

REG-Meggitt PLC Preliminary Results - Part 1

Released : 03 Mar 2009 07:00

<http://pdf.reuters.com/Regnews/regnews.asp?i=43059c3bf0e37541&u=urn:newsml:reuters.com:20090303:RnsC17760>

RNS Number : 17760

Meggitt PLC

03 March 2009

For immediate release 3 March 2009

"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 £11m in 2008 from the global 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 sales 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 |
|---|-------|-----------|----------------|
| | | £m | Restated £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 [nRn2C17760]

REG-Meggitt PLC Preliminary Results - Part 2

Released : 03 Mar 2009 07:00

Part 2 : For preceding part double click [nRn1C17760]

| | | |
|--|--------|--------|
| c) Profit for the year | 99.1 | 89.3 |
| Adjustments to profit before tax per above | 124.0 | 73.6 |
| Tax effect of adjustments to profit before tax | (47.9) | (33.1) |
| Adjustments to profit for the year | 76.1 | 40.5 |
| Underlying profit for the year | 175.2 | 129.8 |

- a. Exceptional items relate to the integration of significant acquisitions and items which by virtue of their size and nature are considered to be non-recurring (note 4).
- b. The Group excludes from its underlying profit the amortisation of intangible assets acquired in business combinations (note 11).
- c. IFRS 3 requires finished goods acquired through a business combination to be valued at estimated selling price less costs of disposal and a reasonable profit allowance for the selling effort. Work in progress acquired in a business combination is valued at estimated selling price less costs to complete, costs of disposal and a reasonable profit allowance for the work not yet completed. The fair value of acquired inventory is thus significantly higher than the same items built post acquisition, the value of which includes no profit element. This increase arising from the revalued inventory is charged to the income statement as the inventory is consumed and is excluded from the Group's underlying profit figures.
- d. 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 required 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
- e. Where interest rate derivatives do not qualify to be hedge accounted, movements in the fair value of these derivatives are excluded from underlying profit. Where interest rate derivatives do qualify to be accounted for as fair value hedges, any difference between the movement in the fair

3. Reconciliations between profit and underlying profit (continued)

values of the derivatives and in the fair value of fixed rate borrowings is excluded from underlying profit. Any gains or losses arising from the requirement to continue to measure fixed rate borrowings at fair value after the associated interest rate derivatives have matured or have been cancelled are also excluded from underlying profit (note 5).

- e The goodwill adjustment arises from the recognition of tax losses during the year in respect of businesses acquired in earlier years. These tax losses existed when the businesses were acquired but a deferred tax asset was not recognised at the time as the recoverability of those losses was not

probable at the time the fair values were finalised. IFRS requires that goodwill is adjusted in the year the recoverability becomes probable with a corresponding charge recorded in profit before tax.

4. Exceptional items

| | Notes | 2008 £m | 2007 £m |
|---|-------|------------|------------|
| Integration of K&F Industries Holdings Inc ("K&F") | a | 10.2 | 4.7 |
| Integration of Firearms Training Systems Inc ("FATS") | b | 2.9 | 0.7 |
| Integration of other businesses | c | 4.6 | - |
| Profit on sale of S-Tec Corporation ("S-Tec") | d | (1.9) | - |
| Exceptional operating costs | | 15.8 | 5.4 |
| Rights issue | | | |
| - Interest on bank deposits | e | - | (2.0) |
| - Reduced interest payable net of costs of new facilities | e | - | (1.6) |
| Redemption of K&F 7.75% senior subordinated notes | f | - | 3.6 |
| Exceptional net finance costs | | - | - |
| Analysed as: | | | |
| Exceptional finance income | | - | (2.0) |
| Exceptional finance costs | | - | 2.0 |
| Exceptional net finance costs | | - | - |

a. Costs incurred during the year include the rationalisation of repair and overhaul centres with the relocation of the Slough and Liege facilities to Coventry in the UK and the relocation of the Atlanta facility to Akron in the US. Costs were also incurred in rationalising and restructuring R&D and engineering capabilities and in moving steel brake and structural manufacturing from Akron to Mexico. Further exceptional operating costs of £14.1 million are expected to arise over the next two years as the integration is completed.

b. During the year the consolidation of Caswell with FATS US at a new site in Atlanta was completed.

c. During the year other business integration costs were also incurred, principally the integration of the Avery Hardoll business into other businesses in the Group.

. Cash expenditure on all exceptional operating costs above was £16.5 million (2007: £4.2 million), including £9.5 million in respect of K&F (2007: £1.9million) and £3.3 million (2007: £1.3 million) in respect of FATS

d. In January 2008 the Group completed the disposal of S-Tec and recorded a profit of £1.9 million which has been treated as an exceptional operating item (note 10).

e. The Group announced on 6 March 2007 the proposed acquisition of K&F for an enterprise value of USD 1.8 billion funded in part by a rights issue with the balance financed by a new debt facility.

4. Exceptional items (continued)

The reduction in net finance costs arising from the cash raised by the rights issue and finance costs associated with the new debt facilities was treated as exceptional net finance income in respect of the period between completion of the rights issue on 18 April 2007 and completion of the acquisition on 22 June 2007.

f Following the acquisition of K&F the Group commenced a cash tender offer for K&F's USD 315 million aggregate principal amount of 7.75% senior subordinated notes which were due in 2014. This tender offer successfully completed on 3 August 2007. The premium payable on redemption, being the difference between the total consideration paid and the book value of the

notes at the date the offer completed, was treated as exceptional finance costs.

The reduction in net finance costs arising from the cash raised by the rights issue and finance

5. Financial instruments

| | 2008 £m | 2007 £m |
|--|------------|------------|
| Movement in the fair value of foreign currency forward contracts | 49.6 | 5.8 |
| Impact of retranslating net foreign currency assets and liabilities at spot rate | (4.2) | (0.7) |
| Movement in the fair value of interest rate derivatives | 2.9 | 0.2 |
| Movement in the fair value of fixed rate borrowings | (2.2) | - |
| Financial instruments - loss | 46.1 | 5.3 |

6. Net finance costs

| | 2008 £m | 2007 £m |
|---|------------|------------|
| Interest on bank deposits | 0.6 | 3.6 |
| Unwinding of interest on other receivables | 1.0 | 0.9 |
| Expected return on retirement benefit scheme assets | 31.3 | 27.0 |
| Other finance income | 1.0 | 1.2 |
| Finance income | 33.9 | 32.7 |
| Interest on bank borrowings | (39.0) | (27.1) |
| Interest on USD 250 million senior notes | (7.4) | (6.7) |
| Interest on 7.75% senior subordinated notes | - | (1.7) |
| Premium on redemption of 7.75% senior subordinated notes (note 4) | - | (3.6) |
| Interest on finance lease obligations | (0.3) | (0.2) |
| Unwinding of interest on provisions (note 13) | (1.9) | (1.1) |
| Unwinding of discount on retirement benefit scheme liabilities | (36.0) | (28.2) |
| Other finance costs | (2.4) | (1.4) |
| Finance costs | (87.0) | (70.0) |
| Net finance costs | (53.1) | (37.3) |
| Analysed as: | | |
| Exceptional finance income | - | 2.0 |
| Exceptional finance costs | - | (2.0) |
| Interest related to retirement benefit schemes (note 14) | (4.7) | (1.2) |
| Other trading interest | (48.4) | (36.1) |
| | (53.1) | (37.3) |

7. Earnings per share

The calculation of earnings per ordinary share is based on profits of £99.1 million (2007: £89.3 million) and on the weighted average of 661.9 million (2007: 612.6 million) ordinary shares in issue during the year ended 31 December 2008.

The calculation of diluted earnings per ordinary share is based on the same profits as used in the calculation of basic earnings per ordinary share. The weighted average number of ordinary shares of 663.0 million (2007: 615.9 million) used in the calculation is based on the weighted average number used in the calculation of basic earnings per share adjusted for the effect of options.

Underlying earnings per share is based on underlying profit (note 3) and is calculated below:

| | 2008 Pence | 2007 Pence |
|---|---------------|---------------|
| Basic earnings per share | 15.0 | 14.6 |
| Add back effects of: | | |
| Exceptional operating costs | 1.8 | 0.6 |
| Amortisation of intangibles acquired in business combinations | 4.7 | 3.3 |
| Disposal of inventory revalued in business combinations | - | 2.1 |

| | | |
|-------------------------------|------|-------|
| Financial instruments | 5.0 | 0.6 |
| Exceptional finance income | - | (0.5) |
| Exceptional finance costs | - | 0.4 |
| Rights issue * | - | 1.0 |
| Underlying earnings per share | 26.5 | 22.1 |

* As referred to in note 4 the Group excluded exceptional finance income arising from the rights issue, for the period from when the rights issue proceeds were received on 18 April 2007 to 22 June 2007, the date when the acquisition of K&F was completed. For the purposes of underlying earnings per share for 2007 the Group also adjusted the weighted average number of shares used to exclude the effect of the new shares for this same period. The weighted average number of shares used for underlying earnings per share in 2007 was 586.9 million.

8. Dividends

The Board is recommending a final dividend of 5.75p per ordinary share (2007: 5.75p). Taken with the interim dividend of 2.70p (2007: 2.45p) paid in the year this gives a total dividend of 8.45p (2007: 8.20p) representing an increase of 3%. Subject to approval at the Annual General Meeting to be held on 23 April 2009, the proposed dividend will be paid on 8 May 2009 to shareholders on the register at close of business on 13 March 2009. In continuation of recent practice, shareholders will be offered the opportunity to elect for shares in lieu of cash for the final dividend.

9. Business combinations

On 7 January 2008 Meggitt acquired 100% of the share capital of Ferroperm Piezoceramics A/S ("Ferroperm") for £9.8 million. Ferroperm is located in Kvistgaard, Denmark and is a world leader in the manufacture of advanced piezo-electric ceramic materials for a range of specialist sensor applications, such as vibration, dynamic pressure, underwater acoustics and medical ultrasound. The acquisition has been accounted for using the purchase method of accounting.

9. Business combinations (continued)

The assets and liabilities arising from the acquisitions are as follows:

| | Book value £m | Fair value £m |
|---|------------------|------------------|
| Goodwill (note 11) | - | 5.6 |
| Development costs | 0.3 | - |
| Other intangible assets (note 11) | - | 4.3 |
| Property, plant and equipment (note 12) | 0.7 | 0.7 |
| Inventories | 0.9 | 1.1 |
| Trade and other receivables - current | 0.6 | 0.7 |
| Trade and other payables - current | (0.3) | (0.4) |
| Current tax liabilities | (0.2) | (0.2) |
| Bank and other borrowings - current (note 18) | (0.8) | (0.8) |
| Provisions - current (note 13) | (0.1) | (0.1) |
| Deferred tax liabilities | - | (1.1) |
| Total | 1.1 | 9.8 |
| Consideration satisfied in cash (including costs) | | 7.8 |
| Deferred consideration | | 2.0 |
| Total consideration payable | | 9.8 |

Total cash consideration paid in respect of acquisitions totalled £9.2 million, of which, £7.8 million was paid in respect of Ferroperm and £1.4 million in respect of deferred consideration relating to acquisitions completed in earlier years.

10. Disposals

On 3 January 2008, Meggitt completed the disposal of S-Tec to Cobham plc for a net consideration of £17.2 million. S-Tec designs, certifies and manufactures general aviation autopilots, supplying original equipment manufacturers and the aftermarket. The business was no longer considered core to Meggitt's current operations. The assets and liabilities disposed are summarised below.

| | 2008 £m |
|----------|------------|
| Goodwill | 9.2 |

| | |
|---|-------|
| Development costs | 1.1 |
| Other intangible assets | 0.2 |
| Property, plant and equipment | 1.3 |
| Inventory | 2.2 |
| Trade and other receivables - current | 1.8 |
| Trade and other payables - current | (1.3) |
| Provisions - current | (0.2) |
| Net assets disposed | 14.3 |
| Currency translation loss transferred from equity | 1.0 |
| Total | 15.3 |
| Net consideration | 17.2 |
| Profit on disposal (note 4) | 1.9 |

11. Intangible assets

| | Goodwill | Development costs | Programme participation costs | Other intangible assets |
|------------------------------|----------|-------------------|-------------------------------|-------------------------|
| | £m | £m | £m | £m |
| Balance at 1 January 2008: | | | | |
| As previously reported | 1,071.2 | 57.7 | 121.8 | 742.2 |
| Restatement (note 21) | (3.4) | - | - | (0.5) |
| As restated | 1,067.8 | 57.7 | 121.8 | 741.7 |
| Exchange rate adjustments | 309.3 | 19.9 | 37.0 | 214.8 |
| Businesses acquired (note 9) | 5.6 | - | - | 4.3 |
| Additions | - | 23.7 | 35.7 | 5.8 |
| Disposals | - | - | - | (0.4) |
| Amortisation charge * | - | (3.5) | (14.1) | (64.6) |
| Balance at 31 December 2008 | 1,382.7 | 97.8 | 180.4 | 901.6 |

* Of the £64.6 million amortisation of other intangible assets £61.8 million relates to the amortisation of intangible assets arising in business combinations and has been excluded from underlying profit (note 3).

12. Property, plant and equipment

| | 2008 | 2007 |
|---------------------------------------|--------|----------------|
| | £m | Restated £m |
| Balance at 1 January: | | |
| As previously reported | 195.4 | 127.6 |
| Restatement (note 21) | (4.2) | - |
| As restated | 191.2 | 127.6 |
| Exchange rate adjustments | 44.9 | 1.6 |
| Businesses acquired (note 9) | 0.7 | 43.1 |
| Additions | 35.9 | 41.0 |
| Transfer to assets available for sale | - | (1.2) |
| Disposals | (0.9) | (2.1) |
| Depreciation charge | (26.6) | (18.8) |
| Balance at 31 December | 245.2 | 191.2 |

13. Provisions

| Total | Environmental legal & regulatory £m | Onerous contracts £m | Warranty costs £m | £m |
|---|---|-------------------------|----------------------|------|
| Balance at 1 January 2008: | | | | |
| As previously reported | 61.2 | 10.3 | 19.0 | 90.5 |
| Restatement (note 21) | 1.5 | - | - | 1.5 |
| As restated | 62.7 | 10.3 | 19.0 | 92.0 |
| Exchange rate adjustments | 20.5 | 1.4 | 3.8 | 25.7 |
| Businesses acquired (note 9) | - | - | 0.1 | 0.1 |
| Transfer from/(to) trade and other payables | - | 4.3 | (4.6) | |
| (0.3) | | | | |
| Charge/(credit) to income statement:- | | | | |
| - net operating costs | 15.2 | (1.5) | 2.7 | 16.4 |
| - net finance costs (note 6) | 1.4 | 0.5 | - | 1.9 |
| Utilised | (18.8) | (2.1) | (5.6) | |
| (26.5) | | | | |
| Balance at 31 December 2008 | 81.0 | 12.9 | 15.4 | |

| | 2008 | 2007 |
|------------------------|-------|----------------|
| | £m | Restated £m |
| Current | 45.3 | 18.0 |
| Non-current | 64.0 | 74.0 |
| Balance at 31 December | 109.3 | 92.0 |

14. Retirement benefit obligations

| | 2008 | 2007 |
|----------------------------------|---------|---------|
| | £m | £m |
| Balance at 1 January | (153.3) | (97.2) |
| Exchange rate adjustments | (44.8) | (0.1) |
| Businesses acquired | - | (82.0) |
| Charge to income statement: | | |
| - net operating costs | (13.3) | (12.1) |
| - net finance costs (note 6) | (4.7) | (1.2) |
| Contributions | 35.8 | 14.5 |
| Actuarial (losses)/gains | (60.9) | 24.8 |
| Balance at 31 December | (241.2) | (153.3) |
| Comprising: | | |
| Fair value of scheme assets | 451.9 | 471.4 |
| Fair value of scheme liabilities | (693.1) | (624.7) |
| Balance at 31 December | (241.2) | (153.3) |

14. Retirement benefit obligations (continued)

Principal financial assumptions

| | 2008 | 2007 |
|---|--------------|--------------|
| UK schemes: | | |
| Discount rate | 6.30% | 5.65% |
| Inflation rate | 3.00% | 3.25% |
| Current life expectancy in years: Member aged 65 (Male) | 20.1 to 21.5 | 20.1 to 21.5 |
| Overseas schemes: | | |
| Discount rate | 6.50% | 6.40% |
| Salary increases | 4.00% | 4.00% |
| Healthcare cost increases | * | * |
| Current life expectancy in years: Member aged 65 (Male) | 18.8 | 18.8 |

* Healthcare cost increases are assumed to be 8.5% for 2009 trending down to 5.0% by 2016. (2007: 9.5% for 2008 trending down to 5.0% by 2013).

Regulations in the UK and US require repayment of pension deficits over a period of time. This will require cash payments into the respective schemes in addition to normal contributions. These additional cash payments, which will not be a charge to the income statement, continue to be discussed with the relevant schemes' trustees and we estimate they will be approximately £25 million (pre-tax) in 2009.

15. Share capital

| | 2008 | 2007 |
|---|-------|-------|
| | No. m | No. m |
| Number of shares outstanding at start of year | 658.3 | 436.1 |
| Rights issue | - | 218.2 |
| Issued on exercise of sharesave and executive share options | 1.3 | 1.9 |
| Scrip dividend | 6.0 | 2.1 |
| Number of shares outstanding at end of year | 665.6 | 658.3 |

16. Summary of movements in equity

| | 2008 | 2007 |
|--------------------------------------|---------|---------|
| | £m | £m |
| At 1 January | 1,063.4 | 559.4 |
| Total recognised income for the year | 259.4 | 105.3 |
| Employee share schemes: | | |
| Value of services provided | 3.1 | 4.3 |
| Proceeds from shares issued | 2.1 | 3.4 |
| Purchase of own shares | (1.3) | - |
| Dividends | (40.3) | (35.6) |
| Rights issue | - | 426.6 |
| At 31 December | 1,286.4 | 1,063.4 |

17. Cash inflow from operations

| | 2008 | 2007 |
|--|--------|--------|
| | £m | £m |
| Profit for the year | 99.1 | 89.3 |
| Adjustments for: | | |
| Tax | 20.2 | 16.1 |
| Depreciation and amortisation | 108.8 | 71.8 |
| Loss/(profit) on disposal of property, plant and equipment | 0.5 | (0.5) |
| Loss on disposal of intangibles | 0.4 | - |
| Profit on disposal of subsidiaries (note 10) | (1.9) | - |
| Net finance costs (note 6) | 53.1 | 37.3 |
| Financial instruments (note 5) | 46.1 | 5.3 |
| Adjustment to goodwill on recognition of tax losses (note 3) | - | 3.2 |
| Retirement benefit obligation deficit payments | (22.5) | (2.4) |
| Changes in working capital | (24.9) | (10.0) |
| Cash inflow from operations | 278.9 | 210.1 |

18. Reconciliation of net cash flow to movement in net debt

| | 2008 | 2007 |
|--|-----------|---------|
| | £m | £m |
| Movement in the year in: | | |
| Cash and cash equivalents | 1.0 | 26.6 |
| Bank and other borrowings | 74.0 | (111.1) |
| Change in net debt resulting from cash flows | 75.0 | (84.5) |
| Arising on acquisition of businesses (note 9) | (0.8) | (368.0) |
| Other non-cash movements | 5.3 | (5.9) |
| Exchange differences | (312.0) | (3.3) |
| Movement in net debt in the year | (232.5) | (461.7) |
| Net debt at 1 January | (815.4) | (353.7) |
| Net debt at 31 December | (1,047.9) | (815.4) |
| Disclosed as: | | |
| Cash and cash equivalents | 67.3 | 64.9 |
| Obligations under finance leases - current | (1.0) | (0.5) |
| Bank and other borrowings -current | (13.5) | (16.7) |
| Obligations under finance leases - non-current | (6.2) | (5.0) |
| Bank and other borrowings - non-current | (1,094.5) | (858.1) |
| Net debt at 31 December | (1,047.9) | (815.4) |

19. Net debt

In addition to cash and cash equivalents of £67.3 million (2007: £64.9 million) the Group also has headroom against its committed facilities of £345.4 million (2007: £174.6 million). The weighted average maturity profile of our committed facilities is 3.6 years (2007: 3.8 years). The maturity profile of the Group's committed facilities at the year end is shown below:

| | 2008 | 2007 |
|----------------------|---------|---------|
| | £m | £m |
| In 2010 | 125.2 | 341.6 |
| In 2012 | 813.8 | 587.7 |
| In 2013 | 472.9 | 90.4 |
| In 2015 | 48.7 | 35.2 |
| Committed facilities | 1,460.6 | 1,054.9 |

The Group's banking covenants are still measured under frozen UK GAAP and, on this basis, interest cover for the year ended 31 December 2008 was 6.6 times (covenant requirement: >3.0x). Net debt to EBITDA as at 31 December 2008 was 2.4 times (covenant requirement: < 3.5x). Interest cover (based on underlying operating profit) was 5.6 times (2007: 5.8 times).

20. Assets and liabilities held for sale

The disposal of S-Tec was announced on 21 November 2008 and subsequently completed on 3 January 2008 for a net consideration of £17.2 million (note 10). Accordingly at 31 December 2007 the related assets and liabilities were classified as a disposal group held for sale and were presented separately in the balance sheet.

21. Restatement of prior year comparatives

IFRS 3 requires fair values of assets and liabilities acquired to be finalised within 12 months of the acquisition date with the exception of certain deferred tax balances. All fair value adjustments are required to be recorded with effect from the date of acquisition and consequently result in the restatement of previously reported financial results. During 2008 the Group finalised the fair values of K&F completed in 2007 and this resulted in adjustments to the balance sheet at that date. These amendments primarily relate to revisions to the fair value of property and recognition of future tax benefits. The impact of the restatements is shown below:

| | 2007 As reported £m | 2007 Fair value adjustments £m | 2007 As restated £m |
|---|------------------------------|---|------------------------------|
| Goodwill (note 11) | 1,071.2 | (3.4) | 1,067.8 |
| Other intangible assets (note 11) | 742.2 | (0.5) | 741.7 |
| Property, plant and equipment (note 12) | 195.4 | (4.2) | 191.2 |
| Trade and other payables - current | (226.8) | (0.3) | (227.1) |
| Current tax liabilities | (43.1) | (1.1) | (44.2) |
| Deferred tax liabilities - non-current | (276.5) | 11.0 | (265.5) |
| Provisions - non-current (note 13) | (72.5) | (1.5) | (74.0) |
| Other net liabilities - not affected by restatement | (326.5) | - | (326.5) |
| Net assets | 1,063.4 | - | 1,063.4 |

- E N D S -

This information is provided by RNS

The company news service from the London Stock Exchange

END

FR JTPTMMTMBML