Press information

MEGGITT

5 March 2013

Meggitt PLC
2012 Full-year results

Delivering on our commitments

Meggitt PLC ("Meggitt" or "the Group"), a global engineering group specialising in extreme environment components and sub-systems for civil aerospace, military and energy markets, today announces full-year audited results for the year ended 31 December 2012.

Group Highlights

£m	**2012**	2011	% change
Revenue	**1,605.8**	1,455.3	+10%
Underlying[(1)]:			
EBITDA	**468.4**	428.5	+9%
Operating profit	**394.3**	359.5	+10%
Profit before tax	**362.8**	323.0	+12%
Earnings per share	**36.2p**	31.9p	+13%
Statutory:			
Operating profit	**323.6**	262.5	+23%
Profit before tax	**292.1**	226.0	+29%
Earnings per share	**31.1p**	24.0p	+30%
Net debt	**642.5**	788.4	-19%
Dividend	**11.80p**	10.50p	+12%

- The Group achieved further good growth in 2012:
  - Order intake was £1.64bn, giving a book-to-bill ratio of greater than one, underpinning confidence in continuing future revenue growth.
  - Revenues increased 10%, of which civil was +7%, energy +45% and military +7%. Group proforma[(2)] revenues increased 6%.
- Underlying earnings per share increased by 13% to 36.2p.
- Net debt reduced by 19%, giving a net debt/EBITDA ratio of 1.3x (2011: 1.7x) driven by another year of very strong cash generation.
- The Pacific Scientific Aerospace (PacSci) acquisition continues to trade in line with expectations; annual run-rate synergies currently at $20m, ahead of expectations; now expect run rate of $25m by 2014, almost 40% above original plan.
- The Group continues to expect organic revenue growth of 6 to 7% on average over the medium term, with mid-single-digit growth in 2013.
- Recommended final dividend increased by 12%, resulting in the full-year dividend up 12% to 11.80p.

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

Terry Twigger, Chief Executive, commented:

"Our business grew strongly in 2012, with revenues up 10% and underlying earnings per share up 13%. PacSci is trading well and we are raising our synergy target again. Our operational improvement initiative is off to an excellent start. We look forward to further good growth in 2013 and beyond.

"As a sign of our continuing confidence in the prospects for the Group, we are recommending an increase in the full-year dividend of 12%.

"I recently announced my intention to step down from the Board at the AGM in May 2013, ahead of my retirement in June, after over 12 years as CEO. During this time I have seen the Group grow from revenues of under £400m to £1.6bn and EPS and market capitalisation grow at 10% per annum and 15% per annum compound respectively. I am very proud of what the team has achieved at Meggitt and am confident this track record will continue under my successor, Stephen Young."

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A link to the audio webcast, which will be broadcast at 9am today, 5th March 2013, is available at www.meggitt.com.

GROUP OVERVIEW

Meggitt's strong 2012 results continue to demonstrate the breadth and resilience of our portfolio. Our growing installed base of equipment on approximately 59,000 aircraft worldwide provides us with a stable aftermarket revenue stream stretching out for many decades.

While the last 12 months have seen challenging conditions in some of our markets, our broad product offering and close relationships with customers have enabled us to continue growing our installed base. We have further enhanced our level of content on new, more fuel-efficient aircraft including the A320neo and Boeing 737MAX, for which there is strong demand. Success in winning positions on new platforms will, of course, enable us to continue to grow our future aftermarket revenues. Our market position and product offering was further strengthened by the acquisition of PacSci in April 2011 which has, as expected, strengthened our technology positions and increased our content on current and future aircraft platforms.

As a result of the Transformation programme, Meggitt is now a leaner, fitter organisation, with a capability-based divisional structure tailored to our customers' requirements. This makes us much easier to do business with, allows us to engage with our customers at the right level, and enables us to align our research and development expenditure with our customers' technology roadmaps. This, combined with our ongoing commitment to invest in the technologies and people needed to remain highly competitive in our target markets, gives us confidence in our target of 6-7% organic revenue growth over the medium term.

We are now focused on driving operational excellence as part of our *raising the bar* initiative. We have numerous pockets of best practice in terms of quality and delivery across the Group, and we are committed to bringing all manufacturing operations within the Group up to a level which will enable us to consistently achieve world class quality and delivery performance to our customers. Along with our embedded intellectual property and high level of customer responsiveness, this improvement in our operational performance will enable us to increase our longer term organic growth rate.

MARKET BACKGROUND

Civil aerospace

Meggitt operates in the three main segments of the civil aerospace market: large jets, regional aircraft and business jets. The large jet fleet includes over 18,000 aircraft, the regional aircraft fleet about 6,000 and business jets almost 16,000. We have products on the vast majority of these aircraft platforms and hence a very large, and growing, installed base. The split of civil revenues, which account for 45% of the Group total, is 61% aftermarket (AM) and 39% original equipment (OE). Almost half of our civil aftermarket revenues are generated on aircraft platforms with an average age of less than 10 years, with a further 40% coming from platforms with an average age of 10 to 20 years.

Military

We supply our military customers with equipment for a broad range of fixed and rotary wing aircraft, ground vehicles and training facilities, accounting for 39% of the Group's revenues. Our revenues are split 58% OE and 42% AM, reflecting our installed base on over 19,000 military aircraft and a significant number of ground vehicles and training facilities. The US accounts for 61% of military sales, with 24% to Europe and 15% to the rest of the world.

Energy and other

Other revenues (16% of Group total) come from a variety of markets, of which the most significant is energy (10% of Group total). Our energy capabilities centre on providing valves and condition-monitoring equipment for power generation installations, including ground-based rotating machinery and wind turbines, and printed circuit heat exchangers (PCHEs) used in the oil and gas and waste heat recovery markets. Other markets (6% of Group total) include the automotive, test, consumer goods and medical sectors.

TRADING SUMMARY

	2012 Revenues £m	2011 Revenues £m	2012 Growth Total	2012 Growth Proforma
Civil OE	281.1	245.2	15%	6%
Civil AM	433.7	420.4	3%	-1%
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Total civil aerospace	714.8	665.6	7%	1%
Military	624.7	585.3	7%	3%
Energy	164.2	113.1	45%	43%
Other	102.1	91.3	12%	5%
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Total	1,605.8	1,455.3	10%	6%

Total revenues grew 10% to £1,605.8m (2011: £1,455.3m). As the table above demonstrates, the energy market was particularly strong during the year, though all markets contributed to growth.

The Board's preferred measure of the Group's trading performance is underlying profit. Underlying operating profit for the year grew 10% to £394.3m (2011: £359.5m). A strong operational performance helped offset an £8.4m currency headwind, a negative mix effect of £5.4m and a net investment of £2m in the *raising the bar* programme and enabled us to hold the margin at last year's level.

Net finance costs decreased to £31.5m (2011: £36.5m) as a result of strong cash generation and lower interest rates. Within this, post-retirement finance charges increased modestly to £5.4m (2011: £4.5m).

Underlying profit before tax increased by 12% to £362.8m (2011: £323.0m).

With an underlying tax rate of 22% (2011: 24%), which reduced as a result of the favourable resolution of prior year tax issues, underlying earnings per share increased by 13% to 36.2 pence (2011: 31.9 pence).

On a statutory basis, profit before tax increased by 29% to £292.1m (2011: £226.0m) and earnings per share increased by 30% to 31.1p (2011: 24.0p). The adjustments between underlying profit and statutory profit are described in notes 3 and 9.

The recommended final dividend is increased by 12% to 8.20p (2011: 7.30p) and represents a total dividend for the year of 11.80p (2011: 10.50p), also an increase of 12%.

Cash inflow from operations before exceptional operating items was a very healthy £408.8m, which was 104% of underlying operating profit (2011: £395.8m and 110%). As these numbers demonstrate, our strong focus on cash generation continued to deliver excellent results in 2012.

Net cash generated of £116.7m (2011: outflow of £30.1m) was impressive despite a very low take-up of the scrip dividend and increased investment in production capacity and IT infrastructure. Net debt decreased by 19% to £642.5m (2011: £788.4m).

There are two main financial covenants in our banking agreements. The net debt/EBITDA ratio, which must not exceed 3.5x, reduced to 1.3x at 31 December 2012 (2011: 1.7x) and interest cover, which must be not less than 3.0x, was 16.2x (2011: 12.4x). The Group has, therefore, significant headroom against both key covenant ratios. At 31 December 2012, Meggitt had £557m of undrawn headroom, net of cash, against committed bank facilities. During the year, the Group refinanced its 2013 maturity banking facility with a new five-year arrangement. The new facility, which has been reduced from $500m to $400m as a result of our strong cash generation, was over-subscribed. No further refinancing is required before 2016.

Trading summary by market:

Civil aerospace
Total civil aerospace revenues grew 7%, with strong growth in OE, notably on large jets, compensating for lower than expected growth in AM. On a proforma basis, civil aerospace revenues grew 1%, with 6% OE growth being partially offset by a 1% decline in aftermarket primarily reflecting destocking and Chapter 11 events at some of our customers.

With deliveries of large jets by Airbus and Boeing growing, a book-to-bill ratio of around 2, and an order backlog of greater than seven years at current production rates, we are confident in the continued growth outlook for large jets. Deliveries of regional aircraft were down slightly in 2012, with moderate growth expected from 2013, driven by demand for 70 to 90 seat aircraft. Total business jet deliveries were broadly flat in 2012 versus 2011 despite the cessation of deliveries at Hawker Beechcraft. There was a modest improvement in deliveries of super-mid size and long-range aircraft. We anticipate further growth in this key segment in 2013 as the US economy recovers, boosted by demand from emerging economies.

Available seat kilometres (ASKs), a good proxy for air traffic which is a key driver of the demand from airlines for spares and repairs on large and regional aircraft, grew at around 3.5% in 2012 (versus 6% in 2011). We saw a decoupling of ASK growth and aftermarket revenues during 2012, due in part to destocking in the supply chain. We expect the link between air traffic and aftermarket revenues to be restored during 2013. Business jet utilisation in the US and Europe remained flat in 2012, and we expect modest growth in 2013.

Military
Total military revenues grew by 7% (3% on a proforma basis) continuing the strong growth seen in 2011. As disclosed in the Q3 IMS, we have perhaps started to see the effect of the drawdown from Iraq and Afghanistan in the 3rd quarter, a little later than anticipated.

Our OE revenues are generated from a broad range of platforms and applications, with good positions on a number of key platforms such as Typhoon, JSF, Black Hawk, Rafale, V22 and E/F-18 Hornet, although we are not overly exposed to any single platform. We are seeing growth in our non-US military revenues, with continuing good prospects based on recent wins in international markets, including the wheels and brakes on the Korean Aerospace Industries FA-50 and other export opportunities such as the recent sale of Eurofighter Typhoon aircraft to Oman.

The outlook for defence expenditure in the US, which represents approximately 60% of our military revenues, remains uncertain given the requirement for the administration to reduce the fiscal deficit. As a result, we have taken a more cautious stance on the near-term prospects for our military businesses, with the expectation of flat revenues in 2013 excluding sequestration. If sequestration should occur, we will need to understand which programmes are affected, and to what extent. However, if we assume US military expenditure is cut by 10%, and that this cut applies equally to all military spend, this would reduce Group revenues by slightly over 2% over the 2013/2014 timeframe. The flexibility of our manufacturing base means that we believe we can largely mitigate the impact this would have on the Group operating margin. In the meantime we will continue to concentrate on the things we can control, including development of innovative, cost effective solutions which meet the needs of our military customers. Examples of where we have achieved this in the recent past include retrofitting blast-proof fuel tanks and electronics cooling systems on ground vehicles, and providing a high quality composites outsourcing capability at relatively low cost.

Energy and other
Energy revenues increased by 45% in 2012, with proforma growth of 43%. We saw excellent demand for our unique printed circuit heat exchangers, and we secured our largest ever order, worth in excess of $100m, from Petrobras to equip their new fleet of floating production, storage and offload vessels. Commencement of deliveries against this contract, and the Shell FLNG contract announced in 2011, saw Heatric revenues reach record levels. Our power generation businesses continued to perform well following recent investments in product upgrades and new sales and support facilities in several emerging economies. The energy businesses are expected to continue to grow at above greater than 10% over the next few years.

Other markets delivered 5% growth on a proforma basis, with industrial and ground refuelling markets performing particularly well.

PACSCI INTEGRATION

Integration activities are now largely complete with the exception of the co-location of our two safety systems businesses in California which will take place in late 2013. Acquisition synergies have been delivered well ahead of schedule, and our total expected synergy run-rate is now anticipated to be $25m by 2014, 11% ahead of our previous estimate and almost 40% above the original acquisition plan. The acquired businesses are trading in line with expectations.

INVESTING FOR THE FUTURE

The application of our internally generated and owned intellectual property is fundamental to Meggitt's strategy. Total research and development expenditure in 2012 was £122.0m or 7.6% of revenues, (2011: £110.5m, 7.6%), of which 20% was funded by customers. The largest relative investment was in Sensing Systems at around 14% of segment revenues.

Investment in technology development is aimed at adding new capabilities to our portfolio in response to customer requirements. Areas of focus in 2012 included a new distributed condition monitoring system for energy gas turbines which we intend to bring to market during 2013, and a range of new aerospace technologies including development of a green fire suppressant agent. We also continue to invest in transferring our core aerospace technologies across adjacent markets, and we will be opening a new facility in Denmark during 2014 to better serve medical markets with our specialist sensing capabilities.

Meggitt invested £36.1m (2011: £33.2m) in supplying equipment free of charge to new aircraft and making programme participation contributions, mostly in the Aircraft Braking Systems business. This increased investment reflects our strong track record in winning the new programmes that drive future aftermarket growth.

Capital expenditure on property, plant and equipment and other intangible assets increased to £63.5m (2011: £52.1m), including continued investment in capacity, site consolidations and the deployment of common IT systems across the Group. There has been substantial investment in our manufacturing facilities to provide capacity to meet future growth driven by our high level of programme wins over the past few years, including new capital equipment in our US aircraft braking systems and polymers and composites facilities. We have doubled the capacity of our innovative heat exchanger business in Poole, UK, and in California we have leased a new building in which to co-locate our North American sensing businesses and progressed plans to co-locate our fire detection and fire suppression businesses in the region in late 2013.

To be successful in today's environment we must combine our advanced technological capabilities with ever higher levels of customer responsiveness, hence launching our *raising the bar* initiative to improve on-time delivery and quality in 2012. This programme will identify areas of operational best practice and implement them, sustainably, across all group facilities. Such performance improvements will help us secure the incremental contracts needed to boost Meggitt's organic growth rates beyond the 6-7% range and, after an initial net investment of £2m in 2012 and an estimated £6m in 2013, we expect to add shareholder value with early cost savings.

As part of the Group's low-cost manufacturing strategy, Meggitt continued to expand the range of capabilities at its manufacturing plants in China, Mexico and Vietnam, which is a key enabler to delivering enhanced cost-competitiveness and developing a best in class operational footprint.

RETIREMENT BENEFIT SCHEMES

Overall retirement benefit scheme deficits reduced to £299.7m (2011: £319.9m). The equity market rebound resulted in scheme assets increasing by 9%, partially offset by an increase in liabilities as a result of the fall in AA corporate bond yields. These yields have fallen for the fourth successive year and, as they are used to discount scheme liabilities, affect the values at which the liabilities are recorded in the financial statements.

The Group made deficit reduction payments in the year of £25.0m (2011: £26.2m). The Group is currently in discussions with the trustees of the UK schemes regarding the results of the 2012 triennial valuation, and this will increase annualised deficit reduction payments by an estimated £8m from 2013. In the US, legislation was introduced in the year which provides relief from the impact of historic low AA corporate bond rates. As a result of this new legislation, deficit payments reduced slightly in 2012 and similar levels of payments are expected in 2013. A new accounting standard, IAS19 Revised, will change the way in which pension costs impact the Income Statement. Operating costs and pension finance charges will increase by an estimated £2m and £9m respectively, and 2012 will be restated by similar amounts. From 2013 we will exclude the net pension finance charge from underlying profit, in line with a number of our industry peers.

OPERATIONAL HIGHLIGHTS

The financial performance of the individual divisions is highlighted in the table below (at constant 2011 exchange rates for each division and with the currency impact shown separately):

£m Revenue 2012	2011	Growth		Underlying Operating Profit 2012	2011	Growth	Return on Sales 2012	2011
309.4	320.5	(3)%	Aircraft Braking Systems	117.4	119.9	(2)%	37.9%	37.4%
213.3	201.6	6%	Control Systems	49.9	47.9	4%	23.4%	23.8%
186.1	171.2	9%	Polymers & Composites	34.3	31.7	8%	18.4%	18.5%
243.9	233.9	4%	Sensing Systems	46.6	43.2	8%	19.1%	18.5%
652.2	528.1	23%	Equipment Group	154.5	116.8	32%	23.7%	22.1%
0.9			*Impact of currency*	*(8.4)*				
1,605.8	1,455.3	10%	Total Group	394.3	359.5	10%	24.6%	24.7%

Meggitt Aircraft Braking Systems (MABS) provides wheels, brakes and brake control systems for over 30,000 in-service aircraft and continues to develop innovative technology for new programmes including tyre pressure monitoring, auto-braking capability and steering and landing gear control systems for several business jet programmes. The division targets sole-source programmes and is particularly strong in regional aircraft and business jets. MABS represents 19% of total Group revenue, generating 89% of its revenues from the aftermarket and 11% from OE sales.

MABS' civil AM revenues (66% of divisional total) declined by 6% in 2012 due to the combination of destocking, Chapter 11 events at some customers and the accelerated decline in utilisation of the legacy large jet fleet (DC9/MD80). The legacy large jet fleet accounted for revenues of c£20m in 2012. Military revenues saw a modest increase owing in part to a contract from the Indian Air Force for Hawk spares. Operating margins improved from 37.4% to 37.9% reflecting operational improvements and favourable military mix, partially offset by the decline in highly profitable civil AM revenues.

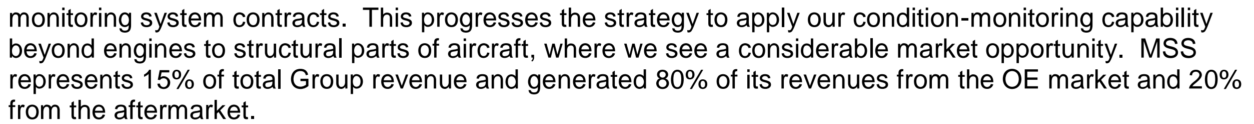
Meggitt Control Systems (MCS) designs and manufactures products which manage the flow of liquids and gases around turbine engines (both aerospace and industrial), control the temperature of oil, fuel and air in aircraft engines and provides cabin air conditioning for smaller aircraft. Its valve business also supplies airport ground fuelling products. The division represents 13% of total Group revenue and generated 54% of its revenues from OE and 46% from the aftermarket.

For MCS, civil aerospace grew 2% in the year (5% growth in OE offset a modest decline in aftermarket), and military grew by 11% helped by strong aftermarket orders. Other markets grew 10% reflecting a strong performance in energy and ground refuelling products. Operating margins moved from 23.8% to 23.4% driven by strong performances in the relatively lower margin civil OE and military markets.

Meggitt Polymers & Composites (MPC) has a strong military focus, representing 65% of its revenues. It supplies flexible bladder fuel tanks, ice protection products and composite assemblies for a range of fixed wing and rotary aircraft and complex seals packages for civil and military platforms. These market segments are linked by their dependence on similar materials technology and manufacturing processes. We supply over 80% of the US military requirement for fuel bladders and ballistically-resistant and crashworthy fuel tanks. MPC represents 12% of total Group revenue.

Revenue growth in MPC of 9% in the year was driven by strong large jet demand resulting in civil growth of 8%. Military sales also grew strongly, with increased composites content on a range of rotorcraft platforms as a result of customer outsourcing and the ongoing Bradley fuel tank retrofit programme. Operating margins remained steady at 18.4%, with manufacturing efficiencies offsetting a negative mix impact.

Meggitt Sensing Systems (MSS) designs and manufactures highly engineered sensors to measure a variety of parameters such as vibration, temperature, pressure, fluid level and flow. Its products are designed to operate effectively in the extreme conditions of temperature, vibration and contamination that exist in an aircraft or on ground-based turbine engines. Sensors are combined into broader electronics packages, providing condition data to engine operators and maintenance providers, contributing to improved safety and lower operating costs. MSS has migrated these products into other specialist markets requiring similar capabilities, such as test and measurement, automotive crash test and medical pacemakers. It has also teamed with MABS, winning a number of new commercial tyre pressure



monitoring system contracts. This progresses the strategy to apply our condition-monitoring capability beyond engines to structural parts of aircraft, where we see a considerable market opportunity. MSS represents 15% of total Group revenue and generated 80% of its revenues from the OE market and 20% from the aftermarket.

MSS revenues grew 4% in the year with particular strength in the energy and medical markets. Operating margins increased to 19.1% as the growth in energy exceeded growth in the relatively lower margin civil OE market.

Meggitt Equipment Group (MEG) comprises a technologically diverse range of businesses (including PacSci), each of which has differentiated capabilities and a specific focus, ranging from fire protection systems through to sophisticated electronics and electro-mechanical components and sub-systems. The division represents 41% of total Group revenue and generates approximately 70% of its revenues from OE and 30% from the aftermarket.

Revenue in MEG was up 23% on last year including the additional four month contribution from PacSci. On a proforma basis, revenue was up 9%. Contributors to the strong proforma growth were civil OE, up 14%, and energy revenues which were up over 70% due to the strength of the Heatric printed circuit heat exchanger business. Heatric grew on the back of a significant Shell FLNG order awarded in 2011, and initial revenues from a Petrobras order received in 2012 valued at in excess of $100m for the provision of heat exchangers to a fleet of floating production, storage and offload vessels. Operating margins improved from 22.1% to 23.7% due to volume leverage, favourable mix and incremental synergies from the PacSci acquisition.

Impact of currency: The numbers in the above table are at constant currency, with the impact of foreign exchange fluctuations shown separately. The adverse profit impact of the strengthening of the Swiss Franc versus the US Dollar was £10.1m in 2012, and was partially offset by modest tailwinds from other currency exposures giving an adverse net currency impact on underlying operating profit of £8.4m.

BOARD OF DIRECTORS

During 2012, two new non-executive directors were appointed to the Board - Philip Cox, Chief Executive Officer of International Power, and Guy Berruyer, Group Chief Executive of The Sage Group plc.
Philip Cox is an experienced CEO with proven ability to grow revenues and market capitalisation in an international business. Guy has extensive international experience, establishing numerous overseas operations and growing businesses organically and through acquisition. We look forward to Philip and Guy making a significant contribution to the deliberations of the Board.

In January 2013, Terry Twigger announced his decision to step down as Chief Executive, and he will be replaced by Stephen Young. The recruitment process for a new Group Finance Director is now under way, and will include the evaluation of both internal and external candidates.

GROUP OUTLOOK

The outlook for our civil markets remains good, with further growth in aircraft deliveries anticipated in 2013 and beyond. Growth in commercial air traffic is expected to continue, and the link between traffic growth and aftermarket revenues is expected to normalise during the course of 2013, providing a positive outlook for our civil aftermarket revenues. We therefore maintain our view that civil OE revenues will grow at an average of 7 to 8% and civil AM revenues at an average of 8 to 9% over the medium term.

In the military market, uncertainties around US DoD spending persist as the potential for sequestration of the defence budget remains. As such, while we remain confident in delivering an average compound organic growth rate of c2% in military over the medium term, we anticipate flat military revenues in 2013 excluding sequestration. If sequestration occurs we would expect to see a modest decline in military revenues.

Energy, driven by heightened demand for our printed circuit heat exchangers and increasing market share in condition-monitoring equipment, should deliver organic revenue growth averaging greater than 10% over the medium term on the back of 43% proforma growth in 2012 and 30% growth in 2011. Other markets should continue to see modest growth.

On the basis of the above, the Group expects to make further good progress by delivering mid-single digit organic growth in 2013 and 6-7% average organic growth in the medium term.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Notes	**2012 £m**	2011 £m
Revenue	2	**1,605.8**	1,455.3
Cost of sales		**(929.1)**	(839.8)
Gross profit		**676.7**	615.5
Net operating costs		**(353.1)**	(353.0)
Operating profit*	3	**323.6**	262.5
Finance income	6	**35.4**	36.9
Finance costs	7	**(66.9)**	(73.4)
Net finance costs		**(31.5)**	(36.5)
Profit before tax**		**292.1**	226.0
Tax		**(48.8)**	(41.1)
Profit for the year attributable to owners of the parent		**243.3**	184.9
Earnings per share:			
Basic	9	**31.1p**	24.0p
Diluted	9	**30.7p**	23.8p

	Notes	2012	2011
* Underlying operating profit	3	**394.3**	359.5
** Underlying profit before tax	3	**362.8**	323.0

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Note	**2012 £m**	2011 £m
Profit for the year		**243.3**	184.9
Actuarial losses	16	**(6.8)**	(76.6)
Currency translation differences		**(54.7)**	10.7
Cash flow hedge movements		**(5.8)**	5.3
Other comprehensive expense before tax		**(67.3)**	(60.6)
Related tax movements		**1.3**	21.6
Other comprehensive expense for the year		**(66.0)**	(39.0)
Total comprehensive income for the year attributable to owners of the parent		**177.3**	145.9

CONSOLIDATED BALANCE SHEET
As at 31 December 2012

	Notes	**2012 £m**	2011 £m
Non-current assets			
Goodwill	12	**1,494.2**	1,544.0
Development costs	12	**221.5**	185.8
Programme participation costs	12	**203.6**	197.5
Other intangible assets	12	**778.9**	865.8
Property, plant and equipment	13	**232.2**	229.9
Trade and other receivables		**98.8**	114.7
Derivative financial instruments		**49.8**	39.7
Deferred tax assets		**100.2**	112.5
		3,179.2	3,289.9
Current assets			
Inventories		**291.2**	277.5
Trade and other receivables		**304.2**	317.4
Derivative financial instruments		**5.0**	4.1
Current tax recoverable		**0.2**	2.6
Cash and cash equivalents	21	**104.9**	94.6
		705.5	696.2
Total assets	2	**3,884.7**	3,986.1
Current liabilities			
Trade and other payables		**(351.9)**	(349.4)
Derivative financial instruments		**(4.0)**	(12.8)
Current tax liabilities		**(57.0)**	(49.4)
Obligations under finance leases	21	**(3.1)**	(0.7)
Bank and other borrowings	14	**(127.0)**	(7.0)
Provisions	15	**(44.8)**	(50.6)
		(587.8)	(469.9)
Net current assets		**117.7**	226.3
Non-current liabilities			
Trade and other payables		**(6.3)**	(6.5)
Derivative financial instruments		**(0.2)**	(4.2)
Deferred tax liabilities		**(289.5)**	(316.8)
Obligations under finance leases	21	**(5.0)**	(8.2)
Bank and other borrowings	14	**(612.3)**	(867.1)
Provisions	15	**(178.5)**	(200.2)
Retirement benefit obligations	16	**(299.7)**	(319.9)
		(1,391.5)	(1,722.9)
Total liabilities		**(1,979.3)**	(2,192.8)
Net assets		**1,905.4**	1,793.3
Equity			
Share capital		**39.3**	38.9
Share premium		**1,143.9**	1,130.1
Other reserves		**14.1**	14.1
Hedging and translation reserves		**117.9**	177.8
Retained earnings		**590.2**	432.4
Total equity attributable to owners of the parent		**1,905.4**	1,793.3

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Share capital	Share premium	Other reserves	Hedging and translation reserves	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m
At 1 January 2011	34.9	859.4	14.1	159.1	370.7	1,438.2
Profit for the year	-	-	-	-	184.9	184.9
Actuarial losses	-	-	-	-	(76.6)	(76.6)
Currency translation differences:						
Arising in the year	-	-	-	10.7	-	10.7
Cash flow hedge movements:						
Movement in fair value	-	-	-	0.2	-	0.2
Transferred to income statement	-	-	-	5.1	-	5.1
Other comprehensive income/(expense) before tax	-	-	-	16.0	(76.6)	(60.6)
Related tax movements	-	-	-	2.7	18.9	21.6
Other comprehensive income/(expense) for the year	-	-	-	18.7	(57.7)	(39.0)
Total comprehensive income for the year	-	-	-	18.7	127.2	145.9
Equity placing	3.5	242.5	-	-	-	246.0
Employee share option schemes:						
Value of services provided	-	-	-	-	8.2	8.2
Shares issued	0.1	3.4	-	-	(0.1)	3.4
Dividends	0.4	24.8	-	-	(73.6)	(48.4)
At 31 December 2011	38.9	1,130.1	14.1	177.8	432.4	1,793.3
Profit for the year	-	-	-	-	**243.3**	**243.3**
Actuarial losses	-	-	-	-	(6.8)	(6.8)
Currency translation differences:						
Arising in the year	-	-	-	(54.4)	-	(54.4)
Transferred to income statement	-	-	-	(0.3)	-	(0.3)
Cash flow hedge movements:						
Movement in fair value	-	-	-	(3.9)	-	(3.9)
Transferred to income statement	-	-	-	(1.9)	-	(1.9)
Other comprehensive expense before tax	-	-	-	(60.5)	(6.8)	(67.3)
Related tax movements	-	-	-	0.6	0.7	1.3
Other comprehensive expense for the year	-	-	-	**(59.9)**	**(6.1)**	**(66.0)**
Total comprehensive (expense)/income for the year	**-**	-	-	**(59.9)**	**237.2**	**177.3**
Employee share option schemes:						
Value of services provided	-	-	-	-	5.7	5.7
Shares issued	0.2	0.8	-	-	(0.1)	0.9
Dividends	0.2	13.0	-	-	(85.0)	(71.8)
At 31 December 2012	**39.3**	**1,143.9**	**14.1**	**117.9**	**590.2**	**1,905.4**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2012

	Notes	2012 £m	2011 £m
Cash inflow from operations before exceptional operating items		**408.8**	395.8
Cash outflow from exceptional operating items	4	**(14.7)**	(17.1)
Cash inflow from operations	20	**394.1**	378.7
Interest received		**0.2**	0.3
Interest paid		**(28.1)**	(31.0)
Tax paid		**(34.6)**	(42.6)
Cash inflow from operating activities		**331.6**	305.4
Businesses acquired	22	**(9.4)**	(418.1)
Net cash acquired with businesses		**1.0**	0.5
Business disposed	23	**15.9**	-
Capitalised development costs	12	**(52.2)**	(41.2)
Capitalised programme participation costs	12	**(36.1)**	(33.2)
Purchase of intangible assets		**(28.0)**	(25.1)
Purchase of property, plant and equipment		**(35.5)**	(27.0)
Proceeds from disposal of property, plant and equipment		**0.3**	7.5
Cash outflow from investing activities		**(144.0)**	(536.6)
Dividends paid to Company's shareholders	21	**(71.8)**	(48.4)
Issue of equity share capital	21	**0.9**	249.5
Proceeds from borrowings	14	**189.3**	214.3
Debt issue costs	14	**(2.0)**	(2.9)
Repayments of borrowings		**(292.7)**	(137.4)
Cash (outflow)/inflow from financing activities		**(176.3)**	275.1
Net increase in cash and cash equivalents		**11.3**	43.9
Cash and cash equivalents at start of year		**94.6**	51.9
Exchange losses on cash and cash equivalents		**(1.0)**	(1.2)
Cash and cash equivalents at end of year	21	**104.9**	94.6

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

1. Basis of preparation

This document contains abridged preliminary financial information for the year ended 31 December 2012 together with comparatives.

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

The financial information contained in this document does not constitute Group statutory accounts as defined in Sections 404 and 435 of the Companies Act 2006. It is based on, and is consistent with, that in the Group's statutory accounts for the year ended 31 December 2012 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 2011 were approved by the Board of Directors on 5 March 2012 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. Segmental analysis

The Group manages its business under the key segments of Aircraft Braking Systems, Control Systems, Polymers & Composites, Sensing Systems and the Equipment Group. Pacific Scientific Aerospace ('PacSci') is managed within the Equipment Group. For the period from its acquisition to 31 December 2011, its results were separately reported to the Chief Operating Decision Maker ('CODM') and accordingly PacSci was treated as a separate segment under IFRS 8. With effect from 1 January 2012 its results are no longer separately reported to the CODM and it is not treated as a separate segment. Comparative information has been restated to include PacSci within the Equipment Group segment.

Year ended 31 December 2012

	Aircraft Braking Systems £m	Control Systems £m	Polymers & Composites £m	Sensing Systems £m	Equipment Group £m	Total £m
Gross segment revenue	311.2	215.8	189.5	241.4	652.7	1,610.6
Inter-segment revenue	-	(0.9)	(2.3)	(1.2)	(0.4)	(4.8)
Revenue	**311.2**	**214.9**	**187.2**	**240.2**	**652.3**	**1,605.8**
Underlying operating profit*	**117.8**	**50.1**	**34.5**	**36.3**	**155.6**	**394.3**

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

2. Segmental analysis (continued)

Year ended 31 December 2011 (Restated)

	Aircraft Braking Systems £m	Control Systems £m	Polymers & Composites £m	Sensing Systems £m	Equipment Group £m	Total £m
Gross segment revenue	320.5	202.9	173.2	234.6	528.2	1,459.4
Inter-segment revenue	-	(1.3)	(2.0)	(0.7)	(0.1)	(4.1)
Revenue	320.5	201.6	171.2	233.9	528.1	1,455.3
Underlying operating profit*	119.9	47.9	31.7	43.2	116.8	359.5

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

Segmental assets

	31 December 2012 £m	31 December 2011 Restated £m
Aircraft Braking Systems	**479.5**	470.4
Control Systems	**145.0**	131.4
Polymers & Composites	**79.3**	79.1
Sensing Systems	**190.2**	190.2
Equipment Group	**314.2**	305.8
Total segmental trading assets	**1,208.2**	1,176.9
Centrally managed trading assets*	**143.3**	145.9
Goodwill (note 12)	**1,494.2**	1,544.0
Other intangible assets (note 12)	**778.9**	865.8
Derivative financial instruments – non-current	**49.8**	39.7
Deferred tax assets	**100.2**	112.5
Derivative financial instruments – current	**5.0**	4.1
Current tax recoverable	**0.2**	2.6
Cash and cash equivalents (note 21)	**104.9**	94.6
Total assets	**3,884.7**	3,986.1

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

3. Reconciliations between profit and underlying profit

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

	2012 £m	2011 £m
Operating profit	**323.6**	262.5
Exceptional operating items (note 4)	**13.3**	20.3
Amortisation of intangible assets acquired in business combinations (note 12)	**80.6**	75.1
Disposal of inventory revalued in business combinations*	**0.2**	11.3
Financial instruments (note 5)	**(23.4)**	(9.7)
Adjustments to operating profit**	**70.7**	97.0
Underlying operating profit	**394.3**	359.5
Profit before tax	**292.1**	226.0
Adjustments to operating profit per above	**70.7**	97.0
Underlying profit before tax	**362.8**	323.0
Profit for the year	**243.3**	184.9
Adjustments to operating profit per above	**70.7**	97.0
Tax effect of adjustments to operating profit	**(31.0)**	(36.4)
Adjustments to profit for the year	**39.7**	60.6
Underlying profit for the year	**283.0**	245.5

Underlying earnings per ordinary share ('EPS') for the year is 36.2p (2011: 31.9p) and diluted underlying EPS for the year is 35.7p (2011: 31.6p). See note 9 for the definition of underlying EPS and its reconciliation to basic EPS.

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

** Of the adjustments to operating profit, £5.4 million (2011: £3.7 million) relating to exceptional operating items and £0.2 million (2011: £11.3 million) relating to the disposal of inventory revalued in business combinations has been charged to cost of sales, with the balance of £65.1 million (2011: £82.0 million) included within net operating costs.

In 2013, the Group will be required to adopt IAS 19 (revised 2011) 'Employee Benefits'. This revised standard will lead to the net pension finance cost recorded in the income statement becoming more significant. As net pension finance cost is a non-cash, non-trading item, the Board intends from 2013 to exclude it from the underlying profit measures it uses to monitor and measure the underlying performance of the Group.

4. Exceptional operating items

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

	Notes	2012 £m	2011 £m
Site consolidations	a	**9.8**	3.7
Integration of Pacific Scientific Aerospace ('PacSci')	b	**4.8**	5.9
Acquisition of businesses	c	**1.3**	6.0
Transformation programme	d	**0.6**	4.4
Profit on disposal of business	e	**(3.2)**	-
Other		**-**	0.3
Exceptional operating items		**13.3**	20.3

a. This principally relates to the consolidation of Sensing Systems' New Hampshire and San Juan Capistrano facilities to a single new location in Southern California, which was announced in June 2011. This consolidation will be substantially completed in 2013.

b. Cumulative cost synergies achieved at the end of 2012, as part of the on-going PacSci integration process, were £11.0 million (2011: £4.1 million). Costs incurred in the year in respect of this integration process were £4.8 million (2011: £5.9 million).

c. This principally relates to the acquisition of Fotomechanix Limited which completed on 4 July 2012 and the acquisition of PacSci which completed on 21 April 2011.

d. The previously announced transformation programme was substantially completed during 2011 and achieved the increased annual run-rate savings target of £57.0 million.

e. On 10 August 2012, the Group disposed of the business and trading assets and liabilities of Meggitt (Simi Valley), Inc. making a profit on disposal of £3.2 million (see note 23).

Cash expenditure in the year on exceptional operating items was £14.7 million (2011: £17.1 million).

5. Financial instruments

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

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

	2012 £m	2011 £m
Movement in the fair value of foreign currency forward contracts	**(20.1)**	5.6
Impact of retranslating net foreign currency assets and liabilities at spot rate	**0.5**	(1.4)
Movement in the fair value of interest rate derivatives	**(6.4)**	(30.0)
Movement in the fair value of fixed rate borrowings	**2.6**	16.1
Financial instruments – gain	**(23.4)**	(9.7)

6. Finance income

	2012 **£m**	2011 £m
Interest on bank deposits	**0.2**	0.1
Unwinding of interest on other receivables	**1.7**	1.1
Expected return on retirement benefit scheme assets (note 16)	**33.4**	35.5
Other finance income	**0.1**	0.2
Finance income	**35.4**	36.9

7. Finance costs

	2012 **£m**	2011 £m
Interest on bank borrowings	**5.8**	11.1
Interest on senior notes	**19.4**	19.8
Interest on finance lease obligations	**1.1**	0.3
Unwinding of interest on provisions (note 15)	**1.7**	1.1
Unwinding of interest on retirement benefit scheme liabilities (note 16)	**38.8**	40.0
Amortisation of debt issue costs	**1.7**	1.7
Less: amounts capitalised in the cost of qualifying assets (note 12)	**(1.6)**	(0.6)
Finance costs	**66.9**	73.4

8. Tax

The Finance Act 2011 included legislation to reduce the main rate of corporation tax in the UK from 26% to 25% with effect from 1 April 2012. The Finance Act 2012 included legislation to further reduce the main rate of corporation tax in the UK to 24% with effect from 1 April 2012 and to 23% with effect from 1 April 2013. The reduction in the main UK tax rate to 23% is reflected in the financial statements for the year ended 31 December 2012. The impact of this change on net deferred tax liabilities as at 31 December 2012, profit for the year (underlying and statutory) and comprehensive income for the year has not been significant.

9. Earnings per ordinary share

Earnings per ordinary share ('EPS') is calculated by dividing the profit attributable to owners of the parent of £243.3 million (2011: £184.9 million) by the weighted average number of shares in issue during the year of 782.3 million (2011: 769.7 million shares). The weighted average number of shares used excludes own shares bought by the Group and held during the year by an independently managed Employee Share Ownership Plan Trust (2012: Nil million shares, 2011: 0.2 million shares).

The calculation of diluted EPS is based on the same profits as used in the calculation of basic EPS. The weighted average number of ordinary shares of 792.3 million (2011: 775.9 million) used in the calculation is based on the weighted average number used in the calculation of basic EPS adjusted to reflect the assumption that all potentially dilutive ordinary shares convert. For the Group this means assuming all share awards in issue are exercised.

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

	2012	2011
	Pence	Pence
Basic EPS	**31.1**	24.0
Add back effects of:		
Exceptional operating items	**1.0**	1.9
Amortisation of intangible assets acquired in business combinations	**6.4**	6.0
Disposal of inventory revalued in business combinations	**-**	0.9
Financial instruments	**(2.3)**	(0.9)
Underlying EPS	**36.2**	31.9

Diluted underlying EPS for the year is 35.7p (2011: 31.6p).

10. Dividends

The Board is recommending a final dividend of 8.20p per share (2011: 7.30p). Taken with the interim dividend of 3.60p (2011: 3.20p) paid in the year, this gives a total dividend of 11.80p (2011: 10.50p), an increase of 12%. Subject to approval at the Annual General Meeting to be held on 1 May 2013, the proposed dividend will be paid on 10 May 2013 to shareholders on the register at close of business on 15 March 2013. In continuation of recent practice, shareholders will be offered the opportunity to elect for shares in lieu of cash for the final dividend.

11. Related party transactions

Transactions between the Company and its subsidiaries have been eliminated on consolidation. The remuneration of the key management personnel of the Group (defined as members of the Management Board), including executive directors, is set out below:

	2012	2011
	£m	£m
Salaries and other short-term employee benefits	**8.5**	8.7
Retirement benefit costs	**0.3**	0.4
Share-based payment expense	**4.6**	3.8
Total	**13.4**	12.9

12. Intangible assets

	Goodwill £m	Development costs £m	Programme participation costs £m	Other intangible assets £m
At 1 January 2011	1,295.5	151.3	183.8	722.1
Exchange rate adjustments	15.9	1.4	1.3	8.8
Businesses acquired	232.6	2.4	-	187.7
Additions	-	41.5	33.2	26.9
Interest capitalised (note 7)	-	0.5	-	0.1
Amortisation	-	(11.3)	(20.8)	(79.8)*
At 31 December 2011	1,544.0	185.8	197.5	865.8
Exchange rate adjustments	(53.7)	(6.2)	(6.8)	(30.7)
Businesses acquired	3.9	-	-	3.7
Additions	-	52.2	36.1	27.9
Disposals	-	-	-	(0.1)
Interest capitalised (note 7)	-	1.3	-	0.3
Amortisation	-	(11.6)	(23.2)	(88.0)*
At 31 December 2012	**1,494.2**	**221.5**	**203.6**	**778.9**

* Amortisation of other intangible assets includes £80.6 million (2011: £75.1 million) of amortisation of intangible assets arising in business combinations which has been excluded from underlying profit (note 3).

Goodwill is tested for impairment annually or more frequently if there is any indication of impairment. A full impairment review was conducted for the year ended 31 December 2012 and no impairment charge was required.

13. Property, plant and equipment

	2012 £m	2011 £m
At 1 January	**229.9**	207.1
Exchange rate adjustments	**(6.0)**	1.1
Businesses acquired	**4.1**	23.7
Additions	**36.6**	31.5
Disposals	**(0.5)**	(1.3)
Depreciation	**(31.9)**	(32.2)
At 31 December	**232.2**	229.9

14. Bank and other borrowings

	2012 £m	2011 £m
At 1 January	**874.1**	768.6
Exchange rate adjustments	**(35.0)**	12.6
Businesses acquired	**-**	0.1
Amounts drawn down	**189.3**	214.3
Debt issue costs	**(2.0)**	(2.9)
Amounts repaid	**(291.4)**	(136.5)
Other non-cash movements	**4.3**	17.9
At 31 December	**739.3**	874.1
Disclosed as:		
Current (note 21)	**127.0**	7.0
Non-current (note 21)	**612.3**	867.1
At 31 December	**739.3**	874.1

In June 2013, USD 180 million loan notes issued to private placement investors in 2003 fall due for repayment. These loan notes, which are all drawn, are therefore classified as current liabilities at 31 December 2012. The Group has sufficient headroom in existing facilities and the maturing loan notes will not be refinanced.

15. Provisions

	2012 £m
At 1 January	**250.8**
Exchange rate adjustments	**(10.5)**
Businesses acquired	**0.3**
Transfers from trade and other payables – non-current	**12.3**
Credit to income statement – cost of sales	**(2.7)**
Credit to income statement – net operating costs	**(1.8)**
Charge to income statement – finance costs (note 7)	**1.7**
Utilised*	**(26.8)**
At 31 December	**223.3**
Disclosed as:	
Current	**44.8**
Non-current	**178.5**
At 31 December	**223.3**

* Principally relates to environmental issues at former sites for which insurance policies are in place. Costs incurred at these sites are charged to the provisions held and a corresponding reduction in insurance receivable is recorded when the insurance monies are received.

16. Retirement benefit obligations

	2012 **£m**	2011 £m
At 1 January	**319.9**	265.1
Exchange rate adjustments	**(7.4)**	1.1
Businesses acquired	**-**	1.7
Deficit reduction payments (note 20)	**(25.0)**	(26.2)
Past service credit	**-**	(2.9)
Expected return on retirement benefit scheme assets (note 6)	**(33.4)**	(35.5)
Unwinding of interest on retirement benefit scheme liabilities (note 7)	**38.8**	40.0
Actuarial losses	**6.8**	76.6
At 31 December	**299.7**	319.9
Analysis of retirement benefit obligations:		
Pension schemes	**241.2**	265.4
Healthcare schemes	**58.5**	54.5
At 31 December	**299.7**	319.9

Key financial assumptions

	2012	2011
UK scheme:		
Discount rate	**4.50%**	4.70%
Inflation rate	**3.00%**	3.00%
Salary inflation rate	**4.00%**	4.00%
Current life expectancy: Male aged 65 years*	**21.7 to 23.5**	22.0 to 24.6
Overseas schemes:		
Discount rate	**3.80%**	4.65%
Salary increases	**4.00%**	4.00%
Current life expectancy: Male aged 65 years	**19.2**	19.1

* Adjusted following the 2012 triennial actuarial valuation of the scheme which included a postcode analysis of members to support life expectancy assumptions.

17. Issued share capital

	2012 **No. m**	2011 No. m
Allotted and fully paid	**785.0**	778.8

18. Contingent liabilities

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

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

19. Capital commitments

	2012 £m	2011 £m
Contracted for but not incurred:		
Intangible assets	**1.1**	0.9
Property, plant and equipment	**8.4**	6.9
Total	**9.5**	7.8

20. Cash inflow from operations

	2012 £m	2011 £m
Profit for the year	**243.3**	184.9
Adjustments for:		
Tax	**48.8**	41.1
Depreciation (note 13)	**31.9**	32.2
Amortisation (note 12)	**122.8**	111.9
Loss/(profit) on disposal of property, plant and equipment	**0.3**	(2.0)
Profit on disposal of business (note 4)	**(3.2)**	-
Finance income (note 6)	**(35.4)**	(36.9)
Finance costs (note 7)	**66.9**	73.4
Financial instruments (note 5)	**(23.4)**	(9.7)
Retirement benefit obligation deficit payments (note 16)	**(25.0)**	(26.2)
Share-based payment expense	**12.3**	8.4
Change in working capital	**(45.2)**	1.6
Cash inflow from operations	**394.1**	378.7

21. Net debt

	2012 £m	2011 £m
At 1 January	**788.4**	721.4
Cash inflow from operating activities	**(331.6)**	(305.4)
Cash outflow from investing activities excluding businesses acquired and disposed	**151.5**	119.0
Free cash inflow	**(180.1)**	(186.4)
Businesses acquired (note 22)	**9.4**	418.1
Net cash acquired with businesses	**(1.0)**	(0.5)
Business disposed (note 23)	**(15.9)**	-
Dividends paid to Company's shareholders	**71.8**	48.4
Issue of equity share capital	**(0.9)**	(249.5)
Net cash generated - (inflow)/outflow	**(116.7)**	30.1
Debt acquired with businesses	**0.4**	-
Exchange rate adjustments	**(33.9)**	13.9
Other non-cash movements	**4.3**	23.0
At 31 December	**642.5**	788.4
Disclosed as:		
Bank and other borrowings – current (note 14)	**127.0**	7.0
Bank and other borrowings – non-current (note 14)	**612.3**	867.1
Obligations under finance leases – current	**3.1**	0.7
Obligations under finance leases – non-current	**5.0**	8.2
Cash and cash equivalents	**(104.9)**	(94.6)
Total	**642.5**	788.4

22. Business combinations

On 4 July 2012, the Group acquired 100% of the voting rights of Fotomechanix Limited ('Fotomechanix') for a cash consideration of £11.9 million. The acquired business is a key supplier to Heatric, our printed circuit heat exchanger business and is managed within the Equipment Group. Goodwill arising on consolidation was £3.9 million. The impact of the acquired business on the results of the Group for the period since acquisition is not significant.

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

	2012 £m	2011 £m
Cash paid in respect of Fotomechanix	**11.9**	-
Cash (received)/paid in respect of PacSci	**(2.5)**	417.1
Cash paid in respect of acquisitions in earlier years	**-**	1.0
Total consideration paid	**9.4**	418.1

23. Disposals

On 10 August 2012, the business and trading assets and liabilities of Meggitt (Simi Valley), Inc. were sold for a cash consideration of £16.1 million, of which £15.9 million was received in the year. The profit on disposal of the business was £3.2 million and has been treated as an exceptional operating item and excluded from the Group's underlying profit figures (see notes 3 and 4). The business was engaged in manufacturing ducting and sheet metal components, ozone converters, pneumatic air inlets and specialist connectors for aerospace applications. The impact of this disposal on the Group's results for the year was not significant.

PRINCIPAL RISKS AND UNCERTAINTIES

Markets - Competition

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

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

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

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

Markets - Product demand

Potential impact
Military markets currently account for 39% of Group revenues. Any reduction in military spending or reordering of priorities, particularly by the US government (Meggitt's largest end customer), could adversely affect our revenues.

A significant or prolonged downturn due to recession, commodity prices, terrorist attack or aerospace regulations would decrease demand for the Group's products from civil aerospace customers, which currently account for 45% of Group revenues.

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

Markets - IT security

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

The Group is implementing a number of global IT solutions based around a core SAP ERP system across its sites. Failure to implement the new systems successfully could lead to increased costs, loss of data, operational delays and unplanned increases in working capital.

Mitigation action
- Monitoring risks and prioritising mitigation actions through an IT security committee.
- Continually enhancing IT security policies, upgrading and standardising security tools and implementing comprehensive, Group-wide training programmes.
- Progressively rolling out SAP under the governance of a dedicated steering committee – 18 sites to date successfully implemented.
- Hosting SAP in two separate locations, each with robust disaster recovery plans.

Operations - Acquisitions

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

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

Operations - Contracts

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

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

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

Operations - Equipment fault

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

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

Mitigation action
- Designing engineering standards and manufacturing processes that ensure stringent quality and reliability standards.
- Implementing best practice operational performance standards through the rollout of the Meggitt Production System.
- Protecting the Group from potential product liability claims with liability insurance (subject to coverage limits).

Operations - Supply chain

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

Meggitt's operations are becoming increasingly subject to global laws and regulations restricting the use of various hazardous substances in our manufacturing processes and in our products. This exposes the Group to potential supply chain disruptions of critical substances needed to meet stringent product performance requirements mandated by our customers.

Mitigation action
- Maintaining significant investment in modernising facilities and improving production processes to develop leading manufacturing operations.
- Maintaining a supplier risk assessment programme.
- Subjecting robust business continuity plans to regular testing to manage the risk of a loss of a major facility or supplier.
- Continuing to source a significant proportion of products and services from lower cost economies.
- Forming an Obsolescence Review Board consisting of senior members of the HSE, procurement, engineering, quality and legal departments to track and assess regulatory developments and create action plans to identify and qualify alternative substances or sources of supply as required.

Finance - Credit

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

Mitigation action
- Maintaining a wide customer base and rigorous credit control procedures.
- Maintaining a broad insurer group and monitoring the credit rating of those insurers.
- Implementing offset arrangements and cash deposit restrictions.

Finance - Exchange rates

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

Mitigation action

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

Finance - Financing

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

The ability to raise additional equity finance depends on general market conditions and convincing potential investors of the strategic case for investing in Meggitt.

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

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

Mitigation action

- Maintaining good relationships with major shareholders as evidenced by the equity placing of £246 million in January 2011 to support the acquisition of Pacific Scientific Aerospace.
- Negotiating debt facility extensions. During the year the Group successfully refinanced a 2013 maturing bank facility with a new five-year USD 400 million committed revolving bank facility. No further refinancing is required before 2016.
- Maintaining a broad and geographically diverse banking syndicate with good credit ratings.
- Using longer term US private placement funding to reduce reliance on banks.
- Basing covenant calculations on frozen GAAP to reduce volatility arising from certain fair value measurements and any future accounting standard changes.
- Including covenant clauses that enable net debt and EBITDA to be retranslated to sterling at similar exchange rates to reduce exchange movement volatility.
- Regularly monitoring actual and forecast results against covenant ratios.

Finance - Retirement benefits funding

Potential impact
The Group's post-retirement benefit schemes are in deficit (£299.7 million at 31 December 2012). The future deficit position may be adversely affected by poor investment performance, changes in corporate bond yields and inflation rates, greater than anticipated improvements in life expectancy and changes in the regulatory environment. This would have an adverse effect on amounts recorded in the income statement and the level of future cash contributions required to be made.

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

Corporate - Environmental

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

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

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

Corporate - Legal and regulatory

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

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

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

Corporate - Legal and regulatory (continued)

Mitigation action

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

Corporate - Organisational structure

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

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

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

Mitigation action

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

DIRECTORS' RESPONSIBILITIES STATEMENT

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

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report and Business Review 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.

By order of the Board:

T Twigger
Chief Executive
4 March 2013

S Young
Group Finance Director
4 March 2013

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