

3 March 2022

MEGGITT PLC – 2021 Full Year results

GOOD CASH PERFORMANCE AND ENCOURAGING ORDER INTAKE PROVIDES MOMENTUM INTO 2022

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 twelve months ended 31 December 2021.

CEO, Tony Wood commented:

"We delivered a robust performance in 2021, during which we adapted to challenging market conditions and finished the year with a good cash performance and increasing momentum, as shown by our encouraging order intake. Throughout this period the safety of our employees and delivering for our customers remained our priorities and I would like to thank all Meggitt employees for how they rose to the challenges posed by the effects of the pandemic and supply chain disruption.

As we look ahead, and notwithstanding that the recovery in civil aerospace is likely to remain uneven in the short-term, the outlook and long-term fundamentals for our civil aerospace business remain positive. As a result of our successful strategy, the work we have done to position the Group and the proposed acquisition by Parker-Hannifin, I am confident about the prospects and opportunities that lie ahead for our employees and all our other stakeholders."

Summary

- Recommended all cash offer of 800 pence per share from Parker-Hannifin approved by shareholders on 21 September 2021 with the transaction expected to complete in the third quarter of 2022
- Measures maintained to ensure the well-being of our people and safe operations at all our global sites
- Group revenue 5% lower for the full year on an organic basis with 8% growth in H2 vs H2 2020 and sequential growth of 12% in H2 vs H1; Group revenue was 12% lower on a reported basis at £1,489m (2020: £1,684m)
- Civil aftermarket: organic revenue growth of 7% for the full year with 51% growth in the second half and 58% in the final quarter; strong order intake in the fourth quarter with book to bill of 1.11x for the full year (H1: 1.00x)
- Group performance reflects challenging albeit improving market conditions and global supply chain disruption with underlying operating profit 7% lower at £177m (FY 2020: £191m)
- Strong improvement in Group underlying operating margin with H2 margin of 14.3%, 520 basis points higher than H1 (9.1%)
- Statutory operating profit of £63m (FY 2020: loss of £297m) with the prior year impacted by the non-cash impairment of intangible assets and other asset write downs
- Good cash performance with free cash flow of £46m (FY 2020: £32m) and net debt in line with last year at £780m (FY 2020: £773m)
- On a covenant basis, ratios of underlying net debt:EBITDA of 1.9x and interest cover of 11.3x, well within covenant limits
- Successfully refinanced and extended maturity of Group debt with new three year \$410m facility
- In line with the terms of the previously announced proposed transaction with Parker-Hannifin, the Group is not paying a final dividend for 2021
- Continued progress on key strategic initiatives:
 - Investment in operational capability with the completion of our new manufacturing centre of excellence at Ansty Park, UK and further investment across a number of our global sites
 - Good progress on development of differentiated technologies enabling the transition to net zero aviation and cleaner energy
 - Addition of 11 SMARTSupport™ contracts, securing further market share in the aftermarket
 - Continued progress on sustainability under our People, Planet and Technology framework

Outlook

Building on the positive momentum in 2021 and good order intake at the end of the year, the outlook for our civil aerospace business is encouraging. However, with a number of countries still experiencing high infection rates and with travel restrictions in place, forecasting the pace and trajectory of this recovery remains difficult, particularly in the short-term. The prospects for our energy and defence end markets are expected to remain solid.

Looking ahead, based on the significant progress we have made to transform the Group, our diverse end market exposure and leading market positions, we are well placed to benefit from the recovery in civil aerospace and to deliver long-term profitable growth.

Since the Group is in an offer period under the UK Takeover Code, we are not providing financial guidance for 2022, nor are we able to comment on expected performance relative to any analyst forecasts that may be available.

Financial performance

	2021 £'m	2020 £'m	Change	
			Reported %	Organic ¹ %
Orders	1,525.8	1,547.1	(1)	9
Revenue	1,489.2	1,684.1	(12)	(5)
Underlying ²				
EBITDA ³	291.0	296.9	(2)	3
Operating profit	177.3	190.5	(7)	(3)
Profit before tax	149.3	159.5	(6)	(4)
Earnings per share (p)	15.4	16.5	(7)	
Statutory				
Operating profit/(loss)	63.4	(297.3)	121	
Profit/(loss) before tax	31.3	(334.0)	109	
Earnings/(loss) per share (p)	4.0	(40.4)	110	
Free cash flow ⁴	45.7	31.9	43	
Net cash flow ⁵	58.8	136.0	(57)	
Net debt	779.5	773.0	1	

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Analyst presentation

There will be a recorded webcast of the 2021 Full Year results available from 7am at the following link:

<https://www.investis-live.com/meggitt/61f7dca1dcd60b12000517b4/omsg>

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.

¹ Organic numbers exclude the impact of acquisitions, disposals and foreign exchange.

² Underlying profit and EPS are used by the Board to measure the trading performance of the Group as set out in notes 5 and 10.

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

⁴ Free cash flow is used by the Board to measure the underlying trading cash performance of the Group as set out in note 25.

⁵ Net cash flow represents the movement in net debt in the year, adjusted to exclude new lease liabilities entered, exchange differences and other non-cash movements.

PROPOSED ACQUISITION BY PARKER-HANNIFIN

As we set out in the Rule 2.7 announcement on 2 August 2021, we have successfully delivered a strategy that has fundamentally improved our competitive position and standing with customers, transitioning the business through a programme of non-core disposals and targeted partnerships and acquisitions. The benefits of our independent strategy were clear to see prior to COVID-19, with the Group recording seven consecutive quarters of revenue growth, achieving record operating profit and strong cash generation in 2019, and creating significant value for shareholders.

As a result of the quick and decisive action we took in the face of unprecedented challenges posed by COVID-19, the Group remains strongly positioned, with a compelling strategy which the Board believes can deliver attractive value for shareholders over the long term as our key markets, particularly commercial aerospace, recover. At the same time, however, there remains significant uncertainty as to the precise timing and speed of that recovery.

In that context, and having carefully considered both the financial terms and Parker-Hannifin's plans for the Group under their ownership, the Board decided that the 800 pence per share all-cash offer by Parker-Hannifin would substantially accelerate and de-risk the delivery of that value. With the Board having unanimously recommended the acquisition, it was subsequently approved by shareholders in September 2021. The transaction is expected to complete in the third quarter of 2022.

END MARKET CONTEXT AND CONDITIONS

Civil Aerospace

The gradual recovery in civil aerospace continued during 2021, with global RPKs and ASKs for the month of December 2021 up 80% and 46% respectively compared with December 2020, as vaccine availability and take up rates increased, restrictions on movement eased and airline capacity grew. While the recovery has continued, its pace and trajectory remained sensitive to the emergence of new variants, regional outbreaks and the intermittent imposition of travel restrictions by governments, which tempered the level of recovery in the second half with global ASKs for the month of December 2021 remaining 38% below December 2019 levels.

There were significant variations in activity levels in 2021 on a regional basis, reflecting not only disparities in the rate of vaccine take up, but also how different countries have approached dealing with outbreaks, with total ASKs for the month of December 2021 for Asia Pacific, Europe and North America at 45%, 70% and 83% of December 2019 levels respectively. The volatility in activity levels was particularly marked in China which represents a significant proportion of global activity (10% of total global ASKs in 2019), with monthly ASKs ranging between 63% and 116% of 2019 levels during 2021.

The recovery has been led by domestic travel with global domestic ASKs for the month of December 2021 at 85% of December 2019 levels. The recovery in international activity has been more muted as a result of the closure of borders at certain times, with December 2021 ASKs at 49% of December 2019 levels.

Within civil aerospace, the extent to which different platform categories were affected also varied, with business jets performing very strongly during 2021, with utilisation up 48% for the full year versus 2020 compared with 26% for the wider global commercial fleet (which comprises large and regional jets). For the month of December 2021, business jet utilisation had reached 123% of corresponding levels in 2019 reflecting its continuing attraction to air travellers as an alternative to commercial flights. Cargo activity was also strong with total activity for the full year reaching 109% of 2019 levels.

The recovery also led to increased demand for new build aircraft, with total deliveries of new aircraft from Airbus and Boeing, up 32% year on year, with both OEMs forecasting a steady recovery in new build rates over the next few years with order books remaining healthy. Deliveries of regional jets were flat year-over-year, while business jet deliveries were up 9%.

The disruption in the global supply chain caused by the increase in economic activity is well documented, causing shortages of some raw materials and cost inflation in the aerospace sector, a phenomenon that is expected to continue in 2022.

Looking further ahead and despite the difficulty associated with accurately charting the path of the recovery in the short-term, most industry commentators continue to expect air traffic to return to 2019 levels by 2023/2024.

Beyond the recovery period, the fundamental drivers supporting air traffic growth over the long term remain in place, with global passenger growth of 3.3% per annum expected over the next 20 years.

Defence

Defence outlays in the US (which represents over 70% of our annual defence revenue) were up 4% in FY21, with spending in RDT&E and procurement up 6% and 2% respectively, with continued support for major fixed wing, rotary and ground vehicle platforms including the F-35, F-22, AH-64, H-60 and M-1 Abrams.

Following a period of robust spending to boost combat readiness between 2017 and 2019, lower outlays associated with inventory reduction by the Defense Logistics Agency in the US reduced aftermarket demand in 2021.

In January 2022, the US DoD budget of \$71.5bn for fiscal year 2022 was approved with an increase of 2% on fiscal year 2021 providing a stable outlook in the near-term.

Energy

In energy, oil prices increased 76% from their 2021 low in January reaching an in-year high of \$85 per barrel in October, before ending the year at \$75 per barrel (55% increase from 31 December 2020). With a supportive oil price environment and an ever increasing global focus on sustainability, capital expenditure levels on energy projects remained strong, particularly in the renewables space.

FULL YEAR RESULTS FOR 2021

Group Orders and Revenue

While we have continued to see encouraging signs of the recovery in civil aerospace during 2021, with overall activity levels rising, an increase in civil aftermarket organic revenue and sequential increases in quarterly civil aerospace organic revenue, the Group's full year results reflect the ongoing effects of COVID-19 and global supply chain disruption on the Group and the wider sector.

Group and civil aerospace organic revenue were 16% and 26% lower respectively in the first half, reflecting the continuation of low levels of civil activity in 2021 and trading in the first quarter of 2020 being relatively unaffected by COVID-19. In the second half, Group civil aerospace organic revenue was 37% higher than the comparative period, with OE up 17% (large jets +15%, regional +42% and business jets +18%) and civil aftermarket up 51% on an organic basis (large jets +42%, regional +71% and business jets +58%). We also saw a continuation of the trend seen in the second quarter, with good sequential growth in civil aftermarket organic revenue in the third and fourth quarters.

For the full year, Group orders were up 9% on an organic basis with book to bill of 1.01x. Our order book in civil aerospace saw strong organic growth with orders up 117% in the second half versus the comparative period and book to bill for the full year of 1.11x in both civil OE and civil aftermarket.

Group revenue for the year was 5% lower on an organic basis with solid growth in energy and flat revenue in civil aerospace more than offset by softer defence where revenue was down 11% organically. In civil aerospace, organic revenue from civil OE and civil AM ended the year down 10% and up 7% respectively. Energy revenue increased by 6% on an organic basis. Reported Group revenue of £1,489.2m (FY 2020: £1,684.1m) was 12% lower as analysed in the table below:

	<u>£'m</u>	<u>Impact %</u>
FY 2020 revenue	1,684.1	
Business disposals	(42.1)	(3)
Currency movements	(72.3)	(4)
Organic decline	(80.5)	(5)
FY 2021 revenue	<u>1,489.2</u>	<u>(12)</u>

The adjustments for business disposals principally comprise the sale of Meggitt Training Systems on 30 June 2020 and our ducting business on 30 January 2021.

Currency movements in the year reflect the strengthening of pound sterling against our trading currencies, principally the US dollar. The organic revenue decline reflects the ongoing impact of COVID-19 on civil aerospace and lower defence revenue.

Profit and earnings per share

As in previous years, underlying profit is used by the Board to measure the underlying trading performance of the Group and excludes certain items including: amounts arising on the acquisition, disposal and closure of businesses; amortisation of intangible assets acquired in business combinations; movements in financial instruments; and exceptional operating items. In 2021, given their significance and that they relate to historic matters, certain Whittaker environmental costs have been recognised as an exceptional operating item (see Note 7).

Group underlying operating profit on a reported basis was 7% lower in the year at £177.3m (FY 2020: £190.5m) as a result of the lower revenue, additional costs associated with COVID-19 and supply chain disruption and adverse currency movements. Underlying operating margins for the full year increased by 60 basis points to 11.9% (FY 2020: 11.3%) with operating margin recovering strongly in the second half increasing 520 basis points compared with the first half. Underlying profit before tax decreased by 6% on a reported basis to £149.3m (FY 2020: £159.5m) with underlying earnings per share 7% lower at 15.4 pence (FY 2020: 16.5 pence).

Moving from underlying to statutory measures, Group profit before tax was £31.3m (FY 2020: loss of £334.0m) and basic earnings per share was 4.0 pence (FY 2020: loss per share of 40.4 pence), with the prior year impacted by the non-cash impairment of intangible assets and other asset write-downs.

Cash flow and net debt

We continued to maintain a disciplined approach to managing our cash during the year while continuing to invest in the Group and, despite the continuation of challenging market conditions, generated another year of positive free cash flow of £45.7m (FY 2020: £31.9m).

Investment in working capital generated an outflow of £48.8m (FY 2020: £8.1m inflow) as we responded to the anticipated increase in customer demand as the civil recovery continued. Investment in capital expenditure was

£69.7m (FY 2020: £89.7m) with Ansty Park and carbon expansion projects representing over half of this spend. Deficit payments made in respect of retirement benefit schemes were £42.1m (FY 2020: £21.7m) in line with the revised payment schedule agreed with the pension trustees following the deferral of some deficit contributions to the UK scheme in 2020. Cash inflows of £36.4m from the disposal of property, plant and equipment primarily relates to the proceeds generated by the sale and leaseback of sites in the US and UK as part of our ongoing footprint optimisation strategy.

At the end of December 2021, net debt of £779.5m (FY 2020: £773.0m) including lease liabilities of £169.0m (FY 2020: £144.3m), was broadly in line with the prior year after taking into account adverse currency movements of £27.1m and we had ample headroom of £572.6m on committed facilities of £1,183.1m.

Full year cash flow statement

	2021	2020
	£'m	£'m
Underlying operating profit	177.3	190.5
Depreciation and amortisation	113.7	106.4
Working capital movements	(48.8)	8.1
Net interest paid	(28.2)	(32.1)
Tax paid	(37.7)	(42.1)
Exceptional operating items paid	(25.9)	(49.3)
Purchase of property, plant and equipment and software assets	(69.7)	(89.7)
Proceeds from disposal of property, plant and equipment	36.4	1.3
Capitalised development costs/programme participation costs	(29.3)	(43.0)
Retirement benefit deficit reduction payments	(42.1)	(21.7)
Other	-	3.5
Free cash flow	45.7	31.9
Net proceeds from disposal/acquisition of businesses	11.3	104.2
Issue of equity share capital	1.3	0.3
Other	0.5	(0.4)
Net cash generated	58.8	136.0
Lease liabilities entered	(38.7)	(11.4)
Lease liabilities disposed with businesses	0.1	5.6
Exchange differences	(27.1)	7.6
Other movements	0.4	0.4
Net debt movements	(6.5)	138.2
Net debt at 1 January	(773.0)	(911.2)
Net debt at 31 December	(779.5)	(773.0)

Dividends

In line with the terms of the previously announced proposed transaction with Parker-Hannifin, the Group is not paying a final dividend for 2021.

Debt structure and financing

In November 2021, we extended the duration of our debt by refinancing our revolving credit facility with a three year, \$410m multi-currency facility maturing in November 2024 with options to extend by another two years. We also reduced the size of our three term loans from \$125m, £100m and £45m, to \$50m, £50m and £30m respectively, while extending some maturities and increasing flexibility to further extend, if required. At the year end, £30m was drawn under these bank facilities and with headroom of £573m on committed facilities our liquidity remains strong. In 2022, we have one maturity of \$125m, which represents the final tranche of our 2010 private placement notes.

There are two main financial covenants in our financing agreements. The net debt: EBITDA ratio, which must not exceed 3.5x, was at 1.9x at 31 December 2021 (December 2020: 2.2x) and interest cover, which must be not less than 3.0x, was 11.3x (December 2020: 9.8x). At the end of 2021, the Group had significant headroom against both key covenant ratios, and net debt: EBITDA was within our target range of 1.5x to 2.5x.

ENABLING OUR SUSTAINABLE FUTURE

At Meggitt, we work in partnership with all of our stakeholders to enable a sustainable future and have adopted a framework to illustrate our approach and ambition, focusing on three core pillars: People, Planet and Technology. The framework is aligned to our core business strategy and also looks through the wider ESG lens including the United Nations Sustainability Development Goals and our corporate responsibility objectives.

- **People** – through our core values of Teamwork, Integrity and Excellence and our High Performance Culture we are committed to creating a rewarding, safe and productive working environment for our employees and supporting our local communities.

During 2021, aligned with our purpose of connecting our employees with the communities we serve, we launched our Community Heroes initiative, a global volunteering program giving employees paid time off to volunteer in their communities. We continued the rollout of our leadership training programmes, Spitfire and LeadX, to develop our operational and high potential leaders. We also significantly expanded the number of ambassadors supporting our eight Employee Resource Groups and continued our Extraordinary People recognition scheme, recognising people and teams across a number of categories: Operational Excellence, Innovation, Teamwork, Safety, Sustainability, Customer Service and Community.

- **Planet** – our goal is to contribute to a cleaner future by continuously improving and adapting our operational systems across our sites to promote efficiencies and improvements by harnessing green energy, driving operational excellence and reducing harmful emissions, where we have set a target to reduce net carbon emissions by 50% by 2025.

In 2021, we joined the United Nations Race to Zero campaign committing to reduce absolute value chain emissions in line with a trajectory compatible with a 1.5 degree warming scenario, and reaching Net Zero before 2050. We have increased our dedicated resources with the appointment of a Group Director of Sustainability, a key role to review and oversee our environmental operational performance across the Group. Earlier in the year, we completed our transition in the UK to source 100% of electricity from green sources and are proud that Ansty Park was recognised as being in the top 25% of international new construction projects for sustainability. Additionally, we adopted the use of the Science Based Targets initiative (SBTi) to allow us to accurately measure emissions in line with the Paris Agreement goals.

- **Technology** – to support the evolving needs of our global customers and building on our rich heritage, we continue to invest in innovative new technologies to support and enable sustainable aviation, such as advanced thermal systems, optical sensing and engine composites, that allow engines to become more efficient and technologies that improve the environmental performance of aircraft, including electrical power and storage solutions and green fire protection. We are also actively involved in the industry's exploration of alternative fuels including sustainable aviation fuels and hydrogen.

STRATEGY UPDATE

Strategic Portfolio

We focus investment in attractive markets where we have, or can develop, a leading position. This encompasses organic investment in differentiated products and manufacturing technologies; targeted, value-enhancing acquisitions; and selective non-core disposals resulting in over 80% of Group revenue derived from attractive markets where we have strong market positions. With over 70% of Group revenue generated from sole-source, life of programme positions underpinned by Meggitt-owned intellectual property, the continued strengthening of our technology portfolio remains a critical priority of the Group.

In the year we successfully delivered our technology programme milestones, maintained our investment in differentiated technology and continued our commitment to invest two-thirds of our innovation budget on technologies to deliver the next generation of sustainable aircraft. A summary of key highlights and progress in 2021 are as follows:

- **Next generation engines** – good progress has been made in developing the new heat exchanger technologies that will be needed to meet the increased cooling of the next generation of aircraft engines. This has included expanding our additive-manufacturing capabilities and working with major engine companies and industry research organisations to develop and test solutions for new civil and military engine designs.
- **Green fire suppression** – work continues with aircraft OEMs to qualify VERDAGENT®, Meggitt's proprietary 'green' fire suppressant agent to replace ozone depleting Halon 1301. For cargo applications, preparation is under way for an Airbus flight test in 2022 and we were also selected by Boeing to support their 2021 ecoDemonstrator programme with an Alaskan Airlines sponsored 737-9 aircraft equipped with our CF31 engine fire suppressant delivery system. We have also progressed the Minimum Performance Standard (MPS) testing for engine applications of CF31 with Boeing at the FAA Technical Centre with cold testing to follow in 2022.

- Energy – in our Heatric business, we continued to make good progress on the application of its market leading PCHE technology in the field of super critical CO2 power cycles, including the supply of a recuperator for an EU sponsored collaboration demonstrator project launched in 2021. We are working with turbine OEMs to develop hydrogen capable valves and an optical sensing solution for combustion pressure monitoring, allowing better control of emissions and efficiency. A customer engine demonstration is underway and industrialisation is continuing in 2022.
- Optical sensing – we have delivered our first high temperature engine mounted optical pressure sensing systems to support engine testing with major aerospace customers. Our dynamic pressure sensing system continues its demonstration testing in an energy gas turbine environment and we are planning an evaluation test of this technology in a hydrogen combustion environment in 2022. Working with major aerospace customers we have also made good progress in evaluating the use of our optical bleed air leak detection technology as an upgrade on high-rate programmes.
- Engine data management – we successfully developed a prototype of a high temperature engine mounted Data Acquisition and Transmission Unit (DATU), which supports an innovative modular distributed health monitoring solution for engine and airframe OEMs, enabling them to access end-to-end data for next generation engines in real time. This prototype was delivered to its miniaturised specification and has elicited a positive response from customers.
- Electric flight – with our major urban air mobility customer, we successfully delivered and tested our technology meeting all expectations for performance, stability and control. On our second generation of lithium ion batteries, we have focused on industrialisation and continue to co-define technology acceptance criteria with certification authorities. The 3D-printed concept demonstrator was shown at the NBAA exhibition. We have also launched the development of a HVDC energy buffer to complement the primary electrical power source for a customer's greener future platform architecture. We have matured our technology for inertial sensing and have received an award to develop a tactical grade inertial measurement unit for an eVTOL primary flight control by a major airframe OEM.

We have also continued to leverage advanced manufacturing technology and processes across our sites:

- Additive manufacturing (AM) – we have continued to increase the use of additively manufactured tooling to support production operations across the Group and, through our partnership with HiETA Technologies, we have proven our capability to provide AM heat exchangers, in less than four weeks, to OEM customers for ground based tests. The work on the ATI sponsored program LAMDA has launched, which sees our participation in the development and evaluation of a large format AM machine with our partner Renishaw in Ansty Park.
- Digital manufacturing – we have continued to deploy digital manufacturing technologies into production cells through the use of digital work instructions, integration of machining and inspection data systems and the use of RFID real-time location and augmented reality systems. The technology has proven valuable both in improving productivity and supporting collaboration across our global teams when, due to the pandemic, travel was difficult.

Customers

Our success in moving from a transactional approach to building long term relationships through our customer aligned divisions, extends our visibility of near term customer requirements and has enabled us to better support the demand for original equipment and spare parts and maintenance, repair and overhaul ('MRO') in the aftermarket.

We have continued to invest in capability and capacity across our three global Services and Support centres of excellence. In our APAC hub in Singapore, we have doubled our footprint and added over 100 new part numbers to our portfolio and at our Americas hub in Miami, we have consolidated a number of sites into the facility and increased our footprint adding significant capability across our product portfolio. These investments, together with our world class facility at Ansty Park, provide us with multi product group MRO and spares capability across all three regions.

During the year, we secured a number of customer contracts across our three core end markets of civil aerospace, defence and energy, including:

- In civil aerospace, a \$40m contract to supply Wireless Emergency Lighting Systems (WELS) to Boeing for the 787 and a £98m life of programme contract for a civil airframe OEM for the supply of Rate Gyrometer Accelerometer Units
- In defence, a \$22m contract for the supply and retrofit of RF cables for the F22 aircraft
- In energy, a significant order with a major US turbines manufacturer for the sole source supply of next generation valves and a multi-million pound contract with Siemens Energy to supply PCHEs for the Mero 3 Floating Production Storage and Offloading vessel

A number of facilities were recognised for their excellence by our customers in 2021: our facility in Rockmart, US, which manufactures self-sealing, crashworthy fuel cells, received "Supplier of the Year" from Bell, Boeing Defence and a multi-service US military panel for the development and production of new ballistic-tolerant, crashworthy fuel cells for the Osprey aircraft; our San Diego site, which supplies high performance and high temperature advanced composites, was presented with a Performance Excellence Award for Product Quality and On-Time Delivery; and our Fribourg facility was nominated for an innovation award for their novel optical sensing technology, recognised as a breakthrough in combustion monitoring for aircraft engines and land-based gas turbines, used in power generation.

In Services & Support, we saw continued momentum with SMARTSupport™, our long-term contract offering for aftermarket customers, securing an additional 11 agreements, taking the total number to 55 with an aggregate value of £223m, with a number of additional opportunities in the pipeline. These long-term contracts underpin our aftermarket and market share growth in the future and provide better insights into customer requirements and order patterns. We were also delighted that our partnership with Lufthansa Technik Shenzhen was approved by the Civil Aviation Administration of China to perform repair and overhaul services for our market leading fire detectors.

Competitiveness

We have no higher priority than ensuring a safe and secure working environment for all employees. As well as the continued provision of additional measures at each site to protect our people and reduce the risk of infection, we delivered an improvement in our overall safety performance with our Total Recordable Incident Rate for the year reaching its lowest level to date at 0.63 (FY 2020: 0.71).

We have commissioned our Ansty Park facility, our state-of-the-art UK engineering and advanced manufacturing centre of excellence and global headquarters. The site is one of the biggest investments in UK manufacturing in a decade as well as being Meggitt's largest infrastructure investment in its history. The transition included the closure of five UK sites and the transfer of over 1,000 employees and 1,700 separate pieces of equipment with the site housing our Thermal and Braking Systems product groups as well as our European Services and Support hub for MRO and spares. Having attained CAA and BSI approvals, we are conducting direct customer shipments from the site. We are pleased with the operation of the site in these early stages and supported our customers well over the traditionally busy final quarter. We look forward to further productivity improvements as the new ways of working at Ansty are further embedded.

In line with our footprint reduction strategy, we concluded the sale of our Dunstable and Toulouse sites, with the closure of a further two sites planned for 2021 moving into 2022. At the end of the year we had a total of 36 manufacturing locations, representing a 36% reduction in our global footprint since 2016 and remain on track with our target to reduce footprint by 50% by the end of 2023.

We made good progress in Engine Composites, following our investments in engineering and process improvements at our Erlanger and Saltillo sites and have received further customer approvals for direct shipment of our high-volume products from our site in Saltillo, Mexico.

We deployed our High-Performance System (HPS), which replaces and builds on the Meggitt Production System (MPS) and is designed to measure and drive efficiency across all Group functions and sites. All sites have been assessed in line with the framework and action plans have been created to deliver improvements.

A key area of focus for the Group in 2021, which we expect to continue in 2022, has been managing the procurement of materials into our sites against a backdrop of global supply chain disruption as demand levels in civil aerospace have increased. We have deployed dedicated resources and new tools to improve access to critical materials, with the main priority being to continue to satisfy customer orders. We have also taken the opportunity during the year to further develop our supply chain function by: continuing to enhance our processes; upskilling our teams; rationalising our supply base; and increasing the use of analytics and automation.

Culture

Our work on culture continues to be a key part of our overall Group strategy, to accelerate our progress towards becoming a truly integrated global business and cultivating a culture of high performance. In 2021, we focused our efforts on protecting our people, employee and leadership development, diversity and inclusion and employee engagement and recognition.

We continue to invest in talent through our graduate and apprentice programmes. Following nearly a decade of success with our Engineering & Operations Graduate programme, we launched our Corporate Graduate Programme to business functions in the UK promoting professional development opportunities across Finance, Corporate Affairs and IT. Alongside this, the Ansty Park facility welcomed its first degree apprentices and across the Group we now have over 100 graduates and apprentices. We also participated in the 10,000 Black interns programme in the UK in anticipation of hiring a number of interns in 2022.

In the first half we also launched two new training programmes: Spitfire for our Operations leaders and LeadX, which embed and reinforce concepts from our High-Performance Culture work for our future business leaders.

During 2021 we saw continued progress with our work on High Performance Culture despite extremely challenging COVID-19 travel restrictions and lockdowns. Nearly 70% of employees have now attended training sessions. We made excellent progress in the number of employees engaged with our Employee Resource Groups (ERG), doubling membership to over 1,000. We held our annual Diversity and Inclusion week with 18 sites hosting events along with virtual sessions focused on introducing employees to our ERGs and providing learning and development opportunities on various topics.

We also hosted numerous events throughout the year to increase awareness and visibility including: celebrating International Women's Day and Women in Engineering Day, Pride Week and Black History month in the US and UK. Employees also took part in the Steps for Vet's Challenge, Remembrance Day Celebrations and joined talks on Latino History. Additionally, in support of Suicide prevention week, our SHINE ERG hosted "Subject Matter Expert" talks at multiple sites and provided Mental Health First Responders training. We also launched Community Heroes, our community and charity outreach programme which enables employees to volunteer for local good causes in their community.

Our progress on culture, throughout a particularly challenging period for the Group and our teams over the last two years, has been reflected in our recent employee survey, with engagement levels increasing by 2% above 2020 levels and 4% above the global high performing benchmark.

END MARKET TRADING SUMMARY

	Revenue (£'m)		Growth (%)	
	2021	2020	Reported	Organic
Civil OE	260.2	306.0	(15)	(10)
Civil AM	424.7	419.6	1	7
Total civil	684.9	725.6	(6)	0
Defence	620.0	768.4	(19)	(11)
Energy	135.0	131.1	3	6
Other	49.3	59.0	(16)	(8)
TOTAL	1,489.2	1,684.1	(12)	(5)

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 the vast majority of these platforms and hence a large, installed base. With c.55% of our civil aftermarket revenue (full year 2019) generated from platforms under 10 years old, we are well placed to continue to generate good returns over the coming years as the market recovers.

The split of civil revenue in the year, which accounted for 46% of the Group total, was 38% original equipment (OE) and 62% aftermarket (AM).

Civil OE

Civil OE revenue ended the year down 10% on an organic basis, with large jets, the largest component of our OE revenue, down 13% driven by wide bodies including the B787, B777 and A350XWB. Civil OE revenue in regional aircraft and business jets was down 7% and 4% respectively on an organic basis. Within the year, civil OE was down 28% and up 17% in the first and second halves respectively year on year on an organic basis as demand for OE parts for new build aircraft from the OEMs increased. A summary of civil OE organic revenue growth rates comparing 2021 to 2020 is set out in the table below.

Growth %	Year on year 2021 vs 2020				
	Q1	Q2	Q3	Q4	FY
Large jets	(48)	0	5	28	(13)
Regional aircraft	(54)	19	35	50	(7)
Business jets	(37)	7	18	18	(4)
Total Civil OE	(46)	3	10	26	(10)

Civil AM

The recovery in civil activity has been reflected in a sequential improvement in our own business, with civil AM orders up 50% organically in the year, and a strong second half where orders were up 119% on the comparative period with fourth quarter orders increasing by 143%. As a result, book to bill for the full year was 1.11x, up from 1.00x at the half year.

Group civil AM revenue increased 7% on an organic basis, with large jets and regional aircraft up 1% and 6% respectively and a strong performance from business jets where revenue was up 21% driven by a good performance in our brakes business. Within the year, civil AM organic revenue was down 24% and up 51% in the first and second halves respectively year on year, with strong growth of 58% in the fourth quarter. A summary of civil aftermarket revenue growth rates comparing 2021 to 2020 and quarterly trends in 2021 is set out in the table below.

Growth %	Year on year 2021 vs 2020					Sequential 2021		
	Q1	Q2	Q3	Q4	FY	Q2 vs Q1	Q3 vs Q2	Q4 vs Q3
Large jets	(53)	11	35	48	1	46	7	27
Regional jets	(51)	(1)	58	83	6	23	17	30
Business jets	(24)	19	53	63	21	12	19	(13)
Total Civil AM	(46)	10	44	58	7	31	12	16

Overall organic revenue from civil aerospace for the Group was flat for the full year.

Defence

Our defence business accounted for 42% of Group revenue in 2021 with 60% of revenue from OE and 40% from the aftermarket. We have equipment on an installed base of around 22,000 fixed wing and rotary aircraft and a significant number of ground vehicles and are well placed having secured strong positions on some of the newest and hardest worked platforms. Direct sales to US customers accounted for 72% of defence revenue, with 19% to European customers and 9% to the rest of the world.

After three years of strong organic growth in our defence business between 2018 and 2020, market conditions were softer in 2021 reflecting a combination of a number of factors: inventory destocking, lower orders by the US Defense Logistics Agency in the aftermarket and COVID-related disruption at two of our US sites in the year. As a result, Group defence revenue for the full year was 11% lower on an organic basis, with OE down 7% and aftermarket down 17% versus the comparative period.

With the US defence budget of \$715bn approved for 2022, an increase of 2% on 2021, the outlook for defence is expected to remain stable.

Energy and other

Energy and other revenues, which represent 12% of Group total, come from a variety of end markets of which the single most significant is energy (9% of Group total). Our energy capabilities centre on providing valves and condition-monitoring equipment for power generation installations, including ground-based gas and wind turbines, and printed circuit heat exchangers used primarily in the oil and gas market. Other markets (3% of Group total) include the automotive, industrial, test, consumer goods and medical sectors.

Our energy businesses performed well during the year, with revenue increasing by 6% on an organic basis, with Heatric revenue up 5% and our valve and condition monitoring business up 12%, reflecting a robust order book as we entered 2021, with additional customer orders secured during the year and a book to bill ratio of 1.23x. Revenue from other markets was 8% lower on an organic basis.

The outlook for our energy businesses remains 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 alternative, lower carbon energy sources including renewables, positions this business well for the future.

DIVISIONAL PERFORMANCE

The main focus areas across our four divisions in 2021 has been protecting our people, keeping our sites open and delivering for our customers and supporting our local communities. As a result of the increase in global demand as economies recovered in 2021, the divisions have had to face an additional challenge during the year of ramping up production against the backdrop of disruption across the global supply chain and, at times, site-specific disruption caused by COVID-19.

The financial performance of the individual divisions is summarised in the table below. Prior year figures have been restated to reflect the transfer of a number of product lines from the Energy & Equipment division to the Engine Systems division with effect from 1 January 2021. The restatement comprised external revenue of £19.7m and underlying operating profit of £3.0m.

	Revenue				Underlying Operating Profit/(Loss)			
	2021	2020	% Growth		2021	2020	% Growth	
	£'m	£'m	Reported	Organic	£'m	£'m	Reported	Organic
Airframe Systems	737.0	793.1	(7)	(3)	120.2	120.5	0	4
Engine Systems	207.8	253.3	(18)	(10)	(16.5)	(16.2)	(2)	(8)
Energy & Equipment	270.7	315.3	(14)	0	42.1	45.4	(7)	(5)
Services & Support	273.7	322.4	(15)	(11)	31.5	40.8	(23)	(18)
Total Group	1,489.2	1,684.1	(12)	(5)	177.3	190.5	(7)	(3)

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. As well as increasing our content on the new generation aircraft by as much as 250%, 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 50% of Group revenue, generating 52% of its revenue from OE sales and 48% from the aftermarket derived mainly from Braking Systems, with the remaining aftermarket revenue from other product groups reported in Services and Support.

Operational and strategic highlights

- Progress on testing and certification with OEMs to qualify VERDAGENT®, Meggitt's proprietary 'green' fire suppressant; we have also been selected by Boeing to support their ecoDemonstrator programme with our CF3I engine fire suppressant delivery system
- Supporting more electric flight, launched the development of an HVDC energy buffer to complement the primary electrical power source for a customer's greener future platform architecture
- Transfer of products associated with footprint consolidation with disposal of Toulouse site and associated product moves to sites in Europe and APAC
- Significant investment in automation, lean production, testing capability and efficiency at our Rockmart facility in the US

Financial performance

Organic revenue was down 3% for the year (H1: -15%; H2: +12%) with civil aerospace revenue up 2% and defence revenue down 5%.

Civil OE revenue was down 14% on an organic basis with growth of 7% in the second half reflecting the gradual recovery in OEM build rates during the year. Large jet OE ended the year down 20% driven by lower wide body demand on the B787, B777 and A350XWB partially offset by growth on the A320 and A220 platforms. In regional aircraft, OE revenue was down 12% with business jets flat versus 2020, outperforming large and regional jets on a relative basis.

Civil aftermarket revenue grew by 20% on an organic basis driven by the recovery in demand in brakes with large, regional and business jets up 19%, 18% and 23% respectively. Brakes revenue increased by 22% organically with good growth across a number of platforms including the A220 in large jets, CRJ and ERJ fleets within regional aircraft and a number of business jet platforms.

Defence revenue was down 5% on an organic basis, with OE 1% higher. In the defence aftermarket, revenue was 12% lower than the prior year, reflecting general market softness (including customer destocking) seen during the period and COVID-related disruption at one of our sites in the US.

Underlying operating profit was up 4% on an organic basis with underlying operating margin 110 basis points higher than the comparative period at 16.3% (FY 2020: 15.2%).

Engine Systems has market-leading positions in advanced engine composites, thermal and safety systems with a broad range of technologies including vibration monitoring and engine health management systems. This division also provides aerospace engine flow control and sensing solutions. 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.

Operational and strategic highlights

- Established our new Thermal Management headquarters at our Ansty Park facility
- Good progress developing new products in the engine core to displace heat, increase efficiency, and reduce fuel, particularly projects to support next generation engine demonstrators
- Transfer of high-volume engine composite parts to Saltillo, Mexico with customer approvals received from Pratt & Whitney and Safran for direct shipment on GTF and LEAP programmes
- MBDA 'Performance Excellence Award' at our site in San Diego
- Completed sale of our ducting business based in Dunstable (UK) in January 2021
- Good progress with cost reduction, operating margin expansion, yield improvement and new technology development using optical and wireless systems

Financial performance

Revenue decreased by 10% (H1: -27%; H2: +10%) on an organic basis largely driven by defence where revenue ended the year down 18% due to a large, one-off order in the prior year and quality issues experienced in the first half from a key supplier which were subsequently resolved. Civil OE revenue was down 2% with growth of 41% in the second half all on an organic basis. Civil revenue in Engine Composites was flat year on year.

Engine Systems generated an underlying operating loss of £16.5m (FY 2020: loss of £16.2m) resulting from lower revenue and, as reported in our half year results, lower productivity in the first quarter caused by COVID-related disruption at our US sites.

We made good progress on our recovery plan in Engine Composites, transferring more production down to our low-cost facility in Saltillo, Mexico as well as introducing further process improvements and increasing yields significantly on certain parts. As volumes recover in both civil and defence, we expect the financial performance of this product group to steadily improve with our ultimate target of mid-teens operating margins.

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, sensor and condition monitoring systems for oil and gas applications. Heatric provides innovative printed circuit heat exchanger technology for offshore gas applications. 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.

Operational and strategic highlights

- Supply by Heatric of its heat exchanger technology on the first commercial application of a MAN ETES (Electro Thermal Energy Storage) heat pump, which harnesses wind and hydro power to supply energy
- Provision of our optical dynamic pressure sensing technology on two demonstrator power stations
- Continued progress on the transfer of high-volume parts to low cost countries

Financial performance

Revenue for the year was flat on 2021 (H1: +4%; H2: -4%) on an organic basis with a good performance from energy offset by lower defence revenue. In energy, revenue grew by 9%, with Heatric revenue up 5% and sensing and controls up 12%. Defence revenue was 9% lower driven by lower rotary wing orders into our Defence Systems business.

Underlying operating profit was 7% lower with operating margin at 15.6%, 120 basis points higher than the comparative period (FY 2020: 14.4%).

Services & Support (S&S) 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. The division represents 18% of Group revenue and generates all of its revenue from the aftermarket.

Operational and strategic highlights

- Continued delivery of strategic initiatives with consolidation of our MRO capabilities and expansion of our capacity in our three regional centres of excellence: Ansty Park in the UK, Singapore and Miami in the US
- Enhanced maintenance forecasting capabilities leveraging best in class technologies to improve inventory management, reduce lead times and enhance customer service levels
- Introduction of 'Smart Scoping' in our three regional hubs to leverage engineering capabilities to increase efficiency and reduce MRO costs
- Launched Customer Experience journey to streamline and improve customer interactions

Financial performance

Divisional revenue was 11% lower for the full year (H1: -27%; H2: +10%) on an organic basis, with civil aftermarket down 3% and defence down 32%.

In civil aerospace, we saw good growth in both organic revenue and order intake in the second half up 31% and 58% respectively, reflecting the overall recovery in the sector and book to bill of 1.09x providing good momentum as we entered 2022. The differing pace and trajectory of the recovery across the world can be seen in the disparities in regional performance with our Asian and US businesses ending the year with organic revenue up 7% and 2% respectively and Europe down 18%. Large jet revenue, which represented 82% of S&S civil revenue, was down 3% in the year, with regional and business jets down 21% and up 12% respectively.

The softer performance in defence largely reflects lower orders from the Defense Logistics Agency in the US linked to the burn down of inventory after several years of robust spending to increase combat readiness. In the second half, we saw signs of an improving outlook with orders up 11% and book to bill for defence for the year at 1.14x.

Underlying operating profit was 23% lower with underlying operating margin 120 basis points lower at 11.5% (FY 2020: 12.7%).

INVESTING FOR THE FUTURE

	2021	2020	% Change	
	£'m	£'m	Reported	Organic
Total research and development (R&D)	70.7	97.9	(28)	(21)
Less: Charged to cost of sales / WIP	(14.5)	(20.8)	(30)	(24)
Less: Capitalised	(27.6)	(41.4)	(33)	(26)
Add: Amortisation / Impairment	35.6	32.6	9	27
Charge to underlying net operating costs	64.2	68.3	(6)	4
Capital expenditure	69.7	89.7		

During the year, we continued to invest in differentiated and sustainable technologies to support new product development and future growth opportunities. Total R&D expenditure for the full year of £70.7m which represented 4.7% of Group revenue was lower than the comparative period (FY 2020: £97.9m, representing 5.8% of Group revenue) reflecting measures taken across the Group in 2020 and 2021 to bring R&D expenditure back in line with our target of ~5% of Group revenue. The charge to underlying net operating costs, including amortisation and impairment, decreased by 6% (increased by 4% on an organic basis) to £64.2m (FY 2020: £68.3m).

Capital expenditure of £69.7m in 2021 was lower than the prior year (FY 2020: £89.7m) and below our guidance of around £80m issued in March 2021, driven by the re-phasing of a proportion of investment in carbon expansion and a change in mix between operating and capital expenditure on the completion of Ansty Park.

OTHER FINANCIAL INFORMATION

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.

	2021	2020
<i>Average translation rates against Sterling:</i>		
US Dollar	1.36	1.29
Euro	1.17	1.14
Swiss Franc	1.26	1.22
<i>Average transaction rates:</i>		
US Dollar/Sterling	1.36	1.38
US Dollar/Euro	1.16	1.15
US Dollar/Swiss Franc	1.13	1.08
<i>Year-end rates against Sterling:</i>		
US Dollar	1.35	1.37
Euro	1.19	1.11
Swiss Franc	1.23	1.20

The results of foreign subsidiaries are translated into Sterling at weighted average exchange rates. Over the year as a whole, the average Sterling rate against the US Dollar was \$1.36 (FY 2020: \$1.29) providing a negative impact on our reported results for the year. Compared to 2020, translation of results from overseas businesses decreased Group revenue by £60.4m and decreased underlying profit before tax (PBT) by £6.5m in the year.

The sensitivity of full-year revenue and underlying PBT to exchange rate translation movements against sterling, when compared to the 2021 average rates, is shown in the table below:

	Average rate	Revenue £'m	Underlying PBT £'m
<i>Impact of 10 cent movement*:</i>			
US Dollar	1.36	75	7
Euro	1.17	7	1
Swiss Franc	1.26	6	2

*As measured against 2021 actual full-year revenue and underlying PBT.

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 2020, the Group's revenue and underlying profit before tax were unfavourably impacted by £11.9m and £2.3m respectively by currency transaction movements.

Each ten cent movement in the US Dollar against the average hedge rates achieved in 2021 would affect underlying PBT by approximately £6.0m in respect of US Dollar/Sterling exposure, £2.0m in respect of US Dollar/Euro exposure and £2.0m in respect of US Dollar/Swiss Franc exposure. The following table sets out the Group's transaction hedging currently in place:

	Hedging in place⁴ %	Average transaction rates
<i>2022:</i>		
US dollar/Sterling	100	1.34
US dollar/Euro	100	1.19
US dollar/Swiss Franc	46	1.12
<i>2023 – 2025 inclusive:</i>		
US dollar/Sterling	47	1.34
US dollar/Euro	32	1.20
US dollar/Swiss Franc	0	1.15

⁴Based on forecast transaction exposures, with unhedged exposures based on exchange rates at 31 December 2021.

Taking translation and transaction effects into account, the impact of changes in foreign exchange rates in FY 2021 compared with FY 2020 rates was to decrease reported revenue by £72.3m and underlying PBT by £8.8m.

Finance costs

Lower underlying net finance costs of £28.0m (FY 2020: £31.0m) principally reflects currency translation benefits and lower overall levels of bank debt during the year.

Taxation

The Group's underlying tax rate for the year was 19.3% (FY 2020: 19.7%).

As anticipated, the Group received assessments from the UK tax authority in 2021 following the EU Commission ruling that the UK CFC regime constituted partial state aid. The assessments received amounted to £18.0m and were fully covered by provisions held at 31 December 2020 and have been paid in full in 2021. During the year the Group has been in dialogue with HMRC and continues to appeal against the ruling, in parallel with the UK government's own appeal, to the European General Court. We understand the European General Court is due to issue its judgment in 2022.

Cash tax decreased in the year and was lower than expected at £37.7m (FY 2020: £42.1m) largely driven by the geographic mix of profits and the phasing of tax payments in 2020. Over the next few years, we continue to expect the cash tax rate to converge with the P&L tax rate as historical tax reliefs and allowances come to an end and tax relief on certain capital expenditure is received over a longer time period.

Retirement benefit schemes

The Group's principal defined benefit schemes are in the UK and US. Following completion of a consultation process, the UK scheme was closed to future accrual with effect from 6 April 2021. All of the Group's US pension schemes have previously been closed to future accrual.

Total scheme deficits in 2021 reduced to £136.4m (FY 2020: £295.4m), with the principal drivers of the net reduction being:

- A reduction of £77.3m (FY 2020: increase of £136.1m) relating to re-measurement gains on scheme liabilities. These principally arise from an increase in AA corporate bond yields in both the UK and US, reversing the trend seen in recent years, which more than offset increases in UK inflation assumptions;
- A reduction of £47.4m (FY 2020: reduction of £93.5m) due to re-measurement gains on scheme assets; and
- Deficit reduction payments of £42.1m (FY 2020: £21.7m) of which £38.0m (FY 2020: £21.7m) was paid in respect of the UK scheme.

In the UK, the Group continues to make deficit payments in accordance with a recovery plan agreed with the trustees following the 2018 triennial funding valuation, amended following the four month deferral of £9.6m of deficit contributions originally due to be made in 2020. This amended recovery plan provides for the 2018 deficit to be addressed by payments which gradually increase over the period to August 2023. Under the plan, the Group will make deficit contributions of £40.2m in 2022 and £29.9m in the period to August 2023.

The UK 2021 triennial valuation is substantially complete and is expected to be finalised in H1 2022. The draft valuation results indicate an additional funding shortfall, not covered by the deficit payments being made under the existing amended recovery plan, of approximately £60.0m. This additional shortfall principally arises due to a significant reduction in gilt rates between the two valuation dates and is equivalent to approximately 1.5 years of additional deficit contributions, based on the annual deficit payments being made under the existing 2018 recovery plan. Discussions with the trustees to agree the timing of contributions to meet the additional funding shortfall have not yet been concluded.

In the US, the Group made deficit payments in respect of its funded defined benefit pension schemes of £4.1m (FY 2020: £1.7m). Under current legislation, no further payments are expected to be required until 2025.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2021

	Note	2021 £'m	2020 £'m
Revenue	4	1,489.2	1,684.1
Non-GAAP measures			
Exceptional impairment losses and other asset write-downs		-	(8.6)
Other cost of sales		(1,016.8)	(1,192.0)
Cost of sales		(1,016.8)	(1,200.6)
Gross profit		472.4	483.5
Non-GAAP measures			
Exceptional impairment losses and other asset write-downs		-	(365.6)
Other operating costs		(435.7)	(452.7)
Operating costs		(435.7)	(818.3)
Operating income		26.7	37.5
Net operating costs		(409.0)	(780.8)
Operating profit/(loss) ¹		63.4	(297.3)
Finance income		0.5	0.5
Finance costs		(32.6)	(37.2)
Net finance costs	8	(32.1)	(36.7)
Profit/(loss) before tax ²		31.3	(334.0)
Tax (charge)/credit	9	(0.1)	19.8
Profit/(loss) for the year attributable to equity owners of the Company		31.2	(314.2)
Earnings/(loss) per share:			
Basic ³	10	4.0p	(40.4)p
Diluted ⁴	10	4.0p	(40.4)p

Non-GAAP measures			
¹ Underlying operating profit	4 & 5	177.3	190.5
² Underlying profit before tax	5	149.3	159.5
³ Underlying basic earnings per share	10	15.4p	16.5p
⁴ Underlying diluted earnings per share	10	15.4p	16.2p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Note	2021 £'m	2020 £'m
Profit/(loss) for the year attributable to equity owners of the Company		31.2	(314.2)
Items that may be reclassified to the income statement in subsequent years:			
Currency translation movements:			
Arising in the year		(6.9)	(35.9)
Transferred to the income statement		-	(44.0)
Movements in fair value of financial liabilities arising from changes in credit risk		(1.3)	1.8
Tax effect		3.2	1.6
		(5.0)	(76.5)
Items that will not be reclassified to the income statement in subsequent years:			
Remeasurement of retirement benefit obligations	21	115.4	(42.6)
Tax effect		(21.8)	10.8
		93.6	(31.8)
Other comprehensive income/(expense) for the year		88.6	(108.3)
Total comprehensive income/(expense) for the year attributable to equity owners of the Company		119.8	(422.5)

CONSOLIDATED BALANCE SHEET

At 31 December 2021

	Note	2021 £'m	2020 £'m
Non-current assets			
Goodwill	13	1,531.8	1,519.5
Development costs	13	524.7	531.9
Programme participation costs	13	19.0	18.7
Other intangible assets	13	306.6	401.1
Property, plant and equipment	14	478.6	458.8
Investments	15	18.7	20.8
Other receivables		18.8	16.5
Contract assets		55.8	59.6
Derivative financial instruments	19	10.0	15.0
Deferred tax assets		-	19.2
		2,964.0	3,061.1
Current assets			
Inventories		455.4	426.9
Trade and other receivables		294.5	251.1
Contract assets		53.7	48.8
Derivative financial instruments	19	4.8	5.4
Current tax recoverable		8.1	11.5
Cash and cash equivalents		190.8	178.6
Assets classified as held for sale	16	-	14.7
		1,007.3	937.0
Total assets	4	3,971.3	3,998.1
Current liabilities			
Trade and other payables		(317.9)	(296.5)
Contract liabilities		(62.7)	(50.8)
Derivative financial instruments	19	(3.2)	(21.6)
Current tax liabilities		(34.2)	(56.9)
Lease liabilities		(15.6)	(14.7)
Bank and other borrowings	18 & 19	(105.3)	(10.5)
Provisions	20	(55.8)	(32.6)
Liabilities directly associated with assets classified as held for sale	16	-	(3.7)
		(594.7)	(487.3)
Net current assets		412.6	449.7
Non-current liabilities			
Other payables		(3.7)	(8.5)
Contract liabilities		(72.6)	(73.9)
Derivative financial instruments	19	(1.3)	(0.3)
Deferred tax liabilities		(70.9)	(93.4)
Lease liabilities		(153.4)	(129.6)
Bank and other borrowings	18 & 19	(696.0)	(796.8)
Provisions	20	(80.3)	(80.3)
Retirement benefit obligations	21	(136.4)	(295.4)
		(1,214.6)	(1,478.2)
Total liabilities		(1,809.3)	(1,965.5)
Net assets		2,162.0	2,032.6
Equity			
Share capital		39.1	39.0
Share premium		1,227.8	1,226.6
Other reserves		15.7	15.7
Hedging and translation reserves		343.9	348.9
Retained earnings		535.5	402.4
Total equity attributable to owners of the Company		2,162.0	2,032.6

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Equity attributable to owners of the Company					
	Share capital	Share premium	Other reserves	Hedging and translation reserves	Retained earnings	Total equity
	£'m	£'m	£'m	£'m	£'m	£'m
At 1 January 2020	38.8	1,226.5	15.7	425.4	750.4	2,456.8
Loss for the year	-	-	-	-	(314.2)	(314.2)
Other comprehensive expense for the year	-	-	-	(76.5)	(31.8)	(108.3)
Total comprehensive expense for the year	-	-	-	(76.5)	(346.0)	(422.5)
Employee share schemes:						
Value of services provided	-	-	-	-	(1.7)	(1.7)
Issue of equity share capital	0.2	0.1	-	-	(0.3)	-
At 31 December 2020	39.0	1,226.6	15.7	348.9	402.4	2,032.6
At 1 January 2021	39.0	1,226.6	15.7	348.9	402.4	2,032.6
Profit for the year	-	-	-	-	31.2	31.2
Other comprehensive (expense)/income for the year	-	-	-	(5.0)	93.6	88.6
Total comprehensive (expense)/income for the year	-	-	-	(5.0)	124.8	119.8
Employee share schemes:						
Value of services provided	-	-	-	-	9.6	9.6
Issue of equity share capital	0.1	1.2	-	-	(1.3)	-
At 31 December 2021	39.1	1,227.8	15.7	343.9	535.5	2,162.0

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2021

	Note	2021 £'m	2020 £'m
Non-GAAP measures			
Cash inflow from operations before business disposal expenses and exceptional operating items		200.6	282.9
Cash outflow from business disposal expenses	27	(3.5)	(5.2)
Cash outflow from exceptional operating items	7	(25.9)	(49.3)
Cash inflow from operations			
Interest received	25	171.2	228.4
Interest paid		0.5	0.1
Tax paid		(28.7)	(32.2)
		(37.7)	(42.1)
Cash inflow from operating activities		105.3	154.2
Investment acquired	15	(0.9)	(7.6)
Deferred consideration paid in respect of business acquired in prior year		(1.0)	-
Businesses disposed	27	16.7	117.0
Capitalised development costs	13	(27.6)	(41.4)
Capitalised programme participation costs		(1.7)	(1.6)
Purchase of intangible assets		(10.7)	(11.0)
Purchase of property, plant and equipment		(66.4)	(80.8)
Government grants received in respect of purchase of property, plant and equipment		7.4	2.1
Proceeds from disposal of property, plant and equipment		36.4	1.3
Cash outflow from investing activities		(47.8)	(22.0)
Issue of equity share capital		1.3	0.3
Proceeds from bank and other borrowings		1.2	618.6
Repayments of bank and other borrowings		(30.5)	(705.8)
Debt issue costs paid		(1.9)	(2.4)
Reverse lease premium received	25	-	3.5
Repayments of lease liabilities	17	(14.9)	(15.4)
Cash outflow from financing activities		(44.8)	(101.2)
Net increase in cash and cash equivalents		12.7	31.0
Cash and cash equivalents at start of the year		178.6	155.3
Exchange losses on cash and cash equivalents		(0.5)	(7.7)
Cash and cash equivalents at end of the year		190.8	178.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. General information and basis of preparation

Meggitt PLC is a public limited company listed on the London Stock Exchange, domiciled and incorporated in the United Kingdom with the registered number 432989. Meggitt PLC is the parent company of a Group whose principal activities during the year 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 UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. 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 2021 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 2020 were approved by the Board of Directors on 3 March 2021 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.

Going concern

The directors have formed a judgement, at the time of approving the consolidated financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the Annual Report. For this reason, the directors continue to adopt the going concern basis in preparing the Group's consolidated financial statements.

In making a judgement as to whether the going concern principle should be adopted, the directors have considered the period starting with the date these consolidated financial statements were approved by the Board and ending on 31 March 2023. In reaching this judgement, the directors considered:

Existing financing

During 2021, the Group arranged a new USD410m revolving credit facility maturing in 2024, to replace a USD575m forward start revolving credit facility which was due to mature in September 2022. Following this refinancing, the Group has committed credit facilities with its relationship banks and private placement investors of £1,183.1m at the balance sheet date. With the exception of one tranche of USD125m private placement debt, which is due for repayment in June 2022, no other facilities mature during the going concern assessment period.

Current liquidity

At 31 December 2021, the Group had significant headroom against its committed credit facilities, as set out below, and no new financing is required to meet the repayment of the USD125m private placement debt in June 2022:

	Total £'m
Committed credit facilities	1,183.1
Bank and other borrowings (note 18)	801.3
Less: cash	(190.8)
Net borrowings excluding lease liabilities	610.5
Headroom	572.6

1. General information and basis of preparation (continued)

Going concern (continued)

Covenants

The Group's committed credit facilities contain two financial ratio covenants – net debt/EBITDA and interest cover (EBITA/net finance costs). The covenant calculations are drafted to protect the Group from potential volatility caused by accounting standard changes, sudden movements in exchange rates and exceptional items. This is achieved by measuring each of EBITDA, net debt, EBITA and net finance costs on a frozen GAAP basis, excluding exceptional operating items and retranslating net debt and EBITDA at similar average exchange rates. Covenant ratios are required to be measured on a trailing 12 month basis twice a year (at 30 June and 31 December), with net debt/EBITDA not to exceed 3.5x and interest cover to be not less than 3.0x.

At 31 December 2021, net debt/EBITDA was 1.9x, well within the Group's target range of 1.5x to 2.5x and only marginally higher than that in the three years prior to the COVID-19 outbreak (2019: 1.5x, 2018: 1.8x and 2017: 1.9x). Interest cover at 31 December 2021 was 11.3x. No covenant waivers have ever been sought by the Group, including during the period since the COVID-19 outbreak.

Base case scenario

The Group has developed a base case scenario, using its budget for 2022 and forecasts for Q1 2023. It assumes the recovery in civil aerospace markets continues and the outlook for defence markets is stable. As the Group is under an offer period under the UK Takeover Code, it is not providing financial guidance for 2022 and accordingly the base case scenario assumptions have not been disclosed. However, under this scenario, the Group has significant headroom under its existing committed facilities to meet its obligations as they fall due and does not breach either of its financial covenant ratios.

Reverse stress test scenario

The Group has performed a reverse stress test scenario to determine the conditions under which it would be close to breaching either of its financial covenant ratios during the going concern assessment period. Under this stressed scenario, the following conditions (which are stated on an organic basis i.e. excluding the impacts of currency and M&A) would all need to occur in the assessment period:

- Civil aerospace revenue in 2022 is flat compared to 2021, which would represent a 10% reduction compared to the Group's annualised H2 2021 revenue;
- Defence revenue reduces by approximately 20% compared to 2021, significantly greater in percentage terms than the 11% decline seen in 2021, which was off a strong comparator in 2020;
- Direct material cost inflation of 15%;
- The Group takes no action to reduce its cost base from the levels assumed in the base case scenario, in response to the lower revenues modelled in the stressed scenario; and
- The Group takes no additional actions to preserve cash

The Group considers the likelihood of such a set of circumstances occurring to be remote and significantly outside any severe but plausible scenarios the Group has modelled.

Principal risks

The Group has also considered whether its principal risks have been appropriately reflected in its going concern assessment. The Group has considered the likelihood of the risks taking place during the going concern assessment period and, were they to occur, the extent to which the impacts would be experienced during this period and the timing of mitigation actions available to the Group. The Board has regularly reviewed these risks throughout the year and up to the date of the financial statements and maintains a risk appetite statement with associated risk tolerances to ensure that identified risks are managed within acceptable limits. The Group has concluded that its going concern assessment has been appropriately adjusted to reflect these risks.

1. General information and basis of preparation (continued)

Going concern (continued)

Proposed acquisition of the Group by Parker-Hannifin Corporation ('Parker-Hannifin')

On 21 September 2021, the shareholders of the Group approved an all-cash offer of 800 pence per share for the Group by Parker-Hannifin. In the event the acquisition by Parker-Hannifin is completed within the going concern assessment period, the directors considered the intention and ability of Parker-Hannifin to be able to:

- Finance the equity purchase of the Group;
- Repay those liabilities of the Group which would immediately become due on a change of control; and
- Continue to operate the Group as a going concern for the remainder of the assessment period, post completion.

The directors believe that Parker-Hannifin will be able to meet these obligations, having taken into account publically available information including:

- The Scheme Document, published on 16 August 2021, and approved by the Group's shareholders on 21 September 2021, which included:
 - The binding commitments given by Parker-Hannifin to HM Government;
 - The intentions of Parker-Hannifin regarding the Group's business, employees, pension schemes, locations and research and development; and
 - A statement from Citibank Global Markets Limited, acting as financial advisor to Parker-Hannifin, that it was satisfied Parker-Hannifin had sufficient resources to meet in full the cash consideration payable to the Group's shareholders.
- Recent financial results published by Parker-Hannifin including its Annual Report (10K) for the year ended 30 June 2021 (published on 25 August 2021) and its Q2 results (10Q) for the six months ended 31 December 2021 (published on 4 February 2022), which include disclosures regarding its profit and cash generation, existing committed financing facilities and headroom against those facilities.

Conclusion

Based on the above, the directors have concluded there are no material uncertainties around the Group's ability to continue as a going concern and it is appropriate to adopt the going concern principle in the Group's consolidated financial statements.

2. Accounting policies

Adoption of new and revised accounting standards

Phase 2 amendments to IFRS9, IAS39, IFRS7, IFRS4 and IFRS16 for interest rate benchmark (IBOR) reform

The phase 2 amendments relating to interest rate benchmark reform address issues arising due to the replacement of one benchmark rate with an alternative one. The Group refinanced its syndicated credit facility in November 2021; the facility was and remains undrawn. The updated facility amended the interest calculation methodology from referencing GBP LIBOR to compounded SONIA in the first utilisation after execution and from USD LIBOR to SOFR on a future date to be agreed (long-stop 30 June 2023); until this date, a USD drawing would continue to reference USD LIBOR.

The Group refinanced its three bilateral facilities in December 2021 to adopt the same interest calculation methodology as that in the refinanced syndicated credit facility. Only the Caixabank facility is drawn; the first rollover of the drawing subsequent to the refinancing will reference SONIA. The SMBC facility and the Bank of America facility are undrawn. If and when amounts are drawn under these facilities they would reference SONIA and SOFR respectively. The Group's interest rate swaps mature in June 2022, prior to when the referenced USD LIBOR interest rate is expected to cease being published.

No other 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.

Recent accounting developments

Amendments to IAS 37 "Onerous contracts – costs of fulfilling a contract"

Under IAS 37, a contract is onerous when the unavoidable costs of meeting the contractual obligations exceed the economic benefits arising from the contract. Prior to the amendments to IAS 37, there was diversity in practice as to whether the costs of meeting contractual obligations should comprise only incremental costs (e.g. direct materials and direct labour) or also include an allocation of other direct costs (e.g. factory overheads) which would be incurred regardless of whether the contract was being performed or not.

Under the Group's current accounting policy, it only includes incremental direct costs in measuring the costs to fulfil a contract under IAS 37. The IAS 37 amendments clarify however, that the costs of fulfilling a contract should include an allocation of other direct costs. The amendments are effective for accounting periods beginning on, or after, 1 January 2022 to open contracts at that date, with any additional amounts required to be recognised as an adjustment to retained earnings at that date. The Group is in the process of finalising the impact of these amendments, but currently estimates the amendments will result in the recognition of new onerous contract provisions of approximately £20.0m (in respect of contracts which are not onerous on an incremental direct cost basis), an increase in the measurement of existing onerous contract provisions of approximately £5.0m and an increase in the measurement of existing product warranty claims of approximately £5.0m.

A number of other 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. Critical accounting estimates and judgements

In applying the Group's accounting policies, the Group is required to make certain estimates and judgements concerning the future. These estimates and judgements are regularly reviewed and revised as necessary. The estimates and judgements that have the most significant effect on the amounts included in the consolidated financial statements are described below.

Critical accounting estimates

Environmental provisions and associated recoveries from insurers and other third parties

The Group is involved in the investigation and remediation of environmental contamination at certain sites for which it has been identified as a potentially responsible party under US law. In determining the provision to be recognised, advice is received by the Group from its environmental consultants and legal advisors to assist in the estimate of the level and timing of remediation costs, including the period for which operations and monitoring ("O&M") activities will be required. These estimates are revised regularly as remediation activities progress and further information is obtained on the extent of activities for which the Group is responsible.

During the latter part of 2021, a jury determined that Whittaker Corporation was responsible to a third party for certain material amounts. These material amounts have been attributed by the jury to environmental pollution resulting from past operations at one of Whittaker Corporation's former sites, which it had sold prior to its acquisition by the Group in 1999. The adverse jury finding has resulted in Whittaker concluding that, when the relevant court issues its final ruling, it is probable Whittaker will need to contribute to the third party costs, with the amounts recognised based on its best estimate of the most likely outcome, resulting in a charge to the income statement in the year of £29.5m.

The liability, for which the Group may ultimately be responsible is however subject to a number of significant uncertainties, which may be resolved through mediation or alternatively end up in a court appeal process. It is therefore reasonably foreseeable that material adjustments (either increases to, or reductions in) the amounts recognised as a provision may be required in the next 12 months. The Group has not quantified its estimate of the adjustments that may be required as it could be seriously prejudicial to the outcome.

The Group has insurance arrangements in place which, together with other agreements with third parties, mitigate the on-going impact of historical environmental events on the Group. A receivable has been established to the extent amounts are virtually certain to be recoverable from these parties, typically when there is a signed binding agreement between the parties.

With regards to the matter for which the liability of £29.5m referred to above has been recognised in the year, the Group is currently seeking recovery from a number of historic insurers and third parties, including litigation with the historic insurers. The Group expects to receive material amounts in respect of these recoveries but, in the absence of signed binding settlement agreements with the parties, has not recognised these as meeting the virtually certain threshold. It is reasonably foreseeable however, that material amounts will meet this threshold for recognition within the next 12 months. The amounts the Group expects to recover are not disclosed as it could be seriously prejudicial to the outcome.

The Group had not previously considered it to be reasonably foreseeable that there would be a material impact on the income statement in 2021 arising from the specific matter referred to above, based on conditions that existed at that time. However, subsequent to the date this assessment was last made, Whittaker received adverse pre-trial motions as to the nature of the costs it could be considered liable for, a material increase in the amounts claimed by the third party, together with the adverse jury finding described above.

Capitalised development costs: Irkut-MC21

The Group's capitalised development costs include £40.9m (2020: £39.6m) relating to the Irkut MC-21 aircraft, which is due to enter service in 2022. The capitalised amount is supported by an impairment test performed by the Group in Q4 2021, taking into account third-party estimates of fleet volumes and utilisation.

During 2022, tensions between Russia and the West have escalated and, in the period immediately preceding the date of this Annual Report, has seen Russian troops enter Ukraine with Western countries imposing a number of sanctions on Russia in response. It is impracticable at the date of these consolidated financial statements to determine the possible effects this escalation of the conflict will have on the future of the aircraft programme or the ability of the Group to access benefits from it. However, it is reasonably foreseeable that a material impairment loss on the programme could be recognised in the next 12 months.

Retirement benefit obligations

The liability recognised in respect of retirement benefit obligations is dependent on a number of estimates, principally those relating to mortality, inflation and the rate at which liabilities are discounted. External actuarial advice is taken with regard to the most appropriate assumptions to use (see note 21).

3. Critical accounting estimates and judgements

Critical accounting estimates (continued)

Area no longer considered a critical accounting estimate

The Group previously disclosed in its 2020 Annual Report, a critical accounting estimate relating to significant estimation uncertainty in its forward-looking assessments of cash flows used in assessing goodwill for impairment, following the COVID-19 pandemic and the dramatic impact on the commercial aerospace industry. The Group no longer believes that any reasonably foreseeable changes in estimates would result in a material impairment of goodwill in the next 12 months.

Critical accounting judgements

Capitalisation of development costs

The Group is required to make judgements as to when development costs meet the criteria to be recognised as intangible assets. The majority of capitalised development costs relate to technology developed for aerospace programmes. In such cases, costs are typically not capitalised until a contract to develop the technology is awarded by a customer as, prior to this date, it is generally not possible to reliably estimate the point at which research activities conclude and development activities commence. Absent a contract to develop the technology, the Group also does not believe there is generally sufficient certainty over the future economic benefits that will be generated from the technology, to allow capitalisation of costs.

Once such a contract is awarded, the Group capitalises development costs provided it expects to retain the intellectual property in the technology throughout substantially all of the life of the aircraft or engine and it is probable that future economic benefits will flow to the Group. In making a judgement as to whether economic benefits will flow to the Group, it makes estimates of aircraft or engine volumes (taking into account the extent to which the Group has a sole-source position); aftermarket revenues which are dependent on aircraft utilisation, fleet lives and operator service routines; costs of manufacture; and costs to complete the development activity.

Estimates of aircraft or engine volumes reflect the Group's judgement as to the extent to which the impacts of Climate Change may impact the future OE and aftermarket revenues it will derive from the aerospace programme. This takes into account its assessment of the likelihood that programme lives will be maintained by multiple technical upgrades over their lifetime, to boost fuel-efficiency and support the move to the use of growing fractions of Sustainable Aviation Fuel, rather than programme lives being significantly shortened.

During 2021, the Group recognised £27.6m (2020: £41.4m) of development costs as an intangible asset (see note 13).

Area no longer considered a critical accounting judgement

The Group previously disclosed in its 2020 Annual Report, a critical accounting judgement relating to the director's assessment that the adoption of the going concern basis in the Group's consolidated financial statements was appropriate. For the reasons set out in note 1, this is no longer considered a critical judgment for the current year.

4. Segmental analysis

The Group manages its businesses under four customer-aligned divisions: Airframe Systems, Engine Systems, Energy & Equipment and Services & Support.

The key performance measure reviewed by the Chief Operating Decision Maker ('CODM') is underlying operating profit. The CODM has been identified as the Board.

Year ended 31 December 2021

	Airframe Systems £'m	Engine Systems £'m	Energy & Equipment £'m	Services & Support £'m	Total £'m
Gross segment revenue	863.6	289.6	281.4	278.8	1,713.4
Inter-segment revenue	(126.6)	(81.8)	(10.7)	(5.1)	(224.2)
Revenue from external customers	737.0	207.8	270.7	273.7	1,489.2
At a point in time	696.1	202.8	119.7	268.7	1,287.3
Over time: Power by the hour/ cost per brake landing	24.1	4.1	-	5.0	33.2
Over time: Other	16.8	0.9	151.0	-	168.7
Revenue by basis of recognition	737.0	207.8	270.7	273.7	1,489.2
Underlying operating profit/(loss)*	120.2	(16.5)	42.1	31.5	177.3

Year ended 31 December 2020 (restated)**

	Airframe Systems £'m	Engine Systems £'m	Energy & Equipment £'m	Services & Support £'m	Total £'m
Gross segment revenue	936.5	352.2	323.9	325.8	1,938.4
Inter-segment revenue	(143.4)	(98.9)	(8.6)	(3.4)	(254.3)
Revenue from external customers	793.1	253.3	315.3	322.4	1,684.1
At a point in time	754.2	239.6	141.5	315.2	1,450.5
Over time: Power by the hour/ cost per brake landing	22.2	4.4	-	7.2	33.8
Over time: Other	16.7	9.3	173.8	-	199.8
Revenue by basis of recognition	793.1	253.3	315.3	322.4	1,684.1
Underlying operating profit/(loss)*	120.5	(16.2)	45.4	40.8	190.5

* 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. A detailed reconciliation of underlying operating profit to operating profit is shown in note 5.

** Prior year figures have been restated to reflect the transfer of a number of product lines from the Energy & Equipment division to the Engine Systems division with effect from 1 January 2021. The restatement comprised external revenue of £19.7m and underlying operating profit of £3.0m.

4. Segmental analysis (continued)

Segmental assets

	2021	2020 (restated)**
	£'m	£'m
Airframe Systems	1,071.0	1,036.5
Engine Systems	384.0	390.1
Energy & Equipment	218.7	200.4
Services & Support	119.7	90.4
Total segmental trading assets	1,793.4	1,717.4
Centrally managed trading assets*	163.0	167.4
Goodwill (note 13)	1,531.8	1,519.5
Other intangible assets excluding software assets	250.7	328.6
Investments (note 15)	18.7	20.8
Derivative financial instruments – non-current (note 19)	10.0	15.0
Deferred tax assets	-	19.2
Derivative financial instruments – current (note 19)	4.8	5.4
Current tax recoverable	8.1	11.5
Cash and cash equivalents	190.8	178.6
Assets classified as held for sale (note 16)	-	14.7
Total assets	3,971.3	3,998.1

* 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, including the Group's Ansty Park facility.

** Prior year figures have been restated to reflect the transfer of a number of product lines from the Energy & Equipment division to the Engine Systems division with effect from 1 January 2021. The restatement comprised segmental trading assets of £33.9m.

5. 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.

	2021	2020
	£'m	£'m
Operating profit/(loss)	63.4	(297.3)
Amounts arising on the acquisition, disposal and closure of businesses (note 5a)	7.3	(32.0)
Amortisation of intangible assets acquired in business combinations (note 13)	80.1	88.2
Financial instruments (gain)/loss (note 6)	(16.7)	2.9
Exceptional operating items (note 7)	43.2	428.7
Adjustments to operating profit/(loss)*	113.9	487.8
Underlying operating profit	177.3	190.5
Profit/(loss) before tax	31.3	(334.0)
Adjustments to operating profit/(loss) per above	113.9	487.8
Net interest expense on retirement benefit obligations (note 8)	4.1	5.7
Adjustments to profit/(loss) before tax	118.0	493.5
Underlying profit before tax	149.3	159.5
Profit/(loss) for the year	31.2	(314.2)
Adjustments to profit/(loss) before tax per above	118.0	493.5
Tax effect of adjustments to profit/(loss) before tax	(28.7)	(51.2)
Adjustments to profit/(loss) for the year	89.3	442.3
Underlying profit for the year	120.5	128.1

* Of the adjustments to operating profit/(loss), £9.2m (2020: £39.0m) relating to exceptional operating items has been charged to cost of sales, with the balance of £104.7m (2020: £448.8m) included within net operating costs.

5. Reconciliations between profit and underlying profit (continued)

- 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. Additionally in 2021, it includes amounts incurred in respect of the proposed acquisition of the Group by Parker-Hannifin Corporation.

	2021 £'m	2020 £'m
Loss/(gain) on disposal of businesses before disposal expenses	0.6	(37.1)
Costs related to disposal of businesses in the current year (note 27)	1.8	3.8
Loss/(gain) on disposal of businesses in the current year (note 27)	2.4	(33.3)
Costs related to the proposed acquisition of the Group by Parker-Hannifin Corporation	5.1	-
Amounts recognised in respect of disposals in prior years	(0.2)	1.3
Amounts arising on the acquisition, disposal and closure of businesses	7.3	(32.0)

6. Financial instruments

To ensure appropriate and timely commercial decisions are made as to when and how to mitigate the Group's foreign currency and interest rate exposures, gains and losses arising from the marking to market of financial instruments that are not hedge accounted are excluded from underlying profit measures. The Group does not hedge account for foreign currency forward contracts, cross currency derivatives or treasury lock derivatives. When interest rate derivatives qualify to be hedge accounted, any difference recognised in the income statement as hedge ineffectiveness between movements in fair value of the derivatives and fair value of fixed rate borrowings is excluded from underlying profit measures.

	2021 £'m	2020 £'m
Movement in fair value of:		
Foreign currency forward contracts	10.0	(15.9)
Interest rate derivatives	3.4	1.6
Fixed rate borrowings due to interest rate risk (note 19)	(3.3)	(1.6)
Cross currency derivatives	(24.5)	12.8
Treasury lock derivative	(0.5)	(0.5)
Impact of retranslating net foreign currency assets and liabilities at spot rate	(1.8)	6.5
Financial instruments – (gain)/loss	(16.7)	2.9

7. Exceptional operating items

Items which are significant by virtue of their size or nature, are considered non-recurring, and which are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 5), are classified as exceptional operating items. They include, for instance, costs directly attributable to the integration of acquired businesses; significant site consolidations and other restructuring costs; incremental income and expenditure directly attributable to the COVID-19 pandemic; and in 2021, given their significance, costs in respect of historical environmental matters relating to businesses disposed of by Whittaker Corporation prior to its acquisition by the Group in 1999. In 2020, given their significance, impairment losses and other asset write-downs arising from the uncertainty facing the commercial aerospace industry were also treated as exceptional operating items.

	Note	Income statement		Cash flow	
		2021 £'m	2020 £'m	2021 £'m	2020 £'m
(Reversals)/Impairment losses and other asset write-downs	a	(3.8)	374.2	-	-
COVID-19 incremental non-recurring costs net of income	b	3.8	22.0	3.3	18.9
Site consolidations	c	14.7	33.5	22.6	31.6
Environmental clean-up costs	d	29.5	-	-	-
Business restructuring costs and other items		(1.0)	(1.0)	-	(1.2)
Exceptional operating items		43.2	428.7	25.9	49.3

7. Exceptional operating items (continued)

- a. In 2020, the Group recognised material impairment losses and other reductions in asset values arising from the uncertainty facing the commercial aerospace industry that arose during the COVID-19 pandemic as an exceptional operating item. Given their significance, they were presented separately on the face of the income statement as the Group considered it relevant to an understanding of the Group's financial performance. In 2021, £3.8m of the impairment losses and other asset write-downs originally recognised in 2020 were reversed. Given the reversals were not significant, they have not been separately presented on the face of the income statement, but have been treated consistently with 2020 as an exceptional operating item. Of the amounts classified as exceptional operating items, a £2.4m credit has been recognised within cost of sales, with the remaining £1.4m credit recognised within other operating costs. The tax charge in respect of these items was £0.3m.
- b. The Group continues to exclude income and expenditure directly attributable to the global COVID-19 pandemic, and which is not expected to recur in future years, from its underlying profit measures. In 2021, this principally relates to additional cleaning costs; the purchase of personal protective equipment; and shift premiums and other associated costs arising from social distancing measures. Of the amounts classified as exceptional operating items, £2.1m has been recognised within cost of sales with the balance of £1.7m recognised within other operating costs. The tax credit in respect of these items was £0.7m.
- c. Amounts principally relate to costs incurred in respect of the Group's previously announced plans to reduce its footprint by the end of 2021. This project was substantially complete at the end of 2021, but costs in respect of projects commenced in 2021 will be incurred in subsequent years as these projects are completed. Cumulative costs since the announcement are £111.9m. In 2021, costs are principally in respect of the move to the new facility at Ansty Park in the West Midlands, UK which has enabled the Group to consolidate a range of manufacturing, engineering and support operations into a single centre of excellence. Of the amounts classified as exceptional operating items, £10.5m has been recognised within cost of sales, with the balance of £4.2m recognised within other operating costs. The tax credit in respect of these items was £3.6m.
- d. During the year, the Group recognised a provision for £29.5m (2020: £Nil) in respect of environmental matters relating to a former site operated by Whittaker Corporation, prior to its acquisition by the Group in 1999. See note 3 for further details. The tax credit in respect of this item was £6.8m.

8. Net finance costs

	2021 £'m	2020 £'m
Interest on bank deposits	-	0.1
Unwinding of interest on other receivables	0.2	0.2
Other finance income	0.3	0.2
Finance income	0.5	0.5
Interest on bank borrowings	0.6	1.3
Interest on senior notes	21.4	24.5
Interest on lease liabilities	5.7	6.0
Unwinding of discount on provisions (note 20)	0.6	0.7
Net interest expense on retirement benefit obligations (notes 5 & 21)	4.1	5.7
Amortisation of debt issue costs	1.5	0.8
Less: amounts capitalised in the cost of qualifying assets (note 13)	(1.3)	(1.8)
Finance costs	32.6	37.2
Net finance costs	32.1	36.7

9. Tax

The statutory tax charge for the year was £0.1m (2020: credit of £19.8m) based on the reported profit before tax of £31.3m (2020: loss of £334.0m).

The Finance Act 2021 introduced legislation to increase the main rate of corporation tax in the UK from 19% to 25% from 1 April 2023. This legislation was substantively enacted in 2021 and has resulted in an additional current year tax charge of £5.7m, arising from the impact of the change in tax rate on net deferred tax liabilities.

As anticipated, during the year, the Group received assessments from the UK tax authorities in connection with the European Commission decision that state aid partially applies to one of the UK's CFC exemptions that was utilised by the Group. The assessments comprised £16.9m in respect of taxes and £1.1m in respect of interest. These assessments, for which a full provision was held at 31 December 2020, have been paid in full in the year. The European Commission decision continues to be appealed by both the UK Government and the Group.

10. Earnings per share

Earnings per share ('EPS') is calculated by dividing the profit attributable to owners of the Company of £31.2m (2020: loss of £314.2m) by the weighted average number of shares in issue during the year of 780.2m (2020: 777.8m). The weighted average number of shares excludes treasury shares and any 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 2.3m shares (2020: 3.6m shares).

Underlying EPS is based on underlying profit for the year (note 5) and the same number of shares used in the calculation of basic EPS. It is reconciled to basic EPS below:

	2021 Pence	2020 Pence
Basic EPS	4.0	(40.4)
Adjust for effects of:		
Amounts arising on the acquisition, disposal and closure of businesses	0.6	(4.2)
Amortisation of intangible assets acquired in business combinations	8.0	9.2
Financial instruments – (gain)/loss	(1.8)	0.3
Exceptional operating items	4.2	51.0
Net interest expense on retirement benefit obligations	0.4	0.6
Underlying basic EPS	15.4	16.5

Diluted EPS for the year is 4.0p (2020: loss per share of 40.4p). 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 784.4m (2020: 789.4m). Underlying diluted EPS for the year is 15.4p (2020: 16.2p). The calculation of underlying diluted EPS is based on underlying profit (note 5) and the same weighted average number of shares used in the calculation of diluted EPS.

11. Dividends

The directors did not recommend the payment of a dividend in respect of 2020. In line with the terms of the previously announced proposed transaction with Parker-Hannifin, the Group is not paying a final dividend for 2021.

12. Related party transactions

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

	2021 £'m	2020 £'m
Salaries and other short-term employee benefits	7.6	4.7
Share-based payment expense/(credit)	1.3	(0.5)
Total	8.9	4.2

13. Intangible assets

	Goodwill	Development Costs	Programme participation costs	Other intangible assets	Total
	£'m	£'m	£'m	£'m	£'m
At 1 January 2021	1,519.5	531.9	18.7	401.1	2,471.2
Exchange rate adjustments	12.3	3.1	0.2	2.2	17.8
Additions	-	27.6	1.4	9.5	38.5
Interest capitalised (note 8)	-	1.3	-	-	1.3
Transfers to contract assets	-	(2.5)	(0.1)	-	(2.6)
Disposals	-	-	-	(3.9)	(3.9)
Amortisation*	-	(33.0)	(1.2)	(100.3)	(134.5)
Impairment losses**	-	(3.7)	-	(2.0)	(5.7)
At 31 December 2021	1,531.8	524.7	19.0	306.6	2,382.1

* Included within amortisation of other intangible assets is £80.1m (2020: £88.2m) relating to intangible assets acquired in business combinations and which is excluded from the Group's underlying profit figures (note 5).

** Included within impairment losses of development costs is £1.1m (2020: £24.5m) in respect of amounts charged to exceptional operating items and which has been excluded from underlying operating profit (note 5).

Goodwill impairment

Under the Group's annual impairment testing cycle, goodwill is tested for impairment at 30 June each year. During 2021, the Group did not identify any trigger events indicating the carrying value of goodwill attributable to any of the Group's CGUs was impaired and accordingly no additional impairment testing was performed. No changes were made in 2021 to the level at which impairment testing was performed.

As a result of the annual impairment test, no impairment of any CGU or Group of CGUs was identified. Having modelled a number of sensitivities, it was concluded that no reasonably foreseeable changes in key assumptions used in the impairment model would result in a significant impairment charge being recognised in the Group's consolidated financial statements.

14. Property, plant and equipment

	Land and buildings	Plant, equipment and vehicles	Right-of-use assets*	Total
	£'m	£'m	£'m	£'m
At 1 January 2021	148.2	206.0	104.6	458.8
Exchange rate adjustments	0.2	1.2	0.5	1.9
Businesses disposed (note 27)	-	(0.3)	(0.2)	(0.5)
Additions	25.8	35.1	26.6	87.5
Transfer from inventory***	-	6.4	-	6.4
Disposals	(17.7)	(1.6)	(0.3)	(19.6)
Transfers	2.4	(2.4)	-	-
Depreciation**	(11.2)	(30.3)	(14.4)	(55.9)
At 31 December 2021	147.7	214.1	116.8	478.6

* The net book amount comprises property of £115.0m (2020: £102.6m) and other assets of £1.8m (2020: £2.0m).

** Depreciation includes £1.2m (2020: £3.8m) in respect of amounts charged to exceptional operating items and which has been excluded from underlying operating profit (note 5).

*** Arises from the reclassification of amounts relating to rotatable asset pools, which are used by the Group to improve turnaround times in relation to aftermarket services.

15. Investments

The Group's investments in its joint ventures, Meggitt UTC Aerospace Systems, LLC and HiETA Technologies Limited are accounted for using the equity method and are stated as follows:

	Total £'m
At 1 January 2021	20.8
Exchange rate adjustments	0.2
Adjustment to contingent consideration*	(1.9)
Share of loss after tax	(0.4)
At 31 December 2021	18.7

* During 2021, £0.9m in contingent consideration relating to HiETA Technologies Limited was paid. The remaining contingent consideration payable of £1.9m was reassessed and determined to no longer be required and was therefore adjusted against the investment value.

16. Assets classified as held for sale

On 30 January 2021, the Group completed the disposal of the Group's aircraft ducting business, based in Dunstable UK, together with a small product line from one of the Group's other businesses, previously classified as held for sale.

	Assets classified as held for sale £'m	Liabilities directly associated with assets classified as held for sale £'m	Total £'m
At 1 January 2021	14.7	(3.7)	11.0
Change in carrying value up to date of disposal	0.6	0.1	0.7
Business disposed (note 27)	(15.3)	3.6	(11.7)
At 31 December 2021	-	-	-

17. Lease Liabilities

The Group leases various factories, warehouses, offices, plant and equipment. The following amounts are included in the Group's consolidated financial statements in respect of its leases:

	2021 £'m	2020 £'m
Depreciation charge for right-of-use assets (note 14)	14.4	16.0
Additions to right-of-use assets (note 14)*	26.6	11.4
Net book amount of right-of-use assets (note 14)	116.8	104.6
Interest on lease liabilities (note 8)	5.7	6.0
Expense related to short-term leases and low-value assets	1.2	0.6
Net cash outflow for leases**	20.6	17.9

* In 2021, this includes £6.8m relating to the sale and leaseback of the Group's Engine Systems facility in North Hollywood, USA which has a lease term of 15 years and £8.3m relating to a 10 year lease extension of the Group's Airframe Systems facility in Portland, USA.

** Comprises capital payments of £14.9m (2020: £15.4m) and interest payments of £5.7m (2020: £6.0m), less a reverse lease premium received of £Nil (2020: £3.5m) relating to the new Ansty Park site.

18. Bank and other borrowings

	2021 £'m	2020 £'m
Bank loans	2.8	2.2
Other loans	102.5	8.3
Current portion	105.3	10.5
Bank loans	28.2	43.7
Other loans	667.8	753.1
Non-current portion	696.0	796.8

19. Financial Instruments – fair value measurement

For trade and other receivables, cash and cash equivalents, trade and other payables and floating rate bank and other borrowings, fair values approximate to book values primarily due to the short maturity periods of these financial instruments. For trade and other receivables, allowances are made within their book value for credit risk.

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

A comparison of book values and fair values for certain financial instruments is provided below:

	Book value		Fair value	
	2021 £'m	2020 £'m	2021 £'m	2020 £'m
Derivative financial instruments – non-current	10.0	15.0	10.0	15.0
Derivative financial instruments – current	4.8	5.4	4.8	5.4
Financial assets	14.8	20.4	14.8	20.4
Derivative financial instruments – current	(3.2)	(21.6)	(3.2)	(21.6)
Bank and other borrowings – current	(105.3)	(10.5)	(105.3)	(10.5)
Derivative financial instruments – non-current	(1.3)	(0.3)	(1.3)	(0.3)
Bank and other borrowings – non-current	(696.0)	(796.8)	(692.6)	(813.1)
Financial liabilities	(805.8)	(829.2)	(802.4)	(845.5)

20. Provisions

	Total £'m
At 1 January 2021	112.9
Exchange rate adjustments	1.2
Additional provisions*	50.3
Unused amounts reversed	(11.4)
Charge to net finance costs (note 8)	0.6
Transfers from trade and other payables	2.8
Amounts utilised	(20.3)
At 31 December 2021	136.1

* Includes £29.5m in respect of amounts charged to exceptional operating items and which has been excluded from underlying operating profit (note 5).

20. Provisions (continued)

	2021 £'m	2020 £'m
Disclosed as:		
Current	55.8	32.6
Non-current	80.3	80.3
Total	136.1	112.9
Analysed as:		
Environmental*	93.6	72.7
Onerous contracts	15.1	13.0
Warranty costs	19.2	16.0
Other	8.2	11.2
Total	136.1	112.9

* Included within other receivables is £15.0m (December 2020: £18.8m) in respect of amounts recoverable from insurers and other third parties in respect of environmental issues relating to historic sites.

21. Retirement benefit obligations

	Total £'m	
At 1 January 2021	295.4	
Exchange rate adjustments	0.1	
Service cost	6.8	
Past service credit	(0.2)	
Curtailement gain	(8.0)	
Net interest expense (note 8)	4.1	
Contributions – Group	(48.9)	
Administrative expenses borne directly by schemes	2.5	
Remeasurement of retirement benefit obligations	(115.4)	
At 31 December 2021	136.4	
Amounts recognised in the balance sheet		
	2021 £'m	2020 £'m
Present value of liabilities	1,355.1	1,463.9
Fair value of assets	(1,228.0)	(1,168.5)
Effect of asset ceiling*	9.3	-
Total	136.4	295.4
Analysed as:		
Pension schemes	97.9	248.7
Healthcare schemes	38.5	46.7
Total	136.4	295.4

* Relates to surpluses in schemes which have not been recognised as future economic benefits are not available to the Group in the form either of a reduction in contributions or a refund.

Key financial assumptions used to calculate scheme liabilities

	2021	2020
UK scheme:		
Discount rate	1.8%	1.4%
Inflation rate (RPI)	3.4%	3.0%
Current life expectancy: Male aged 65 years	21.6 to 23.4	21.7 to 23.6
US schemes:		
Discount rate	2.8%	2.3%
Current life expectancy: Male aged 65 years	19.8 to 20.7	19.7 to 20.6

Group cash contributions paid during the year included deficit reduction payments of £42.1m (2020: £21.7m).

22. Issued share capital

	2021	2020
	No. m	No. m
Allotted and fully paid	782.0	781.2

The increase in the number of shares during the year relates to shares issued on the exercise of Sharesave awards.

23. 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, regulatory investigations and claims which arise in the ordinary course of business. The directors do not anticipate that the outcome of these proceedings, investigations and claims, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.

24. Capital commitments

	2021	2020
	£'m	£'m
Contracted for but not incurred:		
Intangible assets	0.8	3.8
Property, plant and equipment	6.8	24.0
Total	7.6	27.8

25. Cash inflow from operations

	2021	2020
	£'m	£'m
Profit/(loss) for the year	31.2	(314.2)
Adjustments for:		
Net finance costs (note 8)	32.1	36.7
Tax charge/(credit)	0.1	(19.8)
Depreciation (note 14)	55.9	56.7
Amortisation and impairment losses (note 13)	140.2	501.9
(Gain)/loss on disposal of property, plant and equipment	(5.3)	1.4
Loss/(gain) on disposal of businesses (note 5a)	7.3	(32.0)
Costs arising on disposal of businesses	(6.7)	(3.8)
(Gain)/loss on financial instruments (note 6)	(16.7)	2.9
Impact of retranslating net foreign currency cash at spot rate	0.5	(0.4)
Share of loss after tax of joint venture (note 15)	0.4	3.2
Retirement benefit obligation deficit payments (note 21)	(42.1)	(21.7)
Share-based payment expense/(credit)	5.5	(2.5)
Changes in working capital	(31.2)	20.0
Cash inflow from operations	171.2	228.4

25. Cash inflow from operations (continued)

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:

	2021 £'m	2020 £'m
Cash inflow from operating activities	105.3	154.2
Add back cash outflow from business disposal expenses	3.5	5.2
Add back impact of retranslating net foreign currency cash at spot rate	(0.5)	0.4
Capitalised development costs (note 13)	(27.6)	(41.4)
Capitalised programme participation costs	(1.7)	(1.6)
Purchase of intangible assets	(10.7)	(11.0)
Purchase of property, plant and equipment (net of grants received)	(59.0)	(78.7)
Proceeds from disposal of property, plant and equipment*	36.4	1.3
Reverse lease premium received	-	3.5
Free cash inflow	45.7	31.9

* In 2021, includes £19.4m relating to proceeds from the sale and leaseback of the Group's Engine Systems facility in North Hollywood, USA and £12.7m relating to proceeds from the sale and leaseback of the Group's Airframe Systems facility in Loughborough, UK.

26. Movements in net debt

	Gross debt £'m	Cash and cash equivalents £'m	Net debt £'m
At 1 January 2021	951.6	(178.6)	773.0
Cash inflow from operating activities	-	(105.3)	(105.3)
Cash outflow from investing activities	-	47.8	47.8
Cash (inflow)/outflow from financing activities	(46.1)	44.8	(1.3)
Lease liabilities entered	38.7	-	38.7
Businesses disposed (note 27)	(0.1)	-	(0.1)
Exchange rate adjustments	26.7	0.5	27.2
Other movements	(0.5)	-	(0.5)
At 31 December 2021	970.3	(190.8)	779.5

	2021 £'m	2020 £'m
Analysed as:		
Bank and other borrowings – current	105.3	10.5
Bank and other borrowings – non-current	696.0	796.8
Lease liabilities – current	15.6	14.7
Lease liabilities – non-current	153.4	129.6
Cash and cash equivalents	(190.8)	(178.6)
Total	779.5	773.0

27. Business disposals

On 30 January 2021, the Group disposed of its aircraft ducting business, based in Dunstable UK, together with a small product line from one of the Group's other businesses, for a consideration of £20.4m. The related assets were classified as a disposal group held for sale at 31 December 2020, together with its directly associated liabilities. Additionally, on 31 August 2021, the Group disposed of a number of product lines from its power and sensing business based in Toulouse, France for a consideration of EUR1. In addition, a commercial subsidy payment of EUR9.8m was agreed to provide assistance to the buyer to integrate the business; this is payable by the Group in instalments. The businesses disposed were not major lines of business or geographical areas of operation of the Group. The net assets of the businesses at the date of disposal were as follows:

	Dunstable operations £'m	Toulouse product lines £'m	Total £'m
Property, plant and equipment (note 14)	-	0.5	0.5
Inventories	-	0.6	0.6
Lease liabilities – current (note 26)	-	(0.1)	(0.1)
Assets classified as held for sale (note 16)	11.7	-	11.7
Net assets disposed	11.7	1.0	12.7
Consideration receivable/(payable)	20.4	(8.3)	12.1
Business disposal expenses payable (note 5a)	(1.0)	(0.8)	(1.8)
Consideration net of business disposal expenses	19.4	(9.1)	10.3
Gain/(loss) on disposal (note 5a)	7.7	(10.1)	(2.4)
Consideration receivable/(payable)	20.4	(8.3)	12.1
Less: deferred consideration payable in future years	-	4.6	4.6
Consideration received/paid in cash*	20.4	(3.7)	16.7

* Business disposal expenses paid in the year were £3.5m comprising £1.8m in respect of businesses disposed in the current year, £0.6m in respect of disposals in prior years and £1.1m in respect of the proposed acquisition of the Group by Parker-Hannifin Corporation. After taking account of business disposal expenses, the total cash inflow in respect of disposals was £13.2m.

PRINCIPAL RISKS AND UNCERTAINTIES

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 (including the on-going impacts of COVID-19) or terrorist events; or industry consolidation that materially changes the competitive landscape.

Impact

Volatility in revenue and underlying profitability.

How we manage it

- Demand is managed by monitoring external economic and commercial environment and long-lead indicators whilst maintaining focus on balanced portfolio.
- Monitoring international political and tax developments to assess implications of future legislation.

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 SMARTSupport™ 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 – Climate change

Description

Failure to adapt to the transition and physical impacts of climate change, including:

- Government legislation to limit air travel;
- Regulations limiting greenhouse gas emissions from aviation come into effect faster than technical solutions;
- Societal attitudes shifting against air travel (e.g. 'flight shaming');
- Acute physical risks such as the increased likelihood of extreme weather events; and
- Chronic physical risks such as changing weather patterns including rising temperatures and sea levels.

Impact

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

How we manage it

- Continued dialogue with governments, industry bodies and customers to maintain awareness of evolving aviation sector requirements.
- Continued focus on developing technologies to support sustainable aviation and on reducing the carbon intensity of our production operations.
- Allocation of two-thirds of innovation budget to sustainable solutions.
- Reduction in Group carbon footprint through new facilities, more efficient production processes and using green energy resources.
- Comprehensive business continuity plans across the Group, supported by an insurance programme subject to annual renewal.
- Long-term weather considerations as part of site footprint strategy.

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.
- HPS implementation and maturity.
- 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); civil unrest, military conflict or terrorist activity; or a pandemic (including further impacts from COVID-19) 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 and also invoked during 2021 in response to COVID-19.
- 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.

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 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 resulting in 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 – IT/Systems failure

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

- Information Security infrastructure, policies and procedures supported by a Group wide security awareness programme.
- Intelligence sharing on threats with government and security bodies including the FBI, CPNI and NCSC.
- 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 vulnerability management policy with monitoring capability to ensure that vulnerabilities are identified and appropriately patched.
- Dedicated cyber-security protective monitoring resources, employing industry leading technical controls and procedures.

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

- Dynamic supplier risk assessment process leveraging our data and using leading indicators to help identify risks and trigger containment and corrective actions.
- Local sourcing strategy to improve operational efficiency and minimise potential impacts and disruption from cross-border tariffs.
- Enhanced approach to supplier excellence by supporting supplier audit activities.
- Improved supplier engagement on delivery performance including the placing of longer-term commitments, buffer stock arrangements and issuing of performance 'report cards' to key suppliers.

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

- PMO oversight of large capital projects.
- Dedicated site consolidation and property management teams for significant transition projects.
- Regular monitoring by Executive Committee through operational and project reviews.
- HPS implementation at new/expanded sites.

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

- Embedding of High Performance Culture.
- Action plans to improve employee engagement.
- Graduate and apprentice programmes in partnership with schools and universities.
- Regular oversight by Executive Committee.
- Creation of Employee Resource Groups to foster diversity, boost employee engagement and enable global collaboration.

- Talent attraction and retention strategies focusing on local market competitiveness and career development frameworks.

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, facilitation of tax evasion and the market abuse regime.

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 of ethics and anti-bribery programme by Corporate Responsibility Committee.
- On-going trade compliance programme including third-party audits.
- Comprehensive ethics programme including training, anti-corruption policy and 'Speak Up' line.
- Third-party and internal audits including HS&E and Anti-Bribery & Corruption.
- HPS implementation to enhance safety measures, validated by third-party audits.

Financial – Pension funding

Description

The Group operates defined benefit pensions schemes in the UK, US and Switzerland. The level of deficits in these schemes may be affected adversely by investment returns, interest rates, increasing life expectancy and changes in the regulatory environment. The rates at which deficits are funded is subject to agreement with the trustees in the UK and is dependent on legislation in the US and Switzerland.

Impact

Higher pension scheme funding contributions resulting in decreased cash and profit.

How we manage it

- Triennial valuation process and deficit funding agreement with UK Pension Trustees.
- Continued monitoring of asset allocations and funding levels for all schemes.
- Closure of UK and US defined benefit schemes to future accrual.

Financial – Liquidity

Description

The Group has debt funding and committed credit facilities from diverse sources which could be at risk in the event of the Group being unable to raise funds when required at a normal price owing to financial market disruption or an unwaived breach of the related financial covenants.

Impact

Inability to access financing on normal commercial terms.

How we manage it

- Maintaining sufficient headroom in committed credit facilities and against covenants in those facilities.
- Arranging funding with maturities spread over several years or the ability to terminate early at little to no cost to the Group.

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 UK-adopted International Accounting Standards, 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
Chief Executive Officer
2 March 2022

L Burdett
Chief Financial Officer
2 March 2022

- ENDS -