REG-Meggitt PLC Preliminary Results - Part 1

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Meggitt PLC

03 March 2009

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"Continued excellent progress"

Meggitt PLC ("Meggitt" or "the Group"), the international aerospace, defence and energy group, today announces preliminary audited results for the year ended 31 December 2008.

FINANCIAL HIGHLIGHTS

£m	2008	2007	% change
Revenue	1,162.6	878.2	+32%
Underlying1:			
Operating profit	296.4	216.3	+37%
Profit before tax	243.3	179.0	+36%
Earnings per share	26.5p	22.1p	+20%
Statutory:			
Operating profit	172.4	142.7	+21%
Profit before tax	119.3	105.4	+13%
Earnings per share	15.0p	14.6p	+3%
Dividend	8.45p	8.20p	+3%

(1) Underlying profit and EPS are used by the Board to measure the trading performance of the Group and exclude certain items, principally amortisation of acquired intangibles, revaluation of inventory to selling price on acquisition, operating exceptional costs and the marking to market of financial instruments, as set out in notes 3 and 7.

Terry Twigger, Chief Executive, commented:

"Meggitt continued to make excellent progress in 2008. Orders, revenues and underlying earnings have all shown significant double digit increases. The Group remains well balanced and saw good growth in each of its three main market segments: civil aerospace revenues increased by 31%; military revenues increased by 35% and our energy revenues increased by 21%.

As we enter 2009, the global economic outlook remains uncertain. Military and energy revenues are expected to increase, partially offsetting declining air traffic and difficult credit conditions for financing new aircraft which will impact our civil aerospace revenues.

With its large installed fleet, spread across both military and civil platforms, the significant cost reduction plans in place and its sound financial position, the Group is well placed to respond effectively to current challenges and to position the business for the long term."

STRATEGIC POSITIONING

Meggitt had another excellent year in 2008 in terms of revenue and underlying profit growth, the integration of K&F and progress on the Group's operational excellence initiatives. In summary, the Group delivered:

* Excellent growth: orders up 26%; revenues up 32%; underlying operating profit up 37%. Strong organic2 growth: revenues up 10%; underlying operating profit up 10%.
* Increased programme and fleet investment: R&D up 13% to £78.8m (7% of revenue); programme participation investment up 78% to £35.7m (3% of revenue).
* K&F integration savings of £12.5m (target £10m) in 2008;on track to achieve target synergies of £22m in 2010.
* Incremental savings of £11min 2008 from theglobal procurement programme.
* Increased investment in low cost manufacturing: third factory opened in China; second factory being built in Mexico.

The current global economic environment is having an impact on the Group's markets, although its unprecedented nature makes it difficult to predict what that impact will be. The Group has considerable operational experience and a successful track record of managing through previous downturns in its markets. The Group strategy, together with actions already implemented or planned, will enable Meggitt to deal effectively with the uncertainties ahead and to continue to make the investments that will benefit the business in the longer term. Specifically:

* Meggitt's portfolio is well balanced, with 46% of the Group revenues generated from the civil aerospace market, 39% from the military market and 15% from other markets, primarily energy.
* Our proprietary technology, predominantly sole source positions and significant installed fleet will enable Meggitt to generate significant aftermarket revenues, for many years after the sale of the original equipment.
* Ongoing operational excellence programmes, such as global procurement and low cost manufacturing, will continue to produce incremental savings.
* Additional actions, taken or planned in response to the economic situation, will yield further savings at the rate of £50m a year by the end of 2010. These actions include streamlining the organisation, cutting civil aerospace headcount by 15% from mid-2008 levels and a variety of other initiatives such as reducing overtime, manufacturing scrap, pension costs and discretionary spend. Management pay has also been frozen. The one-off operating exceptional cost of achieving these savings is estimated at £25m.
* Meggitt's balance sheet is strong, with net debt/EBITDA (bank calculation basis) at 2.35x, well within the covenant of 3.5x, and the recent facility extension covers our bank financing needs through to March 2012.

(2) Organic growth is calculated by including K&F results (unaudited) in 2007 for the period prior to acquisition and by adjusting 2008 results to 2007 exchange rates to give a like for like comparison.

Please contact

Terry Twigger, Chief Executive

Stephen Young, Group Finance Director

Andy Mann, Group Head of Communications and Investor Relations

Meggitt PLC

Tel: +44 1202 597597

Charles Ryland or Jeremy Garcia

Buchanan Communications

Tel: +44 20 7466 5000

REVENUES AND ORDERS

Meggitt's revenues have shown great resilience in 2008, despite a turbulent economic background. Group revenues are well diversified with 46% from civil aerospace markets; 39% from military markets and 15% from other markets, primarily energy. In total, aftermarket revenues were 49% of the group total and original equipment (OE) revenues were 51%.

Overall revenues increased by 32% to £1,162.6m (2007: £878.2m) reflecting strong organic growth of 10%, favourable currency movements and the inclusion of a full year of the K&F businesses.

Civil aerospace revenues increased by 31% in 2008 (5% organic) with good growth in all three segments - large jets, regional aircraft and business jets - and in both OE and the aftermarket.

In the military market, the US Department of Defense (DoD), our largest customer, continued to spend significant sums both on new equipment and upgrading and replacing equipment which is seeing heavy use in the current conflicts.

Meggitt's military revenues increased by 35% in 2008 (14% organic), fuelled by substantial B1B Lancer and A10 Thunderbolt wheels and brakes orders in 2007. Delays in the approval of DoD supplemental budget funding slowed the flow of orders to parts of our defence training business, although this improved later in the year.

Revenue growth in Meggitt's other markets was 20% and, within this, Meggitt's energy related revenues increased by 21%, reflecting further gains in market share.

The Group's order intake in 2008 was up 26% and the closing order book at 31 December 2008 was £814m (2007: £660m).

PROFIT AND DIVIDENDS

The Board's preferred measure of the Group's trading performance is underlying profit. Underlying operating profit for the year was up 37% at £296.4m (2007: £216.3m) and the underlying operating margin increased to 25.5% (2007: 24.6%). The result benefited from favourable currency movements and the inclusion of a full year of K&F trading. On an organic basis, revenues and underlying operating profit increased by a very healthy 10%.

Net finance costs increased as expected to £53.1m (2007: £37.3m) due to the full year effect of the additional financing required to support the K&F acquisition and also an increase in non-cash pension interest to £4.7m (2007: £1.2m). Underlying profit before tax, therefore, increased by 36% to £243.3m (2007: £179.0m).

After a tax charge of 28.0% (2007: 27.5%), underlying earnings per share increased 20% to 26.5 pence (2007: 22.1 pence).

On a statutory basis, profit before tax increased by 13% to £119.3m (2007: £105.4m) and earnings per share increased by 3% to 15.0p (2007: 14.6p). The principal adjustments between underlying profit and statutory profit are described in notes 3 and 7.

The recommended final dividend of 5.75p (2007: 5.75p) represents a total dividend for the year of 8.45p (2007: 8.20p), an increase of 3%.

CASH FLOW AND BORROWINGS

Cash inflow from operations before exceptional operating costs was £295.4m, which was 100% of underlying operating profit (2007: £214.3m and 99%).

The business generated £75.0m of net cash and, after taking account of favourable non-cash movements of £4.5m and the adverse translation impact of £312.0m on our mainly US dollar denominated debt, net borrowings increased from £815.4m at 31 December 2007 to £1,047.9m at 31 December 2008.

The financial position of the Group is strong, benefiting from the timely renegotiation of $500m of bank facilities, which extended their maturity from May 2010 to July 2013. No new bank financing will be required before March 2012.

COVENANTS

The Group's bank covenant ratios are measured in sterling and use frozen UK GAAP, with average exchange rates used for translating both profit and debt. This ensures that the key ratios are relatively insensitive to exchange rate movements.

There are two main covenants. The net debt/EBITDA ratio, which must not exceed 3.5x, was 2.35x at 31 December 2008 (2007: 2.70x) and interest cover, which must be not less than 3.0x, was 6.6x (2007: 6.5x). The Group therefore has significant headroom against both key covenant ratios and, at 31 December 2008, had more than £400m of undrawn headroom net of cash against our committed bank facilities.

ACQUISITIONS AND DISPOSALS

Meggitt made one acquisition and one disposal in 2008. On 7 January 2008, Meggitt acquired Ferroperm, a leading manufacturer of piezo-electric ceramic materials for specialist sensor applications for a cash consideration of up to Danish Kroner 100m (£9.8m).

S-Tec, a producer of analogue and digital autopilots to the general aviation segment, was sold on 3 January 2008 for a net consideration of £17.2m.

K&F INTEGRATION UPDATE

The integration of our largest ever acquisition, K&F (acquired 22 June 2007) has progressed very well. The larger part of K&F's business (the wheels and brakes business) was merged with Meggitt's existing UK wheels and brakes business on 1 January 2008 to form Meggitt Aircraft Braking Systems (MABS). This merger has established MABS as the world leader in wheel and brake systems for regional aircraft, business jets and military aircraft.

Engineered Fabrics Corporation (EFC), the smaller part of K&F and the leading supplier of fuel tanks to the US DoD, also became part of Meggitt Aerospace Equipment. Both former K&F businesses traded well in 2008.

Rationalisation of the MABS facilities are on track, with the closure of the Slough, Atlanta and Liege repair and distribution centres. The Group has now completed just over half of the identified integration projects and, in 2008, exceeded its synergy target of £10m by £2.5m. This restructuring has been achieved with minimal disruption to both production schedules and customer support.

Meggitt is well on track to achieve the targeted synergy savings of £18m in 2009 and £22m in 2010. This will be achieved at a one off cost of £29m, of which, £15m has been incurred to date.

INVESTING FOR THE FUTURE

Developing and owning intellectual property is an important part of Meggitt's successful strategy. Total product development expenditure in 2008 increased by 13% to £78.8m (2007: £70.0m), of which approximately 25% was funded by customers.

As a proportion of revenues, the largest relative investment was once again in sensing systems at £30.9m (12% of segment revenues), followed by defence systems at £11.3m (9% of segment revenue) and, finally aerospace equipment at £36.6m (5% of segment revenues).

Strategic technology investment continues to add competitive advantage to our energy market products, such as compact heat exchangers for offshore platforms and condition monitoring for industrial gas turbines. As part of our strategy to continue to increase our market share in this area, a new regional office has been opened in India, which will enable us to support a widening industrial customer base in the region.

Meggitt also invested £35.7m (2007: £20.1m) in supplying free of charge equipment to new aircraft coming into the fleet and in making programme participation contributions, mostly in the MABS business.

Capital expenditure on property, plant and equipment and other intangible assets reduced to £40.9m (2007: £43.8m).

As part of the Group's low cost manufacturing strategy, Meggitt established its wholly owned facility in Xiamen, China in 2004. During 2008, the Xiamen business opened its third factory and is operating successfully.

The Group is also opening its second Mexican factory at Queretaro. The new operation will commence production in 2009 and will complement the existing MABS Fresnillo, Mexico steel parts manufacturing operation.

PENSIONS

At the year end, Meggitt's pension and medical deficit had increased to £241.2m (2007: £153.3m). Around half of the increase is due to currency movements which increase the sterling value of deficits on our US schemes. The rest related to changes in discount rates, inflation rates and the valuation of assets. The Group made deficit reduction payments of £22.5m in 2008 and is consulting employees on reducing future service benefits in the UK from 2009. The next formal valuation of the UK schemes will take place in 2009.

CUSTOMER RECOGNITION

A strong partnership performance in 2008 was matched by high levels of recognition by our customers, including supplier awards from Embraer, Gulfstream, AVIC 1 Commercial Aircraft Company and the Defense Supply Center Richmond (DSCR) on behalf of the US government.

Other awards in 2008 included one from the Ethisphere Institute for our ethics programme and exporter of the year from the Economic Development Alliance of Southeast Alberta, Canada.

MEGGITT AEROSPACE EQUIPMENT (MAE)

FINANCIAL HIGHLIGHTS

- Total revenues up 45% to £763.7m (14% organic)
- Underlying operating profit of £230.6m, up 46% (10% organic)
- Return on sales3 30.2% (2007: 30.0%)
- Order intake up 33% on 2007

(3) Underlying operating profit as a percentage of revenue.

DIVISIONAL OVERVIEW

This division represents over 65% of total revenues at £763.7m and generates 63% of its revenues from the aftermarket and 37% from the OE market.

Meggitt's aerospace equipment businesses had a good year in 2008 with strong revenue and underlying operating profit growth.

Significant wins included the gearbox and brake system for the Future Combat Systems Multifunction Utility/Logistics and Equipment (MULE) vehicle, fans for the V22 Osprey rotorcraft, the design, development, manufacture and support of the Airbus A350 fire detection system and the pneumatic bleed air system for the Embraer Legacy 450 and 500 programmes.

EFC won numerous contracts including, at the end of the year, its record US$41m plus follow-on contract to supply fuel tanks to the KC-135 aircraft.

Meggitt Polymer Solutions (MPS) consolidated its two UK polymer facilities and has also developed a new lightweight material which could yield significant weight savings for its aerospace customers.

Meggitt Aircraft Braking Systems (MABS) won virtually every major braking system bid it entered for business jet aircraft and strengthened its position in the mid to large size market segments. The wheels, brakes and brake control system on the Gulfstream G650 jet was Meggitt's biggest business aviation contract to date and is expected to provide revenues worth hundreds of millions of dollars over the life of the programme. MABS was also selected for Gulfstream's super mid-size G250. The successful integrated braking system bid for the Embraer Legacy 450/500 was the first programme to be executed by a team from our newly-integrated US and UK facilities.

Military orders included a multi-million pound follow-on contract from AgustaWestland to develop and produce the differential brake control system components for the Future Lynx helicopter and an additional Eurofighter Typhoon order for Saudi Arabia. A contract from BAE Systems for the wheels, brakes and brake control system for the Mantis unmanned technology demonstrator reinforced our leading position in wheel and brake technology for unmanned air vehicles.

Proven technical successes have seen MAE products on the first flights in 2008 of the Cessna CJ4; Phenom 300; Aermacchi M346; the new Gripen demonstrator; Tranche 2 Eurofighter Typhoon and the F35 STOVL aircraft. Another first was the successful flight of Meggitt's electronic braking system on a Bombardier test aircraft - the first civil aircraft to fly with an all electric braking system.

Heatric, our compact heat exchanger business serving the oil and gas exploration business, won key multi-million pound orders in both Australia and Malaysia.

MEGGITT SENSING SYSTEMS (MSS)

FINANCIAL HIGHLIGHTS

- Total revenues up 14% to £267.8m (4% organic)
- Underlying operating profit of £46.7m, up 13% (9% organic)
- Return on sales 17.4% (2007: 17.6%)
- Order intake up 16% on 2007

DIVISIONAL OVERVIEW

Overall, MSS businesses performed well in 2008 with continued demand for their state-of-the-art condition-monitoring systems from aerospace and energy customers. Year-on-year revenue growth was negatively impacted as expected by the disposal of S-Tec (partially offset by the acquisition of Ferroperm) in January 2008. Revenue growth in MSS' continuing businesses was 9%.

Some of the significant OE contracts won in 2008, which will contribute to future aftermarket revenue growth, included a contract from Boeing in August to reinforce MSS Switzerland's leading position in engine vibration monitoring technology, when its Advanced Airborne Vibration Monitor (AAVM) was selected for all new Boeing 737 Next Generation aircraft.

MSS UK became an approved supplier to Pratt & Whitney Canada when it won a ten year contract to develop and supply a new exhaust gas temperature system for the PW200 family of helicopter engines.

MSS UK also received new orders for its air data system and crash survivable memory units for the Eurofighter Typhoon. An order from Korean Aerospace Industries for an integrated standby flight display, which includes air data sensing for a utility helicopter, could extend to 200-plus rotorcraft over the next ten years. There was strong demand for its helicopter air data system installed on Boeing's Apache attack helicopters and it delivered its threat warning indicators and air data computers to the first of the United States' Joint Cargo Aircraft - the twin-engine, mid-range, medium-lift turboprop cargo plane known as the C-27J Spartan.

The year proved productive for new products and new markets. MSS provided the advanced engine vibration monitor for the Sukhoi commercial Superjet 100's maiden flight and engine vibration monitoring and engine interface control units were qualified on the ARJ21, the new Chinese commercial aircraft. The engine monitoring units for the Boeing 787/GEnx engine and the engine vibration monitoring units for the Boeing 777/GE90 engine were also qualified.

The division also launched its innovative fuel gauging technology based on time domain reflectometry and Ferroperm continued its cutting-edge developments in high temperature ceramic sensor material that can function close to aero-engine hot sections and deliver the data needed to optimise performance and control emissions.

During the year, MSS became an industrial partner with Boeing, BAE Systems and Rolls-Royce in Cranfield University's condition-monitoring research centre for integrated vehicle health management.

MEGGITT DEFENCE SYSTEMS (MDS)

2008 FINANCIAL HIGHLIGHTS

- Total revenues up 15% to £131.1m (6% organic)
- Underlying operating profit of £19.1m, up 15% (4% organic)
- Return on sales 14.6% (2007: 14.5%)
- Order intake up 16% on 2007

DIVISIONAL OVERVIEW

Following the anticipated weak start to 2008, the division returned to growth in the second half, a pattern we expect to repeat in 2009. This division has undergone considerable consolidation in the last two years, rationalising seven facilities down to three to reduce cost and improve competitiveness.

Highlights included Meggitt Training Systems (MTS), in partnership with Lockheed Martin, winning the follow-on contract for the Reconfigurable Vehicle System (RVS) which is funded through to 2011, whilst in the UK, MTS delivered over 380 free-flying aerial Banshee targets - a record - and provided a customised model for the UK Ministry of Defence's Combined Aerial Target Service (CATS).

The CATS programme also received first deliveries of Meggitt's high-speed Voodoo aerial target, together with an attack helicopter target from our Canadian facility and the Microdops scoring system from our US-based combat support arm in California.

Meggitt's UK facility is now providing contract logistics support for simulation systems for the UK MoD and has received various contracts to increase the capability of the Dismounted Close Combat Trainer (DCCT), the British Army standard for small arms and combined arms training.

During the year, MTS Canada sold its 1,000th avionics unit to EADS' defence and security division after six years' sole supply of flight and ground control systems for this customer's advanced jet drones. It secured an order from the Canadian Navy for Hammerhead, a brand-new naval target that can form part of a swarm threat simulation of up to 16 vehicles and replicate asymmetric small-boat attacks on ships.

Meggitt Defense Systems' combat support systems facility in California is similarly positioned for future success, with a strong portfolio of contracts for development programmes that could lead to healthy production runs and retrofit work for the US Army's fleet modernisation programme.

During 2008, it received a $64m multi-year contract for the thermal management system on the M1A2 SEP Abrams tank from General Dynamics; it won the thermal management system for the long-range Infrared Search and Track (IRST) system for the F/A-18E/F fighter, and it was awarded the development contract with potential follow-on production for the integrated thermal management system for the US Army's Multifunction Utility/Logistics and Equipment (MULE) unmanned ground vehicle.

Further awards included the development contract for the 35 mm feed system for Krauss-Maffei Wegmann and an $18m order for Stryker Mobile Gun System replenishers from General Dynamics.

GROUP OUTLOOK

The overall outlook for 2009 looks challenging as global economic conditions continue to deteriorate. However, the US DoD base budget is predicted to grow by around 3% in 2009 and, with market share gains, our energy business will also grow; these markets are expected to remain robust over the coming years.

In civil aerospace, air traffic, measured in available seat kilometres (ASKs), is projected to decline by 3-5% in 2009 and to stay flat or increase slightly in 2010. This would translate into reduced use of existing aircraft and, combined with adverse conditions in credit markets, lower sales of new aircraft. Sales and usage of business jets will most likely see the largest declines.

In response, the Group has already taken action and will continue to cut costs, with savings of £20m in 2009, rising to an annual run rate of £50m by the end of 2010. In addition to streamlining the organisation, civil aerospace headcount will be cut by 15% from mid-2008 levels and a variety of other initiatives will be targeted to reduce overtime, manufacturing scrap, pension costs and discretionary spend. Management pay has also been frozen.

All of this, of course, is in addition to the on-going initiatives referred to earlier in this release, around extracting more savings from the K&F integration, our global procurement programme and our low cost manufacturing initiatives.

Finally, around two thirds of our profits are earned in US dollars and were translated into sterling at an average rate of $1.83 to the pound in 2008. The stronger dollar will help us in 2009, by approximately £1m of pre-tax profit for every cent improvement in the average translation rate.

With its large installed fleet, spread across both military and civil platforms, the significant cost reduction plans in place and its sound financial position, the Group is well placed to respond effectively to current challenges and to position the business for the longer term.

As a consequence, based on current market indicators and at constant 2008 exchange rates, the Group expects revenues in 2009 to be close to those achieved in 2008.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Continuing operations			
Revenue	2	1,162.6	878.2
Cost of sales		(637.8)	(493.4)
Gross profit		524.8	384.8
Net operating costs		(352.4)	(242.1)
Operating profit*	2	172.4	142.7

Finance income		33.9	32.7
Finance costs		(87.0)	(70.0)
Net finance costs	6	(53.1)	(37.3)
Profit before tax from continuing operations**		119.3	105.4
Tax		(20.2)	(16.1)
Profit for the year from continuing operations attributable to equity holders		99.1	89.3
Earnings per share (pence):			
Basic	7	15.0p	14.6p
Diluted	7	15.0p	14.5p

*	Underlying operating profit	3	296.4	216.3
**	Underlying profit before tax	3	243.3	179.0

CONSOLIDATED BALANCE SHEET

as at 31 December 2008

	Notes	2008	2007 Restated
		£m	£m
Non-current assets			
Goodwill	11	1,382.7	1,067.8
Development costs	11	97.8	57.7
Programme participation costs	11	180.4	121.8
Other intangible assets	11	901.6	741.7
Property, plant and equipment	12	245.2	191.2
Trade and other receivables		19.3	14.4
Derivative financial instruments		1.6	-
Deferred tax assets		112.4	41.4
Assets held for sale	20	-	14.5
		2,941.0	2,250.5
Current assets			
Inventories		273.1	204.6
Trade and other receivables		286.9	214.6
Derivative financial instruments		1.0	3.6
Current tax recoverable		0.7	7.8
Cash and cash equivalents	18	67.3	64.9
		629.0	495.5
Total assets		3,570.0	2,746.0
Current liabilities			
Trade and other payables		(314.6)	(227.1)
Derivative financial instruments		(26.4)	(0.9)
Current tax liabilities		(37.1)	(44.2)
Obligations under finance leases	18	(1.0)	(0.5)
Bank and other borrowings	18	(13.5)	(16.7)
Provisions	13	(45.3)	(18.0)
		(437.9)	(307.4)
Net current assets		191.1	188.1
Non-current liabilities			
Trade and other payables		(9.3)	(7.0)
Derivative financial instruments		(70.6)	(10.7)
Deferred tax liabilities		(359.9)	(265.5)
Obligations under finance leases	18	(6.2)	(5.0)
Bank and other borrowings	18	(1,094.5)	(858.1)
Provisions	13	(64.0)	(74.0)
Retirement benefit obligations	14	(241.2)	(153.3)
Liabilities directly associated with assets classified as held for sale	20	-	(1.6)
		(1,845.7)	(1,375.2)
Total liabilities		(2,283.6)	(1,682.6)
Net assets		1,286.4	1,063.4
Equity			

Share capital		33.3	32.9
Share premium		798.8	781.6
Other reserves		14.1	14.1
Hedging and translation reserves		195.7	(6.8)
Retained earnings		244.5	241.6
Total equity attributable to equity holders	16	1,286.4	1,063.4

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Cash inflow from operations before exceptional operating costs		295.4	214.3
Cash outflow from exceptional operating costs	4	(16.5)	(4.2)
Cash inflow from operations	17	278.9	210.1
Interest received		1.6	5.0
Interest paid		(47.8)	(34.8)
Tax paid		(30.3)	(23.4)
Cash inflow from operating activities		202.4	156.9
Purchase of subsidiaries	9	(9.2)	(563.6)
Net cash acquired with subsidiaries		-	11.5
Proceeds from disposal of subsidiaries		19.9	-
Capitalised internal development costs	11	(23.7)	(22.4)
Capitalised programme participation costs	11	(35.7)	(20.1)
Purchase of other intangible assets	11	(5.8)	(3.3)
Purchase of property, plant and equipment		(35.1)	(40.5)
Proceeds from disposal of property, plant and equipment		0.4	2.6
Cash outflow from investing activities		(89.2)	(635.8)
Dividends paid to Company's shareholders		(40.3)	(35.6)
Issue of equity share capital		2.1	439.8
Expenses of issue of equity share capital		-	(9.8)
Proceeds from borrowings		10.2	520.7
Debt issue costs		(2.1)	(3.6)
Repayments of borrowings		(82.1)	(406.0)
Cash (outflow)/inflow from financing activities		(112.2)	505.5
Net increase in cash and cash equivalents	18	1.0	26.6
Cash and cash equivalents at start of year		64.9	43.6
Exchange gains/(losses) on cash and cash equivalents		1.4	(5.3)
Cash and cash equivalents at end of year	18	67.3	64.9

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Currency translation gains/(losses)		200.2	(0.5)
Currency translation loss transferred to income statement	10	1.0	-
Taxation recognised on currency translation movements - current		15.6	7.2
Taxation recognised on currency translation movements - deferred		(1.0)	-
Actuarial (losses)/gains	14	(60.9)	24.8
Taxation recognised on actuarial movements - deferred		18.7	(8.2)
Losses on cash flow hedges		(18.5)	(10.2)
Taxation recognised on cash flow hedge movements - deferred		5.2	2.9
Net income recorded directly in equity		160.3	16.0
Profit for the year		99.1	89.3
Total recognised income for the year	16	259.4	105.3

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008

1. Basis of preparation

This document contains abridged preliminary financial information for the year ended 31 December 2008 together with comparatives. Comparatives have been restated where appropriate as described in note 21.

The information presented has been prepared in accordance with those parts of the Companies Act 1985 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 land and buildings and financial assets and liabilities (including derivative instruments) at fair value.

The financial information contained in this document does not constitute Group statutory accounts as defined in Section 240 of the Companies Act 1985. It is based on, and is consistent with, that in the Group's statutory accounts for the year ended 31 December 2008 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 any statement under Section 237 of the Companies Act 1985.

Group statutory accounts for the year ended 31 December 2007 have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain any statement under Section 237 of the Companies Act 1985.

2. Segmental analysis

The Group's primary segments are its business segments.

	2008 £m	2007 £m
Revenue		
Aerospace Equipment	763.7	528.1
Sensing Systems	267.8	235.9
Defence Systems	131.1	114.2
	1,162.6	878.2
Underlying operating profit (note 3)		
Aerospace Equipment	230.6	158.2
Sensing Systems	46.7	41.5
Defence Systems	19.1	16.6
	296.4	216.3
Operating profit		
Aerospace Equipment	127.2	94.3
Sensing Systems	37.1	40.0
Defence Systems	8.1	8.4
	172.4	142.7

3. Reconciliations between profit and underlying profit

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

	Notes	2008 £m	2007 £m
Operating profit		172.4	142.7
Exceptional operating costs	a	15.8	5.4
Amortisation of intangibles acquired in business combinations	b	61.8	38.4
Disposal of inventory revalued in business combinations	c	0.3	21.3
Financial instruments	d	46.1	5.3
Goodwill adjustments arising from recognition of tax losses	e	-	3.2
Adjustments to operating profit		124.0	73.6
Underlying operating profit		296.4	216.3
Profit before tax		119.3	105.4
Adjustments to operating profit per above		124.0	73.6

Exceptional finance costs	a	-	2.0
Exceptional finance income	a	-	(2.0)
Adjustments to profit before tax		124.0	73.6
Underlying profit before tax		243.3	179.0

More to follow, for following part double-click [nRn2C1776O]