Press information

MEGGITT

24 February 2015

Meggitt PLC
2014 Full-year results

Investing for growth

Meggitt PLC ("Meggitt" or "the Group"), a leading international engineering company specialising in high performance components and sub-systems for the aerospace, defence and energy markets, today announces full-year audited results for the year ended 31 December 2014.

Group headlines

£m	**2014**	2013	% change	
			Reported	Organic[1]
Orders	**1,610.0**	1,551.7	+4	+9
Revenue	**1,553.7**	1,637.3	-5	0
Underlying[2]:				
EBITDA[3]	**429.6**	479.3	-10	-8
Operating profit	**346.0**	397.2	-13	-11
Profit before tax	**328.7**	377.8	-13	-11
Earnings per share (p)	**32.4**	37.5	-14	
Statutory:				
Operating profit	**236.2**	300.3	-21	
Profit before tax	**208.9**	269.4	-22	
Earnings per share (p)	**22.0**	29.4	-25	
Free cash flow	**146.8**	110.4	+33	+38
Net debt	**575.5**	564.6	+2	
Dividend (p)	**13.75**	12.75	+8	

- Strong order intake: book to bill of 1.03x supports growth in 2015 and beyond. Record expenditure on R&D and new product introduction underpins future revenue growth.
- Organic revenue growth of 6% in civil aerospace offset by declines in military and energy. Total H2 organic revenue growth stronger at 3%.
- Reported revenue adversely impacted by currency (£57m) and disposals of non-core businesses (£26m). Reduced operating margin resulting from unfavourable revenue mix and increased investment.
- Excellent progress made on deployment of the Meggitt Production System (MPS)
    - Now launched at 29 sites, 71% of manufacturing footprint;
    - Defective parts per million reduced by 84% since inception.
- Good improvement in free cash flow even with continuing high levels of investment.
- Commenced share buyback programme to optimise capital structure.
- Strong balance sheet: net debt at 1.2x EBITDA.
- Recommended final dividend up 8% to 9.50p, resulting in full-year dividend also up 8% to 13.75p.

1. Organic numbers exclude the impact of acquisitions, disposals and foreign exchange.
2. Underlying profit and EPS are used by the Board to measure the trading performance of the Group and exclude the amortisation of acquired intangibles, operating exceptional items, the marking to market of financial instruments and pensions interest, as set out in notes 3 and 9.
3. Underlying EBITDA represents underlying operating profit adjusted to add back depreciation, amortisation and impairment losses.

Stephen Young, Chief Executive, commented:

"2014 was a challenging year for the Group, exacerbated by the impact of external factors including a significant foreign exchange headwind. However, the organic decline in the first half was followed by a return to growth in the second half.

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

"We made excellent progress against our key strategic initiatives including deployment of the Meggitt Production System, our global continuous improvement programme which, together with a 9% increase in orders and the stronger second half revenue growth, gives us good momentum going into 2015.

"Reflecting our continuing confidence in the prospects for the Group, the proposed final dividend is up 8% on last year to 9.50p resulting in a full-year dividend of 13.75p, also up 8%."

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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 63,000 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. Our high levels of embedded intellectual property and strong customer relationships are enabling us to continue to win good positions on new more fuel efficient platforms, normally on a sole-source basis, underpinning our overall medium-term growth expectations.

Recent years have seen an almost unprecedented level of new platform announcements by aircraft manufacturers. The Group has been very successful in securing positions on these platforms, resulting in elevated levels of development expenditure. While this development activity continues, we are now starting to move record numbers of new parts into production as the platforms enter service. Though this will inevitably add cost to the business in the near-term, it represents a major refresh of our in-service portfolio and will drive revenue for decades ahead.

Our capability-based Group structure is tailored to the requirements of our customers, and we have further improved our customer focus with the recent creation of two senior management positions, one focused on the needs of our original equipment customers and the other on evolving the way we provide aftermarket products and services in response to market changes.

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

HEADLINE FINANCIALS

Orders for the year grew organically by 9%, with increases in energy (25%), civil aftermarket (AM) (13%) and military (9%) offsetting a modest decline in civil original equipment (OE) (-3%).

Reported Group revenue of £1,553.7m (2013: £1,637.3m) represents a 5% decline as analysed in the table below:

	£m	% impact
2013 Revenue	1,637.3	
Currency	-56.8	-3.5
Net business disposals	-26.5	-1.6
Organic growth	-0.3	0.0
2014 Revenue	1,553.7	-5.1

As expected, currency and disposals had a significant adverse impact on revenue. Currency movements, reflecting the strength of Sterling against the Group's major operating currencies of US Dollar, Swiss Franc and Euro, contributed £57m, or 3% to the decline, of which £43m is attributable to Sterling/US Dollar. Net disposals represented an additional net headwind of £26m, primarily reflecting the 2013 disposals of the Addison and Sunbank businesses. Good organic growth in civil in 2014 was offset by declines in military and energy, resulting in a flat overall organic revenue performance. Encouragingly, the trajectory within the year was positive with H2 organic revenue growth of 3%.

The Board's preferred measure of the Group's trading performance is underlying profit. The adjustments between underlying and statutory profit are described in notes 3 and 9. Underlying operating profit for the year was £346.0m (2013: £397.2m), representing a margin of 22.3% (2013: 24.3%). The principal drivers included adverse mix, with OE growth outpacing that of aftermarket in both civil and military markets, combined with a further increase in investment in research and development and new product introduction and the previously disclosed lower profitability on legacy contracts, partially offset by operational improvements and a one-time benefit of a new arrangement for our US retiree healthcare provision. We also took a £6m provision against our investment on the Learjet 85 following Bombardier's announcement in January 2015 that they were pausing the development programme.

Underlying net finance costs decreased to £17.3m (2013: £19.4m) as a result of lower average debt and lower interest rates following the repayment of $180m of US private placement debt in June 2013, partly offset by a non-recurring £1.8m charge relating to the cost of refinancing the Group's debt in September.

Underlying profit before tax was £328.7m (2013: £377.8m).

The underlying tax rate was 21% (2013: 21%), lower than our forecast 22% due to a change in the geographical mix of profit delivery. Underlying earnings per share was 32.4p (2013: 37.5p).

On a statutory basis, profit before tax was £208.9m (2013: £269.4m), with the year-on-year decline driven by the fall in underlying operating profit and the marking to market of forward currency contracts. Earnings per share was 22.0p (2013: 29.4p).

The recommended final dividend is increased by 8% to 9.50p (2013: 8.80p) and represents a total dividend for the year of 13.75p (12.75p), an overall increase of 8% reflecting our ongoing confidence in the outlook for the Group.

Free cash flow of £146.8m (2013: £110.4m) represents a substantial year-on-year improvement despite the reduction in profit and continued high levels of investment to support future growth. This was driven by better working capital management and lower tax payments reflecting the unwinding of excess payments on account in prior years.

Net cash flow reduced to £21.1m (2013: £63.2m), largely driven by the £28.3m acquisition of Precision Engine Controls Corporation (PECC) and a £33.7m outflow (2013: Nil) from the purchase of shares as part of the share buyback programme implemented in November 2014. Dividend payments for the year reduced to £51.4m (2013: £75.6m) as a result of higher take-up of the scrip dividend. The scrip dividend option has been replaced by a dividend reinvestment plan for future dividend payments.

There are two main financial covenants in our financing agreements. The net debt/EBITDA ratio, which must not exceed 3.5x, remained steady at 1.2x at 31 December 2014 (2013: 1.2x) and interest cover, which must be not less than 3.0x, was a very strong 20.8x (2013: 22.0x). The Group has, therefore, significant headroom against both key covenant ratios.

The Group has £431m of undrawn headroom against committed bank facilities, with no significant refinancing required before 2017.

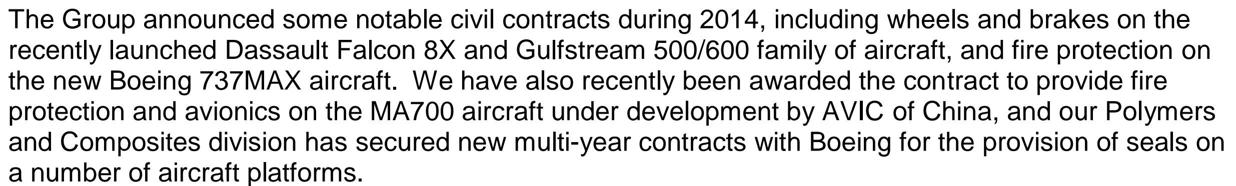
TRADING SUMMARY

	Revenue		Growth	
	2014 £m	2013 £m	Reported %	Organic %
Civil OE	301.6	300.3	0	+6
Civil AM	439.6	435.9	+1	+5
Total civil aerospace	**741.2**	**736.2**	**+1**	**+6**
Military	539.4	616.4	-12	-7
Energy	163.1	173.1	-6	-3
Other	110.0	111.6	-1	+5
Total	**1,553.7**	**1,637.3**	**-5**	**0**

Civil aerospace

Meggitt operates in three main segments of the civil aerospace market: large jets, regional aircraft and business jets. The large jet fleet includes over 20,000 aircraft, the regional aircraft fleet over 6,000 and business jets over 16,000. The Group has products on virtually all these platforms and hence a very large, and growing, installed base. The split of civil revenues, which account for 48% of the Group total, is 59% AM and 41% OE.

Total civil aerospace revenues grew 6% on an organic basis. Large jet OE, the most significant driver of our OE revenues, grew 7% driven principally by the 787 ramp-up and some initial A350XWB revenues, with regional aircraft up 10% and business jets up 4%. The aftermarket recovery seen in the latter half of 2013 continued through 2014, although we still experienced significant monthly variations. Nevertheless, the trend was positive with total civil aftermarket growing 5% organically for the full year and 7% in the second half. Business jets were the most significant contributor to the overall aftermarket performance, delivering growth of 13% for the year, while large jet grew 3% and regional aircraft grew 4%. The parting out of older aircraft continued, fuelled by the increased retirement rate in recent years, although quantification of the impact is difficult. Aftermarket order intake was positive, with orders for the year up 13% on an organic basis and a book to bill of 1.08.



The Group announced some notable civil contracts during 2014, including wheels and brakes on the recently launched Dassault Falcon 8X and Gulfstream 500/600 family of aircraft, and fire protection on the new Boeing 737MAX aircraft. We have also recently been awarded the contract to provide fire protection and avionics on the MA700 aircraft under development by AVIC of China, and our Polymers and Composites division has secured new multi-year contracts with Boeing for the provision of seals on a number of aircraft platforms.

Deliveries of large jets by Airbus and Boeing are underpinned by a firm order backlog extending over a number of years, giving us confidence in the continued growth outlook for OE, and we do not expect any meaningful impact in the short term from the recent decline in oil price. The rate of growth in large jet deliveries however, is expected to slow to an average of about 4% over the next few years, below the long-term trend rate of traffic growth. Deliveries of regional aircraft are expected to grow by an average of about 4% over the next five years. Deliveries of business jets are also set to grow, with the most potential coming at the smaller end of the market which was hardest hit during the last downturn.

Available seat kilometres (ASKs), a good proxy for air traffic which is a key driver of the demand from airlines for spares and repairs on large and regional aircraft, grew at 5.5% in 2014, above the long-term trend rate of 5%. Industry forecasts suggest further growth in 2015, perhaps above 7%, with demand for air travel being improved by the reduction in oil price. Business jet utilisation in the US and Europe grew at over 3% in 2014, its highest rate of growth since 2010, and our higher value content and growing market share should continue to drive revenue growth over the medium term.

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

Military

Our military business accounts for 34% of Group revenues. We have equipment on an installed base of over 20,000 fixed wing and rotary aircraft and a significant number of ground vehicles and training applications. Direct sales to US customers account for 59% of military revenue, with 26% to European customers and 15% to the rest of the world.

Military revenues declined by 7% on an organic basis, with a substantial decline in the first half of the year contrasting with a flat performance in the second half. The full-year decline was in part due to the previously announced wind-down of two retrofit programmes in the first half of 2013, with the remainder driven by the larger than expected impact of the drawdown in Afghanistan on military spares sales.

The Group won some significant contracts in 2014. Meggitt Polymers & Composites won a major package of seals and associated components for the KC390 platform and, building on the fuel system contract on the S-92 announced in 2013, a contract for a similar system on the Bell V-280 Valor tiltrotor aircraft. We also enjoyed considerable contract success within our training business, particularly with US customers, including the $99m ESTII virtual training IDIQ contract for the US Department of Defense and the $32m small arms trainer contract for the US Marine Corps.

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

The outlook for defence expenditure in the US, our single most important military market, looks to be more benign than in recent years. We note the recent FY16 budget request from the President represents an 8% increase although there is clearly some way to go before this is agreed, and the potential for sequestration in 2016 remains.

Energy and other

Energy and other revenues (18% of Group total) come from a variety of end markets, of which the most significant is energy (11% of Group total). Our energy capabilities centre on providing valves and condition-monitoring equipment for power generation installations, including ground-based gas and wind turbines, and printed circuit heat exchangers used primarily in the oil and gas market. Other markets (7% of Group total) include the automotive, test, consumer goods and medical sectors.

Energy revenue declined by 3% on an organic basis. The tourmaline shortage impacted growth in our condition monitoring business for the majority of the year, although the situation is now resolved and we expect a return to growth in 2015. Heatric, our printed circuit heat exchanger business, saw a modest revenue decline largely due to the financial difficulties being experienced by our local content provider in Brazil which resulted in the deferral of revenue from 2014. We continue to expect headwinds in this business in the short term, largely driven by the decline in the oil price which is causing a number of our customers to delay capital expenditure on new gas projects. Some contracts we expected to be

awarded in 2015 have been deferred for a year, and it is possible that we will see further deferrals in the near future, though we have not seen any project cancellations.

Our position in the industrial valve market was further strengthened by the acquisition of PECC, which broadens our product scope beyond the aero-derivative gas turbine market into smaller gas turbines with a power range of 1-30MW. We expect that this transaction will be earnings and value accretive in 2015.

The long-term growth expectations for our energy businesses remain unchanged. Growth opportunities at Heatric are very strong with the identified opportunity pipeline still approaching £600m, much of which is focused on the gas/FLNG market. The recent award of a contract to provide equipment for a 50MW pilot power generation plant, using supercritical CO_2, is an excellent example of our differentiated technology being used in adjacent markets. If the pilot is successful this would represent a very exciting opportunity for Heatric. Our overall energy businesses have grown by 71% organically since 2009, and while the oil price environment will restrict growth in 2015, we remain confident in our medium term expectation of greater than 10% average organic revenue growth per annum once the end market stabilises.

OPERATIONAL PERFORMANCE

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

£m	Revenue				Underlying Operating Profit			
2014	2013*	% Growth Reported	% Growth Organic		2014	2013*	% Growth Reported	% Growth Organic
327.0	330.4	-1	+3	Aircraft Braking Systems	**127.5**	122.4	+4	+6
348.7	364.3	-4	+1	Control Systems	**91.8**	107.7	-15	-12
162.3	181.0	-10	-7	Polymers & Composites	**20.2**	30.2	-33	-33
398.2	397.5	0	+4	Sensing Systems	**58.4**	69.9	-16	-11
317.5	364.1	-13	-3	Equipment Group	**48.1**	67.0	-28	-29
1,553.7	**1,637.3**	**-5**	**0**	**Total Group**	**346.0**	**397.2**	**-13**	**-11**

* 2013 comparatives have been restated to reflect the new divisional structure announced on 7 May 2014.

Meggitt Aircraft Braking Systems (MABS) provides wheels, brakes and brake control systems for over 34,000 in-service aircraft. It continues to develop innovative technology for new programmes allowing the business to retain its leading position in its target markets, underscored by the recent programme awards on the Dassault Falcon 8X business jet and Gulfstream 500/600 family of aircraft. The division targets sole-source programmes and is particularly strong in regional aircraft, large business jets and military aircraft. The division represents 21% of Group revenue, generating 86% of its revenue from the aftermarket and 14% from OE sales.

MABS' revenue grew by 3% on an organic basis, with growth in civil aftermarket and military. Regional aftermarket grew 4% driven by increases in fleet size and utilisation, and business jet aftermarket grew by 7%. These were partially offset by a 9% decline in large jet aftermarket. Total military revenue grew 8% with aftermarket benefiting from upgrade contracts for the US B1-B fleet and the Taiwanese Air Force which were completed at the end of the year. Operating margins grew from 37.0% to 39.0%, benefiting from positive mix and operating efficiencies.

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 22% of Group revenue, generating 46% of its revenue from OE and 54% from the aftermarket.

For MCS, revenue was up 1% on an organic basis, with 7% growth in civil aerospace, spread across both OE and aftermarket, being partly offset by an 11% decline in military, primarily aftermarket. The most significant contributor to the military performance was a marked reduction in military spares, largely related to the drawdown from Afghanistan. Unfavourable mix within military, the provision against our investment in the Learjet 85 programme and increased costs related to new product introduction saw operating margins decrease from 29.6% to 26.3%. PECC will be reported as part of MCS in 2015.

Meggitt Polymers & Composites (MPC) has a bias towards military, representing 54% of its revenue. It supplies flexible bladder fuel tanks, ice protection products and composite assemblies for a range of fixed wing and rotorcraft platforms and complex seals packages for civil and military platforms. These products are linked by their dependence on similar materials technology and manufacturing processes. It supplies over 80% of the US military requirements for fuel bladders and ballistically-resistant and

crashworthy fuel tanks. MPC represents 11% of Group revenue and generated 55% of its revenue from OE and 45% from the aftermarket.

MPC revenue declined by 7% on an organic basis, largely reflecting the impact of the Bradley and KC135 retrofit programmes completed in 2013. Overall military revenue reduced by 17%, partially offset by growth in civil aerospace of 9%. Operating margins declined from 16.7% to 12.4% due to lower volumes in the fuel bladder facility and high levels of up-front new product introduction costs ahead of production ramp-up on upcoming aircraft programmes over the next few years.

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 for aerospace applications. Its products are designed to operate effectively in the extreme conditions of temperature, vibration and contamination that exist in an aircraft or ground-based turbine engine. Sensors are combined into broader electronics packages, providing condition data to operators and maintainers of engines, contributing to improved safety and lower operating costs. MSS has migrated these products into other specialist markets requiring similar capabilities, such as test and measurement, automotive crash test and medical. Combining its capabilities with MABS, it is currently developing a number of civil aerospace tyre pressure monitoring systems, having secured positions for this technology on 10 aircraft platforms. MSS represents 26% of Group revenue and generated 81% of its revenue from OE and 19% from the aftermarket.

MSS revenue grew 4% on an organic basis, with 8% growth in civil offsetting a 6% decline in military, largely aftermarket, and a 3% decline in energy. The military decline reflected the Afghanistan drawdown and disruption linked to the US site consolidation in 2013, as well as the shortage of tourmaline which impacted both military and energy growth. Operating margins decreased from 17.6% to 14.7% reflecting adverse mix in the lower margin civil OE revenue stream and additional costs incurred as a result of the tourmaline shortage, offset by the renegotiation of a loss-making contract against which provision had previously been held. Operating margin in the second half showed good improvement versus the first half.

Meggitt Equipment Group (MEG) comprises principally our avionics, non-engine actuation, dedicated military and Heatric businesses. The division represents 20% of Group revenue and generates 81% of its revenue from OE and 19% from the aftermarket. With effect from 1 January 2015, Meggitt Avionics will be reported as part of Meggitt Sensing Systems.

Revenue in MEG declined by 3% on an organic basis. Good growth in civil, largely avionics, was more than offset by a modest decline in Heatric revenue and strong comparators in our training business. Operating margins decreased from 18.4% to 15.1% driven by lower volumes, adverse mix and the provision against our investment in the Learjet 85 programme, in addition to the previously disclosed investment in the Heatric business for future growth and lower profitability on three contracts.

INVESTING FOR THE FUTURE

£m		**2014**	2013	% change	
				Reported	Organic
Total research and development (R&D)		**148.3**	134.9	+10	+14
Of which:	Customer funded	**28.9**	24.5	+18	+22
	Capitalised	**77.7**	70.2	+11	+15
Programme participation costs		**46.0**	35.7	+29	+33
Capital expenditure		**42.2**	66.9	-37	-35

Targeted investment in technology development remains critical to our long-term organic growth. Total R&D expenditure in 2014 of £148.3m was 9.5% of revenues (2013: £134.9m, 8.2%), of which 19% (2013: 18%) was funded by customers. The net charge to the income statement including amortisation and impairment increased by 5% on an organic basis to £58.7m (2013: £57.1m).

Growth in R&D largely reflects our impressive win rate on new programmes, as well as our ongoing investment in new technology aligned to our customers' future technology requirements. About 30% of the expenditure was on new wheels and brakes programmes and over 50% focused on products for engines and engine accessories, including working towards meeting the long-term requirement of the

aerospace industry to eliminate the use of halon gas in on-board fire protection systems. The balance was spread across a range of civil, military and energy applications including the initial investment resulting from the strong order intake in the period, notably in military training. This investment in R&D supports our medium-term revenue growth assumptions and increases revenue security, particularly as the majority of the investment is on platforms where we have won sole-source positions.

The record number of programmes entering service in the next few years will also drive new product introduction costs higher. In 2014 we industrialised new products at three times our historical average rate, which is good for future revenues but which impacts profitability in the short term.

Our investment in programme participation costs including the supply of equipment free of charge to new aircraft, mostly in MABS, increased by 33% organically. The pace of deliveries on programmes equipped with our wheels and brakes including the Gulfstream 280 and 650 platforms is expected to grow further over the medium term. These programmes will drive aftermarket revenue for decades. Our market share of wheels and brakes on the fleet of super-mid size and large business jets in 2014 was 64%, supportive of our expectation that we will have a market share on the overall fleet in excess of 70% by 2020.

Capital expenditure on property, plant and equipment and intangible assets was £42.2m (2013: £66.9m), with 2013 expenditure inflated by site consolidations and expansions. We expect growth in expenditure in 2015 driven by increased investment in manufacturing equipment, including new carbon furnaces in MABS and further movement of production to low-cost manufacturing locations.

DRIVING ORGANIC GROWTH THROUGH OPERATIONAL EXCELLENCE

The Meggitt Production System (MPS), our single, global approach to continuous improvement, was launched during 2013. MPS will create the sustainable quality and delivery culture that confers competitive advantage beyond our technical expertise, enabling the Group to deliver a higher rate of organic growth over the long term. It will also enable us to become more cost competitive through the reduction of working capital and the elimination of the cost of poor quality. MPS, a six-phase programme which will take five to seven years to become fully embedded, has been launched at 29 sites in total, representing 71% of our manufacturing footprint, with sixteen sites having successfully exited the first phase and one site having exited the second, more demanding phase. The launch of the programme at the remainder of the Group's primary facilities will be complete by the end of 2015.

We have already seen some significant improvements in quality and delivery since inception, with defective parts per million down 84% and on-time delivery up by 10%. The quality performance in the year improved significantly, and the stable year-on-year on-time delivery metric reflects good underlying performance in reducing production arrears. Given the demonstrable success we have seen internally, we have accelerated the planned deployment of the key tools and competencies to long-term partners in our supply chain.

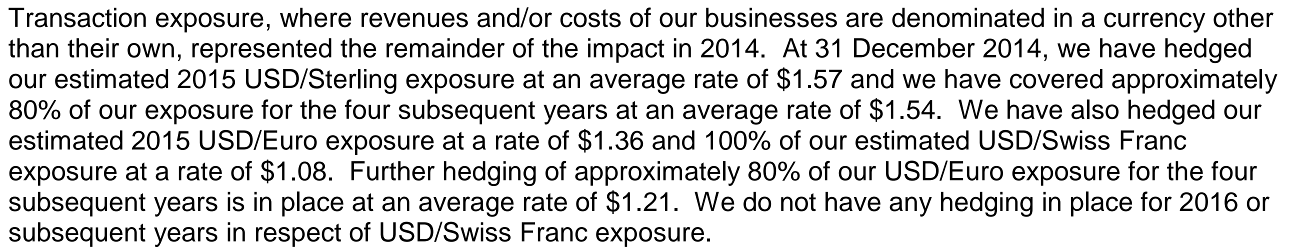
Our culture of continuous improvement has resulted in the expansion of our footprint in low-cost manufacturing locations, notably a 30% increase in activity in our Mexican operations and an 8% increase in our Chinese facility in 2014. These activities will drive consistently high levels of quality and delivery performance across all of our businesses, while retaining our focus on cost control. In turn, this will help us fund future technology development programmes and respond to changing customer requirements.

FOREIGN EXCHANGE

Foreign exchange movements reduced Group reported revenue by £57m and underlying operating profit by £6m in 2014. Of this, the translation of overseas earnings into Sterling reduced revenue by £49m, and underlying operating profit by £10m. Our sensitivity to future exchange rate movements when compared to the 2014 average rates is shown in the table below:

Translation currency sensitivity (£m)

	2014 average rate	Revenue	Underlying PBT
Impact of a 10 Cent movement			
US Dollar	1.63	55	12
Euro	1.24	10	1
Swiss Franc	1.51	7	2



Transaction exposure, where revenues and/or costs of our businesses are denominated in a currency other than their own, represented the remainder of the impact in 2014. At 31 December 2014, we have hedged our estimated 2015 USD/Sterling exposure at an average rate of $1.57 and we have covered approximately 80% of our exposure for the four subsequent years at an average rate of $1.54. We have also hedged our estimated 2015 USD/Euro exposure at a rate of $1.36 and 100% of our estimated USD/Swiss Franc exposure at a rate of $1.08. Further hedging of approximately 80% of our USD/Euro exposure for the four subsequent years is in place at an average rate of $1.21. We do not have any hedging in place for 2016 or subsequent years in respect of USD/Swiss Franc exposure.

Based on the hedged rates, transaction exposure will have a £3m adverse impact on 2015 operating profit.

RETIREMENT BENEFIT SCHEMES

Scheme deficits increased to £317.8m (2013: £238.1m) driven by a further decrease in AA corporate bond yields, which are used to discount scheme liabilities, more than offsetting good underlying investment returns and deficit reduction payments. These bond yields, reflecting the falls seen in gilt markets, have reduced by 100 basis points in the UK and 70 basis points in the US to levels not seen in the last ten years.

The Group made deficit reduction payments in the year of £29.3m (2013: £27.4m). Deficit payments on US schemes are driven principally by regulation, and the increase in payments to the UK scheme are in accordance with the repayment plan agreed with the trustees following the completion of the triennial actuarial valuation during the first half of 2013. The next triennial valuation will commence during 2015. Deficit reduction payments in 2015 are expected to be around £28m, reflecting a reduction in US funding requirements.

BOARD OF DIRECTORS

During the year, David Robins retired from his position as Non-Executive Director following 12 years of outstanding service on the Board, and Philip Cox resigned from his position as Non-Executive Director to enable him to assume a new role as Chairman of Drax Group Plc. Alison Goligher has joined the Board as Non-Executive Director. Alison, an Executive Vice President in Shell's Upstream International Division, brings a wealth of experience in functional and operational roles in the energy sector. Sir Colin Terry will retire as Chairman of the Board and Director at the conclusion of the AGM on 23 April, and he will be replaced by Sir Nigel Rudd, who will initially join the Board as Deputy Chairman and Non-Executive Director on 1 March.

GROUP OUTLOOK

The outlook for our civil aerospace markets remains encouraging. Production rates of large jets are expected to continue to grow and the relatively high shipset values we enjoy on the latest generation of widebody aircraft, together with our positions on the re-engined narrowbodies, should underpin organic civil OE revenue growth of 7-8% over the medium term. 2015 will be moderately below this level reflecting recent inventory build at aircraft manufacturers ahead of new product launches and production rate increases. Available seat kilometres, the key driver of our large and regional jet aftermarket, are growing at above the long-term trend, and lower oil prices should see this continue. However, we are seeing month to month volatility in revenues and a continuing impact from surplus parts. We therefore expect civil aftermarket growth in mid-single digits for 2015.

In the military market, we look to be entering a more benign phase with military budgets seeing lower rates of decline than in recent years and even some suggestion of growth in the all-important US budget from 2016. Order intake in 2014 has been strong, with book to bill of 1.03 covering a number of short-term and multi-year contracts, and on this basis we expect a return to modest growth in 2015 driven by good growth in military training, partially offset by a decline in MABS following the completion of the B-1B and Taiwanese upgrade programmes. We maintain our medium term expectation of an average of 2% growth per annum excluding the effects of sequestration.

Our energy businesses, driven by heightened demand for our printed circuit heat exchangers and increasing market share in condition-monitoring equipment, should continue to deliver revenue growth averaging greater than 10% over the medium term. However, in 2015 we expect good organic growth in energy control valves and condition monitoring will be largely offset by a decline at Heatric reflecting the impact of capital expenditure deferrals by our major oil & gas customers.

On the basis of the above, the Group continues to expect organic revenue growth in 2015 of low to mid-single digit percentage points, in line with the guidance given in our interim management statement in November 2014.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014

	Notes	**2014 £m**	2013 £m
Revenue	2	**1,553.7**	1,637.3
Cost of sales		**(935.9)**	(981.1)
Gross profit		**617.8**	656.2
Net operating costs		**(381.6)**	(355.9)
Operating profit[1]	3	**236.2**	300.3
Finance income	6	**1.2**	0.3
Finance costs	7	**(28.5)**	(31.2)
Net finance costs		**(27.3)**	(30.9)
Profit before tax[2]		**208.9**	269.4
Tax		**(31.9)**	(37.1)
Profit for the year attributable to equity owners of the Company		**177.0**	232.3
Earnings per share:			
Basic[3]	9	**22.0p**	29.4p
Diluted[4]		**21.7p**	28.9p

		Notes	**2014**	2013
1	Underlying operating profit	3	**346.0**	397.2
2	Underlying profit before tax	3	**328.7**	377.8
3	Underlying basic earnings per share	9	**32.4p**	37.5p
4	Underlying diluted earnings per share	9	**31.9p**	36.9p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	**2014 £m**	2013 £m
Profit for the year attributable to equity owners of the Company		**177.0**	232.3
Items that may be reclassified to the income statement in subsequent periods:			
Currency translation differences		**77.4**	(37.2)
Cash flow hedge movements		**(0.8)**	1.9
Tax effect		**(0.2)**	0.1
	23	**76.4**	(35.2)
Items that will not be reclassified to the income statement in subsequent periods:			
Remeasurement of retirement benefit obligations	16	**(97.7)**	46.8
Tax effect		**24.2**	(21.6)
		(73.5)	25.2
Other comprehensive income/(expense) for the year		**2.9**	(10.0)
Total comprehensive income for the year attributable to equity owners of the Company		**179.9**	222.3

CONSOLIDATED BALANCE SHEET

As at 31 December 2014

	Notes	**2014 £m**	2013 £m
Non-current assets			
Goodwill	12	**1,541.1**	1,457.1
Development costs	12	**342.9**	270.5
Programme participation costs	12	**242.4**	210.6
Other intangible assets	12	**673.0**	707.3
Property, plant and equipment	13	**251.1**	245.5
Trade and other receivables		**93.4**	89.9
Derivative financial instruments	14	**29.6**	35.5
Deferred tax assets		**0.9**	9.1
		3,174.4	3,025.5
Current assets			
Inventories		**327.2**	299.2
Trade and other receivables		**331.9**	328.9
Derivative financial instruments	14	**1.1**	11.2
Current tax recoverable		**3.3**	2.8
Cash and cash equivalents	21	**105.5**	116.1
		769.0	758.2
Total assets	2	**3,943.4**	3,783.7
Current liabilities			
Trade and other payables		**(358.5)**	(329.1)
Derivative financial instruments	14	**(9.6)**	(0.7)
Current tax liabilities		**(36.5)**	(40.6)
Obligations under finance leases	21	**(0.1)**	(2.4)
Bank and other borrowings	21	**(58.9)**	(7.2)
Provisions	15	**(45.1)**	(44.3)
		(508.7)	(424.3)
Net current assets		**260.3**	333.9
Non-current liabilities			
Trade and other payables		**(5.9)**	(5.2)
Derivative financial instruments	14	**(2.9)**	(0.1)
Deferred tax liabilities		**(214.8)**	(219.3)
Obligations under finance leases	21	**(5.3)**	(5.1)
Bank and other borrowings	21	**(616.7)**	(666.0)
Provisions	15	**(130.5)**	(149.2)
Retirement benefit obligations	16	**(317.8)**	(238.1)
		(1,293.9)	(1,283.0)
Total liabilities		**(1,802.6)**	(1,707.3)
Net assets		**2,140.8**	2,076.4
Equity			
Share capital		**40.1**	39.9
Share premium		**1,218.9**	1,166.3
Other reserves		**14.4**	14.1
Hedging and translation reserves		**159.1**	82.7
Retained earnings		**708.3**	773.4
Total equity attributable to owners of the Company		**2,140.8**	2,076.4

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Equity attributable to owners of the Company					
	Share capital	**Share premium**	**Other reserves**	**Hedging and translation reserves**	**Retained earnings**	**Total equity**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 January 2013	39.3	1,143.9	14.1	117.9	590.2	1,905.4
Profit for the year	-	-	-	-	232.3	232.3
Other comprehensive (expense)/income	-	-	-	(35.2)	25.2	(10.0)
Total comprehensive (expense)/income for the year	-	-	-	(35.2)	257.5	222.3
Employee share schemes:						
Value of services provided	-	-	-	-	21.8	21.8
Issue of equity share capital	0.4	2.6	-	-	(0.5)	2.5
Dividends	0.2	19.8	-	-	(95.6)	(75.6)
At 31 December 2013	39.9	1,166.3	14.1	82.7	773.4	2,076.4
Profit for the year	**-**	**-**	**-**	**-**	**177.0**	**177.0**
Other comprehensive income/(expense)	-	-	-	76.4	(73.5)	2.9
Total comprehensive income for the year	**-**	**-**	**-**	**76.4**	**103.5**	**179.9**
Employee share schemes:						
Value of services provided	-	-	-	-	1.1	1.1
Purchase of own shares	-	-	-	-	(11.6)	(11.6)
Issue of equity share capital	-	0.1	-	-	-	0.1
Share buyback – purchased in year	(0.3)	-	0.3	-	(33.7)	(33.7)
Share buyback – close period commitment	-	-	-	-	(20.0)	(20.0)
Dividends	0.5	52.5	-	-	(104.4)	(51.4)
At 31 December 2014	**40.1**	**1,218.9**	**14.4**	**159.1**	**708.3**	**2,140.8**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2014

	Notes	**2014 £m**	2013 £m
Cash inflow from operations before exceptional operating items		**364.0**	361.9
Cash outflow from exceptional operating items	4	**(17.1)**	(16.2)
Cash inflow from operations	20	**346.9**	345.7
Interest received		**0.3**	0.3
Interest paid		**(16.3)**	(19.7)
Tax paid		**(18.7)**	(44.0)
Cash inflow from operating activities		**312.2**	282.3
Businesses acquired	22	**(28.6)**	(26.5)
Businesses disposed		**-**	53.3
Capitalised development costs	12	**(77.7)**	(70.2)
Capitalised programme participation costs	12	**(46.0)**	(35.7)
Purchase of intangible assets		**(12.0)**	(18.4)
Purchase of property, plant and equipment		**(33.0)**	(52.4)
Proceeds from disposal of property, plant and equipment		**2.8**	3.9
Cash outflow from investing activities		**(194.5)**	(146.0)
Dividends paid to Company's shareholders		**(51.4)**	(75.6)
Purchase of own shares		**(11.6)**	-
Issue of equity share capital		**0.1**	2.5
Share buyback – purchased in year		**(33.7)**	-
Proceeds from borrowings		**218.3**	181.5
Debt issue costs		**(2.8)**	-
Repayments of borrowings		**(249.9)**	(231.4)
Cash outflow from financing activities		**(131.0)**	(123.0)
Net (decrease)/increase in cash and cash equivalents		**(13.3)**	13.3
Cash and cash equivalents at start of the year		**116.1**	104.9
Exchange gains/(losses) on cash and cash equivalents		**2.7**	(2.1)
Cash and cash equivalents at end of the year	21	**105.5**	116.1

1. Basis of preparation

This document contains abridged preliminary financial information for the year ended 31 December 2014 together with comparatives.

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

The financial information contained in this document does not constitute Group statutory accounts as defined in Sections 404 and 435 of the Companies Act 2006. It is based on, and is consistent with, that in the Group's statutory accounts for the year ended 31 December 2014 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 2013 were approved by the Board of Directors on 3 March 2014 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.

These financial statements have been prepared using the same accounting policies adopted in the Group's financial statements for the year ended 31 December 2013.

2. Segmental analysis

The Group manages its businesses under the key segments of Meggitt Aircraft Braking Systems, Meggitt Control Systems, Meggitt Polymers & Composites, Meggitt Sensing Systems and Meggitt Equipment Group. On 7 May 2014, the Group announced that the divisional structure had been realigned to reflect the following changes:

- The fire protection business has moved from Meggitt Equipment Group to Meggitt Control Systems; and
- The power businesses have moved from Meggitt Equipment Group to Meggitt Sensing Systems.

Prior year comparatives have been restated to reflect this new divisional structure. The key performance measure reviewed by the Chief Operating Decision Maker ('CODM') is underlying operating profit.

Year ended 31 December 2014

	Meggitt Aircraft Braking Systems £m	Meggitt Control Systems £m	Meggitt Polymers & Composites £m	Meggitt Sensing Systems £m	Meggitt Equipment Group £m	Total £m
Gross segment revenue	327.1	349.7	163.2	402.4	320.1	1,562.5
Inter-segment revenue	(0.1)	(1.0)	(0.9)	(4.2)	(2.6)	(8.8)
Revenue	**327.0**	**348.7**	**162.3**	**398.2**	**317.5**	**1,553.7**
Underlying operating profit*	**127.5**	**91.8**	**20.2**	**58.4**	**48.1**	**346.0**

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

2. Segmental analysis (continued)

Year ended 31 December 2013 (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	330.4	365.2	182.9	399.5	365.2	1,643.2
Inter-segment revenue	-	(0.9)	(1.9)	(2.0)	(1.1)	(5.9)
Revenue	330.4	364.3	181.0	397.5	364.1	1,637.3
Underlying operating profit*	122.4	107.7	30.2	69.9	67.0	397.2

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

Segmental assets

	31 December 2014 £m	31 December 2013 Restated £m
Meggitt Aircraft Braking Systems	**568.3**	502.2
Meggitt Control Systems	**295.0**	241.9
Meggitt Polymers & Composites	**94.0**	87.8
Meggitt Sensing Systems	**325.2**	314.5
Meggitt Equipment Group	**200.6**	194.9
Total segmental trading assets	**1,483.1**	1,341.3
Centrally managed trading assets*	**181.4**	176.5
Goodwill	**1,541.1**	1,457.1
Other intangible assets	**597.4**	634.1
Derivative financial instruments – non-current	**29.6**	35.5
Deferred tax assets	**0.9**	9.1
Derivative financial instruments – current	**1.1**	11.2
Current tax recoverable	**3.3**	2.8
Cash and cash equivalents	**105.5**	116.1
Total assets	**3,943.4**	3,783.7

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

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:

	2014 £m	2013 £m
Operating profit	**236.2**	300.3
Exceptional operating items (note 4)	**12.5**	28.4
Amortisation of intangible assets acquired in business combinations (note 12)	**68.1**	74.3
Disposal of inventory revalued in business combinations	**-**	0.3
Financial instruments (note 5)	**29.2**	(6.1)
Adjustments to operating profit*	**109.8**	96.9
Underlying operating profit	**346.0**	397.2
Profit before tax	**208.9**	269.4
Adjustments to operating profit per above	**109.8**	96.9
Net interest expense on retirement benefit obligations (note 16)	**10.0**	11.5
Adjustments to profit before tax	**119.8**	108.4
Underlying profit before tax	**328.7**	377.8
Profit for the year	**177.0**	232.3
Adjustments to profit before tax per above	**119.8**	108.4
Tax effect of adjustments to profit before tax	**(36.6)**	(43.8)
Adjustments to profit for the year	**83.2**	64.6
Underlying profit for the year	**260.2**	296.9

* Of the adjustments to operating profit, £5.5 million (2013: £28.8 million) relating to exceptional operating items and £Nil million (2013: £0.3 million) relating to the disposal of inventory revalued in business combinations has been charged to cost of sales, with the balance of £104.3 million (2013: £67.8 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 operating items.

	Note	Income statement		Cash expenditure	
		2014 £m	2013 £m	**2014 £m**	2013 £m
Site consolidations	a	**7.5**	8.2	**7.5**	6.4
Loss/(gain) on disposal or closure of businesses	b	**2.9**	(9.0)	**0.5**	0.5
Raw material supply issue	c	**-**	20.0	**4.7**	3.1
Costs related to acquisition and integration of businesses		**2.1**	7.9	**4.4**	5.0
Other		**-**	1.3	**-**	1.2
Exceptional operating items		**12.5**	28.4	**17.1**	16.2

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

b. The charge in 2014 relates to the closure of a business in the US. In the prior year, the Group disposed of the shares of Meggitt (Addison), Inc, realising a profit of £14.9 million and the shares of the Sunbank Family of Companies LLC, realising a loss of £5.9 million. Cash expenditure relates to business disposal expenses. Proceeds from the disposal of businesses are reported separately as part of cash outflow from investing activities.

c. In 2013, the Group announced it had identified an issue relating to the supply from a vendor of non-conforming raw material in one of our businesses. A provision of £20.0 million was made for the estimated cost of this issue, including where necessary the replacement of the relevant parts over the next few years. No amounts were recorded in the income statement in respect of this issue in 2014.

5. Financial instruments

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

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

	2014 £m	2013 £m
Movement in the fair value of foreign currency forward contracts	**31.1**	(12.0)
Impact of retranslating net foreign currency assets and liabilities at spot rate	**(1.9)**	0.8
Movement in the fair value of interest rate derivatives	**(4.2)**	18.6
Movement in the fair value of fixed rate borrowings	**4.2**	(13.5)
Financial instruments – loss/(gain)	**29.2**	(6.1)

6. Finance income

	2014 £m	2013 £m
Interest on bank deposits	**0.1**	0.1
Unwinding of interest on other receivables	**0.9**	-
Other finance income	**0.2**	0.2
Finance income	**1.2**	0.3

7. Finance costs

	2014 £m	2013 £m
Interest on bank borrowings	**2.7**	3.5
Interest on senior notes	**12.7**	15.4
Interest on obligations under finance leases	**0.9**	1.1
Unwinding of discount on provisions (note 15)	**1.1**	-
Net interest expense on retirement benefit obligations (note 16)	**10.0**	11.5
Amortisation of debt issue costs*	**3.1**	1.2
Less: amounts capitalised in the cost of qualifying assets (note 12)	**(2.0)**	(1.5)
Finance costs	**28.5**	31.2

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

8. Tax

The Finance Act 2013, included legislation to reduce the main rate of corporation tax in the UK from 23% to 21% with effect from 1 April 2014 and to 20% with effect from 1 April 2015. As these changes were substantively enacted during 2013, they were reflected in the tax charge for that year.

9. Earnings per ordinary share

Earnings per ordinary share ('EPS') is calculated by dividing the profit attributable to owners of the Company of £177.0 million (2013: £232.3 million) by the weighted average number of shares in issue during the year of 804.1 million (2013: 791.1 million shares).

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

	2014 Pence	2013 Pence
Basic EPS	**22.0**	29.4
Adjust for effects of:		
Exceptional operating items	**1.1**	2.2
Amortisation of intangible assets acquired in business combinations	**5.5**	5.6
Financial instruments	**2.9**	(0.7)
Net interest expense on retirement benefit obligations	**0.9**	1.0
Underlying basic EPS	**32.4**	37.5

The calculation of diluted EPS adjusts the weighted average number of shares to reflect the assumption that all potentially dilutive ordinary shares convert. For the Group this means assuming all share awards in issue are exercised. The weighted average number of shares used in the calculation of diluted EPS was 815.1 million (2013: 804.2 million).

Diluted underlying EPS for the year was 31.9p (2013: 36.9p).

10. Dividends

The Board is recommending a final dividend of 9.50p per share (2013: 8.80p per share). Taken with the interim dividend of 4.25p (2013: 3.95p) paid in the year, this gives a total dividend of 13.75p (2013: 12.75p), an increase of 8%. Subject to approval at the Annual General Meeting to be held on 23 April 2015, the proposed dividend will be paid on 8 May 2015 to shareholders on the register at close of business on 20 March 2015. 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.

11. Related party transactions

Transactions between the Company and its subsidiaries have been eliminated on consolidation. The remuneration of key management personnel of the Group, which is defined in 2014 as members of the Board, the Executive Board and the Operations Board, is set out below. Prior year comparatives have not been restated to reflect changes to the definition of key management personnel during the current year.

	2014 £m	2013 £m
Salaries and other short-term employee benefits	**7.3**	6.8
Retirement benefit expense	**0.3**	0.4
Share-based payment expense	**0.6**	3.2
Total	**8.2**	10.4

12. Intangible assets

	Goodwill	Development costs	Programme participation costs	Other intangible assets
	£m	£m	£m	£m
At 1 January 2013	1,494.2	221.5	203.6	778.9
Exchange rate adjustments	(19.6)	(3.8)	(3.3)	(7.6)
Business acquired	9.0	-	-	15.8
Businesses disposed	(26.5)	-	-	(11.2)
Additions**	-	70.2	35.7	15.5
Disposals	-	(2.0)	-	-
Interest capitalised (note 7)	-	1.5	-	-
Impairment loss	-	(3.2)	-	-
Amortisation*	-	(13.7)	(25.4)	(84.1)
At 31 December 2013	**1,457.1**	**270.5**	**210.6**	**707.3**
Exchange rate adjustments	64.1	9.5	10.7	28.6
Businesses acquired (note 22)	19.9	-	-	4.0
Additions**	-	77.7	46.0	12.0
Interest capitalised (note 7)	-	2.0	-	-
Impairment loss	-	(8.0)	-	-
Amortisation*	-	(8.8)	(24.9)	(78.9)
At 31 December 2014	**1,541.1**	**342.9**	**242.4**	**673.0**

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

	2014	2013
	£m	£m
Amortisation of intangible assets acquired in business combinations	**68.1**	74.3
Amortisation of other purchased intangible assets charged to exceptional operating items	**-**	1.4
	68.1	75.7

** Included within additions to programme participation costs, are free of charge/deeply discounted manufactured parts supplied in the year of £43.3 million (2013: £30.4 million) and cash payments of £2.7 million (2013: £5.3 million).

Goodwill is tested for impairment annually, or more frequently if there is any indication of impairment. No impairment charge was required in the year (2013: £Nil) and the cumulative impairment charge recognised to date is £Nil (2013: £Nil).

13. Property, plant and equipment

	2014	2013
	£m	£m
At 1 January	**245.5**	232.2
Exchange rate adjustments	**4.0**	(1.9)
Businesses acquired	**0.6**	0.7
Businesses disposed	**-**	(4.1)
Additions	**35.2**	51.5
Disposals	**(3.0)**	(0.7)
Depreciation*	**(31.2)**	(32.2)
At 31 December	**251.1**	245.5

* Depreciation of £0.1 million (2013: £0.8 million) has been charged to exceptional operating items and is excluded from the Group's underlying profit figures (note 3).

14. Financial Instruments – fair value measurement

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

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

	Book value		Fair value	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Derivative financial instruments – non-current	**29.6**	35.5	**29.6**	35.5
Derivative financial instruments – current	**1.1**	11.2	**1.1**	11.2
Financial assets	**30.7**	46.7	**30.7**	46.7
Derivative financial instruments – current	**(9.6)**	(0.7)	**(9.6)**	(0.7)
Bank and other borrowings – current	**(58.9)**	(7.2)	**(61.6)**	(7.2)
Derivative financial instruments – non-current	**(2.9)**	(0.1)	**(2.9)**	(0.1)
Bank and other borrowings – non-current	**(616.7)**	(666.0)	**(625.7)**	(676.3)
Financial liabilities	**(688.1)**	(674.0)	**(699.8)**	(684.3)
Total	**(657.4)**	(627.3)	**(669.1)**	(637.6)

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

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

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

	2014	2013
	£m	£m
Held at fair value through profit or loss	**276.9**	256.8
Held at amortised cost	**339.8**	409.2
Total	**616.7**	666.0

The current element of bank and other borrowings is all held at amortised cost. There were no transfers of assets or liabilities between levels of the fair value hierarchy during the year.

15. Provisions

	2014 £m
At 1 January	193.5
Exchange rate adjustments	9.1
Business acquired (note 22)	0.1
Additional provision in year	39.4
Unused amounts reversed	(32.6)
Charge to net finance costs (note 7)	1.1
Utilised	(35.0)
At 31 December	**175.6**
Disclosed as:	
Current	45.1
Non-current	130.5
At 31 December	**175.6**
Analysed as:	
Environmental*	133.0
Onerous contracts	22.3
Warranty costs	13.0
Other	7.3
At 31 December	**175.6**

* Included within trade and other receivables is £95.5 million (2013: £95.9 million) in respect of amounts recoverable from insurers and other third parties. An increase in amounts recoverable under these insurance policies and from other parties of £9.7 million was recognised in the year, as a credit to the income statement.

16. Retirement benefit obligations

	2014 £m	2013 £m
At 1 January	**238.1**	299.7
Exchange rate adjustments	**7.7**	(0.9)
Service cost	**12.7**	14.2
Past service (credit)/cost	**(7.8)**	0.7
Net interest expense (note 7)	**10.0**	11.5
Contributions - Group	**(42.0)**	(41.6)
Remeasurement of retirement benefit obligations	**97.7**	(46.8)
Administrative expenses borne directly by schemes	**1.4**	1.3
At 31 December	**317.8**	238.1
Analysis of retirement benefit obligations:		
Pension schemes	**271.0**	189.8
Healthcare schemes	**46.8**	48.3
At 31 December	**317.8**	238.1

16. Retirement benefit obligations continued

Key financial assumptions	2014	2013
UK scheme:		
Discount rate	**3.60%**	4.60%
Inflation rate	**3.10%**	3.40%
Salary inflation rate	**4.10%**	4.40%
Current life expectancy: Male aged 65 years	**21.9 to 23.6**	21.8 to 23.6
Overseas schemes:		
Discount rate	**3.85%**	4.55%
Salary inflation rate	**4.74%**	4.76%
Current life expectancy: Male aged 65 years	**20.3 to 20.9**	19.3

Group cash contributions paid during the year included deficit reduction payments of £29.3 million (2013: £27.4 million).

17. Issued share capital

	2014 No. m	2013 No. m
Allotted and fully paid	**802.3**	797.1

18. Contingent liabilities

The Company has given guarantees in respect of credit facilities for certain of its subsidiaries, some property leases, other leasing arrangements and the performance by some current and former subsidiaries of certain contracts. Also, there are similar guarantees given by certain other Group companies. The directors do not believe that the effect of giving these guarantees will have a material adverse effect upon the Group's financial position.

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

19. Capital commitments

	2014 £m	2013 £m
Contracted for but not incurred:		
Intangible assets	**0.9**	1.4
Property, plant and equipment	**11.0**	7.5
Total	**11.9**	8.9

20. Cash inflow from operations

	2014 £m	2013 £m
Profit for the year	**177.0**	232.3
Adjustments for:		
Finance income (note 6)	**(1.2)**	(0.3)
Finance costs (note 7)	**28.5**	31.2
Tax	**31.9**	37.1
Depreciation (note 13)	**31.2**	32.2
Amortisation (note 12)	**112.6**	123.2
Impairment loss (note 12)	**8.0**	3.2
Loss/(gain) on disposal of property, plant and equipment	**0.4**	(1.1)
Loss/(gain) on disposal or closure of businesses	**2.9**	(9.0)
Financial instruments (note 5)	**29.2**	(6.1)
Retirement benefit obligation deficit payments (note 16)	**(29.3)**	(27.4)
Share-based payment expense	**1.7**	11.9
Change in working capital	**(46.0)**	(81.5)
Cash inflow from operations	**346.9**	345.7

21. Movements in net debt

	2014 £m	2013 £m
At 1 January	**564.6**	642.5
Free cash inflow	**(146.8)**	(110.4)
Businesses acquired (note 22)	**28.6**	26.5
Business acquisition expenses	**-**	0.4
Businesses disposed	**-**	(53.3)
Business disposal expenses (note 4)	**0.5**	0.5
Dividends paid to Company's shareholders	**51.4**	75.6
Purchase of own shares	**11.6**	-
Issue of equity share capital	**(0.1)**	(2.5)
Share buyback – purchased in year	**33.7**	-
Net cash generated - inflow	**(21.1)**	(63.2)
Debt acquired with businesses	**-**	0.3
Exchange rate adjustments	**24.7**	(2.7)
Other non-cash movements	**7.3**	(12.3)
At 31 December	**575.5**	564.6
Analysed as:		
Bank and other borrowings – current	**58.9**	7.2
Bank and other borrowings – non-current	**616.7**	666.0
Obligations under finance leases – current	**0.1**	2.4
Obligations under finance leases – non-current	**5.3**	5.1
Cash and cash equivalents	**(105.5)**	(116.1)
Total	**575.5**	564.6

22. Business combinations

On 31 December 2014, the Group acquired 100% of the voting rights of Precision Engine Controls Corporation ("PECC"). PECC is a leading supplier of actuation systems and fuel metering valves to manufacturers of small-frame gas turbines used predominantly in the oil and gas and power generation industries. PECC's products are complementary to Meggitt's existing valve technology in the aero-derivative gas turbine market and expand our range of actuation capabilities.

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

	Book value £m
Goodwill (note 12)	19.9
Other intangible assets	3.9
Property, plant and equipment	0.4
Inventories	3.0
Trade and other receivables – current	1.4
Trade and other payables - current	(0.6)
Provisions – non-current (note 15)	(0.1)
Net assets	**27.9**
Consideration satisfied in cash	28.3
Less amounts recoverable under working capital mechanism	(0.4)
Total consideration payable	**27.9**

Due to the proximity of the acquisition to the balance sheet date, the difference between the book value of acquired net assets and consideration payable, has been recognised as goodwill. During 2015, the Group will determine the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed, with any corresponding adjustment necessary being made to the value of goodwill recognised.

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

	2014 £m	2013 £m
Cash paid in respect of PECC	**28.3**	-
Cash paid in respect of Piezotech	**-**	26.5
Cash paid in respect of other acquisitions	**0.3**	-
Total	**28.6**	26.5

23. Components of other comprehensive income

	2014 £m	2013 £m
Arising in the year	**77.4**	(31.9)
Transferred to income statement	**-**	(5.3)
Currency translation differences – gain/(loss)	**77.4**	(37.2)
Movement in fair value	**(1.6)**	1.6
Transferred to income statement	**0.8**	0.3
Cash flow hedge movements – (loss)/gain	**(0.8)**	1.9
Tax effect	**(0.2)**	0.1
Other comprehensive income/(expense)	**76.4**	(35.2)

PRINCIPAL RISKS AND UNCERTAINTIES

Strategic – Business model

Description and impact
Failure to respond to fundamental changes in the aerospace business model, such as the accelerated pace of OE deliveries leading to earlier retirement of older aircraft and the continued development of an indigenous Chinese aerospace manufacturing industry.

Impact: decreased revenue and profit

How we manage it
- Long-term customer agreements in place
- Customer-facing organisation restructured and strengthened
- Investing in research and development to maintain and enhance Meggitt's intellectual property
- Ongoing strategic review of aftermarket including evaluation of operational model
- Meggitt Production System (MPS) implementation and facilities investment in our aftermarket businesses
- Maintaining a pricing strategy
- Development of strategy for manufacture of non-aerospace products in China
- Build relationships with Chinese aerospace customers

Strategic – Technology strategy

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

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

How we manage it
- Creation of technology roadmaps
- Investing in advanced research and technology
- Focus on technology growth during the Group strategy process
- Recruiting top calibre engineers with appropriate technology skills
- Ring-fenced budgets focussed on longer term technology developments

Operational – Quality escape/equipment failure

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

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

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

Operational – Customer satisfaction

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

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

How we manage it
- Implemented supplier excellence framework through risk-based intervention following risk analysis and on-site assessments
- Step change in performance enabled through ongoing implementation of MPS
- Implementation of programme lifecycle management process
- Programme management reorganised to increase capability and focus on programme delivery and governance
- Developing our commercial function and engineering capability
- Increased utilisation of low-cost manufacturing base

Operational – IT/systems failure

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

Impact: decreased revenue and profits, damage to operational performance

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

Operational – Supply chain

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

Impact: decreased revenue and profit, damage to reputation

How we manage it
- Implementation of supplier excellence framework
- Buffer inventory maintained for critical and sole-source suppliers
- Counterfeit and fraudulent parts policy implemented at high-risk facilities
- Implementing integrated commercial and procurement approach to contractual terms and conditions including the development of long-term agreements

Operational – Project/programme management

Description and impact
Failure to meet new product development and programme milestones and certification requirements, and successfully transition new products into manufacturing.

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

How we manage it
- Implementation of programme lifecycle management process and a range of engineering support applications
- Implementation of improved technology readiness and bid approval diligence methodology
- Delivering applied research and technology objectives in line with Group strategy
- Programme management reorganised to increase capability and focus on programme delivery and governance
- Step change in performance enabled by the MPS implementation
- Enhanced internal review process to stress-test readiness to proceed at each stage of key programmes

Operational – Legal and regulatory

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

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

How we manage it
- Substantial investment in measures to ensure compliance with 2013 US Department of State Consent Agreement and continuing investment in other compliance programmes
- Board-approved trade compliance, ethics and anti-corruption policies
- Implementing a trade compliance global IT solution
- Regular monitoring by the Ethics and Trade Compliance Committee
- Ongoing trade compliance programme including external audits and comprehensive ethics programme including training, anti-corruption policy, external audits and Ethics line
- Implementing import compliance programme

Operational – IT and physical security

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

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

How we manage it
- Ongoing implementation of IT security strategy and enhancing IT security infrastructure, policies and procedures
- Group-wide intellectual property protection programme in place
- Implementing physical security strategy, including self-assessment and audits, prioritising higher risk environments and regions

Business environment – Product demand

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

Impact: volatility in underlying profitability

How we manage it
- Monitoring external economic and commercial environment and long-lead indicators
- Focusing on balanced portfolio including expansion of energy-related businesses
- Regularly communicating strategy to shareholders
- Maintaining sufficient headroom in committed bank facilities and against bank covenants
- Maintaining appropriate cost-base contingency plans

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

By order of the Board:

S G Young
Director
23 February 2015

D R Webb
Director
23 February 2015

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