



ENABLING THE EXTRAORDINARY

TO FLY | TO POWER | TO LIVE

TO FLY

Expertise relied upon by customers to enable safe and cost effective flight

We balance weight, life span, life-cycle cost, dispatchability, ease of maintenance, short field performance and turnaround times to deliver the optimal combination of technical performance and operating economics needed for a given aircraft. With decades of experience, an extensive intellectual property portfolio and positions on some of the world's most technologically advanced civil and military aircraft, Meggitt plays a critical role in enabling safe and cost effective landings for over 15 million flights each year.

TO POWER

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

Meggitt health monitoring systems are installed on energy infrastructure across the globe, including the world's tallest gravity dam at Grand Dixence, Switzerland. Highly durable sensors placed close to critical pieces of equipment relay information on everything from vibration anomalies to electrical currents back to a central computer system. By inspecting patterns within the signals, analysts can easily see if their equipment is in peak condition or in need of maintenance. Because any potential problems show up early on, engineers can schedule physical inspections and repairs for optimal times, when energy demand is low. Most important, health monitoring avoids catastrophic failures, potentially saving billions of pounds.

TO LIVE

Innovative technologies which make the world more secure

Meggitt is the leading provider of fuel tanks to the US military. Before our crashworthy fuel tanks, over 42% of survivable helicopter crashes in the US resulted in deaths from fuel fires. Today, Meggitt's crashworthy, self-seal fuel tanks, which meet rigorous standards for flexibility, strength, impact and cut-and-tear resistance have stopped fuel spillage and reduced fire-related death and injury in such crashes to almost zero. If punctured by a high impact explosive 23mm bullet, Meggitt's ballistically-resistant fuel bladders will self-seal in less than two minutes. The wound is encased in a rubber gel, which suppresses the ignition source, stops fuel leakage and enables flight crews to return safely to their home base.

Forward-looking statements

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



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Meggitt at a glance
Smart engineering
for extreme
environments

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Well positioned
to meet objectives

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2017 Meggitt performance
How we did in 2017

See pages 3 and 34 for more information

Our business model and strategy
Sharing value with
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performance

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Market overview
Leading provider
across all markets

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Risk management
See how we
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See page 40 for more information

Key performance indicators
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against Group strategy

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Board of directors and remuneration
Who runs Meggitt and
how do we reward
them?

See pages 58 and 72 for more information



Download the 2017
Meggitt PLC Annual
Report and Accounts from
www.meggitt.com

Highlights of the year

Revenue

£2,027.3m

2017	2,027.3
2016	1,992.4
2015	1,647.2
2014	1,553.7
2013	1,637.3

Underlying earnings per share²

35.3p

2017	35.3
2016	34.8
2015	31.6
2014	32.4
2013	37.5

Dividend per share

15.85p

2017	15.85
2016	15.10
2015	14.40
2014	13.75
2013	12.75

Free cash flow¹

£186.0m

2017	186.0
2016	131.1
2015	199.0
2014	146.8
2013	110.4

Underlying profit before tax²

£357.9m

2017	357.9
2016	352.1
2015	310.3
2014	328.7
2013	377.8

Return on trading assets

19.6%

2017	19.6
2016	20.8
2015	21.7
2014	26.5
2013	36.0

1 Free cash flow is reconciled to cash from operating activities in note 41 to the consolidated financial statements on page 153.

2 The definition of 'underlying' is provided in notes 10 and 15 to the consolidated financial statements on pages 127 and 130 respectively.



“
With Meggitt product installed on over 69,000 civil and military aircraft, increased content on new aircraft and consistent growth in air travel, Meggitt is well positioned for growth over the medium to long term. ”

Sir Nigel Rudd
Chairman

- Meggitt is a long-term business, with a growing presence on the wave of new aerospace platforms entering into service over the next five years.
- Meggitt's 2017 results reflect good organic growth across the Group. During the year, Meggitt has further enhanced its growing platform positions with a number of contract wins on new and existing programmes including the Airbus A320neo and A321neo, Boeing 777X, Comac C919 and Embraer E2 aircraft.

At a glance

SMART ENGINEERING FOR EXTREME ENVIRONMENTS

Headquartered in the UK, Meggitt specialises in components and sub-systems providing critical functionality in challenging applications within civil aerospace, military and energy markets.

OUR PRINCIPAL LOCATIONS

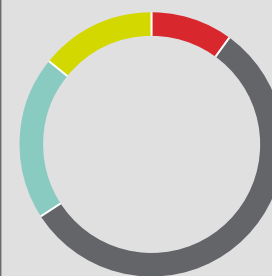


Revenue by market



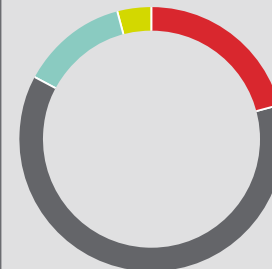
● Civil Aerospace	54%
● Military	34%
● Energy/Other	12%

Revenue by destination



● UK	10%
● US	56%
● Rest of Europe	20%
● Rest of World	14%

Revenue by source



● UK	21%
● US	62%
● Rest of Europe	13%
● Rest of World	4%

OUR CORE MARKETS



Civil aerospace



Military



Energy

See page 22 for more information

OUR DIVISIONS

The Group is organised into five capability based divisions, with spares and repair services for Group businesses supplemented by a single global team, Meggitt Customer Services & Support.

Meggitt Aircraft Braking Systems (MABS)

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

Percentage of revenue

19%



See page 25 for more information

Meggitt Control Systems (MCS)

Aircraft fire protection and control systems, aerospace and industrial fuel and bleed air control valves, heat exchangers, high pressure ducting and ground refuelling products.

Percentage of revenue

26%



See page 26 for more information

Meggitt Polymers & Composites (MPC)

Engine and aerodynamic seals, flexible fuel tanks and fuel systems for military and civil aircraft, advanced composite engine components, radomes and secondary structures, electro-thermal ice protection systems and sub-assemblies and interior panels and accessories.

Percentage of revenue

17%



See page 27 for more information

Meggitt Sensing Systems (MSS)

High performance sensing and monitoring systems for aircraft and land-based turbines, test and measurement, avionics, electrical power systems and aircraft safety and security.

Percentage of revenue

25%



See page 28 for more information

Meggitt Equipment Group (MEG)

Capabilities include unique heat transfer equipment for hydrocarbon processing, high performance electro-mechanical fans, pumps, compressors, electric motors and controllers and training systems (live and virtual fire).

Percentage of revenue

13%



See page 29 for more information

Chairman's statement

DRIVING VALUE CREATION



Sir Nigel Rudd
Chairman

In last year's report I talked about the significant increases in content Meggitt had secured on new generation aircraft during a period of unprecedented product renewal by the major airframe and engine manufacturers. As we mostly supply products as a sole source provider, we are the only provider of spare parts on these platforms that will be in operation for decades to come.

With products installed on over 69,000 civil and military aircraft, increased content on new aircraft and consistent growth in air travel, Meggitt is well positioned for growth over the medium to long term.

Having passed the peak of investment in research and development, the focus of the business is now on building the capability and capacity to deliver these new programmes to our customers and driving operational efficiencies that will enhance our competitiveness and accelerate growth in shareholder returns.

Capital Allocation

To deliver this sustainable growth in shareholder returns over the medium to long term, the Board has outlined a series of priorities for capital allocation.

Our first priority is investing in the organic growth and operational efficiency of the business. In 2017, we have continued to make significant investments to develop new technologies, fund our participation in

growing customer programmes and build further capacity for growth.

Our second priority is to grow our ordinary dividend in line with earnings through the cycle. Over the past five years we have grown our dividend by 6.1% p.a. during a period of significant reinvestment. During this period, we have delivered free cash flow of more than 140% of our dividend, demonstrating the cash generative nature of our business model.

Reflecting the continued confident outlook for the medium term, the Board is proposing a 5% increase to the full year dividend to 15.85p per share for 2017 (2016: 15.10p per share).

Dividend growth p.a. over 5 yrs

6.1%

Our third priority is to target value accretive acquisitions in attractive markets where we have or can develop a strong competitive position. The Board meets regularly to review the Group's strategy and has a clear view on the areas of capability we should grow by acquisition. This list is refined on an annual basis and potential targets are assessed against a rigorous set of criteria including both financial metrics and more qualitative assessments, including cultural fit.

Finally, in the absence of any compelling investment opportunities for a prolonged period, our fourth priority is to maintain an efficient balance sheet in line with the Board's guideline range of 1.5x to 2.5x Net debt:EBITDA¹, designed to ensure clear headroom against our covenants.

Board Changes

In November, we announced that Stephen Young would step down from the Board and his role as Chief Executive in December 2017 before retiring in April 2018. Stephen has served as our Chief Executive for five years and prior to that, for nine years as Finance Director. During this 14 year period, Group revenue grew fivefold, profitability increased by nearly 460% and total shareholder returns grew by 420%. We thank Stephen for the significant role he has played in the development of the Group and we wish him well in his retirement.

Stephen has been succeeded by Tony Wood who joined Meggitt in December 2016 as Chief Operating Officer. With over 30 years of experience in senior aerospace roles, both at Rolls-Royce and Safran, Tony brings a wealth of industry knowledge, skills and extensive operational experience that will make him an excellent successor. Further details on the process to appoint Tony is included in the Nominations Committee report on page 69. As reported last year, Nancy Gioia joined the Board in April 2017, replacing Brenda Reichelderfer who retired after serving six years as a Non-Executive Director.

People

I was pleased to be able to visit a number of our sites in 2017 and I continue to be impressed by the skills and commitment our employees demonstrate. This, combined with our specialist capabilities and leading positions in our core markets, is at the centre of everything we do. I would like to thank all of our employees for their hard work this year. In 2018, I will ensure the Board continues to focus on culture, inclusion, diversity and employee engagement, in support of executive management's ambition for Meggitt to be an employer of choice.

Sir Nigel Rudd
Chairman

¹ Calculated on a covenant basis

Investment case

WELL POSITIONED TO DELIVER OBJECTIVES

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

Focus on markets with high certification requirements/ long life assets

- Challenging technology and certification requirements mean few providers can do what we do
- Aerospace and defence focused (88% of revenues)

See page 22 for more information

Strong positions in attractive markets

- 69% of revenue in attractive markets where Meggitt has a strong competitive position
- Competitive positions continue to be enhanced by development of differentiated technology and operational performance improvements

See page 22 for more information

Strength and depth of intellectual property supports long-term returns

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

See page 13 for more information

Progress on strategic priorities

- Detailed and well resourced strategic plan
- Progress made against all four strategic priorities in 2017
- Positive outlook for progress on strategic priorities in 2018

See page 14 for more information

Broad and balanced business

- 53:47 split between original equipment and aftermarket
- No one platform accounts for more than 4% of revenue
- Content on almost every western aircraft – installed base of over 69,000 civil and military aircraft

See page 22 for more information

High quality team

- Focused leadership team with four of the Executive Committee in new roles and three new to the business in 2017
- High Performance Culture launched with 800 leaders 'unfrozen' following attendance on training courses designed to foster more effective collaboration and teamwork across the Group

See page 20 for more information

Chief Executive's statement

LOOKING FORWARD



Tony Wood
Chief Executive

Meggitt is a leading provider of *smart engineering for extreme environments*. We invest in technologies and capabilities that enable our customers to develop aircraft, gas turbines and other complex equipment that has to perform in challenging conditions.

14

First flights enabled by Meggitt technology in 2017

Over the last few years, investment in our **portfolio** has enabled us to significantly increase the number and value of Meggitt parts on new platforms that will drive growth for decades. We have focused on: improving the service we offer to our **customers** including the formation of our Customer Services and Support ('CSS') organisation; enhancing our **competitiveness**, through the deployment of the Meggitt Production System ('MPS'); and building a high performance **culture**, capable of delivering superior returns for shareholders over the medium term.

Portfolio

In 2017, Meggitt technologies have played a critical role in enabling the first flights of new aircraft such as the Embraer E2, Comac C919 and Saab Gripen-E; and the entry into service of important new platforms including the Boeing 737MAX and Airbus A321neo. Having increased our content on these platforms compared to their predecessors, these

milestones represent an important step on our journey to increased growth.

To enable us to increase share even further on the next generation of aircraft, we have continued to prioritise investment in applied research and technology, focusing on those areas where we expect both market demand and our competitive position to be strong. One such example is research into advanced thermal systems for ultra-high bypass engines, where we have secured a UK Government grant of £3.7m to build on our deep capability in aerospace heat exchangers. We have also prioritised investment in advanced manufacturing technologies such as our Meggitt Modular Modifiable Manufacturing (M⁴) initiative and investments in additive manufacturing for aerospace applications.

To supplement this focus on technologies where we have strong competitive positions in attractive markets, we announced a series of divestments in 2017, which materially reduced our exposure to non-core industrial markets where the technology requirements, route to market and operational dynamics are very different to our core aerospace business.

In June 2017, we completed the sale of Piher Sensors & Controls, Piezo Technologies and Meggitt Maryland to Amphenol Corporation. In November 2017, we reached an agreement to sell Thomson Aerospace & Defence to Umbra Cuscinetti which is expected to complete in March 2018, once customary regulatory clearances are received. In January 2018, we sold Aviation Mobility to Smart Carte. In aggregate, these businesses generated a total of £54m of revenue during 2017.

Customers

We continued to enhance our ability to support our customers with CSS now in its second full year of operation. During 2017, CSS has secured a number of new contracts to support airlines including Emirates, Air France and Vietjet. It has broadened partnerships with MRO integrators such as Lufthansa Technik. And it has secured a series of new distribution agreements with providers such as Aviall and Proponent.

At the same time, we have continued to evolve our organisation, moving more aftermarket activity into our regional hubs in the US, UK and Singapore; and enhancing our capabilities in areas such as surplus trading. To serve our customers better and accelerate growth, we acquired Elite Aerospace in March 2017 which, when fully integrated into our aftermarket hub in Miami in 2018, will extend our capability in repair and overhaul of heat transfer, pneumatics and hydraulic components for commercial and military aircraft.

Such progress is critical as we continue to focus on protecting and growing our share of Meggitt spares and repairs whilst realising the full value of our significant and growing installed base, which we have further enhanced during the year with a number of new OE contract awards. The most notable of these is a dual source contract to provide wheels and brakes for the Airbus A321neo.

This strategically significant contract for Meggitt, enables us to further demonstrate our capability in the large jet market, after the entry into service of the Bombardier CSeries in 2016 equipped with our Ebrake™ technology, the industry's second fully electric braking system.

In 2017, we have written off an investment of £59.5m following Dassault's cancellation of its Falcon 5X programme due to ongoing problems related to its Silvercrest engine. Programme cancellations are a rare event in the aerospace industry. However, Dassault has announced its intention to develop a replacement Falcon with an alternative engine and we are hopeful we will retain our position on the successor aircraft.

Competitiveness

In 2017, MPS – our global approach to continuous improvement – has continued to go from strength to strength. It was launched in 2013 to create a sustainable quality and delivery culture that drives competitive advantage beyond our technical expertise and enables the Group to deliver a higher rate of organic growth over the long term.

In its fifth year, 12 (of our 48) sites have now entered the fourth, or bronze, stage of MPS where the focus turns to realising the financial benefits from improved productivity and lower inventories. In 2017, our focus on inventory reduction resulted in inventory turns increasing from 2.30 to 2.43 and £16m of cash being released from working capital. As we continue to move more of our sites into and beyond the bronze stage over the coming years, we expect MPS to make a material contribution to the targets we have set for margin improvement and cash generation.

During the year, we secured a number of supply agreements for important commodities such as electronics, fasteners and machining and we have invested in our Group purchasing organisation to more rapidly deploy these agreements in 2018 to leverage economies of scale, aligned to our target of achieving a net 2% reduction in purchased costs each year.

We have also taken a number of important steps to rationalise our footprint by 20% by 2021. In November 2017, we commenced consultation ahead of a proposal to consolidate a range of manufacturing, engineering and support operations into a single centre of excellence at Ansty Park in Rugby, UK. This £130m total investment, developed in conjunction with partners, will see a state of the art manufacturing campus become operational by late 2019, serving as a hub for next generation innovation and acting as a catalyst for world-class operational performance.

Moving more work into larger, more capable sites is a key component of our site rationalisation strategy. It enables us to eliminate some of the fixed costs required to run individual aerospace sites but also provides better leverage of investment in world class infrastructure that will increase efficiency and improve customer service.

Culture

In 2017, we launched a culture development programme which has now been deployed to over 800 of our leaders, aimed at fostering more effective collaboration and teamwork across the Group and to increase employee engagement. Talent has also been a key priority during the year, with a number of significant new hires during 2017. On the Executive Committee alone, four of our twelve most senior executives are in new or expanded roles and a further three are new to Meggitt.

This focus on talent and culture, together with our other key priorities, will enable us to accelerate the pace of execution which remains critical to delivering growth and achieving the medium term targets we have outlined for margin improvement and cash generation.

Performance

Reported revenue increased by 2% to £2,027m, with growth from favourable currency translation offset by divestments completed within the year. Organic growth of 2% was in line with our expectations, including civil growth of 4%. Underlying earnings per share increased by 1% to 35.3p (2016: 34.8p), while net debt to EBITDA at the end of the year was 1.9x (2016: 2.1x).

Within civil aerospace, original equipment revenue grew organically by 3%, with increased shipset content on large jets offsetting a decline in regional and business jets. Aftermarket revenue increased organically by 6%, with strong performance in large jets and business aviation offsetting a flat performance in regional jets where de-stocking in the first six months inhibited growth.

Military revenues recovered well in the fourth quarter, after some delays to cash flowing from increased budgets in the US during the first nine months. Organic revenue growth of 1%, reflected good demand for original equipment, particularly on F-35 offsetting lower demand for spares on platforms including Typhoon, F-16 and Apache.

As anticipated, energy revenues continued to decline with revenues in the Heatric business lower than in 2016, when it completed the last of its orders to support large capital projects in offshore gas applications. The power generation part of our energy business also declined as a result of lower demand for industrial gas turbines during the year. Overall energy revenues declined by 8% organically during the year.

Underlying operating margin increased by 10 basis points to 19.2%, with the financial benefits from strategic initiatives partly offset by headwinds from mix and depreciation & amortisation together with growth in new product introduction costs at Meggitt Polymers & Composites (for more information see page 27).

Outlook

The outlook for our civil markets is encouraging despite continued delays to some civil aircraft programmes. In the medium term, production of large jets is expected to continue to grow and our increased shipsets on the latest generation of aircraft supports a positive outlook for civil OE revenues. In 2018, we expect civil OE to grow organically by 2 to 4%.

Available seat kilometres, an important driver of our large jet aftermarket, continue to grow well above the long-term trend of 5% per annum. This, combined with an improving outlook for take-offs and landings of regional and business jets and our increased share on new generation aircraft, signals that we will outgrow the market for civil spares in the medium term. In 2018, we expect civil aftermarket revenue to grow organically by 3 to 5%.

In military, a growing defence budget in the US combined with good positions on the fastest growing and hardest worked aircraft platforms, means we are well positioned for growth over the medium term. In 2018, we anticipate organic growth of 3 to 5% in military, underpinned by growth of 4% in orders in 2017 (book to bill of 1.08).

In energy, we expect to see some recovery after a number of years of declining organic revenue driven principally by challenging market conditions at the Heatric business. A strong fourth quarter at Heatric, which grew year on year, for the first time since Q1 2014, underpins our expectation of a recovery in 2018. With benign conditions in power generation and an improving outlook in oil and gas markets, we expect our energy revenues to grow organically by 0 to 5% in 2018.

On the basis of the above, the Group expects overall 2 to 4% organic revenue growth in 2018, and that this growth momentum will accelerate over the medium term.

Having increased margin by 10 basis points in 2017, the Group expects further improvement driven by the growing momentum in our strategic initiatives and is targetting a 10 to 40 basis point improvement in 2018, before the impact of IFRS 15. Under IFRS 15, the Group expects a 30 basis point headwind from the accelerated growth in free of charge OE parts which would equate to a target for 2018 of 17.7% to 18.0% (compared to 17.9% in 2017 under IFRS 15).

We estimate free of charge shipsets will add an incremental 60 basis points headwind to margin between 2017 and 2021 and have restated our medium term margin target to reflect this change in accounting. We now expect to deliver a margin improvement of at least 200 basis points by 2021, which is consistent with our target to achieve a 200 to 250 basis point improvement prior to the adoption of IFRS 15.



Tony Wood
Chief Executive

Our business model

PROVEN MODEL THAT DELIVERS VALUE

OUR INPUTS & COMPETITIVE STRENGTHS

Market-leading technology

#1 position in segments including business jet, regional jet and military wheel & brakes, aerospace sensing & monitoring, fire suppression & detection and advanced engine composites.

See page 22 for more information

World-class services and support

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

See page 16 for more information

Global infrastructure

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

People and culture

Our highly skilled people and teams collaborate to create value by combining extensive technical capabilities and long-standing market domain knowledge.

See page 20 for more information

Financial resources

We have a cash-generative model and are just past the peak of a major development cycle, which was fully funded by organic cash flow.

See page 13 for more information

HOW WE CREATE VALUE



See page 12 for more information on our strategy

With our deep expertise at its heart, our model creates a virtuous cycle of value creation for our stakeholders.

Develop differentiated technologies

We deploy our deep domain expertise to develop technology which anticipate future market demands and develop intellectual property which differentiates Meggitt from our competitors.

Invest in operational excellence, infrastructure and supply chain

Investing in the people, tools, processes and facilities required to manufacture cost efficiently and deliver reliably to our customers.

Building strong partnerships with suppliers to drive economies of scale and broaden our offering to our customers.

Grow market share and our installed base

Competing effectively to increase our content on new aircraft and expand our installed base of over 69,000 aircraft, which provides good visibility of future revenues.

Provide through life services

Providing world class services and support to operators of Meggitt-equipped aircraft, whilst capturing vital knowledge about how our products perform in the field.

Allocate capital

Disciplined allocation of capital to balance risk and optimise sustainable long-term returns for our shareholders.

HOW WE SHARE VALUE



Customers

- Innovative solutions
- Differentiated technology



Shareholders

- Dividend growth
- EPS accretion



Employees

- Engagement
- Training
- Development opportunities

HOW WE MAXIMISE VALUE

Clear strategy

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

See page 12 for more information

Sound governance

High standards of governance are critical to our success.

See page 56 for more information

Operating responsibly

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

See page 46 for more information

Managing risk

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

See page 40 for more information

Rewarding success

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

See page 72 for more information

e-Brake™

Electrically-actuated brakes enhance braking efficiency and aircraft dispatch reliability.



Our strategy

DESIGNED TO DELIVER BREAKTHROUGH PERFORMANCE

Our strategy is designed to deliver our 2021 targets.

OUR STRATEGY

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

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

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

Strategic priorities

We have outlined four strategic priorities that will enable us to accelerate revenue growth and return on capital employed.

Our strategy is designed to achieve competitive advantage at every stage of our business model (see pages 12 to 21).



Portfolio

Attractive markets
Strong positions

Investing in attractive growth opportunities in our core business; targeting value enhancing acquisitions and selling non-core businesses.



Customers

OE / Aftermarket growth
Performance
Technology

Delivery of high quality, timely service and support to increase customer satisfaction while maximising the through life value of our products which are installed on over 69,000 aircraft.



Competitiveness

Productivity
Purchasing
Footprint
Inventory

Investing in our people, property and plant to make operational performance a key competitive strength. Reducing fragmentation to increase economies of scale.



Culture

Collaborative
High performance

Build and nurture a high performance culture, where high levels of employee engagement enable us to accelerate strategy execution.

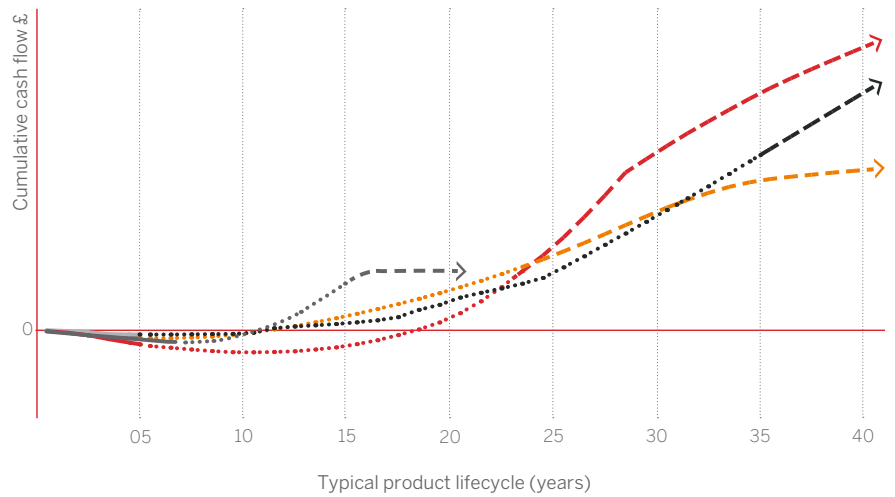
Growth & ROCE

CUMULATIVE CASH FLOW

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

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

Wheels and brakes		Military	
Development		Development	
In production		In production	
Mature		Mature	
Civil		Energy	
Development		Development	
In production		In production	
Mature		Mature	



INVESTMENT CYCLE

01

DEVELOPMENT

Investing in our customers' competitiveness

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



02

PRODUCTION

Revenues start

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



03

MATURITY

Revenues gain momentum

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

Progress against strategy

PORTFOLIO

Advances in thermal management technology are a key enabler of unlocking the step change performance improvements required to justify a new generation of aerospace engines. As a pioneer in aerospace heat exchanger design, Meggitt is well placed to enable customers to overcome this critical challenge.



Thermal systems

In 2017, Meggitt secured a £3.7m grant from the Department for Business, Energy and Industrial Strategy, for research into next generation thermal systems. This award will enable us to design and develop a series of novel technologies which will enable the design of increasingly lighter, more compact thermal management solutions able to manage far greater thermal loads than currently possible.

Progress against strategy

CUSTOMERS

Success in bidding on the new generation of commercial aircraft has enabled Meggitt to increase the value of content per aircraft by 20 to 250%. Further contract wins, such as the award of high performance actuators for the Airbus A320neo, secured in 2017, further expand this market share.





Expanding market share

United Technologies Aerospace Systems (UTAS) has selected Meggitt to design, develop and supply high performance actuators and position sensors for the Airbus A320 fly-by-wire pilot control system.

Meggitt's compact electromechanical actuator controls the rudder trim in response to inputs from the pilot while our Rotary Variable Differential Transformers (RVDTs) sense the position of the pilot's rudder pedals. With Meggitt's extensive expertise in power electronics and motion control, UTAS will receive a complete solution, including both the individual sensors and a fully optimised electronically controlled actuator.

Progress against strategy

COMPETITIVENESS

Reducing the number of sites we operate is a key enabler of our competitiveness priority. Rationalising many small sites into fewer, large centres of excellence and expanding our capacity in low cost regions has the potential to reduce costs and more rapidly deliver ambitious improvements in operational performance.





A factory fit for the future

In 2017, we have made good progress, most notably with the announcement of a multi-million pound facility in the West Midlands, UK which will aim to consolidate a range of operations - Aircraft Braking Systems, Control Systems, Customer Services & Support and Corporate Shared Services within a world-class aerospace engineering and technology environment.

Bringing world-class innovation and operational delivery together on one site will accelerate our ability to meet the current and future needs of customers worldwide and will mark a major advance in the development of our global manufacturing footprint.

The 440,000 sq. ft. facility will provide a base for up to 1,000 employees, positioning the business for future growth and will serve as a hub for next-generation aerospace innovation and R&D and as a catalyst for world-class operational performance.

Meggitt plans to invest a total of £130m, in conjunction with partners, at this greenfield site including the costs of construction, extensive fit out with state of the art equipment and transition to the new site which is expected to open in late 2019.

Progress against strategy

CULTURE

As we continue the transition from a holding company to an integrated business we are focused on increasing alignment and employee engagement through a structured approach to developing a high performance culture.





High Performance Culture

Aligned with our vision, *Enabling the Extraordinary: to fly, to power, to live*, we will drive superior performance by nurturing a culture which sets the bar higher for everyone. This expects us to be the best place to work, the best in the business and one which seeks out, attracts, reinforces and develops high performance.

To achieve this goal, we are in the process of rolling out a series of tools and frameworks designed to support a shift in the value we place not just on what we do but why and how we do it. This approach to culture has proven to be highly successful at other world-class businesses and over 800 of our leaders have already participated in the programme.

One example of such tools is the results cone, a framework designed to enable more effective problem solving and teamwork. This is achieved by highlighting and addressing implicit thought habits which drive behaviours that inhibit successful outcomes in the workplace.

A team of Meggitt trained facilitators will continue to deploy this programme across the organisation in 2018, with the aim of incorporating all front line leaders by the end of the year.

Market review

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



CIVIL AEROSPACE

Civil aerospace accounts for 54% of Group revenue, with products and sub-systems installed on almost every jet airliner, regional aircraft and business jet in service. The global fleet has grown significantly in recent years, totalling over 47,000 aircraft compared with 31,000 a decade ago. New aircraft deliveries drive sales of original equipment. Aircraft utilisation generates demand for spare parts and repairs. The growth of our fleet, therefore, is a strong indication of future aftermarket revenue. The split of civil revenue, is 58% aftermarket and 42% original equipment (OE).

ORIGINAL EQUIPMENT

Meggitt operates in three main segments of the civil aerospace market: large jets, regional aircraft and business jets. The large jet fleet includes over 22,000 aircraft, the regional aircraft fleet over 6,000 and business jets around 19,000. The Group has products on virtually all these platforms and hence a very large, and growing, installed base.

We classify civil aircraft by seat capacity: large jets (>100 seats), regional aircraft (<100 seats) and business jets. Large jet deliveries in 2017 stood at a record 1,506, 4% higher than in 2016. Growth in new deliveries of an average 5% per annum to 2021 is driven by demand for large jets. This is underpinned by the order books of Boeing and Airbus, the two major civil aircraft manufacturers, which extend to between five and eight years based on forecast production rates. Other manufacturers investing in large jets include Bombardier, Irkut and COMAC.

Deliveries of new aircraft have grown at an average of 5% per annum over the last five years. This has been influenced by high oil prices, the low cost of debt and newer, more advanced aircraft coming to market. Offering greater fuel efficiency, lower maintenance costs and quicker gate turnaround times. Boeing's 737MAX, Airbus' A320neo and the CSeries from Bombardier enable operators to reduce operating costs.

Regional aircraft deliveries of 268 in 2017 declined by 10% on the previous year,

with fewer deliveries of both turboprop and regional jet aircraft. Regional aircraft deliveries are forecast to fall further in 2018 as airlines continue to opt for smaller large jets over existing regional jets.

Business jet deliveries totalled 621 in 2017, compared with 647 in 2016. The production of large and super mid-size jets has been particularly challenged since 2014 with deliveries down by 10% per annum during this time. In December 2017, Dassault announced the cancellation of its Falcon 5X, super mid-size business jet, due to ongoing problems related to its Silvercrest engine. Dassault has announced its intention to launch a replacement aircraft with an alternative engine which it expects to enter service in 2022.

Looking forward, the market for larger business jets is expected to improve in the near term, due to continuing improvement in global economic conditions, moderately increasing oil prices, and a number of new platforms entering into service.

Meggitt Performance

Civil OE revenue grew 3% organically. Large jet OE, the most significant driver of our OE revenue, grew 8% driven principally by growth in Airbus A320neo, A350XWB and Bombardier CSeries platforms. This was partially offset by declining demand for Boeing 777X and Airbus A380 platforms where deliveries decreased significantly during the year. The strong order backlog together with the increased shipset content we have secured in areas including advanced composites, sensors, engine controls, thermal management systems, seals and power electronics, gives us further confidence in the growth outlook for OE revenues.

Strong growth in large jet OE was offset by declining revenue in both regional jets (down 6%) and business jets (down 12%). Our largest exposure to regional aircraft and business jets is through our wheels and brakes business. Here the market model dictates the provision of most original equipment free of charge to civil aircraft manufacturers for which no revenue is recognised. Good success in recent competitive tenders means we have



Large jet delivery forecast by 2021

1,850

2017	1,506
2018	1,649
2019	1,763
2020	1,878
2021	1,850



Regional aircraft delivery forecast by 2021

281

2017	268
2018	254
2019	250
2020	273
2021	281



Business jet delivery forecast by 2021

660

2017	621
2018	632
2019	677
2020	706
2021	660

Source: Meggitt management estimates

expanded the number of new business jet platforms with Meggitt wheels and brakes.

AFTERMARKET

The civil aerospace aftermarket is driven primarily by aircraft utilisation which, for large jets and regional aircraft, is measured using available seat kilometres (ASKs). We use take-offs and landings as a proxy for business jet utilisation. ASKs in the large commercial aircraft fleet grew 6.3% in 2017, above the 5% long-term average. Traffic continues to grow rapidly in the Middle East, Europe and Asia Pacific offsetting slower growth of 4% in the US. Regional aircraft utilisation increased by 1.6% during the year but, within this, larger (>70 seat) aircraft grew more quickly at 4.3%, demonstrating the continued move away from smaller aircraft. Business jet utilisation also increased, with growth of 1.8% in take offs and landings.

We would normally expect our aftermarket revenues to follow these leading indicators after a lag of a few months. However, revenue can be impacted by short-term fluctuations arising from destocking and restocking cycles, increased pooling of spares between airlines and maintenance, repair and overhaul ('MRO') providers and surplus spare parts arising from the retirement of old aircraft.

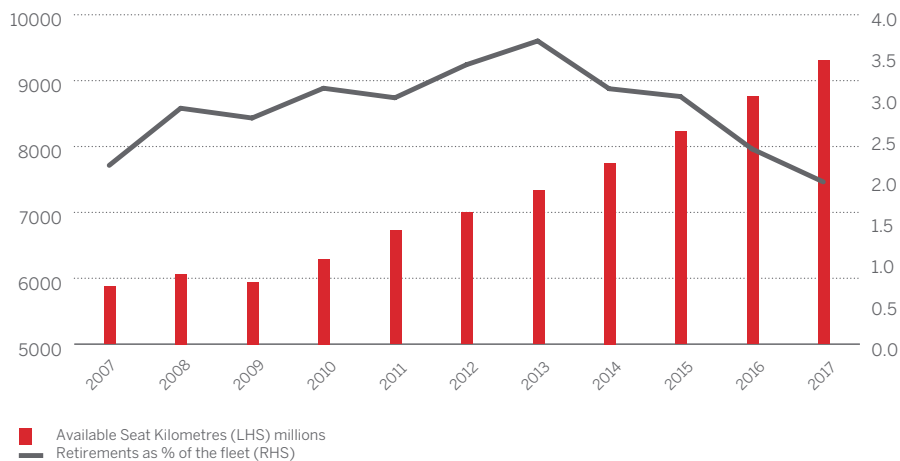
Meggitt Performance

Civil aftermarket revenue grew organically by 6% within which, large jets grew by 8%, driven by good growth on Boeing platforms including 737, 747 and 787. Aftermarket revenues also increased on a number of the oldest platforms within our installed base, most notably on the DC9, DC10 and MD80. This was partly offset by declining revenue on modestly younger platforms such as the Boeing 727 and Airbus A300.

Our Customer Services and Support (CSS) organisation continued to make good progress in 2017. During the year, civil aftermarket orders grew by 10% and we secured a number of agreements with airlines, distributors and integrated MRO providers which will underpin future revenue growth. We had a good year in Asia Pacific where revenues at CSS grew by 24% and where we secured long term agreements with companies including Vietjet, IHI and Comac. The acquisition of Elite Aerospace has also brought deep expertise in MRO, particularly in the field of engine thermal management, which will further enhance our ability to serve our customers from our Miami hub, when fully integrated in the first quarter of 2018.

Commercial aircraft utilisation remains encouraging, with ASKs continuing to track above the long-term average. Further reductions in the retirement rate are also a positive indicator that the headwind we have seen from the premature parting out of younger aircraft has continued to subside. Over the medium term, we expect to see the retirement rate increase as the growing production of new single aisle aircraft, such as the Boeing 737MAX and Airbus A320neo, replace the current generation

Retirements as a percentage of deliveries



■ Available Seat Kilometres (LHS) millions
— Retirements as % of the fleet (RHS)

Source: Meggitt management estimates



aircraft. However, we remain confident about growing revenue above the broader civil spares market over the medium term, as a result of our increased content on new aircraft and the growing capability in CSS that will enable us to capture greater growth of the available aftermarket.

Flat revenues in regional jet aftermarket reflected a strong recovery in the second half, after destocking on Bombardier CRJ aircraft and lower demand for smaller regional aircraft led to a 7% decline in the first half. Our position as sole source provider of wheels and brakes on the two large aircraft platforms that dominate traffic growth, the Embraer E-Jet and Bombardier CRJ, mean we are well positioned to capitalise on this growth. However, the introduction of the Embraer E2 in 2018 will slowly erode our market share as it will be equipped by a competing braking system.

Business jet aftermarket revenue grew by 7%, as a result of good growth in Gulfstream G-IV and G-V and Hawker 400/450, partially offset by declining revenue on Embraer and Dassault platforms including Legacy 450, Falcon 50 and Falcon 8X. The business jet aftermarket is much more concentrated than commercial air transport, as the OEMs often meet the servicing requirements of their customers. As a result, they aggregate demand for spares and can often make large purchases to build up inventory or defer purchases to reduce their inventory of spares, leading to lumpy demand from one year to the next. Nevertheless our strong gains in market share, particularly in wheels and brakes, underpin future growth. This should exceed the rate of growth in business jet utilisation over the medium term.

MILITARY

Military business accounted for 34% of Group revenues in 2017. We have equipment on an installed base of around 22,000 fixed wing and rotary aircraft and a significant number of ground vehicles and training applications. Direct sales to US customers accounted for 71% of military revenue, with 20% to European customers and 9% to the rest of the world.

The outlook for defence expenditure in the US, our single most important military market, continues to look healthy. Military budgets increased during 2017 for the first time in several years, and there remains significant opportunity for retrofit and reset activity – such as a contract won in 2017, to provide replacement fuel tanks for the F/A-18 fleet, much of which has been awaiting maintenance to bring it back to peak condition following deployment in theatre.

Meggitt Performance

Military revenue was up 1% organically, with a modest improvement in demand in the second half after flat revenue for the first six months. Original equipment revenues grew by 3%, with good growth at Meggitt Equipment Group as a result of strong demand for its system of record, small arms training systems. OE revenues in our other aerospace-focused divisions declined during 2017, with good growth on the F-35 Joint Strike Fighter and P-8 Poseidon offset by declining revenue on platforms with significant reductions in production rates, including the Eurofighter, F-16 Falcon and Apache.

Market review **continued**



ENERGY AND OTHER

Energy and other revenues (12% of Group total) come from a variety of end markets, including power generation (3%), oil and gas (2%), medical (1%) and automotive (1%). Our energy capabilities centre on providing valves and condition-monitoring equipment for power generation installations, including ground-based gas and wind turbines, and printed circuit heat exchangers used primarily in the offshore oil and gas market.

Market conditions in oil and gas appear to have stabilised, with a 13% growth in the oil price in 2017. In contrast, demand for industrial gas turbines has remained weak.

Meggitt Performance

Energy revenue declined by 8% in 2017 on an organic basis, including a 21% decline at Heatric (our printed circuit heat exchanger business) compared to 2016 when it completed the last of its material contracts to supply PCHEs for floating liquid natural gas ('FLNG') and floating production storage and offloading ('FPSO') vessels, secured before the significant reduction in oil price. However, Heatric revenues increased sequentially in each quarter and grew year on year during the fourth quarter. This was the first quarter of year on year growth since Q1 2014, and together with organic order growth of 80%, underpins confidence that Heatric will return to revenue growth in 2018.

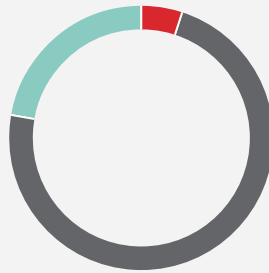
Organic revenues in power generation segments decreased by 5% in the year, with Meggitt Sensing Systems experiencing weak demand for its sensing systems which are typically focused on the large frame turbine market. This was only partly offset by growth in Meggitt Control Systems which is focused on providing valves and actuators to small frame and aero-derivative industrial gas turbines.

The long-term growth expectations for our energy businesses, and particularly Heatric, remain good. We have differentiated technology which plays a critical role in the extraction of deep-water offshore gas reserves and good opportunity for use in adjacent markets. The balance of our energy businesses will continue to benefit from synergistic relationships across business divisions and the long-term demand for energy, particularly in emerging markets.

Market matrix

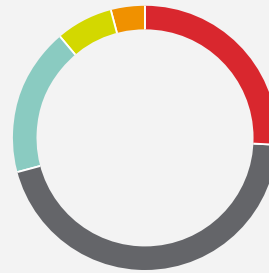
Meggitt benefits from a balanced portfolio. Capability-based business units deploy technological know-how and intellectual property across all our markets so we are not dependent on single customers, individual programmes or market segments.

Meggitt Aircraft Braking Systems



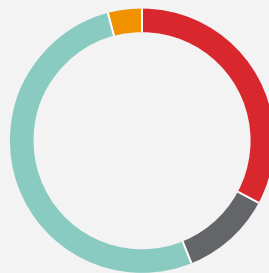
● Civil – Original equipment	5%
● Civil – Aftermarket	73%
● Military	22%
● Energy	0%
● Other	0%

Meggitt Control Systems



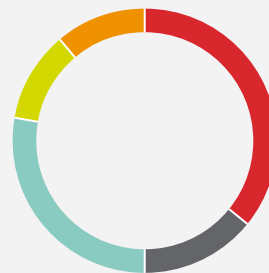
● Civil – Original equipment	26%
● Civil – Aftermarket	45%
● Military	18%
● Energy	7%
● Other	4%

Meggitt Polymers & Composites



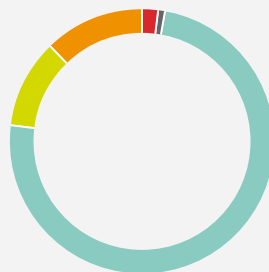
● Civil – Original equipment	33%
● Civil – Aftermarket	11%
● Military	52%
● Energy	0%
● Other	4%

Meggitt Sensing Systems



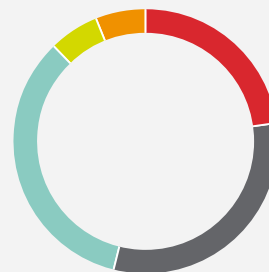
● Civil – Original equipment	36%
● Civil – Aftermarket	14%
● Military	28%
● Energy	11%
● Other	11%

Meggitt Equipment Group



● Civil – Original equipment	2%
● Civil – Aftermarket	1%
● Military	74%
● Energy	11%
● Other	12%

Group



● Civil – Original equipment	23%
● Civil – Aftermarket	31%
● Military	34%
● Energy	6%
● Other	6%

Divisional review

MEGGITT AIRCRAFT BRAKING SYSTEMS

Meggitt Aircraft Braking Systems provides wheels, brakes and brake control systems for around 35,000 in-service aircraft.



Operational performance

Meggitt Aircraft Braking Systems (MABS) provides wheels, brakes and brake control systems for around 35,000 in-service aircraft.

It continues to develop innovative technology for new programmes enabling the business to retain its leading position in its target markets, underscored by the strong market share gains in recent years, notably on super mid-size and long range business jets; and expansion in large jets, where in 2017 it has secured a dual source contract to provide an alternative braking system for the A321neo.

The division represents 19% of Group revenue, generating 90% of its revenue from the aftermarket and 10% from OE sales.

MABS' civil revenue was flat organically, with 2% growth in civil aftermarket driven by good growth in business jets, particularly Gulfstream platforms, and a steady recovery during the year in regional jet spares, where strong growth on Embraer E170 and E190 offset some de-stocking on Bombardier CRJ aircraft in the first half and lower demand on smaller aircraft.

Growth in civil aftermarket was offset by a 21% organic decline in civil OE, reflecting lower demand for brake control units across a range of regional and business jet programmes and for torque tubes on the Airbus A380.

MABS' military revenue declined by 11% organically, with significant declines on Eurofighter brakes only partly offset by growth on F-35. Military orders grew 7% organically in 2017, which underpins an improving outlook for military revenues into 2018.

Operating margins increased from 36.3% to 38.2% in 2017, driven by the positive mix effect of a decline in the division's military business during the year.

Capabilities

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

Revenue

£387m

Underlying operating profit

£148m

Markets



Civil aerospace



Fixed wing military aircraft



Rotary wing military aircraft

Divisional review **continued**

MEGGITT CONTROL SYSTEMS

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



Operational performance

Meggitt Control Systems (MCS) designs and manufactures products which manage the flow of liquids and gases around aero and industrial turbines, and control the temperature of oil, fuel and air in aircraft engines. The division, which also provides fire protection equipment to engines and airframes, represents 26% of Group revenue, generating 41% of its revenue from OE and 59% from the aftermarket.

Revenue was up by 4% organically. Civil aerospace grew by 9%, with good growth in OE, driven by particularly strong growth on Airbus A320neo, and aftermarket, which benefitted from strong demand for spares and repairs on Boeing 787, 737 and Airbus A340 aircraft.

Military revenue declined by 14% driven by declines on fighter jets, particularly F-15 and F-16. Energy revenues increased by 2% driven by modest growth in demand for small frame industrial gas turbine valves. Operating margins declined from 24.5% to 23.5%, reflecting unfavourable revenue mix and continued investment to drive growth in our CSS organisation.

In January 2018, we sold Aviation Mobility to Smart Carte Inc. Aviation Mobility provides a range of repair and overhaul services for wheelchairs and associated airport safety equipment and generated £3.5m of revenue in 2017.

Capabilities

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

Revenue

£526^m

Underlying operating profit

£123^m

Markets



Civil aerospace



Fixed wing military aircraft



Military ground vehicles



Energy and industrial



Marine



Ground fuelling

MEGGITT POLYMERS & COMPOSITES

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



Operational performance

Meggitt Polymers & Composites (MPC) supplies flexible bladder fuel tanks, complex composites and seals packages for a broad range of civil and military platforms. These products are linked by their dependence on similar materials technology and manufacturing processes. It supplies over 80% of the US military requirements for fuel bladders and ballistically-resistant and crashworthy fuel tanks. MPC represents 17% of Group revenue and generated 65% of its revenue from OE and 35% from the aftermarket.

On an organic basis, MPC revenues were flat in 2017. Civil revenues grew by 9%, with good growth on narrowbody large jets (including Airbus A320neo and Boeing 737) offset by lower demand for widebodies (including Airbus A350XWB and A380, Boeing 787 and 777).

In contrast, military revenues declined by 2%, with declining revenue on KC-135, Typhoon and Apache, only partly offset by good growth on F-35, V-22 and F/A-18.

Growth in orders was strong across all major market segments in MPC. In civil aerospace, orders grew by 11% organically, reflecting strong competitive positions on high volume

dual source engine programmes. Military orders grew by 23%, reflecting particularly strong demand for aftermarket including a £52m multi-year contract to provide replacement fuel tanks for the F/A-18.

Operating margins decreased from 12.0% to 7.1% reflecting an increase in new product introduction costs on new programmes, where we have significant composites content on new engines and where lower growth in civil OE than anticipated, compromised our ability to fully industrialise a broad volume of new parts.

To address these operational challenges we have implemented a series of management changes, increased our investment in critical capabilities such as programme management and taken steps to increase capacity in our low cost facilities in Mexico to enable the transfer of manufacturing when parts are fully industrialised. Increasing build rates and the changes we have made in 2017, will enable us to improve margin performance in 2018.

The outlook for MPC remains strong given the extensive capability we have acquired, strong platform positions and potential for significant market growth, particularly for composite components on new engine programmes.

Capabilities

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

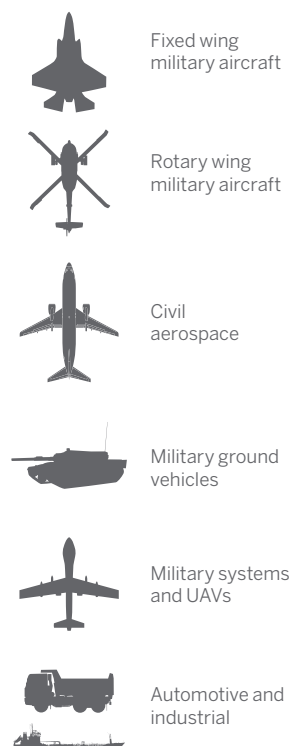
Revenue

£337m

Underlying operating profit

£24m

Markets



Divisional review **continued**

MEGGITT SENSING SYSTEMS

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



Operational performance

Meggitt Sensing Systems (MSS) designs and manufactures highly engineered sensors to measure a variety of parameters such as vibration, temperature, pressure, fluid level and flow as well as power storage, conversion and distribution systems and avionics suites for aerospace applications.

MSS products are designed to operate effectively in the extreme conditions of temperature, vibration and contamination that exist in an aircraft or ground-based turbine engine. Sensors are combined into broader electronics packages, providing condition data to operators and maintainers of engines, contributing to improved safety and lower operating costs.

MSS has migrated these products into other specialist markets requiring similar capabilities, such as test and measurement, automotive crash test and medical. Combining its capabilities with Meggitt Aircraft Braking Systems, it has a number of civil aerospace tyre pressure monitoring systems already in service and further systems under development, having secured positions for this technology on ten aircraft platforms.

MSS represents 25% of Group revenue and generated 76% of its revenue from OE and 24% from the aftermarket.

MSS revenue declined by 1% organically, with 2% growth in civil aerospace driven by growth in aftermarket revenues, as a result of increased demand for Boeing 747 and 787 spares.

Military revenue declined by 1%, with growth in spares for fighter and trainer aircraft offset by declining OE revenues on fighter jets, particularly Typhoon and F/A-18.

In energy and other markets (including test and measurement, industrial and medical), MSS revenues decreased organically by 8%.

Operating margins increased from 13.7% to 13.9% reflecting favourable mix.

In June 2017, we completed the sale of three non-core industrial businesses, including two MSS units, Meggitt Maryland and Piezo Technologies. In aggregate, these two units generated £13.4m of revenue during the six months prior to the sale to Amphenol Corporation.

Capabilities

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

Revenue

£515m

Underlying operating profit

£71m

Markets



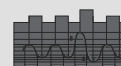
Civil aerospace



Military aircraft, ships, ground vehicles and missiles



Energy and industrial



Test and measurement



Medical

MEGGITT EQUIPMENT GROUP

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



Operational performance

Meggitt Equipment Group (MEG) comprises principally our non-engine actuation capability and dedicated military businesses and Heatric. The division represents 13% of Group revenue and generates 79% of its revenue from OE and 21% from the aftermarket.

MEG revenue grew by 12% organically, reflecting good growth in military as a result of strong demand for its system of record, small arms training systems. In energy, revenues decreased by 22%, driven by Heatric which in 2016 completed the last of its significant contracts to support large capital projects in offshore gas. This was partly offset by good growth in demand in other adjacent markets.

Heatric, as expected, grew strongly in the final quarter and orders grew by 80% during the year, supporting the expectation of a continued recovery in its core, oil and gas market.

Operating margins increased from 3.5% to 8.2% driven by improving profitability in Training Systems as a result of the good growth and a breakeven performance at Heatric.

In June 2017, we completed the sale of three non-core industrial businesses, including a MEG unit, Piher. In the six months prior to the sale to Amphenol Corporation, Piher generated £11.4m of revenue.

We have also agreed the sale of Thomson Aerospace and Defence (Thomson) to Umbra Cuscinetti S.p.A. which is due to complete in March 2018. In 2017, Thomson generated revenue of £24.8m.

Capabilities

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

Revenue

£262m

Underlying operating profit

£22m

Markets



Fixed wing
military aircraft



Rotary wing
military aircraft



Defence and
security



Energy



Industrial

Key performance indicators

The Group uses a mix of financial and non-financial key performance indicators (KPIs) to measure execution against our strategic objectives. To ensure we deliver value to our shareholders over the cycle, financial KPIs balance short-term measures (underlying operating profit and free cash flow in the year) with longer-term measures (organic revenue growth, return on trading assets and underlying EPS growth). Non-financial KPIs focus on investment in R&D to drive future revenues, the health and safety of our employees and raising standards of operational performance to satisfy our customers.

The 2016 Annual Report included KPIs for defective parts per million (DPPM) and on-time delivery performance. Both of these measures are embedded in the Group's Meggitt Production System (MPS) criteria for moving through its six-phase programme.

As disclosed in the 2016 Annual Report, whilst MPS will continue to focus on further improvements in DPPM and on-time delivery performance, the strategic measures considered by the Group to be the next key outputs from MPS are gross margin improvement and reductions in inventory levels. Such measures were introduced for the 2017 Long Term Incentive Plan (LTIP) and accordingly gross margin and inventory turns have replaced DPPM and on-time delivery performance as KPIs for 2017.

As discussed on page 39, the Group will adopt IFRS 15, 'Revenue from contracts with customers' and IFRS 16 'Leases' with effect from 1 January 2018. The targets disclosed below for future periods have been adjusted to reflect the estimated impact of these new standards.

Organic revenue growth

1.6%

2017	1.6
2016	0.9
2015	0.2
2014	0.0
2013	1.4

Definition and basis of calculation

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

Target

Growth of 2% to 4% in 2018.

Result

Achieved 1.6% against a target of 2% to 4%. See page 34 for details.

Directors' incentive plans

Organic revenue growth is a performance measure for both the 2017 and 2018 LTIP. See pages 86 and 89 to 90 for details.



Underlying operating profit

£388.4m

2017	388.4
2016	379.7
2015	325.5
2014	346.0
2013	397.2

Definition and basis of calculation

Underlying operating profit is defined and reconciled to statutory measures in note 10 to the Group consolidated financial statements on page 127.

Target

We do not publish profit targets.

Result




Achieved £388.4m. See page 35 for details.

Directors' incentive plans

Underlying operating profit is a performance measure for both the 2017 and 2018 Short Term Incentive Plan (STIP). For the purpose of these plans, actual and target underlying operating profit figures are measured at constant currency. See pages 84 and 89 for details.



Link to strategic priorities

-  Portfolio
-  Customers
-  Competitiveness
-  Culture

Return on trading assets (ROTA)

19.6%

2017	19.6
2016	20.8
2015	21.7
2014	26.5
2013	36.0

Definition and basis of calculation

Underlying operating profit after tax expressed as a percentage of average trading assets. Underlying operating profit is defined and reconciled to statutory measures in note 10 to the Group consolidated financial statements on page 127. Underlying operating profit after tax applies the Group's underlying tax rate for the year to underlying operating profit. (For 2017, the underlying tax rate was 23.7%. For 2016, it was 23.5%).

Trading assets are defined as net assets adjusted to exclude goodwill, other intangible assets arising on the acquisition of businesses, investments, net debt, retirement benefit obligations, derivative financial instruments and deferred tax. Average trading assets are calculated as the average of trading assets at the start and end of the year.

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

Target

In 2018, underlying operating profit after tax will be replaced by underlying operating profit, as taxation is not controllable by management. Following this change in definition, along with the impacts of adopting IFRS 15 and IFRS 16, the target for 2018 is to achieve a ROTA of 26.8%. The target recognises the need to continue to invest in trading assets during this period in the aerospace cycle.

Result

2017: 19.6%. See page 36 for details of the current high levels of investment to support future growth.

Directors' incentive plans

ROTA is a performance measure for both the 2017 and 2018 LTIP for employees excluding executive directors. For executive directors, the 2018 LTIP includes a return on capital employed (ROCE) measure rather than ROTA. For the purpose of these plans, underlying operating profit and trading assets are measured at constant currency. See pages 86 and 89 to 90 for details.



Underlying EPS growth

1.4%

2017	1.4
2016	10.1
2015	-2.5
2014	-13.6
2013	2.7

Definition and basis of calculation

The percentage change in underlying earnings per share (EPS) from the previous year. Underlying EPS is defined and reconciled to statutory measures in note 15 to the Group consolidated financial statements on page 130.

Target

We do not publish profit targets. However, the proposed 2018 LTIP includes EPS targets equivalent to growth ranging from 3.0% to 9.0% per annum over the next three years after the impact of adopting IFRS 15 and IFRS 16.

Result

2017: 1.4%. CAGR achieved over last three years: +2.9%. See page 36 for details.





Directors' incentive plans

Underlying EPS is a performance measure for both the 2017 and 2018 LTIP. See pages 86 and 89 to 90 for details.



Key performance indicators **continued**

Link to strategic priorities

-  Portfolio
-  Customers
-  Competitiveness
-  Culture

Free cash flow

186.0^m

2017	186.0
2016	131.1
2015	199.0
2014	146.8
2013	110.4



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 41 to the Group consolidated financial statements on page 153.

Target

We do not publish free cash flow targets.

Result

2017: £186.0m. See page 37 for details.

Directors' incentive plans

Free cash flow is a performance measure for both the 2017 and 2018 STIP. For the purpose of these plans, actual and target free cash flow figures are measured at constant currency and exclude interest and tax. See pages 84 and 89 for details.

R&D investment

7.6%

2017	7.6
2016	7.9
2015	9.6
2014	9.5
2013	8.2



Definition and basis of calculation

Investment in research and development (R&D) expressed as a percentage of revenue. Investment is measured as total expenditure in the year as disclosed in note 8 to the Group consolidated financial statements on page 126. It is not adjusted for amounts capitalised, amortised, impaired or incurred on contracts funded by customers.

Target

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

Result

2017: 7.6%. Average achieved over last five years: 8.6%. See page 36 for details.

Directors' incentive plans

R&D investment is not a specific measure used in directors' incentive plans. However, the 2017 and 2018 LTIP both include measures focused on the effective delivery of R&D programmes. See pages 86 and 89 to 90 for details.

Total recordable incident rate (TRIR)

1.2

2017 Group	1.2
2017 US sites only	1.4
2016 US sites only	1.5



Definition and basis of calculation

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

Target

To achieve a TRIR of 0.6 by 2019 which is considered a best in class health and safety performance.

Result

2017: 1.2. The Group started collecting TRIR data for this new KPI at a Group level in 2017. TRIR data for 2016 is only available for the Group's US sites, for which data is provided for comparison purposes. See page 48 for details.

Directors' incentive plans

Health and safety performance is not a specific measure used in directors' incentive plans. However, it is integrated into MPS and both the 2017 and 2018 LTIP include measures focused on MPS execution. Improvement in health and safety is also included in the personal performance objectives for the Chief Executive in the 2018 STIP.

Gross margin

39.6%

2017	39.6
2016	39.3
2015	39.8
2014	40.1
2013	41.9

Definition and basis of calculation

Underlying gross profit expressed as a percentage of revenue. Underlying gross profit adjusts gross profit for the impact of items charged to cost of sales but which are excluded from the Group's underlying profit measures as disclosed in note 10 to the Group consolidated financial statements on page 127.

Gross margin improvement is considered by the Group to be one of the next key outputs from MPS.

Target

The proposed 2018 LTIP includes a gross margin target of 38.8% for 2018.

Result

2017: 39.6%.

Directors' incentive plans

Gross margin is a performance measure for both the 2017 and 2018 LTIP. For the purpose of these plans, revenue and cost of sales reflect the impact were the Group to be able to apply hedge accounting for its foreign currency forward contracts. See pages 86 and 89 to 90 for details.

**Inventory turns**

2.4 turns

2017	2.4
2016	2.3

Definition and basis of calculation

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

Underlying cost of sales adjusts cost of sales for the impact of items which are excluded from the Group's underlying profit measures as disclosed in note 10 to the Group consolidated financial statements on page 127.

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

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

Target

To achieve an inventory turn of 4.0 by 2021.

Result

2.4 turns. See page 9 for details.

Directors' incentive plans

Inventory reduction is a performance measure for both the 2017 and 2018 LTIP. See pages 86 and 89 to 90 for details.



Chief Financial Officer's review

GROWTH IN MARGIN AND CASH



Doug Webb
Chief Financial Officer

On an organic basis revenue grew 2% with good growth in civil aerospace offset by continued challenges in our energy business. Underlying operating margin grew by 10 basis points, with the benefit from our strategic initiatives now sufficient to offset headwinds from mix, depreciation and amortisation, and new product introduction costs. Reductions in inventory and capitalised development costs contributed to a strong cash performance with free cash flow up 42%.

Revenue

Reported revenue grew by 2% to £2,027.3m (2016: £1,992.4m), reflecting favourable currency movements in the Group's major currencies, predominantly the weakness of sterling compared to the US dollar, which partly reversed in the second half. This was offset by lower revenue as a result of non-core disposals completed in 2016 and 2017, partly offset by the acquisition of Elite Aerospace in March 2017.

Organic revenue grew by 2%, reflecting 4% growth in our civil aerospace business and modest growth in military offset by an expected decline in energy revenue.

Civil OE revenue grew by 3% organically. Large jet revenue grew strongly as a result of growing deliveries on the major new civil aircraft platforms where we have secured healthy increases in shipset content, including the Airbus A320neo and A350XWB, together with the Bombardier CSeries.

Growth in large jet revenue was partly offset by declining revenue in regional and business jets where aircraft deliveries were down 10% and 4% respectively compared to the prior year.

In civil aftermarket, organic revenue increased by 6%, reflecting good demand for spare parts on large jets and business jets. In large jets, revenue increased by 8% as a result of good growth on Boeing 737, 747 and 787. In business jets, growth of 7%, reflects good demand on platforms where we provide wheels and brakes such as the Gulfstream G-IV and G-V and Hawker 400/450. Revenue in regional jets was flat, with a good recovery in the second half

Financial highlights (Table 1)

	2017 £'m	2016 £'m	Reported growth %	Organic growth ⁴ %
Revenue	2,027.3	1,992.4	+2	+2
Underlying ¹ :				
EBITDA ²	505.8	487.8	+4	+2
Operating profit	388.4	379.7	+2	+1
Profit before tax	357.9	352.1	+2	-1
Earnings per share (EPS)	35.3p	34.8p	+1	
Statutory:				
Operating profit	304.2	233.7	+30	
Profit before tax	262.4	195.5	+34	
EPS	45.2p	22.1p	+105	
Free cash flow ³	186.0	131.1	+42	+33
Net debt	964.8	1,179.1	-18	

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

2 Underlying EBITDA represents underlying operating profit adjusted to add back depreciation, amortisation and impairment losses.

3 Free cash flow is defined and reconciled to statutory measures in note 41 to the Group consolidated financial statements.

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

after declining revenue during the first six months when we saw destocking of brakes across the range of Bombardier CRJ platforms.

In military, organic revenue grew by 1% as a result of a modest improvement in the second half after flat revenue for the first six months. Increased demand for new aircraft including the F-35 and P-8 contributed to OE revenue growth of 3%, despite declining revenue on Eurofighter, F-16 and Apache. Aftermarket revenue (which accounts for 42% of total military revenue) declined by 3%, reflecting lower demand on platforms including Typhoon, F-15, F-16 and Gripen, offset by growth on F-35 and helicopter programmes including Apache and V-22.

Energy revenue declined organically by 8%, including a 21% decline at Heatric which completed the last of its significant contracts to support large capital projects in offshore gas during 2016. Heatric, as expected, grew strongly in the fourth quarter of 2017. Organic revenues in power generation segments also declined during the year, down 5%, driven by lower demand for sensors which are typically sold onto larger industrial gas turbines, partly offset by modest growth in demand for valves and actuators for small frame and aero-derivative gas turbines.

Profit

The Board's preferred non-statutory measure of the Group's trading performance is underlying profit. Underlying operating profit was up 2% to £388.4m (2016: £379.7m), representing a margin of 19.2% (2016: 19.1%). The margin improvement reflects the growing financial contribution from the Group's key strategic priorities, including productivity improvements driven by the Meggitt Production System and purchasing savings driven by a centralised approach to category management. This was partly offset by continued dilution from mix and depreciation and amortisation, together with a significant decline in margin at Meggitt Polymers & Composites, where programme delays contributed to higher than expected new product introduction costs.

Underlying net finance costs increased to £30.5m (2016: £27.6m) reflecting

Revenue growth (Table 2)

	2017 Revenue £'m	Growth %	Organic growth ^{1,2} %
Civil OE	456.0	+6	+3
Civil AM	632.1	+10	+6
Total civil aerospace	1,088.1	+8	+4
Military	689.6	-1	+1
Energy	124.6	-10	-8
Other	125.0	-16	-6
Total	2,027.3	+2	+2

Organic growth (Table 3)

Revenue				Underlying profit before tax		
2017 £'m	2016 £'m	Growth %		2017 £'m	2016 £'m	Growth %
2,027.3	1,992.4	+2	Reported	357.9	352.1	+2
(35.1)	(81.4)		Impact of M&A ¹	(4.4)	(9.1)	
(51.5)	-		Impact of currency ²	(14.2)	-	
1,940.7	1,911.0	+2	Organic	339.3	343.0	-1

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

2 Restates the current year using 2016 translation and transaction exchange rates.

principally the full year impact of holding a greater proportion of debt at fixed rates.

Underlying profit before tax was £357.9m (2016: £352.1m) and the underlying tax rate was 23.7% (2016: 23.5%). Underlying earnings per share was 35.3p (2016: 34.8p).

On a statutory basis, operating profit for the year increased by 30% to £304.2m and profit before tax increased by 34% to £262.4m (2016: £195.5m). Statutory profit includes a £58.6m non cash gain (2016: loss of £66.4m) from the marking to market of financial instruments, principally due to currency hedges against future transaction exposures, a £25.3m net gain (2016: gain of £39.1m) from acquisitions and disposals completed, or agreed, during the year.

Statutory profit also includes a £59.5m non cash impairment charge (2016: £nil) related to the cancellation and launch of a successor to the Falcon 5X programme which was announced by Dassault in December 2017. We had incurred significant costs in

developing inter alia, a complex braking system for the Falcon 5X and a range of controls for its Silvercrest engine. Given the successor programme is expected to feature the same cross section as the Falcon 5X and will reuse a maximum of development work undertaken to date, we are hopeful that Meggitt will be selected to provide the braking system for the replacement aircraft. However, as described in note 4 to the Group consolidated financial statements, a significant level of uncertainty remains and it is not possible to reliably estimate the extent to which any of the costs incurred to date will be recoverable and accordingly a full impairment loss has been recognised against all balances on the programme.

Statutory profit after tax increased by 104% to £350.0m (2016: £171.2m) reflecting a £122.6m one-off, non-cash gain on the remeasurement of US deferred tax net liabilities as a result of the decrease in US federal corporate tax from 35% to 21% following US tax legislation commonly referred to as the Tax Cuts and Jobs Act, enacted in December 2017.

Divisional results (Table 4)

Revenue					Underlying operating profit			
2017 £'m	2016 ¹ £'m	Growth %	Organic growth ² %		2017 £'m	2016 ¹ £'m	Growth %	Organic growth ² %
386.7	386.0	+0	-2	Aircraft Braking Systems	147.7	140.3	+5	+3
526.4	486.1	+8	+4	Control Systems	123.7	119.2	+4	+0
337.3	329.7	+2	+0	Polymers & Composites	24.0	39.5	-39	-39
514.8	519.2	-1	-1	Sensing Systems	71.4	71.3	+0	-6
262.1	271.4	-3	+12	Equipment Group	21.6	9.4	+130	+1,200
2,027.3	1,992.4	+2	+2	Group	388.4	379.7	+2	+1

1 Restated for the change in segmental structure as described in note 6 to the Group consolidated financial statements.

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

Chief Financial Officer's review **continued****Taxation**

Meggitt's underlying tax rate stayed relatively flat at 23.7% (2016: 23.5%). Our guidance for 2018 is for a significant reduction in the Group tax rate to around 21% driven mainly by the US tax reforms enacted at the end of 2017. This reduced rate reflects the impact of the reduction in the US federal rate from 35% to 21%, partially offset by the elimination of the domestic production deduction and the tightening of the interest deduction limitation. Looking further out, our rate will likely drift higher within the 20-22% range, which we indicated in January 2018, as the impact of the Base Erosion and Profit Shifting project (the "BEPS project") continues to increase our tax expense outside the US.

Although the international tax position is now becoming clearer following enactment of the recommendations from BEPS in the UK together with the US tax reforms, there are still uncertainties ahead – including the outcome of the EU's investigation of the UK CFC regime, the impact of Brexit and the expected reforms in Swiss tax. On the first of these the Group, in common with many other international companies, has taken advantage of the benefits available under the Group Financing Exemption provisions in the UK controlled foreign company rules. We are therefore monitoring developments in this area but do not currently consider any provision is required. For the latter two, the final outcome is too uncertain to make any assessment of their possible impact on the Group.

Cash tax paid as a percentage of underlying profit before tax was 7% (2016: 8%). The rate of cash tax is lower than our underlying tax rate due to tax deductible items which do not affect underlying profit, principally the amortisation of intangible assets arising on the acquisition of businesses and tax relief on retirement benefit deficit reduction payments. The reduction in US federal tax rate will not have any corresponding significant reduction in cash tax payable as its impact on these tax deductible items will offset much of the benefit from the lower effective rate.

Our statutory tax rate, which includes items excluded from underlying profit before tax, was a credit of 33% (2016: charge of 12%). The main impact of the US tax reforms on the 2017 results was that deferred tax balances were required to be remeasured at the lower rates expected to prevail when the items giving rise to the balances reverse. The Group has significant US deferred tax net liabilities arising from past acquisitions, development costs and programme participation costs and the remeasurement resulted in a tax credit of £122.6m being recorded in the income statement. Without this impact, the statutory tax rate would have been a charge of 13%. Cash tax paid as a percentage of statutory profit before tax was 9% (2016: 14%).

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

Earnings per share (EPS)

Underlying EPS increased by 1% to 35.3p (2016: 34.8p) broadly in line with the growth in underlying profit before tax. Statutory EPS increased by 105% to 45.2p (2016: 22.1p). The benefit from the reduction in US tax rate on deferred tax net liabilities described above was a driver of 15.8p of this statutory EPS increase. The other principal drivers of the increase in statutory EPS were the reversal of losses taken in 2016 on the marking to market of foreign currency forward contracts, as these contracts either matured in the current year or their fair value increased following the recent strengthening of sterling which accounted for a 12.9p increase, partly offset by a 4.9p adverse movement arising from the impairment loss recognised following cancellation of the Dassault Falcon 5X programme.

Dividends

The Group's policy is to grow dividends broadly in line with underlying EPS over the cycle. The Board has recommended a final dividend of 10.80p (2016: 10.30p) which would result in a 5% increase in the full-year dividend to 15.85p (2016: 15.10p).

The Company has a balance on its profit and loss reserve at 31 December 2017 of £1,146.4m (2016: £996.7m), of which approximately £1,000.0m (2016: £850.0m) relates to reserves which can be distributed as a dividend or used for share buybacks, and accordingly we have a comfortable level of headroom.

The dividend reinvestment plan, introduced in 2015, will be continued in 2018. It provides an efficient reinvestment option for shareholders, without the need for new shares to be issued by the Company.

Investing for the future

Targeted investment in technology development remains critical to our long-term organic growth. Total R&D expenditure reduced in 2017 to £153.7m and was 7.6% of revenue (2016: £157.8m, 7.9%), of which 23% (2016: 20%) was funded by customers. The charge to net operating costs, including amortisation and impairment, increased by 12% (16% organically) to £79.3m (2016: £71.0m).

Reduced spend on capitalised R&D (down 17% organically) reflects the continued progress made on development programmes for new aircraft platforms including the 737MAX which entered service in 2017. As more programmes, particularly business jets, enter into service over the next few years, we expect R&D to reduce further as a percentage of revenue. The new product introduction expenditure associated with these platforms will soon pass their peak. This reflects the increased content we have secured on a wide range of new platforms, which is good for future revenues, but the cost of introducing record numbers of new parts impacts profitability in the short term. We continue to expect growth in expensed R&D relating to our successful applied research and technology (AR&T) programmes, which will develop the next generation products and manufacturing technologies required to enable future aircraft programmes. Customer funded R&D will also continue to increase given our success in securing customer funded development programmes and grants to support AR&T activity, such as the £3.7m award to support research into advanced thermal systems for ultra-high bypass ratio engines.

Analysis of R&D expenditure (Table 5)

	2017 £'m	2016 £'m	Growth %	Organic ¹ growth %
Total R&D expenditure	153.7	157.8	-3	-2
% of revenue	7.6%	7.9%		
Customer-funded R&D	(36.1)	(31.7)	+14	+11
Excluding customer-funded amounts	117.6	126.1	-7	-6
Capitalised	(61.3)	(72.4)	-15	-17
Amortisation/impairment ²	23.0	17.3	+33	+31
Charge to net operating costs²	79.3	71.0	+12	+16

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

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

Movements in net debt (£'m) (Table 6)

	2017	2016
Underlying EBITDA	505.8	487.8
Working capital outflow	(18.6)	(57.0)
Post-retirement benefit deficit reduction payments	(33.5)	(35.0)
Cash flow from operations before exceptional and M&A costs	453.7	395.8
Exceptional operating items	(13.8)	(18.3)
Interest and tax	(58.8)	(53.8)
Capitalised development costs	(57.7)	(69.6)
Capitalised programme participation costs	(59.0)	(57.5)
Capital expenditure	(78.4)	(65.5)
Free cash flow	186.0	131.1
Net proceeds from M&A including costs	60.4	59.8
Dividends	(118.6)	(113.0)
Purchase of own shares for employee share schemes	(19.0)	-
Net cash flow	108.8	77.9
Currency movements	96.8	(195.4)
Other non-cash movements	8.7	(10.4)
Opening net debt	(1,179.1)	(1,051.2)
Closing net debt	(964.8)	(1,179.1)

Our investment in programme participation costs for the supply of equipment free of charge to new aircraft, mostly in MABS, increased by 4% organically. This reflects growth in new platforms where we have strong positions, particularly the Bombardier CSeries. Growth is expected to increase significantly in 2018, and beyond, as deliveries of aircraft equipped with our wheels and brakes increase rapidly, which in turn will drive aftermarket revenue stretching out for decades.

Capital expenditure on property, plant and equipment and intangible assets was £78.4m (2016: £65.5m). This includes the investment required to support factory consolidations and the expansion of sites in Vietnam, Mexico, San Diego and North Hollywood. It also includes investment in software which increased in 2017 reflecting the need to comply with US DoD requirements for suppliers to meet higher standards for cyber security. Capital expenditure will increase further in 2018, as we accelerate plans to consolidate the Group's manufacturing footprint, including initial investments at the Ansty Park site and completion of current construction and fit out projects to increase capacity in our existing estate.

Cash flow

2017 was a strong year for cash driven by a lower working capital outflow where we invested £38.4m less than in 2016 as a result of an excellent start to our inventory reduction initiative. We have set a target to improve inventory turns to 4x by 2021 and delivered the first down payment on this with a 0.13x improvement releasing £16.3m of cash. This was offset by an increase in receivables driven by more revenue secured later in the fourth quarter than the prior year and delays to receiving scheduled cash payments from a number

of our larger customers. After taking account of the impact of reduced investment in development costs and increase in capital expenditure described above, free cash flow increased by 42% to £186.0m (2016: £131.1m).

Net cash inflow of £108.8m (2016: inflow of £77.9m) after dividend payments, includes the £60.4m net proceeds from the sales of Meggitt Maryland, Piezo Technologies and Piher, partly offset by the acquisition of Elite Aerospace.

Debt structure and financing

The Group's borrowings comprise a combination of US private placement debt and syndicated and bilateral bank credit facilities. During the year, USD200m of private placement notes matured and were repaid out of existing facilities. The Group also voluntarily cancelled USD150m of its USD900m committed revolving credit facility reflecting our lower debt requirements as a result of the recent disposals and good cash generation. At the same time, and for the same reasons, the Group cancelled the £75m three-year commitment from Sumitomo Mitsui Banking Corporation provided at the end of 2016. There were no other changes in facilities available to the Group in the year.

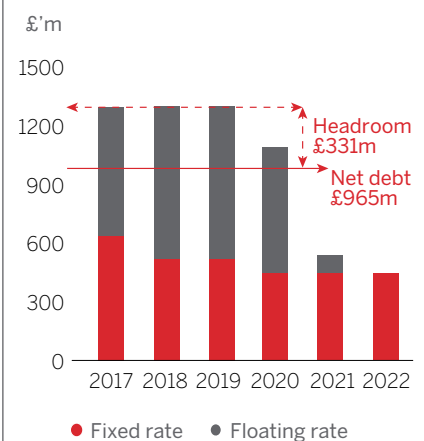
At 31 December 2017, the Group had undrawn committed credit facilities of £331m after taking account of surplus cash (2016: £520m). The Group has no committed facilities which expire before 2020.

Capital structure

The Group has a strong track record of cash generation and net debt reduction, even in periods of the aerospace cycle, as we have been recently experiencing, that drive elevated organic investment. In addition to supporting our regular dividend,

we seek to deploy this cash by investing organically to accelerate the Group's growth and investing in the acquisition of complementary businesses which expand our offering to customers and deliver enhanced returns to shareholders.

The Board believes that in maintaining an efficient balance sheet with appropriate covenant headroom and investment capacity, a net debt:EBITDA ratio, as measured on a covenant basis, of between 1.5x and 2.5x is appropriate, whilst retaining the flexibility to move outside the range if appropriate. Net debt:EBITDA was 1.9x at 31 December (2016: 2.1x).

Facility headroom (Table 7)**Debt financing risks**

The Group seeks to minimise debt financing risk as follows:

a. Concentration of risk

We raise funds through private placement issuances and committed bank facilities to reduce reliance on any one market. Bank financing is sourced from 13 international institutions spread across North America, Europe and Asia. No single bank accounts for more than 4% of the Group's total credit facilities and the credit rating of lenders is monitored by our treasury department. The Group's largest lenders are Bank of America, HSBC, Bank of China, Barclays, BNP Paribas, Crédit Industriel et Commercial, JP Morgan, Bank of Tokyo-Mitsubishi and Sumitomo Mitsui Banking Corporation. We seek to maintain at least £100m of undrawn committed facilities, net of cash, as a buffer.

b. Set-off arrangements

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

Chief Financial Officer's review **continued****c. Refinancing risk**

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

d. Currency risk

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

Net debt by drawn currency (£'m) (Table 8)

	2017	2016
Sterling	51.1	(49.9)
US Dollar	944.5	1,260.3
Euro	(15.8)	(21.1)
Swiss Franc	(3.5)	(3.6)
Other	(11.5)	(6.6)
Net debt	964.8	1,179.1

e. Covenant risk

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

Covenant ratios (Table 9)

	Covenant	2017	2016
Net debt:EBITDA	≤3.5x ¹	1.9x	2.1x
Interest cover	≥3.0x	13.6x	14.5x

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

Interest risk

The Group seeks to reduce volatility caused by interest rate fluctuations on net debt. Our US private placements are subject to fixed interest rates, whereas borrowings under our syndicated and bilateral bank credit facilities are at floating rates. To manage interest rate volatility, we use interest rate derivatives to either convert floating rate interest into fixed rate or vice versa. Our policy is to generally maintain at least 25% of net debt at fixed rates with a weighted average maturity of two years or more. At 31 December 2017, the percentage of net debt at fixed rates was 66% (2016: 66%) and the weighted average period to maturity for the first 25% was 8.3 years (2016: 5.7 years). A higher proportion of debt is held at fixed interest

rates, than the minimum required under our policy, in anticipation of further increases in market interest rates.

Foreign exchange risk

The Group is exposed to both translation and transaction risk due to changes in foreign exchange rates. These risks principally relate to the US Dollar/Sterling rate, although exposure also exists in relation to other currency pairs, principally translation risk for the Sterling/Euro and Sterling/Swiss Franc and transaction risk for the US Dollar/Euro and US Dollar/Swiss Franc.

Exchange rates (Table 10)

	2017	2016
Average translation rates against Sterling:		
US Dollar	1.30	1.33
Euro	1.14	1.21
Swiss Franc	1.28	1.32

Average transaction rates:

US Dollar/Sterling	1.47	1.49
US Dollar/Euro	1.19	1.21
US Dollar/Swiss Franc	1.06	1.08

Year-end rates against Sterling:

US Dollar	1.35	1.24
Euro	1.13	1.17
Swiss Franc	1.32	1.26

The results of foreign subsidiaries are translated into Sterling at weighted average exchange rates. The weakening of Sterling against all of the Group's major currencies has had a modest favourable impact on our reported results for the year. Compared to 2016, the Group's revenue increased by £42.6m and underlying profit before tax for the year by £10.1m from currency translation movements. These benefits include favourable impacts of £30.3m and £7.4m respectively relating to US Dollar denominated revenues and profits. Benefits were weighted towards the first half of 2017, with the strengthening of Sterling in the second half resulting in an adverse impact on revenue and underlying profit before tax of £37.0m and £3.8m respectively in that period.

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

	Revenue	PBT ¹
Impact of 10 cent movement ² :		
US Dollar	110.0	19.0
Euro	12.0	2.0
Swiss Franc	10.0	3.0

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

2 As measured against the 2017 average translation rates against Sterling set out in Table 10.

Transaction risk arises where revenues and/or costs of our businesses are denominated in a currency other than their own. We hedge known, and some anticipated transaction currency exposures, based on historical experience and projections. Our policy is to hedge at least 70% of the next 12 months' anticipated exposure and to permit the placing of cover up to five years ahead. Compared to 2016, the Group's revenue benefitted by £8.9m and underlying profit before tax for the year by £4.1m from currency transaction movements. These benefits include favourable impacts of £7.4m and £3.9m respectively relating to US Dollar denominated revenues and profits. Each ten cent movement in the US Dollar against the average hedge rates achieved in 2017 would affect underlying profit before tax by approximately £9.0m in respect of US Dollar/Sterling exposure, £3.0m in respect of US Dollar/Euro exposure and £4.0m in respect of US Dollar/Swiss Franc exposure.

Transaction hedging (Table 12)

	Hedging in place % ¹	Average transaction rates ²
2018:		
US Dollar/Sterling	100	1.43
US Dollar/Euro	80	1.20
US Dollar/Swiss Franc	76	1.07
2019 – 2022 inclusive:		
US Dollar/Sterling	46	1.40
US Dollar/Euro	39	1.23
US Dollar/Swiss Franc	14	1.08

1 Based on forecast transaction exposures and hedging in place at 31 December 2017.

2 Based on hedging in place at 31 December 2017, with unhedged exposures at exchange rates at 31 December 2017.

Post-retirement benefit schemes

The Group's principal defined benefit pension schemes are in the UK and US and are closed to new members. Total pension scheme deficits decreased to £258.3m (2016: £360.2m). The principal drivers of the reduction in net deficit included:

- A reduction of £56.8m (2016: £72.4m) due to remeasurement gains on scheme assets, driven by a strong performance across most asset classes, but particularly from equities; and
- Net deficit reduction payments of £31.5m (2016: £33.3m). Deficit payments in 2016 included an additional one-off payment of £10.2m agreed with the trustees of the UK scheme following the sale of the Group's UK Target Systems business and the withdrawal of that company from the scheme.

In the UK, the Group is making deficit payments in accordance with a recovery plan agreed with the trustees following the 2015 triennial funding valuation. This recovery plan provides for the deficit at that date on a funding basis of £249.4m to be addressed by payments which gradually increase over the period to 2024. At the date of the valuation, the buy-out deficit, which assumes the Group were to transfer responsibility of the scheme to an insurance company, was measured at £544.1m. The Group has no current plans to make such a transfer. Since the date of the 2015 actuarial valuation, it is estimated the funding deficit has increased further, and an additional £70.0m is not covered by the existing agreed recovery plan. This increase is driven principally by a fall in gilt yields since the valuation date. To the extent an additional funding shortfall remains at April 2018, the date of the next triennial funding valuation, it will be addressed through agreement with the trustees. It is expected that any revised recovery plan arising from this valuation will be finalised in the first half of 2019.

In the US, the level of deficit payments is principally driven by regulations. Amounts required to be paid in the year increased to £5.1m, as expected and absent any further changes in legislation, deficit payments are expected to increase further to £8.2m in 2018 and will increase gradually over the following four years to £14.0m by 2022, before stabilising around this level.

During 2017, a lump sum offer was made to certain former employees of the US funded schemes and £11.4m was paid by the schemes to settle those liabilities. Additionally, the Swiss scheme agreed changes to the rates at which benefits are payable. These two changes, which reduce the Group's exposure to longevity risk in those schemes, resulted in a past service credit of £7.1m.

Meggitt has two other principal post-retirement benefit schemes providing medical and life assurance benefits to certain US employees. The Group's exposure to increases in future medical costs provided under these plans is capped. Both schemes are unfunded and have a combined deficit of £49.8m (2016: £54.5m), with the reduction principally driven by exchange differences. Deficit payments during the year were £2.0m (2016: £1.7m).

Recent accounting developments

IFRS 15, the new revenue accounting standard, comes into effect from 2018. It is a complicated standard, requiring the terms of every significant customer contract to be considered against new revenue recognition rules.

As previously highlighted, the most significant impact for the Group is in the accounting for programme participation costs, where the manufactured cost of free of charge ('FOC') or heavily discounted hardware will no longer be capitalised and then amortised, but instead expensed as incurred. Most typically found in MABS, these account for the majority of our programme participation costs. FOC costs are expected to increase significantly in the next few years as the large number of new aircraft with such parts enter service.

This will be dilutive to margin, but the typical 18 to 24 month replacement cycle for brakes on a high utilisation commercial aircraft, results in steady aftermarket revenue over the life of the aircraft.

Other areas of revenue recognition which will be affected by the new standard include power by the hour and cost per brake landing contracts, those for which contract accounting is currently applied and funded R&D contracts. Fortunately, more than 90% of our revenue is derived from the sale of goods where we recognise revenue currently when we ship product and this will not change significantly under the new standard.

Overall we have estimated that the impact of adopting IFRS 15 would have been to reduce revenues reported for 2017 by £30.5m and underlying operating profit by £32.7m. Of the estimated reduction in profit, £22.9m arises from the expensing of FOC. The estimated impact would result in a restated 2017 earnings per share of 32.0p. The estimated impact on net assets

is a reduction of £234.2m at 31 December 2017, driven principally by the expensing of all FOC previously capitalised. We have completed a review of the majority of our significant contracts to assess the detailed impact of IFRS 15. A further review of contracts, principally those which generated revenue under current GAAP in the latter part of 2017, will be completed in 2018. This will lead to revisions of the estimates above as amounts are finalised.

IFRS 16, the new leasing standard, comes into effect from 2019 and will require certain operating leases to be recognised on the balance sheet. Rather than make accounting changes in successive years we will early adopt IFRS 16 in 2018, to align with the timetable for implementation of IFRS 15. We estimate IFRS 16 will result in £90.0m of additional assets being recognised together with a corresponding lease liability. The impact on the income statement will not be significant.

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

Further details on the potential impact of both IFRS 15 and IFRS 16 are provided in note 2 to the Group consolidated financial statements on pages 118 to 119.



Doug Webb
Chief Financial Officer

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

	2017	2016
Opening net deficit	360.2	239.1
Service cost	15.9	15.3
Group cash contributions	(47.4)	(48.6)
Deficit reduction payments ¹	(31.5)	(33.3)
Other amounts charged to income statement ²	6.5	11.0
Remeasurement gains – schemes' assets	(56.8)	(72.4)
Remeasurement (gains)/losses – schemes' liabilities	(9.8)	193.1
Currency movements	(10.3)	22.7
Closing net deficit	258.3	360.2
Assets	995.3	952.5
Liabilities	1,253.6	1,312.7
Closing net deficit	258.3	360.2
Assets as percentage of liabilities	79%	73%

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

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

Risk management

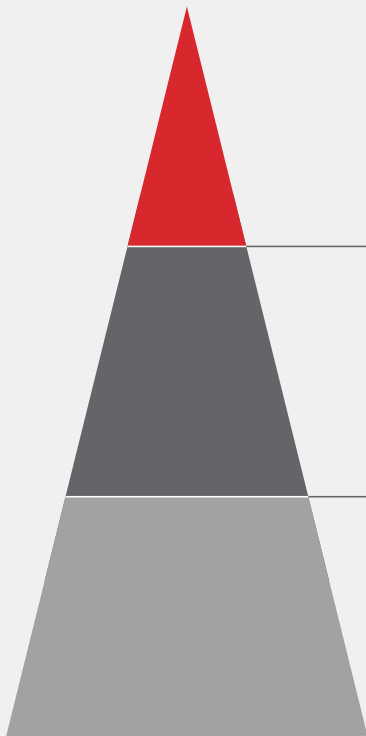
Meggitt seeks to operate within a low risk appetite range overall. Effective risk management is required to deliver to this appetite while supporting the achievement of the Group’s strategy and business objectives. Our risk management framework is based on ISO 31000 and includes a formal process for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

During 2017, we continued to refine our approach. The Board approved an updated Group risk appetite statement with associated risk tolerances to ensure that identified risks are managed within acceptable limits. Comfort over the management of these risks is demonstrated on the updated

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

Governance

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



The Board

The Board takes overall responsibility, determining the nature and extent of the principal risks it is willing to take in achieving Meggitt’s strategic objectives; and overseeing the Group’s risk governance structure and internal control framework. During 2017, the Board has carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. This report describes those risks and how they are being managed or mitigated.

The Audit Committee

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

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.

Our process

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

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

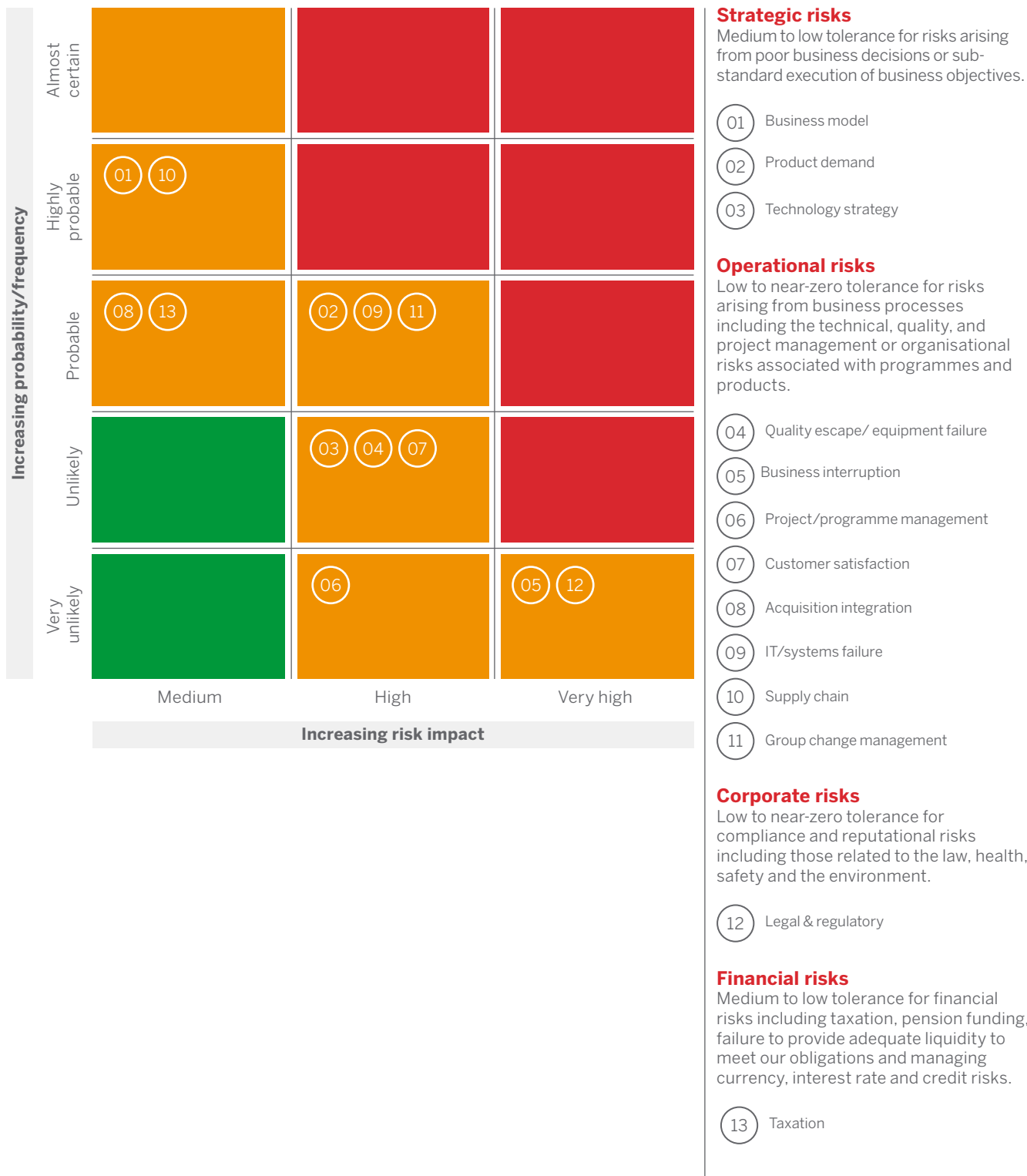
The resultant Group Risk Register is subject to a detailed review and discussion by the Executive Committee which includes discussion of risks which may not have been identified through the normal channels. The Board assesses the outputs from this process and takes comfort from the ‘3 lines of defence’ risk assurance model. The first line represents operational management who own and manage risk on

a day-to-day basis, utilising effective internal controls. Group functions and divisions monitor and oversee these activities, representing governance and compliance at the second line. The third line is the independent assurance over these activities provided by internal and external audits.

Meggitt’s corporate strategy is designed to optimise our business model and take risk, with the required controls, on an informed basis. See pages 10 to 21 for a full description of our business model and strategy. To enable value to be created for our shareholders, we set varying risk tolerances and associated criteria. We accept and manage risk as described on the following page.

Risk heat map

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







Principal risks and uncertainties


In accordance with the Group’s risk management procedures, we have evaluated our risk disclosures and focused this report on the principal risks. Financial risks associated with a multinational business, including foreign exchange, are disclosed in the Chief Financial Officer’s review on pages 34 to 39.

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




Link to strategic priorities

-  Portfolio
-  Customers
-  Competitiveness
-  Culture

Change in risk

-  Increase
-  No change
-  Decrease
-  New




Risk velocity

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


KPIs

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







STRATEGIC RISKS

Risk	Description	Impact	How we manage it
<p>Business model</p>  <p>KPIs:</p> <ul style="list-style-type: none"> • Financial performance • R&D investment 	<p>Failure to respond to fundamental changes in our aerospace business model, primarily the evolving aftermarket. This includes more durable parts requiring less frequent replacement, a growing supply of surplus parts, OE customers seeking greater control of their aftermarket supply chain and accelerated pace of new aircraft deliveries leading to the earlier retirement of older aircraft.</p>	<p>Decreased revenue and profit.</p>	<ul style="list-style-type: none"> • Alignment of Group, divisional and functional strategy processes. • Dedicated full-service aftermarket organisation. • Implementation of long-term customer agreements as part of maintaining and monitoring pricing strategy. • Implementation of Meggitt Production System (MPS) in aftermarket operations. • Investment in research and development to maintain and enhance Meggitt’s intellectual property. • Strengthened commercial function.
<p>Product demand</p>  <p>KPIs:</p> <ul style="list-style-type: none"> • Financial performance 	<p>Significant variation in demand for products should civil aerospace, military and energy business downcycles coincide, a serious political, economic or terrorist event that adversely affects the demand for air travel or industry consolidation materially changes the competitive landscape.</p>	<p>Volatility in underlying profitability.</p>	<ul style="list-style-type: none"> • Monitoring external economic and commercial environment and long-lead indicators whilst maintaining focus on balanced portfolio. • Regularly communicating strategy to shareholders. • Maintaining sufficient headroom in committed credit facilities and against covenants in those facilities whilst implementing appropriate cost-base contingency plans.
<p>Technology strategy</p>  <p>KPIs:</p> <ul style="list-style-type: none"> • Financial performance • R&D investment 	<p>Failure to develop and implement meaningful technology strategies to meet customers’ needs.</p>	<p>Restriction of ability to compete on new programmes with consequent decrease in revenue and profit.</p>	<ul style="list-style-type: none"> • Management of technology development plans that align technology readiness, market needs and financial returns using a gated process. • Focus on technology during Group strategy process. • Recruiting first-class engineers and scientists with appropriate technology skills. • Ring-fenced budgets focused on longer-term technology developments. • Partnerships with government, academia and other companies to leverage our R&D budgets.

OPERATIONAL RISKS


Risk	Description	Impact	How we manage it
<p>Quality escape/ equipment failure</p>  <p>KPIs:</p> <ul style="list-style-type: none"> • Financial performance 	<p>Defective product leading to in-service failure, accidents, the grounding of aircraft or prolonged production shut-downs for the Group and its customers.</p>	<p>Decreased revenue and profit, damage to operational performance and reputation.</p>	<ul style="list-style-type: none"> • Implementation of well-developed system safety analysis, verification and validation policy and processes, combined with quality and customer audits and industry certifications. • Implementing MPS across the Group. • Implementation of enhanced supplier quality assurance process.

OPERATIONAL RISKS continued


Risk	Description	Impact	How we manage it
<p>Business interruption</p>  <p>KPIs:</p> <ul style="list-style-type: none"> Financial performance 	<p>A catastrophic event such as an earthquake (the Group has a significant operational presence in Southern California) or fire could lead to infrastructure and property damage which prevents the Group from fulfilling its contractual obligations.</p>	<p>Decreased revenue and profit, damage to operational performance and reputation.</p>	<ul style="list-style-type: none"> Group-wide business continuity and crisis management plans, subject to regular testing. Comprehensive insurance programme, renewed annually and subject to property risk assessment visits.
<p>Project/programme management</p>  <p>KPIs:</p> <ul style="list-style-type: none"> Financial performance R&D investment 	<p>Failure to meet new product development programme milestones and certification requirements and successfully transition new products into manufacturing as production rates increase. This also covers lower than expected production volumes, including programme cancellations.</p>	<p>Failure to deliver financial returns against investment and/or significant financial penalties leading to decreased profit and damage to reputation.</p>	<ul style="list-style-type: none"> Programme lifecycle management (PLM) processes starting from rigorous commercial and technological readiness reviews of bids and contractual terms before entering into programmes. Continuous review of programme performance through the PLM process including regular monitoring of the end market performance of key OE programmes and the financial health of customers. PLM process and engineering support applications, combined with enhanced internal review process, to stress-test readiness to proceed at each stage of key programmes. Delivery of applied research and technology objectives in line with Group strategy. Incremental improvement in performance following MPS implementation and reorganisation of programme management to increase capability and focus on delivery and governance. Active participation in customer rate-readiness processes.
<p>Customer satisfaction</p>  <p>KPIs:</p> <ul style="list-style-type: none"> Financial performance Inventory turns 	<p>Failure to meet customers' cost, quality and delivery standards or qualify as preferred suppliers.</p>	<p>Failure to win future programmes, decreased revenue and profit.</p>	<ul style="list-style-type: none"> Creation of dedicated aftermarket organisation. Implementation of supplier excellence framework following risk analysis and on-site assessments. Implementation of MPS combined with a programme lifecycle management process leading to step change in performance. Reorganisation of programme management to increase capability and focus on delivery and governance. Development of commercial function and engineering capability. Increased utilisation of low-cost manufacturing base. Regular monitoring of customer scorecards and ensuring responsiveness to issues via Voice of the Customer process.
<p>Acquisition integration</p>  <p>KPIs:</p> <ul style="list-style-type: none"> Financial performance 	<p>Failure to integrate effectively the composites acquisitions and/or realise expected financial returns in line with business case.</p>	<p>Decreased revenue and profit.</p>	<ul style="list-style-type: none"> Internal pre-acquisition due diligence supplemented by external experts. Implementation of MPS as part of proven post-merger integration process led by incumbent divisional management, supported by experienced dedicated integration teams with a senior oversight committee. PMO established to manage integration and delivery of financial model, including cost synergies.
<p>IT/systems failure</p>  <p>KPIs:</p> <ul style="list-style-type: none"> Financial performance 	<p>A breach of IT security due to cyber crime/terrorism resulting in intellectual property or other sensitive information being lost, made inaccessible, corrupted or accessed by unauthorised users. This also includes the loss of critical systems such as SAP due to badly executed implementation or change of control; poor maintenance, business continuity or back-up procedures and the failure of third parties to meet service level agreements.</p>	<p>Decreased revenue and profit, damage to operational performance and reputation.</p>	<ul style="list-style-type: none"> Ongoing implementation of IT security strategy and enhancement of IT security infrastructure, policies and procedures. Establishment of Group-wide intellectual property protection programme. Review of existing systems, third party service providers and risks, including resilience and disaster recovery processes, undertaking mitigating action where appropriate. Implementation of rolling programme of system upgrades (including SAP implementation) to replace legacy systems. Roll-out of deployment and architectural review processes.
<p>Supply chain</p>  <p>KPIs:</p> <ul style="list-style-type: none"> Financial performance Inventory turns 	<p>Failure or inability of critical suppliers to supply unique products, capabilities or services preventing the Group from satisfying customers or meeting contractual requirements.</p>	<p>Decreased revenue and profit, damage to operational performance and reputation.</p>	<ul style="list-style-type: none"> Implementation of supplier excellence framework combined with integrated commercial and procurement approach to contractual terms and conditions including development of long-term agreements. Maintenance of buffer inventory for critical and sole-source suppliers. Implementation of measures to mitigate counterfeit and fraudulent parts at high-risk facilities.

Principal risks and uncertainties **continued**


OPERATIONAL RISKS **continued**

Risk	Description	Impact	How we manage it
<p>Group change management</p>  <p>KPIs:</p> <ul style="list-style-type: none"> Financial performance Inventory turns 	<p>Failure to successfully, simultaneously, deliver the significant change programmes currently in process and planned, including site consolidation activity.</p>	<p>Decreased revenue and profit, increased costs, damage to operational performance and reputation.</p>	<ul style="list-style-type: none"> Creation of dedicated site consolidation and property management teams. Regular monitoring by Executive Leadership Team through operational and project reviews. MPS implementation at new/expanded sites.

CORPORATE RISKS

Risk	Description	Impact	How we manage it
<p>Legal & regulatory</p>  <p>KPIs:</p> <ul style="list-style-type: none"> Financial performance TRIR 	<p>Significant breach of increasingly complex trade compliance, bribery & corruption, ethics, environmental and health & safety laws.</p>	<p>Damage to reputation, loss of supplier accreditations, suspension of activity, fines from civil and criminal proceedings.</p>	<ul style="list-style-type: none"> Continuing investment in compliance programmes. Implementation of Board approved trade compliance, ethics and anti-corruption policies. Roll-out of global trade compliance IT solution and import compliance programme. Regular monitoring by Ethics and Trade Compliance Committee, supported by ongoing trade compliance programme including third party audits; and comprehensive ethics programme including training, anti-corruption policy, external audits and Ethics line. MPS implementation to enhance safety measures validated by third party audits.

FINANCIAL RISKS

Risk	Description	Impact	How we manage it
<p>Taxation</p>  <p>KPIs:</p> <ul style="list-style-type: none"> Financial performance 	<p>Tax legislation is complex and compliance can be subject to interpretation. Legislation, including response to the OECD BEPS programme and that recently introduced by the US Presidential administration, is subject to change, which could negate the effectiveness of the Group's current, well-established, tax-efficient international structures, including those used to finance acquisitions.</p>	<p>Higher effective tax rates resulting in decreased profit.</p>	<ul style="list-style-type: none"> Monitoring international tax developments to assess implications of future legislation. Maintenance of a low-risk rating with UK HMRC and other tax authorities through open dialogue and, where possible, pre-agreement of arrangements to confirm compliance with legislation. Assessment of options to mitigate impact of legislative changes on the Group's effective tax rate. Use of multiple expert third party tax advisors.

Oversight of risk and internal control

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

The Group's functions are responsible for determining Group policies and processes. The businesses are responsible for implementing them, with internal and/or external audits to confirm business unit

compliance. The key features of the risk management and internal control system are described below, including those relating to the financial reporting process, as required under the Disclosure Guidance and Transparency Rules (DTR):

- Group policies – key policies are approved by the Board and other policies are approved by Group functions;
- Process controls – for example financial controls including the Group Finance Policies and Procedures Manual, the bid approval process, programme lifecycle management reviews, IT security framework and risk management. The risk management process, which enables the Group to identify, evaluate and manage the Group's principal risks was in place throughout 2017 and up to

the date of approval of the Annual Report and has been regularly reviewed by the Audit Committee and approved by the Board; and

- The forecasting, budget and strategic plan processes.

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

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

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

To review the effectiveness of the system of internal controls, the Board and Audit Committee applied the following processes and activities in 2017 and up to the date of approval of the Annual Report:

- Reviews of the risk management process, risk register and risk appetite;
- Written and verbal reports to the Audit Committee from internal and external audit on progress with internal control activities, including:
 - Reviews of business processes and activities, including action plans to address any identified control weaknesses and recommendations for improvements to controls or processes;
 - The results of internal audits;
 - Internal control recommendations made by the external auditors; and
 - Follow-up actions from previous internal control recommendations.
- An independent review of internal audit effectiveness is to be performed by a third party;
- Regular compliance reports from the Executive Director, Commercial and Corporate Affairs;
- Regular reports on the state of the business from the Chief Executive and Chief Financial Officer;
- A presentation on IT security activities and plans;
- Strategy reviews, review of the ten year financial plan and review and approval of the 2018 budget;
- Written reports to the Ethics and Trade Compliance Committee on the effectiveness and outcomes of whistleblowing procedures; and
- Reports on insurance coverage and uninsured risks.

The risk management and internal control systems have been in place for the year under review and up to the date of approval of the Annual Report, and are regularly reviewed by the Board. The Board monitors executive management's action plans to implement improvements in internal controls that have been identified following

the above mentioned reviews and reports. The Board confirms that it has not identified any significant failings or weaknesses in the Group's systems of risk management or internal control as a result of information provided to the Board and resulting discussions.

Viability statement

In accordance with provision C.2.2 of the 2016 Code, the directors have assessed the prospects of the Group over a period of five years from the balance sheet date (the Board having determined five years as the appropriate period for the reasons stated below), taking account of its current position and the potential impact of the principal risks set out above.

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

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

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

- Discussed and agreed key assumptions in the stress testing model used by management;
- Considered the Group's current position and future prospects, the Group's strategy and principal risks and how these are managed as detailed in the Strategic report;
- Assessed the outcome of the stress-testing, carried out using the Group's five-year strategic plan as the base case. The five-year strategic plan considers the Group's cash flows, dividend cover, net debt:EBITDA covenant ratio and other key financial ratios over the period. These metrics are assessed against the Group Risk Register to determine the most impactful ones to stress test against, and this is carried out to evaluate the potential impact of the Group's principal risks actually occurring;

- Considered the Group Risk Register to determine those risks which could potentially pose the most significant threat to viability across the Group over this period and which should be modelled, including:
 - A significant market downturn, of greater magnitude than both the after effects of 9/11 and the global recession in 2008. The downturn was assumed to last for the full stress testing period, impacting both civil aerospace and energy, with military being unaffected (as history has shown);
 - A decline commensurate with losing one of our most significant customers, leading to a sharp loss of revenue across the full stress testing period; and
 - A set of reverse engineered scenarios which deliberately just break covenants in our credit facilities or exceed our committed facilities to assess the headroom against our risk based scenarios.
- Assessed the likelihood of bank and other debt facilities continuing to be available to the Group as existing facilities mature over the next five years;
- Specifically assessed the impact of the UK's decision to leave the EU which is not expected to be significant, for three key reasons:
 - From a trade perspective the WTO treaty for trade in civil aviation parts provides for tariff free trade (military is generally covered under separate trade arrangements), with non-tariff barriers not expected to threaten our ability to operate;
 - Levels of trade between the UK and other EU countries is not especially significant to Meggitt (UK exports to the EU were 7% of Group revenues in 2017, whilst imports to the UK from the EU were under 1%); and
 - We have a significant amount of non-Sterling denominated revenue, costs and debt, meaning we have benefited from the weakening of Sterling since the UK's decision to leave the EU. Remaining net transaction exposures are hedged forward giving us time to respond to further movements over time; and
- Specifically assessed the exposure to cross border trade, in relation to potential changes to import and export tariffs.

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

Corporate responsibility

RECOGNISING OUR RESPONSIBILITY

We acknowledge our responsibility to shareholders, employees, customers, suppliers, pension scheme members and the wider community to conduct our operations in a safe, responsible and sustainable manner.

We recognise that the responsible and sustainable development of our business is important for our long term success. We take a focused approach towards corporate responsibility to create value for Meggitt and our stakeholders. Our approach helps us to manage our businesses more efficiently, which in turn helps us to mitigate risks, reduce costs and support the communities in which we operate. Principal areas of responsibility that we have identified which are of particular relevance to our business include our people, the environment, anti-corruption matters and supporting the communities in which we operate. Our values and commitments in these areas are reviewed regularly to take into consideration the changing expectations of society. Our commitments in these areas are set out in our Corporate Responsibility Policy and are summarised below.

POLICY

We are committed to:

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

CORE FOCUS

Our four key areas include:

2017 highlights



People

- Commitment to create a more inclusive and diverse organisation
- Gender pay gap data for the UK published in line with legislation
- Board approval of a revised Health & Safety Policy
- Continued promotion of our safety culture through behaviour based safety training across all of our sites

See page 48 for more information



Ethics

- Second year of reporting on our commitments under the Modern Slavery Act
- Commitment to reduce the number of commercial intermediaries in our supply chain to mitigate against potential risks of corruption and bribery

See page 54 for more information



Environment

- Absolute decrease in our GHG emissions
- 2% reduction in GHG emissions relative to revenue
- New performance targets set for environmental metrics in addition to GHG emissions
- Environmental auditing program expanded to include internal assess and assist teams to help us review compliance more frequently

See page 52 for more information



Social

- Continued support of initiatives focused on promoting science, technology, engineering and mathematics education
- Continued support of the local communities where our sites are based

See page 55 for more information



We recognise the significant contribution that our world leading technology plays in enabling our customers to achieve the extraordinary. In 2018, we will build on our commitments to all of our stakeholders, as we look to become a truly world-class business with world-class performance to match. ”

Tony Wood
CEO

ACTION

For our stakeholders this means:

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

GOVERNANCE AND COMPLIANCE

Ultimately, the Board is responsible for implementation and performance of our Corporate Responsibility Policy. In 2017, the day-to-day responsibilities of the Board and the Chief Executive in relation to the Corporate Responsibility Policy were devolved: the Group Operations Director had functional responsibility for health, safety and the environment; the Executive Director, Commercial & Corporate Affairs had functional responsibility for trade compliance, ethics and business conduct, and charity and community activity; and the newly appointed Head of HR led initiatives focused on diversity and employee engagement. Divisional presidents and site directors are responsible for locally implementing Group policies and procedures. Group support is provided to ensure our businesses fulfil the requirements that are outlined in our Corporate Responsibility Policy which is available on our website.

Activity in 2017

As part of our commitment to ensure the health, safety and well-being of our employees the Board approved a revised Health & Safety Policy in 2017, which is available on our website. The Board also set out its commitments towards creating a more inclusive and diverse organisation. One of the ways we are aiming to achieve this is through creating a High Performance Culture which, amongst other things helps managers and employees create an inclusive culture that promotes diversity (for more information on our High Performance Culture see page 21). To meet our UK

statutory requirements we will also publish our gender pay gap data and we will use this along with other internal measures to monitor our progress on improving diversity.

During 2017, we assessed our policies, due diligence processes and risks relating to the non-financial matters covered under the new non-financial reporting regulations. Our disclosures in this Corporate responsibility report, Principal risks and uncertainties report and the Strategic report as a whole constitute the Group non-financial reporting statement as referred to in section 414CA of the Companies Act 2006.

Throughout 2017, we have continued to work with our suppliers on implementing ethical practices and our second Modern Slavery Act statement will be made available on our website in Q1 2018. We have taken steps to reduce the number of intermediaries in our supply chain. We have also considered the impact of our payment practices on suppliers and will disclose our data in 2018 as required, to ensure we are compliant with the new UK legislation that aims to increase the transparency of large companies' payment practices. We have also published our tax strategy policy on our website and reviewed our tax working practices impacted by the Criminal Finances Act 2017.

Finally, we have taken steps in 2017 to prepare for the updated EU data protection laws coming into effect in May 2018, which largely affects our employee data (as a business to business Group).

Corporate responsibility **continued**



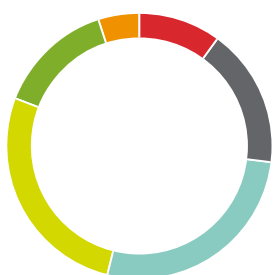
PEOPLE

We acknowledge our duty of care to our employees, and our responsibility to promote their health and safety in an inclusive environment free from discrimination. We also believe people should succeed by their talent, skill, knowledge and application. Highlighted below are steps we take to support our employees.

Data showing headcount by division, region and length of service as at 31 December 2017 is outlined in the tables below.

Headcount by division

Number of employees & contractors



● Aircraft Braking Systems	1,164	10 %
● Control Systems	1,886	17 %
● Polymers & Composites	3,075	27 %
● Sensing Systems	3,008	27 %
● Equipment Group	1,546	14 %
● Cross-Group functions	547	5 %
Group	11,226	100 %

Headcount by region

Number of employees & contractors



● UK	2,674	24 %
● Rest of Europe	1,241	11 %
● USA	6,211	55 %
● Rest of World	1,100	10 %
Group	11,226	100 %

Headcount by length of service (years)

Number of employees & contractors



● Less than 5	5,138	46 %
● Between 5 and 10	2,238	20 %
● Between 10 and 15	1,458	13 %
● Between 15 and 20	923	8 %
● Between 20 and 25	454	4 %
● Over 25	1,015	9 %
Group	11,226	100 %

Health and safety

We believe that a safe and healthy workplace is a fundamental right of all of our employees as well as a business imperative. As a Group, we strive to ensure our employees can lead safe, healthy and productive lives. We do this by actively promoting our Health & Safety policy and programme to help individuals safeguard themselves, their colleagues and visitors.

We continue to ensure that health and safety measures are integrated into daily layered accountability meetings including standardising and improving how we report incidents and the actions we take to close out near miss and unsafe conditions identified by employees. We also implement industry leading health and safety practices by issuing new Meggitt Health and Safety Procedures applicable to all sites on topics that are relevant.

Throughout the year, we use various forms of communication channels to keep safety at the top of the minds of our employees each day, and this is our way of consistently communicating our core health and safety value – SAFETY FIRST. Health and safety communication activities include: our Weekly Safety Talks delivered at our daily operational meetings with all employees under the Meggitt Production System (MPS); regular Safety Alerts issued to all sites to share incidents and lessons learnt; internal health and safety bulletins; HSE Sharepoint site where we share best practices and guidance with all HSE professionals and technicians; and our new MC2 intranet site, which we look to continuously improve to help employees become more proactive in our accident prevention efforts and to promote and support our safety initiatives.

During 2017, we continued to promote our safety culture by conducting behaviour based safety training across all of our sites. The aim of the training is to focus each employee on their own behaviour, and to ensure employees feel responsible and accountable for identifying and mitigating risks in the workplace before an injury happens.

To measure the effectiveness of our training, over the last couple of years we have measured leading indicators to focus employees on mitigating behaviours and conditions to reduce workplace injuries. This is in addition to our monitoring of the standard recordable and lost time incident rates, number of days lost due to workplace injury or illness and other lagging indicators typical in our industry to measure safety performance (performance targets for 2017 are highlighted on page 49). In 2017, we also commenced tracking Total Recordable

SAFETY PERFORMANCE

Reportable accidents and incidents¹

-4%

2017	22
2016	23

Reportable accident and incident rate²

-1%

2017	198
2016	200

Total recordable incident rate (TRIR)³

1.2

2017	1.2
2016	1.5



Incident Rates (TRIR) at all of our sites. During 2017, 40% of our manufacturing facilities were reviewed by our comprehensive auditing programme for their compliance with applicable health and safety regulatory requirements as well as compliance against industry best practice standards, as required by our Meggitt Health and Safety Procedures. Our audit is a rolling-programme and so more sites will be audited in 2018.

To enhance our programme in 2017, we introduced new internal assess and assist teams consisting of health, safety and environmental professionals. The new teams review sites for compliance with applicable laws and regulations in addition to compliance with more stringent Meggitt internal policies and procedures. They also help to share best practices across the Group. The development of these internal assessment teams has enabled us to review compliance on a more frequent basis. This supplements our internal as well as our external auditing programme which utilises third party consultants.

Being proactive in health and safety at our sites is recognised through our Meggitt Safety Star award programme. In 2017, this included the Polymers & Composites sites that were acquired in 2015 which were given targets to achieve at least Gold Safety Star status – 90% achieved these targets. Overall, in 2017, 65% of our sites achieved our Platinum Safety Star - this is the highest level of achievement.

Our persistent focus in this area has meant we have seen significant improvements in reduced days lost due to workplace injury. Our improvements reflect good progress in our journey to health and safety excellence and we are targeting to achieve a TRIR of 0.6 by 2019 which is best in class health and safety performance.

1 Reportable accidents and incidents are those directly reportable to a regulatory authority.
 2 Accident/incident rates are the number of reportable accidents/incidents per 100,000 employees.
 3 US sites only measured in 2016.

Corporate responsibility **continued**

Human rights, diversity and equal opportunities

Our policy on human rights is contained within our Corporate Responsibility Policy, where we confirm the Board's support for the Ten Principles outlined in the United Nations Global Compact.

The Board is also committed to promoting diversity and equal opportunities in our organisation. As a Group, we support equal employment opportunities and oppose all forms of unlawful or unfair discrimination. We give full and fair consideration to all job applications and provide opportunities for all employees in training, career development and promotion and continue wherever possible to continue to employ staff who become disabled. We recognise however that our policies are only as successful as their implementation and therefore we require all Meggitt employees to comply with our Ethics and Business Conduct Policy, our Corporate Responsibility Policy and Code of Conduct, which reinforces our values, to treat all colleagues fairly and with respect and to act with integrity in all of our business dealings.

Our approach to diversity and inclusion was reviewed by the Board during 2017. The following actions and commitments have been identified to help us improve diversity and inclusion across Meggitt:

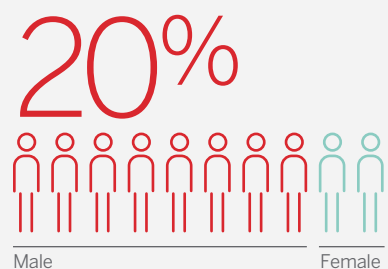
(i) The creation of a High Performance Culture (HPC) across Meggitt. We recognise that developing the right culture is important and will ultimately help us to deliver sustainable high performance. Ultimately, HPC creates a set of concepts bound together by a common language to help managers and employees share and work towards the same strategic vision. Participation in HPC training to date has been encouraging with positive feedback from across the organisation (see pages 21 and 51).

- (ii) Recognition that we are an international business and there will be varied challenges to building a truly inclusive business across different geographies. We will work with each of our divisions and functions to develop inclusion and diversity strategies that recognise their specific requirements and challenges. Local plans will be integrated into our overall Talent Management framework and reviewed regularly by the Executive Committee to ensure continual progress.
- (iii) Understanding of employees' perceptions. Our 2017 employee engagement survey captured responses on a range of issues including gender. We will use this data to formulate local action plans and to see if there are themes which we need to address. We will continue to collect feedback from employees to monitor perceptions on issues such as diversity and to help us focus our efforts in this area.
- (iv) Awareness that all of our employees have requirements that can change because of circumstances. We recognise that we have an important role as a responsible employer in creating a culture that supports our employees in the various stages of their working lives. As part of this process we are reviewing our policies in areas such as recruitment, flexible working and maternity/paternity leave to ensure they align with our aspirations to create a truly diverse and inclusive organisation across all of the countries that we operate in.

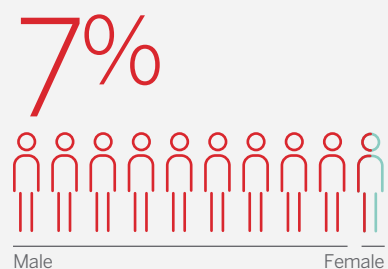
The number of women employed at all levels of the workforce is set out in table opposite. Further details on diversity are outlined in our Nominations Committee report (see page 69).

MALE / FEMALE HEADCOUNT

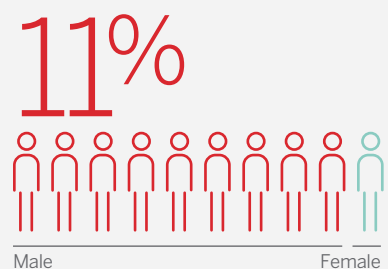
Board of directors



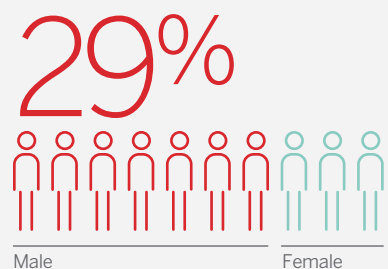
Executive team



Senior executives



Total headcount





HPC training at CSS Miami



It's so unusual for my whole team to come together and spend two full days just focusing on building a better and more effective working environment; it's invaluable, we all learn so much about ourselves and each other. ””

Ray Bennett

CSS Senior VP &
General Manager Americas.



Employee consultation

The Group regards employee communication as a vital business function and we respect all employee relations regulations.

Our employees receive regular communication about business developments. This takes a variety of forms, including: presentations from the Chief Executive via audio-visual media; top-down strategy dissemination from the Chief Executive; publications such as the Meggitt Review; and a variety of electronically-distributed newsletters.

Our results presentations are also disseminated across the Group to enhance our employees' understanding of the financial and economic factors affecting its performance.

Locally at site level, employee consultation is carried out at facilities by operations directors and other line managers via daily meetings on factory floors, all-employee 'Town Hall' meetings, team briefings and works councils.

As we appreciate that communication is two-way, we carried out an employee engagement survey in 2017. The feedback will be used to help shape policies and the development of our Group.

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

Corporate responsibility **continued****ENVIRONMENT**

We are committed to achieving and maintaining a culture that places a high priority on environmental performance and being proper stewards in the communities and locations in which we operate to minimise environmental impacts of our operations.

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

Our commitment in this area is demonstrated by our compliance record which shows no fines for breaches of environmental regulations after numerous inspections by environmental authorities during 2017. This achievement is due in part to our persistent monitoring of sites against internal targets. In 2017, our auditing programme assessed 40% of our sites for compliance with applicable regulatory requirements as well as compliance against industry best practice.

In 2017, our environmental auditing programme was further expanded and additional support was introduced provided via our assess and assist teams consisting of health, safety and environmental professionals.

We have set new performance targets for environmental metrics (other than GHG emissions) in 2017 and we will monitor and report our performance against these going forward.

Performance

Table 1 on page 53, shows our performance against key internally set environmental metrics. Table 2 shows our GHG emissions data that we are required to report in accordance with legislation. Table 3 shows our progress on achieving internally set targets.

During 2017, we achieved a 2% reduction in GHG emissions relative to revenue, and a 7% reduction towards our 10 year target to achieve a 25% reduction by 2025. Divestments, consolidations and footprint reduction activity of our businesses as well as numerous energy savings projects implemented at our sites in 2017 contributed to our positive GHG performance.

Water consumption increased slightly due primarily to an increase in production, the installation of a new sprinkler system and a water main break at our MPC Rockmart facility which is our largest water consumer. Excluding Rockmart, most of our other facilities reduced their water consumption in 2017 through water conservation measures including installation of water recirculating systems.

Waste generated in 2017 increased due to construction, demolition and site clean up activities which resulted in significant amounts of non-hazardous waste being generated, most of which had to be landfilled as there were no recycling options to pursue. Despite this, our sites continued to seek viable recycling options for standard waste generated. One example of this is a recycling and repurposing project at our UK Coventry facility for carbon cloth waste where material scraps are milled and then reconstituted into other non-aerospace and non-military carbon tube fittings and gaskets. Another example is our US MPC San Diego facility which now recycles a waste stream that is used for fuel. So far, they have diverted approximately 11.4 metric tonnes per annum from going to landfill. Our US MSS Orange County facility also completed a project in late 2017 which eliminated a waste stream that generated approximately 143,000 litres per year of hazardous wastewater.

Saving energy

In 2017, many of our sites implemented energy savings projects including upgrading facilities to energy efficient lighting, installing energy efficient compressors and occupancy and machine sensors and timers, upgrading building and ducting insulation and installing energy management systems which together continue to contribute to reduce our GHG emissions by approximately 1,500 tonnes per annum across the Group.

In 2018 and beyond, we are looking to implement more energy savings projects that will have a positive impact on the energy use of our operations. One such project involves the planned replacement

of inefficient heated press platens with electromagnetic heated platens at our Polymers & Composites and Xiamen facilities, where initial trials have shown that the electromagnetic platens reduce electrical use by 40% to 50%. In addition, the UK Ansty Park super site will consolidate several UK businesses into one new building that is being designed with modern energy efficiency technology in mind.

ENVIRONMENTAL PERFORMANCE

GHG reduction relative to revenue¹

-2%

GHG reduction from 2015 baseline²

-7%

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

² Performance against internal 10-year target.

REACH

As our manufacturing sites use chemicals, we continue to monitor developments under the EU Registration, Evaluation, Authorisation of Chemicals (REACH) regulations. We do this through the Group's REACH Steering Committee which consists of representatives from each strategic business unit. REACH regulates the production, use and communication of chemical substances throughout the supply chain and the potential impact on human health and the environment. The REACH Steering Committee meets at least quarterly to review regulatory developments and restrictions placed on chemical substances and how these may potentially impact our operations and products. In 2017, we implemented a monthly REACH newsletter that is distributed to all functional leaders at each of our business units to ensure that critical information regarding restrictions placed on materials used in our operations is communicated across the Group.

We are also actively engaged in the US Aerospace Industry Association Chemical Subcommittee and in the Aerospace and Defence Industries Association of Europe (ASD) that review and provide input on proposed chemical restrictions and prohibitions. In 2017, we also joined the International Aerospace Environmental Group (IAEG) as a full member, and joined the Chemical Reporting Working Group. Our involvement in these industry trade group committees allows us to interact with several of our customers and suppliers on issues impacting the aerospace and defence industries as well as issues impacting our specific operating units. It also provides us a voice in how our industry will respond to ever changing and complex global environmental regulations.

Obsolescence

Through our Obsolescence Review Board we continually assess substances used in our operations and contained in our products to identify alternatives that are safer to use, and have less impact on the environment. We recognise that global environmental regulations will continue to have an impact on the availability of certain substances that are commonly used in our industry, and we have taken steps to manage this risk through chemical hazard assessments conducted at all of our business units. We have performed extensive reliability and qualification testing on potential safer alternatives to prioritise substances scheduled for restriction. For example, we have identified and qualified a non-chromate based primer which is currently being used in a number of our aircraft braking system components and have identified safer alternatives to chlorinated solvents previously used in some of our operations. We continue to work closely with our customers and suppliers to minimise the use of toxic substances in our manufacturing processes and in our products.

Environmental metrics ¹ (Table 1)	2017	Change	2016
Utilities			
Electricity – gWh	201		213
MWh per £m	103	-4%	107
Natural gas – gWh	186		189
MWh per £m	96	+1%	95
Greenhouse gas emissions (CO ₂ e) ² – tonnes	129,663		135,035
Tonnes per £m	66.7	-2%	67.8
Waste – tonnes	12,056		11,224
Tonnes per £m	6.20	+10%	5.63
Water – cubic metres	711,905		705,279
Cubic metres per £m	365	+3%	354

Greenhouse gas emissions (GHG) data (Table 2)³

	2017 Tonnes of CO ₂ e	2016 Tonnes of CO ₂ e
Combustion of fuel and operation of facilities ⁴	34,552	35,195
Electricity, heat, steam and cooling purchased for own use	95,111	99,840
	129,663	135,035
Intensity measurement: Emissions reported above, normalised to tonnes per £m revenue	66.7	67.8

Internal targets (Table 3)

	Baseline year	Performance period (financial years)	Target improvement over performance period	Achieved as at 31.12.2017
GHG Emissions	2015	To 31 December 2025	-25%	-7%
Water consumption	2016	To 31 December 2021	-10%	+3%
Waste to landfill	2016	To 31 December 2021	-10%	-3%
Waste recycled	2016	To 31 December 2021	+10%	-1%

- 1 Metrics per £m are calculated using revenue converted at constant exchange rates. Greenhouse gas emissions (GHG) are calculated using conversion factors published in the 2015 Guidelines to DEFRA/DECC's GHG Conversion Factors for Company Reporting. Emissions from overseas electricity are in CO₂ only (not CO₂e).
- 2 Global GHG emissions were calculated using conversion factors published in the Guidelines to DEFRA/DECC's GHG Conversion Factors for Company Reporting and the WRI/WBCSD Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard. Emissions factors from overseas electricity are in CO₂ only (not CO₂e).
- 3 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.
- 4 Does not include GHG emissions generated from Meggitt-owned and operated vehicles or refrigerant gases as these emissions are not material to the Group's emissions.

Corporate responsibility **continued**



ETHICS

Ethics, business conduct and trade compliance

We recognise that conducting business relationships in an ethical and responsible manner and acting as a responsible supplier is critical for our success especially given the highly competitive nature of our industry.

Through industry associations like the Aerospace, Defence, Security and Space organisation (ADS) and the International Forum on Business Ethical Conduct (IFBEC), we have taken a leadership position with others in our industry when it comes to conducting business ethically and in compliance with laws and regulations.

We run an Ethics Programme for all of our employees to ensure we are doing business ethically and we are compliant with international anti-corruptions laws. Our programme is built on the foundation of honesty, integrity and respect for others. These principles are reaffirmed through our Group policies including our Ethics and Business Conduct Policy, Code of Conduct and Anti-Corruption Policy. Through regular training in these policy areas, all employees are reminded of how to conduct business in an ethical and responsible manner and examples are given on how to apply the principles and provisions laid out in our policies. Every employee also receives a printed Ethics Guide on joining the Group which is also available on our website.

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

Ethics Coordinator available

24hours

a day, 7 days a week

Throughout 2017, we continued to promote our ethics programme through our anti-bribery, code of conduct and personal integrity barometer training sessions. We also took steps to reduce the number of our commercial intermediaries to try to mitigate potential risks of corruption and bribery taking place within our business.

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

In 2017, we met reporting requirements in relation to tax working practices and payment practices.

Our compliance with other relevant laws and employee training is monitored through our internal audit programme and the findings are reported to the Audit Committee and Board on a regular basis.

In addition to our ethics programme, we have a long established Trade Compliance function, who apply detailed processes and practices to ensure we are compliant with import and export regulations and with relevant economic sanctions. We continue to incorporate new regulatory requirements, especially those associated with the US Export Controls Reform (ECR) and to expand implementation of our global trade management software solutions to implement our import compliance programme.

Ethics programme feedback



Drives policy and programme



Influences the training of our employees



Impacts interaction with our customers and suppliers



SOCIAL

Local communities and charitable donations

We encourage our sites to contribute to the communities in which our employees live and work and to enhance the well-being of people living in our communities. This is reinforced through our charitable giving policy. The policy also encourages facilities to undertake activities and fundraising to benefit the health and welfare of military personnel and to support education initiatives, scholarships and competitions in science, technology, engineering and mathematics subjects.

MABS, Akron

The charitable activities at our Akron site during 2017 demonstrate the breadth of activities that our sites get involved with in supporting the local communities where their business operates.

During 2017, the MABS Women in Leadership Group supported different charitable organisations that had connections with employees based on site. This was through organising various events and fund-raising activities.

The business also sponsored the All-American Soap Box Derby Educational Program. The aim of the programme is to encourage amongst other things youth education and leadership development, mentoring, innovation and entrepreneurship.

Employees from the MABS site also engaged in the United Way Day of Action. Employees joined in an 8 hour away day at Summit County Education Initiative – a local organisation supporting families in poverty. This gave the employees a chance to understand and support local issues in the community.

Although our Policy allows a broad range of charitable activity, our priority is to support charities or community organisations which focus on science, technology, engineering and mathematics education initiatives. Examples of our on-going support in this area include:

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

Within our Group's defined policy, each Meggitt business is ultimately responsible for agreeing and administering its own budget for charitable donations and sponsorships to ensure they have a positive impact on the local community or they support sectors in which their businesses operate. Yearly reports reveal the exceptional generosity of many employees who give time and money to a wide range of national and local initiatives.



Tomorrow's generation

During 2017, MCS North Hollywood became the second of our sites to support the FIRST Robotics Competition programme.

FIRST (For Inspiration and Recognition of Science and Technology) was founded in 1989 to inspire young people's interest and participation in science and technology. It is now universally recognised as the leading, not-for-profit STEM engagement programme for children worldwide.

Supporting programmes like FIRST helps us to ensure there is a pipeline of talented young engineers. In return, students are encouraged to pursue education and careers in STEM-related fields. They are also inspired to become leaders and innovators, and helped to develop their 21st century work-life skills.

Strategic report

This 2017 Strategic report on pages 3 to 55 is hereby signed on behalf of the Board.

Tony Wood
Chief Executive
26 February 2018

CHAIRMAN'S INTRODUCTION



Sir Nigel Rudd
Chairman

“Tony brings a wealth of industry knowledge, skills and extensive operational experience from his thirty years in the aerospace sector. His contribution as Chief Operating Officer has been outstanding and I know that he will be an excellent successor to Stephen.”

The Board is committed to maintaining high standards of corporate governance, which are fundamental to discharging our responsibilities. It is my responsibility to ensure that Meggitt is governed and managed in the best interests of shareholders and wider stakeholders. This includes encouraging open discussion and constructive challenge. In this report, we set out our governance framework and explain how our activities as a Board throughout the year have supported our strategy.

Leadership

As part of the planned and continued evolution of the Board, there have been a number of Board changes in 2017. We announced in November 2017 that Tony Wood would be appointed as Chief Executive from 1 January 2018. Tony brings a wealth of industry knowledge, skills and extensive operational experience from his thirty years in the aerospace sector. His contribution as Chief Operating Officer has been outstanding and I know that he will be an excellent successor to Stephen. Most recently he held a number of senior management positions at Rolls-Royce plc during a sixteen year career, latterly as President, Aerospace. Stephen Young stepped down from the Board with effect from 31 December 2017 and will retire in April 2018 after a long career at Meggitt, initially as our Group Finance Director and then from 2013, as our Chief Executive.

Brenda Reichelderfer retired from her position as Non-Executive Director on 27 April 2017 and was replaced by Nancy Gioia. Nancy, a US citizen and electrical engineer, joined Ford Motor Company in 1982 and worked there until 2014 in a number of senior roles across engineering and manufacturing operations. Nancy's appointment enables the Board to retain critical US and engineering experience and her background in the fast-moving automotive industry is consistent with our focus on accelerating strategic initiatives and delivering further operational efficiencies to drive long term shareholder returns.

Effectiveness

The 2016 external board evaluation highlighted that although a lot of progress had been made on strategy, succession planning and risk management in prior years, there were further opportunities to improve.

- Every year executive management has made incremental improvements to the Group's succession planning process and how it is presented to the Board. In the 2016 evaluation, the Board asked for more detail on the process and we had a thorough session on this in July 2017, followed by a detailed review of the outcome by the Nominations Committee in November 2017.
- The Board asked for more of an external perspective on market trends in the annual strategy session, as a result of which, an independent consultant attended the session in September and discussed emerging aerospace trends with the Board.

- Whilst executive management had improved this area significantly over the last five years, there were opportunities to improve further in 2017. We report the improvements made in 2017 in the Risk management report (pages 40 to 45).
- A skills matrix was completed for the Board which links to the Group's strategy, end markets and key areas of governance, risk and compliance. The matrix will be useful in succession planning for the non-executive directors.

The Board reviewed its own effectiveness in 2017 through an internal process and were satisfied with the outcome. There were discussions about succession and Board composition and the Board also reflected on the importance of ensuring the Chief Executive succession process was a success. There were also some requests relating to the annual Board schedule, for example, for external aerospace market experts to attend the Board annually.

Accountability

In 2017, the Audit Committee discussed the 2016 viability statement process and confirmed that it was appropriate to retain the same process for the 2017 viability statement. The impact of the UK's vote to leave the European Union was taken into account in the assessment of viability. A description of the process and the resulting statement is set out in the Risk management report. That report also includes our annual confirmations on risk management and internal control.

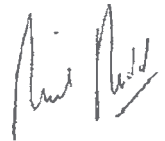
At the start of the year we reviewed and responded to the Corporate Governance Reform Green Paper and are tracking the proposed UK Corporate Governance Code consultation and any resulting changes. We welcome the opportunity to further consider how we engage with our wider stakeholders.

The Audit Committee went through a well planned, detailed and rigorous audit tender process (for the audit of the financial year ending 31 December 2018) which is described in detail in the Audit Committee report. The Committee recommended that we retain PricewaterhouseCoopers LLP (PwC) as auditor of the Group as a result of the tender process. PwC have been auditors of the Group since 2003 and will be subject to mandatory rotation in 2023. This appointment remains subject to approval by shareholders at the 2018 AGM.

The Board has confirmed that this Annual Report is fair, balanced and understandable. You can find an explanation of the process we have used to make this determination on page 97.

Remuneration

In 2017 following our 2016 consultation with shareholders, shareholders approved our remuneration policy at our 2017 AGM, as a result of which we have amended our share plan rules to introduce a two year post vesting holding period for executive directors. The Remuneration Committee has also considered how to amend targets from ROTA to ROCE for executive directors in our share plans and details are shown in the Directors' remuneration report.




Sir Nigel Rudd

Chairman of the Board of Directors
26 February 2018

IN THIS SECTION


Board of Directors

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

 See page 58 for more information


Corporate governance report

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

 See page 60 for more information


Audit Committee report

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

 See page 65 for more information


Nomination Committee report

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

 See page 69 for more information


Directors' remuneration report

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

 See page 72 for more information

Directors' report

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

 See page 94 for more information

Board of directors

Committee membership

- A** Audit
- N** Nominations
- R** Remuneration
- ET** Ethics and Trade Compliance
- F** Finance
- D** Disclosure

**Sir Nigel Rudd DL**

Non-Executive Chairman
Appointed: 2015 | Nationality: British

N ET

Skills and experience

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

Current appointments

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

Appointments in unlisted companies

Non-Executive Chairman of Business Growth Fund Plc.

Previous appointments

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

**Tony Wood**

Chief Executive
Appointed as COO: 2016
Appointed as CEO: 2018 | Nationality: British

ET F D

Skills and experience

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

No other current or previous appointments to disclose.

**Doug Webb**

Chief Financial Officer
Appointed: 2013 | Nationality: British

ET F D

Skills and experience

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

Current appointments

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

Organisations

Member of the Hundred Group of Finance Directors and the Investment Advisory Committee of Fitzwilliam College, Cambridge University.

Previous appointments

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

**Guy Berruyer**

Non-Executive Director
Appointed: 2012 | Nationality: French

A N R

Skills and experience

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

Appointments in unlisted companies

Chairman of software engineering company Linaro Limited and director of the French software and services company Berger Levrault.

Organisations

Member of the Council of the University of Southampton.

Previous appointments

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

**Colin Day**

Non-Executive Director
Appointed: 2015 | Nationality: British

**Skills and experience**

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

Appointments in unlisted companies

Non-Executive Director of FM Global.

Organisations

Independent member of the Advisory 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.

**Nancy Gioia**

Non-Executive Director
Appointed: 2017 | Nationality: American

**Skills and experience**

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

Current appointments

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

Appointments in unlisted companies

Principal of Gioia Consulting Services, LLC., a strategic business advisory company.

Organisations

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

Previous appointments

Held several key executive positions at Ford Motor Company during a thirty three year career. Chair of AutomotiveNEXT and Stanford University Alliance for Integrated Manufacturing.

**Alison Goligher OBE**

Non-Executive Director
Appointed: 2014 | Nationality: British

**Skills and experience**

Trained engineer and holds a MEng Petroleum Engineering from Heriot-Watt University. Brings specific oil and gas experience to the Board, including technology management expertise and experience running diverse functions and businesses within globally significant energy corporations.

Current appointments

Non-Executive Director of United Utilities Group PLC.

Appointments in unlisted companies

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

Organisations

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

Previous appointments

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

**Philip Green**

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

**Skills and experience**

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

Organisations

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

Previous appointments

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

**Paul Heiden**

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

**Skills and experience**

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

Current appointments

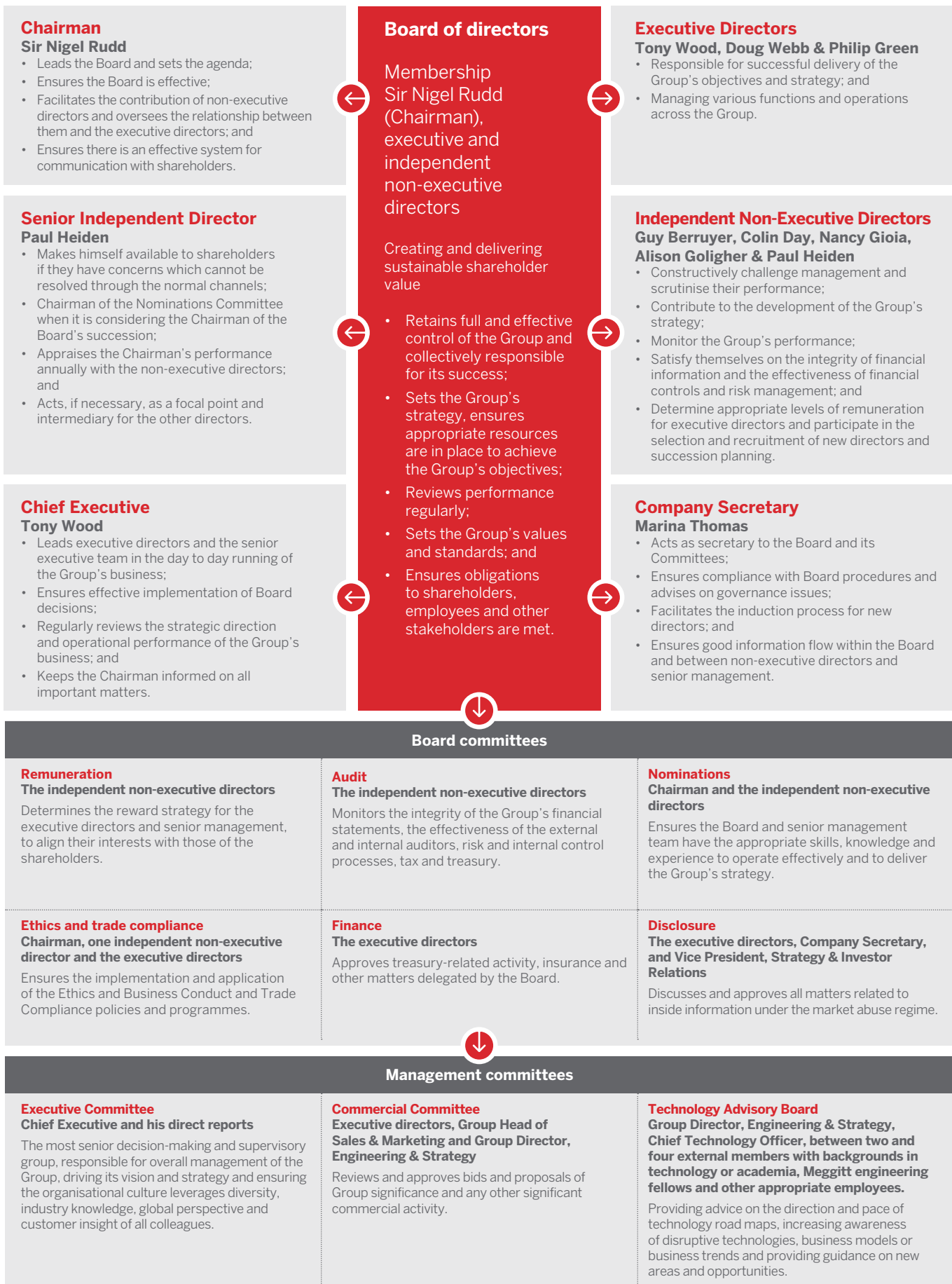
Senior Independent Director and Chairman of the Audit Committee of London Stock Exchange Group plc. Non-Executive Chairman of Lb-shell plc.

Previous appointments

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

Corporate governance report

Leadership | Our governance framework:



2017 Board membership, attendance and governance

Sir Nigel Rudd ¹ Chairman		Mr A Wood ² Chief Operating Officer		Mr S G Young ³ Chief Executive	
Mr D R Webb Chief Financial Officer		Mr G S Berruyer Non-executive director		Mr C R Day ⁴ Non-executive director	
Mrs N L Gioia ⁵ Non-executive director		Ms A J P Goligher Non-executive director		Mr P E Green Executive Director, Commercial and Corporate Affairs	
Mr P Heiden Non-executive director		Ms B L Reichelderfer ⁶ Non-executive director			

- Attended
 - Absent
- 1 Met the independence criteria on appointment as Chairman on 23 April 2015.
 - 2 Chief Executive from 1 January 2018.
 - 3 Retired as Chief Executive and from the Board with effect from 31 December 2017.
 - 4 On medical leave of absence during one of the scheduled Board meetings.
 - 5 Appointed to the Board on 27 April 2017.
 - 6 Retired from the Board on 27 April 2017.

BOARD ACTIVITIES



Approved

- The appointment of Tony Wood as Chief Executive (effective from 1 January 2018).
- The sale of non-core businesses Piher Sensors & Controls, Piezotech, Meggitt (Maryland) and Thomson Aerospace & Defense based in Spain, Germany and the US.
- The acquisition of Elite Aerospace, a US based aftermarket business.
- Capital expenditure requests relating to investments in property, including the proposed Ansty super site in the UK.
- The 2018 budget.
- The 2016 Annual Report and Accounts, 2016 full-year results and 2017 interim results announcement.
- The April and November 2017 trading statements.
- Recommendations to shareholders on the final dividend payment for the year ended 31 December 2016 and approval of the interim dividend payment for the year ended 31 December 2017.
- Recommendation to shareholders that PricewaterhouseCoopers LLP be reappointed as auditors of the Group for the 2018 financial year.
- The Group's risk appetite statement and risk register.
- The conflicts of interest register for the Board.
- The Health and Safety Policy.
- Terms of Reference for the Disclosure and Remuneration Committees of the Board; and resolutions to be put to shareholders at the 2017 AGM.
- Since the year-end, up to the date of the Annual Report, the Board has approved the 2017 Annual Report and Accounts, the 2017 full-year results announcement and the proposed final dividend for the year ended 31 December 2017.

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



Reviewed

- In 2017, the Senior Independent Director met with the non-executive directors to assess the performance of the Chairman and the Chairman held regular meetings with non-executive directors without the executive directors present where the performance of executive management was discussed.
- Regular reports from executive management on operations, financial performance, risk, legal, commercial, ethics and compliance activity.
- Detailed post-acquisition report for the composites businesses acquired in 2015.
- Regular updates on tax, IT including IT security, M&A and investor relations.
- Reports on internal control, viability and going concern and reports from its committees.
- Governance updates including Modern Slavery, General Data Protection Regulation, supplier payment practices, Hampton Alexander-Review and gender pay.



Presentation and discussions

- Customer Services & Support, Meggitt Equipment Group and Meggitt Aircraft Braking Systems.
- Joint corporate brokers.
- Engineering, technology and programme management.
- Diversity and high performance culture.
- Footprint reduction plans and health, safety and environment.
- IT including cyber security.



Planning

- Detailed sessions on succession planning process and the output of that process (covered by Nominations Committee).
- Detailed strategy session, including external input on market trends and review of the Group's strategic plan.



Targets

- Agreed the operating targets announced to investors in April 2017 as a result of the operating review carried out by Tony Wood.
- Regular review of key business performance indicators.



Visits

- Visited the Manufacturing Technology Centre at Ansty Park (the location for the proposed UK super site).

Corporate governance report **continued**

Effectiveness

Composition

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

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

Board Committee disclosures:

- All non-executive directors are members of the Audit, Remuneration and Nominations Committees on appointment. Chairmanship of Committees is considered during discussions on composition and succession.
- No one other than Committee chairs and members are entitled to attend the meetings, although others can be invited.
- The Audit, Remuneration and Nominations Committees' written terms of reference were reviewed and updated in 2016 and 2017 by the Board and are available on the investor section of our website.
- All Committee chairs report orally on the proceedings of their Committee at the next meeting of the Board when members of the Board are present who were not in attendance at the Committee meetings. Where appropriate, the Committee chairs make recommendations to the Board on appropriate matters.

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

Appointments and time commitment

There is a formal, rigorous and transparent procedure for the appointment of new directors which was reviewed by the Nominations Committee after the 2016 Board evaluation. Full details of the process for appointments made during the year are available in the Nominations Committee report set out on pages 69 to 71. The appointment and removal of the Company Secretary is a matter for the Board.

The letters of appointment for the Chairman and non-executive directors set out the time they are expected to commit. The Chairman and non-executive directors may undertake several appointments, which require approval of the Board and are reported on pages 58 and 59. The Board is aware of over-boarding guidelines set out by institutional shareholder advisory organisations, and considers these when discussing new appointments.

During 2017, except as indicated on page 61, the Chairman and non-executive directors attended all scheduled Board and Committee meetings and visited a number of Meggitt sites. The Chairman had regular meetings with the Chief Executive and attended shareholder meetings about governance and represented Meggitt and our interests at other events. The Chairman and Senior Independent Director have reviewed the time commitment of the Chairman and non-executive directors in 2017 and consider they have devoted an appropriate amount of time to Meggitt for the activities and issues that arose during the year. There were no changes to the Chairman's significant commitments during the year.

Development

The Chairman agrees a personalised approach to the training and development of each director and reviews this regularly. The Company Secretary, who facilitates the induction of new directors and assists with professional development where required, continues to enhance the induction process following feedback from directors.

Directors are encouraged to update their skills regularly and their training needs are assessed as part of the Board evaluation process. Their knowledge and familiarity with the Group is facilitated by access to senior management, reports on the business and site visits. Resources are available to all directors to develop and update their knowledge and capabilities.

NON-EXECUTIVE DIRECTOR INDUCTION PROCESS



Since Nancy Gioia joined the Board she has been through a comprehensive formal induction programme.

Stage 1

Understand the Group:

- Meetings with Chairman and non-executive directors.
- Meeting with executive directors covering their specific areas of functional responsibility in detail.
- Meeting with the Company Secretary covering UK corporate governance and Board procedures.

Stage 2

Meet key advisors:

- Briefing from brokers and external auditors.

Stage 3

Meet the teams:

- Meetings and presentations with other senior executives, including strategy, investor relations, internal audit and risk, human resources, operations and IT.
- Briefings from divisional management teams.

Stage 4

Site visit:

- An extensive tour of a UK site with a particular focus on the Meggitt Production System.

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 performance evaluation

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

November 2017

Internal Board evaluation planning by the Chairman and Company Secretary. The questionnaires are designed and cover new areas annually as appropriate.

December 2017/January 2018

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

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

February 2018

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

Board evaluation in 2017

Following the successful conclusion of the 2016 externally facilitated evaluation, several improvement activities were undertaken as described in the introduction to this report.

In 2017, the Board evaluated its own effectiveness, together with the effectiveness of the Chairman, individual directors, its Committees, auditors and remuneration advisers. The effectiveness reviews covered strategy, risk management, the annual Board schedule, composition, succession, appointment process, diversity, remuneration, audit and open channels of communications. The evaluation was carried out by way of questionnaire with open and closed questions, with follow up questions asked for clarity if needed.

The Board reviewed its own effectiveness in 2017 through an internal process, and were satisfied with the outcome. There were discussions about succession and Board composition and the Board also reflected on the importance of ensuring the Chief Executive succession process was a success. There were also some requests relating to the annual Board schedule, for example, for external aerospace market experts to attend the Board annually.

Relations with shareholders

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

Effective communication with fund managers, institutional investors and analysts about the Group's strategy, performance and policies is promoted by meetings involving, principally, the Chief Executive and Chief Financial Officer. The Board receives and discusses reports from the Chief Executive and Chief Financial Officer and the Vice President, Strategy & Investor Relations on the views of shareholders. The Chairman and other non-executive directors are available to attend meetings with shareholders. Directors' understanding of major shareholders' views is enhanced by reports from the Vice President, Strategy & Investor Relations, our brokers and attending analysts' briefings. Analysts' notes on the Group are made available to all directors.

Shareholder documents

We provide annual reports and other documents to shareholders in their elected format under the electronic communications provisions approved by shareholders at our AGM in 2007. Electronic copies of this Annual Report and Accounts 2017 and the Notice of AGM will be posted on our website, with announcements, press releases and other investor information, including an analysis of ordinary shareholders by size of holdings and shareholder type.

Corporate governance report **continued**

Annual General Meeting

At the AGM to be held on 26 April 2018, in addition to the routine business, shareholder consent will be sought for resolutions which give the Company authority to:

- convene general meetings on 14 clear days' notice in accordance with the Articles (on the terms set out in the Notice of Meeting). The shorter notice period would not be used as a matter of routine for such meetings, but only where time-sensitive matters are to be discussed and where merited in the interests of shareholders as a whole. The directors also intend to follow other best practice recommendations as regards this authority's use.
- to dis-apply pre-emption rights for up to 10% of issued share capital in accordance with the latest guidance from the UK Pre-Emption Group. The first resolution will seek authorisation for 5% of the issued share capital to be issued without application of pre-emption rights. The second resolution seeks authority for an additional 5% of the issued share capital to be used for an acquisition or a specified capital investment of a kind contemplated by the Statement of Principles most recently published by the UK Pre-Emption Group. The latter resolution received a vote against in excess of 20% at the 2017 AGM. The Board have considered shareholder feedback on this topic but continue to believe that, in order for the Board to have full strategic flexibility where acquisitions and capital investments are concerned, it continues to be appropriate to request this authority from shareholders. In asking shareholders to approve this additional authority, the directors confirm that they intend to adhere to the requirements set out in the Statement of Principles.

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

UK Corporate Governance Code – December 2017 consultation

The Board has considered the proposed changes to the UK Corporate Governance Code. Once the changes have been finalised, the Board will review which processes, procedures, approaches and activities need to be changed and will provide a further update in the 2018 Annual Report.

Statement of compliance

Throughout the financial year ended 31 December 2017 and to the date of this report, we have complied with the provisions set out in the UK Corporate Governance Code 2016 (the Code) published by the Financial Reporting Council (FRC). The Group has applied all the main and supporting principles set out in the Code and explanations are included in this report and in the Audit Committee, Nominations Committee and the Directors' remuneration reports. The information required under Disclosure Guidance and Transparency Rule 7.2.6 is located in the Directors' report.

By order of the Board



M L Thomas
Company Secretary
26 February 2018

INVESTOR RELATIONS ACTIVITY, 2017 HIGHLIGHTS



Feb 2017

The Preliminary results presentation took place on 28 February 2017 and included an overview of the 2016 full year financial performance of the business. This was presented by Stephen Young, Doug Webb and Tony Wood.

At this presentation we provided guidance on the outlook for the business in 2017 and covered progress made against strategy in 2016 and the medium-term goals for the Group.



April 2017

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



May 2017

A capital markets day was held covering the detailed operational review undertaken by Tony Wood including commentary on outlook and operating targets. The day also covered updates from Customer Services & Support and on the Meggitt Production System as well as an overview of our strategy implementation around portfolio, customers, competitiveness and culture. The presentation materials are available on the investor page on our website.



2017

The Chairman met with a number of major shareholders to discuss matters relating to the governance and strategy of the business. We continue to offer these meetings annually.

Investor Roadshows took place in the UK (London and Edinburgh) and the US (East and West Coast) immediately following the preliminary and interim results presentations in February and August. Shareholders had the opportunity to discuss financial performance and future strategy with senior management and investor relations. Throughout the year Meggitt also attended numerous sell-side conferences and mini-roadshows ensured shareholders and investors in regions globally (including Japan, UAE, Singapore, Switzerland, Germany and France) had the opportunity to hold meetings.

AUDIT COMMITTEE REPORT



Colin Day
Chairman of the Audit Committee

“In 2017, the Committee conducted a rigorous audit tender process, as a result of which we are recommending to shareholders at our 2018 AGM that PwC be reappointed as external auditors for the 2018 financial year.”

CHAIRMAN'S INTRODUCTION

I am pleased to present the report of the Audit Committee for 2017.

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

Committee members throughout 2017 were Guy Berruyer, Alison Goligher and Paul Heiden. Brenda Reichelderfer retired from the Board and this Committee and Nancy Gioia was appointed in April 2017.

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

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

In 2017, as well as routine Committee activity, the Committee conducted a rigorous audit tender process, as a result of which the Committee is recommending to shareholders at the 2018 AGM that PwC be reappointed as external auditors for the financial year ending 31 December 2018. There is a detailed commentary on the audit tender process provided in this report, together with a description of the work of the Committee in 2017. It included advising the Board on whether these accounts are fair, balanced and understandable, reviewing the work carried out by executive management on the viability statement and oversight of the risk management process.

Committee membership and attendance in 2017

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

● Attended
● Absent

1 Appointed on 27 April 2017.
2 Retired on 27 April 2017.

Audit Committee report **continued****COMMITTEE ACTIVITIES****Approved**

- Negotiated and approved the 2017 external audit fees.
- The internal audit plan for 2018.

**Reviewed**

- Reviewed the financial information contained in the 2016 Annual Report and Accounts, 2016 full year and 2017 interim results announcements and recommended them to the Board for approval.
- Reviewed the independence and effectiveness of the external auditors, and agreed their terms of engagement.
- Reviewed the adequacy and effectiveness of: (i) the systems of internal control; (ii) the risk management process; and (iii) the process executive management used to enable the Board to make the viability statement.
- Reviewed the effectiveness of the Committee and external and internal audit using the process described on page 68. There were no specific actions to take and the Committee confirmed it was satisfied with the outcome of the evaluation.
- Reviewed the results of internal audit activity for 2017.
- Discussed the external auditor's strategy memorandum and interim audit clearance report for 2017.
- Conducted an external audit tender process and recommended PwC be reappointed for the 2018 financial year.

Since the year end, the Committee has discussed the external auditor's final audit clearance report for 2017; reviewed the financial information contained in the 2017 Annual Report and Accounts and full year results announcement and recommended them to the Board for approval; and provided advice to the Board that the 2017 Annual Report and Accounts, taken as a whole, is 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, having overseen the viability and going concern statements process throughout the year (as described on page 45).

**Updates and reports**

- Received reports from internal audit at each meeting, discussed significant items and the effectiveness of internal audit, and approved the 2018 internal audit plan.
- Received a tax update from the Head of Treasury & Tax.
- Received technical accounting and governance updates provided by the Group Financial Controller, Company Secretary and the external auditors. This included a presentation from the Group Financial Controller on IFRS 15, the new revenue accounting standard that becomes effective for the Group in 2018. The Committee discussed with management its process to date, preliminary conclusions and implementation plan.

EXTERNAL AUDIT TENDER

A timetable for the audit tender was agreed in 2016 and in July 2017 there was a detailed discussion:

- The Committee considered a paper prepared by management setting out legal guidance and best practice relating to an audit tender process. The process conformed to the legal guidance and most areas of best practice. The Chairman of the Committee attended all presentations, and a process was designed to allow each Committee member to fully participate in the selection decision.
- The Committee agreed to invite Deloitte, EY, KPMG and PwC to participate in the tender process. Consideration was given to extending the shortlist to include mid-size firms, however it was concluded it was not appropriate given the scale and complexity of the Group.
- Agreed a draft RFP which had been benchmarked against other practical examples and best practice guidance.
- Agreed a timetable of meetings to allow the tender firms to gain an understanding of the Group and its processes. In addition to meeting with the Committee Chairman, meetings were held with the Chief Executive, Chief Financial Officer, Executive Director, Commercial and Corporate Affairs, Group Financial Controller, Chief Information Officer, Group Head of Audit & Risk, Head of Treasury & Tax, Head of Finance Shared Service Centre and two of the divisional finance directors.
- Given the level of the Group's US operations, agreed that each firm must ensure the audit presentations were attended by both the UK lead engagement partner and the firm's lead US partner(s).

The RFP was issued to each of the four participating firms in early August 2017. All four firms:

- Met with the individuals identified above;
- Had access to a data room providing background on the Group;
- Provided written responses to two technical questions set by management;
- Submitted a formal RFP response to the Committee; and
- Presented to the Group Selection Committee.

The Group Selection Committee reviewed and discussed the strengths and weaknesses of each firm and, at the conclusion of the process, the Committee recommended its first and second choice firm to the Board. The Committee identified PwC as its preferred appointment, supported by clear and compelling reasoning. PwC has a track record of delivering an audit to a high standard, with each partner rotation bringing new insight, and the proposed lead partner had demonstrated that this would continue. Senior members of the audit team were generally highly regarded. During the tender process the quality of their written responses had been excellent and performance in meetings with the Committee Chairman and senior management had been strong. The Committee agreed that the current PwC audit approach was robust and effective and that they had performed consistently well in the tender process.

FRC Thematic Review

The Committee received feedback from the Financial Reporting Council (FRC) following inclusion of Meggitt in its thematic review of 2016 disclosures of significant estimates and judgements. Other than a couple of areas of disclosure which the FRC noted may not be required on materiality grounds, no adverse comments were raised. Additionally, the FRC included three areas of the Group's disclosures as examples of best practice within its final report.

Significant estimates and judgements relating to the financial statements

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

Area	Action
Goodwill	The principal judgements are management's determination of the level at which impairment testing should be performed, the achievability of business plans (and therefore future cash flows), growth rates beyond the period covered by the five-year business plans and the appropriateness of the discount rates applied to future cash flows. The Committee discussed a report from management setting out the basis for the assumptions, confirmation that the cash flows used were derived from the 2018 budget and strategic plan (which in their role as members of the Board, Committee members had previously reviewed), a sensitivity analysis on key assumptions and an analysis of the headroom at each significant level at which testing was performed, with a particular focus on MABS, EDAC/Advanced Composites and Meggitt Training Systems as these had the least headroom measured on a percentage basis. The Committee agreed with the judgements made by management.
Impact of cancellation of the Dassault Falcon 5X programme	The Committee considered a report from management describing the impairment test performed following cancellation by the customer of the Falcon 5X programme, and announcement of a new Falcon aircraft. Discussions with management focused on those areas of the report covering the contractual position with the customer, the extent to which any costs capitalised prior to cancellation related to technologies which potentially were transferrable to the new aircraft and the level of rework that would be expected to be required, noting that this was very dependent on the final design of the new aircraft for which there remains a significant level of uncertainty. The Committee also discussed the impacts of the delayed entry into service and lack of reliable third party fleet forecasts for the new aircraft. The Committee agreed with management that it was appropriate to record a full impairment loss against the balances on the programme.
Development costs	The Committee discussed a report from management covering exposure to different aircraft platforms and manufacturers and a sensitivity analysis on specific programmes. The Committee focused in particular on the Bombardier CSeries, Embraer 450/500, Bombardier Global 7000/8000, Gulfstream G500/G600 and Irkut MC-21 in light of the material values capitalised on these platforms. The Committee concluded that assumptions made by management were reasonable and the carrying value and estimated useful lives of the assets were appropriate.
Provision for environmental matters relating to historic sites and related insurance and other receivables	The Committee discussed a report from management setting out the basis for the judgements made and the extent to which these were supported by third party specialist advice. The Committee discussed with management the sensitivity of amounts recorded to increases in cost estimates and delays to the timing of clean-up activities, including the impact on insurance policy limits and insurance policy periods of cover. The Committee agreed with the judgements made by management.
Retirement benefit obligations	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 2016 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 and income statement to changes in these assumptions. The Committee concluded that the assumptions used, which were supported by third party actuarial advice, were appropriate.
Income taxes	Judgements have to be made by management on the tax treatment of a number of transactions in advance of the ultimate tax determination being known. In assessing the appropriateness of the provision recognised in respect of uncertain tax positions, the Committee considered a report from management setting out the basis for the assumptions made. They discussed the assumptions in light of the current tax environment and the status of tax audits in the main jurisdictions in which the Group operates. The Committee concluded that the position taken on uncertain tax provisions was appropriate.
Treatment of items excluded from underlying profit measures	The Committee discussed the treatment and disclosure of amounts included within exceptional operating items and merger and acquisition (M&A) related items. For 2017, the Committee agreed, given its significance, that the impact of the cancellation of the Dassault Falcon 5X programme was appropriately treated as an exceptional operating item. The Committee also agreed with management that the full impact on deferred tax net liabilities of the reduction in the US federal corporate tax rate should be excluded from underlying profit measures, even though an element related to amounts previously recorded in underlying profit at the higher tax rates. The Committee noted the items reflected the way in which they, as members of the Board, reviewed the underlying performance of the Group, were treated consistently year on year (other than the Dassault Falcon 5X and US tax rate reduction which only related to 2017) and were disclosed appropriately.

Audit Committee report **continued**

Key areas of oversight

External audit

The external auditors are PwC who were appointed for the financial year commencing 1 January 2003 after a competitive tender. There are no contractual obligations restricting the Committee's choice of external auditors.

The lead audit partner is Andrew Paynter whose appointment in this role commenced with the audit for the financial year ended 31 December 2013. Mr Paynter has had no previous involvement with the Group in any capacity. The external audit was subject to a rigorous tender process in 2017 as described above, the outcome of which is that PwC has been reappointed and the audit partner will rotate to John Ellis for the 2018 year end. The mandatory rotation of auditor under EU rules does not take place until 2023.

The Committee routinely meets PwC without executive management present and no concerns have been raised. It was confirmed that the external auditors had been able to offer rigorous and constructive challenge to executive management during the year.

As well as considering the outcome of the audit tender process, the Committee also assessed the effectiveness of PwC and the external audit process using a questionnaire and a Committee discussion on responses to the questionnaire. The Committee was satisfied with PwC's performance, that PwC had employed an appropriate level of professional challenge in fulfilling their role and there were no significant findings from the process. The Committee determined, on the basis of the satisfactory outcome of the evaluation and as a result of the audit tender process during which PwC were reselected, to recommend that the Board submit the reappointment of PwC to shareholders for approval at the AGM in 2018 for the 2018 financial year.

Non-audit services

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

Details of fees paid for audit services, audit-related services and non-audit services can be found in note 7 to the Group consolidated financial statements. Fees paid for non-audit services in 2017 were less than £0.1 million (3% of the total audit fee) and average fees paid for non-audit services for the last three years to 2017 were less than £0.1 million (2% of the total audit fee over that period). Fees paid for non-audit services related to services allowed to be provided by PwC under the Group's policy on non-audit services.

The Group's policy on non-audit services covers services that can be provided and those which are generally prohibited (for example internal audit services and tax planning) and sets out the procedures for approving non-audit services. The full policy is available on our website (under Audit Committee in the Governance section).

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

Internal audit

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

Reasons for this can include adverse prior audit findings, a change in IT system, site moves, senior leadership changes or operational performance issues.

In 2017, internal audits were carried out for 38 Group locations, including the UK and US finance and payroll shared service centres, as part of the rotational audit cycle. The business unit audit programme's scope includes finance, programme management, HR/payroll, sales agents/distributors and commercial bid & proposal activity. The scope of internal audit continues to develop with the business, particularly as a result of any acquisition and disposal activity. A key role of the Audit Committee is to monitor the level of internal audit resource to ensure it remains appropriate as both the Group and function evolve.

In addition to the site-based business unit reviews, internal audit has a co-source arrangement with Grant Thornton UK LLP to assist with resourcing specialist audits, such as IT, tax and treasury. The Audit Committee remains cognisant of increasing cyber complexity and associated risks. The approach for 2017 was to deliver these reviews using subject matter experts based around four core strategic IT areas: programmes, operations, fix-the-fundamentals and security.

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

The Audit Committee routinely meets internal audit without executive management present. No concerns have been raised and it was confirmed that the internal auditors had been able to carry out their work and offer constructive challenge to executive management during the year. The Audit Committee considered the effectiveness of internal audit in 2017 and confirmed that they continue to be satisfied. For 2018 an independent effectiveness review has been commissioned by the Audit Committee, supported by Group management, as part of their ongoing assessment processes.

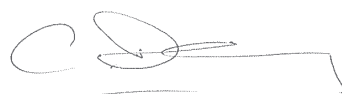
Whistleblowing

The Ethics and Trade Compliance Committee is responsible for oversight and review of the process for handling allegations from whistleblowers. Whistleblowing is included in our Ethics and Business Conduct Policy and Code of Conduct, which is available on our website. The Group sponsors an independently operated and monitored Ethics Line, enabling employees to report concerns about possible misconduct, with proportionate and independent investigation and appropriate follow-up action.

Compliance with Audit Services Order

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

On behalf of the Audit Committee



Colin Day

Chairman of the Audit Committee
26 February 2018

NOMINATIONS COMMITTEE REPORT



Sir Nigel Rudd
Chairman of the Nominations Committee

“The Board is committed to creating and sustaining a positive, supportive, inclusive and diverse environment for all colleagues working within Meggitt.”

CHAIRMAN'S INTRODUCTION

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

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 approved a skills matrix for the Board.

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

Responsibilities

The Committee reviews the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and, in consultation with the directors, makes recommendations to the Board on any proposed changes. Decisions on Board changes are taken by the Board as a whole. In performing its duties, the Committee has access to the services of the Company Secretary and may seek external professional advice at the Group's expense.

Committee membership and attendance in 2017

Sir Nigel Rudd (Committee Chairman)		Ms A J P Goligher		● Attended ● Absent
Mr G S Berruyer		Mr P Heiden		
Mr C R Day ¹		Ms B L Reichelderfer ²		
Mrs N L Gioia ³				

1 On medical leave of absence during one of the scheduled Committee meetings.
2 Retired on 27 April 2017.
3 Appointed on 27 April 2017.

Nominations Committee report **continued**

2017 Board changes

Who?	Key facts	Relevant experience for Meggitt
Nancy Gioia	<ul style="list-style-type: none"> Non-executive director US citizen Electrical engineer Joined the Board on 27 April 2017 	<p>A number of senior roles across engineering and manufacturing/operations most recently at Ford Motor Company during a 30-year career.</p> <p>Enables the Board to retain critical US and engineering experience and gain the benefit of experience from the fast-moving automotive industry as we accelerate the pace on our key strategic initiatives.</p>

Effectiveness

The Committee reviewed its own effectiveness and were satisfied with the outcome. The only action related to the continued need to improve succession planning discussions, for the Chairman, non-executive and executive directors.

Succession

The Group operates a succession planning process which enables the identification and development of employees with the potential to fill key business leadership positions in the Group. In July 2017, the Board reviewed the succession planning process. In November, the Board reviewed detailed executive succession plans for each division and function with the Group HR Director, including plans for the executive directors and each member of the Executive Committee and other high potential individuals around the Group. Each individual on the succession plan has regular performance reviews and individual development plans.

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

CHIEF EXECUTIVE SUCCESSION



In 2017, after a long career at Meggitt, Stephen Young expressed his desire to retire but committed to continue his role until his replacement had been identified.

The search to recruit and appoint a new Chief Executive was undertaken by the Nominations Committee, supported by Zygos and led by myself as Committee Chairman. A structured timetable was agreed for the process which included regular discussions and support from the Remuneration Committee. The Committee reviewed and approved a job specification for the role to ensure it captured the key skills, experience and requirements. A short list of external candidates was reviewed by the Committee. After significant discussion, and taking into account his progress at Meggitt since his appointment as Chief Operating Officer in November 2016, Tony Wood was identified as the preferred candidate.

The Committee believed Tony's extensive industry knowledge, skills and operational experience; gained during a thirty one year career with Rolls-Royce plc and Messier-Dowty would be crucial as the Group continued to support customers during an unprecedented period of ramp-ups on their new programmes. The Committee considered his vision and proven track record in the aerospace sector were important to further accelerate the Meggitt growth story and strategic initiatives already underway.

The Committee unanimously recommended to the Board the final selection of Tony and on 14 November 2017 we were pleased to announce Tony's appointment as Chief Executive with effect from 1 January 2018.

Diversity policy

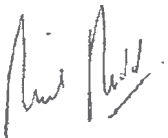
The Board confirms a strong commitment to diversity (including, but not limited to, gender diversity) at all levels of the Group. The Board’s policy on diversity commits Meggitt to creating and sustaining a positive and supportive environment for all colleagues working within Meggitt. The environment should be one where all colleagues are equally valued and respected and within which individuals can thrive. The environment should be fair, equitable and mutually supportive. The objectives of this policy are to:

- create an inclusive and diverse environment reflective of our core values, in particular acting with integrity;
- ensure we always value, respect and promote the rights, responsibilities and dignity of employees within all our activities and relationships and equality of opportunity based on merit;
- ensure we have policies and processes which reflect a diverse and inclusive working environment;
- ensure the selection and appointment process for employees and directors includes a diverse range of candidates from diverse backgrounds; and
- ensure all employees, regardless of age, gender, or educational and professional backgrounds, can reach executive leadership positions based on merit.

We are also committed to disclosing statistics on gender diversity annually and disclosing our overall approach to inclusion and diversity in the Annual Report.

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

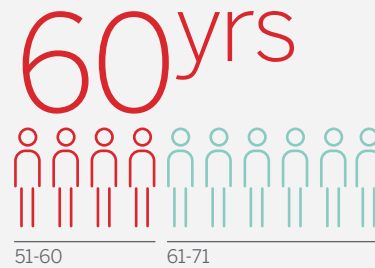
There are currently no specific targets for the number of diverse candidates on our Executive Committee, but we do have a detailed strategy to improve diversity at all levels of the Company which is disclosed in the Corporate responsibility report. In terms of policy outcomes, the Corporate responsibility report also provides details of our 2017 gender diversity metrics.



Sir Nigel Rudd
Chairman of the Nominations Committee
26 February 2018

BOARD DIVERSITY

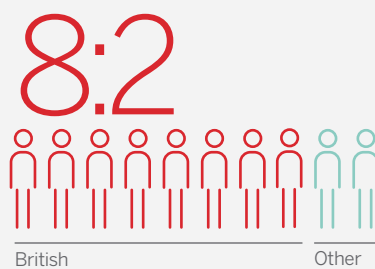
By age (average)



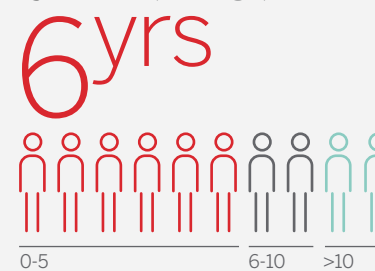
By gender (ratio)



By nationality (ratio)



By tenure (average)



DIRECTORS' REMUNERATION REPORT



Paul Heiden
Chairman of the Remuneration Committee

CHAIRMAN'S INTRODUCTION AND ANNUAL STATEMENT

It is my pleasure to present the Directors' remuneration report for the year ended 31 December 2017.

Pay philosophy

Executive remuneration packages at Meggitt are designed to attract, motivate and retain directors of a high calibre, to recognise the international nature of the Group's business and to reward the directors for delivering value to shareholders through sustainable performance for our customers.

The package aligns with our strategy (see below), is clear and transparent, and incentive plans aim to provide all participants with performance metrics which are relevant to their daily work. The package targets fixed pay at market competitive levels to companies of a similar size and with similar operating characteristics, supplemented by performance-related annual bonuses and an equity-based long term incentive plan designed to reward and incentivise growth.



Portfolio

Enhance our product and business portfolio
Develop differentiated technology

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

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



Customers

Improve customer service
Mature CSS

LTIP: Organic revenue growth and quality and delivery targets.

STIP: Personal objectives for the executive directors include quality and on time delivery targets, performance of CSS and improving customer relationships.

Growth & ROCE*



Competitiveness

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

LTIP: Quality and delivery, programme management, ROCE, gross margin and inventory improvement targets are measures in the LTIP.

STIP: Personal objectives for the executive directors include quality, on time delivery, inventory, footprint consolidation and net purchasing costs.



Culture

Build an inclusive and engaged Meggitt
Live high performance culture

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

* Organic revenue growth and ROCE are performance measures in the LTIP.

2017 activity

The 2016 Directors' remuneration report and revised Remuneration Policy were submitted to shareholders for approval at our 2017 AGM, gaining an approval rating of 96.57% and 90.34% respectively. The Committee reviewed its Terms of Reference and updated them to reflect the new Executive Committee structure. We also finalised the effectiveness review of the Committee and Mercer, our advisers, which was carried out using questionnaires and through Committee discussion. Overall, the ratings for the Committee and Mercer were satisfactory and no significant areas were highlighted for improvement.

We approved awards under the LTIP and confirmed the vesting outcomes of the STIP award for 2016 and LTIP awards made in 2014. Since the year end, we have approved performance targets for the 2018 STIP and LTIP awards which are detailed in this report, agreed the salaries for the executive directors, the fee for the Chairman, and confirmed the vesting outcome of the 2017 STIP and 2015 LTIP awards.

On 1 January 2018, Tony Wood was appointed as Chief Executive. His service contract had originally been approved in 2016 when he was appointed as Chief Operating Officer, and so was amended primarily to take account of his new role and increase in salary. All other benefits except salary remain the same as Mr Wood was already an executive director. In deciding Mr Wood's new salary of £650,000, the Committee took into account the size and responsibilities of the role, Mr Wood's extensive industry experience and market data for comparable roles, among other factors. His salary will not be eligible for an increase in April 2018. Details of Mr Wood's package are set out in the Annual Report on Remuneration.

IFRS 15 and 16

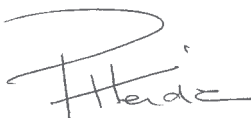
During the year, the Committee has also considered the implications of the new accounting standards IFRS 15 and IFRS 16 on our incentive plans. In summary, there will be no impact on the STIP, as 2017 targets and actual performance are measured on a consistent basis, prior to these standards being adopted by the Group on 1 January 2018. 2018 STIP targets and actual performance will both reflect the impact of these two new standards. For the LTIP, the situation is more complex because we measure certain targets over a three-year period but will only have audited numbers on both the old and new basis for 2017. As a result, the Committee plans to agree restated 2017 LTIP targets during 2018. The restated targets will be disclosed in the 2018 Directors' remuneration report. The 2016 LTIP targets will not be restated – while the 2016 and 2017 out-turn will be available on the old basis, the 2018 new basis numbers will be restated to the old basis using as a guide transitional adjustments made in preparing the 2018 budget.

2017 Group performance

Revenue increased by 2%, benefitting from favourable currency movements offset by the impact of M&A in the year. Organic revenue growth of 2% included 4% growth in civil aerospace and 1% in military, partially offset by continued weakness in energy which reduced by 8%. Underlying operating profit increased organically by 1%, with benefits from strategic initiatives including supply chain rationalisation, the Meggitt Production System and increased pricing leverage. This was partly offset by continued headwinds from mix, depreciation, amortisation and growth in new product introduction costs at Meggitt Polymers & Composites. Underlying EPS increased from 34.8p to 35.3p.

The Committee has determined that the 2015 LTIP award will vest at 18.9% of maximum, reflecting that performance was below threshold for the three multi-year performance conditions relating to EPS, ROTA and organic revenue growth. However, performance against the annual strategic targets was just above target (see page 85). The 2017 STIP award financial measures have vested at above target for cash and above threshold for profit. Personal measures for the executive directors were met as detailed on page 84.

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



Paul Heiden

Chairman of the Remuneration Committee

Directors' remuneration report **continued****2017 Remuneration at a glance – executive directors**

Remuneration at a glance is a summary of remuneration activity in the year. For more detailed disclosures and commentary, see the relevant section of the annual report on remuneration, which starts on page 83.

2017 Single total figure of remuneration

	Mr A Wood £'000	Mr S G Young £'000	Mr D R Webb £'000	Mr P E Green £'000
Base salary	460	702	465	375
Taxable benefits	20	30	14	14
Pension	115	351	116	187
STIP	467	716	505	395
LTIP	–	274	181	146
Total	1,062	2,073	1,281	1,117

2017 STIP outcomes**Financial targets**

Measure	Performance targets				Actual performance	Vesting (% salary)	Vesting for financial performance
	Weighting	Threshold	Target	Stretch			
Underlying operating profit	33.3%	£384.1m	£402.0m	£424.6m	£395.2m	81.0%	99.7%
Free cash flow	33.3%	£205.3m	£230.3m	£255.3m	£239.5m	118.4%	

Overall STIP outcomes

Name	Vesting for financial performance (% of salary)	Vesting for personal performance (% of salary)	Overall bonus outcomes		
			% of salary	% of maximum	£'000
Mr A Wood	66.4%	35.1%	101.5%	67.7%	467
Mr S G Young	66.4%	35.1%	101.5%	67.7%	716
Mr D R Webb	66.4%	41.7%	108.1%	72.1%	505
Mr P E Green	66.4%	38.5%	104.9%	69.9%	395

2015 LTIP outcomes

Name	Overall % vesting (% of maximum)	Interests vesting	Date vesting	Estimated value £'000
Mr A Wood ¹	–	–	–	–
Mr S G Young	18.9%	50,369	01.04.18	274
Mr D R Webb	18.9%	33,377	01.04.18	181
Mr P E Green	18.9%	26,862	01.04.18	146

¹ Mr A Wood was appointed on 1 December 2016 and so did not receive a 2015 LTIP award.

Executive share ownership

Name	Shareholding guideline (% 2017 salary)	Shares owned outright	Current shareholding (% 2017 salary)	Guideline met?
Mr A Wood	200% ¹	10,479	11%	Building
Mr S G Young	300%	680,905	466%	Met
Mr D R Webb	200%	130,131	134%	Building
Mr P E Green	200%	575,684	737%	Met

¹ The shareholding guideline for Mr A Wood rises to 300% from 1 January 2018.

This Directors' remuneration report has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The report also meets the requirements of the UK Listing Authority's Listing Rules and the Disclosure Guidance and Transparency Rules (DTR). In this report we describe how the principles relating to directors' remuneration, as set out in the UK Corporate Governance Code 2016 (the Code), are applied in practice.

The Policy report

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

Executive Director Remuneration Policy Table

Base salary

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

Pension

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

Directors' remuneration report **continued**

Benefits

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

Annual bonus (Short Term Incentive Plan – STIP)

Function	To incentivise executive directors on delivering annual financial and personal targets.
Operation	<p>Performance measures, targets and weightings are set at the start of the year.</p> <p>The performance period of the STIP is a financial year. After the end of the financial year, to the extent that the performance criteria have been met, 75% of the STIP award is paid in cash to the director. The remaining 25% of the award will be deferred into shares and released (with no further performance conditions attached, and no matching shares provided) after a further period of two years.</p> <p>Under the STIP 2014 rules as approved by the Committee, the Committee may decide to apply malus and/or clawback to STIP awards and deferred STIP awards to reduce the vesting of awards and/or require repayment of awards in the event of a review of the conduct, capability or performance of the director where there has been misconduct by the director or material misstatement of the Company's or a Group member's financial results for any period.</p> <p>Deferred STIP awards may lapse in certain leaver circumstances.</p>
Opportunity	<p>The STIP provides for a maximum award opportunity of up to 150% of salary in normal circumstances, with an on-target opportunity of 100% of salary and an opportunity of 50% of salary at threshold performance.</p> <p>The Committee has discretion to make a STIP award of up to 200% of salary in exceptional circumstances (e.g. a substantial contract win which has a significant positive financial impact in the long term but which has no, or negative, short term financial impact).</p> <p>Dividends accrue on unvested deferred STIP awards over the vesting period and are released on the vesting date.</p>
Performance metrics	<p>STIP awards are based on the achievement of financial and personal performance targets. For the executive directors, the STIP will be based on a combination of the financial performance of the Group and personal performance. The relative weightings of the financial and personal elements for any STIP period, and the measures used to assess financial and non-financial performance, will be set by the Committee in its absolute discretion to align with the Group's operating and strategic priorities for that year. However, the weighting for personal performance will not exceed one-third of the maximum STIP opportunity in any year.</p> <p>The award for performance under each element of the STIP will be calculated independently. The Committee has discretion to review the consistency of the pay-out of the financial and personal elements and adjust the total up or down (within the levels specified above) if it does not consider this to be a fair reflection of the underlying performance of the Group or the individual.</p> <p>The personal performance element will typically be based on three to five objectives relevant to the executive's role and performance in core competency areas, which are seven core skills specifically selected as critical for the Group's employees.</p> <p>Details of the measures, weightings and targets applicable to the STIP for each year, including a description of how they were chosen and whether they were met, will be disclosed retrospectively in the annual report on remuneration for the following year (subject to commercial sensitivity).</p>

Long Term Incentive Plan (LTIP)

Function	To align the interests of executive directors with shareholders in growing the value of the Group over the long term.
Operation	<p>Under the LTIP, executive directors are eligible to receive annual awards over Meggitt shares vesting after three years, subject to the achievement of stretching performance targets.</p> <p>Whilst it is the current intention that LTIP awards will be in the form of nil cost options, the LTIP provides, at the absolute discretion of the Committee, for awards of conditional shares, market value share options and phantom awards.</p> <p>Under the LTIP 2014 rules, the Committee may decide to apply malus and/or clawback to awards to reduce the vesting of awards and/or require repayment of awards in the event of a review of the conduct, capability or performance of the director where there has been misconduct by the director or material misstatement of the Company's or a Group member's financial results for any period.</p> <p>LTIP awards made to executive directors from 2018 are subject to a two-year holding period after the three-year vesting period.</p>
Opportunity	<p>Executive directors will normally be eligible for annual LTIP awards of 220% of salary. Awards up to a maximum of 300% of salary may be granted in exceptional circumstances (e.g. to support the recruitment of a key executive or to recognise exceptional individual performance).</p> <p>30% of an award will vest if performance against each performance condition is at threshold and 100% if each is at maximum, with straight line vesting in between.</p> <p>Dividends accrue on unvested LTIP awards over the vesting period and are released, to the extent the LTIP award vests, on the vesting/exercise date.</p>
Performance metrics	<p>Vesting of LTIP awards is subject to continued employment and performance against three measures, which are intended to be as follows for awards made over the life of the Policy:</p> <ul style="list-style-type: none"> • Earnings per Share (EPS); • Return on Capital Employed (ROCE); and • Strategic goals (typically but not always to be based on strategic priorities around execution, growth and innovation), which will be explained in the relevant annual report on remuneration. <p>The way these measures link to our KPIs can be seen on pages 30 to 33. It is the intention that the weighting of the measures will be equal (i.e. one-third each) but that the Committee will consider, and adjust if deemed appropriate, the weighting at the start of each LTIP cycle.</p> <p>Awards made under the LTIP have a performance period of three financial years, starting from 1 January of the year in which the award is made and ending on 31 December of the third year. If no entitlement has been earned at the end of the relevant performance period, awards will lapse.</p> <p>Vesting of the strategic element will also be subject to a discretionary assessment by the Committee of the extent to which achievement of the strategic objectives is consistent with the underlying financial performance over the three-year period.</p> <p>The measures and targets in operation for grants made under the LTIP, and which are not deemed commercially sensitive, are disclosed in the annual report on remuneration for the relevant year of grant. Any commercially sensitive information on measures, targets and performance will be disclosed retrospectively.</p>

Sharesave Scheme and Share Incentive Plan (SIP)

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

Directors' remuneration report **continued**

Notes to the Policy table

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

Payments from outstanding awards

Outstanding awards are currently held by the directors under the Equity Participation Plan and the Executive Share Option Scheme which were the Group's long term incentive plans prior to the introduction of the LTIP in 2014. These awards have all vested in accordance with the applicable performance conditions and are capable of exercise during the period over which this Policy applies. The tables on pages 92 to 93 highlight outstanding and vested awards.

Approach to target setting and performance measure selection

Performance measures have been selected to closely align with, and reinforce, Meggitt's strategic priorities (see page 12). Targets applying to the STIP and LTIP are reviewed annually, based on a number of internal and external reference points, including the Group's strategic plan, analyst forecasts for Meggitt and its sector comparators, historical growth achieved by Meggitt and its sector comparators, market practice and external expectations for growth in Meggitt's markets.

STIP

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

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

LTIP

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

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

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

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

Remuneration policy for other employees

The remuneration policy for other employees is based on broadly consistent principles as that for executive directors. Annual salary reviews take into account personal performance, Group performance, local pay and market conditions, and salary levels for similar roles in comparable companies. Some employees below executive level are eligible to participate in annual bonus schemes; opportunities and performance measures vary by organisational level, geographical region and an individual's role. Senior executives are eligible for LTIP awards on similar terms to the executive directors (except some of the performance conditions may vary), although award opportunities are lower and vary by organisational level. All UK employees are eligible to participate in the Sharesave Scheme and SIP on identical terms.

Share ownership guidelines

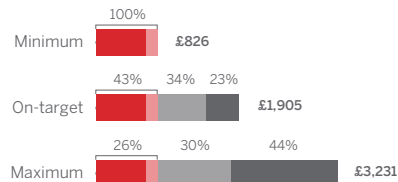
The minimum shareholding guideline for executive directors is 300% of base salary for the Chief Executive and 200% of base salary for each of the other executive directors. There is no set time frame within which executive directors have to meet the guideline, however until they meet the guideline they are not permitted to sell more than 50% of the after-tax value of a vested share award. The shareholding requirement ceases when a director leaves the Group. Further information on the shareholding requirement is in the annual report on remuneration on page 91.

Pay-for-performance: scenario analysis

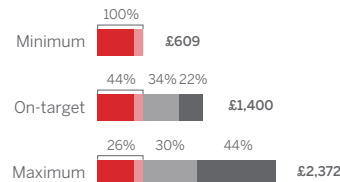
The charts below provide an estimate of the potential future reward opportunities for the executive directors and the potential split between the different elements of remuneration under three different performance scenarios: 'Minimum', 'On-target' and 'Maximum'.

Potential reward opportunities are based on the Policy, applied to 2018 base salaries. Note that the LTIP awards granted in a year will not normally vest until the third anniversary of the date of grant and the projected value excludes the impact of share price movement or dividend accrual.

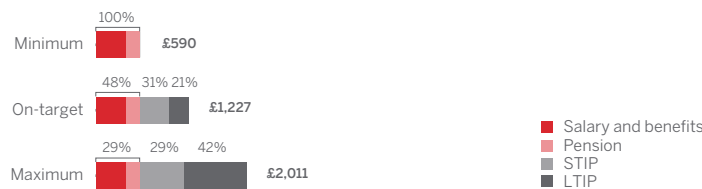
Mr A Wood (£'000)



Mr D R Webb (£'000)



Mr P E Green (£'000)



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

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

Non-executive directors – Remuneration Policy table

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

Fees

Function	To attract and retain non-executive directors of the highest calibre with broad commercial and other experience relevant to the Group.
Operation	<p>Fee levels are reviewed annually, with any adjustments effective 1 April each year. The fees paid to the Chairman of the Board are determined by the Committee, while the fees for all other non-executive directors are reviewed by a committee of the Board formed of the executive directors. Fees for the year under review and for the current year are disclosed in the annual report on remuneration on page 84.</p> <p>Additional fees are paid to the chairmen of the Remuneration and Audit Committee and to the Senior Independent Director, to reflect the additional time commitment of these roles. Additional fees may also be paid to non-executive directors to cover the cost of attendance at meetings which take place outside their continent of residence. In addition, non-executive directors are reimbursed for reasonable business-related expenses.</p> <p>In deciding fee increases, the committees consider employment conditions and salary increases across the Group and prevailing market conditions.</p> <p>Currently, all fees are paid in GBP, however the Committee reserves the right to pay future and existing non-executive directors in any other currency (converted at the prevailing market rate when a change is agreed).</p>
Opportunity	Fee increases will be applied taking into account the outcome of the annual review. The maximum aggregate annual fee for all non-executive directors (including the Chairman) as provided in the Company's Articles of Association is £1,000,000.
Performance metrics	None.

Directors' remuneration report **continued**

Recruitment

External appointments

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

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

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

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

Internal promotion

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

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

Non-executive directors

In recruiting a new non-executive director the Committee will use the Policy as set out in the table on page 79.

Discretion

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

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

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

Minor changes

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

Service contracts and exit payment policy

Executive director service contracts, including arrangements for early termination, are carefully considered by the Committee and are designed to recruit, retain and motivate directors of the quality required to manage the Group.

The Committee's policy is that executive directors' service contracts should be terminable on no more than 12 months' notice.

The Committee's approach to payments in the event of termination of employment of an executive director is to take account of the particular circumstances, including the reasons for termination, individual performance, contractual obligations and the rules of the Group's applicable incentive plans which apply to awards held by the executive directors:

- **Compensation for loss of office in service contracts**
Except as set out in the table on page 82, under the terms of their service contracts, the executive directors may be required to work during their notice period or may, if the Group decides, be paid in lieu of notice if not required to work the full notice period. Payment in lieu of notice will be equal to base salary plus the cost to the Group of providing the contractual benefits (pensions allowance, health insurance and company car or car allowance) that would otherwise have been paid or provided during the notice period. Payments will be in equal monthly instalments and will be subject to mitigation such that payments will either reduce, or stop completely, if the executive director obtains alternative employment. An executive director's employment can be terminated by the Group without notice or payment in lieu of notice in specific circumstances including summary dismissal, bankruptcy or resignation.
- **Treatment of STIP**
Executive directors have no automatic entitlement to any bonus on termination of employment under the STIP, but the Committee may use its discretion to award a bonus (normally pro-rated). Where any bonus is deferred into shares the award will normally lapse if an executive director's employment terminates unless the executive director leaves for specified reasons. The 'good leaver' reasons are death, redundancy, retirement, injury, disability, the business or company which employs the executive director ceasing to be part of the Group or any other circumstances in which the Committee exercises discretion to treat the executive director as a 'good leaver'. If the executive director is a 'good leaver' their award will vest on the normal vesting date and will not be subject to pro-rating. Awards normally vest early on a change of control of the Company.
- **Treatment of long term incentive plan awards**
The treatment of awards under the ESOS, EPP and LTIP is governed by the rules of the plans which have been approved by shareholders and is described below. Awards will normally lapse if an executive director's employment terminates unless the executive director leaves for specified 'good leaver' reasons. The 'good leaver' reasons are the same as described above. If the executive director is a 'good leaver', awards will vest to the extent that the attached performance conditions are met, but on a time pro-rated basis, with Committee discretion to allow early vesting. Under the LTIP, awards vest on the normal vesting date subject to performance over the normal performance period, unless the Committee decides otherwise. Awards normally vest early on a change of control of the Company subject to performance conditions and time pro-rating.

Directors' remuneration report **continued**

A summary of the key terms of the executive directors' service contracts on termination of employment or change of control is set out below. This table has been updated since the Policy was approved by shareholders at the 2017 AGM to reflect that Mr S G Young stepped down as Chief Executive on 31 December 2017 and Mr A Wood was appointed as Chief Executive on 1 January 2018.

Name	Position	Notice period from employer	Notice period from employee	Compensation payable on termination of employment or change of control
Mr A Wood Service contract dated 13 November 2017	Chief Executive	12 months	6 months	As set out in the Policy. No change of control provisions.
Mr D R Webb Service contract dated 6 June 2013	Chief Financial Officer	12 months	6 months	As set out in the Policy. No change of control provisions.
Mr P E Green Service contract dated 26 February 2001	Executive Director, Commercial & Corporate Affairs	12 months	6 months	Mr Green's service contract was entered into before 27 June 2012 and has not been modified or renewed after that date. As such, remuneration or payments for loss of office that are required to be made under Mr Green's service contract are not required to be consistent with the Policy. Payments to Mr Green under his service contract differ from the Policy in the following respects: On termination of employment, Mr Green is entitled to a liquidated damages payment equal to his salary and the value of his contractual benefits (bonus, pension allowance, insurance and company car or car allowance) at the date of termination, pro-rated to the remaining notice period less an amount equal to 5% of the aggregate sum and the Committee shall exercise its discretion under the Group's share plans to treat Mr Green as a 'good leaver'. On change of control, Mr Green may give notice to terminate his employment within six months of the event and upon such termination he shall become entitled to the liquidated damages payment summarised above.

External appointments held by executive directors

The Board believes that the Group can benefit from experience gained when executive directors hold external non-executive directorships. Executive directors are allowed to hold external appointments and to receive payment provided such appointments are agreed by the Board or Committee in advance, there are no conflicts of interests and the appointment does not lead to deterioration in the individual's performance. Details of external appointments and the associated fees received are included in the annual report on remuneration on page 91.

Consideration of conditions elsewhere in the Group

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

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

Consideration of shareholder views

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

Annual report on remuneration

The following report provides details of how our existing Policy was implemented during the year ended 31 December 2017.

Remuneration Committee – 2017 membership and attendance

Mr P Heiden (Chairman)		Mr G S Berruyer		Mr C R Day ¹		● Attended ● Absent
Mrs N L Gioia ²		Ms A J P Goligher		Ms B L Reichelderfer ³		

- 1 On medical leave of absence during one of the scheduled Committee meetings.
- 2 Appointed on 27 April 2017.
- 3 Retired on 27 April 2017.

There was one meeting between the end of the financial year and the date of signing of this report, which all current members of the Committee attended.

The Committee is responsible for determining the remuneration policy and packages for all executive directors and the Executive Committee being the direct reports to the Chief Executive, and for agreeing the fees for the Chairman. The Chairman, Chief Executive, Chief Financial Officer and HR Director attend meetings of the Committee by invitation; they are absent when their own remuneration is under consideration.

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

Advisors to the Committee

During the year, the Committee's independent remuneration advisors were Mercer (part of Marsh & McLennan Companies, Inc.) who were appointed in 2010 as a result of a competitive tender process. The Committee is satisfied that Mercer continue to act as independent advisors to the Committee. The Committee evaluates the support provided by Mercer annually and is comfortable that they provide effective and independent remuneration advice to the Committee. Mercer provide guidance on remuneration matters at Board level and below. Mercer do not have any other connection with the Group other than through their parent company, Marsh & McLennan Companies which is also the parent company of the Group's primary advisors on insurance (Marsh) and UK pensions and benefits (Mercer). Mercer are a member of the Remuneration Consultants Group and adhere to its code of conduct (www.remunerationconsultantsgroup.com). Their total fees in 2017 for remuneration advice were £54,947 (2016: £47,364).

2017 AGM voting

The following table shows the results of the advisory vote on the 2016 Directors' remuneration report at the 2017 AGM:

Resolution text	Votes for	% of votes cast for	Votes against	% of votes cast against	Total votes cast	Votes withheld ¹ (abstentions)
Approval of Directors' remuneration policy	548,956,542	90.34	58,674,318	9.66	607,630,860	43,942
Approval of Directors' remuneration report	586,758,026	96.57	20,866,997	3.43	607,625,023	50,452

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

Single total figure of remuneration for executive directors (audited)

The table below sets out a single figure for the total remuneration received by each executive director for the year ended 31 December 2017 and the prior year:

	Mr A Wood ¹		Mr S G Young		Mr D R Webb		Mr P E Green	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Base salary	460	38	702	688	465	456	375	367
Taxable benefits ²	20	1	30	28	14	14	14	14
Pension	115	10	351	344	116	114	187	184
STIP ³	467	–	716	625	505	435	395	354
LTIP ⁴	–	–	274	284	181	188	146	147
Total	1,062	49	2,073	1,969	1,281	1,207	1,117	1,066

- 1 Mr A Wood was appointed on 1 December 2016 and became Chief Executive on 1 January 2018.
- 2 Taxable benefits consist primarily of company car or car allowance, fuel allowance and private health care insurance. For 2017, this included limited relocation expenses for Mr A Wood payable under his service contract until 31 December 2018.
- 3 STIP paid for performance over the relevant financial year. Further details of the 2017 STIP, including performance measures, actual performance and bonus payouts, can be found on pages 84 to 85.
- 4 LTIP is calculated as the number of shares vesting based on certain performance measures and valued at the market value of the shares on the vesting date. For 2017, the figure represents the actual vesting outcome of the 2015 award, for which the performance measures were based on EPS, ROTA and strategic measures. Based on performance to 31 December 2017, the 2015 LTIP award will vest at 18.9%. The market value of vested shares has been estimated using the average share price over the last quarter of 2017 of 499.08p. This value will be trued up in next year's report to reflect the share price on the vesting date. For 2016, the figure represents the actual vesting of the 2014 award which has been trued up, compared to that reported last year, to reflect the actual share price on the date of vesting (482.10p). Further details on performance criteria, achievement and resulting vesting levels can be found on pages 85 to 86. The figures include the accrued distribution payable on the shares that vest (equivalent to a dividend paid as income).

Directors' remuneration report **continued**

Chief Executive retirement

Mr S G Young retired from the Board on 31 December 2017 (and will retire as an employee on 30 April 2018). As a retiree, the Committee confirmed Mr Young would be a good leaver under the executive and UK employee share plans from 30 April 2018, and so all awards vest at the appropriate time, subject to the normal pro-rating and other scheme rules. Mr Young's 2017 STIP will be subject to the normal 25% deferral for a period of two years alongside the other executive directors. There are no other terms associated with his retirement to note.

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

The table below sets out a single figure for the total remuneration received by each non-executive director for the year ended 31 December 2017 and the prior year:

	2017 £'000	2016 £'000
Sir Nigel Rudd	350	350
Mr G S Berruyer	57	56
Mr C R Day	68	67
Mrs N L Gioia ¹	63	–
Ms A J P Goligher	57	56
Mr P Heiden	79	78
Ms B L Reichelderfer ²	18	56

1 Appointed on 27 April 2017.

2 Retired on 27 April 2017.

Incentive outcomes for the year ended 31 December 2017

STIP in respect of 2017 performance

The Board set stretching financial and strategic targets for the STIP at the start of the 2017 financial year. These targets, and our performance against these, are summarised in the table below.

Measure	Performance targets			Actual performance
	Threshold	Target	Stretch	
Underlying operating profit ¹ (Weighting: one-third of the award)	£384.1m	£402.0m	£424.6m	£395.2m
Free cash flow ¹ (Weighting: one-third of the award)	£205.3m	£230.3m	£255.3m	£239.5m

Personal performance² (Weighting: one-third of the award):

Mr A Wood	2	3	4	Between target and stretch
Mr S G Young	2	3	4	Between target and stretch
Mr D R Webb	2	3	4	Between target and stretch
Mr P E Green	2	3	4	Between target and stretch

1 Measured at constant currency.

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

In determining the outcome of the 2017 STIP, the Committee considered the impact of Dassault's cancellation of the Falcon 5X programme, which was announced in December 2017. As reported in the Chief Financial Officer's review on page 35, the Group has taken a £59.5m exceptional impairment charge related to this cancellation. The Committee has determined that no adjustment should be made for this charge in calculating the STIP payments (which are based on underlying profit before exceptional items). The Committee considered the following factors: (i) the programme was cancelled by the customer, not the Group; (ii) the aerospace industry business model involves suppliers taking the risk for changes in market dynamics affecting programmes and ultimately for any failure for a platform to enter service, but the history of programme cancellations such as this is extremely rare; (iii) the programme was originally bid in 2008 and won in 2010 and there is no suggestion that this was in any way an inappropriate commercial decision at the time, neither did any prior STIP payment receive any financial credit from this programme; and (iv) the Group is actively seeking ways to mitigate the financial impact of the cancellation, however the financial benefit of any mitigation will not be applied to STIP payments in the future.

In terms of personal performance conditions, the following is a summary of the conditions which applied in 2017 to each executive director:

Mr S G Young: improve investor confidence; review, update and implement portfolio strategy actions to reduce debt and sharpen focus; develop and embed Group vision with senior leaders; conduct operating review and determine operating strategy and targets to 2021 and agree Chief Operating Officer development plan.

Mr A Wood: improve investor confidence; review, update and implement portfolio strategy actions to reduce debt and sharpen focus; develop and embed Group vision with senior leaders; conduct operating review and determine operating strategy and targets to 2021 and launch and embed Group-wide high performance culture programme.

Mr D R Webb: improve investor confidence; review, update and implement portfolio strategy actions to reduce debt and sharpen focus; manage the HR function until appointment of new Head of HR; continue to adapt as necessary to the changing international tax rules and in particular their impact on our inter-company financing arrangements; support continued improvement of core IT infrastructure while also evolving it to meet requirements of operational strategy; financial and management reporting including to implement IFRS 15 and IFRS 16 from 1 January 2018 with full restatement for 2017 and supporting the audit tender process.

Mr P E Green: continue to improve professionalism and effectiveness of the commercial function and improve commercial awareness amongst the non-commercial community; further embed good compliance practices across the Group including trade compliance and sales representatives; implement an appropriate DFARS 7012 (US Department of Defense standard on cyber security) solution to safeguard Covered Defense Information; expand Government relations activities.

The following STIP awards were received by directors in respect of 2017 performance:

Executive	% salary	£'000
Mr A Wood	101.5	467
Mr S G Young	101.5	716
Mr D R Webb	108.1	505
Mr P E Green	104.9	395

STIP – deferral into shares

As a result of the 2017 STIP vesting outcome described above, 25% of the STIP payout will be deferred into shares and released (with no further performance conditions attached) after a further period of two years, in line with the Policy. In 2017, as a result of the 2016 STIP vesting, the following share awards were made under the Deferred Share Bonus Plan:

Executive	Form of award	Date of grant	Shares over which awards granted	Award price ¹	£'000	% of bonus ²	Date of vesting
Mr A Wood ³	–	–	–	–	–	–	–
Mr S G Young	Award	07.04.2017	35,342	442.10p	156	25	07.04.2019
Mr D R Webb	Award	07.04.2017	24,598	442.10p	109	25	07.04.2019
Mr P E Green	Award	07.04.2017	19,989	442.10p	88	25	07.04.2019

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

2 Based on 2016 STIP outcomes.

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

2015 LTIP

The LTIP award made in April 2015 was subject to three-year cumulative underlying EPS, three-year average ROTA and a scorecard of strategic measures. Performance against each of these measures over the completed performance period is summarised in the table below:

Element	Weighting	Targets			Actual performance	% vesting (of LTIP)	
		Threshold	Mid-point	Stretch			
Underlying EPS (pence) three-year aggregate	33.3%	108.3p	113.7p	119.1p	101.5p	0%	
ROTA % average over three years	33.3%	23.4%	25.4%	27.4%	20.3%	0%	
Strategic measures¹							
Growth	Organic revenue growth % (CAGR)	5.6%	5.0%	6.5%	8.0%	0.8%	0%
	Programme management ² (average performance score per programme, out of 5)	5.6%	2.0	3.0	4.0	2.48	2.6%
Innovation	Schedule ²	5.6%	2.0	3.0	4.0	3.71	5.0%
	MPS ²	5.6%	2.0	3.0	4.0	3.76	5.1%
	Quality ² (Year 1 and 2)	5.6%	2.0	3.0	4.0	2.97	3.0%
Execution	Gross margin - delivery of % improvement (Year 3)		38.7%	39.5%	40.3%	38.8%	
	Delivery ² (Year 1 and 2)	5.6%	2.0	3.0	4.0	2.66	3.2%
	Inventory reduction (Year 3)		£510.8m	£493.1m	£451.3m	£490.3m	
Overall outcome						18.9%	

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

2 Performance score out of 5. MPS vesting is based on the number of our sites that have progressed up one stage of MPS in the year, against stretching targets set for overall progression. Innovation vesting is determined based on progress with certain important innovation projects against detailed milestone criteria, as assessed by our Chief Technology Officer. Quality and delivery is based on progress against specific targets in each of these areas. For each of these measures the vesting criteria were set at the start of the year and assessed at the end of the year. Programme management vesting is an assessment of programme performance and is based on independent assessments of the performance of our largest programmes (c100 in total) at formal programme gate reviews against standard gate exit criteria.

Directors' remuneration report **continued**

Based on these performance outcomes, 18.9% of the 2015 LTIP award will vest. Details of the awards vesting to executive directors are set out in the table below:

Executive	Interests held	Vesting %	Interests vesting	Date of vesting	Share price at vesting ¹	Value £'000 ²
Mr A Wood ³	–	–	–	–	–	–
Mr S G Young	266,503	18.9	50,369	01.04.2018	499.08p	274
Mr D R Webb	176,598	18.9	33,377	01.04.2018	499.08p	181
Mr P E Green	142,128	18.9	26,862	01.04.2018	499.08p	146

1 The market value of vested stock is based on the average share price over the last quarter of 2017.

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

3 Mr A Wood was appointed on 1 December 2016 and did not receive a 2015 LTIP award.

Scheme interests awarded in the year ended 31 December 2017 (audited)

2017 LTIP¹

Executive	Form of award	Date of grant	Shares over which awards granted	Award price ²	Face value		Date of vesting
					£'000	% of salary ³	
Mr A Wood	Nil cost option	07.04.2017	228,907	442.10p	1,012	220	07.04.2020
Mr S G Young	Nil cost option	07.04.2017	350,825	442.10p	1,551	220	07.04.2020
Mr D R Webb	Nil cost option	07.04.2017	232,390	442.10p	1,027	220	07.04.2020
Mr P E Green	Nil cost option	07.04.2017	187,355	442.10p	828	220	07.04.2020

1 The 2017 LTIP measures were disclosed and explained in the 2016 Directors' remuneration report.

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

3 Based on salary at the date of award.

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

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

1 Performance against each strategic measure will be assessed at the end of the three-year period against a scale of:

- 1.0 – threshold objective not met
- 2.0 – threshold met
- 3.0 – on target
- 4.0 – stretch objective met
- 5.0 – stretch objective exceeded

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

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

Total pension entitlements (audited)

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

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

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

The pension allowance payments made in 2017 are included in the single total figure of remuneration table.

	Mr S G Young ¹		Mr P E Green ²	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Accrued benefit	30	29	76	76
Date benefit receivable	05.04.2012	05.04.2012	26.10.2018	26.10.2018
Total value of additional benefit if director retires early	Left MPP and taken benefits	Left MPP and taken benefits	Nil. Early retirement factors cost neutral	Nil. Early retirement factors cost neutral

1 Mr Young opted to leave the MPP and take his pension benefits with effect from 5 April 2012.

2 Mr Green opted to leave the MPP with effect from 31 March 2012. He has not drawn his pension.

Percentage change in CEO cash remuneration

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

	2017 £'000	2016 £'000	CEO % change 2016-2017	Executive employees % change 2016-2017
Base salary ¹	702	688	+2.0	+4.6
Taxable benefits ²	30	28	+7.1	+3.4
STIP ³	716	625	+14.6	+13.8
Total	1,448	1,341	+8.0	+6.7

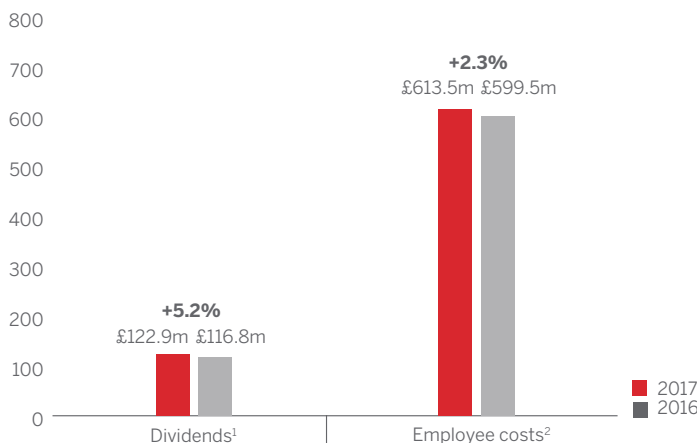
1 The base salary for the Chief Executive is based on data for Mr Young in 2016 and 2017. Base salary for Mr Wood as Chief Executive is disclosed in the note below on page 88. Base salary data for executive employees is calculated using the increase in the earnings of around 220 full-time executive employees using the same employee data set in 2016 and 2017. Around 41% of executives received a pay rise of 2.5% or less. Around 41% received pay rises of between 2.5% and 5%. A further 18% received pay rises above 5% largely owing to changes in responsibilities.

2 For benefits, this information is not collected for the executive employee population and is therefore estimated from a sample of executive employees, using a consistent set of employees.

3 The STIP for executive employees is calculated using the increase in the STIP payout to around 220 full-time executive employees using the same employee data set in 2016 and 2017.

Relative importance of spend on pay

The chart below shows shareholder distributions (i.e. dividends and share buybacks) and total employee expenditure for 2017 and the prior year, along with the percentage change in both.



1 See note 16 to the Group consolidated financial statements.

2 Comprises wages and salaries and retirement benefit costs. See note 9 to the Group consolidated financial statements.

Exit payments made in the year

No exit payments have been made in 2017.

Payments to past directors (audited)

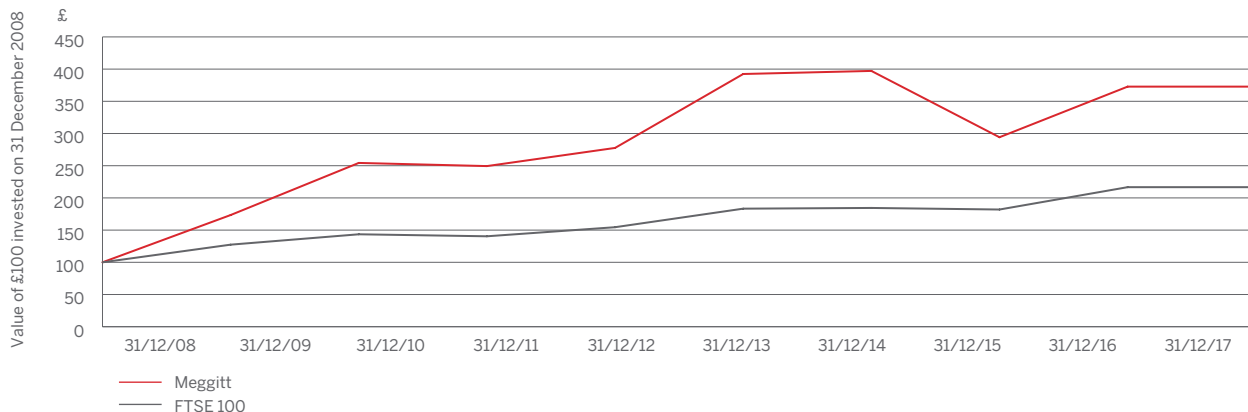
There were no payments to past directors in 2017. A de minimis of £10,000 applies to all disclosures under this note.

Directors' remuneration report **continued**

Review of past performance

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

This graph illustrates the Group's performance compared to the FTSE 100 Index, which is considered the most appropriate broad equity market index against which the Group's performance should be measured. Performance, as required by legislation, is measured by TSR over the nine-year period from 1 January 2009 to 31 December 2017:



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

	2009	2010	2011	2012	2013 ²	2014	2015	2016	2017
Mr S G Young									
Single total figure of remuneration (£'000)	-	-	-	-	1,296	1,232	1,347	1,969	2,073
STIP outcome ¹ (% of maximum)	-	-	-	-	39%	23%	31%	60%	68%
EPP vesting ¹ (% of maximum)	-	-	-	-	38%	0%	0%	N/A	N/A
ESOS vesting ¹ (% of maximum)	-	-	-	-	76%	0%	0%	N/A	N/A
LTIP vesting ¹ (% of maximum)	-	-	-	-	-	-	-	17%	19%
Mr T Twigger									
Single total figure of remuneration (£'000)	1,758	2,947	4,252	3,812	1,845				
STIP outcome ¹ (% of maximum)	86%	86%	100%	80%	35%				
EPP vesting ¹ (% of maximum)	0%	50%	69%	88%	56%				
ESOS vesting ¹ (% of maximum)	100%	100%	100%	100%	98%				

1 The outcomes are for those awards which are included in the single figure of remuneration for that year. For 2017, this represents the outcome of the LTIP award which will vest in 2018.

2 Figures are provided for Mr T Twigger for the period up to 1 May 2013 and Mr S G Young for the period from his appointment as CEO on 1 May 2013 to 31 December 2017.

Implementation of Remuneration Policy for 2018

Base salary, pension and benefits

Base salaries are reviewed taking into account personal performance, employment conditions and salary levels across the Group and prevailing market conditions. Base salaries were reviewed in early 2018. The base salary for Mr Wood was changed on 1 January 2018 to reflect his new responsibilities as Chief Executive (see page 73 for details) and will not be further increased on 1 April. The base salaries for the other executive directors will be increased by 1.99% from 1 April 2018. In agreeing these increases the Committee took into account average expected salary increases across the general workforce, industry benchmarks and broader retail inflation, as well as the performance of the executive directors in 2017. The salary adjustments for the executive directors are lower than or equal to the expected increase across the general workforce.

	2018 £'000	% change	2017 £'000
Mr A Wood	650	+41.30	460
Mr D R Webb	476	+1.99	467
Mr P E Green	384	+1.99	377

The Committee periodically benchmarks executive director salaries against other FTSE companies of similar size, as well as a defined group of UK-listed industry comparators, comprising: BAE Systems, BBA Aviation, Cobham, Halma, IMI, Melrose, Rolls-Royce, Rotork, Senior, Spectris, Spirax-Sarco, Ultra Electronics and Weir Group.

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

2018 STIP measures

STIP measures for 2018 are based on underlying operating profit (one-third), free cash flow (one-third) and personal performance (one-third). The STIP targets for 2018, together with details of whether they have been met, will be disclosed (subject to commercial sensitivity) in the 2018 Directors' remuneration report. STIP award opportunities will be in line with the Policy disclosed on page 76.

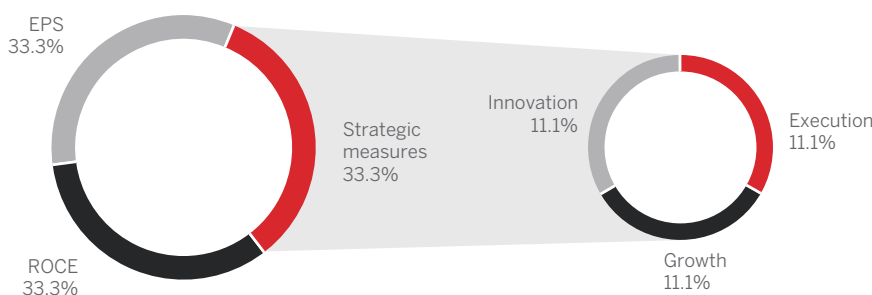


2018 STIP measures

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

2018 LTIP measures

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



Measures chosen and approach to target setting

Performance measures for the 2018 STIP and LTIP cycles are selected to align closely with our KPIs to capture key aspects of our business strategy that will, if realised, create sustainable shareholder value over the longer term. Below are the measures, why we selected them and how we set the targets:

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

Directors' remuneration report **continued**

Vesting of the 2018 LTIP awards will be subject to the following measures and targets:

Weighting	Measure		Threshold	Mid-point	Stretch		
33.3%	Underlying EPS (pence) three-year aggregate (equivalent to CAGR range of 3% to 9%)		101.6	107.7	114.0		
33.3%	ROCE average over three years		11.1%	11.5%	11.9%		
		Inventory ²	13-point inventory value ³	£451.4m	£421.4m	£401.4m	
		Execution	Gross margin ²	Gross margin percentage	38.0%	38.8%	39.6%
			Meggitt Production System ²	Average status per schedule ¹	2.0	3.0	4.0
33.3%	Strategic measures average over three years						
		Growth	Organic revenue growth	% organic revenue growth (CAGR over three years)	4.0%	5.5%	7.0%
			Programme management ²	Average status per reviews ¹	2.0	3.0	4.0
		Innovation	Schedule ²	Average status per schedule ¹	2.0	3.0	4.0

1 Performance against each strategic measure will be assessed at the end of the three-year period against a scale of:

- 1.0 – threshold objective not met
- 2.0 – threshold met
- 3.0 – on target
- 4.0 – stretch objective met
- 5.0 – stretch objective exceeded

2 The targets apply to year 1 of the 2018 LTIP award, year 2 of the 2017 LTIP award and year 3 of the 2016 LTIP award.

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

The Committee has discussed the potential impact of IFRS 15 on the outcome of the underlying EPS measure, where strong performance and growth on programmes with significant Free of Charge content would lead to reduced underlying EPS in the near term and reduced LTIP vesting. The Committee does not wish to disincentivise strong performance in this area as it is an important driver of longer term growth and will take this into account when considering the vesting outcome of the EPS measure under LTIP.

Chairman and non-executive director fees

The remuneration of the Chairman and non-executive directors in 2018 will be as follows:

	2018 ¹ £'000	2017 ¹ £'000
Chairman fee ²	357	350
Non-executive director base fee ³	58	57
Additional fee for chairing Audit or Remuneration Committee	11	11
Additional fee for Senior Independent Director	11	11

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

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

3 A fee of £4,000 is paid per meeting to US directors when travelling to meetings outside of their home continent.

Directors' beneficial interests (audited)

The beneficial interests of the directors and their connected persons in the ordinary shares of the Company at 31 December 2017, 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	
	2017	2016
Sir Nigel Rudd	124,650	122,000
Mr A Wood	10,479	–
Mr S G Young	680,905	638,514
Mr G S Berruyer	13,000	13,000
Mr C R Day	52,454	25,868
Mrs N L Gioia	3,000	–
Ms A J P Goligher	3,000	3,000
Mr P E Green	575,684	572,934
Mr P Heiden	6,470	6,275
Ms B L Reichelderfer	6,000	6,000
Mr D R Webb	130,131	102,235

Between 1 January 2018 and 13 February 2018, the only changes to the beneficial interests of the directors in the ordinary shares of the Company are that Mr Webb acquired 54 shares and Mr Green acquired 54 shares through the Meggitt PLC Share Incentive Plan.

External appointments held by executive directors

Executive Director	Company	Role	Fees retained 2017 £'000
Mr S G Young	Derwent London plc	Non-executive director	42
		Chairman of Audit Committee	8
		Member of Remuneration, Audit and Risk Committees	12
		Total	62
Mr D R Webb	SEGRO plc	Non-executive director	55
		Chairman of Audit Committee	10
		Total	65

Directors' shareholding requirements (audited)

Shares which are included within the shareholding requirement are:

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

The table below shows the shareholding of each executive director against their respective shareholding requirement as at 31 December 2017:

Name	Shareholding guideline (% 2017 salary)	Shares owned outright ¹	Current shareholding (% 2017 salary) ²	Guideline met?
Mr A Wood	200%	10,479	11%	Building
Mr S G Young	300%	680,905	466%	Met
Mr D R Webb	200%	130,131	134%	Building
Mr P E Green	200%	575,684	737%	Met

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

2 Assessment of shareholding is based on a share price of 482.20 pence (the value of a Meggitt share on 31 December 2017).

Directors' interests in share schemes (audited)

All of the ESOS, EPP and LTIP awards have performance conditions attached (as detailed in the Directors' remuneration report in the year of grant and in this report for those awards made in 2017).

The awards made up to and including 2014 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 after 2015 were unvested as at 31 December 2017.

Sharesave awards are not subject to performance conditions.

GOVERNANCE

Directors' remuneration report **continued**

	Date of award	Number of shares under award			Exercise price	Market price at date of exercise	Date exercisable from	Expiry date
		At 1 Jan 2017	Awarded/ (exercised/ lapsed)	At 31 Dec 2017				
Mr A Wood								
LTIP (nil cost options)	01.12.16	215,944	-	215,944	-	-	01.12.19	30.11.21
	07.04.17	-	228,907	228,907	-	-	07.04.20	06.04.22
Total		215,944	228,907	444,851				

	Date of award	Number of shares under award			Exercise price	Market price at date of exercise	Date exercisable from	Expiry date
		At 1 Jan 2017	Awarded/ (exercised/ lapsed)	At 31 Dec 2017				
Mr S G Young								
ESOS 2005, Part B (stock SARs)	29.03.07	192,642	(192,642)	-	299.00p	441.20p	29.03.10	28.03.17
	25.03.08	285,149	-	285,149	252.50p	-	25.03.11	24.03.18
	30.04.09	297,345	-	297,345	169.50p	-	30.04.12	29.04.19
	12.03.10	251,660	-	251,660	286.10p	-	12.03.13	11.03.20
	02.03.11	160,341	-	160,341	351.70p	-	02.03.14	01.03.21
EPP – Basic (nil cost options)	05.08.09	115,418	-	115,418	-	-	05.08.12	04.08.19
	21.04.11	77,729	-	77,729	-	-	21.08.13	20.04.21
	17.08.11	29,131	-	29,131	-	-	17.08.14	16.08.21
EPP – Match (nil cost options)	12.08.09	64,359	-	64,359	-	-	12.08.12	04.08.19
	21.04.11	57,630	-	57,630	-	-	21.08.13	20.04.21
	17.08.11	20,431	-	20,431	-	-	17.08.14	16.08.21
LTIP (nil cost options)	22.05.14	312,443	(258,391)	54,052	-	-	22.05.17	21.05.19
	01.04.15	266,503	-	266,503	-	-	01.04.18	31.03.20
	05.04.16	378,309	-	378,309	-	-	05.04.19	04.04.21
	07.04.17	-	350,825	350,825	-	-	07.04.20	06.04.22
Deferred Share Bonus Plan (awards)	01.04.15	9,897	(9,897)	-	-	439.50p	01.04.17	01.04.17
	05.04.16	19,382	-	19,382	-	-	05.04.18	05.04.18
	07.04.17	-	35,342	35,342	-	-	07.04.19	07.04.19
Sharesave (options)	12.09.14	2,405	(2,405)	-	374.19p	-	01.11.17	01.05.18
Total		2,540,774	(77,168)	2,463,606				

	Date of award	Number of shares under award			Exercise price	Market price at date of exercise	Date exercisable from	Expiry date
		At 1 Jan 2017	Awarded/ (exercised/ lapsed)	At 31 Dec 2017				
Mr D R Webb								
LTIP (nil cost options)	22.05.14	207,041	(207,041)	-	-	482.10p	22.05.17	21.05.19
	01.04.15	176,598	-	176,598	-	-	01.04.18	31.03.20
	05.04.16	250,746	-	250,746	-	-	05.04.19	05.04.21
	07.04.17	-	232,390	232,390	-	-	07.04.20	07.04.22
Deferred Share Bonus Plan (awards)	01.04.15	8,853	(8,853)	-	-	439.50p	01.04.17	01.04.17
	05.04.16	13,017	-	13,017	-	-	05.04.18	05.04.18
	07.04.17	-	24,598	24,598	-	-	07.04.19	06.04.19
Sharesave (options)	13.09.13	3,517	-	3,517	426.40p	-	01.11.18	01.05.19
Total		659,772	41,094	700,866				

	Date of award	Number of shares under award			Exercise price	Market price at date of exercise	Date exercisable from	Expiry date
		At 1 Jan 2017	Awarded/ (exercised/ lapsed)	At 31 Dec 2017				
Mr P E Green								
ESOS 2005, Part A (options)	29.03.07	2,759	(2,759)	-	299.00p	441.20p	29.03.10	28.03.17
	30.04.09	12,832	-	12,832	169.50p	-	30.04.12	29.04.19
ESOS 2005, Part B (stock SARs)	25.03.08	217,822	-	217,822	252.50p	-	25.03.11	24.03.18
	30.04.09	214,306	-	214,306	169.50p	-	30.04.12	29.04.19
	12.03.10	192,240	-	192,240	286.10p	-	12.03.13	11.03.20
	02.03.11	124,902	-	124,902	351.70p	-	02.03.14	01.03.21
EPP – Basic (nil cost options)	05.08.09	88,167	-	88,167	-	-	05.08.12	04.08.19
	21.04.11	59,377	-	59,377	-	-	21.08.13	20.04.21
	17.08.11	22,693	-	22,693	-	-	17.08.14	16.08.21
EPP – Match (nil cost options)	12.08.09	49,163	-	49,163	-	-	12.08.12	11.08.19
	21.04.11	44,022	-	44,022	-	-	21.08.13	20.04.21
	17.08.11	15,915	-	15,915	-	-	17.08.14	16.08.21
LTIP (nil cost options)	22.05.14	161,868	(133,865)	28,003	-	-	22.05.17	21.05.19
	01.04.15	142,128	-	142,128	-	-	01.04.18	31.03.20
	05.04.16	202,020	-	202,020	-	-	05.04.19	04.04.21
	07.04.20	-	187,355	187,355	-	-	07.04.20	06.04.22
Deferred Share Bonus Plan (awards)	01.04.15	7,434	(7,434)	-	-	439.50p	01.04.17	15.03.18
	05.04.16	11,965	-	11,965	-	-	05.04.18	15.03.19
	07.04.17	-	19,989	19,989	-	-	07.04.19	07.04.19
Sharesave (options)	14.09.12	1,835	(1,835)	-	326.94p	-	01.11.17	01.05.18
	12.09.14	1,619	-	1,619	374.19p	-	01.11.19	01.05.20
	11.09.15	750	-	750	399.79p	-	01.11.20	01.05.21
	07.09.17	-	905	905	397.55p	-	01.11.20	01.05.21
Total		1,573,817	62,356	1,636,173				

By order of the Board



Paul Heiden

Chairman, Remuneration Committee
26 February 2018

Directors' report

The directors present their report with the Group's audited consolidated financial statements (prepared in accordance with International Financial Reporting Standards (IFRSs as adopted by the European Union and the Companies Act 2006)) and the Company's audited financial statements (prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006) for the year ended 31 December 2017.

There are no significant events affecting the Group since the end of the year requiring disclosure except the post balance sheet event disclosed in the table below.

Incorporation by reference

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

Information incorporated into the Directors' report by reference	Location and page
Likely future developments in the Group's business	Strategic report (pages 3 to 55)
The Corporate governance report	Board of directors and Corporate governance report (pages 56 to 64)
Research and development	Note 8 to the Group's consolidated financial statements (page 126) and Chief Financial Officer's review (page 36)
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 119 to 120)
Greenhouse gas emissions	Corporate responsibility report (page 53)
Employee information Employee involvement Employment of disabled persons	Corporate responsibility report (pages 48 to 51)
Statement of the amount of interest capitalised by the Group during the year with an indication of the amount and treatment of any related tax relief	Note 19 to the Group's consolidated financial statements (page 133)
Details of long-term incentive plans	Directors' remuneration report (pages 72 to 93)
Details of any arrangements under which a director of the Company has waived or agreed to waive any emoluments from the Company or any subsidiary undertaking	Nothing to disclose
Details of allotments for cash of ordinary shares made during the period under review	Note 36 to the Group's consolidated financial statements (page 150)
Details of authority for the purchase of own shares that is still valid at the end of the period under review	Not applicable – programme currently suspended
Contracts of significance to which the Company is a party and in which a director is materially interested	Nothing to disclose
Contracts of significance between the Company and a controlling shareholder	Nothing to disclose
Contracts for the provision of services to the Company by a controlling shareholder	Nothing to disclose
Details of any arrangement under which a shareholder has waived or agreed to waive dividends	Nothing to disclose
Agreements related to controlling shareholder requirements under LR 9.2.2A	Nothing to disclose
Statement of directors' interests	Directors' remuneration report (pages 91 to 93)
A statement of how the Company has complied with the UK Corporate Governance Code and details of any non-compliance	Corporate governance report (page 64)
Details of directors' service contracts	Share capital and control (page 95) and Directors' remuneration report (pages 72 to 93)
Related parties disclosures	Note 17 to the Group's consolidated financial statements (page 131)
Post balance sheet events	Note 45 to the Group's consolidated financial statements (page 155)
Description of the Group's internal control and risk management systems	Risk management report (pages 40 to 45)

Dividends

The directors recommend the payment of a final dividend of 10.80p per ordinary 5p share (2016: 10.30p), to be paid on 4 May 2018 to those members on the register at close of business on 23 March 2018. An interim dividend of 5.05p (2016: 4.80p) was paid on 29 September 2017. If the final dividend as recommended is approved, the total ordinary dividend for the year will amount to 15.85p per ordinary 5p share (2016: 15.10p).

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 2017 the Company made the DRIP available to shareholders for the dividends paid in May 2017 and September 2017. The Board currently intends to continue to make the DRIP available to shareholders in 2018 and the date by which relevant DRIP elections must be received is disclosed on the financial calendar page on our website.

Directors

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

Sir Nigel Rudd (Chairman), Mr A Wood, Mr S G Young (retired, 31 December 2017), Mr G S Berruyer, Mr C R Day, Mrs N L Gioia (appointed, 27 April 2017), Ms A J P Goligher, Mr P E Green, Mr P Heiden (Senior Independent Director), Ms B L Reichelderfer (retired, 27 April 2017) and Mr D R Webb. Mr Wood became Chief Executive on 1 January 2018 replacing Mr Young who retired from his position as Chief Executive and the Board of Directors on 31 December 2017.

All directors will be submitted for re-election at the annual general meeting (AGM) except for Mr Young and Ms Reichelderfer.

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 58 to 59 and in the AGM notice.

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

Conflicts of interest

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

Political donations

The Company and the Group did not make any political donations or incur any political expenditure during the year (2016: None).

Share capital and control

As at 31 December 2017, the Company held 13,957 treasury shares with a nominal value of 5p each and the Company's issued share capital (excluding shares held as treasury shares) consisted of 776,409,818 shares with a nominal value of 5p each. As at 13 February 2018, the Company held 13,957 treasury shares with a nominal value of 5p each and the Company's issued share capital (excluding shares held as treasury shares) consisted of 776,417,972 shares with a nominal value of 5p each. The issued share capital of the Company at 31 December 2017 and details of shares issued during the financial year are shown in note 36 to the Group 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 report and accounts, to attend and speak at general meetings of the Company, to appoint proxies to exercise full voting rights and to participate in any distribution of income or capital.

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

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

At the 2017 AGM, the Company was granted authority by shareholders to purchase up to 77,571,916 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 2017. Shares purchased under this authority would be 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 sees fit.

The directors were also granted authority by shareholders to allot securities in the Company up to a nominal amount of £12,928,625 and to allot securities, without the application of pre-emption rights, up to a nominal amount of £1,939,297 and a further £1,939,297 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 2018 AGM or, if earlier, 30 June 2018. The Company will seek shareholder approval to renew these authorities at the 2018 AGM. Detailed explanatory notes are set out in the AGM notice.

Directors' report **continued**

The Group has significant financing agreements which include change of control provisions which, should there be a change of ownership of the Company, could result in renegotiation, withdrawal or early repayment of these financing agreements. These are a USD600m note purchase agreement dated May 2016, a USD750m syndicated revolving credit agreement dated September 2014 and a USD400m note purchase agreement dated June 2010.

There are a number of other long-term commercial agreements that may alter or terminate upon a change of control of the Company following a successful takeover bid. These arrangements are commercially sensitive and their disclosure could be seriously prejudicial to the Company.

Agreements with the Company's directors or employees providing compensation in the event of a takeover bid:

Director	Contractual entitlement
Mr A Wood	None except that provisions in the Company's share plans may cause options and/or awards granted to employees under such plans to vest on a takeover.
Mr D R Webb	None except that provisions in the Company's share plans may cause options and/or awards granted to employees under such plans to vest on a takeover.
Mr P E Green	Mr Green may terminate his employment within six months and would be entitled to compensation from the Company for loss of office. The compensation would be annual remuneration plus the value of benefits for the unexpired notice period less 5%. In addition, provisions in the Company's share plans may cause options and/or awards granted to employees under such plans to vest on a takeover.
Non-executive directors	None.
All other employees	There are no agreements that would provide compensation for loss of employment resulting from a takeover except that provisions in the Company's share plans may cause options and/or award granted to employees under such plans to vest on a takeover.

Substantial shareholdings

At 7 February 2018, the Company had been notified under the Disclosure Guidance and Transparency Rules (DTR) of the following substantial interests in the issued ordinary shares of the Company requiring disclosure:

	Direct voting rights (m)*	Indirect voting rights (m)*	Other financial instruments with voting rights (m)*	Total voting rights (m)*	Percentage of total voting rights**
The Capital Group Companies, Inc.	-	77.0	-	77.0	9.92%
BlackRock, Inc.	-	41.9	6.9	48.8	6.30%
Harris Associates L.P.	-	41.3	-	41.3	5.31%
First Pacific Advisors, LLC	-	39.1	-	39.1	5.04%
T. Rowe Price Associates, Inc.	-	38.8	-	38.8	5.00%
FMR LLC	-	38.1	-	38.1	4.91%
Standard Life Investments Ltd	22.2	3.8	-	26.0	3.35%
Legal & General Group plc	23.7	-	-	23.7	3.05%
Norges Bank	23.0	-	-	23.0	2.96%

* One voting right per ordinary share.

** Attached to the issued ordinary share capital of the Company.

These holdings are published on a regulatory information service and on the Company's website.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed in the Board of directors confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic report and this Directors' report include a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

Each of the persons who is a director in office at the date of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Group and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Fair, balanced and understandable

The directors as at the date of this report consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy. The Board has made this assessment on the basis of a review of the accounts process, a discussion on the content of the Annual Report assessing its fairness, balance and understandability, together with the confirmation from executive management that the Annual Report is fair, balanced and understandable.

Going concern

The directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for a period of at least 12 months from the date of this report. For this reason, the directors continue to adopt the going concern basis in preparing the Group and Company financial statements.

In reaching this conclusion, the directors have considered:

- the financial position of the Group as set out in this report and additional information provided in the financial statements including note 3 (Financial risk management), note 30 (Bank and other borrowings) and note 32 (Derivative financial instruments);
- the resources available to the Group taking account of its financial projections and considerable existing headroom against committed debt facilities and covenants; and
- the principal risks and uncertainties to which the Group is exposed, as set out on pages 40 to 45, the likelihood of them arising and the mitigating actions available.

By order of the Board



M L Thomas
Company Secretary
26 February 2018

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 2017 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts 2017 (the "Annual Report"), which comprise: the Consolidated and Company balance sheets as at 31 December 2017; the Consolidated income statement and Consolidated statement of comprehensive income; the Consolidated cash flow statement; and the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in the Audit Committee report, we have provided no non-audit services to the Group or the Company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview

- Overall Group materiality: £17.0m (2016: £17.0m), based on 5% of underlying profit before tax.
- Overall Company materiality: £35.0m (2016: £31.0m), based on 1% of total assets.
- We identified 11 reporting units which, in our view, required a full scope audit based on their size or risk. In addition we determined that specified audit procedures were required at a further 6 reporting units to address specific risk characteristics or to provide sufficient overall Group coverage of particular financial statement line items.
- We used component teams in 4 countries to perform a combination of full scope audits and specified procedures at 11 reporting units, with the Group team performing the remainder.
- The Group consolidation, financial statement disclosures and a number of complex items, prepared by the head office finance function, were audited by the Group engagement team.
- Reporting units where we performed audit procedures accounted for 61% of Group profit before tax; 61% of Group underlying profit before tax; and 82% of Group total assets. Our audit scope provided sufficient appropriate audit evidence as a basis for our opinion on the Group financial statements as a whole.
- Goodwill impairment assessments (Group).
- Development costs and programme participation costs impairment assessments (Group).
- Environmental provisions (Group).
- Provisions for uncertain tax positions (Group).
- Retirement benefit obligation liabilities (Group and Company).



The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industries in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that 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. We focused on laws and regulations that could give rise to a material misstatement in the Group and Company financial statements, including, but not limited to, Companies Act 2006, the Listing Rules, Pensions legislation, UK tax legislation and equivalent local laws and regulations applicable to significant component teams. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with legal advisors, enquiries of management, review of significant components auditors' work and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

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.

Independent auditors' report to the members of Meggitt PLC **continued**

Key audit matter	How our audit addressed the key audit matter
<p>Goodwill impairment assessments</p> <p>Refer also to note 18 of the consolidated financial statements (pages 131 to 132).</p> <p>The Group holds significant amounts of goodwill (£1,947.0m) on the balance sheet which is supported by an annual impairment review. No impairment charge has been recorded against goodwill in the current year.</p> <p>Our audit focused on the risk that the carrying value of goodwill could be overstated.</p> <p>Certain assumptions used in the impairment review are subjective and require estimates to be made to calculate the recoverable amount, determined by value in use, of cash generating units ("CGUs") or groups of CGUs. The key estimates and assumptions assessed include:</p> <ul style="list-style-type: none"> • The future cash flow growth assumptions used in the Group's most recent budgets and plans for the next five years approved by management (the "plan"); • The growth rate used beyond the period covered by the plan; and • the discount rate applied to future cash flows. <p>We applied the following scoping criteria to identify those CGUs or groups of CGUs requiring additional audit procedures:</p> <ul style="list-style-type: none"> • CGUs or groups of CGUs that indicated a shortfall in value in use compared to total CGU or groups of CGUs carrying value when, for the period covered by the plan, the level of underlying profit growth was capped at a weighted average market growth rate, using economic and industry forecasts. The weighted average market growth rates were derived as follows: <ul style="list-style-type: none"> – For CGUs operating predominantly in the civil aerospace market, the civil aerospace capacity long-term trend rate measured in available seat kilometres (ASKs); and – For CGUs operating predominantly in the military, energy and other markets, territory Gross Domestic Product ("GDP") growth projections, based on published economic projections. 	<p>We evaluated the directors' future cash flow forecasts and the process by which they were drawn up, and tested the integrity of the underlying discounted cash flow model. We compared the forecasts used in this model to the plan and assessed the actual performance in the year against the prior year budgets to evaluate historical forecasting accuracy.</p> <p>In respect of the CGUs on which we focused our additional audit procedures on, we assessed the directors' assumptions for future cash flow growth in the plan, by:</p> <ul style="list-style-type: none"> • Obtaining corroborating evidence to support growth assumptions in excess of our assumed weighted average market growth rate. We found that the assumptions used by the directors' were supported by the evidence we obtained; and • Performing sensitivity analysis in respect of the key assumptions to ascertain the extent of change in those assumptions which, either individually or collectively, would be required for the goodwill to be impaired. We noted that it would require significant downside changes before a material impairment would be required and having assessed the likelihood of these changes in assumptions arising we concluded that these were not considered to be reasonably possible. <p>For all impairment assessments we:</p> <ul style="list-style-type: none"> • Tested the discount rates, by comparing key inputs, where relevant, to externally derived data or data for comparable listed organisations. We engaged our specialists in assessing the overall discount rates used, and observed these to be within our expected range; • Considered the use of the long-term GDP growth rates for the countries in which the CGU operates and observed these to be within our expected range; and • Assessed the Group's disclosures regarding the extent to which key assumptions would need to change for the recoverable amount to fall below the carrying value of goodwill, in particular in relation to those CGUs or group of CGUs with the lowest percentage headroom. We determined that these disclosures appropriately draw attention to the significant areas of estimate and judgement.
<p>This identified the following CGUs or groups of CGUs for further consideration:</p> <ul style="list-style-type: none"> • EDAC and Advanced Composites. This CGU has goodwill of £226.7m; and • One CGU within "Other". This CGU has goodwill of £15.9m. 	

Key audit matter**How our audit addressed the key audit matter****Development costs and programme participation costs impairment assessments**

Refer also to note 19 of the consolidated financial statements (page 133).

The Group holds significant amounts of development costs (£482.3m) and programme participation costs (£332.1m) on the balance sheet. These intangible assets are subject to impairment testing at the individual asset ("programme") level, at least annually and, where the programme value in use headroom compared to its carrying value is limited, or if events or changes in circumstances indicate the carrying value may not be recoverable, more frequently. An impairment charge of £56.8m has been recorded against these balances in the current year. This includes £55.9m which has been charged to exceptional operating items following Dassault Aviation's ("Dassault") announcement in December 2017 cancelling the Dassault Falcon 5X ("Falcon 5X") programme.

Our audit focused on the risk that the carrying value of these intangible assets could be overstated. Specifically in respect of the Falcon 5X programme we considered whether it was appropriate to impair the capitalised development costs and programme participation costs in full.

We focused our audit procedures on those programmes against which the directors have recorded an impairment provision, those with limited excess of value in use over carrying value and those with a significant carrying value.

The key estimates and assumptions assessed were:

- The estimated aircraft or engine volumes ("fleet forecasts") and the period over which future cash flows are forecast ("fleet lives");
- The sales price per part; and
- The discount rate applied to future cash flows.

We evaluated the directors' future cash flow forecasts and the process by which they were drawn up, and tested the integrity of the underlying discounted cash flow model. In respect of the programme impairment assessments tested we:

- Agreed the fleet forecast data up to 2032 used in calculating the programme forecast cash flow to third party fleet forecast data, taking into account the extent to which the Group has a sole-source position. We corroborated any significant deviations applied by the directors to supporting evidence. We assessed fleet forecasts used beyond the period covered by the external market forecasts, considering average aircraft lives and trend analysis and considered them to be supported by the evidence we obtained;
- Agreed the sales price per part to customer contracts and did not identify any material exceptions in these tests;
- Tested the discount rates, by comparing key inputs, where relevant, to externally derived data or data for comparable listed organisations. We used our specialists in assessing the overall discount rates used, and observed them to be within our expected range; and
- Assessed the Group's disclosures regarding the extent to which key assumptions would need to change for the recoverable amount to fall below the programme carrying values, in particular in relation to those with a significant carrying value. We determined that these disclosures appropriately draw attention to the significant areas of estimate.

Specifically in respect of the Falcon 5X programme we performed the following audit procedures:

- Obtained and considered a report from management describing their impairment test performed, focusing on those areas of the report covering the contractual position with the customer, the extent to which any costs capitalised prior to cancellation related to technologies which potentially were transferrable to a successor aircraft and the level of rework that would be expected to be required;
- Obtained the original contract with Dassault and assessed the contractual position with the customer, specifically reviewing programme termination/cancellation clauses; and
- Considered the extent of third party fleet forecast data for the successor aircraft for which there remains a significant level of uncertainty.

Based on the evidence obtained, we concurred that the level of uncertainty was so significant that it was not possible to reliably estimate the extent to which any of the costs previously capitalised would be recoverable, and therefore it was appropriate to record a full impairment loss against all balances on the programme.

We also assessed the Group's disclosures regarding the critical accounting estimates and assumptions in calculating the extent of the impairment recorded. We determined that these disclosures appropriately draw attention to the significant areas of estimate and uncertainty.

Independent auditors' report to the members of Meggitt PLC **continued**

Key audit matter	How our audit addressed the key audit matter
<p>Environmental provisions Refer also to note 33 of the consolidated financial statements (page 144).</p>	<p>Our work on the valuation of environmental liabilities comprised the following:</p>
<p>The Group has liabilities of £99.9m relating to environmental matters.</p>	<ul style="list-style-type: none"> • We confirmed that the Group's external environmental consultants have sufficient expertise and are qualified and affiliated with the appropriate industry bodies in the respective local territory, and are independent of the Group;
<p>The environmental matters primarily relate to known exposures arising from environmental investigation and remediation of certain sites in the US for which the Group has been identified as a potentially responsible party under US law. The liabilities are based on subjective estimates of the level and timing of remediation costs, including the period of operating and monitoring activities required. Our audit focused on the risk that the provisions in relation to these matters could be understated.</p>	<ul style="list-style-type: none"> • We obtained the cost estimates and reports prepared by the Group's external environmental consultants for the most significant sites. We assessed the consistency of the cost estimates year on year and the level of costs incurred compared to the prior year estimates to assess the historical accuracy of the estimates and to understand significant changes to the scope of remediation plans. We confirmed that the changes in scope have been appropriately reflected in the provision;
<p>The Group has separately recognised insurance and other receivables of £64.1m. We focused on the required asset recognition criteria being met and the recoverability of these receivables.</p>	<ul style="list-style-type: none"> • We reconciled the cost estimates and reports to the provision recorded and gained an understanding of all significant adjustments applied, such as differences in the period over which operating and monitoring activities are conducted and the application of additional provisions for incremental costs. We assessed the reasonableness of these, including reviewing historical data where appropriate and considered the provision to be supported by reasonable assumptions; and • Evaluated and concluded that the liabilities, related assets and potential exposures were appropriately disclosed in the financial statements.
	<p>Our work on the valuation of insurance and other receivables comprised the following:</p>
	<ul style="list-style-type: none"> • We obtained the insurance policies and confirmed the coverage limits; • We obtained confirmation from the insurer of the claims and settlements to date and assessed the extent of insurance coverage against the known exposures; • We obtained evidence of the settlements and claims which resulted in the recognition of receivables in relation to the environmental provision and found that the evidence obtained supported asset recognition; • We also obtained evidence of the insurers' financial position to assess their ability to meet the policy obligations and considered the recognition of the insurance receivable to be supportable; and • We performed sensitivity analysis in relation to changes in the timings of costs and incremental increases in costs to assess the recoverability of the insurance receivables. From the evidence obtained we found the assumptions used to be appropriate.

Key audit matter	How our audit addressed the key audit matter
<p>Provisions for uncertain tax positions Refer also to note 4 of the consolidated financial statements (page 122).</p> <p>The Group has a provision for uncertain tax positions of £37.4m.</p> <p>Estimates have to be made by the directors on the tax treatment of a number of transactions in advance of the ultimate tax determination being certain.</p> <p>This is due to the complexity of the Group's legal structure (including multiple legal entities), the number of tax jurisdictions (primarily the UK and US) in which the Group operates, the complexity of international tax legislation and the changing tax environment. In addition, uncertainty arises from intergroup transactions relating to goods, services and internal financing.</p> <p>Where the amount of tax payable or recoverable is uncertain, the Group establishes provisions based on the directors' judgement of the probable amount of the liability, or expected amounts recoverable.</p> <p>Our audit procedures focused on the risk that conclusion of the ultimate tax determination by tax authorities is at an amount materially different to the amount recorded.</p>	<p>In conjunction with our internal UK and international tax specialists we:</p> <ul style="list-style-type: none"> • Evaluated the process by which the directors calculated each tax exposure and assessed whether the assumptions they have used, in conjunction with their advisors, in developing the estimated exposure, provided a supportable and reasonable basis to calculate the provision for uncertain tax positions. From the evidence obtained we found the assumptions and methodology used to be appropriate; • Considered any tax opinions or other tax advice the Group had received from its tax advisors in relation to the exposures identified to determine that the treatment is consistent with the advice obtained. We also considered the evidence of recent tax audits and external tax cases which may have an impact on existing tax exposures. Based on the work performed we found that this support had been appropriately considered in determining management's provision; • Assessed and formed our own views on the key judgements with respect to open and uncertain tax positions and concluded that the judgements made by the directors were materially consistent with our own views in respect of the tax exposures; and • Evaluated and concluded that the liabilities and potential exposures were appropriately disclosed in the financial statements.
<p>Retirement benefit obligation liabilities Refer also to note 35 of the consolidated financial statements (pages 146 to 150) and note 12 of the Company financial statements (pages 168 to 169).</p> <p>The Group has retirement benefit obligations with gross liabilities of £1,303.4m, of which £814.5m 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 the directors in selecting appropriate assumptions. Small changes in a number of the key financial and demographic assumptions used to value the retirement benefit obligations, (including discount rates, inflation rates, salary increases and mortality) could have a material impact on the calculation of the liability.</p> <p>Our audit procedures focused on the risk that the assumptions used result in an understatement of the retirement benefit obligation.</p>	<p>We evaluated the assumptions made in relation to the valuation of the liabilities, with input from our actuarial specialists. In particular we:</p> <ul style="list-style-type: none"> • Confirmed that the Group's external specialists, are qualified and affiliated with the appropriate industry bodies in the respective local territory, and are independent of the Group; • Tested the discount and inflation rate assumptions used by comparing them to our internally developed benchmarks, based on externally derived data and comparable organisations. We observed the assumptions to be within our expected range; • Compared assumed mortality rates to national and industry averages. From the evidence obtained we found the assumptions to be within our expected range and the methodology used to be appropriate; • Assessed the assumption for salary increases against the Group's historical trend and expected future outlook. The assumption used was supported by the evidence we obtained; • Considered the appropriateness of the methodology used to update estimates from the latest actuarial valuation and assessed changes in assumptions in aggregate from the prior year to assess the consistency of approach overall. From the evidence obtained we found the assumptions and methodology used to be appropriate; and • Evaluated and concluded that the liabilities and potential exposures were appropriately disclosed in the financial statements.

Independent auditors' report to the members of Meggitt PLC **continued**

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group's accounting process is structured around a local finance function in each of the Group's reporting units. These functions maintain their own accounting records and controls (although transactional processing and certain controls for some reporting units are performed at the Group's shared service centres) and report to the head office finance team through an integrated consolidation system.

In establishing the overall Group audit strategy and plan, we determined the type of work that needed to be performed at the reporting units by the Group engagement team and by component auditors from other PwC network firms. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units so as to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

For each reporting unit we determined whether we required an audit of their reported financial information ("full scope") or whether specified procedures addressing specific risk characteristics or particular financial statement line items would be sufficient. Those where a full scope audit was required included the largest reporting unit (Meggitt Aircraft Braking Systems in Akron), determined as individually financially significant because it contributes more than 15% of the Group's underlying profit before tax. We performed a full scope audit at a further 10 reporting units, based on their size or risk. Senior members of the Group audit engagement team visited all of these reporting units, to review the work undertaken by component auditors and assess the audit findings. We also performed specified procedures on 6 reporting units to address specific risk characteristics or to provide sufficient

overall Group coverage. In addition to the work performed at the in-scope reporting units, there is a substantial amount of work performed at head office by the Group audit engagement team. The Group consolidation, financial statement disclosures and a number of complex items, prepared by the head office finance function, were audited by the Group engagement team. These included goodwill, other intangible assets, investments, derivative financial instruments and related hedge accounting, bank and other borrowings and related finance costs, environmental provisions and related insurance receivables, certain onerous contracts and other provisions, retirement benefit obligations, current and deferred tax and central adjustments raised as part of the consolidation process.

In aggregate our audit procedures accounted for 61% of Group profit before tax; 61% of Group underlying profit before tax; and 82% of Group total assets ("key coverage metrics"). As a result of its structure and size, the Group also has a large number of small reporting units that, in aggregate, make up a material portion of the key coverage metrics. These small reporting units are covered by the work performed by the Group audit engagement team, where we perform analytical review procedures. A significant proportion of these remaining reporting units not selected for local procedures were subject to an analysis of year on year movements, at a level of disaggregation to enable a focus on higher risk balances and unusual movements. Those not subject to analytical review procedures were individually, and in aggregate, immaterial. This gave us the evidence we needed for our opinion on the financial statements as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£17.0m (2016: £17.0m).	£35.0m (2016: £31.0m).
How we determined it	5% of underlying profit before tax.	1% of total assets.
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, underlying profit before tax is the primary measure used by the shareholders in assessing the performance of the Group. Further, we consider it appropriate to eliminate volatility and to preserve the link between materiality and the performance of the underlying business.	We believe that total assets is the primary measure used by the shareholders in assessing the performance and position of the entity and reflects the Company's principal activity as a holding company.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £0.5m and £15.3m. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.85m (Group audit) (2016: £0.85m) and £1.75m (Company audit) (2016: £1.55m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation

We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.

We are required to report if the directors' statement relating to going concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Outcome

We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.

We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report. (CA06)

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

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 40 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 45 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

Independent auditors' report to the members of Meggitt PLC **continued**

Other Code Provisions

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

- The statement given by the directors, on page 97, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on page 66 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on pages 96 to 97, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting


Under the Companies Act 2006 we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- The Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 2 October 2003 to audit the financial statements for the year ended 31 December 2003 and subsequent financial periods. The period of total uninterrupted engagement is 15 years, covering the years ended 31 December 2003 to 31 December 2017.



Andrew Paynter (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

26 February 2018

Consolidated income statement

For the year ended 31 December 2017

	Notes	2017 £'m	2016 £'m
Revenue	5	2,027.3	1,992.4
Cost of sales		(1,234.0)	(1,217.2)
Gross profit		793.3	775.2
Net operating costs		(489.1)	(541.5)
Operating profit¹	6	304.2	233.7
Finance income	12	1.4	2.0
Finance costs	13	(43.2)	(40.2)
Net finance costs		(41.8)	(38.2)
Profit before tax²		262.4	195.5
Tax credit/(charge)	14	87.6	(24.3)
Profit for the year attributable to equity owners of the Company		350.0	171.2
Earnings per share:			
Basic ³	15	45.2p	22.1p
Diluted ⁴	15	44.3p	21.8p
¹ Underlying operating profit	10	388.4	379.7
² Underlying profit before tax	10	357.9	352.1
³ Underlying basic earnings per share	15	35.3p	34.8p
⁴ Underlying diluted earnings per share	15	34.6p	34.3p

Consolidated statement of comprehensive income

For the year ended 31 December 2017

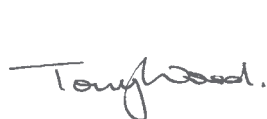
	Notes	2017 £'m	2016 £'m
Profit for the year attributable to equity owners of the Company		350.0	171.2
Items that may be reclassified to the income statement in subsequent periods:			
Currency translation movements		(161.6)	312.1
Cash flow hedge movements		(0.2)	(0.2)
Tax effect	14	(2.8)	(3.6)
		(164.6)	308.3
Items that will not be reclassified to the income statement in subsequent periods:			
Remeasurement of retirement benefit obligations	35	66.6	(120.7)
Tax effect	14	(27.1)	20.1
		39.5	(100.6)
Other comprehensive (expense)/income for the year		(125.1)	207.7
Total comprehensive income for the year attributable to equity owners of the Company		224.9	378.9

Consolidated balance sheet

At 31 December 2017

	Notes	2017 £'m	2016 £'m
Non-current assets			
Goodwill	18	1,947.0	2,095.7
Development costs	19	482.3	533.5
Programme participation costs	19	332.1	333.5
Other intangible assets	20	672.1	817.6
Property, plant and equipment	21	322.9	336.9
Investments	22	13.6	14.8
Trade and other receivables	25	39.2	58.4
Derivative financial instruments	32	28.5	21.8
Deferred tax assets	34	11.5	15.9
		3,849.2	4,228.1
Current assets			
Inventories	24	404.1	468.5
Trade and other receivables	25	437.1	434.5
Derivative financial instruments	32	3.6	4.2
Current tax recoverable		4.3	4.4
Cash and cash equivalents	26	118.5	173.8
Assets classified as held for sale	23	9.7	-
		977.3	1,085.4
Total assets	6	4,826.5	5,313.5
Current liabilities			
Trade and other payables	27	(445.5)	(464.0)
Derivative financial instruments	32	(17.3)	(31.2)
Current tax liabilities		(39.6)	(35.6)
Obligations under finance leases	29	(0.1)	(0.1)
Bank and other borrowings	30	(71.4)	(175.7)
Provisions	33	(64.2)	(53.6)
Liabilities directly associated with assets classified as held for sale	23	(7.8)	-
		(645.9)	(760.2)
Net current assets		331.4	325.2
Non-current liabilities			
Trade and other payables	28	(5.5)	(5.0)
Derivative financial instruments	32	(14.6)	(45.7)
Deferred tax liabilities	34	(201.7)	(322.6)
Obligations under finance leases	29	(6.0)	(6.5)
Bank and other borrowings	30	(1,005.8)	(1,170.6)
Provisions	33	(82.5)	(131.8)
Retirement benefit obligations	35	(308.1)	(414.7)
		(1,624.2)	(2,096.9)
Total liabilities		(2,270.1)	(2,857.1)
Net assets		2,556.4	2,456.4
Equity			
Share capital	36	38.8	38.8
Share premium		1,222.2	1,219.8
Other reserves		15.7	15.7
Hedging and translation reserves		386.9	551.5
Retained earnings		892.8	630.6
Total equity attributable to owners of the Company		2,556.4	2,456.4

The financial statements on pages 107 to 157 were approved by the Board of Directors on 26 February 2018 and signed on its behalf by:



A Wood
Director



D R Webb
Director

Consolidated statement of changes in equity

For the year ended 31 December 2017

	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	
At 1 January 2016		38.8	1,218.9	15.7	243.2	661.9	2,178.5
Profit for the year		-	-	-	-	171.2	171.2
Other comprehensive income for the year:							
Currency translation movements:							
Arising in the year		-	-	-	312.6	-	312.6
Transferred to the income statement					(0.5)		(0.5)
Cash flow hedge movements:							
Movement in fair value		-	-	-	(0.6)	-	(0.6)
Transferred to the income statement		-	-	-	0.4	-	0.4
Remeasurement of retirement benefit obligations	35	-	-	-	-	(120.7)	(120.7)
Other comprehensive income/(expense) before tax		-	-	-	311.9	(120.7)	191.2
Tax effect	14	-	-	-	(3.6)	20.1	16.5
Other comprehensive income/(expense) for the year		-	-	-	308.3	(100.6)	207.7
Total comprehensive income for the year		-	-	-	308.3	70.6	378.9
Employee share schemes:							
Value of services provided		-	-	-	-	12.0	12.0
Issue of equity share capital		-	0.9	-	-	(0.9)	-
Dividends	16	-	-	-	-	(113.0)	(113.0)
At 31 December 2016		38.8	1,219.8	15.7	551.5	630.6	2,456.4
Profit for the year		-	-	-	-	350.0	350.0
Other comprehensive income for the year:							
Currency translation movements:							
Arising in the year		-	-	-	(153.0)	-	(153.0)
Transferred to the income statement	44	-	-	-	(8.6)	-	(8.6)
Cash flow hedge movements:							
Transferred to the income statement		-	-	-	(0.2)	-	(0.2)
Remeasurement of retirement benefit obligations	35	-	-	-	-	66.6	66.6
Other comprehensive (expense)/income before tax		-	-	-	(161.8)	66.6	(95.2)
Tax effect	14	-	-	-	(2.8)	(27.1)	(29.9)
Other comprehensive (expense)/income for the year		-	-	-	(164.6)	39.5	(125.1)
Total comprehensive (expense)/income for the year		-	-	-	(164.6)	389.5	224.9
Employee share schemes:							
Value of services provided		-	-	-	-	12.7	12.7
Purchase of own shares for employee share schemes		-	-	-	-	(19.0)	(19.0)
Issue of equity share capital		-	2.4	-	-	(2.4)	-
Dividends	16	-	-	-	-	(118.6)	(118.6)
At 31 December 2017		38.8	1,222.2	15.7	386.9	892.8	2,556.4

* Other reserves relate to capital reserves of £14.1m (2016: £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 (2016: £1.6m) created as a result of the share buyback programme which commenced in 2014 and was completed in 2015.

** Hedging and translation reserves comprise a credit balance on the hedging reserve of £1.6m (2016: £1.8m) and a credit balance on the translation reserve of £385.3m (2016: £549.7m). Amounts recycled from the hedging reserve to the income statement, in respect of cash flow hedge movements, have been recognised in net finance costs. Amounts recycled from the translation reserve to the income statement, in respect of the disposal of foreign subsidiaries, have been recognised in net operating costs.

Consolidated cash flow statement

For the year ended 31 December 2017

	Notes	2017 £'m	2016 £'m
Cash inflow from operations before business acquisition and disposal expenses and exceptional operating items		453.7	395.8
Cash outflow from business acquisition and disposal expenses		(3.9)	(1.9)
Cash outflow from exceptional operating items	11	(13.8)	(18.3)
Cash inflow from operations	41	436.0	375.6
Interest received		0.2	0.2
Interest paid		(34.9)	(26.6)
Tax paid		(24.1)	(27.4)
Cash inflow from operating activities		377.2	321.8
Business acquired	43	(19.4)	2.1
Businesses disposed	44	83.7	59.6
Capitalised development costs net of funding from customers	19	(57.7)	(69.6)
Capitalised programme participation costs		(59.0)	(57.5)
Purchase of intangible assets		(18.3)	(14.7)
Purchase of property, plant and equipment		(62.0)	(51.7)
Proceeds from disposal of property, plant and equipment		1.9	0.9
Cash outflow from investing activities		(130.8)	(130.9)
Dividends paid to Company's shareholders	16	(118.6)	(113.0)
Purchase of own shares for employee share schemes		(19.0)	-
Proceeds from borrowings		64.9	466.0
Debt issue costs		-	(1.2)
Repayments of borrowings		(224.2)	(537.5)
Cash outflow from financing activities		(296.9)	(185.7)
Net (decrease)/increase in cash and cash equivalents		(50.5)	5.2
Cash and cash equivalents at start of the year		173.8	147.3
Exchange (losses)/gains on cash and cash equivalents		(4.8)	21.3
Cash and cash equivalents at end of the year	26	118.5	173.8

Notes to the consolidated financial statements

1. General information and basis of preparation

Meggitt PLC is a public limited company listed on the London Stock Exchange, domiciled in the United Kingdom and incorporated in England and Wales with the registered number 432989. Its registered office is Atlantic House, Aviation Park West, Bournemouth International Airport, Christchurch, Dorset, BH23 6EW.

Meggitt PLC is the parent company of a Group whose principal activities during the year were the design and manufacture of high performance components and sub-systems for aerospace, defence and other specialist markets, including energy, medical, industrial, test and automotive.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative financial instruments) at fair value.

2. Summary of significant accounting policies

The principal accounting policies adopted by the Group in the preparation of the consolidated financial statements are set out below. These policies have been applied consistently to all periods presented unless stated otherwise.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and all of its subsidiaries together with the Group's share of the results of its joint venture.

A subsidiary is an entity over which the Group has control. The Group has control over an entity where the Group is exposed to, or has the rights to, variable returns from its involvement with the entity, and it has the power over the entity to affect those returns. The results of subsidiaries acquired are fully consolidated from the date on which control transfers to the Group. The results of subsidiaries disposed are fully consolidated up to the date on which control transfers from the Group.

A joint venture is a contractual arrangement between the Group and one or more other parties, under which control is shared between the parties and the Group and other parties have rights to the net assets of the arrangement. A joint venture is accounted for using the equity method 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.

The cost of an acquisition is the fair value of consideration provided, including the fair value of contingent consideration, measured at the acquisition date. Contingent consideration payable is measured at fair value at each subsequent balance sheet date, with changes in fair value recorded in the income statement within net operating costs. Identifiable assets and liabilities of an acquired business meeting the conditions for recognition under IFRS 3 are recognised at fair value at the date of acquisition. The extent to which the cost of an acquisition exceeds the fair value of net assets acquired is recorded as goodwill. Costs directly attributable to an acquisition are recognised in the income statement within net operating costs as incurred. Changes in fair value of contingent consideration payable and costs of an acquisition are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10).

When a subsidiary is acquired, the fair value of its identifiable assets and liabilities are finalised within 12 months of the acquisition date. All fair value adjustments are recognised with effect from the date of acquisition and consequently may result in the restatement of previously reported financial results. The accounting policies of acquired businesses are changed where necessary to be consistent with those of the Group.

When a subsidiary is disposed, the difference between the fair value of consideration received or receivable and the value at which the net assets of the subsidiary were recognised, immediately prior to disposal, is recognised in the income statement within net operating costs. Any contingent consideration receivable is measured at fair value at the date of disposal in determining the gain or loss recognised. Contingent consideration receivable is measured at fair value at each subsequent balance sheet date, with any changes in fair value recognised in the income statement within net operating costs. Changes in fair value of contingent consideration receivable is excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10).

When a foreign subsidiary is disposed, the cumulative exchange differences relating to the retranslation of the net investment in the foreign subsidiary are recognised in the income statement as part of the gain or loss on disposal. This applies only to exchange differences recognised in equity after 1 January 2004. Exchange differences arising prior to 1 January 2004 remain in equity on disposal as permitted by IFRS 1 ('First time Adoption of International Financial Reporting Standards').

Transactions between, and balances with, subsidiary companies are eliminated together with unrealised gains on intra-group transactions. Unrealised losses are eliminated to the extent the asset transferred is not impaired. Unrealised gains and losses on transactions with the joint venture are eliminated to the extent of the Group's interest in the arrangement.

Foreign currencies

Functional and presentational currency

The Group 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 opening net assets of foreign subsidiaries are recognised in hedging and translation reserves within other comprehensive income. Goodwill and fair value adjustments arising from the acquisition of a foreign subsidiary are treated as assets and liabilities of the subsidiary and are retranslated at exchange rates prevailing at the balance sheet date.

2. Summary of significant accounting policies continued

Segment reporting

Operating segments are those segments for which results are reviewed by the Group's Chief Operating Decision Maker ('CODM') to assess performance and make decisions about resources to be allocated. The CODM has been identified as the Board (see page 60 of the Corporate governance report). The Group has determined that its segments are Meggitt Aircraft Braking Systems, Meggitt Control Systems, Meggitt Polymers & Composites, Meggitt Sensing Systems and the Meggitt Equipment Group.

The principal profit measure reviewed by the CODM is 'underlying operating profit' as defined in note 10. A segmental analysis of underlying operating profit is accordingly provided in the notes to the consolidated financial statements.

Segmental information on assets is provided in the notes to the consolidated financial statements in respect of 'trading assets', which are defined to exclude from total assets, amounts which the CODM does not review at a segmental level. 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 recognition

Revenue represents the fair value of consideration received or receivable in respect of goods and services provided in the normal course of business to external customers, net of trade discounts, returns and sales related taxes.

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership have transferred to the customer, managerial involvement and control of the goods is not retained by the Group, the revenue and costs associated with the sale can be measured reliably and the collection of related receivables is probable. In the majority of instances these conditions are met when delivery to the customer takes place. In a minority of instances, 'bill and hold' arrangements exist whereby revenue is recognised prior to delivery but only when the customer has accepted title to the goods, the goods are separately identifiable and available for delivery on terms agreed with the customer and normal credit terms apply.

Contract accounting revenue

In the majority of instances, the Group is able to reliably estimate the outcome of a contract at inception and accordingly recognises revenue and cost of sales by reference to the stage of completion of the contract. Revenue is typically measured by applying to total contract revenue, the proportion costs incurred for work performed in the period bear to total estimated contract costs. Where it is not possible to reliably estimate the outcome of a contract, revenue is recognised equal to costs incurred, provided recovery of such costs is probable. If total contract costs are forecast to exceed total contract revenue, the expected loss is recognised immediately in the income statement within cost of sales.

Revenue from services

Revenue is recognised by reference to the stage of completion of the contract. For 'cost-plus fixed fee' contracts, revenue is recognised equal to the costs incurred plus an appropriate proportion of the fee agreed with the customer. For other contracts, the stage of completion is typically measured by reference to contractual milestones achieved, number of aircraft flying hours (power by the hour contracts) or number of aircraft landings (cost per brake landing contracts).

Revenue from funded research and development

Revenue is recognised according to the stage of completion of the contract. The stage of completion is typically measured by reference to contractual milestones achieved.

Exceptional operating items

Items which are significant by virtue of their size or nature, which are considered non-recurring and which are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10) are classified as exceptional operating items. They include, for instance, costs directly attributable to the integration of an acquired business and significant site consolidation and other restructuring costs. Additionally in 2017, given its significance, the impairment loss arising from cancellation by the customer of the Dassault Falcon 5X programme has been treated as an exceptional operating item. Exceptional operating items are included within the appropriate consolidated income statement category but are highlighted separately in the notes to the consolidated financial statements.

Amounts arising on the acquisition, disposal and closure of businesses

These items are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10). They include, for instance, gains or losses made on the disposal or closure of a business, adjustments to the fair value of contingent consideration payable in respect of an acquired business or receivable in respect of a disposed business and costs directly attributable to the acquisition of a business. Amounts arising on the acquisition, disposal and closure of businesses are included within the appropriate consolidated income statement category but are highlighted separately in the notes to the consolidated financial statements.

Notes to the consolidated financial statements **continued****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 carried at cost less amortisation charged prior to 1 January 2004 less accumulated impairment losses. In the event a subsidiary to which goodwill relates is disposed, its attributable goodwill is included in the determination of the gain or loss on disposal.

Research and development

Research expenditure is recognised as an expense in the income statement as incurred. Development costs incurred on projects where the related expenditure is separately identifiable, measurable and management are satisfied as to the ultimate technical and commercial viability of the project and that the asset will generate future economic benefit based on all relevant available information, are recognised as an intangible asset. Capitalised development costs are carried at cost less accumulated amortisation and impairment losses. Amortisation is charged over periods expected to benefit, typically up to 15 years, commencing with launch of the product. Development costs not meeting the criteria for capitalisation are expensed as incurred.

Programme participation costs

Programme participation costs consist of incentives given to Original Equipment Manufacturers in connection with their selection of the Group's products for installation onto new aircraft where the Group has obtained principal supplier status. These incentives comprise cash payments and/or the supply of initial manufactured parts on a free of charge or deeply discounted basis. Programme participation costs are recognised as an intangible asset and carried at cost less accumulated amortisation and impairment losses. For manufactured parts supplied on a free of charge or deeply discounted basis, cost represents the cost of manufacture transferred from inventory less the value of any revenue received or receivable. Amortisation is charged over periods expected to benefit from receiving the status of principal supplier, through the sale of replacement parts, typically up to 15 years.

Other intangible assets

a) Intangible assets acquired as part of a business combination
For acquisitions, the Group recognises intangible assets separately from goodwill provided they are separable or arise from contractual or other legal rights and their fair value can be measured reliably. Intangible assets are initially recognised at fair value, which is regarded as their cost. Intangible assets are subsequently held at cost less accumulated amortisation and impairment losses.

Amortisation is charged on a straight-line basis over the estimated useful economic lives of the assets. The nature of intangible assets recognised and their estimated useful lives are as follows:

Customer relationships	Up to 20 years
Technology	Up to 20 years
Trade names and trademarks	Up to 15 years
Order backlogs	Over period of backlog (typically up to 3 years)

Amortisation of intangible assets acquired as part of a business combination is excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10).

b) Software and other intangible assets

Software and purchased licences, trademarks and patents are recognised at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over the estimated useful economic lives of the assets, typically over periods up to 10 years. Residual values and useful lives are reviewed annually and adjusted if appropriate.

Property, plant and equipment

Property, plant and equipment is recognised at cost less accumulated depreciation and impairment losses, except for land which is recognised at cost less accumulated impairment losses. Cost includes expenditure directly attributable to the acquisition of the asset.

Depreciation is charged on a straight-line basis over the estimated useful economic lives of the assets as follows:

Freehold buildings	Up to 50 years
Leasehold property	Over period of lease
Plant and machinery	3 to 10 years
Furnaces	Up to 20 years
Fixtures and fittings	3 to 10 years
Motor vehicles	4 to 5 years

Residual values and useful lives are reviewed annually and adjusted if appropriate. When property, plant and equipment is disposed, the difference between sale proceeds, net of related costs, and the carrying value of the asset is recognised in the income statement.

2. Summary of significant accounting policies continued

Borrowing costs

Borrowing costs directly attributable to the construction or production of qualifying assets, are capitalised as part of the cost of those assets until such time as the assets are substantially ready for their intended use. Qualifying assets are those that necessarily take a substantial period of time to get ready for their intended use, which would generally be at least 12 months. All other borrowing costs are recognised in the income statement within finance costs as incurred.

Taxation

Current tax is based on taxable profit for the period, calculated using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is provided in full using the liability method on temporary differences between the tax bases of assets and liabilities and their corresponding book values as recognised in the Group consolidated financial statements. Deferred tax is provided on unremitted earnings of foreign subsidiaries, except where the Group can control the remittance and it is probable that earnings will not be remitted in the foreseeable future. Deferred tax assets are recognised only to the extent it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is calculated using tax rates enacted or substantively enacted at the balance sheet date.

Current tax and deferred tax are recognised in the income statement, other comprehensive income or directly in equity depending on where the item to which they relate has been recognised. In 2017, given its significance, the tax credit recognised in the income statement arising from the reduction in the US federal corporate tax rate has been excluded from the Group's underlying profit for the year (see note 10).

Provision is made for current tax liabilities, when the Group has a present obligation as a result of past events, it is probable an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. The Group typically uses a weighted average of outcomes assessed as possible to determine the level of provision required, unless a single best estimate of the outcome is considered to be more appropriate. Assessments are made at the level of an individual tax uncertainty, unless uncertainties are considered to be related, in which case they are grouped together. Provisions, which are not discounted given the short period over which they are expected to be utilised, are included within current tax liabilities. Any liability relating to interest on tax liabilities is included within finance costs.

Impairment of non-current non-financial assets

Assets are reviewed for impairment annually and also whenever events or changes in circumstances indicate their carrying value may not be recoverable. To the extent carrying value exceeds 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 represents materials, direct labour, other direct costs and related production overheads, based on normal operating capacity, and is determined using the first-in first-out (FIFO) method. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

When a subsidiary is acquired, finished goods are recognised at fair value, which is typically estimated selling price less costs of disposal and a reasonable profit allowance for the selling effort. Work in progress is also recognised at fair value at acquisition, which is typically estimated selling price less costs to complete, costs of disposal and a reasonable profit allowance for work not yet completed. When such inventory is subsequently disposed post acquisition, the fair value is charged to the income statement. The difference between the fair value of the inventory disposed and its actual cost of manufacture is excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10).

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost less any impairment losses.

Where the Group recognises a provision, to the extent the outflows of economic benefits required to settle the obligation are recoverable from an insurer or other third party, an other receivable is recognised. Other receivables are discounted to present value where the impact is significant, using a pre-tax rate. The discount rate used is based on current market assessments of the time value of money, adjusted to reflect any risks specific to the receivable which have not been reflected in the undiscounted receivable. The impact of the unwinding of discounting is recognised in the income statement within finance income.

Notes to the consolidated financial statements **continued**

2. Summary of significant accounting policies **continued**

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks. Bank overdrafts are disclosed as current liabilities, within bank and other borrowings, except where the Group participates in offset arrangements with certain banks whereby cash and overdraft amounts are offset against each other.

Trade payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost. Trade payables are not interest bearing.

Leases

Leases where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at commencement of the lease at the lower of fair value of the leased asset and present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The corresponding lease obligations, net of finance charges, are included in liabilities. Assets acquired under finance leases are depreciated on a straight-line basis over the shorter of the useful life of the asset or the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement on a straight-line basis over the period of the lease.

Borrowings

Borrowings are initially recognised at fair value, being proceeds received less directly attributable transaction costs incurred. Borrowings are generally subsequently measured at amortised cost at each balance sheet date with any transaction costs amortised to the income statement over the period of the borrowings using the effective interest method. Certain borrowings however are designated as fair value through profit and loss at inception, where the Group has interest rate derivatives in place which have the economic effect of converting fixed rate borrowings into floating rate borrowings. Such borrowings are measured at fair value at each balance sheet date with any movement in fair value recognised in the income statement within net operating costs. Movements in fair value are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10).

Any related interest accruals are included within borrowings. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Provisions

Provision is made for environmental liabilities, onerous contracts, product warranty claims and other liabilities when the Group has a present obligation as a result of past events, it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. Provisions are discounted to present value where the impact is significant, using a pre-tax rate. The discount rate used is based on current market assessments of the time value of money, adjusted to reflect any risks specific to the obligation which have not been reflected in the undiscounted provision. The impact of the unwinding of discounting is recognised in the income statement within finance costs.

Retirement benefit schemes

For defined benefit schemes, pension costs and the costs of providing other post-retirement benefits, principally healthcare, are charged to the income statement in accordance with the advice of qualified independent actuaries.

Past service credits and costs and curtailment gains and losses are recognised immediately in the income statement.

Retirement benefit obligations represent, for each scheme, the difference between the fair value of the schemes' assets and the present value of the schemes' defined benefit obligations measured at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the defined benefit obligations using interest rates of high quality corporate bonds denominated in the currency in which the benefits will be paid and with terms to maturity comparable with the terms of the related defined benefit obligations. Where the Group has a statutory or contractual minimum funding requirement to make contributions to a scheme in respect of past service and any such contributions are not available to the Group once paid (as a reduction in future contributions or as a refund to which the Group has an unconditional right either during the life of the scheme or when the scheme liabilities are settled), an additional liability for such amounts is recognised.

Remeasurement gains and losses are recognised in the period in which they arise in other comprehensive income.

For defined contribution schemes, payments are recognised in the income statement when they fall due. The Group has no further obligations once the contributions have been paid.

2. Summary of significant accounting policies continued

Share-based compensation

The Group operates a number of share-based compensation schemes, which are principally equity-settled.

For equity-settled schemes, the fair value of an award is measured at the date of grant and reflects any market-based vesting conditions. At the date of grant, the Group estimates the number of awards expected to vest as a result of non market-based vesting conditions and the fair value of this estimated number of awards is recognised as an expense in the income statement on a straight-line basis over the period for which services are received. At each balance sheet date, the Group revises its estimate of the number of awards expected to vest as a result of non market-based vesting conditions and adjusts the amount recognised cumulatively in the income statement to reflect the revised estimate. When awards are exercised and the Company issues new shares, the proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium.

Derivative financial instruments and hedging

The Group uses derivative financial instruments to hedge its exposure to interest rate risk and foreign currency transactional risk. Derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently measured at fair value at each balance sheet date using values determined indirectly from quoted prices that are observable for the asset or liability.

The method by which any gain or loss arising from subsequent measurement at fair value is recognised, depends on whether the instrument is designated as a hedging instrument and if so the nature of the item hedged. The Group recognises an instrument as a hedging instrument by documenting, at its inception, the relationship between the instrument and the hedged item and the objectives and strategy for undertaking the hedging transaction. To be designated as a hedging instrument, an instrument must also be assessed, at inception and on an ongoing basis, to be highly effective in offsetting changes in fair values or cash flows of hedged items.

To the extent the maturity of the derivative financial instrument is more than 12 months from the balance sheet date, the fair value is reported as a non-current asset or non-current liability. All other derivative financial instruments are reported as current assets or current liabilities.

Fair value hedges

Changes in fair value of derivative financial instruments, that are designated and qualify as fair value hedges, are recognised in the income statement within net operating costs together with changes in fair value of the hedged item. Any difference between the movement in fair value of the derivative and the hedged item is excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10). The Group currently applies fair value hedge accounting to the hedging of fixed interest rate risk on bank and other borrowings.

Cash flow hedges

Changes in fair value of the effective portion of derivative financial instruments, that are designated and qualify as cash flow hedges, are initially recognised in other comprehensive income. Changes in fair value of any ineffective portion are recognised immediately in the income statement within net operating costs. To the extent changes in fair value are recognised in other comprehensive income, they are recycled to the income statement in the periods in which the hedged item affects the income statement. The Group currently applies cash flow hedge accounting to the hedging of floating interest rate risk on bank and other borrowings.

If the hedging instrument is sold or no longer meets the criteria for hedge accounting, the cumulative gain or loss previously recognised in other comprehensive income is transferred to the income statement within net operating costs.

Net investment hedges

Changes in fair value of the effective portion of any hedge are recognised in other comprehensive income. Changes in fair value of any ineffective portion are recognised immediately in the income statement within net operating costs. Cumulative gains and losses previously recognised in other comprehensive income are transferred to the income statement if the foreign subsidiary to which they relate is disposed. Any such gains or losses are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10).

Derivatives not meeting the criteria for hedge accounting

Where derivatives do not meet the criteria for hedge accounting, changes in fair value are recognised immediately in the income statement within net operating costs. Gains and losses arising from measuring these derivatives at fair value are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 10).

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted from the proceeds recognised in equity.

Own shares represent shares in the Company that are held by an independently managed Employee Share Ownership Plan. Consideration paid for own shares, including any incremental directly attributable costs, is recognised as a deduction from retained earnings.

Dividends

Interim dividends are recognised as liabilities when they are approved by the Board. Final dividends are recognised as liabilities when they are approved by the shareholders.

Notes to the consolidated financial statements **continued**

2. Summary of significant accounting policies **continued**

Adoption of new and revised accounting standards

During the year, no new accounting standards became effective which had a significant impact on the Group consolidated financial statements.

Recent accounting developments

A number of new standards and amendments and revisions to existing standards have been published and are mandatory for the Group's future accounting periods. They have not been early adopted in these consolidated financial statements. None of these are expected to have a significant impact on the consolidated financial statements when they are adopted except as disclosed below:

IFRS 15, 'Revenue from contracts with customers'

This standard establishes principles for reporting the nature, amount and timing of revenue arising from an entity's contracts with customers. The standard becomes effective for periods beginning on or after 1 January 2018. The Group's intention is to apply the full retrospective approach upon adoption of IFRS 15. This approach requires all open contracts with customers presented in the 2018 consolidated financial statements to be transitioned under the new standard. Comparative financial information for 2017 will be restated with a cumulative adjustment to equity at 1 January 2017. The Group has performed a significant, detailed analysis in order to quantify the impact of IFRS 15. The principal areas of the Group's existing accounting impacted include:

- Programme participation costs – Free of charge/deeply discounted manufactured parts
Amounts previously recognised as an intangible asset and amortised over their useful lives will now be expensed as incurred.
- Programme participation costs – Cash payments
The treatment of cash programme payments will depend on the nature of the contractual relationship between the Group and the third party to whom the payment is made. Where the payment is made to a third party under a revenue contract (as defined by IFRS 15), or the award of future IFRS 15 revenue contracts on the programme from the same party is highly probable, payments will be recognised as a contract asset and amortised, as a deduction from revenue, over the periods expected to benefit from those contracts. This situation will most frequently arise where payment is made to the same party to whom OE and/or aftermarket parts are sold. Other payments, will continue to be recognised as an intangible asset and amortised as a charge to cost of sales.
- Revenue from sale of goods
The timing of revenue recognised on the substantial majority of contracts is not significantly affected by IFRS 15 with revenue continuing to be recognised as goods are delivered to the customer, at the price agreed with the customer for those goods. A minority of contracts require changes to the timing of recognition of revenue to reflect IFRS 15 guidance on areas such as the accounting for customer price changes, volume discounts, whether multiple deliveries and services provided to a customer should be accounted for individually or aggregated and, for certain military contracts, the requirement to recognise revenue over time as parts are manufactured.
- Contract accounting revenue
Certain contracts will no longer meet the criteria for revenue to be recognised as work is performed, but will instead only be recognised at a point in time, usually when goods are delivered to the customer. Contracts which continue to qualify for revenue to be recognised over time will be accounted for as performance occurs, although the method by which performance is measured will, in some instances, change under IFRS 15.
- Revenue from power by the hour and cost per brake landing type contracts
Revenue will no longer be recognised by reference to the number of aircraft flying hours or aircraft landings but when maintenance events are carried out.
- Revenue from other services
No significant changes to the current method of accounting will arise.
- Revenue from funded research and development contracts
Revenue will no longer be recognised as contractually agreed milestones are achieved but when control passes to the customer, either over time as work is performed or at a point in time as performance obligations are satisfied.

2. Summary of significant accounting policies continued

An assessment of the expected impact of IFRS 15 is shown below. It represents a reasonable estimate of the expected impact on the reported results for the year ended 31 December 2017 and on the net assets at that date but is subject to revision during 2018 as the Group completes its analysis, particularly for those contracts on which revenue was recognised in the latter part of 2017 under current GAAP.

	£'m
Revenue:	
As reported	2,027.3
Expected impacts	(30.5)
Estimated revenue for the year ended 31 December 2017 – Restated under IFRS 15	1,996.8
Underlying operating profit:	
As reported	388.4
Programme participation costs – free of charge/deeply discounted*	(22.9)
Expected other impacts	(9.8)
Estimated underlying operating profit for the year ended 31 December 2017 – Restated under IFRS 15	355.7

* Relates to the expensing of amounts capitalised in 2017 and the reversal of the amortisation charge for the year.

The estimated impact on net assets at 31 December 2017 is a reduction of £234.2m from that reported under current GAAP, driven principally by the expensing of £285.4m free of charge/deeply discounted manufactured parts and the elimination of the associated deferred tax liability held in respect of such amounts.

IFRS 16, 'Leases'

This standard requires recognition on the Group's balance sheet of assets and liabilities relating to leases which are currently being accounted for as operating leases. The standard becomes effective for accounting periods beginning on or after 1 January 2019 however, the Group's intention is to early adopt this standard in its accounting periods beginning on 1 January 2018. The Group has performed an analysis to assess the impact of IFRS 16 and estimates it will recognise additional 'right of use' assets, primarily in relation to property leases, of £90.0m on the balance sheet at 31 December 2017. Additional lease liabilities of a similar amount will also be recognised, and the impact on net assets will not be significant. The operating lease rental expense currently charged to operating profit in the income statement for 2017 will be replaced by an amortisation charge for the 'right of use' assets recognised in operating profit and an interest charge on the lease liabilities recognised in finance costs. The net impact on the income statement for 2017 is not expected to be significant.

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 37 to 38 of the Chief Financial Officer's review). Regular reports monitor exposures and assist in managing the associated risks.

Market risk

Foreign exchange risk

The Group operates internationally and is subject to foreign exchange risks on future commercial transactions and the retranslation of the results of, and net investments in, foreign subsidiaries. The principal exposure arises with respect to the US dollar against the Pound sterling. To mitigate risks associated with future commercial transactions, the Group policy is to hedge known and certain forecast transaction exposure based on historical experience and projections. The Group hedges at least 70% of the next 12 months anticipated exposure and can hedge expected exposures up to five years. Details of hedges in place are provided in note 32. The Group does not hedge exposure arising from the retranslation of the results of foreign subsidiaries. The Group uses borrowings denominated in the relevant currencies to partially hedge its net investments in foreign subsidiaries.

Interest rate risk

The Group has borrowings issued at both fixed and floating rates of interest. Borrowings issued at fixed rates expose the Group to fair value interest rate risk, whereas borrowings issued at floating rates expose the Group to cash flow interest rate risk. The Group's policy is to generally maintain at least 25% of its net debt at fixed rates. The Group mitigates interest rate risks through interest rate derivatives which have the economic effect of converting fixed rate borrowings into floating rate borrowings and floating rate borrowings into fixed rate borrowings. Details of hedges in place are provided in note 32.

Credit risk

The Group is not subject to significant concentration of credit risk with exposure spread across a large number of customers across the world. In addition, many of the Group's principal customers are either government departments or large multinationals. Note 25 details the Group's credit risk exposures in relation to its customers. Policies are maintained to ensure the Group makes sales to customers with an appropriate credit history. Letters of credit, or other appropriate instruments, are put in place to reduce credit risk where considered necessary. The Group is also subject to credit risk on the counterparties to its other financial instruments which it controls through only dealing with highly rated counterparties and netting transactions on settlement wherever possible. The credit quality of the Group's counterparties is set out in notes 26 and 32.

Notes to the consolidated financial statements **continued****3. Financial risk management** **continued****Liquidity risk**

The Group maintains sufficient committed facilities to meet projected borrowing requirements based on cash flow forecasts. Additional headroom is maintained to protect against the variability of cash flows and to accommodate small bolt-on acquisitions. Key ratios are monitored to ensure continued compliance with covenants contained in the Group's principal credit agreements. The following table analyses the Group's non-derivative financial liabilities and derivative assets and liabilities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows:

	2017				
	Less than 1 year £'m	1-2 years £'m	2-5 years £'m	Greater than 5 years £'m	Total £'m
Trade and other payables*	435.3	1.8	0.2	3.5	440.8
Bank and other borrowings	61.7	-	551.3	444.4	1,057.4
Interest payments on borrowings	31.5	30.5	66.0	39.4	167.4
Obligations under finance leases (see note 29)	1.1	1.2	3.6	10.8	16.7
Derivative financial instruments: Inflows**	(7.3)	(6.0)	(6.4)	-	(19.7)
Total	522.3	27.5	614.7	498.1	1,662.6

	2016				
	Less than 1 year £'m	1-2 years £'m	2-5 years £'m	Greater than 5 years £'m	Total £'m
Trade and other payables*	453.1	1.2	1.8	2.0	458.1
Bank and other borrowings	162.0	0.2	569.0	586.9	1,318.1
Interest payments on borrowings	41.8	33.3	86.0	62.4	223.5
Obligations under finance leases (see note 29)	1.2	1.7	3.4	13.1	19.4
Derivative financial instruments: Inflows**	(11.6)	(7.1)	(14.1)	(1.3)	(34.1)
Total	646.5	29.3	646.1	663.1	1,985.0

* Excludes social security and other taxes of £10.2m (2016: £10.9m) (see note 27).

** Assumes no change in interest rates from those prevailing at the balance sheet date.

Sensitivity analysis

The Group's principal exposure in relation to market risks are to changes in the exchange rate between the US dollar and Pound sterling and to changes in US interest rates. The table below illustrates the sensitivity of the Group's results to changes in these key variables at the balance sheet date. The analysis covers only financial assets and liabilities held at the balance sheet date and is made on the basis of the hedge designations in place on those dates and assuming no hedge ineffectiveness.

	2017		2016	
	Income statement £'m	Equity £'m	Income statement £'m	Equity £'m
USD/Sterling exchange rate +/- 10%	39.6	94.9	49.0	123.0
US yield curve +/- 1%	17.8	0.3	14.2	3.3

The impact on equity from movements in the exchange rate comprises £93.8m (2016: £124.8m) in respect of US dollar net debt, and £1.1m (2016: offset by £1.8m) in respect of other financial assets and liabilities. However, as all US dollar net debt is designated as a net investment hedge, this element of the impact is entirely offset by the retranslation of foreign subsidiaries. The impact of a 1% movement in the US yield curve includes the effect on the Group's foreign currency forward contracts and other financial assets and liabilities.

Capital risk management

The Group's objective when managing its capital structure is to minimise the cost of capital whilst maintaining adequate capital to protect against volatility in earnings and net assets. The strategy is designed to maximise shareholder return over the long-term. The Group's post-tax weighted average cost of capital at 31 December 2017 is approximately 6.2% (2016: 6.2%) and its capital structure is as follows:

	2017 £'m	2016 £'m
Net debt (see note 42)	964.8	1,179.1
Total equity	2,556.4	2,456.4
Debt/equity %	37.7%	48.0%

The Board believes that in maintaining an efficient balance sheet, a net debt:EBITDA ratio of between 1.5x and 2.5x is appropriate, whilst retaining the flexibility to move outside the range if appropriate. Further details on the Group's strategy for delivering net debt:EBITDA in this range can be found on page 37 and 38 of the Chief Financial Officer's review, which includes details on how the Group has complied with the two principal financial covenant requirements contained in its committed credit facilities.

4. Critical accounting estimates and judgements

In applying the Group's accounting policies set out in note 2, the Group is required to make certain estimates and judgements concerning the future. These estimates and judgements are regularly reviewed and revised as necessary. The estimates and judgements that have the most significant effect on the amounts included in these consolidated financial statements are described below. Further consideration of these critical estimates and judgements can be found in the Audit Committee report on page 67.

Critical accounting estimates and assumptions

Impairment testing of goodwill

Each year the Group carries out impairment tests of goodwill which require estimates to be made of the value in use of its CGU's or groups of CGU's. These value in use calculations are dependent on estimates of future cash flows, long-term growth rates and appropriate discount rates to be applied to future cash flows. Further details on these estimates and sensitivities of the carrying value of goodwill to these estimates are provided in note 18.

Cancellation of Dassault Falcon 5X programme

On 13 December 2017, Dassault Aviation ("Dassault") announced the cancellation of its Falcon 5X programme and the launch of a new Falcon programme featuring the same cross section, but powered by Pratt & Whitney Canada engines rather than the Silvercrest engine selected for the Falcon 5X. Dassault forecast the new aircraft will enter into service in 2022 and indicate they expect to re-use a maximum of work undertaken to date on the Falcon 5X and to work with Meggitt on the successor programme.

Prior to cancellation, the most recent impairment testing performed by the Group, using third party fleet forecast information, had not identified any requirement for an impairment. At the date of cancellation, the Group had assets of £59.5m on the balance sheet related to the Falcon 5X and Silvercrest engine (principally development costs incurred by Meggitt Aircraft Braking Systems). The cancellation has required the Group to perform an additional impairment test to reassess the estimated recoverable value of these assets. In making this estimate, the Group has taken into consideration the contractual position with the customer, the considerable uncertainty surrounding the successor programme design and the extent to which this new design will impact the braking system and require significant rework, for instance from increases in the maximum take-off weight. The Group has also considered the lack of reliable fleet forecasts for the new aircraft, forecast delays in entry into service of the new aircraft compared to the Falcon 5X and the extent to which the cancellation significantly reduces forecast demand for the Silvercrest engine. The Group has concluded that the level of uncertainty in these areas is so significant that it is not possible to reliably estimate the extent to which any of the costs previously held on the balance sheet will be recoverable and accordingly has recognised a full impairment of these assets in 2017 (see note 11).

Given cancellation occurred late in 2017, it is possible that over the course of 2018 there will be progress made to resolve some of the areas of uncertainty referred to above. Depending on the outcome of these uncertainties, it is therefore reasonably foreseeable that an element of the impairment loss recognised in 2017 may be reversed in 2018. The Group has considered whether a contingent asset should be disclosed however, until these uncertainties are resolved, it is not possible to quantify the extent of any reversal in order to ascribe a value to any such asset.

Retirement benefit obligations

The liability recognised in respect of retirement benefit obligations is dependent on a number of estimates including those relating to mortality, inflation, salary increases and the rate at which liabilities are discounted. External actuarial advice is taken with regard to the most appropriate assumptions to use. Further details on these estimates and sensitivities of the retirement benefit obligations to these estimates are provided in note 35.

Environmental provisions

The Group is involved in the investigation and remediation of environmental contamination at certain sites for which it has been identified as a potentially responsible party under US law (see note 33 for further details). In determining the provision to be recognised, advice is received by the Group from its environmental consultants and legal advisors to assist in the estimate of the level and timing of remediation costs, including the period for which operations and monitoring activities will be required to be carried out. These estimates are revised regularly as remediation activities progress and further information is obtained on the extent of activities to be performed by the Group. In the last five years, both annual reductions and annual increases in costs estimates have been experienced. If the cost estimates on which the provision at 31 December 2017 is based were to change by 15%, the largest observed overall annual movement seen in this five year period, the provision recognised would need to change by approximately £15.0m. During the last five years, no significant changes to the estimated period for which operations and maintenance activities will be required have been necessary. However, as the period for which groundwater testing has been performed increases, the results of that testing provide a more reliable estimate of the extent to which such activities will continue to be required in the future. It is reasonably foreseeable that, depending on groundwater testing results in 2018, the periods for which operations and maintenance will be required could increase by up to five years. Were an increase of five years to be required, the provision recognised would need to increase by approximately £8.0m.

The Group has extensive insurance arrangements in place to mitigate the ongoing impact of historical environmental events on the Group (see note 33 for further details). These insurance policies however, have monetary caps and in some cases are term policies, whereby costs are only recoverable if incurred by specified dates. The estimates of the extent and timing of remediation costs, used to determine the provision, are also used in determining the level of receivable to recognise. If remediation cost estimates were to change by 15%, the receivable recognised would need to change by approximately £4.0m reflecting the impact of the insurance policy caps in place. If additionally, the estimated period for which operations and maintenance is required were to increase by five years, the receivable recognised would need to increase by £1.7m. Whilst the timing of remediation is based on advice from third party environmental consultants, it is possible that delays could occur with site excavation activities. However, progress on remediation activities during 2017 has been significant on those sites where term insurance policies are in place and accordingly the Group no longer considers that any reasonably foreseeable future delays will have a significant impact on the insurance receivable recognised.

Notes to the consolidated financial statements **continued****4. Critical accounting estimates and judgements** *continued***Income taxes**

In determining the Group's tax provision, it is necessary to consider transactions in a small number of key tax jurisdictions for which the ultimate tax determination is uncertain. The Group's tax provision at 31 December 2017 is £37.4m (2016: £43.4m) and reflects a number of areas of judgement where the amount of tax payable is either currently under audit by the tax authorities or relates to a period which has yet to be audited. These areas include the deductibility of interest on certain borrowings used to finance acquisitions made by the Group and the price at which goods and services are transferred between Group companies. The nature of the items, for which a provision is held, is such that the final outcome could vary from the amounts held once a final tax determination is made, although currently none of these exposures is considered individually material. Based on the Group's recent experience of revisions to previous tax estimates as more information has become available, and assuming no significant changes in legislation from those already announced, it currently expects the outcome across all open items to range from a potential increase of £7.0m in the provision to a potential reduction of £8.0m. To the extent the estimated final outcome differs from the tax that has been provided, adjustments will be made to income tax and deferred tax balances held in the period the determination is made.

Critical accounting judgements**Level at which impairment testing of goodwill is performed**

Goodwill is required to be allocated to CGUs or groups of CGUs for the purpose of impairment testing. In the Group's judgement, with the exception of businesses within its Equipment Group segment and the advance composite businesses acquired in late 2015, it is appropriate to allocate goodwill to the group of CGUs represented by its operating segments. In making this judgement, the Group considers that the extent of consolidation of activities within each segment (other than in the Meggitt Equipment Group) is such that allocating goodwill to individual CGU's within that segment would require management to perform significant arbitrary allocations. The allocation of goodwill at a segment level is consistent with the level at which it is monitored by management.

The cash inflows of the two advanced composites businesses are not considered independent of one another, and continue to be treated as a single CGU. Although integration of the activities of the CGU with the rest of the businesses within its operating segment is progressing well, it is still possible to reliably allocate goodwill to the CGU and it continues to be monitored by management at this level. Accordingly impairment testing in the year has been performed at the CGU level. Due to the nature of CGUs within the Meggitt Equipment Group, which principally operate independently of one another, goodwill can be reliably allocated to each CGU within the segment for testing.

Capitalisation of development costs

The Group is required to make judgements as to when development costs meet the criteria to be recognised as intangible assets. The majority of capitalised development costs relate to technology developed for aerospace programmes. In such cases, costs are typically not capitalised until a contract to develop the technology is awarded by a customer as, prior to this date, it is generally not possible to reliably estimate the point at which research activities conclude and development activities commence. Absent a contract, the Group also does not believe there is generally sufficient certainty over the future economic benefits that will be generated from the technology, to allow capitalisation of those costs. Post contract award, the Group will capitalise development costs provided it expects to retain the intellectual property in the technology throughout substantially all of the life of the aircraft or engine and it is probable that future economic benefits will flow to the Group. In making a judgement as to whether economic benefits will arise, the Group will make estimates of aircraft or engine volumes (taking into account the extent to which the Group has a sole-source position), aftermarket revenues which are dependent on aircraft utilisation, fleet lives and operator service routines, costs of manufacture and costs to complete the development activity. During 2017, the Group recognised £61.3m of development costs as an intangible asset (see note 19).

Capitalisation of programme participation costs

The Group is required to make judgements as to when programme participation costs meet the criteria to be recognised as intangible assets. Approximately 85% of capitalised programme participation costs relate to free of charge or deeply discounted manufactured parts ('FOC'), with the balance relating to cash programme payments. All amounts relate to aerospace programmes. FOC costs are typically incurred just prior to individual aircraft entering service and only where the Group is satisfied it is probable the costs will be recovered through incremental aftermarket revenues generated over the life of the part, will amounts be capitalised. In making this judgement, the Group makes estimates of aftermarket revenues which are dependent on aircraft utilisation, fleet lives and operator service routines. The capitalisation of cash payments is subject to similar judgements to those described for development costs above. During 2017, the Group recognised £60.3m of programme participation costs as an intangible asset (see note 19).

5. Revenue

The Group's revenue is analysed as follows:

	2017 £'m	2016 £'m
Sale of goods	1,861.3	1,798.8
Contract accounting revenue	29.1	59.8
Revenue from services – Power by the hour/Cost per brake landing	39.4	39.0
Revenue from services – Other	54.2	56.0
Revenue from funded research and development	43.3	38.8
Total	2,027.3	1,992.4

6. Segmental analysis

Analysis by operating segment

The Group manages its businesses under the key segments of Meggitt Aircraft Braking Systems, Meggitt Control Systems, Meggitt Polymers & Composites, Meggitt Sensing Systems and the Meggitt Equipment Group. Details of the Group's divisions can be found on pages 25 to 29 of the Strategic report. The segmental analysis for the prior year has been restated to reflect the closure of the Group's Meggitt Control Systems operations in Corona, California and transfer of certain of its activities to an existing Meggitt Equipment operation in Irvine California. It has also been restated to reflect the transfer of responsibility for certain aftermarket operations from Meggitt Aircraft Braking Systems and Meggitt Sensing Systems to Meggitt Control Systems.

Year ended 31 December 2017

The key performance measure reviewed by the CODM is underlying operating profit. A detailed reconciliation of operating profit to underlying operating profit is provided in note 10.

	Meggitt Aircraft Braking Systems £'m	Meggitt Control Systems £'m	Meggitt Polymers & Composites £'m	Meggitt Sensing Systems £'m	Meggitt Equipment Group £'m	Total £'m
Gross segment revenue	393.2	527.6	339.2	539.5	275.7	2,075.2
Inter-segment revenue	(6.5)	(1.2)	(1.9)	(24.7)	(13.6)	(47.9)
Revenue from external customers	386.7	526.4	337.3	514.8	262.1	2,027.3
Underlying operating profit (see note 10)*	147.7	123.7	24.0	71.4	21.6	388.4
Items not affecting underlying operating profit (see note 10)						(84.2)
Operating profit (see note 10)						304.2
Finance income (see note 12)						1.4
Finance costs (see note 13)						(43.2)
Net finance costs						(41.8)
Profit before tax						262.4
Tax credit (see note 14)						87.6
Profit for the year						350.0
Exceptional operating items**	56.7	4.1	4.5	2.9	2.0	70.2
Amortisation of intangible assets (see notes 19 and 20)***	92.7	21.2	23.1	21.2	8.9	167.1
Impairment (gain)/loss (see notes 19 and 21)****	(1.5)	1.7	2.0	0.7	-	2.9
Depreciation (see note 21)	7.5	7.3	9.5	11.3	5.3	40.9

* Central costs are allocated using a variety of bases designed to reflect the beneficial relationship between the costs and the segments. Bases include headcount, payroll costs, gross assets and revenue.

** Central exceptional items of £4.4m were not included in segmental exceptional operating items reviewed by the CODM.

*** Of the total amortisation in the year, £73.6m has been charged to underlying operating profit as defined in note 10.

**** Excludes amounts charged to exceptional operating items of £55.9m (see note 11).

The Group's largest customer accounts for 7.7% of revenue (£156.6m). Revenue from this customer arises across all segments.

	Meggitt Aircraft Braking Systems £'m	Meggitt Control Systems £'m	Meggitt Polymers & Composites £'m	Meggitt Sensing Systems £'m	Meggitt Equipment Group £'m	Total £'m
Additions to non-current assets*						
Development costs net of customer funding (see note 19)	27.8	3.9	0.6	23.5	1.9	57.7
Programme participation costs (see note 19)	47.6	6.3	0.2	6.2	-	60.3
Other purchased intangible assets	0.1	0.9	1.0	0.9	0.7	3.6
Property, plant and equipment	10.4	8.7	26.2	10.7	5.5	61.5
Total	85.9	19.8	28.0	41.3	8.1	183.1

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

Notes to the consolidated financial statements **continued****6. Segmental analysis** *continued*

At 31 December 2017

	Total £'m
Meggitt Aircraft Braking Systems	759.1
Meggitt Control Systems	352.6
Meggitt Polymers & Composites	220.6
Meggitt Sensing Systems	457.0
Meggitt Equipment Group	177.5
Total segmental trading assets	1,966.8
Centrally managed trading assets*	131.0
Goodwill (see note 18)	1,947.0
Other intangible assets	592.0
Investments (see note 22)	13.6
Derivative financial instruments – non-current (see note 32)	28.5
Deferred tax assets (see note 34)	11.5
Derivative financial instruments – current (see note 32)	3.6
Current tax recoverable	4.3
Cash and cash equivalents (see note 26)	118.5
Assets classified as held for sale (see note 23)	9.7
Total assets	4,826.5

* Centrally managed trading assets principally include amounts recoverable from insurers and other third parties in respect of environmental issues relating to former sites, other receivables and property, plant and equipment of central companies.

Year ended 31 December 2016 (Restated)

The key performance measure reviewed by the CODM is underlying operating profit. A detailed reconciliation of operating profit to underlying operating profit is provided in note 10.

	Meggitt Aircraft Braking Systems £'m	Meggitt Control Systems £'m	Meggitt Polymers & Composites £'m	Meggitt Sensing Systems £'m	Meggitt Equipment Group £'m	Total £'m
Gross segment revenue	391.7	487.0	331.2	541.2	284.2	2,035.3
Inter-segment revenue	(5.7)	(0.9)	(1.5)	(22.0)	(12.8)	(42.9)
Revenue from external customers	386.0	486.1	329.7	519.2	271.4	1,992.4
Underlying operating profit (see note 10)*	140.3	119.2	39.5	71.3	9.4	379.7
Items not affecting underlying operating profit (see note 10)						(146.0)
Operating profit (see note 10)						233.7
Finance income (see note 12)						2.0
Finance costs (see note 13)						(40.2)
Net finance costs						(38.2)
Profit before tax						195.5
Tax charge (see note 14)						(24.3)
Profit for the year						171.2
Exceptional operating items (see note 11)	3.3	0.2	7.0	2.7	2.3	15.5
Amortisation of intangible assets (see notes 19 and 20)**	87.8	19.2	23.6	20.8	10.7	162.1
Impairment loss (see note 19)	1.5	(1.5)	–	3.3	–	3.3
Depreciation (see note 21)	7.6	7.7	7.9	11.6	6.5	41.3

* Central costs are allocated using a variety of bases designed to reflect the beneficial relationship between the costs and the segments. Bases include headcount, payroll costs, gross assets and revenue.

** Of the total amortisation in the year, £63.5m was charged to underlying operating profit as defined in note 10.

6. Segmental analysis continued

The Group's largest customer accounts for 6.6% of revenue (£132.4m). Revenue from this customer arises across all segments.

	Meggitt Aircraft Braking Systems £'m	Meggitt Control Systems £'m	Meggitt Polymers & Composites £'m	Meggitt Sensing Systems £'m	Meggitt Equipment Group £'m	Total £'m
Additions to non-current assets*						
Development costs net of customer funding (see note 19)	34.0	2.0	0.7	27.3	5.6	69.6
Programme participation costs (see note 19)	49.0	6.1	0.2	2.6	-	57.9
Other purchased intangible assets	1.3	0.3	0.9	1.1	0.5	4.1
Property, plant and equipment	7.7	11.4	14.8	14.6	4.8	53.3
Total	92.0	19.8	16.6	45.6	10.9	184.9

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

At 31 December 2016 (Restated)

	Total £'m
Meggitt Aircraft Braking Systems	824.7
Meggitt Control Systems	372.1
Meggitt Polymers & Composites	230.0
Meggitt Sensing Systems	463.2
Meggitt Equipment Group	178.6
Total segmental trading assets	2,068.6
Centrally managed trading assets*	176.0
Goodwill (see note 18)	2,095.7
Other intangible assets	738.3
Investments (see note 22)	14.8
Derivative financial instruments – non-current (see note 32)	21.8
Deferred tax assets (see note 34)	15.9
Derivative financial instruments – current (see note 32)	4.2
Current tax recoverable	4.4
Cash and cash equivalents (see note 26)	173.8
Total assets	5,313.5

* Centrally managed trading assets principally include amounts recoverable from insurers and other third parties in respect of environmental issues relating to former sites, other receivables and property, plant and equipment of central companies.

Analysis by geography

	2017 £'m	2016 £'m
Revenue		
UK	197.1	201.8
Rest of Europe	410.4	422.2
United States of America	1,142.3	1,081.7
Rest of World	277.5	286.7
Total	2,027.3	1,992.4

Revenue is based on the location of the customer.

	2017 £'m	2016 £'m
Non-current assets		
UK	705.9	700.8
Rest of Europe	201.7	211.2
United States of America	2,837.4	3,194.1
Rest of World	11.4	11.1
Total	3,756.4	4,117.2

Segmental non-current assets are based on the location of the assets. They exclude the investment in the Group's joint venture, trade and other receivables, derivative financial instruments and deferred tax assets.

Notes to the consolidated financial statements **continued****7. Auditor's remuneration**

Payable to PricewaterhouseCoopers LLP and its associates:

	2017 £'m	2016 £'m
For the audit of the Company and consolidated financial statements in respect of the current year	1.2	1.2
For the audit of the Company and consolidated financial statements in respect of the prior year	–	0.2
For the audit of the accounts of any subsidiary of the Company in respect of the current year	0.7	0.7
Total	1.9	2.1

Non-audit fees payable to PricewaterhouseCoopers LLP are £0.1m (2016: £Nil).

8. Operating profit

Operating profit is stated after charging/(crediting):

	2017 £'m	2016 £'m
Raw materials and consumables used	569.1	588.5
Change in inventories of finished goods and work in progress	2.4	24.0
Employee costs (see note 9)	724.4	708.2
Research and development costs*	92.4	85.4
Amortisation of capitalised development costs (see note 19)	22.1	14.0
Amortisation of programme participation costs (see note 19)	36.8	33.4
Amortisation of intangible assets acquired in business combinations (see note 10)	93.5	98.6
Amortisation of software and other intangible assets (see note 20)	14.7	16.1
Impairment loss on capitalised development costs (see note 19)	0.9	3.3
Depreciation (see note 21)	40.9	41.3
Impairment loss on property, plant and equipment (see note 21)	2.0	–
Loss on disposal of property, plant and equipment	0.8	1.4
Loss on disposal of software and other intangible assets	0.3	–
Exceptional operating items (see note 11)	74.6	15.5
Amounts arising on the acquisition, disposal and closure of businesses (see note 10)	(25.3)	(39.1)
Financial instruments (see note 10)	(58.6)	66.4
Net foreign exchange gains	(7.1)	(5.3)
Operating lease rentals	19.9	16.9
Share of profit after tax of joint venture (see note 22)	0.6	1.2
Dividend income from joint venture (see note 22)	(0.5)	–
Other operating income	(5.4)	(2.3)

* Total research and development expenditure in the year is £153.7m (2016: £157.8m) of which £36.1m (2016: £31.7m) is charged to cost of sales, £56.3m (2016: £53.7m) is charged to net operating costs and £61.3m (2016: £72.4m) is capitalised as development costs (see note 19).

9. Employee information

	2017 £'m	2016 £'m
Employee costs including executive directors:		
Wages and salaries	574.8	554.3
Social security costs	102.9	100.7
Retirement benefit costs (see note 35)	38.7	45.2
Share-based payment expense (see note 37)	8.0	8.0
Total	724.4	708.2

	2017 Number	2016 Restated* Number
Average monthly number of persons employed including executive directors:		
Meggitt Aircraft Braking Systems	1,169	1,223
Meggitt Control Systems	1,695	1,734
Meggitt Polymers & Composites	2,632	2,547
Meggitt Sensing Systems	2,927	3,099
Meggitt Equipment Group	1,521	1,767
Corporate including shared services	457	411
Total persons employed	10,401	10,781
Others persons providing similar services	673	698
Total	11,074	11,479

* Restated to reflect the changes in divisional structure as described in note 6 and to disclose separately persons who are not employees, but provide similar services.

10. Reconciliations between profit and underlying profit

Underlying profit is used by the Board to monitor and measure the underlying trading performance of the Group. It excludes certain items as described below.

Delivery of the Group's strategy includes investment in acquisitions that enhance its technology portfolio and the restructuring of its cost base to deliver operational improvements. The exclusion of significant items arising from M&A activity and business restructuring is designed by the Board to align short-term operational decisions with this longer-term strategy. Accordingly amounts arising on the acquisition, disposal and closure of businesses, amortisation of intangible assets acquired in business combinations, disposal of inventory revalued in business combinations, business restructuring and site consolidation costs are excluded from underlying profit measures. Due to the significance of the impairment loss arising from cancellation of the Dassault Falcon 5X programme and of the tax credit arising from the reduction in the US rate of federal corporate tax, these amounts have been excluded from underlying profit measures for 2017. 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 also excluded from underlying profit measures. The Board considers net interest expense on retirement benefit obligations to be a non-trading item and accordingly excludes it from underlying profit measures.

Items excluded from underlying profit measures are treated consistently with the way performance is measured under the Group's short term and long term incentive plans and covenant requirements defined in the Group's committed credit facilities.

	Note	2017 £'m	2016 £'m
Operating profit		304.2	233.7
Exceptional operating items (see note 11)		74.6	15.5
Amounts arising on the acquisition, disposal and closure of businesses	a	(25.3)	(39.1)
Amortisation of intangible assets acquired in business combinations	b	93.5	98.6
Disposal of inventory revalued in business combinations	c	-	4.6
Financial instruments	d	(58.6)	66.4
Adjustments to operating profit*		84.2	146.0
Underlying operating profit		388.4	379.7
Profit before tax		262.4	195.5
Adjustments to operating profit per above		84.2	146.0
Net interest expense on retirement benefit obligations (see note 35)		11.3	10.6
Adjustments to profit before tax		95.5	156.6
Underlying profit before tax		357.9	352.1
Profit for the year		350.0	171.2
Adjustments to profit before tax per above		95.5	156.6
Tax effect of adjustments to profit before tax		(49.8)	(58.4)
Impact of reduction in the US rate of federal corporate tax (see note 14)		(122.6)	-
Adjustments to profit for the year		(76.9)	98.2
Underlying profit for the year		273.1	269.4

* Of the adjustments to operating profit, £10.0m (2016: £3.6m) relating to exceptional operating items and £Nil (2016: £4.6m) relating to the disposal of inventory revalued in business combinations has been charged to cost of sales, with the balance of £74.2m (2016: £137.8m) included within net operating costs.

- a. The Group separately presents amounts arising on the acquisition, disposal and closure of businesses. These include gains or losses made on the disposal or closure of a business, adjustments to the fair value of contingent consideration payable in respect of an acquired business or receivable in respect of a disposed business and costs directly attributable to the acquisition and disposal of businesses.

	2017 £'m	2016 £'m
Gain on disposal of businesses (see note 44)	(40.3)	(40.7)
Remeasurement of fair value of contingent consideration receivable relating to previously disposed businesses	-	0.3
Impairment of assets classified as held for sale (see note 23)	14.2	-
Costs related to the disposal of businesses	0.6	-
Costs related to the acquisition of businesses	0.2	1.3
Amounts arising on the acquisition, disposal and closure of businesses	(25.3)	(39.1)

Notes to the consolidated financial statements **continued****10. Reconciliations between profit and underlying profit** *continued*

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

	2017 £'m	2016 £'m
Amortisation of other intangible assets (see note 20)	108.2	114.7
Less amortisation of software and other intangible assets (see note 20)	(14.7)	(16.1)
Amortisation of intangible assets acquired in business combinations	93.5	98.6

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

d. Although the Group uses foreign currency forward contracts to hedge against foreign currency exposures, it has decided that the costs of meeting the extensive documentation requirements to be able to apply hedge accounting under IAS 39 'Financial Instruments: Recognition and Measurement' are not merited. The Group's underlying profit figures exclude amounts which would not have been recognised if hedge accounting had been applied.

Where interest rate derivatives qualify to be hedge accounted, any difference between the movement in fair value of the derivatives and in the fair value of fixed rate borrowings is excluded from underlying profit. Where cross currency derivatives and treasury lock derivatives do not qualify to be hedge accounted, movements in fair value of the derivatives are excluded from underlying profit.

	2017 £'m	2016 £'m
Movement in fair value of foreign currency forward contracts	(73.8)	48.0
Impact of retranslating net foreign currency assets and liabilities at spot rate	0.5	2.3
Movement in fair value of interest rate derivatives	8.1	3.8
Movement in fair value of fixed rate borrowings	(6.8)	0.8
Movement in fair value of cross currency derivatives	13.9	2.9
Movement in fair value of treasury lock derivative	(0.5)	8.6
Financial instruments – (gain)/loss	(58.6)	66.4

11. Exceptional operating items

	Note	Income statement		Cash expenditure	
		2017 £'m	2016 £'m	2017 £'m	2016 £'m
Impairment loss arising from cancellation of Dassault Falcon 5X programme	a	59.5	–	–	–
Site consolidations	b	7.9	7.0	8.5	4.7
Integration of acquired businesses	c	4.5	6.6	4.5	6.6
Business restructuring costs		2.7	5.7	0.8	6.2
Raw material supply issue		–	(3.8)	–	0.8
Total		74.6	15.5	13.8	18.3

a. On 13 December 2017, Dassault Aviation announced the cancellation of its Falcon 5X programme. The cancellation has resulted in a cost of £59.5m being recognised in the year, comprising an impairment loss of £54.4m in respect of capitalised development costs, an impairment loss of £1.5m in respect of programme participation costs and £3.6m in respect of the reduction of inventory to net realisable value (see note 4).

b. In 2017, this relates principally to initial costs incurred in respect of the move to a new facility being constructed at Ansty Park in the West Midlands which will enable the Group to consolidate a range of manufacturing, engineering and support operations into a single centre of excellence. In addition, it includes costs relating to the closure of the Group's control systems operations in Corona, California and transfer of its activities to two of the Group's other existing operations in California.

c. This relates to costs incurred in respect of the ongoing integration of the Advanced Composites and EDAC businesses acquired in November and December 2015 respectively and of Elite Aerospace acquired in March 2017.

The tax credit in respect of exceptional operating items is £25.9m (2016: £4.9m).

12. Finance income

	2017 £'m	2016 £'m
Interest on bank deposits	0.1	0.1
Unwinding of interest on other receivables (see note 33)	1.2	1.8
Other finance income	0.1	0.1
Finance income	1.4	2.0

13. Finance costs

	2017 £'m	2016 £'m
Interest on bank borrowings	2.2	7.0
Interest on senior notes	30.0	21.8
Interest on obligations under finance leases	1.2	1.1
Unwinding of discount on provisions (see note 33)	2.0	2.5
Net interest expense on retirement benefit obligations (see note 35)	11.3	10.6
Amortisation of debt issue costs	0.9	1.2
Less: amounts capitalised in the cost of qualifying assets (see note 19)	(4.4)	(4.0)
Finance costs	43.2	40.2

14. Tax

	2017 £'m	2016 £'m
Current tax – current year	27.5	26.2
Current tax – adjustment in respect of prior years	4.2	1.6
Deferred tax – origination and reversal of temporary differences	7.5	1.7
Deferred tax – impact of reduction in the US rate of federal corporate tax (see note 10)	(122.6)	–
Deferred tax – effects of changes in other statutory tax rates	(2.7)	(1.2)
Deferred tax – adjustment in respect of prior years	(1.5)	(4.0)
Tax (credit)/charge	(87.6)	24.3

On 22 December 2017, the US government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (“TCJA”). The TCJA makes substantial changes to the Internal Revenue Code of 1986, as amended. Among those changes is a significant reduction in the generally applicable US federal corporate tax rate from 35% to 21%, with effect from 1 January 2018. The Group’s deferred tax balances relating to its US operations have been remeasured to reflect this rate reduction. The impact of the rate reduction is a credit to the income statement of £122.6m, a charge to other comprehensive income of £11.7m in respect of retirement benefit obligations, a charge recognised directly in equity of £0.3m in respect of share-based payments and a corresponding reduction in deferred tax liabilities of £110.6m.

The Finance (No 2) Act 2015, included legislation to reduce the main rate of corporation tax in the UK from 20% to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. The Finance Act 2016, included legislation to further reduce the main rate of corporation tax in the UK to 17% from 1 April 2020. As these changes were substantively enacted in prior years, they have had no significant impact on the tax charge for the current year.

Reconciliation of tax (credit)/charge

A reconciliation based on the weighted average tax rate applicable to the profits of the Group’s consolidated businesses is as follows:

	2017 £'m	2016 £'m
Profit before tax at weighted average tax rate of 20.2%* (2016: 27.0%)	53.0	52.8
Effects of:		
Impact of reduction in the US rate of federal corporate tax (see note 10)	(122.6)	–
Changes in other statutory tax rates	(2.7)	(1.2)
Tax effect of share-based payments	1.1	(0.8)
Non taxable gain on disposal of businesses	(0.4)	(7.9)
Tax concessions	(13.5)	(16.8)
Tax credits and incentives	(4.2)	(4.4)
(Unused amounts reversed)/Additional provisions in respect of historical tax uncertainties	(4.1)	3.1
Other permanent differences	3.1	1.9
Current tax – adjustment in respect of prior years	4.2	1.6
Deferred tax – adjustment in respect of prior years	(1.5)	(4.0)
Tax (credit)/charge	(87.6)	24.3

* Calculated as the weighted average tax rate applicable to profits of the Group’s businesses in their respective countries in the year. It does not therefore reflect any changes in tax rates that have been substantively enacted, but are not applicable until future periods. The sensitivity of the tax charge to changes in the tax rate is such that a one percentage point increase, or reduction, in the tax rate would cause the total taxation charge for 2017 to increase, or reduce respectively, by approximately £14.1m of which £11.5m arises from the impact of the change in tax rate on net deferred tax liabilities.

Notes to the consolidated financial statements **continued****14. Tax continued**

The tax reconciliation for 2017 includes £13.5m in respect of tax concessions in the UK and Switzerland which allow income to be taxed at beneficial rates, £4.2m in respect of tax credits and incentives in the UK and US for items such as research & development expenditure and unused amounts reversed of £4.1m in respect of various historical tax issues in the Group (see note 4).

Tax relating to components of other comprehensive income

	2017			2016		
	Before tax	Tax (charge)/credit	After tax	Before tax	Tax (charge)/credit	After tax
	£'m	£'m	£'m	£'m	£'m	£'m
Current tax – currency translation movements	(161.6)	(2.8)	(164.4)	310.9	(3.5)	307.4
Deferred tax – currency translation movements	–	–	–	1.2	(0.2)	1.0
Deferred tax – cash flow hedge movements	(0.2)	–	(0.2)	(0.2)	0.1	(0.1)
Deferred tax – remeasurement of retirement benefit obligations	66.6	(27.1)	39.5	(120.7)	20.1	(100.6)
Other comprehensive (expense)/income	(95.2)	(29.9)	(125.1)	191.2	16.5	207.7
Current tax		(2.8)			(3.5)	
Deferred tax		(27.1)			20.0	
Total		(29.9)			16.5	

Tax relating to items recognised directly in equity

	2017 £'m	2016 £'m
Current tax credit relating to share-based payment expense	0.3	0.2
Deferred tax (charge)/credit relating to share-based payment expense	(0.2)	0.4
Total	0.1	0.6

15. Earnings per ordinary share

Earnings per ordinary share ('EPS') is calculated by dividing the profit attributable to owners of the Company by the weighted average number of shares in issue during the year. The weighted average number of shares excludes treasury shares and any shares bought by the Group and held during the year by an independently managed Employee Share Ownership Plan Trust (see note 38). The weighted average number of treasury shares excluded is Nil shares (2016: 0.2m shares) and the weighted average number of own shares excluded is 2.4m shares (2016: 1.5m 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.

	2017 Profit* £'m	2017 Shares Number 'm	2017 EPS Pence	2016 Profit* £'m	2016 Shares Number 'm	2016 EPS Pence
Basic EPS	350.0	774.2	45.2	171.2	774.7	22.1
Potential effect of dilutive ordinary shares	–	15.0	(0.9)	–	11.3	(0.3)
Diluted EPS	350.0	789.2	44.3	171.2	786.0	21.8

* Profit for the year attributable to equity owners of the Company.

Underlying EPS is based on underlying profit for the year (see note 10) and the same number of shares used in the calculation of basic EPS. It is reconciled to basic EPS below:

	2017 Pence	2016 Pence
Basic EPS	45.2	22.1
Adjust for effects of:		
Exceptional operating items	6.3	1.4
Amounts arising on the acquisition, disposal and closure of businesses	(3.1)	(5.1)
Amortisation of intangible assets acquired in business combinations	7.8	8.2
Disposal of inventory revalued in business combinations	–	0.4
Financial instruments	(6.1)	6.8
Net interest expense on retirement benefit obligations	1.0	1.0
Impact of reduction in the US rate of federal corporate tax	(15.8)	–
Underlying basic EPS	35.3	34.8

Diluted underlying EPS is based on underlying profit for the year (see note 10) and the same number of shares used in the calculation of diluted EPS. Diluted underlying EPS for the year is 34.6 pence (2016: 34.3 pence).

16. Dividends

	2017 £'m	2016 £'m
In respect of earlier years	–	75.8
In respect of 2016:		
Interim of 4.80p per share	–	37.2
Final of 10.30p per share	79.6	–
In respect of 2017:		
Interim of 5.05p per share	39.0	–
Dividends paid in cash	118.6	113.0

A final dividend in respect of 2017 of 10.80p per share (2016: 10.30p), amounting to an estimated total final dividend of £83.9m (2016: £79.6m) is to be proposed at the Annual General Meeting on 26 April 2018. This dividend is not reflected in the consolidated financial statements as it has not been approved by the shareholders at the balance sheet date.

17. Related party transactions

During the year, the Group made sales to the joint venture of £3.7m (2016: £3.4m) and purchases from the joint venture of £0.4m (2016: £0.7m). Amounts due from and to the joint venture at the balance sheet date are not significant. Transactions between the Company and its subsidiaries have been eliminated on consolidation.

The remuneration of key management personnel of the Group, which is defined for 2017 as members of the Board and the Group Leadership Team, is set out below:

	2017 £'m	2016 £'m
Salaries and other short-term employee benefits	11.7	11.3
Retirement benefit expense	0.2	0.3
Share-based payment expense	2.3	2.7
Total	14.2	14.3

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 72 to 93 which forms part of these consolidated financial statements.

18. Goodwill

	2017 £'m	2016 £'m
Cost at 1 January	2,095.7	1,815.5
Exchange rate adjustments	(140.9)	282.8
Business acquired (see note 43)	12.7	–
Businesses disposed (see note 44)	(20.5)	(2.6)
Cost at 31 December	1,947.0	2,095.7

No impairment charge is required in the year (2016: £Nil) and the cumulative impairment charge recognised to date is £Nil (2016: £Nil).

An analysis of goodwill by CGU or group of CGUs is shown below:

	2017 £'m	2016 £'m
Meggitt Aircraft Braking Systems ('MABS')*	766.5	830.7
Meggitt Control Systems ('MCS')*	464.5	486.1
Meggitt Polymers & Composites ('MPC')		
Excluding EDAC & Advanced Composites	130.4	138.2
EDAC & Advanced Composites	226.7	241.7
Meggitt Sensing Systems ('MSS')	234.6	264.8
Meggitt Training Systems ('MTS')	77.1	84.2
Other*	47.2	50.0
Total	1,947.0	2,095.7

* Restated to reflect the changes in divisional structure as described in note 6.

Notes to the consolidated financial statements **continued****18. Goodwill continued**

For each CGU or group of CGUs, the Group has determined its recoverable amount from value in use calculations. The value in use calculations are based on cash flow forecasts derived from the most recent budgets and plans for the next five years, as approved by management in December 2017. Cash flows for periods beyond five years are extrapolated using estimated growth rates. The resultant cash flows are discounted using a pre-tax discount rate appropriate to the relevant CGU or group of CGU's.

The key assumptions for the value in use calculations are as follows:

- Sales volumes over the five years covered by management's detailed plans
These are based on management estimates for growth in civil aerospace OE, civil aerospace aftermarket, military and energy markets, and reflect the position each business has on individual aerospace and other programmes. They are derived from industry forecasts for deliveries of large jets, regional aircraft and business jets; air traffic growth; military spending by the US DoD and other major governments; and oil prices. The exposure of MABS, MCS, MPC and MSS to these markets, is set out in the Strategic report on pages 24 to 29. MTS operates entirely within the military market. The Group's medium term expectations for growth in each of these markets, is set out in the Strategic report on pages 22 to 24.
- Selling prices and production cost changes over the five years covered by management's detailed plans
These are based on contractual agreements with customers and suppliers; management's past experience and expectations of future market changes; and the continued maturity of the Meggitt Production System.
- Growth rates used for periods beyond those covered by management's detailed budgets and plans
Growth rates are derived from management's estimates which take into account the long-term nature of the industry in which each CGU or group of CGUs operates; external industry forecasts of long-term growth in the aerospace and defence sectors; the extent to which a CGU or group of CGUs has sole-source positions on platforms where it is able to share in a continuing stream of highly profitable aftermarket revenues; the maturity of the platforms it supplies; and the technological content of its products. For the purpose of impairment testing, a conservative approach has been used and where the derived rate is higher than the long-term GDP growth rates for the principal countries in which the CGU or group of CGUs operates (UK: 2.0% (2016: 2.1%), US: 2.3% (2016: 2.3%)), the latter has been used.
- Discount rates applied to future cash flows
The Group's pre-tax weighted average cost of capital (WACC) is used as the foundation for determining the discount rates to be applied. The WACC is then adjusted to reflect risks specific to the CGU or group of CGUs not already reflected in its future cash flows. The discount rates used are as follows: MABS 10.0% (2016: 9.6%), MCS 10.7% (2016: 10.2%), MPC excluding EDAC & Advanced Composites 10.1% (2016: 9.9%), EDAC & Advanced Composites 10.1% (2016: 10.1%), MSS 8.3% (2016: 8.4%) and MTS 11.9% (2016: 11.3%). The discount rates used for 'Other' CGUs range from 9.1% to 12.0% (2016: 8.7% to 12.0%).

A sensitivity analysis is carried out at each level at which impairment testing is performed to determine the extent to which assumptions would need to change for the calculated recoverable amount from value in use, to fall below its carrying value of goodwill. Management has concluded that no reasonably foreseeable change in the key assumptions used in the impairment model would result in a significant impairment charge being recognised in the consolidated financial statements. The least headroom in percentage terms are in MABS, MTS and EDAC & Advanced Composites. To require an impairment in the Group consolidated financial statements, one of the following would be required:

	MABS	MTS	EDAC & Advanced Composites
Reduction in estimates of cash flows (more than)	36.6%	34.7%	44.5%
Long-term growth rates (a rate of decline more than)	3.8%	7.0%	5.4%
Discount rate applied to future cash flows	14.1%	17.4%	15.1%
Headroom	£1,026.5m	£65.5m	£317.3m

19. Development costs and programme participation costs

	Development costs £'m	Programme participation costs £'m
At 1 January 2016		
Cost	506.9	479.7
Accumulated amortisation	(98.5)	(212.1)
Net book amount	408.4	267.6
Year ended 31 December 2016		
Opening net book amount	408.4	267.6
Exchange rate adjustments	68.8	41.4
Additions – Internal development costs	72.4	–
– Free of charge/deeply discounted manufactured parts	–	53.5
– Cash payments	–	4.4
Funding from customers	(2.8)	–
Interest capitalised	4.0	–
Impairment loss*	(3.3)	–
Amortisation*	(14.0)	(33.4)
Net book amount	533.5	333.5
At 31 December 2016		
Cost	657.1	609.1
Accumulated amortisation	(123.6)	(275.6)
Net book amount	533.5	333.5
Year ended 31 December 2017		
Opening net book amount	533.5	333.5
Exchange rate adjustments	(35.9)	(23.4)
Additions – Internal development costs	61.3	–
– Free of charge/deeply discounted manufactured parts	–	56.5
– Cash payments	–	3.8
Funding from customers	(3.6)	–
Interest capitalised	4.4	–
Impairment loss*	(55.3)	(1.5)
Amortisation*	(22.1)	(36.8)
Net book amount	482.3	332.1
At 31 December 2017		
Cost	669.5	627.7
Accumulated amortisation	(187.2)	(295.6)
Net book amount	482.3	332.1

* Charged to net operating costs in respect of development costs and to cost of sales in respect of programme participation costs. Of the 2017 impairment loss, £54.4m in respect of development costs and £1.5m in respect of programme participation costs have been charged to exceptional operating items following cancellation of the Dassault Falcon 5X programme (see note 11).

The net book amount of development costs includes £205.1m (2016: £246.3m) in respect of Meggitt Aircraft Braking Systems which have an estimated weighted average remaining life of 14.7 years (2016: 14.6 years).

The net book amount of programme participation costs comprises £285.4m (2016: £283.4m) in respect of free of charge/deeply discounted manufactured parts and £46.7m (2016: £50.1m) in respect of cash programme payments. The net book amount of programme participation costs includes £294.3m (2016: £303.5m) in respect of Meggitt Aircraft Braking Systems which have an estimated weighted average remaining life of 8.6 years (2016: 9.2 years).

The programme with the largest capitalised balance is the Bombardier CSeries with a net book amount of £112.5m (2016: £108.0m), comprising development costs of £80.4m (2016: £85.5m) and programme participation costs of £32.1m (2016: £22.5m). Fleet volumes would need to fall to approximately 350 (a reduction of 65% from management estimates, which are based on public forecasts from industry experts), without any mitigation actions taken by the Group, before any impairment would need to be recognised.

Interest has been capitalised using the average rate payable on the Group's floating rate borrowings of 2.0% (2016: 1.5%). Tax relief claimed on interest capitalised in the year is £0.8m (2016: £0.8m).

Notes to the consolidated financial statements **continued****20. Other intangible assets**

	Acquired in business combinations*				Software and other assets £'m	Total £'m
	Customer relationships	Technology	Order backlogs	Trade names and trademarks		
	£'m	£'m	£'m	£'m		
At 1 January 2016						
Cost	1,013.9	300.1	8.2	30.2	139.0	1,491.4
Accumulated amortisation	(455.4)	(149.3)	(0.3)	(24.7)	(61.7)	(691.4)
Net book amount	558.5	150.8	7.9	5.5	77.3	800.0
Year ended 31 December 2016						
Opening net book amount	558.5	150.8	7.9	5.5	77.3	800.0
Exchange rate adjustments	89.1	23.2	1.0	0.9	6.3	120.5
Businesses disposed	-	-	-	-	(0.1)	(0.1)
Additions	-	-	-	-	11.9	11.9
Amortisation – net operating costs	(71.5)	(21.8)	(3.7)	(1.6)	(16.1)	(114.7)
Net book amount	576.1	152.2	5.2	4.8	79.3	817.6
At 31 December 2016						
Cost	1,179.0	348.6	9.6	34.5	164.0	1,735.7
Accumulated amortisation	(602.9)	(196.4)	(4.4)	(29.7)	(84.7)	(918.1)
Net book amount	576.1	152.2	5.2	4.8	79.3	817.6
Year ended 31 December 2017						
Opening net book amount	576.1	152.2	5.2	4.8	79.3	817.6
Exchange rate adjustments	(40.0)	(9.8)	(0.3)	(0.4)	(2.7)	(53.2)
Businesses acquired (see note 43)	8.6	1.1	-	-	-	9.7
Businesses disposed (see note 44)	(7.6)	(4.4)	-	-	(0.7)	(12.7)
Additions	-	-	-	-	20.4	20.4
Transfer to assets classified as held for sale (see note 23)	-	-	-	-	(1.2)	(1.2)
Disposals	-	-	-	-	(0.3)	(0.3)
Amortisation – net operating costs	(67.7)	(21.6)	(3.5)	(0.7)	(14.7)	(108.2)
Net book amount	469.4	117.5	1.4	3.7	80.1	672.1
At 31 December 2017						
Cost	1,089.1	317.3	4.7	31.1	170.0	1,612.2
Accumulated amortisation	(619.7)	(199.8)	(3.3)	(27.4)	(89.9)	(940.1)
Net book amount	469.4	117.5	1.4	3.7	80.1	672.1

* Amortisation of these items is excluded from the Group's underlying profit figures (see note 10).

The net book amount of customer relationships includes £251.2m (2016: £317.0m) in respect of Meggitt Aircraft Braking Systems, £124.6m (2016: £147.1m) in respect of Meggitt Polymers & Composites, £54.6m (2016: £57.4m) in respect of Meggitt Control Systems and £39.0m (2016: £54.4m) in respect of Meggitt Sensing Systems, which have estimated weighted average remaining lives of 6.0 years (2016: 7.0 years), 14.0 years (2016: 11.9 years), 7.0 years (2016: 8.0 years) and 8.2 years (2016: 8.2 years) respectively.

The net book amount of technology includes £50.9m (2016: £62.7m) in respect of Meggitt Aircraft Braking Systems and £39.3m (2016: £48.0m) in respect of Meggitt Polymers & Composites which have estimated weighted average remaining lives of 6.2 years (2016: 7.0 years) and 9.0 years (2016: 8.4 years) respectively.

21. Property, plant and equipment

	Land and buildings £'m	Plant, equipment and vehicles £'m	Total £'m
At 1 January 2016			
Cost	197.4	466.3	663.7
Accumulated depreciation	(66.8)	(308.1)	(374.9)
Net book amount	130.6	158.2	288.8
Year ended 31 December 2016			
Opening net book amount	130.6	158.2	288.8
Exchange rate adjustments	14.2	23.2	37.4
Businesses disposed	(0.6)	(1.3)	(1.9)
Additions	8.3	47.9	56.2
Disposals	(1.3)	(1.0)	(2.3)
Depreciation	(7.9)	(33.4)	(41.3)
Net book amount	143.3	193.6	336.9
At 31 December 2016			
Cost	224.5	559.0	783.5
Accumulated depreciation	(81.2)	(365.4)	(446.6)
Net book amount	143.3	193.6	336.9
Year ended 31 December 2017			
Opening net book amount	143.3	193.6	336.9
Exchange rate adjustments	(6.1)	(10.9)	(17.0)
Business acquired (see note 43)	–	0.2	0.2
Businesses disposed (see note 44)	(1.9)	(5.8)	(7.7)
Additions	17.0	44.7	61.7
Transfer to assets classified as held for sale (see note 23)	(1.3)	(4.3)	(5.6)
Disposals	(0.6)	(2.1)	(2.7)
Impairment loss*	–	(2.0)	(2.0)
Depreciation	(8.7)	(32.2)	(40.9)
Net book amount	141.7	181.2	322.9
At 31 December 2017			
Cost	223.1	518.2	741.3
Accumulated depreciation	(81.4)	(337.0)	(418.4)
Net book amount	141.7	181.2	322.9

* Charged to cost of sales.

The Group's obligations under finance leases (see note 29) are secured by the lessors' title to the leased assets, which have a carrying amount of £4.1m included within land and buildings (2016: £4.9m).

22. Investments

The Group's investment in its joint venture, Parkway-HS, LLC is accounted for using the equity method and is stated as follows:

	2017 £'m	2016 £'m
At 1 January	14.8	11.4
Exchange rate adjustments	(1.3)	2.2
Share of profit after tax	0.6	1.2
Dividends received	(0.5)	–
At 31 December	13.6	14.8

Summarised financial information for joint venture

The information reflects amounts presented in the financial statements of the joint venture adjusted to reflect the Group's accounting policies (and not the Group's share of those amounts unless otherwise stated).

Notes to the consolidated financial statements **continued****22. Investments** *continued***Summarised statement of comprehensive income**

for the year ended 31 December 2017

	2017 £'m	2016 £'m
Revenue	16.5	20.8
Operating profit	1.1	1.8
Finance costs	(0.1)	(0.1)
Profit before tax	1.0	1.7
Tax	(0.1)	(0.1)
Profit after tax	0.9	1.6
Total comprehensive (expense)/income from continuing operations	(0.3)	2.1

Summarised balance sheet

At 31 December 2017

	2017 £'m	2016 £'m
Property, plant and equipment	1.4	1.7
Cash and cash equivalents	0.7	0.1
Other current assets	5.9	6.3
Total current assets	6.6	6.4
Financial liabilities (excluding trade payables)	(1.7)	(0.9)
Other current liabilities	(2.0)	(2.6)
Total current liabilities	(3.7)	(3.5)
Net assets	4.3	4.6

Reconciliation of summarised financial information

At 31 December 2017

	2017 £'m	2016 £'m
Net assets at 1 January	4.6	2.5
Total comprehensive (expense)/income	(0.3)	2.1
Net assets at 31 December	4.3	4.6
Group's interest in joint venture at 70%	3.0	3.2
Goodwill	10.6	11.6
Group's investment at 31 December	13.6	14.8

There are no contingent liabilities relating to the Group's interest in the joint venture.

23. Assets classified as held for sale

The disposal of Linear Motion LLC for a consideration of USD 2.5m was agreed on 14 November 2017 subject to certain regulatory clearances being obtained. The related assets have been classified as a disposal group held for sale and are presented separately at the balance sheet date together with directly associated liabilities. An impairment loss of £14.2m (see note 10) has been recognised against the carrying value of assets classified as held for sale to reduce them to their recoverable value. Linear Motion LLC is reported within the Meggitt Equipment Group.

	2017			At 31 December £'m
	Carrying value before classification as held for sale £'m	Allocated impairment loss £'m	Exchange rate adjustments £'m	
Other intangible assets (see note 20)	1.2	(1.2)	–	–
Property, plant and equipment (see note 21)	5.6	(5.6)	–	–
Inventories	12.6	(7.4)	(0.1)	5.1
Trade and other receivables	4.7	–	(0.1)	4.6
Assets classified as held for sale	24.1	(14.2)	(0.2)	9.7
Trade and other payables	4.7	–	(0.1)	4.6
Deferred tax liabilities (see note 34)	3.3	–	(0.1)	3.2
Liabilities directly associated with assets classified as held for sale	8.0	–	(0.2)	7.8

24. Inventories

	2017 £'m	2016 £'m
Contract costs incurred	43.7	40.3
Less progress billings	(4.0)	(1.3)
Net contract costs	39.7	39.0
Raw materials and bought-in components	133.3	170.3
Manufacturing work in progress	160.5	185.4
Finished goods and goods for resale	70.6	73.8
Total	404.1	468.5

The cost of inventories recognised as an expense and included in cost of sales is £1,176.4m (2016: £1,169.8m). The cost of inventories recognised as an expense includes £7.3m (2016: £5.0m) in respect of write-downs of inventory to net realisable value of which £3.6m has been recognised as an exceptional operating item (see note 11). The cost of inventories recognised as an expense has been reduced by £2.5m (2016: £4.3m) in respect of the reversal of write-downs of inventory to net realisable value made in previous years.

25. Trade and other receivables

	2017 £'m	2016 £'m
Trade receivables	320.1	334.1
Amounts recoverable on contracts	47.5	40.6
Prepayments and accrued income	18.1	21.6
Other receivables	90.6	96.6
Total	476.3	492.9
Less non-current portion:		
Other receivables	39.2	58.4
Non-current portion	39.2	58.4
Current portion	437.1	434.5

Other receivables includes £64.1m (2016: £77.4m) 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 £30.1m (2016: £21.7m) is shown as current (see note 33).

Trade receivables are stated after a provision for impairment of £4.5m (2016: £6.1m). Other balances within trade and other receivables do not contain impaired assets. The provision for impairment against trade receivables is based on a specific risk assessment taking into account past default experience and is analysed as follows:

	2017 £'m	2016 £'m
At 1 January	6.1	6.1
Exchange rate adjustments	(0.4)	0.7
Businesses disposed	(0.2)	-
Credit to income statement – net operating costs	(1.0)	(0.7)
At 31 December	4.5	6.1

At 31 December 2017, trade receivables and amounts recoverable on contracts of £67.5m (2016: £57.1m) are past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade and other receivables is as follows:

	2017 £'m	2016 £'m
Up to 3 months overdue	55.2	49.2
Over 3 months overdue	12.3	7.9
Total	67.5	57.1

The maximum exposure to credit risk at the balance sheet date is the fair value of each class of receivable reported above. The Group does not hold any collateral as security. Trade and other receivables are denominated in the following currencies:

	2017 £'m	2016 £'m
Sterling	69.3	71.7
US dollar	362.8	380.6
Euro	27.7	30.8
Other	16.5	9.8
Total	476.3	492.9

Notes to the consolidated financial statements **continued****26. Cash and cash equivalents**

	2017 £'m	2016 £'m
Cash at bank and on hand	118.5	142.8
Short-term bank deposits	–	31.0
Total	118.5	173.8

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

	2017 £'m	2016 £'m
Moody's rating:		
Aaa	3.2	0.2
Aa	44.0	51.1
A	71.3	65.8
Baa	–	56.7
Total	118.5	173.8

27. Trade and other payables – current

	2017 £'m	2016 £'m
Payments received on account	30.1	27.2
Trade payables	154.9	172.9
Social security and other taxes	10.2	10.9
Accrued expenses	83.9	81.9
Other payables	166.4	171.1
Total	445.5	464.0

28. Trade and other payables – non-current

	2017 £'m	2016 £'m
Contingent consideration relating to acquired businesses	4.5	3.8
Other payables	1.0	1.2
Total	5.5	5.0

29. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2017 £'m	2016 £'m	2017 £'m	2016 £'m
Amounts payable under finance leases:				
In one year or less	1.1	1.2	0.1	0.1
In more than one year but not more than five years	4.8	5.1	0.5	0.3
In more than five years	10.8	13.1	5.5	6.2
Total	16.7	19.4	6.1	6.6
Less: future finance charges	(10.6)	(12.8)		
Present value of lease obligations	6.1	6.6		
Less non-current portion	6.0	6.5		
Current portion	0.1	0.1		

Obligations under finance leases are US dollar denominated. The weighted average period to maturity is 13.0 years (2016: 14.0 years) and the weighted average interest rate is 18.6% (2016: 18.6%).

30. Bank and other borrowings

	2017 £'m	2016 £'m
Current		
Bank loans	62.1	0.3
Other loans	9.3	175.4
Total current	71.4	175.7
Non-current		
Bank loans	254.1	344.6
Other loans	751.7	826.0
Total non-current	1,005.8	1,170.6
Total	1,077.2	1,346.3
Analysis of bank and other borrowings repayable:		
In one year or less	71.4	175.7
In more than one year but not more than five years	562.4	577.0
In more than five years	443.4	593.6
Total	1,077.2	1,346.3
Analysis of bank and other borrowings:		
Drawn under committed facilities	995.7	1,317.2
Less unamortised debt issue costs	(2.3)	(3.2)
Fair value adjustment to fixed rate borrowings	12.4	19.2
Drawn under uncommitted facilities	61.7	0.8
Interest accruals	9.7	12.3
Total	1,077.2	1,346.3

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:

	2017			2016		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
2010 Senior notes (USD 400.0m (2016: USD 600.0m))	296.3	–	296.3	485.6	–	485.6
2016 Senior notes (USD 600.0m)	444.4	–	444.4	485.6	–	485.6
Syndicated credit facility (USD 750.0m (2016: USD 900.0m))	255.0	300.5	555.5	346.0	382.2	728.2
Total	995.7	300.5	1,296.2	1,317.2	382.2	1,699.4

The Group issued USD 600.0m of loan notes to private placement investors in 2010. The notes were in four tranches as follows: USD 200.0m carried an interest rate of 4.62% and were repaid in 2017; USD 125.0m carry an interest rate of 5.02% and are due for repayment in 2020; USD 150.0m carry an interest rate of 5.17% and are also due for repayment in 2020; and USD 125.0m carry an interest rate of 5.12% and are due for repayment in 2022.

The Group issued USD 600.0m of loan notes to private placement investors in 2016. The notes are in two tranches as follows: USD 300.0m carry an interest rate of 3.31% and are due for repayment in 2023; and USD 300.0m carry an interest rate of 3.60% and are due for repayment in 2026.

In 2014, the Group secured a five-year USD 900.0m syndicated revolving credit facility which matures in 2021, following a one-year extension agreed during 2015 and a further one-year extension agreed during 2016. During the year, the Group reduced the facility to USD 750.0m. At 31 December 2017, the amounts drawn under the facility are £255.0m (2016: £346.0m) represented by borrowings denominated in US dollars. Borrowings under the facility are subject to interest at floating rates which are linked to LIBOR.

In 2016, the Group executed a commitment offer letter from Sumitomo Mitsui Banking Corporation for the provision of a three-year £75.0m committed bilateral facility to commence between 1 September 2017 and 15 October 2017. Prior to the facility commencing, the Group cancelled the commitment.

Notes to the consolidated financial statements **continued****30. Bank and other borrowings continued**

Committed facilities expire as follows:

	2017			2016		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
In one year or less	-	-	-	161.9	-	161.9
In more than one year but not more than five years	551.3	300.5	851.8	568.6	382.2	950.8
In more than five years	444.4	-	444.4	586.7	-	586.7
Total	995.7	300.5	1,296.2	1,317.2	382.2	1,699.4

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

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

	2017		2016	
	Book value £'m	Fair value £'m	Book value £'m	Fair value £'m
Current	71.4	71.4	175.7	177.2
Non-current	1,005.8	1,001.9	1,170.6	1,160.2
Total	1,077.2	1,073.3	1,346.3	1,337.4

After taking account of financial derivatives that alter the interest basis of the financial liabilities entered into by the Group, the interest rate exposure on bank and other borrowings is:

At 31 December 2017:

	Floating £'m	Fixed £'m	Non- interest bearing £'m	Total £'m	Fixed rate borrowings	
					Weighted average interest rate %	Weighted average period for which rate is fixed Years
					US dollar	162.5
Swiss franc	-	152.1	-	152.1		
Euro	-	57.8	-	57.8		
Sterling	61.7	-	-	61.7		
Gross bank and other borrowings	224.2	855.3	-	1,079.5	2.7	4.2
Less unamortised debt issue costs	(0.6)	(1.7)	-	(2.3)		
Bank and other borrowings	223.6	853.6	-	1,077.2		

At 31 December 2016:

	Floating £'m	Fixed £'m	Non- interest bearing £'m	Total £'m	Fixed rate borrowings	
					Weighted average interest rate %	Weighted average period for which rate is fixed Years
					US dollar	346.9
Swiss franc	-	159.3	-	159.3		
Euro	-	55.5	0.8	56.3		
Gross bank and other borrowings	346.9	1,001.8	0.8	1,349.5	2.8	4.7
Less unamortised debt issue costs	(1.2)	(2.0)	-	(3.2)		
Bank and other borrowings	345.7	999.8	0.8	1,346.3		

The weighted average interest rate reflects the relative impact of interest rates based on the principal amounts and the duration of borrowings.

Hedges of net investments in foreign subsidiaries

The Group's bank and other borrowings of £1,077.2m are designated as hedges of net investments in the Group's foreign subsidiaries. The foreign exchange gain of £96.8m (2016: loss of £195.4m) on retranslation of these borrowings is recognised in other comprehensive income.

31. Financial instruments

At 31 December 2017:

	Held at fair value		Held at amortised cost		Total book value £'m	Total fair value £'m
	Through profit & loss £'m	Derivatives used for hedging £'m	Loans & receivables £'m	Liabilities £'m		
Non-current:						
Trade and other receivables (see note 25)	-	-	39.2	-	39.2	39.2
Derivative financial instruments (see note 32)	16.3	12.2	-	-	28.5	28.5
Current:						
Trade and other receivables*	-	-	419.0	-	419.0	419.0
Derivative financial instruments (see note 32)	3.2	0.4	-	-	3.6	3.6
Cash and cash equivalents (see note 26)	-	-	118.5	-	118.5	118.5
Financial assets	19.5	12.6	576.7	-	608.8	608.8
Current:						
Trade and other payables**	-	-	-	(435.3)	(435.3)	(435.3)
Derivative financial instruments (see note 32)	(17.3)	-	-	-	(17.3)	(17.3)
Obligations under finance leases (see note 29)	-	-	-	(0.1)	(0.1)	(0.1)
Bank and other borrowings (see note 30)	-	-	-	(71.4)	(71.4)	(71.4)
Non-current:						
Trade and other payables (see note 28)	-	-	-	(5.5)	(5.5)	(5.5)
Derivative financial instruments (see note 32)	(14.6)	-	-	-	(14.6)	(14.6)
Obligations under finance leases (see note 29)	-	-	-	(6.0)	(6.0)	(6.0)
Bank and other borrowings (see note 30)	(235.2)	-	-	(770.6)	(1,005.8)	(1,001.9)
Financial liabilities	(267.1)	-	-	(1,288.9)	(1,556.0)	(1,552.1)
Total	(247.6)	12.6	576.7	(1,288.9)	(947.2)	(943.3)

At 31 December 2016:

	Held at fair value		Held at amortised cost		Total book value £'m	Total fair value £'m
	Through profit & loss £'m	Derivatives used for hedging £'m	Loans & receivables £'m	Liabilities £'m		
Non-current:						
Trade and other receivables (see note 25)	-	-	58.4	-	58.4	58.4
Derivative financial instruments (see note 32)	2.3	19.5	-	-	21.8	21.8
Current:						
Trade and other receivables*	-	-	412.9	-	412.9	412.9
Derivative financial instruments (see note 32)	2.3	1.9	-	-	4.2	4.2
Cash and cash equivalents (see note 26)	-	-	173.8	-	173.8	173.8
Financial assets	4.6	21.4	645.1	-	671.1	671.1
Current:						
Trade and other payables**	-	-	-	(453.1)	(453.1)	(453.1)
Derivative financial instruments (see note 32)	(31.2)	-	-	-	(31.2)	(31.2)
Obligations under finance leases (see note 29)	-	-	-	(0.1)	(0.1)	(0.1)
Bank and other borrowings (see note 30)	(83.3)	-	-	(92.4)	(175.7)	(177.2)
Non-current:						
Trade and other payables (see note 28)	-	-	-	(5.0)	(5.0)	(5.0)
Derivative financial instruments (see note 32)	(45.7)	-	-	-	(45.7)	(45.7)
Obligations under finance leases (see note 29)	-	-	-	(6.5)	(6.5)	(6.5)
Bank and other borrowings (see note 30)	(261.0)	-	-	(909.6)	(1,170.6)	(1,160.2)
Financial liabilities	(421.2)	-	-	(1,466.7)	(1,887.9)	(1,879.0)
Total	(416.6)	21.4	645.1	(1,466.7)	(1,216.8)	(1,207.9)

* Excludes prepayments and accrued income of £18.1m (2016: £21.6m) (see note 25).

** Excludes social security and other taxes of £10.2m (2016: £10.9m) (see note 27).

Notes to the consolidated financial statements **continued****31. Financial instruments** *continued***Fair value measurement and hierarchy**

For trade and other receivables, cash and cash equivalents, trade and other payables, obligations under finance leases and the current element of floating rate bank and other borrowings, fair values approximate to book values due to the short maturity periods of these financial instruments. For trade and other receivables, allowances are made within their book value for credit risk.

Derivative financial instruments measured at fair value, are classified as level 2 in the fair value measurement hierarchy, as they have been determined using significant inputs based on observable market data. The fair values of interest rate derivatives have been derived from forward interest rates based on yield curves observable at the balance sheet date and contractual interest rates. The fair values of foreign currency forward contracts have been derived from forward exchange rates observable at the balance sheet date and contractual forward rates. The fair values of cross currency derivatives have been derived from forward interest rates based on yield curves observable at the balance sheet date, forward exchange rates observable at the balance sheet date and contractual interest and forward rates.

The non-current portion of bank and other borrowings measured at fair value, is classified as level 3 in the fair value measurement hierarchy, as it has been determined using significant inputs which are a mixture of those based on observable market data (interest rate risk) and those not based on observable market data (credit risk). The fair value attributable to interest rate risk has been derived from forward interest rates based on yield curves observable at the balance sheet date and contractual interest rates, with the credit risk margin kept constant. The fair value attributable to credit risk has been derived from quotes from lenders for borrowings of similar amounts and maturity periods. The same methods of valuation have been used to derive the fair value of the current and non-current element of bank and other borrowings which are held at amortised cost, but for which fair values are provided in the table above.

There are no transfers of assets or liabilities between levels of the fair value hierarchy in the year.

Financial liabilities designated as fair value through profit and loss

Cumulative unrealised changes in fair value of the current and non-current portions of bank and other borrowings arising from changes in credit risk are as follows:

	2017 £'m	2016 £'m
Fair value at 1 January	1.0	3.3
Loss recognised in net operating costs	(2.1)	(2.3)
Fair value at 31 December	(1.1)	1.0

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

	2017 £'m	2016 £'m
Fair value	235.2	344.3
Difference between fair value and contractual amount at maturity	(13.0)	(20.6)
Contractual amount payable at maturity	222.2	323.7

Financial liabilities classified as level 3 in the hierarchy

Changes in fair value are as follows:

	2017 £'m	2016 £'m
Bank and other borrowings at fair value through profit and loss:		
At 1 January	344.3	290.8
Exchange rate adjustments	(25.3)	52.3
Settled upon maturity	(76.1)	–
(Gain)/loss recognised in net operating costs (see note 10)	(6.8)	0.8
(Gain)/loss recognised in net finance costs	(0.9)	0.4
At 31 December	235.2	344.3

The largest movement in credit spread seen in a six month period since inception of the borrowings is 70 basis points. A 70 basis point movement in the credit spread used as an input in determining fair value at 31 December 2017, would impact net operating costs by approximately £5.0m.

32. Derivative financial instruments

At 31 December 2017:

	Contract or underlying principal amount		Fair value	
	Assets £'m	Liabilities £'m	Assets £'m	Liabilities £'m
Interest rate swap – cash flow hedge	118.5	–	0.4	–
Interest rate swaps – fair value hedges	222.2	–	12.2	–
Cross currency swaps – not hedge accounted	–	(241.0)	–	(12.0)
Foreign currency forward contracts – not hedge accounted	326.1	(331.3)	19.5	(19.9)
Total	666.8	(572.3)	32.1	(31.9)
Less non-current portion:				
Interest rate swaps – fair value hedges	222.2	–	12.2	–
Cross currency swaps – not hedge accounted	–	(57.8)	–	(6.1)
Foreign currency forward contracts – not hedge accounted	233.8	(184.1)	16.3	(8.5)
Non-current portion	456.0	(241.9)	28.5	(14.6)
Current portion	210.8	(330.4)	3.6	(17.3)

At 31 December 2016:

	Contract or underlying principal amount		Fair value	
	Assets £'m	Liabilities £'m	Assets £'m	Liabilities £'m
Interest rate swap – cash flow hedge	129.5	–	0.5	–
Interest rate swaps – fair value hedges	323.7	–	20.9	–
Cross currency swaps – not hedge accounted	214.7	–	1.9	–
Foreign currency forward contracts – not hedge accounted	88.4	(687.2)	2.7	(76.9)
Total	756.3	(687.2)	26.0	(76.9)
Less non-current portion:				
Interest rate swap – cash flow hedge	129.5	–	0.5	–
Interest rate swaps – fair value hedges	242.8	–	19.0	–
Cross currency swaps – not hedge accounted	159.2	–	0.4	–
Foreign currency forward contracts – not hedge accounted	69.5	(456.0)	1.9	(45.7)
Non-current portion	601.0	(456.0)	21.8	(45.7)
Current portion	155.3	(231.2)	4.2	(31.2)

Credit quality of derivative financial assets

The credit quality of derivative financial assets is as follows:

	2017 £'m	2016 £'m
Moody's rating:		
Aa	11.9	4.9
A	20.2	21.1
Total	32.1	26.0

The maximum exposure to credit risk at the balance sheet date is the fair value of the derivative financial instruments.

Interest rate swaps

The total notional principal amount of outstanding interest rate swap contracts at 31 December 2017 is £340.7m (2016: £453.2m), of which £118.5m will expire in 2018, £129.6m will expire in 2020 and £92.6m will expire in 2022. The contracts are all denominated in US dollars. Of the notional principal amount outstanding, £118.5m (2016: £129.5m) has the economic effect of converting floating rate US dollar borrowings into fixed rate US dollar borrowings and £222.2m (2016: £323.7m) has 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 floating rate to fixed rate swap contract is accounted for as a cash flow hedge and the fixed rate to floating rate swap contracts as fair value hedges.

Cross currency swaps

The cross currency swaps have been used to synthetically convert US dollar denominated floating borrowings into Swiss franc and Euro denominated fixed borrowings to commercially hedge against Swiss franc and Euro denominated assets of foreign subsidiaries. The cross currency swaps do not qualify to be hedge accounted.

Notes to the consolidated financial statements **continued****32. Derivative financial instruments continued****Foreign currency forward contracts**

Although the Group uses foreign currency forward contracts to hedge against foreign currency exposures, it has decided that the costs of meeting the extensive documentation requirements to be able to apply hedge accounting under IAS 39 'Financial Instruments: Recognition and Measurement' are not merited. Foreign currency forward contracts are analysed as follows:

	2017 Assets £'m	2017 Liabilities £'m	2016 Assets £'m	2016 Liabilities £'m
Fair value:				
US dollar/Sterling forward sales	14.2	(17.6)	1.5	(60.5)
Forward sales denominated in other currencies	5.3	(2.3)	1.2	(16.4)
Total	19.5	(19.9)	2.7	(76.9)

33. Provisions

	Provisions					Total £'m	Environmental receivables (a) £'m
	Environmental	Onerous contracts (b)	Warranty costs (c)	Other (d)			
	(a) £'m	(b) £'m	(c) £'m	(d) £'m	£'m		
At 1 January 2017	121.7	38.1	17.8	7.8	185.4	(77.4)	
Exchange rate adjustments	(9.9)	(1.6)	(1.0)	(0.2)	(12.7)	5.4	
Business acquired (see note 43)	-	0.1	-	-	0.1	-	
Businesses disposed (see note 44)	-	-	(0.3)	-	(0.3)	-	
Additional provision in year*	9.9	2.9	9.0	4.3	26.1	(9.8)	
Unused amounts reversed*	-	(9.9)	(1.3)	(2.7)	(13.9)	-	
Charge/(credit) to net finance costs (see notes 13 and 12 respectively)	2.0	-	-	-	2.0	(1.2)	
Utilised	(23.8)	(9.3)	(5.3)	(1.6)	(40.0)	18.9	
At 31 December 2017	99.9	20.3	18.9	7.6	146.7	(64.1)	
					2017 £'m	2016 £'m	
Current					64.2	53.6	
Non-current					82.5	131.8	
At 31 December 2017					146.7	185.4	

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

- Provision has been made for known exposures arising from environmental remediation at a number of sites (see note 4). The Group's operations and facilities are subject to laws and regulations that govern the discharge of pollutants and hazardous substances into the ground, air and water as well as the handling, storage and disposal of such materials and other environmental matters. Failure to comply with its obligations potentially exposes the Group to serious consequences, including fines, other sanctions and limitations on operations. The Group is involved in the investigation and remediation of current and former sites for which it has been identified as a potentially responsible party under US law. Provision has been made for the expected costs arising from these activities based on information currently available. Provisions are expected to be substantially utilised over the next fifteen years and are discounted, where appropriate, using an appropriate discount rate. A receivable has been established to the extent these costs are recoverable under the Group's environmental insurance policies or from other parties. Movements in the receivable are shown in the table above (see also note 25).
- Provision has been made for estimated losses under certain trading contracts. Provisions are expected to be substantially utilised over the next five years and are not discounted given the short period over which they will be utilised.
- Provision has been made for product warranty claims. Provisions are expected to be utilised over the next three years and are not discounted given the short period over which they will be utilised.
- A number of asbestos related claims have been made against subsidiary companies of the Group. To date, the amount connected with such claims in any year has not been material and many claims are covered fully or partly by existing insurance and indemnities. There is a provision, included within other provisions, for certain claims which cannot be recovered from insurers. Provisions are expected to be substantially utilised over the next ten years and are discounted, where appropriate, using a discount rate appropriate to each provision.

34. Deferred tax

Movements in deferred tax assets and liabilities without taking into consideration the offsetting of balances, are as follows:

	Assets			Liabilities			Net
	Retirement benefit obligations	Other (*)	Total deferred tax assets	Accelerated tax depreciation	Intangible assets	Total deferred tax liabilities	
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
At 1 January 2016	78.2	90.1	168.3	(29.1)	(417.7)	(446.8)	(278.5)
Exchange rate adjustments	12.2	14.1	26.3	(4.5)	(74.1)	(78.6)	(52.3)
Reclassifications	-	(0.2)	(0.2)	-	0.2	0.2	-
Businesses disposed	-	-	-	-	0.2	0.2	0.2
Credit to income statement (see note 14)	(2.8)	6.4	3.6	1.6	(1.7)	(0.1)	3.5
Credit to other comprehensive income (see note 14)	20.1	0.1	20.2	-	(0.2)	(0.2)	20.0
Credit to equity (see note 14)	-	0.4	0.4	-	-	-	0.4
At 31 December 2016	107.7	110.9	218.6	(32.0)	(493.3)	(525.3)	(306.7)
Exchange rate adjustments	(4.7)	(6.6)	(11.3)	2.3	32.1	34.4	23.1
Reclassifications	-	0.6	0.6	(0.5)	(0.1)	(0.6)	-
Business acquired (see note 43)	-	-	-	-	(3.2)	(3.2)	(3.2)
Businesses disposed (see note 44)	-	(0.9)	(0.9)	0.4	1.8	2.2	1.3
Transfer to assets classified as held for sale (see note 23)	-	3.3	3.3	-	-	-	3.3
Credit to income statement – Impact of reduction in US federal corporate tax rate (see note 14)	(6.9)	(26.3)	(33.2)	8.7	147.1	155.8	122.6
Charge to income statement – Other (see note 14)	(5.9)	(24.4)	(30.3)	2.3	24.7	27.0	(3.3)
Charge to other comprehensive income (see note 14)	(27.1)	-	(27.1)	-	-	-	(27.1)
Charge to equity (see note 14)	-	(0.2)	(0.2)	-	-	-	(0.2)
At 31 December 2017	63.1	56.4	119.5	(18.8)	(290.9)	(309.7)	(190.2)

* Includes balances arising from temporary differences in relation to provisions, accruals, share-based payments, finance costs and derivative financial instruments.

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:

	2017 £'m	2016 £'m
Deferred tax assets	11.5	15.9
Deferred tax liabilities	(201.7)	(322.6)
Net balance at 31 December	(190.2)	(306.7)

Deferred tax liabilities all fall due after more than one year. Deferred tax assets are analysed as follows:

	2017 £'m	2016 £'m
To be recovered within one year	0.3	1.4
To be recovered after more than one year	11.2	14.5
Total	11.5	15.9

The Group has unrecognised tax losses of £24.3m (2016: £24.3m) for which no deferred tax asset has been recognised. No asset has been recognised in respect of these losses, as it is not regarded as more likely than not that they will be recovered. Deferred tax assets not recognised, would be recoverable in the event they reverse and suitable taxable profits are available. There are no unremitted earnings in foreign subsidiaries that would give rise to a tax liability in the event of those subsidiaries remitting their earnings.

Notes to the consolidated financial statements **continued****35. Retirement benefit obligations****Pension schemes**

The Group operates a number of pension schemes for the benefit of its employees. The nature of each scheme which has a significant impact on the consolidated financial statements is as follows:

- In the UK, the Group operates a funded defined benefit scheme which is closed to new members but open to future accrual for existing members;
- In the US, the Group operates five defined benefit schemes, all of which are closed to new members. With two exceptions, these schemes are open to future accrual for existing members. The schemes are a mixture of funded and unfunded schemes; and
- In Switzerland, the Group operates a funded defined benefit scheme which is open to new members and to future accrual.

The UK and US schemes provide benefits to members in the form of a guaranteed level of pension payable for life. The benefits provided depend on a member's length of service. For the majority of schemes, the benefits are also dependent on salary at retirement or average salary over employment in the final years leading up to retirement. In the US, one scheme provides a fixed benefit for each year of service. The Swiss scheme has many of the characteristics of a defined contribution scheme but provides for certain minimum benefits to be guaranteed to members.

For all funded schemes, benefit payments are made from funds administered by third parties unrelated to the Group. The assets of such schemes are held in trust funds, or their equivalent, separate from the Group's finances.

The UK scheme is a registered scheme and subject to the statutory scheme-specific funding requirements outlined in UK legislation, including the payment of levies to the Pension Protection Fund. It is established under trust and the responsibility for its governance lies with the trustees who also agree funding arrangements with the Group.

The funded US schemes are tax-qualified pension schemes regulated by the Pension Protection Act 2006 and are insured by the Pension Benefit Guarantee Corporation up to certain limits. They are established under, and governed by, the US Employee Retirement Income Security Act 1974. Meggitt is a named fiduciary with the authority to manage the operation of the US schemes.

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

For all unfunded schemes, benefit payments are made by the Group as obligations fall due. The Group also operates a number of defined contribution schemes under which the Group has no further obligations once 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

	2017 £'m	2016 £'m
Total charge in respect of defined contribution pension schemes	29.2	30.2
Defined benefit pension schemes:		
Service cost	15.9	15.3
Past service credit	(7.1)	-
Curtailement gain	-	(1.2)
Administrative expenses borne directly by schemes	4.2	3.6
Net interest expense on retirement benefit obligations	9.4	8.6
Total charge in respect of defined benefit pension schemes	22.4	26.3
Healthcare schemes:		
Service cost	0.7	0.9
Net interest expense on retirement benefit obligations	1.9	2.0
Total charge in respect of healthcare schemes	2.6	2.9
Total charge	54.2	59.4

Of the total charge, £38.7m (2016: £45.2m) is included in employee costs (see note 9), of which £26.4m (2016: £26.7m) has been recognised in cost of sales and £12.3m (2016: £18.5m) in net operating costs. Of the remaining charge, £4.2m (2016: £3.6m) has been recognised in net operating costs in respect of scheme administration expenses and £11.3m (2016: £10.6m) is recognised in finance costs (see note 13).

35. Retirement benefit obligations *continued*

Amounts recognised on the balance sheet

	2017			
	UK pension scheme £'m	Overseas pension schemes £'m	Overseas healthcare schemes £'m	Total £'m
Present value of liabilities	814.5	439.1	49.8	1,303.4
Fair value of assets	(673.6)	(321.7)	-	(995.3)
Retirement benefit obligations	140.9	117.4	49.8	308.1

	2016			
	UK pension scheme £'m	Overseas pension schemes £'m	Overseas healthcare schemes £'m	Total £'m
Present value of liabilities	829.1	483.6	54.5	1,367.2
Fair value of assets	(619.5)	(333.0)	-	(952.5)
Retirement benefit obligations	209.6	150.6	54.5	414.7

Of the total deficit of £308.1m (2016: £414.7m), £64.9m (2016: £70.7m) is in respect of unfunded schemes.

Changes in the present value of retirement benefit obligations

	2017			2016		
	Liabilities £'m	Assets £'m	Total £'m	Liabilities £'m	Assets £'m	Total £'m
At 1 January	1,367.2	(952.5)	414.7	1,078.6	(794.1)	284.5
Exchange rate adjustments	(40.0)	25.1	(14.9)	83.4	(51.9)	31.5
Service cost	16.6	-	16.6	16.2	-	16.2
Past service credit	(7.1)	-	(7.1)	-	-	-
Curtailement gain	-	-	-	(1.2)	-	(1.2)
Interest expense/(income) (see note 13)	36.8	(25.5)	11.3	40.3	(29.7)	10.6
Contributions – Group	-	(50.1)	(50.1)	-	(51.2)	(51.2)
Contributions – Members	3.2	(3.2)	-	3.2	(3.2)	-
Benefits paid	(52.1)	52.1	-	(46.4)	46.4	-
Settlements	(11.4)	11.4	-	-	-	-
Remeasurement of retirement benefit obligations:						
Experience gain	(5.9)	-	(5.9)	(11.7)	-	(11.7)
Gain from change in demographic assumptions	(17.9)	-	(17.9)	(12.2)	-	(12.2)
Loss from change in financial assumptions	14.0	-	14.0	217.0	-	217.0
Return on schemes' assets excluding amounts included in finance costs	-	(56.8)	(56.8)	-	(72.4)	(72.4)
Total remeasurement (gain)/loss	(9.8)	(56.8)	(66.6)	193.1	(72.4)	120.7
Administrative expenses borne directly by schemes	-	4.2	4.2	-	3.6	3.6
At 31 December	1,303.4	(995.3)	308.1	1,367.2	(952.5)	414.7

Notes to the consolidated financial statements **continued****35. Retirement benefit obligations** *continued***Analysis of pension scheme assets**

	2017				2016			
	Quoted £'m	Unquoted £'m	Total £'m	%	Quoted £'m	Unquoted £'m	Total £'m	%
Equities	199.9	–	199.9	29.7	149.6	–	149.6	24.2
Government bonds	275.1	–	275.1	40.9	276.5	–	276.5	44.6
Corporate bonds	98.5	26.4	124.9	18.5	81.1	43.4	124.5	20.1
Property	8.8	18.4	27.2	4.0	–	–	–	–
Cash	17.2	–	17.2	2.6	40.8	–	40.8	6.6
Other assets	2.8	26.4	29.2	4.3	11.2	16.9	28.1	4.5
UK pension scheme	602.3	71.2	673.5	100.0	559.2	60.3	619.5	100.0
Equities	82.8	1.2	84.0	26.1	78.6	–	78.6	23.6
Government bonds	88.8	–	88.8	27.6	102.5	–	102.5	30.8
Corporate bonds	87.0	–	87.0	27.0	92.4	–	92.4	27.7
Property	18.5	11.8	30.3	9.4	14.3	13.6	27.9	8.4
Cash	5.6	–	5.6	1.8	2.4	–	2.4	0.7
Other assets	26.1	–	26.1	8.1	29.2	–	29.2	8.8
Overseas pension schemes	308.8	13.0	321.8	100.0	319.4	13.6	333.0	100.0
Equities	282.7	1.2	283.9	28.5	228.2	–	228.2	24.0
Government bonds	363.9	–	363.9	36.6	379.0	–	379.0	39.8
Corporate bonds	185.5	26.4	211.9	21.3	173.5	43.4	216.9	22.8
Property	27.3	30.2	57.5	5.8	14.3	13.6	27.9	2.9
Cash	22.8	–	22.8	2.3	43.2	–	43.2	4.5
Other assets	28.9	26.4	55.3	5.5	40.4	16.9	57.3	6.0
Total pension schemes' assets	911.1	84.2	995.3	100.0	878.6	73.9	952.5	100.0

Other assets principally comprise hedge funds, commodities and derivatives. The schemes have no investments in any assets of the Group.

Financial assumptions used to calculate scheme liabilities

	2017			2016		
	UK pension scheme	Overseas* pension schemes	Overseas healthcare schemes	UK pension scheme	Overseas* pension schemes	Overseas healthcare schemes
Discount rate	2.55%	3.55%	3.55%	2.65%	3.95%	3.95%
Inflation rate	3.20%	N/A	N/A	3.30%	N/A	N/A
Increases to deferred benefits during deferment**	2.20%	N/A	N/A	2.30%	N/A	N/A
Increases to pensions in payment**	3.00%	N/A	N/A	3.20%	N/A	N/A
Salary increases	4.20%	4.43%	N/A	4.30%	4.51%	N/A

* Provided in respect of the most significant overseas schemes.

** To the extent not overridden by specific scheme rules.

In determining the fair value of scheme liabilities, the Group uses mortality assumptions which are based on published mortality tables adjusted to reflect the characteristics of the scheme populations. The Group's mortality assumptions in the UK are based on recent mortality investigations of Self Administered Pension Schemes adjusted to reflect the profile of the membership of the scheme, which include the results of an analysis of members used to support the 2015 triennial UK actuarial valuation. Allowance has been made for rates of mortality to continue to fall at the rate of 1.25% per annum.

In the US, mortality assumptions are based on the RPH-2014 headcount weighted table, for schemes where benefits are not salary-linked, and the RP-2014 table for other schemes, with both tables projecting rates of mortality to fall using the 2017 Social Security Administration's Intermediate-Cost Projections scale.

	2017		2016	
	UK scheme Years	Overseas* schemes Years	UK scheme Years	Overseas* schemes Years
Member age 45 (life expectancy at age 65) – male	22.8-24.4	21.5-22.1	23.1-24.9	21.5-22.1
Member age 45 (life expectancy at age 65) – female	25.3-27.0	23.5-23.7	26.0-27.8	23.4-23.7
Member age 65 (current life expectancy) – male	21.6-23.1	20.2-20.8	21.7-23.2	20.2-20.8
Member age 65 (current life expectancy) – female	23.9-25.5	22.3-22.6	24.1-25.8	22.3-22.6

* Provided in respect of the most significant overseas schemes.

35. 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 2017 to increase by approximately £123.0m.
- The impact of a 10 basis point increase in inflation and salary inflation rates would cause scheme liabilities at 31 December 2017 to increase by approximately £17.0m.
- The impact of assuming every scheme member were to live for an additional year would cause scheme liabilities at 31 December 2017 to increase by approximately £43.0m.

The above sensitivity analyses are based on a change in a single assumption while keeping all other assumptions constant. In practice, this is unlikely to occur, and changes in assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method of calculating the defined benefit obligation has been used as when calculating the retirement benefit obligations recognised on the balance sheet. The methods and types of assumptions used in preparing the sensitivity analysis are consistent with the previous year. No change has been considered necessary to any sensitivity levels, given recent past experience.

Risks

The Group is exposed to a number of risks arising from operating its defined benefit pension and healthcare schemes, the most significant of which are detailed below. The Group has not changed the process used to manage defined benefit scheme risks during the year unless otherwise stated.

Asset volatility

In determining the present value of schemes' defined benefit obligations, liabilities are discounted using interest rates of high quality corporate bonds. To the extent the actual return on schemes' assets is below this yield, the retirement benefit obligations recognised in the consolidated financial statements would increase. This risk is partly mitigated by funded schemes investing in matching corporate bonds, such that changes in asset values are offset by similar changes in the value of scheme liabilities. However, the Group also invests in other asset types such as equities, property, hedge funds, commodities and derivatives where movements in asset values may be uncorrelated to movements in the yields on high quality corporate bonds. The Group believes that, due to the long-term nature of its scheme liabilities, it is appropriate to invest in assets which are expected to 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 34% of the total equities held by the schemes and have an average remaining life of 2.3 years at 31 December 2017. The Group actively monitors how the duration and expected yield of scheme assets match the expected cash outflows arising from its pension obligations. For each UK and US funded scheme, there is a 'glide-path' in place which provides, to the extent the funding position improves, for asset volatility to be reduced by increased investment in long-term index linked securities with maturities that match the benefit payments as they fall due.

Interest risk

In determining the present value of schemes' defined benefit obligations, liabilities are discounted using interest rates of high quality corporate bonds. If these yields fall, the retirement benefit obligations recognised in the consolidated financial statements would increase. This risk is partly mitigated through the funded schemes investing in matching assets as described above. The Group currently does not use derivatives to mitigate this risk.

Inflation risk

In determining the present value of schemes' defined benefit obligations, estimates are made as to the levels of salary inflation, increases in inflation that will apply to deferred benefits during deferment and pensions in payment, and healthcare cost inflation. To the extent actual inflation exceeds these estimates, the retirement benefit obligations recognised in the consolidated financial statements would increase. Salary inflation risk is partly mitigated in both the UK and US schemes by linking benefits in respect of future service to average salaries over a period of employment rather than final salary at retirement. Benefits in respect of certain periods of past service are still linked to final salary at retirement. In the UK, inflation risk in respect of deferred benefits and pensions in payment is mitigated by caps on the levels of inflation under the scheme rules. In the US and Switzerland, the schemes provide for no inflation to be applied to benefits in deferment or retirement. Exposure to inflation on US healthcare costs has been mitigated by freezing Group contributions to medical costs at 2011 cost levels. The Group currently does not use derivatives to mitigate this risk.

Longevity risk

In determining the present value of schemes' defined benefit obligations, assumptions are made as to the life expectancy of members during employment and in retirement. To the extent life expectancy exceeds these estimates, the retirement benefit obligations recognised in the consolidated financial statements would increase. This risk is more significant in the UK plan, where inflationary increases result in higher sensitivity to changes in life expectancy. The Group currently does not use derivatives to mitigate this risk. During 2017, a lump sum offer was made to certain former employees of the US funded schemes and £11.4m was paid to settle those liabilities. Additionally, the Swiss scheme agreed changes to the rates at which benefits are payable. These two changes, which reduce the Group's exposure to longevity risk in those schemes, resulted in a past service credit of £7.1m.

Notes to the consolidated financial statements **continued****35. Retirement benefit obligations** *continued***Other information**

In the UK, the 2015 triennial actuarial valuation was completed during 2016. At the date of the valuation, the deficit was measured for funding purposes at £249.4m. The buy-out valuation at the same date, which assumed the Group were to transfer responsibility of the scheme to an insurance company, was measured at £544.1m. The Group has no current plans to make such a transfer. The Group agreed with the trustees, following this valuation, to make annual deficit reduction payments commencing in 2016 with the aim of eliminating the deficit by 2024. Under this agreement, deficit payments in 2018 will be £29.1m and will increase by approximately 5% per annum until 2024. The present value of future deficit payments agreed as part of the 2015 actuarial valuation exceeds the scheme accounting deficit at 31 December 2017 by approximately £53.0m however, such amounts would be recoverable by the Group under the scheme rules once the last member has died and accordingly no additional minimum funding liability arises.

In the US, deficit reduction payments are driven by regulations and provide for deficits to be eliminated over periods up to 15 years. Absent any changes in legislation, deficit payments in 2018 are expected to be £8.2m and to then increase over the following four years to an estimated £14.0m by 2022. Thereafter, annual payments are expected to remain relatively stable for the remainder of the recovery period. The present values of deficit payments due under legislation do not exceed the schemes' deficits at 31 December 2017 and accordingly no additional minimum funding liability arises.

The Swiss scheme has a surplus on a funding basis of approximately £19.0m.

Estimated total Group contributions expected to be paid to the schemes during 2018 are £55.6m.

The weighted average duration of the UK schemes' defined benefit obligation is 19.7 years. The weighted average duration of the overseas schemes' defined benefit obligations is 12.2 years. The expected maturity of undiscounted pension and healthcare benefits at 31 December 2017 is as follows:

	Pension schemes £'m	Healthcare schemes £'m	Total £'m
Less than a year	43.3	3.4	46.7
Between 1-2 years	43.7	3.4	47.1
Between 2-5 years	140.1	10.5	150.6
Between 5-10 years	256.0	15.5	271.5
Between 10-15 years	270.4	12.2	282.6
Between 15-20 years	266.8	9.5	276.3
Between 20-25 years	249.0	7.2	256.2
Over 25 years	787.9	13.0	800.9
Total	2,057.2	74.7	2,131.9

36. Share capital**Issued share capital**

	Ordinary shares of 5p each Number 'm	Nominal value £'m	Net consideration £'m
Allotted and fully paid:			
At 1 January 2016	775.5	38.8	
Issued on exercise of Sharesave awards	0.2	-	-
At 31 December 2016	775.7	38.8	
Issued on exercise of Sharesave awards	0.7	-	-
At 31 December 2017	776.4	38.8	

37. Share-based payment

The Group operates a number of share schemes for the benefit of its employees. The total expense recognised in the income statement in respect of such schemes is £8.0m (2016: £8.0m) (see note 9). The nature of each scheme which has a significant impact on the expense recognised is set out below.

Meggitt Long Term Incentive Plan 2014: Equity-settled

Under the Meggitt Long Term Incentive Plan 2014, an annual award of shares may be made to certain senior executives. The number of shares, if any, that an executive ultimately receives, depends on three performance conditions:

- An earnings per share (EPS) measure (33% of the award);
- A return on trading assets (ROTA) measure (33% of the award); and
- A strategic goals measure (33% of the award).

Each of the conditions is measured over a three-year performance period. An expense of £5.8m (2016: £5.4m) is recognised in the year. An employee is generally entitled to a payment at the end of the vesting period, equivalent to dividends that would have been paid during the vesting period, on any shares that vest. The fair value of the award made in 2017 has been estimated at the market price of the share on the date of grant, which was 442.10 pence (2016: 401.84 pence). Movements in the number of outstanding shares that may potentially be released to employees are as follows:

	2017 Number of shares under award outstanding 'm	2016 Number of shares under award outstanding 'm
At 1 January	13.7	8.0
Awarded	6.1	6.0
Exercised	(0.5)	–
Lapsed	(4.1)	(0.3)
At 31 December	15.2	13.7

At 31 December 2017, 0.2m of the shares under award are eligible for release.

Deferred Share Bonus Plan: Equity-settled

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

An expense of £0.7m (2016: £1.8m) is recognised in the year. An employee is generally entitled to a payment at the end of the vesting period, equivalent to dividends that would have been paid during the vesting period, on any shares that vest. The fair value of the awards made in 2017 has been estimated at the market price of the share on the date of grant. The average price at the date of grant was 480.00 pence (2016: 350.00 pence). Movements in the number of outstanding shares that may potentially be released to employees are as follows:

	2017 Number of shares under award outstanding 'm	2016 Number of shares under award outstanding 'm
At 1 January	0.7	0.5
Awarded	0.1	0.3
Exercised	(0.5)	(0.1)
At 31 December	0.3	0.7

At 31 December 2017, none of the shares under award are eligible for release.

38. Own shares

Own shares represent shares in the Company that are held by an independently managed Employee Share Ownership Plan Trust ('the trust') formed to acquire shares to be used to satisfy share options and awards under the employee share schemes as described in the Directors' remuneration report on pages 72 to 93. At 31 December 2017, the trust holds 4.2m ordinary shares (2016: 1.4m ordinary shares) of which 3.8m are unallocated (2016: 1.3m), being retained by the trust for future use. The balance is held for employees in a vested share account to satisfy particular awards which have fully vested. All shares, whether or not allocated, are held for the benefit of employees. The shares held at 31 December 2017 were purchased during 2015 and 2017 at a cost of £19.8m. The market value of the shares at 31 December 2017 is £20.1m (2016: £6.5m) representing 0.54% of the issued share capital of the Company (2016: 0.18%).

Notes to the consolidated financial statements **continued****39. Contractual commitments****Capital commitments**

	2017 £'m	2016 £'m
Contracted for but not incurred:		
Intangible assets	2.8	1.3
Property, plant and equipment	18.8	13.5
Total	21.6	14.8

Operating lease commitments

The Group leases various factories, warehouses and offices under non-cancellable operating leases. These leases have various lease periods, escalation clauses and renewal rights. None of these terms represent unusual arrangements or create material onerous or beneficial rights or obligations. Additionally the Group leases various items of plant and machinery under both cancellable and non-cancellable operating leases. Expenditure on operating leases is charged to the income statement as incurred and is disclosed in note 8.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2017 £'m	2016 £'m
In one year or less	17.0	17.4
In more than one year but not more than five years	52.1	54.4
In more than five years	33.4	55.8
Total	102.5	127.6

Other financial commitments

The Group enters into long-term arrangements with aircraft and original equipment manufacturers to design, develop and supply products to them for the life of the aircraft. This represents a significant long-term financial commitment for the Group and requires the consideration of a number of uncertainties including the feasibility of the product and the ultimate commercial viability over a period which can extend over 40 years. The directors are satisfied that, at this time, there are no significant contingent liabilities arising from these commitments. Based on latest OE delivery forecasts from external agencies, the future estimated expenditure under contractual commitments to incur development costs and programme participation costs at 31 December 2017, which under the Group's current accounting policies would be expected to be recognised as intangible assets when incurred, are shown below. Amounts are stated prior to the impact the adoption of IFRS 15 is expected to have on the future accounting for certain programme participation costs (see note 2).

	2017 Development costs £'m	2017 Programme participation costs £'m	2016 Development costs £'m	2016 Programme participation costs £'m
In one year or less	56.5	48.4	51.8	43.5
In more than one year but not more than five years	22.8	241.5	17.4	220.2
In more than five years	9.9	932.3	3.4	1,051.0
Total	89.2	1,222.2	72.6	1,314.7

40. Contingent liabilities

The Company has given guarantees in respect of credit facilities for certain of its subsidiaries, some property leases, other leasing arrangements and the performance by some current and former subsidiaries of certain contracts. Also, there are similar guarantees given by certain other Group companies. The directors do not believe that the effect of giving these guarantees will have a material adverse effect upon the Group's financial position.

The Company and various of its subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the ordinary course of business. The directors do not anticipate that the outcome of these proceedings, actions and claims, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.

41. Cash inflow from operations

	2017 £'m	2016 £'m
Profit for the year	350.0	171.2
Adjustments for:		
Finance income (see note 12)	(1.4)	(2.0)
Finance costs (see note 13)	43.2	40.2
Tax (see note 14)	(87.6)	24.3
Depreciation (see note 21)	40.9	41.3
Amortisation (see notes 19 and 20)	167.1	162.1
Impairment loss (see notes 19 and 21)	58.8	3.3
Loss on disposal of property, plant and equipment	0.8	1.4
Loss on disposal of software and other intangible assets	0.3	-
Gain on disposal of businesses (see note 10)	(40.3)	(40.7)
Impairment of assets classified as held for sale (see note 10)	14.2	-
Remeasurement of fair value of contingent consideration receivable (see note 10)	-	0.3
Financial instruments (see note 10)	(58.6)	66.4
Share of profit after tax of joint venture (see note 22)	(0.6)	(1.2)
Dividend income from joint venture (see note 22)	0.5	-
Retirement benefit obligation deficit payments	(33.5)	(35.0)
Share-based payment expense (see note 37)	8.0	8.0
Changes in working capital:		
Inventories	16.3	(12.5)
Trade and other receivables	(22.7)	(31.3)
Trade and other payables	8.4	11.3
Provisions	(27.8)	(31.5)
Cash inflow from operations	436.0	375.6

The Board uses free cash flow to monitor and measure the underlying trading cash performance of the Group. It is reconciled to cash from operating activities below:

	2017 £'m	2016 £'m
Cash inflow from operating activities	377.2	321.8
Add back cash outflow from business acquisition and disposal expenses	3.9	1.9
Capitalised development costs net of funding	(57.7)	(69.6)
Capitalised programme participation costs	(59.0)	(57.5)
Purchase of intangible assets	(18.3)	(14.7)
Purchase of property, plant and equipment	(62.0)	(51.7)
Proceeds from disposal of property, plant and equipment	1.9	0.9
Free cash inflow	186.0	131.1

42. Movements in net debt

	2017 £'m	2016 £'m
At 1 January	1,179.1	1,051.2
Cash inflow from operating activities	(377.2)	(321.8)
Cash outflow from investing activities	130.8	130.9
Dividends paid to Company's shareholders (see note 16)	118.6	113.0
Purchase of own shares for employee share schemes	19.0	-
Net cash generated	(108.8)	(77.9)
Debt acquired with business (see note 43)	0.6	-
Debt disposed with businesses (see note 44)	(0.8)	-
Exchange rate adjustments	(96.8)	195.4
Other non-cash movements	(8.5)	10.4
At 31 December	964.8	1,179.1

Notes to the consolidated financial statements **continued****42. Movements in net debt** *continued*

	Cash and cash equivalents	Bank and other borrowings: Current	Bank and other borrowings: Non-current	Obligations under finance leases: Current	Obligations under finance leases: Non-current	Net debt
	£'m	£'m	£'m	£'m	£'m	£'m
At 1 January 2017	(173.8)	175.7	1,170.6	0.1	6.5	1,179.1
Exchange rate adjustments	4.8	(12.7)	(88.4)	-	(0.5)	(96.8)
Business acquired (see note 43)	(0.5)	0.6	-	-	-	0.1
Businesses disposed (see note 44)	3.2	(0.1)	(0.7)	-	-	2.4
Cash flows*	47.8	(88.1)	(71.2)	-	-	(111.5)
Other non-cash movements	-	(4.0)	(4.5)	-	-	(8.5)
At 31 December 2017	(118.5)	71.4	1,005.8	0.1	6.0	964.8

* Cash flows relating to bank and other borrowings are disclosed in the cash flow statement as proceeds from borrowings of £64.9m and repayments of borrowings of £224.2m.

43. Business combinations

On 28 March 2017, the Group acquired 100% of the equity in Elite Aerospace, Inc. ('Elite') for a consideration of USD 24.9m settled in cash. Elite is a provider of maintenance, repair and overhaul services for thermal management components. The acquisition increases the repair capabilities at the Group's Miami hub and further enhances the foundations from which the Group will accelerate aftermarket growth over the medium term. Elite is reported within Meggitt Control Systems.

The provisional fair values of the assets and liabilities of Elite reflect changes made as necessary to align the accounting policies of the acquired business with those of the Group and to recognise intangible assets separately from goodwill. Goodwill is attributable to the profitability of the acquired business and expected future synergies arising following acquisition. The total amount of goodwill and other intangible assets acquired as part of the acquisition that is deductible for tax purposes is £17.8m. The fair value of acquired net assets and consideration has been recognised as follows:

	Total £'m
Goodwill (see note 18)	12.7
Other intangible assets (see note 20)	8.6
Property, plant and equipment (see note 21)	0.2
Inventories	1.4
Trade and other receivables – current	1.7
Cash and cash equivalents	0.5
Trade and other payables – current	(1.3)
Bank and other borrowings – current	(0.6)
Provisions - current (see note 33)	(0.1)
Deferred tax liabilities (see note 34)	(3.2)
Net assets	19.9

Net cash outflow in respect of the acquisition is as follows:

	2017 £'m
Cash consideration	19.9
Less: cash and cash equivalents acquired	(0.5)
Total	19.4

44. Business disposals

On 16 June 2017, the Group collectively disposed of 100% of the equity in Piezotech LLC, Meggitt (Maryland) Inc, Piher Sensors & Controls SA and Piher International GmbH for a consideration of USD 108.7m. The businesses operated as standalone entities providing a range of sensor and control technologies to customers in the industrial and automotive sectors where synergies with the rest of the Group were limited. The businesses were not a major line of business or geographical area of operation of the Group. Piezotech LLC and Meggitt (Maryland) Inc, were reported within Meggitt Sensing Systems and Piher Sensors & Controls SA and Piher International GmbH within the Meggitt Equipment Group.

The net assets of businesses disposed at the date of disposal is as follows:

	Total £'m
Goodwill (see note 18)	20.5
Other intangible assets (see note 20)	12.7
Property, plant and equipment (see note 21)	7.7
Inventories	8.7
Trade and other receivables – current	9.2
Cash and cash equivalents	3.2
Trade and other payables – current	(8.1)
Current tax liabilities	(0.1)
Bank and other borrowings – current	(0.1)
Provisions – current (see note 33)	(0.3)
Deferred tax liabilities (see note 34)	(1.3)
Bank and other borrowings – non-current	(0.7)
Net assets	51.4
Currency translation gain transferred from equity	(8.6)
Business disposal expenses	3.0
Working capital adjustment payable	0.5
Gain on disposal	39.1
Total consideration received in cash	85.4
Net cash inflow arising on disposal:	
Total consideration received in cash	85.4
Less: cash and cash equivalents disposed of	(3.2)
Businesses disposed	82.2
Less: business disposal expenses paid	(1.7)
Total cash inflow	80.5

Total consideration received in respect of disposed businesses is as follows:

	Total £'m
In respect of businesses disposed of in the year	82.2
In respect of a business disposed of in prior years	1.5
Total	83.7

The total gain recognised in respect of disposed businesses is as follows:

	Total £'m
In respect of businesses disposed of in the year	39.1
In respect of a business disposed of in prior years	1.2
Total	40.3

45. Events after the balance sheet date

On 12 January 2018, the Group disposed of 100% of the equity in Aviation Mobility, LLC for an initial consideration of USD 14.5m which is subject to a customary adjustment for the working capital in the business at the date of disposal. The net assets of Aviation Mobility, LLC which is part of Meggitt Control Systems, are not significant and accordingly the Group has not reclassified the assets as held for sale at 31 December 2017.

Notes to the consolidated financial statements **continued****46. Related undertakings**

In accordance with section 409 of the Companies Act 2006, a full list of related undertakings at 31 December 2017 is disclosed below. Unless otherwise stated, undertakings listed below are registered at Atlantic House, Aviation Park West, Bournemouth International Airport, Christchurch, Dorset, BH23 6EW, United Kingdom, and have a single class of ordinary share with 100% of the equity owned by the Group. No subsidiary undertakings have been excluded from the consolidation.

Subsidiaries – directly owned

Avica Limited
 Dunlop Aerospace Limited
 Integrated Target Services Limited
 KDG Holdings Limited
 Meggitt (Pamphill) Limited
 Meggitt (Wimborne) Limited
 Meggitt Engineering Limited
 Meggitt International Holdings Limited
 Meggitt Pension Trust Limited
 Negretti & Zambra Limited
 Negretti Limited
 Phoenix Travel (Dorset) Limited¹
 The Microsystems Group Limited

Subsidiaries – indirectly owned

ABL Systems (USA)²
 1204 Massillon Road, Akron, Ohio 44306

Aero-Tech Composites de Mexico, S. de R.L. de C.V. (Mexico)³
 Carretera a Zacatecas 5570-1, Parque Industrial Amistad Sur, Saltillo, CA 250701

Aircraft Braking Systems Europe Limited
 Aircraft Braking Systems Services Limited

Alston Properties LLC (USA)⁴
 14600 Myford Road, Irvine, California 92606

Artus SAS (France)
 37 Chemin du Champ des Martyrs, BP 20009, 49241 Avrillé Cedex

Atlantic House Pension Trustee Limited

Aviation Mobility, LLC (USA)⁴
 8041 Arrowridge Boulevard, Suite A, Charlotte, North Carolina 28273

BAJ Coatings Limited⁵
 Bells Engineering Limited
 Bestobell Aviation Products Limited
 Bestobell Engineering Products Limited
 Bestobell Insulation Limited
 Bestobell Meterflow Limited
 Bestobell Mobrey Limited
 Bestobell Service Co Limited
 Bestobell Sparling Limited
 Cavehurst (Finance) Ireland Unlimited Company (Ireland)
 Gorse Valley, Tipperkevin, Ballymore Eustace, Co Kildare

Cavehurst Limited
 Chempix Limited
 Dunlop Aerospace Group Limited
 Dunlop Aerospace Holdings Limited
 Dunlop Aerospace Overseas Investments Limited
 Dunlop Aerospace Overseas Limited
 Dunlop Holdings Limited
 Dunlop Limited
 Elite Aerospace, Inc. (USA)
 3151 Executive Way, Miramar, Florida 33025

Endevco U.K. Limited
 Endevco Vertriebs GmbH (Germany)
 Kaiserleistraße 51, 63067 Offenbach/Main

Erlanger Acquisition Corporation (USA)⁶
 1955 N. Surveyor Avenue, Simi Valley, California 93063

Europeenne de Conception d'Etudes Technologiques SAS (France)
 8 Chemin de l'Etang, BP 15, F-16730 FLEAC

Evershed & Vignoles Limited
 Fotomechanix Limited
 GB Aero Engine LLC (USA)⁴
 1955 N. Surveyor Avenue, Simi Valley, California 93063

Heatric Limited⁷
 King Tool International Limited
 Linear Motion LLC (USA)⁴
 628 N. Hamilton Street, Saginaw, Michigan 48602

Meggitt (Baltimore) Inc. (USA)⁶
 3310 Carlins Park Drive, Baltimore, Maryland 21215

Meggitt (Canford) Limited
 Meggitt (Colehill) Limited

Meggitt (Erlanger), LLC (USA)⁴
 1400 Jamike Avenue, Erlanger, Kentucky 41018

Meggitt (France) SAS (France)
 8 Chemin de l'Etang, BP 15, F-16730 FLEAC

Meggitt (Hurn) Limited
 Meggitt (Korea) Limited
 Meggitt (North Hollywood), Inc. (USA)⁶
 12838 Saticoy Street, North Hollywood, California 91605

Meggitt (Orange County), Inc. (USA)⁶
 14600 Myford Road, Irvine, California 92606

Meggitt (Rockmart), Inc. (USA)⁶
 669 Goodyear Street, Rockmart, Georgia 30153

Meggitt (San Diego), Inc. (USA)⁶
 10540 Heater Court, San Diego, California 92121

Meggitt (Sensorex) SAS (France)
 196 Rue Louis Rustin, BP 63108, F-74166 Archamps Cedex

Meggitt (Shapwick) Limited
 Meggitt (Simi Valley), Inc. (USA)⁶
 1955 N. Surveyor Avenue, Simi Valley, California 93063

Meggitt (Tarrant) Limited
 Meggitt (Troy), Inc. (USA)⁸
 3 Industrial Drive, Troy, Indiana 47588

Meggitt (UK) Limited
 Meggitt (Vietnam) Co., Limited (Vietnam)⁸
 #7-9, Road 16A, Industrial Zone 2 of Bienhoa, Bienhoa, Dong Nai Province

Meggitt (Xiamen) Sensors & Controls Co Limited (China)⁹
 No.230 South 5 Gaoqi Road, Xiamen Area of China (Fujian) Pilot Free Trade Zone 361006

Meggitt A/S (Denmark)
 Porthusvej 4, 3490 Kvistgaard

Meggitt Acquisition (Erlanger), Inc. (USA)¹⁰
 1955 N. Surveyor Avenue, Simi Valley, California 93063

Meggitt Acquisition (France) SAS (France)
 37 Chemin du Champ des Martyrs, BP 20009, 49241 Avrillé Cedex

Meggitt Acquisition Limited
 Meggitt Advanced Composites Limited
 Meggitt Aerospace Asia Pacific Pte Ltd (Singapore)
 1A Seletar Aerospace Link, Singapore 797552

Meggitt Aerospace Holdings Limited
 Meggitt Aerospace Limited
 Meggitt Aircraft Braking Systems Corporation (USA)⁶
 1204 Massillon Road, Akron, Ohio 44306

Meggitt Aircraft Braking Systems Kentucky Corporation (USA)⁶
 190 Corporate Drive, Danville, Kentucky 40422

Meggitt Aircraft Braking Systems Queretaro, S. de R.L. de C.V. (Mexico)³
 Carretera Estatal 200 Queretaro-Tequisquiapan, KM 22 547 Interior A, Parque Aeroespacial, Queretaro, CP 76278

Meggitt Asia Pacific Pte Ltd (Singapore)
 1A Seletar Aerospace Link, Singapore 797552

Meggitt Brasil (Solucoes de Engenharia) Ltda. (Brazil)⁹
 Avenida João Cabral de Mello Neto, No. 850, Suites 815 and 816, Barra da Tijuca, CEP 22.775-057, City and State of Rio de Janeiro

Meggitt Defense Systems, Inc. (USA)⁶
 9801 Muirlands Boulevard, Irvine, California 92618

Meggitt Filtration & Transfer Limited
 Meggitt Finance (Beta)
 Meggitt Finance Limited

Meggitt Finance S.a.r.l (Luxembourg)
20 Rue des Peupliers, L-2328

Meggitt GmbH (Germany)
Kaiserleistraße 51, 63067 Offenbach/Main

Meggitt GP Inc. (USA)⁶
1955 N. Surveyor Avenue, Simi Valley, California 93065

Meggitt Holdings (France) SNC (France)
37 Chemin du Champ des Martyrs, BP 20009, 49241
Avrillé Cedex

Meggitt Holdings (USA) Inc. (USA)⁶
1955 N. Surveyor Avenue, Simi Valley, California 93065

Meggitt India Pvt Limited (India)¹¹
901, Brigade Road, No. 20, HMT Main Road, HMT
Township, North Bangalore 560022

Meggitt International Limited

Meggitt Investments Limited

Meggitt-Oregon, Inc. (USA)⁶
2010 Lafayette Avenue, McMinnville, Oregon 97128

Meggitt Properties PLC

Meggitt Queretaro LLC (USA)⁴
1204 Massillon Road, Akron, Ohio 44306

Meggitt SA (Switzerland)¹²
Rte de Moncor 4, PO Box 1616, CH-1701 Fribourg

Meggitt Safety Systems, Inc. (USA)⁶
1785 Voyager Avenue, Simi Valley, California 93063

Meggitt Training Systems (Quebec) Inc.
(Canada)⁶
6140 Henri Bourassa West, Montreal, Quebec, H4R3A6

Meggitt Training Systems Australia Pty Limited
(Australia)
Unit 2, 48 Conrad Place, Lavington, New South Wales 2641

Meggitt Training Systems Europe BV (The
Netherlands)
Ringweistraat 7, 4181CL Waardenburg

Meggitt Training Systems, Inc. (USA)⁶
296 Brogdon Road, Suwanee, Georgia 30024

Meggitt Training Systems Limited

Meggitt Training Systems Pte Limited
(Singapore)
1A Seletar Aerospace Link, Singapore 797552

Meggitt-USA Holdings LLC (USA)⁴
1955 N. Surveyor Avenue, Simi Valley, California 93063

Meggitt-USA Services, Inc. (USA)⁶
1955 N. Surveyor Avenue, Simi Valley, California 93063

Meggitt-USA, Inc. (USA)⁶
1955 N. Surveyor Avenue, Simi Valley, California 93063

Metal Maps Limited

Micro Metallic Limited

Microponent Development Limited

Microponents (Plates) Limited

Microponents Limited

Miller Insulation & Engineering Limited¹³

Nasco Aircraft Brake, Inc. (USA)⁶
13300 Estrella Avenue, Gardena, California 90248

OECO, LLC (USA)⁴
4607 SE International Way, Milwaukie, Oregon 97222

Pacific Scientific Company (USA)⁶
1785 Voyager Avenue, Simi Valley, California 93063

Park Chemical Company (USA)⁶
1955 N. Surveyor Avenue, Simi Valley, California 93063

Piher International Limited

Precision Engine Controls Corporation (USA)⁶
11661 Sorrento Valley Road, San Diego, California 92121

Precision Micro Limited

Securaplane Technologies, Inc. (USA)⁶
12350 N. Vistoso Park Road, Oro Valley, Arizona 85755

Serck Aviation Limited

Target Technology Petrel Limited

Techniques et Fabrications Electroniques
SAS (France)
Zone Actisud, 18 rue Jean Perrin, 31100 Toulouse

The Rotameter Manufacturing Co Limited

Tri-scan Limited

Valley Association Corporation (USA)¹⁴
1204 Massillon Road, Akron, Ohio 44306

Vibro-Meter Limited

Vibro-Meter S.a.r.l (Switzerland)
Rte de Moncor 4, PO Box 1616, CH-1701 Fribourg

Wallaby Grip (NSW) Pty Limited (in
liquidation) (Australia)
Bradley Tonks, PKF Sydney, Level 8, 1 O'Connell Street,
Sydney, New South Wales 2000

Wallaby Grip Australia Pty Limited (in
liquidation) (Australia)
Bradley Tonks, PKF Sydney, Level 8, 1 O'Connell Street,
Sydney, New South Wales 2000

Wallaby Grip B.A.E. Pty Limited (in
liquidation) (Australia)
Bradley Tonks, PKF Sydney, Level 8, 1 O'Connell Street,
Sydney, New South Wales 2000

Wallaby Grip Industries Australia Pty Limited
(in liquidation) (Australia)
Bradley Tonks, PKF Sydney, Level 8, 1 O'Connell Street,
Sydney, New South Wales 2000

Wallaby Grip Limited

Whittaker Aerospace

Whittaker Corporation (USA)⁶
1955 N. Surveyor Avenue, Simi Valley, California 93063

Whittaker Development Co. (USA)⁶
1955 N. Surveyor Avenue, Simi Valley, California 93063

Whittaker Ordnance, Inc. (USA)⁶
1955 N. Surveyor Avenue, Simi Valley, California 93063

Whittaker Technical Products, Inc. (USA)⁶
1955 N. Surveyor Avenue, Simi Valley, California 93063

Zambra Legal Pty Limited (Australia)
Suite 2, Level 11, 60 Castlereagh Street, Sydney,
New South Wales 2000

Equity accounted investments

Parkway-HS, LLC (USA)¹⁵
1400 Jamike Avenue, Erlanger,
Kentucky 41018

Parkway-Hamilton Sundstrand Mexico S.
de R.L. de C.V. (Mexico)¹⁶
Carretera 54 a Zacatecas SN, Colonia Las Teresitas,
Saltillo, Coahuila, CP 25084

Private company limited by guarantee without share capital

Meggitt Pension Plan Trustees Limited

Registered charity

Evershed & Ayrton Fund

Notes

- Ownership held as ordinary B shares (50%).
- Ownership held as ordinary shares (50%).
- Ownership held as quota interest (100%).
- Ownership held as membership interest (100%).
- Ownership held as deferred shares (55.55%) and ordinary shares (44.45%).
- Ownership held as common stock (100%).
- Ownership held as ordinary A shares (60%) and ordinary B shares (40%).
- Ownership held as owner's capital.
- Ownership held as registered capital (100%).
- Ownership held as class A shares (67.5%), class B shares (12.5%) and class C shares (20%).
- Ownership held as equity shares (100%).
- Ownership held as bearer shares (100%).
- Registered at 125 West Regent Street, Glasgow, Lanarkshire, G2 2SA, Scotland.
- Ownership held as ordinary shares (33.33%).
- Joint venture with Hamilton Sundstrand Corporation – ownership held as membership interest (70%).
- Subsidiary of Parkway-HS, LLC – ownership held as quota interest (99.97%).

Company balance sheet

At 31 December 2017

	Notes	2017 £'m	2016 £'m
Non-current assets			
Intangible assets	4	42.0	34.4
Property, plant and equipment	5	1.9	3.2
Investments	6	2,074.5	2,074.0
Derivative financial instruments	9	30.6	44.7
Deferred tax assets	11	22.7	34.8
		2,171.7	2,191.1
Current assets			
Other receivables	7	1,378.2	1,380.5
Derivative financial instruments	9	20.7	63.9
Current tax recoverable		5.0	3.0
Cash and cash equivalents		5.3	48.5
		1,409.2	1,495.9
Total assets		3,580.9	3,687.0
Current liabilities			
Trade and other payables	8	(146.1)	(123.3)
Derivative financial instruments	9	(20.3)	(32.3)
Current tax liabilities		(0.1)	-
Bank and other borrowings	10	(70.9)	(175.2)
		(237.4)	(330.8)
Net current assets		1,171.8	1,165.1
Non-current liabilities			
Derivative financial instruments	9	(24.4)	(46.9)
Bank and other borrowings	10	(751.7)	(825.3)
Retirement benefit obligations	12	(140.9)	(209.6)
		(917.0)	(1,081.8)
Total liabilities		(1,154.4)	(1,412.6)
Net assets		2,426.5	2,274.4
Equity			
Share capital	13	38.8	38.8
Share premium		1,222.2	1,219.8
Capital redemption reserve		1.6	1.6
Other reserves		17.5	17.5
Retained earnings:			
At 1 January		996.7	1,027.7
Profit for the year attributable to owners of the Company		243.0	173.8
Other changes in retained earnings		(93.3)	(204.8)
Total equity attributable to owners of the Company		2,426.5	2,274.4

The financial statements on pages 158 to 169 were approved by the Board of Directors on 26 February 2018 and signed on its behalf by:



A Wood
Director



D R Webb
Director

Company statement of changes in equity

For the year ended 31 December 2017

	Notes	Equity attributable to owners of the Company					Total equity £'m
		Share capital	Share premium	Capital redemption reserve	Other reserves*	Retained earnings	
		£'m	£'m	£'m	£'m	£'m	
At 1 January 2016		38.8	1,218.9	1.6	17.5	1,027.7	2,304.5
Profit for the year		-	-	-	-	173.8	173.8
Other comprehensive income for the year:							
Cash flow hedge movements:							
Movement in fair value		-	-	-	-	(0.2)	(0.2)
Remeasurement of retirement benefit obligations	12	-	-	-	-	(120.2)	(120.2)
Other comprehensive expense before tax		-	-	-	-	(120.4)	(120.4)
Tax effect		-	-	-	-	20.4	20.4
Other comprehensive expense for the year		-	-	-	-	(100.0)	(100.0)
Total comprehensive income for the year		-	-	-	-	73.8	73.8
Employee share schemes:							
Value of subsidiary employee services		-	-	-	-	6.3	6.3
Value of services provided		-	-	-	-	2.8	2.8
Issue of equity share capital		-	0.9	-	-	(0.9)	-
Dividends		-	-	-	-	(113.0)	(113.0)
At 31 December 2016		38.8	1,219.8	1.6	17.5	996.7	2,274.4
Profit for the year		-	-	-	-	243.0	243.0
Other comprehensive income for the year:							
Cash flow hedge movements:							
Movement in fair value		-	-	-	-	(0.2)	(0.2)
Remeasurement of retirement benefit obligations	12	-	-	-	-	46.6	46.6
Other comprehensive income before tax		-	-	-	-	46.4	46.4
Tax effect	11	-	-	-	-	(8.6)	(8.6)
Other comprehensive income for the year		-	-	-	-	37.8	37.8
Total comprehensive income for the year		-	-	-	-	280.8	280.8
Employee share schemes:							
Value of subsidiary employee services		-	-	-	-	6.2	6.2
Value of services provided		-	-	-	-	2.7	2.7
Purchase of own shares for employee share schemes		-	-	-	-	(19.0)	(19.0)
Issue of equity share capital		-	2.4	-	-	(2.4)	-
Dividends		-	-	-	-	(118.6)	(118.6)
At 31 December 2017		38.8	1,222.2	1.6	17.5	1,146.4	2,426.5

* Other reserves relate to the cancellation of the Company's share premium account in 1988, which was transferred to a non-distributable capital reserve.

Notes to the financial statements of the Company

1. Basis of preparation

These financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative financial instruments) at fair value, in accordance with the Companies Act 2006.

The Company has taken advantage of the legal dispensation contained in Section 408 of the Companies Act 2006 allowing it not to publish a separate income statement and related notes and not to publish a separate statement of other comprehensive income.

The Company has prepared its financial statements in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards ('IFRSs') as adopted by the European Union, but has taken the following disclosure exemptions permitted by FRS 101:

- Paragraphs 45(b) and 46-52 of IFRS 2, 'Share-based payment';
- IFRS 7, 'Financial Instruments: Disclosures';
- Paragraphs 10(d) and 134-136 of IAS 1, 'Presentation of financial statements';
- IAS 7, 'Statement of cash flows';
- Paragraph 17 of IAS 24, 'Related party disclosures'; and
- The requirements in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

2. Summary of significant accounting policies

The principal accounting policies adopted by the Company in the preparation of the financial statements are set out below. These policies have been applied consistently to all periods presented unless stated otherwise.

Investments

Investments in subsidiaries are stated at cost less 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, consisting of software, are recorded at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over the estimated useful economic lives of the assets, typically over periods up to 5 years. Residual values and useful lives are reviewed annually and adjusted if appropriate.

Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and impairment losses. Cost includes expenditure directly attributable to the acquisition of the asset.

Depreciation is charged on a straight-line basis over the estimated useful economic lives of the assets as follows:

Leasehold property	Over period of lease
Plant and equipment	3 to 10 years
Motor vehicles	5 years

Residual values and useful lives are reviewed annually and adjusted if appropriate. When property, plant and equipment is disposed, the difference between sale proceeds, net of related costs, and the carrying value of the asset is recognised in the income statement.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the income statement on a straight-line basis over the period of the lease.

Taxation

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 recorded in the Company's financial statements. Deferred tax assets are recognised only to the extent it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is calculated using tax rates enacted or substantively enacted at the balance sheet date.

Current tax and deferred tax are recognised in the income statement, other comprehensive income or directly in equity depending on where the item to which they relate has been recognised.

Foreign currencies

The Company's financial statements are presented in pounds sterling. Transactions in foreign currencies are recorded at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities, denominated in foreign currencies are reported at exchange rates prevailing at the balance sheet date. Exchange differences on retranslating monetary assets and liabilities are recognised in the income statement.

2. Summary of significant accounting policies continued

Retirement benefit schemes

For defined benefit schemes, pension costs are charged to the income statement in accordance with the advice of qualified independent actuaries. Past service credits and costs and curtailment gains and losses are recognised immediately in the income statement.

Retirement benefit obligations represent the difference between the fair value of the scheme assets and the present value of the scheme defined benefit obligations measured at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the defined benefit obligations using interest rates of high quality corporate bonds denominated in the currency in which the benefits will be paid and with terms to maturity comparable with the terms of the related defined benefit obligations. Where the Company has a statutory or contractual minimum funding requirement to make contributions to a scheme in respect of past service and any such contributions are not available to the Company once paid (as a reduction in future contributions or as a refund, to which the Company has an unconditional right either during the life of the scheme or when the scheme liabilities are settled), an additional liability for such amounts is recognised.

Remeasurement gains and losses are recognised in the period in which they arise in other comprehensive income.

For defined contribution schemes, payments are recognised in the income statement when they fall due. The Company has no further obligations once the contributions have been paid.

Share-based compensation

Awards made to employees of the Company are equity settled. The fair value of an award is measured at the date of grant and reflects any market-based vesting conditions. At the date of grant, the Company estimates the number of awards expected to vest as a result of non market-based vesting conditions and the fair value of this estimated number of awards is recognised as an expense in the income statement on a straight-line basis over the period for which services are provided. At each balance sheet date, the Company revises its estimate of the number of awards expected to vest as a result of non market-based vesting conditions and adjusts the amount recognised cumulatively in the income statement to reflect the revised estimate. When awards are exercised and the Company issues new shares, the proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium.

The grant by the Company of options over its equity instruments to employees of subsidiary undertakings, is treated as a capital contribution. The fair value of the awards made is recognised, over the vesting period, as an increase in investment in subsidiary undertakings, with a corresponding credit to retained earnings.

Derivative financial instruments and hedging

Derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently measured at fair value at each balance sheet date using values determined indirectly from quoted prices that are observable for the asset or liability.

The method by which any gain or loss arising from measurement at fair value is recognised, depends on whether the instrument is designated as a hedging instrument and if so the nature of the item hedged. The Company recognises an instrument as a hedging instrument by documenting, at its inception, the relationship between the instrument and the hedged item and the objectives and strategy for undertaking the hedging transaction. To be designated as a hedging instrument, an instrument must also be assessed, at inception and on an ongoing basis, to be highly effective in offsetting changes in fair values or cash flows of hedged items.

To the extent the maturity of the derivative financial instrument is more than 12 months from the balance sheet date, the fair value is reported as a non-current asset or non-current liability. All other derivative financial instruments are reported as current assets or current liabilities.

Fair value hedges

Changes in fair value of derivative financial instruments, that are designated and qualify as fair value hedges, are recognised in the income statement together with changes in the fair value of the hedged item. The Company currently applies fair value hedge accounting to the hedging of fixed interest rate risk on bank and other borrowings.

Cash flow hedges

Changes in fair value of the effective portion of derivative financial instruments, that are designated and qualify as cash flow hedges, are initially recognised in other comprehensive income. Changes in fair value of any ineffective portion are recognised immediately in the income statement. To the extent changes in fair value are recognised in other comprehensive income, they are recycled to the income statement in the periods in which the hedged item affects the income statement. The Company currently applies cash flow hedge accounting to the hedging of floating interest rate risk on certain loans due to subsidiary undertakings and bank and other borrowings.

If the hedging instrument is sold or no longer meets the criteria for hedge accounting, the cumulative gain or loss previously recognised in other comprehensive income is transferred to the income statement.

Notes to the financial statements of the Company **continued**

2. Summary of significant accounting policies continued

Derivatives not meeting the criteria for hedge accounting

Where derivatives do not meet the criteria for hedge accounting, changes in fair value are recognised immediately in the income statement. The Company utilises a large number of foreign currency forward contracts to mitigate against currency fluctuations. The Company has determined that the additional costs of meeting the extensive documentation requirements in order to apply hedge accounting under IAS 39 'Financial Instruments: Recognition and Measurement' are not merited.

Borrowings

Borrowings are initially recognised at fair value, being proceeds received less directly attributable transaction costs incurred. Borrowings are generally subsequently measured at amortised cost at each balance sheet date with any transaction costs amortised to the income statement over the period of the borrowings using the effective interest method. Certain borrowings however are designated as fair value through profit and loss at inception, where the Company has interest rate derivatives in place which have the economic effect of converting fixed rate borrowings into floating rate borrowings. Such borrowings are measured at fair value at each balance sheet date with any movement in fair value recorded in the income statement.

Any related interest accruals are included within borrowings. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted from the proceeds recorded in equity.

Own shares represent shares in the Company that are held by an independently managed Employee Share Ownership Plan. Consideration paid for own shares, including any incremental directly attributable costs, is recorded as a deduction from retained earnings. Details of own shares in the Company are disclosed in note 38 to the Group consolidated financial statements.

Dividends

Interim dividends are recognised as liabilities when they are approved by the Board. Final dividends are recognised as liabilities when they are approved by the shareholders. Details of dividends paid and proposed by the Company are disclosed in note 16 to the Group 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 assumptions that have the most significant effect on the amounts included in these financial statements are described below. There are no judgements considered to be critical relating to the year.

Critical accounting estimates and assumptions

Investment in subsidiaries

At least annually, the Company assesses the carrying value of its investments in subsidiaries, which requires estimates to be made of the value in use of each entity. These value in use calculations are dependent on estimates of future cash flows, long-term growth rates and appropriate discount rates to be applied to future cash flows. No reasonably foreseeable change in assumptions would cause a significant impairment to be recognised.

Retirement benefit obligations

The liability recognised in respect of retirement benefit obligations is dependent on a number of estimates including those relating to mortality, inflation, salary increases and the rate at which liabilities are discounted. External actuarial advice is taken with regard to the most appropriate assumptions to use. Further details on these estimates, and sensitivities of the retirement benefit obligations to these estimates, are disclosed in note 12.

4. Intangible assets

	Software £'m
At 1 January 2016	
Cost	49.1
Accumulated amortisation	(14.9)
Net book amount	34.2
Year ended 31 December 2016	
Opening net book amount	34.2
Additions	7.4
Amortisation	(7.2)
Net book amount	34.4
At 31 December 2016	
Cost	56.5
Accumulated amortisation	(22.1)
Net book amount	34.4
Year ended 31 December 2017	
Opening net book amount	34.4
Additions	14.1
Amortisation	(6.5)
Net book amount	42.0
At 31 December 2017	
Cost	70.6
Accumulated amortisation	(28.6)
Net book amount	42.0

Software assets include costs relating to the Group's enterprise resource planning system. The asset has a net book amount of £24.1m (2016: £22.7m) and has a remaining amortisation period of 5 years (2016: 4 years).

Notes to the financial statements of the Company **continued****5. Property, plant and equipment**

	Leasehold property £'m	Plant, equipment and vehicles £'m	Total £'m
At 1 January 2016			
Cost	0.6	6.2	6.8
Accumulated depreciation	(0.3)	(2.5)	(2.8)
Net book amount	0.3	3.7	4.0
Year ended 31 December 2016			
Opening net book amount	0.3	3.7	4.0
Additions	0.2	0.8	1.0
Disposals	–	(0.1)	(0.1)
Depreciation	(0.1)	(1.6)	(1.7)
Net book amount	0.4	2.8	3.2
At 31 December 2016			
Cost	0.8	6.6	7.4
Accumulated depreciation	(0.4)	(3.8)	(4.2)
Net book amount	0.4	2.8	3.2
Year ended 31 December 2017			
Opening net book amount	0.4	2.8	3.2
Additions	0.1	0.2	0.3
Disposals	–	(0.3)	(0.3)
Depreciation	(0.1)	(1.2)	(1.3)
Net book amount	0.4	1.5	1.9
At 31 December 2017			
Cost	0.9	6.1	7.0
Accumulated depreciation	(0.5)	(4.6)	(5.1)
Net book amount	0.4	1.5	1.9

6. Investments

	2017 £'m	2016 £'m
Shares in subsidiary undertakings:		
At 1 January	2,074.0	2,070.9
Capital contributions	3.7	5.2
Less contributions from subsidiary undertakings	(3.2)	(2.1)
At 31 December	2,074.5	2,074.0

A list of all subsidiary undertakings is disclosed in note 46 to the Group consolidated financial statements on pages 156 to 157.

7. Other receivables

	2017 £'m	2016 £'m
Amounts owed by subsidiary undertakings	1,372.0	1,374.4
Prepayments and accrued income	4.4	4.2
Other receivables	1.8	1.9
Total	1,378.2	1,380.5

Amounts owed by subsidiary undertakings are unsecured.

8. Trade and other payables – current

	2017 £'m	2016 £'m
Trade payables	6.0	5.0
Amounts owed to subsidiary undertakings	128.6	108.7
Social security and other taxes	3.2	3.0
Accrued expenses	8.0	6.3
Other payables	0.3	0.3
Total	146.1	123.3

Amounts owed to subsidiary undertakings are unsecured.

9. Derivative financial instruments

	2017 Assets £'m	2017 Liabilities £'m	2016 Assets £'m	2016 Liabilities £'m
Interest rate swap – cash flow hedge	0.4	–	0.5	–
Interest rate swaps – fair value hedges	12.2	–	20.9	–
Cross currency swaps – not hedge accounted	–	(12.0)	1.9	–
Foreign currency forward contracts – not hedge accounted	38.7	(32.7)	85.3	(79.2)
Total	51.3	(44.7)	108.6	(79.2)
Less non-current portion:				
Interest rate swap – cash flow hedge	–	–	0.5	–
Interest rate swaps – fair value hedges	12.2	–	19.0	–
Cross currency swaps – not hedge accounted	–	(6.1)	0.4	–
Foreign currency forward contracts – not hedge accounted	18.4	(18.3)	24.8	(46.9)
Non-current portion	30.6	(24.4)	44.7	(46.9)
Current portion	20.7	(20.3)	63.9	(32.3)

The Company is exempt from certain FRS 101 disclosures as the Group consolidated financial statements give the disclosures required by IFRS 7 (see note 32 to the Group consolidated financial statements on pages 143 to 144).

The loss recorded in the income statement within net operating costs arising from the measurement at fair value of derivative financial instruments is £15.3m (2016: £12.1m).

The contract or underlying principal amount of foreign currency forward contracts in respect of assets is £637.7m (2016: £678.3m) and in respect of liabilities is £522.6m (2016: £762.4m).

The fair value of foreign currency forward contracts is analysed as follows:

	2017 Assets £'m	2017 Liabilities £'m	2016 Assets £'m	2016 Liabilities £'m
Fair value:				
US dollar forward sales and purchases (USD/£)	32.6	(28.8)	76.4	(61.8)
Forward sales and purchases denominated in other currencies	6.1	(3.9)	8.9	(17.4)
Total	38.7	(32.7)	85.3	(79.2)

Notes to the financial statements of the Company **continued****10. Bank and other borrowings**

	2017 £'m	2016 £'m
Current		
Bank loans	61.6	–
Other loans	9.3	175.2
Total	70.9	175.2
Non-current		
Other loans	751.7	825.3
Total	751.7	825.3
Analysis of bank and other borrowings repayable:		
In one year or less	70.9	175.2
In more than one year but not more than five years	308.3	231.8
In more than five years	443.4	593.5
Total	822.6	1,000.5
Analysis of bank and other borrowings:		
Drawn under committed facilities	740.7	971.1
Less unamortised debt issue costs	(1.4)	(1.7)
Fair value adjustments to fixed rate borrowings	12.4	19.2
Drawn under uncommitted facilities	61.6	–
Interest accruals	9.3	11.9
Total	822.6	1,000.5

Debt issue costs are amortised over the period of the facility to which they relate. The Company has no secured borrowings (2016: £Nil).

The Company has the following committed facilities:

	2017			2016		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
2010 Senior notes (USD 400.0m (USD 600.0m))	296.3	–	296.3	485.6	–	485.6
2016 Senior notes (USD 600.0m)	444.4	–	444.4	485.6	–	485.6
Total	740.7	–	740.7	971.2	–	971.2

Further details on each of the committed facilities are disclosed in note 30 to the Group consolidated financial statements on page 139.

The committed facilities expire as follows:

	2017			2016		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
In one year or less	–	–	–	161.9	–	161.9
In more than one year but not more than five years	296.3	–	296.3	222.6	–	222.6
In more than five years	444.4	–	444.4	586.7	–	586.7
Total	740.7	–	740.7	971.2	–	971.2

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

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

	2017		2016	
	Book value £'m	Fair value £'m	Book value £'m	Fair value £'m
Current	70.9	70.9	175.2	176.7
Non-current	751.7	747.8	825.3	814.9
Total	822.6	818.7	1,000.5	991.6

10. Bank and other borrowings continued

After taking account of financial derivatives that alter the interest basis of the financial liabilities entered into by the Company, the interest rate exposure on bank and other borrowings is:

At 31 December 2017:

	Floating	Fixed	Total	Fixed rate borrowings	
				Weighted average interest rate	Weighted average period for which rate is fixed
				%	Years
	£'m	£'m	£'m		
US dollar	235.6	526.8	762.4	3.8	6.4
Sterling	61.6	–	61.6		
Gross bank and other borrowings	297.2	526.8	824.0		
Less unamortised debt issue costs	(0.3)	(1.1)	(1.4)		
Bank and other borrowings	296.9	525.7	822.6		

At 31 December 2016:

	Floating	Fixed	Total	Fixed rate borrowings	
				Weighted average interest rate	Weighted average period for which rate is fixed
				%	Years
	£'m	£'m	£'m		
US dollar	344.8	657.4	1,002.2	3.8	6.6
Less unamortised debt issue costs	(0.4)	(1.3)	(1.7)		
Bank and other borrowings	344.4	656.1	1,000.5		

The weighted average interest rate reflects the relative impact of interest rates based on the principal amounts and the duration of borrowings.

11. Deferred tax

Movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances, are as follows:

	Asset			Liabilities		Net
	Retirement benefit obligations	Accelerated tax depreciation	Other	Total deferred tax liabilities		
	£'m	£'m	£'m	£'m	£'m	
At 1 January 2016	22.8	(2.9)	(1.2)	(4.1)	18.7	
Charge to income statement	(6.2)	0.8	0.8	1.6	(4.6)	
Credit to other comprehensive income	20.4	–	0.1	0.1	20.5	
Credit to equity	–	–	0.2	0.2	0.2	
At 31 December 2016	37.0	(2.1)	(0.1)	(2.2)	34.8	
Charge to income statement	(3.8)	0.2	0.1	0.3	(3.5)	
Charge to other comprehensive income	(8.6)	–	–	–	(8.6)	
At 31 December 2017	24.6	(1.9)	–	(1.9)	22.7	

After taking account of the offsetting of balances, deferred tax assets are analysed as follows:

	2017	2016
	£'m	£'m
To be recovered after more than one year	22.7	34.8
Total	22.7	34.8

There are no unremitted earnings in foreign subsidiaries that would give rise to a tax liability in the event of those subsidiaries remitting their earnings.

Notes to the financial statements of the Company **continued****12. Retirement benefit obligations**

The Company is the sponsoring employer of the Meggitt Pension Plan, a funded defined benefit plan. Each participating company in the Meggitt Pension Plan bears employer contributions in respect of future service. No other amounts are recharged by the Company to any other participating employer. The Company has recognised the total deficit on the Meggitt Pension Plan in these financial statements. Further details on the plan are disclosed in note 35 to the Group consolidated financial statements on pages 146 to 150 in respect of the UK scheme.

The total charge to net operating expenses in respect of the defined contribution scheme in which employees of the Company participate is £1.7m (2016: £1.1m).

Changes in the present value of retirement benefit obligations

	2017			2016		
	Liabilities (*) £'m	Assets (**) £'m	Total £'m	Liabilities (*) £'m	Assets (**) £'m	Total £'m
At 1 January	829.1	(619.5)	209.6	637.1	(515.0)	122.1
Service cost	7.8	-	7.8	6.8	-	6.8
Interest expense/(income)	21.7	(16.6)	5.1	24.0	(20.0)	4.0
Contributions – Company	-	(35.6)	(35.6)	-	(43.0)	(43.0)
Benefits paid	(25.3)	25.3	-	(20.8)	20.8	-
Curtailments	-	-	-	(1.2)	-	(1.2)
Remeasurement of retirement benefit obligations:						
Experience gain	(5.0)	-	(5.0)	(9.3)	-	(9.3)
Gain from change in demographic assumptions	(13.3)	-	(13.3)	(9.8)	-	(9.8)
(Gain)/loss from change in financial assumptions	(0.5)	-	(0.5)	202.3	-	202.3
Return on scheme assets excluding amounts included in finance income	-	(27.8)	(27.8)	-	(63.0)	(63.0)
Total remeasurement (gain)/loss	(18.8)	(27.8)	(46.6)	183.2	(63.0)	120.2
Administrative expenses borne directly by scheme	-	0.6	0.6	-	0.7	0.7
At 31 December	814.5	(673.6)	140.9	829.1	(619.5)	209.6

* Present value of scheme liabilities.

** Fair value of scheme assets.

Details on the sensitivity of scheme liabilities to changes in assumptions are provided below:

- The impact of a 50 basis point reduction in discount rate would cause scheme liabilities at 31 December 2017 to increase by approximately £92.0m.
- The impact of a 10 basis point increase in inflation and salary inflation rates would cause scheme liabilities at 31 December 2017 to increase by approximately £16.0m.
- The impact of assuming every scheme member were to live for an additional year would cause scheme liabilities at 31 December 2017 to increase by approximately £28.0m.

The above sensitivity analyses are based on a change in a single assumption while keeping all other assumptions constant. In practice, this is unlikely to occur, and changes in assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method of calculating the defined benefit obligation has been used as when calculating the retirement benefit obligations recognised on the balance sheet. The methods and types of assumptions used in preparing the sensitivity analysis are consistent with the previous year. No change has been considered necessary to sensitivity levels, given recent past experience.

The weighted average duration of the UK scheme defined benefit obligation is 19.7 years.

12. Retirement benefit obligations continued

The expected maturity of undiscounted pension benefits at 31 December 2017 is as follows:

	Total £'m
In one year or less	18.9
Between 1-2 years	19.7
Between 2-5 years	66.7
Between 5-10 years	137.8
Between 10-15 years	163.1
Between 15-20 years	177.7
Between 20-25 years	180.3
Over 25 years	660.8
Total	1,425.0

13. Share capital

Disclosures in respect of share capital of the Company are provided in note 36 to the Group consolidated financial statements on page 150.

14. Share-based payment

Share options have been granted to employees of the Company under various plans. Details of the general terms and conditions of each share-based payment plan are provided in the Director's remuneration report on pages 72 to 93. Disclosure is also made in the Group consolidated financial statements in note 37 on page 151.

15. Commitments

Capital commitments

The Company has no capital commitments (2016: Nil).

Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2017 £'m	2016 £'m
In one year or less	0.1	0.1
In more than one year but not more than five years	0.3	0.4
Total	0.4	0.5

16. Other information

Directors' remuneration

Details of the remuneration paid to directors of the Company are provided in the Directors' remuneration report on pages 72 to 93.

Auditor's remuneration

Details of remuneration paid for the audit of the Company are disclosed in note 7 to the Group consolidated financial statements on page 126.

Employee information

The average number of persons employed by the Company in the year is 185 (2016: 173). Total staff costs, excluding share-based payment charges, for the year are £31.5m (2016: £26.5m).

Five-year record

	2017 £'m	2016 £'m	2015 £'m	2014 £'m	2013 £'m
Revenue and profit					
Revenue	2,027.3	1,992.4	1,647.2	1,553.7	1,637.3
Underlying profit before tax	357.9	352.1	310.3	328.7	377.8
Exceptional operating items	(74.6)	(15.5)	(10.4)	(9.0)	(36.7)
Amounts arising on the acquisition, disposal and closure of businesses	25.3	39.1	(0.2)	(3.5)	8.3
Amortisation of intangible assets acquired in business combinations	(93.5)	(98.6)	(71.9)	(68.1)	(74.3)
Disposal of inventory revalued in business combinations	-	(4.6)	(1.6)	-	(0.3)
Financial instruments	58.6	(66.4)	(4.8)	(29.2)	6.1
Net interest expense on retirement benefit obligations	(11.3)	(10.6)	(11.2)	(10.0)	(11.5)
Profit before tax	262.4	195.5	210.2	208.9	269.4
Earnings and dividends					
Earnings per share – basic	45.2p	22.1p	23.2p	22.0p	29.4p
Earnings per share – underlying	35.3p	34.8p	31.6p	32.4p	37.5p
Dividends per ordinary share in respect of the year	15.85p	15.10p	14.40p	13.75p	12.75p
Gearing ratio					
Net debt as a percentage of total equity	37.7%	48.0%	48.3%	26.9%	27.2%

Investor information

Contacts

Investor relations

T: 01202 597597
E: investors@meggitt.com

Information on Meggitt PLC, including the latest share price: www.meggitt.com

Shareholder enquiries

Registrar:
Computershare Investor
Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

Enquiries about the following matters should be addressed to Meggitt PLC's registrar:

- Change of address notification.
- Lost share certificates.
- Dividend payment enquiries.
- Dividend mandate instructions. Shareholders may have their dividends paid directly into their bank or building society accounts by completing a dividend mandate form. Dividend confirmations are sent directly to shareholders' registered addresses. Quarterly statements will be available online at www.investorcentre.co.uk shareholders will need their Shareholder Reference Number and registered address details to get started. Statements will be available from 30 April, 31 July, 31 October and 31 January each year.
- Amalgamation of shareholdings. Shareholders who receive more than one copy of the annual report are invited to amalgamate their accounts on the share register.

T: 0370 703 6210

E: www.investorcentre.co.uk/contactus

Shareholders can view and manage their shareholdings online at www.investorcentre.co.uk, including updating address records, making dividend payment enquiries, updating dividend mandates and viewing the latest share price. Shareholders will need their Shareholder Reference Number (SRN), which can be found on their share certificate or a recent dividend tax voucher or dividend confirmation, to access this site. Once signed up to Investor Centre, an activation code will be sent to the shareholder's registered address to enable the shareholder to manage their holding.

Other useful contacts

Share dealing services are provided for shareholders by Computershare Investor Services PLC. These services are provided by telephone (0370 703 0084) and online (to access the service, shareholders should have their SRN and log onto www.computershare.com/dealing/uk).

ShareGift (www.sharegift.org, registered charity number 1052686): PO Box 72253, London, SW1P 9LQ (0207 930 3737). ShareGift, the independent share donation charity, is especially useful for those who may want to dispose of a small number of shares which are uneconomic to sell on their own. Shares which have been donated to ShareGift are aggregated and sold when practicable, with the proceeds passed on to a wide range of UK registered charities.

Other Information

Dividends

The proposed 2017 final dividend of 10.80p per ordinary share, if approved, will be paid on 4 May 2018 to shareholders on the register on 23 March 2018. The expected payment date for the 2018 interim dividend is 28 September 2018.

2018 provisional financial calendar

Full-year results for year ended 31 December 2017

Report and accounts for year ended 31 December 2017 despatched
2017 Final dividend ex-dividend date
2017 Final dividend record date
Deadline for receipt of dividend reinvestment plan elections

AGM

2017 Final dividend payment date

Interim results for period ended 30 June 2018

2018 Interim dividend ex-dividend date
2018 Interim dividend record date
Deadline for receipt of dividend reinvestment plan elections
2018 Interim dividend payment date

27 February

22 March
22 March
23 March
13 April

26 April
4 May

7 August

6 September
7 September
14 September
28 September

Key dates 2018

February 27 Full-year results	April 26 AGM	May 04 2017 Final dividend payment
August 07 Interim results	September 28 2018 Interim dividend payment	

Glossary

ADS	Aerospace, Defence, Security and Space Organisation	EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
Aftermarket (AM)	Spares and repairs	ECR	(US) Export Controls Reform
AGM	Annual general meeting	EPP	Equity Participation Plan
AR&T	Applied research and technology	EPS	Earnings per Share
ASK	Available seat kilometres	ESOS	Energy Savings Opportunity Scheme
Basis point	One-hundredth of a percent	ESOS	Executive Share Option Scheme
BEPS	Base Erosion and Profit Shifting	EU	European Union
Board	Board of directors	FCA	Financial Conduct Authority
Book to bill	The ratio of orders received to revenue recognised in a period	FIFO	First-in first-out
Bronze stage	Fourth stage of MPS	FIRST	For Inspiration and Recognition of Science and Technology
Business jets	Aircraft used for non-commercial operations	FOC	Free of charge
CAGR	Compound annual growth rate	FRC	Financial Reporting Council
Capability	Expertise in technology and manufacturing	FRS	Financial Reporting Standard
CGU	Cash generating unit	FTSE	Share index of companies listed on the London Stock Exchange
CHF	Swiss franc	GAAP	Generally Accepted Accounting Practice
CI	Continuous improvement	GBP	British pound or pound sterling
CLAAW	Closed loop adaptive assembly workbench	GDP	Gross domestic product
CO₂	Carbon dioxide	GHG	Greenhouse gas
Code	UK Corporate Governance Code 2014	Group	Meggitt PLC and its subsidiaries
CODM	Chief operating decision maker	Group Leadership Team	Assists the Chief Executive to develop and implement the Group's strategy, manage operations and discharge responsibilities delegated by the board
Company	Meggitt PLC	HMRC	HM Revenue & Customs
Condition-monitoring	Monitoring the condition of aerospace and land-based turbines and supporting equipment to predict wear and tear, promoting safety, up-time and planned maintenance	HSE	Health, safety and environment
Continuing Resolution	Appropriations legislation restricting modification from prior-year funding patterns	IAS	International Accounting Standards
CR	Corporate responsibility	IET	Institution of Engineering and Technology
CREST	Certificateless Registry for Electronic Share Transfer	IFBEC	International Forum on Business Ethical Conduct
CSS	Customer Services & Support, Meggitt's centralised aftermarket organisation	IFRS	International Financial Reporting Standards
D&A	Depreciation and amortisation	Installed base	The sum total of the Meggitt products and sub-systems installed on customers' equipment
DECC	Department of Energy & Climate Change	IP	Intellectual property
DEFRA	Department for Environment, Food & Rural Affairs	ISA	International Standards on Auditing
DFARS	Defense Federal Acquisition Relation Supplement	KPI	Key performance indicator
DLA	Daily layered accountability, the nervous system of the Meggitt Production System, DLA is a multi-layered structure of interlocking meetings at the start of each working day that flows fresh, accurate performance and operational information up and down the business enabling problems to be solved quickly by those best equipped to do so	Large jets	Commercial aircraft with greater than 100 seats
DoD	(United States) Department of Defense	Lean	A method for the continual elimination of waste within a manufacturing system
DPPM	Defective parts per million, a measure of quality	LIBOR	London Inter-Bank Offered Rate
DRIP	Dividend reinvestment plan	LTIP	Long Term Incentive Plan
DTR	Disclosure Guidance and Transparency Rules	MABS	Meggitt Aircraft Braking Systems, one of five Meggitt divisions
		M&A	Mergers and acquisitions
		MCS	Meggitt Control Systems, one of five Meggitt divisions
		MEG	Meggitt Equipment Group, one of five Meggitt divisions

Meggitt Production System (MPS)	Our single global approach to continuous improvement using tools and processes tailored for the Group, and extending from the factory floor into every function	Registrar	Computershare Investor Services PLC
Mix	The impact on performance of revenue streams with higher or lower profitability growing at differing rates	RIDDOR	The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations
MoD	UK Ministry of Defence	RIS	Regulatory Information Service
MPC	Meggitt Polymers & Composites, one of five Meggitt divisions	RMU	Retrofit, modification and upgrade
MPP	Meggitt Pension Plan	ROCE	Return on capital employed
MRO	Maintenance, repair and overhaul	ROTA	Return on trading assets
MSS	Meggitt Sensing Systems, one of five Meggitt divisions	RPH	Retirement Plan Headcount
M⁴	Meggitt Modular Modifiable Manufacturing, an advanced manufacturing engineering concept that will underpin the more efficient aerospace factories of the future. They will continue to accommodate low volumes of largely handmade products but those products will become increasingly complex and often involve new manufacturing technologies requiring new kinds of factory operators and managers and new standards of traceability	SAP	The Group's selected enterprise management system
NPI	New product introduction	SARs	Share appreciation rights
OE	Original equipment	Shipset	Value of Meggitt's content on aircraft platforms
OECD	Organisation for Economic Cooperation and Development	SIP	Share Incentive Plan
OEM	Original equipment manufacturer	Smart engineering for extreme environments	What Meggitt specialises in: long-life, highly reliable, often mission-critical products that must operate effectively in the harsh conditions of aero-engines, oil and gas and power generation environments and combat
Operations excellence	A system of tools and processes that embraces the way in which every aspect of Meggitt is managed from the factory floor to all functions and every level of leadership from supervisors to the Group Executive Committee	SRN	Shareholder Reference Number
Organic growth	Growth excluding the impact of currency and acquisitions and disposals of businesses	STIP	Short Term Incentive Plan
OSHA	Occupational Safety and Health Administration	TSR	Total shareholder return
OTD	On-time delivery	UAV	Unmanned aerial vehicle
PBT	Profit before tax	UKLA	UK Listing Authority
PCHE	Printed circuit heat exchanger – a block of flat, diffusion bonded plates on to which fluid flow channels have been chemically milled	USD	United States dollar
PFEP	Plan for every part	WACC	Weighted average cost of capital
Platform	Aircraft or ground vehicle model incorporating Meggitt products	WBCSD	World Business Council for Sustainable Development
PMO	Project management office	WRI	World Resources Institute
PPC	Programme Participation Cost		
Programme	The production and utilisation lifecycle of an aircraft model or ground vehicle		
PwC	PricewaterhouseCoopers LLP		
R&D	Research and development		
REACH	Registration, Evaluation and Authorisation of CHemicals		
Regional aircraft	Commercial aircraft with fewer than 100 seats		



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MEGGITT

Meggitt PLC
Atlantic House
Aviation Park West
Bournemouth International Airport
Christchurch
Dorset
BH23 6EW
United Kingdom

T +44 (0) 1202 597 597
F +44 (0) 1202 597 555
www.meggitt.com

Registered in England and Wales
Company number 432989