

25 February 2020

## Meggitt PLC - 2019 Full Year results

### Another year of strong organic 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 selected energy markets, today announces audited results for the year ended 31 December 2019.

#### Group headlines

£m	2019	2018	Change %	
			Reported	Organic <sup>1</sup>
Orders	<b>2,468.4</b>	2,237.2	10	10
Revenue	<b>2,276.2</b>	2,080.6	9	8
Underlying <sup>2</sup>				
EBITDA <sup>3</sup>	<b>507.3</b>	461.6	10	8
Operating profit	<b>402.8</b>	367.3	10	7
Profit before tax	<b>370.3</b>	334.8	11	8
Earnings per share (EPS)	<b>37.3p</b>	34.2p	9	
Statutory				
Operating profit	<b>325.3</b>	256.6	27	
Profit before tax	<b>286.7</b>	216.1	33	
EPS	<b>28.8p</b>	23.2p	24	
Free cash flow	<b>267.8</b>	167.4	60	
Net debt	<b>911.2</b>	1,074.1	(15)	
Dividend (p)	<b>17.50</b>	16.65	5	

#### Highlights

- Organic order growth of 10% underpins expectations for long term revenue growth; organic book to bill<sup>4</sup> of 1.09x included a strong performance in defence (1.17x book to bill)
- Group organic revenue growth of 8% reflects strong performance in growing end-markets; with 8% growth in civil aerospace, 11% in defence and 10% in energy
- Underlying operating profit up 10% and underlying operating margin maintained at 17.7%, with the benefits of our strategic initiatives offsetting a number of headwinds including: higher Free of Charge content, adverse mix, the grounding of the 737 MAX and supply chain disruption
- Statutory operating profit increased by 27% as a result of strong operational results, lower exceptional costs and a non-cash gain from the marking to market of financial derivatives
- Free cash flow increased by £100m to £267.8m and cash conversion increased to 93% (2018: 63%), reflecting the strong operating performance, cash proceeds relating to property transactions (sale of Holbrook Lane site and reverse lease premium relating to Ansty Park) and the 2018 result being reduced by a one-off payment into the US pension schemes
- ROCE increased to 11.0% (2018: 9.9%)
- Recommended final dividend of 11.95p giving a full year dividend of 17.50p, an increase of 5%
- Chairman, Sir Nigel Rudd to step down from the Board by 2021 AGM; to remain as Chairman until a successor is appointed

#### Strategic highlights

Good progress on strategic initiatives, further enhancing our foundation for revenue growth, margin expansion and cash conversion:

- New customer aligned organisation fully embedded, with experienced and capable teams in place to accelerate long term growth; 21 Smart Support™ deals signed in the year underpinning growth in our aftermarket business

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

<sup>2</sup> Underlying profit and EPS are used by the Board to measure the trading performance of the Group and are reconciled to statutory measures in notes 4 and 10.

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

<sup>4</sup> The ratio of orders received to revenue recognised in a period.

- Good progress on investment in sustainable and differentiated technologies including: exclusive partnership with Luna Innovations for optical sensing; investment in HiETA Technologies Limited, to support next generation thermal management systems; and sustained investment in advanced engine composites manufacturing in the US and Mexico
- Completion of two further non-core disposals to increase our focus on attractive markets where we have strong positions
- Further progress on site consolidation and purchasing initiatives with a 25% reduction in footprint compared to the 2016 baseline and a 2.2% reduction in purchased costs in the year
- Improved performance in Engine Composites with an increase in underlying operating margin in the second half
- Continued deployment of the Meggitt Production System ('MPS') with 33% (2018: 29%) of sites now in the Bronze or above stages of the programme

## Outlook

- Our strong content and exposure to the fastest growing and hardest worked platforms will continue to underpin organic revenue and profit growth. Sector specific factors including the production halt of the 737 MAX and supply chain disruption, as well as the wider macroeconomic impact of COVID-19 are expected to hold back margin progression in the short-term
- As a result, in 2020, we expect to deliver Group organic revenue growth of 2% to 4% and an increase in underlying operating margins of 30 to 50 basis points. As previously guided, we also expect the level of free cash flow to be lower as a result of: an increase in capital and operating expenditure relating to our move to Ansty Park and investment in carbon capacity; an increase in cash tax paid; and one-off property-related cash receipts in 2019
- At the current time, we expect the effect of these sector-specific and macroeconomic factors to be felt beyond 2020. Nonetheless, we expect to deliver low to mid-single digit organic revenue growth and underlying operating margins in the range of 18.5% to 19.0% in 2021
- Over the medium-term, we are confident that the continued, successful execution of our strategic initiatives, differentiated technology and strong content will enable us to continue to deliver good levels of organic growth, attractive margins and to sustainably generate strong levels of cash flow, with cash conversion of at least 70% over the same period

## Tony Wood, Chief Executive, commented:

*"Over the last three years, as a result of the successful execution of our strategy, the Group has become a more focused, higher quality and more resilient business, reflected in the delivery of strong levels of organic growth and cash generation.*

*We delivered another strong set of results in 2019, with organic revenue growth of 8%, ahead of our raised guidance, and good performance across all end markets, particularly Defence. Our performance was underpinned by growing end-markets and strong execution across our teams during the first full year of our new customer-aligned organisation. We delivered good progress on our strategic initiatives helping offset the investment made at our fast growing advanced engine composites sites and headwinds caused by adverse mix, supply and trading environment conditions and the grounding of the Boeing 737 MAX, and enabling us to deliver an increase in underlying operating profit of 10% to £403m.*

*2020 will mark another important year for the Group including the phased transfer into our new, state-of-the-art manufacturing campus at Ansty Park, UK. With a clear strategy, good cash generation and our increasing market share across our growing installed base of 73,000 aircraft, we are well positioned to sustain growth ahead of the market over the medium term.*

*Reflecting our continuing confidence in the prospects for the Group, the proposed final dividend is 11.95p giving a full year dividend of 17.50p, an increase of 5% and we expect 2020 to be a year of further progress and profitable growth."*

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**Analyst presentation**

There will be a presentation for analysts today at 9.30 am in London. There will be a live webcast on the Meggitt website, <http://www.meggittinvestors.com>, where copies of the presentation will be available afterwards.

**Cautionary Statement**

This Results Announcement contains forward looking statements with respect to the financial condition, results of operations and businesses of Meggitt PLC and its strategy, plans and objectives. These statements are made in good faith based on the information available at the time this announcement was approved. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a number of risks and uncertainties that are inherent in any forward-looking statement and which could cause actual results to differ materially from those currently anticipated. Meggitt does not intend to update these forward-looking statements. Nothing in this document should be regarded as a profit forecast. This report is intended solely to provide information to shareholders and neither Meggitt PLC nor its directors accept liability to any other person, save as would arise under English law.

## GROUP OVERVIEW

Meggitt is a global engineering company specialising in high-performance components and sub-systems for the aerospace, defence and selected energy markets.

We have a strong track record built over several decades of developing new and differentiated technology to enable our customers to deliver safer, more efficient and more sustainable platforms and systems. Whether delivering significant weight reduction through our composites expertise or supporting the development of more fuel efficient engines through our advanced sensing and thermal management capabilities, helping our customers respond to the challenges posed by climate change has always been at the very heart of what we do. Consistent with our strategy to position our business as a leading voice in the industry's journey to sustainable aviation, we have increased investment in this area to support our own pipeline of new products and those of our airframe, engine and energy customers.

We have a broad-based and well balanced portfolio, with equipment on over 73,000 aircraft and many ground vehicles and energy applications worldwide. Our significant and expanding installed base provides us with an aftermarket revenue stream stretching out for decades ahead. Strong customer relationships and high levels of embedded intellectual property span a broad range of products, systems and service capabilities. This has enabled us to increase our content by up to 250% on the new civil and defence aerospace programmes which have recently entered service.

The significant increases in our content on the new aircraft platforms that are now growing rapidly, has enabled us to outperform the market in 2019. The growth of our installed base represents a major refresh of our in-service portfolio and provides a strong platform for future revenue growth. Having passed the peak of development, we are focused on operational execution and have four strategic priorities to accelerate growth, increase cash flow and improve return on capital employed. These priorities are: Strategic Portfolio, Customers, Competitiveness and Culture.

### Strategic Portfolio

In 2019, we continued to make good progress on our goal to increase our exposure to attractive and growing markets where we have strong competitive positions, through our investment in differentiated technology, our programme of non-core disposals and targeted partnerships and acquisitions.

The markets we serve have some of the highest requirements for product safety, performance and reliability and developing differentiated products and technologies for these markets continues to underpin our approach of securing sole-source, life-of-programme positions and remains a strategic priority.

Over two-thirds of our innovation budget is focused on the environmental performance and sustainability of our products and we continue to prioritise investment in areas such as light-weighting, fuel efficiency and greenhouse gas (GHG) reduction and the ability to sustainably produce at rate and at cost. We have maintained our focus on investing in nine key technology areas that we see as critical to addressing future market needs and where we have a technologically differentiated position: thermal systems, safety systems, fuel systems, optical sensing, engine composites, braking systems, high-temperature control technology, electrical machines and batteries, additive and digital manufacturing.

In 2019, we made good progress in moving key technologies into the customer demonstration phase: examples of this include successfully completing customer pilots with our next-generation of heat exchangers on development engines and fire suppression systems flown on demonstrator aircraft. We have also made significant progress with industrialisation of additive manufacturing with widespread development use of this new technology in our production facilities together with our investment in HiETA Technologies Limited, a UK-based company specialising in using additive manufacturing technology to produce high performance thermal systems. Further to the announcement at the half year of our exclusive agreement with Luna Innovations, we continue to make excellent progress in developing our fibre optic sensing technology with customer trials for both aerospace and industrial applications scheduled for 2020.

As announced at the half year, we have also strengthened the portfolio with the sale of two non-core businesses. In April 2019, we completed the sale of the trade and assets of Meggitt France SAS (Angouleme), a provider of ignition systems and in August 2019, we completed the sale of our non-aerospace test and measurement sensing business.

As a result of these divestments and others since December 2016, and a review of the market position and growth characteristics of our product groups, we have increased our exposure to attractive markets where we have a strong competitive position to 77% (2018: 72%), further enhancing our platform for long term growth and returns.

To complement our internal investment in technology to underpin organic growth, we will look to augment our existing portfolio with selective acquisitions of businesses with strong technology and IP, leading market positions – or a clear path to achieving this – and those which demonstrate a high degree of exposure to the aftermarket. With continuing strong levels of organic growth and cash flow generation we are well placed to take advantage of acquisition opportunities as and when they arise.

## **Customers**

Organic book to bill of 1.09x reflects good progress in growing our relationships and securing new orders with key customers across all market segments in 2019 including: in defence, fuel bladders for the F-18; in civil aerospace, wheels and brakes for the G700 business jet; and in energy, a number of orders for our thermal systems for the oil and gas market.

During the year, we successfully embedded our new organisation structure moving from capability-based units to customer-aligned divisions. We have started to realise the benefits of this more integrated and aligned structure as evidenced by the strength of our order book, positive feedback from our customers and a number of long term agreements in our aftermarket business.

Within our Services and Support division, we have made excellent progress during the year consolidating our aftermarket services into our three regional hubs. In July 2019, we opened our expanded US hub in Miami and in 2020 we will be formally opening our newly expanded regional centres for Asia in Singapore and for Europe at Ansty Park, UK. These regional hubs allow us to provide a dedicated and full service offering to our customers in region, enhance our visibility of near-term customer requirements and to support the demand for spare parts, maintenance, repair and overhaul ('MRO') and technical support. They also provide the platform for us to focus on a number of routes to market including: airlines and defence departments; third party 'nose to tail' MRO providers; engine MRO providers; and original equipment manufacturers.

In civil aerospace, we continue to build on the success of our Smart Support™ offering through our Services & Support division securing 21 multi-year agreements during the year including those with Lufthansa Technik, Pratt & Whitney, Emirates, JAL and Lion Air. Smart Support™ provides customers with a flexible service and support package enabling us to tailor the services we provide to their operations. In providing better access to new and surplus parts, specialist repairs, exchange pools and technology upgrades, SMART Support™ enables our customers to plan and carry out their aircraft maintenance more accurately and efficiently. As well as deepening our relationships with customers, through collaboratively leveraging both our own and our customers' available data, these long-term agreements will help to mitigate the impact of surplus parts and alternative repair schemes in the event that retirements of older aircraft increase, and enable us to secure future growth from the aftermarket. We now have a total of 25 Smart Support™ contracts with a total aggregate value of £155 million.

## **Competitiveness**

In 2019, we continued to make further progress on a range of operational initiatives and targets as announced at our Capital Markets Day in 2017.

As well as delivering our commitment to sustainability through developing new technologies, we continue to prioritise and promote sustainable initiatives throughout our operations, both through a reduction in our overall global footprint and the amount and type of resources that we use within our sites. Our sites continue to identify projects that reduce their greenhouse gas emissions, water usage and waste.

Our actions to increase competitiveness and reduce cost continue to be underpinned by the Meggitt Production System ('MPS'), our global approach to continuous improvement. The financial and operational performance improvements at our most advanced facilities continue to demonstrate the potential we can achieve when we move a critical mass of sites to the latter phases of the programme. At the end of the year, we had 57% of our sites in the green stages or later and of these, 14 sites in the bronze and silver phases equivalent to 33% of the Group (compared with 29% at the end of 2018). We remain firmly committed to MPS and our target remains for all sites to be at least in the green stages by the end of 2021.

Our centre-led approach to procurement continues to enable the Group to reduce net purchased costs and in the year we delivered a 2.2% reduction exceeding our annual target. We continue to work closely with preferred suppliers in a number of areas including electronics, fasteners, machining and factory consumables, where we have been able to simplify and improve the performance of our supply chain whilst better leveraging growth to reduce cost. We have also increased the proportion of our expenditure linked to long-term agreements and low cost sources and realised further savings in our indirect expenditure.

We have made further progress consolidating our footprint. During the year we exited three sites in Angouleme, France; Miami, US; and in Sunnyvale, US reducing our overall footprint to 42 sites representing a 25% reduction from our 2016 baseline.

We made very good progress on the construction of our new, state-of-the-art manufacturing campus at Ansty Park in the UK with work on the main building and office fit out now complete and we remain on track to begin the phased transfer of activities from April. The move to Ansty Park represents an important milestone for the Group and will enable us to derive a number of operating benefits which we expect to start realising in 2021 and beyond.

During the year, we have also continued to invest in our braking systems business through the expansion of our carbon furnace capacity in Danville, US and Coventry, UK to support the strong demand from new platforms such as the Airbus A220 and business jets, with expenditure on this initiative increasing in 2020.

Our strategy to expand and transfer activities to our lower cost manufacturing facilities also continued during the year, with the number of production hours at our sites in Asia increasing by over 25%, with Vietnam reaching a significant milestone of completing over one million production hours in 2019. Looking ahead, we will continue to invest further in these sites in 2020 and beyond in terms of both capacity and capability.

Within our advanced Engine Composites product group we have made good progress in improving operational performance, with ultimate yield reaching over 90% across the majority of core parts, against a backdrop of continued rapid growth in demand given our strong positions on growth platforms including the F-135, P&W GTF and Leap engines. As previously announced, we incurred additional costs in the first half, particularly at our recently expanded factory in Mexico, where the replication of capability has enabled us to secure the approval we need from our customers to progressively move volume production to the site in 2020. We have started to see the investment made in this part of the business reflected in its financial performance, with margins improving during the second half.

Inventory turns were flat at 2.7x reflecting the investment in buffer stocks to support our ongoing site consolidation plans and our contingency planning for a no-deal Brexit, together with investment in spare parts to serve our growing number of Smart Support™ contracts in the aftermarket. On an underlying basis and excluding the impact of buffer stocks, inventory turns were 2.9x in 2019. We anticipate buffer stocks to progressively unwind over the next two years and we continue to target inventory turns of around 4.0x by 2021.

## **Culture**

We continued to make good progress with the roll-out of our high performance culture programme to accelerate the execution of our strategy. The success we have seen during the year moving to our new organisation structure has been underpinned by high performance culture sessions which have now been rolled out to over 8,000 employees (representing approximately two-thirds of the Group). This has proven highly effective in helping our teams work productively together to deliver common goals as a more integrated group.

As part of our high performance culture we continue to build a more diverse workforce, where our people succeed based on their talent, skills, knowledge and experience. In 2019, we launched five new Employee Resource Groups each of which will focus on a particular area to promote and reinforce an environment of diversity and inclusion.

These programmes are having a direct impact on our business, with employee engagement up a further 4% during a period of significant change across many of our sites, building on the same level of improvement seen in 2018. As a result, we are now at the 'Global high performance norm' level based on a comparative data set of employees working for highly regarded international businesses that perform well in this area.

A key principle of our corporate culture is our focus on health and safety. In 2019, our total recordable incident rate reduced from 0.82 to 0.74, an improvement of 10% and while we are pleased with this performance, we still have more to do and remain focused on delivering further improvements in 2020.

## HEADLINE FINANCIALS

Organic order growth of 10% reflects a strong performance, including multi-year orders, across all key market segments. Civil aftermarket (AM) organic orders grew by 3%, civil original equipment (OE) by 1%, defence by 23% and energy by 24%, supporting a positive outlook for revenue growth over the medium term. Group organic book to bill was encouraging at 1.09x, particularly in defence where strong demand for OE and aftermarket parts contributed to a book to bill of 1.17x.

Reported Group revenue of £2,276.2m (2018: £2,080.6m) increased by 9% as analysed in the table below:

	£m	% impact
2018 Revenue	2,080.6	
Currency movements	54.4	+3
Acquisitions and disposals	(27.6)	-1
Organic growth	168.8	+8
<b>2019 Revenue</b>	<b>2,276.2</b>	<b>+9</b>

Currency movements reflect the weakening of Sterling against our trading currencies, principally the US dollar. Acquisitions and disposals includes the net impact of the disposals of Angouleme (sold in April 2019) and at Orange County (a number of separate business line disposals in 2019), together with the full year impact of disposals completed in 2018. Organic growth of 8% reflects strong performance in all of the Group's end-markets. In civil aerospace, organic revenue grew by 8%, in defence by 11% and in energy by 10%.

The Board's preferred non-statutory measure of the Group's trading performance is underlying profit. Underlying operating profit was up 10% to £402.8m (2018: £367.3m), representing a margin of 17.7% in line with the prior year (2018: 17.7%), with the financial contribution from the Group's key strategic priorities offsetting a number of headwinds including higher Free of Charge content, adverse mix, the grounding of the 737MAX and supply disruption within our brakes business.

Underlying net finance costs were £32.5m (2018: £32.5m) reflecting a lower net debt level, offset by an increase in interest rates. Underlying profit before tax increased by 11% to £370.3m (2018: £334.8m).

The Group's underlying tax rate increased slightly to 22.0% (2018: 21.0%) reflecting provisions recognised in the year following the EU Commission ruling that the UK CFC regime constituted partial state aid. The Group now holds a provision of £18.3m in respect of this matter, and expects it to be collected by HMRC in 2020, as instructed by the EU Commission. We have appealed against the ruling in parallel with the UK government's own appeal. In 2020, we expect the underlying tax rate to be between 19% and 21%. In 2020, we expect our cash tax to increase significantly, as we make the CFC payments, pending appeals, and amounts fall due in respect of taxable gains made on disposals in 2019.

Underlying earnings per share increased by 9% to 37.3p (2018: 34.2p).

On a statutory basis, operating profit for the year increased by 27% to £325.3m (2018: £256.6m) and profit before tax by 33% to £286.7m (2018: £216.1m). Statutory profit includes a £15.0m non cash gain (2018: loss of £10.1m) from the marking to market of financial instruments, principally currency hedges against future transaction exposures, a £23.5m gain (2018: gain of £25.1m) from disposals completed during the year and operating exceptional costs of £26.2m (2018: £34.2m), primarily related to the new Ansty site. Statutory profit for the year was £222.6m (2018: £179.0m).

Statutory earnings per share increased by 24% to 28.8p (2018: 23.2p). Reconciliations between underlying and statutory profit measures are provided in notes 4 and 10.

The 5% increase in the recommended final dividend to 11.95p (2018: 11.35p) gives a full year dividend of 17.50p (2018: 16.65p), an overall increase of 5%. This reflects our ongoing confidence in the outlook for the Group and our commitment to a progressive dividend. The full year dividend will be paid on 1 May 2020 to shareholders on the register on the record date, 20 March 2020.

Free cash flow increased by 60% to £267.8m (2018: £167.4m) driven by the growth in operating profit, a reduction in the working capital outflow (with an increase in inventory more than offset by a reduction in receivables), a reduction in pension deficit payments (reflecting the one-off payment into the US schemes in 2018) and lower net capital expenditure reflecting the sale of Holbrook Lane (£21.0m). Free cash flow also benefited from a reverse lease premium receipt relating to our new manufacturing site at Ansty Park (£18.9m).

Net cash inflow of £205.7m after dividend payments was £153.2m higher than the prior year (2018: inflow of £52.5m) as a result of the increase in free cash flow and higher M&A proceeds in 2019, and share purchases made in 2018.

There are two main financial covenants in our financing agreements. The net debt:EBITDA ratio, which must not exceed 3.5x, was at 1.5x at 31 December 2019 (2018: 1.8x) and interest cover, which must be not less than 3.0x, was 16.3x (2018: 14.7x). The covenants are measured on a frozen GAAP basis and adjust for currency changes during the year. On a reported basis, the net debt:EBITDA ratio was 1.8x (2018: 2.3x). The Group has significant headroom against both key covenant ratios, and net debt:EBITDA is within our target range of 1.5x to 2.5x. The Group has £805.8m of undrawn headroom against committed bank facilities, after taking account of surplus cash (2018: £395.6m). This increase reflects the Group entering into three new bilateral facilities in December 2019, principally to replace USD275m of senior notes issued to private placement holders that mature in 2020.

## TRADING SUMMARY

	Revenue		Growth	
	2019 £m	2018 £m	Reported %	Organic %
Civil OE	518.6	464.3	+12	+8
Civil AM	715.9	660.5	+8	+8
<b>Total civil aerospace</b>	<b>1,234.5</b>	<b>1,124.8</b>	<b>+10</b>	<b>+8</b>
Defence	824.6	731.2	+13	+11
Energy	142.7	128.4	+11	+10
Other	74.4	96.2	-23	-18
<b>Total</b>	<b>2,276.2</b>	<b>2,080.6</b>	<b>+9</b>	<b>+8</b>

### Civil aerospace

Meggitt operates in three main segments of the civil aerospace market: large jets, regional aircraft and business jets. The large jet fleet includes over 24,000 aircraft, the regional aircraft fleet over 7,000 and business jets around 20,000. The Group has products on virtually all these platforms and hence a very large, and growing, installed base. The split of civil revenue, which accounts for 54% of the Group total, is 58% aftermarket and 42% original equipment (OE).

Civil OE revenue grew 8% organically. Large jet OE, the largest component of our OE revenue, grew 4% organically driven principally by growth in the Boeing 787 and 737 MAX and the Airbus A330 and A350 XWB platforms. Additionally, both regional jet and business jet OE saw strong organic growth of 23% and 14% respectively, driven primarily by the Q-Series and ARJ21 in regional jets and the G-650, Falcon 7X and Citation, in business jets.

Civil aftermarket revenue grew organically by 8%, within which large jets grew by 14%, driven by the A220, A330 and the B787. Business jets also saw good growth with organic revenue up 6% driven by the Falcon 7X and various Gulfstream platforms. Growth in large and business jets was partially offset by a slight decline in regional jets against a strong comparator in the prior year.

Overall civil aerospace revenue increased by 8% organically.

Deliveries of large jets by Airbus and Boeing are underpinned by a firm order backlog extending over a number of years which, together with our increased shipset content, gives us confidence in the growth outlook for OE revenue. The rate of growth in large jet deliveries and overall delivery numbers has been, and is expected to continue to be, heavily skewed in the next two years by the grounding, and uncertain timing relating to the return to service of, the 737 MAX. Deliveries of regional aircraft are expected to grow by low-single digit % over the same two year period, while business jet delivery growth is expected to be broadly flat.

Air traffic, measured in revenue passenger kilometres (RPKs), is a key driver of demand for spares and repairs on large and regional aircraft. RPKs grew 4.2% globally in 2019, which is below the recent long-term trend rate of 6-7%. Industry forecasts for air traffic growth continue to show rates below recent historical trends in the medium-term, with the short-term growth rate likely to be held back by the impact of COVID-19. Business jet utilisation in the US and Europe declined slightly in 2019 but our higher value content and growing market share should continue to drive revenue growth over the medium term, even in this subdued market environment. Utilisation of regional jets, where we have strong market share given our braking systems content on aircraft such as the



Embraer E-170 and E-190 and Bombardier CRJ 700, CRJ 900 and CRJ 1000, grew by 1% in 2019, with flat to modest growth in utilisation expected in the short to medium term.

## **Defence**

Defence accounted for 36% of Group revenue in 2019. We have equipment on an installed base of around 22,000 fixed wing and rotary aircraft and a significant number of ground vehicles and training applications. Direct sales to US customers accounted for 73% of defence revenue, with 17% to European customers and 10% to the rest of the world.

Defence revenue grew 11% organically. Original equipment revenue grew organically by 12%, with strong growth in parts for the F-35 Joint Strike Fighter and M1A Abrams Tank as well as across other fighter jets, ground vehicles and training systems. Aftermarket revenue (which accounts for 43% of total defence revenue) increased by 11% organically driven by the F-35, F-15, Typhoon, V22 Osprey and a number of transport vehicles.

The outlook for defence expenditure in the US, our single most important defence market, remains healthy and this is expected to continue given the increases in the FY2020 budget and the President's proposed budget for FY2021.

## **Energy and other**

Energy and other revenue (which represents 10% of Group revenue) comes from a variety of end markets, including power generation, oil and gas, medical and automotive. Our energy capabilities centre on providing valves and condition-monitoring equipment for power generation installations, including ground-based gas and wind turbines, and printed circuit heat exchangers used primarily in the oil and gas market.

Energy revenue grew organically by 10% in 2019, driven by another strong performance in our Heatric business, with revenue from the Group's valve and condition monitoring businesses slightly ahead of the prior year.

The medium-term growth expectations for our energy businesses, and particularly Heatric, remain good. We have differentiated aero-derivative technologies which play a critical role in the extraction of deep-water offshore gas reserves and the growth in demand for liquid natural gas gives us confidence that this business will continue to prosper.

## OPERATIONAL PERFORMANCE

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

Revenue (£m)				Division	Underlying Operating Profit (£m)			
2019	2018	% Growth			2019	2018	% Growth	
		Reported	Organic				Reported	Organic
<b>1,057.4</b>	1,009.3	+5	+2	Airframe Systems	250.5	259.2	-3	-6
<b>329.5</b>	278.6	+18	+16	Engine Systems	27.2	18.4	+48	+51
<b>412.5</b>	371.5	+11	+11	Energy & Equipment	53.4	31.0	+72	+77
<b>471.2</b>	394.8	+19	+16	Services & Support	71.2	58.1	+23	+19
<b>5.6</b>	26.4	-79		Other <sup>5</sup>	0.5	0.6	-17	
<b>2,276.2</b>	2,080.6	<b>+9</b>	<b>+8</b>	<b>Group</b>	<b>402.8</b>	367.3	<b>+10</b>	<b>+7</b>

**Airframe Systems** provides Braking Systems, Fire Protection & Safety Systems, Power & Motion, Fuel Systems, Avionics & Sensors and Polymer Seals for around 51,000 in-service civil and 22,000 defence aircraft. Having increased our content on the new generation aircraft by as much as 250%, Airframe Systems is well positioned to grow as the OEMs increase production rates. We also have a strong presence on all of the fastest growing and hardest worked defence platforms. As such, we have strong relationships with all of the major OEMs, whether commercial, defence or business jet; fixed wing or rotorcraft; US, European or Rest of World. The division represents 47% of Group revenue, generating 51% of its revenue from OE sales and 49% from the aftermarket. In 2020, revenue related to MRO activities for wheels and brakes, which is currently included within Airframes, will transfer into our Services & Support division.

Revenue was up by 2% organically. Civil aerospace grew organically by 3%, driven principally by 6% growth in civil OE, with good growth on Boeing 787, 737 MAX and 777 platforms and the Airbus A330 and A350 XWB. OE revenue growth also benefited from strong demand in business jets (Cessna Citation, Gulfstream G-650 and Falcon 7X) and regional jets (ARJ-21 and Q400) which in aggregate account for 28% of divisional civil OE revenue.

Civil aftermarket revenue increased by 1% on an organic basis. In large jets, good demand for newer platforms such as the A220 were partially offset by declines in older generation platforms with aftermarket revenue from regional jets 7% lower than the prior year. Organic revenue from business jets grew by 6%, driven by a number of Gulfstream platforms.

Defence revenue grew by 1%, with good demand for OE parts on fighter jets and military transports offset by lower revenue across a number of platforms. In the aftermarket, which represents 50% of Airframe Systems defence revenue, revenues were also 1% ahead of the prior year with growth on Typhoon and F-35 platforms offset by declining demand on other fighter jets.

Underlying operating margin declined by 200 basis points to 23.7%, reflecting higher growth in civil OE vs AM and supply chain disruption which impacted the delivery of forgings and castings to our braking systems business. These headwinds more than offset the growing efficiencies from strategic initiatives, the transfer of production to low cost countries and production efficiencies from more mature MPS sites.

**Engine Systems** has a leading position in aero sensing with a broad range of technologies and sensor applications including vibration monitoring and engine health management systems. This division also provides aero-engine heat exchangers, flow control and advanced engine composites. Strong positions on high volume platforms mean we are well positioned for growth in Engine Systems. The division represents 14% of Group revenue, generating 91% of its revenue from OE and 9% from the aftermarket as a result of its principal route to the aftermarket being through the Services & Support division, in the new reporting structure.

Revenue increased by 16% on an organic basis with particularly strong growth in civil OE and defence segments.

<sup>5</sup> Those businesses which were disposed of prior to the effective date of the new divisional structure or were classified as held for sale at that date are presented separately as 'Other'.

Civil OE revenue increased organically by 11%, driven by strong demand for parts on large jet engine programmes, principally the Leap and GENx engines. Demand for regional and business jet programmes was also strong. In defence, revenue grew by 28% on an organic basis with particularly strong growth on the F-135 programme.

Underlying operating margin increased to 8.3% (2018: 6.6%), with year on year improvements across our Flow Controls, Thermal Systems and Engine Composites product groups.

Within our Engine Composites business, we saw a progressive improvement in operating margins throughout the second half reflecting the investment we have made to improve operational performance with a focus on driving manufacturing efficiencies and productivity gains. Having secured customer support for the site, we have now begun progressive transfer of volume production of certain parts to Mexico and we expect this to continue to drive improvements in financial performance for this product group and the division during 2020 and 2021.

**Energy & Equipment** consists of our energy product groups and businesses that provide products directly to defence customers. Energy Sensors & Controls provides a range of valves, actuators and sensor and condition monitoring systems for oil and gas and power generation applications and Heatric provide innovative printed circuit heat exchanger technology for offshore gas applications. Training Systems is a market leader in providing small arms virtual training systems with major contracts for the US Army and Marine Corps, and Defense Systems provides a series of complex engineered products to defence agencies in electronic cooling, ammunition handling and scoring systems. Energy & Equipment represents 18% of Group revenue and generates 84% of its revenue from OE and 16% from the aftermarket.

Revenue grew by 11% on an organic basis, with strong growth in defence and energy and declining revenue in other markets. Defence revenue grew by 20% on an organic basis with strong demand for both Defense Systems and Training Systems equipment. Within Defense Systems, key growth platforms include the M1A Abrams and other ground vehicles which offset declining demand on the P-8. In energy, good performance at Heatric, together with growth in services revenue, offset lower demand for large frame gas turbine OE parts. Underlying operating margin increased by 460 basis points to 12.9%, reflecting strong operational leverage from increased volume across the division.

**Services & Support** provides a full service aftermarket offering including spares distribution and MRO to our commercial, business jet and defence customer base, throughout the lifecycle of our products. With an extensive installed base of over 73,000 aircraft equipped by Meggitt technology this provides a significant opportunity for profitable growth over decades to come. The division represents 21% of Group revenue and generates 100% of its revenue from the aftermarket.

Revenue grew by 16% on an organic basis, with good growth in both civil and defence aftermarkets.

In the civil aftermarket, revenue grew organically by 15% driven by strong underlying demand in large jets which accounts for 87% of civil revenue. Key platforms were the Airbus A330, A350 XWB and the A321; and the Boeing 787 and 737 MAX. While we saw the benefits from 737 MAX volumes in the first quarter, as airlines took delivery of initial provisioning spares as the aircraft entered service, following its grounding in March 2019, and subsequent cessation of production, initial provisioning spares have been deferred, limiting growth on this platform for the remainder of the year.

In defence, revenue grew by 24% on an organic basis with strong demand on fighter jets (principally the F-15, F-16) and transport (KC-135 and C-130J) aircraft. Underlying operating margin increased by 40 basis points to 15.1%.

## INVESTING FOR THE FUTURE

£m	2019	2018	% change	
			Reported	Organic
Total research and development (R&D)	<b>118.5</b>	138.3	(14)	(16)
Less: Charged to cost of goods sold / WIP	<b>(23.8)</b>	(31.8)	(25)	(26)
Capitalised	<b>(54.7)</b>	(58.6)	(7)	(9)
Add: Amortisation / impairment	<b>28.7</b>	22.1	30	28
Charge to net operating costs	<b>68.7</b>	70.0	(2)	(2)
Capital expenditure (gross)	<b>94.4</b>	74.4	27	

Total R&D expenditure reduced in 2019 to £118.5m and was 5.2% of revenue (2018: £138.3m, 6.6%). Applied research, combined with targeted investment in the development of technology, remains critical to our long-term growth. We have significantly increased our content on new aircraft, which represents a major refresh of our in-service portfolio. Therefore, having passed the peak of technology development for the current generation of aircraft, we saw reduced spend on capitalised development costs (down 9% organically). We continue to invest in our successful applied research and technology programmes, and are devoting at least two-thirds of our innovation budget to technologies focused on making aviation more sustainable. These programmes will enable the development of next generation products and manufacturing technologies required to enable future platforms.

We also anticipate that externally funded R&D will continue to support AR&T, given our past success in securing such funded development programmes and grants.

The charge to net operating costs, including amortisation and impairment, decreased by 2% (2% organically) to £68.7m (2018: £70.0m).

Our investment in programme participation costs ('PPC') excludes investment in FoC hardware which is expensed under IFRS 15 and only comprises cash payments. Such costs are typically associated with programmes in the development phase and in 2019 this investment was £2.0m (2018: £0.8m).

Gross capital expenditure on property, plant and equipment and intangible assets increased by 27% to £94.4m (2018: £74.4m). This increase includes the investment required to support factory consolidation, the build and fit out of our state-of-the-art manufacturing campus at Ansty Park, the expansion of our carbon furnace capacity to support the anticipated growth in large jets such as the Airbus A220 and business jets and a number of productivity initiatives.

Capital expenditure is due to increase significantly in 2020 to between £120 million and £140 million, largely driven by the aforementioned factors which, together with the non-repeat of one-off property-related items in 2019 and an increase in cash tax, will hold back the level of free cash flow generation and our cash conversion ratio which we expect to be in the region of 60% in 2020.

## FOREIGN EXCHANGE

The Group is exposed to both translation and transaction risk due to changes in foreign exchange rates. These risks principally relate to the US Dollar/Sterling rate, although exposure also exists in relation to other currency pairs, principally translation risk for the Sterling/Euro and Sterling/Swiss Franc and transaction risk for the US Dollar/Euro and US Dollar/Swiss Franc.

	2019 average rate	Revenue £'m	Underlying PBT £'m
<i>Impact of 10 cent movement</i>			
US Dollar	1.28	120.0	20.0
Euro	1.14	11.0	2.0
Swiss Franc	1.27	8.0	3.0

The results of foreign subsidiaries are translated into Sterling at weighted average exchange rates. Sterling remained volatile throughout 2019, trading at between \$1.21 and \$1.33 against the US Dollar. Over the year as a whole, the average Sterling rate against the US Dollar was \$1.28 (2018: \$1.31) providing a modest positive impact on our reported results for the year. Compared to 2018, the Group's revenue increased by £39.8m and underlying profit before tax by £7.4m from currency translation movements. These favourable impacts include £39.5m and £7.0m respectively relating to US Dollar denominated revenues and profits.

Transaction risk arises where revenues and/or costs of our businesses are denominated in a currency other than their own. We hedge known, and some anticipated transaction currency exposures, based on historical experience and projections. Our policy is to hedge at least 70% of the next 12 months' anticipated exposure and to permit the placing of cover up to five years ahead. Compared to 2018, the Group's revenue was favourably impacted by £14.6m and underlying profit before tax for the year benefitted by £3.6m from currency transaction movements. These favourable impacts include £14.8m and £3.1m respectively relating to US Dollar denominated revenues and profits. Each ten cent movement in the US Dollar against the average hedge rates achieved in 2019 would affect underlying profit before tax by approximately £12.0m in respect of US Dollar/Sterling exposure, £4.0m in respect of US Dollar/Euro exposure and £4.0m in respect of US Dollar/Swiss Franc exposure.

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

	Hedging in place <sup>6</sup> %	Average transaction Rates <sup>7</sup>
2020		
US Dollar/Sterling	99	1.38
US Dollar/Euro	100	1.15
US Dollar/Swiss Franc	68	1.07
2021 – 2024 inclusive		
US Dollar/Sterling	55	1.33
US Dollar/Euro	6	1.15
US Dollar/Swiss Franc	7	1.07

Taking both translation and transaction benefit into account, 2019 reported revenue increased by £54.4m and underlying PBT increased by £11.0m.

## RETIREMENT BENEFIT SCHEMES

The Group's principal defined benefit schemes are in the UK and US and are closed to new members. Total deficits increased to £267.9m (2018: £209.1m). The main driver of the increase was remeasurement losses on scheme liabilities of £142.7m (2018: Gains of £98.3m), which principally arose from the significant reduction in AA corporate bond yields in both the UK and US used to measure scheme liabilities. A strong asset performance and net deficit reduction payments of £35.2m (2018: £67.6m) partly mitigated these losses. Deficit reduction payments in 2018 included additional contributions into two of the Group's US schemes of £30.4m.

In the UK, the Group is currently making deficit payments in accordance with a recovery plan agreed with the trustees following the 2018 triennial funding valuation. The recovery plan provides for the deficit to be addressed by payments which gradually increase over the period to August 2023. Under the recovery plan, the Group will make deficit contributions of £31.9m in 2020 (£2019: £31.2m). At 31 December 2019, principally due to the fall in bond yields since the date of the 2018 valuation, the current funding position is approximately £72.0m lower than that projected in the 2018 valuation. This funding shortfall is not expected to change the level of payments for 2020 and will, should it remain, be addressed through a revised recovery plan as part of the 2021 valuation.

In the US, the level of minimum annual payments is principally driven by regulations, although additional contributions in excess of legislative minimum amounts can be made. Amounts required to be paid in 2020 will be approximately £3.8m (2019: £4.0m) and, absent any further changes in legislation, will remain broadly at this level for the following three years.

<sup>6</sup> Based on forecast transaction exposures.

<sup>7</sup> Hedging in place with unhedged exposures based on exchange rates at 4 February 2020.

## GROUP OUTLOOK

The overall environment for the global aerospace industry continues to be supportive, with new aircraft deliveries and air traffic both expected to continue to grow and robust defence spending over the medium term.

However, against this backdrop, a number of headwinds have emerged in recent months as we look ahead to 2020 and beyond: the halting of production of the 737 MAX and uncertainty on the timing of its return to service is set to dampen OE growth in 2020; in the second half of 2019 the rate of air traffic growth, an important driver of our aftermarket business, started to soften and the forecast for 2020 is below the growth trend in recent years; and, noting the impact of SARS in 2003 and H1N1 in 2009, the outbreak of COVID-19 is likely to soften global air traffic growth.

The production backlog created by the supply chain disruption experienced in the second half of 2019, particularly for forgings and castings, is also likely to be a factor for the industry and for the Group in the first part of 2020, as will potential supply chain issues resulting from COVID-19.

While recognising the above factors, and our strong organic revenue growth rates in the last two years, we remain confident in our ability to sustainably deliver organic revenue growth ahead of the market over the medium-term, driven by our exposure to the fastest growing and hardest worked platforms, market share gains and our strong market positions.

### Outlook for 2020

While the production halt of the 737 MAX will impact overall new large jet deliveries across the industry in 2020, the increased shipset values we have secured on the latest generation of aircraft will help to underpin organic civil OE revenues. Deliveries of regional jets are expected to increase by low-single digit % in 2020 after three years where the number of deliveries has declined, with business jet deliveries expected to grow by the same amount after a strong 2019.

In 2020, we expect civil OE revenue to grow organically by 1 to 3%.

The outbreak of COVID-19 is expected to soften air traffic growth in 2020. Conversely, continued low levels of surplus parts, our strong content and continued momentum on SMART Support™ is expected to underpin large jet civil aftermarket revenues. In both business jets and regional aircraft, which account for 44% of Group civil aftermarket revenue, we anticipate utilisation levels to be broadly in line with 2019.

In 2020, we expect organic civil aftermarket revenue growth of 2 to 4%.

In defence, the medium-term outlook remains positive, particularly in our largest market the US, which accounts for 73% of defence revenue. Book to bill of 1.17x and organic order growth of 23% in 2019, a strong technology offering and broad platform exposure should enable us to outgrow the market and in 2020 we expect to grow organic defence revenue by 3 to 5%.

The outlook in our energy markets is mixed. At Heatric, we expect the recovery to continue into 2020 underpinned by good demand from the oil and gas sector, although we expect this to be partially offset by more challenging conditions in power generation. In 2020, we expect organic revenue growth in energy of 0 to 5%.

On the basis of the above, the Group expects organic revenue growth of 2 to 4% in 2020.

We expect to increase operating margins by 30 to 50 basis points in 2020, driven by continued momentum in the delivery of our strategic initiatives. Our cash conversion is expected to be lower than in 2019 at around 60% reflecting: an increase in capital expenditure and operating expenses as we complete the move to Ansty Park, continue further site consolidations and our carbon furnace capacity expansion; the one-off cash receipts in 2019 related to the sale of Holbrook Lane and reverse lease premium associated with Ansty Park; and an expected increase in the level of cash tax paid.

### Outlook for 2021 and over the medium-term

Recognising the material uncertainties that currently exist in the civil aero market and the challenges of forecasting their impact two years out, we are more cautious about our 2021 outlook, particularly given that we have a specific margin target for that year. We have therefore taken a view of the current softness in air traffic growth and the anticipated return to service and production of the 737 MAX, and extrapolated this into our assumptions for 2021. Specifically, we have assumed a progressive return to service and production of the 737 MAX across 2020 and 2021 and RPK growth rates comparable to the second half of 2019. As a result, we now

expect to deliver: low to mid-single digit percentage organic revenue growth; operating margins between 18.5% and 19.0%; and cash conversion of around 70% in 2021.

Over the last two years, we have demonstrated the successful delivery of our strategic initiatives and our confidence remains high for further progress in 2020 and beyond, including margin expansion as we complete the bulk of our footprint moves, drive the continued recovery in Engine Composites and move sites into the latter stages of MPS.

Over the medium-term, with a more focused and resilient business, strong technology and exposure to the right platforms, we expect to be able to continue to deliver good levels of organic growth, an attractive margin profile and to sustainably generate good levels of cash flow with cash conversion of at least 70% per annum over the same period.

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

	Notes	2019 £'m	2018 £'m
<b>Revenue</b>	3	<b>2,276.2</b>	2,080.6
Cost of sales		<b>(1,458.0)</b>	(1,320.1)
<b>Gross profit</b>		<b>818.2</b>	760.5
Operating costs		<b>(541.9)</b>	(532.9)
Operating income		<b>49.0</b>	29.0
Net operating costs		<b>(492.9)</b>	(503.9)
<b>Operating profit<sup>1</sup></b>	4	<b>325.3</b>	256.6
Finance income	7	<b>2.2</b>	1.0
Finance costs	8	<b>(40.8)</b>	(41.5)
Net finance costs		<b>(38.6)</b>	(40.5)
<b>Profit before tax<sup>2</sup></b>	4	<b>286.7</b>	216.1
Tax charge	9	<b>(64.1)</b>	(37.1)
<b>Profit for the year attributable to equity owners of the Company</b>		<b>222.6</b>	179.0
Earnings per share:			
Basic <sup>3</sup>	10	<b>28.8p</b>	23.2p
Diluted <sup>4</sup>	10	<b>28.3p</b>	22.8p

### Non-GAAP measures

<sup>1</sup> Underlying operating profit	4	<b>402.8</b>	367.3
<sup>2</sup> Underlying profit before tax	4	<b>370.3</b>	334.8
<sup>3</sup> Underlying basic earnings per share	10	<b>37.3p</b>	34.2p
<sup>4</sup> Underlying diluted earnings per share	10	<b>36.7p</b>	33.7p



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 £'m	2018 £'m
<b>Profit for the year attributable to equity owners of the Company</b>		<b>222.6</b>	179.0
<b>Items that may be reclassified to the income statement in subsequent periods:</b>			
Currency translation movements		<b>(68.7)</b>	90.7
Movements in fair value of financial liabilities arising from changes in credit risk		-	0.8
Cash flow hedge movements		-	(0.3)
Tax effect		<b>0.3</b>	2.5
	27	<b>(68.4)</b>	93.7
<b>Items that will not be reclassified to the income statement in subsequent periods:</b>			
Remeasurement of retirement benefit obligations	20	<b>(89.2)</b>	46.2
Tax effect		<b>11.9</b>	(7.3)
		<b>(77.3)</b>	38.9
<b>Other comprehensive (expense)/income for the year</b>		<b>(145.7)</b>	132.6
<b>Total comprehensive income for the year attributable to equity owners of the Company</b>		<b>76.9</b>	311.6

## CONSOLIDATED BALANCE SHEET

At 31 December 2019

		31 December 2019 £'m	31 December 2018 £'m
	Notes		
<b>Non-current assets</b>			
Goodwill	13	1,966.6	2,035.3
Development costs	13	575.9	557.1
Programme participation costs	13	18.0	18.2
Other intangible assets	13	503.6	610.4
Property, plant and equipment	14	449.4	404.0
Investments	15	14.1	12.9
Other receivables		17.0	21.5
Contract assets		55.2	61.1
Derivative financial instruments	18	14.6	10.0
Deferred tax assets		23.3	16.3
		<b>3,637.7</b>	<b>3,746.8</b>
<b>Current assets</b>			
Inventories		489.8	441.2
Trade and other receivables		379.9	413.6
Contract assets		66.3	47.9
Derivative financial instruments	18	3.8	9.3
Current tax recoverable		11.1	6.4
Cash and cash equivalents	25	155.3	181.9
Assets classified as held for sale		-	10.3
		<b>1,106.2</b>	<b>1,110.6</b>
<b>Total assets</b>	3	<b>4,743.9</b>	<b>4,857.4</b>
<b>Current liabilities</b>			
Trade and other payables		(464.5)	(452.5)
Contract liabilities		(50.5)	(47.9)
Derivative financial instruments	18	(16.5)	(18.8)
Current tax liabilities		(81.6)	(39.5)
Lease liabilities	16	(16.4)	(16.1)
Bank and other borrowings	17	(219.4)	(10.2)
Provisions	19	(36.2)	(33.0)
		<b>(885.1)</b>	<b>(618.0)</b>
<b>Net current assets</b>		<b>221.1</b>	<b>492.6</b>
<b>Non-current liabilities</b>			
Other payables		(2.1)	(1.3)
Contract liabilities		(77.0)	(43.9)
Derivative financial instruments	18	(4.6)	(17.4)
Deferred tax liabilities		(155.3)	(161.9)
Lease liabilities	16	(136.2)	(81.4)
Bank and other borrowings	17	(694.5)	(1,148.3)
Provisions	19	(64.4)	(83.7)
Retirement benefit obligations	20	(267.9)	(209.1)
		<b>(1,402.0)</b>	<b>(1,747.0)</b>
<b>Total liabilities</b>		<b>(2,287.1)</b>	<b>(2,365.0)</b>
<b>Net assets</b>		<b>2,456.8</b>	<b>2,492.4</b>
<b>Equity</b>			
Share capital		38.8	38.8
Share premium		1,226.5	1,223.9
Other reserves		15.7	15.7
Hedging and translation reserves		425.4	493.8
Retained earnings		750.4	720.2
<b>Total equity attributable to owners of the Company</b>		<b>2,456.8</b>	<b>2,492.4</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	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
<b>At 1 January 2018</b>	38.8	1,222.2	15.7	400.1	634.7	2,311.5
Profit for the year	-	-	-	-	179.0	179.0
Other comprehensive income for the year*	-	-	-	93.7	38.9	132.6
Total comprehensive income for the year	-	-	-	93.7	217.9	311.6
Employee share schemes:						
Value of services provided	-	-	-	-	16.1	16.1
Purchase of own shares for employee share schemes	-	-	-	-	(22.6)	(22.6)
Issue of equity share capital	-	1.7	-	-	(1.7)	-
Dividends	-	-	-	-	(124.2)	(124.2)
<b>At 31 December 2018</b>	<b>38.8</b>	<b>1,223.9</b>	<b>15.7</b>	<b>493.8</b>	<b>720.2</b>	<b>2,492.4</b>
<b>Profit for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>222.6</b>	<b>222.6</b>
Other comprehensive expense for the year*	-	-	-	(68.4)	(77.3)	(145.7)
<b>Total comprehensive (expense)/income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(68.4)</b>	<b>145.3</b>	<b>76.9</b>
Employee share schemes:						
Value of services provided	-	-	-	-	17.9	17.9
Issue of equity share capital	-	2.6	-	-	(2.6)	-
Dividends	-	-	-	-	(130.4)	(130.4)
<b>At 31 December 2019</b>	<b>38.8</b>	<b>1,226.5</b>	<b>15.7</b>	<b>425.4</b>	<b>750.4</b>	<b>2,456.8</b>

\* See note 27

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2019

	Notes	2019 £'m	2018 £'m
<b>Non-GAAP measures</b>			
Cash inflow from operations before business disposal expenses and exceptional operating items		<b>451.1</b>	364.0
Cash outflow from business disposal expenses	26	<b>(9.4)</b>	(3.8)
Cash outflow from exceptional operating items	6	<b>(27.3)</b>	(12.0)
<b>Cash inflow from operations</b>			
Interest received	24	<b>1.8</b>	0.2
Interest paid		<b>(34.9)</b>	(33.1)
Tax paid		<b>(14.4)</b>	(20.0)
<b>Cash inflow from operating activities</b>		<b>366.9</b>	295.3
<b>Cash outflow from investing activities</b>			
Businesses disposed	26	<b>78.3</b>	35.7
Capitalised development costs	13	<b>(54.7)</b>	(58.6)
Capitalised programme participation costs		<b>(2.0)</b>	(0.8)
Purchase of intangible assets	13	<b>(17.2)</b>	(21.8)
Purchase of property, plant and equipment		<b>(77.2)</b>	(52.6)
Proceeds from disposal of property, plant and equipment		<b>23.1</b>	2.1
<b>Cash outflow from investing activities</b>		<b>(49.7)</b>	(96.0)
<b>Cash outflow from financing activities</b>			
Dividends paid to Company's shareholders	11	<b>(130.4)</b>	(124.2)
Purchase of own shares for employee share schemes		<b>-</b>	(22.6)
Proceeds from bank and other borrowings		<b>0.4</b>	85.5
Repayments of bank and other borrowings		<b>(213.0)</b>	(66.8)
Reverse lease premium received	24	<b>18.9</b>	-
Repayments of lease liabilities		<b>(16.2)</b>	(14.3)
<b>Cash outflow from financing activities</b>		<b>(340.3)</b>	(142.4)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(23.1)</b>	56.9
Cash and cash equivalents at start of the year		<b>181.9</b>	118.5
Exchange (losses)/gains on cash and cash equivalents		<b>(3.5)</b>	6.5
<b>Cash and cash equivalents at end of the year</b>		<b>155.3</b>	181.9

## **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2019

### **1. General information and basis of preparation**

This document contains abridged preliminary financial information for the year ended 31 December 2019 together with comparatives.

Meggitt PLC is a public limited company listed on the London Stock Exchange, domiciled in the United Kingdom and incorporated in England and Wales with the registered number 432989. It is the parent company of a Group whose principal activities during the period were the design and manufacture of high performance components and sub systems for aerospace, defence and other specialist markets, including energy, medical, industrial and test.

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

The financial information contained in this document does not constitute Group statutory accounts as defined in Sections 404 and 435 of the Companies Act 2006. It is based on, and is consistent with, that in the Group's statutory accounts for the year ended 31 December 2019 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 2018 were approved by the Board of Directors on 25 February 2019 and have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

### **2. Accounting policies**

During the year, no new accounting standards, amendments or revisions to existing standards, or interpretations have become effective which had a significant impact on the Group's consolidated financial statements. The Group early adopted IFRS 16 'Leases' in its 2018 consolidated financial statements.

A number of additional new standards and amendments and revisions to existing standards have been published and are mandatory for the Group's future accounting periods. These have not been early adopted and are not expected to have a significant impact on the Group's consolidated financial statements when they are adopted.

### 3. Segmental analysis

The Group adopted a new organisation structure on 1 January 2019 and now manages its businesses under four customer-aligned divisions: Airframe Systems, Engine Systems, Energy & Equipment and Services & Support. Prior year comparatives have been restated to reflect this change.

#### Year ended 31 December 2019

	Airframe Systems £'m	Engine Systems £'m	Energy & Equipment £'m	Services & Support £'m	Other *	Total £'m
Gross segment revenue	1,479.6	341.2	450.3	491.1	5.6	2,767.8
Inter-segment revenue	(422.2)	(11.7)	(37.8)	(19.9)	-	(491.6)
<b>Revenue from external customers</b>	<b>1,057.4</b>	<b>329.5</b>	<b>412.5</b>	<b>471.2</b>	<b>5.6</b>	<b>2,276.2</b>
At a point in time	1,012.2	312.6	244.3	459.6	5.6	2,034.3
Over time: Power by the hour/ Cost per brake landing	35.2	7.2	-	11.6	-	54.0
Over time: Other	10.0	9.7	168.2	-	-	187.9
<b>Revenue by basis of recognition</b>	<b>1,057.4</b>	<b>329.5</b>	<b>412.5</b>	<b>471.2</b>	<b>5.6</b>	<b>2,276.2</b>
<b>Underlying operating profit**</b>	<b>250.5</b>	<b>27.2</b>	<b>53.4</b>	<b>71.2</b>	<b>0.5</b>	<b>402.8</b>

#### Year ended 31 December 2018 (restated)

	Airframe Systems £'m	Engine Systems £'m	Energy & Equipment £'m	Services & Support £'m	Other *	Total £'m
Gross segment revenue	1,369.5	289.2	407.2	416.0	26.4	2,508.3
Inter-segment revenue	(360.2)	(10.6)	(35.7)	(21.2)	-	(427.7)
Revenue from external customers	1,009.3	278.6	371.5	394.8	26.4	2,080.6
At a point in time	968.3	269.5	257.5	394.8	26.4	1,916.5
Over time: Power by the hour/ Cost per brake landing	35.9	9.1	-	-	-	45.0
Over time: Other	5.1	-	114.0	-	-	119.1
Revenue by basis of recognition	1,009.3	278.6	371.5	394.8	26.4	2,080.6
Underlying operating profit**	259.2	18.4	31.0	58.1	0.6	367.3

\* Those businesses which were disposed of prior to the effective date of the new divisional structure, or were classified as held for sale at that date, are presented separately as 'Other'.

\*\* Central costs are allocated using a variety of bases designed to reflect the beneficial relationship between costs and segments. Bases include headcount, payroll costs, gross assets and revenue.

### 3. Segmental analysis continued

#### Segmental assets

	<b>31 December 2019 £'m</b>	31 December 2018 £'m
Airframe Systems	<b>1,147.4</b>	1,107.6
Engine Systems	<b>437.5</b>	402.2
Energy & Equipment	<b>306.8</b>	344.1
Services & Support	<b>77.3</b>	69.9
<b>Total segmental trading assets</b>	<b>1,969.0</b>	1,923.8
Centrally managed trading assets*	<b>162.1</b>	123.4
Goodwill	<b>1,966.6</b>	2,035.3
Other intangible assets excluding software assets	<b>424.0</b>	527.8
Investments	<b>14.1</b>	12.9
Derivative financial instruments – non-current	<b>14.6</b>	10.0
Deferred tax assets	<b>23.3</b>	16.3
Derivative financial instruments – current	<b>3.8</b>	9.3
Current tax recoverable	<b>11.1</b>	6.4
Cash and cash equivalents	<b>155.3</b>	181.9
Assets classified as held for sale	<b>-</b>	10.3
<b>Total assets</b>	<b>4,743.9</b>	4,857.4

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

#### 4. Reconciliations between profit and underlying profit

Underlying profit is used by the Board to monitor and measure the underlying trading performance of the Group. Items excluded from underlying profit measures are treated consistently with the way performance is measured under the Group's short-term and long-term incentive plans and with covenant requirements defined in the Group's committed credit facilities.

	Note	2019 £'m	2018 £'m
<b>Operating profit</b>		<b>325.3</b>	256.6
Amounts arising on the acquisition, disposal and closure of businesses	a	<b>(23.5)</b>	(25.1)
Amortisation of intangible assets acquired in business combinations (note 13)		<b>89.8</b>	91.5
Financial instruments (gain)/loss (note 5)		<b>(15.0)</b>	10.1
Exceptional operating items (note 6)		<b>26.2</b>	34.2
Adjustments to operating profit*		<b>77.5</b>	110.7
<b>Underlying operating profit</b>		<b>402.8</b>	367.3
<b>Profit before tax</b>		<b>286.7</b>	216.1
Adjustments to operating profit per above		<b>77.5</b>	110.7
Net interest expense on retirement benefit obligations (note 20)		<b>6.1</b>	8.0
Adjustments to profit before tax		<b>83.6</b>	118.7
<b>Underlying profit before tax</b>		<b>370.3</b>	334.8
<b>Profit for the year</b>		<b>222.6</b>	179.0
Adjustments to profit before tax per above		<b>83.6</b>	118.7
Tax effect of adjustments to profit before tax		<b>(17.5)</b>	(29.1)
Impact of reduction in the US rate of federal corporate tax		-	(4.1)
Adjustments to profit for the year		<b>66.1</b>	85.5
<b>Underlying profit for the year</b>		<b>288.7</b>	264.5

\* Of the adjustments to operating profit, £8.1m (2018: £18.1m) relating to exceptional operating items has been charged to cost of sales, with the balance of £69.4m (2018: £92.6m) included within net operating costs.

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

	2019 £'m	2018 £'m
Gain on disposal of businesses before disposal expenses (note 24)	<b>(35.7)</b>	(30.4)
Costs related to the disposal of businesses in the current period (note 26)	<b>12.2</b>	2.5
Gain on disposal of businesses (note 26)	<b>(23.5)</b>	(27.9)
Costs related to the disposal of businesses in prior periods	-	0.3
Remeasurement of fair value of contingent consideration payable relating to previously acquired businesses	-	(3.6)
Impairment of assets classified as held for sale	-	6.1
<b>Amounts arising on the acquisition, disposal and closure of businesses</b>	<b>(23.5)</b>	(25.1)



## 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 IFRS 9 'Financial Instruments' are not merited. The Group's underlying profit figures exclude amounts which would not have been recognised if hedge accounting had been applied.

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

	<b>2019</b>	2018
	<b>£'m</b>	£'m
Movement in fair value of foreign currency forward contracts	<b>(25.7)</b>	27.9
Impact of retranslating net foreign currency assets and liabilities at spot rate	<b>(0.2)</b>	(1.0)
Movement in fair value of interest rate derivatives	<b>(0.3)</b>	5.4
Movement in fair value of fixed rate borrowings due to interest rate risk	<b>(0.1)</b>	(4.9)
Movement in fair value of cross currency derivatives	<b>11.8</b>	(16.8)
Movement in fair value of treasury lock derivative	<b>(0.5)</b>	(0.5)
<b>Financial instruments – (gain)/loss</b>	<b>(15.0)</b>	10.1

## 6. Exceptional operating items

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

	Note	<b>Income statement</b>		<b>Cash expenditure</b>	
		<b>2019</b>	2018	<b>2019</b>	2018
		<b>£'m</b>	£'m	<b>£'m</b>	£'m
Site consolidations	a	<b>20.1</b>	28.7	<b>22.4</b>	8.2
Business restructuring costs		<b>6.1</b>	3.1	<b>4.9</b>	3.1
Guaranteed Minimum Pension equalisation (note 20)		-	1.7	-	-
Integration of acquired businesses		-	0.7	-	0.7
<b>Exceptional operating items</b>		<b>26.2</b>	34.2	<b>27.3</b>	12.0

- a. This relates to costs incurred in respect of the Group's previously announced plans to reduce its footprint by 20% by the end of 2021. Cumulative costs since the announcement are £63.7m (2018: £43.6m). In 2019, costs are principally in respect of the move to a new facility being constructed at Ansty Park in the West Midlands, UK which will enable the Group to consolidate a range of manufacturing, engineering and support operations into a single centre of excellence.

## 7. Finance income

	2019 £'m	2018 £'m
Interest on bank deposits	1.4	-
Unwinding of interest on other receivables (note 19)	0.5	0.8
Other finance income	0.3	0.2
<b>Finance income</b>	<b>2.2</b>	<b>1.0</b>

## 8. Finance costs

	2019 £'m	2018 £'m
Interest on bank borrowings	1.2	2.6
Interest on senior notes	29.4	28.0
Interest on lease liabilities	5.0	3.7
Unwinding of discount on provisions (note 19)	1.2	1.7
Net interest expense on retirement benefit obligations (note 20)	6.1	8.0
Amortisation of debt issue costs	0.7	0.8
Less: amounts capitalised in the cost of qualifying assets (note 13)	(2.8)	(3.3)
<b>Finance costs</b>	<b>40.8</b>	<b>41.5</b>

## 9. Tax

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

## 10. Earnings per ordinary share

Earnings per ordinary share ('EPS') is calculated by dividing the profit attributable to equity owners of the Company of £222.6m (2018: £179.0m) by the weighted average number of shares in issue during the year of 773.7m (2018: 773.2m). The weighted average number of shares excludes shares bought by the Group and held during the year by an independently managed Employee Share Ownership Plan Trust. The weighted average number of own shares excluded is 4.0m shares (2018: 4.1m shares).

Underlying EPS is based on underlying profit for the year (note 4) and the same number of shares used in the calculation of basic EPS. It is reconciled to basic EPS below:

	2019 Pence	2018 Pence
<b>Basic EPS</b>	<b>28.8</b>	23.2
Adjust for effects of:		
Amounts arising on the acquisition, disposal and closure of businesses	(2.0)	(3.2)
Amortisation of intangible assets acquired in business combinations	8.8	9.1
Financial instruments – (gain)/loss	(1.6)	1.0
Exceptional operating items	2.7	3.8
Net interest expense on retirement benefit obligations	0.6	0.8
Impact of reduction in the US rate of federal corporate tax	-	(0.5)
<b>Underlying basic EPS</b>	<b>37.3</b>	<b>34.2</b>

Diluted EPS for the year is 28.3p (2018: 22.8p). The calculation of diluted EPS adjusts the weighted average number of shares to reflect the assumption that all potentially dilutive ordinary shares convert. For the Group, this means assuming all share awards in issue are exercised. The weighted average number of shares used in the calculation of diluted EPS is 785.8m (2018: 785.9m). Underlying diluted EPS for the year is 36.7p (2018: 33.7p). The calculation of underlying diluted EPS is based on underlying profit (note 4) and the same weighted average number of shares used in the calculation of diluted EPS.

## 11. Dividends

A final dividend in respect of 2019 of 11.95p per share (2018: 11.35p per share), amounting to an estimated total final dividend of £92.5m (2018: £87.5m) is to be proposed at the Annual General Meeting on 23 April 2020. Taken with the interim dividend of 5.55p (2018: 5.30p) paid in the year, this gives a total dividend of 17.50p (2018: 16.65p). Subject to approval at the Annual General Meeting, the proposed dividend will be paid on 1 May 2020 to shareholders on the register at the close of business on 20 March 2020. 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.

During the year, the final dividend of 11.35p per ordinary share in respect of the year ended 31 December 2018 was paid (2018: 10.80p final dividend in respect of the year ended 31 December 2017) together with the 2019 interim dividend of 5.55p (2018: 5.30p 2018 interim dividend). The total cost of dividends, paid in the year in cash, was £130.4m (2018: £124.2m).

## 12. Related party transactions

The remuneration of key management personnel of the Group, which is defined for 2019 as members of the Board and the Group Executive Committee, is set out below.

	2019 £'m	2018 £'m
Salaries and other short-term employee benefits	10.8	11.1
Share-based payment expense	2.5	4.1
<b>Total</b>	<b>13.3</b>	<b>15.2</b>

## 13. Intangible assets

	Goodwill £'m	Development Costs £'m	Programme participation costs £'m	Other intangible assets £'m
At 1 January 2018	1,944.9	495.8	17.1	672.1
Exchange rate adjustments	91.2	24.1	1.0	29.2
Businesses disposed	(0.8)	-	-	(0.1)
Additions	-	58.6	0.9	19.3
Interest capitalised (note 8)	-	3.3	-	-
Transfer to assets classified as held for sale	-	(2.6)	-	(0.5)
Disposals	-	-	-	(0.3)
Amortisation*	-	(22.1)	(0.8)	(109.3)
At 31 December 2018	2,035.3	557.1	18.2	610.4
Exchange rate adjustments	(57.9)	(16.3)	(0.7)	(15.0)
Businesses disposed (note 26)	(10.8)	(0.9)	-	-
Additions	-	54.7	1.6	17.2
Interest capitalised (note 8)	-	2.8	-	-
Transfers from contract assets	-	7.2	-	-
Disposals	-	-	-	(0.4)
Amortisation*	-	(28.7)	(1.1)	(108.6)
<b>At 31 December 2019</b>	<b>1,966.6</b>	<b>575.9</b>	<b>18.0</b>	<b>503.6</b>

\* Included within amortisation of other intangible assets is £89.8m (2018: £91.5m) relating to intangible assets acquired in business combinations and which is excluded from the Group's underlying profit figures (note 4).

#### 14. Property, plant and equipment

	2019 £'m	2018 £'m
At 1 January	404.0	406.2
Exchange rate adjustments	(11.2)	16.2
Businesses disposed (note 26)	(6.2)	(3.5)
Additions	132.9	61.6
Transfer to assets classified as held for sale	-	(14.6)
Disposals	(12.8)	(4.7)
Impairment loss	-	(3.6)
Depreciation *	(57.3)	(53.6)
<b>At 31 December</b>	<b>449.4</b>	<b>404.0</b>

- \* The depreciation charge for the year includes £1.4m in respect of property right-of-use assets which has been charged to exceptional operating items.

#### 15. Investments

The Group's investment in its joint venture, Meggitt UTC Aerospace Systems, LLC is accounted for using the equity method and is stated as follows:

	2019 £'m	2018 £'m
At 1 January	12.9	13.6
Exchange rate adjustments	(0.5)	0.8
Share of profit/(loss) after tax	1.7	(1.5)
<b>At 31 December</b>	<b>14.1</b>	<b>12.9</b>

#### 16. Lease Liabilities

The Group leases various factories, warehouses, offices, plant and equipment. The following amounts are included in respect of its leases:

	2019 £'m	2018 £'m
Depreciation charge for right-of-use assets	16.5	14.4
Additions to right-of-use assets*	55.5	4.6
Net book amount of right-of-use assets	116.0	79.1
Interest on lease liabilities (note 8)	5.0	3.7
Expense related to short-term leases and low-value assets	0.1	0.1
Net cash outflow for leases**	1.4	18.0

- \* Includes £38.4m relating to the new Ansty Park site which has a lease term of 30 years.

- \*\* Comprises capital payments of £16.2m and interest payments of £4.1m, less a reverse lease premium received of £18.9m relating to the new Ansty Park site.

## 17. Bank and other borrowings

	Current £m	Non-current £m	Total £m
At 1 January 2019	10.2	1,148.3	1,158.5
Exchange rate adjustments	(5.6)	(26.4)	(32.0)
Proceeds	-	0.4	0.4
Repayments	-	(213.0)	(213.0)
Transfers*	214.8	(214.8)	-
<b>At 31 December 2019</b>	<b>219.4</b>	<b>694.5</b>	<b>913.9</b>

### Analysed as:

	31 December 2019 £m	31 December 2018 £m
Bank loans	0.2	0.4
Other loans*	219.2	9.8
<b>Total current</b>	<b>219.4</b>	<b>10.2</b>
Bank loans	141.4	358.5
Other loans	553.1	789.8
<b>Total non-current</b>	<b>694.5</b>	<b>1,148.3</b>

\* Transfers to current bank and other borrowings of USD125.0m senior notes which fall due for repayment in June 2020 and USD150.0m senior notes which fall due for repayment in October 2020.

## 18. Financial Instruments – fair value measurement

For trade and other receivables, contract assets, cash and cash equivalents, trade and other payables, contract liabilities and the current element of floating rate bank and other borrowings, fair values approximate to book values due to the short maturity periods of these financial instruments. For trade and other receivables and contract assets, allowances are made within their book value for credit risk. The fair values of lease liabilities approximate to their book values due to the measurement of lease liabilities at the Group's incremental borrowing rate, which has not changed significantly since the inception of the lease liabilities. Leases are also negotiated at market rates with independent, unrelated third parties and are subject to periodic rental reviews.

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

	Book value		Fair value	
	2019 £'m	2018 £'m	2019 £'m	2018 £'m
Derivative financial instruments – non-current	14.6	10.0	14.6	10.0
Derivative financial instruments – current	3.8	9.3	3.8	9.3
<b>Financial assets</b>	<b>18.4</b>	<b>19.3</b>	<b>18.4</b>	<b>19.3</b>
Derivative financial instruments – current	(16.5)	(18.8)	(16.5)	(18.8)
Bank and other borrowings – current	(219.4)	(10.2)	(220.7)	(10.2)
Derivative financial instruments – non-current	(4.6)	(17.4)	(4.6)	(17.4)
Bank and other borrowings – non-current	(694.5)	(1,148.3)	(702.7)	(1,136.5)
<b>Financial liabilities</b>	<b>(935.0)</b>	<b>(1,194.7)</b>	<b>(944.5)</b>	<b>(1,182.9)</b>
<b>Total</b>	<b>(916.6)</b>	<b>(1,175.4)</b>	<b>(926.1)</b>	<b>(1,163.6)</b>

Derivative financial instruments measured at fair value, are classified as level 2 in the fair value measurement hierarchy, as they have been determined using significant inputs based on observable market data. The fair values of interest rate derivatives have been derived from forward interest rates based on yield curves observable at the balance sheet date and contractual interest rates. The fair values of foreign currency forward contracts have been derived from forward exchange rates observable at the balance sheet date and contractual forward rates. The fair values of cross currency derivatives have been derived from forward interest rates based on yield curves observable at the balance sheet date, forward exchange rates observable at the balance sheet date and contractual interest and forward rates. Credit risk is not significant for these instruments.

## 18. Financial Instruments – fair value measurement continued

The current and non-current elements of fixed rate bank and other borrowings measured at fair value, are classified as level 3 in the fair value measurement hierarchy, as they have 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 values attributable to interest rate risk have been derived from forward interest rates based on yield curves observable at the balance sheet date and contractual interest rates, with the credit risk margin kept constant. The fair values attributable to credit risk have 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 values of the current and non-current elements of fixed rate bank and other borrowings which are held at amortised cost, but for which fair values are provided in the table above.

The book value of bank and other borrowings is analysed as follows:

	<b>2019</b>	2018
	<b>£'m</b>	£'m
Held at fair value through profit and loss	<b>234.6</b>	242.7
Held at amortised cost	<b>679.3</b>	915.8
<b>Total</b>	<b>913.9</b>	1,158.5

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

## 19. Provisions

	<b>Provisions</b>	<b>Environmental receivables*</b>
	<b>£'m</b>	<b>£'m</b>
At 1 January 2019	116.7	(34.1)
Exchange rate adjustments	(3.2)	0.7
Businesses disposed (note 26)	2.0	-
Additional provisions/(receivables recognised) in year	23.3	(7.3)
Unused amounts reversed	(6.7)	-
Charge/(credit) to net finance costs (notes 7 and 8)	1.2	(0.5)
Transfers from trade and other payables	0.6	-
Utilised	(33.3)	24.2
<b>At 31 December 2019</b>	<b>100.6</b>	<b>(17.0)</b>

  

	<b>Provisions</b>	
	<b>2019</b>	2018
	<b>£'m</b>	£'m
<b>Disclosed as:</b>		
Current	<b>36.2</b>	33.0
Non-current	<b>64.4</b>	83.7
<b>At 31 December</b>	<b>100.6</b>	116.7
<b>Analysed as:</b>		
Environmental	<b>66.7</b>	80.6
Onerous contracts	<b>13.3</b>	13.7
Warranty costs	<b>14.8</b>	15.7
Other	<b>5.8</b>	6.7
<b>At 31 December</b>	<b>100.6</b>	116.7

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

## 20. Retirement benefit obligations

	2019 £'m	2018 £'m
At 1 January	209.1	308.1
Exchange rate adjustments	(4.0)	7.8
Service cost	12.8	16.1
Past service cost (note 6)	-	1.7
Past service credit	-	(5.4)
Net interest expense (note 8)	6.1	8.0
Contributions – Group	(48.0)	(83.7)
Administrative expenses borne directly by schemes	2.7	2.7
Remeasurement of retirement benefit obligations	89.2	(46.2)
<b>At 31 December</b>	<b>267.9</b>	<b>209.1</b>
Analysis of retirement benefit obligations:		
Pension schemes	222.0	161.5
Healthcare schemes	45.9	47.6
<b>At 31 December</b>	<b>267.9</b>	<b>209.1</b>

Key financial assumptions used to calculate scheme liabilities	2019	2018
UK scheme:		
Discount rate	2.05%	2.90%
Inflation rate	3.00%	3.20%
Salary increases	2.85%	2.95%
Current life expectancy: Male aged 65 years	21.6 to 23.4	21.7 to 23.5
US schemes:		
Discount rate	3.10%	4.15%
Current life expectancy: Male aged 65 years	19.8 to 20.6	20.2 to 20.8

Group cash contributions paid during the year included deficit reduction payments of £35.2m (2018: £67.6m).

## 21. Issued share capital

	2019 No. m	2018 No. m
<b>Allotted and fully paid</b>	<b>777.5</b>	<b>776.9</b>

## 22. Contingent liabilities

The Company has given guarantees in respect of credit facilities for certain of its subsidiaries, some property and other leases, 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 believe that the probability of an outflow of economic benefits arising from the guarantees is remote.

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

## 23. Contractual commitments - capital

	2019 £'m	2018 £'m
Contracted for but not incurred:		
Intangible assets	3.7	0.6
Property, plant and equipment	46.9	14.3
<b>Contractual commitments - capital</b>	<b>50.6</b>	<b>14.9</b>

## 24. Cash inflow from operations

	2019 £'m	2018 £'m
Profit for the year	222.6	179.0
Adjustments for:		
Finance income (note 7)	(2.2)	(1.0)
Finance costs (note 8)	40.8	41.5
Tax	64.1	37.1
Depreciation (note 14)	57.3	53.6
Amortisation (note 13)	138.4	132.2
Impairment loss (note 14)	-	3.6
(Gain)/loss on disposal of property, plant and equipment	(0.9)	3.0
Gain on disposal of businesses (note 4)	(35.7)	(30.4)
Impairment of assets classified as held for sale	-	10.7
Remeasurement of fair value of contingent consideration payable	-	(3.6)
Financial instruments – (gain)/loss (note 5)	(15.0)	10.1
Impact of retranslating net foreign currency cash at spot rate	(0.6)	-
Share of (profit)/loss after tax of joint venture (note 15)	(1.7)	1.5
Change in carrying value of held for sale assets and liabilities up to date of disposal	(0.5)	(2.0)
Retirement benefit obligation deficit payments (note 20)	(35.2)	(67.6)
Share-based payment expense	10.1	13.5
Changes in working capital	(27.1)	(33.0)
<b>Cash inflow from operations</b>	<b>414.4</b>	<b>348.2</b>

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

	2019 £'m	2018 £'m
Cash inflow from operating activities	366.9	295.3
Add back cash outflow from business disposal expenses	9.4	3.8
Add back impact of retranslating net foreign currency at spot rate	0.6	-
Capitalised development costs (note 13)	(54.7)	(58.6)
Capitalised programme participation costs	(2.0)	(0.8)
Purchase of intangible assets (note 13)	(17.2)	(21.8)
Purchase of property, plant and equipment	(77.2)	(52.6)
Proceeds from disposal of property, plant and equipment	23.1	2.1
Reverse lease premium received*	18.9	-
<b>Free cash inflow</b>	<b>267.8</b>	<b>167.4</b>

\* Prior to any discussions with the lessor, the Group had negotiated terms for the purchase of land and subsequent construction of the building at Ansty Park, with a number of third parties. The lessor received the benefit of these negotiated terms when it contracted with those same third parties, and in return agreed to make a reverse lease premium payment to the Group at inception of the lease. The receipt of the reverse lease premium of £18.9m has been included in free cash flow, consistent with the treatment of capital expenditure incurred by the Group relating to the Ansty Park site.



## 25. Movements in net debt

	2019 £'m	2018 £'m
At 1 January	1,074.1	1,060.8
Cash inflow from operating activities	(366.9)	(295.3)
Cash outflow from investing activities	49.7	96.0
Cash outflow from financing activities	130.4	146.8
Lease liabilities entered	54.2	4.6
Exchange rate adjustments	(31.2)	65.5
Other non-cash movements	0.9	(4.3)
<b>At 31 December</b>	<b>911.2</b>	<b>1,074.1</b>

	2019 £'m	2018 £'m
Analysed as:		
Bank and other borrowings – current	219.4	10.2
Bank and other borrowings – non-current	694.5	1,148.3
Lease liabilities – current	16.4	16.1
Lease liabilities – non-current	136.2	81.4
Cash and cash equivalents	(155.3)	(181.9)
<b>Total</b>	<b>911.2</b>	<b>1,074.1</b>

## 26. Business disposals

During 2018, the Group decided to dispose of the trade and assets of Meggitt (France) SAS, a producer of engine ignition technology, and at 31 December 2018 determined that a sale was highly probable. The related assets were classified as a disposal group held for sale and were presented separately together with directly associated liabilities. The disposal subsequently completed on 1 April 2019 for a consideration of EUR1.0m. Additionally, during the year, the Group disposed of a number of product lines, principally from within one of its Energy and Equipment businesses for a total consideration of USD85.4m. These product lines met the requirements of IFRS 3 to be considered a business.

The businesses disposed were not a major line of business or geographical area of operation of the Group. The net assets of the businesses at the date of disposal were as follows:

	Meggitt (France) SAS £'m	Energy & Equipment product lines £'m	Total £'m
Goodwill (note 13)	-	10.8	10.8
Development costs (note 13)	-	0.9	0.9
Property, plant and equipment (note 14)	-	6.2	6.2
Inventories	-	13.5	13.5
Assets classified as held for sale	1.4	-	1.4
Provisions assumed on disposal – current (note 19)	-	2.0	2.0
<b>Net assets</b>	<b>1.4</b>	<b>33.4</b>	<b>34.8</b>
Business disposal expenses (note 4)			12.2
Gain on disposal (note 4)			23.5
<b>Total consideration received in cash</b>			<b>70.5</b>

Cash inflow arising on disposal:

Total consideration received in cash	70.5
Add: deferred consideration received in respect of businesses disposed of in prior period	7.8
Businesses disposed	78.3
Less: business disposal expenses paid	(9.4)
<b>Total cash inflow</b>	<b>68.9</b>

## 27. Components of other comprehensive income

	2019 £'m	2018 £'m
Arising in the year	(68.7)	93.7
Transferred to the income statement	-	(3.0)
<b>Currency translation movements – (loss)/gain</b>	<b>(68.7)</b>	<b>90.7</b>
Movement in fair value of financial liabilities arising from changes in credit risk	-	0.8
Cash flow hedge movements: transferred to the income statement	-	(0.3)
<b>Other comprehensive (expense)/income before tax</b>	<b>(68.7)</b>	<b>91.2</b>
<b>Tax</b>	<b>0.3</b>	<b>2.5</b>
<b>Items that may be reclassified to the income statement in subsequent periods</b>	<b>(68.4)</b>	<b>93.7</b>

## 28. Principal risks and uncertainties

### Strategic – Business model

#### Description

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

#### Impact

Decreased revenue and profit.

#### How we manage it

- Alignment of Group, divisional and functional strategy processes.
- Dedicated full-service aftermarket organisation.
- Long-term customer agreements including SMART Support™ packages to create tailored solutions for customers throughout the product lifecycle enabling more effective performance monitoring and more predictable pricing.
- Investment in research and development to maintain and enhance Meggitt's intellectual property.

### Strategic – Industry changes

#### Description

Significant variation in demand for air travel and/ or our products due to aerospace and defence business downcycles coinciding; serious political, economic, pandemic or terrorist events; greenhouse gas emission regulations or shifting societal attitudes to air travel; or industry consolidation that materially changes the competitive landscape.

#### Impact

Volatility in underlying profitability.

#### How we manage it

- Demand is managed by external economic and commercial environment and long-lead indicators whilst maintaining focus on balanced portfolio.
- EASA (European Aviation Safety Agency) has issued "third country" certification to allow continued trading with our European customers post-Brexit.
- Reduction in Group carbon footprint through new facilities and more efficient production processes.
- Maintaining sufficient headroom in committed credit facilities and against covenants in those facilities whilst implementing appropriate cost-base contingency plans.

### Strategic – Technology strategy

#### Description

Failure to develop and implement meaningful technology strategies to meet evolving industry, customer and societal demands.

#### Impact

Restriction of ability to compete on new programmes with consequent decrease in revenue and profit.

#### How we manage it

- Management of technology development plans that align technology readiness, market needs and financial returns using a gated process.
- Recruiting and training first-class engineers and scientists with appropriate technology skills.
- Budgets focused on longer-term technology developments.
- Leveraging our R&D budget through partnerships including government, academia and other companies.
- Allocation of AR&T budget to sustainable solutions.

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

### *Description*

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

### *Impact*

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

### *How we manage it*

- System safety analysis, verification and validation policy and processes, combined with quality and customer audits and industry certifications.
- Meggitt Production System (MPS).
- Supplier quality assurance process.

## **Operational – Business interruption**

### *Description*

A catastrophic event such as natural disasters, including earthquake (the Group has a significant operational presence in Southern California), hurricane or fire; military conflict or terrorist activity; or a pandemic could lead to infrastructure disruption and/ or property damage which prevents the Group from fulfilling its contractual obligations.

### *Impact*

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

### *How we manage it*

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

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

### *Description*

Failure to meet new product development programme milestones and certification requirements and successfully transition new products into manufacturing as production rates increase. This also covers lower than expected production volumes, including programme cancellations or delays, notably the B737MAX.

### *Impact*

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

### *How we manage it*

- Rigorous commercial and technological reviews of bids and contractual terms before entering into programmes.
- Continuous review of programme performance through the Programme Lifecycle Management (PLM) process including:
  - regular monitoring of the end market performance of key OE programmes;
  - internal review process, to stress-test readiness to proceed at each stage of the key programmes; and
  - regular monitoring of the financial health of customers.

## **Operational – Customer satisfaction**

### *Description*

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

### *Impact*

Failure to win future programmes, decreased revenue and profit.

### *How we manage it*

- Creation of a customer facing organisational structure including a dedicated aftermarket division.
- Regular monitoring of customer scorecards and ensuring responsiveness to issues via Voice of the Customer process.
- Functional excellence in operations, project management and engineering.
- Increased utilisation of low-cost manufacturing base.

## **Operational – Acquisition integration/performance**

### *Description*

Failure to effectively integrate acquisitions and failure to realise financial returns from the advanced composites acquisitions.

### *Impact*

Decreased revenue and profit.

### *How we manage it*

- Internal pre-acquisition due diligence supplemented by external experts.
- Increase in local capabilities to manage production ramp-up and delivery of the financial model, including cost synergies, under Group project management office (PMO) oversight.
- Standard Meggitt processes implemented as part of a proven post-merger process led by incumbent divisional management, supported by experienced dedicated operational teams with a senior oversight committee.

## **Operational – Cyber breach**

### *Description*

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

### *Impact*

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

### *How we manage it*

- IT security infrastructure, policies and procedures.
- Group-wide intellectual property protection programme.
- Management of third party service providers and risks, including resilience and disaster recovery processes.
- Rolling programme of system upgrades (including SAP implementation) to replace legacy systems.
- Defined patching schedule and policy with monitoring capability to ensure that vulnerabilities are identified and appropriately patched.

## **Operational – Supply chain**

### *Description*

Failure or inability of critical suppliers to supply unique products, capabilities or services preventing the Group from satisfying customers or meeting contractual requirements.

### *Impact*

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

### *How we manage it*

- Supplier excellence framework combined with integrated commercial and procurement approach to contractual terms and conditions including development of long-term agreements.
- Local sourcing strategy to improve operational efficiency and minimise potential impacts and disruption from cross-border tariffs.
- Maintenance of buffer inventory for critical and sole-source suppliers.
- Implementation of measures to mitigate counterfeit and fraudulent parts at high-risk facilities.

## **Operational – Group change management**

### *Description*

Failure to successfully, simultaneously, deliver the significant change programmes currently in process and planned, including site consolidation activity such as Ansty Park and investments in new carbon manufacturing facilities in the USA.

### *Impact*

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

### *How we manage it*

- Dedicated site consolidation and property management teams for Ansty Park.
- Regular monitoring by Executive Leadership Team through operational and project reviews.
- MPS implementation at new/expanded sites.
- PMO oversight of large capital projects.

## **Operational – People**

### *Description*

Failure to attract, retain or mobilise people due to factors including industrial action, workforce demographics, lack of training, availability of talent and inadequate compensation.

### *Impact*

Decreased revenue and profit, damage to operational performance.

### *How we manage it*

- Roll-out of High Performance Culture.
- Employee engagement programmes.
- Graduate and apprentice programmes in partnership with schools and universities.
- Regular oversight by Executive Leadership Team.
- Creation of Employee Resource Groups to foster diversity, boost employee engagement and enable global collaboration.

## **Corporate – Legal & compliance**

### *Description*

Significant breach of increasingly complex trade compliance, bribery and corruption, US Government contracting, ethics, intellectual property, data protection, competition/antitrust laws and facilitation of tax evasion.

### *Impact*

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

### *How we manage it*

- Continuing investment in compliance programmes including Board approved policies and roll out of training and IT solutions.

- Regular monitoring by Corporate Responsibility Committee, supported by on-going trade compliance programme including third party audits. Comprehensive ethics programme including training, anti-corruption policy and Ethics line.
- Third party audits including HS&E and the Criminal Finance Act.
- MPS implementation to enhance safety measures, validated by third party audits.

## **Financial – Taxation**

### *Description*

Tax legislation is complex and compliance can be subject to interpretation. Events such as the OECD BEPS programme, the US tax and tariff changes and the impact of Brexit create uncertainty which could diminish the effectiveness of the Group's international structures, including those used to finance acquisitions.

### *Impact*

Higher effective tax rates resulting in decreased profit.

### *How we manage it*

- Monitoring international tax developments to assess implications of future legislation.
- Seeking to achieve either a low or medium risk rating in each country in which we operate through open dialogue and, where possible, pre-agreement of arrangements to confirm compliance with legislation.
- Assessment of options to mitigate impact of legislative changes on the Group's effective tax rate.
- Use of multiple expert third party tax advisors.

## **DIRECTORS' RESPONSIBILITIES STATEMENT**

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

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

By order of the Board:

A Wood  
Director  
24 February 2020

L Burdett  
Director  
24 February 2020

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