Press information

MEGGITT

23 February 2016

Meggitt PLC
2015 Full-year results

Well positioned for growth

Meggitt PLC ("Meggitt" or "the Group"), a leading international engineering company specialising in high performance components and sub-systems for the aerospace, defence and energy markets, today announces full-year audited results for the year ended 31 December 2015.

Group headlines

£m	**2015**	2014	% change	
			Reported	Organic[1]
Orders	**1,630.5**	1,610.0	+1	-4
Revenue	**1,647.2**	1,553.7	+6	0
Underlying[2]:				
EBITDA[3]	**414.5**	429.6	-4	-7
Operating profit	**325.5**	346.0	-6	-10
Profit before tax	**310.3**	328.7	-6	-9
Earnings per share (p)	**31.6**	32.4	-2	
Statutory:				
Operating profit	**236.6**	236.2	+0	
Profit before tax	**210.2**	208.9	+1	
Earnings per share (p)	**23.2**	22.0	+5	
Free cash flow	**199.0**	146.8	+36	+33
Net debt	**1,053.1**	575.5	+83	
Dividend (p)	**14.40**	13.75	+5	

- Book to bill of 0.99x reflecting weakness in energy, and ongoing deliveries in respect of multi-year business jet aftermarket and military orders.
- Organic revenue growth of 4% in civil aerospace and flat military revenue offset by weakness in energy.
- Reported revenue growth of 6%. Reduced operating margin reflecting move from profit to loss at Heatric, unfavourable product mix, particularly within civil aftermarket, and further expenditure on new product introduction.
- Excellent progress made on deployment of the Meggitt Production System (MPS)
    - Now launched at all primary manufacturing sites;
    - Defective parts per million down 87%; on-time delivery up 14% since inception.
- Strong working capital performance drove good improvement in free cash flow even with continuing high levels of investment.
- Integration of two composites acquisitions in late 2015 progressing well.
- Net debt:EBITDA at 2.3x, within target range following composites acquisitions.
- Recommended final dividend up 3% to 9.80p, resulting in full-year dividend up 5% to 14.40p.

1. Organic numbers exclude the impact of acquisitions, disposals and foreign exchange.
2. Underlying profit and EPS are used by the Board to measure the trading performance of the Group as set out in notes 4 and 10.
3. Underlying EBITDA represents underlying operating profit adjusted to add back depreciation, amortisation and impairment losses.

Stephen Young, Chief Executive, commented:

"2015 was a challenging year for the Group, with volatility across a number of our end markets affecting financial performance. However, we are confident that we are taking the right actions in the context of our long-cycle business.

"The record levels of investment in R&D and new product introduction follow a very successful period of winning work on new platforms. This will drive revenue growth for many decades.

"We made excellent progress against our key strategic initiatives during the year. In particular, deployment of the Meggitt Production System, our global continuous improvement programme, is resulting in tangible improvements in a number of operational and customer satisfaction metrics. We have also created a centralised customer service and support organisation focused on delivering enhanced aftermarket growth through greater market proactivity and responsiveness.

"Reflecting our continuing confidence in the prospects for the Group, the proposed final dividend is up 3% on last year to 9.80p resulting in a full-year dividend of 14.40p, up 5%."

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GROUP OVERVIEW

Meggitt is a global engineering company specialising in high-performance components and sub-systems for aerospace, defence and energy markets. We have a broad-based and well balanced portfolio, with equipment on over 64,000 aircraft and many ground vehicles and energy applications worldwide. This significant and expanding installed base provides us with an aftermarket revenue stream stretching out for decades. Strong customer relationships and high levels of embedded intellectual property spanning a broad range of products and capabilities are enabling us to continue to win good positions on new platforms, normally on a sole-source basis, underpinning our medium-term growth expectations.

The considerable success we have already had in winning positions on the new platforms announced by aircraft manufacturers in recent years has resulted in elevated levels of development expenditure. We anticipate that the level of investment in research and development will start to reduce from 2017, although expenditure on new product introduction will continue for a while longer. While this will inevitably add cost to the business in the near-term, it represents a major refresh of our in-service portfolio and will drive revenue for decades ahead.

Our capability-based Group structure is tailored to the requirements of our customers, and we have further improved our customer focus with the recent formation of the Customer Services & Support (CSS) organisation. CSS is tasked with presenting a single point of contact to our aftermarket customers, making us easier to do business with. It also has a mandate to explore and execute on opportunities for enhanced revenue growth including increasing our market share in the maintenance, repair and overhaul of our components and participating directly in the surplus parts market.

The increased focus on product quality, operational efficiency and programme management as part of the Meggitt Production System will make us ever more attractive as a supplier of choice to meet the changing needs of our customers. Over the long term this will enable us to increase our organic growth rate.

As part of our trading update in October 2015, we announced a cost reduction initiative aimed at reducing the employee base by 300 people in response to weaker than expected trading. With energy markets continuing to deteriorate, the target headcount reduction has now been increased to 400, and will be complete by the end of the second quarter of 2016. As a result, we have recognised an operating exceptional cost of £5m for this programme in 2015, and expect a further charge of £8m in 2016 as the consultation processes mature.

HEADLINE FINANCIALS

Orders for the year declined organically by 4%, with strong growth in civil original equipment (OE) (+24%) being more than offset by declines in civil aftermarket (AM) (-9%), largely driven by the phasing of business jet aftermarket orders which were particularly strong in 2014, military (-7%) and energy (-22%).

Reported Group revenue of £1,647.2m (2014: £1,553.7m) represents a 6% increase as analysed in the table below:

	£m	% impact
2014 Revenue	1,553.7	
Currency	68.9	4.4
Acquisitions	20.9	1.4
Organic growth	3.7	0.2
2015 Revenue	1,647.2	6.0

As expected, revenue benefited from foreign exchange and acquisitions during the year. Currency movements, reflecting the movement of Sterling against the Group's major operating currencies, contributed £69m to reported revenue, represented by a £79m increase from the strengthening US Dollar and Swiss Franc, partly offset by a weakening Euro. Organic revenue growth of 4% in civil aerospace and flat military was offset by a decline in energy.

The Board's preferred measure of the Group's trading performance is underlying profit. The adjustments between underlying and statutory profit are consistent with prior years and are described in notes 4 and 10. Underlying operating profit for the year was £325.5m (2014: £346.0m), representing a margin of 19.8% (2014: 22.3%). The principal drivers of the margin decline included our Heatric business moving from a profit in 2014 to a small loss in 2015, adverse mix, primarily within civil, and continued expenditure on new product introduction. Within civil, organic OE growth outpaced that of

AM, with particular weakness being seen in AM revenue associated with older aircraft where margins tend to be higher.

Underlying net finance costs decreased to £15.2m (2014: £17.3m) with the benefit of lower interest rates and the non-recurrence of a £1.8m refinancing charge in 2014, partly offset by higher average debt due to the share buyback programme and acquisitions. The full year impact of both the buyback and the acquisitions will increase finance costs in 2016.

Underlying profit before tax was £310.3m (2014: £328.7m).

The underlying tax rate was 20% (2014: 21%), benefiting from a lower UK corporation tax rate and the release of provisions against historical tax uncertainties. The underlying tax rate is expected to increase to 23% from 2016, reflecting a growing proportion of revenue being generated in the US following the two recent acquisitions. Underlying earnings per share was 31.6p (2014: 32.4p).

On a statutory basis, profit before tax was £210.2m (2014: £208.9m), reflecting the favourable year-on-year impact of the marking to market of financial instruments (£24.4m) offsetting lower underlying profitability. Earnings per share increased by 5% to 23.2p (2014: 22.0p), with the effect of the share buyback and the lower tax rate accounting for most of the improvement.

The recommended final dividend is increased by 3% to 9.80p (2014: 9.50p) and represents a total dividend for the year of 14.40p (2014: 13.75p), an overall increase of 5% reflecting our ongoing confidence in the outlook for the Group and our commitment to a progressive dividend.

Free cash flow of £199.0m (2014: £146.8m) represents a 36% year-on-year improvement despite the reduction in profit and continued high levels of investment to support future growth. This was driven by strong working capital management, enhanced by higher cash receipts at Heatric as projects were completed.

The net cash outflow of £431.4m (2014: inflow of £21.1m) reflects M&A activity totalling £363.2m, principally the acquisitions of two composites businesses, and the share buyback totalling £146.4m (2014: £33.7m). The cash dividend payment also increased to £111.1m (2014: £51.4m) following the withdrawal of the scrip dividend option.

There are two main financial covenants in our financing agreements. The net debt/EBITDA ratio, which must not exceed 3.5x, was at 2.3x at 31 December 2015 (2014: 1.2x) and interest cover, which must be not less than 3.0x, was 21.4x (2014: 20.8x). The Group has, therefore, significant headroom against both key covenant ratios, and net debt/EBITDA is within the previously stated target range of 1.5x to 2.5x.

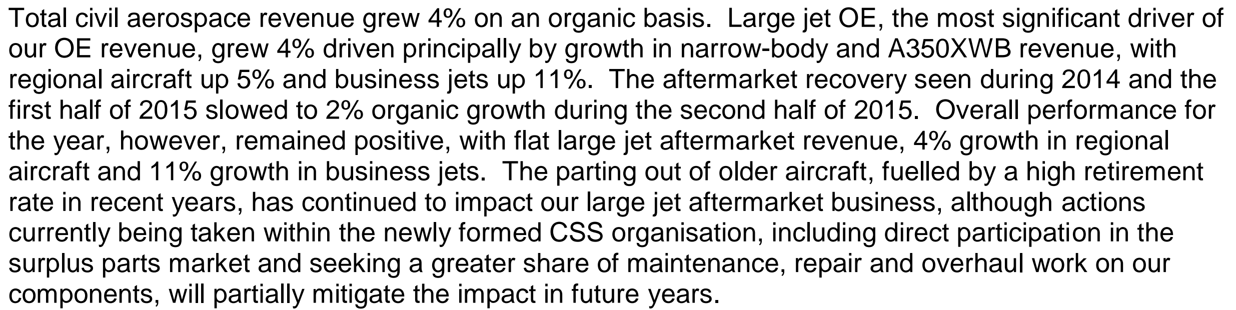
The Group has £372m of undrawn headroom against committed bank facilities, with no refinancing required before 2017. However, we plan to refinance the acquisition bridge funding in the coming months.

TRADING SUMMARY

	Revenue		Growth	
	2015 £m	2014 £m	Reported %	Organic %
Civil OE	326.0	301.6	+8	+4
Civil AM	482.7	439.6	+10	+3
Total civil aerospace	**808.7**	**741.2**	**+9**	**+4**
Military	570.2	539.4	+6	0
Energy	149.8	163.1	-8	-20
Other	118.5	110.0	+8	+6
Total	**1,647.2**	**1,553.7**	**+6**	**0**

Civil aerospace

Meggitt operates in three main segments of the civil aerospace market: large jets, regional aircraft and business jets. The large jet fleet includes over 21,000 aircraft, the regional aircraft fleet over 6,000 and business jets around 17,000. The Group has products on virtually all these platforms and hence a very large, and growing, installed base. The split of civil revenue, which accounts for 49% of the Group total, is 60% AM and 40% OE.


Total civil aerospace revenue grew 4% on an organic basis. Large jet OE, the most significant driver of our OE revenue, grew 4% driven principally by growth in narrow-body and A350XWB revenue, with regional aircraft up 5% and business jets up 11%. The aftermarket recovery seen during 2014 and the first half of 2015 slowed to 2% organic growth during the second half of 2015. Overall performance for the year, however, remained positive, with flat large jet aftermarket revenue, 4% growth in regional aircraft and 11% growth in business jets. The parting out of older aircraft, fuelled by a high retirement rate in recent years, has continued to impact our large jet aftermarket business, although actions currently being taken within the newly formed CSS organisation, including direct participation in the surplus parts market and seeking a greater share of maintenance, repair and overhaul work on our components, will partially mitigate the impact in future years.

The Group saw further progress in securing new civil aerospace contracts in 2015, including the smoke detection system for the new Boeing 777X aircraft and the fire suppression system for the Airbus A330neo. We also secured additional content on both the Airbus A320neo and Boeing 737MAX. The recently acquired composites businesses had a year of strong order intake, which saw the agreement of a number of multi-year long term agreements for the production of composite engine components for all LEAP variants as well as for the PurePower, GE9x, GEnX and GE90 engines.

Deliveries of large jets by Airbus and Boeing are underpinned by a firm order backlog extending over a number of years, giving us confidence in the continued growth outlook for OE, and we do not expect any meaningful impact in the short term from the lower oil price. The rate of growth in large jet deliveries is expected to average 5-6% over the next five years, broadly consistent with the long-term trend rate of traffic growth. Deliveries of regional aircraft are expected to remain at current rates over the next five years. Deliveries of business jets are also set to grow, with the most potential coming at the smaller end of the market which was hardest hit during the last downturn.

Available seat kilometres (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 5.8% in 2015, above the long-term trend rate of 5%. Industry forecasts suggest further growth in 2016, with demand for air travel having improved due to the reduction in oil price. Business jet utilisation in the US and Europe grew at over 2% in 2015, and our higher value content and growing market share should continue to drive revenue growth over the medium term.

The medium-term outlook for civil revenues, both OE and aftermarket, remains robust.

Military

Military business accounted for 35% of Group revenues in 2015. We have equipment on an installed base of around 21,000 fixed wing and rotary aircraft and a significant number of ground vehicles and training applications. Direct sales to US customers account for 58% of military revenue, with 26% to European customers and 16% to the rest of the world.

Military revenue was flat on an organic basis, with strong growth in the first half of the year being offset by tougher comparators and the effects of Continuing Resolution in the US in the second half.

Significant programme wins in 2015 included a US$42m contract for the provision of a linkless ammunition handling system on the UK MoD Scout armoured vehicle and a number of contracts within our training business including small arms trainer contracts for the US Marine Corps and the Canadian Armed Forces totalling in excess of US$50m.

Our OE revenues are generated from a broad range of platforms and applications, with good positions on key platforms such as Typhoon, F-35, Rafale, V22 and BlackHawk.

The outlook for defence expenditure in the US, our single most important military market, continues to look more benign than in recent years. Military budgets look set to increase in many regions for the first time in several years, and there remains significant opportunity for retrofit and reset of repatriated assets – work which Meggitt is well equipped to win.

Energy and other

Energy and other revenues (16% of Group total) come from a variety of end markets, of which the single most significant is energy (9% of Group total). 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 oil and gas market. Other markets (7% of Group total) include the automotive, industrial, test, consumer goods and medical sectors.

Energy revenue declined by 20% on an organic basis, driven principally by a 40% organic decline in Heatric, our printed circuit heat exchanger business, reflecting challenges in the global oil and gas market following the significant decline in the oil price over the last 18 months. Our energy condition monitoring revenues were broadly flat on an organic basis, while revenues in our MCS energy business grew organically by 18% reflecting strong demand for silicon-dioxide cables which facilitate signal transmission in safety-critical power applications. This growth was bolstered by the £15.1m full-year revenue contribution from PECC, acquired in December 2014. We continue to expect headwinds in the energy businesses in the short term, largely driven by the decline in the oil price which is causing a number of our customers to delay capital expenditure on new gas projects. Some contracts we expected to be awarded in 2016 have been deferred, and it is likely that we will see further deferrals in the near future. We have taken significant action on costs within Heatric, while retaining the long-term capability of the business to respond when the market turns.

The long-term growth expectations for our energy businesses, and particularly Heatric, remain good. The recent award of a contract from NetPower to supply Heatric equipment on a 50MW pilot power generation plant, using supercritical CO_2, is an excellent example of our differentiated technology being used in adjacent markets and represents a very exciting opportunity for Heatric. The balance of our energy businesses will continue to benefit from recent investments in broadening the product range and global footprint.

OPERATIONAL PERFORMANCE

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

£m	Revenue				Underlying Operating Profit			
2015	**2014***	**% Growth Reported**	**% Growth Organic**		**2015**	**2014***	**% Growth Reported**	**% Growth Organic**
353.1	327.0	+8	+2	Aircraft Braking Systems	**131.7**	127.5	+3	-1
397.9	348.7	+14	+3	Control Systems	**97.0**	91.8	+6	0
177.4	162.3	+9	-1	Polymers & Composites	**15.4**	20.2	-24	-30
474.8	451.0	+5	+3	Sensing Systems	**72.3**	75.7	-4	-4
244.0	264.7	-8	-10	Equipment Group	**9.1**	30.8	-70	-73
1,647.2	**1,553.7**	**+6**	**0**	**Total Group**	**325.5**	**346.0**	**-6**	**-10**

* 2014 comparatives have been restated to reflect the transfer of the avionics business from MEG to MSS as announced in February 2015.

Meggitt Aircraft Braking Systems (MABS) provides wheels, brakes and brake control systems for around 34,000 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. The division targets sole-source programmes and is particularly strong in regional aircraft, large business jets and military aircraft. The division represents 21% of Group revenue, generating 86% of its revenue from the aftermarket and 14% from OE sales.

MABS' revenue grew by 2% on an organic basis, with good growth in civil, both OE and AM, being partially offset by a 16% decline in military following the previously reported completion of the US B-1B and Taiwanese Air Force retrofit programmes. Regional aftermarket grew 5% driven by increases in fleet size and utilisation, and business jet aftermarket grew by 18%, with a particularly strong first half. Large jet aftermarket saw growth of 6% with strong DC10 spares revenue more than offsetting modest declines in MD80 and MD90. Operating margins declined from 39.0% to 37.3%, with unfavourable mix and the non-recurrence of the US retiree medical benefit in 2014 the principal contributors.

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 24% of Group revenue, generating 48% of its revenue from OE and 52% from the aftermarket.

For MCS, revenue was up by 3% on an organic basis. Civil aerospace declined by 1% overall, with 4% growth in OE being more than offset by a 4% decline in aftermarket, driven by weakness in large jets caused by the availability of surplus parts. Military revenue grew by 14%, primarily aftermarket, following a particularly weak 2014. Operating margins decreased from 26.3% to 24.4% driven by the mix effect of civil OE growth and civil aftermarket decline.

Meggitt Polymers & Composites (MPC) has a bias towards military, representing 56% of its revenue in 2015. It supplies flexible bladder fuel tanks, ice protection products and composite assemblies for a

range of fixed wing and rotorcraft platforms and complex seals packages for 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 11% of Group revenue and generated 57% of its revenue from OE and 43% from the aftermarket. The recent acquisitions of EDAC and the composites businesses of Cobham plc are reported as part of MPC.

MPC revenue declined by 1% on an organic basis, with unchanged military revenues and weakness in civil aftermarket offsetting growth in civil OE. Operating margins declined from 12.4% to 8.7% due to high levels of up-front new product introduction expenditure ahead of production ramp-up on upcoming aircraft programmes over the next few years, and a weaker product mix.

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. Its 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 MABS, 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 10 aircraft platforms. MSS represents 29% of Group revenue and generated 76% of its revenue from OE and 24% from the aftermarket.

MSS revenue grew 3% on an organic basis, with a modest decline in military and broadly flat energy revenue being more than offset by 3% growth in civil, largely OE, and strong growth in other markets including medical and automotive. Operating margins decreased from 16.8% to 15.2% reflecting adverse mix in the lower margin civil OE revenue stream and the non-recurrence of the favourable renegotiation of a loss-making contract in 2014.

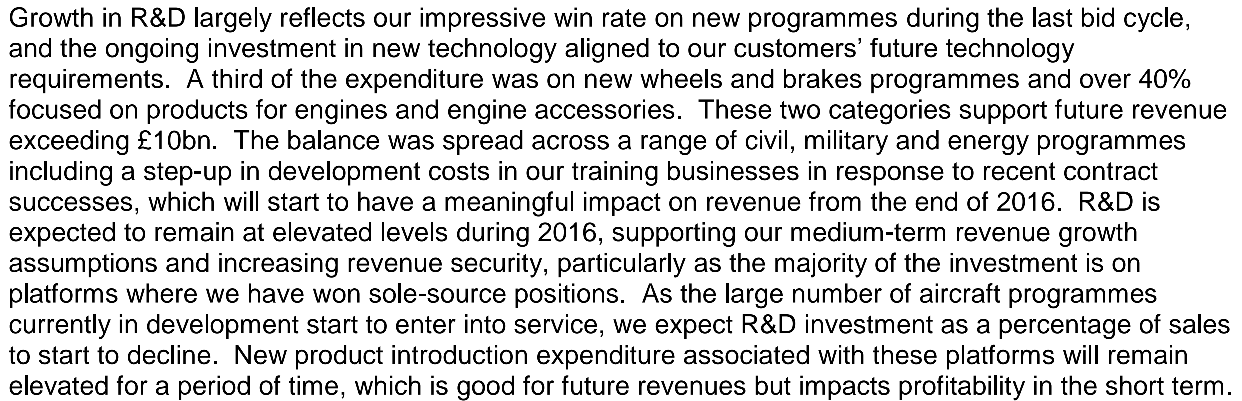
Meggitt Equipment Group (MEG) comprises principally our non-engine actuation, dedicated military businesses and Heatric. The division represents 15% of Group revenue and generates 84% of its revenue from OE and 16% from the aftermarket.

Revenue in MEG declined by 10% on an organic basis. 5% growth in military revenue, driven by a strong performance in the training businesses, was more than offset by a 40% decline in Heatric resulting from reduced expenditure by oil & gas customers following the decline in the oil price. Operating margins decreased from 11.6% to 3.7% driven principally by the weakness in Heatric, which made a small loss in the year.

INVESTING FOR THE FUTURE

£m		**2015**	2014	% change	
				Reported	Organic
Total research and development (R&D)		**158.7**	148.3	+7	+2
Of which:	Customer funded	**26.8**	28.9	-7	-10
	Capitalised	**84.8**	77.7	+9	+3
Charge to net operating costs		**61.4**	58.5	+5	+1
Programme participation costs		**43.0**	46.0	-7	-11
Capital expenditure		**55.4**	42.2	+31	+27

Targeted investment in technology development remains critical to our long-term organic growth. Total R&D expenditure in 2015 of £158.7m was 9.6% of revenues (2014: £148.3m, 9.5%), of which 17% (2014: 19%) was funded by customers. The charge to net operating costs including amortisation and impairment increased by 1% on an organic basis to £61.4m (2014: £58.5m).



Growth in R&D largely reflects our impressive win rate on new programmes during the last bid cycle, and the ongoing investment in new technology aligned to our customers' future technology requirements. A third of the expenditure was on new wheels and brakes programmes and over 40% focused on products for engines and engine accessories. These two categories support future revenue exceeding £10bn. The balance was spread across a range of civil, military and energy programmes including a step-up in development costs in our training businesses in response to recent contract successes, which will start to have a meaningful impact on revenue from the end of 2016. R&D is expected to remain at elevated levels during 2016, supporting our medium-term revenue growth assumptions and increasing revenue security, particularly as the majority of the investment is on platforms where we have won sole-source positions. As the large number of aircraft programmes currently in development start to enter into service, we expect R&D investment as a percentage of sales to start to decline. New product introduction expenditure associated with these platforms will remain elevated for a period of time, which is good for future revenues but impacts profitability in the short term.

Our investment in programme participation costs including the supply of equipment free of charge to new aircraft, mostly in MABS, decreased by 11% organically reflecting completion of the B-1B retrofit programme in 2014. Growth is expected to resume in 2016 and beyond as deliveries of aircraft equipped with our wheels and brakes increase, which in turn will drive aftermarket revenue stretching out for decades. Our market share of wheels and brakes on the fleet of super mid-size and large business jets in 2015 was 65%, supportive of our expectation that we will have a market share on the overall fleet in excess of 70% by 2020.

Capital expenditure on property, plant and equipment and intangible assets was £55.4m (2014: £42.2m). This includes investments in additional furnace capacity in MABS and capacity increases in the MCS North Hollywood and MPC Rockmart facilities. While significant, the 27% organic increase in capital expenditure was off a very low base from 2014 and was less than originally expected, reflecting the cancellation of investment in additional capacity at Heatric and the cash impact of some capital commitments slipping into 2016. Capital expenditure will accelerate in 2016, including the impact of deferrals from 2015 and additional capacity requirements at the recently acquired composites businesses ahead of delivery growth of some key platforms including A320neo and 737MAX.

DRIVING ORGANIC GROWTH THROUGH OPERATIONAL EXCELLENCE

The Meggitt Production System (MPS), our single, global approach to continuous improvement, was launched during 2013. MPS will create the sustainable quality and delivery culture that confers competitive advantage beyond our technical expertise, enabling the Group to deliver a higher rate of organic growth over 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, a six-phase programme which will take five to seven years to become fully embedded, has now been launched at all of our major manufacturing sites, and will be rolled out across the additional composites sites acquired during 2015 as part of the integration activities. As at the end of 2015, two sites have exited the third stage - the point at which we expect to start to see meaningful improvements in financial performance – and we expect further maturity of the programme during 2016. Meanwhile, the functional roll-out of the programme beyond operations is well under way.

We have already seen some significant improvements in quality and delivery since inception, with defective parts per million down 87% and on-time delivery up by 14%. This sustained improvement is recognised and appreciated by our customers, and has been instrumental in the Group having received 12 supplier awards from a number of different customers during the year. Given the demonstrable success we have seen internally, we have accelerated the planned deployment of the key tools and competencies to long-term partners in our supply chain.

FOREIGN EXCHANGE

Foreign exchange movements increased Group reported revenue by £68.9m and underlying profit before tax by £10.5m in 2015. Of this, the translation of the results of overseas businesses into Sterling increased revenue by £50.6m, and underlying profit before tax by £12.6m. The sensitivity of revenue and underlying PBT to future exchange rate translation movements when compared to the 2015 average rates is shown in the table below:

	2015 average rate	Revenue £'m	Underlying PBT £'m
Impact of 10 cent movement			
US Dollar	1.53	70.0	15.0
Euro	1.38	9.0	1.0
Swiss Franc	1.47	7.0	2.0

Transaction exposure, where revenues and/or costs of our businesses are denominated in a currency other than their own, increased revenue by £18.3m but represented a headwind to underlying PBT of £2.1m in 2015, principally reflecting the move of our US Dollar:Sterling transaction hedge rate to 1.57 (2014: 1.54). The following table details transaction hedging currently in place.

	Hedging in place[1] %	Average transaction rates
2016		
US Dollar/Sterling	89	1.56
US Dollar/Euro	100	1.21
US Dollar/Swiss Franc	96	1.06
2017 - 2020 inclusive		
US Dollar/Sterling	70	1.50
US Dollar/Euro	70	1.19
US Dollar/Swiss Franc	50	1.05

1. Based on forecast transaction exposures

Based on the hedged rates, transaction exposure will provide a small benefit to 2016 operating profit.

RETIREMENT BENEFIT SCHEMES

Scheme deficits reduced to £284.5m (2014: £317.8m) principally due to an increase in AA corporate bond yields which are used to discount scheme liabilities, and a modest reduction in UK liabilities from experience gains arising from the 2015 actuarial valuation.

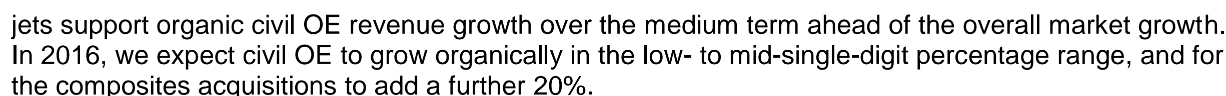
The Group made deficit reduction payments in the year of £24.4m (2014: £29.3m). In the UK, the Group is currently making deficit payments in accordance with an agreement reached with the trustees following the 2012 actuarial valuation. The April 2015 UK triennial valuation is approaching completion and discussions have commenced with the trustees over a revised recovery plan to address the increase in funding deficit of approximately £70m since the previous valuation. Additional payments to address this deficit will likely start in the second quarter of 2016 once the recovery plan is agreed with the trustees. Amounts required to be paid in the US reduced in the year, as expected, reflecting the impact of new legislation implemented in the latter part of 2014 and are expected to fall further in 2016, before increasing from 2017.

BOARD AND SENIOR MANAGEMENT CHANGES

During the first half of 2015, Philip Cox resigned his role as a Non-Executive Director to take up a new role as Chairman of Drax Plc. At the AGM on 23 April 2015, Sir Colin Terry retired after 12 years of outstanding service on the Board. Sir Nigel Rudd, who joined the Board on 1 March 2015, became Non-Executive Chairman following Sir Colin's retirement. In October, Colin Day joined the Board as Non-Executive Director and Chairman of the Audit Committee. After over nine years as Non-Executive Director, most recently as Senior Independent Director, David Williams retired from the Board at the end of the year and Paul Heiden was appointed Senior Independent Director with effect from January 2016. David Johnson, the Group's Chief Operating Officer, has announced his intention to retire at the end of March 2016.

GROUP OUTLOOK

The outlook for our civil markets is encouraging. Production of large jets is expected to continue to grow in the medium term, and the high and growing shipset values we enjoy on the latest generation of large



jets support organic civil OE revenue growth over the medium term ahead of the overall market growth. In 2016, we expect civil OE to grow organically in the low- to mid-single-digit percentage range, and for the composites acquisitions to add a further 20%.

Available seat kilometres, an important driver of our large and regional jet aftermarket, are growing at above the long-term trend. In combination with the expected output from the CSS organisation, which will enable us to address some of the areas of weakness we have seen in recent years, we expect to be able to outgrow the market for civil spares in the medium term. Shorter term, however, we anticipate a continued impact from the availability of surplus parts. This is expected to limit organic aftermarket growth in 2016 to low- to mid-single digits, with a further modest negative impact from revenue mix.

In military markets, we look to be entering a more benign phase with military budgets returning to growth for the first time in a number of years. We believe our strong technology offering and broad platform and customer exposure will enable us to outgrow the overall military market over the medium term, but we maintain a relatively cautious stance for 2016 reflecting weaker orders in 2015 and our view that it will take some time for cash to flow on the back of the recently agreed 2016 budget in the US. We therefore anticipate organic growth in the low-single-digit percentage range, with a further 10% from the composites acquisitions.

Our energy businesses have been impacted by the global slowdown in investment following the decline in the oil price, and we expect that this weakness will continue through 2016 resulting in further organic revenue decline, although the cost reduction activities we have initiated, and recently intensified, will partially mitigate the financial impact of this decline. Medium term, however, the strong technology franchise in Heatric and growth opportunities in energy condition monitoring give us confidence that our energy revenues will resume their growth trajectory.

On the basis of the above, the Group expects organic revenue growth in 2016 of low single digit percentage points, in line with the guidance given in December, with revenue phasing expected to return to normal levels. The headcount reduction programme will offset the negative mix impact in the civil aftermarket. The acquisitions completed in the fourth quarter will enhance reported revenue growth, as will foreign exchange if rates stay at or close to current levels.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2015

	Notes	**2015 £m**	2014 £m
Revenue	3	**1,647.2**	1,553.7
Cost of sales		**(997.2)**	(935.9)
Gross profit		**650.0**	617.8
Net operating costs		**(413.4)**	(381.6)
Operating profit[1]	4	**236.6**	236.2
Finance income	7	**2.7**	1.2
Finance costs	8	**(29.1)**	(28.5)
Net finance costs		**(26.4)**	(27.3)
Profit before tax[2]		**210.2**	208.9
Tax		**(28.1)**	(31.9)
Profit for the year attributable to equity owners of the Company		**182.1**	177.0
Earnings per share:			
Basic[3]	10	**23.2p**	22.0p
Diluted[4]		**22.9p**	21.7p

		Notes	2015	2014
1	Underlying operating profit	4	**325.5**	346.0
2	Underlying profit before tax	4	**310.3**	328.7
3	Underlying basic earnings per share	10	**31.6p**	32.4p
4	Underlying diluted earnings per share	10	**31.2p**	31.9p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Note	2015 £m	2014 £m
Profit for the year attributable to equity owners of the Company		**182.1**	177.0
Items that may be reclassified to the income statement in subsequent periods:			
Currency translation differences		**82.7**	77.4
Cash flow hedge movements		**(0.7)**	(0.8)
Tax effect		**2.1**	(0.2)
		84.1	76.4
Items that will not be reclassified to the income statement in subsequent periods:			
Remeasurement of retirement benefit obligations	17	**29.4**	(97.7)
Tax effect		**(9.5)**	24.2
		19.9	(73.5)
Other comprehensive income for the year		**104.0**	2.9
Total comprehensive income for the year attributable to equity owners of the Company		**286.1**	179.9

CONSOLIDATED BALANCE SHEET
As at 31 December 2015

	Notes	**2015** £m	2014 Restated (note 25) £m
Non-current assets			
Goodwill	13	**1,866.0**	1,534.7
Development costs	13	**408.4**	342.9
Programme participation costs	13	**267.6**	242.4
Other intangible assets	13	**689.1**	684.9
Property, plant and equipment	14	**290.3**	251.1
Trade and other receivables		**58.9**	93.4
Derivative financial instruments	15	**25.5**	29.6
Deferred tax assets		**0.3**	0.9
		3,606.1	3,179.9
Current assets			
Inventories		**415.2**	327.9
Trade and other receivables		**353.7**	331.8
Derivative financial instruments	15	**8.4**	1.1
Current tax recoverable		**5.5**	3.3
Cash and cash equivalents	22	**145.4**	105.5
		928.2	769.6
Total assets	3	**4,534.3**	3,949.5
Current liabilities			
Trade and other payables		**(402.1)**	(358.5)
Derivative financial instruments	15	**(12.7)**	(9.6)
Current tax liabilities		**(37.3)**	(36.5)
Obligations under finance leases	22	**(0.1)**	(0.1)
Bank and other borrowings	22	**(4.0)**	(58.9)
Provisions	16	**(36.0)**	(45.1)
		(492.2)	(508.7)
Net current assets		**436.0**	260.9
Non-current liabilities			
Trade and other payables		**(4.2)**	(5.9)
Derivative financial instruments	15	**(13.7)**	(2.9)
Deferred tax liabilities		**(255.8)**	(220.9)
Obligations under finance leases	22	**(5.4)**	(5.3)
Bank and other borrowings	22	**(1,189.0)**	(616.7)
Provisions	16	**(111.0)**	(130.5)
Retirement benefit obligations	17	**(284.5)**	(317.8)
		(1,863.6)	(1,300.0)
Total liabilities		**(2,355.8)**	(1,808.7)
Net assets		**2,178.5**	2,140.8
Equity			
Share capital		**38.8**	40.1
Share premium		**1,218.9**	1,218.9
Other reserves		**15.7**	14.4
Hedging and translation reserves		**243.2**	159.1
Retained earnings		**661.9**	708.3
Total equity attributable to owners of the Company		**2,178.5**	2,140.8

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Equity attributable to owners of the Company					
	Share capital	**Share premium**	**Other reserves**	**Hedging and translation reserves**	**Retained earnings**	**Total equity**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 January 2014	39.9	1,166.3	14.1	82.7	773.4	2,076.4
Profit for the year	-	-	-	-	177.0	177.0
Other comprehensive income for the year	-	-	-	76.4	(73.5)	2.9
Total comprehensive income for the year	-	-	-	76.4	103.5	179.9
Employee share schemes:						
Value of services provided	-	-	-	-	1.1	1.1
Purchase of own shares	-	-	-	-	(11.6)	(11.6)
Issue of equity share capital	-	0.1	-	-	-	0.1
Share buyback – purchased and cancelled	(0.3)	-	0.3	-	(33.7)	(33.7)
Share buyback – close period commitment	-	-	-	-	(20.0)	(20.0)
Dividends	0.5	52.5	-	-	(104.4)	(51.4)
At 31 December 2014	40.1	1,218.9	14.4	159.1	708.3	2,140.8
Profit for the year	**-**	**-**	**-**	**-**	**182.1**	**182.1**
Other comprehensive income for the year	-	-	-	84.1	19.9	104.0
Total comprehensive income for the year	**-**	**-**	**-**	**84.1**	**202.0**	**286.1**
Employee share schemes:						
Value of services provided	-	-	-	-	3.0	3.0
Purchase of own shares	-	-	-	-	(9.7)	(9.7)
Share buyback – purchased and cancelled	(1.3)	-	1.3	-	(138.8)	(138.8)
Share buyback – purchased and transferred to treasury shares	-	-	-	-	(7.6)	(7.6)
Share buyback – movement in close period commitment	-	-	-	-	15.8	15.8
Dividends	-	-	-	-	(111.1)	(111.1)
At 31 December 2015	**38.8**	**1,218.9**	**15.7**	**243.2**	**661.9**	**2,178.5**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2015

	Notes	**2015 £m**	2014 £m
Cash inflow from operations before business acquisition expenses and exceptional operating items		**419.9**	364.0
Cash outflow from business acquisition expenses		**(2.5)**	(0.5)
Cash outflow from exceptional operating items	5	**(10.7)**	(16.6)
Cash inflow from operations	21	**406.7**	346.9
Interest received		**0.2**	0.3
Interest paid		**(16.2)**	(16.3)
Tax paid		**(15.3)**	(18.7)
Cash inflow from operating activities		**375.4**	312.2
Businesses acquired	23	**(362.7)**	(28.6)
Businesses disposed		**2.0**	-
Capitalised development costs net of funding from customers	13	**(80.5)**	(77.7)
Capitalised programme participation costs	13	**(43.0)**	(46.0)
Purchase of intangible assets		**(10.4)**	(12.0)
Purchase of property, plant and equipment		**(45.8)**	(33.0)
Proceeds from disposal of property, plant and equipment		**0.8**	2.8
Cash outflow from investing activities		**(539.6)**	(194.5)
Dividends paid to Company's shareholders		**(111.1)**	(51.4)
Purchase of own shares		**(9.7)**	(11.6)
Issue of equity share capital		**-**	0.1
Share buyback – purchased in year		**(146.4)**	(33.7)
Proceeds from borrowings		**537.0**	218.3
Debt issue costs		**(0.4)**	(2.8)
Repayments of borrowings		**(67.4)**	(249.9)
Cash inflow/(outflow) from financing activities		**202.0**	(131.0)
Net increase/(decrease) in cash and cash equivalents		**37.8**	(13.3)
Cash and cash equivalents at start of the year		**105.5**	116.1
Exchange gains on cash and cash equivalents		**2.1**	2.7
Cash and cash equivalents at end of the year	22	**145.4**	105.5

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. Basis of preparation

This document contains abridged preliminary financial information for the year ended 31 December 2015 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 and 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 2015 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, does not draw attention to any matters by way of emphasis 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 2014 were approved by the Board of Directors on 23 February 2015 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.

2. Accounting policies

The financial statements have been prepared using the same accounting policies adopted in the Group's financial statements for the year ended 31 December 2014.

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 adopted early in these financial statements. None of these are expected to have a significant impact on the consolidated financial statements when they are adopted except as disclosed below:

- IFRS 9, 'Financial instruments'. The main change is expected to relate to the way in which movements in the fair value of the Group's fixed rate borrowings, attributable to changes in the Group's own credit risk, are accounted for. The Group is yet to assess the full impact of IFRS 9 which becomes effective for accounting periods beginning on or after 1 January 2018. The standard is subject to endorsement by the European Union.

- IFRS 15, 'Revenue from contracts with customers'. This standard establishes principles for reporting the nature, amount and timing of revenue arising from an entity's contracts with customers. The Group, along with the aerospace industry as a whole, is continuing to assess the full impact of IFRS 15. Areas which are currently under review by the Group, and where a change to current practice may be required, are the recognition as an intangible asset of programme participation costs, the method of accounting for revenue on power by the hour and cost per brake landing contracts and contract revenue recognition. The standard becomes effective for accounting periods beginning on or after 1 January 2018 and is subject to endorsement by the European Union.

- IFRS 16, 'Leases'. The main change is expected to relate to the recognition on the Group's balance sheet of assets and liabilities relating to leases which are currently being accounted for as operating leases. The Group is yet to assess the full impact of IFRS 16 which becomes

effective for accounting periods beginning on or after 1 January 2019. This standard is subject to endorsement by the European Union.

3. 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. With effect from 1 January 2015, the Meggitt Avionics business was transferred from Meggitt Equipment Group to Meggitt Sensing Systems. Prior year comparatives have been restated to reflect this new divisional structure.

Year ended 31 December 2015

	Meggitt Aircraft Braking Systems £m	**Meggitt Control Systems £m**	**Meggitt Polymers & Composites £m**	**Meggitt Sensing Systems £m**	**Meggitt Equipment Group £m**	**Total £m**
Gross segment revenue	353.3	398.8	178.0	480.8	244.9	1,655.8
Inter-segment revenue	(0.2)	(0.9)	(0.6)	(6.0)	(0.9)	(8.6)
Revenue	**353.1**	**397.9**	**177.4**	**474.8**	**244.0**	**1,647.2**
Underlying operating profit*	**131.7**	**97.0**	**15.4**	**72.3**	**9.1**	**325.5**

* A reconciliation of operating profit to underlying operating profit is shown in note 4.

Year ended 31 December 2014 (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	327.1	349.7	163.2	456.5	265.4	1,561.9
Inter-segment revenue	(0.1)	(1.0)	(0.9)	(5.5)	(0.7)	(8.2)
Revenue	327.0	348.7	162.3	451.0	264.7	1,553.7
Underlying operating profit*	127.5	91.8	20.2	75.7	30.8	346.0

* A reconciliation of operating profit to underlying operating profit is shown in note 4.

3. Segmental analysis (continued)

Segmental assets

	31 December 2015 **£m**	31 December 2014 Restated £m
Meggitt Aircraft Braking Systems	**666.6**	568.3
Meggitt Control Systems	**303.7**	295.6
Meggitt Polymers & Composites	**187.5**	94.0
Meggitt Sensing Systems	**387.7**	365.8
Meggitt Equipment Group	**145.9**	160.0
Total segmental trading assets	**1,691.4**	1,483.7
Centrally managed trading assets*	**179.8**	181.4
Goodwill	**1,866.0**	1,534.7
Other intangible assets	**612.0**	609.3
Derivative financial instruments – non-current	**25.5**	29.6
Deferred tax assets	**0.3**	0.9
Derivative financial instruments – current	**8.4**	1.1
Current tax recoverable	**5.5**	3.3
Cash and cash equivalents	**145.4**	105.5
Total assets	**4,534.3**	3,949.5

* 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.

4. 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:

	Note	2015 £m	2014 £m
Operating profit		**236.6**	236.2
Exceptional operating items (note 5)		**10.4**	9.0
Amounts arising on the acquisition, disposal and closure of businesses	a	**0.2**	3.5
Amortisation of intangible assets acquired in business combinations (note 13)		**71.9**	68.1
Disposal of inventory revalued in business combinations		**1.6**	-
Financial instruments (note 6)		**4.8**	29.2
Adjustments to operating profit*		**88.9**	109.8
Underlying operating profit		**325.5**	346.0
Profit before tax		**210.2**	208.9
Adjustments to operating profit per above		**88.9**	109.8
Net interest expense on retirement benefit obligations (note 17)		**11.2**	10.0
Adjustments to profit before tax		**100.1**	119.8
Underlying profit before tax		**310.3**	328.7
Profit for the year		**182.1**	177.0
Adjustments to profit before tax per above		**100.1**	119.8
Tax effect of adjustments to profit before tax		**(33.9)**	(36.6)
Adjustments to profit for the year		**66.2**	83.2
Underlying profit for the year		**248.3**	260.2

* Of the adjustments to operating profit, £4.0 million (2014: £5.5 million) relating to exceptional operating items and £1.6 million (2014: £Nil million) relating to the disposal of inventory revalued in business combinations has been charged to cost of sales, with the balance of £83.3 million (2014: £104.3 million) included within net operating costs.

a In 2015, the Group has decided to separately present amounts arising on the acquisition, disposal and closure of businesses. These include gains or losses made on the disposal or closure of a business, adjustments to the fair value of contingent consideration payable in respect of an acquired business or receivable in respect of a disposed business and costs directly attributable to the acquisition of a business. Such amounts were previously recorded as exceptional operating items. Prior year comparatives have been restated to reflect this change.

	2015 £m	2014 £m
Costs related to the acquisition of businesses	**3.9**	0.6
Remeasurement of fair value of contingent consideration receivable relating to previously disposed businesses	**(2.5)**	-
(Gain)/loss on closure of businesses	**(1.2)**	2.9
Amounts arising on the acquisition, disposal and closure of businesses	**0.2**	3.5

5. 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		Cash expenditure	
		2015 £m	2014 £m	**2015 £m**	2014 £m
Site consolidations	a	**0.9**	7.5	**0.9**	7.5
Business restructuring costs	b	**9.2**	-	**4.8**	-
Integration of acquired businesses		**0.3**	1.5	**0.1**	4.4
Raw material supply issue		**-**	-	**4.9**	4.7
Exceptional operating items		**10.4**	9.0	**10.7**	16.6

a. This relates to the movement of production to the Group's low cost manufacturing locations and, in 2014, to the consolidation of the Group's two North American sensor businesses onto a single new site in California, USA.

b. This principally relates to costs incurred as part of a Group-wide initiative to structurally reduce its cost base announced on 28 October 2015. A further cost of approximately £8.0 million is expected to be incurred in 2016.

6. 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. Where cross currency derivatives and treasury lock derivatives do not qualify to be hedge accounted, movements in the fair value of the derivatives are excluded from underlying profit.

Gains or losses arising from the remeasurement of the fair value of close period share buyback commitments are excluded from underlying profit.

	2015 £m	2014 £m
Movement in the fair value of foreign currency forward contracts	**16.1**	31.1
Impact of retranslating net foreign currency assets and liabilities at spot rate	**(0.1)**	(1.9)
Movement in the fair value of interest rate derivatives	**2.2**	(4.2)
Movement in the fair value of fixed rate borrowings	**(1.1)**	4.2
Movement in the fair value of cross currency derivative	**(4.4)**	-
Movement in the fair value of treasury lock derivative	**(3.7)**	-
Remeasurement of share buyback close period commitment	**(4.2)**	-
Financial instruments – loss	**4.8**	29.2

7. Finance income

	2015 £m	2014 £m
Interest on bank deposits	**0.1**	0.1
Unwinding of interest on other receivables (note 16)	**2.5**	0.9
Other finance income	**0.1**	0.2
Finance income	**2.7**	1.2

8. Finance costs

	2015 £m	2014 £m
Interest on bank borrowings	**4.1**	2.7
Interest on senior notes	**11.7**	12.7
Interest on obligations under finance leases	**1.0**	0.9
Unwinding of discount on provisions (note 16)	**3.2**	1.1
Net interest expense on retirement benefit obligations (note 17)	**11.2**	10.0
Amortisation of debt issue costs *	**0.8**	3.1
Less: amounts capitalised in the cost of qualifying assets (note 13)	**(2.9)**	(2.0)
Finance costs	**29.1**	28.5

* An additional charge of £1.8 million was recorded in 2014, following the early refinancing of the Group's committed syndicated bank facilities.

9. Tax

The Finance (No 2) Act 2015, included legislation to reduce the main rate of corporation tax in the UK from 20% to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. As these changes were substantively enacted during 2015, they are reflected in the tax charge for the year. The impact of the change on net deferred tax liabilities at 31 December 2015, profit for the year (underlying and statutory) and comprehensive income for the year was not significant.

10. Earnings per ordinary share

Earnings per ordinary share ('EPS') is calculated by dividing the profit attributable to owners of the Company of £182.1 million (2014: £177.0 million) by the weighted average number of shares in issue during the year of 785.4 million (2014: 804.1 million).

Underlying EPS is based on underlying profit for the year (note 4) and is calculated below:

	2015 Pence	2014 Pence
Basic EPS	**23.2**	22.0
Adjust for effects of:		
Exceptional operating items	**0.9**	0.8
Amounts arising on the acquisition, disposal and closure of businesses	**0.2**	0.3
Amortisation of intangible assets acquired in business combinations	**5.8**	5.5
Disposal of inventory revalued in business combinations	**0.1**	-
Financial instruments	**0.4**	2.9
Net interest expense on retirement benefit obligations	**1.0**	0.9
Underlying basic EPS	**31.6**	32.4

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 796.3 million (2014: 815.1 million).

Diluted underlying EPS for the year was 31.2p (2014: 31.9p).

11. Dividends

The Board is recommending a final dividend of 9.80p per share (2014: 9.50p per share). Taken with the interim dividend of 4.60p (2014: 4.25p) paid in the year, this gives a total dividend of 14.40p (2014: 13.75p), an increase of 5%. Subject to approval at the Annual General Meeting to be held on 21 April 2016, the proposed dividend will be paid on 6 May 2016 to shareholders on the register at close of business on 29 March 2016. A dividend reinvestment plan will be made available, in respect of the final dividend, for shareholders who wish to elect for shares in lieu of cash.

12. 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 for 2015 as members of the Board and the Group Executive Committee, is set out below. Prior year comparatives have not been restated to reflect changes to the definition of key management personnel during the current year:

	2015 £m	2014 £m
Salaries and other short-term employee benefits	**9.0**	7.3
Retirement benefit expense	**0.3**	0.3
Share-based payment expense	**1.3**	0.6
Total	**10.6**	8.2

13. Intangible assets

	Goodwill £m	Development costs £m	Programme participation costs £m	Other intangible assets £m
At 1 January 2014	1,457.1	270.5	210.6	707.3
Exchange rate adjustments	64.1	9.5	10.7	28.7
Businesses acquired as restated	13.5	-	-	15.8
Additions*	-	77.7	46.0	12.0
Interest capitalised (note 8)	-	2.0	-	-
Impairment loss	-	(8.0)	-	-
Amortisation**	-	(8.8)	(24.9)	(78.9)
At 31 December 2014 as restated	**1,534.7**	**342.9**	**242.4**	**684.9**
Exchange rate adjustments	70.5	17.7	11.1	28.1
Businesses acquired (note 23)	260.8	-	-	48.4
Additions*	-	84.8	43.0	11.9
Funding from customers	-	(4.3)	-	-
Interest capitalised (note 8)	-	2.9	-	-
Transfers to inventory	-	(21.3)	-	-
Impairment loss	-	(6.4)	-	-
Amortisation**	-	(7.9)	(28.9)	(84.2)
At 31 December 2015	**1,866.0**	**408.4**	**267.6**	**689.1**

* Included within additions to programme participation costs, are free of charge/deeply discounted manufactured parts supplied in the year of £41.4 million (2014: £43.3 million) and cash payments of £1.6 million (2014: £2.7 million).

** Included within amortisation of other intangible assets is £71.9 million (2014: £68.1 million) relating to intangible assets acquired in business combinations and which is excluded from the Group's underlying profit figures (note 3).

Goodwill is tested for impairment annually, or more frequently if there is any indication of impairment. No impairment charge was required in the year (2014: £Nil) and the cumulative impairment charge recognised to date is £Nil (2014: £Nil).

14. Property, plant and equipment

	2015 £m	2014 £m
At 1 January	**251.1**	245.5
Exchange rate adjustments	**7.2**	4.0
Businesses acquired (note 23)	**21.9**	0.6
Additions	**44.3**	35.2
Disposals	**(0.7)**	(3.0)
Depreciation	**(33.5)**	(31.2)
At 31 December	**290.3**	251.1

15. 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 floating rate bank and other borrowings, fair values approximate to book values due to the short maturity periods of these financial instruments. For trade and other receivables, allowances are made within book value for credit risk.

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

	Book value		**Fair value**	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Derivative financial instruments – non-current	**25.5**	29.6	**25.5**	29.6
Derivative financial instruments – current	**8.4**	1.1	**8.4**	1.1
Financial assets	**33.9**	30.7	**33.9**	30.7
Derivative financial instruments – current	**(12.7)**	(9.6)	**(12.7)**	(9.6)
Bank and other borrowings – current	**(4.0)**	(58.9)	**(4.0)**	(61.6)
Derivative financial instruments – non-current	**(13.7)**	(2.9)	**(13.7)**	(2.9)
Bank and other borrowings – non-current	**(1,189.0)**	(616.7)	**(1,196.9)**	(625.7)
Financial liabilities	**(1,219.4)**	(688.1)	**(1,227.3)**	(699.8)
Total	**(1,185.5)**	(657.4)	**(1,193.4)**	(669.1)

Derivative financial instruments measured at fair value are classified as level 2 in the fair value measurement hierarchy, as they have been determined using significant inputs based on observable market data. The fair values of foreign currency forward contracts have been derived from forward exchange rates observable at the balance sheet date together with the contractual forward rates. The fair values of interest rate derivatives and the treasury lock derivative, have been derived from forward interest rates based on yield curves observable at the balance sheet date together with the contractual interest rates. The fair value of the cross currency derivative has been derived from forward interest rates based on yield curves observable at the balance sheet date, forward exchange rates observable at the balance sheet date and the contractual interest and forward exchange rates.

The 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. The same methods of valuation have been used to derive the fair value of bank and other borrowings which are held at amortised cost but for which fair values are provided in the table above.

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

	2015 £m	2014 £m
Held at fair value through profit and loss	**290.8**	276.9
Held at amortised cost	**898.2**	339.8
Total	**1,189.0**	616.7

The current element of bank and other borrowings is all held at amortised cost.

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

16. Provisions

	2015 Insurance receivables £m	2015 Provisions £m
At 1 January	(102.8)	175.6
Exchange rate adjustments	(4.9)	7.7
Business acquired (note 23)	-	0.6
Additional provision in year	-	11.2
Unused amounts reversed	15.9	(21.3)
(Credit)/charge to net finance costs (notes 7 and 8)	(2.5)	3.2
Transfer to trade and other payables	-	(0.2)
Utilised	14.2	(29.8)
At 31 December*	**(80.1)**	**147.0**

Disclosed as:	
Current	36.0
Non-current	111.0
At 31 December	**147.0**
Analysed as:	
Environmental*	111.0
Onerous contracts	16.3
Warranty costs	14.2
Other	5.5
At 31 December	**147.0**

* Included within trade and other receivables is £80.1 million (2014: £102.8 million) in respect of amounts recoverable from insurers and other third parties in respect of environmental issues relating to historic sites.

17. Retirement benefit obligations

	2015 £m	2014 £m
At 1 January	**317.8**	238.1
Exchange rate adjustments	**7.3**	7.7
Service cost	**15.3**	12.7
Past service cost/(credit)	**0.3**	(7.8)
Net interest expense (note 8)	**11.2**	10.0
Contributions - Group	**(39.7)**	(42.0)
Remeasurement of retirement benefit obligations	**(29.4)**	97.7
Administrative expenses borne directly by schemes	**1.7**	1.4
At 31 December	**284.5**	317.8
Analysis of retirement benefit obligations:		
Pension schemes	**239.1**	271.0
Healthcare schemes	**45.4**	46.8
At 31 December	**284.5**	317.8

17. Retirement benefit obligations continued

Key financial assumptions	**2015**	2014
UK scheme:		
Discount rate	**3.85%**	3.60%
Inflation rate	**3.10%**	3.10%
Salary inflation rate	**4.10%**	4.10%
Current life expectancy: Male aged 65 years	**21.9 to 23.4**	21.9 to 23.6
US schemes:		
Discount rate	**4.20%**	3.85%
Salary increases	**4.66%**	4.74%
Current life expectancy: Male aged 65 years	**20.3 to 21.0**	20.3 to 20.9

Group cash contributions paid during the year included deficit reduction payments of £24.4 million (2014: £29.3 million).

18. Issued share capital

	2015 No. m	2014 No. m
Allotted and fully paid	**775.5**	802.3

19. 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.

20. Capital commitments

	2015 £m	2014 £m
Contracted for but not incurred:		
Intangible assets	**0.6**	0.9
Property, plant and equipment	**8.2**	11.0
Total	**8.8**	11.9

21. Cash inflow from operations

	2015 £m	2014 £m
Profit for the year	**182.1**	177.0
Adjustments for:		
Finance income (note 7)	**(2.7)**	(1.2)
Finance costs (note 8)	**29.1**	28.5
Tax	**28.1**	31.9
Depreciation (note 14)	**33.5**	31.2
Amortisation (note 13)	**121.0**	112.6
Impairment loss (note 13)	**6.4**	8.0
Loss on disposal of property, plant and equipment	**-**	0.4
Remeasurement of fair value of contingent consideration receivable*	**(2.5)**	-
(Gain)/loss on closure of businesses (note 4)	**(1.2)**	2.9
Financial instruments (note 6)	**4.8**	29.2
Retirement benefit obligation deficit payments (note 17)	**(24.4)**	(29.3)
Share-based payment expense	**4.1**	1.7
Change in working capital	**28.4**	(46.0)
Cash inflow from operations	**406.7**	346.9

* In respect of previously disposed businesses (note 4).

22. Movements in net debt

	2015 £m	2014 £m
At 1 January	**575.5**	564.6
Free cash inflow	**(199.0)**	(146.8)
Businesses acquired (note 23)	**362.7**	28.6
Business acquisition expenses	**2.5**	-
Businesses disposed	**(2.0)**	-
Business disposal expenses	**-**	0.5
Dividends paid to Company's shareholders	**111.1**	51.4
Purchase of own shares	**9.7**	11.6
Issue of equity share capital	**-**	(0.1)
Share buyback – purchased	**146.4**	33.7
Net cash generated – outflow/(inflow)	**431.4**	(21.1)
Debt acquired with businesses (note 23)	**6.3**	-
Exchange rate adjustments	**39.6**	24.7
Other non-cash movements	**0.3**	7.3
At 31 December	**1,053.1**	575.5
Analysed as:		
Bank and other borrowings – current	**4.0**	58.9
Bank and other borrowings – non-current	**1,189.0**	616.7
Obligations under finance leases – current	**0.1**	0.1
Obligations under finance leases – non-current	**5.4**	5.3
Cash and cash equivalents	**(145.4)**	(105.5)
Total	**1,053.1**	575.5

23. Business combinations

On 25 November 2015, the Group acquired the advanced composites businesses of Cobham plc ("Advanced Composites") for USD 200 million in cash, subject to an adjustment for working capital in the business at completion. The acquisition comprised 100% of the voting rights of Cobham Advanced Composites Limited and Cobham Composites Products Inc. together with certain assets of Cobham Advanced Electronic Solutions Inc.

Advanced Composites is a global leader in the design, development and production of highly engineered aerospace composite engine components (spinners, internal multi-stage components, exhaust flaps), radomes (C4I and defensive measures radomes, with a growing position in civil radomes) and complex secondary structures (air-to-air refuelling, structural munitions components). It has operating facilities located in the UK and United States. Advanced Composites is being integrated into the Meggitt Polymers & Composites division.

On 21 December 2015, the Group acquired 100% of the voting rights in EDAC Composites LLC ("EDAC") the owner and operator of the former EDAC composites businesses, formerly known as Parkway Aerospace & Defense, from Greenbriar Equity Group and other associated sellers for USD 340 million in cash, subject to an adjustment for working capital in the business at completion.

EDAC produces highly engineered aerospace components for jet engine and airframe applications, with over 85% of revenues in civil aerospace composites. It has a substantial presence, via multi-year long-term agreements, on high-growth jet engine platforms including the GEnx, Pratt & Whitney PurePower family and LEAP engines. EDAC has operating facilities in the USA and Mexico. EDAC is being integrated into the Meggitt Polymers & Composites division.

Total consideration paid in respect of acquisitions during the year is as follows:

	2015 **£m**	2014 £m
Cash paid in respect of Advanced Composites	**132.1**	-
Cash paid in respect of EDAC	**231.0**	-
Cash (received)/paid in respect of PECC	**(0.4)**	28.3
Cash paid in respect of other acquisitions	**-**	0.3
Total	**362.7**	28.6

Due to the proximity of the acquisitions of Advanced Composites and EDAC to the balance sheet date, the difference between the book value of acquired net assets and consideration payable has been provisionally recognised as goodwill. During 2016, the Group will determine the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed, with any corresponding adjustment necessary being made to the value of goodwill recognised.

23. Business combinations continued

The assets and liabilities at the date of acquisition, including the goodwill arising on consolidation, were as follows:

	Notes	Advanced Composites £m	EDAC £m	**Total £m**
Non-current assets				
Goodwill	13	102.8	158.0	**260.8**
Other intangible assets	13	1.0	47.4	**48.4**
Property, plant and equipment	14	12.3	9.6	**21.9**
		116.1	215.0	**331.1**
Current assets				
Inventories		20.8	16.9	**37.7**
Trade and other receivables		10.6	12.7	**23.3**
Current tax recoverable		-	0.1	**0.1**
		31.4	29.7	**61.1**
Total assets		147.5	244.7	**392.2**
Current liabilities				
Trade and other payables		(9.5)	(11.5)	**(21.0)**
Current tax liabilities		(0.6)	-	**(0.6)**
Bank and other borrowings		(4.1)	(2.2)	**(6.3)**
		(14.2)	(13.7)	**(27.9)**
Net current assets		17.2	16.0	**33.2**
Non-current liabilities				
Deferred tax liabilities		(0.6)	-	**(0.6)**
Provisions	16	(0.6)	-	**(0.6)**
		(1.2)	-	**(1.2)**
Total liabilities		(15.4)	(13.7)	**(29.1)**
Net assets		132.1	231.0	**363.1**
Consideration satisfied in cash		132.1	231.0	**363.1**
Total consideration payable satisfied in cash		132.1	231.0	**363.1**

24. Components of other comprehensive income

	2015 £m	2014 £m
Arising in the year	**82.7**	77.4
Currency translation differences – gain	**82.7**	77.4
Movement in fair value	**(1.5)**	(1.6)
Transferred to income statement	**0.8**	0.8
Cash flow hedge movements – loss	**(0.7)**	(0.8)
Tax effect	**2.1**	(0.2)
Other comprehensive income	**84.1**	76.4

25. Restatement of prior year comparatives

IFRS 3 requires fair values of assets and liabilities acquired to be finalised within 12 months of the acquisition date. All fair value adjustments are required to be recorded with effect from the date of acquisition and consequently result in the restatement of previously reported financial results. During 2015, the Group finalised the fair values of PECC which completed on 31 December 2014 and this resulted in adjustments to the balance sheet at that date. These amendments primarily relate to the recognition of intangible assets separately from goodwill and associated deferred tax liabilities.

The impact of the restatements is shown below:

	2014 As reported £m	2014 Fair value adjustments £m	2014 As restated £m
Goodwill	19.9	(6.4)	13.5
Other intangible assets	3.9	11.9	15.8
Property, plant and equipment	0.4	-	0.4
Inventories	3.0	0.7	3.7
Trade and other receivables – current	1.4	(0.1)	1.3
Trade and other payables – current	(0.6)	-	(0.6)
Provisions – non-current	(0.1)	-	(0.1)
Deferred tax liabilities	-	(6.1)	(6.1)
Net assets	27.9	-	27.9

The finalisation of fair value adjustments had no impact on the 2014 income statement.

PRINCIPAL RISKS AND UNCERTAINTIES

Strategic – Business model

Description and impact
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, accelerated pace of new aircraft deliveries leading to the earlier retirement of older aircraft and longer term development of indigenous Chinese aerospace manufacturing industry.

Impact: decreased revenue and profit

How we manage it
- Establishment of dedicated customer-facing 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
- Development of manufacturing strategy for products in China while building relationships with Chinese aerospace customers

Strategic – Product demand

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

Impact: volatility in underlying profitability

How we manage it
- Monitoring external economic and commercial environment and long-lead indicators whilst maintaining focus on balanced portfolio
- Regularly communicating strategy to shareholders
- Maintaining sufficient headroom in committed bank facilities and against bank covenants whilst implementing appropriate cost-base contingency plans

Strategic – Technology strategy

Description and impact
Failure to develop and implement meaningful technology strategies to meet customers' needs.

Impact: restriction of ability to compete on new programmes with consequent decrease in revenue and profit

How we manage it
- Creation of technology roadmaps with customers and investment in applied research and technology
- Focus on technology during Group strategy process
- Recruiting first-class engineers with appropriate technology skills
- Ring-fenced budgets focused on longer-term technology developments

Strategic – Acquisition integration

Description and impact
Failure to integrate effectively acquisitions and realise expected financial returns in line with business case.

Impact: decreased revenue and profit

How we manage it
- Pre-acquisition due diligence performed internally and externally
- 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

Operational – Quality escape/equipment failure

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

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

How we manage it
- Implementation of well-developed verification, validation and system safety analysis 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 – Customer satisfaction

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

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

How we manage it
- 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

Operational – IT/systems failure

Description and impact
Prolonged lack of availability of critical systems such as SAP due to badly-executed implementation or change control; poor maintenance, business continuity or back-up procedures; failure of third-parties to meet service level agreements; or cyber attack including failure to protect IP or other sensitive information.

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

How we manage it
- Implementation of rolling programme of system upgrades (including SAP implementation) to replace legacy systems
- Ongoing implementation of IT security strategy and enhancement of IT security infrastructure, policies and procedures
- Establishment of Group-wide intellectual property protection programme
- Review of existing systems, third-party service providers and risks, including resilience and disaster recovery processes, undertaking mitigating action where appropriate
- Roll-out of deployment and architectural review processes

Operational – Supply chain

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

Impact: decreased revenue and profit, damage to reputation

How we manage it
- 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

Operational – Project/programme management

Description and impact
Failure to meet new product development programme milestones and certification requirements and successfully transition new products into manufacturing as production rates increase.

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

How we manage it
- Implementation of a programme lifecycle management process and engineering support applications, combined with enhanced internal review process to stress-test readiness to proceed at each stage of key programmes
- Implementation of improved technology readiness and bid approval diligence methodology
- Delivery of applied research and technology objectives in line with Group strategy
- Incremental improvement in performance following MPS implementation and re-organisation of programme management to increase capability and focus on delivery and governance
- Active participation in customer rate-readiness processes

Corporate – Legal and regulatory

Description and impact
Significant breach of increasingly complex trade compliance, bribery and corruption and ethics laws and violation of terms of Meggitt's 2013 Consent Agreement with 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 and continuing investment in other 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 external audits; and comprehensive ethics programme including training, anti-corruption policy, external audits and Ethics line

Financial – Taxation

Description and impact
Tax legislation is complex and compliance can be subject to interpretation. Legislation, including in response to the OECD BEPS programme, is subject to change which could negate the effectiveness of current, well-established, tax-efficient international structures used to finance acquisitions.

Impact: higher effective tax rates resulting in decreased profits

How we manage it
- 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

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
22 February 2016

D R Webb
Director
22 February 2016

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