

Meggitt Group Tax Strategy Effective 1st January 2017

A. Our philosophy towards tax

Our primary objective when determining the structure and organisation of our business is to maximise returns in our chosen markets using the skills and expertise of our employees and the tangible and intangible assets at our disposal. To fulfil this objective we focus on our strengths and as such we see ourselves as business driven rather than tax driven.

However, we recognise that to maximise returns to shareholders we need to build long term sustainable income streams while also minimising the associated business expenses. In this regard, we class tax as one of those business expenses. Thus, while not being our primary focus, we will seek to manage tax like any other business expense. The framework for the management of our tax expense is as follows:

1. Where tax authorities use a risk profile approach, we seek to be classified as either low or medium risk.
2. We are committed to complying with all tax legislation applicable to our operations around the world.
3. We seek to maximise the benefits available from tax credits and other incentives offered by governments (eg R&D credits, intellectual property incentives, tax holidays etc).
4. We will use common tax structures (eg maximising debt in high tax jurisdictions) but will not use highly artificial or highly contrived structures that seek to exploit shortcomings in tax legislation.
5. We seek to maintain a small in-house tax function and rely on expert external advisors as necessary.
6. We seek to have a robust system of checks and balances to identify and manage tax risks (see below)

B. How we manage tax risks

As a large, international business, we are subject to many different tax jurisdictions and international tax agreements. To deal with this complexity, we have developed the following structure and associated responsibilities:

1. The Board – the Board is responsible for setting the overall group tax strategy and for overseeing the Group's risk governance structure and internal control framework.
2. The Audit Committee – the Board has delegated responsibility for reviewing and ensuring the effectiveness of the risk management process to the Audit Committee. The Head of Treasury & Tax formally presents to the Committee on tax at least every other year.
3. The Finance Committee – the Board has delegated to the Finance Committee (comprising the executive directors) the power to approve financial transactions within certain parameters including tax related matters.
4. The Chief Financial Officer – the CFO has executive responsibility for financial matters including tax and reports to the Board monthly.
5. The Head of Treasury & Tax – the Head of Treasury & Tax is responsible for the day to day management of tax within the group and reports to the CFO. Corporation tax is handled centrally, all other taxes are handled by the businesses.
6. Finance function within each unit – each unit is responsible for all taxes except corporation tax. As and when necessary, units will seek either internal assistance (from central tax, group trade compliance, HR etc) or external expert input. The units are also responsible for compiling and maintaining a risk register for their business.

7. Internal audit – internal audit performs business unit audits on a rotational basis which review compliance with the Group's Finance Policies & Procedures Manual. They also undertake other ad hoc reviews which may be tax related.
8. The Head of Risk Management co-ordinates the Group's risk management process at least quarterly which includes a review of business and functional risk registers in compiling the Group risk register.

We recognise that tax legislation is complex and compliance can be subject to interpretation. To assist in this process we use the following checks and balances:

1. We invest in strong, robust and internationally recognised accounting systems.
2. Where necessary, we seek the assistance of external experts (eg to calculate R&D tax credits, US manufacturing credits etc)
3. All our corporation tax returns (and federal returns in the US) are reviewed or produced by outside experts
4. All our UK units are required to make annual declarations regarding the taxes for which they are responsible.
5. Our internal audit function operates on a risk based system.

C. Dealing with tax authorities

We aim to have open, honest and transparent relationships with all the tax authorities with which we interact given the nature and scope of our operations. Where possible, we will seek to gain prior clearance on a transaction where the tax treatment might be in doubt to provide certainty to both parties.

Should a dispute arise we will engage in proactive discussions to seek to resolve the issues in a timely manner and to the satisfaction of both parties.

This document is intended to meet the Group's legal obligations under Schedule 19 of the 2016 Finance Act to publish its tax strategy.