion in Braking Systems

**E-brake®**

Our E-brake®, installed on the Airbus A220, reduce system weight by replacing hydraulic control lines with lighter electronic signalling and actuation systems, this also eliminates the possibility of harmful hydraulic fluid leaking into the environment.



**2020 Performance**

Organic revenue was down 22%. Civil OE revenue was down 34% with large jets and regional jets OE down 39% and 38%, respectively. Business jet OE was down 18%, outperforming large and regional jets on a relative basis. Civil aftermarket revenue was 42% lower on an organic basis reflecting the reduction in commercial air traffic and lower demand for spares. For the full year, organic aftermarket revenue in large, regional and business jets was down 38%, 52% and 32%, respectively.

Defence revenue was flat, with OE 6% higher driven by growth in fighters including F-35 and Typhoon. In the aftermarket, revenue was 5% lower than the prior year, with growth on Typhoon, F/A-18 and light attack platforms more than offset by declining demand on rotary wing and special mission.

As a result of the lower volumes in civil OE and reduction in higher margin civil aftermarket revenue, underlying operating margin was 890 basis points lower than the comparative period at 15.2% (FY 2019: 24.1%).

In 2021, responsibility for all aftermarket activities in Braking Systems including spares and repairs will transfer to the Services & Support division and be managed across the Group's three regional aftermarket hubs.

## Divisional reviews

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

Strategic Report – 1-89

# Engine Systems\*

## £234m

Revenue  
(2019: £329m)



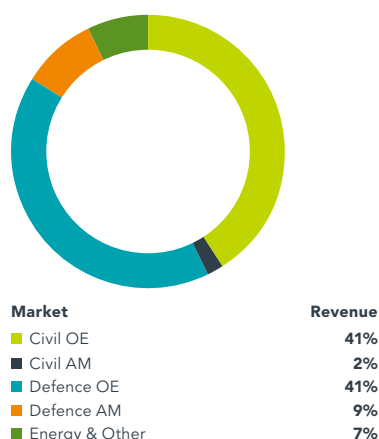


**President: Troy Peterson**

**Divisional capabilities:**

- Complex high-temperature engine composite components
- Control valves and sub-systems
- Engine sensors
- Thermal management

**Divisional revenue by market**



**Markets**

- Civil aerospace
- Fixed wing defence aircraft
- Rotary wing defence aircraft

**What does the division do?**

Market-leading position in advanced engine composites, thermal and safety systems with a broad range of technologies including vibration monitoring and engine health management systems. This division also provides aerospace engine flow control and sensing solutions. Strong positions on high volume platforms mean we are well positioned for growth in Engine Systems.

The division represents 14% of Group revenue, generating 89% of its revenue from OE and 11% from the aftermarket as a result of its principal route to the aftermarket being through the Services & Support division.

**Operational and strategic highlights**

- Protected our people and kept our sites open to support Engine Systems' customers
- Moved quickly to resize the business, reduce costs and preserve cash while maintaining focus on technology and programme development
- Good progress developing new products in the engine core to displace heat, increase efficiency, and reduce fuel, particularly projects to support next generation engine demonstrators
- Transfer of high volume engine composite parts to Saltillo, Mexico and direct shipments from Mexico to end customers
- Transfer of Engine Sensing products from Basingstoke to Airframe Systems Fareham in the UK as part of ongoing footprint consolidation
- Completed sale of our ducting business based in Dunstable (UK) in January 2021
- In defence, continued strong growth including to support the F-135 engine programme

**2020 Performance**

Revenue decreased by 28% on an organic basis with good growth in defence more than offset by lower demand for OE parts across civil aerospace. Civil OE revenue was 49% lower on an organic basis, with the absolute reduction in revenue mainly driven by large jets. In defence, revenue grew by 9% on an organic basis with particularly strong growth on the F-135 programme and the F-22 Raptor.

Despite the work done within the division to reduce costs significantly in response to the dramatic reduction in civil OE and AM volumes across all product groups, Engine Systems generated an underlying operating loss in the year of £13.2m (FY 2019: profit of £27.2m).

Within our Engine Composites business, we continued to make good progress with operational improvements including the transfer of additional high-volume parts to our facility in Mexico.

We remain firmly focused on our recovery plan in Engine Composites and returning this product group to mid-teens margins having delivered a number of operational improvements. However, as reported at the half year, due to the severe and sudden downturn in civil OE volumes, margin recovery will now take longer and extend beyond our previous timeline of the end of 2021.

**Advanced composite solutions**

Providing weight savings and extending product life cycle are important steps towards more sustainable aviation. Our advanced composites play a critical role in our latest technologies designed to increase engine efficiency.



## Divisional reviews

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

Strategic Report – 1-89

# Energy & Equipment\*



## £335m

Revenue  
(2019: £413m)



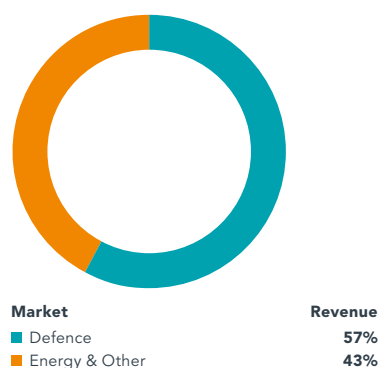


**President: Paul Devaux**

#### Divisional capabilities:

- Combat support (ammunition handling, electronics cooling and countermeasure launch and recovery systems)
- Energy sensing and controls
- Vibration condition monitoring systems for energy markets
- Heat transfer equipment for offshore oil and gas
- Fuel handling

#### Divisional revenue by market



#### Markets

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

#### What does the division do?

Energy & Equipment consists of our energy product groups and businesses that provide products directly to defence customers. Energy Sensors & Controls provides a range of valves, actuators, sensor and condition monitoring systems for oil and gas applications. Heatric provides innovative printed circuit heat exchanger technology for offshore gas applications. Defense Systems provides a series of complex engineered products to defence agencies in electronic cooling, ammunition handling and scoring systems. Training Systems was sold on 30 June 2020 and revenue from this product group (FY 2020: revenue of £32.8m) is excluded from organic figures. Energy & Equipment represents 20% of Group revenue and generates 83% of its revenue from OE and 17% from the aftermarket.

#### Operational and strategic highlights

- Protected our people and kept our sites open and operating safely to support customers
- Moved quickly to reduce cost and preserve cash
- Strong defence performance across ground vehicle cooling systems, countermeasures and ammunition handling
- Sale of the Training Systems business in June 2020
- Continued footprint consolidation with closure of the Orange County site and the transfer of products to other sites in the US and Europe
- Continued transfer of production volumes to low-cost countries

#### 2020 Performance

Revenue was up 7% organically (down 19% on a reported basis with the inclusion of Training Systems) with a strong performance from Defense Systems and strong OE growth on the Apache AH-64 and other rotary wing. In energy, despite the volatility in market conditions during the year, revenue was 12% lower on an organic basis, reflecting a strong order book as we entered the year. Underlying operating margins in Energy & Equipment at 12.7% were 20 basis points lower than the comparative period (FY 2019: 12.9%).

With the US defence budget agreed for 2021, a healthy order book and a number of promising commercial opportunities in both energy and defence, the outlook for 2021 is encouraging. As well as focusing on the conversion of these opportunities in 2021, our focus in Energy & Equipment will continue to be the delivery of further operational improvements across all sites.

#### Optical sensing for increased accuracy

Our innovative high-temperature fibre optic pressure sensing technology for gas turbines offers significant advantages. We continue to invest in pioneering optical sensing for both ground and air applications.



## Divisional reviews

Providing throughlife MRO and spares services across our extensive installed base through our three regional hubs.

Strategic Report – 1-89

# Services & Support\*

## £322m

Revenue  
(2019: £499m)





**President: Stewart Watson**

**Divisional capabilities:**

- Maintenance, Repair and Overhaul (MRO)
- Spares provisioning
- SMARTSupport®

**Divisional revenue by market**



Market	Revenue
■ Civil AM	74%
■ Defence AM	26%

**Markets**



Civil aftermarket



Fixed wing defence aircraft AM



Rotary wing defence aircraft

**What does the division do?**

Services & Support provides a full-service aftermarket offering including spares distribution and MRO to our commercial, business jet and defence customer base throughout the lifecycle of our products. The division represents 19% of Group revenue and generates 100% of its revenue from the aftermarket.

**Operational and strategic highlights**

- Protected our people and kept our sites open and operating safely to support customers
- Moved quickly to reduce cost in the face of the reduction in aftermarket revenue as airlines and operators deferred orders for spares and repairs as commercial flight activity reduced
- Continued delivery of strategic initiatives with consolidation of repair capabilities in our three regional centres of excellence: Ansty Park in the UK, Singapore, and Miami in the US
- Expansion of Singapore aftermarket capability and footprint
- Enhanced maintenance forecasting capabilities leveraging best-in-class technologies to improve inventory management, reduce lead times and enhance customer service levels
- Introduction of 'Smart Scoping' in our three regional hubs to leverage engineering capabilities to increase efficiency and reduce MRO costs

**2020 Performance**

Within Services & Support, order intake in civil aftermarket was down 49% in the year as our aftermarket customers deferred orders for both spare parts and MRO. In APAC, orders were down 37% with the recovery in the Chinese domestic market underpinning the region. Order intake was down 48% in the Americas with the 737 MAX grounding negatively influencing demand for spare parts. And, as a result of repeated lockdowns and associated border controls, within EMEA order intake was down 59% in the period.

Divisional revenue was 35% lower organically with civil aerospace revenue down 40%. Large jet revenue, which represented 82% of Services & Support civil revenue, was down 41% organically in the year, with regional and business jets down 39% and 32%, respectively. In defence, revenue was 11% lower on an organic basis.

On a regional basis, organic revenue was down 32% in APAC and 34% and 36% in Americas and EMEA, respectively. Underlying operating margin was 210 basis points lower at 12.7% (FY 2019: 14.8%).

In the coming year, our core priorities within Services & Support will be to ensure the smooth integration of Braking Systems spares and repairs into the division, drive an increase in market share through signing additional SMARTSupport® contracts and investing further in our three regional aftermarket centres of excellence.

**SMARTSupport®  
for our customers  
worldwide**

We have continued to invest in new aftermarket capabilities with our three regional MRO centres of excellence.



## CFO's review



**"We moved quickly to execute a series of actions to maintain a robust balance sheet."**

### Introduction

In 2020, the Group moved quickly to adapt to the significant change in market conditions and executed a series of actions to reduce our cost base and preserve cash. As well as delivering our internal cash savings targets, we have focused on maintaining a robust balance sheet and on external financing, including securing a forward start on our revolving credit facility to September 2022, raising \$300m in the US private placement market and honouring all our 2020 scheduled debt repayments. I am particularly pleased that the Group has delivered a reduction in net debt of £138m ending the year with net debt: EBITDA of 2.2x providing ample headroom against our banking covenants. The Finance team has been at the forefront of this work. I am incredibly grateful to all of them for their hard work and dedication during these challenging times.

### Group orders and revenue

Our full year results reflect the effects of COVID-19 and the unprecedented reduction in civil aerospace activity with key financial metrics, both on a statutory and underlying basis, declining in the period.

In our half year results, we reported that Group revenue for the six months ended 30 June 2020 was 14% lower than the comparative period. This reflected the marked deterioration in trading in our civil aerospace business in the second quarter, as a result of the significant reduction in commercial air traffic and grounding of a large proportion of the global fleet, which more than offset a strong performance from our defence business.

While the level of global civil aerospace flight activity recovered in the second half, market conditions have remained challenging with the recovery impacted by second waves of COVID-19 and further lockdowns in the fourth quarter. In the second half, Group civil aerospace organic revenue was 53% lower than the comparative period, with OE down 51% (large jets -55%, regional -59% and business jets -37%) and aftermarket down 54% (large jets -52%, regional -63% and business jets

- 1 Organic numbers exclude the impact of acquisitions, disposals and foreign exchange.
- 2 Underlying profit and EPS are used by the Board to measure the trading performance of the Group as set out in notes 9 and 14.
- 3 Underlying EBITDA represents underlying operating profit adjusted to add back depreciation, amortisation and impairment losses.
- 4 Free cash flow is defined and reconciled to statutory measures in note 42 to the Group's consolidated financial statements
- 5 Net cash flow is defined and reconciled to statutory measures in note 43 to the Group's consolidated financial statements

(Table 1) **Financial summary**

	FY 2020 £'m	FY 2019 £'m	Change	
			Reported %	Organic <sup>1</sup> %
Orders	<b>1,547.1</b>	2,468.4	(37)	(38)
Revenue	<b>1,684.1</b>	2,276.2	(26)	(22)
Underlying <sup>2</sup> :				
EBITDA <sup>3</sup>	<b>296.9</b>	507.3	(41)	(40)
Operating profit	<b>190.5</b>	402.8	(53)	(50)
Profit before tax	<b>159.5</b>	370.3	(57)	(55)
Earnings per share (p)	<b>16.5</b>	37.3	(56)	
Statutory:				
Operating (loss)/profit	<b>(297.3)</b>	325.3	(191)	
(Loss)/profit before tax	<b>(334.0)</b>	286.7	(217)	
(Loss)/earnings per share (p)	<b>(40.4)</b>	28.8	(240)	
Free cash flow <sup>4</sup>	<b>31.9</b>	267.8	(88)	
Net cash flow <sup>5</sup>	<b>136.0</b>	205.7	(34)	
Net debt	<b>773.0</b>	911.2	(15)	
Dividend (p)	-	5.55		



(Table 2) Revenue growth

	FY 2020 Revenue £'m	Growth %	Organic growth <sup>1,2</sup> %
Civil OE	306.0	(41)	(40)
Civil AM	419.6	(41)	(41)
<b>Total civil aerospace</b>	<b>725.6</b>	<b>(41)</b>	<b>(41)</b>
Defence	768.4	(7)	4
Energy	131.1	(8)	(8)
Other	59.0	(21)	11
<b>Group</b>	<b>1,684.1</b>	<b>(26)</b>	<b>(22)</b>

-49%). After a strong first half with organic growth of 8% (excluding Training Systems), defence revenue was flat in the second half on an organic basis, somewhat dampened by disruption to production at one of our US sites caused by a number of COVID-19 cases. Energy revenue was down 11% organically in the second half, partly reflecting the timing of projects and phasing of revenue.

For the full year, Group orders were 38% lower on an organic basis with book to bill of 0.88x. Our order book in defence remains robust with an organic book to bill of 1.05x. Group organic revenue was down 22% with lower revenue in civil aerospace and energy more than offsetting a good performance in defence where revenue grew 4%. In civil aerospace, revenue was 41% lower, with sales from civil OE and civil AM down

40% and 41%, respectively. Energy revenue was 8% lower on an organic basis.

Reported Group revenue of £1,684m (FY 2019: £2,276m) decreased by 26% as analysed in Table 3.

The adjustments for business disposals include the sale of Angoulême (completed in March 2019), Orange County product lines (completed in June to December 2019), Training Systems (completed in June 2020), and our Dunstable site and associated product lines (completed in January 2021).

Currency movements in the year reflect the slight strengthening of pound sterling against our trading currencies, principally the US dollar. The organic revenue decline reflects the impact of COVID-19 on civil aerospace partially offset by defence.

## Profit and earnings per share

In common with previous years, underlying profit is used by the Board to measure the underlying trading performance of the Group and excludes certain items including amounts arising on the acquisition, disposal and closure of businesses; amortisation of intangible assets acquired in business combinations; movements in financial instruments; and exceptional operating items.

As a result of the reduction in Group revenue, and notwithstanding the significant action taken to reduce costs to mitigate the impact of lower volumes and under absorption of fixed costs, the Group's underlying operating margins decreased by 640 basis points, to 11.3% (FY 2019: 17.7%), with underlying operating profit 53% lower in the year at £190.5m (FY 2019: £402.8m).

Underlying profit before tax decreased by 57% to £159.5m (FY 2019: £370.3m) with underlying earnings per share also down 56% at 16.5 pence (FY 2019: 37.3 pence).

The level of exceptional costs at £428.7m is significantly higher than forecast at the start of the year, including impairment of goodwill and other asset write-downs arising from the unprecedented downturn in civil aerospace during the year, resulting in Group underlying operating profit becoming an operating loss of £297.3m at the statutory level. Within exceptional costs, £374.2m relates to impairment losses and other asset write downs comprising: goodwill (£335.7m); development costs (£24.5m); inventory (£8.6m); and trade receivables (£5.4m). Further details relating to impairment losses and other asset write-downs are set out in note 10.

As a result of the impairment losses and other asset write downs, Group loss before tax was £334.0m (FY 2019: £286.7m profit) and basic loss per share was 40.4 pence (FY 2019: earnings per share of 28.8 pence).

(Table 3) Organic growth

Revenue				Underlying operating profit		
2020 £'m	2019 £'m	Growth %		2020 £'m	2019 £'m	Growth %
1,684.1	2,276.2	(26)	Reported	190.5	402.8	(53)
(42.2)	(146.1)		Impact of M&A <sup>1</sup>	3.7	(14.8)	
12.4	-		Impact of currency <sup>2</sup>	(2.1)	-	
<b>1,654.3</b>	<b>2,130.1</b>	<b>(22)</b>	<b>Organic</b>	<b>192.1</b>	<b>388.0</b>	<b>(50)</b>

1 Excludes the results of businesses acquired and disposed during the current and prior year or classified as held for sale.

2 Restates the current year using 2019 translation and transaction exchange rates.

(Table 4) Reconciliation between underlying operating profit and statutory operating loss

	£'m
<b>Underlying operating profit</b>	<b>190.5</b>
Impairment losses and other asset write-downs	(374.2)
COVID-19 incremental non-recurring costs	(22.0)
Site consolidations	(33.5)
Other	1.0
Exceptional operating items	(428.7)
Amortisation of intangible assets arising on acquisition of businesses	(88.2)
Financial instruments	(2.9)
Amounts arising on the acquisition, disposal and closure of businesses	32.0
<b>Statutory operating loss</b>	<b>(297.3)</b>

## CFO's review continued

(Table 5) Operational highlights

Revenue				Underlying operating profit			
FY 2020	FY 2019	Growth %		FY 2020	FY 2019	Growth %	
		Reported	Organic			Reported	Organic
<b>793.1</b>	1,029.5	(23.0)	(22.4)	<b>120.5</b>	247.7	(51.4)	(52.2)
<b>233.6</b>	329.5	(29.1)	(28.4)	<b>(13.2)</b>	27.2	(148.5)	(150.4)
<b>335.0</b>	412.5	(18.8)	6.5	<b>42.4</b>	53.4	(20.6)	18.1
<b>322.4</b>	499.1	(35.4)	(34.8)	<b>40.8</b>	74.0	(44.9)	(44.5)
<b>-</b>	5.6	(100.0)		<b>-</b>	0.5	(100.0)	
<b>1,684.1</b>	2,276.2	(26.0)	(22.3)	<b>190.5</b>	402.8	(52.7)	(50.5)

1 Those businesses which were disposed of prior to the effective date of the new divisional structure on 1 January 2019, or were classified as held for sale at that date, are presented separately as 'Other'.

### Finance costs

Underlying net finance costs were £31.0m (2019: £32.5m) principally reducing as a result of lower USD interest rates on our floating rate debt, partly offset by the full-year impact of interest arising from the new Ansty Park lease, which commenced in H2 2019. With the raising of the USD 300m private placement debt in November 2020, a higher proportion of the Group's borrowings are now subject to fixed interest rates, which will result in a modest headwind to underlying net finance costs for 2021.

### Taxation

The Group's underlying tax rate for the year was 19.7% (FY 2019: 22.0%).

As reported in 2019, the Group is impacted by the EU Commission ruling that the UK CFC regime constituted partial state aid. The Group maintains the provision held at 31 December 2019 of £18.3m in respect of this matter. During the period the Group has been in dialogue with HMRC and continues to appeal against the ruling, in parallel with the UK Government's own appeal, to the European General Court. While dates for these appeals to be heard have not been set, the UK tax authority is obliged to collect amounts it considers state aid and in late February 2021 the Group received assessments from the UK tax authority. The assessments are in line with the provision held and we shall be making a cash payment in respect of the CFC regime in the first half of 2021.

As expected, cash tax increased in the year to £42.1m (FY 2019: £14.4m) driven by the phasing of payments. Over the next two to three years, we expect the cash tax rate to start converging with the P&L tax rate as historical tax reliefs and allowances come to an end and tax relief on certain capital expenditure is received over a longer time period. As a result of this and the payment in respect of the UK CFC regime, we

expect the level of cash tax to be around £60m for full year 2021.

### Dividends

The Board concluded that it was prudent not to pay a final dividend for 2019, and in light of ongoing challenging market conditions, the Board did not recommend the payment of an interim dividend or final dividend for 2020. This has helped retain cash within the Group, ensured the continued management of net debt levels and preserved financial flexibility. The Board is very aware of the importance of dividends to our shareholders and looks forward to restoring dividend payments when the recovery is more established.

The Company has a balance on its profit and loss reserve at 31 December 2020 of £1,591.4m (2019: £1,460.3m) of which approximately £1,440.0m (2019: £1,310.0m) relates to reserves which can be distributed as a dividend or used for share buybacks.

### Investing for the future

While we have scaled back expenditure on R&D in the year as part of our overall cash saving initiative, we have continued to invest in sustainable technologies to support new product development and future growth opportunities. Accordingly, total R&D expenditure in the full year of £97.9m (FY 2019: £118.5m) was broadly in line with the prior year as a percentage of revenue at 5.8% (FY 2019: 5.2%). The charge to underlying net operating costs,

including amortisation and impairment, decreased by 1% (increased by 4% on an organic basis) to £68.3m (2019: £68.7m).

Capital expenditure of £89.7m in 2020 was slightly lower than the prior year (FY 2019: £94.4m) and below our initial guidance of around £130m issued in February 2020, before the impact of COVID-19 on the sector and the Group was understood.

This reduction reflects the actions we have taken to preserve cash in 2020 and the associated deferral of capital expenditure relating to the transfer of production to Ansty Park and investment in carbon capacity, which will now be incurred in 2021 and beyond as these projects are completed.

For full year 2021, we expect to invest around £90m on R&D and £80m on capital expenditure, as we complete major projects deferred from 2020.

(Table 6) Investing for the future

£m	FY 2020	FY 2019	% Change	
			Organic	Reported
Total research and development (R&D)	<b>97.9</b>	118.5	(14)	(17)
Less: Charged to cost of sales/WIP	<b>(20.8)</b>	(23.8)	(12)	(13)
Less: Capitalised	<b>(41.4)</b>	(54.7)	(20)	(24)
Add: Amortisation/Impairment	<b>32.6</b>	28.7	24	14
Charge to underlying net operating costs	<b>68.3</b>	68.7	4	(1)
Capital expenditure	<b>89.7</b>	94.4		

(Table 7) Full year cash flow statement (£m)

	FY 2020	FY 2019
<b>Underlying operating profit</b>	<b>190.5</b>	402.8
Depreciation and amortisation	106.4	104.5
Working capital movements	8.1	(21.0)
Net interest paid	(32.1)	(33.1)
Tax paid	(42.1)	(14.4)
Exceptional operating items paid	(49.3)	(27.3)
Purchase of property, plant and equipment	(89.7)	(94.4)
Proceeds from disposal of property, plant and equipment	1.3	23.1
Capitalised development costs/programme participation costs	(43.0)	(56.7)
Retirement benefit deficit reduction payments	(21.7)	(35.2)
Other	3.5	19.5
<b>Free cash flow</b>	<b>31.9</b>	267.8
Net proceeds from disposal/acquisition of businesses	104.2	68.9
Dividends paid to Company's shareholders	-	(130.4)
Issue of equity share capital	0.3	-
Other	(0.4)	(0.6)
<b>Net cash generated</b>	<b>136.0</b>	205.7
Lease liabilities entered	(11.4)	(54.2)
Lease liabilities disposed with business	5.6	-
Exchange differences	7.6	31.2
Other movements	0.4	(19.8)
<b>Net debt movements</b>	<b>138.2</b>	162.9
Net debt at 1 January	(911.2)	(1,074.1)
Net debt at 31 December	(773.0)	(911.2)

### Cash flow

The Group generated a free cash inflow of £31.9m (FY 2019: £267.8m inflow), which was ahead of our guidance issued in September 2020, reflecting the work done across the Group to offset the impact of the lower operating result, including a reduction in absolute inventory levels and planned levels of capex.

Investment in capital expenditure was £89.7m (FY 2019: £94.4m) and working capital was an inflow of £8.1m (FY 2019: £21.0m outflow). Higher cash tax payments of £42.1m (FY 2019: £14.4m) reflects the phasing of payments in the US, and the increase in cash exceptional costs to £49.3m (FY 2019: £27.3m), includes £18.9m of non-recurring COVID-19-related costs and site consolidation costs as we continue to rationalise our global footprint. Deficit payments made in respect of retirement benefit schemes were £21.7m (FY 2019: £35.2m) following an agreement with the trustees of the UK scheme to defer four months of payments totalling £9.6m that will now be spread across the 2021 to 2023 period. The free cash inflow of £31.9m was augmented by proceeds from the sale of Training Systems which generated net proceeds of £117.0m, with a net cash inflow for the Group of £136.0m for the full year (FY 2019: £205.7m inflow).

As a result, at the end of December 2020, our net debt was £773.0m (FY 2019: £911.2m), including lease liabilities of £144.3m, a decrease of £138.2m from December 2019 after taking into account proceeds from the sale of Training Systems and favourable currency movements of £7.6m, and we had significant headroom of £908.1m on committed facilities of £1,536.8m.

### Debt structure and financing

In June and October 2020, we repaid \$125m and \$150m respectively on the maturity of two separate tranches of 2010 US Private Placement Notes. In November 2020, we raised \$300m in aggregate of three and five year senior notes providing us with additional liquidity and financial flexibility as we look ahead to 2021 and beyond.

In April 2020, the Group was confirmed as an eligible issuer under the Bank of England and HM Treasury's Covid Corporate Financing Facility (CCFF), under which the Group is able to draw up to £600m. While the Group issued commercial paper under this facility during the year, as at the end of December 2020, there were no borrowings under this facility. The Group is eligible to issue commercial paper using this facility (subject to certain terms and restrictions) up to and including 22 March 2021, with a maturity period of up to 12 months.

In May 2020, we extended the duration of our debt by securing a forward start on our revolving credit facility, with the signing of a new one-year \$575m multi-currency facility maturing in September 2022.

There are two main financial covenants in our financing agreements. The net borrowings: underlying EBITDA ratio, which must not exceed 3.5x, was at 2.2x at 31 December 2020 (December 2019: 1.5x) and interest cover, which must not be less than 3.0x, was 9.8x (December 2019: 16.3x). The Group has significant headroom against both key covenant ratios, and net borrowings: underlying EBITDA is within our target range of 1.5x to 2.5x.

### Capital allocation priorities

The unprecedented impact of COVID-19 in 2020 meant we had to adjust our normal capital allocation approach, as we focused on a series of measures to reduce costs and preserve cash.

Notwithstanding this, our prime objective continues to be to invest cash organically in developing differentiated technologies, to accelerate the Group's growth and maintain its strong market positions across a number of product categories, and operational efficiencies. A mainstay of our capital allocation approach over several decades has been to maintain a progressive dividend policy and the payment of a regular dividend to our shareholders. The decision not to pay a dividend in 2020 was difficult and so we look forward to restoring dividend payments when the recovery in civil aerospace is more established.

At present, the Board continues to believe that in maintaining an efficient balance sheet with ample covenant headroom and investment capacity, a net debt: EBITDA ratio of between 1.5x and 2.5x is appropriate, while preserving flexibility to move outside this range in certain situations, of which COVID-19 is one. The Board will keep this policy under review.



## CFO's review continued

(Table 8) **Post-retirement benefit scheme summary** (£'m)

	2020	2019
<b>Opening net deficit</b>	<b>267.9</b>	209.1
Service cost	15.2	12.8
Group cash contributions	(36.9)	(48.0)
Deficit reduction payments	(21.7)	(35.2)
Other amounts charged to income statement <sup>1</sup>	8.4	8.8
Remeasurement gains – schemes' assets	(93.5)	(53.5)
Remeasurement losses – schemes' liabilities	136.1	142.7
Currency movements	(1.8)	(4.0)
<b>Closing net deficit<sup>2</sup></b>	<b>295.4</b>	267.9
Assets	1,168.5	1,079.6
Liabilities	1,463.9	1,347.5
<b>Closing net deficit<sup>2</sup></b>	<b>295.4</b>	267.9
<b>Assets as percentage of liabilities</b>	<b>80%</b>	80%

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

2 Comprises £248.7m (2019: £222.0m) in respect of pension schemes and £46.7m (2019: £45.9m) in respect of US healthcare schemes.

### Post-retirement benefit schemes

The Group's principal defined benefit pension schemes are in the UK and US. On 1 February 2021, the Group announced, following a consultation process with employees, that the UK plan would be closed to future accrual with effect from 6 April 2021. Once this change takes effect, and following the closure of one of the Group's US schemes during 2020, none of the UK or US defined benefit pension schemes will be open to future accrual.

Total scheme deficits in 2020 increased to £295.4m (2019: £267.9m) with the principal drivers of the net increase being:

- an increase of £136.1m (2019: increase of £142.7m) relating to remeasurement losses on scheme liabilities principally arising from the significant weakening of AA corporate bond yields in both the UK and US;
- a reduction of £93.5m (2019: reduction of £53.5m) due to remeasurement gains on scheme assets; and
- net deficit reduction payments in the year of £21.7m (2019: £35.2m). In the UK, following the COVID-19 outbreak, the Group agreed with the trustees to defer four months of deficit contributions amounting to £9.6m, which will now be made over the remainder of the current recovery plan to August 2023. Deficit contributions recommenced in Q3 of 2020. In the US, legislation was passed in response to COVID-19 allowing companies to defer contributions due in 2020 to January 2021, as a result of which the Group deferred £2.4m of payments planned for 2020.

In the UK, the Group is currently making deficit payments in accordance with a recovery plan agreed with the trustees following the 2018 triennial funding valuation, amended in 2020 following the four month deferral of deficit contributions. This amended recovery plan provides for the 2018 deficit to be addressed by payments which gradually increase over the period to August 2023. Under the plan, the Group will make deficit contributions of £38.4m in 2021, £40.2m in 2022 and £29.9m in 2023.

At 31 December 2020, principally due to the significant fall in bond yields since the date of the 2018 valuation, the current UK funding position is approximately £135.0m lower than that projected in the 2018 valuation. This funding shortfall will, should it remain, be addressed through a revised recovery plan as part of the April 2021 triennial valuation, which we would expect to be finalised during H1 2022. Deficit contributions to address any additional deficit would commence at a date to be agreed with the trustees once the valuation is finalised.

### Foreign exchange

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.

(Table 9) **Exchange rates**

	2020	2019
Average translation rates against Sterling:		
US Dollar	1.29	1.28
Euro	1.14	1.14
Swiss Franc	1.22	1.27
Average transaction rates:		
US Dollar/Sterling	1.38	1.42
US Dollar/Euro	1.17	1.19
US Dollar/Swiss Franc	1.09	1.06
Year-end rates against Sterling:		
US Dollar	1.37	1.32
Euro	1.11	1.18
Swiss Franc	1.20	1.28

The results of foreign subsidiaries are translated into sterling at weighted average exchange rates. Sterling remained volatile throughout 2020, trading at between \$1.15 and \$1.37 against the US dollar. Over the year as a whole, the average sterling rate against the US dollar was \$1.29 (2019: \$1.28) providing a modest negative impact on our reported results for the year. Compared to 2019, translation of results from overseas businesses decreased Group revenue by £8.6m and decreased underlying profit before tax (PBT) by £0.1m in the year.

The sensitivity of full-year revenue and underlying PBT to exchange rate translation movements against sterling, when compared to the 2020 average rates, is shown 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 2019, the Group's revenue was unfavourably impacted by

(Table 10) **Translation currency sensitivity**

	2020 average rate	Revenue £'m	Underlying PBT £'m
<b>Impact of 10 cent movement*</b>			
US Dollar	1.29	85	5
Euro	1.14	9	1
Swiss Franc	1.22	6	1

\* As measured against 2020 actual full-year revenue and underlying PBT.

£3.8m and underlying PBT for the year benefited by £2.5m from currency transaction movements.

Each ten cent movement in the US dollar against the average hedge rates achieved in 2020 would affect underlying PBT by approximately £7.0m in respect of US dollar/sterling exposure, £2.0m in respect of US dollar/euro exposure and £2.0m in respect of US dollar/Swiss franc exposure.

The following table details hedging currently in place:

(Table 11) Transaction hedging

	Hedging in place % <sup>1</sup>	Average transaction rates <sup>2</sup>
2021:		
US Dollar/Sterling	100	1.36
US Dollar/Euro	100	1.16
US Dollar/Swiss Franc	100	1.13
2022 – 2024 inclusive:		
US Dollar/Sterling	70	1.33
US Dollar/Euro	25	1.21
US Dollar/Swiss Franc	0	N/A

1 Based on forecast transaction exposures.

2 Hedging in place with unhedged exposures based on exchange rates at 29 January 2021.

Taking translation and transaction benefit into account, FY 2020 reported revenue decreased by £12.4m and underlying PBT increased by £2.4m.

At the end of the year, sterling strengthened against the US dollar. Should the current level of sterling against the US dollar as at the date of this report be maintained throughout 2021, it will generate a headwind for both Group revenue and profit.

## 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 14 international institutions spread across North America, Europe and Asia. No single lender accounts for more than 10% 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, Bank of China, Barclays, BNP Paribas, Cr dit Industriel et Commercial, HSBC, JP Morgan, Sumitomo Mitsui Banking Corporation and Wells Fargo. 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, over 90% of our credit facilities are denominated in US dollars, the currency in which most of our borrowings are held.

(Table 12) Net debt by drawn currency (£'m)

	2020	2019
Sterling	39.2	128.5
US Dollar	786.3	807.8
Euro	(32.4)	(12.7)
Swiss Franc	(16.1)	(2.3)
Other	(4.0)	(10.1)
<b>Net debt</b>	<b>773.0</b>	<b>911.2</b>

### e. Covenant risk

Our committed credit facilities contain two financial ratio covenants – net debt: EBITDA and interest cover. The covenant calculations are drafted to protect us from potential volatility caused by accounting standard changes, sudden movements in exchange rates and exceptional items. This is achieved by measuring EBITDA on a frozen GAAP basis, retranslating net debt and EBITDA at similar average exchange rates for the year and excluding exceptional items from the definition of EBITDA. At 31 December 2020, we have comfortable headroom on both key financial covenant measures.

(Table 13) Covenant ratios

	Covenant	2020	2019
Net debt:			
EBITDA	≤3.5x <sup>1</sup>	2.2x	1.5x
Interest cover	≥3.0x	9.8x	16.3x

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

## Interest risk

The Group seeks to reduce volatility caused by interest rate fluctuations on net borrowings. Our US private placements are subject to fixed interest rates, whereas borrowings under our syndicated and bilateral bank credit facilities are at floating rates. To manage interest rate volatility, we use interest rate derivatives to either convert floating rate interest into fixed rate or vice versa. Our policy is to generally maintain at least 25% of net borrowings at fixed rates with a weighted average maturity of two years or more. At 31 December 2020, the percentage of net borrowings at fixed rates was 108% (2019: 70%), and of gross borrowings was 84% (2019: 58%) and the weighted average period to maturity for the first 25% was 6.0 years (2019: 6.5 years). A higher proportion of debt is held at fixed interest rates, than the minimum required under our policy, in anticipation of further increases in market interest rates and pending further clarity on floating rates when we refinance our USD 575m RCF maturing in 2022, given the replacement of LIBOR.

## Non-financial information

Our non-financial information statement is contained in the Corporate responsibility report on page 66.

**Louisa Burdett**

Chief Financial Officer

## Key performance indicators

The Group uses a mix of financial and non-financial key performance indicators (KPIs) to measure execution against our strategic objectives. To ensure we deliver value to our shareholders over the investment 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 capital employed and underlying EPS growth). Non-financial KPIs focus on investment in R&D to drive future revenues, the health and safety of our employees and raising standards of operational performance to satisfy our customers.

The Group adopted IFRS 15 and IFRS 16 with effect from 1 January 2018, with prior year comparatives for 2017 restated. KPIs for 2016 and for those for 2017, where calculations are based on growth compared to performance in 2016, are not fully restated, though they reflect the

requirement to expense free of charge manufactured parts (FOC) as incurred under IFRS 15, rather than initially recognising costs as an intangible asset and then amortising them over their useful lives.

The Group's performance against climate change objectives continues to be a focus. From 2021, the Group intends to include measures supporting the Group's environmental commitments in its KPI monitoring, including the Group's greenhouse gas emissions. For reference, in 2020 the Group emitted 87,062 carbon dioxide equivalent tonnes (gross) from its operations on a Scope 1 and 2 basis. This is down 21% from 2019, when the measure was 110,075 CO<sub>2</sub>e.

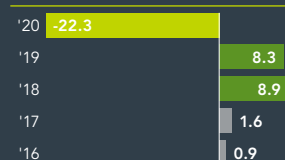


## Organic revenue growth

1 2 3 4

### Performance

**-22.3%**



### Definition and basis of calculation

Revenue growth is calculated by measuring current and prior year revenue at constant currency, excluding the revenue of any businesses acquired or disposed of in those periods or classified as held for sale. To measure revenue at constant currency, current year revenue is restated using translation and transaction exchange rates prevailing in the prior year. See page 45 for a reconciliation of organic revenue to revenue.

### Target

The Group started the year targetting organic revenue growth of 2–4% in 2020. However, since March 2020 and with the impact of COVID-19, the Group does not currently have any published revenue guidance for either 2020 or 2021. The Group was targetting 5.5% pa organic revenue growth in its 2018 LTIP Award.

### Result

2020: -22.3% three-year average of -1.7%. See page 45 for details.

### Directors' incentive plans

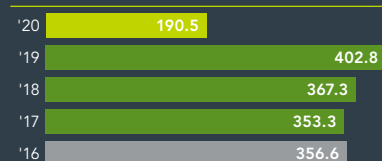
Organic revenue growth is a performance measure for the 2018 LTIP.

## Underlying operating profit

1 3 4

### Performance

**£190.5m**



### Definition and basis of calculation

Underlying operating profit is defined and reconciled to statutory measures in note 9 to the Group's consolidated financial statements on page 180.

### Target

By exception, as part of the Q3 2020 Trading Update the Group guided that FY20 underlying operating profit would be between £180 – £200m. The Group typically does not publish profit targets.

### Result

2020: £190.5m. See page 45 for details. The 2020 STIP did not reach threshold and no STIP bonus will be paid in respect of 2020.

### Directors' incentive plans

Underlying operating profit was a performance measure in the 2020 STIP and is a measure for the 2021 Plan. For the purposes of these plans, actual and target underlying operating profit are measured at constant currency. See pages 121 and 129 for details.

## Return on capital employed (ROCE)

1 3 4

### Performance

**5.2%**



### Definition and basis of calculation

Return on capital employed is underlying operating profit expressed as a percentage of average capital employed (i.e. the underlying return on average capital employed). Underlying operating profit is defined above. Capital employed is defined as net assets excluding net debt, retirement benefit obligations net of associated deferred tax and derivative financial instruments. Average capital employed is the mean of the period's opening and closing capital employed.

### Target

As LTIP ROCE targets are set over a three-year period, there are no specific targets for 2020 alone. Details of the ROCE target from the 2020 LTIP are shown on page 124.

### Result

2020: 5.2%. Three-year average ROCE to 2020 was 8.6%. See page 123 for details.

### Directors' incentive plans

ROCE is a performance measure for executive directors in the 2018, 2019 and 2020 LTIP. ROCE will be a performance measure for the 2021 LTIP. For the purposes of these plans, underlying operating profit and capital employed are measured at constant currency. See pages 123 & 129 for details.

### Link to strategic priorities

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

- 2020
- Reflect the full impacts of IFRS 15 and IFRS 16, where appropriate.
- Restated only for the impact of expensing FOC as incurred.

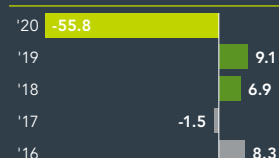
## Key performance indicators continued

### Underlying EPS growth

1 2 3 4

#### Performance

**-55.8%**



#### 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 14 to the Group's consolidated financial statements.

#### Target

We do not typically publish profit targets. As LTIP underlying EPS targets are set over a three-year period, there are no specific targets for 2020 alone. Details of the underlying EPS target from the 2020 LTIP are shown on page 124.

#### Result

2020: -55.8%. See page 45 for details.

#### Directors' incentive plans

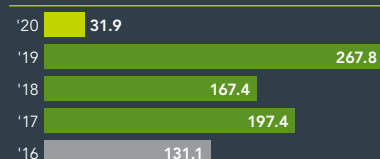
Underlying EPS is a performance measure for the 2018, 2019 and 2020 LTIPs, and is proposed for the 2021 Award. See pages 123 and 129 for details.

### Free cash flow

1 2 3 4

#### Performance

**£31.9m**



#### Definition and basis of calculation

Cash generated excluding amounts in respect of the acquisition and disposal of businesses and payments to shareholders. Free cash flow is reconciled to statutory measures in note 42 to the Group's consolidated financial statements on page 214.

#### Target

We do not typically publish free cash flow targets. At the start of 2020, the Group was expecting a free cash flow conversion of c. 60%. By exception, as part of the Q3 2020 Trading Update, the Group guided that it would be free cash flow neutral for the full year at the top end of our underlying operating profit guidance of £180 – £200m. We have not published guidance for 2021.

#### Result

2020: £31.9m. This was in line with the level guided in the Q3 Trading Update. See page 47 for details. As with underlying operating profit, the 2020 STIP did not vest and no bonus will be paid.

#### Directors' incentive plans

Free cash flow is a performance measure for the 2020 and 2021 STIP. For the purposes of these plans, actual and target free cash flow figures are measured at constant currency and exclude interest and tax. See pages 121 and 129 for details.

### R&D investment

1 2 3 4

#### Performance

**5.8%**



#### Definition and basis of calculation

Investment in research and development (R&D) expressed as a percentage of revenue. Investment is measured as total expenditure in the year as disclosed in note 7 to the Group's consolidated financial statements on page 179. It is not adjusted for amounts capitalised, amortised, impaired or incurred on contracts funded by customers.

#### Target

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

#### Result

2020: 5.8%. Average over the last three years of 5.9%. See page 46 for details.

#### Directors' incentive plans

R&D investment is not a specific measure used in directors' incentive plans. However, the 2018 (from year 2), 2019 and 2020 LTIP include programme performance measures which include the effective delivery of R&D programmes. The same measure is proposed for 2021 LTIP. See pages 123 and 129 for details.

## Total recordable incident rate (TRIR)

1 2 3 4

### Performance

0.7



### Definition and basis of calculation

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

### Target

In 2020, the Group had a TRIR target of less than or equal to 0.7. For 2021, that target is maintained at a rate of less than or equal to 0.7.

### Result

2020: 0.7. The Group has been collecting TRIR data for this KPI since 2017. See page 80 for details.

### Directors' incentive plans

Health and safety performance is not a specific measure used in directors' incentive plans. However, improvement in health and safety is included in the personal objectives of the Chief Executive in the 2020 and 2021 STIP.

## Inventory turns

1 2 3 4

### Performance

2.1x



### Definition and basis of calculation

Underlying cost of sales divided by average inventory measured at constant currency and excluding businesses acquired or disposed of in the year. Underlying cost of sales adjusts cost of sales for the impact of items which are excluded from the Group's underlying profit measures as disclosed in note 9 to the Group's consolidated financial statements on page 180. Average inventory is calculated as the 13-month average of inventory, gross of provision, at the end of the previous financial year and at the end of each month of the current year. To measure inventory at constant currency, average inventory of foreign subsidiaries is translated at average exchange rates for the year.

### Target

At the start of 2020, the Group was targeting inventory turns of 4.0 by 2021. The proposed 2021 LTIP contains an inventory turns target of 2.8 for 2021 using the Group's updated four-month average inventory turns measure.

### Result

2020: 2.1. See page 13 for details.

### Directors' incentive plans

Inventory reduction is a performance measure for the 2018, 2019 and 2020 LTIP. Inventory turns is also proposed as a measure for 2021. See pages 123 and 129 for details.

### Link to strategic priorities

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

- 2020
- Reflect the full impacts of IFRS 15 and IFRS 16, where appropriate.
- Restated only for the impact of expensing FOC as incurred.



# Risk management

**Meggitt seeks to operate within a low risk appetite range overall. Effective risk management is required to deliver this while supporting the achievement of the Group's strategic 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 2020 we continued to refine our risk management approach in a consistent way to prior years but we were pleased to note the processes described below continued to operate throughout the pandemic, providing dynamic risk assessments for site, functional and executive management.

The Board approved an updated Group risk appetite statement with associated risk tolerances to ensure that identified risks are managed within acceptable limits. Comfort over the management of these risks is demonstrated through the updated Group risk assurance map which summarises the assurance activities taking place throughout the Group in relation to the principal risks. Where appropriate, insurance is used to manage risks and our risk management procedures are shared with our insurers when assessing any potential exposures. Our insurers have provided funding via bursaries to enable more detailed reviews of certain risks to increase understanding of the key drivers and enable more efficient action to address these, either through mitigation or insurance. These reviews have been well received by the risk owners for improving their ability to monitor and assess their risks and by the insurers for providing a more detailed analysis of the causes and their respective impacts.

## Our process

Our risk management processes require identified risks throughout the Group to be owned by a named individual. They must review them regularly and consider related emerging risks. Risk identification is embedded within other processes, including strategy, project and programme management, bid approvals and other operational activities. Risk tolerance levels are flowed down to the divisions and functions. The likely timeframe within which the impact of risks might be felt (risk velocity) and how we prioritise risks is considered as part of our risk management strategy and feeds into our assessment of long-term viability.

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

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

Meggitt's corporate strategy is designed to optimise our business model and take risk, with the required controls, on an informed basis. See pages 22 to 23 for a full description of our business model and strategy. To enable value to be created for our shareholders, we set varying risk tolerances and associated criteria. We accept and manage risk as described on the following pages.

## Governance

Responsibility for risk management operates at all levels throughout Meggitt:

The Board	The Board takes overall responsibility, determining the nature and extent of the principal risks it is willing to take in achieving our strategic objectives, and overseeing the Group's risk governance structure and internal control framework. During 2020, the Board carried out a robust assessment of the principal risks facing the Group, including those emerging, that would threaten its business model, future performance, solvency or liquidity. This report describes those risks and how they are being managed or mitigated.
Audit Committee	The Board has delegated responsibility for reviewing and ensuring the effectiveness of the risk management process to the Audit Committee.
Executive Committee	Divisional and functional leadership are responsible for the management of risk and for compiling and maintaining their own risk registers, which outline risks at business unit and programme levels. The Executive Committee as a whole regularly reviews the Group's principal risks, while individual members own specific risks.

## Risk heat map

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



# Principal risks & uncertainties

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

## Approach to COVID-19

Given the wide-ranging impact of COVID-19 on the aviation industry we have assessed the effect on our existing risks and considered resultant emerging risks rather than having a single, standalone COVID-19 risk.

### Strategic priorities

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

### Change in risk

- ↑ Increase
- No change
- ↓ Decrease

### Risk velocity

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

### KPIs

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

## Strategic risks

Risk	Description	Impact	How we manage it
<b>Industry changes</b> 1 ↑ <b>H</b>	Significant variation in demand for air travel and/or our products due to aerospace and defence business downcycles coinciding; serious political, economic, pandemic (including the on-going impacts of COVID-19) or terrorist events; or industry consolidation that materially changes the competitive landscape.	Volatility in revenue and underlying profitability.	<ul style="list-style-type: none"> <li>– Demand is managed by monitoring external economic and commercial environment and long-lead indicators whilst maintaining focus on balanced portfolio.</li> <li>– Monitoring international political and tax developments to assess implications of future legislation.</li> </ul>
<b>Business model</b> 2 — <b>M</b>	Failure to respond to fundamental changes in our aerospace business model, primarily the evolving aftermarket. This includes more durable parts requiring less frequent replacement, a growing supply of surplus parts, OE customers seeking greater control of their aftermarket supply chain and accelerated pace of new aircraft deliveries leading to the earlier retirement of older aircraft.	Decreased revenue and profit.	<ul style="list-style-type: none"> <li>– Alignment of Group, divisional and functional strategy processes.</li> <li>– Dedicated full-service aftermarket organisation.</li> <li>– Long-term customer agreements including SMARTSupport® packages to create tailored solutions for customers throughout the product life cycle enabling more effective performance monitoring and more predictable pricing.</li> <li>– Investment in research and development to maintain and enhance Meggitt's intellectual property.</li> </ul>



## Climate change



### KPIs:

- Financial performance
- R&D investment

Failure to adapt to the transition and physical impacts of climate change, including:

- government legislation to limit air travel;
- regulations limiting greenhouse gas emissions from aviation come into effect faster than technical solutions;
- societal attitudes shifting against air travel (e.g. "flight shaming");
- acute physical risks such as the increased likelihood of extreme weather events; and
- chronic physical risks such as changing weather patterns including rising temperatures and sea levels.

Decreased revenue and profit, damage to operational performance and reputation.

- Continued dialogue with governments, industry bodies and customers to maintain awareness of evolving aviation sector requirements.
  - Continued focus on developing technologies to support sustainable aviation and on reducing the carbon intensity of our production operations.
  - Allocation of two-thirds of innovation budget to sustainable solutions.
  - Reduction in Group carbon footprint through new facilities, more efficient production processes and using green energy sources.
  - Comprehensive business continuity plans across the Group, supported by an insurance programme subject to annual renewal.
  - Long-term weather considerations as part of site footprint strategy.
- These are considered further as part of the TCFD disclosures on page 71.

## Operational risks

Risk	Description	Impact	How we manage it
<b>Quality escape / equipment failure</b> 	Defective product leading to in-service failure, accidents, the grounding of aircraft or prolonged production shut-downs for the Group and its customers.	Decreased revenue and profit, damage to operational performance and reputation.	<ul style="list-style-type: none"> <li>– System safety analysis, verification and validation policy and processes, combined with quality and customer audits and industry certifications.</li> <li>– Meggitt Production System (MPS).</li> <li>– Supplier quality assurance process.</li> </ul>
<b>Business interruption</b> 	A catastrophic event such as natural disasters (including earthquake – the Group has a significant operational presence in Southern California); civil unrest, military conflict or terrorist activity; or a pandemic (including further impacts from COVID-19) could lead to infrastructure disruption and/or property damage which prevents the Group from fulfilling its contractual obligations.	Decreased revenue and profit, damage to operational performance and reputation.	<ul style="list-style-type: none"> <li>– Group-wide business continuity and crisis management plans, subject to regular testing and also invoked during 2020 in response to COVID-19.</li> <li>– Comprehensive insurance programme, renewed annually and subject to property risk assessment visits.</li> </ul>
<b>Project / programme management</b> 	Failure to meet new product development programme milestones and certification requirements and successfully transition new products into manufacturing as production rates increase. This also covers lower than expected production volumes, including programme cancellations or delays, notably the 737 MAX.	Failure to deliver financial returns against investment and/or significant financial penalties leading to decreased profit and damage to reputation.	<ul style="list-style-type: none"> <li>– Rigorous commercial and technological reviews of bids and contractual terms before entering into programmes.</li> <li>– Continuous review of programme performance through the Programme Lifecycle Management (PLM) process including: <ul style="list-style-type: none"> <li>– regular monitoring of the end-market performance of key OE programmes;</li> <li>– internal review process, to stress-test readiness to proceed at each stage of key programmes; and</li> <li>– regular monitoring of the financial health of customers.</li> </ul> </li> </ul>
<b>Customer satisfaction</b> 	Failure to meet customers' cost, quality and delivery standards or qualify as preferred suppliers.	Failure to win future programmes resulting in decreased revenue and profit.	<ul style="list-style-type: none"> <li>– Creation of a customer-facing organisational structure including a dedicated aftermarket division.</li> <li>– Regular monitoring of customer scorecards and ensuring responsiveness to issues via Voice of the Customer process.</li> <li>– Functional excellence in operations, project management and engineering.</li> <li>– Increased utilisation of low-cost manufacturing base.</li> </ul>

## Principal risks and uncertainties continued

### IT/Systems failure



#### KPIs:

- Financial performance

A breach of IT security due to increasingly more sophisticated cyber crime/terrorism resulting in intellectual property or other sensitive information being lost, made inaccessible, corrupted or accessed by unauthorised users. This also includes the loss of critical systems such as SAP due to poorly executed implementation or change of control; poor maintenance, business continuity or back-up procedures and the failure of third parties to meet service level agreements.

Decreased revenue and profit, damage to operational performance and reputation.

- Information Security infrastructure, policies and procedures supported by a Group wide security awareness programme.
- Intelligence sharing on threats with government and security bodies including the FBI, CPNI and NCSC.
- Group-wide intellectual property protection programme.
- Management of third party service providers and risks, including resilience and disaster recovery processes.
- Rolling programme of system upgrades (including SAP implementation) to replace legacy systems.
- Defined vulnerability management policy with monitoring capability to ensure that vulnerabilities are identified and appropriately patched.
- Dedicated cyber-security protective monitoring resources, employing industry-leading technical controls and procedures.

### Supply chain



#### KPIs:

- Financial performance
- Inventory turns

Failure or inability of critical suppliers to supply unique products, capabilities or services preventing the Group from satisfying customers or meeting contractual requirements.

Decreased revenue and profit, damage to operational performance and reputation.

- Supplier excellence framework combined with integrated commercial and procurement approach to contractual terms and conditions including development of long-term agreements.
- Local sourcing strategy to improve operational efficiency and minimise potential impacts and disruption from cross-border tariffs.
- Maintenance of buffer inventory for critical and sole-source suppliers.
- Implementation of measures to mitigate counterfeit and fraudulent parts at high-risk facilities.

### Group change management



#### KPIs:

- Financial performance
- Inventory turns

Failure to successfully, simultaneously, deliver the significant change programmes currently in process and planned, including site consolidation activity such as Ansty Park and investments in new carbon manufacturing facilities in the USA.

Decreased revenue and profit, increased costs, damage to operational performance and reputation.

- PMO oversight of large capital projects.
- Dedicated site consolidation and property management teams for Ansty Park.
- Regular monitoring by Executive Committee through operational and project reviews.
- HPS implementation at new/expanded sites.

### People



#### KPIs:

- Financial performance
- Inventory turns

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

Decreased revenue and profit, damage to operational performance.

- Embedding of High Performance Culture.
- Action plans to improve employee engagement.
- Graduate and apprentice programmes in partnership with schools and universities.
- Regular oversight by Executive Committee.
- Creation of Employee Resource Groups to foster diversity, boost employee engagement and enable global collaboration.







## Corporate risks

Risk	Description	Impact	How we manage it
<b>Legal and compliance</b> 	Significant breach of increasingly complex trade compliance, bribery and corruption, US Government contracting, ethics, intellectual property, data protection or competition/antitrust laws and facilitation of tax evasion.	Damage to reputation, loss of supplier accreditations, suspension of activity, fines from civil and criminal proceedings.	<ul style="list-style-type: none"> <li>Continuing investment in compliance programmes including Board-approved policies and rollout of training and IT solutions.</li> <li>Regular monitoring of ethics and anti-bribery programme by Corporate Responsibility Committee.</li> <li>On-going trade compliance programme including third-party audits.</li> <li>Comprehensive ethics programme including training, anti-corruption policy and 'Speak Up' Line.</li> <li>Third-party and internal audits including HS&amp;E and Anti-Bribery &amp; Corruption.</li> <li>HPS implementation to enhance safety measures, validated by third-party audits.</li> </ul>

#### KPIs:

- Financial performance
- TRIR

## Financial risks

Risk	Description	Impact	How we manage it
<b>Pension funding</b>   	<p>The Group operates defined benefit pensions schemes in the UK, US and Switzerland. The level of deficits in these schemes may be affected adversely by investment returns, interest rates, increasing life expectancy and changes in the regulatory environment. The rates at which deficits are funded is subject to agreement with the trustees in the UK and is dependent on legislation in the US and Switzerland.</p>	<p>Higher pension scheme funding contributions resulting in decreased cash and profit.</p>	<ul style="list-style-type: none"> <li>– Triennial valuation process and deficit funding agreement with UK Pension Trustees.</li> <li>– Continued monitoring of asset allocations and funding levels for all schemes.</li> <li>– Closure of UK and US defined benefit schemes to future accrual.</li> </ul>
<b>KPIs:</b> <ul style="list-style-type: none"> <li>• Financial performance</li> </ul>			
<b>Liquidity</b>   	<p>Financial risk management is considered in detail on pages 172 to 173.</p>	<p>Inability to access financing on normal commercial terms.</p>	<ul style="list-style-type: none"> <li>– Maintaining sufficient headroom in committed credit facilities and against covenants in those facilities.</li> <li>– Arranging funding with maturities spread over several years or the ability to terminate early at little or no cost to the Group.</li> </ul>
<b>KPIs:</b> <ul style="list-style-type: none"> <li>• Financial performance</li> </ul>			

### Oversight of risk and internal control

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

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

- Group policies – key policies are approved by the Board and other policies are approved by Group functions;
- process controls – for example financial controls including the Group Finance Policies and Procedures Manual, the bid approval process, programme lifecycle management reviews, IT security framework and risk management; and
- the forecasting, budget and strategic plan processes.

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

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

- a business performance review process (including financial, operational and compliance performance);
- semi-annual business unit, product group and divisional sign-off of compliance with Group policies and processes;
- compliance programmes and external audits (including trade compliance, ethics, anti-corruption, health, safety and environmental);
- an effective internal audit function which, primarily, performs business unit reviews by rotation (including finance, programme management, IT, HR, ethics, anti-bribery & corruption and business continuity); and
- a whistleblowing line to enable employees to raise concerns.

To review the effectiveness of the system of internal controls, the Board and Audit Committee applied the following processes and activities in 2020 and up to the date of approval of the Annual Report:

- reviews of the risk management process, risk register and risk appetite statement;
- 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 Group General Counsel and Director, Corporate Affairs;
- regular reports on the state of the business from the Chief Executive and Chief Financial Officer;
- presentation on IT security activities and plans from the Chief Information Officer and the Chief Information Security Officer;
- strategy reviews, review of the five-year financial plan and review and approval of the 2021 budget;
- written reports to the Corporate Responsibility Committee on the effectiveness and outcomes of whistleblowing procedures; and
- reports on insurance coverage and uninsured risks.

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

## Principal risks and uncertainties continued

### Viability statement

In accordance with the provision 31 of the 2018 Code, as part of their assessment of the Group's viability, the directors have assessed the prospects of the Group and its ability to meet its liabilities as they fall due.

### Response to COVID-19 and impact on Meggitt's viability

During 2020, along with the rest of the civil aerospace sector, Meggitt responded to the pressures caused by the COVID-19 pandemic. Year on year, the Group's revenues fell by £592m (26%) and as such, the last 12 months have tested the Group's viability.

The first actions of the Group secured liquidity, and over the year the Group's funding structure has proved to be secure and resilient. In the first half, the Group secured a forward start on its RCF for one year on \$575m to September 2022, and in November successfully refinanced \$300m of debt. The Group also became an eligible issuer under the Bank of England's CCF facility. However, the Group has not issued commercial paper under this facility at 31 December 2020 and at no point during 2020 was the Group viable only through access to these funds.

The Group has also addressed its structural cost base. As at the end of 2020, our global headcount is 26% or 3,319 lower than at the end of 2019. Overall, though £592m of revenue have been lost year on year, the fall in underlying operating profit has been £212m, meaning for every £3 of revenue lost, just under £2 has been saved on cost. The Group also generated cash in the year with free cash flow (after interest and tax) of £32m and net debt lower by £138m year on year. The Group has received a small amount of support under government furlough schemes. The benefit to the income statement has not been critical to viability.

Meggitt's diversified business model has also proved robust. Though the Group's civil aerospace business has come under pressure, the defence business is up 4% on an organic basis and defence now represents 46% of the Group's revenue. In addition, the Group's global manufacturing base has proved resilient during 2020, with manufacturing capacity largely maintained through the pandemic despite significant levels of infection in both the UK and USA. Meggitt has benefitted from both globally distributed facilities and diverse end markets.

Overall, though far from over, the Group's response to COVID-19 has been encouraging. Nearly 12 months into the most severe crisis to hit aerospace in living memory, Meggitt continues to be viable.

### Assessment of prospects

The Board believes that, despite the impact of COVID-19 in 2020, the prospects for the Group continue to be favourable in the medium to long-term.

- We believe that the desire for individuals to travel remains and that air travel will play a critical part in meeting that demand
  - Growth in civil aerospace markets will return despite the near term impact of COVID-19; we provide equipment to all major new platforms entering service in the near future
  - Meggitt has provided equipment to over 73,000 in service aircraft, and with an average aircraft lifespan of 25 years, our aftermarket will be providing meaningful revenues to the Group for decades to come

- We are diversified by end market and by customer
  - We supply into both civil (43% revenue) and defence (46%) aircraft markets, and into selected energy markets (8%)
  - Our revenues are split broadly evenly between equipment sales and aftermarket
  - We work with a diverse group of customers from across the globe. Our top 10 customers generate less than 50% of our revenue
- We invest for the long term and protect our know-how
  - We invest in market leading technology. We continue to spend, on average, 5-7% of revenue on R&D through the cycle
  - Our physical capital base is renewed regularly. We have maintained our investment levels in 2020 (£90m of capital expenditure vs. £94m in 2019)
  - We grow, manage and defend our intellectual property portfolio robustly
  - We continue to invest in next generation technologies to support a sustainable future for aviation and power generation
  - We seek to attract and retain colleagues who can enable the extraordinary
- We manufacture based on quality, consistency and value
  - We manage our manufacturing facilities using HPS (previously MPS), a tiered improvement programme, providing a roadmap to best in class manufacturing.
  - We operate a globally distributed manufacturing infrastructure, producing both in the OECD and in lower cost locations
- We have robust liquidity and a strong financial base
  - The Group has reduced its levels of debt by over £100m to £773m in spite of the financial pressure of the last 12 months. The Group generated free cash flow in 2020
  - Our gearing ratio at the end of 2020 was 2.2x (net debt / EBITDA) and interest cover was 9.8x, both well within our covenant limits
  - We have £1.5bn of committed facilities as at 31 December 2020, and a headroom of £908m

### Assessment period

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

1. Recovery of the civil aerospace market: Many industry observers including IATA see the civil aerospace market recovering to 2019 levels by 2024-25.
2. Refinancing: The Group expects to have refinanced a significant proportion of its debt, including its RCF by 2023-24.
3. Evolution of Meggitt: The Group has a number of projects, including the completion of the move into Ansty Park and other footprint reduction efforts, which are expected to complete within the next five years.
4. Programme investment: The Group typically expects the investment cycle of five years for engineering development programmes.

The Board concluded that these four major activities would be largely resolved in a five-year time frame and as such, five years continues to be the correct timeframe over which to assess viability and risk impact.



## Assessment of viability and risk stress tests

The Group is modelling a progressive recovery in activity in the civil aerospace market from a low point in late 2020 and early 2021. Though a number of outcomes are possible, the Group believes that a full recovery in the civil aerospace market is likely by 2024-25 and it is on this baseline that the Group's viability has been tested.

Using the output of the Group's long-term planning activity, the Group has created two adverse downside scenarios. These are modelled against a baseline "COVID recovery" scenario detailed in note 1 of the consolidated financials statements and the financial impact quantified should a number of risks within those scenarios crystallise within a five-year period.

### 1. Loss of a major customer

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

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

This scenario is modelled to unfold in parallel with the recovery from COVID-19. Given necessary lead times to find alternative sources of supply, the full impact of this loss of customer scenario would take 12 months to be felt, during which time the civil AM recovery is underway in the underlying base case. The maximum impact of the scenario would be in 2023, when the Group is refinancing a number of facilities.

### 2. Major business disruption event

As the Group is currently experiencing a significant demand-side business disruption event in COVID-19, in testing the Group's viability, a supply-side shock has been considered. Specifically, manufacturing disruption in California as a result of a natural disaster.

On the Group's risk matrix, business disruption continues to be one of the highest impacting risks on the Group's financial performance, disrupting relationships with both major customers and suppliers.

The Group used knowledge of previous business disruption events to model the impact on the Group's future plans. As modelled, the Group is able to weather the earthquake event without needing to conclude any additional refinancing.

The Group has modelled the financial impact of the risks articulated above, together with mitigating actions. Mitigating actions include a reduction in investment both in PP&E and R&D or curtailment of indirect expenditure and headcount reduction. Levers such as dividend suspension or material reduction in discretionary spend are somewhat reduced in their effectiveness, as these actions have already been taken in response to COVID-19. However, the Group continues to sell into diverse end markets and enjoys long dated aftermarket revenue and technologically differentiated products. The Group would find it challenging should a second external shock occur before the recovery from COVID-19 is established. However, the Group continues to believe that both the scale of the potential mitigating levers available to it and the favourable outcomes achieved in 2020 against COVID-19 by it provide buffers to mitigate the impact of these scenarios.

## Statement of viability

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

## Section 172 statement

As set out in Section 172 of the Companies Act 2006, the directors must act in good faith to promote the success of the Company for the benefit of its shareholders as a whole. In performing this duty, they are required to have regard, amongst other things, to the interests of employees, the impact of our operations on the communities in which we operate and the environment, and the need to foster relationships with our suppliers, customers and other key stakeholders in order to maintain a reputation for high standards of business conduct and enhance the sustainable long-term success of the business. The directors give careful consideration to these matters when discharging their duties and are supported by:

- An induction programme and ongoing briefings, visits and discussions to ensure that they understand the business including our markets and future prospects, and wider stakeholder impacts;
- A formalised procedure which highlights the impact of important decisions on key stakeholders to assist the process of assessment of Section 172 impacts. The draft proposals received by the Board and its Committees ensure that this formalised approach embeds the consideration of stakeholder interests at key decision-making levels and that Board papers reflect the impact of decision-making on key stakeholders; and
- Carefully planned agendas to ensure the Board and its Committees have sufficient time to consider and discuss key matters.

### Business conduct

As explained on page 97 the day-to-day management of the business is delegated to the executive management team. The Group Corporate Responsibility and Sustainability Policy requires the Group's business to be conducted in a manner that achieves sustainable growth by balancing the interests of all stakeholders. This Policy prompts consideration of the matters set out in Section 172 during the decision-making process undertaken at all levels of the business and, by mandating compliance with this Policy, we ensure that the business is run for the benefit of its shareholders as a whole.

Our comprehensive ethics programme, which includes an independently run whistleblowing hotline, promotes high standards of business conduct across the Group. The programme

is monitored by the Board on a quarterly basis and by the Corporate Responsibility Committee at a more detailed level at each meeting. It is reinforced through our policies, regular ethics training and our values and High Performance Culture programme. To date, 6,400 of our current employees have attended High Performance Culture 'unfreezing' sessions including the Board who participated in sessions in 2019.

Depending on the subject matter, the relevance of each stakeholder group may differ and decisions will not always result in a positive outcome for all stakeholders. But by having due regard to the interests of our key stakeholders at each key decision-making level of the business we ensure that all decisions taken promote the long-term sustainable success of the Group.

### How we engage with our stakeholders

The Board has identified our key stakeholders as: our workforce, shareholders, customers, suppliers and the communities within which we operate. Management conduct much of the primary engagement activities and present regular updates to the Board providing critical insights and perspectives to shape Board decisions and enable effective challenge of decisions taken by management on behalf of the Board.

### COVID-19

2020 represented a period of significant challenge for the Company as a result of the severe impact of COVID-19 on the markets in which we serve. During the year the Board have taken a number of difficult decisions to flex the Company's cost base and capacity to align more closely with our lower near market outlook with the overriding aim of securing the long-term sustainability of the Company.

These decisions have not been taken lightly and the impact of each decision on all key stakeholders has been considered carefully by the Board. A rolling record of all decisions taken in response to the COVID-19 pandemic has been maintained, together with assessment of the impact of these decisions on our key stakeholders. This assessment has been reviewed by the Board regularly throughout the year to ensure no particular stakeholder group has been unduly privileged at the expense of others.

## Decision-making in practice

COVID-19 has fundamentally changed the aerospace industry in the short to medium term and the Board has had to make a number of difficult decisions to ensure the long-term success of the Company. These decisions included not paying the 2019 final dividend, not declaring any dividends for 2020 and reducing our workforce to reflect lower demand for our products.

In making these decisions the Board paid due regard to the material impact on the affected stakeholder groups and the contribution of each decision to securing the long-term success of the Company. These decisions played a key role in reducing our cost base and strengthening our financial position and liquidity.

Significant effort was made during the year to reduce employee costs while seeking to minimise the loss of jobs as far as possible, including the application of temporary furlough schemes, the reduction of salaries and fees for Board and Executive Committee members, encouraging senior

management to take voluntary salary reductions and no payment of any 2020 bonus. However, given the scale of the COVID-19 impact on our business, job losses were unfortunately necessary to align our cost base with the reduction in demand for our products. Where possible, job losses were tailored to reflect our long-term strategy and allow us to emerge strongly when the recovery comes. Job losses were implemented with candid and humane communication and support.

Our shareholders want us to maximise returns in a sustainable way. Cancelling dividends has had a significant positive impact on our liquidity and cash flow. By taking the short-term decision not to pay dividends during the year we were able to minimise job losses and continue to support our customers, suppliers and the communities which will help generate long-term returns for our shareholders.

# Stakeholder engagement

Stakeholder	How we engaged in 2020	What they said in 2020	What we did in 2020
<b>Workforce</b> Having an engaged workforce that live our values and focus on high performance, which ultimately drives results.  To ensure effective two-way communication.	<ul style="list-style-type: none"> <li>Nancy Gioia, is Chair of the Corporate Responsibility Committee and the Non-Executive Director responsible for employee engagement. During 2020, Nancy conducted virtual meetings with sites in the UK, US and Asia, where she met separately with employees at all levels of the business. She also met with apprentices, graduates, our Employee Resource Groups, High Performance Culture facilitators and with our HR teams to discuss specific issues including COVID-19, the engagement survey results, the transition to Ansty Park, and diversity and inclusion. These meetings enabled Nancy to gain a deeper insight of matters that are of significance to our workforce and these were reported back to the Board.</li> <li>Annual employee engagement surveys, and annual 'pulse' surveys, are issued to employees with the results reported to and discussed by the Board.</li> <li>Intranet updates and leadership blogs provide employees with information on matters of concern to them and achieve a common awareness of the financial and economic factors affecting the Group's performance.</li> <li>An independently run whistleblowing hotline is in place with regular reports to the Corporate Responsibility and Sustainability Committee and the Board.</li> </ul>	<ul style="list-style-type: none"> <li>Stress levels had increased as a result of COVID-19, working from home and reductions in workforce.</li> <li>Meggitt provides the opportunity to take on challenging and meaningful assignments. Direct access to senior management was seen as a positive aspect of the Company's culture.</li> <li>COVID-19 limitations for in-person High Performance Culture sessions raised concerns for maintaining the rate of deployment and cultural shift progress.</li> <li>Improved and consistent communication and collaboration tools were identified as key areas for improvement.</li> </ul>	<ul style="list-style-type: none"> <li>Released COVID-19-related information direct to employees through HR, as well as making resources and support information available on our intranet, including advice and links to our existing Employee Assistance Programmes.</li> <li>Mental health during COVID-19 was a key topic actively discussed by the Board and executive management. Executive management worked with SHINE, our Employee Resource Group on mental health and disabilities.</li> </ul>
<b>Shareholders</b> Having supportive shareholders is vital to the achievement of our strategy.	<ul style="list-style-type: none"> <li>Our CEO, CFO and VP Investor Relations meet regularly with our key shareholders and report regularly to the Board.</li> <li>The Chairman met with some of our key shareholders during the year on matters related to governance.</li> <li>The Senior Independent Director engaged with key shareholders regarding the decision for Sir Nigel Rudd to remain on the Board to ensure continuity during the COVID-19 pandemic.</li> <li>The Company Secretary and VP Investor Relations engaged with our major shareholders and proxy advisors ahead of and after the AGM to answer questions on the resolutions and report key themes back to the Board.</li> <li>In late 2020 and early 2021, the Chair of the Remuneration Committee engaged with our major shareholders, and proxy advisors, to discuss and seek feedback on remuneration proposals. Further information can be found in the Directors remuneration report on page 114.</li> <li>We set up a dedicated email address for shareholders to raise questions about the Group and its governance and operations ahead of the AGM. Responses to questions received are included on the shareholder section of our website.</li> </ul>	<ul style="list-style-type: none"> <li>The main area of interest from retail shareholders ahead of the AGM centred on our participation in the Ventilator Challenge.</li> <li>Institutional shareholders were primarily interested in the impact of COVID-19 on Group revenue and profitability, steps being taken to preserve cash and adjust our cost base, our liquidity and headroom, expected pace of recovery in the civil aerospace market, safety of our workforce and steps taken to retain talent.</li> <li>Shareholder feedback on the Chairman continuing on the Board as a result of the need for continuity during COVID-19 was positive.</li> <li>Shareholder feedback and proxy advisor feedback on our remuneration proposals is detailed in the Directors' Remuneration Report.</li> </ul>	<p>We answered queries on our participation in the Ventilator Challenge directly and provided additional information on our website on this matter.</p> <p>We kept our shareholders updated and informed through a combination of scheduled and ad-hoc market updates and answered questions throughout the year on all aspects of the COVID-19 crisis and progress made by the Company.</p> <p>The Remuneration Committee responded to shareholder and proxy advisor feedback by reshaping remuneration policy proposals: see the Directors' Remuneration Report for more details.</p>

## Stakeholder engagement continued

Stakeholder	How we engaged in 2020	What they said in 2020	What we did in 2020
<b>Customers</b> To provide sustainable technology solutions and anticipate future demand.  To obtain feedback on where we are performing well and any areas where we can improve.  To ensure effective two-way communication and manage expectations.	<ul style="list-style-type: none"> <li>Continuous engagement by our CEO and divisional presidents and product group teams to discuss performance and technologies.</li> <li>The Board receives reports on customers, customer-related key performance indicators, and actions being undertaken as a result.</li> <li>The Board has overseen the implementation of the Meggitt Production System (MPS) since it was launched in 2012. MPS provides continuous improvement to our manufacturing processes for the benefit of the customer. MPS measures are included in the Long Term Incentive Plan and progress with MPS is discussed in detail by the Board and Remuneration Committee.</li> <li>The Board has also overseen the creation and development of the Services &amp; Support division, which is entirely focused on civil and defence aerospace aftermarket customer service. The Board receives regular updates on progress.</li> </ul>	<p>In 2020 there was continuous engagement with our customers to ensure that production during COVID-19 was in line with demand.</p> <p>Customers also requested extensions on payment terms.</p>	<p>Ensure continuous service to our customers throughout the year.</p> <p>A new credit management committee was established to review credit extensions for customers.</p>
<b>Suppliers</b> Our relationships with our external supply base are a critical element of our overall business effectiveness and profitability.	<ul style="list-style-type: none"> <li>Our requirements for suppliers to demonstrate compliance to industry-wide policies regarding quality, security and a wide range of corporate social responsibility matters including environmental, performance, modern slavery and human trafficking and conflict minerals are documented and made available to our suppliers. The requirements are included in our standard terms and conditions.</li> <li>Risk assessments of suppliers have been undertaken and we have engaged with those suppliers perceived to be higher risk to seek confirmation of compliance on certain matters.</li> <li>The Corporate Responsibility Committee receives an annual update on supplier engagement activities from our Chief Procurement Officer, which is reported back to the Board.</li> <li>The Corporate Responsibility Committee monitors the communication channels and relationships with our suppliers to ensure that they facilitate open discussion on areas of concern and support best practice.</li> <li>Payment practices are managed by the Chief Financial Officer and Chief Procurement Officer who monitor actions to improve payments to suppliers. The Board and Corporate Responsibility Committee also receive biannual updates on payment practices.</li> <li>The Procurement team engaged with suppliers to ensure we fully understood the risks to our supply chain arising from COVID-19.</li> </ul>	<p>Due to COVID-19 some suppliers needed additional support to remain operational.</p>	<p>Support was provided to suppliers to assist them in their efforts to remain operational, especially in regions affected by national/state lockdowns.</p> <p>However, towards the latter end of the year creditor days were extended slightly, detracting from the significant progress made in 2019 in respect of our payment practices.</p> <p>Assisted suppliers with access to Government stimulus funds in the USA, UK, and France, and re-launched the Meggitt US ePayables programme, allowing suppliers to receive payment more quickly, easing pressure on their cash flow.</p>



Stakeholder	How we engaged in 2020	What they said in 2020	What we did in 2020
<b>Local communities and the environment</b> As a global Group we are members of a diverse range of communities and have a responsibility to understand and support our local communities.	<ul style="list-style-type: none"> <li>• Board oversight and approval of the Corporate Responsibility and Sustainability Policy.</li> <li>• Our approach to local communities and charities and implementation of the Group Sponsorship and Charitable Giving Policy is discussed at each meeting of the Corporate Responsibility Committee.</li> <li>• Monitoring the environmental impact of our facilities and agreeing targets on greenhouse gas emissions, water and waste.</li> <li>• Maintain an active external communications presence, including through social media, to communicate key messages and monitor comments about the Company. Regular social media updates are provided to executive management.</li> <li>• Many of our teams and employees engaged with local communities to provide support during COVID-19.</li> </ul>	<ul style="list-style-type: none"> <li>• Additional support was needed by local communities during the COVID-19 pandemic.</li> </ul>	<p>Participated in Ventilator Challenge UK.</p> <p>Our UK Services &amp; Support business produced over 49,000 straps for face visors.</p> <p>A colleague in the US produced 2,000 face masks.</p> <p>Our Rockmart site adapted its production line to package gallons of hand sanitiser.</p> <p>Colleagues in Xiamen collected stationery and school necessities to distribute to poorer communities.</p> <p>Our California site collected food to distribute to 200 local families.</p>

## Decision-making in practice

One of the major decisions made by the Group this year was the sale of the Meggitt Training Systems business to Pine Island Capital Partners, LLC. In making this decision the Board considered the interests of and the impact on all relevant stakeholders.

Our shareholders want us to maximise returns in a sustainable way. The sale of Meggitt Training Systems supported our strategy to focus on the civil and defence aerospace markets where we have strong competitive positions. Increasing our exposure to these markets will provide better returns for our shareholders in the long term. The sale also bolstered Meggitt's liquidity during this challenging period helping to secure our long-term success.

Our workforce rely on us for their livelihood and our customers rely on us to provide quality products at competitive prices. During the sale process care was taken to select an appropriate buyer who had shown interest in utilising their resources to grow the business. The buyer was considered a good custodian who would continue to invest in the workforce and in developing quality products for its customer base.

## Corporate responsibility

Our people deliver solutions for the most challenging environments and are critical to our sustainable future.

We must look after our planet by harnessing green energy, alongside driving operational excellence and reducing harmful emissions.

As the world transitions to a net zero future, our technology and products play a key role in making flight more sustainable and in enabling low-carbon power generation.



# MEGGITT

## Enabling Our Sustainable Future

**At Meggitt we are committed to working in partnership with our employees, communities, customers, suppliers, and shareholders to protect our people and planet to develop technologies for the benefit of future generations.**

Our Corporate Responsibility and Sustainability Policy supports our strategy for a sustainable future by concentrating on three core pillars: People, Planet and Technology. Our strategy is tied to four of the United Nations Sustainability Development Goals, and allows us to strengthen our relationships with all of our stakeholder groups.

2020 has seen an expansion of our corporate responsibility activities. Our work on our strategic portfolio, our investment in differentiated technologies, alongside our commitment to manufacturing efficiencies, our values and diversity and inclusion all contribute to the sustainable development of our business and is the key to our continued long-term success.

## Corporate responsibility continued

### 01

#### Corporate Responsibility & Sustainability Policy

- Addresses our key stakeholders: employees, customers, suppliers, shareholders and the wider community;
- upholding sound corporate governance principles and applying the UK Corporate Governance Code;
- supporting the Ten Principles of the United Nations Global Compact, relating to human rights, labour, the environment and anti-corruption;
- upholding our employees' human rights;
- encouraging dialogue with employees through engagement and our Speak Up Line;
- building a more diverse and inclusive Meggitt, complying with reporting obligations including gender pay gap reporting and reporting gender ratios for executives and the Board to the Hampton Alexander Review;
- minimising the environmental impact of products and processes and maintaining internationally accredited environmental management systems, including ISO 14001 and ISO 9001;
- conducting business relationships ethically and responsibly;
- complying with anti-slavery and human-trafficking legislation;
- acting as a responsible supplier and encouraging all our counterparties to do the same; and
- supporting our local communities.

### 02

#### Our focus areas and stakeholders





## 03

### Action

#### For our stakeholders this means:

- committing to invest over two-thirds of our innovation budget on technologies for sustainable aviation and energy;
- improving the environmental sustainability and resilience of our sites around the world;
- complying with relevant national laws and regulations;
- complying with the latest environmental reporting requirements;
- providing a supportive, rewarding and safe working environment;
- introducing an employee recognition scheme, "Extraordinary People", in a number of categories which include community and sustainability;
- delivering training for all employees on our Code of Conduct, health and safety, diversity and other areas;
- continuing to develop our approach to employee communications and improving our 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 STEM, and the work of our Employee Resource Groups;
- having effective risk identification and mitigation across all areas of the business;
- removing all sales agents from our business and implementing a continuous improvement plan for all intermediaries;
- rolling out a new and improved Code of Conduct for our employee base alongside developing a Code of Conduct for our suppliers and other counterparties;
- conducting independent audits in key compliance areas; and
- adopting robust internal and external reporting and controls, and ensuring financial probity.

## 04

### Governance and compliance

Ultimately, the Board is responsible for the implementation and performance of our Corporate Responsibility and Sustainability Policy (CR&S Policy).

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

The CR Committee also oversees the Board's approach to implementing sections of the UK Corporate Governance Code 2018 ("the 2018 Code") and the UK Companies Act 2006 relevant to stakeholder engagement.

Nancy Gioia, the Chair of the CR Committee also performs the role of Non-Executive Director responsible for Employee Engagement. The role and activities undertaken by Nancy in 2020 are outlined on page 63.

In 2020, the Board of Directors continued to receive updates on diversity and inclusion activities across the Group, including the significant progress in 2020 with our Employee Resource Groups and the Meggitt Inclusion Week held in October. Health and safety reporting is also overseen directly by the Board with regular reports from the Chief Executive, and in 2020 the Board reviewed current health, safety and environmental performance with the VP Health, Safety and Environment and the Group Director of Operations.

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

Day-to-day responsibilities of the Board and the Chief Executive for overseeing the CR&S Policy in 2020 were delegated as follows:

- the Group Operations Director had functional responsibility for health, safety and the environment, led by our VP Health, Safety and Environment;
- the Group HR Director led initiatives focused on culture, diversity, inclusion and employee engagement; and
- the Group Company Secretary had functional responsibility for ethics and business conduct and charity and community matters, working closely with our Group General Counsel & Director, Corporate Affairs, and Group HR Director.

In 2020, health and safety (Total Recordable Incident Rate) was a key strategic non-financial KPI (see page 53). In 2021, we are introducing carbon emissions as another non-financial KPI recognising the key strategic importance of this area.

Data in other key areas, such as employees and other environmental data were monitored and assessed and our Group progress is reported in this section and in the Nominations Committee report (see page 112). Our non-financial information statement as required by sections 414CA and 414CB of the Companies Act 2006 is set out on page 89.

## Corporate responsibility continued

### Environmental, Social and Governance (ESG) reporting and guidance

In 2020, Meggitt undertook a review of external environmental, social and governance reporting, and we are in the process of implementing a framework for our sustainability strategy across Meggitt, under the banner of “Enabling our sustainable future”. This framework captures our commitment to drive our business to be more sustainable across three key pillars: People, Planet and Technology. Our framework also covers the reporting requirements under the Taskforce on Climate Related Financial Disclosures.

We have reviewed the United Nations Sustainability Development Goals and determined that the following goals are where Meggitt can make a difference:



#### Industry, innovation and infrastructure

Inclusive and sustainable industrialisation, together with innovation and infrastructure, can unleash dynamic and competitive economic forces that generate employment and income. They play a key role in introducing and promoting new technologies, facilitating international trade and enabling the efficient use of resources.

#### Our approach

Meggitt can contribute to this goal by encouraging innovation and continuing our commitment to research and development on sustainable technologies for aviation and energy.

#### Meggitt is committed to:

- Investing two-thirds of our Applied Research & Technology spend in technologies and products needed for sustainable aviation and low carbon power generation;
- Membership of the UK Government’s Jet Zero Council which is a partnership between industry and Government in the UK to bring together ministers and chief executive officer-level stakeholders to drive the ambitious delivery of new technologies and innovative ways to cut aviation emissions; and
- Working with established and new companies developing innovative low carbon solutions.



#### Reduced inequalities

Reducing inequalities and ensuring no one is left behind are integral to achieving the Sustainable Development Goals.

#### Our approach

Meggitt can contribute to this goal by empowering and promoting the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.

#### Meggitt is committed to:

- Continuing commitment to our values and our High Performance Culture (HPC) journey;
- Creating and supporting Employee Resource Groups which sponsor, promote and challenge our approach to diversity and inclusion across Meggitt;
- Increased emphasis on our Speak Up culture;
- Commitment to Gender Pay Gap and other diversity related data reporting; and
- Increased community-based charity support connected to STEM and our Employee Resource Groups.



## Responsible consumption and production

Worldwide consumption and production – a driving force of the global economy – rest on the use of the natural environment and resources in a way that continues to have destructive impacts on the planet.

### Our approach

Meggitt can contribute to this goal by concentrating on:

- achieving the environmentally sound management of chemicals and all wastes throughout their life-cycle and significantly reducing their release to air, water and soil in order to minimise their adverse impacts on human health and the environment;
- substantially reducing waste generation through prevention, reduction, recycling and reuse; and
- adopting sustainable practices and to integrate sustainability information into our reporting cycle.

### Meggitt is committed to:

- Reducing greenhouse gas emissions, waste to landfill and water consumption, which are being managed by opportunities to maximise operational efficiencies;
- Sourcing green energy;
- harmonising more sustainable practices across our sites including waste recycling, minimising plastics, electric car charging and other facilities;
- Sites maintaining ISO 14001 certification;
- Site-level environmental performance monitoring and reporting against targets increased external reporting in the environmental, social and governance space including the Taskforce on Climate Related Financial Disclosures; and
- Aftermarket business model of reduce, reuse and recycle.



## Peace, justice and strong institutions

Promote peaceful and inclusive societies for sustainable development.

### Our approach

Meggitt can contribute to this goal by:

- taking action to prevent modern slavery within Meggitt and our supply chain;
- implementing policies, processes and awareness training to prevent bribery and corruption; and
- ensuring effective and accountable reporting.

### Meggitt is committed to:

- Increased transparent reporting in the environmental, social and governance space;
- Increased emphasis on creating a sound Anti-Bribery & Corruption compliance programme through our annual continuous improvement plan;
- Driving ethical business conduct through emphasis on our Speak Up Culture;
- Creation and support for our Employee Resource Groups;
- Continuing commitment to our High Performance Culture journey;
- All-employee yearly compliance training in key areas including our Code of Conduct, ethical business practices and health and safety.

## Taskforce on Climate-related Financial Disclosures (TCFD)

The TCFD was created to develop consistent climate related financial risk disclosures for use by companies to provide meaningful information to shareholders. We are required to fully comply with these disclosure requirements in our 2021 Annual Report & Accounts. During the year we completed a review and gap analysis of the TCFD requirements to identify areas for improvement in our practices and disclosure. Many of the TCFD requirements were already integrated into our strategy, operations and culture and we have strengthened our reporting in this Annual Report & Accounts to provide additional disclosure as appropriate in the following key areas: Governance, Strategy, Risk Management and Metrics & Targets. We are working on an action plan to address areas for improvement to enable full disclosure with the requirements in 2021.

TCFD Recommendation	Link to section in Annual Report and Accounts
Governance	Page 73
Strategy	Page 11
Risk Management	Page 72
Metrics & Targets	Page 11

## Corporate responsibility continued

### Climate-related opportunities and risks

The opportunities and risks that climate change pose are managed as an integral part of our strategic plan for the business (see page 20), both in terms of how demand will change for existing and new products and how our operations will change in terms of energy usage, greenhouse gas emissions, and resilience to changing climate. The strategic planning process is integrated with our financial planning processes and includes climate change scenarios with a focus on future air travel, potential launches of new types of aircraft and engines, and impact on our sites.

#### Market opportunities and risks

	Short term (< 3 years)		Medium term (3 - 10 years)		Long term (>10 years)	
	Opportunities	Risks	Opportunities	Risks	Opportunities	Risks
<b>Aerospace markets</b>	Increased use of more modern and fuel-efficient aircraft where Meggitt has a higher ship-set content leading to increased sales of both original equipment and aftermarket services.	Reduced passenger demand due to "flight shaming" or "carbon taxes" leading to a slower growth of the civil aerospace market.	Launch of next generation engines and aircraft where Meggitt's thermal, sensing, composite, and flow control technologies are well suited.	Reduced passenger demand due to "flight shaming" or "carbon taxes" leading to a slower growth of the civil aerospace market.	Transition to alternative engine fuels (hydrogen or batteries) with opportunities for Meggitt's technologies.	A new competitive environment with competitors offering technologies from other sectors.
<b>Energy markets</b>	Increased use of natural gas driving a growing market for Meggitt's heat exchangers and products used in gas-turbine power generation.		Increased demand for hydrogen, carbon capture, and energy storage offers significant opportunities for our heat exchangers and thermal systems capabilities.		Increased demand for hydrogen, carbon capture and energy storage offers significant opportunities for our heat exchangers and thermal systems capabilities.	If solar or wind power generation capacity reaches a scale whereby the demand for LNG falls then there would be a lower demand for heat exchangers in this market.
<b>Production operations</b>	Use of renewable electricity, improved energy efficiency, and reductions in waste and water use.  Review and where appropriate initiate Scope 3 emissions management.	Increased risks of wild fires in areas we operate (i.e. California and Oregon). Increased likelihood of extreme weather events.  Limited capex availability following COVID-19 crisis to fund substantial greenhouse gas reduction projects.  Limited Federal Regulations in Sustainable energy market in the US.	Reduced energy usage and greenhouse gas emissions from our own facilities through improved production efficiency and through the ongoing consolidation of our global facilities into a smaller number or larger, more efficient plants.  Ongoing Scope 3 emissions work with suppliers to improve energy efficiency and greenhouse gas emissions resulting in higher yields and lower costs.	Carbon taxes and impacted operations from increased risk of extreme weather events.	Changes to production facilities to provide key technologies for next generation green propulsion and energy sectors.	Over-capacity due to dramatically climate-altered societies and markets.



## Governance of climate-related opportunities and risks

Climate change, with the associated risks and opportunities, has been identified by the Board and Executive Committee as a key strategic issue and is an integral part of our business planning framework. Our strategy includes how we can position the Company to offer products that will enable the shift to sustainable aviation and low-carbon energy production, how we can reduce greenhouse gas emissions from our operations, and how we can ensure our facilities are resilient in the face of a changing climate.

### Summary of responsibilities in relation to climate related issues

<b>Board</b>	<p>At a strategic level, the Board consider the impacts of climate change on both our markets and our operations. The Board continually monitor our performance and progress in both of these areas, receiving regular updates on UK and international policies to decarbonise the aviation sector, including market-based measures, technological solutions and demand management and takes these into consideration when setting the Group's policies and strategy.</p> <p>The Board approve the CR&amp;S Policy and the Environmental Policy that sets out the Group's commitment to incorporate environmental considerations in all aspects of our business. These policies are reviewed by the Board on a regular basis to ensure they are appropriate and in line with current best practice. These policies are available on our website.</p>
<b>CR Committee</b>	The CR Committee has independent oversight of the implementation of the Group's environmental performance and receives regular updates on environmental KPIs and environmental audits.
<b>Executive Committee</b>	<p>The Executive Committee leads the consistent implementation of business and operational processes to minimise the impact of the Group on the environment and sets targets for improving the Group's environmental performance.</p> <p>Functional responsibility is delegated to the Group Director of Engineering &amp; Strategy (for our response from a technology and market perspective) and to our Group Operations Director (for our response from an operational perspective).</p>
<b>Divisions, product groups and sites</b>	<p>Our divisions, product groups and sites are responsible for day-to-day performance in these areas.</p> <p>Each site is required to drive a number of projects locally to support the reduction of carbon emissions, electricity and water consumption, and landfill wastes disposals. Targets have been deployed at each site and will be tracked as part of the overall Strategy Deployment Process at site and product group level.</p>
<b>Environmental Steering Committee (ESC)</b>	The Environmental Steering Committee, comprised of the Group Company Secretary, Group Director, Engineering & Strategy, and Group Operations Director deploy the Group's strategy into the business by providing direction to the Environmental Working Group on key business plans, such as the procurement of clean electricity and deployment of site targets.
<b>Environmental Working Group (EWG)</b>	EWG includes members from Finance, Operations, Procurement, Communications, Research and Technology, Corporate Responsibility and Facilities Management, reporting to the ESC for strategic guidance.

## Corporate responsibility continued

### Corporate Responsibility Committee



**Nancy Gioia**  
Non-Executive Director

**"Our behaviours with each other, our customers, our suppliers and in our communities must be exemplary and we must accept nothing less."**

#### Committee membership and attendance in 2020

**Mrs N L Gioia**  
(Committee Chairman)



**Mr A Wood**



**Mrs L S Burdett**



**Mr G S Berruyer**



**Mr A Garard**



 Meetings attended

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

Our values and commitments are set out in our CR&S Policy to ensure it reflects our strategic goal to conduct business in a sustainable, long-term manner while demonstrating a high degree of social responsibility. Our approach and performance in this area is monitored closely by the CR Committee and oversight is provided by the Board.

The CR Committee covers ethics and business conduct, environmental performance, charity and community in detail. It also ensures that the Board meets its responsibilities under the 2018 Code and UK Companies Act 2006 on stakeholder engagement, and other reporting requirements.

COVID-19 brought all matters related to corporate responsibility and how we treat our stakeholders to the fore in 2020. During 2020, we received detailed progress reports on environmental performance and ethics and business conduct, including trend analysis, detailed Speak Up line case reports, and updates on training roll out. We also received reports on supplier engagement and discussed feedback on employee engagement activities. We also discussed specifically the impacts of COVID-19 on our stakeholder groups to ensure our approach was balanced.



#### Integrity

In 2020, a new Ethics Management Committee was formed to review Speak Up line investigation reports to ensure consistent application of the process and investigation quality. The committee reviewed trend analysis data to ensure additional training and coaching is rolled out in the required areas in addition to the all employee training. The results of the committee's findings were also reported to the Corporate Responsibility Committee.



## Shareholders

The Committee determined that the regular reports to the Board on shareholder engagement during 2020, in addition to direct engagement by the Chairman, executive directors and Chair of the Remuneration Committee were appropriate and gave the Board a good level of oversight and understanding of shareholder views. Our shareholder engagement activities are described in more detail on page 63.



## Customers

The Board discussed engagement with customers at every meeting during 2020. The Committee determined that the regular reports to the Board and customer updates were appropriate and gave the Board a good understanding of customer views. Our markets and key customer activities are outlined in our Strategic Report (page 64).



## Suppliers

The Chief Procurement Officer presented an update on the implementation of our supply chain strategy to the Board and detailed written reports on supplier engagement were provided direct to the Committee in 2020. This highlighted that Meggitt's approach to supply chain management is evolving, with a targeted reduction in the cost and complexity of our supply chain, but a deeper level of engagement with retained suppliers.



## Employees

The Board reviewed reports from executive management on employee engagement and culture on a regular basis. The Committee reviewed the activities of the Non-Executive Director for Employee Engagement in detail. The results of the employee engagement survey as well as the whistleblowing hotline and ethics programme were also reviewed by the Board and CR Committee (see page 63).

## 2020 Highlights

A focus on the impacts of COVID-19 on our stakeholder groups, particularly in relation to actions taken by management to control cost.

Creation of an Environmental Steering Committee to support the implementation of our strategy on climate change.

Creation of an Ethics Management Committee to provide direction on our ethics programme, including approving processes and oversight of case management and ethical training.

Reducing sales agents in our business to zero.

Refreshing our Code of Conduct for all Employees.

Relaunching our new and improved independent Speak Up Line.

Launching our employee recognition scheme "Extraordinary People".

Launching three new Employee Resource Groups supporting Black, Asian & minority ethnic (BAME), Latinos and Hispanics, and our Veteran communities (adding to the five existing groups which cover gender, mental health, STEM, young professionals and the LGBTQI+ communities) whilst also reviewing our talent pipeline, reflecting our commitment to diversity and inclusion.

Implementing site-level key performance indicators and targets for environmental measures such as energy and water consumption and waste to landfill.

## Corporate responsibility continued

### PEOPLE



Strategic Report – 1-89

# Our people are at the centre of our sustainable future



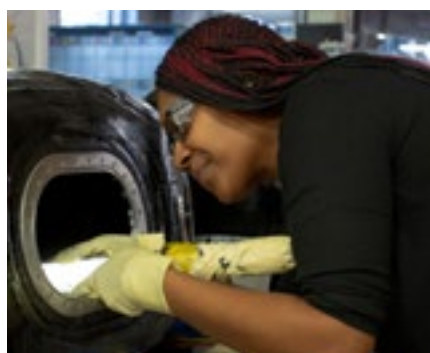
### Our values and culture

Our values reflect how we should work together and the behaviours that are integral to our drive for success. Our work on culture continues to be a key part of our overall Group strategy.

To accelerate our progress towards becoming a truly integrated global business, we launched our High Performance Culture (HPC) initiative across the Group in 2017, with the first wave of HPC sessions targeted at the senior leadership teams across the organisation.

6,400 of our current colleagues have attended unfreezing sessions and 1,100 colleagues have received reinforcement training. Our original goal was for all employees to have attended a session by the end of 2020, however, due to the COVID-19 pandemic, progress has been slower than planned. In 2020, we focussed our activities on reinforcement with virtual monthly sessions on HPC for leaders and managers across the business, to enable them to deploy activities at a local level.

In 2020 we also trained facilitators to deliver HPC virtually in 2021, which will ensure that we sustain momentum as we continue to build our High Performance Culture.





## Living our values



### Teamwork

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



### Integrity

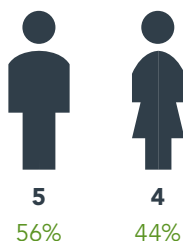
At Meggitt we do the right thing, in the right way wherever we operate. Our colleagues, customers and the communities we are part of can count on us to act with integrity, honesty and respect. We form lasting positive relationships built on open communication, understanding, fairness and impartiality.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



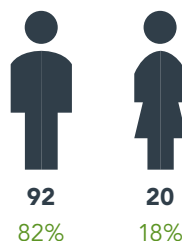
### Excellence

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

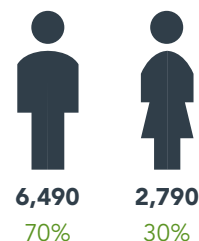
#### Group Board



#### Senior managers\*



#### Wider employees



\* includes members of the Executive Committee, direct reports of the Executive Committee and, as required by s414C of the Companies Act 2006, subsidiary directors.

## Diversity and Inclusion

Our Diversity and Inclusion Policy (available on our website) sets out our commitments at Board level to making Meggitt a diverse and inclusive organisation. The Policy reinforces that we should employ a diverse workforce that reflects the diverse communities within which we operate and always foster an inclusive culture where people are valued, respected and supported.

Alongside our Policy and embedded within our culture and values are diversity and inclusion. The Board, executive management, and leaders across the Group recognise that a diverse and inclusive workforce is critical to running a sustainable and successful business. To reinforce our commitment to creating a diverse and inclusive environment, we have created divisional-level diversity plans, and established a Group-wide Diversity & Inclusion Council which drives the aims of the Policy.

During 2020 we saw substantial progress, with the launch of three new Employee Resource Groups. We also continued to deploy inclusion and unconscious bias training in 2020.

We hosted numerous events throughout the year which increased awareness and visibility of our efforts including Women's History Month and International Women's Day in March, Mental Health Awareness Week in May, Hispanic Heritage Month in September, Black History Month (UK) in October and Remembrance/Armistice Day

in November. In October we launched our first 'Inclusion Week' showcasing the work of all of our Employee Resource Groups. Over 1,000 participants attended live sessions and activities deployed to colleagues across the business.

We continue to make good strides in diversity in our talent pipeline where female promotions have increased to 36% in 2020 (2019: 32%); a testament to the work done on facilitating growth and development of our female population. Our UK gender pay gap reduced from 14.9% to 9.3% in 2020, with progress driven by several senior executive changes and our increased focus on diversity and inclusion. Our full UK gender pay gap statement will be available on our website by April 2021. We are committed to building a more diverse and inclusive Meggitt and complying with reporting obligations including gender pay gap reporting and the Hampton Alexander Review, as well as equal pay and fostering a fair and transparent environment where employees are rewarded based on their position, competencies, performance and contribution.

Our Employee Engagement Survey showed a year over year improvement in our diversity and inclusion index. Our people are in favour of efforts to promote diversity and inclusion and most feel that differing viewpoints are sought out and valued.

Meggitt does not discriminate on the grounds of age, colour, disability, ethnic or national origin, gender, gender expression, gender identity, marital status, pregnancy, race, religion or belief, or sexual orientation and new hires are offered positions based on merit, taking account of their specific skills, experience and knowledge. All individuals are supported during their employment through training, career development and awareness of diversity and inclusion groups are promoted to all employees through our Employee Resource Groups.



## Corporate responsibility continued

### PEOPLE

Strategic Report – 1-89



#### Employee recognition

Having a high performance culture and great values are at the heart of how we work at Meggitt. Colleagues believe in the value of great Teamwork, always acting with Integrity – doing the right things, in the right way, and staying focussed on Excellence for our customers. A culture of appreciation and recognition is an important building block for our values – being able to say thank you or well done to a colleague is easy. Our engagement survey data told us how much people value being recognised for great work and in response to this feedback we introduced our Extraordinary People recognition programme in 2020.

This programme is a way of recognising the special efforts and commitment of individual colleagues and teams across the whole of Meggitt. Open to all, this programme, together with local recognition schemes already running at local sites, is motivational and rewarding, helping to create a culture of customer service and appreciation. Nominations are accepted for individuals and teams in seven categories: Operational Excellence, Innovation, Teamwork, Safety, Sustainability, Customer Service and Community. The level of uptake of this recognition scheme has been very well received by staff, having received over 2,000 nominations in 2020.

# 6,399

employees who have attended unfreezing



#### Employee engagement and feedback

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

The results of our 2020 annual Employee Engagement survey had an excellent 80% participation rate. 71% of employees were favourable on the overall engagement index, only 1% less than 2019 which was considered a positive outcome given the impact of COVID-19 on our business and our people during 2020. Our scores in alignment (connecting an employee's own goals with the goals of the Group) and agility (the organisations ability to respond to change) improved by 2% and 4% respectively. The feedback shows strong improvement in a number of areas:

- We saw big improvements in respect and trust, openness, and teamwork.
- It showed that improvements in efficiency and performance management have been made and we have further opportunities to improve our execution by refreshing the Meggitt Production System and simplifying processes.
- Our High Performance Culture initiative scored well and highlighted the need to ensure HPC is fully embedded in all areas of the business.

As well as asking for employee feedback and engagement, in the UK we encourage investment in Meggitt through participation in the UK employee share ownership schemes.

# 1,125

employees who have had reinforcement training



#### Investment in employees through training and development

We invest time and energy into ensuring we attract, develop and retain the best talent to ensure people succeed based on their skills, behaviours, knowledge and experience. We recognise that a skilled workforce will help Meggitt achieve better results. During 2020, our training and development programmes were impacted by COVID-19, the need to preserve cash and the inability to attend physical training sessions. The following are highlights from 2020:

- All-employee compliance training was rolled out in H2 2020;
- We developed internally the Spitfire Academy for operations leadership which was launched in Autumn 2020; and
- We developed LeadX, a new leadership programme for aspiring leaders (below executive level) and this programme launched in January 2021.

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

Graduate programme members and apprenticeships were protected from the necessary reductions in force which took place as a result of COVID-19 during 2020.

In 2020, our graduate programme received over 1,000 applications for 15 places (40% of those places were filled by females). We also confirmed 10 graduates into permanent roles within Meggitt and in total, currently have 45 graduates on our Global Rotational Graduate Programme.

In 2020, we have continued our efforts with the Meggitt Corporate Apprenticeship Programme in the UK. This includes confirming eleven apprentices into permanent roles within Meggitt and recruiting another cohort of seven onto the Manufacturing Engineering Apprenticeship, alongside an additional four joining our new Procurement Apprenticeship in January 2021. This brings our total apprentices in the UK to 60 and globally to 111.



## Community and charities

The Sponsorship & Charitable Giving Policy contains guidance about the types of organisations (charitable and non-charitable) that we will consider funding, the criteria are aligned to our Values. It is the responsibility of our Group Director of Ethics and Corporate Responsibility to ensure the policy is followed across the Group including providing guidance on charitable giving, and communicating this policy across the business.

Each site is ultimately responsible for agreeing and administering its own budget for charitable donations and sponsorships to ensure they have a positive impact on the local community that they support and in which their business operates.

In 2020 Meggitt donated to a number of charities aligned to the goals set out by our Employee Resource Groups and foodbanks in the UK and USA which are linked to the local communities we share. Our plan for work with charities in 2021 will continue to be aligned to the work our Employee Resource Groups do.

Throughout 2020 our employees volunteered their time generously to support their colleagues and local communities coping with COVID-19. Our employees in Coventry, UK, repurposed our restraints product line to stitch straps for full-face acetate masks, essential PPE for health care workers and first responders. Well over 49,000 straps were produced.

Our Rockmart site in Georgia, USA, teamed up with GEO Specialty Chemicals to jointly produce, package and distribute 1,200 gallons of hand sanitiser, enough to protect the employees of both companies with additional supplies sent to local hospitals and offices in need.

Many employees and their family members devoted their free time to making fabric face masks. Thousands of masks were donated to colleagues and local communities.

Employees used their personal 3D printers to produce headband brackets, face shields and 'ear savers' at home and donated the items to community medical centres.

## Disability

Meggitt's policy in relation to the employment of disabled persons is to give full consideration to job applications received from disabled persons. Candidates are selected and appointed on the basis of their ability to perform the duties of the job. Where appropriate, special training is given to facilitate engagement of the disabled and modifications to the job are considered. Where an employee becomes disabled whilst in our employment and is unable to perform their existing role, arrangements will be made where possible for retraining in order that a different job may be performed.



## Headcount by division

Number of employees and contractors



Airframe Systems	4,876
Engine Systems	1,886
Energy & Equipment	1,299
Services & Support	505
Central	714
<b>Total</b>	<b>9,280</b>

## Headcount by region

Number of employees and contractors



USA	4,871
UK	2,305
Rest of World	1,111
Rest of Europe	993
<b>Total</b>	<b>9,280</b>

## Headcount by length of service

Number of employees and contractors



Less than 5 years	4,337
Between 5 and 10 years	1,856
Between 10 and 15 years	1,090
Between 15 and 20 years	665
Between 20 and 25 years	656
Over 25 years	676
<b>Total</b>	<b>9,280</b>

## Corporate responsibility continued

### PEOPLE



#### Health and safety

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

At Meggitt, we have continuously placed the health and safety of our employees, contractors, customers and visitors at the forefront of everything we do. This approach was more important than ever as the COVID-19 virus spread in the global communities in which we operate.

The Group Crisis Management Team formed early in 2020 to oversee our response to COVID-19 and ensure a clear and consistent approach across the Group. Our sites activated the pandemic response supplement of our business continuity plan and a Group-wide policy and procedure for managing the work environment during the COVID-19 outbreak was developed and deployed by our HSE function. The procedure required all of our sites to undertake detailed and specific risk assessments in their operations to identify risk reduction measures needed to control or reduce the spread of the virus in the workplace.

Additional controls and policies were put into place including increased awareness campaigns, health screening of employees and visitors, social distancing

requirements, decreased and limited face-to-face meetings, staggered work shifts, telecommuting, and increased cleaning and disinfection regimes among other actions. These actions, combined with the resilience and cooperation of our employees during unprecedented times, allowed most of our operations to safely remain open throughout the pandemic.

Throughout the pandemic our employees continued to follow our core values of always placing safety first, and to always do the right thing by our people, our customers and our communities in which we operate. Our added focus of addressing COVID-19 risks in the workplace did not detract from our drive to reduce health- and safety-related risks that can arise within our operations.

With consistent communication of safety matters occurring daily through our Meggitt Production System's daily layered accountability process, we continued to keep our employees engaged throughout 2020 by encouraging employees to identify any perceived opportunities for improving safety in the work environment on a day-to-day basis. Across our business, site leaders continued to conduct regular Leadership Safety Walks on the production floors with a sole focus of observing how health and safety is embedded into daily operations, and emphasising the importance of positive safe behaviours with each task performed.

Sites also continued to conduct Safety Stand Downs in areas or topics of concern specific to their operations. Across all of our sites over 1,000 Safety Stand Downs were conducted in 2020. A Safety Stand Down occurs when operations are paused for a period of time and the whole site focuses on specific risk areas; interactive discussions are held with all managers and employees to review ways to minimise or eliminate the specific risk.

In 2020, we continued to report record lows in our Total Recordable Incident Rate (TRIR). Our TRIR improved in 2020 to 0.70 (0.74 in 2019), representing a 5% reduction year on year as a result of a decade of continuous improvement activities.

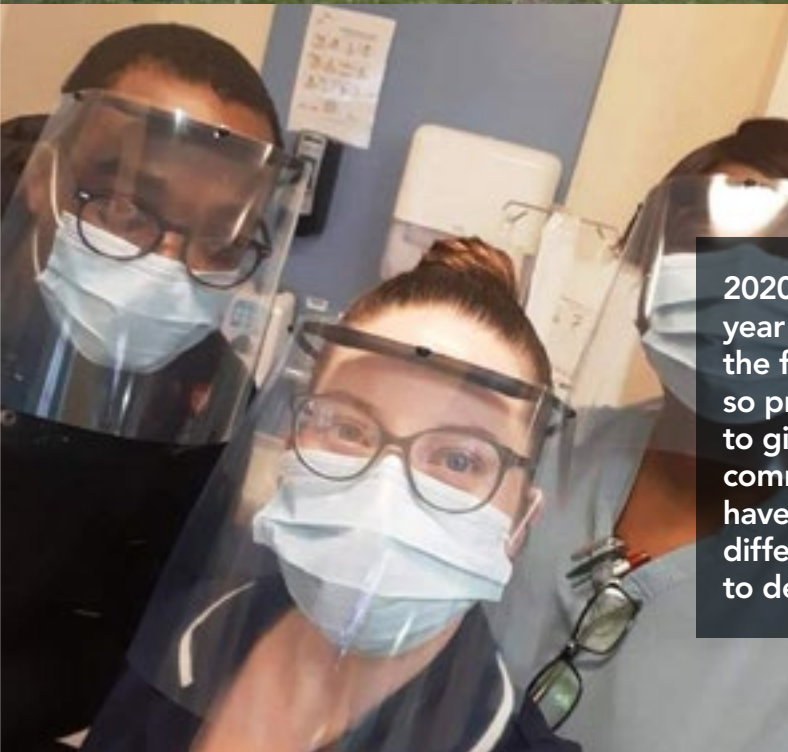
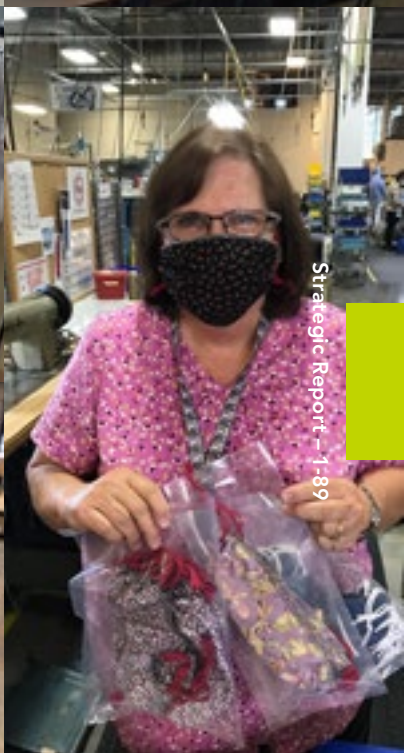
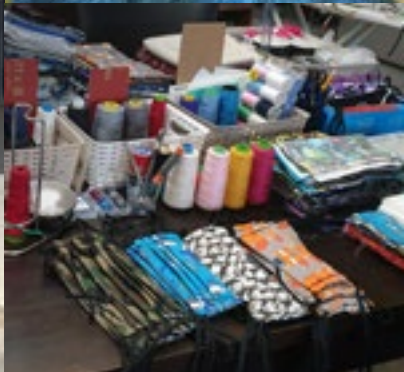
Our commitment to health and safety was reinforced in 2020 with the review and revision of our Group Health and Safety Policy which was approved by the Board of Directors in October 2020.

We continue to measure our effectiveness in health and safety through the use of the Meggitt Safety Star Programme which incorporates many leading indicators of health and safety performance. In 2020, 26 of our sites achieved Platinum level within the Programme which is the highest level of recognition in regards to health and safety performance that our sites can achieve. The Safety Star Programme is also a key element in determining if a site has achieved a level of operational excellence within our High Performance System which closely ties health and safety performance to operational performance as a measure of overall business performance.

In 2021 we will be incorporating the "Safety Leadership Index" metric into the business which consists of leadership leading indicators such as safety leadership walks, safe observation days conducted by site Safety Champions and the number of safety stand downs conducted each month as a mandatory metric in our Safety Star Programme that will require sites to achieve certain levels in the metric to achieve Platinum Safety Star status.

In addition, we are targeting all of our sites to implement and obtain an occupational health and safety management system certified to the ISO 45001 standard by 2022. In 2020, 30% of sites had achieved this target.





will go down in the history books as the that united communities worldwide in fight against a global pandemic. We are proud of our teams worldwide who continue their time to support colleagues, communities and those in need to ensure they the right tools and support to make a difference, our teams worldwide continued deliver when it mattered most.





## Corporate responsibility continued

### PLANET



# Our planet, our home

### Our commitment

Our Corporate Responsibility & Sustainability (CR&S) Policy and our Environmental Policy set out our commitments to incorporate environmental considerations, sustainability and responsibility in all aspects of our business by including environmental protection, resource conservation and waste reduction in our strategic planning. Our policies require all of our sites to comply with relevant legislation, promote environmental stewardship and achieve recognised ISO14001 certification of their environmental management systems and commits us to work with our suppliers to minimise any adverse impact of their products and operations on the environment.

### Performance

Our overall strategy requires all of our sites to implement and maintain an environmental management system certified to ISO 14001. Those sites which had not yet achieved certification as at the start of the year had to delay their plans to 2021 because of the impact of COVID-19 on travel restrictions, availability of auditors and their inability to certify virtually. As part of maintaining an ISO 14001 certified management system, sites need to identify all aspects of their business that may impact the environment and to set strategies to mitigate, control or reduce those impacts.

Many of our sites have completed projects that contribute to our overall strategic goal of reducing our environmental impact on the planet.

The solar panel project at our Ansty Park, UK, site was completed in 2020 and the solar array generated 86,000 KWh of renewable energy last year.

Our Rockmart, US, site completed the replacement of an autoclave in late 2019 and a second one in 2020 with higher efficiency models which resulted in an approximate 30% decrease in water consumption at the site. In addition, the site has plans to replace a third autoclave and their two large boilers with five smaller, energy efficient boilers in 2021. The replacement of the boilers will allow the site to better control their natural resource consumption as they will be able to tailor their consumption based upon demand as opposed to running the larger boilers 24/7.

Our Portland, US, site achieved the following in 2020:

- Reduced electricity consumption by 16% by installing LED lighting;
- Reduced natural gas consumption by 12%;
- Reduced water usage by 47% with the installation of inline chillers to recycle and reuse water in their cooling towers; and
- Moved 80% of what was previously landfilled to recyclables (77% decrease in landfill, 80% increase in recyclables)

The energy storage system that was installed at our MDS Irvine, US, site in 2019 which allowed the site to purchase and store electricity purchased during off peak hours for use during peak hours, resulted in cost savings for the site. The site in turn utilised the cost savings to purchase Renewable Energy Credits (RECs) that offset 100% of their greenhouse gas emissions from electricity purchased from the grid.

In Autumn 2020 we signed a UK-wide energy contract to source 100% of our UK electricity from renewable energy sources from March 2021 onwards. There are further plans being implemented for the rest of our sites globally outside of the UK to transition as much of our energy as possible to renewable sources in 2021, or where this is not possible (such as in some locations in the US) to adopt other strategies to offset our energy usage.

These actions are being taken as a part of reaching our goal of reducing our greenhouse gas emissions relative to revenue by 50% by 2025, using 2015 as a baseline year.

During 2021 we are committed to developing a plan for Meggitt to reach net zero on our Scope 1 and 2 emissions.

## Case study

### Ansty Park – sustainable by design

Performance Certificate rating A+, and a BREEAM audit ranking of 'Very Good', meaning we are in the top 25% of international new construction projects for sustainability.

Several features have helped us to achieve this recognition, we have a rainwater harvesting system that incorporates a 90,000 litre collection tank which supplies recycled and filtered water for use in toilets and production. We have in-built insulation with localised air extraction and heating systems to optimize climatisation, and 20 electric vehicle charging points with ducts installed to accommodate an additional 130 cars. In addition, we have installed a state of the art wet processing line with an integrated filtration system, meaning nothing goes to drain except clean water, protecting the environment and reducing our levels of hazardous waste.

Perhaps the most striking environmental feature is our roof-top solar farm, It is one of the biggest roof mounted solar Photovoltaic installations in the UK. This 2,600kW system will produce around 2 million kW's of electricity a year. It took three months to build, covers 167,000 square feet (around five football pitches), has over 9,500 solar panels and 20km of cable. We estimate that our solar farm will account for more than 25% of our annual Ansty power requirement.

## Corporate responsibility continued

### PLANET

#### Strategic Report – 1-89

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

We currently disclose gross Scope 1 and Scope 2 greenhouse gas emissions. From 2021 we will disclose our net as well as gross emissions for Scope 1 and Scope 2, and in 2022 we will review the disclosure of Scope 3 emissions.

COVID-19 had a significant impact on our overall performance in 2020. As expected, all of our environmental metrics decreased year-on-year on an absolute basis due to the associated impacts on our operations in terms of production, employees telecommuting and site furloughs.

As a result, our absolute greenhouse gas emissions decreased by 21% year-on-year but increased by 6% when normalised to revenue and our performance against our 2025 target deteriorated slightly. Our carbon brake manufacturing operations continue to drive our overall performance on greenhouse gas emissions and those sites were significantly impacted by the pandemic in 2020. As discussed above, however, our sites continue to develop renewable energy projects and our strategy to procure greener energy will lead the way in helping us to achieve our target on net emissions by 2025.

It has been agreed for 2021 to implement Group wide site targets for a 3% reduction in electricity, natural gas, water and waste to landfill in 2021. Each site will be required to build a strategic improvement plan that will drive concrete actions to support these targets.

Water consumption decreased significantly on an absolute basis (-30%) which also resulted in a 6% decrease when normalised to revenue. Although the pandemic had an impact on this metric for most of our sites, the improvement at our Rockmart, Georgia, facility (the largest water consumer in Meggitt) was due to the autoclave replacement projects listed on page 82 as well as the site identifying and fixing significant leaks in their systems. In total, the site improved their year-on-year water consumption by 46%.

Our Environmental Working Group (EWG) has been working on plans to increase energy efficiency across the Group as a principal measure of our commitment to climate related action in our operations. Projects are underway in line with ISO 14001 site led continuous improvement plans, as well as improving employee engagement on sustainability and corporate responsibility more widely, including the launch of a community of interest for sustainability in 2021.

Our absolute waste generated decreased on an absolute basis by 52% and by 35% when normalised to revenue; the decrease was due to decreases in production in 2020.

Looking forward, the Environmental Steering Committee tasked the EWG with increasing the Group's energy efficiency as a principal measure of our Group's commitment to climate-related action. Projects on this are underway in line with ISO 14001 site-led continuous improvement plans alongside moving to the procurement of greener energy globally where possible.

During 2020 it was agreed to include carbon emissions as a Group KPI, and this will be included in the KPI section of the Annual Report from 2021 onwards. It was also agreed during 2020 that sustainable technology programmes should be specifically measured under the Long Term Incentive Plan award for 2021 (see page 129), and that we will consider the implementation of further environmental measures in our incentive plans during 2021.



### Environmental metrics<sup>1</sup> (Table 1)

	2020	Change	2019
Utilities			
Electricity – gWh	170	-19%	210
MWh per £m revenue	101	9%	93
Natural gas – gWh	158	-21%	199
MWh per £m revenue	94	7%	88
Greenhouse gas emissions <sup>1</sup> (CO <sub>2</sub> e) (gross, Scope 1 & 2) – tonnes	87,062	-21%	110,075
Tonnes per £m revenue	51.7	6%	48.6
Waste – tonnes	8,604	-52%	17,785
Tonnes per £m revenue	5.1	-35%	7.9
Water – cubic metres	637,546	-30%	913,584
Cubic metres per £m revenue	379	-6%	404

### Targets (Table 2)

	Baseline year	Five year performance period (financial years)	Target improvement over performance period	Achieved as at 31.12.2020
GHG emissions <sup>1</sup>				
– relative to revenue	2015	To 31 December 2025	-50%	-27%
Water consumption	2016	To 31 December 2021	-10%	+10%
Waste to landfill	2016	To 31 December 2021	-10%	+3%

# 27%

reduction in GHG emissions<sup>4</sup> since 2015

### GHG emissions<sup>1</sup> data (Table 3)

	2020 Tonnes of CO <sub>2</sub> e	2019 Tonnes of CO <sub>2</sub> e
Combustion of fuel and operation of facilities <sup>2</sup>	29,145	36,733
Electricity, heat, steam and cooling purchased for own use	57,917	73,342
	<b>87,062</b>	<b>110,075</b>
Intensity measurement:		
Emissions reported above, normalised to tonnes per £m revenue	<b>51.7</b>	48.6

### Proportion of emissions and energy usage for UK sites (Table 4)

	UK %	Non-UK %
Electricity usage	23	77
Natural gas usage	39	61
Greenhouse gas emissions	<b>23</b>	<b>77</b>

- Metrics per £m are calculated using revenue converted at constant exchange rates. Greenhouse gas emissions (GHG) are calculated using conversion factors published in the 2019 and 2020 Guidelines to DEFRA/DECC's GHG Conversion Factors for Company Reporting for UK locations. Emissions from overseas electricity are calculated using conversion factors published in the IEA Emission factors 2020.
- Table 3 shows the GHG emissions data for the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulation 2013 (the Regulations). The sites reporting GHG data are the same as those consolidated in the Group's financial statements.
- Global GHG emissions were calculated using conversion factors published in the Guidelines to DEFRA/DECC's GHG Conversion Factors for Company Reporting and the WRI/WBCSD Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard. Emissions from overseas electricity are calculated using conversion factors published in the IEA Emission factors 2020.
- Relative to revenue.

## Corporate responsibility continued

TECHNOLOGY



Strategic Report – 1-89

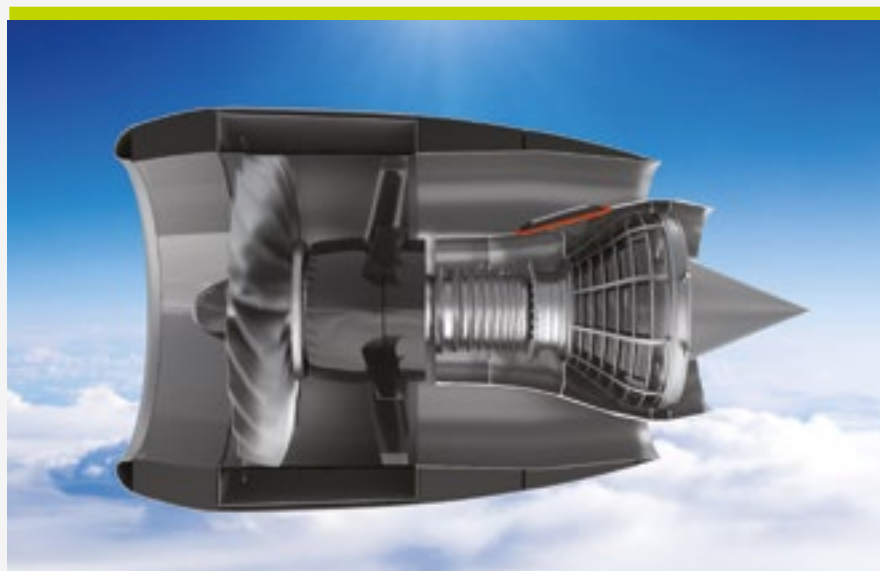
# In pursuit of sustainable aviation and clean energy

**Meggitt has committed to spending two-thirds of investment in Research and Technology on developing the products and capabilities needed to support a net-zero future with technologies that support the aviation industry drive to become more sustainable and technologies that enable renewable energy production.**

Meggitt has a strong portfolio of existing products that already help towards these goals, as well as numerous emerging projects. In 2020, a newly compiled sustainable technologies catalogue was created covering all of these technologies across our diverse Group product portfolio. The catalogue will support our objective to deliver consistent internal and external narrative to illustrate how our products benefit the environment, for use in all stakeholder communications.

Details of our three-, five- and ten-year risks and opportunities from a market and technology perspective can be found on page 72.

Case studies on our technologies can be seen on pages 24-27.



Designed for next generation UHBR engines, our innovative air-oil mini system provides an integrated solution, saving space and weight, resulting in improved operating efficiency and reduced emissions.

## Innovation investment in sustainable technologies

	Lighter, more efficient aircraft	Next-generation engines	Sustainable aviation fuels (e-fuels, hydrogen)
<b>Meggitt Technologies</b>			
Thermal systems	●	●	●
Safety systems	●		●
Fuel systems	●		●
Optical sensing	●	●	●
Engine composites	●	●	●
Braking systems	●		
High temperature systems	●	●	
Electrical systems	●	●	
Additive/digital manufacturing	●	●	●

## Enabling sustainable aviation

Improve propulsion system efficiency – burn less fuel per unit of thrust or power delivered

Reduce aircraft weight – less units of thrust required to carry payload

Reduce aircraft drag – less units of thrust required to carry payload

Use of sustainable aviation fuels – new fuels with lower greenhouse gas emissions

## Enabling sustainable energy production

Enable renewable power generation

Enabling zero carbon power generation

Enabling green hydrogen production and/or operation

Reducing emissions through improved gas turbine combustion efficiency and/or turbine performance optimisation



## Corporate responsibility continued

### Business conduct

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

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

To accompany our standards on conducting business fairly and ethically, we relaunched our Code of Conduct in 2020, which is accompanied by training courses for all employees. The Code has been developed to be used by employees as a handbook in the workplace, offering links to additional policies for more detail and contact details for the relevant subject matter experts to provide support and guidance, alongside short explanations of every employee's responsibility in each area. Every employee receives an Ethics Guide and Code of Conduct upon joining the Group.

We operate an independently run Speak Up Line that enables employees to raise questions or concerns anonymously and confidentially, 24 hours a day, 7 days a week from anywhere in the world.

During 2020 the Ethics Line was renamed as the Speak Up Line. This name change was accompanied by additional all-employee communications on how the line works and supporting employees to use the line as appropriate.

Our independent helpline was also transferred to a new provider during the year. This new provider has enabled a more streamlined end-to-end process for ethics investigations across the business and consistent categorisation of cases, from employee relations concerns to raising quality and manufacturing issues. This has supported better case management and trend analysis.



Contact information of people who can help employees if there are any concerns is available on our intranet, in all of our ethics policies and on posters at all of our sites.

Our programme was enhanced during 2020 with the creation of an Ethics Management Committee to review Speak Up Line investigations reports and to ensure consistent application of the process and investigation quality. The Committee

reviewed trend analysis data to ensure additional training and coaching was being rolled out in the required areas in addition to any all employee training. The results of the Committee's findings were also reported to the CR Committee.

The investigation process was also reviewed and improved to ensure all internal investigators use the same process and the new investigation tool which was adopted alongside the helpline in 2020. Our process is available on the intranet to all employees so that they are aware of our procedures when speaking up and how confidential ethics cases and whistleblowing are dealt with.

All employees are entitled to a thorough investigation of concerns raised and receive feedback whether the issues are substantiated or not. Our values and our High Performance Culture concepts underpin our ethics programme with their focus on how we treat each other (which is the main area for calls received on our Speak Up Line).

Each Meggitt site has a designated Ethics Champion who is available to assist employees with questions or concerns, and who also attend quarterly workshops to share best practice, develop skills and identify issues and the need for additional training at their site. Alongside these practices ethical behaviour is also drawn out in our Employee Engagement surveys which are monitored and impact future strategy decisions with our stakeholders.

### Speak Up Line

01

#### Case raised

Cases raised via independent and confidential third-party service which is input into our case management tool accessed by Group Director, Ethics & CR

02

#### Triage

Cases will be reviewed confidentially and an appropriate investigator will be appointed depending on the subject matter

03

#### Investigate

The appointed investigator will conduct the investigation under Meggitt guidelines developing a report based on evidence found and witness interviews

06

#### Remediate

After actions are closed out, trend analysis and lessons learnt will be reviewed to prevent future issues reoccurring. Redacted information will be circulated around the business to illustrate positive actions arising from Speaking Up

05

#### Resolve

Actions will be placed on teams for resolution of substantial issues and monitored by Group Director, Ethics & CR

04

#### Report and review

The report will be reviewed by the Ethics Management Committee where a decision will be made as to whether the claims are substantiated or unsubstantiated. Recommendations will be made as to whether further investigations are needed or actions taken by the appropriate teams



## Compliance training

In addition to the updated Ethics & Business Conduct Policy and the relaunched Code of Conduct, we continued to promote our ethical business conduct through training issued to all employees, more targeted training delivered at specific sites, video messaging to all employees through our intranet and also briefings delivered to our Ethics Champions who are located at every site. Our training reminds employees about ethical business conduct, and we provide examples of how to apply the principles laid out in our policies in the training and reminders of help, support and our responsibility in the Code itself.

In 2020, we held virtual training sessions on data protection, cyber security and health and safety practices for the awareness of all our employees.

## Anti-bribery and corruption

Our Anti-corruption Policy covers bribery, gifts and entertainment, conflicts of interest, competition and anti-trust, operating with intermediaries such as sales representatives and distributors, offset contracting, political contributions and lobbying activities and breaches of this policy and reporting obligations. In addition to the Anti-corruption Policy, we also have a Financial Crime Policy covering anti-money laundering, fraud prevention and corporate tax evasion. Both policies set out clear escalation procedures to raise concerns through management or via the independently run Speak Up hotline.

2020 saw us build on the Continuous Improvement Plan for Commercial Intermediaries which was introduced in 2019. The plan not only looks at potential corruption and bribery risks across our business but also how we can work better with such appointed parties.

We continued to take steps to reduce the number of our commercial intermediaries, being able to remove all sales agents from our business dealings in 2020. In 2021 we will broaden this remit to review all types of counterparties within our business dealings. Our continuous improvement plan has strengthened our work with independent organisations assessing potential country corruption risk, leading to enhanced due diligence and alerts in our customer relationship management tool, all of which is reviewed by internal and external auditors.

## Human rights

Our CR&S Policy covers Human Rights, setting out our position in relation to conducting our business in the right way. We recognise that as a large international business, our business operations can impact the lives and rights of other people (not just our employees). As such, we support the Ten Principles of the United Nations Global Compact, relating to human rights, labour, the environment and anti-corruption.

Our Code of Conduct training also reinforces the behaviour that we expect from our employees as well as suppliers and contractors. We encourage suppliers and contractors to be responsible and adhere to our values and principles to ensure our business relationships are responsible and ethical. We are committed to complying with anti-slavery and human-trafficking legislation and we will continue to work with our suppliers to engage on this topic.

## Modern slavery

As part of our commitment to acting as a responsible supplier, we commit to abstaining from practices such as slavery, human trafficking, forced labour and child labour and reduce offset contracting. We also commit to take all reasonable measures to ensure that our suppliers and other entities acting on our behalf do not engage in practices that violate applicable laws and regulations relating to slavery, human trafficking, forced labour and child labour. As such, we ask our suppliers to comply with our Code of Conduct or similar standards. Steps that we are taking to combat anti-slavery and human trafficking in our supply chain are set out in our Modern Slavery Act statement available on our website.

The Company has implemented a framework to mitigate against the risk of modern slavery and human trafficking in our business and supply chain, including annual confirmations of compliance with Group policies and procedures,

strengthened recruitment processes and high level engagement with our suppliers incorporating clear communication of our expectations and regular site visits. Taking into account the output from our diligence and assurance processes and the absence of any concerns highlighted in this area the Group considers the risk of forced labour in its business and supply chain to be low. Further information can be found in our Modern Slavery Statement on our website.

## Non-financial information statement

The table below summarises where to find non-financial information required by section 414C of the Companies Act 2006.

Our business model on page 22 summarises the key resources and relationships we leverage to generate and preserve value. Non-financial key performance indicators on page 53 allow us to assess progress against objectives and monitor the development and performance of specific areas of the business

Further information on Group policies can be found on our website.

## Strategic report

This 2020 Strategic Report on pages 4 to 89 is hereby agreed on behalf of the Board.



**Tony Wood**  
Chief Executive Officer

	Related Group policies	Related principal risks (pages 56 to 59)
Environmental matters Pages 82 to 97	Environmental Policy	Industry change Technology strategy
Employees Pages 76 to 80	Diversity & Inclusion Policy Health & safety Policy	Technology strategy People
Social matters Page 79	Group Sponsorship and Charitable Giving Policy	Business Interruption Industry change
Human rights Page 89	CRS Policy	People Supply Chain
Anti-bribery and corruption Page 89	Anti-corruption Policy Financial Crime Policy	Legal and compliance

# Chairman's introduction



**Sir Nigel Rudd**  
Chairman

## 2020 Board attendance<sup>1</sup>

7 Scheduled meetings

9 Additional meetings

**Sir Nigel Rudd<sup>2</sup>**  
Chairman



**Mr A Wood**  
Chief Executive



**Mr G S Berruyer<sup>3</sup>**  
Non-executive director



**Mrs L S Burdett**  
Chief Financial Officer



**Mr C R Day**  
Non-executive director



**Mrs N L Gioia<sup>3</sup>**  
Non-executive director



**Ms A J P Goligher**  
Non-executive director



**Mr G C Hachey<sup>3</sup>**  
Non-executive director



**Mrs C L Silver<sup>3</sup>**  
Non-executive director



- 1 Due to COVID-19, meetings from March 2020 were conducted remotely
- 2 Met the independence criteria on appointment as Chairman on 23 April 2015.
- 3 Unable to attend additional meetings due to prior commitments.

Meetings attended    Non attendance

We strive to uphold the highest standards of corporate governance and business conduct that underpin successful and sustainable long-term businesses. We remain accountable to our shareholders, and we recognise the value of strong relationships with our workforce and wider stakeholders built on a culture of openness and trust.

## Strong governance

The unprecedented levels of disruption and uncertainty faced during the year have highlighted the importance of strong leadership and a robust corporate governance framework to enable us to respond quickly and effectively to developing risks whilst maintaining focus on our overriding purpose.

This report explains how the Group has applied the principles of the UK Corporate Governance Code (the 2018 Code) and how our governance framework supports delivery of our strategy as set out on pages 20 and 21.

## Governance highlights in 2020

- Strong attendance at additional Board meetings throughout the year to direct and oversee management's response to the COVID-19 pandemic. Details of the key focus areas of the Board in 2020 can be found on pages 97 and 98.
- Notwithstanding the announcement in February 2020 of my intention to step down as Chairman, the Board recognises the significant benefit of continuity in these uncertain times and as a result it was agreed that I should remain as Chairman until further notice. Information on our succession planning activities can be found on pages 112 and 113.
- In light of the volatility and rapidly changing markets in 2020, we implemented a process of additional review and challenge on the going concern assessment, prior to the final review and challenge conducted by the Board. Further details of our going concern assessment can be found on pages 107 and 162 to 164.
- We scheduled additional Remuneration Committee meetings to consider the impact of COVID-19 on the Group and ensure that executive pay remained socially responsible taking into consideration shareholder interests and consistency with the wider workforce. More details on actions taken by the Remuneration Committee can be found on pages 114 to 141.
- We maintained a robust schedule of employee engagement activities to better understand and address key issues raised by employees and the impact of COVID-19 on the workforce. More details on employee engagement activities can be found on page 63.
- We refreshed our Code of Conduct to further clarify and articulate how employees should conduct themselves in daily business interactions.

### Senior Independent Director

Guy Berruyer is reaching the conclusion of his nine-year term in October 2021. The Board consider that Guy's knowledge of Meggitt and his prior experience bring significant value to Board discussions, and that he continues to bring independent challenge to this role. The Board are also keen to ensure continuity on the Board in light of the COVID-19 pandemic and as the Group's key aerospace market recovers. In light of this, Guy Berruyer will continue to serve as a non-executive director on the Board. However, in light of Guy's length of service, the Nominations Committee has agreed that Alison Goligher will succeed Guy as Senior Independent Director from the date of the AGM in 2021. Alison has nearly six years' experience on the Board and has, as a result, built good relationships with the non-executives and executive management, has relevant experience of Board dynamics, and has a detailed understanding of the Group, which makes her well qualified to succeed Guy in the role of Senior Independent Director.

### Corporate culture

We monitor the corporate culture to ensure that it remains aligned with our purpose and values. Details of how we monitor culture can be found on page 99.

I am proud that Meggitt's first priority throughout the COVID-19 pandemic has been prioritising the continued safety and well-being of our employees and ensuring business continuity and safe operations across our global manufacturing sites. During the year particular focus has also been given to meeting commitments to customers and supporting our suppliers to mitigate any disruption across the supply chain, clearly demonstrating our commitment as an organisation to build strong relationships with our wider stakeholders.

The regions where we operate have been impacted by COVID-19 and I am pleased that our employees have continued to support their local communities. In the UK we were part of the Ventilator Challenge with responsibility for programme management of the consortium's production of an additional 13,000 ventilators to help patients hospitalised with COVID-19 fight the virus and our harness team in Coventry sewed over 49,000 straps for face visors to support the NHS and care home workers in the local area. These achievements, together with other activities undertaken by our workforce around the world to support local communities during these challenging times demonstrate our key values of teamwork and excellence in practice.

Diversity and inclusion are embedded within our culture and we have made good progress in this area in recent years. During the year we continued our diversity and inclusion activities, with our inaugural Inclusion Week in October 2020, and the launch of three new Employee Resource Groups taking our total to eight. More details of their activities can be found in the Corporate Responsibility Report on page 77.



**Sir Nigel Rudd**  
Chairman of the Board of Directors  
3 March 2021

## In this section



### Board of Directors

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

page **92**

### Corporate governance report

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

page **96**

### Audit Committee report

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

page **105**

### Nominations Committee report

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

page **112**

### Directors' remuneration report

Introduced by its Chair, Alison Goligher, this report summarises the Committee's approach to remuneration and its link with our strategy. It also includes the revised remuneration policy which is being submitted to shareholders for approval at the Annual General Meeting in April 2021 and describes how the previous policy was applied in 2020.

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### Directors' report

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

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# Board of Directors

## Committee membership

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



### Sir Nigel Rudd DL

#### Non-Executive Chairman

Appointed: 2015 | Nationality: British

On 25 March 2020, we announced that in light of the outbreak of the COVID-19 pandemic and its impact on the global economy, the wider aerospace sector and the Group, the Succession Committee led by Guy Berruyer has agreed with Sir Nigel and the Board that he will stay on as Chairman until further notice. The Board believes that there is significant benefit in continuity of chairmanship at this time.

#### Skills and experience

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

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

#### Current appointments

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

The Board of Signature Aviation plc has recommended an offer from a consortium comprising (i) Blackstone Infrastructure and Blackstone Core Equity (ii) Global Infrastructure Partners; and (iii) Cascade Investment, L.L.C. to shareholders and assuming the proposal is approved by shareholders and the regulatory clearances are obtained, it is expected that Sir Nigel Rudd will retire as Chairman of Signature Aviation plc when that transaction completes.

#### Previous appointments

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

#### Committee membership

**N**



### Tony Wood

#### Chief Executive

Appointed as CEO: 2018 | Nationality: British

#### Skills and experience

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

Tony's significant operational experience both in aerospace and defence and other industrial sectors, strong customer relationships and strategic oversight of the Group are critical to the Board as the business benefits from the recovery in the civil aerospace market. Tony's experience of leading cultural change in previous roles has also brought the Group's culture into focus just as the expectations of the Board are being raised in these areas.

#### Organisations

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

#### Committee membership

**C F D**

Providing  
expert  
skills and  
experience.





### Guy Berruyer Senior Independent Director

Appointed: 2012 | Nationality: French

#### Skills and experience

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

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

#### Appointments in unlisted companies

Non-Executive Chairman of Brandwatch, a digital consumer intelligence company. Non-Executive Director of Berger Levrault, a French software and services company, and Non-Executive Director of Civica Group. Senior adviser to the European software team at Warburg Pincus.

#### Previous appointments

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

#### Notes

Alison Goligher will succeed Guy Berruyer as Senior Independent Director from the date of the AGM. Guy Berruyer will continue to serve as an independent non-executive director.

#### Committee membership

**A N C R**



### Louisa Burdett Chief Financial Officer

Appointed: 2019 | Nationality: British

#### Skills and experience

Chartered accountant who has held senior financial positions in industrial, manufacturing, publishing and pharmaceutical companies.

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

#### Current appointments

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

#### Organisations

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

#### Previous appointments

Chief Financial Officer of Victrex plc, a FTSE-250 industrial polymers group. CFO roles with Optos plc, the Financial Times Group, GE Healthcare and Chep Europe. She also spent time in various roles at GlaxoSmithKline, including Finance Integration Director.

#### Committee membership

**C F D**



### Colin Day Non-Executive Director

Appointed: 2015 | Nationality: British

#### Skills and experience

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

#### Current appointments

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

#### Appointments in unlisted companies

Non-Executive Director for the UK Government's Department for Environment, Food & Rural Affairs and Chair of the Audit and Risk Assurance Committee. Non-Executive Director of FM Global Inc. Non-Executive Chairman of MK:U Limited.

#### Organisations

Independent member of the Council of Cranfield University.

#### Previous appointments

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

#### Committee membership

**A N R**

# Board of Directors

## Committee membership

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

## Non-Executive



### Nancy Gioia Non-Executive Director

Appointed: 2017 | Nationality: American

#### Skills and experience

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

#### Current appointments

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

#### Appointments in unlisted companies

Executive Chair of Blue Current Inc., a privately held start-up company focused on battery technologies. Member of the Board of advisors of KPIT Technologies Limited. Principal of Gioia Consulting Services, LLC, a strategic business advisory company.

#### Organisations

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

#### Previous appointments

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

#### Committee membership

**A N R C**



### Alison Goligher OBE Non-Executive Director

Appointed: 2014 | Nationality: British

#### Skills and experience

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

Alison brings important energy sector experience. She has a strong operations focus and makes an excellent contribution to strategic discussions. As Remuneration Committee Chair, a role which she also holds on two other Boards, Alison has experience of overseeing two remuneration policy reviews and successfully led the Committee through complex remuneration matters arising in 2020 from COVID-19.

#### Current appointments

Non-Executive Director of United Utilities Group PLC and Chair of the Remuneration Committee. Non-Executive Director of Technip Energies N.V. and Chair of the Compensation Committee.

#### Appointments in unlisted companies

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

#### Previous Appointments

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

#### Notes

Alison Goligher will succeed Guy Berruyer as Senior Independent Director from the date of the AGM.

#### Committee membership

**A N R**



**Guy Hachey**  
**Non-Executive Director**

Appointed: 2019 | Nationality: Canadian

**Skills and experience**

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

**Current appointments**

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

**Appointments in unlisted companies**

Operating partner at Advent International.

**Previous appointments**

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

**Committee membership**

A N R



**Caroline Silver**  
**Non-Executive Director**

Appointed: 2019 | Nationality: British

**Skills and experience**

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

**Current appointments**

Non-Executive Chair of FTSE 250 consumer products group, PZ Cussons plc, and Chair of the Nominations Committee. Non-Executive Director of Intercontinental Exchange, Inc.

**Appointments in unlisted companies**

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

**Organisations**

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

**Previous appointments**

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

**Committee membership**

A N R

**Gender Diversity**



Female	44%
Male	56%

**Independence**



Independent <sup>1</sup>	67%
Non Independent	33%

1 Excluding the Chairman

**Non-Executive Director Tenure**



0 – 2 years	29%
3 – 4 years	14%
5 – 6 years	43%
7 – 8 years	14%

# Corporate Governance report

## Our governance framework

### Board of Directors

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

#### Creating and delivering sustainable value

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

#### Remuneration

**The Independent Non-Executive Directors**  
Determines the reward strategy for the executive directors and senior management, taking into consideration shareholder interests and the wider workforce.

#### Audit

**The Independent Non-Executive Directors**  
Monitors the integrity of the Group's financial statements, the effectiveness of the external and internal auditors, risk and internal control processes, tax and treasury.

#### Corporate Responsibility

**Two Independent Non-Executive Directors and the Executive Directors**  
Stakeholder engagement, including but not limited to employees, and oversees the implementation of the Group's strategy and programmes in the areas of corporate responsibility, charity and community, ethics and business conduct (including anti-corruption) and environment.

### Board Committees

#### Finance

**Executive Directors and Group General Counsel & Director, Corporate Affairs**  
Approves treasury-related activity, insurance and other matters delegated by the Board.

#### Nominations

**Chairman and 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.

#### Disclosure

**Executive Directors, Company Secretary, VP Investor Relations and Group General Counsel**  
Discusses and approves all matters related to inside information under the market abuse regime.

### Management Committees

#### Executive Committee

##### Chief Executive and his direct reports

Responsible for overall management of the Group, driving its vision and strategy and ensuring the organisational culture leverages diversity, industry knowledge, global perspective and customer insight.

#### Commercial Committee

**Executive Directors, Group General Counsel and Director, Corporate Affairs, Group Director, Engineering & Strategy and Group Operations Director**  
Reviews and approves bids and proposals of Group significance and any other significant commercial activity.

#### Technology Advisory Board

**Group Director, Engineering & Strategy, Chief Technology Officer, between two and four external members with backgrounds in technology or academia, Meggitt engineering fellows and other appropriate employees.**  
Provides advice on the direction and pace of technology road maps, increases awareness of disruptive technologies, business models or business trends and provides guidance on new areas and opportunities.



## Leadership and purpose

Our purpose at Meggitt is to design and manufacture world-class systems and products for the aerospace, defence and selected energy markets to enable the extraordinary and deliver sustainable solutions for the most challenging environments by working closely with our customers and focusing on engineering and operational excellence.

### The role of the Board

Our role as a Board is to promote the long-term success of the Group by establishing its purpose. We do this by implementing

and overseeing frameworks for governance and risk management and receiving regular updates on governance, stakeholder engagement activities, risk, strategy and culture.

Whilst day-to-day responsibility for the business lies with the executive management team, we maintain a Schedule of Matters Reserved for the Board which we review regularly and against the latest guidance and best practice to ensure that key decisions which affect the Group and are of the upmost importance to our shareholders and wider stakeholders are taken by the Board as a whole.

### Key Matters Reserved for the Board:

- Approval of the Group's strategic aims, objectives, purpose and values
- Approval of significant changes in accounting policies
- Approval of the Group's risk appetite statement
- Approval of the viability statement
- Approval of capital projects or treasury activities over pre-determined amounts
- Appointment and removal of Board members
- Approval of significant Group policies
- Reviewing the Group's culture and corporate governance arrangements
- Appointment and removal of the Company Secretary

Area of Focus in 2020	Key Matters considered	Outcome
Strategy	The Group's strategy and sale of non-core businesses	<p>The Board receives regular updates on business strategy throughout the year and held a strategy session in October where it approved the five-year strategic plan for the Group.</p> <p>The Board approved the sale of the Training Systems business and high pressure metallic ducting and clamps business in June 2020 and January 2021 respectively, delivering on the Group's strategy to focus on its core business.</p>
Culture	Code of Conduct and Group policies	<p>The Board approved a refreshed Code of Conduct which reflects our commitment to ethical business conduct and to comply with laws and regulations. The new Code demonstrates the conduct that is a fundamental part of our values and culture.</p> <p>During the year the Board has also approved updated Group policies on health and safety and trade compliance.</p>
	Monitor culture	<p>The Board receives numerous updates throughout the year to monitor culture and how well policies have been embedded. Further details on how we monitor culture can be found on page 99.</p>
Risk	Risk appetite and principal risks	<p>The Board:</p> <ul style="list-style-type: none"> <li>– conducted a robust assessment of the emerging and principal risks facing the Group and determined the nature and extent of the principal risks the Group is willing to take in order to achieve its long-term strategic objectives;</li> <li>– received an update on the effectiveness of risk management from the Audit Committee;</li> <li>– reviewed and approved the risk appetite statement and Group Risk Register; and</li> <li>– approved the long-term viability statement.</li> </ul>
	Long-term viability	<p>Reviewed models of a number of scenarios including a base case and severe but plausible downside scenario for both planning and going concern purposes which underlie the long term viability of the Group.</p>

## Corporate Governance report continued

Area of Focus in 2020	Key Matters considered	Outcome
Operational performance	Performance of the four divisions against strategic objectives	<p>The Chief Executive provided updates on divisional performance at every meeting.</p> <p>The Board received regular updates from the Group Crisis Management Team on the impact of COVID-19 on our people and how business continuity was being managed.</p> <p>The Divisional Presidents attended a Board meeting during the year to provide detailed updates on divisional performance, with a particular focus on the impacts of COVID-19 on their business areas.</p>
Financial performance	Payment to shareholders	In March 2020, the Board withdrew the recommendation to pay a 2019 final dividend and did not approve an interim dividend in order to retain cash within the Group, manage net debt levels and preserve flexibility.
	Reduce cost base	The Board reviewed and agreed management actions on cost reduction initiatives. These included reducing headcount by approximately 20% and applying furlough schemes to align capacity with workload. The Board including the executive directors agreed a 20% reduction in directors salaries and fees for H2 2020 and a 10% reduction in H1 2021. In H2 2020, Executive Committee salaries were reduced by 10%, and deferred by 10%, and salaries were reduced by 10% again in H1 2021.
	Capital allocation	The Board approved the application for a Bank of England Covid Corporate Financing Facility (£600m), a \$300 million private placement and a one year \$575m multi-currency facility.
	Going concern	Held a special meeting in August to review the models underlying the appropriateness of adopting the going concern basis in the interim financial results.
	Budget	The Board reviewed performance against 2020 budget and approved the budget for 2021.
Governance	Stakeholder engagement	The Board continued with its stakeholder engagement programmes as detailed on pages 63 to 65 and took the interests of all stakeholders into consideration when making its decisions through the review of detailed stakeholder analysis provided with each Board proposal.
	Governance framework	The Board reviewed and updated the terms of reference for its principal committees to complete alignment with the 2018 Code.
	Succession planning	The Board considered the risk relating to talent and capability and reviewed succession plans at the most senior level of the business.
	Effectiveness	An internal evaluation was conducted at the end of 2020 for the Board and its Committees to reflect on their own performance and recommend areas for improvement.

## Purpose, strategy and values

To perform our role effectively, it is essential that we have a good understanding of the views of our shareholders and other key stakeholders. Details of shareholder and other stakeholder engagement activities can be found on pages 63 to 65. Output from these activities are reported to the Board and its Committees as appropriate to shape the decisions that we make.

We hold an annual strategy day where we receive a detailed report on the markets in which Meggitt operates, agree the strategic objectives to achieve our purpose and approve the financial plan to implement them. We receive updates from the businesses and functions throughout the year to assess performance against the strategy and provide additional direction if needed. Our values are supported by our High Performance Culture initiative and embedded in our Code of Conduct and Group policies which we review and approve on a rolling basis to ensure that our values remain appropriate and clearly articulate the behaviours expected of employees and management.

Key activities undertaken by the Remuneration and Nominations Committees promote our values by ensuring that we have the right people in the organisation who respect our values and purpose and structuring remuneration schemes to reward the right behaviours as well as strategic achievements.

The Audit Committee plays a key role in ensuring that our values are embedded in our financial reporting process and risk management framework by monitoring the integrity of the financial statements and reviewing the adequacy and effectiveness of the Group's internal controls, risk management systems and processes. The Corporate Responsibility Committee monitors culture by overseeing the implementation of the Group's strategy and corporate responsibility programmes. The Chair of the Corporate Responsibility Committee is also the Non-Executive Director responsible for Employee Engagement and undertakes a range of activities alongside other non-executive directors each year to assess how well our values are embedded within the organisation, better understand the challenges faced by our workforce, share feedback with senior management and the Board, and make recommendations based on the output from the engagement.

## How we monitor culture

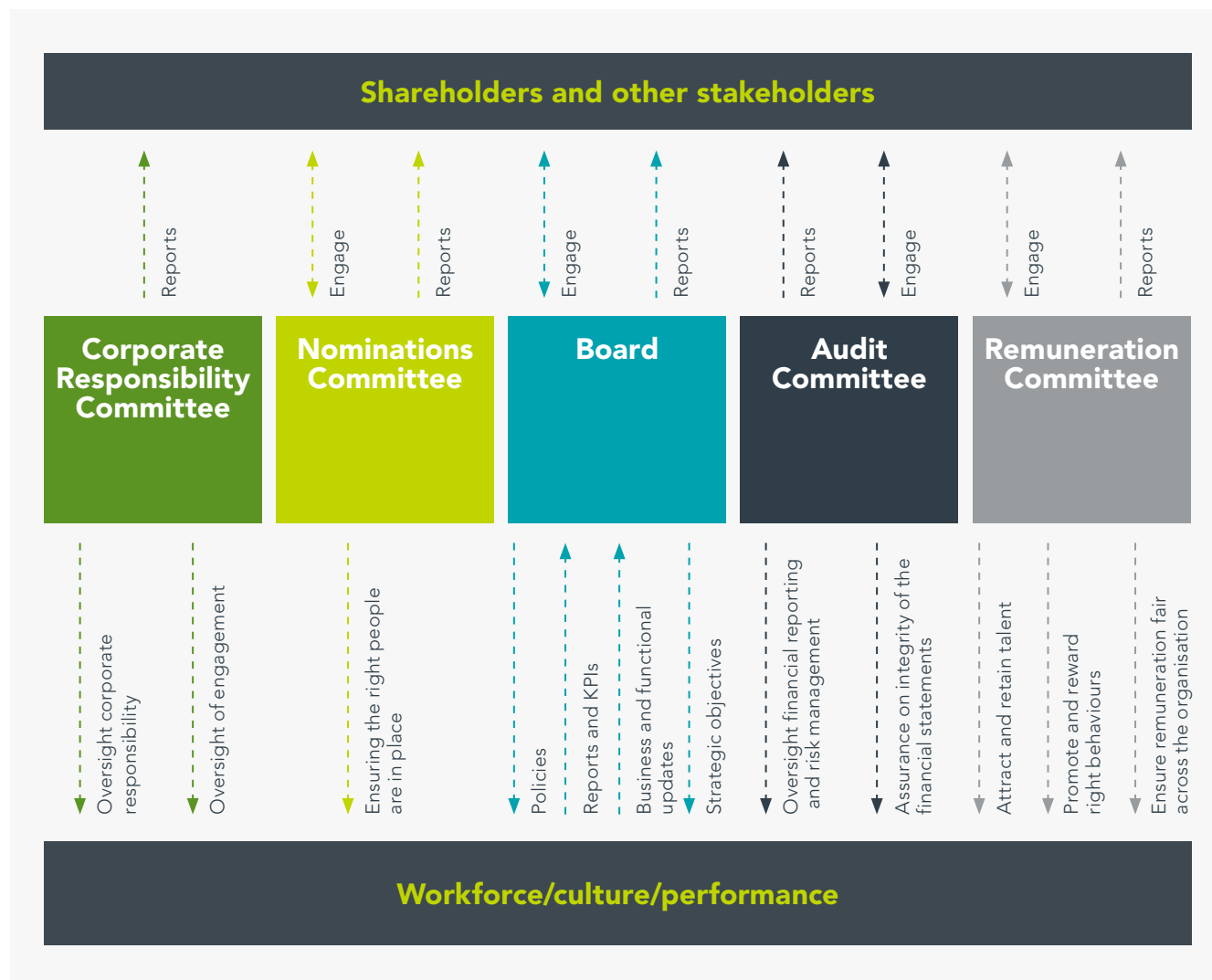
1. **Health and safety** – Reports are provided to the Board at every meeting through the Chief Executive, with detailed reports every six months and regular presentations from the Vice President of Health and Safety on our safety culture and leading and lagging indicators.
2. **Reports to the Board on culture, diversity and inclusion and engagement** – There is a regular commentary provided in the Chief Executive's Report at every meeting. We also have a standalone annual session with the Group HR Director focussed on our culture, diversity and inclusion and engagement.
3. **Annual employee engagement survey feedback** – A summary of the results of the annual engagement survey was shared with the Board in December 2020, with a detailed review taking place with the Non-Executive Director for Employee Engagement beforehand.
4. **Reports from the Non-Executive Director for Employee Engagement** – Are provided to the Board. See page 63 for further details on engagement activities and key themes in 2020.
5. **Whistleblowing and ethics reports** – Provided quarterly to the Board to monitor if there are any systemic issues and how they are being addressed. More detailed reports are provided to the Corporate Responsibility Committee at each meeting. The Corporate Responsibility Committee Chair has separate meetings with the Group Director, Ethics and Corporate Responsibility.
6. **Internal audit reports** – Provided to the Audit Committee at each meeting and identify areas of non-compliance to help us assess effectiveness of the policies and processes implemented to embed our values and shape our culture. We also monitor management's response to audit findings and time taken to address audit actions.
7. **UK Gender pay gap** – Receive an update on the UK gender pay gap report, including an explanation of the factors that have impacted data and processes implemented to close the gap.
8. **Modern slavery** – Receive an update on the approach to modern slavery and approve the modern slavery statement. This includes details of processes and activities that have been implemented to reduce the risk of slavery and human trafficking in our organisation and supply chain.
9. **Prompt payment reporting** – Review performance on supplier payment practices and discuss improvements to processes.
10. **Training completion rates** – Robust and regular training is essential to ensure our workforce understands policies and regulations that apply to them. During 2020, we moved to a new training platform which will continue to deliver virtual training on key governance and regulatory matters and track completion rates. Employees without regular access to remote training undertake it in a classroom environment. We maintain an annual schedule of mandatory training for both new starters and existing employees with training completion rates reported to the Board and the Corporate Responsibility Committee.

# Corporate Governance report

## continued

### How we ensure our culture aligns with our values and strategy

Governance – 90-145



### Governance

A fundamental principle of our governance framework is the division of responsibilities. The roles of the Chairman and Chief Executive are clearly defined and the Board supports the separation of the roles to increase the Board's independence from management and enable better monitoring and oversight. All of our non-executive directors are considered independent under the 2018 Code, with the breadth of skills, knowledge and experience to constructively challenge management and hold them to account. The variety of backgrounds and perspectives on the Board also strengthens the strategic guidance provided to management and ensures robust deliberation during the decision-making process which leads to better decisions.

As set out on page 96, we have established a number of Board Committees to assist in the fulfilment of our oversight responsibilities. Each Committee is governed by clearly defined terms of reference which are reviewed annually by the Board to ensure that they remain relevant and aligned with current best practice. Membership of the Audit, Remuneration and Nominations Committees is restricted to the non-executive directors to ensure independent oversight of the key governance matters over which these committees preside. Only Committee

chairs and members are entitled to attend the meetings, although others may attend by invitation. All Committee chairs report verbally on the proceedings of their Committee at the next meeting of the Board when members of the Board were not in attendance at the Committee meetings, and make recommendations to the Board when appropriate. The management committees are responsible for matters of strategic importance and report to the Board when appropriate.

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

### Risk management framework

A significant part of governing how Meggitt conducts its business is approving the risk appetite i.e. the amount and type of risk that Meggitt is prepared to retain. We review periodic updates on the principal and emerging risks throughout the year and approve the risk appetite on an annual basis. Further details on our risk management framework can be found on pages 56 to 61.



## Roles and responsibilities

### Chairman

#### Sir Nigel Rudd

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

### Senior Independent Director

#### Guy Berruyer

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

### Chief Executive

#### Tony Wood

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

### Executive Directors

#### Tony Wood and Louisa Burdett

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

### Independent Non-Executive Directors

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

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

### Non-Executive Director for Employee Engagement

#### Nancy Gioia

- Engage with employees through a range of formal and informal initiatives;
- Ensure that employee policies and practices are in line with the Group's purpose and values and support the desired culture; and
- Regularly review Speak Up Line reports.

### Company Secretary

#### Marina Thomas

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

### Board effectiveness

#### Composition

The composition of the Board is closely monitored by the Nominations Committee to ensure that it remains appropriately balanced and is regularly refreshed to safeguard its independence and ensure that the skills, knowledge and experience of Board members align with those needed to deliver against the business strategy.

#### Appointments, induction and training

We have a formal, rigorous and transparent procedure for the appointment of new directors. On appointment, directors are provided with a comprehensive induction programme tailored to their needs based on their experience and background and the requirements of the role.

The Chairman agrees a personalised approach to the training and development of each director and reviews this regularly. The Company Secretary assists with professional development where required and directors are encouraged to update their skills regularly. Training needs are assessed as part of the Board evaluation process described below. The non-executive directors' 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.

#### Conflicts

Our directors hold appointments in other listed and non-listed companies as shown on pages 92 to 95. We recognise the value derived from these appointments particularly with regard to board discussions and the sharing of best practice where appropriate. We maintain a register of all external appointments and interests of our Board members which is reviewed regularly to ensure that it is accurate and up to date. Directors notify the Board of any actual or potential conflicts arising from these external appointments or other matters, which are duly considered by the Board and, if thought appropriate, approved together with relevant conditions to ensure that the conflict is appropriately managed.

As Meggitt's business is diverse and operates across multiple markets, a list of our competitors by division is included in our Group Strategy review and assists non-executive directors in identifying actual or potential conflicts arising out of current or prospective external appointments.

#### Time commitment

The minimum time commitment expected from the non-executive directors is set out in their letters of appointment. We monitor the external time commitments of our directors closely to ensure that they have the capacity to discharge their responsibilities to Meggitt effectively. Prior to appointment, all existing commitments are considered against the overboarding guidance issued by the institutional shareholder advisory organisations, and all additional appointments are subject to Board approval following consideration of the additional time commitment and the overboarding risk.

In February 2020, Sir Nigel confirmed his intention to retire from the Board. However, on 25 March 2020, we announced that in light of the outbreak of the COVID-19 pandemic and its impact on the global economy, the wider aerospace sector and the Group, the Succession Committee led by Guy Berruyer has agreed with Sir Nigel and the Board that he will stay on as Chairman until further notice. The Board believes that there is significant benefit in continuity of chairmanship at this time.

## Corporate Governance report continued

Additionally, it should be noted that the Board of Signature Aviation plc has recommended an offer from a consortium comprising (i) Blackstone Infrastructure and Blackstone Core Equity (ii) Global Infrastructure Partners; and (iii) Cascade Investment, L.L.C. to shareholders and assuming the proposal is approved by shareholders and the regulatory clearances are obtained, it is expected that Sir Nigel Rudd will retire as Chairman of Signature Aviation plc when that transaction completes.

Throughout the year Sir Nigel has demonstrated a strong level of commitment to Meggitt and has led all meetings of the Board and Nominations Committee, including a large number of additional meetings to provide oversight and direction in respect of COVID-19 and the Board strongly believes that Sir Nigel's other external appointments have not affected his ability to discharge his responsibilities effectively during this period.

In August 2020, Caroline Silver was appointed as Non-Executive Director of Intercontinental Exchange Inc., and in December 2020, Colin Day was appointed as Non-Executive Director of FM Global Inc.. In February 2021 Alison Goligher was appointed as Non-Executive Director of Technip Energies N.V.. The Board considered each of these appointments on its own merit, taking into consideration the nature, expectation and requisite time commitment of each new role together with a holistic view of the directors' existing appointments and responsibilities and their strong attendance at scheduled and additional Board and Committee meetings in 2020 during the COVID-19 pandemic. Additionally, as part of the year end process, each non-executive director confirmed that, taking into consideration all of their external appointments and commitments, they continued to have sufficient time to effectively discharge their duties to Meggitt.

Following such consideration the Board was satisfied that these directors would continue to have sufficient time to effectively discharge their duties to Meggitt following the above appointments.

### Information and support

The Chairman is responsible for ensuring directors receive accurate, timely and clear information and is satisfied that effective communication, principally by the Chief Executive and Chief Financial Officer, is undertaken with shareholders.

The Board is supplied with the information it needs to discharge its duties. The Company Secretary is responsible for ensuring good information flows within the Board and Committees and between senior management and non-executive directors. The Board members have regular discussions about their information and support requirements and discuss the effectiveness of the annual Board schedule during the Board evaluation.

All directors have had access to the advice and services of the Company Secretary, who is responsible to the Board for advising on all governance matters.

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

### Board evaluation

The Board undertakes an annual review of its own effectiveness using a combination of independent externally facilitated and internally run evaluations over a three-year cycle. In 2019, Clare Chalmers Limited was appointed to undertake our externally facilitated review which focused on key governance areas agreed with the Chairman and Company Secretary. The Board reviewed the suggestions made following the evaluation and agreed the actions shown on the following page. Clare Chalmers Limited does not have any connection to Meggitt or any of the directors.

## Board and committee evaluation process

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



### November 2020

Internal Board evaluation planning by the Chairman and Company Secretary.



### December 2020 to January 2021

Questionnaires issued to the Board, Committees and other attendees.

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

- How well the strategy process works and the Board's understanding of the core business and markets.
- To what extent Board meetings are engaging with high quality discussion and open debate and whether all Board members contribute to discussions and work together well.
- How well the Board had managed the challenges brought about by COVID-19.
- Whether the skills and experience on the Board are appropriate.
- How the Board responds to challenges.
- Whether the Chairman's leadership style and tone is effective and how he works with the Chief Executive.
- Whether the Company Secretary is performing effectively. Whether the Board schedule and papers are appropriate.
- Whether risk management is undertaken appropriately.
- If succession planning is working well.



### March 2021

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

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

## 2019 Evaluation results

Agreed Actions	Progress
Start succession planning well in advance of vacancies arising. Ensure short-term plans are in place to cover top executive posts and ensure opportunities for the Board to spend time with top talent.	No Board appointments were made in 2020.  Succession planning for all executives was discussed in detail in 2020, including emergency replacements.
Increase Board focus on resilience around processes and people.	The Board focus in 2020 has largely been around the effectiveness and resilience of the Group's strategies for managing COVID-19.
Ensure the Board understand the plan for nurturing and developing talent.	The Board has received updates in 2020 on the talent management process and this will continue in 2021.
Continue momentum with High Performance Culture.	Since COVID-19, High Performance Culture sessions have been put on hold for safety reasons. However work to reinforce the culture has continued internally, particularly through monthly "culture moments", and the Board has continued to receive regular reports on culture.
Ensure strategy and risk management discussions have appropriate capacity for horizon scanning to identify opportunities and threats which are further ahead.	Owing to the impacts of COVID-19, the Board has spent a significant amount of time horizon scanning for opportunities and threats in 2020, and this will continue into 2021.
Ways to modernise systems and processes around internal audits should be reviewed, including better use of technology.	Consideration given to utilising technology used in other Group projects which were delayed due to COVID-19. Audit processes modernised to enhance agility of the internal audit function and better incorporate technology to overcome travel restrictions imposed during the year.
Review the remit of the Non-Executive Director for Employee Engagement and Corporate Responsibility Committee to ensure it is appropriate one year on.	The Board conducted a detailed review of the activities of the Non-Executive Director for Employee Engagement in December 2020 and determined that the role was functioning effectively, and had continued to do so in the virtual environment during COVID-19.  The effectiveness of the Corporate Responsibility Committee was covered in the 2020 evaluation process. The Committee was found to be effective and its remit appropriate.

## 2020 Evaluation

A more targeted, internally run evaluation was conducted via an online questionnaire at the end of 2020 and focused on similar areas as the 2019 review. The Board has reviewed and discussed the output from the evaluation and has agreed the following three actions.

**Board papers** – streamline papers with a focus on enhancing readability, avoiding duplication and making better use of executive summaries.

**Meetings** – integrate some all-virtual meetings into future Board schedules.

**Engagement** – schedule more virtual engagements with senior executives in 2021.

Progress against these actions will be reported in the 2021 Annual Report & Accounts.

# Corporate Governance report continued

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

## Annual General Meeting

### 2020 AGM

In line with UK Government lockdown restrictions resulting from the COVID-19 pandemic and the need to protect the health and well-being of our employees, shareholders and the wider community the Board decided to hold the 2020 AGM as a closed meeting at our registered office in Ansty Park. Consideration was given to the use of technology to enable shareholders to attend, vote and speak at the AGM remotely, however due to the proximity of the lockdown announcement to the mailing date of our Notice of Meeting we had insufficient time to fully investigate technological options to facilitate a hybrid meeting in 2020. Shareholders were therefore encouraged to appoint the Chairman of the Meeting as their proxy to vote on their behalf and were able to submit questions by email in advance which were raised at the meeting and a response posted on our website.

We received 19% of votes against the resolution to authorise the directors to allot shares in the Company representing up to 33% of the issued share capital and a further 33% of the issued share capital in connection with a rights issue. Our Vice President, Investor Relations engaged with our largest shareholder who voted against this resolution to understand their lack of support for this proposal. Whilst seeking authority to allot shares up to 66% of the company's issued share capital in connection with a rights issue is standard practice for many listed companies and fell within the guidelines of the Investor Association, the investor explained that granting a board such authority fell outside their internal guidelines which limited board authority to allot shares to 33% of the issued share capital. The Board considered this investor's position when proposing the resolutions for the 2021 AGM, and whilst noting their stance on the matter, considered it appropriate to maintain the flexibility these authorities provide to enable the Company to respond quickly to market developments and enable allotments to take place to finance business opportunities. The directors confirm that they have no current intention of exercising this authority.

### 2021 AGM

We recognise the importance of the AGM for shareholders and, for the AGM to be held on 29 April 2021, we intend to hold a hybrid meeting to enhance engagement and participation channels. Further detail will be included in the Notice of Meeting.

At the 2021 AGM, in addition to the routine business, shareholder consent will be sought for resolutions which give the Company authority to:

- Approve a revised Remuneration Policy which includes four changes from the Remuneration Policy approved by shareholders at the 2020 Annual General Meeting: (i) increasing the normal eligibility level in LTIP for executive directors to 250% salary; (ii) permitting awards under the LTIP to be granted as Restricted Share Awards (RSAs) with vesting subject to continued employment and an underpin based on Committee discretion from 2021; (iii) reducing the vesting level at threshold performance from 30% to 25% of maximum for Performance Share Awards (PSAs); and (iv) clarifying that the Company has the ability to settle any bonuses paid to executive directors in shares.

- Convene general meetings on 14 clear days' notice. The shorter notice period would not be used as a matter of routine for such meetings, but only where time-sensitive matters are to be discussed and where merited in the interests of shareholders as a whole. The directors also intend to follow other best practice recommendations as regards this authority's use.
- To dis-apply pre-emption rights for up to 10% of issued share capital in accordance with the latest guidance from the UK Pre-Emption Group. The first resolution will seek authorisation for 5% of the issued share capital to be issued without application of pre-emption rights. The second resolution seeks authority for an additional 5% of the issued share capital to be used for an acquisition or a specified capital investment of a kind contemplated by the Statement of Principles most recently published by the UK Pre-Emption Group. The Board has considered shareholder feedback on this topic but continues to believe that, in order for the Board to have full strategic flexibility where acquisitions and capital investments are concerned, it continues to be appropriate to request this authority from shareholders. In asking shareholders to approve this additional authority, the directors confirm that they intend to adhere to the requirements set out in the Statement of Principles.

All directors are subject to election by shareholders at the first AGM after their appointment. After that, all directors are subject to annual re-election to comply with the 2018 Code. All directors in office at the date of the AGM will be subject to re-election.

## Statement of compliance

Throughout the financial year ended 31 December 2020 and to the date of this Annual Report, we have complied with the provisions set out in the 2018 Code published by the Financial Reporting Council, with the exception of Provision 38. Provision 38 requires the alignment of executive director pension contributions with the wider workforce. As set out in the Directors' Remuneration Report, pension allowances for incumbent executive directors will be reduced to 15% by the end of 2022. Pension allowances for new executive directors will be in alignment with the wider workforce on appointment. Further information on executive director pension allowances is set out on pages 124 and 134.

A copy of the 2018 Code can be found on the Financial Reporting Council's website: <https://www.frc.org.uk>. Details of how the Group has applied the principles set out in the 2018 Code are included in this report and in the Audit Committee, Nominations Committee and the Directors' Remuneration Reports. The information required under Rule 7.2.6 of the Disclosure Guidance and Transparency Rules is disclosed in the Directors' report.

By order of the Board



**M L Thomas**  
Company Secretary  
3 March 2021



# Audit Committee report



## Protecting shareholders' interests through financial reporting and internal control.

### Committee membership and attendance in 2020<sup>1</sup>

3 Scheduled meetings

1 Additional meeting

**Mr C R Day**  
Committee Chairman



**Mr G S Berruyer<sup>2</sup>**  
Non-executive director



**Mrs N L Gioia<sup>2</sup>**  
Non-executive director



**Ms A J P Goligher**  
Non-executive director



**Mr G Hachey**  
Non-executive director



**Mrs C L Silver**  
Non-executive director



<sup>1</sup> Due to COVID-19, meetings from March 2020 were conducted remotely

<sup>2</sup> Unable to attend additional meetings due to prior commitments.

Meetings attended Non attendance

## Chairman's introduction

I am pleased to present the report of the Audit Committee for 2020.

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, together with Caroline Silver, a chartered accountant with significant global investment banking experience, bring recent and relevant financial experience to the Committee.

Committee members throughout 2020 were Guy Berruyer, Nancy Gioia, Alison Goligher, Guy Hachey and Caroline Silver. As a whole, we bring skills, knowledge and experience relevant to the aerospace, defence and selected energy markets in which the Group operates. Further details are included in our profiles on pages 92 to 95.

By invitation, there were a number of other regular attendees including the Chairman of the Board, Chief Executive Officer, Chief Financial Officer, the Group Financial Controller, and the internal and external auditors. The Head of Treasury, Head of Tax and a representative of Grant Thornton, who provide co-sourced audits for the internal audit function, also attended meetings by invitation.

During the year, the Committee focused on the financial effects of the COVID-19 pandemic and the significant challenges it posed to the preparation of IFRS financial statements. The Committee also considered and discussed the challenges to the control environment resulting from remote working.

### Responsibilities

The Committee's key role is to protect shareholders' interests in relation to the Group's financial reporting and internal control arrangements. The Committee is responsible for ensuring the integrity of the processes and procedures relating to corporate reporting and the effectiveness of the internal controls and risk management systems. The Board relies on the Committee to ensure appropriate disclosures are made in the financial reports and oversee the work of the internal and external auditors.

Specific responsibilities include:

### Financial reporting:

- Focusing on accounting policies, judgements and estimates, challenging the decisions and approach taken by management to ensure appropriate disclosures and compliance with relevant regulations.
- Challenging and scrutinising the work taken to support the long-term viability and going concern statements.
- Reviewing the content of the Annual Report & Accounts and advising the Board whether the Annual Report & Accounts is fair, balanced and understandable.

### Risk and control:

- Monitoring the effectiveness of risk management and internal control systems.
- Reviewing the effectiveness of the risk management processes, including those used to determine risk appetite, tolerance and strategy and advising the Board of the appropriateness of those processes.

## Audit Committee report continued

### Internal audit:

- Reviewing the resources and scope of the internal audit function and approving the internal audit charter.
- Approving annual internal audit plans and reviewing the results and effectiveness of internal audits.

### External audit:

- Monitoring independence and effectiveness of the external auditors and approving the terms of engagement and audit fees.
- Recommending to the Board the appointment, reappointment or removal of the auditors.
- Reviewing and approving the annual external audit plan and ensuring that it is consistent with the scope of the audit engagement and coordinated with the activities of Internal Audit.

### Effectiveness

The Committee has a carefully planned agenda of items of business to ensure that high standards of financial governance and risk management are maintained. There were three scheduled meetings during the year, with an additional meeting held in September for the Committee to scrutinise the significant

accounting judgements and estimates and review and recommend the interim financial statements to the Board. The Committee Chair is fully engaged with management and the internal and external auditors and is available beyond regularly scheduled meetings to provide guidance as appropriate. Prior to each scheduled meeting, the Committee Chair meets with the Chief Financial Officer, Group Financial Controller, Head of Audit & Risk and the external auditors, to share views and consider key issues, particularly regarding significant estimates and judgements, to be highlighted to the Committee for discussion to ensure appropriate time is allocated for each item.

The Committee reviewed its own effectiveness via the process described on page 103. Overall the results were positive with the Chair's effectiveness and the Committee's ability to avoid minutiae and focus on important matters highlighted. Actions for 2021 include ensuring key personnel in the finance team have appropriate exposure to the Committee in the virtual environment.

## Committee activities in 2020

### Approved

- The 2020 external audit fees
- The internal audit plan for 2021
- The Internal Audit Charter
- The terms of engagement for the external auditors
- Updated Committee Terms of Reference

### Reviewed

- The financial information contained in the 2019 Annual Report & Accounts, 2019 full year and 2020 interim results announcements and recommended them to the Board for approval.
- Significant estimates and judgements in respect of the Group's financial statements (page 107 and 108).
- The independence and effectiveness of the external auditors, and agreed their terms of engagement.
- The adequacy and effectiveness of: (i) the systems of internal control; (ii) the risk management process; and (iii) the process executive management used to enable the Board to make the viability statement.
- The effectiveness of the Committee and external audit using the process described on page 102.
- The outcome of the internally facilitated internal audit review (see page 110).
- The external auditors' strategy memorandum, including level of materiality applied by PwC, and interim audit clearance report for 2020.
- Terms of Reference for the Committee, which were recommended to the Board for approval.
- The reporting processes applied in the production of the 2019 Annual Report & Accounts and the output of these processes to determine that the 2019 Annual Report & Accounts was fair, balanced and understandable and advised the Board as such.
- The basis of preparation of the financial statements as a going concern and scrutinised the work undertaken by management.
- Issues and findings of the internal audit function and satisfied itself that management had resolved or was in the process of resolving any outstanding issues.

Since the year end, the Committee has discussed the external auditors' final audit clearance report for 2020, reviewed the financial information contained in the 2020 Annual Report & Accounts and full year results announcement and recommended them to the Board for approval. The Committee also provided advice to the Board that the 2020 Annual Report & Accounts, taken as a whole, are fair, balanced and understandable. The Committee provided this advice having reviewed management's process and confirmed its output, and provided confirmation to the Board that this process was effective. The Committee also recommended that the Board approve the viability and going concern statements.

### Updates and reports

- Received at every meeting from the Head of Audit & Risk a report on findings from internal audits and progress with the internal audit plan and internal controls across the Group.
- Received an update on the results of the viability statement stress testing scenarios.
- Received updates on the risk management process.
- Received an update from the Head of Treasury.
- Received an update from the Head of Tax.
- Received technical accounting and governance updates provided by the Group Financial Controller, Company Secretary and the external auditor.

## Significant estimates, judgements and disclosures relating to the financial statements

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

### Critical accounting estimates and judgements:

Area	Action
Going concern	<p>The Committee reviewed the work performed by management in assessing the Group's ability to continue as a going concern, noting that in their role as members of the Board they had reviewed and challenged the cash flow forecasts prepared by management in both the base case and downside scenarios. The Committee was also able to confirm that the process for ensuring the Group's principal risks were reflected in the downside scenario was appropriate. The Committee considered the outputs from management's work, noting the level of committed credit facility headroom that existed throughout the going concern assessment period and the covenant headroom at the twice yearly testing dates of 30 June 2021 and 31 December 2021.</p> <p>The Committee concluded there was no material uncertainty around the Group's ability to continue as a going concern and that the disclosures in the Annual Report were appropriate.</p>
Goodwill	<p>A key area of focus for the Committee during the period was the extent to which the carrying value of the Group's goodwill was impaired following the COVID-19 outbreak. The Committee considered this across three separate meetings:</p> <p><i>July 2020 meeting</i> The Committee discussed and agreed with management a trigger event had occurred in March 2020 and the approach to be used to perform the impairment testing. In light of the increased level of current market uncertainty, the Committee concluded reliable estimates of fair values for the CGUs did not in their opinion exist and agreed a value-in-use approach should be adopted. The Committee also agreed with management that given the range of potential trajectories for recovery of the civil aerospace sector was significant, it was appropriate to develop a number of potential scenarios that should be probability weighted to generate the cash flow estimates to be used. The Committee recommended that management ensured long term growth rates appropriately reflected the potential impacts of climate change on the civil aerospace sector.</p> <p><i>September 2020 meeting</i> A separate meeting was held in September to focus on the results of the impairment testing performed by management. The Committee reviewed the assumptions made by management and the conclusions reached, noting that the cash flow estimates used were derived from base case and downside scenario models, which in their role as members of the Board, Committee members had previously reviewed. Particular attention was given to the probabilities applied to the base case and downside scenarios and the discount rates and long term growth rates used, together with the sensitivities of the impairment recorded to changes in these assumptions. The Committee also discussed the results of management's impairment testing with PwC and reviewed the draft disclosures for the interim financial statements. The Committee concluded that the assumptions used, impairment charge recognised and disclosures were appropriate.</p> <p><i>March 2021 meeting</i> The Committee reviewed a paper prepared by management setting out the reasons why they did not consider any additional impairment trigger event had occurred between the September meeting and the balance sheet date and agreed with management's conclusions. They reviewed the disclosures for inclusion in the Annual Report and agreed these were appropriate.</p>
Retirement benefit obligations	<p>The Committee considered a report from management setting out the basis on which assumptions on mortality, inflation and the rates at which scheme liabilities are discounted had been determined; how the Group's assumptions used in its 2019 financial statements benchmarked against those disclosed by other large corporate entities in the UK and US; and the sensitivity of amounts recorded in the balance sheet to changes in assumptions. The Committee concluded the assumptions used, which were supported by third-party actuarial advice, were appropriate.</p>

## Audit Committee report continued

### Other significant areas of Committee focus:

Area	Action
Development costs	The Committee discussed a report from management analysing amounts capitalised across different aircraft platforms and manufacturers, including a sensitivity analysis for specific programmes. This analysis set out the extent to which estimates of the revised fleet volumes, issued since the COVID-19 outbreak and used by management for impairment testing, would need to fall before any further impairment would be triggered. The Committee focused in particular on technology development for the Airbus A220, Bombardier Global 7500/8000, Embraer 450/500, Irkut MC 21 and Gulfstream G500/G600 in light of the material values capitalised on these platforms, and additionally in the case of the MC-21, delays to its entry to service following the introduction of US sanctions. The Committee concluded assumptions made by management were reasonable and the carrying values and estimated useful lives of the assets were appropriate, with no significant risk that estimated fleet volumes would fall further in 2021 such that an additional material impairment loss would be required. In light of the current uncertainty in the aerospace industry, the Committee also discussed the risk of any programme cancellations or OEM bankruptcies which would lead to a material impairment and concluded that the risk of such an event in the next financial year was not significant.
Provision for environmental matters relating to historic sites and related insurance receivables	The Committee discussed a report from management setting out the basis for estimates made and the extent to which these were supported by third-party specialist advice. The Committee focused on the sensitivity of amounts recorded to increases in cost estimates, particularly those arising from extended periods of operations and maintenance activities (O&M), and agreed with management that the increases to O&M periods recognised in the year were appropriate and supported by third party estimates. Given the recent increases in O&M periods reflected in the provisions recognised, the Committee concluded that it did not consider there to be a significant risk of cost estimates changing by material amounts in the next 12 months and this should no longer be considered a critical accounting estimate. The Committee also held a discussion with management regarding the ongoing litigation with historic insurers to recover additional amounts, not currently recognised in the financial statements, and whether there was a significant probability of recognising material amounts in 2021. Based on the current status of the litigation, the Committee agreed with management that the likelihood was not significant.
Liabilities for uncertain tax positions	In assessing the appropriateness of the provision recognised in respect of uncertain tax positions, the Committee considered a report from management setting out the basis for the assumptions made for each significant area of tax exposure. It discussed the assumptions in light of the current tax environment and the status of tax audits in the main jurisdictions in which the Group operates. A separate presentation from the Group's new Head of Tax on each of the major areas of exposure was also received and discussed. The Committee's principal focus was the Group's potential liability under the UK CFC regime and they agreed with management that full liability for the exposure remained the most likely outcome for the Group. The Committee also concluded there was not a significant risk of any material adjustment to the estimates made in 2021.
Treatment of items excluded from underlying profit measures	<p>The Committee discussed the treatment and disclosure of amounts included within exceptional operating items. The Committee agreed that the recognition of impairment losses and other asset write-downs as exceptional operating items was consistent with the Group's accounting policy, given their significance and that they each arose following the impact on the aerospace sector of the global lockdowns and travel bans introduced in response to the COVID-19 outbreak.</p> <p>Whilst the amounts recognised as asset write downs of inventory, trade receivables and contract assets were not individually material, the Committee agreed they should be considered in aggregate with the impairment losses on goodwill and development costs as in their opinion they all arose from the unprecedented shock to the industry from events in the year. The Committee agreed that separate disclosure of the aggregate impact of these items on the face of the income statement was appropriate given their significance.</p> <p>The Committee reviewed the nature of items included within COVID-19 incremental non-recurring costs and agreed this was appropriate and excluded costs of a recurring nature.</p> <p>It noted other items classified as exceptional operating items continued to reflect the way in which they, as members of the Board, reviewed the underlying performance of the Group, were treated consistently year on year and disclosed appropriately.</p>



## Key areas of oversight

### Financial reporting

The Committee's role is to ensure that disclosures in the financial statements are appropriate given the data available and, if not, challenge management to explain and justify their interpretation and, if necessary, update the disclosure.

Significant estimates and judgements reviewed by the Committee in respect of the 2020 financial statements are set out on pages 107 and 108. When considering these matters we sought the opinion of the external auditors as to whether the estimates and judgements made were appropriate taking into consideration information available and agreed accounting practices.

The Committee reviews the content of the Annual Report & Accounts and advises the Board whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy. To assist with this assessment, the Committee reviews questions completed by management to illustrate the fair, balanced and understandable aspects of the Annual Report & Accounts and a summary of the financial reporting process. Following consideration of these items together with the Annual Report & Accounts, the Committee is satisfied that the key events and issues impacting the Group during the year, both positive and negative, have been adequately reflected and referenced in the Annual Report & Accounts.

### External audit

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

The Committee maintains oversight of the Group's relationship with the external auditors, and is responsible for reviewing the effectiveness of the audit process, including an assessment of the quality of audit, and assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the Group's relationship with the auditors as a whole.

### Quality

In July 2020, the Financial Reporting Council (FRC) published the 2019/2020 Audit Quality Inspection Reports (AQIR) for each of the 'big four' audit firms, including PwC.

The AQIRs identified areas of improvement for all four firms and PwC was asked to make improvements in several areas. The Committee reviewed a summary of PwC's AQIR and received assurance from the audit partner on the steps being taken by PwC to address the findings.

PwC presented the audit strategy for the 2020 financial year at the meeting in July 2020, including their application of materiality and the scope to be able to provide an opinion on the Group financial statements as a whole. PwC highlighted the expected impact of COVID-19 on the audit and areas that would be given special consideration. Following discussion the Committee approved the scope of the audit and the threshold for materiality. PwC reported on the progress made against the audit plan at subsequent meetings to enable the Committee to monitor progress. The Committee monitored the impact of COVID-19 on the effectiveness of the external audit and was satisfied that the audit was conducted effectively through site visits when appropriate, increased use of technology and enhanced oversight of component audit teams to ensure the appropriateness of audit work performed at significant and material components.

### Access to management and information

The Committee routinely meets PwC without executive management present to encourage open and honest feedback. No concerns have been raised by PwC who confirmed that the external auditors had been able to offer rigorous and constructive challenge to executive management during the year.

### Evaluation

During the year, all members of the Committee, as well as key members of the senior management team and those who regularly provide input into the Committee or have regular contact with the external auditors, completed a feedback questionnaire seeking their views on the effectiveness of the external audit. Views of the respondents were sought in terms of:

- the independence and objectivity of the external auditors;
- the external auditors understanding of the business and risks material to the audit including those resulting from COVID-19;
- the robustness of the external audit process and degree of challenge to matters of significant audit risk and areas of management subjectivity;
- whether the scope of the audit and the planning process were appropriate for the delivery of an effective and efficient audit;
- the expertise of the audit team conducting the audit;
- the degree of professional scepticism applied by the external auditors;
- the appropriateness of the communication between the Committee and the external auditors in terms of technical issues; and
- the quality of the audit and service provided by the external auditors.

The feedback was collated and presented to the meeting of the Committee held in March 2021, at which the conclusions were discussed. The Committee is satisfied with PwC's performance and that PwC have employed an appropriate level of professional challenge in fulfilling their role. Whilst no significant findings were identified, several suggestions to strengthen the external audit process were recommended to PwC.

## Audit Committee report continued

### Independence

In assessing PwCs independence, the Committee takes into consideration information and assurances provided by the external auditors confirming that the partner and staff involved in the audit are independent of any connection to Meggitt. PwC also confirmed that its partner and staff complied with their ethics and independence policies and procedures which are fully consistent with the FRC's Ethical Standard. PwC is also required to provide written disclosure at the planning stage of the audit about any significant relationships and matters that may reasonably be thought to have an impact on its objectivity and independence and that of the lead partner and the audit team. The lead audit partner must change every five years and other senior audit staff rotate at regular intervals. The lead audit partner is Mr J Ellis whose appointment in this role commenced with the audit for the financial year ended 31 December 2018. Mr Ellis has had no previous involvement with the Group in any capacity.

The mandatory rotation of auditors under EU rules will take place in 2023.

The Committee is responsible for the development and implementation of the non-audit services policy which was updated in 2019 to reflect the latest FRC Guidance on Audit Committees and Ethical Standard and caps non-audit services at 70% of the average annual statutory audit fee. The policy covers a short list of permitted non-audit services and applies a limit of £100,000 for individual items that the CFO can approve with individual items in excess of this amount requiring approval from the Committee.

The Committee agrees fees paid to the external auditors for their services as auditors. Details of fees paid for audit services, audit-related services and non-audit services can be found in note 6 to the Group's consolidated financial statements. Fees paid for non-audit services in 2020 were less than £0.1 million (0.1% of the total audit fee) and average fees paid for non-audit services for the last three years to 2020 were less than £0.1 million (2.4% 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 Committee is satisfied that the overall levels of audit-related and non-audit fees are not material to the PwC office conducting the audit, or PwC as a whole, and therefore the objectivity and independence of the external auditors was not compromised.

On the basis of the information above, the Committee have determined that the audit process is effective and that PwC are appropriately objective and independent and have recommended that the Board submit the reappointment of PwC to shareholders for approval at the AGM in 2021 for the 2021 financial year.

### Internal audit

The internal audit function is a key element of the Group's corporate governance framework. Its role is to provide independent and objective assurance, advice and insight on governance, risk management and internal control to the Committee, the Board and to senior management. Internal audit makes recommendations to improve processes and address key issues identified through their audit programme.

The Committee agrees the annual internal audit plan which is developed according to a risk assessment process and ensures adequate resources are available to execute the plan. The risk assessment process initially divides our business units into three tiers determined by financial measures. Tier 1 businesses are visited annually, with Tier 2 businesses visited every other year and Tier 3 businesses every third year. This is then subject to a further discretionary risk-based adjustment if there are circumstances which suggest a business unit should have an audit accelerated. Reasons for this can include adverse prior audit findings, a change in IT system, site location moves, substantiated issues reported by whistleblowers, senior leadership changes or operational performance issues.

The business unit audit programme's scope includes finance, programme management, HR/payroll, sales agents/distributors, commercial bid and proposal activity and business continuity. In 2020, internal audits were carried out for 24 Group locations as part of the rotational audit cycle, including shared service functions. During the year the Committee monitored the impact of COVID-19 on delivery of the audit plan and effectiveness of the internal audit process. The plan was broadly delivered as originally committed and processes were updated to conduct site audits remotely. This required increased use of technology, including utilisation of applications such as WebEx and file sharing and other innovative solutions such as using cameras on shopfloors to validate tests. In July, the Committee agreed proposed changes to the plan for H2 2020 to reflect changes in business needs.

The scope of internal audit continues to expand and develop with the business and in December 2020 the Committee reviewed and approved an Internal Audit Charter that clearly defines the scope and responsibilities of the function. During the same meeting the Committee also considered the level of internal audit resource and agreed that it remained appropriately resourced.

In addition to the site-based business unit reviews, internal audit has a co-source arrangement with Grant Thornton UK LLP to assist with resourcing specialist audits for areas such as IT, treasury and complex legislation such as the Defense Federal Acquisition Regulation Supplement (DFARS) and the General Data Protection Regulation (GDPR). During the year, Grant Thornton conducted audits on Information Security, GDPR, Procurement and HR systems and reported its findings back to the Committee in December 2020. The approach for 2021 will continue to rely on Grant Thornton's subject matter experts to deliver specialist audits, including IT Strategy and readiness for Cyber Security Model Certification.

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

The 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 in 2020 and confirmed that they continue to be satisfied.

#### **Communications with the FRC**

During the year there was no interaction with the FRC's Corporate Reporting Review team.

#### **Whistleblowing**

The Corporate Responsibility Committee is responsible for oversight and review of the process for handling allegations from whistleblowers. Whistleblowing is included in our Ethics & Business Conduct Policy and Code of Conduct, which are available on our website. The Group sponsors an independently operated and monitored Speak Up Line, enabling employees to report concerns about possible misconduct, with proportionate and independent investigation and appropriate follow-up action. During the year the Group relaunched the Code of Conduct and Speak Up Line, more detail is included in the Corporate Responsibility report on page 88.

#### **Compliance with Audit Services Order**

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

On behalf of the Audit Committee



**Colin Day**

Chairman of the Audit Committee  
3 March 2021








# Nominations Committee report



## Overseeing the structure, size and composition of the Board.

Governance – 90-145

### Committee membership and attendance in 2020

<b>Sir Nigel Rudd</b> Committee Chairman	
<b>Mr G S Berruyer</b> Non-executive director	
<b>Mr C R Day</b> Non-executive director	
<b>Mrs N L Gioia</b> Non-executive director	
<b>Ms A J P Goligher</b> Non-executive director	
<b>Mr G Hachey</b> Non-executive director	
<b>Mrs C L Silver</b> Non-executive director	

 Meetings attended    Non attendance

The Nominations Committee plays a leading role in assessing the balance of skills, knowledge, experience and diversity on the Board and its Committees.

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

### Responsibilities

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

### Effectiveness

In 2020 the Committee reviewed its own effectiveness by way of a questionnaire, with follow up questions asked for clarity if needed. Overall the evaluation was positive, noting good progress on executive succession planning. The Committee noted the importance of continued focus on diversity, particularly ethnic diversity, for Board appointments.

### Board composition

Each year the Committee considers a comprehensive skills matrix that sets out the experience and background of each director and reviews it against the Group's strategic objectives to ensure the Board comprises the skills and capabilities required to meet the demands of the business.

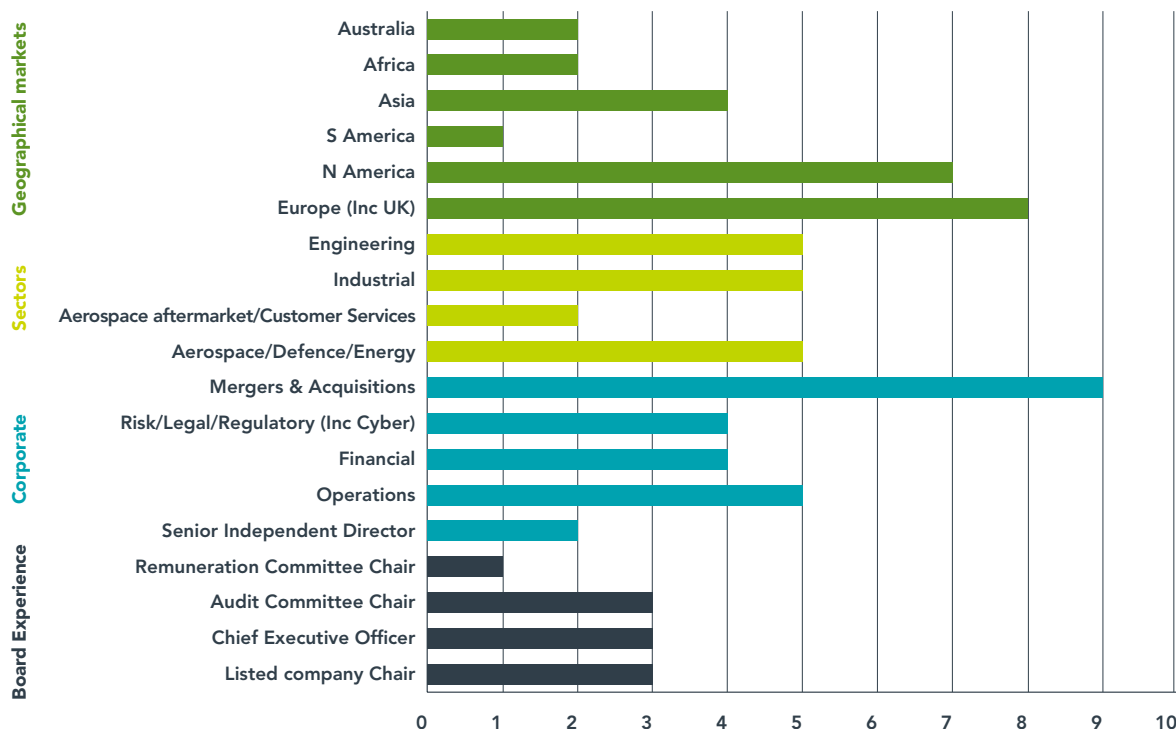
The matrix also includes the tenure of the Chairman and non-executive directors to ensure that succession for the Chairman and non-executive directors is regularly discussed by the Committee and planned accordingly to ensure membership of the Board is refreshed regularly.

Guy Berruyer was appointed on 2 October 2012 and his third three-year term will expire on 1 October 2021. The Committee considered his independence during the year and was satisfied that he remains independent. The Committee consider that Guy's knowledge of Meggitt and his prior experience bring significant value to Board discussions. The Committee are also keen to ensure continuity on the Board in light of the COVID-19 pandemic and as the Group's key aerospace market recovers. In light of this, it recommended that Guy Berruyer should continue to serve as a non-executive director on the Board. However, in light of Guy's length of service, the Nominations Committee agreed that Alison Goligher should succeed Guy as Senior Independent Director from the date of the AGM in 2021. Alison has nearly six years experience on the Board and has, as a result, built good relationships with the non-executives and executive management, has relevant experience of Board dynamics, and has a detailed understanding of the Group, which makes her well qualified to succeed Guy in the role of Senior Independent Director.

In February 2020, I confirmed my intention to retire from the Board and a succession process commenced, led by our Senior Independent Director, Guy Berruyer. However, on 25 March 2020, we announced that in light of the outbreak of the COVID-19 pandemic and its impact on the global economy, the wider aerospace sector and the Group, the Succession Committee led by Guy Berruyer and the Board agreed that I will stay on as Chairman until further notice. The Board believes that there is significant benefit in continuity of chairmanship at this time.



## Board Skills and Experience



## Succession planning

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. The succession plans for the executive team, including the executive directors are reviewed at least annually by the Committee to ensure that they are effective, based on merit and objective criteria, promote a diverse talent pool and take into account the challenges and opportunities facing the Group as well as the Group's strategic priorities. The plan identifies emergency replacements, those who are ready now, those that will be ready in the short term following further development and those that will be ready in the longer term.

## Diversity and inclusion

The Board places great emphasis on ensuring that its own membership reflects diversity in its broadest sense. A combination of demographics, skills, experience, race, age, gender, educational and professional background and other relevant personal attributes on the Board is important in providing a range of perspectives, insights and challenge needed to support good decision making.

Whilst we do not currently have an ethnic minority director on our Board, the Board remains diverse in terms of demographics, skills, experience, age, gender and professional background. Further details on the diverse attributes of Board members can be found in the pie charts on page 95 and in the Board skills and experience chart above.

It is our policy that Board appointments are made on merit, taking account of the specific skills and experience, independence and knowledge needed to ensure a rounded Board and the diversity benefits each candidate can bring to the overall Board composition. The policy aims for all appointments to diversify and strengthen the overall composition of the Board by contributing something new to the overall board dynamic, be it in terms of experience, skills, perspective, interests or other attributes.

Our Board diversity policy is brought to the attention of any executive search firm used as part of the selection and appointment process for a Board position and we request that they be proactive in marketing to a truly diverse range of candidates.

On gender diversity, the Board currently has four female Board members representing 44% of the Board. This year, Meggitt appeared 32nd in the list of FTSE 250 companies on the

Hampton-Alexander gender diversity rankings. Our high position is due to the main rankings table being determined by the number of females on our Board. The combined data for Executive Committee and their direct reports show that Meggitt can improve further.

The Board has discussed the suggested target set out in the Parker Review of having "at least one director of colour on the Board by the end of 2021" and will take this into account, alongside diversity of gender, nationality, skills and experience, in filling Board positions when they arise. As no Board appointments were made in 2020 there was no opportunity to strengthen the ethnic diversity of our Board during the year.

The Board, our executive leadership team, and management at all levels recognise that a diverse and inclusive workforce is critical to running a sustainable and successful business. Our Diversity and Inclusion Policy seeks to increase and leverage diversity by employing a diverse workforce that reflects the communities within which we operate and fostering an inclusive culture where people are valued, respected and supported. The Board and Executive Committee remain focused on this area and details on progress made against the Group Diversity and Inclusion policy to strengthen the diversity in our talent pipeline can be found in the Corporate Responsibility Report on pages 75 and 77.

## Candidate selection

When recruitment is undertaken, an independent external search consultancy is used for the appointment of the Chairman and non-executive directors with guidance provided by the Committee on the requisite skills, knowledge, and experience to fill any gaps identified by the Board skills matrix and complement those of existing Board members. Instruction is also given to provide long and short lists, with a diverse range of candidates.

On behalf of the Nominations Committee

**Sir Nigel Rudd**

Chairman of the Nominations Committee  
3 March 2021

# Directors' remuneration report

## Chair's introduction and annual statement



## Our decision making has continued to be framed by the experience of our.

### Committee membership and attendance in 2020<sup>1</sup>

3 Scheduled meetings

4 Additional meetings

**Ms A J P Goligher**  
Chair, Non-executive director



**Mrs C L Silver<sup>2</sup>**  
Non-executive director



**Mr C R Day<sup>2</sup>**  
Non-executive director



**Mrs N L Gioia<sup>2</sup>**  
Non-executive director



**Mr G C Hachey**  
Non-executive director



**Mr G S Berruyer**  
Non-executive director



<sup>1</sup> Due to COVID-19, meetings from March 2020 were conducted remotely

<sup>2</sup> Unable to attend meetings due to prior commitments

Meetings attended Non attendance

This has been a challenging year for the business and our industry as a whole. The onset of the COVID-19 pandemic (and particularly its effect on employment, employees and society globally) has further heightened the focus on executive remuneration, not only from the perspective of shareholders and proxy agencies, but also that of public interest. There has been an increased focus on how businesses have been run during the pandemic, including the treatment and experience of all relevant stakeholder groups, and the need for pay decisions to be demonstrably appropriate in the wider social context. The Committee has been mindful of this context as it has worked through decisions in this extraordinary year.

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2020. This report includes: an "At a Glance" summary; the Annual Report on Remuneration for the year; and an amended Directors' Remuneration Policy. The Directors' Remuneration Report will be put to an advisory vote, and the proposed Policy put forward for approval by shareholders, at our 2021 AGM.

### Looking back... remuneration outcomes in 2020

The impact of COVID-19 on Meggitt's civil aerospace business has been significant. The outbreak, and subsequent lockdowns across the globe, caused an unprecedented reduction in commercial air traffic in H1 2020, particularly in Q2 when global air traffic was down 90%, with up to 60% of the global fleet grounded in April. IATA's latest forecast shows expected 2021 Revenue Passenger Kilometres (RPK) about 48% lower than 2019, reflecting a gradual recovery as lockdowns are eased, vaccine programmes are implemented and passengers return to flying.

The executive team, led by the Chief Executive and Chief Financial Officer, took a series of swift and decisive actions in areas within Meggitt's control in response to the pandemic, focused on reducing costs, protecting cash and resizing the business. As a result, Meggitt is now positioned to take advantage of the recovery in the aerospace industry in the coming years.

While the Committee has worked throughout 2020 to ensure that remuneration continues to reflect both our strong focus on governance and alignment of outcomes to business strategy and performance, our decision making has also been framed by the experience of our stakeholders. In addition to regrettably reducing the size of the global workforce by around 20%, the Board decided to cancel the final dividend for 2019 and not to pay an interim dividend in 2020. Meggitt also accessed Government support schemes around the world (including the Coronavirus Job Retention Scheme and CCFF in the UK).

In this context, and despite the strong performance by the executive directors, the Committee felt it was appropriate to reflect, in our decision making, the impact of the pandemic on many of our employees and the shareholder experience over the past 12 months. The impact of making these decisions in relation to 2020 are set out below.

### 2020 Implementation of Policy

The Committee has continued to evaluate the fixed and variable remuneration packages of the executive directors across the year in the context of industry and business performance along with the experience of the wider workforce and shareholders.

## Salary

In April 2020, Meggitt announced that salary increases for all employees, where legally possible, would be cancelled for 2020, including the approved increases for executive and non-executive directors. In addition to this, the entire Board volunteered to take a 20% reduction in base salary and fees for the second half of 2020. Our Executive Committee also took a 10% pay reduction along with a 10% deferral of pay in H2.

Around 650 of our senior leaders (excluding executive directors and our Executive Committee) were invited to reduce their base salary by 10%, in return for which they would be awarded Meggitt shares of equivalent value, deferred over two years. I'm pleased to say that there was over 80% take-up of the scheme by senior managers. All of these actions on salary deferral and reductions saved over £3m cash in 2020.

## STIP

2020 performance was below the threshold for the financial measures set at the start of the year, resulting in nil payout under these elements. Despite some of the objectives related to the strategic element of the STIP being met, the Committee discussed and agreed, with the full support of the executive directors, that, in light of the experiences of employees across Meggitt and shareholders in the year, downwards discretion should be exercised to lapse this element of the STIP.

## LTIP

Although Meggitt's performance in 2018 and 2019 was strong, the outcome for the financial metrics in the 2018 LTIP award (based on three-year performance to 31 December 2020) was below the threshold vesting level, with 2020 performance impacted significantly by COVID-19. Progress against the long-term strategic measures warranted overall vesting of 10.1% of awards. The Committee considered this outcome in the wider context of the Group's performance. We recognised that although the overall outcome was low when considering the two years of very strong performance, it was in line with the employee and shareholder experience in 2020 and no adjustments were made.

## Proposed changes from 2021

During 2020, the Committee reviewed our Remuneration Policy against the emerging global context. Although the Policy was put to shareholders for approval in 2020, the Committee felt that, in order to address retention, motivation and alignment of interests in this exceptional time and as the aerospace industry recovers over the next few years, some adjustments to the Policy are necessary for 2021.

In Autumn 2020, we consulted shareholders and proxy agencies on proposals for a revised Policy. I am pleased to say we had excellent engagement during this exercise in the final quarter of 2020 with continued dialogue in Q1 2021.

The conversations were extremely helpful and, in particular, it was encouraging to hear the level of support from our shareholders for our Chief Executive and Chief Financial Officer who are recognised as key to Meggitt's recovery from the COVID-19 pandemic and to our future growth prospects. We also kept under full consideration the experience of employees, shareholders and other stakeholder groups.

I am grateful for the feedback provided which has enabled us to adjust our proposals in response.

## 2021 Remuneration Policy updates

The Committee considered various approaches to address concerns about motivation and retention of the executive directors and senior leadership team in the months and years ahead, given the ongoing uncertainty around the impact and timescales of the pandemic and a subsequent recovery. Following feedback from shareholders, the Committee proposes the following revisions to our Policy to meet this objective:

- 1) An increase in the total long-term incentive opportunity from 220% to 250% of salary.

The Committee reviewed the competitiveness and mix of the overall package for the executive directors and considered it appropriate to increase the LTIP opportunity. This level will help ensure the remuneration package is competitive with companies of similar scale and complexity, and to support the continued motivation and retention of the executive directors as our recovery builds over the period of this new Policy.

- 2) Introduction of restricted share awards (RSA) to complement the existing performance share awards (PSA) awarded under the LTIP.

RSAs are common elements of compensation in Meggitt's global market for talent and the Committee considered that introducing them to the Policy at Meggitt for executive directors will support our ability to attract and retain talent. Around 50% of our senior operations leaders are in the US and having an element of restricted share awards in their incentives will align better with the US market. It will also help mitigate some of the retention risk we face in the US. In addition, we recognise that many of our UK shareholders prefer to retain a performance-based award for senior managers, and the hybrid plan seeks to address both of these valid, and equally weighted, perspectives. Hybrid LTIP RSA/PSA awards have already been introduced for our senior executives and so this proposal will ensure alignment of the executive directors with senior executives.

It is proposed that the overall long-term incentive opportunity be split 50/50 between the RSA and PSA, with RSA face values discounted by 50% compared to the PSA, to maintain the fair value of the long-term incentive opportunity. This results in awards worth 125% of salary under the PSA and 62.5% of salary under the RSA for the executive directors. The

combined impact of these changes on the executive director remuneration package is to reduce the overall opportunity by 7%.

RSAs will be granted under the LTIP and will ordinarily be subject to all the same rules as the current LTIP approved in 2020, i.e. a three-year vesting period, the same malus/clawback provisions, post-vesting holding period and post cessation shareholding requirements. However, it is proposed that the first RSA (to be granted in 2021) vests on a phased basis over the three-year period, i.e. a third annually, but with release of the vested shares to remain at five years following grant. This is to address immediate issues of incentive and retention during the recovery period.

The vesting of RSAs will be subject to a discretionary assessment by the Committee of a basket of measures, the balance of which may be varied to reflect the evolution of Meggitt's medium-term financial and strategic priorities over time.

- 3) Reduction of vesting threshold for PSAs under the LTIP from 30% to 25% of maximum.

Meggitt recognises that market practice has evolved over time with respect to the level of long-term incentive vesting for threshold performance. The Committee felt it was an appropriate time to align with market practice. In all other respects the STIP and LTIP (PSA) remain the same.

## Concluding comments

We recognise that there is a significant focus among stakeholders on executive pay levels and on maintaining an appropriate relationship between pay and performance during the unprecedented global crisis in which we continue to operate. This has been a key priority for the Committee this year in its deliberations around 2020 outcomes.

Considering the potential ongoing impact of the pandemic in the years ahead, we have thought deeply about the balance of motivating our executive directors during the recovery and addressing retention risks across our senior management team. We also wish to ensure that interests are aligned between the executive directors and wider management team, for whom a hybrid approach to long-term incentives (combining restricted and performance-based shares) has already been introduced in early 2021.

We have worked hard to gather and incorporate feedback from shareholders in an open and transparent manner, and we have considered market sentiment, market practices and market competitiveness in refining our proposals for 2021. We are confident that the changes proposed increase the alignment between shareholders and executives, provide a fair and motivational remuneration package to executive directors and ensure alignment between the executive directors and the wider management team.

## Alison Goligher

Chair of the Remuneration Committee

## Directors' remuneration report continued

### Chair's introduction and annual statement continued

#### 2020 activity



##### Approved

- The 2019 STIP vesting and deferred bonus awards and 2017 LTIP vesting;
- The 2020 STIP and LTIP performance targets;
- 2020 LTIP awards together with the application of a holding period for the 2020 LTIP awards to executive directors;
- Increases to salaries for executive directors and other senior executives and the Chairman's fee. Discretion was applied to later cancel these as a result of COVID-19 (see 115 for more details);
- The 2019 Directors' remuneration report and Policy were approved by shareholders at the 2020 AGM;
- The appointment of Ellason LLP as remuneration adviser to the Committee from 1 January 2021;
- Revised Terms of Reference for the Committee to align with current best practice. These are available on our website; and
- Since the year end, we have approved the structure of the 2021 STIP and LTIP awards and confirmed the vesting outcome of the 2020 STIP (and applied appropriate downward discretion) and 2018 LTIP awards.



##### Discretion exercised

- Cancellation of the 2020 salary and fee increases;
- Agreed that the 2021 STIP financial targets for all senior executives below the Board be based on Group performance, consistent with the targets used for executive directors;
- Since the year end, we have agreed that strategic objectives targets which had been met under the 2020 STIP for the executive directors should not vest owing to the overall financial performance of the Group and to reflect the wider stakeholder impact of COVID-19. This means that no STIP payment will be made for the 2020 year.



##### Policy review

- Reviewed the Policy in light of the impacts of COVID-19 on the Group; and
- Proposed a revised Policy, including the following elements:
  - a hybrid LTIP including Restricted and Performance share awards for executive directors
  - Performance share awards (PSA) structured as previously; Restricted share awards (RSA) to vest subject to a discretionary assessment of corporate health across a range of measures
  - for the 2021 RSA to vest annually over a three-year period, but with leaver conditions attached between the vesting date and the third anniversary from grant (and a holding period for the fourth and fifth year after grant)
  - for RSA awards from 2022 onwards to have a three-year vesting period
  - to increase the total LTIP award opportunity for executive directors from 220% to 250% of salary
  - to reduce vesting at threshold under the PSA from 30% to 25% of maximum.



## Remuneration at a glance

### Remuneration principles

Our Remuneration Policy is designed to deliver against these key remuneration principles for the long-term growth of the business:

<b>Attract</b>	competitive in the global markets where Meggitt competes for talent;
<b>Align</b>	with shareholders through a strong weighting on shares in remuneration packages, but also alignment between our executive directors and other senior managers who work as one team towards the same goals;
<b>Incentivise</b>	incentive plans provide an opportunity for management to meet and exceed targets whilst outcomes are appropriately aligned with financial performance; and
<b>Retain</b>	the remuneration structure and opportunity supports retention in an increasingly competitive international setting.

### Linking our remuneration to our strategy



### KPI's

#### 2020 STIP

##### Financial Measures

Underlying  
Operating Profit

**189m**

Free Cash Flow

**101m**

##### Strategic Measures

Culture –  
Engagement



Customer –  
Operational  
Improvements



Portfolio



### 2018-2020 LTIP

##### Financial Measures

Earnings Per Share

**90.8p**

ROCE

**8.6%**

##### Strategic Measures

Inventory

**2.1**

Programmes

**2.9**

MPS

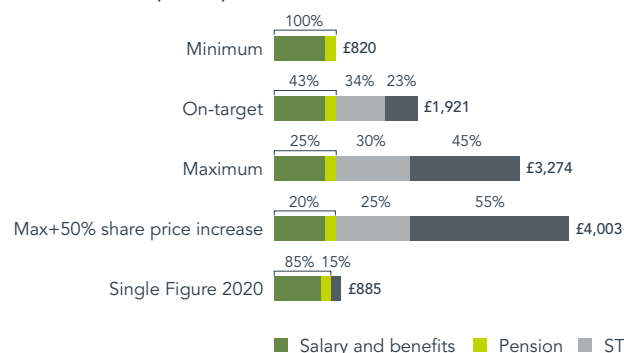
**44.6%**

# Directors' remuneration report continued

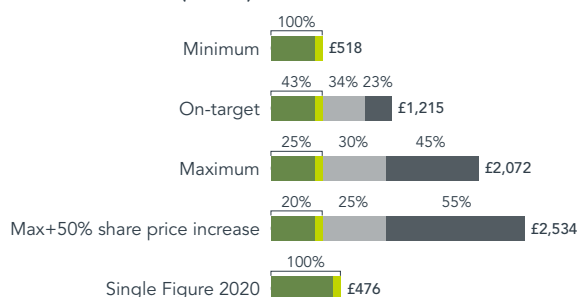
## 2020 Outcomes

### Outcomes versus pay scenarios

#### Mr A Wood (£'000)



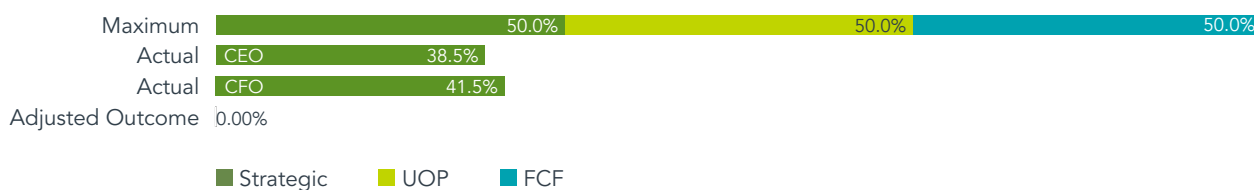
#### Mrs L Burdett (£'000)



■ Salary and benefits ■ Pension ■ STIP ■ LTIP

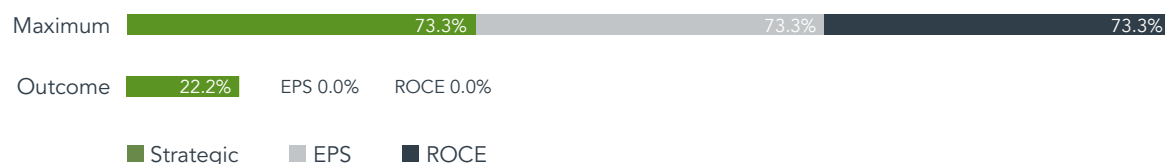
### Incentive outcomes

#### 2020 STIP Outcome



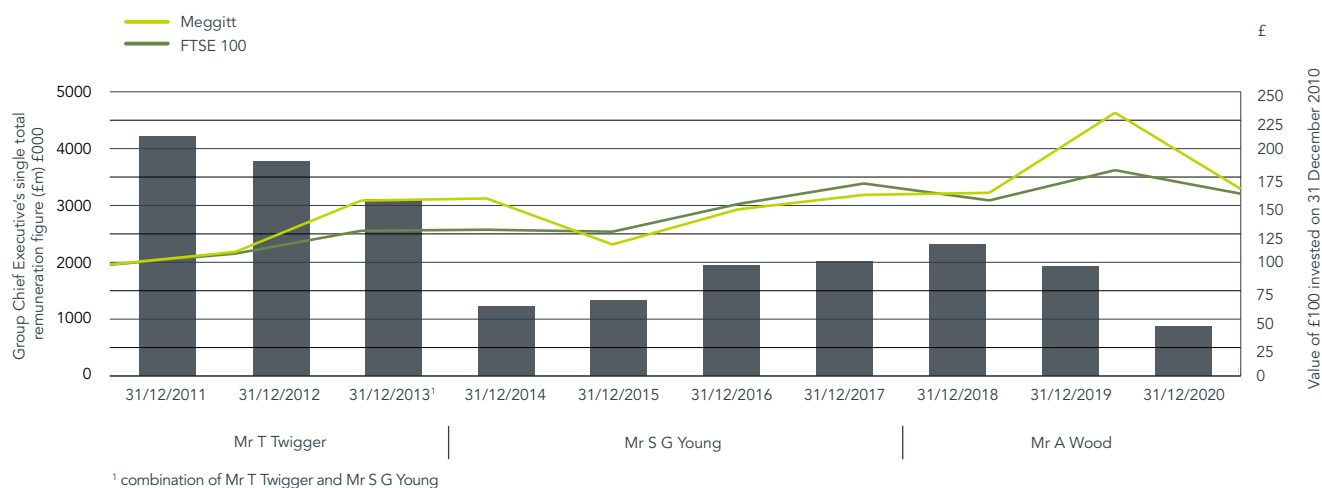
■ Strategic ■ UOP ■ FCF

#### 2018 LTIP Outcome (% Vesting)



■ Strategic ■ EPS ■ ROCE

### Pay for performance history



## 2021 Remuneration

### Components of executive directors' remuneration 2021

<b>Base salary</b>	Set at a competitive level to attract and retain high calibre directors in the relevant talent market.
<b>Pension</b>	To provide post-retirement benefits for executive directors in a cost-efficient manner. New directors are eligible for a pension allowance at the same level as the wider workforce. Pension allowances for incumbent executive directors are being reduced to 15% of salary by the end of 2022.
<b>Benefits</b>	Provides non-cash benefits which are competitive in the market where the director is employed.
<b>Annual bonus (STIP)</b>	Incentivises executive directors on delivering annual financial and strategic targets set at the start of each year. There is a maximum award opportunity of up to 150% of salary.
<b>LTIP (PSA and RSA)</b>	Aligns the interests of executive directors with shareholders in growing the value of the Group over the long term. Awards vest after three years and are subject to a two-year holding period. Executive directors are currently eligible for annual awards of up to 220% of salary (proposed to be increased to 250% at the 2021 AGM). If shareholders approve, awards would consist of Performance Share Awards (125%) and Restricted Share Awards (62.5%). The executive directors are subject to post-cessation shareholding requirements, along with malus and clawback provisions.
<b>Sharesave Scheme and Share Incentive Plan (SIP)</b>	To align the interests of UK employees and shareholders by encouraging all UK employees to own Meggitt shares.

### 2021 remuneration time horizons

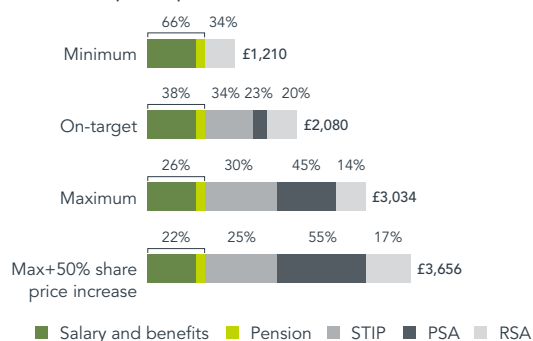
	2021	2022	2023	2024	2025	2026	2027
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
STIP	Performance Period	Deferral Period <sup>1</sup>					
PSA	Performance Period			Holding Period			
RSA	Vesting Period <sup>2</sup>			Holding Period			

<sup>1</sup> STIP deferral of 25% of the outcome into shares for 2 years

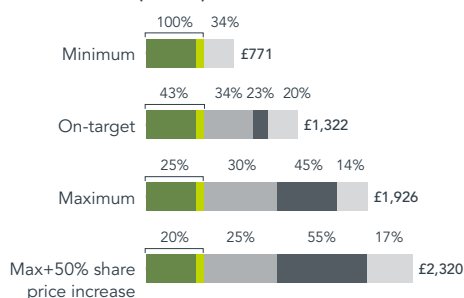
<sup>2</sup> First RSA grant vests in thirds at the end of years 1-3 but a total holding period of 5 years from grant will apply

### 2021 pay scenario summaries

#### Mr A Wood (£'000)

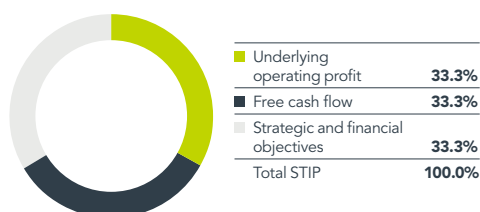


#### Mrs L Burdett (£'000)

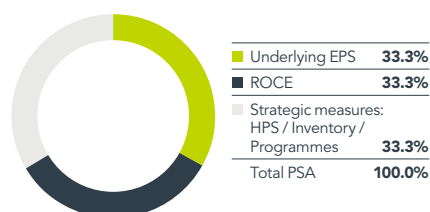


### 2021 Incentive Plans

#### Short-Term Incentive Plan (STIP)



#### Long-Term Incentive Plan (LTIP) – Performance Share Awards



# Directors' remuneration report

## continued

## Annual report on remuneration

### Executive Directors

#### 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 2020 and the prior year:

	Mr A Wood		Mrs L S Burdett	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Salary <sup>1</sup>	597	660	378	420
Taxable benefits <sup>2</sup>	14	14	14	14
Pension Allowance <sup>3</sup>	143	165	84	84
<b>Total fixed</b>	<b>754</b>	<b>839</b>	<b>476</b>	<b>518</b>
Annual bonus <sup>4</sup>	–	507	–	321
Deferred bonus <sup>4</sup>	–	169	–	107
LTIP <sup>5</sup>	131	434 <sup>6</sup>	–	–
Other	–	–	–	–
<b>Total variable</b>	<b>131</b>	<b>1,110</b>	<b>–</b>	<b>428</b>
<b>Total remuneration</b>	<b>885</b>	<b>1,949</b>	<b>476</b>	<b>946</b>

1 Salary for both executive directors is reported with the COVID-19 reduction of 20% in the second half of the year. For the CEO the annual salary of £663k reduced by £66.3k from July to December, and for the CFO the annual salary of £420k reduced by £42k from July to December. The CEOs salary was set at £663k from 1 April 2019, previously £650k, giving a single figure for Salary of £660k for 2019. The COVID reduction was based on the Annual Salary of £663k.

2 Taxable benefits consist primarily of company car or car allowance, fuel allowance and private health care insurance. In addition to this figure, Mr Wood also received £1,526 in the year relating to his relocation agreement which ended 31 March 2020. Mrs Burdett received a relocation allowance as part of the transition of the head office to Ansty Park. Because of COVID-19 restrictions, only £4,800 was paid under this agreement in 2020.

3 Pension figure was calculated on the unreduced salary for 2020 at 21.5% of salary for the CEO and 20% of salary for the CFO

4 STIP paid for performance over the relevant financial year. As no bonus was payable, no payout was deferred into shares. Further details of the 2020 STIP, including performance measures, actual performance and bonus payouts, can be found on pages 121 to 122.

5 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. The value includes distribution payments. For 2020, the figure represents the actual vesting outcome of the 2018 award. Based on performance to 31 December 2020 the 2018 LTIP award will vest at 10.1%. The market value of vested shares has been estimated using the average share price over the last quarter of 2020 of 366.85p. None of the value of the LTIP is attributable to share price appreciation as the share price declined by 15% since the grant date. This value will be trued up in next year's report to reflect the actual share price on the vesting date. Further details on performance criteria, achievement and resulting vesting levels can be found on page 123.

6 For 2019, the figure represents the actual vesting of the 2017 award which has been trued up, compared to that reported last year, to reflect the share price on the date of vesting. The value of the 2019 LTIP vesting has been updated from the 2019 report from £975k to £434k due to fall in share price since the figures were estimated in February 2020.



## Incentive outcomes for the year ended 31 December 2020 (audited)

### STIP in respect of 2020 performance

The Board set stretching financial and strategic targets for the STIP at the start of the 2020 financial year. These targets, and the performance against these, are summarised in the table below.

#### Executive directors

Measure	Weighting (as a percentage of target)	Threshold for 2020	Target for 2020	Stretch for 2020	Actual <sup>1</sup>	Percentage of maximum opportunity
<b>Financial</b> Underlying operating profit	33.3%	£407.0m	£452.2m	£497.4m	£196.4m	0%
Free cash flow	33.3%	£257.9m	£286.6m	£315.3m	£102.7m	0%
<b>Strategic</b> See below	33.3%					See tables below

<sup>1</sup> For the purpose of STIP, targets and actual performance for both underlying operating profit and free cash flow are measured on a constant currency basis, adjusted where appropriate for any M&A activity and, in the case of free cash flow, excludes interest and tax. The STIP targets and actual performance for underlying operating profit are measured before the impact of any share based payment expense. Other adjustments are also made at the discretion of the Committee to ensure the outcome is a fair reflection of the underlying performance of the Group for the year. These are described on page 116 of this report.

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

#### Tony Wood

#### Chief Executive

#### Strategic Objectives

##### Strategy

Deliver sustainability goals and enhance portfolio

##### Customer

Deliver on-time to quality

##### Competitiveness

Increase margin and efficiency

##### Culture

Improve employee engagement and safety

#### Performance against objectives

- Absolute reductions in all major sustainability KPIs (electricity, gas, GHG emissions, water).
- Two key divestitures.
- On time delivery had an improving trend April to November but fell in December due to significant COVID-19 disruption.
- Delivered very significant reduction in escapes following the introduction of enhanced processes.
- Reduction in purchase costs.
- Project Conquer launched in March targeting a £450m reduction in cash costs in year – this was fully and successfully implemented by year end without disruption to customers.
- Stable employee engagement levels despite the impact of the pandemic and our global restructuring actions across all facilities worldwide.
- Delivered our best safety (TRIR) performance to date.

**Payout based on assessment of objectives (% of maximum): 77% (see note overleaf)**

## Directors' remuneration report

### continued

**Louisa Burdett**  
**Chief Financial Officer**  
**Strategic Objectives**

**Strategy**  
Refinancing

**Customer**  
Develop Meggitt's shareholder engagement

**Competitiveness**  
Improve operational performance

**Culture**  
Improvement in the overall Finance employee engagement score

#### Performance against objectives

- Secured various sources of external liquidity for the company during the COVID-19 pandemic.
- Securing internal liquidity through Project Conquer to save £450m of cash.
- Extensive scenario planning and cash forecasting throughout the year, remaining agile within changing market conditions.
- Adapted IR processes, using technology and increased contact with shareholders, sell-side analysts, employees and the Board.
- Consultation to close UK defined benefit pension scheme to future accrual.
- Finance and IT engagement scores improved year on year.

**Payout based on assessment of objectives (% of maximum):** **83% (see note below)**

Although the outcome of the strategic objectives element of STIP would have generated a pay-out to executives of £254,000 (CEO) and £175,000 (CFO) under the rules of the scheme, the Committee exercised discretion to reduce this payment to zero for 2020.

The following STIP awards were therefore received by executive directors in respect of 2020 performance:

Executive	% salary	£'000
Mr A Wood	0%	–
Mrs L S Burdett	0%	–

#### STIP – deferral into shares (audited)

There will be no deferral of STIP into shares in 2021 as no STIP was paid.

In 2020, as a result of the 2019 STIP vesting, the share awards were made under the Share Incentive and Retention Plan and are outlined in the table below. In line with the Remuneration Policy, 25% of the 2019 payout was deferred into shares, to be released (with no further performance conditions attached) after two years. Deferred STIP awards may lapse in certain leaver circumstances.

Executive	Form of award	Date of grant	Shares over which awards granted	Award price <sup>1</sup>	£'000	% of bonus	Date of vesting
Mr A Wood	Conditional Share Award	28.02.2020	29,146	579.64p	169	25	28.02.2022
Mrs L S Burdett	Conditional Share Award	28.02.2020	18,463	579.64p	107	25	28.02.2022

<sup>1</sup> The award price is the average close price for the five days prior to the award date.

### LTIP 2018 outcome

The LTIP award granted in April 2018 was subject to performance measures comprising three-year cumulative underlying EPS, three-year average ROCE and a scorecard of strategic measures. The outcome of the EPS measure has been adjusted for disposals. Performance against each of these measures over the completed performance period is summarised in the table below:

Element	Performance period			Weighting	Targets			Actual performance	% vesting (of LTIP)
	2018	2019	2020		Threshold	Mid-point	Stretch		
<b>Underlying EPS (pence)</b> three-year aggregate				33.33%	101.6p	107.7p	114.0p	90.8p	0.0%
<b>ROCE % average over three years</b>				33.33%	11.1%	11.5%	11.9%	8.6%	0.0%
<b>Strategic measures<sup>1</sup></b>									
Organic revenue growth				5.56%	4.00%	5.50%	7.00%	-1.7%	0.0%
Programme management <sup>2</sup>				1.85%	2.0	3.0	4.0	2018: 2.5	0.9%
Gross margin				1.85%	38.0%	38.8%	39.6%	2018: 37.2%	0.0%
Inventory				1.85%	451.4	421.4	401.4	2018: 473.1	0.0%
MPS gate exits <sup>3</sup>				1.85%	2.0	3.0	4.0	2018: 0.1	0.0%
Innovation <sup>4</sup>				1.85%	2.0	3.0	4.0	2018: 4.0	1.9%
Programme excellence <sup>5</sup>				6.17%	2.0	3.0	4.0	2019: 3.1 2020: 2.9	3.9%
MPS (Quality and Delivery) <sup>6</sup>				6.17%	40%	50%	60%	2019: 50.0% 2020: 44.6%	3.4%
Inventory Turns				6.17%	3.0	3.2	3.4	2019: 2.7 2020: 2.1	0.0%
<b>Overall outcome</b>									<b>10.1%</b>

- Progress against the targets for all strategic measures, other than revenue growth, are assessed annually and the final vesting outcome based on performance in each period.
- Performance score out of 5. Programme management vesting is an assessment of programme performance and is based on independent assessments of the performance of our largest programmes (approximately 100 in total) at formal programme gate reviews against standard gate exit criteria.
- Vesting is based on the number of our sites that have progressed up one stage of MPS in the year.
- Vesting is determined based on progress with certain important innovation projects against detailed milestone criteria, as assessed by our Chief Technology Officer.
- Programme excellence is the combined score of programmes and AR&T programmes (previously "Innovation") weighted 50/50.
- MPS (Quality and Delivery) vesting is based on progress against specific targets in each of these areas. For each of these measures, vesting criteria were set at the start of the year and assessed at the end of the year and reviewed by internal audit.

Based on these performance outcomes, 10.1% of the 2018 LTIP award will vest. Details of the awards vesting for executive directors are set out in the table below.

Executive <sup>3</sup>	Interests held	Vesting %	Interests vesting	Date of vesting	Share price at vesting <sup>1</sup>	Value £'000 <sup>2</sup>
Mr A Wood	332,852	10.1	33,618	03.04.2021	366.85p	131

- The market value of vested stock is based on the average share price over the last quarter of 2020.
- The value includes the accrued distribution payable on the shares that vest (equivalent to a dividend, paid as income).
- Mrs Burdett did not receive a 2018 LTIP award as she joined the Group on 22 October 2018, after the LTIP award date (becoming Chief Financial Officer on 1 January 2019).

Based on the market value estimated from Q4 2020 share price, none of the value of the award is attributable to share price appreciation. The value of the award has decreased due to fall in share price since award.

## Directors' remuneration report continued

### Scheme interests awarded in the year ended 31 December 2020 (audited)

The executive directors were granted LTIP awards in 2020. Vesting is dependent on the achievement of three-year targets ending 31 December 2022 that were set in February 2020, based on the following performance measures:

Weighting	Measure		Threshold <sup>1</sup>	Mid-point	Stretch <sup>1</sup>	
33.3%	Underlying EPS (pence) three-year aggregate		112.8	125.4	137.9	
33.3%	ROCE average over three years		11.0%	11.5%	12.0%	
33.3%	Strategic measures	HPS (Prev MPS)	Site targets on Quality and Delivery	40%	50%	60%
		Inventory	Inventory turns	3.0	3.3	3.6
		Programme excellence	Average status of programmes and AR&T programmes	2.0	3.0	4.0

<sup>1</sup> Vesting at threshold is 30%, and at stretch is 100%

### 2020 LTIP

Executive	Form of award	Date of award	Shares over which awards granted	Award price <sup>1</sup>	Face value		Date of vesting
					£'000	% of salary <sup>2</sup>	
Mr A Wood	Conditional Award	28.02.2020	251,638	579.64p	1,459	220	28.02.2023
Mrs L S Burdett	Conditional Award	28.02.2020	159,409	579.64p	924	220	28.02.2023

<sup>1</sup> 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.

<sup>2</sup> Based on salary at the date of award.

### Total pension entitlements (audited)

Mr Wood and Mrs Burdett received pensions allowances in 2020 of 21.5% and 20% of salary respectively. The pension allowance payments made in 2020 are included in the single total figure of remuneration table, and calculated on the unreduced salary (per the method of operation for all UK employees).

In 2021, Mr Wood and Mrs Burdett's pension allowances are being reduced to 18% and 17.5% of salary respectively. Both will reduce to 15% of salary by the end of 2022. Neither executive director participates in a Defined Benefit pension.

### Share ownership guidelines (audited)

The minimum shareholding guideline for executive directors is 300% of base salary for the Chief Executive and 200% of base salary for the Chief Financial Officer. 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.

Post-cessation shareholding guidelines of two years from vesting now apply to the executive directors. Further information on how the executive directors currently meet the shareholding guideline is in the annual report on remuneration on page 125. The executive directors have each executed a deed under which they acknowledge and agree to the Company's post-employment shareholding requirements and acknowledge that Meggitt reserves the right to take action to enforce compliance with the requirements. In the event of a breach of the post-employment shareholding obligations, Meggitt reserves the right to require the individual to revoke any assignment, transfer or charge, or acquire shares to replace disposed shares. Meggitt may also apply malus against unvested awards. To date, no executive directors have left office following the introduction of our post-employment shareholding requirements.

As at 31 December 2020, the Chief Executive's shareholding was 151% of base salary and the Chief Financial Officer's shareholding was 20% of base salary.

Executive director	Shareholding Guideline (% 2020 salary)	Shareholding	Current Shareholding (% 2020 salary)	Guideline Met?
Mr A Wood	300%	214,291	151%	Building
Mrs L S Burdett	200%	18,419	20%	Building



### Executive Directors' beneficial interests (audited)

The beneficial interests of the executive directors and their connected persons in the ordinary shares of the Group at 31 December 2020, 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	
	2020	2019
Mr A Wood	43,291	12,056
Mrs L S Burdett	5,500	–

Between 1 January 2021 and 24 February 2021, the only changes to the beneficial interests of the directors in the ordinary shares of the Company are that Mr Wood acquired 68 shares through the Meggitt PLC Share Incentive Plan.

### Executive Directors' shareholding requirements (audited)

Shares which are included within the shareholding requirement are:

Source of shares	Description
LTIP	Shares awards that have vested but not been exercised on a net of tax basis and share awards that have been exercised and retained
Deferred Bonus	Share awards that have not vested on a net of tax basis and shares released 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.

### Executive Directors' interests in share schemes (audited)

All outstanding 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 2020). The awards made up to and including 2017 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 2018 and later years were unvested as at 31 December 2020. Sharesave awards are not subject to performance conditions.

	Date of award	Number of shares under award			Exercise price	Market price at date of exercise	Date exercisable from	Expiry date
		At 1 January 2020	Awarded/ (exercised/ lapsed)	At 31 December 2020				
Mr A Wood								
LTIP (nil cost options – vested unexercised)	01.12.16	112,506	–	112,506	–	–	01.12.19	01.12.21
	07.04.17	228,907	(86,070)	142,837	–	–	07.04.20	07.04.22
LTIP (nil cost options – unvested)	03.04.18	332,852	–	332,852	–	–	03.04.21	03.04.23
	08.04.19	278,443	–	278,443	–	–	08.04.22	08.04.24
LTIP (conditional award – unvested)	28.02.20	–	251,638	251,638	–	–	28.02.23	28.02.23
Share Incentive and Retention Plan (awards)	27.03.18	26,884	(26,884)	–	–	307.28p	27.03.20	27.03.20
	08.04.19	38,155	–	38,155	–	–	08.04.21	08.04.21
	28.02.20	–	29,146	29,146	–	–	28.02.22	28.02.22
Sharesave (options)	13.09.18	847	–	847	–	425.02p	01.11.21	01.05.22
	17.09.19	1,826	–	1,826	–	492.80p	01.11.24	01.05.25
Total		1,020,420	167,830	1,188,250				

	Date of award	Number of shares under award			Exercise price	Market price at date of exercise	Date exercisable from	Expiry date
		At 1 January 2020	Awarded/ (exercised/ lapsed)	At 31 December 2020				
<b>Mrs L S Burdett</b>								
LTIP (nil cost options – unvested)	08.04.19	176,389	–	176,389	–	–	08.04.22	08.04.24
LTIP (conditional award – unvested)	28.02.20	–	159,409	159,409	–	–	28.02.23	28.02.23
Share Incentive and Retention (awards)	08.04.19	5,913	–	5,913	–	–	08.04.21	08.04.21
	28.02.20	–	18,463	18,463	–	–	28.02.22	28.02.22
Sharesave (option)	17.09.19	1,826	–	1,826	–	492.80p	01.11.22	01.05.23
<b>Total</b>		<b>184,128</b>	<b>177,872</b>	<b>362,000</b>				

## Directors' remuneration report continued

### External appointments held by executive directors as at 31 December 2020

Executive director	Company	Role	Fees retained 2020 £'000
Mrs L S Burdett	Electrocomponents plc	Non-executive director Chair of Audit Committee	60 10
		<b>Total</b>	<b>70</b>

### Exit payments made in the year (audited)

No exit payments have been made in 2020.

### Payments to past directors (audited)

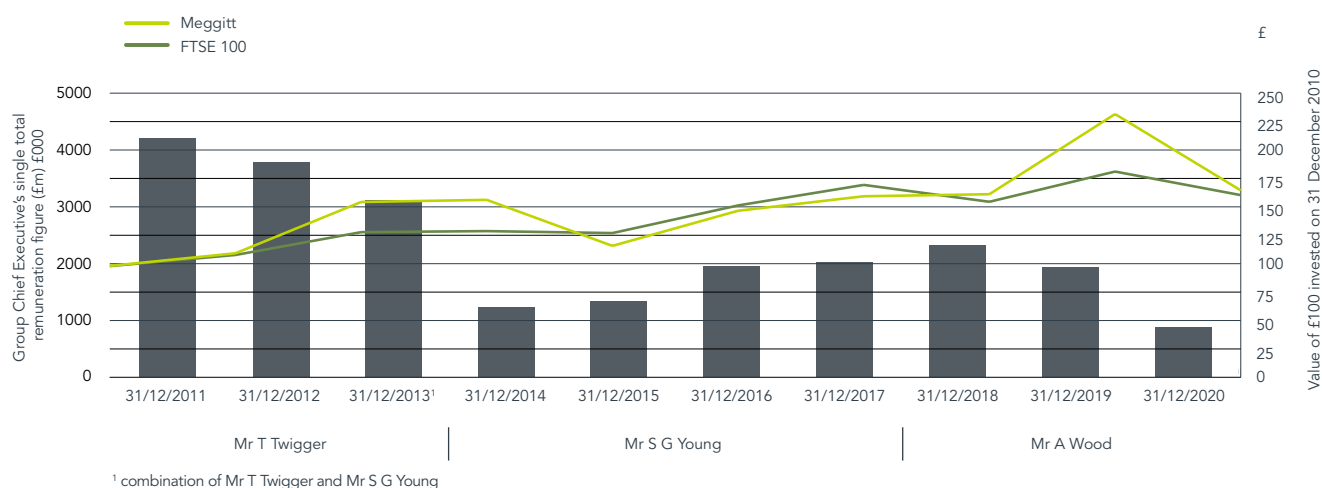
There were no payments to past directors in 2020. A de minimis of £10,000 applies to all disclosures under this note.

### Review of past performance

The remuneration package is structured to help ensure alignment with shareholders. However, there may be 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 below illustrates the Group's performance compared to the FTSE 100 Index, which is considered an appropriate broad equity market index against which the Group's performance should be measured, and reflects Meggitt's ambition to be a FTSE100 company. Performance, as required by legislation, is measured by TSR over the ten year period from 31 December 2010 to 31 December 2020.

### Pay for performance history



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

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Mr A Wood<sup>1</sup></b>										
Single total figure of remuneration (£'000)								2,334	1,949	885
STIP outcome <sup>2</sup>								82%	68%	0%
LTIP vesting <sup>2</sup>								52.1%	62.4%	10.1%
<b>Mr S G Young<sup>1</sup></b>										
Single total figure of remuneration (£'000)			1,296	1,232	1,347	1,969	2,040			
STIP outcome <sup>2</sup>			39%	23%	31%	60%	68%			
EPP vesting <sup>2</sup>			38%	0%	0%	N/A	N/A			
ESOS vesting <sup>2</sup>			76%	0%	0%	N/A	N/A			
LTIP vesting <sup>2</sup>			–	–	–	17.3%	18.9%			
<b>Mr T Twigger<sup>1</sup></b>										
Single total figure of remuneration (£'000)	4,252	3,812	1,845							
STIP outcome <sup>2</sup>	100%	80%	35%							
EPP vesting <sup>2</sup>	69%	88%	56%							
ESOS vesting <sup>2</sup>	100%	100%	98%							

1 Figures are provided for Mr T Twigger for the period up to 1 May 2013, for Mr S G Young for the period up to 31 December 2017 and for Mr A Wood from his appointment as CEO on 1 January 2018.

2 The outcomes are for those awards which are included in the single figure of remuneration for that year. For 2020, this represents the outcome of the 2018 LTIP and the 2020 STIP. Outcomes are expressed as a percentage of maximum.

**Change in Executive Directors' pay for the year in comparison to that of Meggitt employees**

The table below shows the year-on-year percentage change in salary, benefits and annual bonus earned between the year ended 31 December 2019 and 31 December 2020 for all executive directors compared to the change in earnings for employees of Meggitt PLC, and UK employees.

	Salary	Benefits	Annual Bonus
CEO	-9.5% <sup>1</sup>	0.0%	-100%
CFO	-10%	0.0%	-100%
Meggitt PLC Employees	-3.2%	0.0% <sup>2</sup>	-100%
UK Meggitt Employees	-0.5%	0.0% <sup>2</sup>	-100%

1 The CEOs salary was set at £663k from 1 April 2019, previously £650k, giving a single figure for Salary of £660k for 2019. The COVID reduction was based on the annual salary of £663k, leading to a -9.5% reduction on the single figure salary.

2 Benefits changes for the PLC and All UK populations are based on value of entitlement, and exclude, for example, the change in Benefit in Kind value created by a change in company car.

A similar analysis is provided for the non-executive directors on 131.

**CEO pay ratio**

The lower quartile, median and upper quartile employees were determined using Calculation Method A, which involved calculating the actual full-time equivalent remuneration for all UK employees for the year ending 31 December 2020. Where variable pay data was available for the 2020 financial year outturn (to be paid in March 2021 in respect of executive and senior management annual bonus and LTIP), actual amounts were used. Where the outturn of variable pay for 2020 was unknown at the date of calculation (for managerial, professional and direct workforce), the amount to be paid in March 2021 was estimated.

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

The three individuals identified were full-time employees during the year and did not receive any exceptional incentive award which would otherwise inflate their pay figures. No adjustments or assumptions were made by the Committee, with the total remuneration of these employees calculated in accordance with the methodology used to calculate the single figure of the Chief Executive. The Committee considered the median pay ratio in the context of the ratio reported in prior years as well as the figures produced by sector comparators and across the FTSE more generally.

The CEO pay ratio is based on comparing the Chief Executive's pay to that of the Group's UK-based workforce, a large proportion of whom are production workers. The Committee expects that the ratios will be largely driven by the Chief Executive's incentive pay outcomes, which will likely lead to greater variability in his pay than that observed at lower levels who, consistent with market practices, have a greater proportion of their pay linked to fixed components. This expectation has been realised in the change between 2019 and 2020 ratios.

The Committee takes into account these ratios when making decisions around the executive director pay packages, and the Group takes seriously the need to ensure competitive pay packages across the organisation.

(£)	Method	Lower quartile (25th percentile)		Median		Upper quartile (75th percentile)	
		Total Pay & Benefits	Total Salary	Total Pay & Benefits	Total Salary	Total Pay & Benefits	Total Salary
2020	A	34,019	31,788	43,831	40,584	59,994	55,550
2019	A	32,879	27,986	42,861	41,317	58,479	52,776

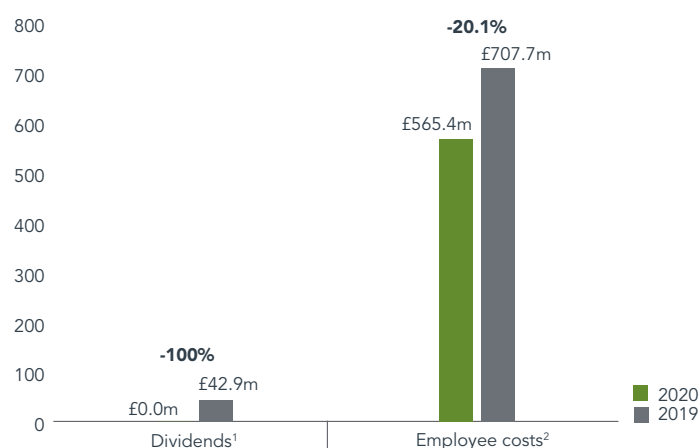
(£)	Method	Pay Ratio 25th Percentile	Pay Ratio 50th Percentile	Pay Ratio 75th Percentile
2020	A	26:1	20:1	15:1
2019 <sup>1</sup>	A	59:1	45:1	33:1

1 2019 Ratio has been updated due to the true up of the value at vesting of the 2019 LTIP. Prior reported ratio at median was 58:1.

## Directors' remuneration report continued

### Relative importance of spend on pay

The chart below shows shareholder distributions (i.e. dividends) and total employee expenditure for 2020 and the prior year, along with the percentage change in both.



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

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

### 2020 Committee evaluation

The Committee reviewed its own effectiveness and the effectiveness of their advisers using a detailed questionnaire and follow up discussion. Overall, the results of the review were positive for both the Committee and their advisers, in what was a particularly challenging year. The Committee's meetings were well run, with papers of the right length, and holding virtual meetings during 2020 had not caused issues in the way the Committee interacted.

The response to the pandemic was viewed as proactive and appropriate, with a detailed shareholder consultation exercise being viewed as extremely helpful in gaining insight to shareholders views in this area. There was a wider concern from the Committee about the appropriateness of the remuneration structure and retention concerns across senior executives post-COVID which would continue to be discussed by the Committee throughout the year.

Specific actions arising were about increasing Committee understanding of wider remuneration structures across the Group as well as gaining more sector specific and US remuneration trends from advisers.

### Context for the Committee's decisions in 2020

The Committee included regular updates from executive management on the impact of COVID-19 environment on key stakeholders in Meggitt to ensure that this context was front of mind as the Committee discussed executive pay. Each meeting held in the year started with an update of stakeholder impacts. The main themes considered were:

#### Stakeholder impacts

##### Senior leaders

The Executive Committee took a 10% salary reduction plus a 10% salary deferral in the second half of 2020.

All STIP and LTIP participants (c. 200 globally) shared the same outcomes as the executive directors reported here.

Around 650 of our senior management (excluding Executive Committee) were invited to reduce their base pay by 10%, in return for which they would be awarded Meggitt shares deferred over two years. 80% of the population took this opportunity and the first tranche of shares were delivered in January 2021. The second tranche vests in January 2022.

##### Wider workforce

Various actions were taken, where possible, across the wider workforce including:

- cancellation of the 2020 annual pay review
- suspension of company contributions to 401(k) in the US
- beginning consultation to close the UK Defined Benefit pension plan to new accruals
- cancellation of the UK Free Share Award.

We utilised furlough and voluntary unpaid leave arrangements globally in line with a reduction of production activity due to COVID-19 impact. Regrettably, we also reduced the workforce by over 20% globally.

##### Shareholders

Final dividend for 2019 was cancelled. No dividends have been paid or declared for 2020.



## 2021 Policy implementation

### Base salary, pension and benefits

For 2021, no salary increases are currently proposed for implementation in April 2021. In agreeing this position, the Committee has taken into account that salary increases for the wider employee population will not be reviewed until October 2021. Additionally, the executive and non-executive directors have agreed a 10% reduction in salary for the first half of 2021. For the wider workforce Meggitt continues to utilise furlough and voluntary unpaid leave programmes in H1 2021.

The following table shows the base salaries for the executive directors (not including COVID-19 reductions):

	2021 £'000	% change	2020 £'000
Mr A Wood	663	+0%	663
Mrs L S Burdett	420	+0%	420

The Committee periodically benchmarks executive director salaries against other FTSE companies of similar size, as well as a defined group of UK-listed industry comparators, comprising: BAE Systems, Signature Aviation, Halma, IMI, Melrose Industries, Rolls-Royce, Rotork, Senior, Spectris, Spirax-Sarco, Ultra Electronics and Weir Group.

From 1 January 2021, the Committee agreed a reduced pensions allowance for the Chief Executive to 18% of salary and Chief Financial Officer to 17.5% of salary. There are no other changes to benefit provisions for 2021.

### 2021 Incentives

The proposed 2021 Policy introduces a hybrid approach to share based remuneration including Performance Share Awards (PSA) and Restricted Share Awards (RSA) under the LTIP. Awards worth 125% of salary under the PSA and 62.5% of salary under the RSA for the executive directors are proposed. In 2021 100 STIP and LTIP-eligible leaders have been moved to the revised 'hybrid' scheme consisting of PSA and RSA proposed for the executive directors at the AGM. 100 have been moved to a pure RSA grant moving forward.

### 2021 Incentive Plan Measures

Targets for 2021 STIP and 2021 PSA grants will be set following the usual methodology.

In 2021, the Committee has considered the increasing importance of ESG-related factors and has agreed to incorporate a new sustainability measure into the LTIP. The 2021 goal is to direct two-thirds of Meggitt's research and technology expenditure towards developing sustainable technology. In this context "sustainable technologies" are those that will enable our customers to operate with lower greenhouse gas emissions and more efficiently. Strategic measures under the short term incentive plan for the Chief Executive also include sustainability goals. The Committee will further consider ESG measures when looking at 2022 plan measures. The Committee is satisfied that the current and proposed incentive structures for senior executives do not raise ESG risks by inadvertently motivating irresponsible behaviour.

## Directors' remuneration report continued

### STIP

STIP measures for 2021 are unchanged from 2020, as follows:



The STIP targets for 2021, together with details of whether they have been met, will be disclosed (subject to commercial sensitivity) in the 2021 Directors' remuneration report. STIP award opportunities will be in line with the Policy disclosed on page 135.

### LTIP – Performance Share Awards

The measures for 2021 performance share awards are 33% earnings per share, 33% ROCE and 33% based on three strategic measures, which are our High Performance System (previously known as the Meggitt Production System), inventory and programme excellence:

- HPS (previously known as the Meggitt Production System): site specific Quality and Delivery targets measure two of the key outputs of HPS.
- Programme excellence: this measure scores the health of all of the Group's programmes, including specific sustainability programmes.
- Inventory: based on inventory turns.

Due to the impact of the continuing COVID-19 pandemic, the Committee has decided to delay setting the targets for the PSAs for 2021 until such time as it believes that it can finalise appropriate performance ranges. Any award will be consistent with the Policy. The targets – which would normally be disclosed prospectively in this report – will be disclosed in an RNS statement.

### LTIP - Restricted Share Awards

Although not subject to any formal performance measures, the Committee will assess RSAs vesting based on a basket of measures, adjusting these measures to be appropriate for the position in the recovery period. A wide range of business factors is expected to be considered including, free cash flow, balance sheet health, adherence to dividend policy and overall cash returns to shareholders, customer service, health and safety performance, ESG performance and corporate culture. The balance and weighting of the factors may be adjusted as priorities for the Group develop over time to align with the anticipated recovery, and the Committee will consider performance in the round. The factors considered in the application of discretion used will be fully disclosed in the relevant Annual Report.

## Non-executive directors

### Chairman and non-executive director fee structure for 2020 and 2021

In February 2020, and as reported in the 2019 Directors' Remuneration Report, it had been agreed that the fees for non-executive directors and the Chairman should increase at a level of above 2% since the fees were generally below the median levels of our industry peers and companies of a similar size. In April 2020, as a result of COVID-19, the Board agreed to freeze their fees at 2019 levels, and in May 2020, it was agreed that the non-executive directors and the Chairman would reduce their fees by 20% for H2 2020 alongside the executive directors.

For 2021, it has been agreed to continue to freeze fees at 2020 levels, and a 10% fee reduction has also been agreed from 1 January 2021 to 30 June 2021, alongside the 10% salary reduction for executive directors.

The remuneration of the Chairman and non-executive directors in 2021 (not including COVID-19 reductions) are as follows:

	2021 <sup>1</sup> £'000	2020 <sup>1</sup> £'000
Chairman fee <sup>2</sup>	364	364
Non-executive director base fee <sup>3</sup>	60	60
Additional fee for chairing Audit or Remuneration Committee	11	11
Additional fee for chairing Corporate Responsibility Committee and Non-Executive Director responsible for Employee Engagement	11	11
Additional fee for Senior Independent Director	11	11

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

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

3 A fee of £4,000 is paid per meeting to non-UK directors when travelling to meetings outside of their home continent.

### 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:

	2020 £'000	2019 £'000
Sir Nigel Rudd	328	362
Mr G S Berruyer	65	68
Mr C R Day	65	71
Mrs N L Gioia <sup>1</sup>	62	84
Ms A J P Goligher	65	68
Mr G Hachey <sup>1</sup>	58	88
Mrs C L Silver	54	41

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

### Change in non-executive directors' pay for the year in comparison to that of Meggitt employees

The table below shows the year-on-year percentage change in fees earned between the year ended 31 December 2019 and 31 December 2020 for all non-executive directors compared to the change in salary, benefits and annual bonus for Meggitt PLC employees, and all Meggitt UK employees.

	Salary/Fees	Benefits	Annual Bonus
Sir Nigel Rudd	-9%	-	-
Mr G S Berruyer	-4%	-	-
Mr C R Day	-8%	-	-
Mrs N L Gioia <sup>1</sup>	-26%	-	-
Ms A J P Goligher	-4%	-	-
Mr G Hachey <sup>1</sup>	-34%	-	-
Mrs C L Silver	32%	-	-
Meggitt PLC Employees	-3.2%	0.0% <sup>1</sup>	-100%
UK Meggitt Employees	-0.5%	0.0% <sup>1</sup>	-100%

1 Mr G S Hachey and Mrs N L Gioia's figures were reduced due to meetings being conducted remotely.

2 Mrs C L Silver's fees show an increase on 2019 rates as she became a director during 2019. The annualised figure would be -9%.

## Directors' remuneration report continued

### Non-executive directors' beneficial interests (audited)

The beneficial interests of the non-executive directors and their connected persons in the ordinary shares of the Group at 31 December 2020, as notified under the Disclosure Guidance and Transparency Rules (DTR) of the Financial Conduct Authority (FCA), were as follows:

	Shareholding Ordinary shares of 5p each	
	2020	2019
Sir Nigel Rudd	250,000	150,000
Mr G S Berruyer	38,000	13,000
Mr C R Day	76,937	76,937
Mrs N L Gioia	3,188	3,188
Ms A J P Goligher	6,000	3,000
Mr G Hachey	3,000	3,000
Mrs C L Silver	5,000	–

Between 1 January 2021 and 24 February 2021, there were no changes in the beneficial interests of the non-executive directors in the ordinary shares of the Company.

### Other Disclosures

#### Advisors to the Committee

During the year, the Committee's independent remuneration advisors were Mercer (part of Marsh & McLennan Companies, Inc.) who were appointed in 2010 and 2019 as a result of a competitive tender processes.

In late 2020, it was agreed that remuneration advisory services for the Committee would transfer to Ellason LLP from 1 January 2021 as a result of our lead advisors leaving to establish Ellason.

During the year, the Committee confirmed it was satisfied with the independence of Mercer, and have also confirmed the same for Ellason LLP since the year end.

Neither Mercer nor Ellason have any direct individual relationships with any of our directors. Mercer and Ellason's fees are determined on an hourly rate basis, and monitored against an agreed scope of work and fee estimate during the year.

Mercer, and now Ellason, provide guidance on remuneration matters at Board level and below. Mercer, and now Ellason, do not have any other connection with the Group other than for Mercer, through their parent company, Marsh & McLennan Companies, Inc., which is also the parent company of the Group's primary advisors on insurance (Marsh) and UK pensions and benefits (Mercer). Mercer and Ellason are members of the Remuneration Consultants Group and adhere to its code of conduct ([www.remunerationconsultantsgroup.com](http://www.remunerationconsultantsgroup.com)).

The total fees in 2020 for remuneration advice to the Committee were £81,117 (2019: £72,608). The increased fees were as a result of their additional work advising on COVID-19 impacts and the Remuneration Policy review.

### AGM voting

The following table shows the results of the advisory vote on the 2019 Directors' remuneration report at the 2020 AGM:

Resolution text	Votes for	% of votes cast for	Votes against	% of votes cast against	Total votes cast	Votes withheld <sup>1</sup> (abstentions)
Approval of Directors' remuneration report	580,686,499	94.65	32,817,185	5.35	613,503,684	5,824,350

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

The following table shows the results of the binding vote on the current Directors' remuneration policy at the 2020 AGM:

Resolution text	Votes for	% of votes cast for	Votes against	% of votes cast against	Total votes cast	Votes withheld <sup>1</sup> (abstentions)
Approval of Directors' remuneration policy	582,387,803	94.96	30,925,843	5.04	613,313,646	6,014,417

<sup>1</sup> 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.



## Remuneration Policy

### 2021 Changes to Remuneration Policy

Although the Committee put forward a revised Remuneration Policy in 2020, in keeping with the requirement to submit the Policy to a binding vote at least every three years, 2020 has brought about significant changes in our industry and across the globe. The Committee met in May 2020 to discuss the immediate actions for remuneration as a result of COVID-19 and whether our Policy was still fit for purpose in the context of the ongoing impact of the pandemic and likely recovery trajectory of the aerospace industry over a period of years, and that our business would likely be affected for a number of years to come.

The Committee undertook a review of the 2020 Policy in the summer and considered changes in the external market. In particular, the Committee considered retention risks for all senior management particularly in the US, where 50% of senior leaders are based. With this in mind, the company have already introduced Restricted Stock Awards to complement the Performance Stock Awards for all Meggitt senior leaders to enhance the competitiveness of Meggitt in all our global markets. The Committee considered the importance of transparency, fairness and alignment between executive directors and senior leaders, to reinforce our shift from a portfolio of individual businesses to a truly integrated and effective global company, which is critical for our long-term success. Providing a motivating incentive for all Meggitt senior management in the US, UK and elsewhere is a fundamental element of this, and having the whole team on the same incentive schedule is an important driver for assuring collaborative teamwork, alignment of long-term strategy decision making and consistent delivery for customers by the senior team.

As a result of these deliberations, the Committee has determined that changes were necessary to ensure the Policy continues to appropriately incentivise, retain and reward our executive directors over the next three years, and aligns with revisions being cascaded into the wider organisation from 2021. A new Remuneration Policy is being put to shareholders at the 2021 Annual General Meeting which includes four changes from that approved by shareholders at the 2020 Annual General Meeting:

- Increasing the normal eligibility level in LTIP for executive directors to 250% salary;
  - Permitting awards under the LTIP to be granted as Restricted Share Awards (RSAs) with vesting subject to continued employment and an underpin based on Committee discretion from 2021;
  - Reducing the vesting level at threshold performance from 30% to 25% of maximum for Performance Share Awards (PSAs); and
  - Clarifying that the Company has the ability to settle any bonuses paid to executive directors in shares.
- Under the new Remuneration Policy, RSAs will be granted to executive directors in addition to the awards which have performance conditions (PSAs) which have been granted to date under the LTIP. This hybrid PSA/RSA structure for executive Directors aligns with senior management across the company. The key terms of the RSAs are:
- a three-year vesting period and two-year holding period for RSAs (meaning a total of five years between grant and full ownership);
  - vesting being subject to a holistic assessment by the Committee of overall performance of the business over the vesting period, rather than any specific performance targets;
  - granted under the current Meggitt 2014 Long Term Incentive Plan and subject to the same leaver rules and aggregate plan limits as other grants under this plan; and
  - application of post-cessation shareholding requirements and malus and clawback provisions.

### Remuneration Policy review process

In order to determine appropriate revisions to the Policy to achieve its objectives, the Committee considered: shareholder sentiment in the UK listed company environment; shareholder sentiment in the US market in particular with respect to remuneration practices; specific feedback from our shareholders; competitive practices at our peers and sector more generally; and the alignment of the Policy with Meggitt's culture and remuneration arrangements for the rest of our employees. We also considered whether the current Policy's implementation fairly reflected performance and was adequately aligned with shareholder interests.

### 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.

In Q4 2020, the Committee Chair consulted shareholders and engaged with their proxy agencies on our draft proposals. The Committee was pleased with the good level of engagement and the feedback we received. The Committee has listened carefully to this feedback and considered in depth in its decision-making the experience of employees, shareholders and other stakeholder groups. Recognising that some elements of our original proposal were unusual, the original proposals were modified to address the points raised by shareholders, while still aspiring to achieve our objective of supporting retention, motivation and alignment. The Committee feels this robust review process has helped shape an appropriate remuneration package for our executive directors for the next Policy period, which will now run from 2021 to 2023 (inclusive), subject to our modified proposals being approved by shareholders at the AGM in 2021.

### Revised Policy and the 2018 Code

In developing the proposed 2021 Remuneration Policy, the Committee has continued to take into account the provisions of the Code. We set out below our assessment of how we believe the proposed Policy complies with Provision 40 of the Code.

**Clarity:** Our approach to remuneration disclosure and decision making is transparent and supported by clear rationale. We remain committed to consulting shareholders on the Policy (and any changes to it), as well as our approach – and material revisions – to how it is implemented.

**Simplicity:** The proposed Remuneration Policy and our approach to implementation is logical and well understood internally, as well as externally. The performance measures used in the STIP and LTIP are well aligned to the Group's strategy, as illustrated on page 138.

**Risk:** The Committee regularly reviews remuneration arrangements to ensure that these continue to drive an appropriate focus on performance (through short- and long-term performance-based incentives), without encouraging and rewarding excessive risk taking (for example, by having an element of longer term variable remuneration – restricted shares – linked to continued employment only). We set incentive targets to be stretching and achievable, while retaining appropriate discretion to adjust formulaic bonus and LTIP outcomes to ensure that pay reflects underlying performance.

## Directors' remuneration report continued

**Predictability:** Incentive opportunities are capped, with clearly defined payout schedules aiding participants' understanding of how incentives operate and the performance expectations attaching to these. By replacing some of the LTIP Award opportunity with restricted share awards, we are proposing to further enhance the predictability of pay outcomes.

**Proportionality:** Performance ranges are calibrated to ensure that incentive outcomes do not reward poor performance. The use of sliding scales helps ensure that incremental performance is incentivised and rewarded by incremental reward, while discretion helps safeguard against the possibility that pay outcomes are disproportionate to performance outcomes.

**Culture:** The proposed Policy remains consistent with Meggitt's culture and strategy, and it reflects our approach to remuneration across the Group more widely. This consistency of approach aligns the focus of our employees and drives collective behaviours that promote the long-term success of the Company for the benefit of all stakeholders.

### 2021 Revised Remuneration Policy – Executive Directors' Policy Table

Base salary	
Function	To attract and retain talent by ensuring base salaries are competitive in the relevant talent market.
Operation	<p>Salary will be reviewed by the Committee annually, in February, with changes effective from 1 April of that year. Salaries for the year under review are disclosed in the annual report on remuneration.</p> <p>In deciding salary levels, the Committee considers personal performance including how the individual has helped to support the strategic objectives of the Group. The Committee will also consider employment conditions and salary levels across the Group, prevailing market conditions, and market data for FTSE companies in similar industries and those with similar market capitalisation.</p> <p>Salaries are paid to existing executive directors in GBP, however the Committee reserves the right to pay future and existing executive directors in any other currency (converted at the prevailing market rate when a change is agreed).</p>
Opportunity	The percentage salary increases for executive directors will not exceed those of the wider workforce over the life of this Remuneration Policy in the normal course of business. Higher increases may be awarded (i.e. in excess of the wider employee population) in instances where, for example, there is a material change in the responsibility, size or complexity of the role, or if a new executive director was intentionally appointed on a below-market salary. The Committee will provide the rationale for any such higher increases in the relevant year's annual report on remuneration.
Performance metrics	None explicitly, but salaries are independently benchmarked periodically against FTSE companies in similar industries and those with similar market capitalisation. Personal performance is also taken into account when considering salary increases.
Pension	
Function	To provide post-retirement benefits for executive directors in a cost-efficient manner.
Operation	<p>The pension plans operated by the Group, of which executive directors are or could be members, are:</p> <ul style="list-style-type: none"> <li>• Meggitt Pension Plan (defined benefit pension plan, closed to new members).</li> <li>• Meggitt Workplace Savings Plan (defined contribution personal pension scheme, open to new members).</li> </ul> <p>Salary is the only element of remuneration that is pensionable. There are no unfunded pension promises or similar arrangements for directors.</p>
Opportunity	New directors are eligible for a pension allowance at the same level as the wider workforce. In 2021, for incumbent executive directors, the CEO pension allowance will be 18% of salary, and 17.5% of salary for the CFO. (The basis of pensionable salary being the unrounded salary is consistent with policy applied to all UK employees). These rates will be aligned to 15% of pensionable salary by the end of 2022. A review of UK pension provision is currently taking place, and so the Committee will review executive director pension allowances again once this is complete.
Performance metrics	None.
Benefits	
Function	To provide market-competitive benefits for executive directors.
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 Remuneration Policy will apply, although the Committee retains discretion to approve a higher cost in exceptional circumstances (e.g. to facilitate recruitment, relocation, expatriation, etc.) or in circumstances where factors outside the Group's control have changed materially (e.g. market increases in insurance costs).
Performance metrics	None.

## Annual bonus – Short Term Incentive Plan (STIP)

Function	To incentivise executive directors to deliver annual financial and strategic objectives.
Operation	<p>Performance measures, targets and weightings are set at the start of the year.</p> <p>The performance period of the STIP is a financial year. After the end of the financial year, to the extent that the performance criteria have been met, 75% of the STIP Award is paid in cash to the director (or at the discretion of the Committee, in shares). The remaining 25% of the award will be deferred into shares and released (with no further performance conditions attached and no matching shares provided) after a further period of two years.</p> <p>Under the STIP, the Committee may decide to apply malus and/or clawback to STIP Awards and deferred STIP Awards to reduce the vesting of awards and/or require repayment of awards in the event of:</p> <ul style="list-style-type: none"> <li>(a) The participant leaves employment and facts emerge which, if known earlier, would have caused the award to lapse or caused the Committee to exercise discretion differently;</li> <li>(b) Any error in the assessment of a performance condition or vesting calculation that resulted in an overpayment;</li> <li>(c) The Group being the subject of a regulatory investigation or in breach of any applicable laws, rules or codes of conduct or the standards reasonably expected of it;</li> <li>(d) A material failure of risk management for any period which caused serious harm to the reputation of the Group and/or significant financial loss to the Group;</li> <li>(e) A serious breach of health and safety which caused serious harm to the reputation of the Group and/or significant financial loss to the Group;</li> <li>(f) The Committee determines that the underlying financial health of the Group has significantly deteriorated such that there are severe financial constraints on payment of awards; and</li> <li>(g) The participant, after having left employment, is found to be in breach of any restrictive covenant, non-solicitation, anti-disparagement or confidentiality undertakings.</li> </ul> <p>Deferred STIP Awards may lapse in certain leaver circumstances.</p>
Opportunity	<p>The STIP provides for a maximum award opportunity of up to 150% of salary in normal circumstances, with an on-target opportunity of 100% of salary and an opportunity of 50% of salary at threshold performance.</p> <p>The Committee has discretion to make a STIP award of up to 200% of salary in exceptional circumstances (e.g. a substantial contract win which has a significant positive financial impact in the long term but which has no, or negative, short-term financial impact).</p> <p>Dividends accrue on unvested deferred STIP awards over the vesting period and are released on the vesting date.</p>
Performance metrics	<p>STIP awards are based on the achievement of financial and strategic performance targets. For executive directors, the STIP will be based on a combination of the financial performance of the Group and strategic performance. The relative weightings of the financial and strategic 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 strategic performance will not exceed one-third of the maximum STIP opportunity in any year.</p> <p>The award for performance under each element of the STIP will be calculated independently. The Committee has discretion to review the consistency of the pay-out of the financial and strategic elements and adjust the total up or down (within the levels specified above) if it does not consider this to be a fair reflection of the underlying performance of the Group or the individual.</p> <p>The strategic performance element will typically be based on three to five objectives, both financial and strategic, relevant to the executive director's role cascaded from the Group's strategy.</p> <p>Details of the measures, weightings and targets applicable to the STIP for each year, including a description of how they were chosen and whether they were met, will be disclosed retrospectively in the annual report on remuneration for the following year (subject to commercial sensitivity).</p>

## Directors' remuneration report

### continued

#### Long Term Incentive Plan (LTIP)

Function	To align the interests of executive directors with shareholders in growing the value of the Group over the long term.
Operation	<p>Under the LTIP, executive directors are eligible to receive annual awards over the Company's shares normally vesting after three years.</p> <p>Two different types of awards can be granted:</p> <ol style="list-style-type: none"> <li>1. Performance Share Awards (PSAs) which are subject to the achievement of stretching performance targets; and</li> <li>2. Restricted Share Awards (RSAs) for which vesting levels are subject to a general assessment by the Committee as to overall performance and any other wider considerations. The Committee has discretion to apply additional conditions to some or all of an RSA.</li> </ol> <p>Under the LTIP rules, the Committee may decide to apply malus and/or clawback to awards to reduce the vesting of awards and/or require repayment of awards in the event of:</p> <ol style="list-style-type: none"> <li>(a) The participant leaves employment and facts emerge which, if known earlier, would have caused the award to lapse or caused the Committee to exercise discretion differently;</li> <li>(b) Any error in the assessment of a performance condition or vesting calculation that resulted in an overpayment;</li> <li>(c) The Group being the subject of a regulatory investigation or in breach of any applicable laws, rules or codes of conduct or the standards reasonably expected of it;</li> <li>(d) A material failure of risk management for any period which caused serious harm to the reputation of the Group and/or significant financial loss to the Group;</li> <li>(e) A serious breach of health and safety which caused serious harm to the reputation of the Group and/or significant financial loss to the Group;</li> <li>(f) The Committee determines that the underlying financial health of the Group has significantly deteriorated such that there are severe financial constraints on payment of awards; and</li> <li>(g) The participant, after having left employment, is found to be in breach of any restrictive covenant, non-solicitation, anti-disparagement or confidentiality undertakings.</li> </ol> <p>PSAs and RSAs made to executive directors are subject to a holding period after the vesting period, normally a two-year period after a three-year vesting period but, in any case, the vesting plus holding period will always be no shorter than five years from grant.</p>
Opportunity	<p>Executive directors will normally be eligible for annual LTIP awards of 250% of salary. RSAs will be granted at a discount of 50% of the regular PSA, i.e. a regular award of 250% value would be made up of 125% of salary PSA and 62.5% of salary RSA. Awards (PSA and RSA combined) up to a maximum of 300% of salary may be granted in exceptional circumstances (e.g. to support the recruitment of a key executive or to recognise exceptional individual performance).</p> <p>25% of a PSA will vest if performance against each performance condition is at threshold and 100% if each is at maximum, with straight line vesting in between.</p> <p>Dividends accrue on unvested awards granted under the LTIP (i.e. PSA and RSA) over the vesting period and are released, to the extent the award vests, on the vesting/exercise date.</p>
Performance metrics	<p>Vesting of PSAs is subject to continued employment and performance against corporate measures, which are intended to be as follows for awards made over the life of the Remuneration Policy but are subject to change at the discretion of the Committee:</p> <ul style="list-style-type: none"> <li>• Earnings per Share (EPS);</li> <li>• Return on Capital Employed (ROCE); and</li> <li>• 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.</li> </ul> <p>It is the intention that the weighting of the measures will be equal (e.g. one-third each if three measures are used) but that the Committee will consider, and adjust if deemed appropriate, the weighting at the start of each LTIP cycle.</p> <p>PSAs made under the LTIP have a performance period of three financial years, starting from 1 January of the year in which the award is made and ending on 31 December of the third year. If conditions are not met at the end of the relevant performance period, awards will lapse.</p> <p>Vesting of the strategic objectives element will also be subject to a discretionary assessment by the Committee of the extent to which achievement is consistent with the Group's underlying financial performance over the three-year period.</p> <p>The measures and targets in operation for the PSAs, and which are not deemed commercially sensitive, are normally disclosed in the annual report on remuneration for the relevant year of grant. Any commercially sensitive information on measures, targets and performance will be disclosed retrospectively.</p> <p>Vesting of RSAs is subject to a general underpin allowing the Committee to adjust vesting if business performance, individual performance or wider considerations mean, in its view, that an adjustment is required. Any vesting is also subject to any other conditions set by the Committee at grant.</p>

### Sharesave Scheme and Share Incentive Plan (SIP)

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

## Notes to the Policy table

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

### Recruitment

#### External appointments

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

Component	Approach	Maximum annual grant value
Base salary	The base salaries of new appointees will be determined based on the experience and skills of the individual, internal comparisons, employment conditions and salary levels across the Group and prevailing market conditions. Initial salaries may be set below market conditions and consideration given to phasing any increases over two or three years subject to development in the role.	N/A
Pension	In line with the Remuneration Policy, new appointees will be entitled to become members of the Meggitt Workplace Savings Plan (defined contribution plan) or receive a cash pension allowance at the same level as the wider workforce in lieu of salary.	N/A
Benefits/ Sharesave/SIP	New appointees will be eligible to receive benefits in line with the Remuneration Policy and any applicable UK all-employee share plans.	N/A
STIP	The structure described in the Remuneration Policy table will apply to new appointees with the relevant maximum being pro-rated to reflect the proportion of the year worked. Targets for the strategic element will be tailored to the appointee.	150% of salary (200% in exceptional circumstances)
LTIP	New appointees will be granted awards under the LTIP on similar terms as other executive directors, as described in the Remuneration Policy table.	250% of salary (300%, combined, in exceptional circumstances)

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

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

### Internal promotion

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

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



## Directors' remuneration report continued

### Approach to performance measure selection and target setting

Performance measures have been selected to closely align with and reinforce our strategic priorities (see pages 20 to 21).

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

### STIP

The performance measures used in the STIP reflect financial targets for the year and non-financial performance objectives. The Remuneration Policy provides the Committee with flexibility to select appropriate measures on an annual basis. STIP performance targets are set to be stretching but achievable, with regard to the particular strategic 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.

STIP strategic measures are set each year under the themes of our four strategic blue chips: Strategy, Customer, Competitiveness and Culture. Each year every executive director is assigned measures against these themes which will drive the long-term success of the Group. These measures are then cascaded through the Executive Committee and beyond using a policy deployment matrix to ensure alignment across the entire organisation to the Group's strategic priorities. Strategic measures are disclosed retrospectively when they are considered not to be commercially sensitive.

### LTIP – PSA

It is intended that the vesting of PSAs made during the life of this Remuneration Policy will be linked to EPS, ROCE and the achievement of long-term strategic goals, but may also include other measures to enable the PSA to reinforce appropriate financial and non-financial objectives aligned with our strategy. EPS is considered by the Board to be the most important measure of our financial performance. It is highly visible internally, is regularly monitored and reported and is strongly motivational for participants. EPS targets will continue to be set on a nominal cumulative (pence) basis to incentivise consistent performance and reflect the fact that our profits are generated to a large degree outside the UK and not significantly influenced by UK retail price inflation. ROCE helps to balance the achievement of growth and returns. The Committee believes ROCE is a good proxy for total shareholder return (TSR) which focuses executives on managing the balance sheet and the Group's operational performance. For executive directors, the use of ROCE targets reflects the fact that acquisition decisions come within the collective responsibility of the Board.

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

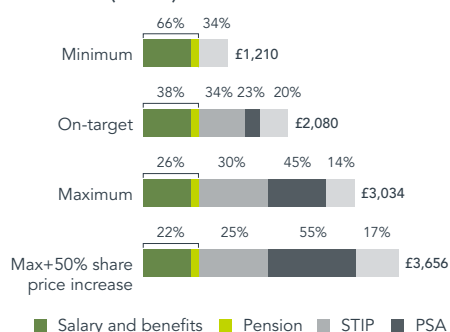
### LTIP – RSA

The vesting of the RSAs is subject to a discretionary assessment of 'corporate health' by the Committee, taking into account a wide range of business factors including, but not limited to, free cash flow, balance sheet health, adherence to dividend policy and overall cash returns to shareholders, customer service, health and safety performance, ESG performance and corporate culture. The balance and weighting of the factors may be adjusted as priorities for the Group develop over time, and the Committee will consider performance in the round.

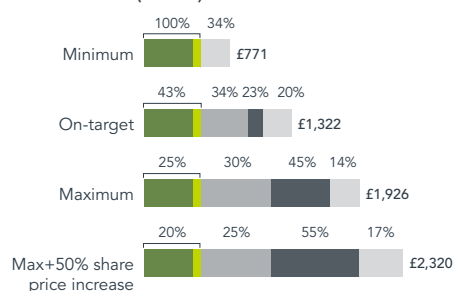
### Pay-for-performance: scenario analysis

The charts below provide an estimate of the potential future reward opportunities for the executive directors and the potential split between the different elements of remuneration under three different performance scenarios: 'Minimum', 'On-target' and 'Maximum'. This chart also shows the effect of future share price increases on executive pay outcomes under The Companies (Miscellaneous Reporting) Regulations 2018. Potential reward opportunities are based on the Policy, applied to 2021 base salaries. Note that the awards granted under the LTIP in a year will not normally vest until the third anniversary of the date of grant and the projected value excludes the impact of dividend accrual.

#### Mr A Wood (£'000)



#### Mrs L Burdett (£'000)



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

Scenario	Minimum	On-target	Maximum	Maximum +50% share price increase
Fixed pay	Latest known base salary, pension and value of benefits	Latest known base salary, pension and value of benefits	Latest known base salary, pension and value of benefits	Latest known base salary, pension and value of benefits
STIP	No STIP payable	On-target STIP payable (67% of maximum)	Maximum STIP payable	Maximum STIP payable
LTIP	PSA – Threshold not achieved (0% vesting)	PSA – Performance warrants threshold vesting (25%)	PSA – Performance warrants full vesting (100%)	PSA and RSA warrants full vesting plus 50% share price appreciation on all awards.
	RSA – it is assumed that the Committee did not exercise its discretion to adjust vesting levels.	RSA – it is assumed that the Committee did not exercise its discretion to adjust vesting levels.	RSA – it is assumed that the Committee did not exercise its discretion to adjust vesting levels.	

### Exercise of discretion

The Committee will operate the Group's incentive plans according to their respective rules and the Remuneration Policy set out above, and in accordance with the Listing Rules and HMRC rules, where relevant. The Group's incentive plans enable the use of discretionary override and the directors to exercise independent judgement and discretion when authorising remuneration outcomes, taking account of Group and individual performance, and wider circumstances. In line with common market practice, the Committee retains discretion as to the operation and administration of these incentive plans, including routine administration matters such as the participating employees, timing of awards and the manner in which they are settled. The Committee also retains discretion over the choice of performance measures and targets in accordance with the Remuneration Policy set out above and the rules of each plan and the measurement of performance in the event of a variation of share capital, change of control, special dividend, distribution or any other corporate event which may affect the current or future value of an award.

The Committee also has discretion over determination of a 'good leaver' (in addition to any specified categories) for incentive plan purposes, based on the rules of each plan and the circumstances of the individual leaving and adjustments required in certain circumstances (e.g. rights issues, share buybacks, special dividends, other corporate events, etc.).

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

### Minor changes

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

## Directors' remuneration report continued

### Service contracts and exit payment policy

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

The Committee's policy is that executive directors' service contracts should be terminable on no more than 12 months' notice.

The Committee's approach to payments in the event of termination of employment of an executive director is to take account of the particular circumstances, including the reasons for termination, individual performance, contractual obligations and the rules of the Group's applicable incentive plans which apply to awards held by the executive directors:

- **Compensation for loss of office in service contracts**  
Except as set out in the table below, under the terms of their service contracts, the executive directors may be required to work during their notice period or may, if the Group decides, be paid in lieu of notice if not required to work the full notice period. Payment in lieu of notice will be equal to base salary plus the cost to the Group of providing the contractual benefits (pensions allowance, health insurance and company car or car allowance) that would otherwise have been paid or provided during the notice period. Payments will be in equal monthly instalments and will be subject to mitigation such that payments will either reduce, or stop completely, if the executive director obtains alternative employment. An executive director's employment can be terminated by the Group without notice or payment in lieu of notice in specific circumstances including summary dismissal, bankruptcy or resignation.
- **Treatment of STIP**  
Executive directors have no automatic entitlement to any bonus on termination of employment under the STIP, but the Committee may use its discretion to award a bonus (normally pro-rated). Where any bonus is deferred into shares, the award will normally lapse if an executive director's employment terminates unless the executive director leaves for specified reasons. The 'good leaver' reasons are death, redundancy, retirement, injury, disability, the business or company which employs the executive director ceasing to be part of the Group or any other circumstances in which the Committee exercises discretion to treat the executive director as a 'good leaver'. If the executive director is a 'good leaver', their award will vest on the normal vesting date and will not be subject to pro-rating. Awards normally vest early on a change of control of the Company.
- **Treatment of long-term incentive plan awards**  
The treatment of awards under the LTIP (both PSA and RSA) is governed by the rules of the plan which have been approved by shareholders and are described below. Awards will normally lapse if an executive director's employment terminates, unless the executive director leaves for specified 'good leaver' reasons. The 'good leaver' reasons are the same as described above. If the executive director is a 'good leaver', awards will vest to the extent that the attached performance conditions are met, but on a time pro-rated basis, with Committee discretion to allow early vesting. Under the LTIP, awards vest on the normal vesting date subject to performance over the normal performance period, unless the Committee decides otherwise. Awards normally vest early on a change of control of the Company, subject to performance conditions and time pro-rating.

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

Name	Position	Notice period from employer	Notice period from employee	Compensation payable on termination of employment or change of control
<b>Mr A Wood</b> Service contract dated 13 November 2017	Chief Executive Officer	12 months	6 months	As set out in the Remuneration Policy.  No change of control provisions.
<b>Mrs L S Burdett</b> Service contract dated 17 September 2018	Chief Financial Officer	12 months	6 months	As set out in the Remuneration Policy.  No change of control provisions.

### Remuneration policy for other employees

The Committee has ensured "workforce remuneration and related policies and the alignment of incentives and rewards with culture" has been considered when making decisions regarding executive director remuneration in 2020.

In setting the Remuneration Policy, the Committee reviewed:

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

A report will be provided each year to the Committee, ensuring it is updated on remuneration of the wider workforce and ensuring context as it makes remuneration decisions related to the executive directors. Employee opinion has not been directly sought. 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 (PSA and RSA) on similar terms to the executive directors (except some of the performance conditions may vary), although award opportunities are lower and vary by organisational level. All UK employees are eligible to participate in the Sharesave Scheme and SIP on identical terms.

### Pay ratios and pay gaps

Conscious of the increasing focus on the context of the wider stakeholder experience, the Committee also kept front of mind other remuneration metrics such as the CEO Pay Ratio and Gender Pay Gap. The Gender Pay Gap reduced from 14.9% to 9.3% in 2020. Our progress was driven by several senior executive changes and our increased focus on diversity and inclusion. The CEO Pay Ratio reduced from 45x to 20x, driven by a reduced incentive outcome for the CEO.

### Non-executive directors – Remuneration Policy table

Non-executive directors stand for re-election annually, do not have a contract of service and are not eligible to join the Group's pension or share schemes.

Fees	
Function	To attract and retain non-executive directors of the highest calibre with broad commercial and other experience relevant to the Group.
Operation	<p>Fee levels are reviewed annually, with any adjustments effective 1 April each year. The fees paid to the Chairman of the Board are determined by the Committee, while the fees for all other non-executive directors are reviewed by a committee of the Board formed of the executive directors. Fees for the year under review and for the current year are disclosed in the annual report on remuneration on page 120.</p> <p>Additional fees are paid to the Chair of the Remuneration Committee; Chair of the Audit Committee; Chair of the Corporate Responsibility Committee and non-executive director responsible for employee engagement; and to the Senior Independent Director, to reflect the additional time commitment of these roles. Additional fees may also be paid to non-executive directors to cover the cost of attendance at meetings which take place outside their continent of residence. In addition, non-executive directors are reimbursed for reasonable business-related expenses. The Group may pay any tax due on these expenses on behalf of non-executive directors.</p> <p>In deciding fee increases, the Committee considers external market benchmarks as well as salary increases across the Group and prevailing market conditions. Currently, all fees are paid in GBP, however the Committee reserves the right to pay future and existing non-executive directors in any other currency (converted at the prevailing market rate when a change is agreed).</p>
Opportunity	Fee increases will be applied taking into account the outcome of the annual review. The maximum aggregate annual fee for all non-executive directors (including the Chairman) as provided in the Company's Articles of Association is £1,000,000.
Performance metrics	None.

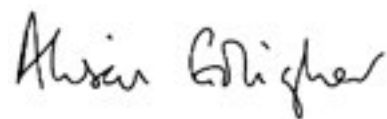
### Non-executive director expenses

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

### Non-executive director recruitment

In recruiting a new non-executive director, the Committee will use the Remuneration Policy as set out in the table on page 115.

### By order of the Board



**Alison Goligher**  
Chair of the Remuneration Committee  
3 March 2021

# Directors' report

The directors present their report with the Group's audited consolidated financial statements (prepared in accordance with both international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union) and the Company's audited financial statements (prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006 ) for the year ended 31 December 2020.

## 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
Important events and likely future developments in the Group's business	Strategic report (pages 4 to 89)
Post balance sheet events	Note 22 (page 193) and Note 36 (page 207) to the Group's consolidated financial statements
Employee information	Stakeholder engagement (page 63)
Employee engagement	Corporate responsibility report (page 79)
Employment of disabled persons	Corporate responsibility report (page 79)
Engagement with stakeholders	Stakeholder engagement (pages 63 to 65)
Greenhouse gas emissions	Corporate responsibility report (page 85)
The Corporate governance report	Board of Directors and Corporate governance report (pages 90 to 104)
Details of long-term incentive plans	Directors' remuneration report (pages 114 to 141)
Research and development	Note 7 to the Group's consolidated financial statements (page 179) and Chief Financial Officer's review (page 46)
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 172 and 173)
Statement of the amount of interest capitalised by the Group during the year with an indication of the amount and treatment of any related tax relief	Note 18 to the Group's consolidated financial statements (page 189)
Directors' agreement to waive part of their salaries and fees	Directors' remuneration report (page 115)
Overseas branches	Note 45 to the Group's consolidated financial statements (page 216 and 217)

## Dividends

In 2019 the Board recommended a final dividend of 11.95p per ordinary 5p share which was subsequently withdrawn in March 2020 to strengthen the Group's financial position and liquidity as the COVID-19 pandemic unfolded. The Board recognises the importance of the dividend to its shareholders, but due to the ongoing financial impacts of the COVID-19 pandemic on the Group, the Board has taken the prudent decision not to recommend a final dividend per ordinary 5p share for 2020 in order to retain cash within the Group, manage net debt levels and preserve flexibility. The Board announced on 8 September 2020 that an interim dividend would not be paid (2019 interim dividend: 5.55p ) and therefore there will be no dividend paid for 2020 (total dividend 2019: 17.50p). The Board is very aware of the importance of dividends to our shareholders and looks forward to restoring dividend payments as soon as possible as the recovery in civil aerospace gains momentum.

## 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 2020, no dividends were paid. The Board currently intends to continue to make the DRIP available to shareholders in relation to future dividends and the date by which relevant DRIP elections must be received will be disclosed on the financial calendar page on our website if a dividend is declared.

## Directors

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

Sir Nigel Rudd (Chairman), Mr A Wood, Mr G S Berruyer, Mrs L S Burdett, Mr C R Day, Mrs N L Gioia, Ms A J P Goligher, Mr G C Hachey and Mrs C L Silver.

All directors listed above will be submitted for re-election at the Annual General Meeting (AGM).

Details of any unexpired terms of the directors' service contracts are in the Directors' Remuneration Report. Membership of committees and biographical information is disclosed on pages 92 to 95 and in the AGM notice. Succession activities are highlighted in the Nominations Committee report on pages 112 and 113.



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. Further details can be found on page 101.

### Political donations

Neither the Group nor the Company made any political donations or incurred any political expenditure during the year (2019: None).

### Share capital and control

As at 31 December 2020, the Company held 9,859 treasury shares with a nominal value of 5p each and the Company's issued share capital (excluding shares held in treasury) consisted of 781,233,667 shares with a nominal value of 5p each. As at 2 March 2021, the Company held 9,859 treasury shares with a nominal value of 5p each and the Company's issued share capital (excluding shares held in treasury) consisted of 781,272,284 shares with a nominal value of 5p each. The issued share capital of the Company at 31 December 2020 and details of shares issued during the financial year are shown in note 37 to the Group's consolidated financial statements.

The ordinary shares are listed on the London Stock Exchange. The rights and obligations attaching to the Company's ordinary shares are set out in the Articles. A copy of the Articles is available for inspection at the Company's registered office. The holders of ordinary shares are entitled to receive the Company's Annual Report and Accounts, to attend and speak at general meetings of the Company, to appoint proxies to exercise full voting rights and to participate in any distribution of income or capital.

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

Meggitt operates an Employee Share Ownership Plan Trust (the "Trust") that was formed to acquire shares to satisfy the vesting and exercise of awards under the Group's share based incentive arrangements. The trustees do not exercise any voting rights on shares held by the Trust and a dividend waiver operates in respect of these shares. Once shares are transferred from the Trust to participants the participants are entitled to receive dividends and exercise voting rights attached to the shares.

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

At the 2020 AGM, the Company was granted authority by shareholders to purchase up to 77,756,798 ordinary shares, being 10% of the Company's issued share capital, in accordance with the Articles. No shares were bought back under this authority during the year ended 31 December 2020. Shares purchased under this authority would have been cancelled or held as treasury shares to be sold at a later date or used to satisfy awards under the Company's share plans as the Board saw fit.

The directors were also granted authority by shareholders to allot securities in the Company up to a maximum nominal amount of £25,918,932, of this amount £12,959,466 can only be allotted pursuant to a rights issue. The directors were also authorised to allot securities, without the application of pre-emption rights, up to a nominal amount of £1,943,919 and a further £1,943,919 in connection with an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-emption Rights. No such transaction is contemplated at present.

These authorities apply until the conclusion of the 2021 AGM or, if earlier, 30 June 2021. The Company will seek shareholder approval to renew these authorities at the 2021 AGM. Detailed explanatory notes are set out in the AGM notice.

The Group has significant financing agreements which include change of control provisions which, should there be a change of ownership of the Company, could result in renegotiation, withdrawal or early repayment of these financing agreements. These are a USD125m note purchase agreement dated June 2010, a USD750m syndicated revolving credit agreement dated September 2014, a USD600m note purchase agreement dated May 2016, two term loan facility agreements in the amounts of GBP45m and USD125m dated December 2019, a USD575m syndicated revolving credit agreement dated May 2020, a GBP100m term loan facility agreement dated June 2020 and a USD300m note purchase agreement dated November 2020.

There are a number of other long-term commercial agreements that may alter or terminate upon a change of control of the Company following a successful takeover bid. These arrangements are commercially sensitive and their disclosure could be seriously prejudicial to the Company.

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

Director	Contractual entitlement
Mr A Wood	None except that provisions in the Company's share plans may cause options and/or awards granted to employees under such plans to vest on a takeover.
Mrs L S Burdett	None except that provisions in the Company's share plans may cause options and/or awards granted to employees under such plans to vest on a takeover.
Non-executive directors	None.
All other employees	There are no agreements that would provide compensation for loss of employment resulting from a takeover except that provisions in the Company's share plans may cause options and/or awards granted to employees under such plans to vest on a takeover.

## Directors' report continued

### Substantial shareholdings

At 31 December 2020, the Company had been notified under the Disclosure Guidance and Transparency Rules (DTR) of the following substantial interests in the issued ordinary shares of the Company requiring disclosure:

	Direct voting rights (m)*	Indirect voting rights (m)*	Other financial instruments with voting rights (m)*	Total voting rights (m)*	Percentage of total voting rights**
The Capital Group Companies, Inc.	–	133.3	–	133.3	17.06%
FMR LLC (FIL Limited)	–	43.2	0.4	43.6	5.60%
Standard Life Investments Ltd	22.2	3.8	–	26.0	3.96%
Legal & General Group plc	23.7	–	–	23.7	3.01%
T. Rowe Price Associates, Inc	–	38.8	–	38.8	5.00%
Norges Bank	23.7	–	–	23.7	3.03%

\* One voting right per ordinary share.

\*\* Percentage of the Company's issued share capital when the Company was notified of the change in holding.

These holdings are published on a regulatory information service and on the Company's website. As at 2 March 2021 no further changes had been notified to the company.

### Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the directors to prepare the Group financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The directors have prepared the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;

- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Board are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Directors' confirmations

The Board consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's position and performance, business model and strategy.

Each of the directors, whose names and functions are listed in the Board of Directors confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group;
- the Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic report and this Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

### Fair, balanced and understandable

The Board of 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. Details on how the directors reached this judgement are set out in note 1 to the Group's consolidated financial statements on pages 162 to 164.

### By order of the Board



**M L Thomas**  
Company Secretary  
3 March 2021

## Independent auditors' report to the members of Meggitt PLC

### Report on the audit of the financial statements

#### Opinion

In our opinion:

- Meggitt PLC's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2020 and of the Group's loss and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report & Accounts 2020 (the "Annual Report"), which comprise: the Consolidated and Company balance sheets as at 31 December 2020; the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated cash flow statement, and the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

#### Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 1 to the Group financial statements, the Group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the Group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group.

Other than those disclosed in note 6 to the financial statements, we have provided no non-audit services to the Group in the period under audit.

### Our audit approach

#### Overview

##### 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 2 reporting units to address specific risk characteristics and provide sufficient overall Group coverage of particular revenue streams, cost of sales and/or working capital balances.
- We used component teams in 4 countries to perform a combination of full scope audits and specified procedures at 14 reporting units.
- The Group team performed procedures over several different financial statement line items, including complex areas prepared by the head office finance function, to provide sufficient overall Group coverage.
- The consolidation and financial statement disclosures were audited by the Group team.
- Reporting units where we performed audit procedures accounted for 73% of Group loss before tax; 62% of Group underlying profit before tax; and 78% 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.

##### Key audit matters

- COVID-19 (Group and Company)
- Going concern (Group and Company)
- Goodwill impairment assessment (Group)
- Company's investments in subsidiary undertakings impairment assessment (Company)
- Development costs impairment assessments (Group)
- Environmental provisions (Group)
- Retirement benefit obligation liabilities (Group and Company)
- Provisions for uncertain tax positions (Group)

##### Materiality

- Overall Group materiality: £15.2m (2019: £17.0m) based on a 5 year average of 5% of underlying profit before tax.
- Overall Company materiality: £35.0m (2019: £34.0m) based on 1% of total assets.
- Performance materiality: £11.4m (Group) and £26.25m (Company).

### **The scope of our audit**

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

### **Capability of the audit in detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of trade compliance, bribery and corruption, US Government contracting, US environmental regulations, aviation regulation including the Federal Aviation Agency and Civil Aviation Authority, data protection, competition/antitrust laws and international tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries, omitting, advancing or delaying recognition of events and transactions that have occurred during the reporting period and management bias in accounting estimates or judgements to manipulate results. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Held discussions with Meggitt PLC's Group management, Head of Internal Audit, legal and tax advisors, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud.
- Evaluated management's controls designed to prevent and detect irregularities.
- Reviewed meeting minutes of the Board, Audit, Nominations, Remuneration, Corporate Responsibility and Finance Committees.
- Assessed matters reported on the Group's Speak Up Line and the results of management's investigation of such matters.
- Challenged assumptions and judgements made by management in their significant accounting estimates and judgements, particularly in relation to the key audit matters below.
- Identified and tested journal entries based on our risk assessment and evaluating whether there was evidence of management bias that represents a risk of material misstatement due to fraud.
- Incorporated elements of unpredictability into the audit procedures performed.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

### **Key audit matters**

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

COVID-19, going concern and Company's investments in subsidiary undertakings impairment assessment are new key audit matters this year. Otherwise, the key audit matters below are consistent with last year.



## Independent auditors' report to the members of Meggitt PLC

### continued

Key audit matter	How our audit addressed the key audit matter
<p><b>COVID-19 (Group and Company)</b></p> <p>The COVID-19 pandemic, and measures taken by governments in order to contain COVID-19 has had a significant impact on the commercial aerospace industry in particular, affecting many areas of the Group's business including its employees, supply chain, customer base and shareholders. The impact on the Group's and Company's financial statements is wide ranging and so our audit devoted significant time to assessing whether all impacts had been properly considered by the directors and in obtaining evidence to inform our view as to the reasonableness of the significant judgements that the directors had made.</p> <p>The main considerations in respect of the impact of COVID-19 on the Group's and Company's financial statements are as follows:</p> <ul style="list-style-type: none"> <li>• Going concern – see specific key audit relevant matter below;</li> <li>• Asset impairment assessments – The areas materially impacted by estimation uncertainty are:             <ul style="list-style-type: none"> <li>– Goodwill impairment assessment – see specific key audit matter below;</li> <li>– Development costs impairment assessments – see specific key audit matter below; and</li> <li>– Company's investment in subsidiary undertakings impairment assessment – see specific key audit matter below.</li> </ul> </li> <li>• COVID-19 incremental non-recurring costs – The Group has excluded income and expenditure determined to be directly attributable to the pandemic, and which is not expected to recur in future periods, from its underlying profits, amounting to £22.0m; and</li> <li>• Management's way of working, including the operation of controls, has been impacted as a result of a large number of staff working remotely. This has resulted in an increase in risk due to the remote accessing of IT systems and a potentially heightened cyber risk.</li> </ul>	<p>For our audit response to the impact of COVID-19 on the following areas, see the specific key audit matters:</p> <ul style="list-style-type: none"> <li>• Going concern;</li> <li>• Goodwill impairment assessment;</li> <li>• Development costs impairment assessments; and</li> <li>• Company's investment in subsidiary undertakings impairment assessment.</li> </ul> <p>In respect of the other areas of consideration, we have performed the following audit procedures:</p> <ul style="list-style-type: none"> <li>• COVID-19 incremental non-recurring costs             <ul style="list-style-type: none"> <li>– We tested a sample of these costs in order to confirm that they were non-recurring and directly attributable to the pandemic. The costs primarily related to severance costs and were consistent with the headcount reduction announced by the Group in April 2020 in response to COVID-19; and</li> <li>– We considered whether the exclusion of these items from the Group's underlying results was consistent with the Group's accounting policy for exceptional items, considering the nature and value of those items. We did not identify any material discrepancies through these procedures and were therefore satisfied that the presentation of these costs was acceptable and explained the results for the current year.</li> </ul> </li> </ul> <p>We have assessed the appropriateness of management's disclosures in the financial statements in respect of the impact of COVID-19 and the increased uncertainty on certain accounting estimates and consider these to be appropriate.</p> <p>We have also performed the following additional procedures:</p> <ul style="list-style-type: none"> <li>• Considered the impacts of the pandemic, and specifically the increased level of remote working, on the Group's internal control environment, including fraud risk, business process control activities, IT general controls and cyber risk. We performed all of our standard walkthrough procedures via video conference. Based on the inquiries performed and the results of our audit procedures, we did not identify any evidence of a significant deterioration of the control environment;</li> <li>• Ensured that we adequately directed, supervised and reviewed the audit work undertaken by our significant and material component audit teams in a remote working environment, we increased the frequency and extent of our oversight, using video conferencing and remote working paper reviews. We were satisfied that the audit work performed by these audit teams was sufficient, appropriate and in accordance with our issued instructions; and</li> <li>• Considered all potential impacts of the pandemic on the Group's financial statements, based on our understanding of the Group's operations, to ascertain whether all items had been properly considered by the directors. We found no instances where such matters had not been considered appropriately.</li> </ul>

Key audit matter	How our audit addressed the key audit matter
<p><b>Going concern (Group and Company)</b></p> <p>The directors have formed a judgement, at the time of approving the consolidated and Company financial statements, that there is a reasonable expectation that the Group and Company (hereinafter, the 'Group') have adequate resources to continue in operational existence for a period of at least 12 months from the date of approval. For this reason, the directors continue to adopt the going concern basis in preparing these financial statements.</p> <p>In making an assessment as to whether the going concern principle should be adopted, the directors have considered the period to 31 March 2022 (the 'assessment period'). The directors have concluded that there are no material uncertainties around the Group's ability to continue as a going concern.</p> <p>In forming this assessment the directors considered its liquidity requirements and compliance with its loan covenants based upon its plans, as approved by the Board in October 2020 and updated through to the date of these financial statements. Further the directors modelled a severe but plausible downside scenario and concluded that, even in this scenario, the Group retained sufficient liquidity and complied with all relevant covenants.</p> <p>The current trading environment created by the COVID-19 pandemic has resulted in unprecedented levels of uncertainty in respect of future results and cash flows. Consequently, our audit devoted a significant amount of resource to assessing the directors' projections, under both scenarios modelled, and obtaining sufficient appropriate evidence to inform our view as to the reasonableness of the assumptions that the directors had made.</p> <p>In both scenarios, the Group maintains sufficient liquidity to be able to meet its obligations as they fall due in the assessment period. It also demonstrates sufficient headroom against each of the covenant ratios, throughout the assessment period.</p> <p>Refer also to the Audit Committee report and note 1 to the consolidated financial statements (page 107 and pages 162 to 164).</p>	<p>For our audit response and conclusions in respect of going concern, see the 'Conclusions relating to going concern' section below.</p>

## Independent auditors' report to the members of Meggitt PLC

### continued

Key audit matter	How our audit addressed the key audit matter
<p><b>Goodwill impairment assessment (Group)</b></p> <p>The Group holds significant amounts of goodwill (£1,519.5m) on the balance sheet.</p> <p>As noted in the COVID-19 key audit matter, the impact of the pandemic on the Group has been significant and the announcement of the first lockdown in March 2020 was determined to be a trigger for a goodwill impairment assessment to be performed at the end of that month.</p> <p>An impairment charge of £335.7m has been recorded against goodwill in the current year.</p> <p>The impairment assessment includes the following estimates:</p> <ul style="list-style-type: none"> <li>• The forecast cash flows in the five-year plan;</li> <li>• The probability weighting factors applied to each of the potential scenarios used to derive an expected value for the cash flow projections;</li> <li>• The growth rate applied to extrapolate forecasts beyond the plan; and</li> <li>• The discount rate applied to future cash flows.</li> </ul> <p>The challenging economic conditions caused by COVID-19 means the future performance of the business could vary significantly, resulting in a materially different impairment than that recognised. Our audit focused on the accuracy of the impairment charge recorded, whilst also considering the risk that the carrying value of goodwill could be overstated post the impairment being recorded.</p> <p>The Group has also assessed whether, on 31 December 2020, there are indicators that an additional impairment charge would be required and concluded that such indicators do not exist.</p> <p>These matters are complex and involve a high degree of estimation uncertainty and judgement. Accordingly our audit devoted significant resources to assessing the validity of the models used by the directors and obtaining evidence to inform our view on the reasonableness of the assumptions that the directors had made.</p> <p>Refer also to note 4 and 17 to the consolidated financial statements (page 174 and pages 185 to 188).</p>	<p>Management determined that the impairment assessment would be performed at the operating segment level, with the exception of the CGUs within Energy &amp; Equipment ('E&amp;E'), which operate independently of one another. No changes were made to the level at which impairment testing was performed compared to 2019. We consider management's assessment to be appropriate and we have not identified any indication of management bias.</p> <p>We have performed the following procedures over the value in use model which supports the impairment assessment:</p> <ul style="list-style-type: none"> <li>• Evaluated management's future cash flow forecasts by obtaining the scenarios modelled by management and: <ul style="list-style-type: none"> <li>– Tested the mathematical accuracy and integrity of the models;</li> <li>– Agreed the 2020 forecast used in the base scenario five-year plan to the latest board approved budget;</li> <li>– Assessed the reliability of cash flow forecasts by comparing actual past performance to previous forecasts;</li> <li>– Identified the key assumptions applied in the base case scenario, which we determined to be revenue growth and margins, particularly in civil aerospace, taking account of the impact of COVID-19 and the pace of anticipated recovery to return to 2019 levels: <ul style="list-style-type: none"> <li>– Revenue – We compared management's assumptions to external industry benchmarks, including forecasts for civil OE fleet sizes, civil aerospace passenger traffic measured using RPKs, territory defence spend budgets and territory inflation projection; and</li> <li>– Margin – We compared this assumption to historical margins and consideration of specific margin recovery actions to supporting evidence.</li> </ul> </li> <li>– Assessed, for the alternative scenarios, whether these were reasonable and appropriate scenarios, particularly in light of the risk of further waves of COVID-19 infection globally, impacting consumers' ability and confidence to resume travelling, with an effective vaccine not widely available during the period. The downside case included reasonable assumptions to adjust the extent and pace of the anticipated recovery in civil aerospace revenue and a reasonable assumption to slow the level of gross margin improvement over the five-year plan. The impacts of the economic uncertainty arising from COVID-19 on the Group's other markets were also sufficiently considered; and</li> <li>– Assessed whether the weighting applied to each scenario was reasonable.</li> </ul> </li> </ul> <p>We did not identify any material exceptions in these tests.</p> <ul style="list-style-type: none"> <li>• Compared the long-term growth rate used for each territory to long term inflation projections for the countries in which the CGUs operate. We did not identify any differences;</li> <li>• Tested the discount rates used in management's impairment assessment by comparing key inputs, where relevant, to externally derived data or data for comparable listed organisations. Our specialists reviewed the discount rates and management's estimates were within our expected range;</li> <li>• Performed sensitivity analyses to ascertain the extent of which changes in key assumptions would impact the amount of impairment recognised; and</li> <li>• Considered whether any additional impairment triggers existed at year end that would require an updated impairment assessment and concluded that there were none.</li> </ul> <p>Based on the procedures described above, we consider the impairment charge recognised to be materially accurate. We have assessed the related disclosures in the consolidated financial statements, including significant estimates and the sensitivities provided and consider them to be appropriate.</p>

Key audit matter	How our audit addressed the key audit matter
<p><b>Company's investments in subsidiary undertakings impairment assessment (Company)</b></p> <p>The Company holds a significant investment in its subsidiary undertakings (£2,078.8m) on the balance sheet. This asset is subject to impairment testing at least annually, or when a triggering event or change in circumstances indicates the carrying value may not be recoverable.</p> <p>For the reasons set out in the goodwill impairment assessment key audit matter above, we determined there to be a heightened risk in respect of the impairment assessment of this balance. Management used the same value in use model to perform an impairment assessment of this balance.</p> <p>No impairment charge has been recorded against the Company's investment in subsidiary undertakings in the current year.</p> <p>Our audit focused on the risk that the carrying value of investment in subsidiaries could be overstated.</p> <p>Refer also to note 6 to the Company financial statements (page 224).</p>	<p>We have performed the following procedures to test the impairment assessment:</p> <ul style="list-style-type: none"> <li>• We evaluated management's assessment whether any indicators of impairment existed by comparing: <ul style="list-style-type: none"> <li>– The carrying value of investments in subsidiary undertakings to the market capitalisation of the Group at 31 December 2020 and post year-end; and</li> <li>– The net asset value of the investment entity to the investment value recognised by the Company.</li> </ul> </li> <li>• To determine the recoverable value, management prepared a valuation based on the discounted future cash flows ('value in use') of the Group. We have tested the reasonableness of key assumptions, including cash flow growth rates, long term growth rates and the discount rate management has applied. Our audit procedures performed on the value in use model which supports the impairment assessment are described in the 'Goodwill impairment assessment' key audit matter above.</li> </ul> <p>We have concluded that the carrying value of the Company's investments in subsidiaries is supported by the net assets and/or value in use of those subsidiaries.</p>
<p><b>Development costs impairment assessments (Group)</b></p> <p>The Group holds significant amounts of development costs (£531.9m) on the balance sheet. These intangible assets are subject to impairment testing at the individual asset ("programme") level, at least annually. Where headroom is limited, when comparing its value in use to its carrying value, or if events or changes in circumstances indicate the carrying value may not be recoverable, an impairment test is performed more frequently.</p> <p>An impairment charge of £25.6m has been recorded against development costs in the current year.</p> <p>This matter involves a high degree of estimation and judgement which necessitated us devoting significant time to this area.</p> <p>Our audit focused on the accuracy of the impairment charge recorded, whilst also considering the risk that the carrying value of development costs could be overstated post the impairment being recorded, particularly in light of the COVID-19 outbreak, which has resulted in OE customers significantly reducing production levels, together with uncertainty over the extent and pace of recovery in the civil aerospace industry.</p> <p>We focused our audit procedures on those programmes against which management hold an impairment provision, those with limited headroom and those with a significant carrying value. The key estimates and assumptions assessed were:</p> <ul style="list-style-type: none"> <li>• The estimated aircraft or engine volumes ('fleet forecasts') and the period over which future cash flows are forecast ('fleet lives');</li> <li>• The sales price per part where a purchase price has not yet been agreed;</li> <li>• The cost per part where the programme is still in development; and</li> <li>• The discount rate applied to future cash flows.</li> </ul> <p>Refer also to note 18 to the consolidated financial statements (page 189).</p>	<p>We have performed the following procedures over the value in use models which support management's impairment assessment:</p> <ul style="list-style-type: none"> <li>• Tested the mathematical integrity of the model;</li> <li>• Tested the discount rates used in management's impairment assessment by comparing key inputs, where relevant, to externally derived data or data for comparable listed organisations. Our specialists reviewed the discount rates and management's estimates were within our expected range; and</li> <li>• Agreed fleet forecast data used in calculating the programme forecast cash flow up to 2034 to external market forecasts for all heightened risk programmes (defined below) and on a sample basis over the remaining programme population. We corroborated any significant deviations applied by management to supporting evidence. We assessed fleet forecasts used beyond the period covered by the external market forecasts, considering average aircraft lives and trend analysis and considered them to be supported by the evidence we obtained.</li> </ul> <p>We identified those programmes which we considered to be of heightened risk based on their value or potential for the carrying amount not being recovered. For these models we performed the following additional audit procedures:</p> <ul style="list-style-type: none"> <li>• Agreed the sales price per part to customer contract or alternative supporting evidence;</li> <li>• Agreed cost per part to inventory historic cost per unit, including bill of materials, or alternative supporting evidence; and</li> <li>• Performed a sensitivity analysis over the discount rates and fleet forecasts.</li> </ul> <p>We did not identify any material exceptions in these tests.</p> <p>Based on the procedures described above, we consider the impairment charge recognised to be materially accurate. We have assessed the related disclosures in the consolidated financial statements. Given the level of exposure on at-risk programmes and the provision recorded by management, we concur with management's conclusion that there are no significant accounting estimates to disclose in relation to development costs.</p>

## Independent auditors' report to the members of Meggitt PLC

### continued

Key audit matter	How our audit addressed the key audit matter
<p><b>Environmental provisions (Group)</b></p> <p>The Group has liabilities of £72.7m relating to environmental matters.</p> <p>The environmental matters primarily relate to known exposures arising from environmental investigation and remediation of certain sites in the US for which the Group has been identified as a potentially responsible party under US law. The liabilities are based on subjective estimates of the level and timing of remediation costs, including the period of operating and monitoring activities required. Our audit procedures focused on the risk that the provisions in relation to these matters could be understated.</p> <p>The Group has separately recognised insurance and other receivables of £18.8m. We focused on the required asset recognition criteria being met and recoverability of these receivables.</p> <p>Refer also to note 34 of the consolidated financial statements (page 204).</p>	<p>Our work on the valuation of environmental liabilities comprised the following:</p> <ul style="list-style-type: none"> <li>• Confirmed that the Group's external environmental consultants and legal advisors have sufficient expertise, are qualified and affiliated with the appropriate industry bodies in the respective local territory, and are independent of the Group;</li> <li>• Obtained the cost estimates and reports prepared by the Group's external environmental consultants and legal advisors for the most significant sites. We assessed the consistency of the cost estimates year on year and the level of costs incurred compared to the prior year estimates to assess the historical accuracy of the estimates and understand significant changes to the scope of remediation plans. We confirmed that the changes in scope have been appropriately reflected in the provision;</li> <li>• Reconciled the cost estimates and reports to the provision recorded and gained an understanding of all significant adjustments applied, such as differences in the period over which operating and monitoring activities are conducted and the application of additional provisions for incremental costs. We assessed the reasonableness of these, including reviewing historical data where appropriate and consider the provision to be supported by reasonable assumptions; and</li> <li>• We obtained evidence of the settlements and claims which resulted in the recognition of receivables and found that the evidence obtained supported asset recognition.</li> </ul> <p>We evaluated and concluded that the liabilities, related assets and potential exposures, were appropriately disclosed in the consolidated financial statements.</p>
<p><b>Retirement benefit obligation liabilities (Group and Company)</b></p> <p>The Group has retirement benefit obligations with gross liabilities of £1,463.9m, of which £961.1m is recognised by the Company. The liabilities are significant in the context of the overall Group and Company balance sheets.</p> <p>The valuation of retirement benefit obligations requires significant levels of estimation and technical expertise, including the use of actuarial experts to support management in selecting appropriate assumptions. Small changes in a number of the key financial and demographic assumptions used to value the Group's retirement benefit obligation could have a material impact on the calculation of the liability. These include:</p> <ul style="list-style-type: none"> <li>• Discount rates;</li> <li>• Inflation rates;</li> <li>• Salary increases; and</li> <li>• Mortality.</li> </ul> <p>Our audit procedures focused on the risk that the assumptions used result in an understatement of the retirement benefit obligation.</p> <p>Refer also to note 36 of the consolidated financial statements (pages 207 to 211) and note 12 of the Company financial statements (page 227).</p>	<p>We evaluated the assumptions made in relation to the valuation of the liabilities, with input from our actuarial experts. In particular we:</p> <ul style="list-style-type: none"> <li>• Confirmed that the Group's external experts are qualified and affiliated with the appropriate industry bodies in the respective local territory and are independent of the Group. In addition, we have held discussions with managements external expert for the UK, US and Swiss pension schemes to further understand the key assumptions;</li> <li>• Tested the completeness and accuracy of participant employee data used by the actuary in the liability calculation to underlying records;</li> <li>• Tested the discount and inflation rate assumptions used by comparing them to our internally developed benchmarks, which are based on externally derived data, and to comparable organisations. We observed the assumptions to be within our expected range;</li> <li>• Compared assumed mortality rates to national and industry averages. From the evidence obtained we found the assumptions to be within our expected range and methodology used to be appropriate;</li> <li>• Assessed the assumption for salary increases against the Group's historical trend and expected future outlook. The assumption used was supported by the evidence we obtained; and</li> <li>• Considered the appropriateness of the methodology used to update estimates from the latest actuarial valuation and assessed changes in assumptions in aggregate from the prior year to assess the consistency of approach overall. From the evidence obtained we found the assumptions and methodology used to be appropriate.</li> </ul> <p>We evaluated and concluded that the liabilities and potential exposures were appropriately disclosed in the consolidated and Company financial statements.</p>



Key audit matter	How our audit addressed the key audit matter
<p><b>Provisions for uncertain tax positions (Group)</b> The Group has a provision for uncertain tax positions of £49.1m.</p> <p>Judgements and estimates have to be made by management on the tax treatment of a number of transactions in advance of the ultimate tax determination being certain.</p> <p>This is due to the complexity of the Group's legal structure (including multiple legal entities), the number of tax jurisdictions in which the Group operates, the complexity of international tax legislation and the changing tax environment. In addition, uncertainty arises from intergroup transactions relating to goods, services and internal financing.</p> <p>Where the amount of tax payable or recoverable is uncertain, the Group establishes provisions based on managements' judgement of the probable amount of the liability or expected amounts recoverable.</p> <p>Our audit procedures focused on the risk that the conclusion of the ultimate tax determination by tax authorities is at an amount materially different to the amount recorded.</p> <p>Refer also to note 29 of the consolidated financial statements (page 196).</p>	<p>In conjunction with our internal UK and international tax specialists we:</p> <ul style="list-style-type: none"> <li>• Evaluated the process by which management, in conjunction with their advisors, calculated each tax exposure and assessed the appropriateness of assumptions made. From the evidence obtained we found the assumptions and methodology used to be appropriate;</li> <li>• Considered any tax opinions or other tax advice the Group had received from its tax advisors in relation to the exposures identified to determine whether management's treatment is consistent with the advice obtained. We also considered the evidence of changing tax practices, recent tax audits and external tax cases which may have an impact on existing tax exposures. Based on the work performed we found that these factors had been appropriately considered in determining management's provision;</li> <li>• Assessed and formed our own views on the key judgements with respect to open and uncertain tax positions and concluded that the judgements made by management were materially consistent with our own views in respect of the tax exposures.</li> </ul> <p>We evaluated and concluded that the liabilities and potential exposures were appropriately disclosed in the consolidated financial statements.</p>

### How we tailored the audit scope

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

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

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

For each reporting unit we determined whether we required an audit of their complete financial information ('full scope') or whether specified audit procedures addressing a specific risk characteristic or financial statement line item would be sufficient. Those where a full scope audit was required included 6 reporting units considered to be individually financially significant (Airframe Systems based in Akron (US), Fareham (UK) and Coventry (UK), Defense Systems based in Irvine (US), Airframe Systems and Services & Support based in Ventura County (US) and Airframe Systems, Engine Systems, Energy & Equipment and Services & Support based in Fribourg (Switzerland)). We performed a full scope audit at a further 6 reporting units selected by their size or risk and reviewed certain working papers for those contributing material amounts to Group underlying profit before tax. We determined that specified audit procedures were required at a further 2 reporting units to address specific risk characteristics or to provide sufficient overall Group coverage of revenue streams, cost of sales and/or working capital balances.

In addition to the work performed at the in-scope reporting units, there is a substantial amount of work performed at head office by the Group audit engagement team. The Group team performs audit procedures over the Company's financial position and results and several financial statement line items, including complex areas prepared by the head office finance function, to provide sufficient overall Group coverage. These include goodwill, development costs, other intangible assets, investments, derivative financial instruments and related hedge accounting, cash and cash equivalents, bank and other borrowings and related finance costs, certain IFRS 16 leases, environmental provisions and related receivables, certain onerous contracts and other provisions, retirement benefit obligations, certain current tax charges, deferred tax, share-based payments and amounts arising on the acquisition, disposal and closure of businesses. The Group team also performs procedures over the consolidation and financial statement disclosures.

## Independent auditors' report to the members of Meggitt PLC

### continued

These audit procedures covered 73% of Group loss before tax; 62% of Group underlying profit before tax; and 78% of Group total assets ("key coverage metrics"). As a result of its structure and size, the Group also has a large number of small reporting units that, in aggregate, make up a material portion of the key coverage metrics. The Group engagement team perform analytical review procedures over a significant proportion of these with the remaining population of reporting units contributing insignificant underlying profit before tax individually and in aggregate. These procedures include an analysis of year on year movements, at a level of disaggregation to enable a focus on higher risk balances and unusual movements. This gave us the evidence we needed for our opinion on the financial statements as a whole.

### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

	Financial statements – Group	Financial statements – Company
<b>Overall materiality</b>	£15.2m (2019: £17.0m).	£35.0m (2019: £34.0m).
<b>How we determined it</b>	A 5 year average of 5% of underlying profit before tax.	1% of total assets.
<b>Rationale for benchmark applied</b>	Based on the benchmarks used in the Annual Report, underlying profit before tax is the primary measure used by the shareholders in assessing the performance of the Group. Further, we consider it appropriate to eliminate volatility and to preserve the link between materiality and the performance of the underlying business. As a result of significant volatility in 2020 performance, primarily due to COVID-19, we have used a 5 year average benchmark compared to a single year benchmark in 2019.	We believe that total assets is the primary measure used by the shareholders in assessing the performance and position of the entity and reflects the Company's principal activity as a holding Company.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £1.3m and £13.68m. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £11.4m for the Group financial statements and £26.25m for the Company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.8m (Group audit) (2019: £0.85m) and £1.75m (Company audit) (2019: £1.7m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

### Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- Testing the mathematical integrity of the cash flow forecasts and the models and reconciled these to Board approved budgets;
- Identifying the key assumptions applied, which we determined to be revenue growth and margins, particularly in civil aerospace, taking account of the impact of COVID-19 and the pace of anticipated recovery. We evaluated these key assumptions by:
  - Revenue – We compared these assumptions to external industry benchmarks, including forecasts for civil OE fleet sizes, civil aerospace passenger traffic measured using RPKs, territory defence spend budgets and territory inflation projections;
  - Margin – We compared this assumption to historical margins and considered the feasibility of specific margin recovery actions to supporting evidence;
  - Downside scenario – In light of the risk of delays in the global vaccine roll-out programme and the emergence of new COVID-19 variants adversely impacting consumers' ability and confidence to resume travelling as quickly as anticipated in the base case, as well as constrained growth in defence spending due to a weaker economic environment, we assessed the plausible severity of the downside assumptions to stress test the model. The downside scenario was considered to be sufficiently severe, but plausible, based on the audit evidence obtained; and
  - Mitigating actions – We assessed the reasonableness of management's planned or potential mitigating actions based on historical execution and feasibility.

- Reviewing the debt agreements to confirm the terms and conditions, including covenants. The covenants were consistent with those used in management's going concern assessment;
- Agreeing all borrowings as at 31 December 2020 to third-party confirmations and considered the Group's available financing and maturity profile. This supported the directors' conclusion that sufficient liquidity headroom remained throughout the assessment period;
- Testing the mathematical accuracy of the covenant calculations, including confirming that the adjustments recorded to determine underlying EBITDA agreed to the terms of the covenant. We concluded that covenant compliance remained throughout the assessment period; and
- Assessing management's reverse stress test and the extent to which such a scenario is plausible, specifically to understand the change in forecast net debt or underlying EBITDA required to breach the financial covenant ratio in June 2021, being the covenant with the least headroom. We concurred with the directors' conclusion that such a scenario, based on the current evidence, is not considered to be plausible.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

In relation to the Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise expressly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

### Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

### Directors' Remuneration

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

### Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Corporate governance report is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report & Accounts 2020 that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

## Independent auditors' report to the members of Meggitt PLC

### continued

Our review of the directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

### Responsibilities for the financial statements and the audit

#### Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

#### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### Use of this report

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

#### Other required reporting

##### Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

#### Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 2 October 2003 to audit the financial statements for the year ended 31 December 2003 and subsequent financial periods. The period of total uninterrupted engagement is 18 years, covering the years ended 31 December 2003 to 31 December 2020.



#### John Ellis (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Reading  
3 March 2021

## Consolidated income statement

For the year ended 31 December 2020

	Notes	2020 £'m	2019 £'m
<b>Revenue</b>	5	<b>1,684.1</b>	2,276.2
<b>Non-GAAP measures</b>			
Exceptional impairment losses and other asset write-downs	10	<b>(8.6)</b>	–
Other cost of sales		<b>(1,192.0)</b>	(1,458.0)
Cost of sales	7	<b>(1,200.6)</b>	(1,458.0)
<b>Gross profit</b>		<b>483.5</b>	818.2
<b>Non-GAAP measures</b>			
Exceptional impairment losses and other asset write-downs	10	<b>(365.6)</b>	–
Other operating costs		<b>(452.7)</b>	(541.9)
Operating costs	7	<b>(818.3)</b>	(541.9)
Operating income	7	<b>37.5</b>	49.0
Net operating costs		<b>(780.8)</b>	(492.9)
<b>Operating (loss)/profit<sup>1</sup></b>	5,7	<b>(297.3)</b>	325.3
Finance income	11	<b>0.5</b>	2.2
Finance costs	12	<b>(37.2)</b>	(40.8)
Net finance costs		<b>(36.7)</b>	(38.6)
<b>(Loss)/profit before tax<sup>2</sup></b>		<b>(334.0)</b>	286.7
Tax credit/(charge)	13	<b>19.8</b>	(64.1)
<b>(Loss)/profit for the year attributable to equity owners of the Company</b>		<b>(314.2)</b>	222.6
(Loss)/earnings per share:			
Basic <sup>3</sup>	14	<b>(40.4)p</b>	28.8p
Diluted <sup>4</sup>	14	<b>(40.4)p</b>	28.3p
<b>Non-GAAP measures</b>			
<sup>1</sup> Underlying operating profit	9	<b>190.5</b>	402.8
<sup>2</sup> Underlying profit before tax	9	<b>159.5</b>	370.3
<sup>3</sup> Underlying basic earnings per share	14	<b>16.5p</b>	37.3p
<sup>4</sup> Underlying diluted earnings per share	14	<b>16.2p</b>	36.7p



**Consolidated statement of comprehensive income**

For the year ended 31 December 2020

	Notes	2020 £'m	2019 £'m
<b>(Loss)/profit for the year attributable to equity owners of the Company</b>		<b>(314.2)</b>	222.6
<b>Items that may be reclassified to the income statement in subsequent periods:</b>			
Currency translation movements		<b>(79.9)</b>	(68.7)
Movements in fair value of financial liabilities arising from changes in credit risk	32	<b>1.8</b>	–
Tax effect	13	<b>1.6</b>	0.3
		<b>(76.5)</b>	(68.4)
<b>Items that will not be reclassified to the income statement in subsequent periods:</b>			
Remeasurement of retirement benefit obligations	36	<b>(42.6)</b>	(89.2)
Tax effect	13	<b>10.8</b>	11.9
		<b>(31.8)</b>	(77.3)
<b>Other comprehensive expense for the year</b>		<b>(108.3)</b>	(145.7)
<b>Total comprehensive (expense)/income for the year attributable to equity owners of the Company</b>		<b>(422.5)</b>	76.9

## Consolidated balance sheet

At 31 December 2020

	Notes	2020 £'m	2019 £'m
<b>Non-current assets</b>			
Goodwill	17	1,519.5	1,966.6
Development costs	18	531.9	575.9
Programme participation costs	18	18.7	18.0
Other intangible assets	19	401.1	503.6
Property, plant and equipment	20	458.8	449.4
Investments	21	20.8	14.1
Other receivables	24	16.5	17.0
Contract assets	25	59.6	55.2
Derivative financial instruments	33	15.0	14.6
Deferred tax assets	35	19.2	23.3
		<b>3,061.1</b>	3,637.7
<b>Current assets</b>			
Inventories	23	426.9	489.8
Trade and other receivables	24	251.1	379.9
Contract assets	25	48.8	66.3
Derivative financial instruments	33	5.4	3.8
Current tax recoverable		11.5	11.1
Cash and cash equivalents	26	178.6	155.3
Assets classified as held for sale	22	14.7	–
		<b>937.0</b>	1,106.2
<b>Total assets</b>	5	<b>3,998.1</b>	4,743.9
<b>Current liabilities</b>			
Trade and other payables	27	(296.5)	(464.5)
Contract liabilities	28	(50.8)	(50.5)
Derivative financial instruments	33	(21.6)	(16.5)
Current tax liabilities	29	(56.9)	(81.6)
Lease liabilities	30	(14.7)	(16.4)
Bank and other borrowings	31	(10.5)	(219.4)
Provisions	34	(32.6)	(36.2)
Liabilities directly associated with assets classified as held for sale	22	(3.7)	–
		<b>(487.3)</b>	(885.1)
<b>Net current assets</b>		<b>449.7</b>	221.1
<b>Non-current liabilities</b>			
Other payables	27	(8.5)	(2.1)
Contract liabilities	28	(73.9)	(77.0)
Derivative financial instruments	33	(0.3)	(4.6)
Deferred tax liabilities	35	(93.4)	(155.3)
Lease liabilities	30	(129.6)	(136.2)
Bank and other borrowings	31	(796.8)	(694.5)
Provisions	34	(80.3)	(64.4)
Retirement benefit obligations	36	(295.4)	(267.9)
		<b>(1,478.2)</b>	(1,402.0)
<b>Total liabilities</b>		<b>(1,965.5)</b>	(2,287.1)
<b>Net assets</b>		<b>2,032.6</b>	2,456.8
<b>Equity</b>			
Share capital	37	39.0	38.8
Share premium		1,226.6	1,226.5
Other reserves		15.7	15.7
Hedging and translation reserves		348.9	425.4
Retained earnings		402.4	750.4
<b>Total equity attributable to owners of the Company</b>		<b>2,032.6</b>	2,456.8

The financial statements on pages 157 to 217 were approved by the Board of Directors on 3 March 2021 and signed on its behalf by:

*Toughwood* *L Burdett*

**A Wood**  
Director

**L Burdett**  
Director

## Consolidated statement of changes in equity

For the year ended 31 December 2020

	Notes	Equity attributable to owners of the Company					Total equity £'m
		Share capital £'m	Share premium £'m	Other reserves* £'m	Hedging and translation reserves** £'m	Retained earnings £'m	
<b>At 1 January 2019</b>		38.8	1,223.9	15.7	493.8	720.2	2,492.4
Profit for the year		–	–	–	–	222.6	222.6
Other comprehensive expense for the year:							
Currency translation movements:							
Arising in the year		–	–	–	(68.7)	–	(68.7)
Remeasurement of retirement benefit obligations	36	–	–	–	–	(89.2)	(89.2)
Other comprehensive expense before tax		–	–	–	(68.7)	(89.2)	(157.9)
Tax	13	–	–	–	0.3	11.9	12.2
Other comprehensive expense for the year		–	–	–	(68.4)	(77.3)	(145.7)
Total comprehensive (expense)/income for the year		–	–	–	(68.4)	145.3	76.9
Employee share schemes:							
Value of services provided		–	–	–	–	17.9	17.9
Issue of equity share capital		–	2.6	–	–	(2.6)	–
Dividends	15	–	–	–	–	(130.4)	(130.4)
<b>At 31 December 2019</b>		38.8	1,226.5	15.7	425.4	750.4	2,456.8
<b>Loss for the year</b>		–	–	–	–	(314.2)	(314.2)
<b>Other comprehensive expense for the year:</b>							
Currency translation movements:							
Arising in the year		–	–	–	(35.9)	–	(35.9)
Currency translation gain transferred from equity	44	–	–	–	(44.0)	–	(44.0)
Movements in fair value of financial liabilities arising from changes in credit risk		–	–	–	1.8	–	1.8
Remeasurement of retirement benefit obligations	36	–	–	–	–	(42.6)	(42.6)
Other comprehensive expense before tax		–	–	–	(78.1)	(42.6)	(120.7)
Tax	13	–	–	–	1.6	10.8	12.4
<b>Other comprehensive expense for the year</b>		–	–	–	(76.5)	(31.8)	(108.3)
<b>Total comprehensive expense for the year</b>		–	–	–	(76.5)	(346.0)	(422.5)
Employee share schemes:							
Value of services provided		–	–	–	–	(1.7)	(1.7)
Issue of equity share capital		0.2	0.1	–	–	(0.3)	–
<b>At 31 December 2020</b>		<b>39.0</b>	<b>1,226.6</b>	<b>15.7</b>	<b>348.9</b>	<b>402.4</b>	<b>2,032.6</b>

\* Other reserves relate to capital reserves of £14.1m (2019: £14.1m) arising on the acquisition of businesses in 1985 and 1986 where merger accounting was applied and a capital redemption reserve of £1.6m (2019: £1.6m) created as a result of the share buyback programme in 2014 and 2015.

\*\* Hedging and translation reserves comprise a credit balance on the hedging reserve of £2.9m (2019: £1.1m) and a credit balance on the translation reserve of £346.0m (2019: £424.3m). Amounts recycled from the translation reserve to the income statement, in respect of the disposal of foreign subsidiaries, are recognised in net operating costs.

## Consolidated cash flow statement

For the year ended 31 December 2020

	Notes	2020 £'m	2019 £'m
<b>Non-GAAP measures</b>			
Cash inflow from operations before business disposal expenses and exceptional operating items		<b>282.9</b>	451.1
Cash outflow from business disposal expenses	44	<b>(5.2)</b>	(9.4)
Cash outflow from exceptional operating items	10	<b>(49.3)</b>	(27.3)
<b>Cash inflow from operations</b>	42	<b>228.4</b>	414.4
Interest received		<b>0.1</b>	1.8
Interest paid		<b>(32.2)</b>	(34.9)
Tax paid		<b>(42.1)</b>	(14.4)
<b>Cash inflow from operating activities</b>		<b>154.2</b>	366.9
Investment acquired	21	<b>(7.6)</b>	–
Businesses disposed	44	<b>117.0</b>	78.3
Capitalised development costs	18	<b>(41.4)</b>	(54.7)
Capitalised programme participation costs		<b>(1.6)</b>	(2.0)
Purchase of intangible assets		<b>(11.0)</b>	(17.2)
Purchase of property, plant and equipment		<b>(80.8)</b>	(77.2)
Government grants received in respect of purchase of property, plant and equipment		<b>2.1</b>	–
Proceeds from disposal of property, plant and equipment		<b>1.3</b>	23.1
<b>Cash outflow from investing activities</b>		<b>(22.0)</b>	(49.7)
Dividends paid to Company's shareholders	15	<b>–</b>	(130.4)
Issue of equity share capital		<b>0.3</b>	–
Proceeds from bank and other borrowings		<b>618.6</b>	0.4
Repayments of bank and other borrowings		<b>(705.8)</b>	(213.0)
Debt issue costs paid		<b>(2.4)</b>	–
Reverse lease premium received	42	<b>3.5</b>	18.9
Repayments of lease liabilities	30	<b>(15.4)</b>	(16.2)
<b>Cash outflow from financing activities</b>		<b>(101.2)</b>	(340.3)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>31.0</b>	(23.1)
Cash and cash equivalents at start of the year		<b>155.3</b>	181.9
Exchange losses on cash and cash equivalents		<b>(7.7)</b>	(3.5)
<b>Cash and cash equivalents at end of the year</b>	26	<b>178.6</b>	155.3

## 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 and incorporated in the United Kingdom with the registered number 432989. Its registered office is Pilot Way, Ansty Business Park, Coventry, England, CV7 9JU.

Meggitt PLC is the parent company of a Group whose principal activities during the year were the design and manufacture of high performance components and sub-systems for aerospace, defence and other specialist markets, including energy, medical, industrial and test.

The consolidated financial statements of the Group have been prepared in accordance with both international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative financial instruments) at fair value.

#### 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 approval of this Annual Report. For this reason, the directors continue to adopt the going concern basis in preparing the Group's consolidated financial statements and the Company's financial statements. In making a judgement as to whether the going concern principle should be adopted, the directors have considered the period starting with the date these financial statements were approved by the Board and ending on 31 March 2022.

#### Actions taken to preserve cash and liquidity

In response to the COVID-19 pandemic, the Group implemented a number of actions to reduce costs, preserve cash and resize the business. These actions are described on page 15 of the Strategic report. Additionally, to preserve liquidity, during 2020 the Group:

- arranged a forward start on its revolving USD 750m revolving credit facility, due to mature in September 2021, by the signing of a new one-year USD 575m revolving credit facility maturing in September 2022; and
- issued USD 300m loan notes to private placement investors which mature in 2023 and 2025.

#### Current liquidity

At 31 December 2020, the Group had the following committed credit facilities with its relationship banks and private placement investors:

	Maturity date				Later	Total
	During assessment period					
	H1 2021 £'m	H2 2021 £'m	Q1 2022 £'m	Subtotal £'m		
					£'m	£'m
USD 750m multi currency syndicated revolving credit facility*	–	128.2	–	128.2	421.2	549.4
USD loan notes issued to private placement investors in 2010	–	–	–	–	91.6	91.6
USD bilateral facility	–	–	–	–	91.5	91.5
Sterling bilateral facilities	–	–	–	–	145.0	145.0
USD loan notes issued to private placement investors in 2016	–	–	–	–	439.5	439.5
USD loan notes issued to private placement investors in 2020	–	–	–	–	219.8	219.8
<b>Total committed credit facilities (see note 31)</b>	<b>–</b>	<b>128.2</b>	<b>–</b>	<b>128.2</b>	<b>1,408.6</b>	<b>1,536.8</b>

\* Comprises USD 175m maturing in September 2021, with the balance of USD 575m covered by the additional forward start facility that matures in September 2022.

Additionally, the Group has been confirmed as an eligible issuer under the Bank of England's and HM Treasury's Covid Corporate Financing Facility ('CCFF'), under which the Group can draw up to £600m. The Group is eligible to issue commercial paper under this facility (subject to certain terms and restrictions) up to and including 22 March 2021, with a maturity period of up to 12 months. The Group has no commercial paper issued under this facility at 31 December 2020 or at the date these consolidated financial statements were approved by the Board.

At 31 December 2020, the Group had the following headroom against its committed credit facilities:

	Total £'m
Committed credit facilities	1,536.8
Bank and other borrowings (see note 31)	807.3
Less: cash (see note 26)	(178.6)
Net borrowings excluding lease liabilities	628.7
<b>Headroom</b>	<b>908.1</b>



## 1. General information and basis of preparation continued

### Going concern continued

#### Covenants

The committed credit facilities set out above contain two financial ratio covenants – net debt/EBITDA and interest cover. The covenant calculations are drafted to protect the Group 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, excluding exceptional operating items and retranslating net debt and EBITDA at similar average exchange rates. Covenant ratios are required to be measured on a trailing 12 month basis twice a year (at 30 June and 31 December), with net debt/EBITDA not to exceed 3.5x and interest cover to be not less than 3.0x. At 31 December 2020, net debt/EBITDA was 2.2x and interest cover was 9.8x. The covenant with the least headroom during the assessment period is net debt/EBITDA at 30 June 2021, which will reflect a full trailing 12 months performance post COVID-19, before an anticipated recovery in H2 2021. No covenant waivers have been sought by the Group.

#### Base case scenario

The impact on the commercial aerospace segment following the outbreak of COVID-19 is substantial and unprecedented, affecting many areas of the Group's business including its employees, supply chain, customer base and shareholders. To model the expected impact on the Group, a base case model was developed in Q2 2020, which has been regularly updated subsequently to reflect the Group's current view of the most likely impact on its revenues and how this impacts profit and cash flows over the next five years. The current model was prepared for, and reviewed by, the Board in October 2020. In assessing whether the going concern principle remains appropriate, the Group has used the outputs from this model covering the period to 31 March 2022. Where appropriate, the outputs have been adjusted to reflect market dynamics between October 2020 and the date of approval of the Annual Report – these adjustments were also reviewed by the Board. Over the period covered by the going concern assessment, the key assumptions within the base case scenario are:

- For civil AM, ASKs in 2021 are assumed to be approximately 60% of 2019 levels, with recovery weighted towards H2 2021 as the vaccine roll-out enables the easing of lock down restrictions and consumer demand for flights progressively increases. The progressive recovery is assumed to continue into Q1 2022. The Group's civil AM revenue reflects these market factors, its exposure to specific platforms/customers and an assumed spares/MRO mix similar to prior periods.
- For civil OE, aircraft production rates increase modestly in 2021, reflecting emerging build rates from the Group's customer base and the extent to which 2021 aircraft deliveries will be met from existing inventory held by OEMs, particularly on the 737 MAX. Aircraft production rates increase further in 2022, but remain significantly below 2019 levels.
- US defence spending in 2021 remains broadly flat, consistent with the US DOD budget approved in January 2021. No significant changes in levels of US defence spending in 2022 are assumed.
- A modest improvement in the Group's overall gross margin percentage in H1 2021, driven by the full period impact of the cost saving initiatives actioned in 2020, price increases and savings from the Group's footprint initiatives. The Group's gross margin percentage increases progressively over the remainder of the assessment period driven principally by the assumed increase in civil aftermarket volumes, as ASKs start to recover, with a similar civil AM mix assumed to prior periods.
- At a free cash flow level, capital expenditure in 2021 remains at similar levels to 2020, before reducing modestly in 2022 following completion of the Antsy Park facility; UK pension deficit payments continue to be made in accordance with the existing 2018 recovery plan agreed with UK trustees, including certain 2020 deferred payments; and tax payments reflect the payment in H1 2021, notwithstanding the ongoing appeals, of the liability recognised in respect of the Controlled Foreign Company regime (see note 29).

Under the base case scenario, the Group has sufficient existing committed credit facilities to meet its obligations as they fall due and does not breach either of the financial covenant ratios.

#### Downside scenario ("severe but plausible scenario")

Due to inherent uncertainty over the extent and pace of recovery in the Group's commercial aerospace markets in particular, the Group also developed a downside scenario in Q2 2020 covering the same period as the base case scenario, and has subsequently updated this regularly as its view of a severe but plausible scenario has evolved. The current model was also prepared for, and reviewed by, the Board in October 2020. To stress test the assumption that the going concern principle remains appropriate under a severe but plausible scenario, the Group has used the outputs from this model covering the period to 31 March 2022. Where appropriate, outputs have been adjusted to reflect market dynamics between October 2020 and the date of approval of the Annual Report – these adjustments were also reviewed by the Board. The downside scenario assumes:

- For civil AM, delays in the global vaccine roll-out programme and the emergence of new COVID-19 variants adversely impact consumers' ability and confidence to resume travelling as quickly as anticipated in the base case. Under this scenario, civil AM revenues are around 8% lower than the base case for 2021. This approximates to a decline in ASKs of 7-10 percentage points compared to the base case, with the reduction significantly weighted towards H2. However, as noted above, the Group's civil AM revenue reflects its exposure to specific platforms/customers and an assumed spares/MRO mix, and does not correlate perfectly to macro ASK drivers.
- For civil OE, weaker customer demand causes airlines to further defer purchases, resulting in reduced production build rates for OEM deliveries, which remain broadly flat over the assessment period.
- Additionally, as a result of the wider impact of a more prolonged pandemic, higher levels of government borrowing lead to defence spending falling modestly from 2020 levels in the assessment period.
- Reduced volumes have a consequential adverse impact on gross margin in the assessment period.
- The Group takes further appropriate mitigating actions to reduce its cost base and to preserve cash flows.

Under the downside scenario, the Group has sufficient financing to be able to meet its obligations as they fall due in the period under assessment. The continued availability of the CCFF during the period has not been assumed. During the assessment period, the Group does not breach either of the financial covenant ratios.

## Notes to the consolidated financial statements

### continued

#### 1. General information and basis of preparation continued

##### **Going concern** continued

##### **Principal risks**

The Group has also considered whether its principal risks (as described on pages 56 to 59 of the Strategic Report) have been appropriately reflected in the downside scenario. In making this assessment, the Group has considered the likelihood of the risks taking place during the going concern assessment period and, were they to occur, the extent to which the impacts would be experienced during this period and the timing of mitigation actions available to the Group. The Group has not assumed that any of the catastrophic events described within its business interruption risk (see page 57 of the Strategic Report) occur during the going concern assessment period. The Board has regularly reviewed these risks throughout the period since the start of the COVID-19 outbreak and up to the date of the financial statements, and has approved an updated Group risk appetite statement with associated risk tolerances to ensure that risks are managed within acceptable limits. The Group has concluded that the downside scenario has been appropriately adjusted to reflect these risks.

##### **Conclusion**

Based on the above, the directors have therefore concluded there are no material uncertainties around the Group's or Company's ability to continue as a going concern and it is appropriate to adopt the going concern principle in these financial statements.

#### 2. Summary of significant accounting policies

The principal accounting policies adopted by the Group in the preparation of the consolidated financial statements are set out below. These policies have been applied consistently to all periods presented unless stated otherwise.

##### **Basis of consolidation**

The Group's consolidated financial statements consolidate the financial statements of the Company, all of its subsidiaries and the Group's share of the results of its joint ventures.

A subsidiary is an entity over which the Group has control. The Group has control over an entity where the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the power over the entity to affect those returns. The results of subsidiaries acquired are consolidated from the date on which control transfers to the Group. The results of subsidiaries disposed are consolidated up to the date on which control transfers from the Group. Transactions between, and balances with, subsidiary companies are eliminated together with unrealised gains on intra-Group transactions. Unrealised losses are eliminated to the extent the asset transferred is not impaired.

A joint venture is a contractual arrangement between the Group and one or more other parties, under which control is shared between the parties and the Group and other parties have rights to the net assets of the arrangement. A joint venture is accounted for using the equity method whereby the Group's share of profits and losses of the joint venture is recognised in the income statement within net operating costs and its share of net assets and goodwill of the joint venture is recognised as an investment. Unrealised gains and losses on transactions with the joint ventures are eliminated to the extent of the Group's interest in the arrangements.

The cost of an acquisition is the fair value of consideration provided, including the fair value of contingent consideration, measured at the acquisition date. Contingent consideration payable is measured at fair value at each subsequent balance sheet date, with changes in fair value recorded in the income statement within net operating costs. Identifiable assets and liabilities of an acquired business, meeting the conditions for recognition under IFRS 3, are recognised at fair value at the date of acquisition. The extent to which the cost of an acquisition exceeds the fair value of net assets acquired is recorded as goodwill. Costs directly attributable to an acquisition are recognised in the income statement within net operating costs as incurred.

When a business is acquired, the fair value of its identifiable assets and liabilities are finalised within 12 months of the acquisition date. All fair value adjustments are recognised with effect from the date of acquisition and consequently may result in the restatement of previously reported financial results. The accounting policies of acquired businesses are changed, where necessary, to be consistent with those of the Group.

When a business is disposed, the difference between the fair value of consideration receivable and the value at which the net assets of the business were recognised, immediately prior to disposal, is recognised in the income statement within net operating costs. Contingent consideration receivable is measured at fair value at the date of disposal in determining the gain or loss recognised. It is subsequently measured at fair value at each balance sheet date, with any changes in fair value recognised in the income statement within net operating costs.

When a foreign subsidiary is disposed, the cumulative exchange differences relating to the retranslation of the net investment in the foreign subsidiary are recognised in the income statement as part of the gain or loss on disposal. This applies only to exchange differences recognised in equity after 1 January 2004. Exchange differences arising prior to 1 January 2004 remain in equity on disposal as permitted by IFRS 1 ('First time Adoption of International Financial Reporting Standards').

Amounts arising on the acquisition, disposal and closure of businesses are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 9). They comprise gains or losses made on the disposal or closure of businesses, adjustments to the fair value of contingent consideration payable in respect of acquired businesses or receivable in respect of disposed businesses and costs directly attributable to the acquisition or disposal of businesses. Amounts arising on the acquisition, disposal and closure of businesses are included within the appropriate consolidated income statement category, but are highlighted separately in the notes to the consolidated financial statements.

## 2. Summary of significant accounting policies continued

### Foreign currencies

#### Functional and presentational currency

The Group's consolidated financial statements are presented in pounds sterling. Items included in the financial statements of each of the Group's subsidiaries are measured using the functional currency of the primary economic environment in which the subsidiary operates.

#### Transactions and balances

Transactions in foreign currencies are recognised at exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are reported at exchange rates prevailing at the balance sheet date. Exchange differences on retranslating monetary assets and liabilities are recognised in the income statement within net operating costs, except where they relate to qualifying net investment hedges in which case exchange differences are recognised in hedging and translation reserves within other comprehensive income.

#### Foreign subsidiaries

The results of foreign subsidiaries are translated at average exchange rates for the period. Assets and liabilities of foreign subsidiaries are translated at exchange rates prevailing at the balance sheet date. Exchange differences arising from the retranslation of the results and net assets of foreign subsidiaries are recognised in hedging and translation reserves within other comprehensive income. Goodwill and fair value adjustments arising from the acquisition of foreign subsidiaries are treated as assets and liabilities of those subsidiaries and retranslated at exchange rates prevailing at the balance sheet date.

### 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 96 of the Corporate governance report). The Group has determined that its segments for the year ended 31 December 2020 are Airframe Systems, Engine Systems, Energy & Equipment and Services & Support.

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

Segmental information on assets is provided in the notes to the consolidated financial statements in respect of 'trading assets', which are defined to exclude from total assets, amounts which the CODM does not regularly review at a segmental level (see note 5). Excluded assets comprise centrally managed trading assets, goodwill, other intangible assets (excluding software assets), investments, derivative financial instruments, deferred tax assets, current tax recoverable, cash and cash equivalents and assets classified as held for sale.

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

### Revenue from external customers

Revenue is recognised when control of goods or services provided by the Group is transferred to the customer at an amount reflecting the consideration the Group expects to receive from the customer in exchange for those goods and services.

There are no significant judgements required in either determining the Group's performance obligations or, because the majority of the Group's revenue is recognised when goods or services are delivered to the customer, the timing of revenue recognition. As revenue is typically recognised at amounts agreed in advance with customers, no significant estimates are required in determining transaction prices.

#### Transfer of control – At a point in time

For the majority of goods and services provided by the Group, transfer of control occurs when delivery to the customer takes place which, depending on the specific terms agreed with the customer, may be when goods are collected from the Group's facilities or when they are delivered either to the customer's facilities or to a third party transport agent. The more common exceptions to this assessment for when control passes are:

- **Bill and hold arrangements.** Where, under the terms of a contract, a customer agrees to accept title to goods which remain at the Group's facility, and normal credit terms apply, transfer of control occurs when contractual terms have been met, which will typically be when goods are completed, packaged and segregated at the Group's facility;
- **Goods and services are not distinct performance obligations.** Where a contract involves the supply of multiple goods and services, the Group has concluded that typically each good and service supplied is a distinct performance obligation. However, contracts may require the Group to provide installation and other services specific to the goods but subsequent to their delivery. Where installation and other services are specialised, significant and not capable of being performed by another party, control of the goods transfers when installation and other services are completed by the Group and not when delivery of the goods to the customer takes place;
- **Goods are delivered subject to consignment arrangements.** Where the Group delivers goods to a customer facility, such as an airline operator, but retains control of the goods until they are used by the customer, control transfers when the Group is notified by the customer of their use; and
- **Goods supplied subject to customer acceptance.** Within the aerospace industry, goods are frequently subject to customer acceptance testing on delivery, or at the Group's facilities. Normally the Group is able, through its own testing procedures, to predict with reasonable certainty that customer acceptance testing will be successful and accordingly customer acceptance testing will not affect the determination of when control passes. However, where the Group cannot predict the outcome with reasonable certainty, control is not considered to transfer until the goods have been accepted by the customer.

## Notes to the consolidated financial statements

### continued

#### 2. Summary of significant accounting policies continued

##### **Revenue from external customers** continued

##### *Transfer of control – Over time*

The principal circumstances in which control transfers over time are where the Group provides goods or services for which it has no alternative use and has the enforceable right to payment, plus a reasonable profit margin, throughout the life of the contract. An alternative use exists where there are multiple potential OEMs and/or aftermarket customers to whom the Group could provide those goods or services.

Certain defence contracts include clauses entitling the Group to be awarded a reasonable profit margin in the event the customer cancels for convenience. Where the Group considers such rights to be enforceable; is confident that a reasonable profit margin would be awarded regardless of the stage of contract completion and would apply to all costs incurred by the Group; and the goods and services have no alternative use, control will transfer over time.

Where a contract is structured such that non-refundable milestone payments are receivable from a customer in advance of work being performed, and the Group is reasonably certain at contract inception that the cumulative value of such milestone payments will exceed cumulative costs incurred throughout the duration of the contract, control will transfer over time.

Where control transfers over time, the Group considers costs incurred, as a proportion of total expected contract costs, to be the most appropriate measure of contract completion. For power-by-the-hour and cost-per-brake-landing contracts this results in revenue being recognised when maintenance events are performed. Estimates of total contract costs are required to determine the extent to which revenue is recognised in a period. The Group does not consider that any reasonably foreseeable changes in these estimates could give rise to a significant impact on revenue recognised in the current period.

##### *Consideration expected to be received from the customer*

The majority of the Group's contracts provide that consideration is receivable by the Group within a short period after control of goods and services is transferred to the customer, typically up to three months, and accordingly no significant financing component to the consideration receivable exists.

Where a contract includes variable consideration, the Group estimates the variable consideration to which it will be entitled at contract inception and revises the estimate throughout the life of the contract. Estimates are constrained until it is highly probable that the uncertainty affecting the level of variable consideration has been resolved and a significant reversal of cumulative revenue recognised will not arise. For power-by-the-hour and cost-per-brake-landing contracts, this requires the Group to estimate the number of aircraft flying hours or landings expected over the contract.

In certain instances the Group will receive contributions from customers during the development phase of an aerospace programme, and where the Group expects to retain the intellectual property of the developed technology throughout the programme life. Such contributions, typically in the form of cash, are treated as customer consideration and initially recognised as a contract liability when receivable. Contributions are subsequently included in the transaction price attributable to goods and services provided to the customer during the production phase of the programme. Where the contribution is received more than 12 months in advance of goods and services being provided to the customer, the financing element of the contribution, if significant, is separately identified and recognised within finance costs over the period beginning with the receipt of the contribution and ending when the goods and services are provided by the Group to the customer.

Where the Group makes contributions to customers to participate in aerospace programmes, typically in the form of cash, such contributions are initially recognised as a contract asset provided the Group has received, or it is highly probable that it will receive, contracts from the same customer relating to the same aerospace programme (see 'Programme participation costs' policy). Where the contribution is made more than 12 months in advance of goods and services being provided to the customer, the financing element of the contribution, if significant, is separately identified and recognised within finance income over the period beginning with the payment of the contribution and ending when the goods and services are provided by the Group to the customer. Other than such contributions, the Group does not typically incur significant incremental costs to obtain contracts.

##### **Exceptional operating items**

Items which are significant by virtue of their size or nature, are considered non-recurring, and which are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 9), are classified as exceptional operating items. They include, for instance, costs directly attributable to the integration of acquired businesses, significant site consolidations and other restructuring costs. In 2020, given their significance, impairment losses and other asset write-downs arising from the current uncertainty facing the commercial aerospace industry have been treated as exceptional operating items.

Exceptional operating items are presented separately on the face of the income statement, where the Group considers it relevant to an understanding of the Group's financial performance. This separate presentation has been adopted for the first time in 2020 in respect of the impairment losses and other asset write-downs as they are in aggregate of such a significance, that the Group considers separate presentation is appropriate (see note 10). Exceptional operating items which are not presented separately on the face of the income statement are included within the appropriate consolidated income statement category, but are highlighted separately in the notes to the consolidated financial statements.

## 2. Summary of significant accounting policies continued

### Intangible assets

#### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of identifiable assets acquired and liabilities and contingent liabilities assumed. Goodwill is tested annually for impairment and also whenever events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is held at cost less amortisation charged prior to 1 January 2004 and accumulated impairment losses.

In the event a business to which goodwill relates is disposed, its attributable goodwill is included in the determination of the gain or loss on disposal. Where the Group restructures or reorganises its operations, goodwill relating to affected businesses is reallocated using a relative fair value basis.

#### Research and development

Research expenditure is recognised as an expense in the income statement as incurred. Development costs incurred on projects where the Group retains ownership of intellectual property; the related expenditure is separately identifiable and measurable; and management are satisfied as to the ultimate technical and commercial viability of the project and that the asset will generate future economic benefits based on all relevant available information, are recognised as an intangible asset. Capitalised development costs are subsequently held at cost less accumulated amortisation and impairment losses. Amortisation is charged to net operating costs over the periods expected to benefit, typically up to 15 years, commencing with launch of the product. Development costs not meeting the criteria for capitalisation are expensed as incurred.

#### Programme participation costs

Programme participation costs are contributions made to OEMs, typically in the form of cash, in connection with their selection of the Group's products for installation onto new aircraft where the Group has obtained principal supplier status. The recognition of programme participation costs depends on the contractual relationship between the Group and the third party to whom the contribution is made:

- Where the contribution is made to a third party under a revenue contract (as defined by IFRS 15), or the award of future IFRS 15 revenue contracts on the same aerospace programme from the same customer is highly probable, contributions are initially recognised as contract assets (see 'Revenue from external customers' policy).
- Other contributions are initially recognised as intangible assets and subsequently held at cost less accumulated amortisation and impairment losses. Amortisation is charged to net operating costs over periods expected to benefit from receiving the status of principal supplier, through the sale of replacement parts, typically up to 15 years.

#### Other intangible assets – Assets acquired as part of a business combination

The Group recognises intangible assets separately from goodwill provided they are separable or arise from contractual or other legal rights and their fair value can be measured reliably. Intangible assets are initially recognised at fair value, which is regarded as their cost. Intangible assets are subsequently held at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis to net operating costs over the estimated useful economic lives of the assets. The nature of intangible assets recognised and their estimated useful lives are as follows:

Customer relationships	Up to 20 years
Technology	Up to 20 years
Trade names and trademarks	Up to 15 years

Amortisation of intangible assets acquired as part of a business combination is excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 9).

#### Other intangible assets – Software and other intangible assets

Software and purchased licences, trademarks and patents are held at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over the estimated useful economic lives of the assets, commencing with the date the assets are available for use, typically over periods up to 10 years. Residual values and useful lives are reviewed annually and adjusted if appropriate.



## Notes to the consolidated financial statements

### continued

#### 2. Summary of significant accounting policies continued

##### **Property, plant and equipment**

Property, plant and equipment are held at cost less accumulated depreciation and impairment losses. Cost includes expenditure directly attributable to the acquisition of the asset. For right-of-use assets, cost comprises an amount equal to the initial lease liability recognised, adjusted to include any payments made for the right to use the asset, initial direct costs incurred and estimated costs for dismantling, removing and restoring the asset at the end of the lease term. Depreciation is charged on a straight-line basis over the estimated useful economic lives of the assets, commencing with the date the assets are available for use, as follows:

Freehold buildings	Up to 50 years
Right-of-use assets	Shorter of the useful economic life of the asset and the lease term
Plant and machinery	3 to 10 years
Furnaces	Up to 20 years
Fixtures and fittings	3 to 10 years
Motor vehicles	4 to 5 years

Residual values and useful lives are reviewed annually and adjusted if appropriate. When property, plant and equipment are disposed, the difference between sale proceeds, net of related costs, and the carrying value of the asset is recognised in the income statement.

##### **Borrowing costs**

Borrowing costs directly attributable to the construction or production of qualifying assets, are capitalised as part of the cost of those assets until such time as the assets are substantially ready for their intended use. Qualifying assets are those that necessarily take a substantial period of time to get ready for their intended use, typically at least 12 months. All other borrowing costs are recognised in the income statement within finance costs as incurred.

##### **Impairment of non-current non-financial assets**

Assets are reviewed for impairment annually and also whenever events or changes in circumstances indicate their carrying value may not be recoverable. To the extent the carrying value of an asset exceeds its recoverable amount, the difference is recognised as an expense in the income statement. The recoverable amount used for impairment testing is the higher of value in use and fair value less costs of disposal. For the purpose of impairment testing, assets are generally tested individually or at a CGU level which represents the lowest level for which there are separately identifiable cash inflows which are largely independent of cash inflows from other assets or groups of assets. Where it is not possible to allocate goodwill on a non-arbitrary basis to individual CGUs, it is allocated to the group of CGUs which represent the lowest level within the Group at which goodwill is monitored by management. At each balance sheet date, previously recognised impairment losses, other than any relating to goodwill, are reviewed and if no longer required reversed with a corresponding credit to the income statement.

##### **Inventories**

Inventories are recognised at the lower of cost and net realisable value. Cost comprises materials, direct labour, other direct costs and related production overheads, based on normal operating capacity, and is determined using the first-in first-out (FIFO) method. Abnormal variations between actual/forecasted volumes and normal operating capacity are excluded from the valuation of inventory. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

##### **Trade and other receivables**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost less any impairment losses. To the extent outflows of economic benefits required to settle an obligation recognised as a provision are recoverable from an insurer or other third party, an other receivable is recognised. Other receivables are discounted to present value where the impact is significant, using a pre-tax rate. The discount rate used is based on current market assessments of the time value of money, adjusted to reflect any risks specific to the receivable which have not been reflected in the undiscounted receivable. The impact of the unwinding of discounting is recognised in the income statement within finance income.

##### **Cash and cash equivalents**

Cash and cash equivalents include cash in hand and deposits held at call with banks. Bank overdrafts are disclosed as current liabilities, within bank and other borrowings, except where the Group participates in offset arrangements with certain banks whereby cash and overdraft amounts are offset against each other.

## 2. Summary of significant accounting policies continued

### **Impairment of financial assets**

The Group's financial assets, which are subject to the expected credit loss (ECL) model, are:

- trade receivables;
- other receivables;
- contract assets relating to conditional rights to consideration on over time contracts; and
- cash and cash equivalents.

For trade receivables and contract assets, the simplified method has been applied whereby ECLs are measured using a lifetime expected loss allowance. Contract assets relating to conditional rights to consideration on over time contracts are subject to substantially the same risks as trade receivables on the same types of contracts. The Group therefore applies the same loss rates to these contract assets that it uses for trade receivables. Expected loss rates are based on historical ageing of receivables adjusted for risk-based estimates of future losses. The historical data is assessed over a period that reflects the current conditions and may change year on year.

For other receivables, which principally relate to amounts recoverable from insurers, ECLs are measured using those expected to arise in the 12 months subsequent to the balance sheet date. For cash and cash equivalents, the Group does not currently anticipate any future credit losses given the high quality credit rating of the financial institutions with which balances are held.

### **Trade and other payables**

Trade payables are initially recognised at fair value and subsequently measured at amortised cost. Trade payables are not interest bearing.

The Group operates a supplier financing programme whereby suppliers can elect, on an invoice-by-invoice basis, to receive discounted early payment from a bank, rather than being paid directly by the Group in line with agreed payment terms. In the event the option for early payment is taken by a supplier, the amount payable by the Group remains unchanged but is assigned by the supplier under the programme as payable by the Group to the bank. The Group assesses the programme against indicators to assess if liabilities should be classified as other payables or borrowings. Under the Group's current supplier financing programme, contractual rights and obligations of the supplier and Group are not substantively modified when a supplier elects to participate in the programme, credit terms agreed between the Group and the bank do not differ significantly from those agreed by the Group with suppliers who do not participate in the programme; no additional security is provided by the Group to the bank; and to the extent the Group has existing committed or uncommitted facility arrangements with the same bank, the amounts due under the supplier financing programme are not considered by the bank to represent utilisation of those existing facilities. Accordingly, provided amounts due to the bank do not exceed agreed credit terms, they are classified as other payables. If the Group exceeds agreed credit terms, amounts that are overdue are classified as bank borrowings.

### **Taxation**

Current tax is based on taxable profit for the period, calculated using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax is provided in full using the liability method on temporary differences between the tax bases of assets and liabilities and their corresponding book values as recognised in the Group's consolidated financial statements. It is calculated using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax is provided on unremitted earnings of foreign subsidiaries, except where the Group can control the remittance and it is probable that earnings will not be remitted in the foreseeable future. Deferred tax assets are recognised only to the extent it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Current tax and deferred tax are recognised in the income statement, other comprehensive income or directly in equity, depending on where the item to which they relate has been recognised.

Liabilities for uncertain tax positions are recognised 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 liabilities 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. Liabilities, which are not discounted given the short period over which they are expected to be utilised, are included within current tax liabilities, together with any liability for penalties, which to date have not been significant. Any liability relating to interest on tax liabilities is included within finance costs.

### **Bank and other borrowings**

Bank and other borrowings are initially recognised at fair value, being proceeds received less directly attributable transaction costs incurred. Borrowings are generally subsequently held at amortised cost at each balance sheet date, with any transaction costs amortised to the income statement over the period of the borrowings using the effective interest method. Certain borrowings however are designated as fair value through profit and loss at inception, where the Group has interest rate derivatives in place which have the economic effect of converting fixed rate borrowings into floating rate borrowings. Such borrowings are held at fair value at each balance sheet date, with any movement in fair value attributable to changes in credit risk recognised in other comprehensive income and any other movements in fair value recognised in the income statement within net operating costs. Movements in fair value recognised in net operating costs are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 9).

Any related interest accruals are included within borrowings. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

## Notes to the consolidated financial statements

### continued

#### 2. Summary of significant accounting policies continued

##### **Leases**

The majority of the Group's leases relate to property. A lease liability is recognised when the Group obtains control of the right-of-use asset, that is the subject of the lease. The initial lease liability recognised represents the discounted value of payments due under the lease less any incentives receivable. Where lease payments are variable, often because they are based on future inflation rates or indices, they are initially measured using the inflation rate or index value at lease inception. Typically the interest rate implicit in the Group's leases cannot be easily determined and accordingly the Group's incremental borrowing rate, for borrowings of similar amounts and maturity periods, is used to discount amounts due under the lease. The lease liability is subsequently measured using the effective interest method, with interest recognised within finance costs.

At inception, the Group evaluates whether it is reasonably certain that any option to extend a lease term will be exercised. Typically, where the initial lease term for a property used for the Group's manufacturing operations is for at least five years, the option to extend the lease term is at market rates and the right-of-use asset is not considered specialised, the Group will not assess the likelihood of the lease being extended at inception as reasonably certain. The Group continues to evaluate the likelihood of exercising such options however throughout the initial lease term. When the Group is committed to extending the lease, having considered the alternative options available and where appropriate lessor consent to the extension has been obtained, the Group will consider the option to be reasonably certain to be exercised. When an option is reasonably certain to be exercised, the right-of-use asset and lease liabilities recognised are adjusted to reflect the extended term.

Leases, which at inception have a term of less than 12 months or relate to low-value assets, are not recognised on the balance sheet. Payments made under such leases are charged to the income statement on a straight-line basis over the period of the lease.

##### **Derivative financial instruments and hedging**

The Group uses derivative financial instruments to hedge its exposure to interest rate risk and foreign currency transactional risk. Derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently held at fair value at each balance sheet date, using values determined indirectly from quoted prices that are observable for the asset or liability.

The method by which any gain or loss arising from subsequent measurement at fair value is recognised, depends on whether the instrument is designated as a hedging instrument and if so the nature of the item hedged. The Group recognises an instrument as a hedging instrument by documenting, at its inception, the economic relationship between the instrument and the hedged item and the objectives and strategy for undertaking the hedging transaction. To be designated as a hedging instrument, an instrument must also be assessed, at inception and on an ongoing basis, to be effective in offsetting changes in fair values or cash flows of hedged items as outlined in the objectives and strategy for undertaking the hedging transaction and any changes in fair values must not be dominated by the effect of credit risk.

To the extent the maturity of the derivative financial instruments are more than 12 months from the balance sheet date, they are classified as non-current assets or non-current liabilities. All other derivative financial instruments are classified as current assets or current liabilities.

##### **Fair value hedges**

Changes in the 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 not attributable to credit risk. Changes in the fair value of the hedged item attributable to credit risk are recognised in other comprehensive income. Any difference recognised in the income statement between movements in the fair value of the derivative and the hedged item is excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 9). The Group currently applies fair value hedge accounting to the hedging of fixed interest rate risk on bank and other borrowings.

##### **Net investment hedges**

Changes in the fair value of the effective portion of any net investment hedge are recognised in other comprehensive income. Changes in the fair value of any ineffective portion are recognised immediately in the income statement within net operating costs.

##### **Derivatives not meeting the criteria for hedge accounting**

Where derivatives do not meet the criteria for hedge accounting, changes in fair value are recognised immediately in the income statement within net operating costs. Gains and losses arising from measuring these derivatives at fair value are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 9).

##### **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. In determining the estimated costs to fulfil a contract, the Group includes only incremental direct costs (e.g. direct materials and direct labour). 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.

## 2. Summary of significant accounting policies continued

### **Retirement benefit schemes**

For defined benefit schemes, pension costs and the costs of providing other post-retirement benefits, principally healthcare, are charged to the income statement in accordance with the advice of qualified independent actuaries. Past service credits and costs are recognised immediately in the income statement.

Retirement benefit obligations represent, for each scheme, the difference between the fair value of the schemes' assets and the present value of the schemes' defined benefit obligations measured at the balance sheet date. The defined benefit obligation is measured annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the defined benefit obligations using interest rates of high quality corporate bonds denominated in the currency in which the benefits will be paid and with terms to maturity comparable with the terms of the related defined benefit obligations. Where the Group has a statutory or contractual minimum funding requirement to make contributions to a scheme in respect of past service and any such contributions are not available to the Group once paid (as a reduction in future contributions, or as a refund to which the Group has an unconditional right either during the life of the scheme or when the scheme liabilities are settled), an additional liability for such amounts is recognised.

Remeasurement gains and losses are recognised in the period in which they arise in other comprehensive income.

For defined contribution schemes, payments are recognised in the income statement when they fall due. The Group has no further obligations once the contributions have been paid.

### **Share-based compensation**

The Group operates a number of share-based compensation schemes, which are subject to non-market-based vesting conditions and are principally equity-settled. For equity-settled schemes, at the date of grant, the Group estimates the number of awards expected to vest as a result of vesting conditions. The fair value of this estimated number of awards is recognised as an expense in the income statement on a straight-line basis over the period for which services are received. At each balance sheet date, the Group revises its estimate of the number of awards expected to vest and adjusts the amount recognised cumulatively in the income statement to reflect the revised estimate. When awards are exercised and the Company issues new shares, the proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium.

### **Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted from the proceeds recognised in equity.

Own shares represent shares in the Company that are held by an independently managed Employee Share Ownership Plan. Consideration paid for own shares, including any incremental directly attributable costs, is recognised as a deduction from retained earnings.

### **Dividends**

Interim dividends are recognised when paid to shareholders. Final dividends are recognised when approved by the shareholders.

### **Adoption of new and revised accounting standards**

During the year, no new accounting standards, amendments or revisions to existing standards, or interpretations have become effective which had a significant impact on the Group's consolidated financial statements.

### **Recent accounting developments**

#### ***Amendments to IAS 37 "Onerous contracts – costs of fulfilling a contract"***

Under IAS 37, a contract is onerous when the unavoidable costs of meeting the contractual obligations exceed the economic benefits arising from the contract. Prior to the amendments to IAS 37, there was diversity in practice as to whether the costs of meeting contractual obligations should comprise only incremental costs (e.g. direct materials and direct labour) or also include an allocation of other direct costs (e.g. factory overheads) which would be incurred regardless of whether the contract was being performed or not. Under the Group's current accounting policy, it only includes incremental direct costs in measuring the costs to fulfil a contract under IAS 37. The IAS 37 amendments clarify however, that the costs of fulfilling a contract should include an allocation of other direct costs. The Group has yet to assess the impact of these amendments, which may result in the recognition of additional onerous contracts and will result in the measurement of existing onerous contract provisions increasing. The amendments are effective for accounting periods beginning on, or after, 1 January 2022 to open contracts at that date, with any additional amounts required to be recognised as an adjustment to retained earnings at that date. These amendments have not been early adopted.

A number of other additional new standards and amendments and revisions to existing standards have been published and are mandatory for the Group's future accounting periods. These have not been early adopted and are not expected to have a significant impact on the Group's consolidated financial statements when they are adopted.

## Notes to the consolidated financial statements

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### 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 47 to 49 of the Chief Financial Officer's review). Regular reports monitor exposures and assist in managing the associated risks.

#### Market risk

##### Foreign exchange risk

The Group operates internationally and is subject to foreign exchange risks on future commercial transactions and the retranslation of the results of, and net investments in, foreign subsidiaries. The principal exposure arises with respect to the US dollar against the pound sterling. To mitigate risks associated with future commercial transactions, the Group policy is to hedge known and certain forecast transaction exposures based on historical experience and projections. The Group hedges at least 70% of the next 12 months anticipated exposures and can hedge expected exposures up to five years. Details of hedges in place are provided in note 33. The Group does not hedge exposure arising from the retranslation of the results of foreign subsidiaries. The Group uses borrowings denominated in the relevant currencies to partially hedge its net investments in foreign subsidiaries.

##### Interest rate risk

The Group has borrowings issued at both fixed and floating rates of interest. Borrowings issued at fixed rates expose the Group to fair value interest rate risk, whereas borrowings issued at floating rates expose the Group to cash flow interest rate risk. The Group's principal exposure is to changes in US interest rates. The Group's policy is to generally maintain at least 25% of its net borrowings at fixed rates and mitigates interest rate risks through interest rate derivatives which have the economic effect of converting fixed rate borrowings into floating rate borrowings and floating rate borrowings into fixed rate borrowings. Details of hedges in place are provided in note 33.

#### Sensitivity analysis

The table below illustrates the sensitivity of the Group's results to changes in the exchange rate between the US dollar and pound sterling and to changes in US interest rates at the balance sheet date. The analysis covers only financial assets and liabilities held at the balance sheet date and is made on the basis of the hedge designations in place on those dates, assuming no hedge ineffectiveness.

	2020		2019	
	Income statement £'m	Equity £'m	Income statement £'m	Equity £'m
US dollar/Sterling exchange rate +/- 10%	37.8	80.3	55.5	86.7
US yield curve +/- 1%	6.3	–	10.4	–

The impact on equity from movements in the exchange rate comprises £78.3m (2019: £81.5m) in respect of US dollar net borrowings, and £2.0m (2019: £5.2m) in respect of other financial assets and liabilities. However, as all US dollar net borrowings are designated as a net investment hedge, or are held by US subsidiaries, this element of the impact is entirely offset by the retranslation of foreign subsidiaries. The impact of a 1% movement in the US yield curve includes the effect on the Group's foreign currency forward contracts and other financial assets and liabilities.

#### Credit risk

Concentration of credit risk on the Group's trade receivables and contract assets is 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 32 details the Group's credit risk exposures in relation to its customers. Policies are maintained to ensure the Group makes sales to customers with an appropriate credit history. Letters of credit, or other appropriate instruments, are put in place to reduce credit risk where considered necessary. The Group is also subject to credit risk on the counterparties to its other financial assets and financial liabilities which it controls through only dealing with highly rated counterparties and netting transactions on settlement wherever possible. The credit quality of the Group's counterparties is set out in notes 32 and 33.



### 3. Financial risk management continued

#### Liquidity risk

The Group maintains sufficient committed facilities to meet projected borrowing requirements based on cash flow forecasts. Additional headroom is maintained to protect against the variability of cash flows and to accommodate small bolt-on acquisitions. Key ratios are monitored to ensure continued compliance with covenants contained in the Group's principal credit agreements. The following tables analyse the Group's derivative financial instruments and other non-derivative financial liabilities at the balance sheet date. The amounts disclosed in the tables are the contractual undiscounted cash flows:

	2020			
	Less than 1 year £'m	Between 1 and 5 years £'m	Greater than 5 years £'m	Total £'m
Trade and other payables*	285.8	7.7	0.8	294.3
Contract liabilities (see note 28)	50.8	19.7	54.2	124.7
Derivative financial instruments (Inflows)**	(3.9)	(1.7)	–	(5.6)
Lease liabilities	19.5	61.4	112.1	193.0
Bank and other borrowings (see note 31)	2.2	576.1	219.8	798.1
Interest payments on borrowings	26.7	71.0	7.9	105.6
<b>Total</b>	<b>381.1</b>	<b>734.2</b>	<b>394.8</b>	<b>1,510.1</b>

	2019			
	Less than 1 year £'m	Between 1 and 5 years £'m	Greater than 5 years £'m	Total £'m
Trade and other payables*	452.0	1.7	0.4	454.1
Contract liabilities (see note 28)	50.5	20.5	56.5	127.5
Derivative financial instruments (Inflows)**	(4.9)	(2.9)	–	(7.8)
Lease liabilities	22.9	76.9	110.7	210.5
Bank and other borrowings (see note 31)	208.2	463.1	227.1	898.4
Interest payments on borrowings	26.1	62.5	16.4	105.0
<b>Total</b>	<b>754.8</b>	<b>621.8</b>	<b>411.1</b>	<b>1,787.7</b>

\* Excludes social security and other taxes of £10.7m (2019: £12.5m) (see note 27).

\*\* Assumes no change in interest rates from those prevailing at the balance sheet date.

#### Capital risk management

The Group's objective when managing its capital structure is to minimise the cost of capital whilst maintaining adequate capital to protect against volatility in earnings and net assets. The strategy is designed to maximise shareholder return over the long term. The Group's capital structure is as follows:

	2020 £'m	2019 £'m
Net debt (see note 43)	773.0	911.2
Total equity	2,032.6	2,456.8
<b>Debt/equity %</b>	<b>38.0%</b>	<b>37.1%</b>

The Board believes that in maintaining an efficient balance sheet, a net debt:EBITDA ratio of between 1.5x and 2.5x is appropriate, whilst retaining the flexibility to move outside the range if appropriate. Further details on the Group's strategy for delivering net debt:EBITDA in this range can be found on pages 47 to 49 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.

## Notes to the consolidated financial statements

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#### 4. Critical accounting estimates and judgements

In applying the Group's accounting policies set out in note 2, the Group is required to make certain estimates and judgements concerning the future. These estimates and judgements are regularly reviewed and revised as necessary. The estimates and judgements that have the most significant effect on the amounts included in the consolidated financial statements are described below. Further consideration of these critical estimates and judgements can be found in the Audit Committee report on pages 105 to 111.

##### **Critical accounting estimates**

###### ***Impairment of goodwill and other assets***

The COVID-19 pandemic has had a dramatic impact in the year on the commercial aerospace industry, with significant uncertainty over the duration of the current disruption to air traffic movements and the eventual pace and extent of the recovery. Forward-looking assessments of Available Seat Kilometres (ASKs) and new aircraft production build rates, which impact the Group's civil aftermarket and OE revenues and hence its cash flows, are therefore subject to significant estimation uncertainty. The area most impacted by this estimation uncertainty is the assessment by the Group of the extent to which goodwill has become impaired. Details on the estimates made in making this assessment, the impairment recognised and the sensitivities of the amounts recorded to reasonably foreseeable changes in estimates are set out in note 17.

Forward-looking assessments have also significantly impacted the Group's estimates of the recoverable value of development costs, net realisable value of inventory and expected credit losses on trade receivables. Note 10 sets out the impairment losses and other asset write-downs recognised by the Group having completed these assessments. Based on available current information, the Group does not believe any reasonably foreseeable changes in the estimates made would require a material change to the impairment losses or other asset write-downs recognised in respect of these individual asset classes in the next 12 months and accordingly these areas are not considered to be critical estimates.

###### ***Retirement benefit obligations***

The liability recognised in respect of retirement benefit obligations is dependent on a number of estimates, principally those relating to mortality, inflation, salary increases and the rate at which liabilities are discounted. External actuarial advice is taken with regard to the most appropriate assumptions to use. Further details on these estimates and sensitivities of the retirement benefit obligations to these estimates are provided in note 36.

###### ***Areas no longer considered critical accounting estimates***

The Group previously disclosed in its 2019 Annual Report critical estimates in respect of uncertain tax positions and environmental provisions. The Group no longer considers these to be critical estimates as it does not consider there to be a significant risk of a material change to the carrying value of amounts recognised in respect of these estimates in the next 12 months. Further details on these estimates are set out in notes 29 and 34 respectively.

##### **Critical accounting judgements**

###### ***Going concern***

The judgement made by the directors that the going concern basis is appropriate in preparing the consolidated financial statements is a new critical judgement for 2020. The basis for making the judgement, the assumptions made in reaching the judgement and the results of the stress testing performed are set out in note 1.

###### ***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 to develop the technology, the Group also does not believe there is generally sufficient certainty over the future economic benefits that will be generated from the technology, to allow capitalisation of costs. Once such a contract is awarded, the Group capitalises development costs provided it expects to retain the intellectual property in the technology throughout substantially all of the life of the aircraft or engine and it is probable that future economic benefits will flow to the Group. In making a judgement as to whether economic benefits will flow to the Group, the Group makes estimates of aircraft or engine volumes (taking into account the extent to which the Group has a sole-source position), aftermarket revenues which are dependent on aircraft utilisation, fleet lives and operator service routines, costs of manufacture and costs to complete the development activity. During 2020, the Group recognised £41.4m (2019: £54.7m) of development costs as an intangible asset (see note 18).

###### ***Areas no longer considered critical accounting judgements***

The Group previously disclosed in its 2019 Annual Report critical judgements specifically arising from the change in divisional structure implemented in that year, how this impacted the level at which goodwill testing should be performed and the reallocation of goodwill to the new CGUs and groups of CGUs identified. These are no longer critical judgments following completion of this restructuring in 2019.

## 5. Segmental analysis

### Analysis by operating segment

The Group manages its businesses under four customer-aligned divisions: Airframe Systems, Engine Systems, Energy & Equipment and Services & Support. Details of the Group's divisions can be found on pages 36 to 43 of the Strategic report. Transactions between divisions are reflected in the segmental information below and are measured at arm's length. The transactions are eliminated on consolidation.

#### Year ended 31 December 2020: Analysis of income statement items

The key performance measure reviewed by the CODM is underlying operating profit. A detailed reconciliation of operating profit to underlying operating profit is provided in note 9.

	Airframe Systems £'m	Engine Systems £'m	Energy & Equipment £'m	Services & Support £'m	Total £'m
Gross segment revenue	972.7	338.8	358.5	326.6	<b>1,996.6</b>
Inter-segment revenue	(179.6)	(105.2)	(23.5)	(4.2)	<b>(312.5)</b>
<b>Revenue from external customers</b>	<b>793.1</b>	<b>233.6</b>	<b>335.0</b>	<b>322.4</b>	<b>1,684.1</b>
At a point in time	754.2	219.9	161.2	315.2	<b>1,450.5</b>
Over time: Power by the hour/cost per brake landing	22.2	4.4	–	7.2	<b>33.8</b>
Over time: Other	16.7	9.3	173.8	–	<b>199.8</b>
<b>Revenue from external customers by basis of recognition</b>	<b>793.1</b>	<b>233.6</b>	<b>335.0</b>	<b>322.4</b>	<b>1,684.1</b>
Civil OE	207.8	95.3	2.9	–	<b>306.0</b>
Civil aftermarket	176.7	3.8	0.2	238.9	<b>419.6</b>
Defence	377.7	117.3	190.9	82.5	<b>768.4</b>
Energy	13.9	0.5	116.1	0.6	<b>131.1</b>
Other	17.0	16.7	24.9	0.4	<b>59.0</b>
<b>Revenue from external customers by end market</b>	<b>793.1</b>	<b>233.6</b>	<b>335.0</b>	<b>322.4</b>	<b>1,684.1</b>
<b>Underlying operating profit/(loss) (see note 9)*</b>	<b>120.5</b>	<b>(13.2)</b>	<b>42.4</b>	<b>40.8</b>	<b>190.5</b>
Items not affecting underlying operating profit (see note 9)					<b>(487.8)</b>
<b>Operating loss (see note 9)</b>					<b>(297.3)</b>
Finance income (see note 11)					<b>0.5</b>
Finance costs (see note 12)					<b>(37.2)</b>
Net finance costs					<b>(36.7)</b>
<b>Loss before tax</b>					<b>(334.0)</b>
Tax credit (see note 13)					<b>19.8</b>
<b>Loss for the year</b>					<b>(314.2)</b>
Impairment losses on goodwill and intangible assets (see notes 17 and 18)**	145.5	201.1	14.7	–	<b>361.3</b>
Other exceptional operating items***	27.3	13.1	13.2	3.4	<b>57.0</b>
Amortisation of intangible assets (see notes 18 and 19)****	104.6	23.5	10.7	1.8	<b>140.6</b>
Depreciation (see note 20)	28.6	13.7	11.2	3.2	<b>56.7</b>

\* Central costs are allocated using a variety of bases designed to reflect the beneficial relationship between costs and segments. Bases include headcount, payroll costs, gross assets and revenue.

\*\* Of the total impairment losses in the year, £1.1m relating to Engine Systems has been charged to underlying operating profit as defined in note 9, with the balance of £360.2m charged to exceptional operating items (see note 10).

\*\*\* Comprises exceptional operating items other than those relating to impairment losses on goodwill and development costs. Of the total exceptional operating items in the year of £428.7m (see note 10), central items of £11.5m were not included in segmental exceptional operating items reviewed by the CODM.

\*\*\*\* Of the total amortisation in the year, £52.4m has been charged to underlying operating profit as defined in note 9.

## Notes to the consolidated financial statements

### continued

#### 5. Segmental analysis continued

The Group's largest customer accounts for 8.9% of revenue (£149.5m). Revenue from this customer arises across all segments. Revenue recognised in the current year relating to performance obligations satisfied or partially satisfied in the prior year was £3.2m.

Year ended 31 December 2020: Analysis of additions to non-current assets\*

	Airframe Systems £'m	Engine Systems £'m	Energy & Equipment £'m	Services & Support £'m	Total £'m
Development costs (see note 18)	28.4	2.9	9.9	0.2	41.4
Programme participation costs (see note 18)	2.6	–	–	–	2.6
Other purchased intangible assets	0.7	0.3	0.6	0.9	2.5
Property, plant and equipment	36.9	13.6	16.1	3.5	70.1
<b>Total</b>	<b>68.6</b>	<b>16.8</b>	<b>26.6</b>	<b>4.6</b>	<b>116.6</b>

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

#### At 31 December 2020: Analysis of segmental trading assets

	Total £'m
Airframe Systems	1,036.5
Engine Systems	356.2
Energy & Equipment	234.3
Services & Support	90.4
<b>Total segmental trading assets</b>	<b>1,717.4</b>
Centrally managed trading assets*	167.4
Goodwill (see note 17)	1,519.5
Other intangible assets excluding software assets	328.6
Investments (see note 21)	20.8
Derivative financial instruments – non-current (see note 33)	15.0
Deferred tax assets (see note 35)	19.2
Derivative financial instruments – current (see note 33)	5.4
Current tax recoverable	11.5
Cash and cash equivalents (see note 26)	178.6
Assets classified as held for sale (see note 22)	14.7
<b>Total assets</b>	<b>3,998.1</b>

\* 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

	2020 £'m	2019 £'m
UK	129.7	178.6
Rest of Europe	270.8	414.0
United States of America	1,027.6	1,342.5
Rest of World	256.0	341.1
<b>Revenue</b>	<b>1,684.1</b>	<b>2,276.2</b>

Revenue is based on the location of the customer.

	31 December 2020 £'m	31 December 2019 £'m
UK	617.6	668.3
Rest of Europe	184.0	203.2
United States of America	2,094.3	2,613.5
Rest of World	34.1	28.5
<b>Non-current assets</b>	<b>2,930.0</b>	<b>3,513.5</b>

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

## 5. Segmental analysis continued

### Year ended 31 December 2019 (Restated): Analysis of income statement items

The key performance measure reviewed by the CODM is underlying operating profit. A detailed reconciliation of operating profit to underlying operating profit is provided in note 9. Prior year figures have been restated to reflect the transfer of the external customer-facing relationships for the UK braking systems maintenance, repair and overhaul (MRO) business from Airframe Systems to Services & Support with effect from 1 January 2020. The restatement comprised external revenue of £27.9m and underlying operating profit of £2.8m.

	Airframe Systems £'m	Engine Systems £'m	Energy & Equipment £'m	Services & Support £'m	Other* £'m	Total £'m
Gross segment revenue	1,451.7	341.2	450.3	519.0	5.6	2,767.8
Inter-segment revenue	(422.2)	(11.7)	(37.8)	(19.9)	–	(491.6)
Revenue from external customers	1,029.5	329.5	412.5	499.1	5.6	2,276.2
At a point in time	984.3	312.6	244.3	487.5	5.6	2,034.3
Over time: Power by the hour/cost per brake landing	35.2	7.2	–	11.6	–	54.0
Over time: Other	10.0	9.7	168.2	–	–	187.9
Revenue from external customers by basis of recognition	1,029.5	329.5	412.5	499.1	5.6	2,276.2
Civil OE	317.6	188.5	10.4	–	2.1	518.6
Civil aftermarket	305.0	5.9	–	404.7	0.3	715.9
Defence	379.3	109.6	239.2	94.1	2.4	824.6
Energy	10.8	1.0	130.9	–	–	142.7
Other	16.8	24.5	32.0	0.3	0.8	74.4
Revenue from external customers by end market	1,029.5	329.5	412.5	499.1	5.6	2,276.2
Underlying operating profit (see note 9)**	247.7	27.2	53.4	74.0	0.5	402.8
Items not affecting underlying operating profit (see note 9)						(77.5)
Operating profit (see note 9)						325.3
Finance income (see note 11)						2.2
Finance costs (see note 12)						(40.8)
Net finance costs						(38.6)
Profit before tax						286.7
Tax charge (see note 13)						(64.1)
Profit for the year						222.6
Exceptional operating items***	3.2	5.7	1.5	1.4	–	11.8
Amortisation of intangible assets (see notes 18 and 19)****	102.9	22.1	12.0	1.3	0.1	138.4
Depreciation (see note 20)	28.9	13.7	12.0	2.7	–	57.3

\* Those businesses which were disposed of prior 1 January 2019, the effective date of the new divisional structure, or were classified as held for sale at that date, are presented separately as 'Other'.

\*\* Central costs are allocated using a variety of bases designed to reflect the beneficial relationship between costs and segments. Bases include headcount, payroll costs, gross assets and revenue.

\*\*\* Of the total exceptional operating items in the year of £26.2m (see note 10), central items of £14.4m were not included in segmental exceptional operating items reviewed by the CODM.

\*\*\*\* Of the total amortisation in the year, £48.6m has been charged to underlying operating profit as defined in note 9.

The Group's largest customer accounted for 8.1% of revenue (£184.3m). Revenue from this customer arises across all segments. Revenue recognised in 2019 relating to performance obligations satisfied or partially satisfied in the prior year was £3.4m.



## Notes to the consolidated financial statements

### continued

#### 5. Segmental analysis continued

Year ended 31 December 2019: Analysis of additions to non-current assets\*

	Airframe Systems £'m	Engine Systems £'m	Energy & Equipment £'m	Services & Support £'m	Total £'m
Development costs (see note 18)	40.4	2.5	11.7	0.1	54.7
Programme participation costs (see note 18)	1.6	–	–	–	1.6
Other purchased intangible assets	0.6	0.7	0.5	1.8	3.6
Property, plant and equipment	38.0	21.7	10.7	5.9	76.3
<b>Total</b>	<b>80.6</b>	<b>24.9</b>	<b>22.9</b>	<b>7.8</b>	<b>136.2</b>

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

At 31 December 2019 (Restated): Analysis of segmental trading assets\*

	Total £'m
Airframe Systems	1,142.0
Engine Systems	437.5
Energy & Equipment	306.8
Services & Support	82.7
Total segmental trading assets	1,969.0
Centrally managed trading assets**	162.1
Goodwill (see note 17)	1,966.6
Other intangible assets excluding software assets	424.0
Investments (see note 21)	14.1
Derivative financial instruments – non-current (see note 33)	14.6
Deferred tax assets (see note 35)	23.3
Derivative financial instruments – current (see note 33)	3.8
Current tax recoverable	11.1
Cash and cash equivalents (see note 26)	155.3
<b>Total assets</b>	<b>4,743.9</b>

\* Prior year figures have been restated to reflect the transfer of the external customer facing relationships for the UK braking systems MRO business from Airframe Systems to Services & Support with effect from 1 January 2020. The restatement comprised segmental trading assets of £5.4m.

\*\* Centrally managed trading assets principally include amounts recoverable from insurers and other third parties in respect of environmental issues relating to former sites, other receivables and property, plant and equipment of central companies.

#### 6. Auditor's remuneration

Payable to PricewaterhouseCoopers LLP and its associates:

	2020 £'m	2019 £'m
For the audit of the Company and consolidated financial statements in respect of the current year	2.2	1.9
For the audit of the accounts of any subsidiary of the Company in respect of the current year	0.6	0.8
<b>Auditor's remuneration</b>	<b>2.8</b>	<b>2.7</b>

Non-audit fees payable to PricewaterhouseCoopers LLP were £0.1m (2019: £0.1m), consisting of other assurance services.

## 7. Operating profit

Operating profit is stated after charging:

	2020 £'m	2019 £'m
Raw materials and consumables used	468.0	726.5
Employee costs (see note 8)	659.3	815.4
Site related costs*	118.3	153.0
Change in inventories of finished goods and work in progress	38.5	(64.1)
Capitalisation of development costs (see note 18)	(41.4)	(54.7)
Free of charge/deeply discounted manufactured parts ('FOC')	53.4	72.7
Amortisation of capitalised development costs (see note 18)	31.5	28.7
Amortisation of programme participation costs (see note 18)	1.2	1.1
Amortisation of intangible assets acquired in business combinations (see note 9)	88.2	89.8
Amortisation of software and other intangible assets (see note 19)	19.7	18.8
Depreciation (see note 20)	56.7	57.3
Loss on disposal of property, plant and equipment	1.4	-
Exceptional operating items (see note 10)	428.7	26.2
Financial instruments – loss (see note 9)	2.9	-
Share of loss after tax of joint ventures (see note 21)	3.2	-
Other costs**	89.3	129.2
<b>Total</b>	<b>2,018.9</b>	<b>1,999.9</b>

\* Site related costs comprise business insurance, energy, establishment and other factory costs.

\*\* Other costs principally comprise engineering materials of £16.8m (2019: £27.3m), freight costs of £22.8m (2019: £37.7m) and professional fees of £27.7m (2019: £39.2m).

Disclosed as:

	2020 £'m	2019 £'m
Cost of sales	1,200.6	1,458.0
Operating costs	818.3	541.9
<b>Total</b>	<b>2,018.9</b>	<b>1,999.9</b>

Total research and development expenditure in the year is £97.9m (2019: £118.5m) of which £20.8m (2019: £23.8m) is charged to cost of sales or manufacturing work in progress, £35.7m (2019: £40.0m) is charged to net operating costs and £41.4m (2019: £54.7m) is capitalised as development costs (see note 18).

During 2020, the Group recognised in the income statement government grants of £3.8m, principally in the UK and Singapore, under the respective employee retention schemes of those countries which were launched as a means to support businesses and employees during the unprecedented global COVID-19 pandemic. Additionally in 2020, the Group received £2.1m in the US under the CARES Act from the US Department of Defense to sustain critical industrial base capability for military grade fuel bladders at its Rockmart facility. These amounts have been recognised in property, plant and equipment as a reduction in the cost of the related capital expenditure additions in the year.

Operating profit is stated after crediting:

	2020 £'m	2019 £'m
Gain on disposal of property, plant and equipment	-	0.9
Amounts arising on the acquisition, disposal and closure of businesses (see note 9)	32.0	23.5
Financial instruments – gain (see note 9)	-	15.0
Net foreign exchange gains	-	3.4
Share of profit after tax of joint venture (see note 21)	-	1.7
Other income	5.5	4.5
<b>Operating income</b>	<b>37.5</b>	<b>49.0</b>

## Notes to the consolidated financial statements

### continued

#### 8. Employee information

	2020 £'m	2019 £'m
Wages and salaries	530.2	660.4
Social security costs	53.0	59.6
Retirement benefit costs (see note 36)	35.2	47.3
Share-based payment (credit)/expense (see note 38)	(2.5)	10.1
Other benefits including US medical costs	43.4	38.0
<b>Employee costs including executive directors</b>	<b>659.3</b>	<b>815.4</b>

	2020 Average Monthly Number	2019 Average Monthly Number
Airframe Systems	5,324	5,935
Engine Systems	2,013	2,344
Energy & Equipment	1,479	1,911
Services & Support	543	523
Corporate including shared services	510	546
Total persons employed including executive directors	9,869	11,259
Other persons providing similar services	651	965
<b>Total</b>	<b>10,520</b>	<b>12,224</b>

#### 9. Reconciliations between profit and underlying profit

Underlying profit is used by the Board to monitor and measure the underlying trading performance of the Group. Items excluded from underlying profit measures are treated consistently with the way performance is measured under the Group's short-term and long-term incentive plans and with covenant requirements defined in the Group's committed credit facilities.

	Notes	2020 £'m	2019 £'m
Operating (loss)/profit		(297.3)	325.3
Amounts arising on the acquisition, disposal and closure of businesses	a	(32.0)	(23.5)
Amortisation of intangible assets acquired in business combinations	b	88.2	89.8
Financial instruments – loss/(gain)	c	2.9	(15.0)
Exceptional operating items (see note 10)		428.7	26.2
Adjustments to operating profit*		487.8	77.5
<b>Underlying operating profit</b>		<b>190.5</b>	<b>402.8</b>
(Loss)/profit before tax		(334.0)	286.7
Adjustments to operating profit per above		487.8	77.5
Net interest expense on retirement benefit obligations (see note 36)**		5.7	6.1
Adjustments to profit before tax		493.5	83.6
<b>Underlying profit before tax</b>		<b>159.5</b>	<b>370.3</b>
(Loss)/profit for the year		(314.2)	222.6
Adjustments to profit before tax per above		493.5	83.6
Tax effect of adjustments to profit before tax***		(51.2)	(17.5)
Adjustments to profit for the year		442.3	66.1
<b>Underlying profit for the year</b>		<b>128.1</b>	<b>288.7</b>

\* Of the adjustments to operating profit, £39.0m (2019: £8.1m) relating to exceptional operating items has been charged to cost of sales, with the balance of £448.8m (2019: £69.4m) included within net operating costs.

\*\* The Board considers net interest expense on retirement benefit obligations to be a non-trading item and accordingly excludes it from underlying profit measures.

\*\*\* Of the tax effect of adjustments to profit before tax, £32.5m (2019: £5.0m) relates to exceptional operating items (see note 10).

## 9. Reconciliations between profit and underlying profit continued

- a. Delivery of the Group's strategy includes investment in acquisitions that enhance its technology portfolio. The exclusion of significant items arising from M&A activity is designed by the Board to align short-term operational decisions with this longer-term strategy. Accordingly amounts arising on the acquisition, disposal and closure of businesses are excluded from underlying profit measures. These include gains or losses made on the disposal or closure of businesses, adjustments to the fair value of contingent consideration payable in respect of acquired businesses or receivable in respect of disposed businesses and costs directly attributable to the acquisition and disposal of businesses.

	2020 £'m	2019 £'m
Gain on disposal of businesses in the current year (see note 44)	(33.3)	(23.5)
Amounts recognised in respect of disposals in prior periods	1.3	–
<b>Amounts arising on the acquisition, disposal and closure of businesses</b>	<b>(32.0)</b>	<b>(23.5)</b>

- b. For the same reasons as described in note 9a, the Group also excludes from its underlying profit figures the amortisation of intangible assets acquired in business combinations.

	2020 £'m	2019 £'m
Amortisation of other intangible assets (see note 19)	107.9	108.6
Less: amortisation of software and other intangible assets (see note 19)	(19.7)	(18.8)
<b>Amortisation of intangible assets acquired in business combinations</b>	<b>88.2</b>	<b>89.8</b>

- c. To ensure appropriate and timely commercial decisions are made as to when and how to mitigate the Group's foreign currency and interest rate exposures, gains and losses arising from the marking to market of financial instruments that are not hedge accounted are excluded from underlying profit measures. The Group does not hedge account for foreign currency forward contracts, cross currency swap contracts or treasury lock derivatives (refer to note 33 for further details).

When interest rate derivatives qualify to be hedge accounted, any difference recognised in the income statement as hedge ineffectiveness between movements in fair value of the derivatives and fair value of fixed rate borrowings is excluded from underlying profit measures.

	2020 £'m	2019 £'m
Movement in fair value of foreign currency forward contracts	(15.9)	(25.7)
Impact of retranslating net foreign currency assets and liabilities at spot rate	6.5	(0.2)
Movement in fair value of interest rate derivatives	1.6	(0.3)
Movement in fair value of fixed rate borrowings due to interest rate risk (see note 32)	(1.6)	(0.1)
Movement in fair value of cross currency derivatives	12.8	11.8
Movement in fair value of treasury lock derivative	(0.5)	(0.5)
<b>Financial instruments – loss/(gain)</b>	<b>2.9</b>	<b>(15.0)</b>

## Notes to the consolidated financial statements

### continued

#### 10. Exceptional operating items

Delivery of the Group's strategy includes the restructuring of its cost base to deliver operational improvements. The exclusion from underlying profit measures of significant items arising from site consolidations, business restructuring and integration of acquired businesses is designed by the Board to align short-term operational decisions with this longer-term strategy. In addition, the impact of the global COVID-19 pandemic, and the resulting uncertainty facing the commercial aerospace industry, have given rise to significant non-recurring impairment losses and asset write-downs which have been treated as exceptional operating items.

	Note	Income statement		Cash flow	
		2020 £'m	2019 £'m	2020 £'m	2019 £'m
Impairment losses and other asset write-downs	a	374.2	–	–	–
COVID-19 incremental non-recurring costs	b	22.0	–	18.9	–
Site consolidations	c	33.5	20.1	31.6	22.4
Business restructuring costs and other items	d	(1.0)	6.1	(1.2)	4.9
<b>Exceptional operating items</b>		<b>428.7</b>	<b>26.2</b>	<b>49.3</b>	<b>27.3</b>

- a. The Group has recognised material impairment losses and other reductions in asset values arising from the current uncertainty facing the commercial aerospace industry. These have been aggregated and classified as an exceptional operating item given their size and that they all arise from the unprecedented circumstances that the industry has experienced in 2020. This treatment is consistent with the Group's policy, with impairment losses and other asset write downs following the cancellation of the Dassault 5X programme, treated as an exceptional operating item in 2017.

Following the COVID-19 outbreak, governments have imposed strict travel restrictions contributing to a dramatic reduction in flight numbers and passenger load factors, the parking by operators of record numbers of aircraft, several airlines filing for bankruptcy and OE customers significantly reducing production levels. These events, together with uncertainty over the extent and pace of recovery in the sector, have impacted the reliability of forecasts for commercial aerospace more generally and also for specific aircraft platforms. Whilst management believes the COVID-19 outbreak is directly responsible for substantially all of the amounts recorded, it recognises the inherent difficulties in making a reliable estimate of the impact directly attributable to the pandemic and accordingly has not disclosed the amounts as related solely to COVID-19 or attempted to quantify the COVID-19 specific element.

The amounts recognised in the year comprise:

	Cost of sales £m	Operating costs £m	Total £m
Impairment of goodwill* (see note 17)	–	335.7	335.7
Impairment of development costs (see note 18)	–	24.5	24.5
Write down of inventory to net realisable value (see note 23)	8.6	–	8.6
Expected credit losses on trade receivables and contract assets (see note 32)	–	5.4	5.4
<b>Impairment losses and other asset write-downs</b>	<b>8.6</b>	<b>365.6</b>	<b>374.2</b>

\* The goodwill impairment charge is lower than that recognised in the interim condensed consolidated financial statements solely due to retranslation of the amounts relating to foreign currency denominated goodwill at the average exchange rates for the year.

To the extent any of the impairment losses or asset write-downs recognised in the current year are reversed in a subsequent period, the reversals will be recognised as exceptional operating items.

The tax credit in respect of these items was £18.8m.

- b. In 2020, given its significance, the Group has excluded income and expenditure directly attributable to the global COVID-19 pandemic, and which is not expected to recur in future periods, from its underlying profit measures. This principally relates to severance costs arising from the Group's announcement on 23 April 2020 that it would be reducing its global workforce by around 15% in response to the COVID-19 outbreak. Other amounts include additional cleaning costs; the purchase of personal protective equipment; and shift premiums and other associated costs arising from social distancing measures. Of the amounts classified as exceptional operating items, £11.5m has been recognised within cost of sales, with the balance of £10.5m recognised within other operating costs. The tax credit in respect of these items was £4.9m.
- c. Amounts principally relate to costs incurred in respect of the Group's previously announced plans to reduce its footprint by the end of 2021. Cumulative costs since the announcement are £97.2m. In 2020, costs are principally in respect of the move to the new facility at Ansty Park in the West Midlands, UK which will enable the Group to consolidate a range of manufacturing, engineering and support operations into a single centre of excellence and the move of one of its Energy & Equipment businesses following the disposal of a number of its product lines in 2019. Of the amounts classified as exceptional operating items, £18.9m has been recognised within cost of sales with the balance of £14.6m recognised within other operating costs. The tax credit in respect of these items was £8.8m.
- d. In 2020, this includes a credit of £1.5m relating to the reversal of amounts previously recognised as exceptional operating items, following the recovery of costs from a third party.



## 11. Finance income

	2020 £'m	2019 £'m
Interest on bank deposits	0.1	1.4
Unwinding of interest on other receivables (see note 34)	0.2	0.5
Other finance income	0.2	0.3
<b>Finance income</b>	<b>0.5</b>	<b>2.2</b>

## 12. Finance costs

	2020 £'m	2019 £'m
Interest on bank borrowings	1.3	1.2
Interest on senior notes	24.5	29.4
Interest on lease liabilities	6.0	5.0
Unwinding of discount on provisions (see note 34)	0.7	1.2
Net interest expense on retirement benefit obligations (see note 36)	5.7	6.1
Amortisation of debt issue costs	0.8	0.7
Less: amounts capitalised in the cost of qualifying assets (see note 18)	(1.8)	(2.8)
<b>Finance costs</b>	<b>37.2</b>	<b>40.8</b>

## 13. Tax

	2020 £'m	2019 £'m
Current tax – current year	29.3	60.2
Current tax – adjustment in respect of prior years	(10.5)	(2.2)
Deferred tax – origination and reversal of temporary differences	(44.6)	6.4
Deferred tax – effects of changes in other statutory tax rates	-	(2.4)
Deferred tax – adjustment in respect of prior years	6.0	2.1
<b>Tax (credit)/charge</b>	<b>(19.8)</b>	<b>64.1</b>

The Finance Act 2020 introduced legislation to cancel the planned reduction in the main rate of corporation tax in the UK from 19% to 17%. The legislation which was substantively enacted in the year, has resulted in an increase in the current tax charge of £1.3m.

### Reconciliation of tax (credit)/charge

A reconciliation based on the weighted average tax rate applicable to the (loss)/profit of the Group's consolidated businesses is as follows:

	2020 £'m	2019 £'m
(Loss)/profit before tax at weighted average tax rate of 24.7%* (2019: 23.0%)	(82.4)	65.9
Effects of:		
Impact of impairment losses on intangible assets	67.9	-
Deferred tax – effects of changes in other statutory tax rates	0.3	(2.4)
Tax effect of share-based payments	1.5	(0.5)
Non-taxable gain on disposal of businesses	(4.8)	0.1
Tax concessions	0.5	(3.5)
Tax credits and incentives	(2.7)	(6.2)
Additional liabilities in respect of uncertain tax positions	1.3	6.5
Other permanent differences	3.1	4.3
Current tax – adjustment in respect of prior years	(10.5)	(2.2)
Deferred tax – adjustment in respect of prior years	6.0	2.1
<b>Tax (credit)/charge</b>	<b>(19.8)</b>	<b>64.1</b>

\* Calculated by applying enacted tax rates applicable to profits and losses of the Group's businesses in their respective countries in the year. Accordingly it does not reflect any changes in tax rates that have been substantively enacted, but are not applicable until future periods. The change in the weighted average applicable tax rate is caused by changes to the geographical balance of the Group's profits and losses due to the impact of the exceptional operating items. 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 (credit)/charge for 2020 to increase, or reduce respectively, by approximately £9.6m of which £6.3m arises from the impact of the change in tax rate on net deferred tax liabilities.

The tax reconciliation for 2020 includes £2.7m (2019: £3.5m) in respect of tax credits and incentives in the US for items such as research & development and certain foreign derived income, and additional liabilities of £1.3m (2019: £6.5m) in respect of various uncertain tax positions in the Group (see note 29). The tax reconciliation for 2019 includes £3.5m of tax concessions which allow for income to be taxed at beneficial rates.

## Notes to the consolidated financial statements

### continued

### 13. Tax continued

#### Tax relating to components of other comprehensive (expense)/income

	2020			2019		
	Before tax	Tax (charge)/credit	After tax	Before tax	Tax (charge)/credit	After tax
	£'m	£'m	£'m	£'m	£'m	£'m
Deferred tax – currency translation movements	(79.9)	2.0	(77.9)	(68.7)	0.3	(68.4)
Deferred tax – movements in fair value of financial liabilities arising from changes in credit risk	1.8	(0.4)	1.4	–	–	–
Deferred tax – remeasurement of retirement benefit obligations	(42.6)	10.8	(31.8)	(89.2)	11.9	(77.3)
<b>Other comprehensive (expense)/income</b>	<b>(120.7)</b>	<b>12.4</b>	<b>(108.3)</b>	<b>(157.9)</b>	<b>12.2</b>	<b>(145.7)</b>
Deferred tax		12.4			12.2	
<b>Total</b>		<b>12.4</b>			<b>12.2</b>	

#### Tax relating to items recognised directly in equity

	2020 £'m	2019 £'m
Current tax relating to share-based payment expense	(0.2)	1.0
Deferred tax relating to share-based payment expense (see note 35)	(2.0)	2.0
<b>Total (charge)/credit</b>	<b>(2.2)</b>	<b>3.0</b>

### 14. (Loss)/earnings per ordinary share

Earnings per ordinary share (EPS) is calculated by dividing the profit attributable to owners of the Company by the weighted average number of shares in issue during the year. The weighted average number of shares excludes treasury shares and any shares bought by the Group and held during the year by an independently managed Employee Share Ownership Plan Trust (see note 39). The weighted average number of own shares excluded is 3.6m shares (2019: 4.0m 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.

	2020			2019		
	Loss* £'m	Shares Number 'm	EPS Pence	Profit* £'m	Shares Number 'm	EPS Pence
<b>Basic EPS</b>	<b>(314.2)</b>	<b>777.8</b>	<b>(40.4)</b>	222.6	773.7	28.8
Potential effect of dilutive ordinary shares	–	11.6	–	–	12.1	(0.5)
<b>Diluted EPS</b>	<b>(314.2)</b>	<b>789.4</b>	<b>(40.4)</b>	222.6	785.8	28.3

\* (Loss)/profit for the year attributable to equity owners of the Company.

Underlying EPS is based on underlying profit for the year (see note 9) and the same number of shares used in the calculation of basic EPS. It is reconciled to basic EPS below:

	2020 Pence	2019 Pence
Basic EPS	(40.4)	28.8
Adjust for effects of:		
Amounts arising on the acquisition, disposal and closure of businesses	(4.2)	(2.0)
Amortisation of intangible assets acquired in business combinations	9.2	8.8
Financial instruments – loss/(gain)	0.3	(1.6)
Exceptional operating items	51.0	2.7
Net interest expense on retirement benefit obligations	0.6	0.6
<b>Underlying basic EPS</b>	<b>16.5</b>	<b>37.3</b>

Diluted underlying EPS is based on underlying profit for the year (see note 9) and the same number of shares used in the calculation of diluted EPS. Diluted underlying EPS for the year is 16.2 pence (2019: 36.7 pence).

## 15. Dividends

	2020 £'m	2019 £'m
In respect of earlier years	–	87.5
In respect of 2019:		
Interim of 5.55p per share	–	42.9
Final of 11.95p per share	–	–
<b>Dividends paid in cash</b>	<b>–</b>	<b>130.4</b>

On 27 March 2020, the Group announced that the Board had decided that it was prudent to withdraw the recommendation to pay the final dividend in respect of the year ended 31 December 2019 of 11.95 pence per share. That action, together with a series of significant measures to reduce costs and tightly manage cash flow, was taken to further strengthen the financial position and liquidity of the Group. The directors did not recommend the payment of an interim dividend in respect of 2020 and no final dividend in respect of 2020 is to be proposed at the Annual General Meeting on 29 April 2021 for the same reasons.

## 16. Related party transactions

During the year, the Group made sales to the joint ventures of £0.7m (2019: £2.9m) and purchases from the joint ventures of £0.6m (2019: £0.1m). 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 2020 as members of the Board and the Group Executive Committee, is set out below.

	2020 £'m	2019 £'m
Salaries and other short-term employee benefits	4.7	10.8
Share-based payment (credit)/expense	(0.5)	2.5
<b>Total</b>	<b>4.2</b>	<b>13.3</b>

Full details of all elements in the remuneration package of each director, together with directors' share interests and share awards, are disclosed in the Directors' remuneration report on pages 114 to 141 which forms part of these consolidated financial statements.

## 17. Goodwill

	2020 £'m	2019 £'m
<b>At 1 January</b>	<b>1,966.6</b>	<b>2,035.3</b>
Exchange rate adjustments	(22.9)	(57.9)
Businesses disposed (see note 44)	(84.8)	(10.8)
Transferred to assets classified as held for sale (see note 22)	(3.7)	–
Impairment losses (see note 10)	(335.7)	–
<b>At 31 December</b>	<b>1,519.5</b>	<b>1,966.6</b>

The net book amount at 31 December 2020 comprises cost of £1,841.4m (2019: £1,966.6m) and accumulated impairment losses of £321.9m (2019: £Nil).

An analysis of goodwill by CGU or group of CGUs is shown below:

	2020 £'m	2019 £'m
Airframe Systems	1,105.3	1,253.2
Engine Systems	115.3	316.9
Services & Support	206.6	209.9
Training Systems	–	78.8
Defence Systems	30.2	31.2
Other	62.1	76.6
<b>Total</b>	<b>1,519.5</b>	<b>1,966.6</b>

## Notes to the consolidated financial statements

### continued

#### 17. Goodwill continued

##### *Impairment testing – trigger event*

On 19 March 2020, the Group released a trading update in response to the COVID-19 pandemic including an announcement that in light of the highly fluid market and global macro-economic situation, it was too early to provide earnings guidance for the remainder of the 2020. The Group considered this to be the date a trigger event under IAS 36 'Impairment of Assets' occurred and therefore performed an additional impairment test of its goodwill balances at the end of March, the closest month end date to this announcement.

For the purpose of impairment testing, the Group used value-in-use calculations to determine recoverable amounts as it did not believe reliable estimates of fair value less costs of disposal existed given the current market uncertainty. No changes were made in 2020 to the level at which impairment testing was performed. The key assumptions for the value in use calculations for all CGUs and groups of CGUs were as follows:

##### *Cash flows covered by management estimates*

Estimates of cash flows prepared and approved by management subsequent to the COVID-19 outbreak and which were restricted to cover a five year period from the date of the impairment testing were used. The Group did not believe there was sufficient reliability over forecasts in excess of five years for longer periods to be used for impairment testing, even though as a result it is possible that elements of the aerospace recovery were not captured by using this shorter period. Given the uncertainty affecting forecasts for the markets in which the Group operates, it did not consider the approach adopted in prior periods of using a single set of cash flows as its best estimate to be appropriate. Accordingly in 2020, the Group prepared cash flow forecasts covering a number of potential scenarios which were probability weighted to derive an expected value for the cash flows to be used for impairment testing. The three scenarios modelled reflected different assumptions as to the extent and pace of recovery in the civil aerospace sector in particular, although the impacts on other markets of the economic uncertainty arising from COVID-19 were also considered.

The base case scenario assumed civil aftermarket and OE levels recovered progressively from a low point expected to take place in Q2/ Q3 2020, with no second wave of global lock down restrictions. An increasing return of passenger flights was anticipated, with ASKs returning to pre-COVID-19 levels in 2024. Civil OE deliveries, which reflect the emerging build rates from the Group's customer base, remained below 2019 levels until the end of the five-year forecast period. The base case assumed continued robust funding of defence expenditure, particularly by the US government, and that energy and other markets were not largely impacted by COVID-19 over the five-year forecast period. A variant of the base case was also developed which, whilst assuming revenue levels consistent with those reflected in the base case, assumed a slower level of gross margin improvement over the five years. In aggregate a 70% probability was assigned to these two base case scenarios.

The third scenario, to which a 30% probability was assigned, used the downside scenario developed for the period to the end of 2021 as part of the going concern assessment made in the Group's interim financial statements. Under this downside scenario, waves of COVID-19 infection occurred globally, impacting consumers' ability and confidence to resume travelling, with an effective vaccine not widely available during the period and reduced consumer discretionary spending power. Weakening ASKs were assumed to result in production build rates for OEM deliveries to airlines being depressed further. Additionally, as a result of the wider impact of a more prolonged pandemic, higher levels of government borrowing led to defence spending being constrained. These resulted in the Group's civil revenues falling by 15% in 2021, when measured against the 2020 base case assumption. Defence markets experienced growth in 2021, but this was constrained to levels of assumed inflation. Energy and other markets remained depressed as the weaker economic environment resulted in reduced investment in oil and gas markets. The downside scenario assumed the Group took further appropriate non-restructuring mitigating actions to reduce its cost base and to preserve cash flows. The scenario assumed a gradual recovery from 2022 onwards, with gross margin percentage improvements year on year consistent with the base case variant model. Under this scenario, revenues in year five were approximately 10% lower than in either of the base case models.

The sensitivity of the amounts recorded as an impairment charge to the probabilities assigned to the three scenarios is such that increasing to 80% or reducing to 60% the percentage applied to the two base case scenarios would have resulted in a reduction or increase in the impairment charge of £70.0m respectively.

##### *Growth rates used for periods beyond those covered by management's detailed budgets and plans*

The Group's assumptions reflected a number of different inputs: its own estimates taking into account the long term nature of the industry in which the CGUs operate and their sole source positions, industry estimates where available, the impacts of climate change and other potential structural changes in markets and long term inflation forecasts for the countries in which the CGUs operate. These different assumptions were probability weighted to derive an expected growth rate and the lower of this value and the long-term inflation forecasts for the countries in which the CGUs operate was used. The growth rates used for impairment testing were as follows:

	2020 %	2019 %
Airframe Systems	2.0	2.2
Engine Systems	1.3	2.0
Services & Support	2.1	2.1
Defence Systems	2.2	2.3
Other	0.7-2.2	1.0-2.3

## 17. Goodwill continued

### Discount rates applied to future cash flows

The Group's post-tax weighted average cost of capital (WACC) was used as the foundation for determining the discount rates to be applied. The WACC was adjusted to a pre-tax rate and to reflect risks specific to the CGU or group of CGUs not already reflected in its future cash flows. The pre-tax discount rates used were as follows:

	2020 %	2019 %
Airframe Systems	10.7	10.1
Engine Systems	9.1	9.2
Services & Support	10.4	10.2
Defence Systems	10.6	10.8
Other	8.1-11.0	5.9-10.8

As a result of the impairment test, impairment losses of £335.7m was recognised as an exceptional operating item (see note 10). The impairment charge in the year is analysed by CGU or group of CGUs as follows:

	2020 £m
Airframe Systems	122.3
Engine Systems	199.7
Energy & Equipment – Fribourg	13.7
<b>Total</b>	<b>335.7</b>

At the date the impairment testing was concluded, it was considered reasonably foreseeable that the adverse changes in assumptions set out below could arise and would lead to an increased impairment charge in future accounting periods:

- Probability weighted cash flows move adversely by 5% over the five year period reflecting managements' assessment of reasonably foreseeable changes in the probability weightings applied to the three scenarios modelled. This would lead to additional impairment losses of £213.0m, analysed as losses relating to Airframe Systems of £175.2m, Engine Systems of £31.6m and Energy & Equipment – Fribourg of £6.2m. Goodwill relating to other CGUs and groups of CGUs would not be impacted.
- Long-term growth rates reduce by 25bps reflecting the weighted average movement seen across the CGUs and groups of CGUs for which an impairment has been recognised, since the date of the last impairment test. This would lead to an additional impairment charge of £181.8m, analysed as losses relating to Airframe Systems of £142.7m, Engine Systems of £35.1m and Energy & Equipment – Fribourg of £4.0m. Goodwill relating to other CGUs and groups of CGUs would not be impacted.
- Discount rates applied to future cash flows increase by 50 basis points reflecting the weighted average movement seen across the CGUs and groups of CGUs for which an impairment has been recognised, since the date of the last impairment test. This would lead to additional impairment losses of £195.8m, analysed as losses relating to Airframe Systems of £154.9m, Engine Systems of £36.8m and Energy & Equipment – Fribourg of £4.1m. Goodwill relating to other CGUs and groups of CGUs would not be impacted.

It was also considered reasonably foreseeable that favourable movements in assumptions of similar levels to those adverse movements described could occur. However, under IFRIC 10 'Interim Financial Reporting and Impairment' impairment losses recognised in interim financial statements cannot be reversed in subsequent accounting periods.



## Notes to the consolidated financial statements

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#### 17. Goodwill continued

##### *Impairment testing subsequent to the trigger event*

Under the Group's annual impairment testing cycle, goodwill would normally have been tested at 30 June 2020. In light of the proximity of this date to the trigger date, for which the impairment testing exercise was concluded in Q3 2020, a separate detailed impairment test was not performed at 30 June 2020. Management concluded this was appropriate given any test at 30 June 2020 would have used cash flows derived from the same management estimates used as part of the trigger impairment testing; its assessment of the probability weightings applied to the three scenarios described above had not changed; there had been no change to its assessment of long-term growth rates for periods not covered by management estimates or long-term inflation forecasts for these periods; and discount rates had moved modestly lower (i.e. favourably) between 31 March 2020 and 30 June 2020. Accordingly, the Group concluded that no additional impairment charge would have been recorded as a result of a detailed impairment test at 30 June 2020.

The Group has also assessed whether, at 31 December 2020, there are indicators that an additional impairment charge would be required and concluded that such indicators do not exist. This was supported by a review of:

- assets allocated to each of the CGUs and groups of CGUs, for which an impairment loss was recognised following the trigger event impairment testing. These had decreased modestly between the trigger event impairment test date (after recording the impairment losses) and 31 December 2020;
- cash flow estimates for the periods covered by management estimates. The Group's current five-year base case and downside scenarios, the earlier years of which were used in the going concern assessment judgement (see note 1), and the probability weightings that management would assign to these scenarios, were compared with the equivalent scenarios used for the trigger event impairment test. Between the trigger event impairment testing date and 31 December 2020, whilst a second wave of global lock down restrictions has taken place, there were also a number of vaccines announced which were in the process of obtaining regulatory approval and which, subsequent to the balance sheet date, have received approval and are being rolled out globally. When comparing the current cash flow estimates, which reflect these events and also capture a greater part of the anticipated recovery in the aerospace industry by using the five-year period to 31 December 2025, rather than the five-year period to 31 March 2025 at the impairment test trigger event date, no indicators of an additional impairment were identified;
- growth rates for periods beyond those covered by management estimates. Management's own estimates of long-term growth rates had not changed and long-term inflation forecasts for the countries in which the CGUs and groups of CGUs operate have either remained at the same levels, or increased modestly at 31 December 2020, since the trigger event impairment test date; and
- discount rates at 31 December 2020. These were recalculated at 31 December 2020 and had decreased since the trigger event impairment test for all CGUs and groups of CGUs, thus increasing their value-in-use.

## 18. Development costs and programme participation costs

	Development costs £'m	Programme participation costs £'m
<b>At 1 January 2019</b>		
Cost	774.9	38.0
Accumulated amortisation	(217.8)	(19.8)
<b>Net book amount</b>	<b>557.1</b>	<b>18.2</b>
<b>Year ended 31 December 2019</b>		
Opening net book amount	557.1	18.2
Exchange rate adjustments	(16.3)	(0.7)
Additions – Internal development costs	54.7	–
– Cash payments	–	1.6
Transfers from contract assets	7.2	–
Interest capitalised (see note 12)	2.8	–
Businesses disposed	(0.9)	–
Amortisation - net operating costs	(28.7)	(1.1)
<b>Net book amount</b>	<b>575.9</b>	<b>18.0</b>
<b>At 1 January 2020</b>		
Cost	814.4	38.4
Accumulated amortisation	(238.5)	(20.4)
<b>Net book amount</b>	<b>575.9</b>	<b>18.0</b>
<b>Year ended 31 December 2020</b>		
Opening net book amount	575.9	18.0
Exchange rate adjustments	(7.6)	(0.7)
Additions – Internal development costs	41.4	–
– Cash payments	–	2.6
Transfers to contract assets	(1.8)	–
Disposals	(1.0)	–
Interest capitalised (see note 12)	1.8	–
Businesses disposed (see note 44)	(19.7)	–
Impairment losses*	(25.6)	–
Amortisation - net operating costs	(31.5)	(1.2)
<b>Net book amount</b>	<b>531.9</b>	<b>18.7</b>
<b>At 31 December 2020</b>		
Cost	800.0	39.6
Accumulated amortisation	(268.1)	(20.9)
<b>Net book amount</b>	<b>531.9</b>	<b>18.7</b>

\* Of the impairment losses, £24.5m (2019: £Nil) has been charged to operating exceptional items (see note 10). This relates to programmes where changes in third party fleet forecasts and customer announcements subsequent to the COVID-19 outbreak have required write-downs of the carrying value of capitalised development costs to reflect reduced future expected benefits from these programmes.

The net book amount of development costs includes £423.3m (2019: £447.1m) in respect of Airframe Systems which have an estimated weighted average remaining life of 12.7 years (2019: 13.0 years). Interest has been capitalised using the average rate payable on the Group's floating rate borrowings of 1.2% (2019: 2.0%). Tax relief claimed on interest capitalised in the year is £0.3m (2019: £0.5m).

Although the Group has recorded a material impairment loss in the current year, this has arisen as a result of the unprecedented uncertainty in the aerospace sector in 2020. The Group does not believe there is a significant risk that third party fleet delivery forecasts will fall further in 2021, such that a material impairment loss will be required to be recognised in the next 12 months.

The Group has individually material balances capitalised on the Airbus A220, Bombardier Global 7500/8000, Embraer 450/500, Irkut MC 21, Gulfstream G500/G600, LEAP-X, Dassault Falcon 6X, Boeing 787 and Airbus A321NEO programmes. These programmes have an aggregate net book amount of £318.3m at 31 December 2020 (At 31 December 2019 these programmes had an aggregate net book amount of £319.0m). Of this net book amount, £59.0m (2019: £51.0m) relates to aircraft programmes not yet in service. The Group does not believe that for any of these programmes there is a significant risk of an OEM bankruptcy or programme cancellation in the next 12 months which would give rise to material loss in 2021.

## Notes to the consolidated financial statements

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#### 19. Other intangible assets

	Acquired in business combinations*				
	Customer relationships	Technology	Trade names and trademarks	Software and other assets	Total
	£'m	£'m	£'m	£'m	£'m
<b>At 1 January 2019</b>					
Cost	1,142.6	332.3	32.4	190.6	1,697.9
Accumulated amortisation	(717.8)	(232.5)	(29.2)	(108.0)	(1,087.5)
Net book amount	424.8	99.8	3.2	82.6	610.4
<b>Year ended 31 December 2019</b>					
Opening net book amount	424.8	99.8	3.2	82.6	610.4
Exchange rate adjustments	(11.4)	(2.5)	(0.1)	(1.0)	(15.0)
Additions	–	–	–	17.2	17.2
Disposals	–	–	–	(0.4)	(0.4)
Amortisation – net operating costs	(68.0)	(21.1)	(0.7)	(18.8)	(108.6)
Net book amount	345.4	76.2	2.4	79.6	503.6
<b>At 1 January 2020</b>					
Cost	1,099.9	321.8	30.0	202.4	1,654.1
Accumulated amortisation	(754.5)	(245.6)	(27.6)	(122.8)	(1,150.5)
Net book amount	345.4	76.2	2.4	79.6	503.6
<b>Year ended 31 December 2020</b>					
Opening net book amount	345.4	76.2	2.4	79.6	503.6
Exchange rate adjustments	(6.1)	(1.1)	–	(0.1)	(7.3)
Businesses disposed (see note 44)	–	–	–	(0.1)	(0.1)
Additions	–	–	–	13.2	13.2
Disposals	–	–	–	(0.4)	(0.4)
Amortisation – net operating costs	(67.0)	(20.5)	(0.7)	(19.7)	(107.9)
<b>Net book amount</b>	<b>272.3</b>	<b>54.6</b>	<b>1.7</b>	<b>72.5</b>	<b>401.1</b>
<b>At 31 December 2020</b>					
Cost	1,056.9	282.5	21.7	212.2	1,573.3
Accumulated amortisation	(784.6)	(227.9)	(20.0)	(139.7)	(1,172.2)
<b>Net book amount</b>	<b>272.3</b>	<b>54.6</b>	<b>1.7</b>	<b>72.5</b>	<b>401.1</b>

\* Amortisation of these items is excluded from the Group's underlying profit figures (see note 9).

The net book amount of customer relationships includes £182.8m (2019: £243.0m) in respect of Airframe Systems and £77.3m (2019: £87.7m) in respect of Engine Systems. These have estimated weighted average remaining lives of 4.3 years (2019: 5.0 years) and 12.0 years (2019: 12.8 years), respectively.

The net book amount of technology includes £32.0m (2019: £49.4m) in respect of Airframe Systems and £20.6m (2019: £24.2m) in respect of Engine Systems. These have estimated weighted average remaining lives of 3.3 years (2019: 3.8 years) and 7.7 years (2019: 8.6 years), respectively.

## 20. Property, plant and equipment

	Land and buildings £'m	Plant, equipment and vehicles £'m	Right-of-use assets: property £'m	Right-of-use assets: other £'m	Total £'m
<b>At 1 January 2019</b>					
Cost	218.5	553.6	158.7	4.1	934.9
Accumulated depreciation	(89.8)	(357.4)	(82.0)	(1.7)	(530.9)
Net book amount	128.7	196.2	76.7	2.4	404.0
<b>Year ended 31 December 2019</b>					
Opening net book amount	128.7	196.2	76.7	2.4	404.0
Exchange rate adjustments	(3.1)	(5.8)	(2.1)	(0.2)	(11.2)
Businesses disposed	(4.8)	(1.3)	(0.1)	–	(6.2)
Additions	16.8	60.6	54.1	1.4	132.9
Disposals	(11.7)	(1.1)	–	–	(12.8)
Transfers	8.8	(9.1)	0.3	–	–
Depreciation*	(8.6)	(32.2)	(15.4)	(1.1)	(57.3)
<b>Net book amount**</b>	<b>126.1</b>	<b>207.3</b>	<b>113.5</b>	<b>2.5</b>	<b>449.4</b>
<b>At 1 January 2020</b>					
Cost	221.7	570.3	203.8	4.6	1,000.4
Accumulated depreciation	(95.6)	(363.0)	(90.3)	(2.1)	(551.0)
Net book amount	126.1	207.3	113.5	2.5	449.4
<b>Year ended 31 December 2020</b>					
Opening net book amount	126.1	207.3	113.5	2.5	449.4
Exchange rate adjustments	(1.7)	(3.4)	(1.6)	(0.1)	(6.8)
Businesses disposed (see note 44)	(0.4)	(2.4)	(4.0)	–	(6.8)
Additions	30.8	40.8	10.4	1.0	83.0
Transferred to assets classified as held for sale (see note 22)	–	(0.8)	(0.9)	–	(1.7)
Disposals	(0.2)	(1.2)	–	(0.2)	(1.6)
Transfers	1.9	(1.9)	–	–	–
Depreciation*	(8.3)	(32.4)	(14.8)	(1.2)	(56.7)
<b>Net book amount</b>	<b>148.2</b>	<b>206.0</b>	<b>102.6</b>	<b>2.0</b>	<b>458.8</b>
<b>At 31 December 2020</b>					
Cost	233.2	567.5	188.2	5.0	993.9
Accumulated depreciation	(85.0)	(361.5)	(85.6)	(3.0)	(535.1)
<b>Net book amount**</b>	<b>148.2</b>	<b>206.0</b>	<b>102.6</b>	<b>2.0</b>	<b>458.8</b>

\* The depreciation charge for the year includes £3.8m which has been charged to exceptional operating items (2019: £1.4m).

\*\* Included within the net book amount are assets under construction of £9.2m (2019: £1.1m) relating to land and buildings and £26.9m (2019: £20.2m) relating to plant, equipment and vehicles.

## Notes to the consolidated financial statements

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#### 21. Investments

The Group's investments in its joint ventures, Meggitt UTC Aerospace Systems, LLC (UTC Aero) and HiETA Technologies Limited (HiETA) are accounted for using the equity method and are stated as follows:

	2020 £'m	2019 £'m
At 1 January	14.1	12.9
Exchange rate adjustments	(0.5)	(0.5)
Additions*	10.4	–
Share of (loss)/profit after tax	(3.2)	1.7
<b>At 31 December</b>	<b>20.8</b>	<b>14.1</b>

\* In January 2020, the Group acquired a 33% investment in HiETA Technologies Ltd, a UK company with world-leading capabilities in metal additive manufacturing and a focus on developing new ways to make heat exchangers using additive manufacturing technology. The investment comprised £7.6m paid in cash in the year and contingent consideration of £2.8m.

#### Summarised financial information for the joint ventures

The information below reflects amounts presented in the financial statements of the joint ventures adjusted to reflect the Group's accounting policies (and not the Group's share of those amounts unless otherwise stated).

#### Summarised statement of comprehensive income

	2020			2019
	UTC Aero £'m	HiETA £'m	Total £'m	UTC Aero £'m
<b>Revenue</b>	<b>10.6</b>	<b>2.4</b>	<b>13.0</b>	24.1
Operating (loss)/profit	(2.9)	(3.1)	(6.0)	2.8
Finance costs	(0.2)	(0.2)	(0.4)	(0.1)
(Loss)/profit before tax	(3.1)	(3.3)	(6.4)	2.7
Tax charge	(0.1)	–	(0.1)	(0.2)
(Loss)/profit after tax	(3.2)	(3.3)	(6.5)	2.5
<b>Total comprehensive (expense)/income</b>	<b>(3.1)</b>	<b>(3.3)</b>	<b>(6.4)</b>	2.4

#### Summarised balance sheet

	2020			2019
	UTC Aero £'m	HiETA £'m	Total £'m	UTC Aero £'m
Property, plant and equipment	2.8	2.8	5.6	2.0
Cash and cash equivalents	4.3	0.3	4.6	3.2
Other current assets	7.3	0.6	7.9	9.1
<b>Total current assets</b>	<b>11.6</b>	<b>0.9</b>	<b>12.5</b>	12.3
Financial liabilities (excluding trade payables)	(4.1)	(6.6)	(10.7)	(3.1)
Other liabilities	(8.7)	(1.0)	(9.7)	(6.5)
<b>Total liabilities</b>	<b>(12.8)</b>	<b>(7.6)</b>	<b>(20.4)</b>	(9.6)
<b>Net assets/(liabilities)</b>	<b>1.6</b>	<b>(3.9)</b>	<b>(2.3)</b>	4.7

#### Reconciliation of summarised financial information

	2020			2019
	UTC Aero £'m	HiETA £'m	Total £'m	UTC Aero £'m
Net assets/(liabilities) at 1 January	4.7	(0.6)	4.1	2.3
Total comprehensive (expense)/income	(3.1)	(3.3)	(6.4)	2.4
Net assets/(liabilities) at 31 December	1.6	(3.9)	(2.3)	4.7
Group's interest in joint venture	1.1	(1.3)	(0.2)	3.3
Goodwill	10.4	10.6	21.0	10.8
<b>Group's investment at 31 December</b>	<b>11.5</b>	<b>9.3</b>	<b>20.8</b>	14.1

There are no contingent liabilities relating to the Group's interest in the joint ventures.



## 22. Assets classified as held for sale

In December 2020, the sale of the Group's aircraft ducting business, based in Dunstable UK, together with a small product line from one of the Group's other businesses was agreed. Accordingly, the related assets of the business have been classified as a disposal group held for sale and are presented separately at the balance sheet date together with directly associated liabilities. The sale completed on 30 January 2021 for a cash consideration of £20.2m, subject to an adjustment for working capital in the business at the date of disposal.

	2020	
	Assets classified as held for sale	Liabilities directly associated with assets classified as held for sale
	£'m	£'m
<b>At 1 January 2020</b>	–	–
Additions	14.7	(3.7)
<b>At 31 December 2020</b>	<b>14.7</b>	<b>(3.7)</b>

	Total £'m
Goodwill (see note 17)	3.7
Property, plant and equipment (see note 20)	1.7
Inventories	5.2
Trade and other receivables	4.1
<b>Assets classified as held for sale</b>	<b>14.7</b>
Trade and other payables	(1.4)
Contract liabilities	(1.1)
Provisions (see note 34)	(0.1)
Lease liabilities	(1.1)
<b>Liabilities directly associated with assets classified as held for sale</b>	<b>(3.7)</b>

## 23. Inventories

	2020 £'m	2019 £'m
Raw materials and bought-in components	163.3	175.8
Manufacturing work in progress	160.3	205.8
Finished goods and goods for resale	103.3	108.2
<b>Total</b>	<b>426.9</b>	<b>489.8</b>

The cost of inventories recognised as an expense and included within cost of sales is £1,080.9m (2019: £1,353.3m). The cost of inventories recognised as an expense includes £13.4m (2019: £7.2m) in respect of write-downs of inventory to net realisable value. Of this write-down, £8.6m (2019: £Nil) has been recognised as an exceptional operating item (see note 10). This relates to inventory held for specific older aircraft programmes, where customer announcements with regards to the future operations of the existing fleet made subsequent to the COVID-19 outbreak, have required write-downs of inventory to reflect the new significantly reduced demand. The cost of inventories recognised as an expense has been reduced by £3.3m (2019: £3.6m) in respect of the reversal of write-downs of inventory to net realisable value made in previous years.

## Notes to the consolidated financial statements

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#### 24. Trade and other receivables

	2020 £'m	2019 £'m
Trade receivables	198.8	330.4
Prepayments	12.5	18.2
Other receivables	39.8	31.3
<b>Current portion</b>	<b>251.1</b>	<b>379.9</b>
Other receivables	16.5	17.0
<b>Non-current portion</b>	<b>16.5</b>	<b>17.0</b>
<b>Total</b>	<b>267.6</b>	<b>396.9</b>

As at 31 December 2020, £7.9 million was due from one of the joint ventures (2019: £4.2 million) and is included within trade receivables.

Other receivables include £18.8m (2019: £17.0m) in respect of amounts recoverable from insurers and other third parties, principally relating to businesses sold by Whittaker Corporation prior to its acquisition by the Group, of which £5.0m (2019: £2.2m) is shown as current (see note 34).

The Group does not hold any collateral as security. Trade and other receivables are denominated in the following currencies:

	2020 £'m	2019 £'m
Sterling	46.1	51.7
US dollar	189.3	309.7
Euro	19.3	23.2
Other	12.9	12.3
<b>Total</b>	<b>267.6</b>	<b>396.9</b>

#### 25. Contract assets

	2020 £'m	2019 £'m
Conditional rights to consideration on over time contracts	45.7	63.8
Programme participation cash payments	3.1	2.5
<b>Current portion</b>	<b>48.8</b>	<b>66.3</b>
Conditional rights to consideration on over time contracts	24.6	25.4
Programme participation cash payments	35.0	29.8
<b>Non-current portion</b>	<b>59.6</b>	<b>55.2</b>
<b>Total</b>	<b>108.4</b>	<b>121.5</b>

Amortisation of programme participation cash payments of £3.1m (2019: £2.6m) has been recognised as a reduction in revenue in the year. Cumulative catch-up adjustments to revenue recognised in a prior period, arising from changes in the current year in the measure of progress or contract price on contract assets were £0.4m (2019: £1.2m).

#### 26. Cash and cash equivalents

	2020 £'m	2019 £'m
Cash at bank and on hand	178.6	136.2
Short-term bank deposits	–	19.1
<b>Total</b>	<b>178.6</b>	<b>155.3</b>

Cash and cash equivalents are subject to interest at floating rates.

## 27. Trade and other payables

	2020 £'m	2019 £'m
Trade payables	131.4	222.0
Social security and other taxes	10.7	12.5
Accrued expenses	58.5	72.2
Other payables	95.9	157.8
<b>Current portion</b>	<b>296.5</b>	<b>464.5</b>
Other payables	8.5	2.1
<b>Non-current portion</b>	<b>8.5</b>	<b>2.1</b>
<b>Total</b>	<b>305.0</b>	<b>466.6</b>

Other payables include £23.5m (2019: £48.3m) due to banks in respect of the Group's supplier financing programme. No amounts due under the programme met the requirements to be classified as bank borrowings (2019: £Nil).

## 28. Contract liabilities

	2020 £'m	2019 £'m
Contributions received from customers during development phase of programmes	1.7	1.0
Cost per brake landing/power by the hour contracts	4.9	6.6
Other consideration received in advance of performance	44.2	42.9
<b>Current portion</b>	<b>50.8</b>	<b>50.5</b>
Contributions received from customers during development phase of programmes	45.1	40.9
Cost per brake landing/power by the hour contracts	5.2	9.1
Other consideration received in advance of performance	23.6	27.0
<b>Non-current portion</b>	<b>73.9</b>	<b>77.0</b>
<b>Total</b>	<b>124.7</b>	<b>127.5</b>

Revenue recognised in the year relating to amounts recognised as a contract liability at the beginning of the year was £36.1m (2019: £43.9m). Cumulative catch-up adjustments to revenue recognised in a prior year, arising from changes in the current year in the measure of progress or contract price on contract liabilities were £0.7m (2019: £2.6m).

The aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partly satisfied at 31 December 2020 is £208.6m (2019: £366.1m). Of this aggregate amount, the Group expects to recognise £161.4m (2019: £112.5m) as revenue during 2021, with the balance recognised in more than one year but not more than five years. The Group has taken the practical expedients available in IFRS 15 not to include amounts relating to contracts which have an expected duration of less than 12 months when received, or amounts relating to contracts for which revenue is recognised using a method whereby the value to the customer corresponds to the right to invoice the customer.

## Notes to the consolidated financial statements

### continued

#### 29. Current tax liabilities

	Note	2020 £'m	2019 £'m
UK Controlled Foreign Company (CFC) regime	a	18.3	18.3
Other liabilities in respect of uncertain tax positions	b	30.8	28.7
Other current tax liabilities		7.8	34.6
<b>Current tax liabilities</b>		<b>56.9</b>	<b>81.6</b>

- a. In April 2019, the European Commission announced its decision that state aid partially applies to one of the UK's CFC exemptions that was utilised by the Group. This decision has been appealed by the UK Government and the Group has also lodged its own separate appeal. There are a number of uncertainties that remain to be resolved, including the results of the appeals processes and, should these be unsuccessful, the extent to which historical tax benefits received by the Group are deemed to have derived from financing activities performed in the UK rather than overseas. In making an assessment of the appropriate tax liability related to historical tax benefits received by the Group under the CFC regime, the Group has estimated that the most likely outcome is that the appeals will not be successful and accordingly a liability for the Group's estimated exposure is held.

Pending the outcome of these appeals, the UK tax authorities have an obligation to collect amounts due from UK businesses and the Group. On 17 December 2020, the Taxation (Post-transition Period) Act 2020 received Royal Assent which gave the UK tax authorities specific powers to recover amounts considered due from UK businesses and in late February 2021 the Group received an assessment from the UK tax authority. The assessment is in line with the amounts provided and payments will be made in the first half of 2021. As such, the Group does not consider there to be a significant risk of a material adjustment to the liability recognised within the next 12 months.

Separate to the state aid uncertainty, the Group is also in discussion with the UK tax authorities over the applicability of one of the UK's CFC exemptions utilised by the Group under UK domestic law. As such, in the event that the state aid appeals are successful, an element of the £18.3m provision would remain until resolution of the discussions with the UK tax authorities.

- b. In determining the Group's tax liabilities, it is also necessary to consider other transactions in key tax jurisdictions for which the ultimate tax determination is uncertain. The Group's tax liabilities for these matters reflect a number of estimates where the amount of tax payable is either currently under audit by the tax authorities or relates to a period which has yet to be audited. These areas include the deductibility of interest on certain borrowings used to finance acquisitions made by the Group and the value at which goods and services are transferred between Group companies. The nature of the items, for which a liability is held, is such that the final outcome could vary from the amounts recognised once a final tax determination is made, although currently none of these exposures are considered individually material. To the extent the estimated final outcome differs from the tax that has been provided, adjustments will be made to the liabilities held in the period the determination is made. The Group does not consider there to be a significant risk of a material adjustment to the liabilities recognised within the next 12 months.

#### 30. Lease liabilities

The Group leases various factories, warehouses, offices, plant and equipment. The following amounts are included in the Group's consolidated financial statements in respect of its leases:

	2020 £'m	2019 £'m
Depreciation charge for right-of-use assets (see note 20)	16.0	16.5
Additions to right-of-use assets (see note 20)*	11.4	55.5
Net book amount of right-of-use assets (see note 20)	104.6	116.0
Interest on lease liabilities (see note 12)	6.0	5.0
Expense related to short-term leases and low-value assets	0.6	0.1
Net cash outflow for leases**	17.9	1.4

\* In 2019, this includes £38.4m relating to the new Ansty Park site which has a lease term of 30 years.

\*\* Comprises capital payments of £15.4m (2019: £16.2m) and interest payments of £6.0m (2019: £4.1m), less a reverse lease premium received of £3.5m (2019: £18.9m) relating to the new Ansty Park site.

Analysis of lease liabilities:

	Present value of minimum lease payments	
	2020 £'m	2019 £'m
In one year or less	14.7	16.4
In more than one year but not more than five years	45.4	51.8
In more than five years	84.2	84.4
<b>Present value of lease liabilities</b>	<b>144.3</b>	<b>152.6</b>
<b>Current portion</b>	<b>14.7</b>	<b>16.4</b>
<b>Non-current portion</b>	<b>129.6</b>	<b>136.2</b>

### 31. Bank and other borrowings

	2020 £'m	2019 £'m
Bank loans	2.2	0.2
Other loans	8.3	219.2
<b>Current portion</b>	<b>10.5</b>	<b>219.4</b>
Bank loans	43.7	141.4
Other loans	753.1	553.1
<b>Non-current portion</b>	<b>796.8</b>	<b>694.5</b>
<b>Total</b>	<b>807.3</b>	<b>913.9</b>
Analysis of bank and other borrowings repayable:		
In one year or less	10.5	219.4
In more than one year but not more than five years	577.4	467.8
In more than five years	219.4	226.7
<b>Total</b>	<b>807.3</b>	<b>913.9</b>
Analysis of bank and other borrowings:		
Drawn under committed facilities	795.9	898.4
Drawn under uncommitted facilities	2.2	–
Less unamortised debt issue costs	(2.4)	(0.8)
Fair value adjustment to fixed rate borrowings	3.3	6.7
Interest accruals	8.3	9.6
<b>Total</b>	<b>807.3</b>	<b>913.9</b>

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 at notional value:

	2020			2019		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
2010 Senior notes (USD125.0m)	91.6	–	91.6	302.8	–	302.8
2016 Senior notes (USD600.0m)	439.5	–	439.5	454.2	–	454.2
2020 Senior notes (USD300.0m)	219.8	–	219.8	–	–	–
Syndicated credit facility (USD750.0m)	–	549.4	549.4	141.4	426.4	567.8
Bilateral facility (USD125.0m)	–	91.5	91.5	–	94.6	94.6
Bilateral facility (GBP100.0m)	–	100.0	100.0	–	100.0	100.0
Bilateral facility (GBP45.0m)	45.0	–	45.0	–	45.0	45.0
<b>Committed facilities</b>	<b>795.9</b>	<b>740.9</b>	<b>1,536.8</b>	<b>898.4</b>	<b>666.0</b>	<b>1,564.4</b>

The Group issued USD400m of loan notes to private placement investors in 2010. The notes comprised three tranches as follows: USD125m carried an interest rate of 5.02% and were repaid in June 2020; USD150m carried an interest rate of 5.17% and were repaid in October 2020; and the remaining USD125m carry an interest rate of 5.12% and are due for repayment in June 2022. These loan notes are designated as fair value through profit and loss and are in a hedge relationship with the Group's interest rate swaps.

The Group issued USD600m of loan notes to private placement investors in 2016. The notes comprise two tranches as follows: USD300m carry an interest rate of 3.31% and are due for repayment in July 2023; and USD300m carry an interest rate of 3.60% and are due for repayment in July 2026. These loan notes are designated as net investment hedges of the net assets of USD denominated subsidiaries.

The Group issued USD300m of loan notes to private placement investors in 2020. The notes comprise two tranches as follows: USD100m carry an interest rate of 2.78% and are due for repayment in November 2023; and USD200m carry an interest rate of 3.00% and are due for repayment in November 2025.

In 2014, the Group secured a five-year USD900m syndicated revolving credit facility which the Group reduced to USD750m in 2017 and which matures in September 2021. During 2020, the Group secured a new one year USD575m multi-currency facility maturing in September 2022 which will replace the USD750m facility in September 2021. At 31 December 2020, the amounts drawn under the facility are £Nil (2019: £141.4m). Borrowings under the facility are subject to interest at floating rates which are linked to LIBOR.

During 2019, the Group signed three new committed term loan bilateral facility agreements with its relationship banks. They comprise a USD125m facility with Bank of America, a GBP100m facility with Sumitomo Mitsui Banking Corporation and a GBP45m facility with Caixabank. The USD facility matures in June 2023 and the two GBP facilities mature in January 2024. Borrowings under the facilities are subject to interest at floating rates which are linked to LIBOR.



## Notes to the consolidated financial statements

### continued

#### 31. Bank and other borrowings continued

Committed facilities expire as follows:

	2020			2019		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
In one year or less*	–	128.2	128.2	208.2	–	208.2
In more than one year but not more than five years	576.1	612.7	1,188.8	463.1	666.0	1,129.1
In more than five years	219.8	–	219.8	227.1	–	227.1
<b>Committed facilities</b>	<b>795.9</b>	<b>740.9</b>	<b>1,536.8</b>	<b>898.4</b>	<b>666.0</b>	<b>1,564.4</b>

\* Comprises the USD175.0m element of the USD750.0m revolving credit facility which expires in September 2021 and will not be replaced by the new USD575.0m facility.

The Group also has various uncommitted facilities with its relationship banks. At 31 December 2020, £2.2m (2019: £Nil) was drawn under these facilities.

Additionally, the Group has been confirmed as an eligible issuer under the Bank of England's and HM Treasury's Covid Corporate Financing Facility (CCFF), under which the Group can draw up to £600m. The Group is eligible to issue commercial paper under this facility (subject to certain terms and restrictions) up to and including 22 March 2021, with a maturity period of up to 12 months. The Group has no commercial paper issued under this facility at 31 December, 2020 or at the date these consolidated financial statements were approved by the Board.

After taking account of financial derivatives entered into by the Group that alter the interest basis of its financial liabilities, the interest rate exposure on bank and other borrowings is:

#### At 31 December 2020:

	Floating	Fixed	Total	Fixed rate borrowings	
				Weighted average interest rate	Weighted average period for which rate is fixed
	£'m	£'m	£'m	%	Years
US dollar*	(133.1)	672.9	539.8		
Swiss franc	–	166.4	166.4		
Euro	–	58.5	58.5		
Sterling	45.0	–	45.0		
Gross bank and other borrowings	(88.1)	897.8	809.7	2.4	3.1
Less: unamortised debt issue costs	(1.4)	(1.0)	(2.4)		
<b>Bank and other borrowings</b>	<b>(89.5)</b>	<b>896.8</b>	<b>807.3</b>		

\* Part of the proceeds from the issue of USD 300m senior notes at fixed interest rates in the year, has been used to reduce the level of gross USD borrowings held at floating rates. Prior to this reduction, the Group had entered cross currency derivatives, which have not yet matured, and which convert USD floating rate borrowings into fixed rate borrowings denominated in Swiss francs and euros (see note 33). At 31 December 2020, the notional amounts of these cross currency swaps exceeds the gross value of USD floating rate borrowings and accordingly a negative value is reported in the table above for floating rate USD borrowings after taking account of these financial derivatives.

#### At 31 December 2019:

	Floating	Fixed	Total	Fixed rate borrowings	
				Weighted average interest rate	Weighted average period for which rate is fixed
	£'m	£'m	£'m	%	Years
US dollar	76.1	546.1	622.2		
Swiss franc	–	156.6	156.6		
Euro	–	55.2	55.2		
Sterling	80.7	–	80.7		
Gross bank and other borrowings	156.8	757.9	914.7	2.5	3.2
Less: unamortised debt issue costs	(0.1)	(0.7)	(0.8)		
<b>Bank and other borrowings</b>	<b>156.7</b>	<b>757.2</b>	<b>913.9</b>		

The weighted average interest rate reflects the relative impact of interest rates based on the principal amounts and the duration of borrowings.

### 31. Bank and other borrowings continued

#### Hedges of net investments in foreign subsidiaries

The Group manages risks in respect of net operating assets held in foreign currencies by holding foreign currency denominated loans.

	2020 £'m	2019 £'m
Carrying value at 1 January	461.1	477.6
Gain recognised in net finance costs due to movements in accrued interest and debt costs	(0.1)	(0.2)
Gain recognised in other comprehensive income due to exchange rate movements	(14.7)	(16.3)
<b>Carrying value at 31 December</b>	<b>446.3</b>	461.1

Cumulative translation adjustments recognised in other comprehensive income in relation to continuing net investment hedge loans are a gain of £15.8m (2019: £1.1m gain). Net investment hedges are considered effective unless the value of the hedging instrument exceeds the value of the hedged item. No ineffectiveness arose in either 2020 or 2019.

### 32. Financial instruments

#### At 31 December 2020:

	Held at fair value		Held at amortised cost			
	Through profit & loss	Derivatives designated for hedging	Assets	Liabilities	Total book value	Total fair value
	£'m	£'m	£'m	£'m	£'m	£'m
Non-current:						
Other receivables (see note 24)	-	-	16.5	-	16.5	16.5
Contract assets*	-	-	24.6	-	24.6	24.6
Derivative financial instruments (see note 33)	9.9	5.1	-	-	15.0	15.0
Current:						
Trade and other receivables**	-	-	238.6	-	238.6	238.6
Contract assets*	-	-	45.7	-	45.7	45.7
Derivative financial instruments (see note 33)	5.4	-	-	-	5.4	5.4
Cash and cash equivalents (see note 26)	-	-	178.6	-	178.6	178.6
<b>Financial assets</b>	<b>15.3</b>	<b>5.1</b>	<b>504.0</b>	<b>-</b>	<b>524.4</b>	<b>524.4</b>
Current:						
Trade and other payables***	-	-	-	(285.8)	(285.8)	(285.8)
Contract liabilities (see note 28)	-	-	-	(50.8)	(50.8)	(50.8)
Derivative financial instruments (see note 33)	(21.6)	-	-	-	(21.6)	(21.6)
Lease liabilities (see note 30)	-	-	-	(14.7)	(14.7)	(14.7)
Bank and other borrowings (see note 31)	-	-	-	(10.5)	(10.5)	(10.5)
Non-current:						
Other payables (see note 27)	-	-	-	(8.5)	(8.5)	(8.5)
Contract liabilities (see note 28)	-	-	-	(73.9)	(73.9)	(73.9)
Derivative financial instruments (see note 33)	(0.3)	-	-	-	(0.3)	(0.3)
Lease liabilities (see note 30)	-	-	-	(129.6)	(129.6)	(129.6)
Bank and other borrowings (see note 31)	(95.0)	-	-	(701.8)	(796.8)	(813.1)
<b>Financial liabilities</b>	<b>(116.9)</b>	<b>-</b>	<b>-</b>	<b>(1,275.6)</b>	<b>(1,392.5)</b>	<b>(1,408.8)</b>
<b>Total</b>	<b>(101.6)</b>	<b>5.1</b>	<b>504.0</b>	<b>(1,275.6)</b>	<b>(868.1)</b>	<b>(884.4)</b>

\* Excludes non-current programme participation costs of £35.0m and current programme participation costs of £3.1m (see note 25).

\*\* Excludes prepayments of £12.5m (see note 24).

\*\*\* Excludes social security and other taxes of £10.7m (see note 27).

## Notes to the consolidated financial statements

### continued

#### 32. Financial instruments continued

**At 31 December 2019:**

	Held at fair value		Held at amortised cost		Total book value	Total fair value
	Through profit & loss	Derivatives designated for hedging	Assets	Liabilities		
	£'m	£'m	£'m	£'m	£'m	£'m
Non-current:						
Other receivables (see note 24)	-	-	17.0	-	17.0	17.0
Contract assets*	-	-	25.4	-	25.4	25.4
Derivative financial instruments (see note 33)	9.5	5.1	-	-	14.6	14.6
Current:						
Trade and other receivables**	-	-	361.7	-	361.7	361.7
Contract assets*	-	-	63.8	-	63.8	63.8
Derivative financial instruments (see note 33)	2.0	1.8	-	-	3.8	3.8
Cash and cash equivalents (see note 26)	-	-	155.3	-	155.3	155.3
Financial assets	11.5	6.9	623.2	-	641.6	641.6
Current:						
Trade and other payables***	-	-	-	(452.0)	(452.0)	(452.0)
Contract liabilities (see note 28)	-	-	-	(50.5)	(50.5)	(50.5)
Derivative financial instruments (see note 33)	(16.5)	-	-	-	(16.5)	(16.5)
Lease liabilities (see note 30)	-	-	-	(16.4)	(16.4)	(16.4)
Bank and other borrowings (see note 31)	(134.7)	-	-	(84.7)	(219.4)	(220.7)
Non-current:						
Other payables (see note 27)	-	-	-	(2.1)	(2.1)	(2.1)
Contract liabilities (see note 28)	-	-	-	(77.0)	(77.0)	(77.0)
Derivative financial instruments (see note 33)	(4.6)	-	-	-	(4.6)	(4.6)
Lease liabilities (see note 30)	-	-	-	(136.2)	(136.2)	(136.2)
Bank and other borrowings (see note 31)	(99.9)	-	-	(594.6)	(694.5)	(702.7)
Financial liabilities	(255.7)	-	-	(1,413.5)	(1,669.2)	(1,678.7)
Total	(244.2)	6.9	623.2	(1,413.5)	(1,027.6)	(1,037.1)

\* Excludes non-current programme participation costs of £29.8m and current programme participation costs of £2.5m (see note 25).

\*\* Excludes prepayments of £18.2m (see note 24).

\*\*\* Excludes social security and other taxes of £12.5m (see note 27).

#### Fair value measurement and hierarchy

For trade and other receivables, contract assets, cash and cash equivalents, trade and other payables, contract liabilities and floating rate bank and other borrowings, fair values approximate to book values due to the short maturity periods of these financial instruments. For trade and other receivables and contract assets, allowances are made within their book value for credit risk. Lease liabilities are outside the scope of IFRS 7 "Financial Instruments: Disclosures" with regards to fair value disclosures.

Derivative financial instruments measured at fair value, are classified as level 2 in the fair value measurement hierarchy, as they have been determined using significant inputs based on observable market data. The fair values of interest rate derivatives have been derived from forward interest rates based on yield curves observable at the balance sheet date and contractual interest rates. The fair values of foreign currency forward contracts have been derived from forward exchange rates observable at the balance sheet date and contractual forward rates. The fair values of cross currency derivatives have been derived from forward interest rates based on yield curves observable at the balance sheet date, forward exchange rates observable at the balance sheet date and contractual interest and forward rates. Credit risk is not significant for these instruments.

The current and non-current elements of fixed rate bank and other borrowings measured at fair value, are classified as level 3 in the fair value measurement hierarchy, as they have been determined using significant inputs which are a mixture of those based on observable market data (interest rate risk) and those not based on observable market data (credit risk). The fair values attributable to interest rate risk have been derived from forward interest rates based on yield curves observable at the balance sheet date and contractual interest rates, with the credit risk margin kept constant. The fair values attributable to credit risk have been derived from quotes from lenders for borrowings of similar amounts and maturity periods. The same methods of valuation have been used to derive the fair values of the current and non-current elements of fixed rate bank and other borrowings which are held at amortised cost, but for which fair values are provided in the tables above.

There were no transfers of assets or liabilities between levels of the fair value hierarchy in the year.

### 32. Financial instruments continued

#### Impairment of financial assets

Trade receivables and contract assets are stated after a loss allowance of £12.4m (2019: £6.1m). Movements in the loss allowance during the year are as follows:

	2020 £'m	2019 £'m
<b>At 1 January</b>	<b>6.1</b>	<b>7.1</b>
Exchange rate adjustments	(0.2)	(0.1)
Businesses disposed	(0.2)	
Utilised	(1.1)	(1.6)
Charge to income statement – net operating costs*	7.8	0.7
<b>At 31 December</b>	<b>12.4</b>	<b>6.1</b>

\* Includes £5.4m (2019: £Nil) which has been charged to exceptional operating items (see note 10). This relates to additional expected credit loss allowances recognised as a result of the uncertainty facing the commercial aerospace industry and a number of airline operator bankruptcies subsequent to the COVID-19 outbreak.

The loss allowance is determined by reference to the ageing of gross balances which at 31 December 2020 is as follows:

	2020 £'m	2019 £'m
Current	235.7	351.0
Up to 1 month past due	20.7	41.3
Up to 2 months past due	7.3	14.3
Up to 3 months past due	4.1	5.1
More than 3 months past due	13.7	14.0
Gross balances	281.5	425.7
Loss allowance	(12.4)	(6.1)
<b>Total</b>	<b>269.1</b>	<b>419.6</b>
Represented by:		
Trade receivables – current (see note 24)	198.8	330.4
Contract assets – current (see note 25)	45.7	63.8
Contract assets – non-current (see note 25)	24.6	25.4
<b>At 31 December</b>	<b>269.1</b>	<b>419.6</b>

The maximum exposure to credit risk at the balance sheet date is the fair value of each class of financial asset reported above. Other receivables and cash and cash equivalents are also subject to the impairment requirements of IFRS 9, however the identified impairment loss was not significant. The credit quality of the financial institutions where cash and cash equivalents is held are as follows:

	2020 £'m	2019 £'m
Moody's rating:		
Aa	176.0	122.3
A	2.2	33.0
Baa	0.3	–
<b>Total</b>	<b>178.5</b>	<b>155.3</b>

## Notes to the consolidated financial statements

### continued

#### 32. Financial instruments continued

##### **Financial liabilities designated as fair value through profit and loss**

The Group designates loans that are in a hedge relationship with interest rate swaps as fair value through profit and loss. The difference between fair values and contractual amounts at maturity of the current and non-current elements of bank and other borrowings designated as fair value through profit and loss is as follows:

	2020 £'m	2019 £'m
Contractual amount payable at maturity	91.6	227.1
Cumulative fair value adjustments arising from changes in interest rate risk	4.8	6.4
Cumulative fair value adjustments arising from changes in credit risk	(1.5)	0.3
Accrued interest and debt costs	0.1	0.8
<b>Fair value</b>	<b>95.0</b>	<b>234.6</b>

Changes in fair value in the year are as follows:

	2020 £'m	2019 £'m
Bank and other borrowings at fair value through profit and loss:		
At 1 January	234.6	242.7
Exchange rate adjustments	2.6	(8.1)
Settled upon maturity	(138.1)	–
Gain recognised in net operating costs due to interest rate risk (see note 9)	(1.6)	(0.1)
(Gain)/loss recognised in net finance costs due to movements in accrued interest and debt costs	(0.7)	0.1
Gain recognised in other comprehensive income due to changes in credit risk	(1.8)	–
<b>At 31 December</b>	<b>95.0</b>	<b>234.6</b>

The largest movement in credit spread seen in a six-month period since inception of the borrowings is 100 basis points. A 100 basis point movement in the credit spread, used as an input in determining fair values at 31 December 2020, would impact other comprehensive income by approximately £1.4m.

#### 33. Derivative financial instruments

##### **At 31 December 2020:**

	Contract or underlying principal amount		Fair value	
	Assets £'m	Liabilities £'m	Assets £'m	Liabilities £'m
Cross currency swaps – not hedge accounted	–	(299.5)	–	(20.0)
Foreign currency forward contracts – not hedge accounted	182.6	(40.3)	5.4	(1.6)
<b>Current portion</b>	<b>182.6</b>	<b>(339.8)</b>	<b>5.4</b>	<b>(21.6)</b>
Interest rate swaps – fair value hedges	91.6	–	5.1	–
Foreign currency forward contracts – not hedge accounted	172.0	(85.7)	9.9	(0.3)
<b>Non-current portion</b>	<b>263.6</b>	<b>(85.7)</b>	<b>15.0</b>	<b>(0.3)</b>
<b>Total</b>	<b>446.2</b>	<b>(425.5)</b>	<b>20.4</b>	<b>(21.9)</b>



### 33. Derivative financial instruments continued

At 31 December 2019:

	Contract or underlying principal amount		Fair value	
	Assets £'m	Liabilities £'m	Assets £'m	Liabilities £'m
Interest rate swaps – fair value hedges	132.4	–	1.8	–
Cross currency swaps – not hedge accounted	–	(211.8)	–	(6.8)
Foreign currency forward contracts – not hedge accounted	56.2	(216.5)	2.0	(9.7)
Current portion	188.6	(428.3)	3.8	(16.5)
Interest rate swaps – fair value hedges	94.6	–	5.1	–
Foreign currency forward contracts – not hedge accounted	207.4	(199.2)	9.5	(4.6)
Non-current portion	302.0	(199.2)	14.6	(4.6)
Total	490.6	(627.5)	18.4	(21.1)

#### Credit quality of derivative financial assets

The credit quality of derivative financial assets is as follows:

	2020 £'m	2019 £'m
Moody's rating:		
Aa	8.1	6.6
A	12.3	11.8
<b>Total</b>	<b>20.4</b>	18.4

The maximum exposure to credit risk at the balance sheet date is the fair value of the derivative financial instruments.

#### Interest rate swaps

The Group currently holds fixed to floating interest rate swap contracts, denominated in US dollars, that have the economic effect of converting fixed rate US dollar borrowings into floating rate US dollar borrowings. To the extent they continue to meet the criteria for hedge accounting, the contracts are accounted for as fair value hedges.

The total notional principal amount of outstanding interest rate swap contracts at 31 December 2020 is USD125m (2019: USD300m) which will expire in 2022. The weighted average floating rate payable on the swap contracts in 2020 was LIBOR +1.1% (2019: LIBOR +1.1%).

Any difference recognised in the income statement between movements in the fair value of the interest rate swaps and the fixed rate borrowings is considered to be hedge ineffectiveness. Possible sources of ineffectiveness arise from changes in the credit risk of either party to the derivative contract and timing differences on cashflows between the derivative and hedged item. The fair value hedge ineffectiveness recognised in the year is £Nil (2019: credit of £0.4m) (see note 9).

#### Cross currency swaps

The cross currency swap contracts are used to synthetically convert US dollar denominated floating borrowings into Swiss franc and euro denominated fixed borrowings to commercially hedge against Swiss franc and euro denominated assets of foreign subsidiaries. The contracts do not qualify to be hedge accounted.

#### Foreign currency forward contracts

Although the Group uses foreign currency forward contracts to hedge against foreign currency exposures, it has decided the costs of meeting the extensive documentation requirements to be able to apply hedge accounting under IFRS 9 'Financial Instruments' are not merited. Foreign currency forward contracts are analysed as follows:

	2020		2019	
	Assets £'m	Liabilities £'m	Assets £'m	Liabilities £'m
Fair value:				
US dollar/sterling forward sales	12.7	(1.7)	11.4	(10.8)
Forward sales denominated in other currencies	2.6	(0.2)	0.1	(3.3)
<b>Total</b>	<b>15.3</b>	<b>(1.9)</b>	11.5	(14.1)

## Notes to the consolidated financial statements

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#### 34. Provisions

	Provisions					Environmental receivables
	Environmental (a) £'m	Onerous contracts (b) £'m	Warranty costs (c) £'m	Other (d) £'m	Total £'m	(a) £'m
<b>At 1 January 2020</b>	66.7	13.3	14.8	5.8	100.6	(17.0)
Exchange rate adjustments	(2.7)	(0.3)	(0.1)	0.3	(2.8)	0.7
Businesses disposed	–	(0.7)	(0.1)	–	(0.8)	–
Transferred to assets classified as held for sale (see note 22)	–	–	(0.1)	–	(0.1)	–
Additional provisions/(receivables recognised) in year*	16.0	6.5	8.0	10.7	41.2	(16.0)
Unused amounts reversed*	–	(0.2)	(2.2)	(2.4)	(4.8)	–
Charge/(credit) to net finance costs (see notes 12 and 11 respectively)	0.7	–	–	–	0.7	(0.2)
Transfers to trade and other payables	–	(0.5)	–	–	(0.5)	–
Amounts (utilised)/settled	(8.0)	(5.1)	(4.3)	(3.2)	(20.6)	13.7
<b>At 31 December 2020</b>	<b>72.7</b>	<b>13.0</b>	<b>16.0</b>	<b>11.2</b>	<b>112.9</b>	<b>(18.8)</b>
					<b>2020 £'m</b>	<b>2019 £'m</b>
Current					<b>32.6</b>	36.2
Non-current					<b>80.3</b>	64.4
<b>At 31 December</b>					<b>112.9</b>	100.6

\* Amounts in respect of environmental provisions and £7.8m in respect of other provisions have been recognised in net operating costs. Amounts in respect of onerous contracts, warranty costs and £2.9m in respect of other provisions have been recognised in cost of sales.

- a. 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. In determining the provision to be recognised, advice is received by the Group from its environmental consultants and legal advisors to assist in the estimate of the level and timing of remediation costs, including the period for which operations and monitoring (O&M) activities will be required. These estimates are revised regularly as remediation activities progress and further information is obtained on the extent of activities for which the Group is responsible. As the cumulative period for which groundwater testing has been performed increases, the results of the testing provide a more reliable estimate of the extent to which these activities will continue to be required in the future. Over the last three years, based on testing performed, the estimated period for which O&M activities will be required has increased by five years at the majority of sites. Given the recent revisions to O&M periods, the Group no longer believes that it is reasonably foreseeable that any increases to O&M periods will be required in the next 12 months which would result in a material increase to the level of provision required. Whilst annual reductions and increases in estimated site remediation costs, excluding those relating to increases in O&M periods, have been experienced over recent years, the Group no longer believes that it is reasonably foreseeable that any changes to these estimates in the next 12 months would result in a material adjustment to the level of provision required. Provisions are expected to be substantially utilised over the next 20 years and are discounted using an appropriate discount rate.

The Group has insurance arrangements in place which, together with other agreements with third parties, partly mitigates the ongoing impact of historical environmental events on the Group. A receivable has been established to the extent these costs are virtually certain to be 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). The Group is currently in litigation with a number of historic insurers over the extent to which they are responsible for past and future remediation costs. No amounts have been recognised as receivables in respect of these actions as recovery is not virtually certain. The Group does not currently believe it is reasonably foreseeable that in the next 12 months, material amounts will be recognised as receivables in respect of these ongoing legal actions.

- b. Provision has been made for estimated losses under certain trading contracts. Provisions are expected to be substantially utilised over the next five years and are not discounted given the short period over which they will be utilised.
- c. Provision has been made for product warranty claims. Provisions are expected to be substantially utilised over the next three years and are not discounted given the short period over which they will be utilised.
- 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. 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. In addition, a provision of £6.4m has been recognised in the year relating to the restructuring of certain of the Group's operations. This provision is expected to be utilised over the next two years and is not discounted given the short period over which it will be utilised.

### 35. Deferred tax

Movements in deferred tax assets and liabilities without taking into consideration the offsetting of balances, are analysed below:

	Assets £'m	Liabilities £'m	Net £'m
<b>At 1 January 2019</b>	125.4	(271.0)	(145.6)
Exchange rate adjustments	(2.7)	8.2	5.5
Reclassifications	2.5	(2.5)	–
Charge to income statement (see note 13)	(15.2)	9.1	(6.1)
Credit to other comprehensive income (see note 13)	12.2	–	12.2
Credit to equity (see note 13)	2.0	–	2.0
<b>At 31 December 2019</b>	124.2	(256.2)	(132.0)
Exchange rate adjustments	(3.1)	5.2	2.1
Businesses disposed (see note 44)	(0.7)	7.4	6.7
Reclassifications	(1.9)	1.9	–
Credit to income statement (see note 13)	6.7	31.9	38.6
Credit to other comprehensive income (see note 13)	12.4	–	12.4
Charge to equity (see note 13)	(2.0)	–	(2.0)
<b>At 31 December 2020</b>	<b>135.6</b>	<b>(209.8)</b>	<b>(74.2)</b>

Movements in gross deferred tax assets are analysed as follows:

	Provisions	Retirement benefit obligations	Assets Contract liabilities	Other (*)	Total
	£'m	£'m	£'m	£'m	£'m
<b>At 1 January 2019</b>	34.9	44.0	3.1	43.4	125.4
Exchange rate adjustments	(0.9)	(1.0)	0.7	(1.5)	(2.7)
Reclassifications	–	–	–	2.5	2.5
Charge to income statement	(3.2)	(2.7)	11.7	(21.0)	(15.2)
Credit to other comprehensive income	–	11.9	–	0.3	12.2
Credit to equity	–	–	–	2.0	2.0
<b>At 31 December 2019</b>	30.8	52.2	15.5	25.7	124.2
Exchange rate adjustments	(1.1)	(0.4)	(2.0)	0.4	(3.1)
Businesses disposed	(0.5)	–	(0.9)	0.7	(0.7)
Reclassifications	–	–	–	(1.9)	(1.9)
Credit/(charge) to income statement	4.9	(1.7)	4.6	(1.1)	6.7
Credit to other comprehensive income	–	12.4	–	–	12.4
Charge to equity	–	(1.9)	–	(0.1)	(2.0)
<b>At 31 December 2020</b>	<b>34.1</b>	<b>60.6</b>	<b>17.2</b>	<b>23.7</b>	<b>135.6</b>

\* Includes balances arising from temporary differences in relation to accruals, share-based payments, finance costs and derivative financial instruments, none of which are individually material at either balance sheet date or include any material movements during either year.

## Notes to the consolidated financial statements

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#### 35. Deferred tax continued

Movements in gross deferred tax liabilities are analysed as follows:

	Liabilities			Total £'m
	Intangible assets £'m	Contract assets £'m	Accelerated tax depreciation £'m	
<b>At 1 January 2019</b>	(231.5)	(11.2)	(28.3)	(271.0)
Exchange rate adjustments	7.0	0.4	0.8	8.2
Reclassifications	(8.3)	–	5.8	(2.5)
Credit/(charge) to income statement	10.4	(0.1)	(1.2)	9.1
<b>At 31 December 2019</b>	(222.4)	(10.9)	(22.9)	(256.2)
Exchange rate adjustments	4.2	0.4	0.6	5.2
Businesses disposed	7.3	–	0.1	7.4
Reclassifications	2.1	–	(0.2)	1.9
Credit/(charge) to income statement	30.4	(1.1)	2.6	31.9
<b>At 31 December 2020</b>	<b>(178.4)</b>	<b>(11.6)</b>	<b>(19.8)</b>	<b>(209.8)</b>

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:

	2020 £'m	2019 £'m
Deferred tax assets	19.2	23.3
Deferred tax liabilities	(93.4)	(155.3)
<b>Net balance at 31 December</b>	<b>(74.2)</b>	<b>(132.0)</b>

Deferred tax liabilities all fall due after more than one year. Deferred tax assets are analysed as follows:

	2020 £'m	2019 £'m
To be recovered within one year	4.4	11.0
To be recovered after more than one year	14.8	12.3
<b>Total</b>	<b>19.2</b>	<b>23.3</b>

The Group has unrecognised tax losses of £8.0m (2019: £9.9m) for which no deferred tax asset has been recognised. No asset has been recognised in respect of these losses, as it is not regarded as probable they will be recovered. Deferred tax assets not recognised would be recoverable in the event they reverse and suitable taxable profits are available. There are no unremitted earnings in foreign subsidiaries that would give rise to a tax liability in the event of those subsidiaries remitting their earnings.

### 36. Retirement benefit obligations

#### Pension schemes

The Group operates a number of pension schemes for the benefit of its employees. The nature of each scheme which has a significant impact on the consolidated financial statements is detailed below:

- In the UK, the Group operates a funded defined benefit scheme. The scheme is closed to new members and on 1 February 2021, following conclusion of a consultation process with active members of the scheme, the Group announced it would be closed to future accrual for all members with effect from 6 April 2021. It is a registered scheme and subject to the statutory scheme-specific funding requirements outlined in UK legislation, including the payment of levies to the Pension Protection Fund. It is established under trust and the responsibility for its governance lies with the trustees who also agree funding arrangements with the Group;
- In the US, the Group operates three principal defined benefit schemes, all of which are closed to new members. Following closure of the last remaining scheme to future accrual during the first half of 2020, they are now also all closed to future accrual for all members. The 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 PLC is a named fiduciary with the authority to manage the operation of the schemes. The Group also operates two small unfunded schemes; and
- In Switzerland, the Group operates a funded defined benefit scheme which is open to new members and future accrual. The scheme is a tax qualified pension plan subject to the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans which constitutes a legal framework setting out the minimum requirements for occupational pension plans. Responsibility for its governance lies with a foundation, which is similar in nature to a UK trustee board.

The UK and US schemes provide benefits to members in the form of a guaranteed level of pension payable for life. The benefits provided depend on a member's length of service. For the UK scheme, benefits are currently dependent on salary at retirement, or average salary over employment in the final years leading up to retirement. Following closure of the plan to future accrual in 2021, benefits will be dependent on salary at the date of closure, or average salary over employment in the final years leading up to the date of closure, together with inflation linked to CPI for the period from closure to retirement. In the US, the schemes either provide a benefit linked to salary at the date they were closed to future accrual or provide a fixed benefit for each year of service. The Swiss scheme has many of the characteristics of a defined contribution scheme, but provides for certain minimum benefits to be guaranteed to members.

For all funded schemes, benefit payments are made from funds administered by third parties unrelated to the Group. The assets of such schemes are held in trust funds, or their equivalent, separate from the Group's finances. For all unfunded schemes, benefit payments are made by the Group as obligations fall due.

The Group also operates a number of defined contribution schemes under which the Group has no further obligations once contributions have been paid.

#### Healthcare schemes

The Group has two principal other post-retirement benefit schemes providing medical and life assurance benefits to certain employees and former employees of Meggitt Aircraft Braking Systems Corporation and Meggitt (Rockmart), Inc. These schemes are unfunded and closed to new members.

#### Amounts recognised in the income statement

	2020 £'m	2019 £'m
Total charge in respect of defined contribution pension schemes	19.9	34.5
Service cost	14.5	12.1
Past service cost	0.1	–
Administrative expenses borne directly by schemes	2.6	2.7
Net interest expense on retirement benefit obligations	4.3	4.3
Total charge in respect of defined benefit pension schemes	21.5	19.1
Service cost	0.7	0.7
Net interest expense on retirement benefit obligations	1.4	1.8
Total charge in respect of healthcare schemes	2.1	2.5
<b>Total charge</b>	<b>43.5</b>	<b>56.1</b>

Of the total charge, £35.2m (2019: £47.3m) is included in employee costs (see note 8), of which £19.2m (2019: £29.3) has been recognised in cost of sales and £16.0m (2019: £18.0m) in net operating costs. Of the remaining charge, £2.6m (2019: £2.7m) has been recognised in net operating costs in respect of scheme administration expenses and £5.7m (2019: £6.1m) is recognised in finance costs (see note 12).



## Notes to the consolidated financial statements

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#### 36. Retirement benefit obligations continued

##### Amounts recognised in the income statement continued

The Group has estimated, with the advice of its actuary, that the impact of the High Court ruling on 20 November 2020 in respect of the requirement to provide uplifts to transfer values paid before 26 October 2018 to address inequalities in the calculation of Guaranteed Minimum Pension obligations is not significant.

The Group has assessed whether the restructuring of the Group in response to the COVID-19 pandemic, which has included a reduction in the Group's workforce by approximately 25% requires a curtailment gain or loss to be recognised in the income statement. The assessment, which has been completed at a scheme level by the Group's actuaries, has concluded that the amounts involved are not significant, either individually or in aggregate. The assessment took into consideration the rules of each scheme; the number of active scheme members leaving the Group; the proportion of leavers taking early retirement together with early retirement factors; and inflation differences for active, deferred and pensioner members.

##### Amounts recognised on the balance sheet

	2020			
	UK pension scheme £'m	Overseas* pension schemes £'m	US healthcare schemes £'m	Total £'m
Present value of liabilities	961.1	456.1	46.7	1,463.9
Fair value of assets	(774.5)	(394.0)	–	(1,168.5)
<b>Retirement benefit obligations</b>	<b>186.6</b>	<b>62.1</b>	<b>46.7</b>	<b>295.4</b>

	2019			
	UK pension scheme £'m	Overseas* pension schemes £'m	US healthcare schemes £'m	Total £'m
Present value of liabilities	855.7	445.9	45.9	1,347.5
Fair value of assets	(705.1)	(374.5)	–	(1,079.6)
<b>Retirement benefit obligations</b>	<b>150.6</b>	<b>71.4</b>	<b>45.9</b>	<b>267.9</b>

\* Comprises £46.8m (2019: £51.0m) in respect of US schemes and £15.3m (2019: £20.4m) in respect of the Swiss scheme.

Of the total deficit of £295.4m (2019: £267.9m), £61.7m (2019: £60.9m) is in respect of unfunded schemes.

##### Changes in the present value of retirement benefit obligations

	2020			2019		
	Liabilities £'m	Assets £'m	Total £'m	Liabilities £'m	Assets £'m	Total £'m
At 1 January	1,347.5	(1,079.6)	267.9	1,224.7	(1,015.6)	209.1
Exchange rate adjustments	(4.0)	2.2	(1.8)	(15.3)	11.3	(4.0)
Service cost	15.2	–	15.2	12.8	–	12.8
Past service cost	0.1	–	0.1	–	–	–
Net interest expense (see note 12)	28.4	(22.7)	5.7	36.0	(29.9)	6.1
Contributions – Group	–	(36.9)	(36.9)	–	(48.0)	(48.0)
Contributions – Members	2.5	(2.5)	–	2.7	(2.7)	–
Benefits paid	(60.8)	60.8	–	(56.1)	56.1	–
Settlements	(1.1)	1.1	–	–	–	–
Administrative expenses borne directly by schemes	–	2.6	2.6	–	2.7	2.7
Remeasurement of retirement benefit obligations:						
Experience gain	(7.8)	–	(7.8)	(0.9)	–	(0.9)
Gain from change in demographic assumptions	(2.4)	–	(2.4)	(8.9)	–	(8.9)
Loss from change in financial assumptions	146.3	–	146.3	152.5	–	152.5
Return on schemes' assets excluding amounts included in finance costs	–	(93.5)	(93.5)	–	(53.5)	(53.5)
<b>Total remeasurement loss/(gain)</b>	<b>136.1</b>	<b>(93.5)</b>	<b>42.6</b>	<b>142.7</b>	<b>(53.5)</b>	<b>89.2</b>
<b>At 31 December</b>	<b>1,463.9</b>	<b>(1,168.5)</b>	<b>295.4</b>	<b>1,347.5</b>	<b>(1,079.6)</b>	<b>267.9</b>

### 36. Retirement benefit obligations continued

#### Analysis of pension scheme assets

	2020				2019			
	Quoted £'m	Unquoted £'m	Total £'m	%	Quoted £'m	Unquoted £'m	Total £'m	%
Equities	208.5	–	208.5	26.9	231.0	–	231.0	32.8
Government bonds	314.5	–	314.5	40.6	284.9	2.3	287.2	40.7
Corporate bonds	102.4	0.5	102.9	13.3	63.6	1.8	65.4	9.3
Hedge funds	–	54.3	54.3	7.0	–	51.8	51.8	7.4
Property funds	–	41.6	41.6	5.4	–	26.4	26.4	3.7
Cash	24.4	–	24.4	3.1	46.7	–	46.7	6.6
Derivative assets/(liabilities)	8.1	(2.1)	6.0	0.8	2.9	(13.7)	(10.8)	(1.5)
Other assets*	9.0	13.3	22.3	2.9	–	7.4	7.4	1.0
<b>UK pension scheme</b>	<b>666.9</b>	<b>107.6</b>	<b>774.5</b>	<b>100.0</b>	<b>629.1</b>	<b>76.0</b>	<b>705.1</b>	<b>100.0</b>
Equities	35.1	4.5	39.6	10.1	55.9	4.2	60.1	16.1
Government bonds	87.6	–	87.6	22.2	94.5	–	94.5	25.2
Corporate bonds	203.3	–	203.3	51.6	160.8	–	160.8	42.9
Property funds	28.6	3.7	32.3	8.2	22.6	3.8	26.4	7.0
Cash	9.0	–	9.0	2.3	7.7	–	7.7	2.1
Derivative assets	5.3	–	5.3	1.3	–	2.6	2.6	0.7
Other assets*	16.9	–	16.9	4.3	22.4	–	22.4	6.0
<b>Overseas pension schemes</b>	<b>385.8</b>	<b>8.2</b>	<b>394.0</b>	<b>100.0</b>	<b>363.9</b>	<b>10.6</b>	<b>374.5</b>	<b>100.0</b>
Equities	243.6	4.5	248.1	21.2	286.9	4.2	291.1	27.0
Government bonds	402.1	–	402.1	34.4	379.4	2.3	381.7	35.4
Corporate bonds	305.7	0.5	306.2	26.2	224.4	1.8	226.2	20.9
Hedge funds	–	54.3	54.3	4.6	–	51.8	51.8	4.8
Property funds	28.6	45.3	73.9	6.3	22.6	30.2	52.8	4.9
Cash	33.4	–	33.4	2.9	54.4	–	54.4	5.0
Derivative assets/(liabilities)	13.4	(2.1)	11.3	1.0	2.9	(11.1)	(8.2)	(0.8)
Other assets*	25.9	13.3	39.2	3.4	22.4	7.4	29.8	2.8
<b>Total pension schemes' assets</b>	<b>1,052.7</b>	<b>115.8</b>	<b>1,168.5</b>	<b>100.0</b>	<b>993.0</b>	<b>86.6</b>	<b>1,079.6</b>	<b>100.0</b>

\* Other assets principally comprise insured annuities, mortgage-backed securities and commodities, no category of which is individually material.

The schemes have no investments in any assets of the Group.

#### Financial assumptions used to calculate scheme liabilities

	2020			2019		
	UK pension scheme %	US pension schemes %	US healthcare schemes %	UK pension scheme %	US pension schemes %	US healthcare schemes %
Discount rate*	1.40	2.30	2.30	2.05	3.10	3.10
Inflation rate	3.00	N/A	N/A	3.00	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**	2.90	N/A	N/A	2.90	N/A	N/A
Salary increases	2.80	N/A	N/A	2.85	N/A	N/A

\* The discount rate for the Swiss scheme was 0.08% (2019: 0.32%).

\*\* To the extent not overridden by specific scheme rules.

In determining the fair value of scheme liabilities, the Group uses mortality assumptions which are based on published mortality tables adjusted to reflect the characteristics of the scheme populations. The Group's mortality assumptions in the UK are based on recent mortality investigations of Self Administered Pension Schemes adjusted to reflect the profile of the membership of the scheme, which include the results of an analysis of members used to support the 2018 triennial UK actuarial valuation. Allowance has been made for rates of mortality to continue to fall at the rate of 1.25% per annum.

In the US, mortality assumptions are based on the Pre-2012 headcount weighted table, for schemes where benefits are not salary-linked, and the Pri-2012 table for other schemes, with both tables projecting rates of mortality to fall using the 2020 Social Security Administration's Intermediate Cost Projections scale.

In Switzerland, mortality assumptions are based on the BVG 2015 (Generational) tables.

## Notes to the consolidated financial statements

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#### 36. Retirement benefit obligations continued

##### Financial assumptions used to calculate scheme liabilities continued

	2020			2019		
	UK scheme Years	US schemes Years	Swiss scheme Years	UK scheme Years	US schemes Years	Swiss scheme Years
Member age 45 (life expectancy at age 65) – male	23.1-25.0	21.0-21.9	24.5	22.9-24.8	21.0-21.9	24.4
Member age 45 (life expectancy at age 65) – female	25.6-26.9	23.4-23.6	26.5	25.5-26.8	23.4-23.6	26.4
Member age 65 (current life expectancy) – male	21.7-23.6	19.7-20.6	22.7	21.6-23.4	19.8-20.6	22.6
Member age 65 (current life expectancy) – female	24.2-25.5	22.3-22.5	24.8	24.0-25.3	22.2-22.5	24.7

Details on the sensitivity of scheme liabilities to changes in key assumptions are provided below:

- The impact of a 50 basis point reduction in discount rate, the average annual movement in discount rates observed over the last five years, would cause scheme liabilities at 31 December 2020 to increase by approximately £128.6m.
- The impact of a 10 basis point increase in inflation and salary inflation rates would cause scheme liabilities at 31 December 2020 to increase by approximately £12.4m.
- The impact of assuming every scheme member were to live for an additional year would cause scheme liabilities at 31 December 2020 to increase by approximately £57.3m.

The above sensitivities are based on a change in a single assumption while keeping all other assumptions constant. In practice, this is unlikely to occur and changes in assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method of calculating the defined benefit obligation has been used as when calculating the retirement benefit obligations recognised on the balance sheet. The methods and types of assumptions used in preparing the sensitivity analysis are consistent with the previous year. No change has been considered necessary to any sensitivity levels, given recent past experience.

#### Risks

The Group is exposed to a number of risks arising from operating its defined benefit pension and healthcare schemes, the most significant of which are detailed below. The Group has not changed the process used to manage defined benefit scheme risks during the year unless otherwise stated.

##### Asset volatility

This risk is partly mitigated by funded schemes investing in matching corporate bonds, such that changes in asset values are offset by similar changes in the value of scheme liabilities. However, the Group also invests in other asset classes such as equities, property funds, hedge funds, mortgage-backed securities, commodities and derivatives where movements in asset values may be uncorrelated to movements in the yields on high quality corporate bonds. The Group believes that, due to the long-term nature of its scheme liabilities, it is appropriate to invest in assets which are expected to outperform corporate bonds over this timeframe. Scheme assets are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. Both the UK and US schemes have purchased equity derivatives which enable the schemes to benefit from equity-like returns, subject to certain caps, whilst providing an element of protection against falls in equity markets. These derivatives cover approximately 46% of the total equities held by the schemes and have an average remaining life of 1.8 years at 31 December 2020. The Group actively monitors how the duration and expected yield of scheme assets match the expected cash outflows arising from its pension obligations. For each UK and US funded scheme, there is a 'glide-path' in place which provides, to the extent the funding position improves, for asset volatility to be reduced by reduced exposure to return seeking assets and increased investment in bonds with maturities that match benefit payments as they fall due.

##### Interest risk

In both the UK and the US, schemes invest in government bonds and corporate bonds as part of their hedging strategy. Additionally, in the UK, the scheme has also invested in cash flow matching credit assets and interest rate derivatives to provide additional hedging against interest risk exposures. At 31 December 2020, approximately 80% of the interest rate risk on the UK scheme's liabilities, measured on a funding basis, is hedged (2019: 60%). In the US, across the three funded schemes, hedging levels range from 80% to 90% of scheme liabilities measured on a funding basis (2019: 40% to 90%).

**36. Retirement benefit obligations** continued**Inflation risk**

Salary inflation risk in the UK has been partly mitigated by linking benefits in respect of future service to average salaries over a period of employment, rather than final salary at retirement. Salary inflation risk will no longer be relevant once the scheme closure to accrual takes place with effect from 6 April 2021. Inflation risk in the UK in respect of deferred benefits and pensions in payment is mitigated by caps on the levels of inflation under the scheme rules. Residual inflation risk (after scheme caps) is mitigated through investing in index linked gilts and inflation rate derivatives. At 31 December 2020, these assets cover approximately 80% of liabilities measured on a funding basis (2019: 60%).

In the US, schemes do not provide benefits at retirement which are dependent on future salary increases and the impact for the scheme in Switzerland of salary inflation is not significant. In both the US and Switzerland, 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.

**Longevity risk**

To the extent life expectancy exceeds the Group's estimates, the retirement benefit obligations recognised in the consolidated financial statements would increase. This risk is more significant in the UK plan, where the average duration of its liabilities is longer compared to the US schemes, and inflationary increases more common, resulting in higher sensitivity to changes in life expectancy. The Group currently does not use derivatives to mitigate this risk.

**Other information**

In the UK, the most recent triennial valuation was as at 5 April 2018 at which date the deficit was measured for funding purposes at £171.8m. As part of the valuation, the Group agreed with the trustees that it would make deficit contributions, which would increase by approximately 5% each year in the expectation that these payments, together with asset returns, would eliminate the deficit by August 2023. Following the COVID-19 outbreak, the Group agreed with the trustee's deferral of four months deficit contributions originally due to be made in 2020, amounting to £9.6m and which will now be made over the remainder of the current recovery plan to August 2023. Deficit contributions recommenced in Q3 of 2020. Under the amended recovery plan, the Group will now make deficit contributions of £38.4m in 2021, £40.2m in 2022 and £29.9m in the period to August 2023. The present value of future deficit payments agreed as part of the 2018 actuarial valuation does not exceed the scheme accounting deficit at 31 December 2020 and accordingly no additional minimum funding liability arises. Principally due to the significant fall in bond yields since the date of the 2018 valuation, the current UK funding position at 31 December 2020 is approximately £135.0m lower than that projected in the 2018 valuation. This funding shortfall will, should it remain, be addressed through a revised recovery plan as part of the April 2021 triennial valuation, which the Group expects to be finalised during the first half of 2022. Deficit contributions to address any additional deficit would commence at a date to be agreed with the trustees once the valuation is finalised. The buy-out valuation at the 2018 valuation date, which assumed the Group were to transfer responsibility of the scheme to an insurance company, was measured at £467.9m. The Group has no current plans to make such a transfer.

In the US, minimum deficit reduction payments are driven by regulations and provide for deficits to be eliminated over periods up to 15 years. At 31 December 2020, the three funded schemes had funding levels of 78%, 94% and 99%, respectively. Legislation was passed in response to COVID-19 allowing companies to defer contributions due in 2020 to January 2021, as a result of which the Group deferred £2.4m of payments planned for 2020. Absent any changes in legislation, deficit contributions in 2021 are forecast to be £8.7m (including the £2.4m deferral from 2020) and then reduce to approximately £6.0m for the next four years. The present value of deficit payments due under legislation does not exceed the schemes' deficits at 31 December 2020 and accordingly no additional minimum funding liability arises. The Group's US medical and life assurance benefits are unfunded.

The Swiss scheme has a surplus on a funding basis of £25.1m and no additional minimum funding liability arises.

Estimated total Group contributions expected to be paid to the schemes during 2021 are £53.7m.

The weighted average duration of the UK schemes' defined benefit obligation is 19.5 years. The weighted average duration of the overseas schemes' defined benefit obligations is 12.7 years. The expected maturity of undiscounted pension and healthcare benefits at 31 December 2020 is as follows:

	Pension schemes £'m	Healthcare schemes £'m	Total £'m
To be made in 2021	49.2	3.2	52.4
To be made in 2022	50.6	3.1	53.7
To be made in 2023 to 2025	155.9	8.6	164.5
To be made in 2026 to 2030	270.2	12.2	282.4
To be made in 2031 to 2035	268.1	9.7	277.8
To be made in 2036 to 2040	248.2	7.7	255.9
To be made in 2041 to 2045	219.1	5.8	224.9
To be made from 2046 onwards	575.3	10.5	585.8
<b>Total expected benefit payments</b>	<b>1,836.6</b>	<b>60.8</b>	<b>1,897.4</b>

## Notes to the consolidated financial statements

### continued

#### 37. Share capital

##### Issued share capital

	Ordinary shares of 5p each Number 'm	Nominal value £'m	Net consideration £'m
Allotted and fully paid:			
At 1 January 2019	776.9	38.8	
Issued on exercise of Sharesave awards	0.6	–	–
At 31 December 2019	777.5	38.8	
Issued on exercise of Sharesave awards	3.7	0.2	–
<b>At 31 December 2020</b>	<b>781.2</b>	<b>39.0</b>	

The Company does not have an authorised share capital.

#### 38. Share-based payment

The Group operates a number of share schemes for the benefit of its employees. The total credit recognised in net operating costs in respect of such schemes is £2.5m (2019: £10.1m expense) (see note 8) and is analysed as follows:

	2020 £'m	2019 £'m
Meggitt Long-Term Incentive Plan 2014 – Equity settled	(3.0)	9.3
Meggitt Long-Term Incentive Plan 2014 – Cash settled	(0.1)	0.1
Deferred Share Bonus Plan – Equity settled	0.3	–
Sharesave Plans – Equity settled	0.3	0.7
<b>Total (credit)/expense</b>	<b>(2.5)</b>	<b>10.1</b>

##### Meggitt Long-Term Incentive Plan 2014: Equity settled

Under this plan, an annual award of shares may be made to certain senior executives. The number of shares, if any, that an executive ultimately receives, depends on three performance conditions:

- an earnings per share measure (33% of the award);
- a return on assets measure (33% of the award); and
- a strategic goals measure (33% of the award).

Each of the conditions is measured over a three-year performance period. An employee is generally entitled to a payment at the end of the vesting period, equivalent to dividends that would have been paid during the vesting period, on any shares that vest. There is no exercise price payable by the employees. The fair value of the award made in 2020 has been estimated at the market price of the share on the date of grant, which was 579.6 pence (2019: 523.8 pence). Movements in the number of outstanding shares that may potentially be released to employees are as follows:

	2020 Number of shares under award outstanding 'm	2019 Number of shares under award outstanding 'm
<b>At 1 January</b>	<b>16.0</b>	<b>16.7</b>
Awarded	4.1	4.6
Exercised	(2.4)	(2.1)
Lapsed	(3.0)	(3.2)
<b>At 31 December</b>	<b>14.7</b>	<b>16.0</b>

At 31 December 2020, 1.1m of the shares under award are eligible for release. The remaining 13.6m shares under award have a weighted average life of 397 days until they are eligible for release.



### 39. Own shares

Own shares represent shares in the Company that are held by an independently managed Employee Share Ownership Plan Trust ('the trust') formed to acquire shares to be used to satisfy share options and awards under the employee share schemes as described in the Directors' remuneration report on pages 114 to 141. At December 2020, the trust holds 3.8m ordinary shares (2019: 3.1m ordinary shares) which are unallocated, being retained by the trust for future use. The shares are held for the benefit of employees. Of the shares held at 31 December 2020, 3.7m were issued during 2020 and 0.1m were purchased during 2018. Their market value at 31 December 2020 is £17.6m (2019: £20.3m), representing 0.48% of the issued share capital of the Company (2019: 0.40%).

### 40. Contractual commitments

#### Capital commitments

	2020 £'m	2019 £'m
Contracted for but not incurred:		
Intangible assets	3.8	3.7
Property, plant and equipment	24.0	46.9
<b>Total</b>	<b>27.8</b>	<b>50.6</b>

#### Other financial commitments

The Group enters into long-term arrangements with aircraft and original equipment manufacturers to design, develop and supply products to them for the life of the aircraft. This represents a significant long-term financial commitment for the Group and requires the consideration of a number of uncertainties including the feasibility of the product and the ultimate commercial viability over a period which can extend over 35 years. The directors are satisfied that, at this time, there are no significant contingent liabilities arising from these commitments. Programme costs comprise programme participation costs and the supply of initial manufactured parts (FOC) on a free of charge or deeply discounted basis to OEMs in connection with their selection of the Group's products for installation onto new aircraft, where the Group has obtained principal supplier status. Programme participation costs are accounted for as described in note 2, FOC costs are expensed as incurred. Based on latest OE delivery forecasts from external agencies, the future estimated expenditure under contractual commitments to incur development costs and programme costs at 31 December 2020, are shown in the table below.

	2020		2019	
	Development costs £'m	Programme costs £'m	Development costs £'m	Programme costs £'m
In one year or less	33.4	60.7	42.2	81.5
In more than one year but not more than five years	17.8	221.2	35.3	305.3
In more than five years	8.9	725.5	7.9	899.2
<b>Total</b>	<b>60.1</b>	<b>1,007.4</b>	<b>85.4</b>	<b>1,286.0</b>

### 41. Contingent liabilities

The Company has given guarantees in respect of credit facilities for certain of its subsidiaries, some property and other leases, and the performance by some current and former subsidiaries of certain contracts. Also, there are similar guarantees given by certain other Group companies. The directors believe that the probability of an outflow of economic benefits arising from the guarantees is remote.

The Company and various of its subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the ordinary course of business. The directors do not anticipate that the outcome of these proceedings, actions and claims, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.

## Notes to the consolidated financial statements

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#### 42. Cash inflow from operations

	2020 £'m	2019 £'m
(Loss)/profit for the year	<b>(314.2)</b>	222.6
Adjustments for:		
Finance income (see note 11)	<b>(0.5)</b>	(2.2)
Finance costs (see note 12)	<b>37.2</b>	40.8
Tax (see note 13)	<b>(19.8)</b>	64.1
Depreciation (see note 20)	<b>56.7</b>	57.3
Amortisation (see notes 18 and 19)	<b>140.6</b>	138.4
Impairment losses (see notes 17 and 18)	<b>361.3</b>	–
Loss/(gain) on disposal of property, plant and equipment	<b>1.4</b>	(0.9)
Gain on disposal of businesses (see note 9)	<b>(32.0)</b>	(23.5)
Costs arising on disposal of businesses (see note 44)	<b>(3.8)</b>	(12.2)
Financial instruments – loss/(gain) (see note 9)	<b>2.9</b>	(15.0)
Impact of retranslating net foreign currency cash at spot rate	<b>(0.4)</b>	(0.6)
Share of loss/(profit) after tax of joint venture (see note 21)	<b>3.2</b>	(1.7)
Change in carrying value of held for sale assets and liabilities up to date of disposal	<b>–</b>	(0.5)
Retirement benefit obligation deficit payments	<b>(21.7)</b>	(35.2)
Share-based payment (credit)/expense (see note 38)	<b>(2.5)</b>	10.1
Changes in working capital:		
Inventories	<b>39.8</b>	(75.6)
Trade and other receivables	<b>115.0</b>	20.4
Contract assets	<b>(4.3)</b>	(15.7)
Trade and other payables	<b>(146.2)</b>	29.3
Contract liabilities	<b>1.7</b>	31.1
Provisions	<b>14.0</b>	(16.6)
<b>Cash inflow from operations</b>	<b>228.4</b>	414.4

The Board uses free cash flow to monitor and measure the underlying trading cash performance of the Group. It excludes amounts received and/or paid in respect of M&A activity for the reasons set out in note 9a. It is reconciled to cash from operating activities below:

	2020 £'m	2019 £'m
Cash inflow from operating activities	<b>154.2</b>	366.9
Add back cash outflow from business disposal expenses	<b>5.2</b>	9.4
Add back impact of retranslating net foreign currency cash at spot rate	<b>0.4</b>	0.6
Capitalised development costs (see note 18)	<b>(41.4)</b>	(54.7)
Capitalised programme participation costs	<b>(1.6)</b>	(2.0)
Purchase of intangible assets	<b>(11.0)</b>	(17.2)
Purchase of property, plant and equipment (net of grants received)	<b>(78.7)</b>	(77.2)
Proceeds from disposal of property, plant and equipment	<b>1.3</b>	23.1
Reverse lease premium received*	<b>3.5</b>	18.9
<b>Free cash inflow</b>	<b>31.9</b>	267.8

\* Prior to any discussions with the lessor, the Group had negotiated terms for the purchase of land and subsequent construction of the building at Ansty Park, with a number of third parties. The lessor received the benefit of these negotiated terms when it contracted with those same third parties, and in return agreed to make a reverse lease premium payment to the Group, the majority of which was received in 2019 at inception of the lease with the balance received in 2020. The receipt of the reverse lease premium of £3.5m (2019: £18.9m) has been included in free cash flow, consistent with the treatment of capital expenditure incurred by the Group relating to the Ansty Park site.

### 43. Movements in net debt

	Bank and other borrowings: Current £'m	Bank and other borrowings: Non-current £'m	Lease liabilities: Current £'m	Lease liabilities: Non-current £'m	Total debt £'m	Cash and cash equivalents £'m	Net debt £'m
<b>At 1 January 2019</b>	10.2	1,148.3	16.1	81.4	1,256.0	(181.9)	1,074.1
Cash inflow from operating activities	–	–	–	–	–	(366.9)	(366.9)
Cash outflow from investing activities	–	–	–	–	–	49.7	49.7
Cash (inflow)/outflow from financing activities*	–	(212.6)	(0.2)	2.9	(209.9)	340.3	130.4
Lease liabilities entered	–	–	–	54.2	54.2	–	54.2
Exchange rate adjustments	(5.6)	(26.4)	(0.4)	(2.3)	(34.7)	3.5	(31.2)
Other movements	214.8	(214.8)	0.9	–	0.9	–	0.9
<b>At 31 December 2019</b>	219.4	694.5	16.4	136.2	1,066.5	(155.3)	911.2
Cash inflow from operating activities	–	–	–	–	–	(154.2)	(154.2)
Cash outflow from investing activities	–	–	–	–	–	22.0	22.0
Cash (inflow)/outflow from financing activities*	(215.1)	125.5	(11.9)	–	(101.5)	101.2	(0.3)
Lease liabilities entered	–	–	–	11.4	11.4	–	11.4
Businesses disposed or classified as held for sale	–	–	(1.7)	(3.9)	(5.6)	–	(5.6)
Exchange rate adjustments	9.1	(22.2)	(0.3)	(1.9)	(15.3)	7.7	(7.6)
Other movements	(2.9)	(1.0)	12.2	(12.2)	(3.9)	–	(3.9)
<b>At 31 December 2020</b>	<b>10.5</b>	<b>796.8</b>	<b>14.7</b>	<b>129.6</b>	<b>951.6</b>	<b>(178.6)</b>	<b>773.0</b>

\* Cash flows relating to bank and other borrowings are disclosed in the cash flow statement as proceeds from borrowings of £618.6m (2019: £0.4m), repayments of borrowings of £705.8m (2019: £213.0m) and debt issue costs paid of £2.4m (2019: £Nil). Cash flows relating to lease liabilities are disclosed in the cash flow statement as repayments of lease liabilities of £15.4m (2019: 16.2m) and reverse lease premium received of £3.5m (2019: £18.9m).

### 44. Business disposals

On 30 June 2020, the Group disposed of Meggitt Training Systems (MTS), for a cash consideration of USD155.7m. The transaction is consistent with the Group's strategy to focus on businesses of scale in markets where its leading positions offer greater potential for growth and operational efficiencies. The business disposed was not a major line of business or geographical area of operation of the Group. The net assets of the business at the date of disposal were as follows:

	MTS £'m
Goodwill (see note 17)	84.8
Development costs (see note 18)	19.7
Other intangible assets (see note 19)	0.1
Property, plant and equipment (see note 20)	6.8
Inventories	11.6
Trade and other receivables – current	9.4
Contract assets – current	22.6
Cash and cash equivalents	9.8
Trade and other payables – current	(15.4)
Contract liabilities – current	(4.4)
Lease liabilities – current	(1.5)
Provisions – current	(0.1)
Deferred tax (see note 35)	(6.7)
Lease liabilities – non-current	(3.0)
<b>Net assets</b>	<b>133.7</b>
Currency translation gain transferred from equity	(44.0)
Business disposal expenses	3.8
Gain on disposal (see note 9)	33.3
<b>Total consideration received in cash</b>	<b>126.8</b>
Cash inflow arising on disposal:	
Total consideration received in cash	126.8
Less: cash and cash equivalents disposed of	(9.8)
Businesses disposed	117.0
Less: business disposal expenses paid*	(5.2)
<b>Total cash inflow</b>	<b>111.8</b>

\* Of the total business disposal expenses paid, £3.5m were in respect of the disposal of MTS, with the balance relating to disposals in the prior year.

## Notes to the consolidated financial statements

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#### 45. Related undertakings

In accordance with section 409 of the Companies Act 2006, a full list of related undertakings as at 31 December 2020 is disclosed below. Unless otherwise stated, undertakings have their registered office at Pilot Way, Ansty Business Park, Coventry, England, CV7 9JU, United Kingdom, and have a single class of ordinary shares with 100% of the equity owned by the Group. No subsidiary undertakings have been excluded from the consolidation.

##### Subsidiaries – directly owned

Dunlop Aerospace Limited  
Integrated Target Services Limited  
KDG Holdings Limited  
Meggitt (Pamphill) Limited  
Meggitt (Sand) Limited  
Meggitt (Wimborne) Limited  
Meggitt Engineering Limited  
Meggitt International Holdings Limited<sup>3</sup>  
Meggitt Pension Trust Limited  
Negretti & Zambra Limited  
Negretti Limited  
Phoenix Travel (Dorset) Limited<sup>1</sup>  
The Microsystems Group Limited

##### Subsidiaries – indirectly owned

Aero-Tech Composites de Mexico, S. de R.L. de C.V. (Mexico)<sup>2</sup>  
Carretera 54 a Zacatecas 5690, Parque Industrial Amistad Sur Saltillo, Coahuila 25070  
Aircraft Braking Systems Europe Limited  
Aircraft Braking Systems Services Limited  
Artus SAS (France)  
Chemin du Champ des Martyrs, 49240 Avrillé  
Atlantic House Pension Trustee Limited  
Avica Aerospace Ducting Limited  
BAJ Coatings Limited<sup>4</sup>  
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 Limited<sup>3</sup>  
Dunlop Aerospace Group Limited<sup>3</sup>  
Dunlop Aerospace Holdings Limited<sup>3</sup>  
Dunlop Aerospace Overseas Investments Limited  
Dunlop Aerospace Overseas Limited<sup>3</sup>  
Dunlop Holdings Limited<sup>3</sup>  
Dunlop Limited<sup>3</sup>  
Européenne de Conception d'Etudes Technologiques SAS (France)  
8 Chemin de l'Etang, BP 15, F-16730 FLEAC  
Evershed & Vignoles Limited  
Heatric Limited<sup>5</sup>  
King Tool International Limited  
Meggitt (Baltimore) Inc. (USA)<sup>6</sup>  
3310 Carlins Park Drive, Baltimore, Maryland 21215  
Meggitt (Canford) Limited  
Meggitt (Colehill) Limited  
Meggitt (Erlanger), LLC (USA)<sup>7</sup>  
1955 Surveyor Avenue, Simi Valley, California 93063  
Meggitt (France) SAS (France)  
10 rue Mercœur, 75011 Paris  
Meggitt (Hurn) Limited  
Meggitt (Korea) Limited  
Meggitt (North Hollywood), Inc. (USA)<sup>6</sup>  
12838 Satcoy Street, North Hollywood, California 91605  
Meggitt (Orange County), Inc. (USA)<sup>6</sup>  
4 Marconi, Irvine, California 92618

Meggitt Overseas Limited  
Meggitt (Rockmart), Inc. (USA)<sup>6</sup>  
669 Goodyear Street, Rockmart, Georgia 30153  
Meggitt (San Diego), Inc. (USA)<sup>6</sup>  
6650 Top Gun Street, San Diego, California 92121  
Meggitt (Sapphire) GmbH (Germany)  
Kaiserleistraße 51, 63067 Offenbach/Main  
Meggitt (Sapphire) Limited  
Meggitt (Sensorex) SAS (France)  
196 rue Louis Rustin, Archamps Technopole, 74160 Archamps  
Meggitt (Shapwick) Limited  
Meggitt (Simi Valley), Inc. (USA)<sup>6</sup>  
1955 Voyager Avenue, Simi Valley, California 93063  
Meggitt (Tarrant) Limited  
Meggitt (Troy), Inc. (USA)<sup>6</sup>  
3 Industrial Drive, Troy, Indiana 47588  
Meggitt (UK) Limited  
Meggitt (Vietnam) Co., Ltd (Vietnam)<sup>8</sup>  
No 7, 16A Road, Industrial Zone 2 of Bienhoa, Dongnai  
Meggitt (Xiamen) Sensors & Controls Company Limited (China)<sup>9</sup>  
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 Limited<sup>3</sup>  
Meggitt Advanced Composites Limited<sup>3</sup>  
Meggitt Aerospace Asia Pacific Pte. Ltd. (Singapore)  
1A Seletar Aerospace Link, Seletar Aerospace Park, Singapore 797552  
Meggitt Aerospace Holdings Limited<sup>3</sup>  
Meggitt Aerospace Limited  
Meggitt Aircraft Braking Systems Corporation (USA)<sup>6</sup>  
1204 Massillon Road, Akron, Ohio 44306  
Meggitt Aircraft Braking Systems Kentucky Corporation (USA)<sup>6</sup>  
190 Corporate Drive, Danville, Kentucky 40422  
Meggitt Aircraft Braking Systems Queretaro, S. de R.L. de C.V. (Mexico)<sup>2</sup>  
Carretera Estatal 200 Queretaro-Tequisquiapan, KM 22 547 Interior A, Parque Aeroespacial, Queretaro, CP 76278  
Meggitt Asia Pacific Pte. Ltd. (Singapore)  
1A Seletar Aerospace Link, Seletar Aerospace Park, Singapore 797552  
Meggitt Brasil Solucoes de Engenharia Ltda. (Brazil)<sup>9</sup>  
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 Canada Enterprises Inc. (Canada)  
1501 McGill College Avenue, 26th Floor, Montréal, Québec, H3A 3N9  
Meggitt Defense Systems, Inc. (USA)<sup>6</sup>  
9801 Muirlands Boulevard, Irvine, California 92618  
Meggitt Filtration & Transfer Limited  
Meggitt Finance (Beta)  
Meggitt Finance Limited  
Meggitt GmbH (Germany)  
Kaiserleistraße 51, 63067 Offenbach

#### 45. Related undertakings continued

Meggitt Holdings (France) SAS (France)  
Chemin du Champ des Martyrs, 49240 Avrillé

Meggitt Holdings (USA) Inc. (USA)<sup>6</sup>  
1955 Surveyor Avenue, Simi Valley, California 93063

Meggitt India Pvt Ltd (India)<sup>10</sup>  
901, Brigade Rbix, No. 20. HMT Main Road, HMT Township, North Bangalore Karnataka 560022

Meggitt International Limited<sup>3</sup>

Meggitt Investments Limited<sup>3</sup>

Meggitt-Oregon, Inc. (USA)<sup>6</sup>  
2010 Lafayette Avenue, McMinnville, Oregon 97128

Meggitt Properties PLC

Meggitt Queretaro LLC (USA)<sup>7</sup>  
1204 Massillon Road, Akron, Ohio 44306

Meggitt SA (Switzerland)  
Rte de Moncor 4, PO Box 1616, CH-1701 Fribourg

Meggitt Safety Systems, Inc. (USA)<sup>6</sup>  
1785 Voyager Avenue, Simi Valley, California 93063

Meggitt-USA Services, Inc. (USA)<sup>6</sup>  
1955 Surveyor Avenue, Simi Valley, California 93063

Meggitt-USA, Inc. (USA)<sup>6</sup>  
1955 Surveyor Avenue, Simi Valley, California 93063

Miller Insulation & Engineering Limited<sup>11</sup>

NASCO Aircraft Brake, Inc. (USA)<sup>6</sup>  
13300 Estrella Avenue, Gardena, California 90248

OECO, LLC (USA)<sup>7</sup>  
4607 SE International Way, Milwaukie, Oregon 97222

Pacific Scientific Company (USA)<sup>6</sup>  
1785 Voyager Avenue, Simi Valley, California 93063

Park Chemical Company (USA)<sup>6</sup>  
1955 Surveyor Avenue, Simi Valley, California 93063

Piher International Limited

Precision Engine Controls Corporation (USA)<sup>6</sup>  
11661 Sorrento Valley Road, San Diego, California 92121

Securaplane Technologies, Inc. (USA)<sup>6</sup>  
12350 N. Vistoso Park Road, Oro Valley, Arizona 85755

Serck Aviation Limited

Target Technology Petrel Limited

TFE Techniques et Fabrications Electroniques SAS (France)  
Rue Jean Perrin Zone Industrielle Actisud Le Capitre, 31100 Toulouse

Tri-scan Limited

Vibro-Meter Limited

Vibro-Meter S.a.r.l (Switzerland)  
Rte de Moncor 4, PO Box 1616, CH-1701 Fribourg

Wallaby Grip Limited

Whittaker Aerospace

Whittaker Corporation (USA)<sup>6</sup>  
1955 Surveyor Avenue, Simi Valley, California 93063

Whittaker Development Co. (USA)<sup>6</sup>  
1955 Surveyor Avenue, Simi Valley, California 93063

Whittaker Ordnance, Inc. (USA)<sup>6</sup>  
1955 Surveyor Avenue, Simi Valley, California 93063

Whittaker Technical Products, Inc. (USA)<sup>6</sup>  
1955 Surveyor Avenue, Simi Valley, California 93063

Zambra Legal Pty Ltd (Australia)  
Suite 2, Level 11, 60 Castlereagh Street, Sydney, New South Wales 2000

#### Entities not included in the consolidation

##### Equity accounted investments

Meggitt UTC Aerospace Systems, LLC (USA)<sup>12</sup>  
1400 Jamike Avenue, Erlanger, Kentucky 41018

Parkway-Hamilton Sundstrand Mexico S. de R.L. de C.V. (Mexico)<sup>13</sup>  
Carretera 54 a Zacatecas 5690, Parque Industrial Amistad Sur Saltillo, Coahuila 25070

Valley Association Corporation (USA)<sup>14</sup>  
1204 Massillon Road, Akron, Ohio 44306

##### Private company limited by guarantee without share capital

Meggitt Pension Plan Trustees Limited

##### Registered charity

Evershed & Ayrton Fund

##### Registered branches

Meggitt (Korea) Ltd has a branch in South Korea

Meggitt (Xiamen) Sensors & Controls Ltd has a branch in Shanghai

##### Joint ventures

HiETA Technologies Limited<sup>15</sup>

##### Private company with shares held by a nominee

Pilot Funding Limited<sup>16</sup>

##### Subsidiaries – indirectly owned and not included in the consolidation

ABL Systems (USA)<sup>17</sup>  
1204 Massillon Road, Akron, Ohio 44306

Alston Properties LLC (USA)<sup>7</sup>  
14600 Myford Road, Irvine, California 92606

Wallaby Grip (NSW) Pty Ltd (in liquidation) (Australia)  
Bradley Tonks, PKF Sydney, Level 8, 1 O'Connell Street, Sydney, New South Wales 2000

Wallaby Grip Australia Pty Ltd (in liquidation) (Australia)  
Bradley Tonks, PKF Sydney, Level 8, 1 O'Connell Street, Sydney, New South Wales 2000

Wallaby Grip B.A.E. Pty Ltd (in liquidation) (Australia)  
Bradley Tonks, PKF Sydney, Level 8, 1 O'Connell Street, Sydney, New South Wales 2000

Wallaby Grip Industries Australia Pty Ltd (in liquidation) (Australia)  
Bradley Tonks, PKF Sydney, Level 8, 1 O'Connell Street, Sydney, New South Wales 2000

#### Notes

- 1 Ownership held as ordinary B shares (50%).
- 2 Ownership held as quota interest (100%).
- 3 The entity has taken the audit exemption under section 479A of the Companies Act 2006 in respect of the financial year ended 31 December 2020.
- 4 Ownership held as deferred shares (55.55%) and ordinary shares (44.45%).
- 5 Ownership held as ordinary A shares (60%) and ordinary B shares (40%).
- 6 Ownership held as common stock.
- 7 Ownership held as membership interest (100%).
- 8 Ownership held as owner's capital.
- 9 Ownership held as registered capital (100%).
- 10 Ownership held as equity shares (100%).
- 11 Registered at 125 West Regent Street, Glasgow, Lanarkshire, G2 2SA, Scotland.
- 12 Joint venture with Hamilton Sundstrand Corporation – ownership held as membership interest (70%).
- 13 Subsidiary of Meggitt UTC Aerospace System, LLC – ownership held as quota interest (99.97%).
- 14 Ownership held as ordinary shares (33.33%).
- 15 Ownership held as ordinary shares (33.33%).
- 16 Ownership held as ordinary shares (100%).
- 17 Ownership held as ordinary shares (50%).



## Company balance sheet

At 31 December 2020

	Notes	2020 £'m	2019 £'m
<b>Non-current assets</b>			
Intangible assets	4	36.1	43.4
Property, plant and equipment	5	0.4	0.9
Investments	6	2,078.8	2,082.7
Derivative financial instruments	10	15.1	16.5
Deferred tax assets	11	37.8	27.4
		<b>2,168.2</b>	2,170.9
<b>Current assets</b>			
Other receivables	7	1,451.4	1,325.9
Derivative financial instruments	10	5.2	6.6
Current tax recoverable		0.1	9.3
Cash and cash equivalents		27.7	32.9
		<b>1,484.4</b>	1,374.7
<b>Total assets</b>		<b>3,652.6</b>	3,545.6
<b>Current liabilities</b>			
Trade and other payables	8	(99.0)	(158.7)
Derivative financial instruments	10	(29.2)	(18.2)
Current tax liabilities		(8.4)	–
Lease liabilities		(0.5)	(0.2)
Bank and other borrowings	9	(7.4)	(7.6)
		<b>(144.5)</b>	(184.7)
<b>Net current assets</b>		<b>1,339.9</b>	1,190.0
<b>Non-current liabilities</b>			
Derivative financial instruments	10	(6.2)	(11.7)
Lease liabilities		–	(0.2)
Bank and other borrowings	9	(439.0)	(453.5)
Provisions		(0.2)	(0.2)
Retirement benefit obligations	12	(186.6)	(150.6)
		<b>(632.0)</b>	(616.2)
<b>Total liabilities</b>		<b>(776.5)</b>	(800.9)
<b>Net assets</b>		<b>2,876.1</b>	2,744.7
<b>Equity</b>			
Share capital	13	39.0	38.8
Share premium		1,226.6	1,226.5
Capital redemption reserve		1.6	1.6
Other reserves		17.5	17.5
Retained earnings:			
At 1 January		1,460.3	1,521.4
Profit for the year attributable to owners of the Company		177.0	139.7
Other changes in retained earnings		(45.9)	(200.8)
<b>Total equity attributable to owners of the Company</b>		<b>2,876.1</b>	2,744.7

The financial statements on pages 218 to 228 were approved by the Board of Directors on 3 March 2021 and signed on its behalf by:



**A Wood**  
Director



**L Burdett**  
Director

## Company statement of changes in equity

For the year ended 31 December 2020

	Notes	Equity attributable to owners of the Company					Total equity
		Share capital	Share premium	Capital redemption reserve	Other reserves*	Retained earnings	
		£'m	£'m	£'m	£'m	£'m	£'m
<b>At 1 January 2019</b>		38.8	1,223.9	1.6	17.5	1,521.4	2,803.2
Profit for the year		–	–	–	–	139.7	139.7
Other comprehensive expense for the year:							
Remeasurement of retirement benefit obligations	12	–	–	–	–	(94.5)	(94.5)
Other comprehensive expense before tax		–	–	–	–	(94.5)	(94.5)
Tax	11	–	–	–	–	14.0	14.0
Other comprehensive expense for the year		–	–	–	–	(80.5)	(80.5)
Total comprehensive income for the year		–	–	–	–	59.2	59.2
Employee share schemes:							
Value of subsidiary employee services		–	–	–	–	10.0	10.0
Value of services provided		–	–	–	–	2.7	2.7
Issue of equity share capital		–	2.6	–	–	(2.6)	–
Dividends		–	–	–	–	(130.4)	(130.4)
<b>At 31 December 2019</b>		38.8	1,226.5	1.6	17.5	1,460.3	2,744.7
<b>Profit for the year</b>		–	–	–	–	177.0	177.0
<b>Other comprehensive expense for the year:</b>							
Remeasurement of retirement benefit obligations	12	–	–	–	–	(54.1)	(54.1)
Other comprehensive expense before tax		–	–	–	–	(54.1)	(54.1)
Tax	11	–	–	–	–	12.1	12.1
<b>Other comprehensive expense for the year</b>		–	–	–	–	(42.0)	(42.0)
<b>Total comprehensive income for the year</b>		–	–	–	–	135.0	135.0
Employee share schemes:							
Value of subsidiary employee services		–	–	–	–	(3.0)	(3.0)
Value of services provided		–	–	–	–	(0.6)	(0.6)
Issue of equity share capital		0.2	0.1	–	–	(0.3)	–
Dividends		–	–	–	–	–	–
<b>At 31 December 2020</b>		39.0	1,226.6	1.6	17.5	1,591.4	2,876.1

\* Other reserves relate to the cancellation of the Company's share premium account in 1988, which was transferred to a non-distributable capital reserve.

## Notes to the financial statements of the Company

### 1. Basis of preparation

These financial statements apply the recognition, measurement and presentation requirements of international accounting standards in conformity with the requirements of the Companies Act 2006, but make amendments where necessary in order to comply with the Act and take advantage of the following disclosure exemptions permitted by FRS 101:

- Paragraphs 10(d), 111 and 134-136 of IAS 1, 'Presentation of financial statements'
- IAS 7, 'Statement of cash flows'
- Paragraph 17 of IAS 24, 'Related party disclosures'
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group
- Paragraphs 45(b) and 46-52 of IFRS 2, 'Share-based payment'
- IFRS 7, 'Financial Instruments: Disclosures'

The Company has taken advantage of the legal dispensation contained in Section 408 of the Companies Act 2006 allowing it not to publish a separate income statement and related notes and not to publish a separate statement of comprehensive income.

These financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative financial instruments) at fair value, in accordance with the Companies Act 2006.

### 2. Summary of significant accounting policies

The principal accounting policies adopted by the Company in the preparation of the financial statements are set out below. These policies have been applied consistently to all periods presented unless stated otherwise.

#### Investments

Investments in subsidiaries are stated at cost less accumulated impairment losses, except for investments acquired before 1 January 1988 where Section 612 merger relief has been taken and investments are stated at the nominal value of the shares issued in consideration, using the deemed cost exemption in IFRS 1 on transition to FRS 101.

#### Intangible assets

Intangible assets, which comprise software, are recorded at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over the estimated useful economic lives of the assets, commencing with the date the assets are available for use, typically over periods up to five years. Residual values and useful lives are reviewed annually and adjusted if appropriate.

#### Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses. Cost includes expenditure directly attributable to the acquisition of the asset.

For right-of-use assets, cost comprises an amount equal to the initial lease liability recognised, adjusted to include any payments made for the right to use the asset, initial direct costs incurred and estimated costs for dismantling, removing and restoring the asset at the end of the lease term.

Depreciation is charged on a straight-line basis over the estimated useful economic lives of the assets, commencing with the date the assets are available for use, as follows:

Right-of-use assets	Shorter of the useful economic life of the asset and the lease term
Plant and equipment	3 to 5 years
Motor vehicles	5 years

Residual values and useful lives are reviewed annually and adjusted if appropriate. When property, plant and equipment are disposed, the difference between sale proceeds, net of related costs, and the carrying value of the asset is recognised in the income statement.

#### Impairment of non-current, non-financial assets

At each balance sheet date, the Company reviews the carrying amounts of its non-current, non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount.

Any impairment loss is recognised immediately in the income statement. Where an impairment loss is no longer required, it is reversed with a corresponding credit to the income statement.

## 2. Summary of significant accounting policies continued

### **Other receivables**

Other receivables are initially recognised at fair value and subsequently measured at amortised cost less any impairment losses. The Company applies the IFRS 9 simplified approach to measuring expected credit losses (ECLs), which uses a lifetime expected loss allowance. To measure ECLs, other receivables have been grouped based on shared credit risk characteristics and their ageing. For amounts owed by subsidiary undertakings, which are repayable on demand, ECLs are based on the assumption that repayment is demanded at the balance sheet date. The subsidiary undertaking's access to sufficient accessible highly liquid assets in order to repay the amounts due if demanded at the balance sheet date is assessed. The expected manner of recovery is considered when measuring ECLs. If these indicate that the Company would fully recover the outstanding amounts due, ECLs will be limited to the effect of discounting the amounts due using the effective interest rate, over the period until cash is expected to be realised.

### **Cash and cash equivalents**

Cash and cash equivalents include cash in hand and deposits held at call with banks. Bank overdrafts are disclosed as current liabilities, within bank and other borrowings, except where the Company participates in offset arrangements with certain banks whereby cash and overdraft amounts are offset against each other.

### **Taxation**

Current tax is based on taxable profit for the period, calculated using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is provided in full using the liability method on temporary differences between the tax bases of assets and liabilities and their corresponding book values as recognised in the Company's financial statements. It is calculated using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

### **Foreign currencies**

The Company's financial statements are presented in pounds sterling. Transactions in foreign currencies are recorded at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities, denominated in foreign currencies are reported at exchange rates prevailing at the balance sheet date. Exchange differences on retranslating monetary assets and liabilities are recognised in the income statement.

### **Retirement benefit schemes**

For the Company's defined benefit scheme, pension costs are charged to the income statement in accordance with the advice of qualified independent actuaries. Past service credits and costs are recognised immediately in the income statement.

Retirement benefit obligations represent the difference between the fair value of the scheme assets and the present value of the scheme defined benefit obligations measured at the balance sheet date. The defined benefit obligation is measured annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the defined benefit obligations using interest rates of high quality UK corporate bonds with terms to maturity comparable with the terms of the related defined benefit obligations. Where the Company has a statutory or contractual minimum funding requirement to make contributions to a scheme in respect of past service and any such contributions are not available to the Company once paid (as a reduction in future contributions or as a refund, to which the Company has an unconditional right either during the life of the scheme or when the scheme liabilities are settled), an additional liability for such amounts is recognised.

Remeasurement gains and losses are recognised in the period in which they arise in other comprehensive income.

For defined contribution schemes, payments are recognised in the income statement when they fall due. The Company has no further obligations once the contributions have been paid.

### **Share-based compensation**

The Company operates a number of share-based compensation schemes, which are subject to non-market based vesting conditions and are principally equity settled.

For equity-settled schemes, at the date of grant, the Company estimates the number of awards expected to vest as a result of vesting conditions and the fair value of this estimated number of awards is recognised as an expense in the income statement on a straight-line basis over the period for which services are received. At each balance sheet date, the Company revises its estimate of the number of awards expected to vest and adjusts the amount recognised cumulatively in the income statement to reflect the revised estimate. When awards are exercised and the Company issues new shares, the proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium.

The grant by the Company of options over its equity instruments to employees of subsidiary undertakings, is treated as a capital contribution. The fair value of the awards made is recognised, over the vesting period, as an increase in investment in subsidiary undertakings, with a corresponding credit to retained earnings.

## Notes to the financial statements of the Company continued

### 2. Summary of significant accounting policies continued

#### **Derivative financial instruments and hedging**

Derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently measured at fair value at each balance sheet date using values determined indirectly from quoted prices that are observable for the asset or liability.

To the extent the maturity of the derivative financial instruments are more than 12 months from the balance sheet date, they are classified as non-current assets or non-current liabilities. All other derivative financial instruments are classified as current assets or current liabilities.

The Company utilises a large number of foreign currency forward contracts to mitigate against currency fluctuations. The Company has determined that the additional costs of meeting the extensive documentation requirements in order to apply hedge accounting under IFRS 9 'Financial Instruments' are not merited. Therefore changes in fair value are recognised immediately in the income statement.

#### **Borrowings**

Borrowings are initially recognised at fair value, being proceeds received less directly attributable transaction costs incurred. Borrowings are generally subsequently held at amortised cost at each balance sheet date with any transaction costs amortised to the income statement over the period of the borrowings using the effective interest method.

Any related interest accruals are included within borrowings. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### **Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted from the proceeds recorded in equity.

Own shares represent shares in the Company that are held by an independently managed Employee Share Ownership Plan. Consideration paid for own shares, including any incremental directly attributable costs, is recorded as a deduction from retained earnings. Details of own shares in the Company are disclosed in note 39 to the Group's consolidated financial statements.

#### **Dividends**

Interim dividends are recognised when paid to shareholders. Final dividends are recognised when approved by the shareholders. Details of dividends paid and proposed by the Company are disclosed in note 15 to the Group's consolidated financial statements.

### 3. Critical accounting estimates and judgements

In applying the Company's accounting policies set out in note 2, the Company is required to make certain estimates and judgements concerning the future. These estimates and judgements are regularly reviewed and revised as necessary. The estimates and judgements that have the most significant effect on the amounts included in the financial statements are described below.

#### **Critical accounting estimates**

##### **Retirement benefit obligations**

The liability recognised in respect of retirement benefit obligations is dependent on a number of estimates including those relating to mortality, inflation, salary increases and the rate at which liabilities are discounted. External actuarial advice is taken with regard to the most appropriate assumptions to use. Further details on these estimates, and sensitivities of the retirement benefit obligations to these estimates, are disclosed in note 12.

##### **Critical accounting judgements**

##### **Going concern**

The judgement made by the directors that the going concern basis is appropriate in preparing these financial statements is a new critical judgement for 2020. The basis for making the judgement, the assumptions made in reaching the judgement and the results of the stress testing performed are provided in note 1 of the Group's consolidated financial statements on pages 162 to 164.



#### 4. Intangible assets

	Software £'m
<b>At 1 January 2019</b>	
Cost	76.2
Accumulated amortisation	(37.6)
<b>Net book amount</b>	<b>38.6</b>
<b>Year ended 31 December 2019</b>	
Opening net book amount	38.6
Additions	13.2
Amortisation	(8.4)
<b>Net book amount</b>	<b>43.4</b>
<b>At 1 January 2020</b>	
Cost	89.4
Accumulated amortisation	(46.0)
<b>Net book amount</b>	<b>43.4</b>
<b>Year ended 31 December 2020</b>	
Opening net book amount	43.4
Additions	2.9
Disposals	(0.3)
Amortisation	(9.9)
<b>Net book amount</b>	<b>36.1</b>
<b>At 31 December 2020</b>	
Cost	92.0
Accumulated amortisation	(55.9)
<b>Net book amount</b>	<b>36.1</b>

Software assets include costs relating to the Group's enterprise resource planning system. The asset has a net book amount of £12.8m (2019: £16.2m) and a remaining amortisation period of four years (2019: five years).

#### 5. Property, plant and equipment

	2020			2019		
	Plant, equipment and vehicles £'m	Other £'m	Total £'m	Plant, equipment and vehicles £'m	Other £'m	Total £'m
Cost	6.2	1.9	8.1	6.4	1.8	8.2
Accumulated depreciation	(6.2)	(1.5)	(7.7)	(6.0)	(1.3)	(7.3)
<b>Net book amount</b>	<b>–</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.5</b>	<b>0.9</b>

## Notes to the financial statements of the Company

### continued

#### 6. Investments

	2020 £'m	2019 £'m
Shares in subsidiary undertakings:		
At 1 January	2,082.7	2,081.2
Capital contributions	-	7.3
Less contributions from subsidiary undertakings	(3.9)	(5.8)
<b>At 31 December</b>	<b>2,078.8</b>	<b>2,082.7</b>

As set out in note 17 of the Group's consolidated financial statements on page 185, the Group identified the need to perform an additional goodwill impairment test at 31 March 2020, in light of the impact of COVID-19 on its business. For the same reasons as the Group, the Company also performed an assessment at 31 March 2020 of the recoverability of its investments. For this impairment test, the Company utilised the value in use (VIU) calculations used for the Group's goodwill impairment test. At the date of testing, the VIU of the subsidiary undertakings in which the Company held an investment exceeded the carrying value of the investment and no impairment was required. The Company also performed a sensitivity analysis to determine if any reasonably foreseeable change in assumptions used in determining VIU would result in an impairment and concluded that for each sensitivity, there remained headroom between the investment carrying value and the VIU. The methods used to derive the VIU, assumptions made and the reasonably foreseeable changes in assumptions modelled were consistent with those used by the Group in its goodwill impairment testing (see note 17 on pages 185 to 188).

A list of all subsidiary undertakings is disclosed in note 45 to the Group's consolidated financial statements on pages 216 to 217.

#### 7. Other receivables

	2020 £'m	2019 £'m
Amounts owed by subsidiary undertakings	1,450.8	1,325.1
Prepayments and accrued income	0.4	0.2
Other	0.2	0.6
<b>Total</b>	<b>1,451.4</b>	<b>1,325.9</b>

Amounts owed by subsidiary undertakings are unsecured and are stated net of amounts due to subsidiary undertakings, where a right of set off exists. Within amounts owed by subsidiary undertakings are amounts totalling £1,358.3m (2019: £1,342.9m) which are interest bearing, have no fixed date for repayment and are repayable on demand. Interest accrues at rates ranging from 1% to 3%.

Amounts owed by subsidiary undertakings are stated net of a loss allowance of £1.7m (2019: £1.9m). Each year, the Company performs an assessment of recoverability of amounts owed by subsidiary undertakings in accordance with IFRS9 requirements. The Company does not believe there is a significant risk of a material adjustment to the loss allowance recognised in respect of these receivables at 31 December 2020, in the next 12 months.

#### 8. Trade and other payables – current

	2020 £'m	2019 £'m
Trade payables	1.7	7.4
Amounts owed to subsidiary undertakings	90.6	132.6
Social security and other taxes	0.5	4.8
Accrued expenses	4.1	13.5
Other payables	2.1	0.4
<b>Total</b>	<b>99.0</b>	<b>158.7</b>

Amounts owed to subsidiary undertakings are unsecured. They include amounts totalling £Nil (2019: £22.6m) which are interest bearing, have no fixed date for repayment and are repayable on demand. Interest accrues at rates ranging from 1% to 3%.

## 9. Bank and other borrowings

	2020 £'m	2019 £'m
Other loans - current	7.4	7.6
Other loans - non-current	439.0	453.5
<b>Total</b>	<b>446.4</b>	<b>461.1</b>
Analysis of bank and other borrowings repayable:		
In one year or less	7.4	7.6
In more than one year but not more than five years	219.5	226.8
In more than five years	219.5	226.7
<b>Total</b>	<b>446.4</b>	<b>461.1</b>
Analysis of bank and other borrowings:		
Drawn under committed facilities	439.5	454.2
Less unamortised debt issue costs	(0.5)	(0.7)
Interest accruals	7.4	7.6
<b>Total</b>	<b>446.4</b>	<b>461.1</b>

Debt issue costs are amortised over the period of the facility to which they relate. The Company has no secured borrowings (2019: £Nil).

The Company has the following committed facilities at notional value:

	2020			2019		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
2016 Senior notes (USD600.0m)	439.5	–	439.5	454.2	–	454.2
<b>Committed facilities</b>	<b>439.5</b>	<b>–</b>	<b>439.5</b>	<b>454.2</b>	<b>–</b>	<b>454.2</b>

Further details of the committed facilities are disclosed in note 31 to the Group's consolidated financial statements on page 197.  
The committed facilities expire as follows:

	2020			2019		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
In more than one year but not more than five years	219.8	–	219.8	227.1	–	227.1
In more than five years	219.7	–	219.7	227.1	–	227.1
<b>Committed facilities</b>	<b>439.5</b>	<b>–</b>	<b>439.5</b>	<b>454.2</b>	<b>–</b>	<b>454.2</b>

The Company also has various uncommitted facilities with its relationship banks. No amounts had been drawn under these facilities at 31 December 2020 (2019: £Nil).

Additionally, the Company has been confirmed as an eligible issuer under the Bank of England's and HM Treasury's Covid Corporate Financing Facility (CCFF), under which the Company can draw up to £600m. The Company is eligible to issue commercial paper using this facility (subject to certain terms and restrictions) up to and including 22 March 2021, with a maturity date of up to 12 months. The Company has no commercial paper issued under this facility at 31 December, 2020 or at the date these financial statements were approved by the Board.

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

	2020		2019	
	Book value £'m	Fair value £'m	Book value £'m	Fair value £'m
Current	7.4	7.4	7.6	7.6
Non-current	439.0	452.7	453.5	461.7
<b>Total</b>	<b>446.4</b>	<b>460.1</b>	<b>461.1</b>	<b>469.3</b>

## Notes to the financial statements of the Company

### continued

#### 9. Bank and other borrowings continued

All borrowings are subject to interest at fixed rates. The interest rate exposure on bank and other borrowings is:

At 31 December 2020:

	Total	Fixed rate borrowings	
		Weighted average interest rate	Weighted average period for which rate is fixed
	£'m	%	Years
US dollar denominated other loans	446.9	3.5	4.0
Less unamortised debt issue costs	(0.5)		
<b>Bank and other borrowings</b>	<b>446.4</b>		

At 31 December 2019:

	Total	Fixed rate borrowings	
		Weighted average interest rate	Weighted average period for which rate is fixed
	£'m	%	Years
US dollar denominated other loans	461.8	3.5	5.0
Less unamortised debt issue costs	(0.7)		
<b>Bank and other borrowings</b>	<b>461.1</b>		

The weighted average interest rate reflects the relative impact of interest rates based on the principal amounts and the duration of borrowings.

#### 10. Derivative financial instruments

	2020		2019	
	Assets £'m	Liabilities £'m	Assets £'m	Liabilities £'m
Interest rate swaps	–	–	1.8	–
Cross currency swaps	–	(20.0)	–	(7.0)
Foreign currency forward contracts	5.2	(9.2)	4.8	(11.2)
<b>Current portion</b>	<b>5.2</b>	<b>(29.2)</b>	<b>6.6</b>	<b>(18.2)</b>
Interest rate swaps	5.1	–	5.1	–
Foreign currency forward contracts	10.0	(6.2)	11.4	(11.7)
<b>Non-current portion</b>	<b>15.1</b>	<b>(6.2)</b>	<b>16.5</b>	<b>(11.7)</b>
<b>Total</b>	<b>20.3</b>	<b>(35.4)</b>	<b>23.1</b>	<b>(29.9)</b>

The Company does not use hedge accounting for any of its derivative financial instruments. It is exempt from certain FRS 101 disclosures as the Group's consolidated financial statements provide the disclosures required by IFRS 7 (see note 33 to the Group's consolidated financial statements on pages 202 to 203).

The loss recorded in the income statement, recognised in net operating costs, arising from the measurement at fair value of derivative financial instruments, is £7.3m (2019: loss £19.1m).

The contract or underlying principal amount of foreign currency forward contracts in respect of derivative financial assets is £443.1m (2019: £405.6m) and in respect of derivative financial liabilities is £362.1m (2019: £627.0m).

The fair value of foreign currency forward contracts is analysed as follows:

	2020		2019	
	Assets £'m	Liabilities £'m	Assets £'m	Liabilities £'m
US dollar forward sales and purchases (USD/£)	13.0	(11.2)	15.5	(19.7)
Forward sales and purchases denominated in other currencies	2.2	(4.2)	0.7	(3.2)
<b>Fair value</b>	<b>15.2</b>	<b>(15.4)</b>	<b>16.2</b>	<b>(22.9)</b>

## 11. Deferred tax

Movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances, are as follows:

	Assets		Total	Liabilities	Net
	Retirement benefit obligations £'m	Other £'m		Accelerated tax depreciation £'m	
<b>At 1 January 2019</b>	15.1	2.7	17.8	(1.1)	16.7
Reclassifications	–	(1.1)	(1.1)	1.1	–
Charge to income statement	(3.3)	(0.6)	(3.9)	–	(3.9)
Credit to other comprehensive income	14.0	–	14.0	–	14.0
Credit to equity	–	0.6	0.6	–	0.6
<b>At 31 December 2019</b>	25.8	1.6	27.4	–	27.4
Charge to income statement	(2.4)	(0.7)	(3.1)	–	(3.1)
Credit to other comprehensive income	12.1	–	12.1	–	12.1
Credit to equity	–	1.4	1.4	–	1.4
<b>At 31 December 2020</b>	<b>35.5</b>	<b>2.3</b>	<b>37.8</b>	<b>–</b>	<b>37.8</b>

After taking account of the offsetting of balances, deferred tax assets are analysed as follows:

	2020 £'m	2019 £'m
To be recovered within one year	<b>6.8</b>	5.9
To be recovered after more than one year	<b>31.0</b>	21.5
<b>Total</b>	<b>37.8</b>	27.4

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.

## 12. Retirement benefit obligations

The Company is the sponsoring employer of the Meggitt Pension Plan, a funded defined benefit plan. Each participating company in the Meggitt Pension Plan bears employer contributions in respect of future service. No other amounts are recharged by the Company to any other participating employer. The Company has recognised the total deficit in respect of the Meggitt Pension Plan in these financial statements. Further details on the plan are disclosed in note 36 to the Group's consolidated financial statements on pages 207 to 211 in respect of the UK scheme.

The total charge to net operating expenses in respect of the defined contribution scheme in which employees of the Company participate is £2.0m (2019: £2.1m).

### Changes in the present value of retirement benefit obligations

	2020			2019		
	Liabilities (*) £'m	Assets (**) £'m	Total £'m	Liabilities (*) £'m	Assets (**) £'m	Total £'m
At 1 January	855.7	(705.1)	150.6	753.4	(668.9)	84.5
Service cost	7.8	–	7.8	6.7	–	6.7
Past service cost	0.1	–	0.1	–	–	–
Net interest cost	17.3	(14.6)	2.7	21.5	(19.6)	1.9
Contributions – Company	–	(29.6)	(29.6)	–	(37.8)	(37.8)
Benefits paid	(29.5)	29.5	–	(26.2)	26.2	–
Administrative expenses borne directly by scheme	–	0.9	0.9	–	0.8	0.8
Remeasurement of retirement benefit obligations:						
Gain from change in demographic assumptions	(1.6)	–	(1.6)	(2.5)	–	(2.5)
Loss from change in financial assumptions	111.3	–	111.3	102.8	–	102.8
Return on scheme assets excluding amounts included in finance costs	–	(55.6)	(55.6)	–	(5.8)	(5.8)
Total remeasurement loss/(gain)	109.7	(55.6)	54.1	100.3	(5.8)	94.5
<b>At 31 December</b>	<b>961.1</b>	<b>(774.5)</b>	<b>186.6</b>	<b>855.7</b>	<b>(705.1)</b>	<b>150.6</b>

\* Present value of scheme liabilities.

\*\* Fair value of scheme assets.



## Notes to the financial statements of the Company

### continued

#### 12. 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 2020 to increase by approximately £97.4m.
- The impact of a 10 basis point increase in inflation and salary inflation rates would cause scheme liabilities at 31 December 2020 to increase by approximately £12.1m.
- The impact of assuming every scheme member were to live for an additional year would cause scheme liabilities at 31 December 2020 to increase by approximately £40.2m.

The above sensitivity analyses are based on a change in a single assumption while keeping all other assumptions constant. In practice, this is unlikely to occur, and changes in assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method of calculating the defined benefit obligation has been used as when calculating the retirement benefit obligations recognised on the balance sheet. The methods and types of assumptions used in preparing the sensitivity analysis are consistent with the previous year. No change has been considered necessary to sensitivity levels, given recent past experience.

The weighted average duration of the defined benefit obligation is 19.5 years. The expected maturity of undiscounted pension benefits at 31 December 2020 is as follows:

	Total £'m
To be made in 2021	23.4
To be made in 2022	25.0
To be made in 2023 to 2025	82.9
To be made in 2026 to 2030	158.1
To be made in 2031 to 2035	172.0
To be made in 2036 to 2040	172.3
To be made in 2041 to 2045	163.1
To be made from 2046 onwards	476.6
<b>Total</b>	<b>1,273.4</b>

#### 13. Share capital

Disclosures in respect of share capital of the Company are provided in note 37 to the Group's consolidated financial statements on page 212.

#### 14. Share-based payment

Share awards have been granted to employees of the Company under various plans. Details of the general terms and conditions of each share-based payment plan are provided in the Directors' remuneration report on pages 114 to 141. Disclosure is also made in the Group's consolidated financial statements in note 38 on page 212.

#### 15. Commitments and contingencies

The Company has no capital commitments (2019: Nil). Details of contingent liabilities impacting the Company are disclosed in note 41 to the Group's consolidated financial statements on page 213.

#### 16. Other information

##### Directors' remuneration

Details of the remuneration paid to directors of the Company are provided in the Directors' remuneration report on pages 114 to 141.

##### Auditor's remuneration

Remuneration payable to PricewaterhouseCoopers LLP for the audit of the Company was £27,000 (2019: £27,000).

##### Employee information

	2020 £'m	2019 £'m
Wages and salaries	21.0	31.2
Social security costs	4.2	4.2
Retirement benefit costs	9.9	8.8
Share-based payment (credit)/expense	(0.6)	2.7
<b>Employee costs including executive directors</b>	<b>34.5</b>	<b>46.9</b>

The average number of persons employed by the Company in the year is 278 (2019: 241). The total number of employees reduced in the year from 289 at 1 January 2020 to 275 at 31 December 2020.

## Five-year record

	2020 £'m	2019 £'m	2018 £'m	2017 £'m	2016 £'m
<b>Revenue and profit</b>					
Revenue	<b>1,684.1</b>	2,276.2	2,080.6	1,994.4	1,992.4
Underlying profit before tax	<b>159.5</b>	370.3	334.8	320.2	352.1
Amounts arising on the acquisition, disposal and closure of businesses	<b>32.0</b>	23.5	25.1	25.3	39.1
Amortisation of intangible assets acquired in business combinations	<b>(88.2)</b>	(89.8)	(91.5)	(93.5)	(98.6)
Disposal of inventory revalued in business combinations	<b>-</b>	-	-	-	(4.6)
Financial instruments	<b>(2.9)</b>	15.0	(10.1)	60.7	(66.4)
Exceptional operating items	<b>(428.7)</b>	(26.2)	(34.2)	(73.1)	(15.5)
Net interest expense on retirement benefit obligations	<b>(5.7)</b>	(6.1)	(8.0)	(11.3)	(10.6)
(Loss)/profit before tax	<b>(334.0)</b>	286.7	216.1	228.3	195.5
<b>Earnings and dividends</b>					
(Loss)/earnings per share – basic	<b>(40.4)p</b>	28.8p	23.2p	37.8p	22.1p
Earnings per share – underlying	<b>16.5p</b>	37.3p	34.2p	32.0p	34.8p
Dividends per ordinary share in respect of the year	<b>-</b>	5.55p	16.65p	15.85p	15.10p
<b>Gearing ratio</b>					
Net debt as a percentage of total equity	<b>38.0%</b>	37.1%	43.1%	45.9%	48.0%

The Group adopted IFRS 15 and IFRS 16 with effect from 1 January 2018, with prior year comparatives for 2017 restated. IFRS 15 in particular is a complicated standard, requiring customer contracts to be reassessed against revised criteria for when, and at what value, revenue should be recognised. It is therefore not practical to provide a restatement of the numbers presented above for 2016.

## Investor information

### Contacts

#### Investor relations

E: [investors@meggitt.com](mailto:investors@meggitt.com)

Information on Meggitt PLC, including the latest share price: [www.meggitt.com](http://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](http://www.investorcentre.co.uk/contactus)

Enquiries about the following matters should be addressed to Meggitt PLC's registrar:

- Change of address notification.
- Lost share certificates.
- Dividend payment enquiries.
- Dividend mandate instructions. Shareholders may have their dividends paid directly into their bank or building society accounts by completing a dividend mandate form. Dividend confirmations are sent directly to shareholders' registered addresses. Quarterly statements will be available online at [www.investorcentre.co.uk](http://www.investorcentre.co.uk). Shareholders will need their Shareholder Reference Number (SRN) and registered address details to get started. Statements will be available from 30 April, 31 July, 31 October and 31 January each year.
- Amalgamation of shareholdings. Shareholders who receive more than one copy of the Annual Report are invited to amalgamate their accounts on the share register.

Shareholders can view and manage their shareholdings online at [www.investorcentre.co.uk](http://www.investorcentre.co.uk), including updating address records, making dividend payment enquiries, updating dividend mandates and viewing the latest share price. Shareholders will need their Shareholder Reference Number, which can be found on their share certificate or a recent dividend tax voucher or dividend confirmation, to access this site. Once signed up to Investor Centre, an activation code may be sent to the shareholder's registered address to enable the shareholder to manage their holding.

#### Other useful contacts

Share dealing services are provided for shareholders by Computershare Investor Services PLC. These services are provided by telephone (0370 703 0084) and online (to access the service, shareholders should have their SRN and log onto [www.computershare.trade](http://www.computershare.trade)).

ShareGift ([www.sharegift.org](http://www.sharegift.org), registered charity number 1052686): PO Box 72253, London, SW1P 9LQ (0207 930 3737). ShareGift, the independent share donation charity, is especially useful for those who may want to dispose of a small number of shares which are uneconomic to sell on their own. Shares which have been donated to ShareGift are aggregated and sold when practicable, with the proceeds passed on to a wide range of UK registered charities.

#### Future payment of dividends – mandatory direct credit

From 2022, the Company is simplifying the way in which it pays dividends to shareholders by only paying cash dividends directly into a shareholder's nominated bank account. This is known as Mandatory Direct Credit. The Company will no longer be issuing dividend cheques. Shareholders recorded on the register of members as receiving dividend payments by cheque will be contacted by Computershare. Those shareholders will need to take the required action by selecting the appropriate option as set out in the Computershare notification.

## Glossary

<b>401(k)</b>	An employer-sponsored defined-contribution pension in the United States	<b>DoD</b>	(United States) Department of Defense
<b>ADS</b>	Aerospace, Defence, Security and Space Organisation	<b>DPPM</b>	Defective parts per million, a measure of quality
<b>Aftermarket (AM)</b>	Spares and repairs	<b>DRIP</b>	Dividend reinvestment plan
<b>AGM</b>	Annual general meeting	<b>DGTR</b>	Disclosure Guidance and Transparency Rules
<b>AR&amp;T</b>	Applied research and technology	<b>EBITDA</b>	Earnings Before Interest, Tax, Depreciation and Amortisation
<b>ASK</b>	Available seat kilometres	<b>E&amp;C</b>	Ethics & Compliance
<b>BAME</b>	Black, Asian, and Minority Ethnic	<b>ECR</b>	(US) Export Controls Reform
<b>Basis point</b>	One-hundredth of a percent	<b>EPS</b>	Earnings per Share
<b>BEPS</b>	Base Erosion and Profit Shifting	<b>ERG</b>	Employee Resource Group
<b>Board</b>	Board of directors	<b>ESG</b>	Environment, Social & Governance
<b>Book to bill</b>	The ratio of orders received to revenue recognised in a period	<b>EU</b>	European Union
<b>Bronze stage</b>	Fourth stage of Meggitt Production System	<b>Executive Committee</b>	Assists the Chief Executive to develop and implement the Group's strategy, manage operations and discharge responsibilities delegated by the Board
<b>Business jets</b>	Aircraft used for non-commercial operations	<b>FCA</b>	Financial Conduct Authority
<b>CAGR</b>	Compound annual growth rate	<b>FIFO</b>	First-in first-out
<b>Capability</b>	Expertise in technology and manufacturing	<b>FIRST</b>	For Inspiration and Recognition of Science and Technology
<b>CFC</b>	Controlled Foreign Company	<b>FOC</b>	Free of charge
<b>CGU</b>	Cash generating unit	<b>FRC</b>	Financial Reporting Council
<b>CHF</b>	Swiss franc	<b>FRS</b>	Financial Reporting Standard
<b>CI</b>	Continuous improvement	<b>FTSE</b>	Share index of companies listed on the London Stock Exchange
<b>CO<sub>2</sub></b>	Carbon dioxide	<b>GAAP</b>	Generally Accepted Accounting Practice
<b>2018 Code</b>	UK Corporate Governance Code 2018	<b>GBP</b>	British pound or pound sterling
<b>CODM</b>	Chief operating decision maker	<b>GDP</b>	Gross domestic product
<b>Company</b>	Meggitt PLC	<b>GDPR</b>	General Data Protection Regulation
<b>Condition-monitoring</b>	Monitoring the condition of aerospace and land-based turbines and supporting equipment to predict wear and tear, promoting safety, up-time and planned maintenance	<b>GHG</b>	Greenhouse gas
<b>Continuing Resolution</b>	Appropriations legislation restricting modification from prior-year funding patterns	<b>Group</b>	Meggitt PLC and its subsidiaries
<b>Covid Corporate Financing Facility</b>	A Bank of England scheme introduced in March 2020 to support firms during the COVID-19 pandemic	<b>HMRC</b>	HM Revenue & Customs
<b>CR</b>	Corporate Responsibility	<b>HSE</b>	Health, Safety & Environment
<b>CREST</b>	Certificateless Registry for Electronic Share Transfer	<b>HPC</b>	High Performance Culture (HPC) – our chosen culture, with a particular focus on diversity & inclusion and improved employee engagement, to accelerate execution of our strategy
<b>D&amp;A</b>	Depreciation and amortisation	<b>HPS</b>	High Performance System (HPS) – our new Emerging Stronger plan for Outstanding Operations, which will replace the Meggitt Production System (MPS)
<b>DECC</b>	Department of Energy & Climate Change	<b>IAS</b>	International Accounting Standards
<b>DEFRA</b>	Department for Environment, Food & Rural Affairs	<b>IET</b>	Institution of Engineering and Technology
<b>DFARS</b>	(US) Defense Federal Acquisition Relation Supplement	<b>IFBEC</b>	International Forum on Business Ethical Conduct
<b>DLA</b>	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	<b>IFRS</b>	International Financial Reporting Standards
		<b>Installed base</b>	The sum total of the Meggitt products and sub-systems installed on customers' equipment
		<b>IR</b>	Investor Relations
		<b>IP</b>	Intellectual property

## Glossary continued

<b>ISA</b>	International Standards on Auditing	<b>PwC</b>	PricewaterhouseCoopers LLP
<b>Jet Zero Council (JZC)</b>	Partnership between industry and government bringing together ministers and chief executive officer-level stakeholders to drive the ambitious delivery of new technologies and innovative ways to cut aviation emissions	<b>R&amp;D</b>	Research and development
		<b>REACH</b>	Registration, Evaluation and Authorisation of Chemicals
		<b>RECs</b>	Renewable Energy Credits
		<b>Regional aircraft</b>	Commercial aircraft with fewer than 100 seats
<b>KPI</b>	Key performance indicator	<b>Registrar</b>	Computershare Investor Services PLC
<b>Large jets</b>	Commercial aircraft with greater than 100 seats	<b>RIDDOR</b>	The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations
<b>Lean</b>	A method for the continual elimination of waste within a manufacturing system	<b>RMU</b>	Retrofit, modification and upgrade
<b>LIBOR</b>	London Inter-Bank Offered Rate	<b>RNS</b>	Regulatory News Service announcement
<b>LTIP</b>	Long-Term Incentive Plan	<b>ROCE</b>	Return on capital employed
<b>M&amp;A</b>	Mergers and acquisitions	<b>ROTA</b>	Return on trading assets
<b>MPS</b>	Meggitt Production System (MPS) – our single global approach to continuous improvement using tools and processes tailored for the Group. Being replaced by our High Performance System	<b>RPH</b>	Retirement Plan Headcount
	The impact on performance of revenue streams with higher or lower profitability growing at differing rates	<b>SAP</b>	The Group's selected enterprise management system
<b>Mix</b>		<b>Sell-side</b>	Refers to the part of the financial industry that is involved in the creation, promotion, and sale of stocks, bonds, foreign exchange, and other financial instruments
<b>MoD</b>	UK Ministry of Defence	<b>Shipset</b>	Value of Meggitt's content on aircraft platforms
<b>MPP</b>	Meggitt Pension Plan	<b>SIP</b>	Share Incentive Plan
<b>MRO</b>	Maintenance, repair and overhaul	<b>SRN</b>	Shareholder Reference Number
<b>Net borrowings</b>	Net debt adjusted to exclude lease liabilities	<b>STIP</b>	Short-Term Incentive Plan
<b>NHS</b>	National health Service	<b>TCFD</b>	Taskforce on Climate-related Financial Disclosures
<b>NPI</b>	New product introduction	<b>TRIR</b>	Total recordable injury rate
<b>O&amp;M</b>	Operations and maintenance	<b>TSR</b>	Total shareholder return
<b>OE</b>	Original equipment	<b>UAV</b>	Unmanned aerial vehicle
<b>OECD</b>	Organisation for Economic Cooperation and Development	<b>UN SDG</b>	United Nations Sustainable Development Goals
<b>OEM</b>	Original equipment manufacturer	<b>UKLA</b>	UK Listing Authority
<b>Operations excellence</b>	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	<b>USD</b>	United States dollar
		<b>Ventilator Challenge</b>	A consortium led rapid production of ventilators to help patients hospitalised with COVID-19
<b>Organic growth</b>	Growth excluding the impact of currency and acquisitions and disposals of businesses	<b>WACC</b>	Weighted average cost of capital
		<b>WBCSD</b>	World Business Council for Sustainable Development
<b>OSHA</b>	Occupational Safety and Health Administration	<b>WRI</b>	World Resources Institute
<b>OTD</b>	On-time delivery		
<b>PBT</b>	Profit before tax		
<b>PCHE</b>	Printed circuit heat exchanger – a block of flat, diffusion bonded plates on to which fluid flow channels have been chemically milled		
<b>PFEP</b>	Plan for every part		
<b>Platform</b>	Aircraft or ground vehicle model incorporating Meggitt products		
<b>PMO</b>	Project management office		
<b>PPC</b>	Programme Participation Cost		
<b>Programme</b>	The production and utilisation lifecycle of an aircraft model or ground vehicle		



# MEGGITT

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