Press information

MEGGITT

4 March 2014

Meggitt PLC
2013 Full-year results

Building future growth

Meggitt PLC ("Meggitt" or "the Group"), a global engineering group specialising in extreme environment components and sub-systems for civil aerospace, military and energy markets, today announces full-year audited results for the year ended 31 December 2013.

Group Highlights

£m	2013	2012(1)	% change Total	% change Organic(2)
Revenue	**1,637.3**	1,605.8	+2%	+1%
Underlying(3):				
EBITDA(4)	**479.3**	466.2	+3%	+2%
Operating profit	**397.2**	392.1	+1%	0%
Profit before tax	**377.8**	366.0	+3%	+2%
Earnings per share (p)	**37.5**	36.5	+3%	
Statutory:				
Operating profit	**300.3**	321.4	-7%	
Profit before tax	**269.4**	281.3	-4%	
Earnings per share (p)	**29.4**	30.1	-2%	
Net debt	**564.6**	642.5	-12%	
Dividend	**12.75p**	11.80p	+8%	

- Group revenue increased by 2% in the year, with civil aerospace +3%, military -1% and energy +5%. Other markets increased by 9%.
- Underlying earnings per share increased by 3% to 37.5p.
- Net debt reduced by £78m. The net debt/EBITDA ratio (as calculated on a covenant basis) is 1.2x (2012: 1.3x).
- Total R&D expenditure increased to £134.9m (2012: £122.0m) reflecting strong win rate on new programmes.
- Meggitt Production System now launched at 16 sites, with excellent progress made on key quality and delivery metrics.
- The Group continues to expect organic revenue growth of 6 to 7% on average over the medium term, with mid-single digit organic revenue growth in 2014 consistent with the guidance in our November IMS.
- Recommended final dividend increased by 7%, resulting in the full-year dividend up 8% to 12.75p.

1. Restated for the effects of adopting IAS 19 Revised and also, for underlying profit measures, the treatment of pension interest. See note 24 for further details.
2. Organic numbers exclude the impact of acquisitions, disposals and foreign exchange.
3. Underlying profit and EPS are used by the Board to measure the trading performance of the Group and exclude the amortisation of acquired intangibles, fair value uplift of inventory revalued on acquisitions, operating exceptional items and the marking to market of financial instruments, as set out in notes 3 and 9.
4. Underlying EBITDA represents underlying operating profit adjusted to add back depreciation and amortisation.

Stephen Young, Chief Executive, commented:

"The Group achieved continued growth in revenue and underlying profit despite some operational and end market-related challenges. The Meggitt Production System, launched in 2013, has made an excellent start, and we are already starting to see improvements in quality and delivery in a number of our businesses.

"We have emerged from an intensive bid cycle resulting in technology sales into a significant number of new aircraft programmes. Many involve a full suite of Meggitt capabilities, exceeding the shipset content of their predecessors, and the resulting high level of investment in product development and capacity expansion will serve to deliver further good growth in 2014 and beyond.

"As a sign of our continuing confidence in the prospects for the Group, we are recommending an increase in the full-year dividend of 8%."

Please contact

Stephen Young, Chief Executive
Doug Webb, Chief Financial Officer
Richard Cashin, Group Head of Investor Relations
Meggitt PLC
Tel: +44 1202 597597

Charles Ryland, Jeremy Garcia or Helen Greenwood
Buchanan
Tel: +44 20 7466 5000

A link to the webcast, which will be broadcast at 9am today, 4 March 2014, is available at www.meggitt.com.

GROUP OVERVIEW

Meggitt's 2013 results continue to demonstrate the breadth and resilience of our portfolio. We delivered revenue and underlying profit growth despite weakness in some of our markets and some operational – largely supply chain – challenges. These are now under control.

In terms of our markets, civil original equipment (OE) remained very strong, with deliveries of new aircraft projected to continue to grow. After a period of destocking and deferral of maintenance we had expected a strong recovery in our civil aftermarket (AM) revenue during 2013. What we saw was lower and slower than expected, although organic growth of 3% in the fourth quarter was encouraging, as was acceleration in available seat kilometre (ASK) growth during the year. Our military businesses were resilient, even in a soft market environment with continued uncertainty surrounding sequestration in the US and global defence funding more generally. Our energy markets remain strong although second half revenue was held back by the timing of orders and milestones on some major contracts. Overall, our broad product offering, close customer relationships and growing installed base on over 60,000 aircraft worldwide provides us with good forward visibility of our original equipment revenue stream over many years and strong AM revenue over many decades. This gives us confidence in our target of 6-7% organic revenue growth over the medium term.

Following on from a period of intense bid activity, during which we have won strong positions on a wide range of aircraft platforms which have recently entered service or are scheduled to do so over the next few years, we are investing in research and development, facility expansion and manufacturing footprint rationalisation to deliver on our customer commitments. We believe that we are nearing the peak of the current development cycle, and the progressive implementation of the Meggitt Production System and appointment of a Group Chief Operating Officer leaves us in good shape as we move into the programme execution phase.

HEADLINE FINANCIALS

Total revenue grew 2% to £1,637.3m (2012: £1,605.8m), with softness in civil AM and military compensated for by strong growth in civil OE. Organic growth was 1% after adjusting for the effects of acquisitions, disposals and foreign exchange.

The Board's preferred measure of the Group's trading performance is underlying profit. Underlying operating profit for the year grew 1% to £397.2m (2012: £392.1m). Headwinds included the mix effect of civil OE growing faster than civil AM, increased investment in the Meggitt Production System and the previously announced operational challenges encountered in the third quarter. These were offset by good progress on a legacy product liability issue and renegotiation of a loss-making contract, both of which had previously been provided for, resulting in an operating margin of 24.3% (2012: 24.4%).

Underlying net finance costs decreased to £19.4m (2012: £26.1m) as a result of cash generation and lower interest rates, including the benefit from the refinancing of maturing fixed rate private placement notes by lower rate bank debt.

Underlying profit before tax increased by 3% to £377.8m (2012: £366.0m).

With an underlying tax rate of 21% (2012: 22%), which benefited from a one-off R&D credit in the US, underlying earnings per share increased by 3% to 37.5 pence (2012: 36.5 pence). We continue to expect an underlying rate of 22% in the medium term based on our current business mix.

On a statutory basis, profit before tax decreased by 7% to £300.3m (2012: £321.4m), largely as a result of a £20m exceptional charge to cover costs associated with the supply from a vendor of non-conforming raw material in one of our businesses as communicated in the interim management statement in November 2013. Earnings per share decreased by 2% to 29.4p (2012: 30.1p). The adjustments between underlying profit and statutory profit are described in notes 3 and 9.

The recommended final dividend is increased by 7% to 8.80p (2012: 8.20p) and represents a total dividend for the year of 12.75p (2012: 11.80p), an increase of 8%.

Free cash flow of £110.4m (2012: £182.4m) reflects continued investment in R&D and capital expenditure as well as higher working capital due to the lower than anticipated revenue growth, delayed customer receipts and the timing of milestones in our Heatric business.

Net cash generated of £63.2m (2012: £116.7m) also reflects net proceeds from mergers and acquisitions of £25.9m (2012: £5.2m). Net debt decreased by 12% to £564.6m (2012: £642.5m).

There are two main financial covenants in our banking agreements. The net debt/EBITDA ratio, which must not exceed 3.5x, reduced to 1.2x at 31 December 2013 (2012: 1.3x) and interest cover, which must be not less than 3.0x, was 22.0x (2012: 16.2x). The Group has significant headroom against both key covenant ratios. As at 31 December 2013, Meggitt had £504m (2012: £557m) of undrawn committed credit facilities after taking account of surplus cash. More than 96% of the Group's existing committed facilities expire after 2015.

TRADING SUMMARY

	Revenue		2013 Growth	
	2013 £m	2012 £m	Total %	Organic %
Civil OE	300.3	281.1	+7	+11
Civil AM	435.9	433.7	+1	0
Total civil aerospace	**736.2**	**714.8**	**+3**	**+4**
Military	616.4	624.7	-1	-3
Energy	173.1	164.2	+5	+5
Other	111.6	102.1	+9	+1
Total	**1,637.3**	**1,605.8**	**+2**	**+1**

Trading summary by market:

Civil aerospace
Meggitt operates in the three main segments of the civil aerospace market: large jets, regional aircraft and business jets. The large jet fleet includes over 19,000 aircraft, the regional aircraft fleet over 6,000 and business jets over 16,000. We have products on almost all of these aircraft platforms and hence a very large, and growing, installed base. The split of civil revenue, which accounts for 45% of the Group total, is 59% AM and 41% OE. Half of our civil AM revenues are generated on aircraft platforms with an average age of less than 10 years, with a further 33% coming from platforms with an average age of 10 to 20 years.

Total civil aerospace revenue grew 3% (organic: 4%), with strong organic growth in OE of 11%, predominantly on large jets, compensating for lower than expected growth in AM. The AM weakness was largely as a result of the continuation of the destocking seen in 2012, although the growth trend improved as the year progressed, with organic growth of 2% and 3% respectively in Q3 and Q4.

With further growth in deliveries of large jets at Airbus and Boeing, and an order backlog of greater than seven years at current production rates, we are confident in the continued growth outlook for large jets. Deliveries of regional aircraft increased by 11% in 2013 with further growth expected over the medium term, driven by demand for 70 to 90 seat aircraft. Total business jet deliveries decreased in 2013, but there was good growth in deliveries of super-mid size and long-range aircraft, where our products are concentrated. We anticipate further growth in this segment over the medium term.

ASKs, a good proxy for air traffic which is a key driver of the demand from airlines for spares and repairs on large and regional aircraft, grew at around 4.5% in 2013 (versus 3.5% in 2012). The ASK trend picked up materially in the second half, with growth in excess of the long term average of 5%, which gives us confidence in a continued AM recovery during the course of 2014 and beyond. Business jet utilisation in the US and Europe increased modestly in 2013, and we expect further growth over the medium term.

Military

We supply our military customers with equipment for a broad range of fixed and rotary wing aircraft, ground vehicles and training facilities, accounting for 38% of the Group's revenue. Our military revenue is split 59% OE and 41% AM, reflecting our installed base on over 20,000 military aircraft and a significant number of ground vehicles and training facilities. The US accounts for 61% of military sales, with 23% to Europe and 16% to the rest of the world.

Total military revenue declined by 1% (organic: -3%), reflecting the anticipated effect of the drawdown from Afghanistan, a slowdown in orders in our defence systems business and the substantial completion of two large retrofit programmes, partly offset by good growth in our training business, particularly outside the US.

Our OE revenue is generated from a broad range of platforms and applications, with good positions on a number of key platforms such as Typhoon, JSF, Blackhawk, Rafale and V22, although we are not overly exposed to any single platform. We saw growth in our non-US military revenue, with continuing good prospects in international markets, such as the recent sale of Typhoon aircraft to Oman and further opportunities in international training markets.

The outlook for defence expenditure in the US remains uncertain over the medium term given the requirement for the administration to reduce the fiscal deficit and the enactment (and then deferral) of sequestration last year. The outlook for our military revenue in 2014 of modest contraction reflects this uncertainty, and incorporates an expected reduction in revenue as two significant retrofit contracts – fuel tanks for the KC135 tanker aircraft and Bradley fighting vehicle – come to an end. We still have no further clarity on exactly where and when sequestration will impact US military expenditure, notwithstanding the budget settlement of December 2013. However, we will maintain focus on the things we can control, including sustaining the flexibility of our manufacturing base to mitigate the operating margin impact of any potential revenue reduction, and continuing to develop innovative, cost effective solutions which meet the needs of our military customers.

Energy and other

Energy and other revenues (17% of Group total) come from a variety of markets, of which the most significant is energy (11% of Group total). Our energy capabilities centre on providing valves and condition-monitoring equipment for power generation installations, including ground-based rotating machinery and wind turbines, and printed circuit heat exchangers (PCHEs) used in the oil and gas and waste heat recovery markets. Other markets (6% of Group total) include the automotive, test and measurement, consumer goods and medical sectors.

Total energy revenue increased by 5% in 2013 (organic: +5%). The favourable demand environment for our PCHEs continued, with Heatric growing 11% in the year, although order and milestone timing impacted revenue in the second half. We saw good growth in demand for our innovative valve technology for the power generation market. Our revenue from energy condition monitoring was negatively impacted in the second half by the previously announced shortage of specific grades of tourmaline, an important raw material used in the production of some sensors. However, the market remains robust and we are confident that these issues are now under control. Our medium term expectation remains that our energy businesses will grow at greater than 10% per annum over the next few years.

Total revenue from other markets grew 9% in 2013 (organic: +1% after adjusting for the Piezotech and Precision Micro acquisitions), with good growth in medical revenue offsetting weakness in laboratory test and measurement equipment.

OPERATIONAL HIGHLIGHTS

The financial performance of the individual divisions is summarised in the table below:

£m								
Revenue					Underlying Operating Profit			
2013	2012	% Growth Total	% Growth Organic		2013	2012	% Growth Total	% Growth Organic
330.4	311.2	+6	+5	Aircraft Braking Systems	**122.4**	117.1	+5	+4
205.6	214.9	-4	+2	Control Systems	**50.4**	49.8	+1	+7
181.0	187.2	-3	-5	Polymers & Composites	**30.2**	33.8	-11	-12
240.4	240.2	0	-2	Sensing Systems	**34.3**	36.2	-5	-14
679.9	652.3	+4	+3	Equipment Group	**159.9**	155.2	+3	+2
1,637.3	**1,605.8**	**+2**	**+1**	**Total Group**	**397.2**	**392.1**	**+1**	**0**

Meggitt Aircraft Braking Systems (MABS) provides wheels, brakes and brake control systems for over 30,000 in-service aircraft and continues to develop innovative technology for new programmes including tyre pressure monitoring, auto-braking capability and steering and landing gear control systems across a broad range of programmes. The division targets sole-source programmes and is particularly strong in regional aircraft and business jets. MABS represents 20% of Group revenue, generating 86% of its revenue from the AM and 14% from OE sales.

MABS civil AM revenue (65% of divisional total) grew by 3% in 2013 with growth in regional aircraft and large jets offsetting a modest decline in business jets resulting from a significant destocking at one of our major customers. Civil OE saw strong growth, mainly from the sale of electronic brake control systems and A380 components. Military revenue saw a modest increase owing in part to good growth in Blackhawk spares for the US DoD. Operating margins moved from 37.6% to 37.0% reflecting the growth in lower margin civil OE sales.

Meggitt Control Systems (MCS) designs and manufactures products which manage the flow of liquids and gases around gas turbines (both aerospace and industrial), and control the temperature of oil, fuel and air in aircraft. Its valve business also supplies industrial and airport ground fuelling products. The division represents 13% of Group revenue and generated 53% of its revenue from OE and 47% from the aftermarket.

MCS reported revenue declined 4% in 2013. On an organic basis (including adjusting for the disposal of the Meggitt Addison business during 2013 and the Meggitt Simi business in 2012), MCS revenue grew 2%, with strong civil OE (+8%) and energy (+14%) growth more than offsetting modest declines in civil AM (-2%) and military (-4%). The strong growth in civil OE was driven by large jets, reflecting the increased deliveries by the major manufacturers. Operating margins improved from 23.2% to 24.5% benefiting from favourable progress on a legacy product liability issue and the disposal of the relatively lower margin cabin air conditioning business during the year.

Meggitt Polymers & Composites (MPC) has a strong military focus, representing 60% of its revenue. It supplies flexible bladder fuel tanks, ice protection products and composite assemblies for a range of fixed wing and rotary aircraft and complex seals packages for civil and military platforms. These market segments are linked by their dependence on similar materials technology and manufacturing processes. MPC represents 11% of Group revenue.

Reported revenue in MPC declined 3% (organic: -5%). Civil revenue grew by 11% on an organic basis, with sales of polymer seals for large jets and composites for helicopters growing particularly strongly. As expected, military revenue declined following substantial completion of the KC135 and Bradley fuel tank retrofit contracts during the second half. These programmes contributed £16.5m to revenue during 2013 (2012: £29.6m). Operating margins moved from 18.1% to 16.7% reflecting strong growth in the lower margin civil OE products replacing military work, and lower sales of higher margin ice-protection products.

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. Its products are designed to operate effectively in the extreme conditions of temperature, vibration and contamination that exist in an aircraft or on ground-based turbines. Sensors are combined into broader electronics packages, providing condition data to engine operators and maintenance providers, 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 pacemakers. It has also teamed with MABS, winning a number of new commercial tyre pressure monitoring system contracts. This progresses the strategy to apply our condition-monitoring capability beyond engines to structural parts of aircraft, where we see a considerable market opportunity. MSS represents 15% of Group revenue and generated 80% of its revenue from OE and 20% from AM. MSS revenue is split 39% civil aerospace, 19% military and 42% energy and other, of which the majority is energy.

MSS reported revenue was flat in the year, (organic: -2%, stripping out the effect of the Piezotech acquisition) with growth in military and medical products largely offsetting a decline in energy where the shortage of tourmaline limited the sales of some high margin components. MSS also experienced operational challenges associated with the consolidation of two US factories into one new facility in the second half. A solution to the tourmaline shortage is in process, and will be substantially complete by the end of the first half. Civil OE revenue saw good growth, offset by a decline in civil AM. Operating margins declined to 14.3% (2012: 15.1%) as a result of the operational challenges and OE/AM mix.

Meggitt Equipment Group (MEG) comprises a technologically diverse range of businesses (including PacSci), each of which has differentiated capabilities and a specific focus, ranging from fire protection systems through to sophisticated electronics and electro-mechanical components and sub-systems. The division represents 41% of Group revenue and generates approximately 70% of its revenue from OE and 30% from the aftermarket.

Reported revenue in MEG was up 4% on last year (organic: +3% including adjusting for the sale of Sunbank in December 2013 and the acquisition of Precision Micro in 2012). Civil aerospace increased by 4% on an organic basis driven mainly by demand for large jet OE products, and energy grew 11% as a result of continued good performance at our Heatric PCHE business. Energy revenue growth was skewed towards the first half, reflecting the exceptional growth in the second half of 2012. Military revenue was broadly flat in the year, with good growth in the training businesses offsetting a decline in defence systems. Operating margins remained broadly flat at 23.5% (2012: 23.8%), with incremental synergies from the PacSci acquisition and the renegotiation of a loss-making contract against which a provision had been held largely offsetting unfavourable mix.

DEPLOYING OUR STRATEGY TO BUILD FUTURE GROWTH

The key pillars of our strategy are to deliver innovation, secure positions on new platforms in our chosen markets, develop and sustain a culture of operational excellence and provide our customers with world-class through-life support.

Innovation and technology development are aimed at adding new capabilities to our portfolio in response to customer requirements. During 2013, investment in research and development totalled £134.9m or 8.2% of revenue (2012: £122.0m, 7.6%), of which 18% was funded by customers. This is our highest ever level of R&D, and above our normal range of 6-8% of revenue, reflecting the very strong win-rate on new programmes. Areas of focus in 2013 included advancement on a number of wheel and brake technologies including electrically actuated braking and tyre pressure monitoring systems, developing our helicopter fuel system technology in line with Sikorsky's requirements on the S92 programme, and the development of an environmentally responsible fire suppression technology to replace the use of halon as a suppressant in aerospace applications. We also continue to invest in transferring our core aerospace technologies across adjacent markets, and developing manufacturing techniques including additive manufacturing to enhance our prototyping and manufacturing capabilities.

Meggitt invested a further £35.7m (2012: £36.1m) in supplying equipment free of charge to new aircraft and making programme participation contributions, mostly in MABS, and we expect this to grow in the medium term as new regional aircraft and business jets equipped with our wheels and brakes are delivered.

Our leading edge capabilities incorporating high levels of embedded intellectual property, and our lengthy pedigree in our chosen markets, enable us to secure strong positions on new programmes such as the Dassault Falcon 5X announced in the second half of 2013. We target specialist applications where we can generate revenue from original equipment, with annuity-like maintenance, overhaul, spares and repair revenue for the life of programmes, which can last for decades. As our products are spread over multiple platforms and markets, we are not dependent on single programmes, customers or regions.

Our long-standing customer relationships, built over a number of years, enable us to become involved in their technology roadmaps at an early stage. This gives us the opportunity to demonstrate our capabilities and offer solutions which can then be designed into the final product.

Capital expenditure on property, plant and equipment and other intangible assets increased to £66.9m (2012: £63.2m). There has been substantial investment in our manufacturing facilities during 2013. We have consolidated six factories into three larger, more efficient facilities, and have built additional capacity in some of our businesses to meet future growth requirements. Examples of capacity growth include further investment at our Heatric PCHE business in the UK and new, larger facilities for our power storage business in North America and sensor business in Denmark. We have also continued to invest in the roll-out of a common ERP system across the Group.

We believe superior performance on quality and delivery are the building blocks of future growth. As our customers continue to raise the bar, we are intensifying our investment in facilities, production systems, programme management and people. These investments ensure that we will continue to meet our customer expectations, and will further strengthen our customer partnerships.

We also launched the Meggitt Production System (MPS) – our single, global approach to continuous improvement - during 2013. MPS will create the sustainable delivery and quality culture that confers competitive advantage beyond our technological expertise, enabling the Group to drive organic revenue growth beyond the 6-7% range in the long term. It will also enable us to become more cost-competitive through the reduction of working capital and the elimination of the cost of poor quality. MPS was launched at 16 of our facilities in 2013, with a further 16 scheduled for 2014 and the remainder in 2015. We have already seen significant operational improvements, with on-time delivery up by 10% and defective parts per million (our key performance indicator for quality) down by 54% over the last two years. We expect the process of fully embedding MPS to take between three and five years for each site.

Finally, we continue to invest in our product support capability. In 2013, we opened our new repair and overhaul centre in Singapore, doubling our capacity and adding more Meggitt product lines, and launched a major review of the optimal way to deploy Meggitt's growing aftermarket capability to our global customer base.

The key challenges facing the Group in the next few years are very much operational – delivering on recent programme wins, rolling out MPS, rationalising our footprint and raising the bar on quality, cost and delivery performance. David Johnson's appointment to the new role of Chief Operating Officer will be instrumental to our progress in this regard.

RETIREMENT BENEFIT SCHEMES

The Group's principal retirement benefit schemes are in the UK and US. The defined benefit pension schemes are closed to new members, while the Group's exposure to increases in future medical costs is capped.

Total retirement benefit scheme deficits reduced to £238.1m (2012: £299.7m). The principal drivers of the reduction in the year were deficit reduction payments of £27.4m (2012: £25.0m) and an actuarial gain on scheme assets of £25.5m (2012: £28.8m).

In the UK, the 2012 triennial actuarial valuation was finalised during 2013 and a repayment plan agreed with the trustees. Under this agreement, the Group commenced making increased deficit payments from April 2013 with amounts due to gradually increase over the period to 2024. In the US, the level of deficit payments is principally driven by regulations. Amounts required to be paid decreased slightly in the year and are expected to remain relatively flat in 2014. Overall, the Group expects deficit contributions to increase to £33m in 2014.

In 2013, the Group adopted IAS 19 (Revised 2011) which changed the calculation of certain items of pension expense. In addition, the definition of underlying profit measures was amended to exclude net pensions interest. Details of these changes are provided in note 24.

FOREIGN EXCHANGE

The Group is exposed to both translation and transaction impacts 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 including the US dollar/Swiss franc and US dollar/Euro.

The results of overseas businesses are translated into sterling at weighted average exchange rates. Compared to 2012, the Group's underlying profit before tax for the year benefited by £4.7m from currency translation of which £3.4m arose on US dollar denominated profits and the balance on other currencies. Each five cent weakening of the US dollar versus the 2013 average rate of £1:$1.57 will adversely impact 2014 revenue by approximately £35m, with the converse also being true. The sensitivity of 2014 underlying profit before tax to a five cent move in the translation rate is approximately £8m.

Compared to 2012, the Group's underlying profit before tax for the year benefited by £3.7m from currency transaction movements, of which £1.6m relates to US dollar/Sterling exposure and the balance to other currency pairs. Based on the average hedged rate of £1:$1.53, we estimate the benefit to underlying operating profit before tax will be approximately £4m in 2014.

BOARD OF DIRECTORS

2013 was a year of transition for our most senior executives. Terry Twigger retired from the Board with effect from 1 May having served as Chief Executive for over 12 years, during which time he oversaw a quadrupling of the Group's revenue and a threefold increase in the number of employees. He was replaced by Stephen Young, who had held the post of Group Finance Director since 2004. In early June, we appointed Doug Webb as Chief Financial Officer.

As recently announced, David Robins will be retiring from the Board following the AGM on 7 May 2014 after 12 years of service as a non-executive director, during which time he acted as Senior Independent Director and Chairman of the Remuneration Committee.

GROUP OUTLOOK

The outlook for our civil markets remains good, with further growth in aircraft deliveries anticipated in 2014 and beyond. During the latter half of 2013, ASK growth accelerated to above the long term trend rate of 5%, and we believe that the destocking seen over the last couple of years is coming to an end. We therefore maintain our view that civil OE revenue will grow at an average of 7 to 8% and civil AM revenue at an average of 8 to 9%, both on an organic basis over the medium term. Aftermarket revenue will likely grow at less than this rate in 2014 as the gradual recovery continues.

We anticipate a modest decline in military revenue in 2014 reflecting the substantial completion of the Bradley fighting vehicle and KC135 fuel tank retrofit contracts. Looking further out, uncertainty around military budgets, notably in the US, persists. As such, while we remain confident in delivering an average compound organic revenue growth rate of 2% in military over the medium term, this will be subject to modest reductions if sequestration impacts future budget cycles as initially envisaged.

Energy, driven by continued strong demand for our printed circuit heat exchangers and new product introductions in the condition-monitoring market, should deliver organic revenue growth averaging greater than 10% over the medium term. Other markets should continue to see modest growth.

On the basis of the above, the Group continues to expect further good progress by delivering mid-single digit organic revenue growth in 2014, weighted towards the second half, and 6-7% average organic revenue growth in the medium term.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2013

	Notes	2013 £m	2012 Restated £m
Revenue	2	**1,637.3**	1,605.8
Cost of sales		**(981.1)**	(929.1)
Gross profit		**656.2**	676.7
Net operating costs		**(355.9)**	(355.3)
Operating profit[1]	3	**300.3**	321.4
Finance income	6	**0.3**	2.0
Finance costs	7	**(31.2)**	(42.1)
Net finance costs		**(30.9)**	(40.1)
Profit before tax[2]	24	**269.4**	281.3
Tax		**(37.1)**	(45.8)
Profit for the year attributable to equity owners of the Company	24	**232.3**	235.5
Earnings per share:			
Basic[3]	9	**29.4p**	30.1p
Diluted[4]	9	**28.9p**	29.7p

		Notes	2013	2012
1	Underlying operating profit	3	**397.2**	392.1
2	Underlying profit before tax	3	**377.8**	366.0
3	Underlying basic earnings per share	9	**37.5p**	36.5p
4	Underlying diluted earnings per share	9	**36.9p**	36.0p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Note	2013 £m	2012 Restated £m
Profit for the year		**232.3**	235.5
Items that may be reclassified to the income statement in subsequent periods:			
Currency translation differences		**(37.2)**	(54.7)
Cash flow hedge movements		**1.9**	(5.8)
Tax effect		**0.1**	0.6
		(35.2)	(59.9)
Items that will not be reclassified to the income statement in subsequent periods:			
Remeasurement of retirement benefit obligations	16	**46.8**	4.0
Tax effect		**(21.6)**	(2.3)
		25.2	1.7
Other comprehensive expense for the year		**(10.0)**	(58.2)
Total comprehensive income for the year attributable to equity owners of the Company		**222.3**	177.3

CONSOLIDATED BALANCE SHEET
As at 31 December 2013

	Notes	2013 £m	2012 £m
Non-current assets			
Goodwill	12	**1,457.1**	1,494.2
Development costs	12	**270.5**	221.5
Programme participation costs	12	**210.6**	203.6
Other intangible assets	12	**707.3**	778.9
Property, plant and equipment	13	**245.5**	232.2
Trade and other receivables		**89.9**	98.8
Derivative financial instruments	14	**35.5**	49.8
Deferred tax assets		**9.1**	100.2
		3,025.5	3,179.2
Current assets			
Inventories		**299.2**	291.2
Trade and other receivables		**328.9**	304.2
Derivative financial instruments	14	**11.2**	5.0
Current tax recoverable		**2.8**	0.2
Cash and cash equivalents	21	**116.1**	104.9
		758.2	705.5
Total assets	2	**3,783.7**	3,884.7
Current liabilities			
Trade and other payables		**(329.1)**	(351.9)
Derivative financial instruments	14	**(0.7)**	(4.0)
Current tax liabilities		**(40.6)**	(57.0)
Obligations under finance leases	21	**(2.4)**	(3.1)
Bank and other borrowings	21	**(7.2)**	(127.0)
Provisions	15	**(44.3)**	(44.8)
		(424.3)	(587.8)
Net current assets		**333.9**	117.7
Non-current liabilities			
Trade and other payables		**(5.2)**	(6.3)
Derivative financial instruments	14	**(0.1)**	(0.2)
Deferred tax liabilities		**(219.3)**	(289.5)
Obligations under finance leases	21	**(5.1)**	(5.0)
Bank and other borrowings	21	**(666.0)**	(612.3)
Provisions	15	**(149.2)**	(178.5)
Retirement benefit obligations	16	**(238.1)**	(299.7)
		(1,283.0)	(1,391.5)
Total liabilities		**(1,707.3)**	(1,979.3)
Net assets		**2,076.4**	1,905.4
Equity			
Share capital		**39.9**	39.3
Share premium		**1,166.3**	1,143.9
Other reserves		**14.1**	14.1
Hedging and translation reserves		**82.7**	117.9
Retained earnings		**773.4**	590.2
Total equity attributable to owners of the Company		**2,076.4**	1,905.4

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Equity attributable to owners of the Company					
	Share capital £m	Share premium £m	Other reserves £m	Hedging and translation reserves £m	Retained earnings Restated £m	Total equity Restated £m
At 1 January 2012	38.9	1,130.1	14.1	177.8	432.4	1,793.3
Profit for the year	-	-	-	-	235.5	235.5
Other comprehensive income for the year:						
Currency translation differences:						
Arising in the year	-	-	-	(54.4)	-	(54.4)
Transferred to income statement	-	-	-	(0.3)	-	(0.3)
Cash flow hedge movements:						
Movement in fair value	-	-	-	(3.9)	-	(3.9)
Transferred to income statement	-	-	-	(1.9)	-	(1.9)
Remeasurement of retirement benefit obligations	-	-	-	-	4.0	4.0
Other comprehensive (expense)/income before tax	-	-	-	(60.5)	4.0	(56.5)
Tax effect	-	-	-	0.6	(2.3)	(1.7)
Other comprehensive (expense)/income for the year	-	-	-	(59.9)	1.7	(58.2)
Total comprehensive (expense)/income for the year	-	-	-	(59.9)	237.2	177.3
Employee share schemes:						
Value of services provided	-	-	-	-	5.7	5.7
Issue of equity share capital	0.2	0.8	-	-	(0.1)	0.9
Dividends	0.2	13.0	-	-	(85.0)	(71.8)
At 31 December 2012	39.3	1,143.9	14.1	117.9	590.2	1,905.4
Profit for the year	**-**	**-**	**-**	**-**	**232.3**	**232.3**
Other comprehensive income for the year:						
Currency translation differences:						
Arising in the year	-	-	-	(31.9)	-	(31.9)
Transferred to income statement	-	-	-	(5.3)	-	(5.3)
Cash flow hedge movements:						
Movement in fair value	-	-	-	1.6	-	1.6
Transferred to income statement	-	-	-	0.3	-	0.3
Remeasurement of retirement benefit obligations	-	-	-	-	46.8	46.8
Other comprehensive (expense)/income before tax	-	-	-	(35.3)	46.8	11.5
Tax effect	-	-	-	0.1	(21.6)	(21.5)
Other comprehensive (expense)/income for the year	**-**	**-**	**-**	**(35.2)**	**25.2**	**(10.0)**
Total comprehensive (expense)/income for the year	**-**	**-**	**-**	**(35.2)**	**257.5**	**222.3**
Employee share schemes:						
Value of services provided	-	-	-	-	21.8	21.8
Issue of equity share capital	0.4	2.6	-	-	(0.5)	2.5
Dividends	0.2	19.8	-	-	(95.6)	(75.6)
At 31 December 2013	**39.9**	**1,166.3**	**14.1**	**82.7**	**773.4**	**2,076.4**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2013

	Notes	**2013 £m**	2012 £m
Cash inflow from operations before exceptional operating items		**361.9**	408.8
Cash outflow from exceptional operating items	4	**(16.2)**	(14.7)
Cash inflow from operations	20	**345.7**	394.1
Interest received		**0.3**	0.2
Interest paid		**(19.7)**	(28.1)
Tax paid		**(44.0)**	(34.6)
Cash inflow from operating activities		**282.3**	331.6
Businesses acquired	22	**(26.5)**	(8.4)
Businesses disposed	23	**53.3**	15.9
Capitalised development costs	12	**(70.2)**	(52.2)
Capitalised programme participation costs	12	**(35.7)**	(36.1)
Purchase of intangible assets		**(18.4)**	(28.0)
Purchase of property, plant and equipment		**(52.4)**	(35.5)
Proceeds from disposal of property, plant and equipment		**3.9**	0.3
Cash outflow from investing activities		**(146.0)**	(144.0)
Dividends paid to Company's shareholders		**(75.6)**	(71.8)
Issue of equity share capital		**2.5**	0.9
Proceeds from borrowings		**181.5**	189.3
Debt issue costs		**-**	(2.0)
Repayments of borrowings		**(231.4)**	(292.7)
Cash outflow from financing activities		**(123.0)**	(176.3)
Net increase in cash and cash equivalents		**13.3**	11.3
Cash and cash equivalents at start of the year		**104.9**	94.6
Exchange losses on cash and cash equivalents		**(2.1)**	(1.0)
Cash and cash equivalents at end of the year	21	**116.1**	104.9

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2013

1. Basis of preparation

This document contains abridged preliminary financial information for the year ended 31 December 2013 together with comparatives.

The information presented has been prepared in accordance with those parts of the Companies Act 2006 applicable to companies reporting under International Financial Reporting Standards ('IFRS's) as adopted by the European Union and in accordance with the FSA Listing Rules. It has been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative instruments) at fair value.

The financial information contained in this document does not constitute Group statutory accounts as defined in Sections 404 and 435 of the Companies Act 2006. It is based on, and is consistent with, that in the Group's statutory accounts for the year ended 31 December 2013 and those financial statements will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditors' report on those accounts is unqualified and does not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

Group statutory accounts for the year ended 31 December 2012 were approved by the Board of Directors on 4 March 2013 and have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

During the year, the Group has adopted IAS 19 (Revised 2011), 'Employee benefits'. The impact of this amendment to an existing standard on these financial statements, including the restatement of comparatives is set out in note 24. There were no other changes in accounting policies, from those used in the Group's financial statements for the year ended 31 December 2012, which have had a significant effect on amounts recorded in these financial statements.

2. Segmental analysis

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.

The key performance measure reviewed by the CODM is underlying operating profit.

Year ended 31 December 2013

	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	330.4	206.5	182.9	242.0	681.4	1,643.2
Inter-segment revenue	-	(0.9)	(1.9)	(1.6)	(1.5)	(5.9)
Revenue	**330.4**	**205.6**	**181.0**	**240.4**	**679.9**	**1,637.3**
Underlying operating profit*	**122.4**	**50.4**	**30.2**	**34.3**	**159.9**	**397.2**

* A reconciliation of operating profit to underlying operating profit is shown in note 3.

2. Segmental analysis (continued)

Year ended 31 December 2012 (Restated)

	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	311.2	215.8	189.5	241.4	652.7	1,610.6
Inter-segment revenue	-	(0.9)	(2.3)	(1.2)	(0.4)	(4.8)
Revenue	311.2	214.9	187.2	240.2	652.3	1,605.8
Underlying operating profit*	117.1	49.8	33.8	36.2	155.2	392.1

* A reconciliation of operating profit to underlying operating profit is shown in note 3. Prior year underlying operating profit comparatives have been restated (note 24).

Segmental assets

	31 December 2013 £m	31 December 2012 £m
Meggitt Aircraft Braking Systems	**502.2**	479.5
Meggitt Control Systems	**163.9**	145.0
Meggitt Polymers & Composites	**87.8**	79.3
Meggitt Sensing Systems	**231.1**	190.2
Meggitt Equipment Group	**356.3**	314.2
Total segmental trading assets	**1,341.3**	1,208.2
Centrally managed trading assets*	**176.5**	143.3
Goodwill	**1,457.1**	1,494.2
Other intangible assets**	**634.1**	778.9
Derivative financial instruments – non-current	**35.5**	49.8
Deferred tax assets	**9.1**	100.2
Derivative financial instruments – current	**11.2**	5.0
Current tax recoverable	**2.8**	0.2
Cash and cash equivalents	**116.1**	104.9
Total assets	**3,783.7**	3,884.7

* Centrally managed trading assets principally include amounts recoverable from insurers in respect of environmental issues relating to former sites, other receivables and property, plant and equipment of central companies.

** In 2013, trading assets reviewed by the CODM include software assets. Since software assets were not included in trading assets reviewed by the CODM in 2012, the prior year comparatives have not been restated.

3. 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:

	2013 £m	2012 Restated £m
Operating profit	**300.3**	321.4
Exceptional operating items (note 4)	**28.4**	13.3
Amortisation of intangible assets acquired in business combinations (note 12)	**74.3**	80.6
Disposal of inventory revalued in business combinations	**0.3**	0.2
Financial instruments (note 5)	**(6.1)**	(23.4)
Adjustments to operating profit*	**96.9**	70.7
Underlying operating profit	**397.2**	392.1
Profit before tax	**269.4**	281.3
Adjustments to operating profit per above	**96.9**	70.7
Net interest expense on retirement benefit obligations	**11.5**	14.0
Adjustments to profit before tax	**108.4**	84.7
Underlying profit before tax	**377.8**	366.0
Profit for the year	**232.3**	235.5
Adjustments to profit before tax per above	**108.4**	84.7
Tax effect of adjustments to profit before tax	**(43.8)**	(34.7)
Adjustments to profit for the year	**64.6**	50.0
Underlying profit for the year	**296.9**	285.5

* Of the adjustments to operating profit, £28.8 million (2012: £5.4 million) relating to exceptional operating items and £0.3 million (2012: £0.2 million) relating to the disposal of inventory revalued in business combinations has been charged to cost of sales, with the balance of £67.8 million (2012: £65.1 million) included within net operating costs.

Underlying earnings per ordinary share ('EPS') for the year is 37.5p (2012 as restated: 36.5p) and diluted underlying EPS for the year is 36.9p (2012 as restated: 36.0p). See note 9 for the definition of underlying EPS and its reconciliation to basic EPS.

4. Exceptional operating items

Items which are significant by virtue of their size or nature and which are considered non-recurring are classified as exceptional operating items.

	Note	Income statement 2013 £m	Income statement 2012 £m	Cash expenditure 2013 £m	Cash expenditure 2012 £m
Site consolidations	a	**8.2**	9.8	**6.4**	6.0
Integration of Pacific Scientific Aerospace ('PacSci')	b	**7.2**	4.8	**4.6**	5.6
Gain on disposal of businesses	c	**(9.0)**	(3.2)	**0.5**	0.9
Raw material supply issue	d	**20.0**	-	**3.1**	-
Business acquisition expenses		**0.7**	1.3	**0.4**	1.4
Other		**1.3**	0.6	**1.2**	0.8
Exceptional operating items		**28.4**	13.3	**16.2**	14.7

a. This principally relates to the consolidation of the Group's two North American sensor businesses onto a single new site in California, USA and the consolidation of the Group's two UK avionics businesses onto a single existing site in Hampshire, UK. These two consolidations were substantially completed in 2013.

b. The integration of PacSci has now been substantially completed, following the consolidation in 2013 of the Group's fire suppression business, acquired as part of the PacSci acquisition, onto the existing site of its fire detection business in California, USA.

c. On 23 May 2013, the Group disposed of the shares of Meggitt (Addison), Inc. and realised a gain of £14.9 million. On 20 December 2013, the Group disposed of the shares of the Sunbank Family of Companies LLC and realised a loss of £5.9 million. Cash expenditure relates to business disposal expenses which have been treated as an exceptional operating item. Proceeds from the disposal of businesses are reported separately as part of cash outflow from investing activities (note 23).

d. On 1 November 2013, the Group announced it had identified an issue relating to the supply from a vendor of non-conforming raw material in one of our businesses. A solution is in place, including where necessary the replacement of the relevant parts over the next few years. The cost of this issue is estimated to be £20.0 million.

5. Financial instruments

Although the Group uses foreign currency forward contracts to hedge against foreign currency exposures, it has decided that the costs of meeting the extensive documentation requirements to be able to apply hedge accounting under IAS 39 'Financial Instruments: Recognition and Measurement' are not merited. The Group's underlying profit figures exclude amounts which would not have been recorded if hedge accounting had been applied.

Where interest rate derivatives do not qualify to be hedge accounted, movements in the fair value of the derivatives are excluded from underlying profit. Where interest rate derivatives do qualify to be hedge accounted, any difference between the movement in the fair value of derivatives and in the fair value of fixed rate borrowings is excluded from underlying profit (note 3).

	2013 £m	2012 £m
Movement in the fair value of foreign currency forward contracts	**(12.0)**	(20.1)
Impact of retranslating net foreign currency assets and liabilities at spot rate	**0.8**	0.5
Movement in the fair value of interest rate derivatives	**18.6**	(6.4)
Movement in the fair value of fixed rate borrowings	**(13.5)**	2.6
Financial instruments – gain	**(6.1)**	(23.4)

6. Finance income

	2013	2012 Restated
	£m	£m
Interest on bank deposits	**0.1**	0.2
Unwinding of interest on other receivables	**-**	1.7
Other finance income	**0.2**	0.1
Finance income	**0.3**	2.0

7. Finance costs

	2013	2012 Restated
	£m	£m
Interest on bank borrowings	**3.5**	5.8
Interest on senior notes	**15.4**	19.4
Interest on obligations under finance leases	**1.1**	1.1
Unwinding of discount on provisions	**-**	1.7
Net interest expense on retirement benefit obligations (note 16)	**11.5**	14.0
Amortisation of debt issue costs	**1.2**	1.7
Less: amounts capitalised in the cost of qualifying assets (note 12)	**(1.5)**	(1.6)
Finance costs	**31.2**	42.1

8. Tax

The Finance Act 2012, included legislation to reduce the main rate of corporation tax in the UK to 23% with effect from 1 April 2013. The Finance Act 2013, included legislation to further reduce the main rate of corporation tax in the UK to 21% with effect from 1 April 2014 and to 20% with effect from 1 April 2015. As these changes were substantively enacted during the year, they have been reflected in these financial statements. The impact of these changes on net deferred tax liabilities at 31 December 2013, profit for the year (underlying and statutory) and comprehensive income for the year has not been significant.

9. Earnings per ordinary share

Earnings per ordinary share ('EPS') is calculated by dividing the profit attributable to equity owners of the Company of £232.3 million (2012 as restated: £235.5 million) by the weighted average number of shares in issue during the year of 791.1 million (2012: 782.3 million shares).

Underlying EPS is based on underlying profit (note 3) and is calculated below:

	2013 **Pence**	2012 Restated Pence
Basic EPS	**29.4**	30.1
Adjust for effects of:		
Exceptional operating items	**2.2**	1.0
Amortisation of intangible assets acquired in business combinations	**5.6**	6.4
Financial instruments	**(0.7)**	(2.3)
Net interest expense on retirement benefit obligations	**1.0**	1.3
Underlying basic EPS	**37.5**	36.5

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. The weighted average number of shares used in the calculation of diluted EPS was 804.2 million (2012: 792.3 million shares).

Diluted underlying EPS for the year was 36.9p (2012 as restated: 36.0p).

10. Dividends

The Board is recommending a final dividend of 8.80p per share (2012: 8.20p per share). Taken with the interim dividend of 3.95p (2012: 3.60p) paid in the year, this gives a total dividend of 12.75p (2012: 11.80p), an increase of 8%. Subject to approval at the Annual General Meeting to be held on 7 May 2014, the proposed dividend will be paid on 9 May 2014 to shareholders on the register at close of business on 14 March 2014. In continuation of recent practice, shareholders will be offered the opportunity to elect for shares in lieu of cash for the final dividend.

11. Related party transactions

Transactions between the Company and its subsidiaries have been eliminated on consolidation. The remuneration of key management personnel of the Group, which is defined as members of the Board and the Management Board, is set out below:

	2013 **£m**	2012 £m
Salaries and other short-term employee benefits	**6.8**	8.5
Retirement benefit expense	**0.4**	0.3
Share-based payment expense	**3.2**	4.6
Total	**10.4**	13.4

12. Intangible assets

	Goodwill £m	Development costs £m	Programme participation costs £m	Other intangible assets £m
At 1 January 2012	1,544.0	185.8	197.5	865.8
Exchange rate adjustments	(53.7)	(6.2)	(6.8)	(30.7)
Business acquired	3.9	-	-	3.7
Additions	-	52.2	36.1	27.9
Disposals	-	-	-	(0.1)
Interest capitalised (note 7)	-	1.3	-	0.3
Amortisation*	-	(11.6)	(23.2)	(88.0)
At 31 December 2012	**1,494.2**	**221.5**	**203.6**	**778.9**
Exchange rate adjustments	(19.6)	(3.8)	(3.3)	(7.6)
Business acquired	9.0	-	-	15.8
Businesses disposed	(26.5)	-	-	(11.2)
Additions	-	70.2	35.7	15.5
Disposals	-	(2.0)	-	-
Interest capitalised (note 7)	-	1.5	-	-
Amortisation*	-	(16.9)	(25.4)	(84.1)
At 31 December 2013	**1,457.1**	**270.5**	**210.6**	**707.3**

* Included within amortisation of other intangible assets are the following amounts which are excluded from the Group's underlying profit figures (note 3):

	2013 £m	2012 £m
Amortisation of intangible assets acquired in business combinations	**74.3**	80.6
Amortisation of other purchased intangible assets charged to exceptional operating items	**1.4**	-
	75.7	80.6

Goodwill is tested for impairment annually, or more frequently if there is any indication of impairment. No impairment charge was required in the year (2012: £Nil) and the cumulative impairment charge recognised to date is £Nil (2012: £Nil).

13. Property, plant and equipment

	2013 £m	2012 £m
At 1 January	**232.2**	229.9
Exchange rate adjustments	**(1.9)**	(6.0)
Businesses acquired	**0.7**	4.1
Businesses disposed	**(4.1)**	-
Additions	**51.5**	36.6
Disposals	**(0.7)**	(0.5)
Depreciation*	**(32.2)**	(31.9)
At 31 December	**245.5**	232.2

* Depreciation of £0.8 million (2012: £Nil) has been charged to exceptional operating items and is excluded from the Group's underlying profit figures (note 3).

14. Financial Instruments – fair value measurement

For trade and other receivables, cash and cash equivalents, trade and other payables, obligations under finance leases and the current element of bank and other borrowings, fair values approximate to their book values due to the short maturity periods of these financial instruments. For trade and other receivables, allowances are made within the book value for credit risk.

For other financial instruments, a comparison of book values and fair values is provided below:

	Book value		**Fair value**	
	2013	2012	**2013**	2012
	£m	£m	**£m**	£m
Derivative financial instruments – non-current	**35.5**	49.8	**35.5**	49.8
Derivative financial instruments – current	**11.2**	5.0	**11.2**	5.0
Total financial assets	**46.7**	54.8	**46.7**	54.8
Derivative financial instruments – current	**(0.7)**	(4.0)	**(0.7)**	(4.0)
Derivative financial instruments – non-current	**(0.1)**	(0.2)	**(0.1)**	(0.2)
Bank and other borrowings – non-current	**(666.0)**	(612.3)	**(676.3)**	(628.4)
Total financial liabilities	**(666.8)**	(616.5)	**(677.1)**	(632.6)
Total	**(620.1)**	(561.7)	**(630.4)**	(577.8)

Derivative financial instruments measured at fair value are classified as level 2 in the fair value measurement hierarchy, as they have been determined using significant inputs based on observable market data. The fair values of foreign currency forward contracts have been derived from forward exchange rates observable at the balance sheet date together with the contractual forward rates. The fair values of interest rate derivatives have been derived from forward interest rates based on yield curves observable at the balance sheet date together with the contractual interest 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 together with the contractual interest rates and with the credit risk margin kept constant. The fair value attributable to credit risk has been derived from quotes from lenders for borrowings of similar amounts and maturity periods. Similar methods of valuation have been used to derive the fair value of the non-current portion of bank and other borrowings which is held at amortised cost but for which a fair value is provided in the table above.

The book value of the non-current element of bank and other borrowings is analysed as follows:

	2013	2012
	£m	£m
Held at fair value through profit or loss	**256.8**	274.9
Held at amortised cost	**409.2**	337.4
Total	**666.0**	612.3

There were no transfers of assets or liabilities between levels of the fair value hierarchy during the year.

15. Provisions

	2013 £m
At 1 January	223.3
Exchange rate adjustments	(1.6)
Business acquired	0.4
Businesses disposed	(0.4)
Additional provision in year	37.9
Unused amounts reversed	(39.5)
Utilised	(26.6)
At 31 December	**193.5**
Disclosed as:	
Current	44.3
Non-current	149.2
At 31 December	**193.5**
Analysed as:	
Environmental, legal and regulatory*	140.7
Onerous contracts	40.2
Warranty costs	12.6
	193.5

* Included within trade and other receivables is £95.9 million (2012: £102.7 million) in respect of amounts recoverable from insurers and other third parties.

16. Retirement benefit obligations

	2013 £m	2012 Restated £m
At 1 January	**299.7**	319.9
Exchange rate adjustments	**(0.9)**	(7.4)
Service cost	**14.2**	13.3
Past service cost	**0.7**	-
Net interest expense on retirement benefit obligations (note 7)	**11.5**	14.0
Contributions - Group	**(41.6)**	(38.3)
Remeasurement of retirement benefit obligations	**(46.8)**	(4.0)
Administrative expenses borne directly by the schemes	**1.3**	2.2
At 31 December	**238.1**	299.7
Analysis of retirement benefit obligations:		
Pension schemes	**189.8**	241.2
Healthcare schemes	**48.3**	58.5
At 31 December	**238.1**	299.7

Group contributions paid during the year included deficit reduction payments of £27.4 million (2012: £25.0 million).

16. Retirement benefit obligations continued

Key financial assumptions	2013	2012
UK scheme:		
Discount rate	**4.60%**	4.50%
Inflation rate	**3.40%**	3.00%
Salary inflation rate	**4.40%**	4.00%
Current life expectancy: Male aged 65 years	**21.8 to 23.6**	21.7 to 23.5
Overseas schemes:		
Discount rate	**4.55%**	3.80%
Salary increases	**4.76%**	4.00%
Current life expectancy: Male aged 65 years	**19.3**	19.2

17. Issued share capital

	2013 No. m	2012 No. m
Allotted and fully paid	**797.1**	785.0

18. 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.

19. Capital commitments

	2013 £m	2012 £m
Contracted for but not incurred:		
Intangible assets	**1.4**	1.1
Property, plant and equipment	**7.5**	8.4
Total	**8.9**	9.5

20. Cash inflow from operations

	2013 £m	2012 £m
Profit for the year	**232.3**	235.5
Adjustments for:		
Finance income (note 6)	**(0.3)**	(2.0)
Finance costs (note 7)	**31.2**	42.1
Tax	**37.1**	45.8
Depreciation (note 13)	**32.2**	31.9
Amortisation (note 12)	**126.4**	122.8
(Gain)/loss on disposal of property, plant and equipment	**(1.1)**	0.3
Gain on disposal of businesses (note 23)	**(9.0)**	(3.2)
Financial instruments (note 5)	**(6.1)**	(23.4)
Retirement benefit obligation deficit payments (note 16)	**(27.4)**	(25.0)
Share-based payment expense	**11.9**	12.3
Change in working capital	**(81.5)**	(43.0)
Cash inflow from operations	**345.7**	394.1

21. Movements in net debt

	2013 £m	2012 £m
At 1 January	**642.5**	788.4
Free cash inflow	**(110.4)**	(182.4)
Businesses acquired (note 22)	**26.5**	8.4
Business acquisition expenses (note 4)	**0.4**	1.4
Businesses disposed (note 23)	**(53.3)**	(15.9)
Business disposal expenses (note 4)	**0.5**	0.9
Dividends paid to Company's shareholders	**75.6**	71.8
Issue of equity share capital	**(2.5)**	(0.9)
Net cash generated - inflow	**(63.2)**	(116.7)
Debt acquired with businesses	**0.3**	0.4
Exchange rate adjustments	**(2.7)**	(33.9)
Other non-cash movements	**(12.3)**	4.3
At 31 December	**564.6**	642.5
Analysed as:		
Bank and other borrowings – current	**7.2**	127.0
Bank and other borrowings – non-current	**666.0**	612.3
Obligations under finance leases – current	**2.4**	3.1
Obligations under finance leases – non-current	**5.1**	5.0
Cash and cash equivalents	**(116.1)**	(104.9)
Total	**564.6**	642.5

22. Business combinations

On 27 August 2013, the Group acquired 100% of the voting rights of Piezotech, LLC ('Piezotech'). Piezotech's high-end performance piezo-ceramic technology for extreme temperature gas turbine sensors and its position in emerging energy and medical markets strengthen two strands of the Group's sensing business. The assets and liabilities of Piezotech at the date of acquisition, including the goodwill arising on consolidation, were as follows:

	Fair value £m
Goodwill (note 12)	9.0
Other intangible assets (note 12)	15.8
Property, plant and equipment (note 13)	0.7
Inventories	1.0
Trade and other receivables – current	1.4
Trade and other payables - current	(0.6)
Obligations under finance leases – current	(0.1)
Provisions – current (note 15)	(0.4)
Obligations under finance leases – non-current	(0.2)
Deferred tax liabilities	(0.1)
Net assets	**26.5**
Consideration satisfied in cash	26.5
Total consideration payable	**26.5**

23. Business disposals

On 23 May 2013, the Group disposed of 100% of the ordinary shares of Meggitt (Addison), Inc. ('Addison') for a total consideration of £26.0 million. Addison was engaged in vapour cycle air conditioning systems providing cooling, heating and ventilation for fixed wing light aircraft. On 20 December 2013, the Group disposed of 100% of the ordinary shares of the Sunbank Family of Companies LLC ('Sunbank') for a total consideration of £28.3 million. Sunbank supplied connector accessories, backshells, and conduit systems for aerospace and industrial markets. These businesses were no longer considered core to the Group's operations.

23. **Business disposals** continued

The net assets of the businesses at the dates of disposal were as follows:

	Total £m
Goodwill (note 12)	26.5
Other intangible assets (note 12)	11.2
Property, plant and equipment (see note 13)	4.1
Deferred tax assets	1.4
Inventories	6.3
Trade and other receivables – current	5.3
Cash and cash equivalents	1.4
Trade and other payables – current	(5.2)
Provisions – current (note 15)	(0.4)
Net assets	**50.6**
Currency translation gain transferred from equity	(5.3)
Gain on disposal (note 4)	9.0
Total consideration	**54.3**
Satisfied by:	
Proceeds received from disposal of businesses	54.7
Business disposal expenses paid (note 4)	(0.5)
Trade and other receivables – contingent consideration	0.8
Trade and other payables – other	(0.7)
Total consideration	**54.3**
Net cash inflow arising on disposal:	
Proceeds received from disposal of businesses	54.7
Less: cash and cash equivalents disposed of	(1.4)
Businesses disposed	**53.3**
Less business disposal expenses paid	(0.5)
Total cash inflow	**52.8**

24. Restatement of prior year comparatives

IAS 19 (Revised 2011), 'Employee benefits' makes changes to the recognition and measurement of certain items of defined benefit pension expense. Scheme administration expenses borne directly by defined benefit schemes are now recorded within net operating costs and not, as previously accounted for, as a reduction in the expected return on scheme assets. The expected return on scheme assets is now calculated using the same rate used to discount scheme liabilities and no longer includes any allowance for equity-like out-performance or deduction for scheme administration expenses. The adverse impact on net operating costs and net finance costs of these changes is offset by an equal reduction in remeasurement losses. As the Group has always recognised remeasurement gains and losses immediately there has been no impact on the value at which retirement benefit obligations are recorded in the balance sheet. As the revised net pension finance cost calculated under IAS 19 (Revised 2011), 'Employee benefits' is a non-cash, non-trading item, the Board has in 2013, as previously announced, excluded it from the underlying profit measures (as defined in note 3) it uses to monitor and measure the underlying performance of the Group. The prior year comparatives have been restated accordingly.

24. Restatement of prior year comparatives continued

The impact of these changes is set out below:

	2013			2012		
	Under prior year policy £m	**Change in policy £m**	**As reported £m**	Under prior year policy £m	Change in policy £m	As restated £m
Revenue	**1,637.3**	**-**	**1,637.3**	1,605.8	-	1,605.8
Cost of sales	**(981.1)**	**-**	**(981.1)**	(929.1)	-	(929.1)
Gross profit	**656.2**	**-**	**656.2**	676.7	-	676.7
Net operating costs	**(354.2)**	**(1.7)**	**(355.9)**	(353.1)	(2.2)	(355.3)
Operating profit	**302.0**	**(1.7)**	**300.3**	323.6	(2.2)	321.4
Finance income	**33.2**	**(32.9)**	**0.3**	35.4	(33.4)	2.0
Finance costs	**(56.1)**	**24.9**	**(31.2)**	(66.9)	24.8	(42.1)
Net finance costs	**(22.9)**	**(8.0)**	**(30.9)**	(31.5)	(8.6)	(40.1)
Profit before tax	**279.1**	**(9.7)**	**269.4**	292.1	(10.8)	281.3
Tax	**(39.7)**	**2.6**	**(37.1)**	(48.8)	3.0	(45.8)
Profit for the year attributable to equity owners of the Company	**239.4**	**(7.1)**	**232.3**	243.3	(7.8)	235.5
Remeasurement of retirement benefit obligations	**37.1**	**9.7**	**46.8**	(6.8)	10.8	4.0
Tax effect	**(19.0)**	**(2.6)**	**(21.6)**	0.7	(3.0)	(2.3)
Other items affecting other comprehensive income	**(35.2)**	**-**	**(35.2)**	(59.9)	-	(59.9)
Other comprehensive income for the year	**(17.1)**	**7.1**	**(10.0)**	(66.0)	7.8	(58.2)
Total comprehensive income for the year attributable to equity owners of the Company	**222.3**	**-**	**222.3**	177.3	-	177.3
Earnings per share (pence)						
Basic	**30.3**	**(0.9)**	**29.4**	31.1	(1.0)	30.1
Diluted	**29.8**	**(0.9)**	**28.9**	30.7	(1.0)	29.7
Underlying operating profit	**398.9**	**(1.7)**	**397.2**	394.3	(2.2)	392.1
Underlying profit before tax	**376.0**	**1.8**	**377.8**	362.8	3.2	366.0
Underlying basic earnings per share (pence)	**37.3**	**0.2**	**37.5**	36.2	0.3	36.5
Underlying diluted earnings per share (pence)	**36.8**	**0.1**	**36.9**	35.7	0.3	36.0

PRINCIPAL RISKS AND UNCERTAINTIES

Strategic – Business model

Description
Failure to respond to fundamental changes in the civil and military aftermarket.

Impact: decreased revenue and profit

How we manage it
- Long-term agreements are in place
- Customer-facing organisation restructured and boosted
- Investing in research and development to maintain and enhance Meggitt's intellectual property
- Ongoing strategic review of aftermarket including evaluation of operational model
- Implementing Meggitt Production System (MPS) aftermarket module across the Group
- Investment in maintenance, repair and overhaul facilities

Operational – Quality escape/equipment failure

Description
Defective product leading to in-service failure, accidents, the grounding of aircraft and prolonged production shutdowns for Meggitt and its customers.

Impact: decreased revenue and profits, damage to reputation and operational performance

How we manage it
- Well-developed verification, validation and system safety analysis policy and processes in place
- Quality and customer audits and industry certifications
- Upgrading crisis management plans
- Implementing MPS across the Group
- Implementing an enhanced supplier quality assurance process

Operational – Customer satisfaction

Description
Failure to meet customers' cost, quality and delivery standards or qualify as preferred suppliers.

Impact: failure to win future programmes, decreased revenue and profits

How we manage it
- Achieve supplier "Gold" status or equivalent with key customers
- Step change in performance enabled through quality and delivery initiative (now covered under the implementation of MPS)
- Implementation of programme lifecycle management process initiated
- Programme management reorganised to increase capability and focus on programme delivery and governance
- Developing our commercial function and our engineering capability

Operational – IT/systems failure

Description
Prolonged malfunction of critical systems such as SAP, due to badly-executed implementation, poor maintenance, change control, business continuity and back-up procedures; the failure of third-parties to meet service level agreements; or cyber attack.

Impact: decreased revenue and profit, damage to operational performance

How we manage it
- Rolling programme of system upgrades (including SAP implementation) to replace legacy systems
- Programme of IT security enhancements ongoing
- Reviewing existing systems, third party service providers and risks, including resilience and disaster recovery processes and taking mitigating action where appropriate

Operational – Supply chain

Description
Failure or inability of critical suppliers to supply unique products, capabilities or services which causes the Group to be unable to satisfy customers or meet contractual requirements.

Impact: decreased revenue and profit, damage to reputation

How we manage it
- Group procurement reviewing supply chain risk management framework
- Buffer inventory maintained for critical and sole-source suppliers
- Counterfeit and Fraudulent Parts Policy implemented at high-risk facilities
- Implementing integrated commercial and procurement approach to contractual terms and conditions

Operational – Project/programme management

Description
Failure to meet new product development and programme milestones and certification requirements.

Impact: significant financial penalties leading to decreased profit, damage to reputation

How we manage it
- Implementation of programme lifecycle management process initiated and a range of engineering support applications developed
- Structured approach to maturing technologies implemented
- Deliver applied research and technology objectives in line with Group strategy
- Programme management reorganised to increase capability and focus on programme delivery and governance
- Step change in performance enabled by quality and delivery initiative (which is now covered under implementation of MPS)

Operational – Legal and regulatory

Description
Significant breach of increasingly complex trade compliance, bribery and corruption and ethics laws and violating the terms of Meggitt's 2013 Consent Agreement with the US Department of State.

Impact: damage to reputation, loss of supplier accreditations, suspension of activity, fines from civil and criminal proceedings

How we manage it

- Substantial investment in measures to ensure compliance with 2013 US Department of State Consent Agreement, together with continuing investment in other compliance programmes, means that the Board considers that this risk has decreased during the year
- Trade compliance, ethics and anti-corruption policies approved by Board
- Implementing a trade compliance global IT solution
- Regular monitoring by the Ethics and Trade Compliance Committee
- Continue with trade compliance programme including external audits, and comprehensive ethics programme including training, anti-corruption policy, external audits and Ethics line
- Implementing import compliance programme in Americas and Europe/Asia

IT and physical security

Description
Failure to protect intellectual property or other sensitive information arising from cyber attack or physical theft of IT and business assets.

Impact: compromised market position, damage to reputation, financial or contractual liabilities

How we manage it

- Ongoing development of IT security strategy and enhancing IT security infrastructure, policies and procedures
- Group-wide intellectual property protection programme in place
- Implementing physical security strategy, including audits, prioritising higher risk environments and regions

Business environment – Product demand

Description
Significant variation in demand for products should military and civil business downcycles coincide, a serious political, economic or terrorist event take place or an industry consolidation materially change the competitive landscape.

Impact: volatility in underlying profitability

How we manage it

- Monitoring of external economic and commercial environment and long lead indicators
- Focus on balanced portfolio including expansion of energy-related businesses
- Regular communication of strategy to shareholders
- Maintenance of sufficient headroom in committed bank facilities and against bank covenants
- Maintain appropriate cost-base contingency plans

DIRECTORS' RESPONSIBILITIES STATEMENT

Each of the persons who is a director at the date of the approval of this report confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic report and the Directors' report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces; and
- the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

By order of the Board:

S G Young
Director
3 March 2014

D R Webb
Director
3 March 2014

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