

27 February 2018

## Meggitt PLC 2017 Full-year results

### Stronger H2 as expected; Good progress on strategy execution

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 audited results for the year ended 31 December 2017.

#### Group headlines

£m	2017	2016	% change		
			Reported	Organic <sup>1</sup>	
Orders	<b>2,082.6</b>	1,990.5	+5	+6	
Revenue	<b>2,027.3</b>	1,992.4	+2	+2	
Underlying <sup>2</sup>					
	EBITDA <sup>3</sup>	<b>505.8</b>	487.8	+4	+2
	Operating profit	<b>388.4</b>	379.7	+2	+1
	Profit before tax	<b>357.9</b>	352.1	+2	-1
	Earnings per share (p)	<b>35.3</b>	34.8	+1	
Statutory					
	Operating profit	<b>304.2</b>	233.7	+30	
	Profit before tax	<b>262.4</b>	195.5	+34	
	Earnings per share (p)	<b>45.2</b>	22.1	+105	
Free cash flow <sup>4</sup>	<b>186.0</b>	131.1	+42		
Net debt	<b>964.8</b>	1,179.1	-18		
Dividend (p)	<b>15.85</b>	15.10	+5		

#### Financial highlights

- Organic order growth of 6% underpins expectations for revenue growth in 2018; book to bill<sup>5</sup> of 1.03x including military of 1.08x.
- Organic revenue grew by 2%, with 4% growth in civil aerospace and 1% in military partly offset by continued weakness in energy.
- Underlying operating margin increased by 10 basis points to 19.2%, with the financial benefits from strategic initiatives including supply chain rationalisation and productivity improvements from the Meggitt Production System offsetting headwinds from mix and depreciation & amortisation together with growth in new product introduction costs at Meggitt Polymers & Composites.
- Statutory profit before tax increased by £67m to £262m benefiting from the marking to market of financial instruments, principally currency hedges, and a net gain on sale from divestments; partly offset by programme impairments related to the cancellation of the Dassault Falcon 5X.
- Effective underlying tax rate of 24%, is expected to reduce to 21% in 2018 as a result of the US Tax Cuts and Jobs Act, which also gave rise to a £123m exceptional gain on the revaluation of US deferred tax net liabilities in 2017.
- Free cash flow increased by 42% to £186m, contributing to a further reduction in net debt:EBITDA<sup>6</sup> which is now well within our target range at 1.9x.
- Recommended final dividend of 10.80p giving a full year dividend of 15.85p, an increase of 5%.

<sup>1</sup> Organic numbers exclude the impact of acquisitions, disposals and foreign exchange.

<sup>2</sup> Underlying profit and EPS are used by the Board to measure the trading performance of the Group as set out in notes 5 and 11.

<sup>3</sup> Underlying EBITDA represents underlying operating profit adjusted to add back depreciation, amortisation and impairment losses.

<sup>4</sup> Free cash flow as set out in note 24.

<sup>5</sup> The ratio of orders received to revenue recognised in a period.

<sup>6</sup> Net debt:EBITDA calculated on a covenant basis.

## Operational highlights

- Good progress on strategic initiatives during the year has contributed to margin and cash improvement and provided a strong foundation for further growth:
  - Focus on inventory reduction through the Meggitt Production System (“MPS”), delivered initial results with a 0.13x improvement in gross inventory turns and £16m of cash released.
  - More centralised approach to purchasing delivered a 1% net saving on purchased costs.
  - Good progress on site rationalisation, including a plan to consolidate a range of engineering, manufacturing and support operations into a new site at Ansty Park, UK.
  - Additional content on volume programmes secured in H2, including contracts to supply sensors and actuators for the A320neo, line-fit composite radomes for Embraer E2; and replacement fuel tanks for the F/A-18.
  - Focused the portfolio with the sale of four non-core businesses completed in the 14 months to February 2018 and a further divestment due to complete in March 2018.

## Tony Wood, Chief Executive, commented:

*“2017 trading was in line with our expectations with the stronger second half contributing to good organic growth across the Group, a 10 basis point improvement in margin and 42% growth in free cash flow. Following organic order growth of 6% in 2017, we expect these trends to continue into 2018, with expected revenue growth of 2% to 4% and continued operating margin improvement, prior to the impact of new accounting standards.*

*During 2017, we have made further progress on our operational improvement priorities which underpin our medium term targets for cash and margin improvement. We have continued to deploy the Meggitt Production System across the Group and a focus on inventory has contributed to improved cash performance. We have delivered initial savings from our supply chain initiative and made good progress in executing our footprint strategy, most notably with the announced plans to move four of our current UK operations to a single site at Ansty Park, Rugby. We took important steps to strengthen the alignment of our portfolio with the sale of four non-core businesses completed by February 2018 and a further divestment expected to complete in March 2018.*

*This progress, together with a series of new contract awards, means we are well positioned to further accelerate growth over the medium term. Reflecting this continuing confidence in the prospects for the Group, the proposed final dividend is 10.80p giving a full year dividend of 15.85p, an increase of 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 69,000 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 span a broad range of products and capabilities. This has enabled us to increase our content by up to 250% on the new civil aerospace programmes which have recently entered service.

Significant increases in our content on new aircraft have driven our research and development ('R&D') and new product introduction ('NPI') costs to record levels but we are now beyond the peak of R&D spend and will soon pass the peak of NPI costs. This represents a major refresh of our in-service portfolio and provides a strong platform for revenue growth. Having passed the development peak we are now focused on operational execution and have outlined four strategic priorities to accelerate growth and improve return on capital employed. These priorities are: Portfolio, Customers, Competitiveness and Culture.

### **Portfolio**

We will focus investment in attractive markets where we have or can develop a leading position. This encompasses organic investment in differentiated product and manufacturing technologies; targeted, value enhancing acquisitions; and selective non-core business disposals.

Over the past 12 months, we have made excellent progress in focusing the portfolio, reaching agreement to sell a further five non-core businesses following the sale of Meggitt Target Systems in December 2016. Each of these businesses had limited synergies with the wider Group and were dilutive to our medium term growth and margin targets. In June 2017, we completed the sale of Meggitt Maryland, Piezo Technologies and Piher to Amphenol Corporation ('Amphenol'). In November 2017, we signed an agreement to sell the precision engineering provider, Thomson Aerospace & Defense ('Thomson') to Umbra Cuscinetti S.p.A. ('Umbra') which is subject to customary regulatory approvals and is expected to complete in March. In January 2018, we completed the sale of Aviation Mobility to Smart Carte Inc. Aggregate 2017 revenue from these businesses was £54m and the gross proceeds from disposal will be £95m.

We have also continued to invest in innovative new technologies that will sustain our growth in market share on future aircraft platforms. During 2017, we made good progress as part of our centrally-managed applied research and technology programme, including our ground-breaking research into advanced aerospace thermal systems for ultra-high bypass ratio engines which secured a UK Government grant of £3.7 million in November 2017.

### **Customers**

We continue to focus on delivery, quality and improvements in customer service and support to increase customer satisfaction throughout the product lifecycle. We are also increasing the depth of our relationships with major customers through expanding the scope of products and services we provide and securing long term agreements.

During 2017, we have expanded our content on key growth platforms with a number of contract wins on new and existing programmes including the Airbus A320neo and A321neo, Boeing 777X, Comac C919 and Embraer E2 aircraft.

The dual source contract to provide an alternative braking system for the A321neo is a strategically significant contract for Meggitt. It reinforces our capability in the large jet market, after the entry into service of the Bombardier CSeries in 2016 equipped with our Ebrake® technology, the industry's second fully electric braking system, and NuCarb® carbon friction material.

Order intake in military was also good, including contracts for our system of record small arms training systems, replacement fuel tanks for the F/A-18 and environmental control systems for the M1 Abrams.

We continued to drive growth in the aftermarket, particularly in the Asia Pacific region where revenue at our regional hub grew by 24% in 2017. We secured a number of long term agreements with regional

customers including Vietjet, IHI and Comac which will underpin further growth in 2018. We have also made good progress in rationalising our distributors. We enhanced our capability to provide maintenance, repair and overhaul of parts in the US with the acquisition of Elite Aerospace in March 2017.

## **Competitiveness**

We remain focused on making our operational performance a key competitive strength. This includes the continued deployment of the Meggitt Production System ('MPS'), our global approach to continuous improvement, together with initiatives to reduce purchased costs through supply chain consolidation and reduce our factory footprint by 20% by 2021.

During 2017, we built momentum in reducing inventories and improving productivity as sites mature through the phases of MPS. We achieved initial improvements in gross inventory turns which increased from 2.30x to 2.43x to deliver incremental cash of £16m. Productivity improvements at sites helped to offset continued margin headwinds from mix and depreciation & amortisation. Margin was enhanced by reductions in purchased costs, achieved through a central approach to supply chain management which delivered a net 1% reduction year on year in direct purchased costs.

Initial financial improvements from our competitiveness priorities were partly offset by some challenges in operational performance, particularly at Meggitt Polymers and Composites. Slower than anticipated ramp up on new programmes at MPC added to new product introduction costs due to the extensive range of new parts we have on volume platforms such as the Pratt & Whitney PurePower and CFM International Leap engine programmes. To address these operational challenges we have implemented a series of management changes, increased our investment in critical capabilities such as programme management and taken steps to increase capacity in our low cost facilities in Mexico to enable the transfer of manufacturing when parts are fully industrialised.

We made further progress in rationalising our factory footprint with a net reduction of three manufacturing sites during the year. We closed one site in Corona, California, exited three sites as part of our divestments and acquired one site with the acquisition of Elite Aerospace in March 2017. We plan to consolidate Elite into our existing Miami aftermarket hub in 2018. At the same time we expanded our factories in low cost regions, including an investment to double capacity at our facility in Vietnam due to open in 2018. We have also announced our proposals to consolidate a range of manufacturing, engineering and support operations into a single centre of excellence at a new site at Ansty Park, Rugby UK.

Moving more work into larger, more capable sites is a key component of our site rationalisation strategy. It provides attractive opportunities for return on investment as such projects enable us to eliminate some of the fixed costs required to run individual aerospace sites whilst supporting investment in state of the art equipment that will increase efficiency and improve customer service delivery. The £130 million investment in Ansty Park, which is being developed with partners, is central to this strategy. Subject to concluding consultation and receiving the required planning approvals, construction is due to commence in 2018 with the site opening in late 2019.

## **Culture**

We are focused on building and nurturing a high performance culture where our ambitious and diverse teams act with integrity and help us to accelerate strategy execution. During 2017, we launched a culture change programme, which has now been deployed to over 800 of our leaders which aims to foster more effective collaboration and teamwork across the Group. This is directly addressing a number of improvement opportunities and existing strengths identified by an employee engagement study. Our Executive Committee has been refreshed, with a third of our Executive Committee appointed to new or expanded roles during the year and a further 25% new to the Group.

Taken together, progress on these priorities will play a critical role in enabling the Group to meet its medium term targets for margin improvement and increased inventory turns and to accelerate revenue growth and return on capital employed.

## HEADLINE FINANCIALS

Organic order growth of 6% reflects good performance, including multi-year orders, across all key market segments. Civil aftermarket (AM) orders grew by 10%, civil original equipment (OE) by 4%, military by 4% and energy by 13%, supporting a positive outlook for near term revenue growth. Group book to bill was encouraging at 1.03, particularly in military where strong demand for aftermarket parts contributed to a book to bill of 1.08.

Reported Group revenue of £2,027.3m (2016: £1,992.4m) increased by 2% as analysed in the table below:

	£m	% impact
2016 Revenue	1,992.4	
Currency movements	51.5	+3
Acquisitions and disposals	(46.3)	-2
Organic growth	29.7	+2
<b>2017 Revenue</b>	<b>2,027.3</b>	<b>+2</b>

Currency movements primarily reflect the weakness of sterling against the US dollar in the first half, which partly reversed in the second half. Acquisitions and disposals relates to the net impact of the disposals of Meggitt Target Systems (sold in December 2016) and Meggitt Maryland, Piezo Technologies and Piher (sold in June 2017), partly offset by the acquisition of Elite Aerospace (acquired in March 2017). Organic growth of 2% is a result of 4% growth in civil aerospace and 1% growth in military revenue partly offset by a decline in energy.

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

Underlying net finance costs increased to £30.5m (2016: £27.6m) reflecting principally the full year impact of holding a greater proportion of debt at fixed rates.

Underlying profit before tax was £357.9m (2016: £352.1m) and the underlying tax rate was 23.7% (2016: 23.5%). Our guidance for 2018 is for a significant reduction in the Group tax rate to around 21% driven mainly by the US tax reforms enacted at the end of 2017. This reduced rate reflects the impact of the reduction in the US federal rate from 35% to 21%, partially offset by the elimination of the domestic production deduction and the tightening of the interest deduction limitation. Looking further out, our rate will likely drift higher within the 20-22% range as the impact of the Base Erosion and Profit Shifting project (the "BEPS project") continues to increase our tax expense outside the US.

Underlying earnings per share increased by 1% to 35.3p (2016: 34.8p).

On a statutory basis, operating profit for the year increased by 30% to £304.2m (2016: £233.7m) and profit before tax increased by 34% to £262.4m (2016: £195.5m). Statutory profit includes the £58.6m non cash gain (2016: loss of £66.4m), from the marking to market of financial instruments, principally currency hedges, against future transaction exposures as well as the £25.3m net gain (2016: gain of £39.1m) from disposals completed or agreed during the year.

The increase in statutory profit was offset by a £59.5m non-cash impairment charge (2016: £nil) related to the cancellation of the Falcon 5X programme which was announced by Dassault in December 2017, a programme on which Meggitt had been selected to provide a complex braking system, amongst other components. Dassault has announced its intention to launch a successor programme which would be powered by an alternative engine and feature the same cross section as the 5X. The replacement programme is expected to re-use a maximum of the development work undertaken to date and as such, we are hopeful that Meggitt will be selected to provide its braking system. However, as described in note 6, a significant level of uncertainty remains and it is not

possible to reliably estimate the extent to which any of the costs incurred to date will be recoverable and accordingly a full impairment loss has been recognised against all balances on the programme. In addition, given the significant reduction in demand for the Silvercrest engine which had been selected to power the Falcon 5X, we have also had to impair our investment in developing a range of controls for this engine.

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

Statutory earnings per share increased to 45.2p (2016: 22.1p), driven by the increase in profit after tax. The statutory adjustments between underlying and statutory profit are described in notes 5 and 11.

The 5% increase in the recommended final dividend to 10.80p (2016: 10.30p) gives a full year dividend of 15.85p (2016: 15.10p), an overall increase of 5%. This reflects our on-going confidence in the outlook for the Group and our commitment to a progressive dividend. The full year dividend will be paid on 4 May to shareholders on the register on the record date, 23 March 2018.

Free cash flow increased by 42% to £186.0m (2016: £131.1m) due to a lower working capital outflow of £18.6m (2016: £57.0m) as a result of a £16.3m reduction in inventory offset by an increase in receivables. There was a 17% reduction in capitalised development costs (down to £57.7m), as we came off the peak of new product development activity, offset by an increase in capital expenditure to £78.4m (2016: £65.5m) to support the associated production increases, site consolidation initiatives and compliance with DoD cyber security requirements.

The net cash inflow of £108.8m (2016: inflow of £77.9m) after dividend payments, includes the £64.3m net proceeds from the sales of Meggitt Maryland, Piezo Technologies and Piher, offset by the acquisition of Elite Aerospace.

There are two main financial covenants in our financing agreements. The net debt:EBITDA ratio, which must not exceed 3.5x, was at 1.9x at 31 December 2017 (2016: 2.1x) and interest cover, which must be not less than 3.0x, was 13.6x (2016: 14.5x). Therefore the Group has significant headroom against both key covenant ratios, and net debt:EBITDA is comfortably within our target range of 1.5x to 2.5x. The covenants are measured on a frozen GAAP basis. The Group has £331.4m of undrawn headroom against committed bank facilities, after taking account of surplus cash.

From January 2018, the Group will adopt two new accounting standards issued by the International Accounting Standard Board. IFRS 15 establishes principles for reporting the nature, amount and timing of revenue arising from contracts with customers. Areas of revenue recognition affected by the new standard include power by the hour and cost per brake landing contracts, those for which contract accounting is currently applied and funded R&D contracts. Fortunately, more than 90% of our revenue is derived from the sale of goods where we already recognise revenue when we ship product and this will not change significantly under the new standard. Overall we estimate that the impact of adopting IFRS 15 would have been to reduce revenue reported for 2017 by £30.5m and underlying operating profit by £32.7m. Of the estimated reduction in profit, £22.9m arises from the previously highlighted new requirement for us to charge programme participation costs relating to free of charge hardware to the income statement as incurred rather than capitalise and amortise. The impact of the estimated IFRS 15 changes would result in a restated 2017 earnings per share of 32.0p.

The cash costs associated with the provision of free of charge hardware grew by 4% organically in 2017 and is expected to increase significantly over the medium term as a result of increased deliveries on platforms where we have large free of charge shipsets. One such example is the Bombardier CSeries which is equipped with our braking system, where deliveries are forecast to grow by 135% in 2018. As a result, we expect expensed free of charge costs to be dilutive to margin over the next few years. However, growth in free of charge hardware will drive good growth in future aftermarket revenue and attractive returns, given the typical 18 to 24 month replacement cycle for brakes fitted to a high utilisation commercial aircraft.

The Group also intends to early adopt IFRS 16, which requires the recognition of operating leases on the Group's balance sheet. We currently estimate IFRS 16 will result in £90.0m of additional assets, primarily in relation to property leases, being recognised together with a corresponding lease liability. The existing operating lease rental expense in the income statement will be replaced by a depreciation charge for these assets and an interest charge on the lease liability. The impact on the income statement will not be significant.

The changes resulting from the adoption of IFRS 15 and 16 will have no impact on the underlying cash flows of the Group.

## TRADING SUMMARY

	Revenue		Growth	
	2017 £m	2016 £m	Reported %	Organic %
Civil OE	456	432	+6	+3
Civil AM	632	577	+10	+6
<b>Total civil aerospace</b>	<b>1,088</b>	<b>1,009</b>	<b>+8</b>	<b>+4</b>
Military	690	697	-1	+1
Energy	124	138	-10	-8
Other	125	148	-16	-6
<b>Total</b>	<b>2,027</b>	<b>1,992</b>	<b>+2</b>	<b>+2</b>

### 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 22,000 aircraft, the regional aircraft fleet over 6,000 and business jets around 19,000. The Group has products on virtually all these platforms and hence a very large, and growing, installed base. The split of civil revenue, which accounts for 54% of the Group total, is 58% aftermarket and 42% original equipment (OE).

Civil OE revenue grew 3% organically. Large jet OE, the most significant driver of our OE revenue, grew 8% driven principally by growth in Airbus A320neo, A350XWB and Bombardier CSeries platforms. In addition, we saw particularly strong demand for composite radomes for inflight connectivity as our customer sought to build stock ahead of anticipated deliveries in 2018. Strong growth in large jet OE was offset by declining revenue in both regional jets (down 6%) and business jets (down 12%).

Civil aftermarket revenue grew organically by 6%, within which large jets grew by 8%, driven by Boeing 737, 747 and 787. Business jets also grew with revenue up 7% for the year, as a result of good growth in Gulfstream G-IV and G-V and Hawker 400/450. Flat revenue in regional jet aftermarket reflected a strong recovery in the second half, after destocking on Bombardier CRJ aircraft and lower demand for smaller regional aircraft which led to a 7% decline in the first half.

Overall civil aerospace revenue increased by 4% organically.

Deliveries of large jets by Airbus, Boeing, Bombardier, Comac and Irkut are underpinned by a firm order backlog extending over a number of years, which together with increased shipset content, gives us confidence in the growth outlook for OE revenue. The rate of growth in large jet deliveries is expected to average 5.3% by 2021. Deliveries of regional aircraft are expected to continue declining until 2019 after which we expect a modest recovery. Deliveries of business jets are set to grow gradually to 2020, before starting to decline.

Air traffic, measured in available seat kilometres (ASKs) is a key driver of demand for spares and repairs on large and regional aircraft. ASKs grew 6.3% globally in 2017, which is above the long-term trend rate of 5%. Industry forecasts for air traffic continue to grow at or above the trend rate in the medium term. Business jet utilisation in the US and Europe grew modestly in 2017 but our higher

value content and growing market share should continue to drive revenue growth over the medium term, even in this subdued market environment.

## **Military**

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

Military revenue was up 1% organically, with a modest improvement in demand in the second half after flat revenue for the first six months. Original equipment revenue grew by 3%, with strong growth in training systems and parts for the F-35 Joint Strike Fighter and P-8 Poseidon offsetting declining revenue on Eurofighter, F-16 Falcon and Apache. Aftermarket revenue (which accounts for 42% of total military revenue) declined by 3% as a result of lower demand for fighter jet spares, particularly on the Typhoon, F-15, F-16 and Gripen. These were partly offset by growth on F-35 as well as increased demand for helicopter spares, particularly on the Apache and V-22 Osprey platforms.

The outlook for defence expenditure in the US, our single most important military market, remains healthy. Military budgets increased during 2017 for the first time in several years, and there remains significant opportunity for retrofit and reset activity – such as a contract won in 2017, to provide replacement fuel tanks for the F/A-18 fleet, much of which has been awaiting maintenance following deployment in theatre. Growth in defence spending in the US is expected to continue given the significant increases in the proposed budget for 2018 and 2019. This, together with organic order growth of 4% and a book to bill ratio of 1.08 in 2017, supports stronger revenue growth in 2018.

## **Energy and other**

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

Energy revenue declined organically by 8% in 2017, including a 21% decline at Heatric (our printed circuit heat exchanger business) compared to 2016 when it completed the last of its significant contracts to support large capital projects in offshore gas. Organic revenue in power generation segments also declined during the year (down 5%), driven by lower demand for industrial gas turbines.

Organic order growth of 13% during 2017 suggests an improving outlook for our energy markets. In particular, Heatric delivered organic order growth of 80% in 2017 and grew revenue during the three months to 31 December 2017, its first quarter of year on year growth since Q1 2014.

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



## OPERATIONAL PERFORMANCE

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

£m		Revenue			Underlying Operating Profit				
2017	2016 <sup>7</sup>	% Growth Reported	% Growth Organic		2017	2016 <sup>7</sup>	% Growth Reported	% Growth Organic	
386.7	386.0	0	-2	Aircraft Braking Systems	147.7	140.3	+5	+3	
526.4	486.1	+8	+4	Control Systems	123.7	119.2	+4	0	
337.3	329.7	+2	0	Polymers & Composites	24.0	39.5	-39	-39	
514.8	519.2	-1	-1	Sensing Systems	71.4	71.3	0	-6	
262.1	271.4	-3	+12	Equipment Group	21.6	9.4	+130	+1,200	
<b>2,027.3</b>	<b>1,992.4</b>	<b>+2</b>	<b>+2</b>	<b>Group</b>	<b>388.4</b>	<b>379.7</b>	<b>+2</b>	<b>+1</b>	

**Meggitt Aircraft Braking Systems (MABS)** provides wheels, brakes and brake control systems for around 35,000 in-service aircraft. It continues to develop innovative technology for new programmes enabling the business to retain its leading position in its target markets, underscored by the strong market share gains in recent years, notably on super mid-size and long range business jets. In 2017 it has secured a dual source contract to provide an alternative braking system for the A321neo which will help accelerate growth in future years. The division represents 19% of Group revenue, generating 90% of its revenue from the aftermarket and 10% from OE.

MABS civil revenue was flat organically, with 2% growth in civil aftermarket driven by good growth in business jets, particularly Gulfstream platforms, and a steady recovery during the year in regional jet spares, where strong growth on Embraer E170 and E190 regional jets offset some de-stocking on Bombardier CRJ aircraft in the first half and lower demand on smaller aircraft. OE revenue declined by 21%, reflecting lower demand for brake control units across a range of regional and business jet programmes and for torque tubes on the A380.

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

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

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

Revenue was up by 4% organically. Civil aerospace grew by 9%, with good growth in OE, driven by particularly strong deliveries on Airbus A320neo, and aftermarket, which benefitted from strong demand for spares and repairs on Boeing 787, 737 and Airbus A340 aircraft. Military revenue declined by 14% driven by lower demand on fighter jets, particularly F-15 and F-16. Energy revenue increased by 2% driven by modest growth in small frame industrial gas turbine valves. Operating margin declined from 24.5% to 23.5%, reflecting unfavourable revenue mix and continued investment to drive growth in our CSS organisation.

In January 2018, we sold Aviation Mobility to Smart Carte Inc. for £10m. Aviation Mobility provides a range of repair and overhaul services for wheelchairs and associated airport safety equipment and generated £3.5m of revenue in 2017.

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

<sup>7</sup> Restated for the changes in divisional structure described in note 4.

MPC represents 17% of Group revenue and generated 65% of its revenue from OE and 35% from the aftermarket.

On an organic basis, MPC revenue was flat in 2017. Civil revenue grew by 9%, with good growth on narrowbody large jets where we have significant composites content, including a range of engine components and radomes for inflight connectivity (on platforms including Airbus A320neo and Boeing 737) offset by lower demand for widebodies (including Airbus A350XWB and A380, Boeing 787 and 777). In contrast, military revenue declined by 2%, with declining revenue on KC-135, Typhoon and Apache, only partly offset by good growth on F-35, V-22 and F/A-18.

Growth in orders was strong across all major market segments in MPC. In civil aerospace, orders grew by 11% organically, reflecting strong competitive positions on high volume dual source engine programmes. Military orders grew by 23%, reflecting particularly strong aftermarket demand including a £52m multi-year contract to provide replacement fuel tanks for F/A-18.

Operating margin decreased from 12.0% to 7.1% reflecting an increase in new product introduction costs on new programmes and lower than anticipated growth in civil OE which compromised our ability to fully industrialise a broad volume of new parts. To address these operational challenges we have implemented a series of management changes, increased our investment in critical capabilities such as programme management and taken steps to increase capacity in our low cost facilities in Mexico to enable the transfer of manufacturing when parts are fully industrialised. Increasing build rates, and the changes we have made in 2017, will enable us to improve margin performance in 2018.

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

**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, 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 25% of Group revenue and generated 76% of its revenue from OE and 24% from the aftermarket.

MSS revenue declined by 1% organically, with 2% growth in civil aerospace driven by aftermarket revenue, as a result of increased demand for Boeing 747 and 787 spares. Military revenue declined by 1%, with growth in spares for fighter and trainer aircraft offset by declining OE revenue on fighter jets, particularly Typhoon and F/A-18. In energy and other markets (including test and measurement, industrial and medical), MSS revenue decreased organically by 8%.

Operating margin increased from 13.7% to 13.9% reflecting favourable mix and good cost management.

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

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

MEG revenue grew by 12% organically, reflecting good growth in military as a result of strong demand for its system of record, small arms training systems. In energy, revenue decreased by 22%, driven by Heatric which in 2016 completed the last of its significant contracts to support large capital projects in offshore gas. This was partly offset by good growth in demand in other adjacent markets. Heatric, as expected, grew strongly in the final quarter and orders grew by 80% during the year,

supporting the expectation of a continued recovery in its core oil and gas market. Operating margin increased from 3.5% to 8.2% driven by improving profitability in Training Systems as a result of the good revenue growth and a breakeven performance at Heatric.

In June 2017, we completed the sale of three non-core industrial businesses, including a MEG unit, Piher. In the first half prior to the sale to Amphenol, Piher generated £11.4m of revenue. We have also agreed the sale of Thomson to Umbra which is expected to complete in March 2018. Thomson generated £24.8m of revenue during 2017.

## INVESTING FOR THE FUTURE

£m	2017	2016	% change	
			Reported	Organic
Total research and development (R&D)	<b>153.7</b>	157.8	-3	-2
<i>Of which:</i> Customer funded	<b>36.1</b>	31.7	+14	+11
Capitalised	<b>61.3</b>	72.4	-15	-17
Charge to net operating costs <sup>8</sup>	<b>79.3</b>	71.0	+12	+16
Programme participation costs	<b>60.3</b>	57.9	+4	+2
Capital expenditure	<b>78.4</b>	65.5	+20	+16

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

Reduced spend on capitalised R&D (down 17% organically) reflects the continued progress made on development programmes for new aircraft platforms including the 737MAX which entered service in 2017. As more programmes, particularly business jets, enter into service over the next few years, we expect R&D to reduce further as a percentage of revenue. The new product introduction expenditure associated with these platforms will start to reduce in 2018. This reflects the increased content we have secured on a wide range of new platforms, which is good for future revenue, but the cost of introducing record numbers of new parts impacts profitability in the short term. We continue to expect growth in expensed R&D relating to our successful applied research and technology (AR&T) programmes, which will develop the next generation products and manufacturing technologies required to enable future aircraft programmes. Customer funded R&D will also continue to increase given our success in securing customer funded development programmes and grants to support AR&T activity, such as the £3.7m award to support research into advanced thermal systems for ultra-high bypass ratio engines.

Our investment in programme participation costs for the supply of equipment free of charge to new aircraft, mostly in MABS, increased by 4% organically. This reflects growth in new platforms where we have strong positions, particularly the Bombardier C Series. Growth is expected to increase significantly in 2018, and beyond, as deliveries of aircraft equipped with our wheels and brakes increase rapidly. This will be dilutive to margin, given the requirement to expense free of charge shipsets under IFRS 15, but the typical 18 to 24 month replacement cycle for brakes on a high utilisation commercial aircraft, results in steady aftermarket revenue over the life of the aircraft.

Capital expenditure on property, plant and equipment and intangible assets was £78.4m (2016: £65.5m). This includes the investment required to support factory consolidations and the expansion of activity in Vietnam, Mexico, San Diego and North Hollywood. It also includes investment in software which increased in 2017 reflecting the need to comply with US DoD requirements for suppliers to meet higher standards for cyber security. Capital expenditure will increase further in

<sup>8</sup> Excluding impairment of the Dassault Falcon 5X and Silvercrest programmes.

2018, as we accelerate plans to consolidate the Group's manufacturing footprint, including initial investments at the Ansty Park site and completion of current construction and fit out projects to increase capacity in our existing estate.

## FOREIGN EXCHANGE

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

The sensitivity of revenue and underlying PBT to future exchange rate translation movements, when compared to the 2017 average rates, is shown in the table below:

	2017 average rate	Revenue £'m	Underlying PBT £'m
<i>Impact of 10 cent movement</i>			
US Dollar	1.30	110	19
Euro	1.14	12	2
Swiss Franc	1.28	10	3

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

We typically hedge transaction exposure and the following table details hedging currently in place:

	Hedging in place <sup>1</sup> %	Average transaction Rates <sup>2</sup>
2017		
US Dollar/Sterling		1.47
US Dollar/Euro		1.19
US Dollar/Swiss Franc		1.06
2018		
US Dollar/Sterling	100	1.43
US Dollar/Euro	80	1.20
US Dollar/Swiss Franc	76	1.07
2019 – 2022 inclusive		
US Dollar/Sterling	46	1.40
US Dollar/Euro	39	1.23
US Dollar/Swiss Franc	14	1.08

<sup>1</sup> Based on forecast transaction exposures.

<sup>2</sup> Hedging in place with unhedged exposures based on exchange rates at 31 December 2017.

Taking both translation and transaction benefit into account, 2017 reported revenue increased by £51.5m and underlying PBT increased by £14.2m.

## RETIREMENT BENEFIT SCHEMES

The Group's principal retirement benefit schemes are in the UK and US and are closed to new members. Total deficits decreased to £308.1m (2016: £414.7m). The main drivers of the reduction in net deficit included a reduction of £56.8m (2016: £72.4m) due to gains on scheme assets, driven by a strong performance across most asset classes, but particularly from equities, and net deficit reduction payments of £33.5m (2016: £35.0m).

In determining the present value of the schemes' defined benefit obligations, assumptions are made as to the life expectancy of members during employment and in retirement. To the extent life expectancy exceeds these estimates, the retirement benefit obligations recognised in the consolidated financial statements would increase. During 2017, a lump sum offer was made to certain former employees of the US funded schemes and £11.4m was paid by the schemes to settle those liabilities. Additionally, the Swiss scheme agreed changes to the rates at which benefits are payable. These two changes, which reduce the Group's exposure to longevity risk in those schemes, resulted in a past service credit of £7.1m.

## BOARD AND SENIOR MANAGEMENT CHANGES

In November 2017, we announced that Stephen Young would step down as Chief Executive and as a Director and would be succeeded by Tony Wood from 1 January 2018, before Stephen retires in April 2018. Tony joined Meggitt in December 2016 as Group Chief Operating Officer, bringing extensive experience in civil aerospace and defence, from senior leadership positions at Rolls-Royce and Messier-Dowty. He has successfully run aftermarket businesses, consolidated production across sites, introduced continuous improvement systems and played a key role over the past year in accelerating the pace of our strategy execution and ensuring we continue to deliver on commitments to our customers.

Brenda Reichelderfer retired from her position as Non-Executive Director on 27 April 2017 and was replaced by Nancy Gioia. Nancy, a US citizen and electrical engineer, joined Ford Motor Company in 1982 and worked in a number of senior roles across engineering and operations before retiring from Ford in 2014. Nancy is currently a non-executive at Exelon Corporation and Brady Corporation.

## GROUP OUTLOOK

The outlook for our civil markets continues to be encouraging. Production of large jets is expected to continue to grow, and the increased shipset values we enjoy on the latest generation of aircraft support organic civil OE revenue growth over the medium term ahead of overall market growth. In 2018, we expect civil OE revenue to grow organically by 2 to 4%.

Available seat kilometres, an important driver of our large and regional jet aftermarket, continue to grow above the long-term trend of 5% per annum. This, combined with the continued benefit from our CSS organisation and expanded content on new aircraft, means that we should outgrow the market for civil spares in the medium term. In 2018, we expect organic civil aftermarket revenue growth of 3 to 5%.

In military markets the medium-term outlook is positive, particularly in our largest market the US, which accounts for 71% of revenue. Our strong technology offering and broad platform exposure should enable us to outgrow the market over the medium term. In 2018, we expect to grow organic revenue by 3 to 5%.

The outlook in our energy markets is improving, particularly at Heatric where organic order intake growth of 80% and revenue growth momentum achieved in the fourth quarter support a more positive outlook in 2018 compared to prior years. This improving outlook for energy is likely to be offset by continued low demand for industrial gas turbines, particularly in the large frame sub-segment and as a result, we expect organic energy growth in 2018 of 0 to 5%.

On the basis of the above, the Group expects organic revenue growth of 2 to 4% in 2018 (i.e. after excluding divestments from base revenue in 2017).

In terms of margin, we have made good progress in 2017, delivering a 10 basis point improvement despite continued headwinds from mix, new product introduction costs and depreciation & amortisation. Under IFRS 15 underlying operating margins would have been 17.9%.

In 2018, we expect the financial benefits from our strategic initiatives to continue contributing to margin improvement but that these will be offset by the impact of the rapid growth anticipated in free of charge shipsets which will now be expensed under IFRS 15. On previous accounting, the Group expects underlying operating margin would have grown by 10 to 40 basis points. Under IFRS 15, an estimated 30 basis point headwind from the accelerated growth of free of charge shipsets will reduce this guidance range as highlighted in the table below.

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

	2018	2021 <sup>9</sup>
Underlying operating margin guidance (pre-IFRS 15)	+10 to +40 bps	+200 to +250 bps
Estimated impact of growth in FoC shipsets	(30) bps	~(60) bps
Underlying operating margin guidance (post IFRS 15)	(20) to +10 bps	>200 bps

<sup>9</sup> Medium term targets compared to 2016 baseline (19.1% underlying operating margin) as outlined in February 2017

## Consolidated income statement

For the year ended 31 December 2017

	Notes	2017 £'m	2016 £'m
<b>Revenue</b>	3	<b>2,027.3</b>	1,992.4
Cost of sales		<b>(1,234.0)</b>	(1,217.2)
<b>Gross profit</b>		<b>793.3</b>	775.2
Net operating costs		<b>(489.1)</b>	(541.5)
<b>Operating profit<sup>1</sup></b>	5	<b>304.2</b>	233.7
Finance income	8	<b>1.4</b>	2.0
Finance costs	9	<b>(43.2)</b>	(40.2)
Net finance costs		<b>(41.8)</b>	(38.2)
<b>Profit before tax<sup>2</sup></b>		<b>262.4</b>	195.5
Tax credit/(charge)		<b>87.6</b>	(24.3)
<b>Profit for the year attributable to equity owners of the Company</b>		<b>350.0</b>	171.2
Earnings per share:			
Basic <sup>3</sup>	11	<b>45.2p</b>	22.1p
Diluted <sup>4</sup>		<b>44.3p</b>	21.8p

<sup>1</sup> Underlying operating profit	5	<b>388.4</b>	379.7
<sup>2</sup> Underlying profit before tax	5	<b>357.9</b>	352.1
<sup>3</sup> Underlying basic earnings per share	11	<b>35.3p</b>	34.8p
<sup>4</sup> Underlying diluted earnings per share	11	<b>34.6p</b>	34.3p

## Consolidated statement of comprehensive income

For the year ended 31 December 2017

	Notes	2017 £'m	2016 £'m
<b>Profit for the year attributable to equity owners of the Company</b>		<b>350.0</b>	171.2
<b>Items that may be reclassified to the income statement in subsequent periods:</b>			
Currency translation movements		(161.6)	312.1
Cash flow hedge movements		(0.2)	(0.2)
Tax effect		(2.8)	(3.6)
	28	<u>(164.6)</u>	<u>308.3</u>
<b>Items that will not be reclassified to the income statement in subsequent periods:</b>			
Remeasurement of retirement benefit obligations	20	66.6	(120.7)
Tax effect		(27.1)	20.1
		<u>39.5</u>	<u>(100.6)</u>
<b>Other comprehensive (expense)/income for the year</b>		<u>(125.1)</u>	<u>207.7</u>
<b>Total comprehensive income for the year attributable to equity owners of the Company</b>		<u><u>224.9</u></u>	<u><u>378.9</u></u>



# Consolidated balance sheet

At 31 December 2017

	Notes	2017 £'m	2016 £'m
<b>Non-current assets</b>			
Goodwill	14	1,947.0	2,095.7
Development costs	14	482.3	533.5
Programme participation costs	14	332.1	333.5
Other intangible assets	14	672.1	817.6
Property, plant and equipment	15	322.9	336.9
Investments	16	13.6	14.8
Trade and other receivables		39.2	58.4
Derivative financial instruments	18	28.5	21.8
Deferred tax assets		11.5	15.9
		<b>3,849.2</b>	<b>4,228.1</b>
<b>Current assets</b>			
Inventories		404.1	468.5
Trade and other receivables		437.1	434.5
Derivative financial instruments	18	3.6	4.2
Current tax recoverable		4.3	4.4
Cash and cash equivalents	25	118.5	173.8
Assets classified as held for sale	17	9.7	-
		<b>977.3</b>	<b>1,085.4</b>
<b>Total assets</b>	4	<b>4,826.5</b>	<b>5,313.5</b>
<b>Current liabilities</b>			
Trade and other payables		(445.5)	(464.0)
Derivative financial instruments	18	(17.3)	(31.2)
Current tax liabilities		(39.6)	(35.6)
Obligations under finance leases	25	(0.1)	(0.1)
Bank and other borrowings	25	(71.4)	(175.7)
Provisions	19	(64.2)	(53.6)
Liabilities directly associated with assets classified as held for sale	17	(7.8)	-
		<b>(645.9)</b>	<b>(760.2)</b>
<b>Net current assets</b>		<b>331.4</b>	<b>325.2</b>
<b>Non-current liabilities</b>			
Trade and other payables		(5.5)	(5.0)
Derivative financial instruments	18	(14.6)	(45.7)
Deferred tax liabilities		(201.7)	(322.6)
Obligations under finance leases	25	(6.0)	(6.5)
Bank and other borrowings	25	(1,005.8)	(1,170.6)
Provisions	19	(82.5)	(131.8)
Retirement benefit obligations	20	(308.1)	(414.7)
		<b>(1,624.2)</b>	<b>(2,096.9)</b>
<b>Total liabilities</b>		<b>(2,270.1)</b>	<b>(2,857.1)</b>
<b>Net assets</b>		<b>2,556.4</b>	<b>2,456.4</b>
<b>Equity</b>			
Share capital		38.8	38.8
Share premium		1,222.2	1,219.8
Other reserves		15.7	15.7
Hedging and translation reserves		386.9	551.5
Retained earnings		892.8	630.6
<b>Total equity attributable to owners of the Company</b>		<b>2,556.4</b>	<b>2,456.4</b>

## Consolidated statement of changes in equity

For the year ended 31 December 2017

	Equity attributable to owners of the Company					Total equity
	Share capital	Share premium	Other reserves	Hedging and translation reserves	Retained earnings	
	£'m	£'m	£'m	£'m	£'m	
<b>At 1 January 2016</b>	38.8	1,218.9	15.7	243.2	661.9	2,178.5
Profit for the year	-	-	-	-	171.2	171.2
Other comprehensive income/(expense) for the year	-	-	-	308.3	(100.6)	207.7
<b>Total comprehensive income for the year</b>	-	-	-	308.3	70.6	378.9
Employee share schemes:						
Value of services provided	-	-	-	-	12.0	12.0
Issue of equity share capital	-	0.9	-	-	(0.9)	-
Dividends	-	-	-	-	(113.0)	(113.0)
<b>At 31 December 2016</b>	<b>38.8</b>	<b>1,219.8</b>	<b>15.7</b>	<b>551.5</b>	<b>630.6</b>	<b>2,456.4</b>
<b>Profit for the year</b>	-	-	-	-	<b>350.0</b>	<b>350.0</b>
Other comprehensive (expense)/income for the year	-	-	-	(164.6)	39.5	(125.1)
<b>Total comprehensive (expense)/income for the year</b>	-	-	-	<b>(164.6)</b>	<b>389.5</b>	<b>224.9</b>
Employee share schemes:						
Value of services provided	-	-	-	-	12.7	12.7
Purchase of own shares for employee share schemes	-	-	-	-	(19.0)	(19.0)
Issue of equity share capital	-	2.4	-	-	(2.4)	-
Dividends	-	-	-	-	(118.6)	(118.6)
<b>At 31 December 2017</b>	<b>38.8</b>	<b>1,222.2</b>	<b>15.7</b>	<b>386.9</b>	<b>892.8</b>	<b>2,556.4</b>

## Consolidated cash flow statement

For the year ended 31 December 2017

	Notes	2017 £'m	2016 £'m
Cash inflow from operations before business acquisition and disposal expenses and exceptional operating items		<b>453.7</b>	395.8
Cash outflow from business acquisition and disposal expenses		<b>(3.9)</b>	(1.9)
Cash outflow from exceptional operating items	6	<b>(13.8)</b>	(18.3)
<b>Cash inflow from operations</b>	24	<b>436.0</b>	375.6
Interest received		<b>0.2</b>	0.2
Interest paid		<b>(34.9)</b>	(26.6)
Tax paid		<b>(24.1)</b>	(27.4)
<b>Cash inflow from operating activities</b>		<b>377.2</b>	321.8
Business acquired	26	<b>(19.4)</b>	2.1
Businesses disposed	27	<b>83.7</b>	59.6
Capitalised development costs net of funding from customers	14	<b>(57.7)</b>	(69.6)
Capitalised programme participation costs		<b>(59.0)</b>	(57.5)
Purchase of intangible assets		<b>(18.3)</b>	(14.7)
Purchase of property, plant and equipment		<b>(62.0)</b>	(51.7)
Proceeds from disposal of property, plant and equipment		<b>1.9</b>	0.9
<b>Cash outflow from investing activities</b>		<b>(130.8)</b>	(130.9)
Dividends paid to Company's shareholders		<b>(118.6)</b>	(113.0)
Purchase of own shares for employee share schemes		<b>(19.0)</b>	-
Proceeds from borrowings		<b>64.9</b>	466.0
Debt issue costs		<b>-</b>	(1.2)
Repayments of borrowings		<b>(224.2)</b>	(537.5)
<b>Cash outflow from financing activities</b>		<b>(296.9)</b>	(185.7)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(50.5)</b>	5.2
Cash and cash equivalents at start of the year		<b>173.8</b>	147.3
Exchange (losses)/gains on cash and cash equivalents		<b>(4.8)</b>	21.3
<b>Cash and cash equivalents at end of the year</b>		<b>118.5</b>	173.8

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

### 1. Basis of preparation

This document contains abridged preliminary financial information for the year ended 31 December 2017 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 financial 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 2017 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 2016 were approved by the Board of Directors on 27 February 2017 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

A number of new standards and amendments and revisions to existing standards have been published and are mandatory for the Group's future accounting periods. They have not been early adopted in these consolidated financial statements. None of these are expected to have a significant impact on the consolidated financial statements when they are adopted except as disclosed below:

#### ***IFRS 15, 'Revenue from contracts with customers'***

This standard establishes principles for reporting the nature, amount and timing of revenue arising from an entity's contracts with customers. The standard becomes effective for periods beginning on or after 1 January 2018. The Group's intention is to apply the full retrospective approach upon adoption of IFRS 15. This approach requires all open contracts with customers presented in the 2018 consolidated financial statements to be transitioned under the new standard. Comparative financial information for 2017 will be restated with a cumulative adjustment to equity at 1 January 2017. The Group has performed a significant, detailed analysis in order to quantify the impact of IFRS 15. The principal areas of the Group's existing accounting impacted include:

- Programme participation costs – Free of charge/deeply discounted manufactured parts  
Amounts previously recognised as an intangible asset and amortised over their useful lives will now be expensed as incurred.
- Programme participation costs – Cash payments  
The treatment of cash programme payments will depend on the nature of the contractual relationship between the Group and the third party to whom the payment is made. Where the payment is made to a third party under a revenue contract (as defined by IFRS 15), or the award of future IFRS 15 revenue contracts on the programme from the same party is highly probable, payments will be recognised as a contract asset and amortised, as a deduction from revenue, over the periods expected to benefit from those contracts. This situation will most frequently arise where payment is made to the same party to whom OE and/or aftermarket parts are sold. Other payments will continue to be recognised as an intangible asset and amortised as a charge to cost of sales.

## 2. Accounting policies continued

- Revenue from sale of goods  
The timing of revenue recognised on the substantial majority of contracts is not significantly affected by IFRS 15 with revenue continuing to be recognised as goods are delivered to the customer, at the price agreed with the customer for those goods. A minority of contracts require changes to the timing of recognition of revenue to reflect IFRS 15 guidance on areas such as the accounting for customer price changes, volume discounts, whether multiple deliveries and services provided to a customer should be accounted for individually or aggregated and, for certain military contracts, the requirement to recognise revenue over time as parts are manufactured.
- Contract accounting revenue  
Certain contracts will no longer meet the criteria for revenue to be recognised as work is performed, but will instead only be recognised at a point in time, usually when goods are delivered to the customer. Contracts which continue to qualify for revenue to be recognised over time will be accounted for as performance occurs, although the method by which performance is measured will, in some instances, change under IFRS 15.
- Revenue from power by the hour and cost per brake landing type contracts  
Revenue will no longer be recognised by reference to the number of aircraft flying hours or aircraft landings but when maintenance events are carried out.
- Revenue from other services  
No significant changes to the current method of accounting will arise.
- Revenue from funded research and development contracts  
Revenue will no longer be recognised as contractually agreed milestones are achieved but when control passes to the customer, either over time as work is performed or at a point in time as performance obligations are satisfied.

An assessment of the expected impact of IFRS 15 is shown below. It represents a reasonable estimate of the expected impact on the reported results for the year ended 31 December 2017 and on the net assets at that date but is subject to revision during 2018 as the Group completes its analysis, particularly for those contracts on which revenue was recognised in the latter part of 2017 under current GAAP.

	<b>£'m</b>
<b>Revenue:</b>	
As reported	2,027.3
Expected impacts	(30.5)
<b>Estimated revenue for the year ended 31 December 2017 - Restated under IFRS 15</b>	<b><u>1,996.8</u></b>
	<b>£'m</b>
<b>Underlying operating profit:</b>	
As reported	388.4
Programme participation costs – free of charge/deeply discounted*	(22.9)
Expected other impacts	(9.8)
<b>Estimated underlying operating profit for the year ended 31 December 2017 - Restated under IFRS 15</b>	<b><u>355.7</u></b>

\* Relates to the expensing of amounts capitalised in 2017 and the reversal of the amortisation charge for the year.

The estimated impact on net assets at 31 December 2017 is a reduction of £234.2m from that reported under current GAAP, driven principally by the expensing of £285.4m free of charge/deeply discounted manufactured parts and the elimination of the associated deferred tax liability held in respect of such amounts.

## 2. Accounting policies continued

### IFRS 16, 'Leases'

This standard requires recognition on the Group's balance sheet of assets and liabilities relating to leases which are currently being accounted for as operating leases. The standard becomes effective for accounting periods beginning on or after 1 January 2019 however, the Group's intention is to early adopt this standard in its accounting periods beginning on 1 January 2018. The Group has performed an analysis to assess the impact of IFRS 16 and estimates it will recognise additional 'right of use' assets, primarily in relation to property leases, of £90.0m on the balance sheet at 31 December 2017. Additional lease liabilities of a similar amount will also be recognised, and the impact on net assets will not be significant. The operating lease rental expense currently charged to operating profit in the income statement for 2017 will be replaced by an amortisation charge for the 'right of use' assets recognised in operating profit and an interest charge on the lease liabilities recognised in finance costs. The net impact on the income statement for 2017 is not expected to be significant.

## 3. Revenue

The Group's revenue is analysed as follows:

	2017 £'m	2016 £'m
Sale of goods	1,861.3	1,798.8
Contract accounting revenue	29.1	59.8
Revenue from services – Power by the hour/Cost per brake landing	39.4	39.0
Revenue from services – Other	54.2	56.0
Revenue from funded research and development	43.3	38.8
<b>Total</b>	<b>2,027.3</b>	<b>1,992.4</b>

## 4. 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 segmental analysis for the prior year has been restated to reflect the closure of the Group's Meggitt Control Systems operations in Corona, California and transfer of certain of its activities to an existing Meggitt Equipment operation in Irvine California. It has also been restated to reflect the transfer of responsibility for certain aftermarket operations from Meggitt Aircraft Braking Systems and Meggitt Sensing Systems to Meggitt Control Systems.

### Year ended 31 December 2017

	Meggitt Aircraft Braking Systems £'m	Meggitt Control Systems £'m	Meggitt Polymers & Composites £'m	Meggitt Sensing Systems £'m	Meggitt Equipment Group £'m	Total £'m
Gross segment revenue	393.2	527.6	339.2	539.5	275.7	2,075.2
Inter-segment revenue	(6.5)	(1.2)	(1.9)	(24.7)	(13.6)	(47.9)
<b>Revenue</b>	<b>386.7</b>	<b>526.4</b>	<b>337.3</b>	<b>514.8</b>	<b>262.1</b>	<b>2,027.3</b>
<b>Underlying operating profit*</b>	<b>147.7</b>	<b>123.7</b>	<b>24.0</b>	<b>71.4</b>	<b>21.6</b>	<b>388.4</b>

\* A reconciliation of operating profit to underlying operating profit is shown in note 5.

#### 4. Segmental analysis continued

Year ended 31 December 2016 (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	391.7	487.0	331.2	541.2	284.2	2,035.3
Inter-segment revenue	(5.7)	(0.9)	(1.5)	(22.0)	(12.8)	(42.9)
Revenue	<u>386.0</u>	<u>486.1</u>	<u>329.7</u>	<u>519.2</u>	<u>271.4</u>	<u>1,992.4</u>
Underlying operating profit*	<u>140.3</u>	<u>119.2</u>	<u>39.5</u>	<u>71.3</u>	<u>9.4</u>	<u>379.7</u>

\* A reconciliation of operating profit to underlying operating profit is shown in note 5.

#### Segmental assets

	31 December 2017 £'m	31 December 2016 Restated £'m
Meggitt Aircraft Braking Systems	759.1	824.7
Meggitt Control Systems	352.6	372.1
Meggitt Polymers & Composites	220.6	230.0
Meggitt Sensing Systems	457.0	463.2
Meggitt Equipment Group	177.5	178.6
<b>Total segmental trading assets</b>	<u>1,966.8</u>	2,068.6
Centrally managed trading assets*	131.0	176.0
Goodwill	1,947.0	2,095.7
Other intangible assets	592.0	738.3
Investments	13.6	14.8
Derivative financial instruments – non-current	28.5	21.8
Deferred tax assets	11.5	15.9
Derivative financial instruments – current	3.6	4.2
Current tax recoverable	4.3	4.4
Cash and cash equivalents	118.5	173.8
Assets classified as held for sale	9.7	-
<b>Total assets</b>	<u>4,826.5</u>	<u>5,313.5</u>

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

## 5. 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	2017 £'m	2016 £'m
<b>Operating profit</b>		<b>304.2</b>	233.7
Exceptional operating items (note 6)		74.6	15.5
Amounts arising on the acquisition, disposal and closure of businesses	a	(25.3)	(39.1)
Amortisation of intangible assets acquired in business combinations (note 14)		93.5	98.6
Disposal of inventory revalued in business combinations		-	4.6
Financial instruments (note 7)		(58.6)	66.4
Adjustments to operating profit*		84.2	146.0
<b>Underlying operating profit</b>		<b>388.4</b>	379.7
<b>Profit before tax</b>		<b>262.4</b>	195.5
Adjustments to operating profit per above		84.2	146.0
Net interest expense on retirement benefit obligations (note 20)		11.3	10.6
Adjustments to profit before tax		95.5	156.6
<b>Underlying profit before tax</b>		<b>357.9</b>	352.1
<b>Profit for the year</b>		<b>350.0</b>	171.2
Adjustments to profit before tax per above		95.5	156.6
Tax effect of adjustments to profit before tax		(49.8)	(58.4)
Impact of reduction in the US rate of federal corporate tax (note 10)		(122.6)	-
Adjustments to profit for the year		(76.9)	98.2
<b>Underlying profit for the year</b>		<b>273.1</b>	269.4

\* Of the adjustments to operating profit, £10.0m (2016: £3.6m) relating to exceptional operating items and £Nil (2016: £4.6m) relating to the disposal of inventory revalued in business combinations has been charged to cost of sales, with the balance of £74.2m (2016: £137.8m) included within net operating costs.

a. The Group separately presents amounts arising on the acquisition, disposal and closure of businesses. These include gains or losses made on the disposal or closure of a business, adjustments to the fair value of contingent consideration payable in respect of an acquired business or receivable in respect of a disposed business and costs directly attributable to the acquisition and disposal of businesses.

	2017 £'m	2016 £'m
Gain on disposal of businesses (note 27)	(40.3)	(40.7)
Remeasurement of fair value of contingent consideration receivable relating to previously disposed businesses	-	0.3
Impairment of assets classified as held for sale (note 17)	14.2	-
Costs related to the disposal of businesses	0.6	-
Costs related to the acquisition of businesses	0.2	1.3
<b>Total</b>	<b>(25.3)</b>	(39.1)



## 6. 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	
		2017 £'m	2016 £'m	2017 £'m	2016 £'m
Impairment loss arising from cancellation of Dassault Falcon 5X programme	a	59.5	-	-	-
Site consolidations	b	7.9	7.0	8.5	4.7
Integration of acquired businesses	c	4.5	6.6	4.5	6.6
Business restructuring costs		2.7	5.7	0.8	6.2
Raw material supply issue		-	(3.8)	-	0.8
<b>Total</b>		<b>74.6</b>	<b>15.5</b>	<b>13.8</b>	<b>18.3</b>

- a. On 13 December 2017, Dassault Aviation ("Dassault") announced the cancellation of its Falcon 5X programme and the launch of a new Falcon programme featuring the same cross section, but powered by Pratt & Whitney Canada engines rather than the Silvercrest engine selected for the Falcon 5X. Dassault forecast the new aircraft will enter into service in 2022 and indicate they expect to re-use a maximum of work undertaken to date on the Falcon 5X and to work with Meggitt on the successor programme.

Prior to cancellation, the most recent impairment testing performed by the Group, using third party fleet forecast information, had not identified any requirement for an impairment. At the date of cancellation, the Group had assets of £59.5m on the balance sheet related to the Falcon 5X and Silvercrest engine, comprising £54.4m in respect of capitalised development costs (principally incurred by Meggitt Aircraft Braking Systems), £1.5m in respect of programme participation costs and £3.6m in respect of inventory. The cancellation has required the Group to perform an additional impairment test to reassess the estimated recoverable value of these assets. In making this estimate, the Group has taken into consideration the contractual position with the customer, the considerable uncertainty surrounding the successor programme design and the extent to which this new design will impact the braking system and require significant rework, for instance from increases in the maximum take-off weight. The Group has also considered the lack of reliable fleet forecasts for the new aircraft, forecast delays in entry into service of the new aircraft compared to the Falcon 5X and the extent to which the cancellation significantly reduces forecast demand for the Silvercrest engine. The Group has concluded that the level of uncertainty in these areas is so significant that it is not possible to reliably estimate the extent to which any of the costs previously held on the balance sheet will be recoverable and accordingly has recognised a full impairment of these assets in 2017.

- b. In 2017, this principally relates to initial costs incurred in respect of the move to a new facility being constructed at Ansty Park in the West Midlands which will enable the Group to consolidate a range of manufacturing, engineering and support operations into a single centre of excellence. In addition, it includes costs relating to the closure of the Group's control systems operations in Corona, California and transfer of its activities to two of the Group's other existing operations in California.
- c. This relates to costs incurred in respect of the on-going integration of the Advanced Composites and EDAC businesses acquired in November and December 2015 respectively and of Elite Aerospace acquired in March 2017.

## 7. 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 recognised if hedge accounting had been applied.

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

	2017 £'m	2016 £'m
Movement in fair value of foreign currency forward contracts	(73.8)	48.0
Impact of retranslating net foreign currency assets and liabilities at spot rate	0.5	2.3
Movement in fair value of interest rate derivatives	8.1	3.8
Movement in fair value of fixed rate borrowings	(6.8)	0.8
Movement in fair value of cross currency derivatives	13.9	2.9
Movement in fair value of treasury lock derivative	(0.5)	8.6
<b>Total – (gain)/loss</b>	<b>(58.6)</b>	<b>66.4</b>

## 8. Finance income

	2017 £'m	2016 £'m
Interest on bank deposits	0.1	0.1
Unwinding of interest on other receivables (note 19)	1.2	1.8
Other finance income	0.1	0.1
<b>Total</b>	<b>1.4</b>	<b>2.0</b>

## 9. Finance costs

	2017 £'m	2016 £'m
Interest on bank borrowings	2.2	7.0
Interest on senior notes	30.0	21.8
Interest on obligations under finance leases	1.2	1.1
Unwinding of discount on provisions (note 19)	2.0	2.5
Net interest expense on retirement benefit obligations (note 20)	11.3	10.6
Amortisation of debt issue costs	0.9	1.2
Less: amounts capitalised in the cost of qualifying assets (note 14)	(4.4)	(4.0)
<b>Total</b>	<b>43.2</b>	<b>40.2</b>

## 10. Tax

On 22 December 2017, the US Government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act ("TCJA"). The TCJA makes substantial changes to the Internal Revenue Code of 1986, as amended. Among those changes is a significant reduction in the generally applicable US federal corporate tax rate from 35% to 21%, with effect from 1 January 2018. The Group's deferred tax balances relating to its US operations have been remeasured to reflect this rate reduction. The impact of the rate reduction is a credit to the income statement of £122.6m, a charge to other comprehensive income of £11.7m in respect of retirement benefit obligations, a charge recognised directly in equity of £0.3m in respect of share-based payments and a corresponding reduction in deferred tax liabilities of £110.6m.

The Finance (No 2) Act 2015, included legislation to reduce the main rate of corporation tax in the UK from 20% to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. The Finance Act 2016, included legislation to further reduce the main rate of corporation tax in the UK to 17% from 1 April 2020. As these changes were substantively enacted in prior years, they have had no significant impact on the tax charge for the current year.

## 11. Earnings per ordinary share

Earnings per ordinary share ('EPS') is calculated by dividing the profit attributable to owners of the Company of £350.0m (2016: £171.2m) by the weighted average number of shares in issue during the year of 774.2m (2016: 774.7m shares).

Underlying EPS is based on underlying profit for the year (note 5) and is reconciled to basic EPS below:

	<b>2017</b>	2016
	<b>Pence</b>	Pence
<b>Basic EPS</b>	<b>45.2</b>	22.1
Adjust for effects of:		
Exceptional operating items	<b>6.3</b>	1.4
Amounts arising on the acquisition, disposal and closure of businesses	<b>(3.1)</b>	(5.1)
Amortisation of intangible assets acquired in business combinations	<b>7.8</b>	8.2
Disposal of inventory revalued in business combinations	-	0.4
Financial instruments	<b>(6.1)</b>	6.8
Net interest expense on retirement benefit obligations	<b>1.0</b>	1.0
Impact of reduction in the US rate of federal corporate tax	<b>(15.8)</b>	-
<b>Underlying basic EPS</b>	<b>35.3</b>	34.8

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 is 789.2m (2016: 786.0m).

Diluted underlying EPS for the year is 34.6p (2016: 34.3p).

## 12. Dividends

The Board is recommending a final dividend of 10.80p per share (2016: 10.30p per share). Taken with the interim dividend of 5.05p (2016: 4.80p) paid in the year, this gives a total dividend of 15.85p (2016: 15.10p), an increase of 5%. Subject to approval at the Annual General Meeting on 26 April 2018, the proposed dividend will be paid on 4 May 2018 to shareholders on the register at close of business on 23 March 2018. 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.

### 13. Related party transactions

During the year, the Group made sales to the joint venture of £3.7m (2016: £3.4m) and purchases from the joint venture of £0.4m (2016: £0.7m). Transactions between the Company and its subsidiaries have been eliminated on consolidation. The remuneration of key management personnel of the Group, which is defined for 2017 as members of the Board and the Group Leadership team, is set out below.

	2017 £'m	2016 £'m
Salaries and other short-term employee benefits	11.7	11.3
Retirement benefit expense	0.2	0.3
Share-based payment expense	2.3	2.7
<b>Total</b>	<b>14.2</b>	<b>14.3</b>

### 14. Intangible assets

	Goodwill £'m	Development costs £'m	Programme participation costs * £'m	Other intangible assets £'m
At 1 January 2016	1,815.5	408.4	267.6	800.0
Exchange rate adjustments	282.8	68.8	41.4	120.5
Businesses disposed	(2.6)	-	-	(0.1)
Additions**	-	72.4	57.9	11.9
Funding from customers	-	(2.8)	-	-
Interest capitalised	-	4.0	-	-
Impairment loss	-	(3.3)	-	-
Amortisation****	-	(14.0)	(33.4)	(114.7)
At 31 December 2016	2,095.7	533.5	333.5	817.6
Exchange rate adjustments	(140.9)	(35.9)	(23.4)	(53.2)
Businesses acquired (note 26)	12.7	-	-	9.7
Businesses disposed (note 27)	(20.5)	-	-	(12.7)
Additions**	-	61.3	60.3	20.4
Funding from customers	-	(3.6)	-	-
Interest capitalised (note 9)	-	4.4	-	-
Transfer to assets classified as held for sale (note 17)	-	-	-	(1.2)
Disposals	-	-	-	(0.3)
Impairment loss***	-	(55.3)	(1.5)	-
Amortisation****	-	(22.1)	(36.8)	(108.2)
<b>At 31 December 2017</b>	<b>1,947.0</b>	<b>482.3</b>	<b>332.1</b>	<b>672.1</b>

\* The net book amount of programme participation costs comprises £285.4m (2016: £283.4m) in respect of free of charge/deeply discounted manufactured parts and £46.7m (2016: £50.1m) in respect of cash programme payments.

\*\* Included within additions to programme participation costs, are free of charge/deeply discounted manufactured parts supplied in the year of £56.5m (2016: £53.5m) and cash programme payments of £3.8m (2016: £4.4m).

\*\*\* Of the 2017 impairment loss, £54.4m in respect of development costs and £1.5m in respect of programme participation costs have been charged to exceptional operating items following cancellation of the Dassault Falcon 5X programme (note 6).

\*\*\*\* Included within amortisation of other intangible assets is £93.5m (2016: £98.6m) relating to intangible assets acquired in business combinations and which is excluded from the Group's underlying profit figures (note 5).

## 15. Property, plant and equipment

	2017 £'m	2016 £'m
At 1 January	336.9	288.8
Exchange rate adjustments	(17.0)	37.4
Business acquired (note 26)	0.2	-
Businesses disposed (note 27)	(7.7)	(1.9)
Additions	61.7	56.2
Transfer to assets classified as held for sale (note 17)	(5.6)	-
Disposals	(2.7)	(2.3)
Impairment loss	(2.0)	-
Depreciation	(40.9)	(41.3)
<b>At 31 December</b>	<b>322.9</b>	<b>336.9</b>

## 16. Investments

The Group's investment in its joint venture, Parkway-HS, LLC has been accounted for using the equity method and is stated as follows:

	2017 £'m	2016 £'m
At 1 January	14.8	11.4
Exchange rate adjustments	(1.3)	2.2
Share of profit after tax	0.6	1.2
Dividends received	(0.5)	-
<b>At 31 December</b>	<b>13.6</b>	<b>14.8</b>

## 17. Assets classified as held for sale

The disposal of Linear Motion LLC for a consideration of USD 2.5m was agreed on 14 November 2017 subject to certain regulatory clearances being obtained. The related assets have been classified as a disposal group held for sale and are presented separately at the balance sheet date together with directly associated liabilities. An impairment loss of £14.2m (note 5) has been recognised against the carrying value of assets classified as held for sale to reduce them to their recoverable value. Linear Motion LLC is reported within the Meggitt Equipment Group.

	2017			At 31 December
	Carrying value before classification as held for sale £'m	Allocated impairment loss £'m	Exchange rate adjustments £'m	£'m
Other intangible assets (note 14)	1.2	(1.2)	-	-
Property, plant and equipment (note 15)	5.6	(5.6)	-	-
Inventories	12.6	(7.4)	(0.1)	5.1
Trade and other receivables	4.7	-	(0.1)	4.6
<b>Assets classified as held for sale</b>	<b>24.1</b>	<b>(14.2)</b>	<b>(0.2)</b>	<b>9.7</b>
Trade and other payables	4.7	-	(0.1)	4.6
Deferred tax liabilities	3.3	-	(0.1)	3.2
<b>Liabilities directly associated with assets classified as held for sale</b>	<b>8.0</b>	<b>-</b>	<b>(0.2)</b>	<b>7.8</b>

## 18. 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 their book value for credit risk.

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

	Book value		Fair value	
	2017 £'m	2016 £'m	2017 £'m	2016 £'m
Derivative financial instruments – non-current	28.5	21.8	28.5	21.8
Derivative financial instruments – current	3.6	4.2	3.6	4.2
<b>Financial assets</b>	<b>32.1</b>	<b>26.0</b>	<b>32.1</b>	<b>26.0</b>
Derivative financial instruments – current	(17.3)	(31.2)	(17.3)	(31.2)
Bank and other borrowings – current	(71.4)	(175.7)	(71.4)	(177.2)
Derivative financial instruments – non-current	(14.6)	(45.7)	(14.6)	(45.7)
Bank and other borrowings – non-current	(1,005.8)	(1,170.6)	(1,001.9)	(1,160.2)
<b>Financial liabilities</b>	<b>(1,109.1)</b>	<b>(1,423.2)</b>	<b>(1,105.2)</b>	<b>(1,414.3)</b>
<b>Total</b>	<b>(1,077.0)</b>	<b>(1,397.2)</b>	<b>(1,073.1)</b>	<b>(1,388.3)</b>

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

The non-current portion of bank and other borrowings measured at fair value is classified as level 3 in the fair value measurement hierarchy, as it has been determined using significant inputs which are a mixture of those based on observable market data (interest rate risk) and those not based on observable market data (credit risk). The fair value attributable to interest rate risk has been derived from forward interest rates based on yield curves observable at the balance sheet date and contractual interest rates, with the credit risk margin kept constant. The fair value attributable to credit risk has been derived from quotes from lenders for borrowings of similar amounts and maturity periods. The same methods of valuation have been used to derive the fair value of the current and non-current element of bank and other borrowings which are held at amortised cost, but for which fair values are provided in the table above.

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

	2017 £'m	2016 £'m
Held at fair value through profit and loss	235.2	344.3
Held at amortised cost	842.0	1,002.0
<b>Total</b>	<b>1,077.2</b>	<b>1,346.3</b>

There are no transfers of assets or liabilities between levels of the fair value hierarchy in the year.

## 19. Provisions

	2017 Environmental receivables* £'m	2017 Provisions £'m
At 1 January	(77.4)	185.4
Exchange rate adjustments	5.4	(12.7)
Business acquired (note 26)	-	0.1
Businesses disposed (note 27)	-	(0.3)
Additional provision in year	(9.8)	26.1
Unused amounts reversed	-	(13.9)
(Credit)/charge to net finance costs (notes 8 and 9)	(1.2)	2.0
Utilised	18.9	(40.0)
<b>At 31 December</b>	<b>(64.1)</b>	<b>146.7</b>
<b>Disclosed as:</b>		
Current		64.2
Non-current		82.5
<b>At 31 December</b>		<b>146.7</b>
<b>Analysed as:</b>		
Environmental		99.9
Onerous contracts		20.3
Warranty costs		18.9
Other		7.6
<b>At 31 December</b>		<b>146.7</b>

\* Included within trade and other receivables in respect of amounts recoverable from insurers and other third parties in respect of environmental issues relating to historic sites.

## 20. Retirement benefit obligations

	2017 £'m	2016 £'m
At 1 January	414.7	284.5
Exchange rate adjustments	(14.9)	31.5
Service cost	16.6	16.2
Past service credit	(7.1)	-
Curtailement gain	-	(1.2)
Net interest expense (note 9)	11.3	10.6
Contributions – Group	(50.1)	(51.2)
Remeasurement of retirement benefit obligations	(66.6)	120.7
Administrative expenses borne directly by schemes	4.2	3.6
<b>At 31 December</b>	<b>308.1</b>	<b>414.7</b>
<b>Analysis of retirement benefit obligations:</b>		
Pension schemes	258.3	360.2
Healthcare schemes	49.8	54.5
<b>At 31 December</b>	<b>308.1</b>	<b>414.7</b>

## 20. Retirement benefit obligations continued

<b>Key financial assumptions used to calculate scheme liabilities</b>	<b>2017</b>	<b>2016</b>
UK scheme:		
Discount rate	<b>2.55%</b>	2.65%
Inflation rate	<b>3.20%</b>	3.30%
Salary increases	<b>4.20%</b>	4.30%
Current life expectancy: Male aged 65 years	<b>21.6 to 23.1</b>	21.7 to 23.2
US schemes:		
Discount rate	<b>3.55%</b>	3.95%
Salary increases	<b>4.43%</b>	4.51%
Current life expectancy: Male aged 65 years	<b>20.2 to 20.8</b>	20.2 to 20.8

Group cash contributions paid during the year included deficit reduction payments of £33.5m (2016: £35.0m). Included within deficit payments in 2016, is a one-off payment of £10.2m made into the UK scheme upon the sale of Meggitt Target Systems.

## 21. Issued share capital

	<b>2017</b>	<b>2016</b>
	<b>No. m</b>	<b>No. m</b>
<b>Allotted and fully paid</b>	<b>776.4</b>	<b>775.7</b>

## 22. 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.

## 23. Capital commitments

	<b>2017</b>	<b>2016</b>
	<b>£'m</b>	<b>£'m</b>
Contracted for but not incurred:		
Intangible assets	<b>2.8</b>	1.3
Property, plant and equipment	<b>18.8</b>	13.5
<b>At 31 December</b>	<b>21.6</b>	<b>14.8</b>



## 24. Cash inflow from operations

	2017 £'m	2016 £'m
Profit for the year	350.0	171.2
Adjustments for:		
Finance income (note 8)	(1.4)	(2.0)
Finance costs (note 9)	43.2	40.2
Tax	(87.6)	24.3
Depreciation (note 15)	40.9	41.3
Amortisation (note 14)	167.1	162.1
Impairment loss (notes 14 and 15)	58.8	3.3
Loss on disposal of property, plant and equipment	0.8	1.4
Loss on disposal of software and other intangible assets	0.3	-
Gain on disposal of businesses (note 27)	(40.3)	(40.7)
Impairment of assets classified as held for sale (note 5)	14.2	-
Remeasurement of fair value of contingent consideration receivable	-	0.3
Financial instruments (note 7)	(58.6)	66.4
Share of profit after tax of joint venture (note 16)	(0.6)	(1.2)
Dividend income from joint venture (note 16)	0.5	-
Retirement benefit obligation deficit payments (note 20)	(33.5)	(35.0)
Share-based payment expense	8.0	8.0
Changes in working capital	(25.8)	(64.0)
<b>Total</b>	<b>436.0</b>	<b>375.6</b>

The Board uses free cash flow to monitor and measure the underlying trading cash performance of the Group. It is reconciled to cash from operating activities below:

	2017 £'m	2016 £'m
Cash inflow from operating activities	377.2	321.8
Add back cash outflow from business acquisition and disposal expenses	3.9	1.9
Capitalised development costs net of funding	(57.7)	(69.6)
Capitalised programme participation costs	(59.0)	(57.5)
Purchase of intangible assets	(18.3)	(14.7)
Purchase of property, plant and equipment	(62.0)	(51.7)
Proceeds from disposal of property, plant and equipment	1.9	0.9
<b>Free cash inflow</b>	<b>186.0</b>	<b>131.1</b>

## 25. Movements in net debt

	2017 £'m	2016 £'m
At 1 January	1,179.1	1,051.2
Cash inflow from operating activities	(377.2)	(321.8)
Cash outflow from investing activities	130.8	130.9
Dividends paid to Company's shareholders	118.6	113.0
Purchase of own shares for employee share schemes	19.0	-
Net cash generated	(108.8)	(77.9)
Debt acquired with business (note 26)	0.6	-
Debt disposed with businesses (note 27)	(0.8)	-
Exchange rate adjustments	(96.8)	195.4
Other non-cash movements	(8.5)	10.4
<b>At 31 December</b>	<b>964.8</b>	<b>1,179.1</b>

## 25. Movements in net debt continued

	2017 £'m	2016 £'m
Analysed as:		
Bank and other borrowings – current	71.4	175.7
Bank and other borrowings – non-current	1,005.8	1,170.6
Obligations under finance leases – current	0.1	0.1
Obligations under finance leases – non-current	6.0	6.5
Cash and cash equivalents	(118.5)	(173.8)
<b>Total</b>	<b>964.8</b>	<b>1,179.1</b>

## 26. Business combinations

On 28 March 2017, the Group acquired 100% of the equity in Elite Aerospace, Inc. ('Elite') for a consideration of USD 24.9m settled in cash. Elite is a provider of maintenance, repair and overhaul services for thermal management components. The acquisition increases the repair capabilities at the Group's Miami hub and further enhances the foundations from which the Group will accelerate aftermarket growth over the medium term. Elite is reported within Meggitt Control Systems.

The provisional fair values of the assets and liabilities of Elite reflect changes made as necessary to align the accounting policies of the acquired business with those of the Group and to recognise intangible assets separately from goodwill. Goodwill is attributable to the profitability of the acquired business and expected future synergies arising following acquisition. The fair value of acquired net assets and consideration has been recognised as follows:

	Total £'m
Goodwill (note 14)	12.7
Other intangible assets	8.6
Property, plant and equipment (note 15)	0.2
Inventories	1.4
Trade and other receivables – current	1.7
Cash and cash equivalents	0.5
Trade and other payables – current	(1.3)
Bank and other borrowings – current (note 25)	(0.6)
Provisions – current (note 19)	(0.1)
Deferred tax liabilities	(3.2)
<b>Net assets</b>	<b>19.9</b>

Net cash outflow in respect of the acquisition is as follows:

	2017 £'m
Cash consideration	19.9
Less: cash and cash equivalents acquired	(0.5)
<b>Total</b>	<b>(19.4)</b>

## 27. Business disposals

On 16 June 2017, the Group collectively disposed of 100% of the equity in Piezotech LLC, Meggitt (Maryland) Inc., Piher Sensors & Controls SA and Piher International GmbH for a consideration of USD 108.7m. The businesses operated as standalone entities providing a range of sensor and control technologies to customers in the industrial and automotive sectors where synergies with the rest of the Group were limited. The businesses were not a major line of business or geographical area of operation of the Group. Piezotech LLC and Meggitt (Maryland) Inc. were reported within Meggitt Sensing Systems and Piher Sensors & Controls SA and Piher International GmbH within the Meggitt Equipment Group.

The net assets of businesses disposed at the date of disposal is as follows:

	<b>Total £'m</b>
Goodwill (note 14)	20.5
Other intangible assets (note 14)	12.7
Property, plant and equipment (note 15)	7.7
Inventories	8.7
Trade and other receivables – current	9.2
Cash and cash equivalents	3.2
Trade and other payables – current	(8.1)
Current tax liabilities	(0.1)
Bank and other borrowings – current (note 25)	(0.1)
Provisions - current (note 19)	(0.3)
Deferred tax liabilities	(1.3)
Bank and other borrowings – non-current (note 25)	(0.7)
<b>Net assets</b>	<b>51.4</b>
Currency translation gain transferred from equity (note 28)	(8.6)
Business disposal expenses	3.0
Working capital adjustment payable	0.5
Gain on disposal	39.1
<b>Total consideration received in cash</b>	<b>85.4</b>
Net cash inflow arising on disposal:	
Total consideration received in cash	85.4
Less: cash and cash equivalents disposed of	(3.2)
Businesses disposed	82.2
Less: business disposal expenses paid	(1.7)
<b>Total cash inflow</b>	<b>80.5</b>

Total consideration received in respect of disposed businesses is as follows:

	<b>Total £'m</b>
In respect of businesses disposed of in the year	82.2
In respect of a business disposed of in prior years	1.5
<b>Total</b>	<b>83.7</b>

The total gain recognised in respect of disposed businesses is as follows:

	<b>Total £'m</b>
In respect of businesses disposed of in the year	39.1
In respect of a business disposed of in prior years	1.2
<b>Total</b>	<b>40.3</b>

## 28. Components of other comprehensive income

	2017 £'m	2016 £'m
Arising in the year	(153.0)	312.6
Transferred to the income statement (note 27)	(8.6)	(0.5)
<b>Currency translation movements – (loss)/gain</b>	<b>(161.6)</b>	<b>312.1</b>
Movement in fair value	-	(0.6)
Transferred to the income statement	(0.2)	0.4
<b>Cash flow hedge movements – loss</b>	<b>(0.2)</b>	<b>(0.2)</b>
<b>Tax effect</b>	<b>(2.8)</b>	<b>(3.6)</b>
<b>Items that may be reclassified to the income statement in subsequent periods</b>	<b>(164.6)</b>	<b>308.3</b>

## 29. Events after the balance sheet date

On 12 January 2018, the group disposed of 100% of the equity in aviation Mobility, LLC for an initial consideration of USD 14.5m which is subject to a customary adjustment for the working capital in the business at the date of disposal. The net assets of aviation Mobility, LLC which is part of Meggitt Control Systems, are not significant and accordingly the group has not reclassified the assets as held for sale at 31 December 2017.

## Principal risks and uncertainties

### Strategic – Business model

#### *Description*

Failure to respond to fundamental changes in our aerospace business model, primarily the evolving aftermarket. This includes more durable parts requiring less frequent replacement, a growing supply of surplus parts, OE customers seeking greater control of their aftermarket supply chain and accelerated pace of new aircraft deliveries leading to the earlier retirement of older aircraft.

#### *Impact*

Decreased revenue and profit.

#### *How we manage it*

- Alignment of Group, divisional and functional strategy processes.
- Dedicated full-service aftermarket organisation.
- Implementation of long-term customer agreements as part of maintaining and monitoring pricing strategy.
- Implementation of Meggitt Production System (MPS) in aftermarket operations.
- Investment in research and development to maintain and enhance Meggitt's intellectual property.
- Strengthened commercial function.

### Strategic – Product demand

#### *Description*

Significant variation in demand for products should civil aerospace, military and energy business downcycles coincide, a serious political, economic or terrorist event that adversely affects the demand for air travel or industry consolidation materially changes the competitive landscape.

#### *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 credit facilities and against covenants in those facilities whilst implementing appropriate cost-base contingency plans.

### Strategic – Technology strategy

#### *Description*

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*

- Management of technology development plans that align technology readiness, market needs and financial returns using a gated process.
- Focus on technology during Group strategy process.
- Recruiting first-class engineers and scientists with appropriate technology skills.
- Ring-fenced budgets focused on longer-term technology developments.
- Partnerships with government, academia and other companies to leverage our R&D budgets.

## **Operational – Quality escape/equipment failure**

### *Description*

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

### *Impact*

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

### *How we manage it*

- Implementation of well-developed system safety analysis, verification and validation policy and processes, combined with quality and customer audits and industry certifications.
- Implementing MPS across the Group.
- Implementation of enhanced supplier quality assurance process.

## **Operational – Business interruption**

### *Description*

A catastrophic event such as an earthquake (the Group has a significant operational presence in Southern California) or fire could lead to infrastructure and property damage which prevents the Group from fulfilling its contractual obligations.

### *Impact*

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

### *How we manage it*

- Group-wide business continuity and crisis management plans, subject to regular testing.
- Comprehensive insurance programme, renewed annually and subject to property risk assessment visits.

## **Operational – Project/programme management**

### *Description*

Failure to meet new product development programme milestones and certification requirements and successfully transition new products into manufacturing as production rates increase. This also covers lower than expected production volumes, including programme cancellations.

### *Impact*

Failure to deliver financial returns against investment and/or significant financial penalties leading to decreased profit and damage to reputation.

### *How we manage it*

- Programme lifecycle management (PLM) processes starting from rigorous commercial and technological readiness reviews of bids and contractual terms before entering into programmes.
- Continuous review of programme performance through the PLM process including regular monitoring of the end market performance of key OE programmes and the financial health of customers.
- PLM process and engineering support applications, combined with enhanced internal review process, to stress-test readiness to proceed at each stage of key programmes.
- Delivery of applied research and technology objectives in line with Group strategy.
- Incremental improvement in performance following MPS implementation and reorganisation of programme management to increase capability and focus on delivery and governance.
- Active participation in customer rate-readiness processes.

## **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 profit.

### *How we manage it*

- Creation of dedicated aftermarket organisation.
- Implementation of supplier excellence framework following risk analysis and on-site assessments.
- Implementation of MPS combined with a programme lifecycle management process leading to step change in performance.
- Reorganisation of programme management to increase capability and focus on delivery and governance.
- Development of commercial function and engineering capability.
- Increased utilisation of low-cost manufacturing base.
- Regular monitoring of customer scorecards and ensuring responsiveness to issues via Voice of the Customer process.

## **Operational – Acquisition integration**

### *Description*

Failure to integrate effectively the composites acquisitions and/or realise expected financial returns in line with business case.

### *Impact*

Decreased revenue and profit.

### *How we manage it*

- Internal pre-acquisition due diligence supplemented by external experts.
- Implementation of MPS as part of proven post-merger integration process led by incumbent divisional management, supported by experienced dedicated integration teams with a senior oversight committee.
- PMO established to manage integration and delivery of financial model, including cost synergies.

## **Operational – IT/systems failure**

### *Description*

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

### *Impact*

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

### *How we manage it*

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

## **Operational – Supply chain**

### *Description*

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 operational performance and 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 – Group change management**

### *Description*

Failure to successfully, simultaneously, deliver the significant change programmes currently in process and planned, including site consolidation activity.

### *Impact*

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

### *How we manage it*

- Creation of dedicated site consolidation and property management teams.
- Regulatory monitoring by Executive Leadership Team through operational and project reviews.
- MPS implementation at new/expanded sites.

## **Corporate – Legal & regulatory**

### *Description*

Significant breach of increasingly complex trade compliance, bribery & corruption, ethics, environmental and health & safety laws.

### *Impact*

Damage to reputation, loss of supplier accreditations, suspension of activity, fines from civil and criminal proceedings.

### *How we manage it*

- Continuing investment in compliance programmes.
- Implementation of Board-approved trade compliance, ethics and anti-corruption policies.
- Roll-out of global trade compliance IT solution and import compliance programme.
- Regular monitoring by Ethics and Trade Compliance Committee, supported by ongoing trade compliance programme including third party audits; and comprehensive ethics programme including training, anti-corruption policy, external audits and Ethics line.
- MPS implementation to enhance safety measures validated by third party audits.



## Financial - Taxation

### *Description*

Tax legislation is complex and compliance can be subject to interpretation. Legislation, including response to the OECD BEPS programme and that recently introduced by the US Presidential administration, is subject to change, which could negate the effectiveness of the Group's current, well-established, tax-efficient international structures, including those used to finance acquisitions.

### *Impact*

Higher effective tax rates resulting in decreased profit.

### *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.
- Use of multiple expert third party tax advisors.

## 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 position, performance, business model and strategy.

By order of the Board:

A Wood  
Director  
26 February 2018

D R Webb  
Director  
26 February 2018

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