Press information

MEGGITT

6 March 2012

Meggitt PLC
2011 Full-year results

A year of outstanding growth

Meggitt PLC ("Meggitt" or "the Group"), a leading international engineering company specialising in high performance components and sub-systems for the aerospace, defence and energy markets, today announces full-year audited results for the year ended 31 December 2011.

Group Highlights

£m	**2011**	2010	% change
Revenue	**1,455.3**	1,162.0	+25%
Underlying[1]:			
EBITDA	**428.5**	364.4	+18%
Operating profit	**359.5**	303.7	+18%
Profit before tax	**323.0**	256.1	+26%
Earnings per share	**31.9p**	27.8p	+15%
Statutory:			
Operating profit	**262.5**	220.1	+19%
Profit before tax	**226.0**	172.5	+31%
Earnings per share	**24.0p**	20.1p	+19%
Net debt	**788.4**	721.4	+9%
Dividend	**10.50p**	9.20p	+14%

- The Group achieved strong growth across all markets in 2011:
  - Order intake increased by 26% (12% on an organic basis[2]). Particularly strong growth in energy (+56% on an organic basis).
  - Revenues increased 25% (organic: 12%, of which civil was +16%, energy +28% and military +5%).
  - Good momentum going into 2012, with closing order book up 8% on an organic basis.
- Underlying profit before tax increased by 26% to £323.0m (£293.2m on an organic basis, +14%).
- Net debt reduced to 1.7x EBITDA (2010: 1.9x) despite the cash outflow for the acquisition of Pacific Scientific Aerospace (PacSci).
- Recommended final dividend increased by 15%, resulting in the full-year dividend up 14% to 10.50p.
- The transformation initiative has significantly enhanced customer focus and operational excellence.
- PacSci has continued to trade in line with expectations. Synergies of $6.5m have been realised to date, ahead of expectations. The synergy target by the end of 2014 has been increased by 25% giving a run-rate of $22.5m.
- The Group continues to expect organic revenue growth of 6 to 7% on average over the next five years.

1. Underlying profit and EPS are used by the Board to measure the trading performance of the Group and exclude the amortisation of acquired intangibles, disposal of inventory revalued to fair value on acquisitions, operating exceptional items and the marking to market of financial instruments, as set out in notes 3 and 9.
2. Organic growth numbers exclude foreign exchange movements and M&A.

Terry Twigger, Chief Executive, commented:

"Our business grew strongly in 2011 across all market segments, with revenues up 25% and underlying profit before tax up 26%. Good organic growth was augmented by the acquisition of Pacific Scientific Aerospace, which is very complementary to our existing business and trading in line with expectations. We look forward to further good growth in 2012 and beyond.

As a sign of our continuing confidence in the prospects for the Group, we are recommending an increase in the full-year dividend of 14%."

Please contact

Terry Twigger, Chief Executive
Stephen Young, Group Finance Director
Richard Cashin, Group Head of Investor Relations
Meggitt PLC
Tel: +44 1202 597597

Charles Ryland, Jeremy Garcia or Louise Hadcocks
Buchanan
Tel: +44 20 7466 5000

GROUP OVERVIEW

Meggitt's strong 2011 results demonstrate the breadth and resilience of our portfolio. For example, our installed base of equipment on approximately 57,000 aircraft worldwide provides us with a stable aftermarket revenue stream stretching out for many years. We have secured significant content on new, more fuel-efficient aircraft, for which there is strong demand. Success in winning content on new platforms will, of course, enable us to continue to grow our future aftermarket revenues.

The changes we have made to the Group over the last three years have left us fitter and more responsive than ever. While the last twelve months have seen a changeable economic climate, with highly variable recovery rates in different regions of the world, our broad product offering and commitment to remain close to our customers has enabled us to continue growing our installed base.

Our capability-based divisional structure and the organisation of key resources such as engineering, marketing and central services within it, is tailored to the requirements of our customers. This, combined with our ongoing commitment to invest in the technologies and people needed to remain very competitive in our target markets, gives us confidence in our organic 6 to 7% medium-term average revenue growth target.

The PacSci acquisition was completed in April 2011 for a consideration of £414.7m. PacSci fits very well into Meggitt's business model, with strong technology positions, a significant level of sole source content and aftermarket sales representing over one third of total revenue. The acquisition enhances capability and capacity: it adds fire and smoke suppression capabilities to Meggitt's product portfolio, creating a leading integrated fire and smoke detection and suppression offering; enhances Meggitt's capabilities in electrical conversion and storage, meeting the requirements of aircraft moving away from hydraulic and pneumatic technology towards electric power; strengthens Meggitt's portfolio of sensors and anti-icing products; and enhances the Group's low-cost manufacturing capability, adding to Meggitt's existing facilities in Mexico and acquiring a new base in Vietnam.

MARKET BACKGROUND

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 approximately 18,000 aircraft, the regional aircraft fleet about 6,000 and business jets about 15,000. The Group has products on the vast majority of these aircraft platforms and hence a very large, and growing, installed base. The split of civil revenues, which account for 46% of the Group total, is approximately two thirds aftermarket and one third original equipment (OE).

Military
Our military businesses supply equipment on a broad range of fixed and rotary wing aircraft, ground vehicles and training facilities, and account for 40% of the Group's revenues. Our revenues are split 61% OE and 39% aftermarket, reflecting our installed base on over 18,000 military aircraft and a significant number of ground vehicles and training facilities. The US accounts for 67% of military sales, with 21% to Europe and 12% to the rest of the world.

Energy and other
Other revenues (14% of Group total) come from a variety of end markets, of which the most significant is energy, (8% of Group total). Our capabilities centre on providing valves and condition-monitoring equipment for power generation installations, including ground-based rotating machinery and wind turbines, and printed circuit heat exchangers used in the oil and gas and waste heat recovery markets. Other markets (6% of Group total) include the automotive, test, consumer goods and medical sectors.

TRADING SUMMARY

	2011 Revenues £m	2011 Growth	PacSci £m	2011 Organic growth
Civil OE	245.2	63%	58.3	26%
Civil AM	420.4	22%	46.3	12%
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Total civil aerospace	665.6	35%	104.6	16%
Military	585.3	15%	68.2	5%
Energy	113.1	34%	3.8	28%
Other	91.3	21%	13.0	5%
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Total	1,455.3	25%	189.6	12%

The strong revenue growth reported in the first half of 2011 continued into the second half, giving total annual revenues of £1,455.3m (2010: £1,162.0m). As the table above demonstrates, Civil OE and Energy were particularly strong markets during the year, though all end markets contributed to the growth.

The Board's preferred measure of the Group's trading performance is underlying profit. Underlying operating profit for the year grew 18% to £359.5m (2010: £303.7m), producing an underlying operating margin of 24.7% (2010: 26.1%). PacSci's operating margin is lower than the Group average and this contributed 70 basis points to the movement in margin, with mix – the strong relative growth in civil OE – driving a further 80 basis points reduction.

Net finance costs decreased to £36.5m (2010: £47.6m) as a result of strong cash generation and lower interest rates and despite additional debt financing for the PacSci acquisition. Within this, post-retirement finance charges decreased to £4.5m (2010: £9.8m).

Underlying profit before tax increased by 26% to £323.0m (2010: £256.1m).

With an underlying tax rate of 24% (2010: 25%), and after taking account of the increased share count following the equity placing to part fund the acquisition of PacSci, underlying earnings per share increased by 15% to 31.9 pence (2010: 27.8 pence).

On a statutory basis, profit before tax increased by 31% to £226.0m (2010: £172.5m) and earnings per share increased by 19% to 24.0p (2010: 20.1p). The adjustments between underlying profit and statutory profit are described in notes 3 and 9.

The recommended final dividend is increased by 15% to 7.30p (2010: 6.35p) and represents a total dividend for the year of 10.50p (2010: 9.20p), an increase of 14%.

Cash inflow from operations before exceptional operating items was a very healthy £395.8m, which was 110% of underlying operating profit (2010: £331.3m and 109%). As these numbers demonstrate, our strong focus on cash generation continued to deliver excellent results in 2011.

Net cash generated of £141.5m (before M&A) was impressive given a lower take-up of the scrip dividend and increased investment in development programmes and IT infrastructure. After taking account of the acquisition of PacSci, net debt increased to £788.4m (2010: £721.4m).

There are two main financial covenants in our banking agreements. The net debt/EBITDA ratio, which must not exceed 3.5x, improved further to 1.7x at 31 December 2011 (2010: 1.9x) and interest cover, which must be not less than 3.0x, was a very strong 12.4x (2010: 9.1x). The Group has, therefore, significant headroom against both key covenant ratios. At 31 December 2011, Meggitt had £531m of undrawn headroom, net of cash, against committed bank facilities. During the year the Group refinanced its 2012 maturity banking facility with a new five-year arrangement. The new facility, which has been reduced from $920m to $700m as a result of our strong cash generation, was over-subscribed. No further refinancing is required before 2013.

Trading summary by market:

Civil aerospace
Total civil aerospace revenues grew 16% organically, with the recovery which started in the second half of 2010 continuing into 2011. Growth in civil OE across all aircraft categories remained very strong throughout the year, with the civil aftermarket also continuing to grow strongly despite tough comparatives.

With deliveries of large jets by Airbus and Boeing growing 4% and the book-to-bill ratio greater than two, we are confident in the continued growth outlook for OE. Deliveries are expected to grow strongly in 2012, trending upwards over the medium term. Deliveries of regional aircraft increased by 6% in 2011, with moderate growth expected over the next few years driven by demand for 70 to 90 seat aircraft. Deliveries of business jets declined by 8% in the year as manufacturers continued to see the effects of the downturn. However, driven by increasing demand from emerging economies, and a recovery in activity in the US, we anticipate a return to growth in deliveries in 2012.

Available seat kilometres (ASKs), a good proxy for air traffic, which is a key driver of the demand from airlines for spares and repairs on large and regional aircraft, grew at over 6% in 2011 (versus less than 4% in 2010). We expect growth of c. 5% in 2012 assuming global GDP growth of 3%. Business jet utilisation also showed modest growth in 2011.

Military
Military revenues grew by 5% organically. As expected, we saw a recovery in our training businesses and good content on ground vehicle retrofits.

Our OE revenues are generated from a broad range of platforms and applications, with good positions on a number of key platforms such as Typhoon, JSF, Black Hawk, Rafale and E/F-18 Hornet, although we are not overly exposed to any single platform. We are also seeing growth in our non-US military revenues, with continuing good prospects based on recent wins in international markets, including the Scout programme for the UK MoD.

The outlook for defence expenditure in the US, our single most important military market, continues to be challenging in the medium term given the requirement for the administration to reduce the fiscal deficit. However, much of the capability shortfall as a result of lower expenditure on new equipment is likely to be compensated for by using existing fleets for longer than was initially anticipated. This will benefit our revenue streams from the aftermarket and retrofit and upgrade programmes, where Meggitt has a track record in innovative, cost-effective solutions, most recently retrofitting blast-proof fuel tanks and electronic cooling systems on ground vehicles. Our relatively low production costs have enabled us to offer prime contractors a low-risk, cost-effective outsourcing capability, through which we have been able to grow our shipset content on a number of key programmes.

Energy & Other
Energy revenues increased by 34% in 2011, with organic growth of 28%. We saw excellent demand for our unique printed circuit heat exchanger products, with significant order intake from core oil and gas markets and new floating liquefied natural gas facilities. Our condition monitoring businesses performed well following our investment in product upgrades and new sales and support facilities in India, China and Brazil.

Other markets delivered a solid 5% organic growth, with laboratory test equipment and products for the space market performing particularly well.

PACSCI INTEGRATION
Integration activity is proceeding very well and the acquired businesses are trading in line with expectations, with full year organic growth of 10%. Due to the swift and decisive implementation of some of our key integration initiatives, synergies are running ahead of schedule, at $6.5m for 2011 versus a plan of $5m. The total expected synergy run-rate by the end of 2014 has also increased by 25% to $22.5m and the one-off cost of achieving these synergies will increase to $40m (from a planned $32m).

INVESTING FOR THE FUTURE
Developing and owning intellectual property is fundamental to Meggitt's successful strategy. Total research and development expenditure in 2011 was £110.5m or 7.6% of revenues, (2010: £84.2m, 7.2%), of which 25% was funded by customers. The largest relative investment was in Sensing Systems at around 15% of segment revenues.

Targeted investment in technology development remains critical to long-term growth. This adds new capabilities to our portfolio in response to customer requirements. Highlights from 2011 include further development of electro-thermal anti-ice technology, aircraft tyre pressure monitoring systems, new lightweight lithium-ion batteries for aircraft and the enhancement of our energy-oriented condition monitoring products.

Meggitt invested £33.2m (2010: £28.4m) in supplying equipment free of charge to new aircraft and making programme participation contributions, mostly in the aircraft braking systems business. This increased investment reflects our strong track record in winning the new programmes that drive future aftermarket growth.

Capital expenditure on property, plant and equipment and other intangible assets increased to £52.1m (2010: £27.7m), including investment in the deployment of a common ERP system across the Group. We have now successfully rolled out our global template to 15 sites, with a similar level of deployment anticipated over the next two years. There has also been substantial investment in several manufacturing facilities to provide capacity to meet new programme wins, including new capital equipment in our US aircraft braking systems and polymers and composites facilities. We will also be doubling the capacity of our innovative heat exchanger business in Poole, UK, and co-locating our North American sensing businesses onto one campus in California.

As part of the Group's low-cost manufacturing strategy, Meggitt continued to develop the range of capabilities at its manufacturing plants in Xiamen, China and Querétaro, Mexico. The acquisition of PacSci brought additional low cost manufacturing facilities in Mexico and Vietnam. These facilities are part of our long-term strategy to enhance further our cost competitiveness and develop a best in class operational footprint.

RETIREMENT BENEFIT SCHEMES
Concerns over the global economy, sovereign debt and quantitative easing programmes in the UK and US, have continued to affect our key valuation assumptions. Scheme deficits increased to £319.9m (2010: £265.1m) pre-tax. Scheme assets saw modest increases, helped by a partial rebound in equity markets in the latter part of the year and company cash contributions. The yields on AA corporate bonds, the rates used to discount scheme liabilities, have fallen significantly during the year. The yields, which have now fallen for three successive years, affect the values at which the liabilities are recorded in the financial statements. The Group made deficit reduction payments in the year of £26.2m (2010: £23.1m). The next triennial valuation of the UK scheme will take place in 2012 and is expected to increase payments into the scheme from 2013.

OPERATIONAL HIGHLIGHTS

The financial performance of the individual divisions is highlighted in the table below (at constant 2010 exchange rates for each division and with the currency impact shown separately):

£m Revenue 2011	2010	Growth		Underlying Operating Profit 2011	2010	Growth	Return on Sales 2011	2010
330.7	309.7	7%	Aircraft Braking Systems	123.8	120.7	3%	37.4%	39.0%
208.3	182.8	14%	Control Systems	49.4	44.7	11%	23.7%	24.5%
177.2	156.0	14%	Polymers & Composites	32.8	28.4	15%	18.5%	18.2%
237.7	208.4	14%	Sensing Systems	43.0	39.5	9%	18.1%	19.0%
538.0	305.1	76%	Equipment Group*	118.6	70.4	68%	22.0%	23.1%
(36.6)			*Impact of currency*	*(8.1)*				
1,455.3	1,162.0	25%	Total Group	359.5	303.7	18%	24.7%	26.1%
*Of which:								
189.6	*n/a*		*PacSci*	*38.2*	*n/a*		*20.1%*	*n/a*

Meggitt Aircraft Braking Systems (MABS) provides wheels, brakes and brake control systems for over 30,000 in-service aircraft and continues to develop innovative technology for new programmes such as the all-electric braking system on Bombardier's CSeries aircraft. The division targets sole-source programmes and is particularly strong in regional aircraft and business jets. The division represents 22% of total Group revenue, generating 87% of its revenues from the aftermarket and 13% from OE sales.

MABS' civil aftermarket revenues (68% of divisional total) grew 9% in 2011, with very strong growth in business jets and regional aircraft more than offsetting the expected decline in large jets as the DC9/MD80 fleets reduce. Military revenue was down 1%, in part due to the completion of a large B-1B order in 2010. Operating margins moved from 39.0% to 37.4% in the year, reflecting the reduction in older aircraft, including the temporary parking of a large number of MD90s, which are being refurbished before returning to service with Delta Airlines.

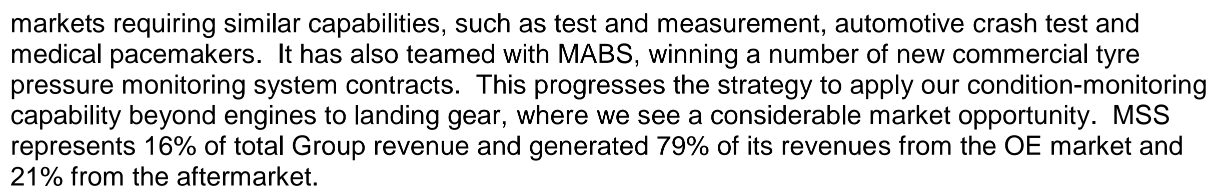
Meggitt Control Systems (MCS) designs and manufactures products which manage the flow of liquids and gases around turbine engines (both aerospace and industrial), control the temperature of oil, fuel and air in aircraft engines and provides cabin air conditioning for smaller aircraft. Its valve business supplies airport ground fuelling products. The division represents 14% of total Group revenue and generated 53% of its revenues from OE and 47% from the aftermarket.

For MCS, civil aerospace grew 23% in the year (28% growth in OE, 17% growth in aftermarket), and military grew at 6%, partially offset by a slight decline in other markets including lower demand for ground refuelling equipment. Operating margins moved from 24.5% to 23.7% driven by the strong relative OE growth and increasing spend on R&D.

Meggitt Polymers & Composites (MPC) has a strong military focus, representing approximately two thirds of its sales. It supplies flexible bladder fuel tanks, ice protection products and composite assemblies for a range of fixed wing and rotorcraft platforms and complex seals packages for civil and military platforms. These market segments are linked by their dependence on similar materials technology and manufacturing processes. We supply over 80% of the US military requirements for fuel bladders and ballistically-resistant and crashworthy fuel tanks. MPC represents 12% of total Group revenue and generated 60% of its revenues from OE and 40% from the aftermarket.

Organic growth in revenues in MPC of 14% in the year was driven by strong large jet and regional aircraft demand resulting in civil growth of 25%. Military sales grew 10% across a range of platforms, including increasing content on the retrofit of ground vehicles. Operating margins improved from 18.2% to 18.5% despite production ramp-up difficulties experienced at its Loughborough, UK site in the first half as referenced at the interim results in August.

Meggitt Sensing Systems (MSS) designs and manufactures highly engineered sensors to measure a variety of parameters such as vibration, temperature, pressure, fluid level and flow. Its products are designed to operate effectively in the extreme conditions of temperature, vibration and contamination that exist in an aircraft or ground-based turbine engine. Sensors are combined into broader electronics packages, providing condition data to operators and maintainers of engines, contributing to improved safety and lower operating costs. MSS has migrated these products into other specialist



markets requiring similar capabilities, such as test and measurement, automotive crash test and medical pacemakers. It has also teamed with MABS, winning a number of new commercial tyre pressure monitoring system contracts. This progresses the strategy to apply our condition-monitoring capability beyond engines to landing gear, where we see a considerable market opportunity. MSS represents 16% of total Group revenue and generated 79% of its revenues from the OE market and 21% from the aftermarket.

MSS organic revenue was up 14% in the year, with the strongest growth in civil OE (31%). Growth in civil markets included production rate increases in Airbus A380 and Boeing 787, both of which are equipped with MSS engine condition monitoring units. The modest reduction in operating margins is attributable to the relative strength of OE, partially offset by further cost reduction measures.

Meggitt Equipment Group (MEG) (including PacSci) comprises a technologically diverse range of businesses, each of which has differentiated capabilities and a specific focus, ranging from fire protection systems and high speed electro-mechanical devices through to sophisticated electronics and electro-mechanical components and sub-systems. The division represents 36% of total Group revenue and generates approximately two thirds of its revenues from OE and one third from the aftermarket.

Revenue in MEG was up 76% on last year including 8 months of PacSci contribution. On an organic basis, revenue was up 14%. Contributors to the strong organic growth were civil, up 9% mainly driven by OE, military up 7% and energy up over 100% due to the strength of the Heatric printed circuit heat exchanger business. While Heatric's core offshore oil and gas market was very strong in 2011, it has also been successful in securing contracts in adjacent markets including floating liquefied natural gas (FLNG) facilities. MEG organic order intake in 2011 of £406m (2010: £319m) was boosted by a significant order from Shell for heat exchangers for its first FLNG facility. Operating margins on an organic basis remained at 23.1% (2010: 23.1%).

Impact of currency: The numbers in the above table are at constant currency, with the impact of foreign exchange fluctuations shown separately. As mentioned in the half-year results and the interim management statement, we expect a greater impact on 2012 Group profitability from the strengthening of the Swiss franc, which we currently estimate to be £12m.

BOARD OF DIRECTORS

In June 2011, Brenda Reichelderfer joined the Board as a non-executive director bringing experience in engineering and manufacturing across different commercial markets. Until her retirement in 2008, Brenda was Senior Vice President, Director of Engineering and Chief Technology Officer of ITT Industries Corporation, where she had also held several other senior roles including divisional Group President.

GROUP OUTLOOK

The outlook for our civil markets is encouraging. Production of large jets and regional aircraft are expected to continue to grow in 2012 and we expect a return to growth in business jet deliveries. Growth in air traffic and business jet utilisation is expected to continue on the back of the recovery seen in 2010 and 2011 at an average rate of 5% per annum, providing good momentum for our civil aftermarket revenues. We therefore maintain our view that civil OE revenues will grow at an average of 7 to 8% and civil aftermarket revenues at an average of 8 to 9% over the next five years.

In the military market, uncertainties around US DoD spending are likely to affect new programme awards but, in the short term, should have little effect on existing delivery contracts and regular aftermarket demand, which are the heart of our military revenues. We therefore continue to expect revenue growth of c 2% per annum over the medium term, in line with prior guidance, assuming no material cuts to programmes on which we have significant content as a result of the sequestration process.

Energy, driven by heightened demand for our printed circuit heat exchangers and increasing market share in condition-monitoring equipment, should deliver revenue growth averaging greater than 15% over the next five years. Other markets should continue to see modest growth.

On the basis of the above, the Group expects to make further good progress in 2012.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Notes	**2011** **£m**	2010 £m
Continuing operations			
Revenue	2	**1,455.3**	1,162.0
Cost of sales		**(839.8)**	(639.8)
Gross profit		**615.5**	522.2
Net operating costs		**(353.0)**	(302.1)
Operating profit*	3	**262.5**	220.1
Finance income	6	**36.9**	33.6
Finance costs	7	**(73.4)**	(81.2)
Net finance costs		**(36.5)**	(47.6)
**Profit before tax ** **		**226.0**	172.5
Tax		**(41.1)**	(33.7)
Profit for the year from continuing operations attributable to owners of the parent		**184.9**	138.8
Earnings per share:			
Basic	9	**24.0p**	20.1p
Diluted	9	**23.8p**	19.9p

	Notes	2011	2010
* Underlying operating profit	3	**359.5**	303.7
** Underlying profit before tax	3	**323.0**	256.1

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011 £m	2010 £m
Profit for the year	**184.9**	138.8
Other comprehensive income for the year:		
Actuarial losses	**(76.6)**	(1.5)
Currency translation differences	**10.7**	29.3
Cash flow hedge movements	**5.3**	20.6
Other comprehensive (expense)/income before tax	**(60.6)**	48.4
Related tax movements	**21.6**	(7.5)
Other comprehensive (expense)/income for the year	**(39.0)**	40.9
Total comprehensive income for the year attributable to owners of the parent	**145.9**	179.7

CONSOLIDATED BALANCE SHEET
As at 31 December 2011

	Notes	**2011 £m**	2010 £m
Non-current assets			
Goodwill	13	**1,544.0**	1,295.5
Development costs	13	**185.8**	151.3
Programme participation costs	13	**197.5**	183.8
Other intangible assets	13	**865.8**	722.1
Property, plant and equipment	14	**229.9**	207.1
Trade and other receivables		**114.7**	88.6
Derivative financial instruments		**39.7**	12.0
Deferred tax assets		**112.5**	105.0
		3,289.9	2,765.4
Current assets			
Inventories		**277.5**	239.1
Trade and other receivables		**317.4**	238.4
Derivative financial instruments		**4.1**	6.2
Current tax recoverable		**2.6**	0.8
Cash and cash equivalents	22	**94.6**	51.9
		696.2	536.4
Total assets	2	**3,986.1**	3,301.8
Current liabilities			
Trade and other payables		**(349.4)**	(249.9)
Derivative financial instruments		**(12.8)**	(4.0)
Current tax liabilities		**(49.4)**	(60.8)
Obligations under finance leases	22	**(0.7)**	(0.8)
Bank and other borrowings	21	**(7.0)**	(12.7)
Provisions	15	**(50.6)**	(40.7)
		(469.9)	(368.9)
Net current assets		**226.3**	167.5
Non-current liabilities			
Trade and other payables		**(6.5)**	(7.8)
Derivative financial instruments		**(4.2)**	(17.1)
Deferred tax liabilities		**(316.8)**	(329.6)
Obligations under finance leases	22	**(8.2)**	(3.9)
Bank and other borrowings	21	**(867.1)**	(755.9)
Provisions	15	**(200.2)**	(115.3)
Retirement benefit obligations	16	**(319.9)**	(265.1)
		(1,722.9)	(1,494.7)
Total liabilities		**(2,192.8)**	(1,863.6)
Net assets		**1,793.3**	1,438.2
Equity			
Share capital		**38.9**	34.9
Share premium		**1,130.1**	859.4
Other reserves		**14.1**	14.1
Hedging and translation reserves		**177.8**	159.1
Retained earnings		**432.4**	370.7
Total equity attributable to owners of the parent		**1,793.3**	1,438.2

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2011

	Share capital £m	Share premium £m	Other reserves £m	Hedging and translation reserves £m	Retained earnings £m	Total equity £m
At 1 January 2010	34.3	825.9	14.1	117.3	282.0	1,273.6
Profit for the year	-	-	-	-	138.8	138.8
Actuarial losses	-	-	-	-	(1.5)	(1.5)
Currency translation differences:						
Arising in the year	-	-	-	29.3	-	29.3
Cash flow hedge movements:						
Movement in fair value	-	-	-	(3.0)	-	(3.0)
Transferred to income statement	-	-	-	23.6	-	23.6
Other comprehensive income/(expense) before tax	-	-	-	49.9	(1.5)	48.4
Related tax movements	-	-	-	(8.1)	0.6	(7.5)
Other comprehensive income/(expense) for the year	-	-	-	41.8	(0.9)	40.9
Total comprehensive income for the year	-	-	-	41.8	137.9	179.7
Employee share option schemes:						
Value of services provided	-	-	-	-	10.4	10.4
Shares issued	0.1	4.5	-	-	(0.4)	4.2
Dividends	0.5	29.0	-	-	(59.2)	(29.7)
At 31 December 2010	34.9	859.4	14.1	159.1	370.7	1,438.2
Profit for the year	-	-	-	-	**184.9**	**184.9**
Actuarial losses	-	-	-	-	(76.6)	(76.6)
Currency translation differences:						
Arising in the year	-	-	-	10.7	-	10.7
Cash flow hedge movements:						
Movement in fair value	-	-	-	0.2	-	0.2
Transferred to income statement	-	-	-	5.1	-	5.1
Other comprehensive income/(expense) before tax	-	-	-	16.0	(76.6)	(60.6)
Related tax movements	-	-	-	2.7	18.9	21.6
Other comprehensive income/(expense) for the year	-	-	-	**18.7**	**(57.7)**	**(39.0)**
Total comprehensive income for the year	**-**	**-**	**-**	**18.7**	**127.2**	**145.9**
Equity placing	3.5	242.5	-	-	-	246.0
Employee share option schemes:						
Value of services provided	-	-	-	-	8.2	8.2
Shares issued	0.1	3.4	-	-	(0.1)	3.4
Dividends	0.4	24.8	-	-	(73.6)	(48.4)
At 31 December 2011	**38.9**	**1,130.1**	**14.1**	**177.8**	**432.4**	**1,793.3**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2011

	Notes	**2011** **£m**	2010 £m
Cash inflow from operations before exceptional operating items		**395.8**	331.3
Cash outflow from exceptional operating items	4	**(17.1)**	(15.5)
Cash inflow from operations	20	**378.7**	315.8
Interest received		**0.3**	0.4
Interest paid		**(31.0)**	(38.5)
Tax paid		**(42.6)**	(29.9)
Tax equalisation swap received*		**-**	4.2
Cash inflow from operating activities		**305.4**	252.0
Businesses acquired	12	**(418.1)**	-
Net cash acquired with businesses	12	**0.5**	-
Capitalised development costs		**(41.2)**	(33.5)
Capitalised programme participation costs		**(33.2)**	(28.4)
Purchase of other intangible assets		**(25.1)**	(13.7)
Purchase of property, plant and equipment		**(27.0)**	(14.0)
Proceeds from disposal of property, plant and equipment		**7.5**	0.2
Cash outflow from investing activities		**(536.6)**	(89.4)
Dividends paid to Company's shareholders	22	**(48.4)**	(29.7)
Issue of equity share capital	22	**249.5**	4.2
Proceeds from borrowings	21	**214.3**	395.4
Debt issue costs	21	**(2.9)**	(1.7)
Repayments of borrowings		**(137.4)**	(542.3)
Cash inflow/(outflow) from financing activities		**275.1**	(174.1)
Net increase/(decrease) in cash and cash equivalents		**43.9**	(11.5)
Cash and cash equivalents at start of year		**51.9**	62.9
Exchange (losses)/gains on cash and cash equivalents		**(1.2)**	0.5
Cash and cash equivalents at end of year	22	**94.6**	51.9

* In 2010, a settlement was received under a tax equalisation swap designed to hedge the Group's tax exposure on foreign exchange movements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. Basis of preparation

This document contains abridged preliminary financial information for the year ended 31 December 2011 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 as adopted by the European Union ('IFRSs') and in accordance with the FSA Listing Rules. It has been prepared under the historical cost convention as modified by the revaluation of certain financial assets and financial liabilities (including derivative instruments) at fair value.

The financial information contained in this document does not constitute Group statutory accounts as defined in Sections 404 and 435 of the Companies Act 2006. It is based on, and is consistent with, that in the Group's statutory accounts for the year ended 31 December 2011 and those financial statements will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditors' report on those accounts is unqualified and does not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

Group statutory accounts for the year ended 31 December 2010 have been filed with the Registrar of Companies. The auditors' report on those accounts is unqualified and does not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

2. Segmental analysis

The Group manages its business under the five key segments of Aircraft Braking Systems, Control Systems, Polymers & Composites, Sensing Systems and the Equipment Group. Pacific Scientific Aerospace ('PacSci') is managed within the Equipment Group. However, the results of PacSci have been reported separately to the Chief Operating Decision Maker for the period from acquisition to 31 December 2011 and accordingly PacSci is treated as a separate segment under IFRS 8 for this period.

Year ended 31 December 2011

	Aircraft Braking Systems £m	Control Systems £m	Polymers & Composites £m	Sensing Systems £m	Equipment Group £m	PacSci £m	Total £m
Gross segmental revenue	320.5	202.9	173.2	234.6	338.6	189.6	1,459.4
Inter-segment revenue	-	(1.3)	(2.0)	(0.7)	(0.1)	-	(4.1)
Revenue	**320.5**	**201.6**	**171.2**	**233.9**	**338.5**	**189.6**	**1,455.3**
Underlying operating profit*	**119.9**	**47.9**	**31.7**	**43.2**	**78.6**	**38.2**	**359.5**

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

2. Segmental analysis (continued)

Year ended 31 December 2010

	Aircraft Braking Systems £m	Control Systems £m	Polymers & Composites £m	Sensing Systems £m	Equipment Group £m	Total £m
Gross segmental revenue	309.7	183.3	156.9	213.7	305.4	1,169.0
Inter-segment revenue	-	(0.5)	(0.9)	(5.3)	(0.3)	(7.0)
Revenue	309.7	182.8	156.0	208.4	305.1	1,162.0
Underlying operating profit*	120.7	44.7	28.4	39.5	70.4	303.7

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

	31 December 2011 £m	31 December 2010 £m
Aircraft Braking Systems	**470.4**	454.6
Control Systems	**131.4**	114.5
Polymers & Composites	**79.1**	69.4
Sensing Systems	**190.2**	176.4
Equipment Group	**195.9**	179.6
PacSci	**109.9**	-
Total segmental trading assets	**1,176.9**	994.5
Centrally managed trading assets*	**145.9**	113.8
Goodwill (note 13)	**1,544.0**	1,295.5
Other intangible assets (note 13)	**865.8**	722.1
Derivative financial instruments – non-current	**39.7**	12.0
Deferred tax assets	**112.5**	105.0
Derivative financial instruments – current	**4.1**	6.2
Current tax recoverable	**2.6**	0.8
Cash and cash equivalents (note 22)	**94.6**	51.9
Total assets	**3,986.1**	3,301.8

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

3. Reconciliations between profit and underlying profit

Underlying profit is used by the Board to monitor and measure the underlying trading performance of the Group. It excludes certain items as described below:

	2011 £m	2010 £m
Operating profit	**262.5**	220.1
Exceptional operating items (note 4)	**20.3**	15.7
Amortisation of intangible assets acquired in business combinations (note 13)	**75.1**	64.7
Disposal of inventory revalued in business combinations*	**11.3**	-
Financial instruments (note 5)	**(9.7)**	3.2
Adjustments to operating profit**	**97.0**	83.6
Underlying operating profit	**359.5**	303.7
Profit before tax	**226.0**	172.5
Adjustments to operating profit per above	**97.0**	83.6
Underlying profit before tax	**323.0**	256.1
Profit for the year	**184.9**	138.8
Adjustments to operating profit per above	**97.0**	83.6
Tax effect of adjustments to operating profit	**(36.4)**	(30.3)
Adjustments to profit for the year	**60.6**	53.3
Underlying profit for the year	**245.5**	192.1

Underlying earnings per ordinary share ('EPS') for the year is 31.9p (2010: 27.8p). See note 9 for the definition of underlying EPS and its reconciliation to basic EPS.

* IFRS 3 requires finished goods acquired in a business combination to be valued at fair value, which is typically estimated selling price less costs of disposal and a reasonable profit allowance for the selling effort. Work in progress acquired in a business combination is valued at fair value, which is typically estimated selling price less costs to complete, costs of disposal and a reasonable profit allowance for work to be carried out. The fair value of acquired inventory is thus significantly higher than the same items built post acquisition, the value of which includes no profit element. The difference between the fair value of the inventory consumed and its cost is excluded from the Group's underlying profit figures.

** Of the adjustments to operating profit, £3.7 million (2010: £4.9 million) relating to exceptional operating items and £11.3 million (2010: £Nil) relating to the disposal of inventory revalued in business combinations has been charged to cost of sales with the balance of £82.0 million (2010: £78.7 million) included within net operating costs.

4. Exceptional operating items

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

	Notes	**2011 £m**	2010 £m
Transformation programme	a	**4.4**	13.2
Acquisition of PacSci	b	**6.0**	1.3
Integration of PacSci	c	**5.9**	-
Sensing Systems consolidation	d	**3.7**	-
Other		**0.3**	1.2
Exceptional operating items		**20.3**	15.7

a. The previously announced transformation programme was substantially completed during the year and the increased annual run-rate savings target of £57.0 million, set for the end of 2011, has been achieved.

b. Costs were incurred in respect of the acquisition of PacSci which completed on 21 April 2011. Total costs associated with the acquisition were £7.3 million of which £6.0 million were incurred in the year.

c. Cost synergies achieved in 2011 as part of the on-going PacSci integration process were £4.1 million. Costs incurred in the year in respect of this integration process were £5.9 million.

d. In June 2011, Sensing Systems announced the consolidation of its New Hampshire and San Juan Capistrano facilities to a single new location in Southern California. This decision will result in the closure of the New Hampshire site in 2013.

Cash expenditure on exceptional operating items was £17.1 million (2010: £15.5 million), including £3.9 million in respect of the transformation programme (2010: £13.7 million), £6.6 million in respect of the acquisition of PacSci (2010: £0.7 million), £4.4 million in respect of the integration of PacSci (2010: £Nil), £1.9 million in respect of the Sensing Systems consolidation (2010: £Nil) and £0.3 million in respect of other items (2010: £1.1 million). The tax credit in respect of exceptional operating items was £5.6 million (2010: £4.9 million).

5. Financial instruments

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

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

	2011 £m	2010 £m
Movement in the fair value of foreign currency forward contracts	**5.6**	(0.3)
Impact of retranslating net foreign currency assets and liabilities at spot rate	**(1.4)**	0.7
Movement in the fair value of interest rate derivatives	**(30.0)**	(6.1)
Movement in the fair value of fixed rate borrowings	**16.1**	8.9
Financial instruments – (gain)/loss	**(9.7)**	3.2

6. Finance income

	2011 **£m**	2010 £m
Interest on bank deposits	**0.1**	0.2
Unwinding of interest on other receivables	**1.1**	1.2
Expected return on retirement benefit scheme assets	**35.5**	32.0
Other finance income	**0.2**	0.2
Finance income	**36.9**	33.6

7. Finance costs

	2011 **£m**	2010 £m
Interest on bank borrowings	**11.1**	24.6
Interest on senior notes	**19.8**	12.2
Interest on finance lease obligations	**0.3**	0.3
Unwinding of interest on provisions (note 15)	**1.1**	1.3
Unwinding of interest on retirement benefit scheme liabilities	**40.0**	41.8
Amortisation of debt issue costs	**1.7**	1.5
Less: amounts capitalised in the cost of qualifying assets (note 13)	**(0.6)**	(0.5)
Finance costs	**73.4**	81.2

8. Tax

The Finance Act 2011 included legislation to reduce the main rate of corporation tax in the UK from 26% to 25% with effect from 1 April 2012. Further reductions are proposed to reduce the main rate by 1% per annum to 23% by 1 April 2014.

The reduction in the main UK tax rate to 25% is reflected in the financial statements for the year ended 31 December 2011. The impact of this change on net deferred tax liabilities as at 31 December 2011, profit for the year (underlying and statutory) and other comprehensive income for the year has not been significant. As the further reductions in the main UK tax rate have not been substantially enacted at the balance sheet date, their impact is not reflected in the financial statements.

9. Earnings per ordinary share

Earnings per ordinary share ('EPS') is calculated by dividing the profit attributable to owners of the parent of £184.9 million (2010: £138.8 million) by the weighted average number of shares in issue during the year of 769.7 million shares (2010: 691.5 million shares). The weighted average number of shares used excludes 0.2 million shares (2010: 0.6 million shares) being the weighted average number of own shares bought by the Group and held during the year by an independently managed Employee Share Ownership Plan Trust.

The calculation of diluted EPS is based on the same profits as used in the calculation of basic EPS. The weighted average number of ordinary shares of 775.9 million (2010: 699.4 million) used in the calculation is based on the weighted average number used in the calculation of basic EPS adjusted to reflect the assumption that all potentially dilutive ordinary shares convert. For the Group this means assuming all equity-settled share options and share appreciation rights in issue are exercised.

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

	2011 Pence	2010 Pence
Basic EPS	**24.0**	20.1
Add back effects of:		
Exceptional operating items	**1.9**	1.6
Amortisation of intangible assets acquired in business combinations	**6.0**	5.8
Disposal of inventory revalued in business combinations	**0.9**	-
Financial instruments	**(0.9)**	0.3
Underlying EPS	**31.9**	27.8

10. Dividends

The Board is recommending a final dividend of 7.30p per share (2010: 6.35p). Taken with the interim dividend of 3.20p (2010: 2.85p) paid in the year this gives a total dividend of 10.50p (2010: 9.20p), an increase of 14%. Subject to approval at the Annual General Meeting to be held on 26 April 2012, the proposed dividend will be paid on 11 May 2012 to shareholders on the register at close of business on 16 March 2012. In continuation of recent practice, shareholders will be offered the opportunity to elect for shares in lieu of cash for the final dividend.

11. Related party transactions

The remuneration of the key management personnel of the Group including executive directors is set out below:

	2011 £m	2010 £m
Salaries and other short-term employee benefits	**8.7**	7.9
Post-retirement benefit costs	**0.4**	0.5
Share-based payment expense	**3.8**	4.8
Total	**12.9**	13.2

12. Business combinations

On 21 April 2011 the Group acquired Pacific Scientific Aerospace ('PacSci') from Danaher Corporation. The acquisition adds fire and smoke suppression capabilities to the Group's existing product portfolio, creating a leading integrated fire and smoke detection and suppression offering and will enhance the Group's electric solutions offering as aircraft of the future move away from hydraulic/pneumatic technology and towards electric power. The acquisition also strengthens the Group's portfolio of sensors and anti-icing products and enhances the Group's low cost manufacturing capability with the addition of factories in Mexico and Vietnam.

The assets and liabilities of PacSci on 21 April 2011, including goodwill arising on consolidation, were as follows:

	Fair value £m
Non-current assets	
Goodwill (note 13)	**232.6**
Development costs (note 13)	**2.4**
Other intangible assets (note 13)	**187.7**
Property, plant and equipment (note 14)	**23.7**
Trade and other receivables	**4.2**
Deferred tax assets	**23.2**
	473.8
Current assets	
Inventories	**42.7**
Trade and other receivables	**34.1**
Current tax recoverable	**0.7**
Cash and cash equivalents (note 22)	**0.5**
	78.0
Total assets	**551.8**
Current liabilities	
Trade and other payables	**(49.8)**
Bank and other borrowings (note 21)	**(0.1)**
Provisions (note 15)	**(7.6)**
	(57.5)
Net current assets	**20.5**
Non-current liabilities	
Trade and other payables	**(0.7)**
Deferred tax liabilities	**(15.0)**
Provisions (note 15)	**(62.2)**
Retirement benefit obligations	**(1.7)**
	(79.6)
Total liabilities	**(137.1)**
Net assets acquired	**414.7**

The fair value of consideration payable in respect of PacSci is as follows:

	2011 £m
Cash paid on acquisition	**417.1**
Less amounts recoverable under working capital mechanism	**(2.4)**
Total consideration payable in respect of PacSci	**414.7**

Costs related to the acquisition were £7.3 million, of which £6.0 million were incurred in the current year and £1.3 million in the prior year. These costs have been treated as an exceptional operating item (note 4).

12. Business combinations (continued)

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

	2011 £m	2010 £m
Cash paid in respect of PacSci	**417.1**	-
Cash paid in respect of acquisitions in earlier years	**1.0**	-
Total consideration paid (note 22)	**418.1**	-

13. Intangible assets

	Goodwill £m	**Development costs £m**	**Programme participation costs £m**	**Other intangible assets £m**
At 1 January 2010	1,261.9	119.0	174.9	754.5
Exchange rate adjustments	33.6	6.7	4.0	20.3
Additions	-	33.5	24.6	15.8
Interest capitalised (note 7)	-	0.3	-	0.2
Amortisation	-	(8.2)	(19.7)	(68.7)*
At 31 December 2010	1,295.5	151.3	183.8	722.1
At 1 January 2011	1,295.5	151.3	183.8	722.1
Exchange rate adjustments	15.9	1.4	1.3	8.8
Businesses acquired (note 12)	232.6	2.4	-	187.7
Additions	-	41.5	33.2	26.9
Interest capitalised (note 7)	-	0.5	-	0.1
Amortisation	-	(11.3)	(20.8)	(79.8)*
At 31 December 2011	**1,544.0**	**185.8**	**197.5**	**865.8**

* Of the £79.8 million (2010: £68.7 million) amortisation of other intangible assets, £75.1 million (2010: £64.7 million) relates to the amortisation of intangible assets acquired in business combinations and has been excluded from underlying profit (see note 3).

Goodwill is tested for impairment annually or more frequently if there is any indication of impairment. A full impairment review was conducted for the year ended 31 December 2011 and no impairment charge was required.

14. Property, plant and equipment

	2011 £m	2010 £m
At 1 January	**207.1**	215.9
Exchange rate adjustments	**1.1**	6.4
Businesses acquired (note 12)	**23.7**	-
Additions	**31.5**	14.2
Disposals	**(1.3)**	(0.6)
Depreciation	**(32.2)**	(28.8)
At 31 December	**229.9**	207.1

15. Provisions

	2011 £m	2010 £m
At 1 January	**156.0**	106.8
Exchange rate adjustments	**4.8**	2.7
Businesses acquired (note 12)	**69.8**	-
Transfers from/(to) trade and other payables – non-current	**0.8**	(0.1)
Charge to income statement – cost of sales	**2.9**	2.3
Charge to income statement – net operating costs*	**36.1**	65.7
Charge to income statement – finance costs (note 7)	**1.1**	1.3
Utilised	**(20.7)**	(22.7)
At 31 December	**250.8**	156.0
Disclosed as:		
Current	**50.6**	40.7
Non-current	**200.2**	115.3
At 31 December	**250.8**	156.0

* During the year an increase of £28.2 million (2010: £66.3 million) in amounts recoverable under the Group's environmental insurance policies was recognised within other receivables and credited to operating profit.

16. Retirement benefit obligations

	2011 £m	2010 £m
The amounts recognised in the balance sheet are as follows:		
Fair value of scheme assets	**584.9**	567.9
Present value of scheme liabilities	**(904.8)**	(833.0)
At 31 December	**(319.9)**	(265.1)

Key financial assumptions

	2011	2010
UK scheme:		
Discount rate	**4.70%**	5.40%
Inflation rate	**3.00%**	3.30%
Salary inflation rate	**4.00%**	4.30%
Current life expectancy: Male aged 65 years	**22.0 to 24.6**	21.9 to 24.5
Overseas schemes:		
Discount rate	**4.65%**	5.25%
Salary increases	**4.00%**	4.00%
Current life expectancy: Male aged 65 years	**19.1**	19.0

17. Issued share capital

	2011 No. m	2010 No. m
Allotted and fully paid:		
At 1 January	**698.0**	685.3
Equity placing	**69.8**	-
Issued on exercise of executive share options	**2.4**	1.7
Issued on exercise of sharesave options	**1.1**	0.6
Scrip dividends	**7.5**	10.4
At 31 December	**778.8**	698.0

18. Contingent liabilities

The Company has given guarantees in respect of credit facilities for certain of its subsidiaries, some property leases, other leasing arrangements and the performance by some current and former subsidiaries of certain contracts. Also, there are similar guarantees given by certain other Group companies. The fair value of these guarantees is not considered to be significant.

The Company and various of its subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the ordinary course of business. The directors do not anticipate that the outcome of these proceedings, actions and claims, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.

19. Capital commitments

	2011 £m	2010 £m
Contracted for but not incurred:		
Intangible assets	**0.9**	0.5
Property, plant and equipment	**6.9**	4.3
Total	**7.8**	4.8

20. Cash inflow from operations

	2011 £m	2010 £m
Profit for the year	**184.9**	138.8
Adjustments for:		
Tax	**41.1**	33.7
Depreciation (note 14)	**32.2**	28.8
Amortisation (note 13)	**111.9**	96.6
(Profit)/loss on disposal of property, plant and equipment	**(2.0)**	0.2
Finance income (note 6)	**(36.9)**	(33.6)
Finance costs (note 7)	**73.4**	81.2
Financial instruments (note 5)	**(9.7)**	3.2
Retirement benefit obligation deficit payments	**(26.2)**	(23.1)
Share-based payment expense	**8.4**	14.3
Change in working capital	**1.6**	(24.3)
Cash inflow from operations	**378.7**	315.8

21. Bank and other borrowings

	2011 **£m**	2010 £m
At 1 January	**768.6**	866.1
Exchange rate adjustments	**12.6**	36.7
Businesses acquired (note 12)	**0.1**	-
Amounts drawn down	**214.3**	395.4
Debt issue costs	**(2.9)**	(1.7)
Amounts repaid	**(136.5)**	(541.2)
Other non-cash movements	**17.9**	13.3
At 31 December	**874.1**	768.6
Disclosed as:		
Current	**7.0**	12.7
Non-current	**867.1**	755.9
At 31 December	**874.1**	768.6

22. Net debt

	2011 **£m**	2010 £m
At 1 January	**721.4**	808.6
Cash inflow from operating activities	**(305.4)**	(252.0)
Cash outflow from investing activities excluding businesses acquired	**119.0**	89.4
Free cash inflow	**(186.4)**	(162.6)
Businesses acquired (note 12)	**418.1**	-
Net cash acquired with businesses (note 12)	**(0.5)**	-
Dividends paid to Company's shareholders	**48.4**	29.7
Issue of equity share capital	**(249.5)**	(4.2)
Net cash outflow/(inflow)	**30.1**	(137.1)
Exchange rate adjustments	**13.9**	36.4
Other non-cash movements	**23.0**	13.5
At 31 December	**788.4**	721.4
Disclosed as:		
Bank and other borrowings (note 21)	**874.1**	768.6
Obligations under finance leases – current	**0.7**	0.8
Obligations under finance leases – non-current	**8.2**	3.9
Cash and cash equivalents	**(94.6)**	(51.9)
Total	**788.4**	721.4

PRINCIPAL RISKS AND UNCERTAINTIES

Markets – Competition

Potential impact
We operate in a highly competitive global market that has experienced significant consolidation in recent years. Losing contracts to competitors, some of whom have greater financial, technological and marketing resources, or being forced to accept lower margins, would have an adverse effect on Meggitt's results.

The Group's competitive position would suffer were it unable to meet future investment requirements, continue research and development or provide cash and equipment incentives to original equipment manufacturers. Such investments, which decrease our cash flow in the short-term, need to be recovered through future revenues.

Losing key intellectual property or failing to enforce its rights could hinder our development and provide competitor advantage.

Mitigation action

- Protecting our position by maintaining a broad customer base.
- Maintaining diverse products and operations to reduce the effect of action by any single competitor.
- Maintaining a competitive manufacturing base with low-cost operations in China, Mexico and Vietnam.
- Maintaining the highest manufacturing and quality standards and adhering to individual customer certification requirements.
- Developing proprietary intellectual property and products in markets that demand high levels of technology, quality and service and strong, long-term relationships with customers.
- Maintaining a robust intellectual property protection programme.
- Ensuring good operational cash flow and available finance.
- Organisation structure aligned with customer requirements.

Markets – Product demand

Potential impact
Military markets currently account for 40% of Group revenues. Any reduction in military spending or reordering of priorities, particularly by the US government (Meggitt's largest end customer), could adversely affect our revenues.

A significant or prolonged downturn due to recession, commodity prices, terrorist attack or aerospace regulations would decrease demand for the Group's products from civil aerospace customers, which account for 46% of Group revenues.

Mitigation action

- Spreading our activities across the civil aerospace, military and energy markets.
- Generating revenues from original equipment manufacturers and aftermarket products.
- Operating across different geographical regions.
- Maintaining, where practical, a flexible manufacturing cost base, maximising benefits by sourcing from lower cost markets as appropriate.

Markets – IT environment

Potential impact
Intellectual property and other business data are stored and transmitted electronically. Accordingly, the Group is exposed to the risk of data loss either through third-party breach of our systems or the unintentional loss of data by employees.

The Group is implementing a global IT solution (SAP) across its sites. Failure to implement the new system successfully could lead to loss of data, operational delays and unplanned increases in working capital.

Mitigation action
- Monitoring risks and prioritising mitigation actions through an IT security committee.
- Appointed a Group head of IT security.
- Continually enhancing IT security policies and upgrading and standardising security tools.
- Progressively rolling out SAP under the governance of a dedicated steering committee. SAP has been successfully implemented at 15 Group sites.
- Hosting SAP in two separate locations, each with robust disaster recovery plans.

Operations – Acquisitions

Potential impact
Meggitt continues to pursue acquisitions as part of our growth strategy. Such acquisitions may not realise expected benefits.

Mitigation action
- Undertaking robust due diligence procedures.
- Obtaining representations, warranties and indemnities from vendors where possible.
- Appointing full-time integration teams on all major acquisitions.
- Implementing comprehensive business integration processes building on the success of previous acquisition integrations.

Operations – Contracts

Potential impact
Multi-year, fixed price contracts with original equipment manufacturing customers expose us to variations in production costs.

The Group is subject to the contracting regulations of our government customers, particularly those of the US government, our largest end customer, which can impose a range of sanctions in response to violations.

Mitigation action
- Ensuring estimates of cost are based on reliable historic data, future productivity improvements and, where possible, entering into multi-year, fixed price contracts with major suppliers.
- Maintaining a comprehensive ethics and business conduct programme, including guidelines for doing business with the US Government and an anti-corruption policy.
- Entering into commitments only after rigorous commercial and legal reviews of contract terms.

Operations – Equipment fault

Potential impact
Meggitt's products generally operate in extreme environments where a serious incident arising from failure could result in liabilities for personal injury or death and damage to our reputation.

The Group may also be subject to material product warranty obligations to third parties for equipment it manufactures and services.

Mitigation action
- Designing manufacturing processes that ensure stringent quality and reliability standards.
- Implementing best practice operational performance standards through an Operations Excellence Council.
- Protecting the Group from potential product liability claims with liability insurance (subject to coverage limits).

Operations – Supply chain

Potential impact
We rely on our own manufacturing operations and independent suppliers for key raw materials and components, some of which may be available from a limited number of suppliers. Any disruption to the supply chain could have an impact on our ability to meet customer requirements and adversely affect the Group's results.

Mitigation action
- Maintaining significant investment in modernising facilities and improving production processes to develop leading manufacturing operations.
- Maintaining a supplier risk assessment programme.
- Subjecting robust business continuity plans to regular testing to manage the risk of a loss of a major facility or supplier.

Finance – Credit

Potential impact
Credit risk exists in relation to customers and insurers.

Mitigation action
- Maintaining a wide customer base and rigorous credit control procedures.
- Maintaining a broad insurer group and monitoring the credit rating of those insurers.

Finance – Exchange rates

Potential impact
We operate in, and sell products to, a range of countries with different currencies, resulting in exchange rate exposure. Transaction risk arises where revenues are denominated in currencies different from those of the costs of manufacture. Translation risk arises on the conversion into sterling of income statements and net assets of overseas subsidiaries.

Mitigation action
- Maintaining hedging in excess of 70% of the next 12 months' anticipated transaction exposure.
- Addressing longer-term risk of exposure to exchange rate fluctuations by sourcing goods and services in currencies matching the revenue exposure where cost-effective.
- Managing translation risk where possible by matching the currency of borrowings with the net assets of overseas subsidiaries.

Finance – Financing

Potential impact
Meggitt's long-term financing is provided by shareholders in the form of equity and by banks and other institutions in the form of debt.

The ability to raise additional equity finance is dependent on general market conditions and being able to convince potential investors of the strategic case for investing in Meggitt.

Debt facilities are provided for finite periods of time and need to be renewed periodically, unless repaid from cash generated. Such renewal could be affected by any structural issues in the credit markets.

Debt facilities contain covenants which, if breached, could result in the facilities being withdrawn.

Mitigation action
- Maintaining good relationships with major shareholders as evidenced by the equity placing of £246 million in January 2011 to support the acquisition of Pacific Scientific Aerospace.
- Negotiating debt facility extensions. During the year the Group successfully refinanced a 2012 maturing bank facility with a new five-year $700 million committed revolving bank facility. No further refinancing is required before 2013.
- Maintaining a broad and geographically diverse banking syndicate, with good credit ratings.
- Using longer term US private placement funding to reduce reliance on banks.
- Basing covenant calculations on frozen GAAP to reduce volatility arising from certain fair value measurements and any future accounting standard changes.
- Including covenant clauses that enable net debt and EBITDA to be retranslated to sterling at similar exchange rates to reduce exchange movement volatility.
- Monitoring actual and forecast results against covenant ratios regularly.

Finance – Retirement benefits funding

Potential impact
The Group's post-retirement benefit schemes are currently in deficit (£319.9 million at 31 December 2011). The future deficit position may be adversely affected by poor investment performance, changes in corporate bond yields and inflation rates, greater than anticipated improvements in life expectancy and changes in the regulatory environment. This would have an adverse affect on amounts recorded in the income statement and the level of future cash contributions required to be made.

Mitigation action
- Closed all defined benefit pension schemes in the UK and US to new members.
- Reducing future service costs by basing UK future accruals on career average salaries and freezing Group contributions to post-retiree healthcare schemes at 2011 levels.
- Agreeing deficit recovery plans with the trustees based on actuarial advice and the results of scheme valuations.

Corporate – Environmental

Potential impact
Meggitt's operations and facilities are subject to laws and regulations that govern the discharge of pollutants and hazardous substances into air and water, the handling, storage and disposal of such materials, and other environmental matters. Failing to comply with our obligations potentially exposes the Group to serious consequences, including fines, other sanctions and operational limitations.

We are involved in the investigation and remediation of current and former sites for which we have been identified as a potentially responsible party under US law.

Mitigation action
- Designing processes that minimise the effect of the Group's operations on the environment.
- Maintaining a programme of independent third-party audits of our sites.
- Carrying out extensive environmental due diligence on potential acquisitions. Purchasing environmental insurance for all new, and acquired, sites.

Corporate – Legal and regulatory

Potential impact
We are subject to litigation in the ordinary course of business and provide for such costs. However, there is a risk that successful claims or costs could exceed provisions. For example, a number of asbestos-related claims have been made against subsidiary companies. To date, the amount connected with such claims in any year has not been material and many claims are covered fully or partly by existing insurance and indemnities.

The Group is subject to the laws and regulations of the countries in which it operates, including health and safety, environmental, export compliance and government contracting regulations. In the US, there is a system of voluntary disclosure to the relevant authorities to deal with any breach of export laws. Any reported or unreported breach may be investigated and, depending upon its seriousness, result in criminal, civil or administrative penalties, including suspension or debarment. The US authorities are investigating alleged violations of US export control laws by four US Meggitt subsidiaries and a UK business. These investigations are likely to lead to financial penalties for which provision has been made and the imposition of corrective measures. Suspension or debarment and denial of export privileges are also possible.

The aerospace industry is highly regulated so the Group would be adversely affected if a material certification, authorisation or approval were revoked or suspended.

Mitigation action
- Maintaining a legal and compliance function to oversee the management of these risks and the appropriate response to any issues as they arise.
- Maintaining a comprehensive health and safety programme across all of our businesses, including third-party audits and benchmarking performance.
- Investing significant resources in implementing best practice trade compliance and ethics programmes which are reviewed quarterly by the Board's Ethics and Trade Compliance Committee.

Corporate – Organisational structure

Potential impact
Meggitt's success depends upon the efforts, abilities, experience and expertise of certain senior and specialist employees. Failure to retain them or recruit alternatives would have an adverse effect.

The Group would be adversely affected by work stoppages or slowdowns at its facilities and those of key customers or suppliers.

As the Group continues to grow organically and through acquisition it risks becoming fragmented and unable to execute its strategic objectives.

Mitigation action
- Maintaining development and succession programmes, competitive benchmarked remuneration packages and good communications at all levels.
- Strengthening central sales and marketing, operational excellence, IT, legal and compliance functions.
- Implemented new divisional structure.
- Standardising back office functions, provided increasingly through shared service centres.

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 adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report includes 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.

By order of the Board:

T Twigger	S Young
Chief Executive	Group Finance Director
5 March 2012	5 March 2012

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