MEGGITT

ENABLING THE EXTRAORDINARY

TO **FLY** TO **POWER** TO **LIVE**

Annual Report and Accounts 2021

Performance

Financial summary

Revenue
£1,489m
2020: £1,684m

Underlying operating profit[1]
£177m
2020: £191m

Net debt[2]
£780m
2020: £773m

Free cash flow[3]
£46m
2020: £32m

Underlying basic earnings per share[4]
15.4p
2020: 16.5p

Liquidity headroom[5]
£573m
2020: £908m

Net debt: EBITDA[6]
1.9x
2020: 2.2x

Statutory profit before tax
£31m
2020: loss of £334m

Highlights

> Supported our stakeholders through another challenging year of COVID-19 and supply chain disruption

> Delivered good cash performance with free cash flow of £46m

> Global employee engagement up 2% versus 2020 levels and 4% above high performing benchmark

> Commissioned our new manufacturing and engineering COE and global headquarters at Ansty Park, UK

> Delivered civil aftermarket organic revenue growth of 7% for full year; up 51% in the second half (vs. H2 2020)

> Committed to setting targets under SBTi framework

> Added 11 SMARTSupport™ aftermarket contracts

Contents

1 Underlying operating profit is reconciled to operating profit in note 9 to the Group's consolidated financial statements on page 198.
2 Please see note 43 to the Group's consolidated financial statements on page 229.
3 Free cash flow is reconciled to cash from operating activities in note 42 to the Group's consolidated financial statements on page 228.
4 Underlying earnings per share is reconciled to basic earnings per share in note 14 to the Group's consolidated financial statements on page 201.
5 Liquidity headroom is the difference between the Group's committed credit facilities and its net borrowings (excluding lease liabilities). Please see note 1 to the Group's consolidated financial statements on page 176.
6 As calculated in accordance with covenants in the Group's committed credit facilities as described on page 176.

We are Meggitt

ENABLING THE EXTRAORDINARY

TO **FLY** TO **POWER** TO **LIVE**

We are innovators.

Customers worldwide rely on our advanced technologies, products and services in aerospace, defence and selected energy markets to help make the world a more efficient, sustainable and safe environment.

Enabling a more sustainable future

We work in amazing industries that underpin the prosperity and wellbeing of our planet. As the world looks to a net zero future, our technology and products play a key role in enabling environmentally sustainable flight and low-carbon power generation, enhancing lives and making the world more secure.

Find out how we are creating a more sustainable future in our Corporate Responsibility section on page 64

We are Meggitt

Driven by our purpose, vision and values

Our purpose

At Meggitt we work closely with our customers to design and manufacture systems and products for the aerospace, defence and selected energy markets to deliver sustainable solutions for the most challenging environments by focusing on engineering and operational excellence.

Our vision

ENABLING THE EXTRAORDINARY

To
FLY

Expertise relied upon by customers to enable safe, cost-effective and environmentally responsible flight.

To
POWER

Products and services that enable customers to operate critical infrastructure reliably and without disruption.

To
LIVE

Innovative technologies which enhance lives and make the world more secure.

Our values

Our values reflect how we should strive together and the behaviours that are integral to our drive for success.

TEAMWORK

We support each other working in highly skilled passionate teams and recognise outstanding contributions, building great relationships with all our stakeholders.

INTEGRITY

We do the right thing, in the right way wherever we operate. All our stakeholders can count on us to act with integrity, honesty and respect, with the highest standards of ethical behaviour.

EXCELLENCE

We're good at what we do and that's why customers come back to us. We deliver the most ambitious technologies, products and services safely, efficiently and cost-effectively to our customers.

Guided by our strategy and business model

Our strategy and business model

Our strategy

Our strategy supports our vision to enable the extraordinary and to deliver technologically differentiated systems and products with high certification requirements in aerospace, defence and selected energy markets.

Read more on page 08

Our business model

Our diversified business model is core to our strategy. The resilience this brings means we can deliver value to all our stakeholders.

Read more on page 16

Delivering for our stakeholders

Our people

Our success depends on the skills and expertise of our people.

Read more on page 72

Our shareholders

We create value for shareholders through earnings generation and dividend payments.

Read more on page 17

Our customers

We strive to deliver the most sustainable services and products to our customers worldwide.

Read more on page 18

Our suppliers

We have longstanding and beneficial relationships with our partners and suppliers.

Read more on page 17

Our communities

We understand our role in society and contribute to the communities in which we operate.

Read more on page 75

Our sustainability pillars

People

We are committed to creating a rewarding, safe and productive working culture for all Meggitt colleagues and supporting our local communities around the world.

Read more on page 72

Planet

Our goal is to contribute to a cleaner future by continuously improving and adapting our operational systems to promote best practices, efficiencies and improvements.

Read more on page 78

Technology

To support the evolving needs of our global customers we will continue to invest in innovative new technologies to enable sustainable aviation.

Read more on page 83

Introduction

At a glance

We deliver technologically differentiated systems and products, with high certification requirements, across the civil aerospace, defence and selected energy markets.

Aerospace

Unique technologies for aerospace

Civil aerospace accounts for 46% of Group revenue, with products and sub-systems installed on almost every jet airliner, regional aircraft and business jet in service today.

Defence

Protecting defence forces worldwide

Defence represents 42% of Group revenue. We have equipment on an installed base of around 22,000 fixed wing and rotary aircraft and a significant number of ground vehicles.

Energy and other

Keeping the lights on

We supply unique technology to enable clean and efficient production and use of natural gas and support nuclear, hydro-electric and novel clean-energy power generation.

Group revenue by end market

46%
Civil Aerospace

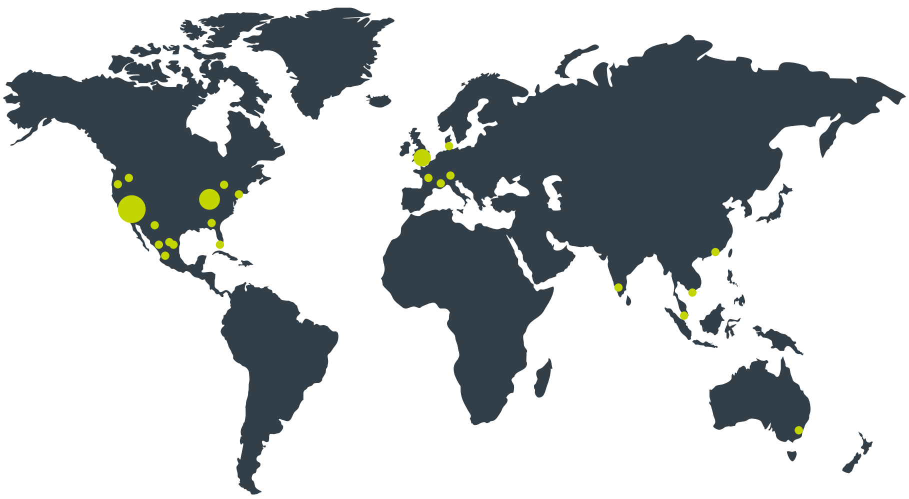
42%
Defence

12%
Energy and other

Our products are manufactured in our globally located facilities.

	Employees	Facilities
UK	2,327	8
Europe	940	4
North America	4,644	18
Rest of World	1,359	6

9,270
Total Group employees



We work in close collaboration with our customers to develop pioneering products, and go to market through four customer-aligned business divisions.

Airframe Systems

Market-leading industry provider of braking systems for commercial, business and defence aircraft, fire protection and safety systems, power and motion, fuel systems, avionics and sensors and advanced polymer seals for around 51,000 in-service civil and 22,000 defence aircraft.

Read more on page 34

Engine Systems

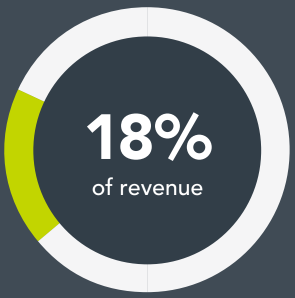
Market-leading position in advanced engine composites, thermal and safety systems with a broad range of technologies including vibration monitoring and engine health management systems. This division also provides aerospace engine flow control and sensing solutions.

Read more on page 36

Energy & Equipment

Specialises in energy and defence equipment ranging from electronics cooling to ammunition handling systems and heat transfer equipment for offshore oil and gas facilities and renewable energy applications.

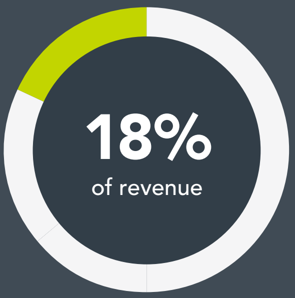
Read more on page 38



Services & Support

Provides a full-service aftermarket offering including spares distribution and maintenance, repair and overhaul (MRO) to our commercial, business jet and defence customers throughout the lifecycle of our products.

Read more on page 40



Innovation is at the heart of what we do, underpinning the safety, reliability, and environmental performance of our products.

Optical sensing offers significant advantages over piezoelectric sensing technologies. For combustion dynamics monitoring, it enables more accurate measurement over a larger range of frequencies and allows gas turbines to operate more efficiently with lower emissions. Smaller in size and able to operate at a higher temperature, optical sensors can be positioned closer to the measurement point without signal degradation caused by electromagnetic perturbations or vibrations, making them suitable for hazardous environments.

Introduction

Chairman's statement

On behalf of the Board, I would like to thank all employees for their resilience, dedication and hard work in delivering the year.

Introduction

Having successfully navigated the unprecedented reduction in global flight activity in 2020 and the associated impact on the civil aerospace sector and the Group, 2021 has proved to be another highly eventful year in the long and proud history of Meggitt.

And, as in previous years, the Board's number one priority has been ensuring the safety and wellbeing of our people across the world as they continue to deliver for our customers. While the recovery has at times allowed for more normal working patterns to resume, our people and our sites have remained agile and adapted to changing circumstances throughout the year.

While we have been encouraged by the impact of the vaccine rollout and gradual recovery in civil aerospace during the year, it is clear that activity levels and consumer sentiment remain highly sensitive to regional outbreaks and, as we saw during 2021, the emergence of new variants. We remain confident that recovery will continue during 2022 albeit its trajectory is likely to remain uneven.

The ongoing impact of global supply chain disruption across many sectors as economies have recovered and demand has increased is well documented, posing an additional challenge during the year. I am extremely grateful to all our employees for once again demonstrating outstanding dedication and resilience across our global sites which has been a critical factor in enabling us to mitigate these headwinds.

Alongside managing the recovery, we have continued to invest in the business across a number of areas: through our ongoing commitment to innovation and new technologies, we continue to support our customers in the development of more sustainable solutions and applications across the aerospace, defence and energy end markets; under our People, Planet and Technology framework, we are making our ways of working and facilities more sustainable; and finally, we have continued to invest in our operational capability through a number of projects and initiatives, most notably the transition to Ansty Park, our state-of-the-art facility in the UK.

This investment will help ensure that our people, technology and global footprint will continue to thrive as the recovery continues in 2022 and beyond.

2021 Performance

The Group has delivered the year against a backdrop of continuing challenging market conditions in civil aerospace, where activity levels remain below 2019 levels despite recovering steadily during the year. Our operations and procurement teams have also worked hard to mitigate the impact of disruption in the supply chain at our sites as global demand has increased.

The benefit of our diverse end-market exposure and breadth of our civil aerospace business can be seen in our results, with civil aftermarket revenue up on the prior year, with a strong performance from business jets. Our energy business has also performed well.

As in 2020, where possible, we have continued to safeguard future growth by protecting investment in new technologies, completing key projects such as Ansty Park and expanding capacity to support our brakes business as the recovery continues. Ansty Park and the associated consolidation of five sites in the UK, provides a modern, advanced and sustainable facility fostering enhanced interaction between a number of product groups, as well as a number of efficiency gains.

Maintaining a robust balance sheet and managing cash flow remained key focus areas for the Board and I am pleased that our net debt levels were held in line with the prior year. In accordance with the terms of the proposed transaction with Parker-Hannifin, the Board did not reinstate the payment of dividends during the year.

Proposed acquisition by Parker-Hannifin

Meggitt is one of the world's leading aerospace, defence and selected energy market businesses and over the last four years, 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, targeted investments and building a High Performance Culture.

And 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. With the onset of COVID-19 we took quick and decisive action in the face of unprecedented challenges, positioning the business to remain competitive in that environment and well positioned for the recovery.

As a result, 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, the Board decided that the all-cash offer by Parker-Hannifin would substantially accelerate and de-risk the delivery of that value. In reaching this decision, the Board carefully considered the commitments offered by Parker-Hannifin to safeguard the interests of the Group's wider stakeholders, the alignment of respective business models, cultures and the shared commitment to invest in technology and sustainability.

Accordingly, following careful consideration of both the financial terms and Parker-Hannifin's plans for the Group under their ownership, the Board recommended unanimously the proposed acquisition which was subsequently approved by shareholders in September.

Board interaction/ developments

The Board has continued to operate effectively through virtual and, where possible, the resumption of face-to-face meetings with UK-based Directors with a number of additional meetings being held over and above those that were scheduled.

With no changes to the membership of the Board in 2021, as in 2020, this has provided important stability and continuity for the Group, particularly in light of the corporate activity in the summer months culminating in the recommended offer in August by Parker-Hannifin.

In addition to managing the Parker-Hannifin transaction, the Board has continued to focus on business as usual activities with the main focus areas being managing the Group through the recovery, maintaining a robust balance sheet and executing our strategy including investment in technologies to make aviation and energy generation more sustainable.

I am also pleased to report that Nancy Gioia, Chair of the Corporate Responsibility Committee and Non-Executive Director responsible for employee engagement, was able to continue her employee engagement schedule alongside other Board Directors during 2021.

In light of continued restrictions on travel and free movement at the start of the year, Executive Directors increased their level of interaction using virtual meetings with every site and involving all levels of the business.

As in previous years, I held virtual meetings with shareholders at various points during 2021 discussing a range of topics.

People

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, I am also pleased to report 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 (2020: 0.71).

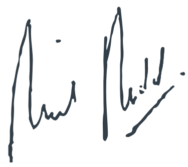
The Board is pleased that our work on culture could continue during the year, not only through monthly culture briefings run for all of our leaders, but also through our second annual Inclusion Week in September, helping to connect more of our employees across Meggitt to our eight Employee Resource Groups, membership of which has doubled to reach over a thousand employees.

Navigating what has proved to be another challenging year has required strong leadership across the Group, particularly our line managers and operational leaders. On behalf of the Board, I would like to thank all employees for their resilience, dedication and hard work.

In particular, I'd like to thank again all those that have continued to work at our sites to deliver for our customers throughout the year.

Looking ahead

Having put in place strong foundations through the execution of our strategy over the last four years, with the recovery in civil aerospace underway and the ongoing commitments made by Parker-Hannifin, the Board is optimistic about the opportunities that lie ahead for the Group and for all our stakeholders including employees, customers, shareholders and pension plan members.



Sir Nigel Rudd
Chairman

STRATEGIC REPORT

Chief Executive's review

Our priority during the year has continued to be the safety of our teams while delivering for our customers as the recovery continues.

Introduction

Our focus in 2021 and as we move through 2022, continues to be ensuring the safety and wellbeing of our people, protecting our sites, serving our customers and executing our strategy.

As in 2020, against the backdrop of what continued to be challenging market conditions as the recovery in civil aerospace got underway, our employees have once again remained focused on delivering for our customers and executing our strategy, and I want to thank all of them for their continued resilience and dedication throughout the period.

While the recovery in civil aerospace is encouraging, driven by the continued rollout of vaccines and more of the global fleet gradually returning to service, as we have seen throughout the year, its trajectory has been non-linear and remains highly sensitive to the reintroduction of local restrictions and border controls.

The extent of the recovery has also varied greatly, with domestic, cargo and business jets leading the way, with international activity levels held back by the closure of borders. With strong content across all parts of the civil fleet including large, regional and business jets, the diverse nature of our civil aerospace business allows us to benefit from those parts of the market recovering more quickly.

Full year performance

Having moved fast to reposition the business in 2020, a major priority for the Group and our global teams in 2021 has been to ensure our sites continued to deliver for our customers as civil activity levels increased, while navigating the additional challenge caused by disruption in the global supply chain as global demand across a number of sectors returned.

The work we have done over the last four years to strengthen the Group through our investments in differentiated technology and operations combined with our focus on High Performance Culture, have been pivotal in helping the Group mitigate the impact of these additional external pressures.

During the year, we have seen encouraging signs of the recovery with civil aftermarket organic revenue growth of 7% including a strong performance from brakes where revenue grew 22%, reflecting increased utilisation in the narrow body, regional aircraft and business jet fleets. We also saw strong civil aftermarket organic order intake in the final quarter of the year providing us with momentum as we entered 2022.

I am also pleased that we delivered another year of positive free cash flow, maintaining a robust balance sheet while continuing to invest in our people, operations and technology in line with our strategy.

During the year, we secured a number of significant customer wins across our end markets and continued to build the pipeline of new opportunities to underpin future growth, leveraging our leading market positions and strong technology.

As we look ahead to the remainder of 2022 and beyond, and notwithstanding that the trajectory of the recovery in civil aerospace is likely to remain uneven in the short term, the long-term fundamentals of civil aerospace and our defence and energy end markets remain strong.

As a result of the successful execution of our strategy and the work we have done to position the Group, I am positive about the future for the Group and the opportunities that lie ahead for employees and all our other stakeholders.

Chief Executive's review
continued

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 programme 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 relative to revenue.

  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

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 Eco Demonstrator programme with an Alaskan Airlines sponsored 737-9 aircraft equipped with our CF3I engine fire suppressant delivery system. We have also progressed the Minimum

Performance Standard (MPS) testing for engine applications of CF3I 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 CO_2 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 under way 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 programme 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.

Key highlights

55

SMARTSupport™ contracts with an aggregate value of £223m

76%

Global engagement 2% above 2020 levels and 4% above high performance benchmark

Chief Executive's review
continued

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 & 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 F-22 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 & 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.

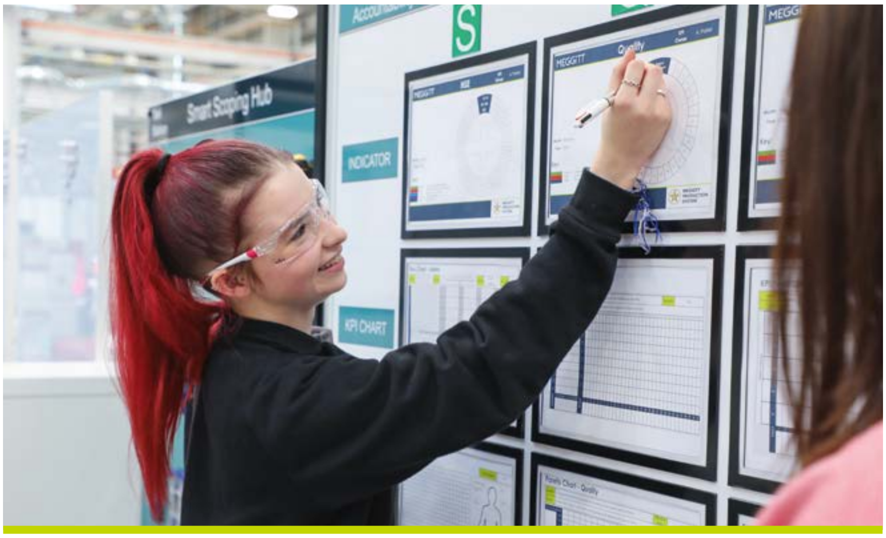
Culture

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.

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.

Tony Wood
Chief Executive Officer

Strategy in action

At Meggitt we are developing both next generation products and advanced manufacturing technologies to make them efficiently and sustainably.

Digital and additive manufacturing technologies are being used across Meggitt to make products in new and unique ways, to improve productivity and to reduce waste.

Digital work instructions allow complex parts to be assembled by skilled technicians whilst efficiently collecting all of the information that is needed in aerospace's highly regulated market. Replacing the traditional paper-based systems, that are still widely used in the aerospace sector, has increased productivity and allowed the operators to focus on the critical aspects of building the products.

Connecting machining and inspection tools into the same ecosystem is driving further improvements in productivity and augmented reality adds another dimension, enabling operators to work with a digital overlay to what they are seeing in the physical world and to interact with colleagues across our global factories.

Additive manufacturing is another technology that has come of age in the manufacturing environment where fittings and tools can now be quickly designed and printed to meet local needs.

There are many more opportunities for us to integrate digital technologies into our operations and processes, as we continue to investigate possibilities we are driving fundamental change, both in how we operate and how we deliver value to our customers.

12%

average efficiency gain in teams adopting Visual Factory

c. 7,000

labour hours saved on one pilot product line between Jan 21 – Dec 21 compared with 2020 baseline

IMAGES: A colleague demonstrates how Meggitt are using augmented reality to train operators without needing to travel. Another colleague uses his Hololens to run Visual Factory work instructions.

TECHNOLOGY.

Our strategic priorities are underpinned by our three Corporate Responsibility pillars.

Read more about our Technology pillar on page 83

Delivering breakthrough performance

STRATEGIC PORTFOLIO

Through focusing on engineering and operational excellence, we build broad installed bases of equipment for which we provide support throughout their lifecycle.

Business model

What we do

Innovation is at the heart of what we do with safety, reliability, and operating and environmental performance underpinning our approach.

By investing in and developing sustainable and differentiated technologies for application in our selected markets, including civil aerospace, defence and energy, we develop pioneering products in collaboration with our customers.

Our products are manufactured in our globally located facilities and we go to market through our four customer-aligned business divisions:

How we create value through the investment cycle

Maintaining a competitive advantage

Strong partnerships

We seek strong, collaborative and close relationships with our customers and suppliers. Our business cycle is multi-year, and we seek relationships to support this.

Market-leading technology

We invest in market-leading technology and robustly defend our intellectual property rights. We hold leading market positions across a number of product lines.

Airframe Systems

Engine Systems

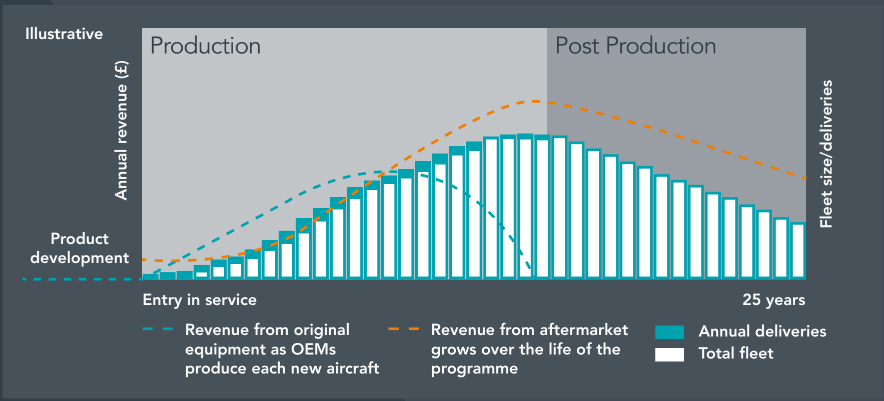
Energy & Equipment

Services & Support

Through our Services & Support division and SMARTSupport™ (our brand name for a range of tailored, longer-term, aftermarket offerings), we provide a tailored package of spare parts and repair services to our customers depending on their requirements to fit their operational model.

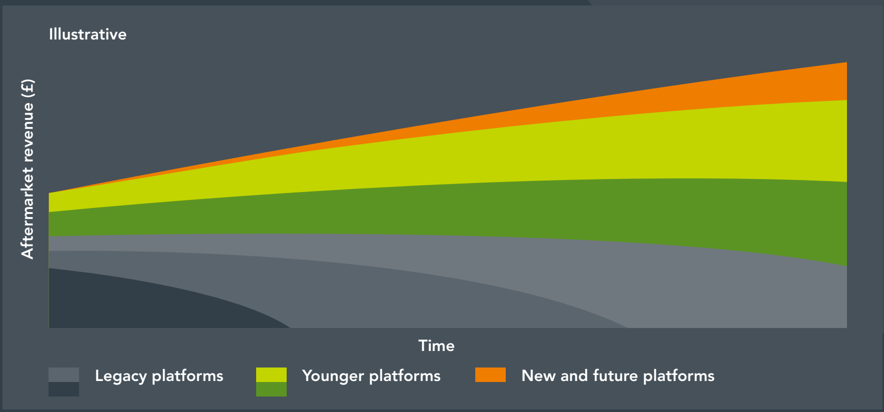
Aerospace, defence and aero-derived energy

We secure content across a broad range of platforms in civil aerospace, defence and selected energy end markets, generating original equipment (OE) revenue from day one and a growing aftermarket (AM) revenue stream as the fleet grows over time.



Aftermarket annuity

Leveraging our long-term customer relationships, strong IP and differentiated technology we have secured increased content on the latest generation of platforms. Our business model is to grow and constantly refresh our aftermarket revenue providing a strong annuity revenue stream for years to come.



How we share value

Customers

We develop innovative and differentiated technology for our customers, that anticipates future market demand and meets high certification requirements.

Equity and debt holders

Over the last five years we have returned £373m to our shareholders through dividends and paid £166m in interest to our holders of debt.

Employees

We employ over 9,000 people and in 2021 paid over £568m in wages, salaries and employee benefits.

Governments

We paid over £80m in social security and corporation taxes to governments in 2021. The Group's employees also paid a share of their wages and salaries to governments through income taxes.

Suppliers

Over the last five years, through our central procurement function, we have paid c.£4.5bn to our suppliers.

Diverse end markets

We have diverse end-market exposure with our technology and products utilised in a large fleet across civil, defence and selected energy markets.

World-class services and support

Our customers demand high quality, timely services and support to maximise the value of our products through their lifecycles.

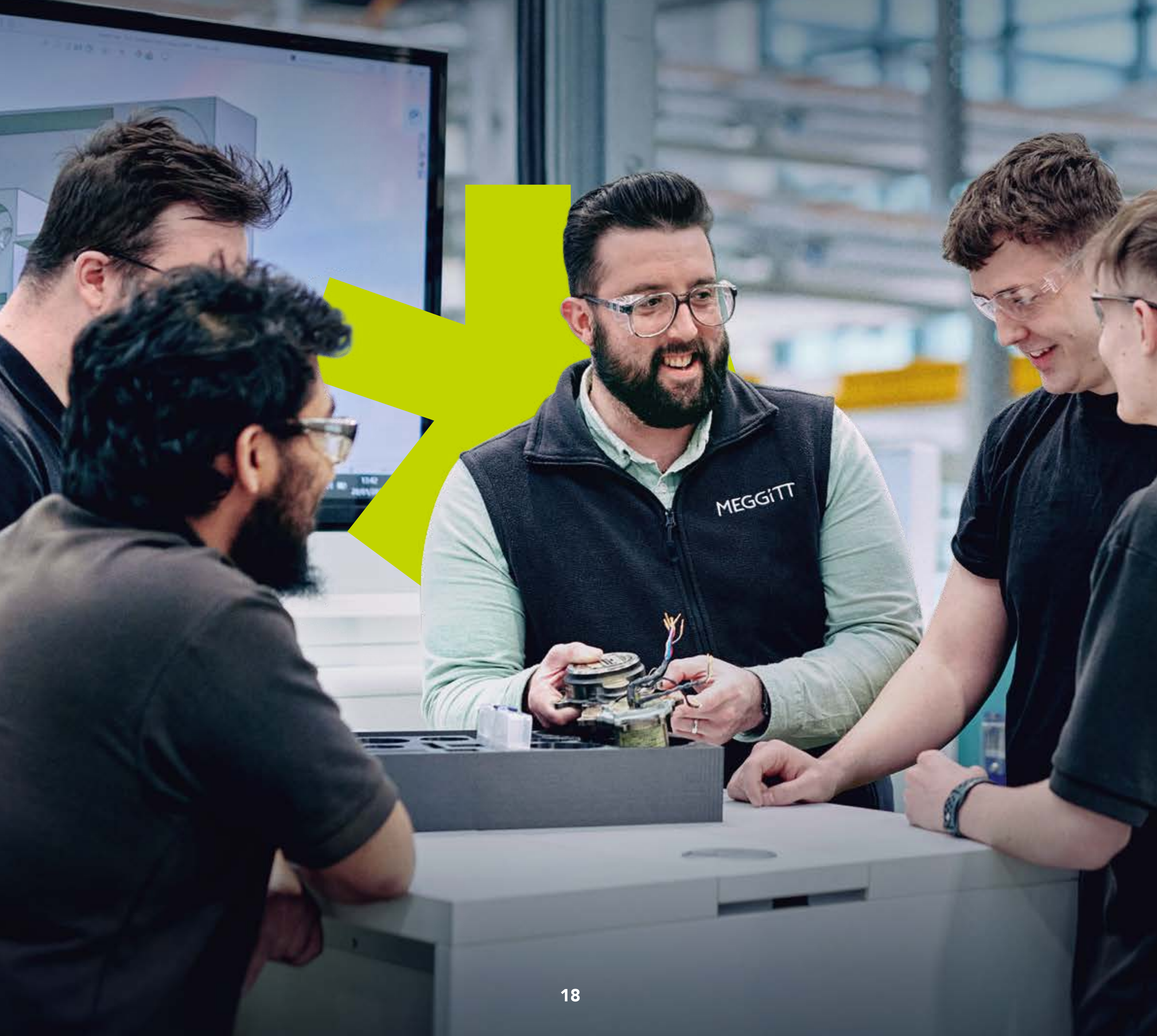
Strong values

Our values underpin what we do and are supported by HPC. Our people collaborate to create value by combining extensive technical capabilities and long-standing sector knowledge.

Strategy in action

Enhancing lives by keeping the lights on for our CUSTOMERS

Connecting valuable components to new opportunities.



It's fair to say that when a Meggitt part enters service it's in it for the long haul.

We repair through all stages of lifecycle, offering our global customers a more cost-efficient, sustainable way to stay airborne for longer.

For airline operators, scheduled maintenance is a way of life. Ensuring passenger safety, reliability and operational efficiency. An aircraft on ground (AOG) due to component failure not only results in lost passenger and cargo revenue, but there are also significant associated costs. New for old is not the most cost-efficient route and it isn't the most sustainable either.

We harvest and refurbish Meggitt parts from retired aircraft and offer them to our customers as a convenient, cost-efficient alternative to brand-new spares. Known as Used Serviceable Material (USM), this solution optimises product lifecycle, giving high quality, recertified parts a second chance to fly as well as offering a more sustainable alternative. For example, a USM fire extinguishing bottle can be seen in the image below.

End-of-life recycling is another major part of our SMARTSupport™ value proposition.

3

Global regional centres of excellence in EMEA, Asia and the Americas

IMAGES: Colleagues from the SmartScoping team within Meggitt's Services & Support division take part in a Daily Layered Accountability meeting (DLA).

An electromechanical valve is repaired at Ansty Park, UK.

PLANET.

Our strategic priorities are underpinned by our three Corporate Responsibility pillars.

Read more about our Planet pillar on page 78

Market trends

Civil original equipment

2021 market trends

- Increase in new build rates by airframe and engine OEMs as demand for new aircraft continued to recover during the year.
- Increase of 32% in combined deliveries of large jets from Airbus and Boeing.
- Deliveries of regional aircraft in line with 2020 with growth in business jets of 9%.
- Continued approvals for the return to service of the Boeing 737MAX with the aircraft authorised in 180 countries.

Meggitt performance in 2021

- Civil OE revenue down 10% organically with growth of 17% in the second half (vs. H2 2020), reflecting the gradual recovery in civil aerospace.
- In large jets, the largest component of our civil OE revenue (66%), organic revenue was down 13% driven by lower wide body demand including the B787, B777 and A350XWB.
- OE revenue from business jets (28% of civil OE revenue) was down 4% on an organic basis.
- OE revenue from regional jets (6% of civil OE revenue) was 7% lower on an organic basis.

2022 outlook

OEM production rates expected to increase versus 2021 levels, as airframe and engine manufacturers begin to gradually increase supply as the recovery continues and demand for new aircraft increases.

Business jet deliveries are expected to be slightly up on 2021 reflecting the continued recovery and customer demand in this segment.

Backlog for new aircraft remains healthy reflecting expectations of continued fleet renewal and strong long-term fundamentals.

Over the medium term air traffic is expected to return to pre-COVID levels by 2023/24 and then continue growing. This will then feed through to increased deliveries of new aircraft.

Revenue

£260m

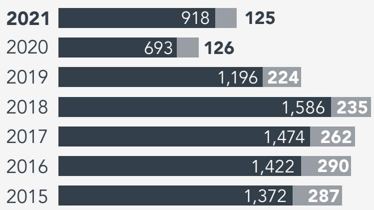
Market segments

- Large jets >100 seats
- Regional jets <100 seats
- Business jets
- Civil helicopters

Revenue by platform category

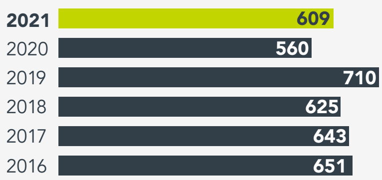
Large jets	66%
Regional jets	6%
Business jets	28%

Annual commercial deliveries[1]



Large jets
Regional jets

Annual business jet deliveries



1 Excludes military variants.

Civil aftermarket

2021 market trends

- Continued recovery in flight activity with global RPKs and ASKs for the month of December 2021 up 80% and 46% versus December 2020.
- Active fleet up to 79% at the end of 2021 having started the year at 68%.
- Trajectory and pace of recovery remained sensitive to regional outbreaks of COVID-19 and associated restrictions on travel.
- Recovery led by domestic travel, with global domestic ASKs for the month of December 2021 up 15% versus December 2020, representing 85% of 2019 levels.
- Strong recovery in business jets with activity levels up 48% for the full year, with activity for the month of December 2021 at 123% of December 2019 levels.

Meggitt performance in 2021

- Group civil AM revenue up 7% organically with large jets up 1%, regional aircraft up 6% and business jets up 21%.
- Strong civil AM growth of 51% in the second half on an organic basis.
- Civil AM organic orders up 50% in the year with growth of 119% in the second half and book to bill of 1.11x.
- Good performance in brakes with revenue up 22% organically, with growth across all platform categories.
- On a regional basis in Services & Support: revenue in Asia and the US up 7% and 2% respectively with Europe down 18%, all on an organic basis.

2022 outlook

The continued rollout of vaccines and significant pent up demand to travel expected to underpin the continued recovery in civil aerospace.

Pace and trajectory of the recovery in the short term expected to remain sensitive to regional outbreaks and local restrictions.

Domestic travel, business jets and regional aircraft expected to continue to lead the recovery.

Industry expectation that air traffic activity will return to 2019 levels by 2023/24.

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% (IATA) per annum expected over the next 20 years.

Revenue

£425m

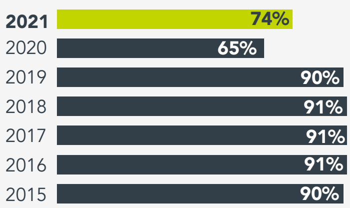
Market segments

- Large jets >100 seats
- Regional jets <100 seats
- Business jets
- Civil helicopters

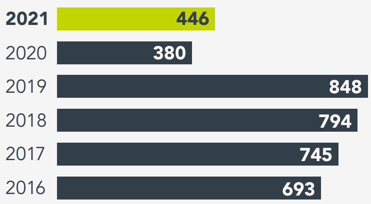
Revenue by platform category

Large jets	54%
Regional jets	20%
Business jets	26%

Average monthly commercial active fleet

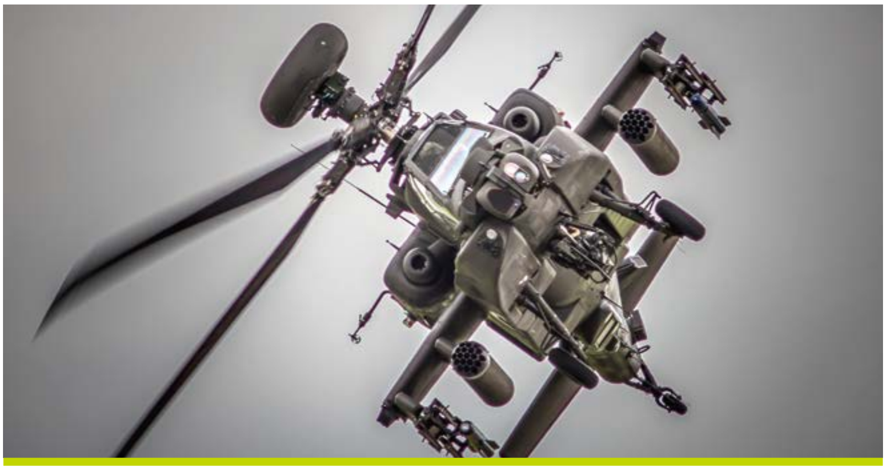


Average monthly commercial ASKs (Mn)



Market trends
continued

Defence



2021 market trends

- US Department of Defence outlays in the US up 4% for fiscal year 2021.
- Outlays for Procurement and RDT&E up 6% and 2% respectively.
- After a period of robust spending between 2017-2019, inventory destocking by the Defence Logistics Agency (DLA) lowered demand for aftermarket spares.

Meggitt performance in 2021

- After three years of strong growth, Group defence revenue ended the year 11% lower on an organic basis.
- OE revenue down 7% and aftermarket down 17% on an organic basis versus the comparative period.
- Performance reflects inventory destocking, lower orders by the US Defence Logistics Agency in the aftermarket and COVID-related disruption at two of our US sites in the year.

2022 outlook

Defence expenditure in the US, our most important defence market representing 72% of total Group defence revenue expected to remain stable.

US defence budget for 2022 approved at $715 billion representing an increase of 2% on 2021.

While most major defence spending nations are committed to maintaining defence spending, an increasing proportion is expected to be allocated to cyber, autonomy, space, maritime and weapon systems.

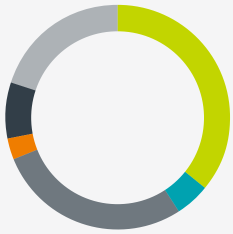
Revenue

£620m

Market segments

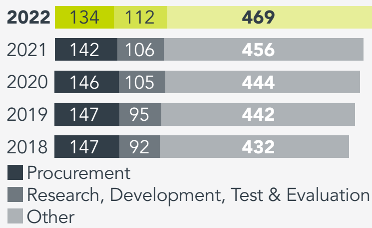
- Military aircraft & helicopters
- Ground vehicles
- Naval
- Space

Group defence revenue by platform category

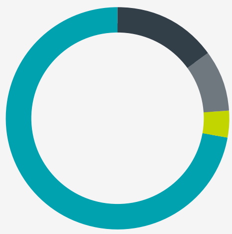


Fighter/attack	36%
Light attack	5%
Rotary wing	28%
Special mission	3%
Transports	8%
Ground/naval	20%

US DoD Spending ($bn)



Group defence revenue by geography



Rest of Europe	15%
Rest of the World	9%
UK	4%
US	72%

Energy and other

2021 market trends

- Oil prices increased 76% from a low in January reaching an in-year high of $85 per barrel in October, before ending the year at $75 per barrel.
- Capital expenditure levels on energy projects remained strong, particularly in the renewables space where a number of large projects were commissioned.
- Growth driven by increasing electricity demand supplied by gas-fired power plants and renewable power generation systems.
- High gas prices have added to interest in investment in LNG production and transport.

Meggitt performance in 2021

- Energy revenue was up 6% in the year on an organic basis with 8% growth in the second half.
- Organic revenue in our Heatric and Energy Sensing & Controls businesses up 5% and 12% respectively.
- Revenue from other markets was 8% lower versus the comparative period on an organic basis.

2022 outlook

Medium-term growth expectations for our energy businesses remain good.

We have differentiated technology which plays a critical role in the extraction of deep water offshore gas reserves and good opportunities in adjacent markets including LNG and increasingly lower carbon and renewable applications.

Our energy businesses benefit from synergistic relationships across the Group, e.g. thermal systems for the aerospace market, as well as the long-term demand for energy, particularly in emerging markets.

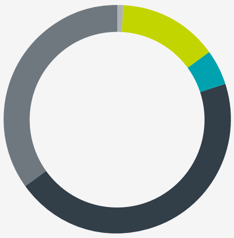
Revenue

£184m

Market segments

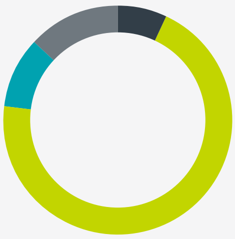
- Power generation
- Oil & Gas
- Renewables

Global investment in the power sector by technology[1]



Battery storage	1%
Fossil fuel power	14%
Nuclear	5%
Renewable power	45%
Electricity network	35%

Group energy revenue by application



Oil	7%
Low carbon (vs. Oil)	70%
Zero carbon	10%
Other	13%

1 International Energy Agency (2021), World Energy Investment 2021, IEA, Paris.

Our strategy
continued

As the recovery in civil aerospace continued during 2021, we remained focused on operational execution and our four strategic priorities to accelerate growth, increase cash flow and improve return on capital employed. These priorities are: Strategic Portfolio, Customers, Competitiveness and Culture.

STRATEGIC PORTFOLIO

Focus areas
- Investment in sustainable and differentiated technologies.
- Increasing our exposure to attractive markets where we have strong competitive positions.

2021 progress
- Sale of our ducting business and closure of our site in Toulouse as part of our strategy to consolidate our Power & Sensing capabilities.
- Successfully delivered all key technology programme milestones.
- Continued investment in differentiated technologies to contribute to a Net Zero Future including those to support our customers in the development of next generation aviation and low-carbon energy applications.
- Intensified focus on returns across our product portfolio.

2022 priorities
- Continue to invest at least two-thirds of our Research and Technology innovation budget in technologies for sustainable aviation and low-carbon energy.
- Continue to progress technology and product development programmes with our customers.
- Focus on opportunities to grow revenue in defence and energy.

Key risks
Business model

Failure to respond to fundamental changes in our aerospace business model.

CUSTOMERS

Focus areas
- Supporting customers through the civil aerospace recovery as demand and production levels increased.
- Growing our market share in the aftermarket.
- Consolidating our customer-aligned organisation.

2021 progress
- Customer-aligned organisation key to managing the recovery in both OE production and the aftermarket.
- Continued to win new customer orders across civil aerospace, defence and energy.
- Customer awards for our Airframes Systems Rockmart and Engine Systems San Diego sites in the US.
- 11 SMARTSupport™ deals signed in the year taking total number of contracts to 55 with an aggregate value of £223m.
- Investment to broaden our offering and capability across our three aftermarket Centres of Excellence in Singapore, UK and the US.
- Worked closely with customers on key sustainability programs for aerospace and energy.

2022 priorities
- Continue to support our customers through the recovery as activity levels continue to increase.
- Continue to focus on operational improvements to drive customer satisfaction.
- Grow our market share in the aftermarket by securing additional SMARTSupport™ agreements.
- Continue to support customers and their net zero ambitions.

Key risks
Customer satisfaction

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

COMPETITIVENESS

Focus areas
- Ensuring readiness across our global sites as OE build rates and aftermarket demand increases.
- Driving productivity improvements across all sites.
- Building a resilient and optimised supply chain delivering further purchase cost savings.
- Optimising factory footprint.

2021 progress
- Completed commissioning of our Ansty Park, UK facility including customer transitions.
- Deployment of Meggitt High Performance System (HPS) to drive process maturity.
- Embedded Spitfire operational leadership programme.
- Good progress streamlining our UK Polymers and Composites business.
- Further reduction in our global footprint with 36 sites at the end of 2021, a 36% reduction compared with our 2016 baseline.
- Implementation of greater automation and advanced digital manufacturing at our sites.
- Further product transfers to low-cost manufacturing.
- Delivered improved safety performance recording lowest ever TRIR of 0.63.

2022 priorities
- Continue to manage raw material and labour cost inflation across global supply chain.
- Continue footprint consolidation to reach our goal of 50% reduction by end 2023.
- Drive environmental and sustainability improvements across our sites.
- Roll out "Safety Star Program" to reinforce site safety.

Key risks
Project/programme management & inflation

Failure to meet new product programme milestones or lower than expected production volumes.

Increase in raw material and input costs.

CULTURE

Focus areas
- Protecting our people.
- Recruiting, retaining, developing and engaging talent.
- Embedding a high performance, diverse and inclusive culture.
- Supporting our local communities.

2021 progress
- Continued investment in talent through our graduate and apprentice programmes.
- Continued commitment to High Performance Culture with 70% of employees having attended training sessions.
- Successfully launched "LeadX" leadership programme.
- Doubled membership of our eight Employee Resource Groups to over 1,000 employees.
- Adoption of flexible working guidelines.
- Participated in 10,000 Black Interns programme.
- Increase of 2% in employee engagement versus 2020, 4% above high performance benchmark.

2022 priorities
- Continue to protect employees across our global sites.
- Complete rollout of HPC training across the Group and reinforce HPC principles through our LeadX and Spitfire leadership programmes.
- Continue to strengthen our approach to inclusion and diversity.
- Encourage our people to engage with local communities and charities through our Community Heroes volunteering programme.

Key risks
People

Failure to attract, motivate and retain people due to lack of opportunities and/or training.

Key performance indicators

The Group uses a mix of financial and non-financial key performance indicators (KPIs) to measure execution against our strategic objectives. To ensure we deliver value to our shareholders over the investment cycle, financial KPIs balance short-term measures (underlying operating profit and free cash flow in the year) with longer-term measures (return on capital employed and underlying EPS growth). Non-financial KPIs focus on investment in R&D to drive future revenues, the health and safety of our employees and raising standards of operational performance to satisfy our customers whilst also managing our impact on our wider environment. The Group adopted IFRS 15 and IFRS 16 with effect from 1 January 2018, with prior year comparatives for 2017 restated. For 2017, EPS growth compared to performance in 2016, is not fully restated, though it does reflect the requirement to expense free of charge manufactured parts (FOC) as incurred under IFRS 15, rather than initially recognising costs as an intangible asset and then amortising them over their useful lives. The Group's performance against climate change objectives continues to be a focus. After a trial during 2021, from 2022 onwards, the Group will include measures supporting the Group's environmental commitments in its KPI monitoring, and also in the Group's 2022 LTIP Award.

Link to strategic priorities

1. Strategic Portfolio
2. Customers
3. Competitiveness
4. Culture

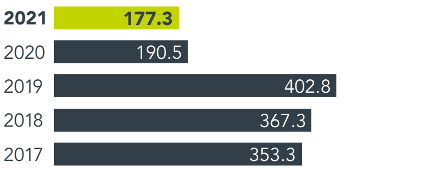
Underlying operating profit (UOP)

1 3 4

Performance

£177.3m

Underlying operating profit



Definition and basis of calculation

Underlying operating profit is defined and reconciled to statutory measures in note 9 to the Group's consolidated financial statements on page 197.

Read more on page 132

Target

As part of the Group's Q3 2021 Trading Update the Group guided that FY 2021 underlying operating profit would be between £170m – £190m. The Group does not typically publish profit targets.

Result

2021: £177.3m. See page 42 for details.

Read more on page 132

Directors' incentive plans

Underlying operating profit was a performance measure in the 2021 STIP and is a measure for the 2022 STIP. The 2021 STIP outturn fell between Threshold and Target. It is expected that a proportion of the STIP bonus will be paid in respect of 2021.

For the purposes of these plans, actual and target underlying operating profit are measured at constant currency. See pages 132 and 142 for details.

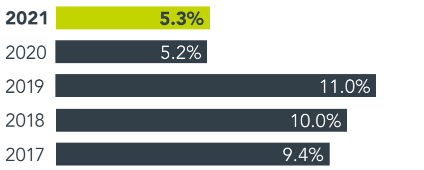
Return on capital employed (ROCE)

1 3 4

Performance

5.3%

ROCE



Definition and basis of calculation

Return on capital employed is underlying operating profit expressed as a percentage of average capital employed (i.e. the underlying return on average capital employed).

Capital employed is defined as net assets excluding net debt, retirement benefit obligations net of associated deferred tax and derivative financial instruments. Average capital employed is the mean of the period's opening and closing capital employed.

Target

As LTIP ROCE targets are set over a three-year period, there is no specific target for 2021 alone. Details of the ROCE target from the 2021 LTIP are shown on page 135.

Result

2021: 5.3%. Three-year average ROCE to 2021 was 7.1%.

Read more on page 134

Directors' incentive plans

ROCE is a performance measure for Executive Directors in the 2019, 2020 and 2021 LTIP. ROCE will be a performance measure in the 2022 LTIP. For the purposes of these plans, underlying operating profit and capital employed are measured at constant currency. See pages 135 and 142 for details.

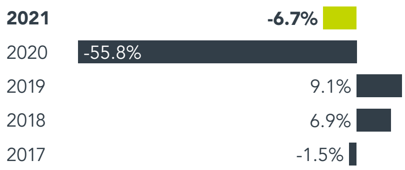
Underlying EPS growth

1 2 3 4

Performance

-6.7%

Underlying EPS growth



Definition and basis of calculation

The percentage change in underlying earnings per share (EPS) from the previous year. Underlying EPS is defined and reconciled to statutory measures in note 14 to the Group's consolidated financial statements.

Read more on page 201

Target

We do not typically publish profit targets. As LTIP underlying EPS targets are set over a three-year period, there are no specific targets for 2021 alone. Details of the underlying EPS target from the 2021 LTIP are shown on page 135.

Result

2021: -6.7%. See page 42 for details.

Read more on page 171

Directors' incentive plans

Underlying EPS is a performance measure for the 2019, 2020 and 2021 LTIPs, and is proposed for the 2022 Award. See pages 135 and 142 for details.

Key performance indicators
continued

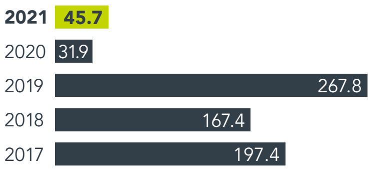
Free cash flow

1 2 3 4

Performance

£45.7m

Free cash flow



Definition and basis of calculation

Cash generated excluding amounts in respect of the proposed acquisition and disposal of businesses and payments to shareholders. Free cash flow is reconciled to statutory measures in note 42 of the Group's consolidated financial statements on page 228.

Read more on page 132

Target

We do not typically publish free cash flow targets. At the start of 2021, the Group was expecting to maintain a positive free cash flow through 2021. This view was maintained in the Q3 2021 Trading Update.

Result

2021: £45.7m. This was in line with the Q3 2021 Trading Update. Free cash flow before tax and interest is a measure in the 2021 STIP. However, the 2021 outturn did not trigger vesting and no bonus will be paid on this component of the 2021 STIP.

Read more on page 44

Directors' incentive plans

Free cash flow is a performance measure for the 2021 and 2022 STIP. For the purpose of these plans, actual and target free cash flow figures are measured at constant currency and exclude interest and tax. See pages 132 and 142 for details.

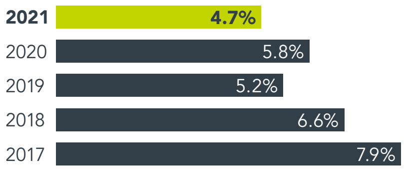
R&D investment

1 2 3 4

Performance

4.7%

R&D investment



Definition and basis of calculation

Investment in research and development expressed as a percentage of revenue. Investment is measured as total expenditure in the year as disclosed in note 7 to the Group's consolidated financial statements on page 196. It is not adjusted for amounts capitalised, amortised, impaired or incurred on contracts funded by customers.

Read more on page 181

Target

Investment of 5% to 7% per annum. The range reflects typical investment fluctuations within the industry cycle.

Result

2021: 4.7%. Average over the last three years 5.3%.

Read more on page 44

Directors' incentive plans

R&D investment is not a specific measure used in Directors' incentive plans. However, the 2019, 2020 and 2021 LTIPs include programme performance measures which include the effective delivery of R&D programmes. This same measure is proposed for 2022 LTIP. See pages 135 and 142 for details.

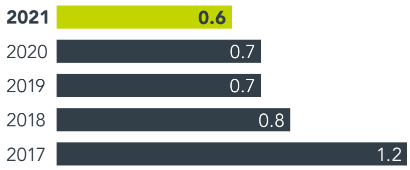
Total recordable incident rate (TRIR)

1 2 3 4

Performance

0.6

Accident/incident rate Group



Definition and basis of calculation

The total recordable safety incident rate calculated per 100 employees. It is calculated as the number of recordable incidents multiplied by 200,000 and then divided by the total number of hours worked during the year.

Read more on page 76

Target

In 2021, the Group had a TRIR target of less than or equal to 0.7 For 2022, the target is 0.6.

Result

2021: 0.6. The Group has been collecting TRIR data for this KPI since 2017. See page 133 for details.

Read more on page 76

Directors' incentive plans

Health and safety performance is not a specific measure used in Directors' incentive plans. However, improvement in health and safety is included in the personal objectives of the Chief Executive in the 2021 STIP.

Emissions intensity

1 2 3 4

Performance

36.9T/£m CO_2e

Tonnes Scope 1 and 2 CO_2e / £m revenue

Definition and basis of calculation

Scope 1 and scope 2 CO_2 equivalent emissions for the reporting period calculated using market-based reporting, divided by consolidated Group revenue. Market based reporting includes the impact of renewable energy contracts. Note that 2020 and 2021 reporting includes the impact of propane consumption.

Read more on page 82

Target

The Group has a target to reduce its greenhouse gas emissions relative to revenue by 50%, against a base year of 2015, by 31 December 2025 and includes the impact of incorporating renewables energy contracts (market based reporting). All site level targets use location-based reporting to drive local abatement and energy efficiency.

Result

2021: CO_2e equivalent tonnes per £m revenue of 36.9, a reduction of 54% vs. a 2015 baseline.

Read more on page 82

Directors' incentive plans

Emissions intensity is being introduced for the first time to the Group's 2022 LTIP Award. The overall Group target of a 50% reduction by December 2025 will also continue to be monitored by the Board.

Inventory turns

1 2 3 4

Performance

2.2x

Inventory turns

Definition and basis of calculation

Underlying cost of sales divided by average inventory measured at constant currency and excluding businesses acquired or disposed of in the year. Underlying cost of sales adjusts cost of sales for the impact of items which are excluded from the Group's underlying profit measures as disclosed in note 9 to the Group's consolidated financial statements on page 197. Average inventory is calculated as the 13-month average of inventory, gross of provision, at the end of the previous financial year and at the end of each month of the current year. To measure inventory at constant currency, average inventory of foreign subsidiaries is translated at average exchange rates for the year.

In 2021, the Group updated its inventory turns definition. Annualised underlying cost of sales is Q4 cost of sales, multiplied by 4. Average inventory is measured on a 4-month average to the month of reporting. Using this approach for 2021, inventory turns would fall to 2.0x vs. the 2.2x shown.

Read more on page 134

Target

The 2021 LTIP inventory turns target was 2.8 for 2021 using the 4-month average measure.

Result

2021: 2.0 (4-month measure); 2.2 (13-month measure)

Read more on page 134

Directors' incentive plans

Inventory reduction is a performance measure for the 2019, 2020 and 2021 LTIP and is proposed as a measure for 2022. 2019 and 2020 use the 13-month average definition, whilst 2021 and 2022 use the 4-month average.

Strategic Report

Strategy in action

Enhancing lives through investing in continuous improvement and COMPETITIVENESS

"We are committed to spending two-thirds of investment in research and technology on developing technologies that support industries in the drive to become more sustainable.

Developing technologies that provide real alternatives to fossil fuel power plants.

The first ever commercial application of a MAN ETES heat pump system in the Danish port of Esbjerg.

This groundbreaking solution offers a carbon-neutral alternative to traditional fossil fuel power plants, harnessing wind and seawater hydro power to supply energy to approximately 100,000 local inhabitants.

The MAN ETES heat pump installation is both the largest sea water heat pump in Denmark and the largest heat pump in the world to use CO_2 as a refrigerant.

Meggitt PCHEs (Printed Circuit Heat Exchangers) are central to the system and provide the thermal transfer between the innovative CO_2 refrigerant loop and the district heating network.

Gas turbines, fuelled with natural gas or hydrogen, will remain an important part of the world's energy systems for the coming decades and Meggitt is partnering with some of the leading suppliers to develop technologies that continue to improve turbine efficiency and performance.

100%

The ETES system achieves complete decarbonisation of the final energy demand

IMAGE: An example of a Meggitt PCHE (Printed Circuit Heat Exchanger).

TECHNOLOGY.

Our strategic priorities are underpinned by our three Corporate Responsibility pillars.

Read more about our Technology pillar on page 83

Strategy in action

Enhancing lives by building an inclusive culture

CULTURE

Our people are at the centre of our sustainable future. They are the ones who enable our innovation, sustainable technologies and success.

Recognising our Extraordinary People.

Our peer recognition scheme, "Extraordinary People", gives each of us the opportunity to reward colleagues who live and breathe the core Meggitt values of Teamwork, Integrity and Excellence.

There are many things that go into being a truly great company – innovative technology and solutions, operations and functions performing at their best, and great relationships with our customers and each other.

Our High Performance Culture and great values are at the heart of how we work at Meggitt. Colleagues that demonstrate great Teamwork, always acting with Integrity – doing the right thing, in the right way, and staying focused on Excellence for our customers.

A culture of appreciation and recognition is an important building block for our values. Our new employee recognition programme "Extraordinary People" is a great way of recognising the special efforts and commitment of individual colleagues and teams across the whole of Meggitt.

4,000+

Nominations of Extraordinary People since the launch

Community

Customer Service

Excellence

Safety

Innovation

Sustainability

Teamwork

PEOPLE.

Our strategic priorities are underpinned by our three Corporate Responsibility pillars.

Read more about our People pillar on page 72

Divisional reviews

AIRFRAME SYSTEMS

Providing core components for original equipment airframe manufacturers and the Services & Support division across multiple platforms, and specialising in products designed to operate in demanding conditions across a diverse range of applications.

President: Chris Allen

Revenue

£737m

(2020: £793m)

Airframes

Civil OE	23%
Civil AM	27%
Defence OE	27%
Defence AM	20%
Energy & other	3%

Divisional capabilities

- Wheels and brakes (including control and monitoring systems)
- Aircraft fire protection and safety systems
- Electro-thermal ice protection
- Power generation, conversion and storage
- Avionics and air data systems
- High performance sensors
- Flexible fuel tanks for defence and civil aircraft
- Sealing solutions

Markets

- Civil aerospace
- Fixed wing defence aircraft
- Rotary wing defence aircraft
- Unmanned aerial vehicles

What does the division do

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 & Support.

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.
- "Supplier of the Year 2021" award received from Bell, Boeing Defence at Rockmart facility.

2021 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 and regional aircraft OE ended the period down 20% driven by lower widebody demand on the B787, B777 and A350XWB partially offset by growth on the A320 and A220 platforms. In regional aircraft, 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.

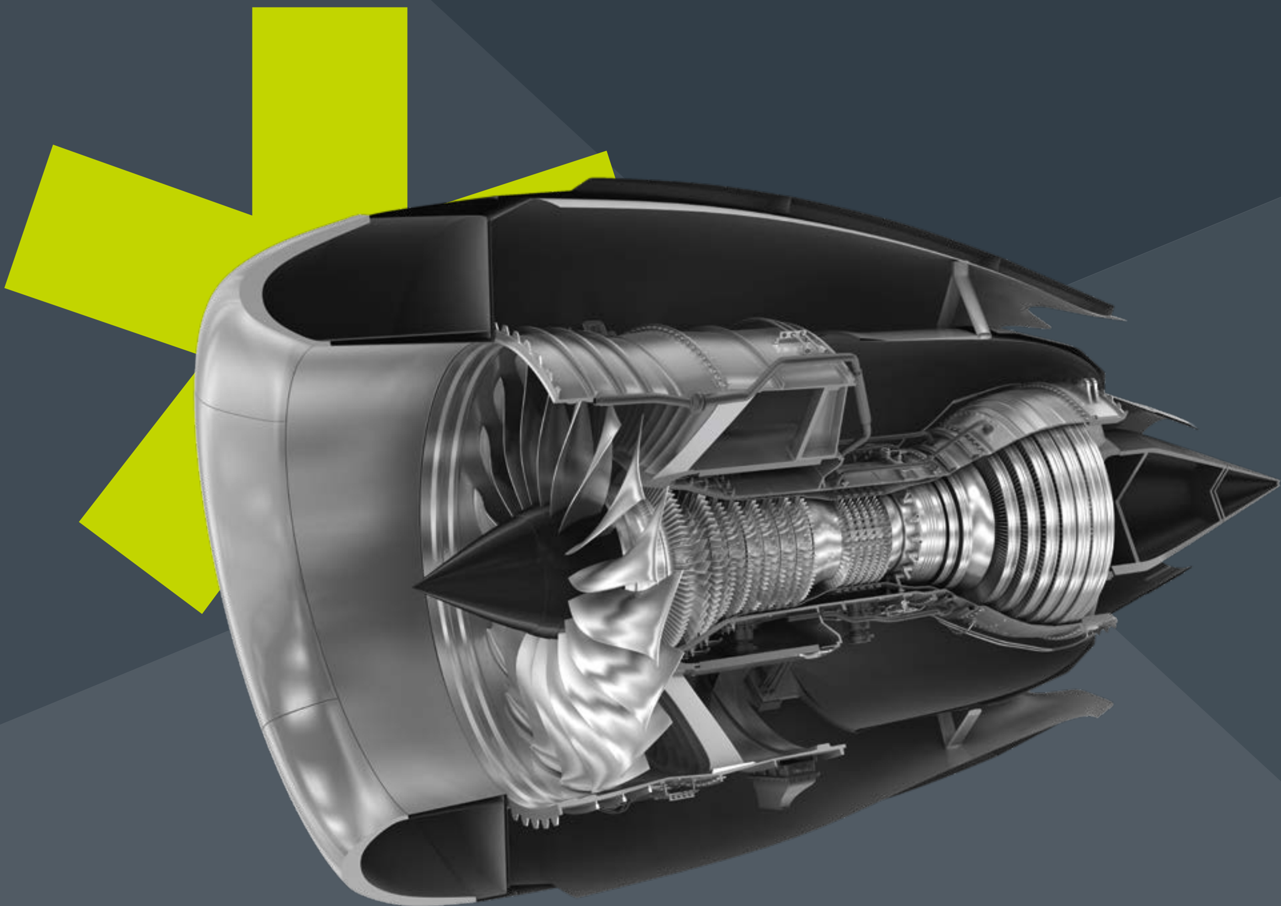
Underlying operating profit was up 4% on an organic basis with underlying operating margin 110 basis points higher than the comparative period at 16.3% (FY 2020: 15.2%).

IMAGE: Swiss Airbus A320 pictured on take-off.

Divisional reviews
continued

ENGINE SYSTEMS

Providing core technologies for engine manufacturers across a broad range of competencies including thermal management, engine sensing and advanced composites.



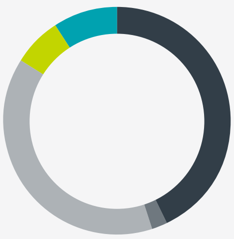
President: Troy Peterson

Revenue

£208m

(2020: £253m)

Engines



Civil OE	43%
Civil AM	2%
Defence OE	39%
Defence AM	7%
Energy & other	9%

Divisional capabilities

- Complex high-temperature engine composite components
- Control valves and sub-systems
- Engine sensors
- Thermal management

Markets

- Civil aerospace
- Fixed wing defence aircraft
- Rotary wing defence aircraft

What does the division do

Market-leading position 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.

Highlights

- Established our new thermals 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.

2021 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 (2020: loss of £16.2m) resulting from lower revenue and, as reported in our half year results, lower productivity in in the first quarter caused by COVID-related disruption at our US sites.

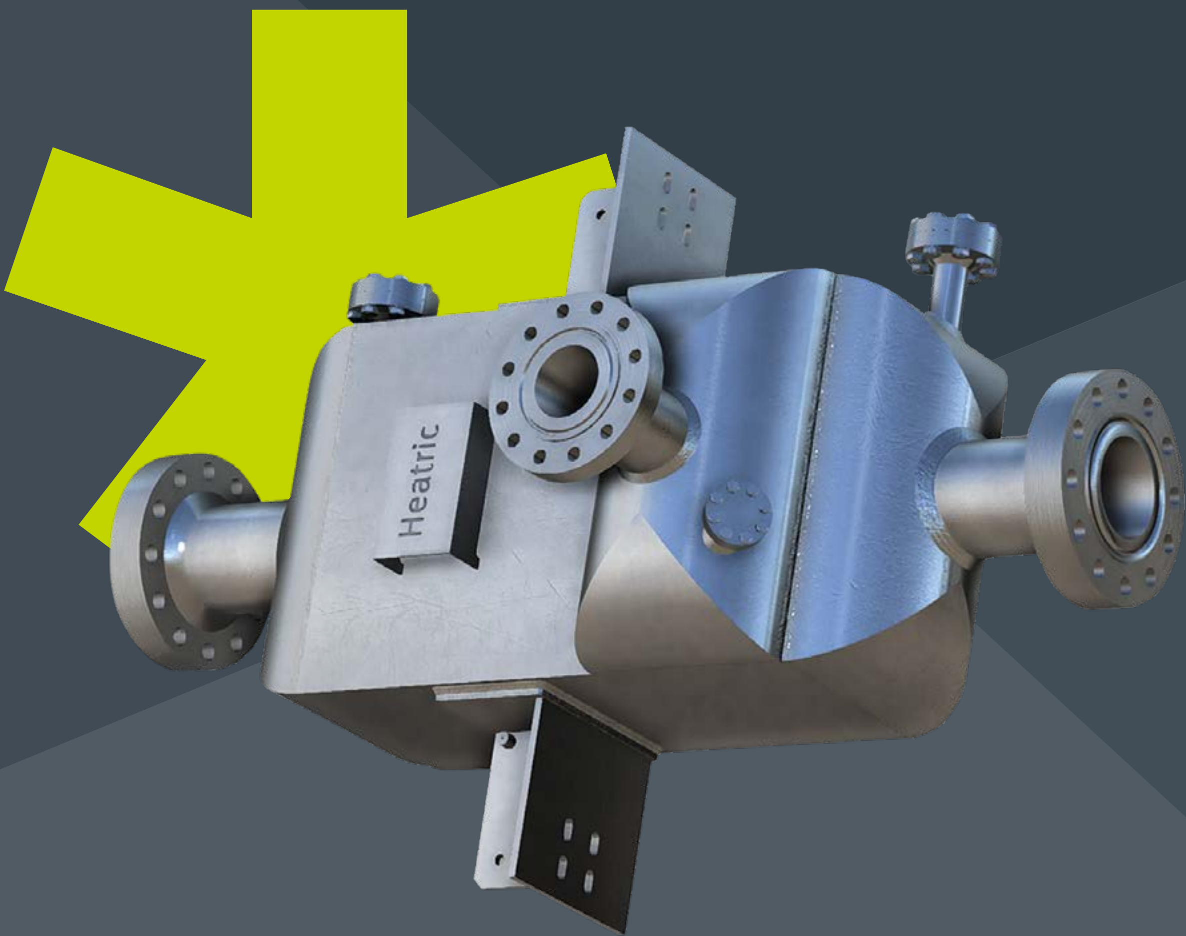
We made good progress on our recovery plan in Engine Composites, transferring more production down to our low cost facility in Saltillo, Mexico, as well as introducing further process improvements and increasing yields significantly on certain parts. As volumes recover in both civil and defence, we expect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

IMAGE: A Meggitt colleague sets up a Mazak in our brand new thermal cell producing commercial and defence heat exchangers at Ansty Park, UK.

Divisional reviews
continued

ENERGY & EQUIPMENT

Providing innovative, aero-derivative technologies with applications across the energy and defence sectors.



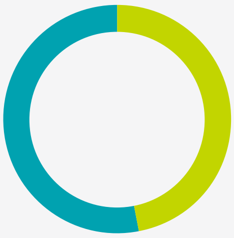
President: Paul Devaux

Revenue

£271m

(2020: £315m)

E&E



Defence	47%
Energy & other	53%

Divisional capabilities

- Combat support (ammunition handling, electronics cooling and countermeasure launch and recovery systems)
- Energy sensing and controls
- Vibration condition monitoring systems for energy markets
- Heat transfer equipment for offshore oil and gas
- Fuel handling

Markets

- Defence ground vehicles
- Defence and security
- Energy and industrial
- Ground fuelling

What does the division do

Energy & Equipment consists of our energy product groups and defence business 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. Defence 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.

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.
- Secured a significant customer order with a major US turbines manufacturer for the sole-source supply of next generation valves.
- Continued progress on the transfer of high-volume parts to low-cost countries.
- Strong focus on operational performance and procurement initiatives to drive margin improvement.

2021 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%).

IMAGE: Printed Circuit Heat Exchangers (PCHEs) being manufactured at our Heatric facility in Poole, UK.

Divisional reviews
continued

SERVICES & SUPPORT

Providing throughlife MRO and spares services across our extensive installed base through our three regional hubs.

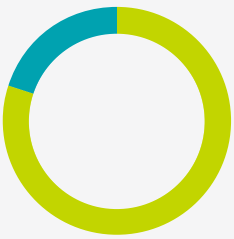
President: Stewart Watson

Revenue

£274m

(2020: £322m)

S&S



Civil AM	80%
Defence AM	20%

Divisional capabilities

- Maintenance, Repair and Overhaul (MRO)
- Spares provisioning
- SMARTSupport™

Markets

- Civil aftermarket
- Fixed wing defence aircraft AM
- Energy and industrial
- Rotary wing defence aircraft

What does the division do

Services & Support provides a full-service aftermarket offering including spares distribution and MRO to our commercial, business jet and defence customer base throughout the lifecycle of our products. The division represents 18% of Group revenue and generates 100% of its revenue from the aftermarket.

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.
- Addition of 11 SMARTSupport™ agreements.

2021 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 Services & Support 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 4% 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%).

IMAGE: A Meggitt colleague working on restraints at our Services & Support MRO Centre of Excellence which is located within Ansty Park, UK.

Chief Financial Officer's review

We've remained focused on the continued stewardship of the Group through a second year of COVID-19, whilst protecting investment to support growth and the recovery.

Table 1 – Financial summary

	2021 £'m	2020 £'m	Growth % Reported	Growth % 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	

Against the backdrop of a second year of COVID-19 and another challenging year for the civil aerospace sector, we remained focused on the continued stewardship of the Group while continuing to execute our strategy.

We navigated the Group safely through 2021, generating positive free cash flow, maintaining a robust balance sheet (net debt:EBITDA ratio of 1.9x) while protecting investment in key projects that will underpin the recovery and the return to growth.

We also successfully refinanced the Group with a new, three-year, $410m revolving credit facility, which will continue to provide solid financial foundations as the recovery continues in 2022 and beyond.

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 9 and 14.
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 42.
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.

The work we have done in recent years to make the Group more competitive, including rationalising our global footprint, and the cost reduction measures taken in 2020 to resize the Group, means we are well placed to drive efficiency savings as volumes recover.

Our ability to realise some of these benefits in 2021 has been held back by input and labour cost inflation resulting from disruption across the global supply chain, and we expect some of this to continue in 2022. While we will continue to use a number of measures to offset these cost headwinds, including pricing, the long-term nature of some of our customer and supplier contracts may constrain our ability to do so in the short term.

Following completion of a consultation process, we closed the UK defined benefit scheme to future accrual in April 2021, bringing it in line with the Group's pension schemes in the US.

We have also started preparations across the Group for the introduction of a UK Sarbanes-Oxley regime, which will reform the UK's corporate governance, audit and reporting regimes with implementation expected to happen towards the end of 2023.

Finally, I would like to thank the finance team for their hard work and their valuable contribution to what has been another important year for the Group.

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 Group 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 table 3.

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 10).

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.

Divisional performance

The main focus areas across our four divisions in 2021 has been protecting

Table 2 – Revenue growth

	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)	–
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)

Table 3 – Organic growth

Revenue				Underlying operating profit		
2021 £'m	2020 £'m	Growth %		**2021 £'m**	2020 £'m	Growth %
1,489.2	1,684.1	(12)	Reported	**177.3**	190.5	(7)
(0.1)	(42.2)		Impact of M&A[1]	**0.2**	3.7	
72.3			Impact of currency[2]	**10.0**		
1,561.4	1,641.9	(5)	**Organic**	**187.5**	194.2	(3)

1 Excludes the results of businesses acquired and disposed during the current and prior year or classified as held for sale.

2 Restates the current year using 2020 translation and transaction exchange rates.

Chief Financial Officer's review
continued

Table 4 – Operational highlights

	Revenue				Underlying Operating Profit/(Loss)			
			% Growth				% Growth	
	2021 £'m	2020 £'m	Reported	Organic	**2021 £'m**	2020 £'m	Reported	Organic
Airframe Systems	**737.0**	793.1	(7)	(3)	**120.2**	120.5	–	4
Engine Systems	**207.8**	253.3	(18)	(10)	**(16.5)**	(16.2)	(2)	(8)
Energy & Equipment	**270.7**	315.3	(14)	–	**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)

Table 5 – Investing for the future

			% Growth	
	2021 £'m	2020 £'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		

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 table 4. 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.

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.

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.

Investing for the future

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.

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 the 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.

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.

Post-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),

Table 6 – Cash flow

	2021 £'m	2020 £'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)

Table 7 – Post-retirement benefit scheme summary

	2021 £'m	2020 £'m
Opening net deficit	**295.4**	267.9
Service cost	**6.8**	15.2
Group cash contributions	**(48.9)**	(36.9)
Deficit reduction payments	**(42.1)**	(21.7)
Other amounts charged to income statement[1]	**(1.6)**	8.4
Remeasurement gains – schemes' assets	**(47.4)**	(93.5)
Remeasurement (gains)/losses- schemes' liabilities	**(77.3)**	136.1
Remeasurement losses – asset ceiling	**9.3**	–
Currency movements	**0.1**	(1.8)
Closing net deficit[2]	**136.4**	295.4
Liabilities	**1,355.1**	1,463.9
Less assets	**(1,228.0)**	(1,168.5)
Add impact of asset ceiling	**9.3**	–
Closing net deficit[2]	**136.4**	295.4
Assets as percentage of liabilities	**91%**	80%

1 Comprises past service amounts, administration expenses borne directly by schemes, net interest expense and, in 2021, a curtailment gain arising from closure of the UK scheme to future accrual.

2 Comprises £97.9m (2020: £248.7m) in respect of pension schemes and £38.5m (2020: £46.7m) in respect of US healthcare schemes.

Chief Financial Officer's review
continued

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.

Table 8 – Exchange rates

	2021	2020
Average translation rates against Sterling:		
US dollar	**1.36**	1.29
Euro	**1.17**	1.14
Swiss franc	**1.26**	1.22
Average transaction rates:		
US dollar/sterling	**1.36**	1.38
US dollar/euro	**1.16**	1.15
US dollar/Swiss franc	**1.13**	1.08
Year-end rates against Sterling:		
US dollar	**1.35**	1.37
Euro	**1.19**	1.11
Swiss franc	**1.23**	1.20

Table 9 – Translation currency sensitivity

	Average rate	Revenue £'m	Underlying PBT £'m
Impact of 10 cent movement*:			
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.

Table 10 – Transaction hedging

	Hedging in place[1] %	Average transaction rates
2022:		
US dollar/sterling	**100**	**1.34**
US dollar/euro	**100**	**1.19**
US dollar/Swiss franc	**46**	**1.12**
2023 – 2025 inclusive:		
US dollar/sterling	**47**	**1.34**
US dollar/euro	**32**	**1.20**
US dollar/Swiss franc	**–**	**1.15**

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

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.

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 table 9.

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. Table 10 sets out the Group's transaction hedging currently in place.

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.

Debt financing risks

The Group seeks to minimise debt financing risk as follows:

a. Concentration of risk

We raise funds through private placement issuances and committed bank facilities to reduce reliance on any one market. Bank financing is sourced from nine international institutions spread across North America, Europe and Asia. No single lender accounts for more than 10% of the Group's total credit facilities and the credit rating of lenders is monitored by our treasury department. The Group's largest lenders are Bank of America, Bank of China, Barclays, BNP Paribas, Crédit Industriel et Commercial, Sumitomo Mitsui Banking Corporation and Wells Fargo. We seek to maintain at least £100m of undrawn committed facilities, net of cash, as a buffer.

b. Set-off arrangements

The Group utilises set-off and netting arrangements to reduce the potential effect of counterparty defaults. All treasury transactions are settled on a net basis where possible and surplus cash is generally deposited with our lenders up to the level of their current exposure to us.

Table 11 – Net debt by drawn currency (£'m)

	2021	2020
Sterling	**34.3**	39.2
US dollar	**778.8**	786.3
Euro	**(26.3)**	(32.4)
Swiss franc	**(6.3)**	(16.1)
Other	**(1.0)**	(4.0)
Net debt	**779.5**	773.0

Table 12 – Covenant ratios

	Covenant	**2021**	2020
Net debt:EBITDA	<3.5x[1]	**1.9x**	2.2x
Interest cover	>3.0x	**11.3x**	9.8x

1 A ratio of 4.0x applies in the two six-month reporting periods following a significant acquisition.

c. Refinancing risk

We seek to ensure the maturity of our facilities is staggered and any refinancing is concluded in good time, typically more than 12 months before expiry.

d. Currency risk

To ensure we mitigate headroom erosion due to currency movements, over 90% of our credit facilities are denominated in US dollars, the currency in which the majority of our borrowings are held.

e. Covenant risk

Our committed credit facilities contain two financial ratio covenants – net debt: EBITDA and interest cover. The covenant calculations are drafted to protect us from potential volatility caused by accounting standard changes, sudden movements in exchange rates and exceptional items. This is achieved by measuring EBITDA on a rolling 12-month (30 June and 31 December) and frozen GAAP basis, retranslating net debt and EBITDA at similar average exchange rates for the year and excluding exceptional items from the definition of EBITDA. At 31 December 2021, we have comfortable headroom on both key financial covenant measures.

Interest risk

The Group seeks to reduce volatility caused by interest rate fluctuations on net borrowings. Our US private placements are subject to fixed interest rates, whereas borrowings under our syndicated and bilateral bank credit facilities are at floating rates. To manage interest rate volatility, we use interest rate derivatives to either convert floating rate interest into fixed rate or vice versa. Our policy is to generally maintain at least 25% of net borrowings at fixed rates with a weighted average maturity of two years or more. At 31 December 2021, the percentage of net borrowings at fixed rates was 109% (2020: 108%), and of gross borrowings was 83% (2020: 84%) and the weighted average period to maturity for the first 25% was 4.5 years (2020: 6.0 years). A higher proportion of debt is held at fixed interest rates, than the minimum required under our policy, in anticipation of further increases in market interest rates.

Non-financial information

Our non-financial information statement is contained in the Corporate responsibility report on page 88.

Louisa Burdett
Chief Financial Officer

Risk management

Meggitt seeks to operate within a low risk appetite range overall. Effective risk management is required to deliver this while supporting the achievement of the Group's strategic and business objectives. Our risk management framework is based on ISO 31000 and includes a formal process for identifying, assessing and responding to risk.

Meggitt's corporate strategy is designed to optimise our business model and take risk, with the required controls, on an informed basis. See pages 16 to 17 for a full description of our business model and pages 24 to 25 for our strategy. To enable value to be created for our shareholders, we set varying risk tolerances and associated criteria. Risk tolerance levels are flowed down to the divisions and functions to embed in operational processes.

The Board approved an updated Group risk appetite statement with associated risk tolerances to ensure that identified risks are managed within acceptable limits.

The likely timeframe within which the impact of these risks might be felt (risk velocity) and how we prioritise risks is considered as part of our risk management strategy and feeds into our assessment of long-term viability.

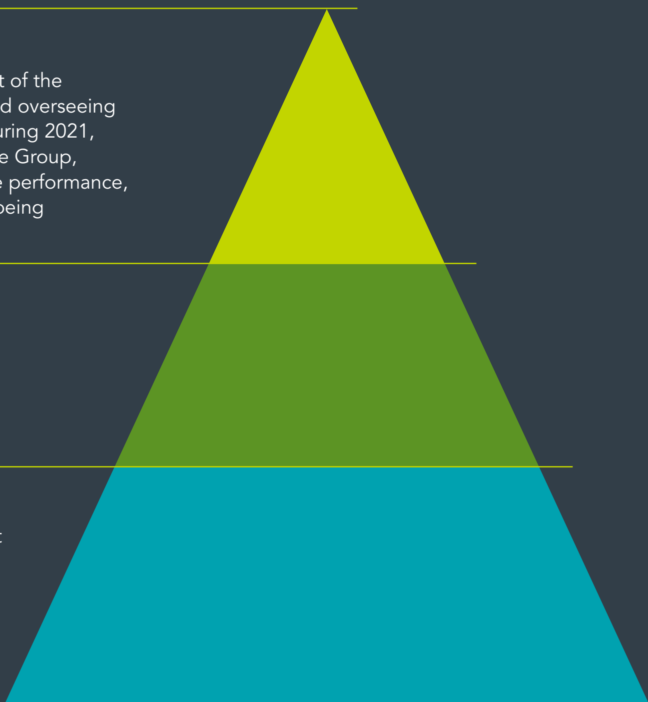
Where appropriate, insurance is used to manage risks and our risk management procedures are shared with our insurers when assessing any potential exposures. Our insurers have provided funding via bursaries to enable more detailed reviews of certain risk areas to increase understanding of the key drivers and indicators which enables more efficient action to address these, either through mitigation or insurance. These reviews have been well received by the risk owners for improving their ability to monitor and assess their risks and by the insurers for providing a more detailed analysis of the causes and their respective impacts.

Our process

During 2021 we continued to refine our risk management approach as a result of the ongoing pandemic impacts.

Governance

Responsibility for risk management operates at all levels throughout Meggitt:



The Board

The Board takes overall responsibility, determining the nature and extent of the principal risks it is willing to take in achieving our strategic objectives, and overseeing the Group's risk governance structure and internal control framework. During 2021, the Board carried out a robust assessment of the principal risks facing the Group, including those emerging, that would threaten its business model, future performance, solvency or liquidity. This report describes those risks and how they are being managed or mitigated.

Audit Committee

The Board has delegated responsibility for reviewing and ensuring the effectiveness of the risk management process to the Audit Committee.

Executive Committee

Divisional and functional leadership are responsible for the management of risk and for compiling and maintaining their own risk registers, which outline risks at business unit and programme levels.

The Executive Committee as a whole regularly reviews the Group's principal risks, while individual members own specific risks.

We were pleased to note the processes described below continued to operate on a consistent basis with prior years, providing dynamic risk assessments to support decision-making for business unit, functional and executive management.

Our risk management processes require identified risks throughout the Group to be owned by a named individual. They must review them regularly and consider related emerging risks. Risk identification is embedded within other processes, including strategy, project and programme management, bid approvals and other operational activities.

Once identified, risks are reviewed at a site level and aggregated for review at divisional and functional levels on a consistent basis, before being submitted through the Group's review process.

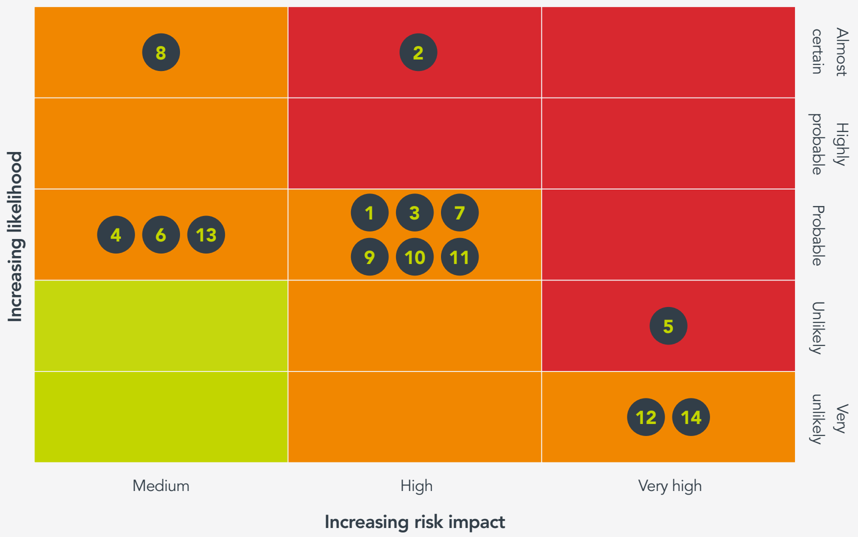
The resultant Group Risk Register is subject to a detailed review and discussion by the Executive Committee which includes discussion of risks which may not have been identified through the normal channels and the interconnectivity of identified risks.

The Board assesses the outputs from this process and takes comfort from the "three lines of defence" risk assurance model. The first line represents operational management who own and manage risk on a day-to-day basis, utilising effective internal controls. Group functions and divisions monitor and oversee these activities, representing governance and compliance at the second line. The third line is the independent assurance over these activities provided by internal and external audits.

Comfort over the management of these risks is demonstrated through the updated Group risk assurance matrix which summarises the assurance activities taking place throughout the Group in relation to the principal risks.

Risk heat map

The heat map below shows the outcome of the risk identification and assessment processes used to compile the Group Risk Register. This shows the relative likelihood and impact of the principal risks identified. Risks rated as green or those with a low expected impact are not considered principal risks of the Group for inclusion in the Group Risk Register, although they may feature on divisional or functional risk registers and be managed at that level.



Strategic risks

Medium to low tolerance for risks arising from poor business decisions or sub-standard execution of business objectives.

1 Business model
2 Industry changes
3 Climate change

Operational risks

Low to near-zero tolerance for risks arising from business processes including the technical, quality and project management or organisational risks associated with programmes and products.

4 Quality escape/equipment failure
5 Business interruption
6 Project/programme management
7 Customer satisfaction
8 IT/system failure
9 Supply chain
10 Group change management
11 People

Corporate risks

Low to zero tolerance for compliance and reputational risks including those related to the law and regulations, health, safety and the environment.

12 Legal and compliance

Financial risks

Medium to low tolerance for financial risks including taxation, pension funding, management failure to provide adequate liquidity to meet our obligations and managing currency, interest rate and credit risks.

13 Pension funding
14 Liquidity

Principal risks & uncertainties

The Group's strategic objectives can only be achieved if certain risks are taken and managed effectively. We have listed below the most significant risks that may affect our business, although there may be other risks – of which the Group is unaware or are considered less significant – which may affect our performance. The potential impacts of each of our principal risks were considered as part of the viability stress testing and considered to be consistent with, analogous to or less significant than the scenarios modelled.

Approach to COVID-19

Given the wide-ranging impact of COVID-19 on the aviation industry we have continued to assess the effect on our existing risks and considered resultant emerging risks rather than having a single, standalone COVID-19 risk.

Strategic priorities

1 Strategic portfolio

2 Customers

3 Competitiveness

4 Culture

Change in risk

▲ Increase

– No change

▼ Decrease

Risk velocity

H **High**
Impact within 6 months of risk occurring

M **Medium**
Impact between 6 and 36 months of risk occurring

L **Low**
Impact after more than 36 months of risk occurring

KPIs

- Financial performance (underlying operating profit, ROCE, underlying EPS growth and free cash flow)
- R&D investment
- TRIR (total recordable incident rate)
- Inventory turns
- Emissions intensity

Strategic risks

Risk	Description	Impact	How we manage it
Industry changes 1 ▲ H **KPIs:** • Financial performance	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 ongoing impacts of COVID-19) or terrorist events; or industry consolidation that materially changes the competitive landscape.	Volatility in revenue and underlying profitability.	• 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.
Business model 2 – M **KPIs:** • Financial performance • R&D investment	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.	Decreased revenue and profit.	• 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 risks

Risk	Description	Impact	How we manage it
Climate change 3 – M **KPIs:** • Financial performance • R&D investment • Emissions intensity	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.	Decreased revenue and profit, damage to operational performance and reputation.	• 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 sources. • 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. • These are considered further as part of the TCFD disclosures on pages 58 to 63.

Operational risks

Risk	Description	Impact	How we manage it
Quality escape/ equipment failure 3 – H **KPIs:** • Financial performance	Defective product leading to in-service failure, accidents, the grounding of aircraft or prolonged production shut-downs for the Group and its customers.	Decreased revenue and profit, damage to operational performance and reputation.	• 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.
Business interruption 3 – H **KPIs:** • Financial performance • R&D investment	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.	Decreased revenue and profit, damage to operational performance and reputation.	• Group-wide business continuity and crisis management plans, subject to regular testing and updated for lessons learned. These were also invoked during 2021 in response to COVID-19. • Comprehensive insurance programme, renewed annually and subject to property risk assessment visits.

Principal risks & uncertainties
continued

Operational risks

Risk	Description	Impact	How we manage it
Project/programme management 3 – M **KPIs:** • Financial performance • R&D investment	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.	Failure to deliver financial returns against investment and/or significant financial penalties leading to decreased profit and damage to reputation.	• 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.
Customer satisfaction 2 ▲ M **KPIs:** • Financial performance • Inventory turns	Failure to meet customers' cost, quality and delivery standards or qualify as preferred suppliers.	Failure to win future programmes resulting in decreased revenue and profit.	• 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.
IT/Systems failure 1 ▼ H **KPIs:** • Financial performance	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.	Decreased revenue and profit, damage to operational performance and reputation.	• 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. • 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 risks continued

Risk	Description	Impact	How we manage it
Supply chain 1 ▲ M **KPIs:** • Financial performance • Inventory turns	Failure or inability of critical suppliers to supply unique products, capabilities or services preventing the Group from satisfying customers or meeting contractual requirements.	Decreased revenue and profit, damage to operational performance and reputation.	• 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.
Group change management 3 – M **KPIs:** • Financial performance • Inventory turns	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.	Decreased revenue and profit, increased costs, damage to operational performance and reputation.	• 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.
People 4 ▲ H **KPIs:** • Financial performance • Inventory turns	Failure to attract, retain or mobilise people due to factors including industrial action, workforce demographics, lack of training, availability of talent and inadequate compensation.	Decreased revenue and profit, damage to operational performance.	• 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.

Principal risks & uncertainties
continued

Corporate risks

Risk	Description	Impact	How we manage it
Legal and compliance 3 – H **KPIs:** • Financial performance • TRIR	Significant breach of increasingly complex trade compliance, bribery and corruption, USG contracting, ethics, intellectual property, data protection, competition/anti-trust laws, facilitation of tax evasion and the market abuse regime.	Damage to reputation, loss of supplier accreditations, suspension of activity, fines from civil and criminal proceedings.	• Continuing investment in compliance programmes including Board-approved policies and rollout of training and IT solutions. • Regular monitoring of ethics and anti-bribery programme by Corporate Responsibility Committee. • Ongoing 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 risks

Risk	Description	Impact	How we manage it
Pension funding 3 – M **KPIs:** • Financial performance	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.	Higher pension scheme funding contributions resulting in decreased cash and profit.	• 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.
Liquidity 3 ▼ M **KPIs:** • Financial performance	Financial risk management is considered in detail on pages 188 to 189.	Inability to access financing on normal commercial terms.	• 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 or no cost to the Group.

Oversight of risk and internal control

The Board is responsible for risk management and internal control and for maintaining and reviewing its financial and operational effectiveness. The Board has taken into account the guidance provided by the FRC on risk management and internal control in carrying out its duties. The system of internal control is designed to manage, but not to eliminate, the risk of failure to achieve business objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss.

The Group's functions are responsible for determining Group policies and processes. The businesses are responsible for implementing them, with internal and/or external audits to confirm business unit compliance. The key features of the risk management and internal control system are described below, including those relating to the financial reporting process, as required under the Disclosure Guidance and Transparency Rules (DGTR):

- Group policies – key policies are approved by the Board and other policies are approved by Group functions;
- process controls – for example financial controls including the Group Finance Policies and Procedures Manual, the bid approval process, programme lifecycle management reviews, IT security framework and risk management; and
- the forecasting, budget and strategic plan processes.

The Group's programmes for insurance and business continuity form part of our risk management and internal control framework.

The following features allow the Group to monitor the effective implementation of policies and process controls by business units:

- a business performance review process (including financial, operational and compliance performance);
- semi-annual business unit, product group and divisional sign-off of compliance with Group policies and processes;
- compliance programmes and external audits (including trade compliance, ethics, anti-corruption, health, safety and environmental);
- an effective internal audit function which, primarily, performs business unit reviews by rotation (including finance, programme management, IT, HR, ethics, anti-bribery & corruption and business continuity); and
- a whistleblowing line to enable employees to raise concerns.

To review the effectiveness of the system of internal controls, the Board and Audit Committee applied the following processes and activities in 2021 and up to the date of approval of the Annual Report:

- reviews of the risk management process, risk register and risk appetite statement;
- written and verbal reports to the Audit Committee from internal and external audit on progress with internal control activities, including:
  - Reviews of business processes and activities, including action plans to address any identified control weaknesses and recommendations for improvements to controls or processes;
  - The results of internal audits;
  - Internal control recommendations made by the external auditors; and
  - Follow-up actions from previous internal control recommendations.
- regular compliance reports from the Group General Counsel and Director, Corporate Affairs;
- regular reports on the state of the business from the Chief Executive and Chief Financial Officer;
- presentation on IT security activities and plans from the Chief Information Officer and the Chief Information Security Officer;
- strategy reviews, review of the five-year financial plan and review and approval of the 2022 budget;
- written reports to the Corporate Responsibility Committee on the effectiveness and outcomes of whistleblowing procedures; and
- reports on insurance coverage and uninsured risks.

The risk management and internal control systems have been in place for the year under review and up to the date of approval of the Annual Report, and are regularly reviewed by the Board. The Board monitors executive management's action plans to implement improvements in internal controls that have been identified following the above mentioned reviews and reports. The Board confirms that it has not identified any significant failings or weaknesses in the Group's systems of risk management or internal control as a result of information provided to the Board and resulting discussions.

Viability statement

In accordance with the provision 31 of the 2018 Code, as part of their assessment of the Group's viability, the Directors have assessed the prospects of the Group and its ability to meet its liabilities as they fall due.

Response to COVID-19 and impact on Meggitt's viability

During 2020, in response to the COVID-19 pandemic, the Group executed a material reduction in its structural cost base and held net debt below £800m (December 2020: £773m). The covenant ratio was 2.2x. The Group secured a forward start on its RCF for one year on $575m to September 2022 and issued $300m on an oversubscribed private placement in November 2020.

The anticipated recovery in the civil aerospace aftermarket has been slower to materialise than was anticipated 12 months ago, extending the pressure on profitability and therefore covenants through 2021. Continued close management of the Group's cash position and a focus on delivery through H1 2021 saw the Group's covenant rise modestly to 2.4x by June 2021 after more than 12 months of the pandemic, whilst also protecting the business from further significant cost reduction in anticipation of a market recovery. Through H2 2021, there was a focus on continuing to refinance debt, with the Group closing a new $410m RCF facility in Q4, alongside a number of revisions to bilateral facilities. By the end of 2021, the Group had materially extended its maturity profile and resized its gross debt burden, whilst also delivering its strongest six months of profit generation since the start of the pandemic.

Principal risks & uncertainties
continued

By the end of 2021, the Group's covenant ratio has fallen to 1.9x with net debt at £779.5m. With increased volumes of AM orders now being placed, though the COVID pandemic is not over, the Group's financial and debt position continues to improve, moderating the threat posed to its viability by COVID.

Climate change

Meggitt explicitly monitors the impact of climate change on the Group as part of its risk register. Meggitt has potential exposures both on the demand side (primarily transition risks) should flight volumes be impacted by changes in the tax regime or consumer flying habits be moderated. In addition, there are a number of supply side challenges (primarily physical risks) from issues such as extreme weather.

Whilst the Group does consider that it has potentially material exposure to the impact of climate change, the magnitude of that impact within the current viability assessment period is likely to be lower than for some of the other risks faced by the Group. Therefore, though it is monitored, it is not formally part of this viability assessment, given the magnitude of the potential impacts from other risks.

Assessment of prospects

The Board believes that, despite the impact of COVID-19 over the last years, the prospects for both the aerospace market and for the Group within it continue to be favourable in the medium to long term:

- We believe that the desire for individuals to travel and to connect with others remains and that air travel will play a critical part in meeting that demand;
- Growth in civil aerospace markets is returning; Meggitt provides equipment to all major new platforms entering service in the near future;
- Meggitt has an installed base of over 73,000 in service aircraft, and with an average aircraft lifespan of 25 years, our aftermarket will be providing meaningful revenues to the Group well into the future;
- We are diversified by end market and by customer;
- We supply into both civil (46% revenue) and defence (42%) aircraft markets, and into selected energy markets (9%);
- Our revenues are split broadly evenly between equipment sales and aftermarket;
- We work with a diverse group of customers from across the globe. Our top ten customers generate 45% of our revenue;
- We invest for the long term and protect our know-how;
- We invest in market-leading technology. We continue to target spending, on average, 5-7% of revenue on R&D through the cycle;
- We grow, manage and defend our intellectual property portfolio robustly;
- We continue to invest in next generation technologies to support a sustainable future for aviation and power generation;
- We seek to attract and retain colleagues who can enable the extraordinary;
- We manufacture based on quality, consistency and value;
- We manage our manufacturing facilities using HPS, a tiered improvement programme, providing a roadmap to best-in-class manufacturing;
- We operate a globally distributed manufacturing infrastructure, producing both in the OECD and in lower cost locations;
- We continue to have robust liquidity and a strong financial base;
- The Group has reduced its levels of debt over the last two years to £779.5m in spite of the pressures from COVID. The Group generated free cash flow in both 2020 and 2021;
- Our gearing ratio at the end of 2021 was 1.9x (net debt/EBITDA) and interest cover was 11.3x, both well within our covenant limits; and
- We have just under £1.2bn of committed facilities as at 31 December 2021, and a headroom of £573m.

Assessment period

The Board considered the Group's principal risks as detailed in our risk register, and assessed the impact, likelihood and timeframe over which the risks might crystallise. It also considered over what timeframe certain business and sector changes currently impacting the Group would likely be resolved.

1. Market recovery: Industry observers continue to see a recovery in the civil aerospace market. The Group expects revenue to recover to 2019 levels by 2024-25.
2. Meggitt evolution: The Group has a number of material projects, including the completion of the move into Ansty Park and other footprint reduction efforts, for which the benefits are expected to accrue to Meggitt within the next five years.
3. Programme investment: The Group typically expects the investment cycle of five years for engineering development programmes.
4. Refinancing: The Group's existing debt base will typically be fully refinanced over a five-year period.

Given the above, and the long cycle nature of the Company's activities, the Board concluded that five years continues to be the correct timeframe over which to assess viability and risk impact.

Assessment of viability and risk stress tests

The Group continues to model a progressive recovery in activity in the civil aerospace market on the back of encouraging market data seen in late 2021. A number of outcomes continue to be possible regarding COVID-19, but the Group continues to believe that a full recovery in civil aerospace activity is likely to be by 2023-24. It is against this recovery baseline that the Group's viability has been tested using two scenarios against the output of the Group's annual long-term planning process. More detail on the base performance case can be seen in Note 1 of the consolidated financial statements.

1. Loss of a major customer

Other than with the profound ongoing demand shock precipitated by COVID, we test the scenario in which the Group faces potential major customer loss risk. The aviation sector is reliant on a well-developed system of global regulations and equipment qualifications. Security of data is also critical when working with both the private sector and with governments. The Group has modelled the impact of a significant loss of revenue following a regulatory or compliance failure at Meggitt. Censure for non-compliance can be severe, whether through fines or fleet grounding. This scenario is modelled to unfold in parallel with the recovery from COVID-19 but over a 12-month period given the time taken for customers to resource, which allows the civil AM recovery to be well underway in the underlying base case.

2. Major business disruption event

We model a supply-side shock, such as manufacturing disruption in California as a result of a natural disaster. Business disruption continues to be one of the highest impacting risks on the Group's financial performance, both around the impact on major customers and suppliers. Given the concentration of aerospace assets in California, a natural disaster here would have a significant impact. As modelled, such a disaster takes two years to rebuild from, and with material production losses.

The Group has modelled the financial impact of the risks articulated above, together with mitigating actions. Mitigating actions include a reduction in investment both in PP&E and R&D or curtailment of indirect expenditure and headcount reduction. Levers such as extended dividend suspension or material reduction in discretionary spend would also be open beyond current COVID horizons. As in 2020, the Group would find it challenging should a second external shock occur before the recovery from COVID-19 is well established. However, particularly given the recent strong data on AM orders, the Group continues to believe that both the scale of losses and of mitigating levers would mean there was limited impact on the Group's viability.

Statement of viability

Based on the results of the analysis, the Board has a reasonable expectation that the Group will continue in operation and be able to meet its liabilities as they fall due over the five-year period of assessment.

Taskforce on Climate-related Financial Disclosures (TCFD)

We adopted TCFD reporting early in 2020 and have developed our reporting process during 2021 towards compliance with the disclosure requirements from 2021 onwards.

Many of the TCFD requirements were already integrated into our strategy, operations and culture and we have strengthened our reporting in this Annual Report to provide additional disclosures in key areas.

As per Listing Rule 9.8.6(8)R, Meggitt has adopted climate-related financial disclosures consistent with the TCFD recommendations and recommended disclosures with the exception of Scope 3 data disclosure and improvements planned for 2022 as detailed below.

Recommendation	Recommended disclosure	Further detail available	Current status	Future priorities
1) Governance	a) Describe the Board's oversight of climate related risks and opportunities	Section 1 below	• Climate change and environmental sustainability is a major consideration of our business at all levels. • Climate related risks and opportunities are integrated into our strategy and business model. • All Board and management committees review risks and opportunities as part of their areas of responsibility.	• Sustainability strategy will continue to be reviewed by the Board on an annual basis. • Any future Board appointments will take into consideration climate change/sustainability skills and experience. • Increased linkages between sustainability performance and LTIP/Remuneration Committee considerations.
	b) Describe management's role in assessing and managing climate related risks and opportunities	Section 1 below		
2) Strategy	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	Section 2 below	• Climate related risk and opportunities have been considered in the overall strategic plan over three timeframes, <3 years, 3-10 years and >10 years. • Strategic planning is integrated into financial planning.	• Greater level of scenario modelling within the review cycle. • Continued commitments on research and technology investment into sustainable technologies. • Setting of science-based targets and confirming a clearly defined path to reduce emissions.
	b) Describe the impact of climate related risks and opportunities on the organisation's businesses, strategy and financial planning	Section 2 below		
	c) Describe the resilience of the organisation's strategy, taking into consideration different climate related scenarios, including a 2C or lower scenario	Section 2 below		
3) Risk Management	a) Describe the organisation's processes for identifying and assessing climate related risks	Principal Risks section and section 3 below	• ISO 31000 aligned risk management framework incorporating climate-related risk. • Climate change is viewed as a principal strategic risk which is continually reviewed across the business. • Transition and physical risks are evaluated through demand side and supply side scenario planning.	• Continued development of risk assessment processes to better identify emerging climate related risks. • Greater scenario planning incorporating climate related risks.
	b) Describe the organisation's processes for managing climate related risks	Principal Risks section and section 3 below		
	c) Describe how processes for identifying, assessing and managing climate related risks are integrated into the organisation's overall risk management	Principal Risks section and section 3 below		
4) Metrics & Targets	a) Disclose the metrics used by the organisation to assess climate related risks and opportunities in line with its strategy and risk management process	Section 4 below	• GHG emissions have been reported since 2017 against a target to reduce GHG by 50% (relative to revenue) against the 2016 baseline. • Market and location based reporting is including in the reporting regime. • Disclosure of Scope 3 emissions are in the planning and initial screening phase. • Set internal site targets to drive a reduction in emissions. • Scope 1 & 2 reduction measures incorporated into LTIP.	• Complete and disclose material scope 3 categories. • Implement an internal carbon price to ensure cost of climate impact (all scopes) is embedded in business decisions – e.g. capital expenditure within our facilities. • Lay out a roadmap to achieve science based targets, e.g. through substitution of fossil-fuel fired processes and facilities and procurement of renewable energy.
	b) Disclose Scope 1, Scope 2 and if appropriate Scope 3 greenhouse gas (GHG) emissions, and the related risks	Section 4 below and Planet section of CR report (page 82)		
	c) Describe the targets used by the organisation to manage climate related risks and opportunities and performance against these targets	Section 4 below		

Integrating Meggitt reporting into the TCFD framework:

The Board of Directors is ultimately responsible for developing the Group's strategy on climate change and overseeing our progress in this area. Day-to-day responsibility is delegated to the Chief Executive, supported by the Executive Committee. Below that there are employee working groups working on specific projects, overseen by the Environmental Steering Committee.

1) Governance

Climate change, with the associated risks and opportunities, has been identified by the Board and Executive Committee as a key strategic issue and is an integral part of our business planning framework. Our strategy includes how we can position the business to offer products that will enable the shift to sustainable aviation and low-carbon energy production, how we can reduce greenhouse gas emissions from our operations, and how we can ensure our facilities are resilient in the face of a changing climate.

Summary of responsibilities Board

The Board is responsible for the Group's strategy on climate change, including oversight of climate-related risks and opportunities impacting the Group.

At a strategic level, the Board considers the impacts of climate change on both our markets and our operations.

The Board continually monitors our performance and progress in these areas, receiving regular updates on international policies to decarbonise the aviation sector, including market-based measures, technological solutions and demand management. The Board takes these factors into consideration when setting the Group's policies and strategy.

The Board approves the Corporate Responsibility & Sustainability Policy and the Environmental Policy that sets out the Group's commitment to running a sustainable business. These policies, which are available on our website, are reviewed by the Board on a regular basis to ensure they are appropriate and up to date.

There has been an increased focus on climate-related matters as the landscape continues to evolve with further regulatory developments and changes in stakeholder expectations. A summary of the primary climate change-related activities undertaken by the Board throughout 2021 and into 2022 are set out below:

1. Reviewed and approved an updated Environmental Policy;
2. Reviewed the performance on our environmental sustainability metrics and targets;
3. Reviewed and approved risk appetite including appetite in respect of climate change risk;
4. Reviewed and approved the Group Risk Register to monitor Group risks and how they are mitigated, including climate change risk;
5. Received regular updates on climate change risk and opportunities from the Chief Executive, Group Operations Director and Group Director Engineering and Strategy;
6. Considered climate change risk and opportunities when reviewing and approving our strategic plan;
7. Received an update on the Group's sustainability strategy; and
8. Received an update on technology with a primary focus on sustainable aviation.

Audit Committee

The Audit Committee is responsible for reviewing the content of the ARA, including the TCFD disclosures, and advising the Board if the ARA as a whole is fair, balanced and understandable.

The Committee is also responsible for reviewing the adequacy and effectiveness of the Group's risk management processes including those relating to climate change risk and the processes to determine the Group's overall risk appetite, tolerance and strategy, and advises the Board on the appropriateness of those processes.

During the year the Committee discussed the Group's natural catastrophe business interruption risk, including climate related weather events using scenario analysis to look at emerging risks, common underlying drivers and potential mitigating actions. The Committee discussed severe climate-related weather events, sought clarification on mitigating actions and a report will be provided to the Board on climate-related risk to our operations in 2022.

Corporate Responsibility Committee

The Corporate Responsibility (CR) Committee has independent oversight of the implementation of the Group's environmental performance and receives regular updates on environmental KPIs, environmental audits.

The Corporate Responsibility Committee reviews environmental reports twice a year.

Remuneration Committee

The Remuneration Committee is responsible for setting the Group's remuneration policy, including how ESG factors are considered when determining executive pay.

In 2021, the Committee considered the increasing importance of ESG-related factors and agreed to incorporate a new sustainability measure into the LTIP. The 2021 goal is to direct two-thirds of Meggitt's research and technology expenditure towards developing sustainable technology. In this context "sustainable technologies" are those that will enable customers to operate with lower greenhouse gas emissions and more efficiently. Strategic measures under the short-term incentive plan for the Chief Executive also include sustainability goals. The Committee further considered ESG measures when looking at 2022 plan measures and has incorporated a new strategic measure on carbon emission reduction (more detail can be found in the Directors' remuneration report on page 126).

The Committee is satisfied that the current and proposed incentive structures for senior executives do not raise ESG risks by inadvertently motivating irresponsible behaviour.

The Remuneration Committee reviews performance updates for the LTIP, including ESG measures, three times a year.

Taskforce on Climate-related Financial Disclosures (TCFD) continued

Nominations Committee

The Nominations Committee ensures the Board and senior management team have the appropriate skills, knowledge and experience to operate effectively and to deliver the Group's strategy.

In 2021, climate change/sustainability expertise was added to our skills matrix.

Management level

Finance Committee

The Finance Committee has delegated responsibility to approve investments and certain corporate activities up to amounts determined by the Board.

The Committee considers climate-related risks and opportunities relating to proposals submitted for approval.

CEO

The Chief Executive Officer is the designated owner of the Group's climate change risk and is ultimately responsible for managing the risk across the business. Executive submit regular reports to the Board on the Group's climate change-related risks and opportunities.

Executive Committee

The Executive Committee leads the consistent implementation of business and operational processes to minimise the impact of the Group on the environment and sets targets for improving the Group's environmental performance. Functional responsibility is delegated to the Group Director of Engineering & Strategy (for our response from a technology and market perspective) and to our Group Operations Director (for our response from an operational perspective).

Divisions, product groups and sites

Our divisions, product groups and sites are responsible for day-to-day performance in these areas. Each site is required to drive a number of projects locally to support the reduction of carbon emissions, electricity and water consumption, and landfill wastes disposals. Targets have been deployed at each site and will be tracked as part of the overall Strategy Deployment Process at site and product group level.

Environmental Steering Committee (ESC)

The ESC, comprised of the Group Company Secretary, Group Director, Engineering & Strategy, and Group Operations Director deploys the Group's strategy into the business by providing direction to the Environmental Working Group on key business plans, such as the procurement of clean electricity and deployment of site targets.

Group Director, Sustainability

The Group Director, Sustainability was appointed in 2021 (reporting to the Group Operations Director) and is driving Meggitt's environmental sustainability programme of change – defining our increased ambition, and launching projects directly reducing our impact, as well as change initiatives designed to embed progressively sustainable considerations into our core operating model.

Environmental Senior Forum

Environmental Senior Forum includes senior stakeholders and project sponsors from Finance, Operations, Procurement, Communications, Research and Technology, Corporate Responsibility and Facilities Management, reporting to the ESC for strategic guidance.

2) Strategy

Overview of climate-related risks and opportunities

Given the scale and immediacy of the climate change challenge, the changing expectations of our key stakeholders present both risks and opportunities to our business. A summary of these risks and opportunities are presented in the following table, as a complement and expansion of the overall climate change risk detailed on page 51. Potential impact and mitigation of these risks are outlined in the table at the bottom of page 62.

	Short term (<3 yrs)		Medium term (3-10 yrs)		Long term (> 10yrs)	
	Opportunities	**Risks**	**Opportunities**	**Risks**	**Opportunities**	**Risks**
Aerospace markets	Increased utilisation of more modern and fuel-efficient aircraft where Meggitt has a higher ship-set content leading to increased sales of both original equipment and aftermarket services.	Early reduced demand for air travel, driven by evolving passenger preference, or increased prices due to further regulatory changes (e.g. more onerous CORSIA requirements).	Upgrades of existing aircraft designs and launch of new platforms to improve fuel efficiency where Meggitt's thermal, sensing, composite, electrical and flow control technologies are well suited.	Material reduced demand for air travel, driven by evolving passenger preferences, or increased prices due to regulatory changes (e.g. introduction of carbon taxes, increase in fuel costs due to SAF mandates).	Continued demand for Meggitt technologies to enable highly efficient aircraft powered by SAF and the emergence of hydrogen-powered aircraft.	Sustainable aviation technology transition is not sufficiently rapid to alleviate environmental concerns and mitigate additional regulatory costs, further reducing demand for air travel.
Energy markets	Accelerating demand for energy efficiency, natural gas and energy storage driving strong demand for Meggitt's industrial heat exchangers and gas-turbine control technologies.	Initial assessment of risks in this market segment is limited given Meggitt's exposure to both natural gas and renewable energy markets.	Further accelerating demand for low-carbon energy drive further increased demand for Meggitt's key clean energy technologies.	Early, meaningful transition away from natural gas reduces demand for equipment in this part of the market.	Increased demand for energy efficiency and storage, hydrogen, carbon capture, offers significant opportunities for our heat exchangers and thermal systems capabilities.	Long-term trends away from fossil fuels reduces demand for equipment in this part of the market.
Production operations	Substitution of gas-fired processes, modernising our facilities and improvement of production processes all reduce Scope 1and 2 emissions. Engagement with suppliers on low-carbon expectations in purchased goods and services.	Increased input costs due to energy prices and incremental cost of renewable energy.	Move to renewable electricity through mix of on-site/ off-site generation, provide long-term price stability/security e.g. through Power Purchase Agreements. Smaller number of larger and more efficient global plants. Further reductions in embedded carbon in material inputs through collaboration with suppliers to reduce emissions and increase yields.	Increased input costs due to carbon taxes and higher cost of low-carbon raw materials and services. Additional capex required to substitute fossil fuel fired processes to meet internal GHG reduction targets. Physical disruption to Meggitt facilities and supply chains. Sub-optimised capacity due to changes in demand.	Changes to production facilities to provide key technologies for next generation green propulsion and energy sectors.	Increased input costs due to carbon taxes, voluntary carbon removals and higher cost of low-carbon raw materials and services. Additional capex required to substitute fossil fuel fired processes to meet internal GHG reduction targets. Physical disruption to Meggitt facilities and supply chains.

Impact of climate-related risks and opportunities on our strategy

The world has a few short years to meet the challenge of climate change in order to avoid its worst effects. We are a key supplier of technology to the critical aviation, defence and energy markets and as such we recognise the important role we play in the ongoing carbon transition.

The opportunities and risks that climate change pose are managed as an integral part of our strategic plan for the business (see page 62), in terms of how demand will change for existing and new products and how our operations will change in terms of greenhouse gas emissions, and resilience to changing climate. The strategic planning process is integrated with our financial planning processes and includes climate change scenarios with a focus on the evolution of air travel, potential launches of new types of aircraft and engines, and impact on our sites.

Our strategy is heavily influenced by the risks and opportunities we have identified, and consideration of these are incorporated into our business and financial planning processes. Innovation is at the heart of everything we do, and enabling a sustainable future is a core element of our purpose, driving our long-term strategy. Recognising the opportunity in supporting our end markets through the carbon transition, in 2020 we committed that at least two-

Taskforce on Climate-related Financial Disclosures (TCFD) continued

thirds of our Research & Technology investment would be into sustainable technologies, outlined in more detail on page 84. We work closely with our customers to develop the next generation of lighter, more efficient systems and components, as well as the breakthrough technology needed to reach Net Zero.

Our strategic planning process for our operating businesses ensures that climate-related risks and opportunities are considered and incorporated in individual business unit strategy. In addition, we include material risks and opportunities, including those related to climate, into our investment cases.

We also understand the important contribution of our own operations – we have reduced net Scope 1 and 2 emissions by 50% since 2015[1], and in 2021 committed to setting updated, science-based targets in line with the 1.5 degree pathway of the Paris Agreement. Our abatement plan will also contribute to our customers' and suppliers' Scope 3 reduction targets, and we constantly look for opportunities to collaborate to support the more efficient decarbonisation of the full value chain (e.g. through our membership of the International Aerospace Environmental Group).

As part of our sustainability strategy, in 2022 we will work to further embed our climate impact into key business decision-making processes – developing common and consistent methodologies for management to assess and quantify environmental impact, and ensure that decisions are consistent with our science-based reduction targets.

Resilience of our strategy

In assessing scenarios affecting the long-term viability of the Group, climate change was considered as a potential driver of both demand and supply side shocks.

In understanding how our business may be impacted by climate-related risks and opportunities based on our strategy, we consider two high level scenarios emerging by 2030, outlined below:

- 1.5-2 degrees
  - In this scenario, the global response to the threat of climate change is timely and effective, and succeeds in limiting global average temperatures to 1.5-2 degrees over pre-industrial levels. The global business environment is characterised by coordinated government policy and regulation such as carbon taxes, as well as consumer behaviour favouring low-carbon products and services. With regard to our end markets – in civil aviation, demand growth is dampened until technological change enables low-carbon commercial flight and growth can re-start, and the energy market accelerates its transition towards large-scale renewables and away from fossil fuel generation.
- 3-4 degree pathway
  - In this scenario, there is less coordinated and concerted effort, change is slower and more piecemeal, emissions remain at or close to 2021 levels and the world starts to feel ever more effects of climate change through the 2020s. The temperature continues to climb on the trajectory to hit 4 degrees, leading to significant disruption in societies, economies and supply chains across the world. In this scenario, there is both demand and supply side impact as the physical manifestations of climate change emerge in the shape of extreme weather events, and biodiversity loss and desertification leading to food system disruption and mass migration.

Both scenarios present risk (and in some cases opportunity) to our business, but each has a greater or lesser degree of transition and physical risks as outlined in the table below (with linked mitigation)

Scenario	Scenario summary	Main risks	Main opportunities	Impact	Mitigation
~1.5-2 degree warming	The global economy de-carbonises largely in line with the commitments made under the Paris Agreement.	Primarily transition risks: • Market – short-medium-term reduction in demand for flying as consumer priorities evolve, prior to technological change enabling low-carbon commercial flight. • Regulatory – reduced margin due to internalisation of carbon cost through e.g. carbon taxes.	Accelerated transition to Net Zero in energy and aviation stimulates greater demand for Meggitt's sustainability-focused and low-carbon enabling technology.	We've considered a wide range of demand and supply shocks, including risk related to climate change in our overall viability assessment. More details can be found on pages 55-57. Full economic modelling of balance of risk and opportunity in this scenario is under review.	Market – Investment targets for low-carbon technologies to enable systemic carbon transition enable continued growth (see page 84). Regulatory – Progressive investment in permanent abatement to achieve science-based targets to minimise regulatory risk.
~3-4 degree warming	The global economy does not make sufficient progress on reducing emissions to limit the average temperature rise to <2 degree over pre-industrial levels.	Primarily physical risks: • Disruption of global supply chains. • Increased severe weather events disrupting our manufacturing facilities. • Reduction in demand for flying driven by economic disruption.	Although, in this scenario air travel may continue to grow, we do not see opportunities related specifically to climate change.	We conduct physical risk assessments of our sites' vulnerability to natural events. Full economic modelling of balance of risk and opportunity in this scenario is under review.	Work with insurers to continually update specific site risk and mitigation measures. Increased focus on resilience in supply chain strategy.

1 Relative to revenue.

To further understand the physical risk that climate change presents to our business, we have undertaken a high level assessment of the impact of natural hazards, including those made more likely by climate change (flood, wildfire and wind storm).

A specialist third party analysed Meggitt's key manufacturing sites, utilising desktop modelling for each location, considering a variety of hazard zones. The geographic concentration of sites within the portfolio was mapped to understand risk clusters. The number of high and extreme risk assets within the portfolio was identified, along with the peril types driving exposure. A report was then produced analysing which portfolios and countries are most exposed to each peril, determining key drivers, and aggregating the information to understand where resilience resources should be targeted.

We intend to conduct further risk analysis in 2022, aligned with climate change scenarios, to greater understand the physical risks to the business prevalent in the 3-4 degree warming scenario.

In summary, through our risk and opportunity management process and the mitigating actions we are undertaking, we believe we are resilient to the majority of risks presented by climate change currently assessed, and well positioned to take advantage of the opportunities deriving from the Net Zero transition.

During 2022 we intend to further develop our risk and opportunity assessment framework, and continually review mitigating actions based on scenario modelling and analysis.

3) Risk Management

The Group maintains a robust risk management framework based on ISO 31000, and includes a formal process for identifying, assessing and responding to risk, including climate-related risk. Our risk management processes are detailed on page 48, and includes a series of Group-wide control and actions to mitigate principal risks to our business. Our published principal risks have included a specific risk for climate change since 2020 (consolidating previous climate-related risks previously incorporated into other risks) along with potential impact and mitigation.

In addition, we model both demand and supply side shocks to our business in order to test ongoing viability, and risk related to climate change is a specific consideration.

4) Metrics & Targets

We have a number of metrics and targets which allow us to measure and reduce our impact on the environment, summarised on page 82. For our carbon emissions specifically, we track Gross and Net Scope 1 and 2 emissions (reported in line with the Greenhouse Gas protocol), which are measured by site and communicated quarterly for Board and management level reporting and management action purposes.

Our existing Greenhouse Gas reduction target is to reduce Scope 1 and 2 emissions, normalised for revenue, by 50% by 2025 (with a 2015 base year). We are on track to achieve this reduction early, and so have committed to update this target by 2023, including a Scope 3 measure, in line with the requirements of the Science Based Targets initiative (SBTi) for the 1.5 degree pathway.

Throughout 2021 and for 2022 Meggitt has and will continue to put in place appropriate plan and incentives for the businesses to invest in reducing our impact by:

- Setting a clear direction by committing to setting science-based targets, illustrating the methodology and the data throughout the business and in reporting;
- Cascading site level in-year environmental targets through our strategy deployment process;
- Incorporating Scope 1 and 2 reduction measures into our LTIP measure;
- Implementing an internal carbon price to ensure cost of climate impact is embedded in business decisions – e.g. capital expenditure within our facilities; and
- Laying out a roadmap to substitute fossil fuel-fired processes and facilities, including long-term capital allocation planning.

We have conducted initial screening of our Scope 3 inventory to identify the most material categories, and are working to develop a consistent calculation methodology in line with the Greenhouse Gas Protocol. In calculating our full Scope 3 inventory we will utilise voluntary methodologies, tools and standards appropriate to the aerospace, defence and energy markets (such as those developed by the International Aerospace Environmental Group). In 2022 we will refine our initial Scope 3 baseline and commence reporting of material Scope 3 emissions by 2023, with a view to progressively incorporating absolute Scope 3 reduction measures into our climate-related KPIs and targets as outlined above, including those covered by our forthcoming science-based targets. These targets will be linked to business decision-making processes as outlined in Section 2 above.

To ensure we are positioned to meet customers' increasing demand for enabling technologies for sustainable aviation, we have set a target that two-thirds of our Research & Technology investment would be in sustainable technologies (see page 84) – we continue to track and actively manage this metric.

We constantly review our metrics and targets to ensure that the data reported is aligned with our strategy, targets, and provides the information needed for our business leaders to drive results. We also review other relevant data, such as market data and reports, as well as our customers' and suppliers' commitments and expectations, to provide an indicator on the status of our climate change-related risks and opportunities, our stakeholder expectations in the context of their own commitments, and changes to our strategy and planning processes required.

Corporate Responsibility

ENABLING A MORE SUSTAINABLE FUTURE

We are committed to working in partnership with our employees, communities, customers, suppliers and shareholders to protect our people and planet and to develop technologies for the benefit of future generations.

People

Planet

Technology

Delivering on our commitments

Focusing on our People, our Planet and our Technology as the framework to enable a more sustainable future and deliver on our commitments to our stakeholders.

Our Corporate Responsibility and Sustainability Policy supports our strategy for a sustainable future by concentrating on three core pillars: People, Planet and Technology. Our strategy is tied to four of the United Nations Sustainable Development Goals, and allows us to strengthen our relationships with all of our stakeholder groups.

2021 saw Meggitt expand even further the role of corporate responsibility across the Group. Our work on our strategic portfolio, our investment in differentiated technologies, alongside our commitment to manufacturing efficiencies and our high performance culture, values, and diversity and inclusion all contribute to the sustainable development of our business and is the key to our continued long-term success.

Our sustainability pillars

People

We are committed to creating a rewarding and safe working culture for all colleagues and supporting our communities.

Read more on page 72

Planet

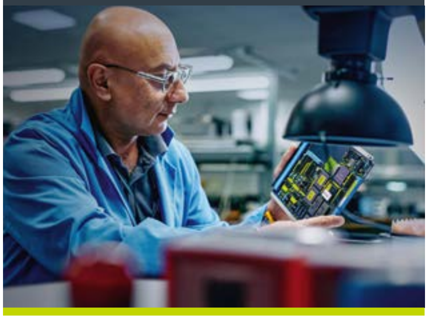
Our goal is to contribute to a cleaner future by continually improving and adapting our operations.

Read more on page 78

Technology

To support the evolving needs of our global customers we will continue to invest in innovative new technologies to enable sustainable aviation.

Read more on page 83



Corporate Responsibility
continued

01 Strategy and Approach

Our approach to Corporate Responsibility and Sustainability is a vital thread across the whole business which is integrated into our strategy and priorities. As we venture into the future with all our stakeholders we are developing a business that is innovative and conscious of our responsibilities, from reducing our emissions and inequalities to driving forward an ethical culture and supply chain. We continue to develop our approach to sustainability and reporting mechanisms whilst understanding our opportunities through our sustainability framework of People, Planet and Technology.

02 Corporate Responsibility & Sustainability Policy

- Addresses our key stakeholders: employees, customers, suppliers, shareholders and the wider community;
- upholding sound corporate governance principles and applying the UK Corporate Governance Code;
- supporting the Ten Principles of the United Nations Global Compact, relating to human rights, labour, the environment and anti-corruption;
- upholding our employees' human rights;
- encouraging dialogue with employees through engagement and our Speak Up Line;
- building a more diverse and inclusive Meggitt, including meeting reporting requirements such as gender pay gap and gender ratios for executives and the Board;
- minimising the environmental impact of products and processes and maintaining internationally accredited environmental management systems standard ISO 14001;
- conducting business relationships ethically and responsibly;
- complying with anti-slavery and human-trafficking legislation;
- working with our suppliers to build a sustainable and resilient supply chain;
- acting as a responsible supplier and encouraging all our counterparties to do the same; and
- supporting our local communities.

03 Our focus areas and stakeholders

04 Action

For our stakeholders this means:

- committing to invest over two-thirds of our innovation budget on technologies for sustainable aviation and energy;
- continuing to improve the environmental sustainability and resilience of our global sites;
- complying with relevant national laws and regulations and reporting requirements;
- providing a supportive, rewarding and safe working environment;
- embedding the employee recognition scheme, "Extraordinary People" into the way we work;
- delivering training for all employees on our Code of Conduct, health and safety, anti-harassment and other areas;
- continuing to develop our approach to employee communications and improving our collaboration tools;
- maintaining modern, safe and efficient operational practices;
- contributing to the social and economic enrichment of local communities, focusing particularly on activities related to STEM, and the work of our Employee Resource Groups;
- having effective risk identification and mitigation policies and procedures across all areas of the business;
- removing all sales agents from our business and implementing a continuous improvement plan for all intermediaries;
- conducting audits and risk assurance reviews in key compliance areas; and
- adopting robust internal and external reporting and controls, and ensuring financial probity.

05 Governance and Compliance

Ultimately, the Board is responsible for the implementation and monitoring of our Corporate Responsibility and Sustainability Policy (CR&S Policy).

Ongoing monitoring of corporate responsibility (CR) activities has been delegated by the Board to the Corporate Responsibility Committee (CR Committee). The CR Committee maintains oversight of ethics and business conduct, sustainability, charitable and community activities.

The CR Committee also oversees the Board's approach to implementing sections of the UK Corporate Governance Code 2018 (the 2018 Code) and the UK Companies Act 2006 relevant to stakeholder engagement.

Nancy Gioia, the Chair of the CR Committee also performs the role of Non-Executive Director responsible for Employee Engagement. The role and activities undertaken by Nancy in 2021 are outlined on page 92.

In 2021, the Board of Directors continued to receive updates on diversity and inclusion activities across the Group, including the significant progress in 2021 with our Employee Resource Groups and the Meggitt Inclusion Week held in September. Health and safety reporting is also overseen directly by the Board with regular reports from the Chief Executive, and in 2021 the Board reviewed current health, safety and environmental performance with the VP Health, Safety and Environment and the Group Director of Operations.

Group support is provided to ensure we fulfil the requirements outlined in our CR&S Policy, and our divisional presidents, product group leaders and site directors take responsibility for implementing Group policies and procedures locally. Day-to-day responsibilities of the Board and the Chief Executive for overseeing the CR&S Policy in 2021 were delegated as follows:

- the Group Operations Director had functional responsibility for environment and sustainability and health and safety, led by our Group Director, Sustainability and VP Health, Safety and Environment;
- the Group HR Director led initiatives focused on culture, diversity, inclusion and employee engagement; and
- the Group Company Secretary had functional responsibility for ethics and business conduct and charity and community matters, working closely with our Group General Counsel & Director, Corporate Affairs, and Group HR Director.

In 2021, health and safety (total recordable incident rate) was a key strategic non-financial KPI (see page 28). In 2021, we introduced carbon emissions as another non-financial KPI recognising the key strategic importance of this area. Data in other key areas, such as employees and other environmental data are continually monitored and assessed and our Group progress is reported in this section. Our non-financial information statement as required by Sections 414CA and 414CB of the Companies Act 2006 is set out on page 88.

Corporate Responsibility
continued

Environmental, Social and Governance (ESG) reporting and guidance

During 2021, Meggitt built on the 2020 review of environmental, social and governance reporting, and further embedded the sustainability framework of "Enabling our sustainable future" through the three pillars of People, Planet and Technology.

This framework captures our commitment to drive our business to be more sustainable.

Our framework covers the reporting requirements under the Taskforce on Climate-related Financial Disclosures (see page 58) and is also linked to the United Nations Sustainable Development Goals.

United Nations Sustainable Development Goals

After aligning to four United Nations Sustainable Development Goals in 2020 which integrate into the overall Meggitt strategy, Meggitt has continued to develop its corporate responsibility approach (see pages 66 and 67). During 2021, the following progress has been made:

UN Sustainable Development Goal	Our approach	Our commitment	What we did in 2021
9 Industry, innovation and infrastructure Inclusive and sustainable industrialisation, together with innovation and infrastructure, can unleash dynamic and competitive economic forces that generate employment and income. They play a key role in introducing and promoting new technologies, facilitating international trade and enabling the efficient use of resources.	Meggitt can contribute to this goal by encouraging innovation and continuing our commitment to research and development on sustainable technologies for aviation and energy. See our pillars on Planet and Technology.	• Investing two-thirds of our Applied Research & Technology spend in technologies and products needed for sustainable aviation and low-carbon power generation; • Membership of the UK Government's Jet Zero Council which is a partnership between industry and Government in the UK to bring together ministers and chief executive officer-level stakeholders to drive the ambitious delivery of new technologies and innovative ways to cut aviation emissions; and • Working with established and new companies developing innovative low-carbon solutions.	• See technology case studies throughout; • Footprint reduction; • Reduced emissions; • Utilising Employee Resource Groups (ERGs) across the business; and • Joining the UN's Race to Zero and committing to setting targets under the SBTi framework.

UN Sustainability Development Goal	Our approach	Our commitment	What we did in 2021
10 Reduced inequalities Reducing inequalities and ensuring no one is left behind are integral to achieving the Sustainable Development Goals.	Meggitt can contribute to this goal by empowering and promoting the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status. See our pillar on People.	• Continuing commitment to our values and our High Performance Culture (HPC) journey; • Creating and supporting Employee Resource Groups which sponsor, promote and challenge our approach to diversity and inclusion across Meggitt; • Increased emphasis on our Speak Up culture; • Commitment to Gender Pay Gap and other diversity related data reporting; and • Increased community-based charity support connected to STEM and our Employee Resource Groups.	• Inclusion Week – multiple ERG activities; • Joined 10,000 black interns programme; • Launched Community Heroes programme enabling employees to support local good causes.

UN Sustainability Development Goal	Our approach	Our commitment	What we did in 2021
12 Responsible consumption and production Worldwide consumption and production – a driving force of the global economy – rest on the use of the natural environment and resources in a way that continues to have destructive impacts on the planet.	Meggitt can contribute to this goal by concentrating on: achieving the environmentally sound management of chemicals and all wastes throughout their lifecycle and significantly reducing their release into air, water and soil in order to minimise their adverse impacts on human health and the environment; substantially reducing waste generation through prevention, reduction, recycling and reuse; and adopting sustainable practices and to integrate sustainability information into our reporting cycle. See our pillar on Planet.	Reducing greenhouse gas emissions and waste to landfill, which are being managed by opportunities to maximise operational efficiencies: • Setting science-based targets for GHG reduction in line with 1.5 deg pathway; • Sourcing renewable energy; • Harmonising more sustainable practices across our sites including waste recycling, minimising plastics, electric car charging; • Sites maintaining ISO 14001 certification; • Site-level environmental performance monitoring and reporting against targets; • increased external reporting in the environmental, social and governance space including the Taskforce on Climate-related Financial Disclosures.	• GHG reductions; • Purchased renewable energy; • Reviewing waste goals; • Environmental targets for each site; • Commenced TCFD reporting; and • Joined the UN's Race to Zero and committing to setting targets under the SBTi framework.

UN Sustainability Development Goal	Our approach	Our commitment	What we did in 2021
16 Peace, justice and strong institutions Promote peaceful and inclusive societies for sustainable development.	Meggitt can contribute to this goal by: taking action to prevent modern slavery within Meggitt and our supply chain; implementing policies, processes and awareness training to prevent bribery and corruption; and ensuring effective and accountable reporting. See our section on Corporate compliance and business conduct.	• Increased transparent reporting in the environmental, social and governance space; • Increased emphasis on creating a sound Anti-Bribery & Corruption compliance programme through our annual continuous improvement plan; • Driving ethical business conduct through emphasis on our Speak Up culture; • Creation and support for our Employee Resource Groups; • Continuing commitment to our High Performance Culture journey; and • All-employee yearly compliance training in key areas including our Code of Conduct, ethical business practices and health and safety.	• Revised Financial Crime policy; • Revised Anti-Corruption and Ethical Business Conduct Policy; • Risk Assurance reviews; • Improved data analysis for ethics cases; and • Launched ethics investigation standard process and training.

Corporate Responsibility
continued

Our behaviours with each other, our customers, our suppliers and in our communities must be exemplary and we must accept nothing less.

Committee membership and attendance in 2021

Mrs N L Gioia
(Committee Chairman)

Mr A Wood

Mrs L S Burdett

Mr G S Berruyer

Mr A Garard

x Scheduled meetings

Corporate Responsibility Committee

As Chair of the Corporate Responsibility Committee, Nancy Gioia's role is to ensure that we oversee the Group's activities in the areas of ethics and business conduct, environment and charity and community.

Our values and commitments are set out in our CR&S Policy to ensure it reflects our strategic goal to conduct business in a sustainable, long-term manner while demonstrating a high degree of social responsibility. Our approach and performance in this area is monitored closely by the CR Committee and oversight is provided by the Board. The CR Committee covers ethics and business conduct, environmental performance, charity and community in detail. It also ensures that the Board meets its responsibilities under the 2018 Code and UK Companies Act 2006 on stakeholder engagement, and other reporting requirements.

The challenges created by the COVID-19 pandemic continued to bring all matters related to corporate responsibility and sustainability to the fore in 2021. During 2021, we received detailed progress reports on environmental performance, sustainability and ethics and business conduct including trend analysis, detailed Speak Up Line case reports, and updates on all-employee training. We also received reports on supplier engagement and discussed feedback on employee engagement activities. We also discussed specifically the impact of COVID-19 on our stakeholder groups to ensure our approach was balanced.

Teamwork

In 2021 new training on our ethics investigations process was rolled out to relevant employees from different functions including in Health & Safety, Quality, Commercial, Legal and Human Resources in order to standardise and provide a consistent standard to all ethics investigations. Best practice was shared and a single approach was adopted enabling all investigators to work as a team globally.

Shareholders

The Committee determined that the regular reports to the Board on shareholder engagement during 2021, in addition to direct engagement by the Chairman, Executive Directors and Chair of the Remuneration Committee were appropriate and gave the Board a good level of oversight and understanding of shareholder views. Our shareholder engagement activities are described in more detail on page 90.

Customers

The Board discussed engagement with customers at every meeting during 2021. The Committee determined that the regular reports to the Board and customer updates were appropriate and gave the Board a good oversight and understanding of customer views. Our markets and key customer activities are outlined in our Strategic Report (page 24).

Suppliers

The Chief Procurement Officer presented an update on the implementation of our supply chain strategy to the Board and detailed written reports on supplier engagement were provided direct to the Committee in 2021. This highlighted that Meggitt's approach to supply chain management is evolving, with a targeted reduction in the cost and complexity of our supply chain, but a deeper level of engagement with retained suppliers.

Employees

The Board reviewed reports from executive management on employee engagement and culture on a regular basis. The Committee reviewed the activities of the Non-Executive Director for Employee Engagement in detail. The results of the employee engagement survey as well as the whistleblowing hotline and ethics programme were also reviewed by the Board and CR Committee (see pages 74 and 87).

2021 in numbers

0.9
ethics cases per 100 employees globally

+31,000
hours of training delivered to all employees

51
trained ethics investigators

37%
reduction YoY in Scope 1 and 2 GHG emissions (market-based)

50%
of all energy consumed from renewable sources

- A focus on the impact of COVID-19 on our stakeholder groups, particularly in relation to actions taken by management to control cost;
- Appointment of Group Director of Sustainability to drive operational improvements connected to environmental sustainability across the Group;
- Expansion of the Ethics Management Committee to provide direction on all employee compliance training;
- Continuing to minimise sales agents in our business;
- Refreshing our Financial Crime Policy and also updating and consolidating our Anti-Corruption and Ethical Business Conduct policies;
- Improving data analysis in connection with the independent Speak Up Line to identify trends and shape training requirements across the business;
- Launched our employee volunteering programme "Community Heroes" giving all employees time to volunteer for worthy causes;
- Implementing site-level key performance indicators and targets for environmental measures such as energy and water consumption and waste to landfill;
- 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 Celsius warming scenario, and reaching Net Zero before 2050;
- Joined the 10,000 Black interns programme in the UK with anticipation of hiring 13 interns from the programme;
- Continuing with the LeadX training programme for high-potential leaders across the Group and Spitfire Training Programme for operations leaders;
- Grew the percentage of electricity consumed from renewable sources through a mix of on-site generation and market-based measures; and
- Scope 2 emissions reporting to capture both location-based and market-based methodologies.

Corporate Responsibility
continued

PEOPLE

"Meggitt continues to put our people first through our values, our work towards a high performing and inclusive and diverse culture, as well as supporting our communities.

Our values and culture

Our values reflect how we should work together and the behaviours that are integral to our culture. Our work on culture continues to be a key part of our overall Group strategy and supported by culture plans established in the business.

To accelerate our progress towards becoming a truly integrated global business and cultivating a culture of high performance, we focused our efforts on employee and leadership development, diversity and inclusion, employee engagement, and recognition. Culture forums were held across the organisation on a bi-monthly basis. This forum is where our site and product group leaders can update progress on culture plans, share ideas and best practices as well as reinforce and gain support for any culture-related programmes.

High Performance Culture (HPC)

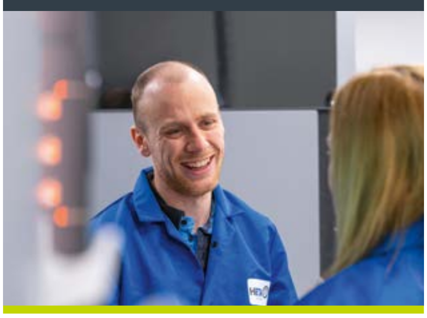
68% of our total workforce have attended unfreezing sessions (including 87% of our leaders). Due to the challenges we faced as a result of the COVID-19 pandemic, we were unable to support the volume of in person training required and therefore our goals to achieve higher participation rates have been delayed into 2022, however, in order to combat these challenges some sessions have been conducted virtually. Our target is to ensure over 90% of our employees have attended unfreezing sessions by the end of 2022. We also launched content across the workforce to reinforce HPC on a daily basis in DLA meetings and through intranet articles and videos.

Living our values

TEAMWORK

At Meggitt, we support each other and recognise outstanding contributions.

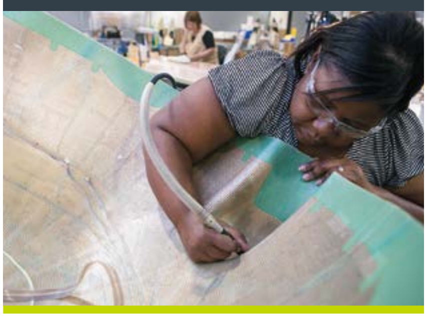
By working together, we bring extraordinary technology to our customers. We build great relationships with all of our stakeholders, providing the support they need to succeed. We build highly skilled teams passionate about what we do and how we do it.



INTEGRITY

At Meggitt we do the right thing, in the right way wherever we operate.

Our colleagues, customers and the communities we are part of can count on us to act with integrity, honesty and respect. We form lasting positive relationships built on open communication, understanding, fairness and impartiality. We conduct ourselves with integrity and the highest standards of ethical behaviour across the business.



EXCELLENCE

We enable the extraordinary at Meggitt.

We are good at what we do and that's why customers come back to us. We are constantly working to improve our processes and attention to detail. As a result, we deliver the most ambitious technologies, products and services safely, efficiently and cost-effectively to our customers.

Corporate Responsibility
continued

Diversity and Inclusion

Our Diversity and Inclusion Policy sets out our commitments at Board-level to making Meggitt a diverse and inclusive organisation. The Policy reinforces that we employ a diverse workforce that reflects the diverse communities within which we operate and that we always foster an inclusive culture where people are valued, respected and supported.

The Board, executive management and leaders across the Group recognise that a diverse and inclusive workforce is critical to running a sustainable and successful business. To reinforce our commitment to creating a diverse and inclusive environment, we have created divisional-level diversity plans, and established a Group-wide Diversity & Inclusion Council.

During 2021 we saw substantial progress in the number of employees engaged with our Employee Resource Groups (ERG), from 400 ambassadors to over 1,100. We held our annual Diversity & Inclusion Week event with 18 sites hosting events along with virtual sessions focused on learning more about our ERGs. Employee Resource Group leaders were trained in advanced concepts relating to diversity and inclusion.

ERGs took the lead on many activities throughout the year to raise awareness, educate, and support the cultivation of an environment where employees can be at their best, 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 UK gender pay gap reduced from 9.3% to 5.7% in 2021, with progress driven by several senior executive changes and our increased focus on diversity and inclusion. Our full UK gender pay gap statement will be available on our website by April 2022. We are committed to building a more diverse and inclusive Meggitt and meeting reporting requirements including gender pay gap reporting and the FTSE Women Leaders Review, as well as equal pay and fostering a fair and transparent environment where employees are rewarded based on their position, competencies, performance and contribution.

Meggitt does not discriminate on the grounds of age, colour, disability, ethnic or national origin, gender, gender expression, gender identity, marital status, pregnancy, race, religion or belief, or sexual orientation and new hires are offered positions based on merit, taking account of their specific skills, experience and knowledge. All individuals are supported during their employment through training, career development and awareness of diversity and inclusion groups are promoted to all employees through our Employee Resource Groups.

Employee recognition

A culture of appreciation and recognition is an important building block for our values.

Our Extraordinary People programme is a way of recognising the special efforts and commitment of individual colleagues and teams across the whole of Meggitt. Open to all, this programme, together with recognition schemes already running at local sites, is motivational and rewarding, helping to create a culture of customer service and appreciation. Nominations are accepted for individuals and teams in seven categories: Operational Excellence, Innovation, Teamwork, Safety, Sustainability, Customer Service and Community.

The level of uptake of this recognition scheme has been very well received by staff, having received over 4,000 nominations in 2021.

Employee engagement and feedback

We recognise that our future success depends upon our shared sense of purpose and it is important that we find out from our employees what they think about Meggitt and how they feel about the work that they do.

Our work on culture, particularly throughout a challenging period for the Group and for our people over the last two years, has been reflected in our results for 2021 which show engagement

Group Board		Senior managers*		Wider employees	
5	4	97	21	6,490	2,790
56%	44%	82%	18%	70%	30%

* includes members of the Executive Committee, direct reports of the Executive Committee and, as required by s414C of the Companies Act 2006, subsidiary directors.

levels rising 2% from 2020 (and 4% above the global high performing benchmark). Most improved areas are ethical behaviours, team-working and cooperation, challenging the status quo and ongoing feedback. The area most needing to improve is reducing bureaucracy and efficiency of processes, which is an area of ongoing focus.

Training and development

We invest time and energy into ensuring we attract, develop and retain the best talent to ensure people succeed based on their skills, behaviours, knowledge and experience. We have had great success in the two programmes we launched in 2020, LeadX for high-potential leaders completed two cohorts and launched two additional cohorts in 2021.

Spitfire for operations leaders continued with great success in 2021. Cohort 1 and 2 both graduated from the programme, completing ten "Action Learning Projects", each with significant cost savings to the business. Our current Cohort 3 includes 26 participants across the US and Mexico, with eight actively progressing Action Learning Projects. Several of our sites also launched operator certification programmes to upskill employees while improving operational performance.

We continue to develop employees' leadership capabilities and during the year implemented formal programmes to raise capability in functional teams, including finance, engineering, information technology, procurement, project and programme management.

We also continue to build on our graduate and apprenticeship programmes with 41 graduates in the programme and 61 apprentices. We were also the first aerospace company to participate in the 10,000 Black interns programme in the UK, and we expect to hire 13 new interns in 2022 as a result.

The market for talent acquisition and labour shortages has presented challenges in several of the regions in which we operate. Despite the challenges, our talent acquisition team worked closely with our leaders to ensure we could secure talent at pace.

In our efforts to improve processes related to people, we created shared service teams in the UK and US to manage employee transactions more efficiently and enabling better use of our technology for employee self-service. AskHR and our intranet supports employees and managers on items related to HR policy and processes.

Communities and charities

The Sponsorship & Charitable Giving Policy contains guidance about the types of organisations (charitable and non-charitable) that we will consider funding, with criteria that are aligned to our Values. It is the responsibility of our Group Director of Ethics and Corporate Responsibility to ensure the policy is followed across the Group including providing guidance on charitable giving, and communicating this policy across the business.

Each site is ultimately responsible for agreeing and administering its own budget for charitable donations and sponsorships to ensure they have a positive impact on the local community that they support and in which their business operates. In 2021 Meggitt donated to a number of charities aligned to the goals set out by our Employee Resource Groups and foodbanks in the UK and US which are linked to our local communities. Our plan for work with charities in 2022 will continue to

Headcount by division

Number of employees and contractors

Airframe Systems	4,406
Engine Systems	2,249
Energy & Equipment	1,215
Services & Support	551
Central	849
Legacy Businesses	–
Total	**9,270**

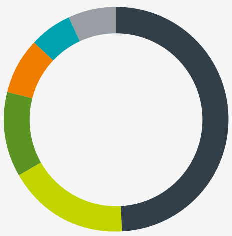
Headcount by region

Number of employees and contractors

UK	2,327
Rest of Europe	940
USA	4,644
Rest of World	1,359
Total	**9,270**

Headcount by length of service

Number of employees and contractors



Less than 5 years	4,558
Between 5 and 10 years	1,640
Between 10 and 15 years	1,115
Between 15 and 20 years	749
Between 20 and 25 years	580
Over 25 years	628
Total	**9,270**

Strategic Report

Corporate Responsibility
continued

be aligned to our sites and their local communities and the work our Employee Resource Groups do.

In addition to charitable giving, Meggitt launched a new volunteering scheme called Community Heroes. In the spirit of community and sustainability Meggitt wants to celebrate our extraordinary people who already contribute to their local communities and charities and give them an additional day's paid leave to spend within their communities, or give others the opportunity to give back through various initiatives run by our sites and Employee Resource Groups. Our colleagues have gone above and beyond throughout the pandemic and Meggitt will continue to support and encourage this through our Community Heroes programme.

Disability

Meggitt's policy in relation to the employment of disabled persons is to give full consideration to job applications received from disabled persons. Candidates are selected and appointed on the basis of their ability to perform the duties of the job.

Where appropriate, special training is given to facilitate engagement of the disabled and modifications to the job are considered. Where an employee becomes disabled whilst in our employment and is unable to perform their existing role, arrangements will be made where possible for retraining in order that a different job may be performed.

Health & Safety

Our Health & Safety Policy sets outs responsibilities at all levels of our Company towards health and safety and the prevention of injury to our employees, visitors, contractors, customers and others who may be affected by our activities.

At Meggitt, we have continuously placed the health and safety of our employees, contractors, customers and visitors at the forefront of everything we do. In 2021, we continued to take steps to ensure that our workers were protected against COVID-19 and strongly promoted vaccinations for employees. We continued to implement the COVID-19 pandemic risk mitigation measures such as social distancing and mandatory mask-wearing in accordance with national and local government requirements, and required sites to conduct COVID-19 pandemic risk assessments on a frequent basis taking into account local transmission rates, changes in national and local guidelines and requirements and information provided by applicable health authorities. All of these actions allowed our businesses to operate in the COVID-19 pandemic as secure and safe environments throughout 2021.

We continued to conduct daily safety reviews and training through our HPS DLA process by presenting health and safety topics for discussion at the beginning of every day for employees at all levels of the Company. These discussions also included safety stand downs where we shared lessons learned across all of our sites from incidents that occurred. We also resumed our external third-party HSE auditing programme which was paused in 2020 due to the COVID-19 pandemic and which ensures our sites are maintaining compliance with applicable health and safety regulations.

In 2021, we integrated health and safety awareness training in our Spitfire training programme, which included detailed health and safety training for members of our executive management teams across the Group. This training included an awareness training of health and safety compliance obligations that are applicable to our sites as well as a behavioural based safety training which focused on how employees' individual behaviours and actions can contribute to incidents that occur in the workplace.

We continue to measure site health and safety performance through our Safety Star Programme. One key change that was made to this Programme in 2021 was to incorporate our Safety Leadership Index (SLI) as a mandatory metric that all sites had to achieve in order to achieve Platinum Star status. The SLI incorporates the number of safety walks that our site Senior Leadership teams conduct on our production floors, the number of Safety Stand Downs (site-wide discussions on a specific subject regarding health and safety) that sites conduct, and the number of days in which the sites' safety champions are conducting "safe observations" which are dedicated to focusing on health and safety behaviours and actions as opposed to their normal production job. In 2021, 61% of sites achieved Platinum Star status in our Safety Star Programme, which represents the highest level of health and safety excellence achievable within the Company.

In 2021, we continued to reduce our Total Recordable Incident Rate (TRIR). Our TRIR improved in 2021 to 0.6 (0.7 in 2020), representing a 0.9% reduction year on year as a result of a decade of continuous improvement activities. Our lost time incident rate (LTIR) was at 0.24 which represents an excellent indicator of preventing serious injuries within the Company.

We are targeting all of our sites to obtain certification to ISO 45001 for their occupational health and safety management system by end of 2022. In 2021, 60% of sites have achieved this target. This will ensure that all of our sites are maintaining a health and safety management system that provides the maximum achievable protection for all of our employees.

10,000 Black Interns.

2021 saw Meggitt participate in the first year of the 10,000 Black Interns programme which aims to sustainably tackle Black underrepresentation in the UK's professional industries.

The scheme plans to cumulatively hire 10,000 Black interns over a five-year period to help shape career trajectories and broaden horizons through work experience. Companies from numerous sectors pledged one or more paid summer internship positions to the scheme, to which Black students who are studying at, or recently graduated from a UK university can apply. With over 700 companies participating in this first year, Meggitt was the first aerospace company of the seven participants in the Engineering & Automotive sector.

All applicants are provided with a wide range of training opportunities, such as CV writing and interview preparation as part of the development aspect of the programme, providing knowledge that candidates will take with them into their future careers.

In December, assessment centres for the 2022 summer intake were held at Ansty Park, and from a pool of high calibre candidates, 13 roles were offered in Engineering & Supply Chain over 4 UK sites: Ansty Park, Fareham, Loughborough and Poole. The successful applicants ranged from final year PhD candidates to students at the beginning of their undergraduate degree.

This programme which reinforces our commitment to welcome Black talent to the engineering industry, was brought forward within Meggitt by BE@M, an employee-led group which exists to highlight and advocate for people of colour within Meggitt.

13

Roles were offered in Engineering and Supply Chain

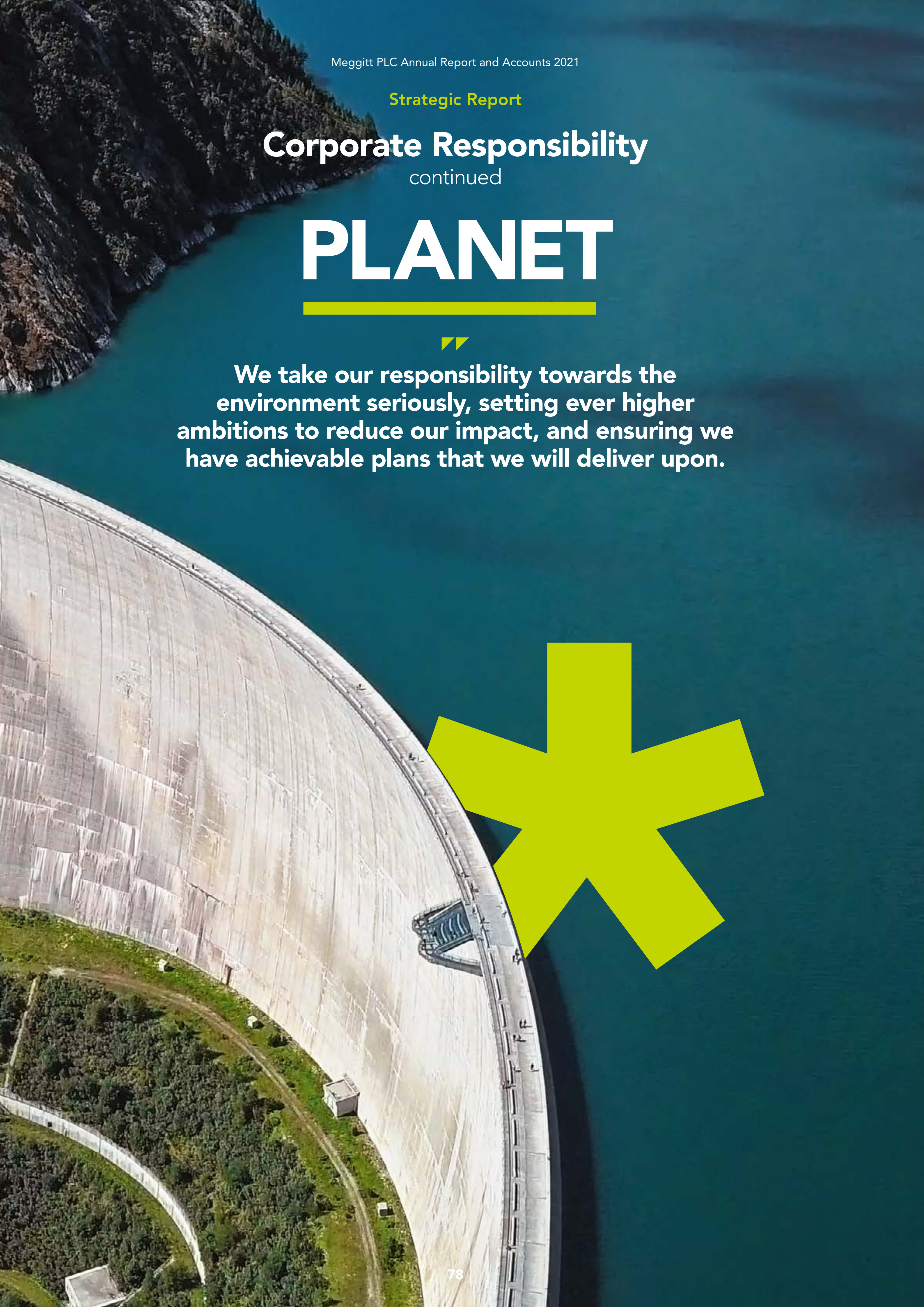
4

UK sites participated: Ansty Park, Fareham, Loughborough and Poole

Corporate Responsibility
continued

PLANET

We take our responsibility towards the environment seriously, setting ever higher ambitions to reduce our impact, and ensuring we have achievable plans that we will deliver upon.



Our Planet, Our Home

We are gathering momentum towards a sustainable future, committing to Net Zero across our value chain in line with a pathway that limits global warming to 1.5 degrees Celsius and setting science-based targets to make further meaningful reductions in our environmental impact in this decade.

Our commitment

At Meggitt we recognise that we have an important role in preserving and sustaining the finite resources and natural capital of our planet for future generations. The starting point for our contribution to this critical imperative for the planet is the impact of our own operations, value chain and products.

In 2021 we renewed our focus on two specific environmental areas – our greenhouse gas emissions and our use of material across our value chain – which together provide our greatest opportunity to reduce our impact on the environment, and accelerate towards our sustainable future.

Our Corporate Responsibility & Sustainability (CR&S) Policy and our Environmental Policy set out our commitments to incorporate environmental considerations, sustainability and responsibility in all aspects of our business by including environmental protection, resource conservation and waste reduction in our strategic planning. Our policies require all of our sites to comply with relevant legislation, promote environmental stewardship and achieve recognised ISO14001 certification of their environmental management systems, and commits us to work with our suppliers to minimise any adverse impact of their products and operations on the environment.

During 2021, Meggitt appointed its first dedicated Group Director of Sustainability to review the environmental operational performance across the Group, define our ambition and create the programme to achieve our targets.

The position has been designed to work with our health, safety and environmental teams as well as other functional leaders and in line with our sustainability, ESG and corporate responsibility strategies. A clear aim is to focus our innovation, which is at the heart of what we do, to build a sustainable business for the future, and embed sustainability as a thread through our whole business.

Greenhouse gas emissions

We recognise the responsibility that we have to play an important role in mitigating the most disruptive effects of climate change on vulnerable populations, by eliminating our net greenhouse gas emissions across our value chain in line with the goals of the Paris Agreement. That's why, 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 committed, through the Science Based Targets initiative (SBTi), to setting science-based greenhouse gas reduction targets. These will update our existing target to reduce by 50% our Scope 1 and 2 emissions (normalised for revenue) by 2025 from a 2015 baseline, and will incorporate Scope 3 emissions for the first time. Our plan to achieve these ambitious targets is prioritised based on the materiality of our Scope 1, 2 and 3 emission categories, and the important principle of focusing initially on our own operations before expanding progressively to encompass the embedded carbon emissions elsewhere in our value chain.

Our approach

Our overall approach to meeting our environmental commitments was agreed in 2021 and is summarised by the following six points:

Set out a roadmap to reduce materially our Scope 1 emissions by progressively replacing Natural Gas fired processes with low-carbon alternatives.

Launch a project to reduce the effect of the combustion of effluent gas from our carbon brake manufacturing process.

Increase our use of renewable energy through a blend of on-site renewable electricity generation, and market-based mechanisms such as 100% renewable contracts, Power Purchase Agreements (PPAs) and Renewable Energy Certificates.

Increase our energy efficiency by putting in place measures to improve consumption visibility and management.

Better understand the carbon emissions "embedded" in the goods and services we purchase, and work with our suppliers to set and implement near-term science-based reduction targets.

Progressively embed environmental considerations into all our business decisions, for example through the use of an internal "shadow" carbon price.

Corporate Responsibility
continued

Performance

Overall, our electricity and natural gas consumption fell by 8% and 15% respectively (0% and 7% normalised for revenue), reflecting primarily the continued impact of the COVID-19 pandemic on our operations and the consequent re-sizing of the business since Q2 2020, and also continuing energy efficiency programmes.

Scope 1 and Scope 2 emissions also fell in absolute terms, driven, in addition to continued lower levels of activity, by the continued reduction in the carbon intensity of the electricity grids in the countries in which we operate. Our growing on-site generation capacity also contributed to gross Scope 2 reductions – for example our solar roof at Ansty Park generated 2GWh of renewable electricity over the course of 2021, supplying 26% of the site's need over the course of the year, and saving 440 tonnes of CO_2e.

Our site in Rockmart, US, completed a major project in 2021 to replace two of their large older boilers with five smaller batch boilers which reduces natural gas consumption when demands for steam are low.

Our continued footprint consolidation strategy has led to a smaller number of larger more efficient sites. This activity has also contributed to the reduction in our GHG emissions.

For the first time, we report our Scope 2 emissions with both location-based and market-based methodologies, incorporating our long-standing contracts for renewable energy in Switzerland and Denmark, and the 100% renewable contract in the UK which was introduced in 2020. In the US we purchased Renewable Energy Certificates (RECs) equivalent to the non-renewable portion of our consumption in Kentucky and California, and have joined a community-based solar PV project in the vicinity of our Danville, Kentucky, facility. These measures lead to a reduction of 50% in our market-based Scope 2 emissions when compared to the location-based figure:

We are on track to meet our existing GHG reduction target, of a 50% reduction in Scope 1 and 2 emissions, normalised for revenue, between 2015 and 2025. The reduction to 2021 is 54% which is already over the target threshold, albeit driven in part by a reduction in volume which will in some part reverse as the world emerges from the pandemic. We will replace this objective by 2023 with a science-based target, in line with the 1.5 degree pathway, in order to continue our GHG reduction trajectory through to 2030 and beyond.

With regard to our Scope 3 emissions, we undertook a screening exercise in 2021 to identify our most material categories for more accurate baselining, and incorporation into our science-based targets. Our upstream supply chain emissions will continue to be a particular focus, and we have launched projects to define and set near-term science-based targets covering this category, determining a meaningful and actionable baseline, and set a strategy to engage with suppliers and set a reduction trajectory. We continue to work towards making our initial Scope 3 emissions disclosures for 2022.

Material use, waste and recycling

In 2021 we renewed our focus on the materials and consumables we utilise over the lifecycle of our products.

Our target of reducing total waste to landfill by 10% from 2016 levels expired at the end of 2021. Although we did see an improvement from 37% in 2016 to 32% in 2021, we did not achieve the overall target set.

We remain committed to eliminating waste to landfill where technically feasible, and learning the lessons from previous initiatives. During 2022 a new target will be set renewing our waste management targets based on reviewing our waste streams in more detail, in line with a hierarchical plan to improve efficiency of material use across our operations:

- Improve the waste management of our existing waste streams – increasing the recycling rate and setting site targets;
- Review how waste is generated in our manufacturing operations and look to reduce at source – e.g. through use of re-usable packaging, advanced machining and additive layer manufacturing;
- Incorporate material re-usability into our design processes, preserving the value of the materials we use as far as possible for re-use after de-commission and disposal; and
- Maximise lifecycle utilisation of our parts through our Services & Support division – for example through "smart scoping" in our Maintenance Repair and Overhaul (MRO) processes to extend the life of our parts and reduce the need for replacement.

Some successes realised in 2021 include our Denmark site where the site team identified an opportunity to recycle a portion of a production water waste stream.

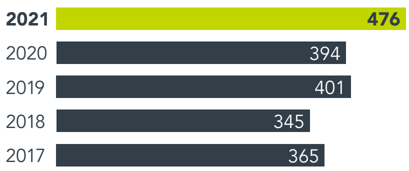
Our Troy, US, site worked with their vendors to identify many waste streams that could be recycled instead of landfilled. Our Irvine, US, site conducted a waste audit involving a number of site volunteers – to inspect general waste streams, educate and improve recycling behaviour.

Water usage

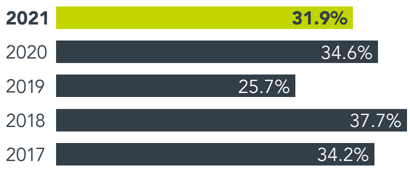
Overall our water usage has increased by 11% (21% normalised for revenue) between 2020 and 2021, and has also increased by 20% since 2016, missing our target of a 10% reduction between 2016 and 2021. The specific rise in 2021 was partially driven by the transition to Ansty Park, with similar levels of consumption seen at the legacy and new sites as all were operating during the transition period. This one-time effect is expected to unwind in 2022; without this one-off effect, the water consumption normalised for revenue would be largely flat compared to 2020 and compared to 2016.

Unlike carbon emissions where a tonne of GHG emitted anywhere has the same effect, our impact on water supply is highly dependent on the geographical context. Learning the lessons from previous water management targets, our refreshed approach will concentrate on regional regulations and reduction targets in the areas of greatest water scarcity and issue, to ensure tighter focus on our areas of greatest impact.

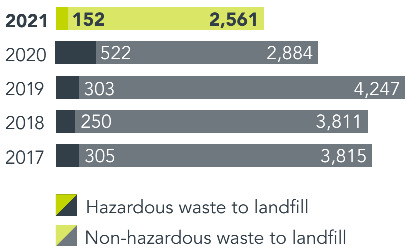
Water purchased (l) per £1m revenue



Waste to landfill as % total waste



Waste to landfill (haz vs. non-haz)

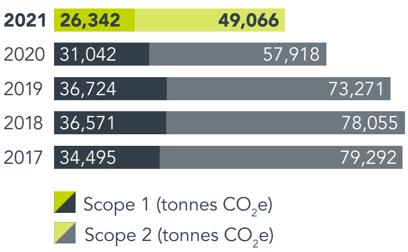


15%
reduction YoY in Scope 1 & 2 emissions (location-based)

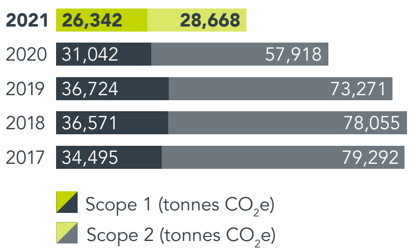
37%
reduction YoY in Scope 1 & 2 emissions (market-based)

54%
reduction in Scope 1 & 2 emissions against 2015 baseline

Scope 1 & 2 GHG emissions (location-based)



Scope 1 & 2 GHG emissions (market-based)



Waste to landfill has decreased by 35% since 2016/percentage waste to landfill has reduced from 37% to 32%.

Corporate Responsibility
continued

Environmental metrics[1] (Table 1)

	2021	Change	2020
Utilities			
Purchased electricity – gWh	156	-8%	170
MWh per £m revenue	105	4%	101
Purchased natural gas – gWh	135	-15%	158
MWh per £m revenue	90	-4%	94
Greenhouse gas emissions (CO_2e) (Scope 1 and 2, location-based reporting) – tonnes	75,408	-15%	88,959[3]
Tonnes per £m revenue	50.6	-4%	52.8[3]
Greenhouse gas emissions (CO_2e) (Scope 1 and 2, market-based reporting[2]) – tonnes	55,010	-38%	88,959[3]
Tonnes per £m revenue	36.9	-33%	52.8[3]
Waste – tonnes	8,503	-14%	9,852
Tonnes per £m revenue	5.7	-2%	5.9
Water – cubic metres	708,786	11%	637,546
Cubic metres per £m revenue	476	26%	379

Targets (Table 2)

	Baseline year	Five year performance period (financial years)	Target improvement over performance period	Achieved as at 31.12.2021
GHG emissions[1,2] – relative to revenue	2015	To 31 December 2025	-50%	-54%
Water consumption – relative to revenue	2016	To 31 December 2021	-10%	+20%
Waste to landfill – as a % of total waste	2016	To 31 December 2021	-10%	-5.4%

GHG emissions data[4] (Table 3)

	2021 Tonnes of CO_2e	2020 Tonnes of CO_2e
Scope 1 – Combustion of fuel and operation of facilities	26,342	31,042[3]
Scope 2[2] (market-based) – Electricity, heat, steam and cooling purchased for own use	28,668	57,917[3]
Scope 2 (location-based) – Electricity, heat, steam and cooling purchased for own use	49,066	57,917[3]
Total Scope 1 & Scope 2 (market-based) emissions	**55,010**	**88,959[3]**
Intensity measurement: Total Scope 1 and Scope 2 (market-based) emissions reported above, normalised to tonnes per £m revenue	**36.9**	**52.8**

Proportion of emissions and energy usage for UK and offshore area sites (Table 4)

	UK and offshore areas	UK % of Group total
Electricity purchased (gWh)	37.3	24
Natural gas purchased (gWh)	44.4	33
Scope 1 and 2 (location-based) greenhouse gas emissions (CO_2e, tonnes)	16,104	21

Proportion of Renewable Energy generated and purchased (Table 5)

	2021
Total electricity consumed by all sites (gWh)	157
Renewable energy generated on-site (gWh)	2
Renewable energy purchased (gWh)	77
Percentage electricity from renewable sources	50%

1 Location-based Greenhouse gas emissions (GHG) are calculated using location-based conversion factors published in the 2020 and 2021 Guidelines to BEIS GHG Conversion Factors for Company Reporting for UK locations. Emissions from overseas electricity are calculated using location-based conversion factors published in the IEA Emission factors 2021. Reported as per requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008; Scope 1 emissions are conservatively calculated with total consumption of natural gas, assuming all combusted – however, a proportion of carbon is captured in solid form within carbon brake discs.

2 Market-based Scope 2 emissions incorporate market-based reporting, taking into account 100% renewable energy contracts in the UK, Switzerland, Denmark, and the purchase of Renewable Energy Certificates in California and Kentucky, US.

3 2020 Scope 1 emissions re-stated to include the consumption of propane gas in carbon brake manufacturing facilities. For clarity, propane gas is included in 2021 data.

4 Table 3 shows the GHG emissions data required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008; The companies for which the GHG data is reported here are the same as those consolidated in the Group's financial statements; Global GHG emissions were calculated using conversion factors published in the Guidelines to BEIS GHG Conversion Factors for Company Reporting and the WRI/WBCSD Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard. Emissions from overseas electricity are calculated using conversion factors published in the IEA Emission factors 2021.

Corporate Responsibility
continued

TECHNOLOGY

Decarbonising how we fly is a generational challenge that will need both nearer-term evolutionary developments and more radical mid-term changes.

Innovating for a sustainable future

As communities, governments and markets around the world increasingly face the need to decarbonise how we live, work and travel, Meggitt is committed to developing technologies that will support the world's net zero journey.

We believe that technology has a critical role in making air travel sustainable and in transitioning energy systems away from fossil fuels. We have committed to spend at least two-thirds of our investment in innovation in sustainable technologies annually. In 2021 actual investment was at 81% and we have also committed to reducing the greenhouse gas emissions from our own operations. In 2021 we made a net zero commitment that includes developing manufacturing technologies that improve the environmental impact of our own production processes.

Aerospace

Decarbonising how we fly is a generational challenge that will need both nearer-term evolutionary developments and radical mid-term changes.

In the near term we continue to see opportunities in improving the efficiencies of engines and reducing the weight and drag of airframes. The current generation of aircraft are already ~15% more efficient than those that they are replacing and replacement of the older aircraft, due to fuel prices and the consequences of the COVID-19 pandemic, continues to accelerate. Meggitt already has a strong position on the majority of the modern and fuel-efficient aircraft and engine programmes and, as they are further developed, our intent is to continue partnering with our customers to maintain and grow our position.

In the next few years we expect that increasing quantities of sustainable aviation fuel (SAF) will be required in jet-fuel. SAF will initially be produced from biomass and municipal waste and, in time, to transition to power-to-liquid fuels formed from green hydrogen and captured carbon. The speed at which SAF production can be brought on-stream and production costs reduced will be critical to the long-term sustainable growth of the aviation sector.

Enabling sustainable aviation

- Improve propulsion system efficiency – burn less fuel per unit of thrust or power delivered
- Reduce aircraft weight – less units of thrust required to carry payload
- Use of sustainable aviation fuels – new fuels with lower greenhouse gas emissions

Enabling sustainable energy production

- Enabling renewable power generation
- Enabling zero carbon power generation
- Enabling green hydrogen production and/or operation
- Reducing emissions through improved gas turbine combustion efficiency and/or turbine performance optimisation

Innovation investment in sustainable technologies

Meggitt Technologies

	Lighter, more efficient aircraft	Next generation engines	Sustainable aviation fuels (e-fuels, hydrogen)
Thermal systems	●	●	●
Safety systems	●		●
Fuel systems	●		●
Optical sensing	●	●	●
Engine composites	●	●	●
Braking systems	●		
High temperature systems	●	●	
Electrical systems	●	●	
Additive/digital manufacturing	●	●	●

Hydrogen-fuelled aircraft are being explored in the industry and many of the challenges are around the thermal systems where Meggitt has considerable capability. However, the challenges of operating hydrogen fuel systems in an aircraft are significant and we believe that hydrogen-fuelled gas turbines may offer the most viable solution, although the challenges around cryogenic fuel storage and the atmospheric impact of the water emissions from the aircraft still need to be resolved. Meggitt is participating in the development of this technology but we do not anticipate this emerging technology having a significant commercial impact in the coming decade.

Electric propulsion is being commercialised for a new class of small aircraft and Meggitt is playing an active part in these programmes. We anticipate the first of these new aircraft will enter into service in the coming year or two and it will be important to see how the new airborne mobility sector develops. However, limitations in battery power density mean that battery-powered aircraft will require a further breakthrough in battery chemistry before they are viable for longer distance air travel and we see these new aircraft as developing a potentially new mode of short-range transport and not replacing existing types of aircraft.

The aircraft and engine OEMs continue to develop the next generation of aircraft and propulsion systems and Meggitt is developing technologies to support these programmes.
Some of these technologies include additively manufactured thermal system components, lightweight composite parts, optical and wireless sensing solutions, high power density electric machines and green fire-suppressants.

Corporate Responsibility
continued

Additive Manufacturing ZEROe

Through our partnership with HiETA Technologies Limited, we have expanded our Additive Manufacturing (AM) possibilities.

We use AM to improve the performance of our heat exchangers. This manufacturing process enables us to produce more complex shapes than ever before, while enhancing the thermal performance by allowing us to get more heat transfer surface within a smaller volume.

Meggitt is contributing to the Airbus ZEROe demonstrator programme, which is developing zero emission aircraft. In support of the programme the Meggitt Applied Research & Technology team and the HiETA engineering teams have successfully designed and manufactured a world-first additive manufactured heat exchanger for the Airbus ZEROe ground test rig in less than four weeks.

The team worked collaboratively to produce a range of concepts, incorporating novel heat transfer surfaces, flow guide vanes and optimised structural support. The Airbus Design Review was completed successfully and the Meggitt team started the build the same day!

This project is testament to the market changing dynamics that Additive Manufacturing offers as it revolutionises the way that products are conceived, designed and manufactured. It also offers an unrivalled benefit to sustainable aviation in its greatly reduced weight compared with conventional heat exchanger technology thus reducing the overall fuel consumption of an aircraft.

1st
climate neutral zero emission aircraft

4 weeks
from design and manufacture to test rig

"Additive Manufacturing is enabling smaller and lighter heat exchangers than ever before. We are extremely proud to be able to support Airbus's ZEROe programme by producing a one-of-a-kind heat exchanger. Developing technologies to support sustainable aviation is at the heart of our AR&T strategy. Additive Manufacturing is just one of the tools enabling future generations of aircraft such as the ZEROe programme."

Corporate compliance and business conduct

Business conduct

Our CR&S Policy sets out our position in relation to conducting all business in a manner that achieves sustainable growth whilst demonstrating a high degree of social responsibility. It aims to balance the interests of all our stakeholders including shareholders, employees, customers, suppliers and the wider community in accordance with the law and governance, ethics, diversity and the environment. At Meggitt, we commit to conducting business fairly, impartially, and to complying with all applicable laws and regulations. Our values of Teamwork, Integrity and Excellence are at the heart of how we do things and underpin our policies which are reinforced by applying our High Performance Culture concepts throughout the working day.

After updating our Code of Conduct in 2020, Meggitt followed this with updates to the Financial Crime Policy as well as updating and consolidating the Anti-Corruption and Ethical Business Conduct policies. Our policies complement our value of Integrity and accompany our standards on conducting business fairly and ethically under the remit of corporate compliance.

We operate an independently run Speak Up Line that enables employees to raise questions or concerns anonymously and confidentially, 24 hours a day, 7 days a week from anywhere in the world. In 2021 additional work has been conducted with the service provider to compile greater data analysis of calls enabling us to better identify trends and training requirements. Contact information for people who can help employees if there are any concerns is available on our intranet, in all of our ethics policies and on posters at all of our sites. Our programme continues to have daily oversight through the Ethics Management Committee, which reviews cases to ensure consistent application of the process and investigation quality. The Committee reviewed trend analysis data to ensure additional training and coaching was being rolled out in the required areas. The results of the Committee's findings were also reported to the CR Committee and a process of debriefing participants in larger cases was included in 2021. Alongside this, new training was rolled out in 2021 for ethics investigators to ensure a consistent approach. A total of 48 employees were trained on this process during 2021.

The investigation process is available on the intranet to all employees so that they are aware of our procedures when speaking up and how confidential ethics cases and whistleblowing are dealt with. All employees are entitled to a thorough investigation of concerns raised and receive feedback on whether the issues are substantiated or not. Our values and our High Performance Culture concepts underpin our ethics programme with their focus on how we treat each other (which was the main area for calls received on our Speak Up Line in 2021). Each Meggitt site has a designated Ethics Champion who is available to assist employees with questions or concerns, and who also attends virtual sessions to share best practice, develop skills and identify issues and the need for additional training at their site. Alongside these practices ethical behaviour is also drawn out in our Employee Engagement surveys which are monitored and impact future strategy.

Compliance training

In addition to the updated Ethical Business Conduct Policy and Code of Conduct, we continued to promote our ethical business conduct through training issued to all employees, targeted training delivered at specific sites, video messaging to all employees and briefings delivered to our site-based Ethics Champions. Our training reminds employees about ethical business conduct, and we provide examples of how to apply the principles laid out in our policies in the training and reminders of help, support and our responsibility in the Code itself. In 2021, we provided training to all employees on data privacy, health and safety, our Code of Conduct, physical security and anti-harassment.

Anti-bribery and corruption

Our Anti-Corruption Policy, which has now been updated and consolidated with our Ethical Business Conduct Policy, covers bribery, gifts and entertainment, conflicts of interest, competition and anti-trust, operating with intermediaries such as sales representatives and distributors, offset contracting, political contributions and lobbying activities, know your counterparty, as well as breaches of the Ethical Business Conduct Policy and reporting obligations. In addition to the Anti-corruption Policy, we also have a Financial Crime Policy covering anti-money laundering, fraud prevention and corporate tax evasion. Both policies set out clear escalation procedures to raise concerns through management or via the independently run Speak Up hotline as well as employee responsibilities.

Meggitt continued to treat our approach to commercial intermediaries as extremely important. During 2021 this remit was broadened to review all types of counterparties within our business dealings and now is captured in a "know your counterparty" process across the business. Our continuous improvement plan has strengthened our work with independent organisations assessing potential country corruption risk, leading to enhanced due diligence and alerts in our customer relationship management tool, which is independently audited.

Human rights

Our CR&S Policy covers Human Rights, setting out our position in relation to conducting our business in the right way. We recognise that as a large international business, our business operations can impact the lives and rights of other people (not just our employees). As such, we support the Ten Principles of the United Nations Global Compact, relating to human rights, labour, the environment and anti-corruption. Our Code of Conduct training also reinforces the behaviour that we expect from our employees as well as suppliers and contractors. We encourage suppliers and contractors to be responsible and adhere to our values and principles to ensure our business relationships are responsible and ethical. We are committed to complying with anti-slavery and human-trafficking legislation and we will continue to work with our suppliers to engage on this topic.

Corporate Responsibility
continued

Modern slavery

As part of our commitment to acting as a responsible supplier, we commit to abstaining from practices such as slavery, human trafficking, forced labour and child labour and reduce offset contracting. We also commit to take all reasonable measures to ensure that our suppliers and other entities acting on our behalf do not engage in practices that violate applicable laws and regulations relating to slavery, human trafficking, forced labour and child labour. We ask our suppliers to comply with our Code of Conduct or similar standards. Steps that we are taking to combat modern slavery and human trafficking in our supply chain are set out in our Modern Slavery Statement available on our website. Meggitt has implemented a framework to mitigate against the risk of modern slavery and human trafficking in our business and supply chain, including annual confirmations of compliance with Group policies and procedures, strengthened recruitment processes and high level engagement with our suppliers incorporating clear communication of our expectations and regular site visits. Taking into account the output from our diligence and assurance processes and the absence of any concerns highlighted in this area the Group considers the risk of forced labour in its business and supply chain to be low. In addition, during 2021 Meggitt combined modern slavery efforts with the requirements of US legislation on the Combatting of Trafficking in Persons which has led to a rollout of employee and Company obligations, responsibilities and renewed ways of working. Further information can be found in our Modern Slavery Statement on our website.

Non-financial information statement

The table below summarises where to find non-financial information required under Section 414C of the Companies Act 2006. Our business model on page 16 summarises the key resources and relationships we leverage to generate and preserve value. Non-financial key performance indicators on page 26 onwards, allow us to assess progress against objectives and monitor the development and performance of specific areas of the business.

Further information on Group policies can be found on our website.

	Related Group policies	Related principal risks (pages 50 to 54)
Environmental matters pages 78 to 82	Environmental Policy	Industry Change Climate Change Business Interruption
Employees pages 72 to 77	Diversity & Inclusion Policy Health & Safety Policy	People
Social matters pages 72 to 77	Group Sponsorship and Charitable Giving Policy	Business Interruption Industry Change
Human rights pages 87 to 88	Corporate Responsibility and Sustainability Policy	People Supply Chain
Anti-bribery and corruption page 87	Ethical Business Conduct and Anti-Bribery & Corruption Policy	Legal & Compliance

Section 172 statement

Engagement and decision-making

In accordance with Section 172 of the Companies Act 2006, our Directors must act in good faith to promote the success of the Company for the benefit of its shareholders as a whole. In performing this duty, they are required to have regard, amongst other things, to the interests of employees, the impact of our operations on the communities in which we operate and the environment, and the need to foster relationships with our suppliers, customers and other key stakeholders in order to maintain a reputation for high standards of business conduct and enhance the sustainable long-term success of the business.

The Directors give careful consideration to these matters when discharging their duties and are supported by.

- An induction programme and ongoing briefings, visits and discussions to ensure that they understand the business including our markets, future prospects, and environmental and wider stakeholder impacts.
- A formalised procedure which highlights the impact of important decisions on key stakeholders to assist the assessment of Section 172 impacts. This formalised approach embeds the consideration of stakeholder interests during the decision-making process.
- Carefully planned agendas to ensure the Board and its Committees have sufficient time to consider and discuss key matters.

Business conduct

As explained on page 105 the day-to-day management of the business is delegated to the executive management team. The principles underpinning Section 172 of the Companies Act are not only considered at Board level but are an integral part of our Group's culture. Our Corporate Responsibility and Sustainability Policy requires our business to be conducted in a manner that achieves sustainable growth by balancing the interests of all stakeholders. This Policy prompts consideration of the matters set out in Section 172 during the decision-making process undertaken at all levels of the business. Through this Policy we ensure that the business is run with regard to our stakeholders.

Our comprehensive ethics programme, which includes an independently run whistleblowing hotline, promotes high standards of business conduct across the Group. The programme is monitored by the Board on a quarterly basis and by the Corporate Responsibility Committee at a more detailed level at each meeting. It is reinforced through our policies, regular ethics training and our values and High Performance Culture programme. To date, [6,315] of our current employees have attended High Performance Culture "unfreezing" sessions including the Board who participated in sessions in 2019.

Our Group Environmental Policy sets out our commitment to incorporate environmental considerations in all aspects of our business. See page 79 for further details.

Depending on the subject matter, the relevance of each stakeholder group may differ and decisions will not always result in a positive outcome for all stakeholders. But by having due regard to the interests of our key stakeholders at each decision-making level of the business we ensure that key decisions taken promote the long-term sustainable success of the Group.

How we engage with our stakeholders

The Board has identified our key stakeholders as: our workforce, shareholders, customers, suppliers, and the communities within which we operate. Management conduct much of the primary engagement activities and present regular updates to the Board, providing critical insights and perspectives to shape Board decisions and enable effective challenge of decisions taken by management on behalf of the Board.

Stakeholder engagement

Stakeholder	How we engage at Board level	Further engagement activities	What matters to them	Governance in action
Workforce **Building a safe, healthy and happy work environment helps our workforce reach their full potential and strengthens our business.**	Nancy Gioia, Chair of the Corporate Responsibility Committee and the Non-Executive Director responsible for employee engagement, led a programme of employee engagement activities throughout the year. This included the independent Non-Executive Directors mentoring a member of the senior management team and remotely participating in various employee engagement activities. Further details of our employee engagement programme during 2021 can be found on page 92. Early in 2021, our Chief Executive conducted over 50 remote Town Halls with teams across the globe, representing a cross section of employees from all levels of the business, to obtain a direct pulse from employees on key matters that interest them. Themes from these Town Halls were reported back to the Board.	Annual employee engagement surveys and annual "pulse" surveys are issued to employees with the results reported to and discussed by the Board. Intranet updates and leadership blogs provide employees with key information and achieve a common awareness of the financial and economic factors affecting the Group's performance. Members of senior management participate in Board and Committee meetings. An independently run whistleblowing hotline is in place with regular reports to the Corporate Responsibility Committee and the Board.	Interests relate to: • Personal development, progression opportunities and pay reviews/rises. • Retention of key talent. • Employee wellbeing and mental health. • Clarity on future flexible working arrangements. • The impact of the proposed acquisition by Parker-Hannifin on the workforce. • The future of flying/civil aerospace especially bearing in mind the impacts of climate change. • The future of defence spending.	To sustain morale and retention and respond to feedback from our workforce we: • Issued a global (but locally variable %) pay rise in October 2021. • Committed to return to the normal pay review process in April 2022. • Released a policy statement and global guidelines on flexible working. • Released a new mental health and wellbeing policy. • Continued to update our workforce on factors affecting our business via intranet updates and leadership blogs. • Communicated with employees on the proposed acquisition by Parker-Hannifin, with communications linked to major milestones owing to regulatory restrictions on what we can say.
Shareholders **Securing our shareholders' trust through continuous engagement ensures their ongoing investment and support.**	The Chief Executive and Chief Financial Officer, together with our VP Investor Relations meet regularly with key shareholders and report back to the Board. The Chairman met with some of our key shareholders during the year on matters related to governance. In early 2021, the Chair of the Remuneration Committee continued engagement with our major shareholders, and proxy advisors, to discuss and seek feedback on remuneration proposals which cumulated in the approval of the Remuneration Policy at the 2021 Annual General Meeting. The Chair of the Audit Committee will seek engagement with shareholders on significant matters related to the Committee's area of responsibility as and when applicable.	The Company Secretary and VP Investor Relations engaged with our major shareholders and proxy advisors ahead of and after the Annual General Meeting to answer questions on the resolutions and report key themes back to the Board. Last year's Annual General Meeting was held as a hybrid meeting to facilitate greater shareholder engagement and participation by allowing shareholders to attend, speak and vote at the meeting virtually. The General Meeting and Court Meeting for shareholders to approve the offer from Parker-Hannifin were also held as hybrid meetings to maximise shareholder participation and engagement.	Interests relate to: • Strategy and performance, financial returns and dividends. • Availability of our Non-Executive Directors to discharge their duties effectively. • Gender and ethnic diversity at Board and senior management level. • How effectively the Company is managing risks and pursuing opportunities including in relation to climate change. • Directors' remuneration. • The Directors' authority to allot shares in the Company.	Our dividend decision-making process balances the desire of shareholders for immediate returns, against the need to maintain a robust balance sheet and manage cash flow. It is in this context, and the subsequent offer from Parker-Hannifin, that the Board did not make or propose a dividend in 2021. We maintain robust processes to monitor the time-commitments of our Non-Executive Directors and conduct annual evaluations to ensure that they continue to be effective and discharge their duties properly. More information is available on page 110. We are mindful of the increasing interest in climate change and have focused on improving our disclosures on this topic so that shareholders are better informed on how we manage risk and pursue opportunities in this area. Further details can be found on pages 58 to 63. At the 2021 Annual General Meeting we received more than 20% of votes against the resolutions to approve the Remuneration Policy and to authorise the Directors to allot shares in the Company. Further details can be found on page 113.

Stakeholder	How we engage at Board level	Further engagement activities	What matters to them	Governance in action
Customers **Understanding our customers' priorities is imperative to meeting their needs.**	Continuous engagement by our CEO and divisional presidents and product group teams to discuss performance and technologies. The Board receives regular reports on customers, customer-related key performance indicators, and ongoing actions to improve performance.	The Group's Services & Support division is entirely focused on civil and defence aerospace aftermarket customer service. The Board receives regular updates on the division's progress from the CEO and an annual update from the divisional president. Customers are invited for site visits and to speak at leadership conferences to strengthen our collaborative relationships.	Interests relate to: • Product value and quality. • On time delivery. • Excellent customer service and support. • Innovative and sustainable technologies. • Strong, collaborative relationships. • Sustainability. • Ethical conduct and behaviour with increased focus on human trafficking and modern slavery.	The Meggitt High Performance System (HPS) provides continuous improvement to our manufacturing processes for the benefit of our customers. HPS measures are included in the Long Term Incentive Plan and progress with HPS is discussed by the Board and Remuneration Committee. We hold monthly leadership meetings with a consistent focus on our customers and performance. We also meet with customers to discuss technology road maps. We share our customers' commitment to sustainability and have signed up to the United Nations' Race to Zero campaign. Further details can be found on page 79. We are committed to conducting our business in an ethical manner. During 2021 we revised and merged our Ethical Business Conduct and Anti-Bribery and Corruption policies and introduced a new compliance plan to combat human trafficking and modern slavery. We regularly monitor customer scorecards and ensure responsiveness to issues via the Voice of the Customer process.
Suppliers **Strong relationships with our supply base enhance our effectiveness and profitability.**	The Corporate Responsibility Committee receives regular updates on supplier engagement activities from our Chief Procurement Officer, which is reported back to the Board. The Corporate Responsibility Committee monitors the communication channels and relationships with our suppliers to ensure that they facilitate open discussion on areas of concern and support best practice. Payment practices are managed by the Chief Financial Officer and Chief Procurement Officer who monitor actions to improve payments to suppliers. The Board and Corporate Responsibility Committee also receive biannual updates on payment practices.	Our requirements for suppliers to demonstrate compliance to industry-wide policies regarding quality, security and a wide range of corporate social responsibility matters including environmental performance, modern slavery and human trafficking and conflict minerals are documented and made available to our suppliers. The requirements are included in our standard terms and conditions. Supplier risk assessments are undertaken and we engage with those suppliers perceived to be higher risk to seek confirmation of compliance on certain matters. We also conduct site visits of our suppliers' facilities.	Interests relate to: • Being treated fairly during the sourcing stage. • Solid two-way communication channels. • Timely financial payments. • Strong, collaborative relationships.	Our supplier development process enables suppliers to feed back comments and if necessary seek our help to resolve systemic issues. Through this process we have achieved an overall reduction in total supplier responsible quality escapes of more than 10%. We have taken actions to improve our Pay on Time performance with increased focus on addressing bottlenecks and using metrics to identify and address underlying causes.

Stakeholder engagement
continued

Stakeholder	How we engage at Board level	Further engagement activities	What matters to them	Governance in action
Local communities **Our relationships with the communities close to our sites are vital; we build trust through local dialogue.**	The Board approves the Group's Corporate Responsibility and Sustainability Policy which sets out our commitment to encourage employees to help community organisations and charities, provide financial or in-kind resources to organisations and projects with a community benefit and support local schools, colleges and universities for the benefit of our communities. Our approach to local communities, charities and implementation of the Group's Sponsorship and Charitable Giving Policy is discussed at each Corporate Responsibility Committee meeting. The Board is kept up to date with community projects on a regular basis through the CEO's report and updates from the Corporate Responsibility Committee.	We monitor the environmental impact of our facilities and agree targets on greenhouse gas emissions, water and waste. Our site managers and their teams engage with their local communities to provide support in line with our Corporate Responsibility and Sustainability Policy. We maintain an active external communications programme through social media to communicate key messages and monitor comments about the Group. Regular social media updates are provided to executive management.	• Responsiveness to local concerns. • Ongoing open dialogue. • Our impact on the local environment. • Local jobs. • Local contributions (skills or financial donations).	As part of Earth Day in April 2021, many of our sites across the globe planted trees at their facilities, or at a local school or park as part of our efforts to promote responsible use of natural resources and to further the advancement of sustainable practices across the Group. In July 2021 we launched our Community Heroes scheme which enables our colleagues to give their time to worthy causes. Further details can be found on page 76. Implementing site level key performance indicators and targets for environmental measures such as energy and water consumption and waste to landfill.

Employee engagement

With the continuation of COVID-19 travel restrictions in 2021 and the impact of a challenging trading backdrop, my engagement strategy focused on delivering to the best extent possible a rounded view of what is top of mind of Meggitt employees. Although in person visits were not possible for the majority of the year, video chats with employees, either one-on-one or as a small group, proved to be very effective. Additionally, I was pleased that the use of video enabled the continued and expanded involvement of my Non-Executive Director colleagues in the 2021 programme. This enabled us to cover more ground and broadened board exposure to direct employee feedback.

Key engagement undertaken in 2021 and early 2022 include:

- **Virtual engagements** – supported by my Non-Executive Director colleagues, virtual engagements have been conducted with our sites in Xiamen, China and Stevenage, UK and with individuals from different levels of the following functions: Finance and IT, Commercial and Corporate Affairs, HR, Engineering and Operations. I also conducted virtual engagement with the ERG leads and HPC facilitators.
- **Site visit** – with the easing of lockdown restrictions I was able to visit our Airframe Systems site in Oregon where I was able to meet and speak with the local workforce.
- **Ethical engagement** – detailed engagement with the Group Company Secretary & EVP Ethics and Communications and the Group Director, Corporate Compliance, Ethics & Corporate Responsibility, in which we were able to discuss specific ethics cases and themes, and improvement work being undertaken on the ethics programme.
- **Graduate engagement** – Colin Day and I conducted virtual engagement with a small group of graduates to get a feel on the matters of importance to them.
- **Mentoring** – my Non-Executive Director colleagues and I held one-on-one discussions on careers and personal development with selected high potential employees.
- **Career talks** – Alison Goligher attended a Women in Engineering event hosted by our STEM/PAVE Employee Resource Groups to speak about her career in engineering, and Caroline Silver attended our leadership conference to discuss her background in finance and how it supports her role as a Non-Executive Director of the Company.

General feedback themes included: the proposed acquisition by Parker-Hannifin; the importance of the High Performance Culture programme and the challenges in embedding the programme during the COVID-19 pandemic; the value employees placed on inclusion activities undertaken throughout the Group and what more could be done to support activities for shopfloor employees in future; graduate retention; flexibility and working from home arrangements; the senior management team communicates and listens well to employees.

Feedback from these activities was provided to the Board in February 2022 and will help shape future decisions.

Nancy Lee Gioia

Nancy Gioia
Non-Executive Director responsible for employee engagement

Decision-making in practice

During the year, the Board and its Committees made decisions to strengthen our governance framework, implement our strategy and generate the best returns for our shareholders. The different interests of our stakeholder groups, and the impact of decisions upon them, were considered during the decision-making process. In some cases, the interests of stakeholder groups conflicted, and the Board and its Committees had to assess these conflicts and attempt to balance them in their decision-making.

Key

1. Likely consequences of our decisions in the long term
2. The interests of our workforce
3. The need to foster relationships with our suppliers, customers and others
4. Impact of our operations on the community and environment
5. Maintaining a reputation for high standards of business conduct
6. The need to act fairly between our shareholders

Decision – Disposal of the Airframe Systems Toulouse business

1 2 3 4 5

Key considerations

- The Toulouse site was not achieving its financial targets and had not been prior to the COVID-19 pandemic. Consideration was given to closing or selling the site.
- The site's financial performance had led to a high level of uncertainty and anxiety amongst the local workforce, which was compounded by the COVID-19 pandemic. The workforce therefore sought clear direction for the future of the site.
- Closing the site would make the entire workforce redundant, with poor prospects of employment in other Meggitt sites due to the physical location and hiring freeze implemented in response to COVID-19. The local labour market had also been significantly impacted by COVID-19 meaning potentially poor prospects for alternative employment elsewhere. A site closure would therefore likely have a significant impact on the local community. Alternatively, a buyer would retain a significant portion of the workforce and Meggitt would offer enhanced redundancy terms to those who would not be retained.
- In the case of a site closure, the manufacturing activity would transfer to other Meggitt sites, carrying a high level of risk for customers arising from the loss of legacy knowledge of the Toulouse employees. A sale of the site would mean a smoother transition for customers but would mean them accepting a new supplier which would carry continuity risk given that the prospective buyers were smaller than Meggitt and thus more susceptible to economic pressure resulting from COVID-19.
- External legal advice was sought to ensure compliance with applicable labour laws and maintain our reputation for high standards of business conduct.

Stakeholder engagement

- The workforce was informed of the proposals and was updated regularly on developments.
- Regular meetings with the employee work council encouraged a high level of trust and transparency despite the highly sensitive nature of the discussions.
- All affected customers had been informed of the proposal and were kept engaged by local management throughout the process.

Outcome

- Significant effort was made in finding a suitable buyer for the business. Due diligence was conducted on all potential buyers to ensure the business was transferred to a suitable custodian.
- The business was sold to Domusa, with final approval of the transaction delegated to the Board's Finance Committee. The sale helped progress the Group's footprint consolidation strategy and enable more efficient use of shareholder investment to maximise long-term returns.
- The high level of transparency with the workforce and clarity as to the site's future alleviated workforce anxiety and allowed those who would not be retained to plan for future employment.
- Transparency and engagement with our customers helped maintain trust and our reputation for high standards of business conduct.
- The majority of roles were retained by Domusa, minimising the number of redundancies and the overall impact on the local community. Enhanced redundancy terms were offered to those who lost their roles as a result of the sale, maintaining Meggitt's reputation for treating its workforce fairly.

Decision – Supporting and recommending to shareholders Parker-Hannifin's offer of 800 pence per Meggitt share

1 2 3 4 5 6

Key considerations

- Meggitt had a compelling standalone strategy which would deliver attractive value for shareholders over time as the Group's key markets recovered from the impact of COVID-19. At the same time, there was significant uncertainty as to the precise timing and speed of recovery and Parker-Hannifin's cash offer would substantially accelerate delivery of value to shareholders at a substantial premium to the then prevailing market price of Meggitt shares.

Stakeholder engagement
continued

- The need to generate the best value for shareholders while ensuring that other stakeholder interests (including those of the Group's key customers) are protected.
- The need to comply with all applicable laws, regulations and contractual obligations to maintain our reputation for high standards of business conduct.
- The need to incentivise and retain key members of staff, especially those at greater risk of being made redundant or who would play key roles in the transaction.
- The combination of Meggitt and Parker-Hannifin may give rise to operational economies of scale which could result in headcount reductions or the relocation of Meggitt employees, particularly those in central corporate functions.
- Parker-Hannifin's highly regarded reputation and acquisition experience suggested that the Meggitt businesses would continue to thrive within the Parker-Hannifin Group.
- Parker-Hannifin's enhanced access to capital would enable it to invest in Meggitt's long-term programmes and benefit from the sharing of technology. The integration of the businesses would likely benefit our customers by creating scale and an ability to take on more technical and commercial risk in developing products and systems especially relating to sustainable technologies required for the future.
- Parker-Hannifin could leverage its enhanced scale to negotiate more favourable terms with suppliers and customers.
- The importance of Meggitt's rich UK heritage and its customer relationship with the UK Government, and the need to secure binding commitments to protect its interests.
- Parker-Hannifin's reputation for supporting its local communities and its generous charitable giving campaigns meant that Meggitt's local communities would likely be well supported following the proposed acquisition.
- Parker-Hannifin's commitment to mitigating its impact on the environment and implementing creative solutions to reduce their energy consumption and emissions complemented Meggitt's sustainable aviation strategy. The scale of the combined business would enable it to take on greater risk and develop more sustainable products at a faster pace.

Stakeholder engagement

- Meggitt provided Parker-Hannifin with due diligence information and held extensive discussions to secure commitments to Meggitt's business, employees, pension schemes and the UK Government.
- Meggitt undertook due diligence on Parker-Hannifin to ensure that it would be a good long-term owner of the Group's business.
- Meggitt continues to engage extensively with advisors and relevant regulators to obtain all required approvals and ensure that all applicable laws and regulations are complied with.
- Meggitt held a hybrid Court and General meeting to approve the transaction. The hybrid nature of the meetings facilitated greater shareholder participation and engagement by allowing shareholders to attend, ask questions and vote at the meeting either in person or virtually.
- Meggitt engaged on a constructive basis with TransDigm and its advisors in order to facilitate an offer by TransDigm following its expression of interest at 900 pence per share. Meggitt provided TransDigm and Parker-Hannifin with equivalent access to both due diligence information and management and in response to a request from TransDigm, further due diligence information was provided to both TransDigm and Parker-Hannifin after the announcement of Parker-Hannifin's cash offer.
- Communications were issued after the announcement of Parker--Hannifin's cash offer to inform Group employees, the trustees of Meggitt's pension schemes and Meggitt's shareholders and share option holders. Further communications were sent to participants in the Group's share incentive schemes to explain how the proposed acquisition would impact them and the steps they would need to take, if any, to realise value from their entitlements.

Outcome

- Shareholders approved the 800 pence cash offer from Parker-Hannifin on 21 September 2021. The proposed acquisition is currently subject to various regulatory approvals and is expected to complete in Q3 2022.
- Where possible, the new combined Group will seek to reallocate staff from discontinued roles arising from the transaction to other appropriate roles. Furthermore, Parker-Hannifin has provided binding commitments to the effect that assuming an ordinary course of business environment, it will maintain Meggitt's existing R&D, product engineering, and direct manufacturing labour headcount in the UK at no less than current levels and will increase by at least 10% the number of overall apprenticeship opportunities currently offered by Meggitt in the UK.
- Parker-Hannifin has also held constructive discussions with the trustee of the UK Meggitt Pension Plan and has entered into a memorandum of understanding to set out its intention with respect to the future funding of the Plan.
- Tailored incentive and retention mechanisms have been deployed to those in critical roles to ensure that they do not leave the business before the deal is completed and to maintain talent in the business until a proper evaluation can be undertaken by Parker-Hannifin.
- Parker-Hannifin announced its intention to safeguard the existing employment rights of the management and employees of the Combined Group in accordance with applicable law and confirmed that it does not envisage any material change in their conditions of employment.

Strategic Report

This Strategic Report comprising pages 08 to 94 has been approved by the Board and is signed on its behalf by.

Tony Wood
Chief Executive Officer

DIRECTORS' REPORT

Chairman's introduction

We uphold the highest standards of corporate governance and business conduct that underpin successful and sustainable long-term businesses. We remain accountable to our shareholders, whilst recognising the value of strong relationships with our workforce and wider stakeholders built on a culture of openness and trust.

2021 Board attendance

Sir Nigel Rudd[1]
Chairman

Mr A Wood[2]
Chief Executive

Mr G S Berruyer
Non-Executive Director

Mrs L S Burdett[2]
Chief Financial Officer

Mr C R Day[2]
Non-Executive Director

Mrs N L Gioia
Non-Executive Director

Ms A J P Goligher
Non-Executive Director

Mr G C Hachey[2]
Non-Executive Director

Mrs C L Silver[2]
Non-Executive Director

7 Scheduled meetings
18 Additional meetings

Meetings attended Non-attendance

1 Met the independence criteria on appointment as Chairman on 23 April 2015.

2 Unable to attend additional meetings due to prior commitments. Many additional meetings were convened at short notice, where possible the Chairman sought the views of Directors not able to attend in advance of the meetings and fed these back to the Board.

Governance highlights in 2021

- Ongoing oversight of the business response to COVID-19.
- Leading the strategy and response in respect of Parker-Hannifin's and TransDigm's interest in Meggitt.
- Setting the Group's strategy and plan.
- Additional Remuneration Committee meetings to consider the impact of the all-cash offer from Parker-Hannifin on the Group's outstanding share schemes and incentives to mitigate the increased retention risk arising from the offer.
- We maintained a robust schedule of employee engagement activities to better understand and address key issues raised by employees including the impact of the all-cash offer from Parker-Hannifin on the workforce. More details on employee engagement activities can be found on page 92.
- The appointment of Alison Goligher as Senior Independent Director from the date of the 2021 Annual General Meeting and a review of Guy Berruyer's independence following the conclusion of his third three-year term.

Dear Shareholder,

On behalf of the Board I am pleased to present the Corporate governance report for the year ended 31 December 2021. This report describes Meggitt's governance structures and procedures, and summarises the work of the Board and its Committees to illustrate how we have discharged our responsibilities this year.

The COVID-19 pandemic continued to impact the way we worked throughout the year with meetings conducted remotely to accommodate attendance during various lockdowns and periods of travel restrictions, although I am pleased that I and other Board members were physically able to attend some meetings during the year.

In addition to seven scheduled Board meetings, we held 18 additional Board meetings in 2021 to support and guide senior management and give due consideration to the all-cash offer from Parker-Hannifin and TransDigm's expressed interest in the Group.

I am proud of the Board's dynamic and agile response to these events and I thank my Board colleagues for their flexibility and outstanding support throughout the year, particularly as some of the additional meetings were called at short notice and at unsociable hours.

Board composition

Continuity of leadership has been a key focus during the pandemic and will continue to be so up to the anticipated completion date of the proposed acquisition by Parker-Hannifin. I believe that the Board has the right balance of skills and expertise to successfully guide the Company through continued challenges presented by COVID-19 and the proposed acquisition by Parker-Hannifin, and that changes to the Board composition during the year would have detracted from these critical focus areas.

Whilst regrettable that we were not able to strengthen the diversity of our Board during the year, I believe that our focus on continuity has enabled the Group to respond well to the challenges of the pandemic and the all-cash offer from Parker-Hannifin. Further details on the Board's skills and experience can be found on page 123.

Purpose, values and culture

Our culture is important to us, it's what makes us who we are. We monitor our culture to ensure that it remains aligned with our purpose and values. Details of how we monitor culture can be found on page 107.

In addition to the financial terms of Parker-Hannifin's all-cash offer, we carefully considered Parker-Hannifin's values, culture, plans for Meggitt's business and the impact of the proposed acquisition on our key stakeholders. Further details on the process the Board followed and the matters it considered when considering the Parker-Hannifin offer can be found in the case study on pages 93 and 94.

UK Corporate Governance Code

This report explains how the Group has applied the principles of the UK Corporate Governance Code (the 2018 Code) and how our governance framework supports delivery of our strategy as set out on pages 24 and 25.

Sir Nigel Rudd
Chairman of the Board of Directors

2 March 2022

In this section

Board of Directors

Committee membership

- A Audit
- N Nominations
- R Remuneration
- C Corporate Responsibility
- F Finance
- D Disclosure
- Denotes Chairman

Providing expert skills and experience to create and deliver sustainable value and promote the long-term success of the Group.

Sir Nigel Rudd DL

Non-Executive Chairman
Appointed: 2015
Nationality: British

Whilst Sir Nigel had confirmed his intention to retire from the Board in 2019, which was subsequently delayed owing to the significant impact of COVID-19 on the Group, the Board believes that there is significant benefit in continuity of leadership as the proposed acquisition by Parker-Hannifin progresses.

Skills and experience

Chartered accountant with extensive board experience spanning multiple sectors including aerospace, retail and financial services.

Sir Nigel plays a critical role in leading the Board and the Nominations Committee and brings decades of executive leadership and chairmanship experience across many industrial companies, including aerospace and defence, and other complex sectors. His commercial, financial and business acumen and strong shareholder focus are extremely valuable to the Board and have played a key role during the acquisition process.

Current appointments

Non-Executive Chairman of Sappi Limited.

Appointments in unlisted companies

Director of iPulse Limited and iPulse Direct Limited.

Previous appointments

Chairman of Signature Aviation plc and Williams Holdings plc, Destiny Pharma PLC, Kidde plc, Heathrow Airport Holdings Limited (formerly BAA Limited), The Boots Company, Pilkington PLC, Pendragon PLC, Invensys plc, Aquarius Platinum Limited and BGF PLC. Deputy Chairman of Barclays PLC and Non-Executive Director of BAE Systems plc.

Committee membership

N

Tony Wood

Chief Executive
Appointed: 2016 (appointed as CEO: 2018)
Nationality: British

Skills and experience

Extensive aerospace industry experience gained with Rolls-Royce plc where he held a number of senior management positions, latterly as President, Aerospace. Previously spent 16 years at Messier-Dowty, now part of Safran Group.

Tony's significant operational experience in aerospace and defence and other industrial sectors, strong customer relationships and strategic oversight of the Group are critical to the Board as the business benefits from the recovery in the civil aerospace market. His experience of leading cultural change in previous roles has brought the Group's culture into focus and created a cooperative and collaborative workforce to execute the Group's strategic objectives.

Current appointments

Non-Executive Director of National Grid plc and member of the People & Governance and Safety & Sustainability Committees.

Organisations

Director of ADS, the UK trade organisation representing the aerospace, defence, security and space sectors. Fellow of the Royal Aeronautical Society and Association for Project Management (APM).

Committee membership

C F D

Guy Berruyer

Non-Executive Director
Appointed: 2012
Nationality: French

Guy reached the conclusion of his nine-year term in October 2021. The Board reviewed this position in 2021, and considered that it was important both to ensure continuity on the Board and to secure continued input from a valued Board member, during a period of ongoing uncertainty as a result of COVID-19 and the proposed acquisition by Parker-Hannifin. The Board is satisfied that Guy continues to be independent and proposes his re-election as an independent Non-Executive Director.

Skills and experience

Trained as an electrical engineer at the École Polytechnique Fédérale de Lausanne and holds a Harvard Business School MBA. Guy has extensive international leadership experience and as former Chief Executive of a FTSE 100 plc, he brings significant insight, challenge and expertise to Board and Committee discussions.

Appointments in unlisted companies

Non-Executive Director of Civica Group. Chairman of the Supervisory Committee of DL Software.

Previous appointments

Group Chief Executive of The Sage Group plc and Chief Executive of Sage Group plc's Europe and Asia division. Early career spent with software and hardware vendors in French and other European management roles. Non-Executive Chairman of Brandwatch, a digital consumer intelligence company. Non-Executive Director of Berger Levrault, a French software and services company.

Committee membership

A N R C

Louisa Burdett

Chief Financial Officer
Appointed: 2019
Nationality: British

Skills and experience

Chartered accountant who has held senior financial positions in industrial, manufacturing, publishing and pharmaceutical companies.

Louisa brings solid financial, commercial and M&A experience across a broad range of sectors, including aerospace. This has been key as the Group took decisive action to deal with the effects of the COVID-19 pandemic and in discussions regarding the proposed acquisition by Parker-Hannifin.

Current appointments

Non-Executive Director and Chair of the Audit Committee of Electrocomponents plc, a global distributor of industrial and electronic products.

Organisations

Member of the Institute of Chartered Accountants in England and Wales.

Previous appointments

Chief Financial Officer of Victrex plc. CFO roles with Optos plc, the Financial Times Group, GE Healthcare and Chep Europe. She also spent time in various roles at GlaxoSmithKline, including Finance Integration Director.

Committee membership

C F D

Colin Day

Non-Executive Director
Appointed: 2015
Nationality: British

Skills and experience

Chartered certified accountant who makes a significant contribution as Chairman of the Audit Committee, responsible for the interface between the Committee and the auditors and internal audit.

Colin has more than 25 years' experience in senior roles and non-executive positions at blue-chip companies across a wide range of industries, including engineering and technology, pharmaceuticals, oil and gas and aerospace. He brings significant commercial and financial expertise to the Board.

Current appointments

Non-Executive Chairman of Premier Foods plc. Non-Executive Director and Chairman of the Audit Committee of Euromoney Institutional Investor PLC.

Appointments in unlisted companies

Non-Executive Director and Chairman of the Audit and Risk Assurance Committee of the UK Government's Department for Environment, Food & Rural Affairs (DEFRA). Non-Executive Director of FM Global Inc. and FM Insurance Europe S.A. Non-Executive Chairman of MK:U Limited.

Organisations

Independent member and member of the Finance Committee of the Council of Cranfield University.

Previous appointments

Chief Executive of Essentra PLC, Chief Financial Officer of Reckitt Benckiser Group plc, Group Finance Director of Aegis Group plc, Non-Executive Director of WPP plc, Easyjet plc, Imperial Tobacco Group plc, Cadbury plc, FM Global and Senior Independent Director of Amec Foster Wheeler plc.

Committee membership

A N R

Board of Directors – Non-Executive
continued

Committee membership

- A Audit
- N Nominations
- R Remuneration
- C Corporate Responsibility
- F Finance
- D Disclosure
- Denotes Chairman

Gender Diversity

Female	44%
Male	56%

Independence

Independent[1]	67%
Non-Independent	33%

1 Excluding the Chairman.

Nancy Gioia

Non-Executive Director
Appointed: 2017
Nationality: American

Skills and experience

Electrical engineer who has held senior engineering and operational roles and has a strong background in manufacturing.

Nancy's background in the fast-paced automotive manufacturing area brings important perspective to Board discussions about strategic initiatives. Her prior roles mean that she brings an understanding of the value of culture and diversity and inclusion to her role as Chair of the Corporate Responsibility Committee and as the Non-Executive Director responsible for employee engagement. She also has a keen interest in cyber security.

Current appointments

Non-Executive Director of Brady Corporation, Chair of the Management Development and Compensation Committee and member of the Technology Committee. Non-Executive Director of Lucid Group Inc., member of the Executive Committee, Member of the Board of Advisors of KPIT Technologies Ltd.

Appointments in unlisted companies

Principal of Gioia Consulting Services, LLC, a strategic business advisory company.

Organisations

Member of the University of Michigan-Dearborn Electrical and Computer Engineering Advisory Council and Engineering Dean's Advisory Board.

Previous appointments

Held several key executive positions at Ford Motor Company during a 33-year career. Non-Executive Director of Exelon Corporation, former Chair of AutomotiveNEXT and Stanford University Alliance for Integrated Manufacturing.

Other responsibilities

Appointed by the Board as the Non-Executive Director responsible for employee engagement.

Committee membership

A N R C

Alison Goligher OBE

Senior Independent Director
Appointed: 2014
Nationality: British

Skills and experience

Trained engineer and holds a MEng Petroleum Engineering from Heriot-Watt University.

Alison brings important energy sector experience and, with her strong operations focus, makes an excellent contribution to strategic discussions. During her seven years on the Board she has built strong relationships with other non-executives and executive management and has a detailed knowledge of the Group which makes her well qualified for the role of Senior Independent Director which she assumed in 2021.

Alison has chaired our Remuneration Committee since 2019 and also chairs Remuneration Committees on two other boards, all of which provide her with excellent experience of overseeing complex remuneration matters and policy reviews.

Current appointments

Non-Executive Director of United Utilities Group PLC and Chair of the Remuneration Committee. Non-Executive Director of Technip Energies N.V. and Chair of the Compensation Committee.

Appointments in unlisted companies

Part-time Executive Chair of Silixa Ltd, a provider of distributed fibre optic monitoring solutions.

Organisations

Member of the Royal Society of Edinburgh, the Institute of Directors, the Society of Petroleum Engineers and the Society of Petrophysicists and Well Log Analysts (SPWLA).

Previous appointments

Various roles at Royal Dutch Shell from 2006 to 2015, most recently as Executive Vice President, Upstream International Unconventionals. Previously spent 17 years at Schlumberger, a supplier of technology, integrated project management and information solutions to oil and gas customers worldwide.

Committee membership

A N R

Guy Hachey

Non-Executive Director
Appointed: 2019
Nationality: Canadian

Skills and experience

Holds an MBA from Concordia University, a B. Comm. from McGill University and has over 30 years' experience in senior roles across aerospace and automotive industries.

Guy brings significant operational, commercial and global experience to the Board. During his career, Guy has played a vital role in transforming product portfolios and was recognised at Bombardier Aerospace for having brought five new derivative aircraft to market. His invaluable experience and knowledge with company transformations introduces a fresh perspective to discussions at Board and Committee meetings, and his skill-set aligns well in supporting the Board achieve its strategic priorities.

Current appointments

Non-Executive Director of Hexcel Corporation and Chairman of the Compensation Committee.

Previous appointments

Guy served as President and Chief Operating Officer of Bombardier Aerospace from May 2008 to July 2014. Prior to joining Bombardier, he held numerous senior roles with Delphi Corporation, including President Delphi Powertrain Systems and President Delphi Europe, Middle East and Africa. Guy began his career with General Motors Corporation, where he held senior operational roles in Canada and the US.

Committee membership

A N R

Caroline Silver

Non-Executive Director
Appointed: 2019
Nationality: British

Skills and experience

Chartered accountant with significant global investment banking experience specialising in financial institutions, financial technology and market infrastructure, and capital raising.

Caroline brings strong financial, investment and audit skills to the Group gained from her broad experience in different industry sectors. As Chair of a listed company, she also brings experience of leading international strategies and shareholder dialogue and introduces a fresh perspective to discussions at the Board and Committees owing to her background in financial services.

Current appointments

Non-Executive Chair of consumer products group PZ Cussons Plc and Chair of the Nominations Committee. Non-Executive Director of Intercontinental Exchange, Inc. (ICE) and Chair of ICE Clear Europe Limited. Member of the International Advisory Board of Adobe Inc.

Appointments in unlisted companies

Non-Executive Director of BUPA, Chair of the Risk Committee and member of the Audit and Remuneration Committees. Part-time advisory partner at Moelis & Company. Mentor at JNA Mentoring Partners.

Organisations

Trustee of the Victoria and Albert Museum and Chair of the Finance and Investment Committees and member of the Audit Committee.

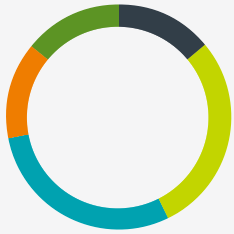
Previous appointments

Caroline was Vice Chair of EMEA Investment Banking at Bank of America Merrill Lynch and spent 14 years at Morgan Stanley where she held a number of senior positions including Global Vice Chair of Investment Banking and European Head of Financial Institutions. She started her career as a chartered accountant with PricewaterhouseCoopers. Previously on the Board of the London Ambulance Service NHS Trust and Chair of the Audit & Risk Committee. Former Senior Independent Director of M&G PLC and member of the Audit, Remuneration, Risk and Nominations Committees.

Committee membership

A N R

Non-Executive Director Tenure



0–2 years	14%
3–4 years	29%
5–6 years	29%
7–8 years	14%
9+ years	14%

Executive Director Tenure

0–2 years	0%
3–4 years	50%
5–6 years	50%
7–8 years	0%
9+ years	0%

Corporate Governance

Board of Directors

Membership: Sir Nigel Rudd (Chairman), Executive and Independent Non-Executive Directors

Creating and delivering sustainable value by:

- Collectively setting the strategy and directing the Group.
- Setting the Group's values and standards.
- Ensuring obligations to shareholders, employees and other stakeholders are met.

Board Committees

Remuneration

The Independent Non-Executive Directors

Determines the reward strategy for the Executive Directors and senior management, taking into consideration shareholder interests and the wider workforce.

Audit

The Independent Non-Executive Directors

Monitors the integrity of the Group's financial statements, the effectiveness of the external and internal auditors, risk and internal control processes, tax and treasury.

Corporate Responsibility

Two Independent Non-Executive Directors, the Executive Directors and Group General Counsel

Stakeholder engagement, including but not limited to employees, and oversees the implementation of the Group's strategy and programmes in the areas of corporate responsibility, charity and community, ethics and business conduct (including anti-corruption) and environment.

Finance

Executive Directors and Group General Counsel & Director, Corporate Affairs

Approves treasury related activity, insurance and other matters delegated by the Board.

Nominations

Chairman and Independent Non-Executive Directors

Ensures the Board and senior management team have the appropriate skills, knowledge and experience to operate effectively and to deliver the Group's strategy.

Disclosure

Executive Directors, Company Secretary, VP Investor Relations and Group General Counsel

Discusses and approves all matters related to inside information under the market abuse regime.

Management Committees

Executive Committee

Chief Executive and his direct reports.

Responsible for overall management of the Group, driving its vision and strategy and ensuring the organisational culture leverages diversity, industry knowledge, global perspective and customer insight.

Commercial Committee

Executive Directors, Group General Counsel and Director, Corporate Affairs, Group Director, Engineering & Strategy and Group Operations Director.

Reviews and approves bids and proposals of Group significance and any other significant commercial activity.

Technology Advisory Board

Group Director, Engineering & Strategy, Chief Technology Officer, between two and four external members with backgrounds in technology or academia, Meggitt engineering fellows and other appropriate employees.

Provides advice on the direction and pace of technology road maps, increases awareness of disruptive technologies, business models or business trends and provides guidance on new areas and opportunities.

Leadership and purpose

Our purpose at Meggitt is to design and manufacture world-class systems and products for the aerospace, defence and selected energy markets to enable the extraordinary and deliver sustainable solutions for the most challenging environments by working closely with our customers and focusing on engineering and operational excellence.

The role of the Board

Our role as a Board is to promote the long-term success of the Group. We do this by establishing its purpose, implementing and overseeing frameworks for governance and risk management and receiving regular updates on governance, stakeholder engagement activities, risk, strategy and culture.

Whilst day-to-day responsibility for the business lies with the executive management team, we maintain a schedule of matters reserved for the Board which we review regularly and against the latest guidance and best practice to ensure that key decisions which affect the Group and are of the utmost importance to our shareholders and wider stakeholders are taken by the Board as a whole.

Key matters reserved for the Board:

- Approval of the Group's strategic aims, objectives, purpose and values.
- Approval of significant changes in accounting policies.
- Approval of the Group's risk appetite statement.
- Approval of the viability statement.
- Approval of capital projects or treasury activities over pre-determined amounts.
- Appointment and removal of Board members.
- Approval of significant Group policies.
- Reviewing the Group's culture and corporate governance arrangements.
- Appointment and removal of the Company Secretary.

Area of focus in 2021	Key matters considered	Outcome
Strategy	The Group's strategy	The Board receives regular updates on business strategy throughout the year and held a strategy session in October where it approved the five-year strategic plan for the Group.
	Acquisition	Reviewed and approved the terms of the proposed acquisition of the Group by Parker-Hannifin.
	Disposals	Approved the sale of the high pressure metallic ducting and clamps business in January 2021 and the sale and leaseback of the Group's Airframe Systems facility in Loughborough, UK in July 2021.
Culture	Code of Conduct and Group policies	The Board reviewed and re-approved our Code of Conduct which reflects our commitment to ethical business conduct and to comply with laws and regulations. The Code demonstrates the conduct that is a fundamental part of our values and culture.
		During the year the Board has also reviewed and approved Group policies on the following matters: Diversity and Inclusion, Financial Crime, Environmental, Treasury and a consolidated policy on Ethical Business Conduct and Anti-Bribery and Corruption.
	Monitor culture	The Board receives numerous updates throughout the year to monitor culture and how well policies have been embedded. Further details on how we monitor culture can be found on page 107.

Corporate Governance
continued

Area of focus in 2021	Key matters considered	Outcome
Risk	Risk appetite and principal risks	The Board: – Conducted a robust assessment of the emerging and principal risks facing the Group and determined the nature and extent of the principal risks the Group is willing to take in order to achieve its long-term strategic objectives. – Approved an updated Risk Management Policy. – Implemented a new risk oversight process (risk on a page). – Received an update on the effectiveness of risk management from the Audit Committee. – Reviewed and approved the risk appetite statement and Group Risk Register. – Approved the long-term viability statement.
	Long-term viability	Reviewed models of a number of scenarios including climate change, base case and severe but plausible downside scenario for both planning and going concern purposes which underlie the long-term viability of the Group.
Operational performance	Performance of the four divisions against strategic objectives	The Chief Executive provided updates on divisional performance at every meeting. The divisional presidents attended Board meetings during the year to provide detailed updates on divisional performance.
Financial performance	Payment to shareholders	In order to retain cash within the Group, manage net debt levels and preserve flexibility the Board did not recommend a final dividend for 2020 or declare an interim dividend during 2021.
	Financial statements	Approved the 2020 financial statements and 2021 interim financial statements.
	Going concern	The Board reviewed the models underlying the appropriateness of adopting the going concern basis in the 2020 financial statements.
	Budget	The Board reviewed performance against 2021 budget.
Governance	Stakeholder engagement	The Board continued with its stakeholder engagement programmes as detailed on pages 90 to 92 and took the interests of all stakeholders into consideration when making its decisions through the review of detailed stakeholder analysis provided with each Board proposal.
	Governance framework	The Board reviewed and updated the terms of reference for its principal committees.
	Effectiveness	An internal evaluation was conducted at the end of 2021 for the Board and its Committees to reflect on their own performance and recommend areas for improvement.
	Independence	The Board gave careful consideration to whether Guy Berruyer remained independent on conclusion of his third three-year term as a Non-Executive Director of the Company, and concluded that he remained independent.

Purpose, strategy and values

To perform our role effectively, it is essential that we have a good understanding of the views of our shareholders and other key stakeholders. Details of shareholder and other stakeholder engagement activities can be found on pages 90 to 92. Output from these activities are reported to the Board and its Committees to help shape the decisions that we make.

We hold an annual strategy day where we receive a detailed report on the markets in which the Group operates, agree the strategic objectives to achieve our purpose and approve the financial plan to implement them. We receive updates from the businesses and functions throughout the year to assess performance against the strategy and provide additional direction if needed. Our values are supported by our High Performance Culture initiative and embedded in our Code of Conduct and Group policies which we review and approve on a rolling basis to ensure that they remain appropriate and clearly articulate the behaviours we expect from employees and management.

The Remuneration and Nominations Committees promote our values by ensuring that we have the right people in the organisation who respect our purpose and values and structuring remuneration schemes to reward the right behaviours as well as strategic achievements.

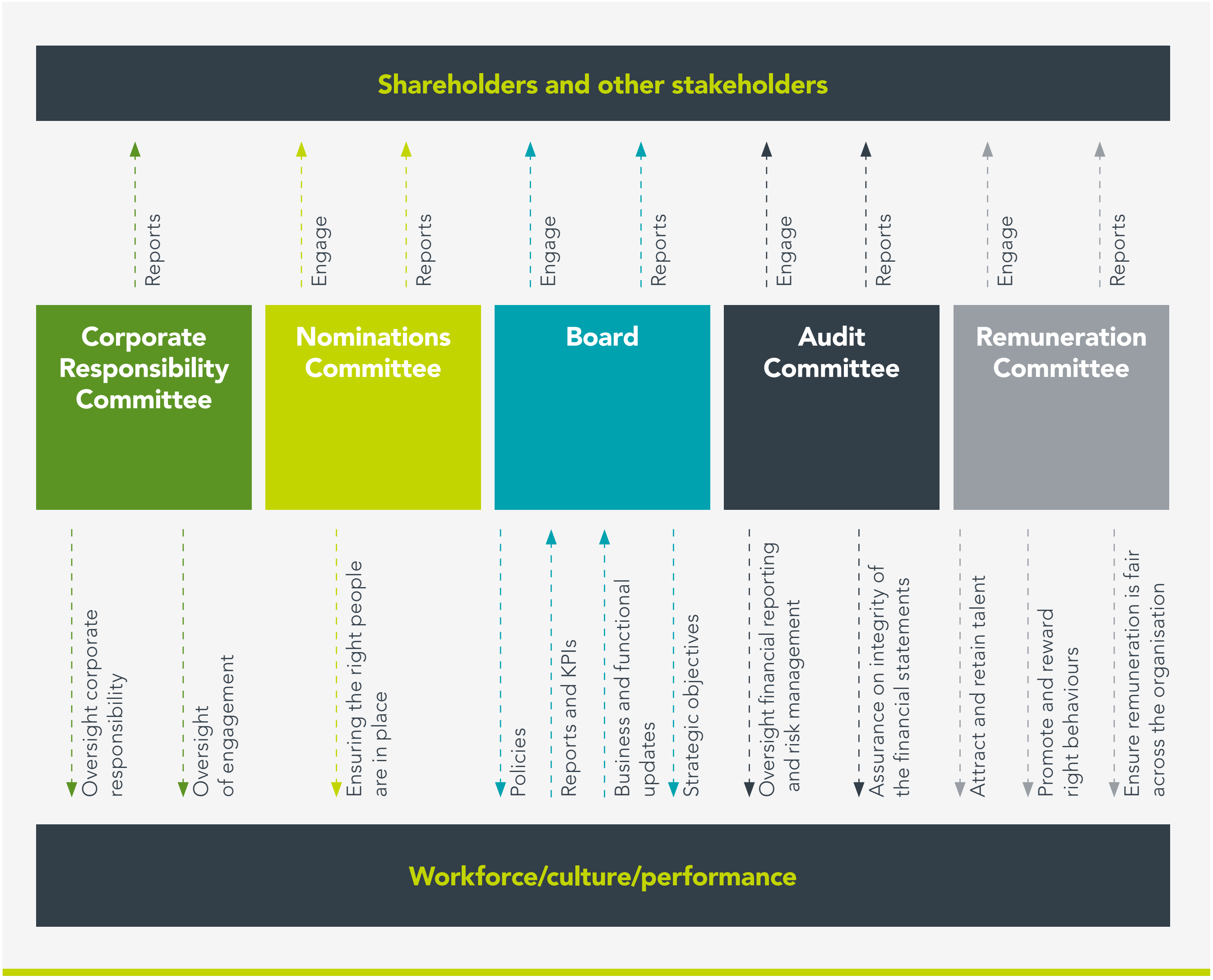
The Audit Committee plays a key role in ensuring that our values are embedded in our financial reporting process and risk management framework by monitoring the integrity of the financial statements and reviewing the adequacy and effectiveness of the Group's internal controls, risk management systems and processes. The Corporate Responsibility Committee monitors culture by overseeing the implementation of the Group's strategy and corporate responsibility programmes. The Chair of the Corporate Responsibility Committee is also the Non-Executive Director responsible for employee engagement and undertakes a range of activities alongside other Non-Executive Directors each year to assess how well our values are embedded within the organisation, better understand the challenges faced by our workforce, share feedback with senior management and the Board, and make recommendations based on the output from the engagement.

How we monitor culture

1. **Health and safety –** Reports are provided to the Board at every meeting through the Chief Executive, with detailed reports every six months and regular presentations from the Vice President of Health and Safety on our safety culture and leading and lagging indicators.
2. **Reports to the Board on culture, diversity and inclusion and engagement –** There is regular commentary provided in the Chief Executive's Report at every meeting. We also have a standalone annual session with the Group HR Director focused on our culture, diversity and inclusion and engagement.
3. **Annual employee engagement survey feedback –** A summary of the results of the annual engagement survey was shared with the Board in February 2022, with a detailed review taking place with the Non-Executive Director for employee engagement beforehand.
4. **Employee engagement –** Reports from the Non-Executive Director for employee engagement are provided to the Board. See page 92 for further details on engagement activities and key themes in 2021.
5. **Whistleblowing and ethics reports –** Provided quarterly to the Board to monitor if there are any systemic issues and how they are being addressed. More detailed reports are provided to the Corporate Responsibility Committee at each meeting. The Corporate Responsibility Committee Chair has separate meetings with the Group Director, Corporate Compliance, Ethics & Corporate Responsibility.
6. **Internal audit reports –** Provided to the Audit Committee at each meeting and identify areas of non-compliance to help us assess the effectiveness of the policies and processes implemented to embed our values and shape our culture. We also monitor management's response to audit findings and time taken to address audit actions.
7. **UK gender pay gap –** Receive an update on the UK gender pay gap report, including an explanation of the factors that have impacted the data and actions implemented to close the gap.
8. **Modern slavery –** Receive an update on the approach to modern slavery and approve the modern slavery statement. This includes details of processes and activities that have been implemented to reduce the risk of slavery and human trafficking in our organisation and supply chain.
9. **Prompt payment reporting –** Review performance on supplier payment practices and discuss improvements to processes.
10. **Training completion rates –** Robust and regular training is essential to ensure our workforce understands our policies and regulations that apply to them. During 2021, we continued to deliver virtual training on key governance and regulatory matters and track completion rates. Employees without regular access to remote training undertake it in a classroom environment. We maintain an annual schedule of mandatory training for both new starters and existing employees with training completion rates reported to the Board and the Corporate Responsibility Committee.

Corporate Governance
continued

How we ensure our culture aligns with our values and strategy



Roles and responsibilities

Chairman

Sir Nigel Rudd

- Leads the Board and sets the agenda.
- Promotes culture of openness and debate.
- Ensures the Board is effective.
- Facilitates the contribution of Non-Executive Directors and oversees the relationship between them and the Executive Directors.
- Ensures there is an effective system for communication with shareholders.

Senior Independent Director

Alison Goligher

- Makes herself available to shareholders if they have concerns which cannot be resolved through the normal channels.
- Chair of the Nominations Committee when it is considering the Chairman of the Board's succession.
- Appraises the Chairman's performance annually with the Non-Executive Directors.
- Acts, if necessary, as a focal point and intermediary for the other Directors.

Chief Executive

Tony Wood

- Leads the Executive Directors and the senior executive team in the day-to-day running of the Group's business.
- Ensures effective implementation of Board decisions.
- Regularly reviews the strategic direction and operational performance of the Group's business.
- Keeps the Chairman informed on all important matters.

Executive Directors

Tony Wood and Louisa Burdett

- Responsible for successful delivery of the Group's objectives and strategy.
- Manage various functions and operations across the Group.

Independent Non-Executive Directors

Alison Goligher, Colin Day, Nancy Gioia, Guy Hachey, Caroline Silver and Guy Berruyer

- Constructively challenge management and scrutinise their performance.
- Contribute to the development of the Group's strategy.
- Monitor the Group's performance.
- Satisfy themselves on the integrity of financial information and the effectiveness of financial controls and risk management.
- Determine appropriate levels of remuneration for the Executive Directors and participate in the selection and recruitment of new Directors and succession planning.

Non-Executive Director for employee engagement

Nancy Gioia

- Engages with employees through a range of formal and informal initiatives.
- Ensures that employee policies and practices are in line with the Group's purpose and values and support the desired culture.
- Regularly reviews Speak Up Line reports.

Company Secretary

Marina Thomas

- Acts as secretary to the Board and its Committees.
- Ensures compliance with Board procedures and advises on governance issues.
- Facilitates the induction process for new Directors.
- Ensures good information flow within the Board and between Non-Executive Directors and senior management.

Board effectiveness

Composition

The composition of the Board is closely monitored by the Nominations Committee to ensure that it remains appropriately balanced and is regularly refreshed to safeguard its independence and ensure that the skills, knowledge and experience of Board members align with those needed to deliver against the business strategy.

Appointments, induction and training

We have a formal, rigorous and transparent procedure for the appointment of new Directors. On appointment, Directors are provided with a comprehensive induction programme tailored to their needs based on their experience and background and the requirements of the role.

The Chairman agrees a personalised approach to the training and development of each Director and reviews this regularly. The Company Secretary assists with professional development where required and Directors are encouraged to update their skills regularly. Training needs are assessed as part of the Board evaluation process described below. During 2021 an updated briefing was provided by external lawyers to the Board and members of the Executive Committee with regard to inside information and their obligations under the market abuse regime.

The Non-Executive Directors' knowledge and familiarity with the Group is facilitated by access to senior management, reports on the business and site visits.

Resources are available to all Directors to develop and update their knowledge and capabilities.

Corporate Governance
continued

Conflicts

Our Directors hold appointments in other listed and non-listed companies as shown on pages 100 to 103. We recognise the value derived from these appointments particularly with regard to Board discussions and the sharing of best practice where appropriate.

We maintain a register of all external appointments and interests of our Board members which is reviewed regularly to ensure that it is accurate and up to date. Directors notify the Board of any actual or potential conflicts arising from these external appointments or other matters, which are duly considered by the Board and, if thought appropriate, approved together with relevant conditions to ensure that the conflict is appropriately managed.

As Meggitt's business is diverse and operates across multiple markets, a list of our competitors by division is included in our Group Strategy review and assists Non-Executive Directors in identifying actual or potential conflicts arising out of current or prospective external appointments.

Time commitment

The minimum time commitment expected from the Non-Executive Directors is set out in their letters of appointment. We monitor the external time commitments of our Directors closely to ensure that they have the capacity to discharge their responsibilities to Meggitt effectively. Prior to appointment, all existing commitments are considered against the overboarding guidance issued by the institutional shareholder advisory organisations, and all additional appointments are subject to Board approval following consideration of the additional time commitment and the overboarding risk.

In July 2021, Nancy Gioia was appointed as a Non-Executive Director of Lucid Group, a company incorporated in the United States and listed on the Nasdaq stock market. The Board considered the appointment on its own merit, taking into consideration the nature, expectation and requisite time commitment of the new role together with a holistic view of Nancy's existing appointments and responsibilities and her strong attendance at scheduled and additional Board and Committee meetings. Following such consideration the Board was satisfied that Nancy would continue to have sufficient time to effectively discharge her duties to Meggitt following the appointment.

The Board is mindful of the number of external appointments held by Colin Day and Caroline Silver. Both Colin and Caroline have risen to the challenges and extra time commitment demanded of the Board and its Committees over the past two years. Colin has continued to meet with management and the internal and external auditors outside of scheduled Audit Committee meetings to provide additional oversight and guidance on risk management and financial reporting matters. Both Caroline and Colin have mentored a member of senior management and have been involved in the 2021 employee engagement programme and Caroline presented at our 2021 leadership conference. The Board continues to be satisfied that both Colin and Caroline have time to discharge their duties to Meggitt and is completely satisfied with their performance.

Additionally, as part of the year-end process, each Non-Executive Director confirmed that, taking into consideration all of their external appointments and commitments, they continue to have the capacity to effectively discharge their duties to Meggitt effectively.

Information and support

The Chairman is responsible for ensuring the Directors receive accurate, timely and clear information.

The Company Secretary is responsible for supplying the Board with the information it needs to discharge its duties and ensuring good information flows within the Board and Committees and between senior management and the Non-Executive Directors. The Board considers the quality of information it receives and the effectiveness of the annual Board schedule during the Board evaluation process.

All Directors have had access to the advice and services of the Company Secretary, who is responsible to the Board for advising on all governance matters.

The Board allows all Directors to take external independent professional advice at the Group's expense.

Board evaluation

The Board undertakes an annual review of its own effectiveness using a combination of independent externally facilitated and internally run evaluations over a three-year cycle. The last external review was undertaken in 2019 by Clare Chalmers Limited. An internal review was undertaken in 2021 which focused on key governance areas.

The Board reviewed the suggestions made following the evaluation and agreed the actions shown on page 112.

Mindful that Guy Berruyer's nine-year tenure on the Board could impair, or appear to impair his independence and impartiality towards executive management, the Board carefully considered his contribution to Board and Committee meetings and relationship with the management team and unanimously agreed that Guy continued to bring an objective view to Board and Committee discussions, offer constructive challenge to executive management and hold them to account, add value to the development of the Group's strategy and remained independent and was not swayed by his relationship with the executives.

Board and Committee evaluation process

In order to evaluate its own effectiveness, the Board undertakes annual effectiveness reviews using a combination of independent externally facilitated and internally run evaluations over a three-year cycle.

November 2021

Internal Board evaluation planning by the Chairman and Company Secretary.

December 2021 to January 2022

Questionnaires issued to the Board, Committees and other attendees.

The Board effectiveness questionnaire posed questions in the following areas ranked on a scale of 1 to 3 (with space for comments):

- How well the Non-Executive Directors support and challenge executive management.
- How well the Non-Executive Directors understand the Group's business and contribute to setting the Group's strategy.
- Whether the Board responded well to the proposed acquisition by Parker-Hannifin, gave due consideration to all stakeholder groups and achieved the best outcome for the Company's shareholders.
- How well the Board understands the impact of climate change on Meggitt's markets and operations.
- Whether the Board takes the impact of climate change into consideration when setting the Group's policies and strategy.
- Whether the Board has a good understanding of the interests of the Company's key stakeholders.
- To what extent Board meetings are engaging with high quality discussion and open debate and whether all Board members contribute to discussions and work together well.
- Whether the skills and experience on the Board are appropriate.
- Whether the Chairman's leadership style and tone is effective.
- Whether the Company Secretary is supporting the Board as appropriate.
- Whether the Board schedule and papers are appropriate.
- Whether risk management is undertaken appropriately.
- Whether the Board has sufficient oversight of the succession planning process.

February 2022

A detailed discussion is held by the Board on their responses to the questionnaire and resulting actions are agreed.

The Senior Independent Director met with the Non-Executive Directors to assess the performance of the Chairman and the Chairman held remote meetings with the Non-Executive Directors without the Executive Directors present where the performance of executive management was discussed.

2020 Evaluation results

Agreed actions	Progress
Improving the quality of Board and Committee papers with a focus on enhancing readability, avoiding duplication and making better use of executive summaries.	Feedback has been delivered to executive management on: (i) the length of papers; (ii) overlap in reports; (iii) more use of executive summaries; and (iv) the importance of readability.
Recognising the cost and time saving benefits of wholly-virtual meetings given the international nature of the Board, integrate some wholly-virtual meetings into future Board schedules.	Wholly-virtual meetings continued in 2021 due to ongoing COVID-19 restrictions and the need for short notice meetings to consider and respond to interest in the Group from TransDigm and Parker-Hannifin. Some wholly-virtual meetings will be scheduled for 2022.
Schedule more virtual engagements with senior executives in 2021.	Senior management engagement was hosted virtually in 2021. Further details on engagement activities can be found on page 92.
Resume site visits and in person Non-Executive Director events and briefings as soon as possible.	Ongoing COVID-19 restrictions in 2021 impeded this action, however, the Chairman and several Non-Executive Directors visited the new Ansty Park site in 2021, and three Non-Executive Directors attended the senior leadership conference in February 2022. Subject to COVID-19 restrictions, site visits and other in person Non-Executive Director events will resume in 2022.

Corporate Governance
continued

2021 Evaluation

Another internally run evaluation was conducted via an online questionnaire at the end of 2021 and focused on the governance areas set out on page 111. The Board has reviewed the output from the evaluation and has agreed the following:

Area	Agreed action
Engagement with the senior management team.	The continued impact of COVID-19 limited the frequency of interactions between the senior management team and the Non-Executive Directors, as a result additional engagement sessions between the senior management team and the Non-Executive Directors will be incorporated into the 2022 engagement schedule.
Board composition.	The proposed acquisition of the Group by Parker-Hannifin is expected to complete in Q3 2022 and there is no appetite to change the Board composition whilst the acquisition process is progressing. Should the proposed acquisition not complete a detailed review of the Board's composition will be conducted. Whilst appointments will always be made on merit, strengthening the ethnic diversity of the Board will be a key consideration in the recruitment process for any new Director.
Board and Committee papers.	Whilst recognising the improvements to Board and Committee papers over the year, more work is needed to ensure the succinctness of presentations and consistent use of executive summaries.

Shareholder documents

We provide annual reports and other documents to shareholders in their elected format. Electronic copies of this Annual Report and Accounts and the Notice of the Annual General Meeting will be posted on our website, together with announcements, press releases and other investor information, including an analysis of ordinary shareholders by size of holdings and shareholder type.

General Meetings

2021 Annual General Meeting

We recognise the importance of the Annual General Meeting for shareholders and held a hybrid meeting in 2021 to facilitate and enhance shareholder engagement and participation.

We received 24.34% of votes against the resolution to approve the Directors' Remuneration Policy and 22.82% of votes against the resolution to authorise the Directors to allot shares up to the maximum nominal amount of £26,042,444, representing the UK Investment Association's guideline limit of approximately two-thirds of the Company's share capital.

Remuneration Policy

We recognise the importance of stakeholder engagement on remuneration, particularly in the aftermath of and recovery from the COVID-19 pandemic. Prior to the Annual General Meeting and as reported in the 2020 Directors' remuneration report, we carried out an extensive consultation with our largest shareholders, representing a significant proportion of the register. As a result of the initial consultation stages we implemented changes to the proposed Policy to take account of feedback received. We were pleased that the Policy was supported by a wide range of our shareholders as a result.

Whilst we will continue to consider any feedback received as we implement the Policy, we still believe that the hybrid approach to our long-term incentives adopted by the Policy, including both performance and restricted share awards, is completely appropriate for Meggitt, allowing us to maintain alignment between our shareholders and motivating our leadership and senior management team. We will continue to assess the suitability of the hybrid approach during the Policy period.

Authority of Directors to allot shares

We are aware that some institutional investors, particularly outside the UK, have specific policies against supporting allotment authorities or allotment authorities at the level sought. We also note that this level of authority continues to be supported by the majority of our shareholders and is in line with the UK Investment Association's share capital management guidelines and prevailing voting guidelines of leading corporate governance agencies applicable to UK listed companies.

The Company has taken into consideration shareholders' views and best practice in this area, and whilst noting the stance of certain investors on the matter, the Board considers it appropriate to maintain the flexibility these authorities provide to enable the Company to respond quickly to market developments and enable allotments to take place to finance business opportunities. The Directors confirm that they have no current intention of exercising this authority.

General and Court Meetings

In September 2021 the General and Court Meetings for shareholders to approve the offer from Parker-Hannifin were held as hybrid meetings to facilitate and encourage shareholder participation and engagement. The resolution put to the General Meeting was passed by 99.79% of the votes cast and the resolution put to the Court Meeting was passed by 99.77% of the votes cast.

2022 Annual General Meeting

Our 2022 Annual General Meeting is scheduled on 29 June 2022 and will be held as a hybrid meeting to enhance shareholder engagement and participation channels. Further detail are included in the Notice of Meeting.

All Directors are subject to election by shareholders at the first Annual General Meeting after their appointment. After that, all Directors are subject to annual re-election to comply with the 2018 Code. All Directors in office at the date of the Annual General Meeting will be subject to re-election.

Statement of compliance

Throughout the financial year ended 31 December 2021 and to the date of this Annual Report, we have complied with the provisions set out in the 2018 Code published by the Financial Reporting Council, with the exception of Provision 38. Provision 38 requires the alignment of Executive Director pension contributions with the wider workforce. We were planning a review of the UK pension plans and pension provision for Meggitt in the UK when the 2018 Code came into force. This review was completed and as a result, our UK defined benefit pension plan closed in April 2021 and the UK workforce pension contribution will be 10% by April 2022. Mr Wood and Mrs Burdett received pension allowances in 2021 of 18% and 17.5% of salary respectively. In 2022, Mr Wood and Mrs Burdett's pension allowances are being reduced to 15% of salary. It has been agreed that further reductions will be reviewed by the Remuneration Committee in 2022 should the proposed acquisition by Parker-Hannifin not proceed.

A copy of the 2018 Code can be found on the Financial Reporting Council's website: https://www.frc.org.uk. Details of how the Group has applied the principles set out in the 2018 Code are included in this report and in the Audit Committee, Nominations Committee and the Directors' Remuneration reports. The information required under Rule 7.2.6 of the Disclosure Guidance and Transparency Rules is disclosed in the Directors' report.

By order of the Board

M L Thomas
Company Secretary

2 March 2022

Audit Committee report

Protecting shareholders' interests through financial reporting and internal control.

Committee membership and attendance in 2021

Mr C R Day Committee Chairman	3/3
Mr G S Berruyer Non-Executive Director	3/3
Mrs N L Gioia[1] Non-Executive Director	2/3
Ms A J P Goligher Non-Executive Director	3/3
Mr G C Hachey Non-Executive Director	3/3
Mrs C L Silver Non-Executive Director	3/3

Scheduled meetings
Non-attendance

1 Unable to attend due to prior external commitments.

Meetings attended Non-attendance

Dear Shareholder

I am pleased to present the report of the Audit Committee for 2021.

I chair the Audit Committee and as a Fellow of the Association of Chartered Certified Accountants, and previous Chief Executive Officer of Essentra plc and Chief Financial Officer of Reckitt Benckiser Group plc, I can confirm that I, together with Caroline Silver, a chartered accountant with significant global investment banking experience, bring recent and relevant financial experience to the Committee.

In addition to myself, Committee members throughout 2021 were Guy Berruyer, Nancy Gioia, Alison Goligher, Guy Hachey and Caroline Silver. As a whole, we bring skills, knowledge and experience relevant to the aerospace, defence and selected energy markets in which the Group operates. Further details are included in our profiles on pages 100 to 103.

By invitation, there were a number of other regular attendees at meetings throughout the year including the Chairman of the Board, Chief Executive, Chief Financial Officer, the Group Financial Controller, and the internal and external auditors. The Group Head of Tax and a representative of Grant Thornton, who provide co-sourced audits for the internal audit function, also attended meetings by invitation.

Responsibilities

The Committee's key role is to protect shareholders' interests in relation to the Group's financial reporting and internal control arrangements. The Committee is responsible for ensuring the integrity of the processes and procedures relating to corporate reporting and the effectiveness of the internal controls and risk management systems. The Board relies on the Committee to ensure appropriate disclosures are made in the financial reports and to oversee the work of the internal and external auditors.

Specific responsibilities include:

Financial reporting:

- Focusing on accounting policies, judgements and estimates, challenging the decisions and approach taken by management to ensure appropriate disclosures and compliance with relevant regulations.
- Challenging and scrutinising the work taken to support the long-term viability and going concern statements.
- Reviewing the content of the Annual Report and Accounts and advising the Board whether it is fair, balanced and understandable.

Risk and control:

- Monitoring the effectiveness of risk management and internal control systems.
- Reviewing the effectiveness of the risk management processes, including those used to determine risk appetite, tolerance and strategy and advising the Board of the appropriateness of those processes.

Internal audit:

- Reviewing the resources and scope of the internal audit function and approving the internal audit charter.
- Approving annual internal audit plans and reviewing the results and effectiveness of internal audits.

External audit:

- Monitoring independence and effectiveness of the external auditors and approving the terms of engagement and audit fees.
- Recommending to the Board the appointment, re-appointment or removal of the auditors.
- Reviewing and approving the annual external audit plan and ensuring that it is consistent with the scope of the audit engagement and coordinated with the activities of internal audit.

Effectiveness

The Committee has a carefully planned agenda of items of business to ensure that high standards of financial governance and risk management are maintained. There were three scheduled meetings during the year.

I have an open, constructive and collaborative relationship with management and meet with them and the internal and external auditors outside scheduled meetings to provide guidance as appropriate. Prior to each scheduled meeting, I meet with the Chief Financial Officer, Group Financial Controller, Head of Assurance & Risk and the external auditors, to share views and consider key issues, particularly regarding significant estimates and judgements, to be highlighted to the Committee for discussion and ensure appropriate time is allocated for each item.

The Committee reviewed its own effectiveness via the process described on pages 110 to 111. Overall the results of the survey were very positive with no improvement actions identified and areas previously highlighted for improvement in prior years scoring highly. It was noted that the Committee was effective at discussing the material matters of importance and challenging management appropriately.

Since the year end, the Committee has discussed the external auditors' final audit clearance report for 2021, reviewed the financial information contained in the 2021 Annual Report and Accounts and full year results announcement and recommended them to the Board for approval. The Committee also provided advice to the Board that the 2021 Annual Report and Accounts, taken as a whole, is fair, balanced and understandable. The Committee provided this advice having reviewed management's process and confirmed its output, and provided confirmation to the Board that this process was effective. The Committee also recommended that the Board approves the viability and going concern statements.

Committee activities in 2021

Approved

- The 2021 external audit fees
- The internal audit plan for 2022
- The terms of engagement for the external auditors
- The 2022 Audit Committee Agenda

Reviewed

- The financial information contained in the 2020 Annual Report and Accounts, 2020 full year and 2021 interim results announcements and recommended them to the Board for approval.
- Significant estimates and judgements in respect of the Group's financial statements (pages 116 to 119).
- The independence and effectiveness of the external auditors, and agreed their terms of engagement; the Committee also reviewed the process for the mandatory audit tender in light of the proposed acquisition by Parker-Hannifin.
- The adequacy and effectiveness of: (i) the systems of internal control; (ii) the risk management process; and (iii) the process executive management used to enable the Board to make the viability statement.
- The effectiveness of the Committee and external audit using the process described on pages 110 to 111.
- The outcome of the internally facilitated internal audit review (see page 121).
- The external auditors' strategy memorandum, including level of materiality applied by PwC, and interim audit clearance report for 2021.
- Terms of Reference for the Committee, which were recommended to the Board for approval.
- The reporting processes applied in the production of the 2020 Annual Report and Accounts and the output of these processes to determine that the 2020 Annual Report and Accounts was fair, balanced and understandable and advised the Board as such.
- The basis of preparation of the financial statements as a going concern and scrutinised the work undertaken by management.
- Issues and findings of the internal audit function and satisfied itself that management had resolved or was in the process of resolving any outstanding issues.
- The financial reporting consequences of TCFD and climate change.
- The implications of the BEIS consultation on "Restoring Trust in Audit and Corporate Governance".

Updates and reports

- Received at every meeting from the Head of Assurance & Risk a report on findings from internal audits and progress with the internal audit plan and internal controls across the Group.
- Received an update on the results of the viability statement stress testing scenarios.
- Received updates on the risk management process.
- Received an update from the Group Head of Tax.
- Received technical accounting and governance updates provided by the Group Financial Controller, Company Secretary and the external auditors.

Audit Committee report
continued

Significant estimates, judgements and disclosures relating to the financial statements

The table below summarises the significant estimates, judgements and disclosures reviewed by the Committee in respect of the Group's financial statements ensuring key personnel in the finance team have appropriate exposure to the Committee in the virtual environment.

Critical accounting estimates and judgements:

Area	Action
Provision for environmental matters relating to historic sites and related insurance receivables	At each meeting in 2021, and also at the February 2022 meeting, the Committee discussed the status of a claim from a third party that a former site operated by Whittaker had contributed to environmental pollution for which it should be responsible. These discussions included the status on a number of areas notably: the third-party legal action; mediation between Whittaker and the third party; mediation between Whittaker and its historic insurers and the ongoing litigation brought by Whittaker against those insurers; and discussions with other third parties over their responsibility for reimbursing Whittaker should it be found responsible for any amounts. At both the March 2021 meeting and the July 2021 meeting, the Committee concluded that based on conditions at that date, including the nature and amounts claimed by the third party, that neither a mediated settlement or, in the event the matter went to court, an adverse trial outcome would result in a material charge being recorded in the income statement in the next 12 months. In their subsequent December 2021 and February 2022 meetings, the Committee discussed the change in conditions since the July 2021 meeting and which had led to the recognition by management of a £29.5m charge to the income statement and were satisfied these could not have previously been considered reasonably foreseeable. In respect of the £29.5m liability recognised in the year, the Committee discussed their expectations of potential outcomes. The Committee agreed with management that a most likely amount approach should be used for estimating the liability and that the amounts recorded reflected their best estimate of that outcome based on conditions prevailing at the date of their February meeting. Given the uncertainty over how the matter would be finally resolved, the Committee concluded it was however appropriate to disclose that it was reasonably foreseeable that material changes to the amounts recorded could be recognised in the next 12 months. At the February 2022 meeting, the Committee discussed with management its assessment that it was not appropriate to recognise any amounts recoverable from either historic insurers or third parties. The Committee concluded that whilst it expected material amounts would be recovered, under the accounting policy it had agreed with management that typically any insurance or third party recovery in respect of environmental matters would only be considered virtually certain when there was a signed binding agreement between the parties concerning the nature and amounts to be reimbursed, no recoverable amounts should be recognised as an asset at the balance sheet date. However, the Committee agreed that given the likelihood that material amounts would meet the criteria to be recognised within the next 12 months, this should be disclosed. The Committee agreed that disclosing their estimate of any material adjustments to the liability recognised or amounts that would be recognised as recoverable from historic insurers or other third parties would be seriously prejudicial to the outcome and accordingly should not be disclosed.

Critical accounting estimates and judgements:

Area	Action
Development costs	The Committee discussed a report from management analysing amounts capitalised across different aircraft platforms and manufacturers, including a sensitivity analysis for specific programmes. In light of the tensions with Russia over Ukraine at the date of the February Committee, which preceded the date on which Russian troops entered Ukraine, the main area of focus was the Irkut MC-21 programme, on which the Group has a capitalised value of £40.9m at 31 December 2021. The Committee discussed management's sensitivity analysis for the programme, which showed headroom had increased during 2021; the extent to which fleet volumes would need to fall from those modelled by the Group before a material impairment would be required, noting this was significant; the existing reported order backlog for the aircraft; and its planned entry into service (EIS) date in late 2022 or early 2023. The Committee concluded that, management's assumptions were appropriate and agreed no impairment was required. However, the Committee agreed that it was reasonably foreseeable that tensions over Ukraine may escalate further in the future, and were these to lead to sanctions, trade embargoes and/or other measures being imposed, this could result in significant delays to the aircraft's EIS and/or the ability of the Group to access the benefits it expects from the programme. Were these events to happen in the next 12 months, the Committee concluded there was a risk a material impairment loss would be required against the capitalised value on the programme. For the remaining platforms on which the Group had material capitalised balances at 31 December 2021, the Committee concluded that assumptions made by management were reasonable and the carrying values and estimated lives of the programmes were appropriate. The Committee also discussed the risk of any programme cancellations or OEM bankruptcies which would lead to a material impairment and concluded that the risk of such an event in the next financial year was not significant. There was also a wider discussion about the potential impacts of climate change on the expected life of aircraft/engines and the fleet volumes assumed by management in their impairment testing, including input from the Group's Director, Engineering & Strategy. The Committee concluded that climate change had been appropriately reflected in the impairment testing modelling assumptions used by management.
Retirement benefit obligations	The Committee considered a report from management setting out the basis on which assumptions on mortality, inflation and the rates at which scheme liabilities are discounted had been determined; how the Group's assumptions used in its prior year 2020 financial statements benchmarked against those disclosed by other large corporate entities in the UK and US; and the sensitivity of amounts recorded in the balance sheet to changes in assumptions. The Committee concluded that the assumptions used, which were supported by third-party actuarial advice, were appropriate. Given the sensitivity of the deficit recognised to reasonably foreseeable changes in assumptions in the next 12 months, the Committee agreed this should continue to be considered a critical accounting estimate.

Audit Committee report
continued

Other significant areas of Committee focus:

Area	Action
Going concern	The Committee reviewed the work performed by management in assessing the Group's ability to continue as a going concern. For the base case, the Committee considered the outputs from management's work, noting that in their role as members of the Board they had reviewed and challenged the cash flow forecasts prepared by management that were used in this scenario. The Committee also noted the level of committed credit facility headroom that existed throughout the going concern assessment period and the significant covenant headroom at the twice yearly testing dates of 30 June 2022 and 31 December 2022. The Committee agreed that given the Group is in an offer period under the UK Takeover Code, it is not providing financial guidance for 2022 and accordingly the base case scenario assumptions should not be disclosed. In considering the reverse stress scenario, the Committee discussed those conditions under which the Group would be close to breaching its covenant ratios during the going concern assessment period and the risk that these could occur. The Committee noted that at each of the four covenant testing dates since the COVID-19 outbreak, the Group had maintained comfortable headroom on its covenant ratios with net debt/EBITDA remaining within the Board's target range of 1.5x to 2.5x. The Committee concluded that the likelihood of the conditions modelled in the reverse stress scenario occurring was remote. The Committee agreed in the event the proposed acquisition of the Group by Parker-Hannifin was completed during the going concern assessment period, that it believed Parker-Hannifin would be able to continue to operate the Group as a going concern during that period and be able to finance the proposed acquisition, including settlement of those liabilities becoming repayable on a change of control. The Committee concluded there was no material uncertainty around the Group's ability to continue as a going concern and that the disclosures in the Annual Report were appropriate.
Goodwill	The Committee agreed with management that, in light of the proposed acquisition of the Group by Parker-Hannifin, a reliable estimate of the fair value less costs of disposal (FVLCOD) of the Group existed. In assessing how to attribute the FVLCOD of the Group to the level of the CGUs and groups of CGUs at which impairment testing was performed, there was a discussion with management on various different methods that could be used. As the offer from Parker-Hannifin was made during the period the Group was performing its annual impairment testing using a value-in-use basis, consistent with prior years, the Committee agreed with management's view that they should use the results of this value-in-use analysis as an appropriate basis for allocation. At the December meeting, the Committee considered a report from management setting out the assumptions made in its value-in-use modelling, including the cash flows used, which as members of the Board they had previously reviewed; how these cash flows had been probability weighted to reflect a number of different scenarios; discount rates applied to the cash flows; and long-term growth rates, including the extent to which they reflected the potential impacts of climate change and other structural changes in the market. They also discussed a sensitivity analysis prepared by management setting out the impact reasonably foreseeable changes in these assumptions could have on the value-in use of each CGU and group of CGUs and how this would impact the determination of their FVLCOD. The Committee noted that in each of the sensitivities modelled, there was significant headroom between the FVLCOD of the CGUs and groups of CGUs and their carrying value. The Committee therefore concluded that no reasonably foreseeable change in assumptions would lead a material goodwill impairment in the next 12 months.

Other significant areas of Committee focus:

Area	Action
Liabilities for uncertain tax positions	In assessing the appropriateness of the provision recognised in respect of uncertain tax positions, the Committee considered a report from management setting out the basis for the assumptions made for each significant area of tax exposure. It discussed the assumptions in light of the current tax environment and the status of tax audits in the main jurisdictions in which the Group operates. A separate presentation from the Group's Head of Tax on each of the major areas of exposure was also received and discussed. The Committee noted that the anticipated assessment in the year by HMRC of £16.9m tax in respect of the European Commission's decision that state aid partially applied to one of the UK's CFC exemptions utilised by the Group, had been fully provided for at 31 December 2020. It agreed that the future recovery of any element of the assessment was dependent on the occurrence of certain events which are uncertain, including the European General Court overturning the European Commission's state aid ruling on appeal. Given these uncertainties, the Committee agreed that it was not appropriate to recognise any receivable in respect of the matter. The Committee further agreed there was not a significant risk of any material adjustment to the estimates made in 2022.
Treatment of items excluded from underlying profit measures	The Committee discussed the treatment and disclosure of amounts included within exceptional operating items. The Committee agreed that it was appropriate to treat the £29.5m costs relating to the Whittaker environmental claim as exceptional given its size, nature and that it was considered non-recurring, noting that it related to a former site sold by Whittaker, prior to its acquisition by the Group in 1999. It noted other items classified as exceptional operating items continued to reflect the way in which they, as members of the Board, reviewed the underlying performance of the Group, were treated consistently year on year and disclosed appropriately. The Committee agreed with management's exclusion of costs incurred relating to the proposed acquisition of the Group by Parker-Hannifin from underlying profit measures and the disclosure of those costs contingent on the acquisition being completed as a financial commitment.

Key areas of oversight

Financial reporting

The Committee's role is to ensure that disclosures in the financial statements are appropriate given the data available and, if not, challenge management to explain and justify their interpretation and, if necessary, update the disclosure.

Significant estimates and judgements reviewed by the Committee in respect of the 2021 financial statements are set out on pages 116 to 119. When considering these matters we sought the opinion of the external auditors as to whether the estimates and judgements made were appropriate taking into consideration information available and agreed accounting practices.

The Committee reviews the content of the Annual Report and Accounts and advises the Board whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy. To assist with this assessment, the Committee seeks input from the Head of Assurance & Risk and reviews questions completed by management to illustrate the fair, balanced and understandable aspects of the Annual Report and Accounts and a summary of the financial reporting process. Following consideration of these items together with the Annual Report and Accounts, the Committee is satisfied that the key events and issues impacting the Group during the year, both positive and negative, have been adequately reflected and referenced in the Annual Report and Accounts.

EU Single Electronic Format (ESEF)

Pursuant to Disclosure and Transparency Rule (DTR) 4.1.14R, the Group's 2021 Annual Report and Accounts has to be prepared in XHTML, a form of computer language used to create web pages, and the data included in the consolidated financial statements needs to be marked up with XBRL tags. In December 2021, the Committee reviewed the process management would take to comply with the new requirements, which included: our publisher partnering with Arkk Solutions, a firm specialising in XBRL tagging since 2011 to deliver a full service ESEF solution; preparing a test ESEF filing using the 2020 Annual Report and Accounts to pre-empt and address any potential issues; and the Group's central finance team working with our publisher and Arkk to agree the tagging taxonomy. In February 2022, the Committee received an update on the ESEF process and was satisfied with the approach taken.

External audit

The external auditors are PricewaterhouseCoopers LLP (PwC) who were first appointed for the financial year commencing 1 January 2003 after

Audit Committee report

continued

a competitive tender. The Committee undertook a further competitive tender in 2017 (described in our 2017 Audit Committee report) as a result of which it was agreed that PwC should be re-appointed. There are no contractual obligations restricting the Committee's choice of external auditors.

The mandatory rotation of auditors will take place in 2023. Audit tenders include a significant investment by the firms chosen to tender, as well as additional workload for the Group's finance team. In light of the high probability that the proposed acquisition of the Group by Parker-Hannifin will complete before the end of PwC's audit tenure, the Committee confirmed support for management's proposal to pause and re-commence the audit tender project in Q2 2022 should it be considered necessary.

The Committee maintains oversight of the Group's relationship with the external auditors, and is responsible for reviewing the effectiveness of the audit process, including an assessment of the quality of audit, and assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the Group's relationship with the auditors as a whole.

Quality

PwC presented the audit strategy for the 2021 financial year at the meeting in July 2021, including their application of materiality and the scope to be able to provide an opinion on the Group financial statements as a whole. Following discussion, the Committee approved the scope of the audit and the threshold for materiality. PwC reported on the progress made against the audit plan at subsequent meetings to enable the Committee to monitor progress.

Access to management and information

The Committee routinely meets PwC without executive management present to encourage open and honest feedback. No concerns have been raised by PwC who confirmed that they had been able to offer rigorous and constructive challenge to executive management during the year.

Evaluation

During the year, all members of the Committee, as well as key members of the senior management team and those who regularly provide input into the Committee or have regular contact with the external auditors, completed a feedback questionnaire seeking their views on the effectiveness of the external audit. Views of the respondents were sought in terms of:

- The independence and objectivity of the external auditors.
- The external auditors understanding of the business and risks material to the audit including those resulting from COVID-19.
- The robustness of the external audit process and degree of challenge to matters of significant audit risk and areas of management subjectivity.
- Whether the scope of the audit and the planning process were appropriate for the delivery of an effective and efficient audit.
- The expertise of the audit team conducting the audit.
- The degree of professional scepticism applied by the external auditors.
- The appropriateness of the communication between the Committee and the external auditors in terms of technical issues.
- The quality of the audit and service provided by the external auditors.

The feedback was collated and presented to the meeting of the Committee held in February 2022, at which the conclusions were discussed. The Committee is satisfied with PwC's performance and that PwC have employed an appropriate level of professional challenge in fulfilling their role.

Independence

In assessing PwC's independence, the Committee takes into consideration information and assurances provided by the external auditors confirming that the partner and staff involved in the audit are independent of any connection to Meggitt. PwC also confirmed to the Board that its partner and staff complied with their ethics and independence policies and procedures which are fully consistent with the 2019 FRC Ethical Standard. PwC is also required to provide written disclosure at the planning stage of the audit about any significant relationships and matters that may reasonably be thought to have an impact on its objectivity and independence and that of the lead partner and the audit team. The lead audit partner must change every five years and other senior audit staff rotate at regular intervals. The lead audit partner is Mr J Ellis whose appointment in this role commenced with the audit for the financial year ended 31 December 2018. Mr Ellis has had no previous involvement with the Group in any capacity.

The Committee is responsible for the development and implementation of the non-audit services policy which was reviewed and re-approved in 2021. The policy reflects the 2019 FRC Ethical Standard and caps non-audit services at 70% of the average annual statutory audit fee. The policy covers a short list of permitted non-audit services and applies a limit of £100,000 for individual items that the Chief Financial Officer can approve, with individual items in excess of this amount requiring approval from the Committee.

The Committee agrees fees paid to the external auditors for their services as auditors. Details of fees paid for audit services, audit-related services and non-audit services can be found in Note 6 to the Group's consolidated financial statements. Fees paid for non-audit services in 2021 were less than £0.1 million (1.1% of the total audit fee) and average fees paid for non-audit services for the last three years to 2021 were less than £0.1 million (1.0% of the total audit fee over that period). Fees paid for non-audit services related to services permitted under the Group's policy on non-audit services.

The Committee is satisfied that the overall levels of audit-related and non-audit fees are not material to the PwC office conducting the audit, or PwC as a whole, and therefore the objectivity and independence of the external auditors was not compromised by the non-audit services provided to the Group.

On the basis of the information above, the Committee has determined that the audit process is effective and that PwC are appropriately objective and independent and has recommended that the Board submit the re-appointment of PwC to shareholders for approval at the Annual General Meeting in 2022 for the 2022 financial year.

Internal audit

The internal audit function is led by the Head of Assurance & Risk and is a key element of the Group's corporate governance framework. Its role is to provide independent and objective assurance, advice and insight on governance, risk management and internal control to the Committee, the Board and to senior management. The internal audit function makes recommendations to improve processes and address key issues identified through their audit programme.

The Committee agrees the annual internal audit plan which is developed according to a risk assessment process and ensures adequate resources are available to execute the plan. The risk assessment process initially divides our business units into three tiers determined by financial measures. Tier 1 businesses are visited annually, with Tier 2 businesses visited every other year and Tier 3 businesses every third year. This is then subject to a further discretionary risk-based adjustment, if there are circumstances which suggest a business unit should have an audit accelerated. Reasons for this can include adverse prior audit findings, a change in IT system, site location moves, substantiated issues reported by whistleblowers, senior leadership changes or operational performance issues.

The business unit audit programme's scope includes finance, tax, programme management, HR/payroll, commercial intermediaries, bid and proposal activity, corporate compliance and business continuity. In 2021, internal audits were carried out for 30 Group locations as part of the rotational audit cycle, including shared service functions. During the year, the Committee monitored implementation of the plan which was broadly delivered as originally committed with remote audits being conducted where necessary through the use of technology, including utilisation of applications such as WebEx and file sharing and other innovative solutions such as using cameras on factory floors to validate tests.

The scope and responsibilities of internal audit continue to expand and develop with the business and are documented in the Internal Audit Charter.

In addition to the site-based business unit reviews, internal audit has a co-source arrangement with Grant Thornton UK LLP to assist with resourcing specialist audits for areas such as IT, treasury and complex legislation such as the Criminal Finances Act 2017 and Defense Federal Acquisition Relation Supplement (DFARS). During the year, Grant Thornton conducted audits on cyber security, finance shared services, ERP implementations and change management and reported its findings back to the Committee in December 2021. The approach for 2022 will continue to rely on Grant Thornton's subject matter experts to deliver specialist audits, including readiness for cyber security model certification, IT resilience, site and IT transformation projects and finance shared services.

I regularly discuss the results of audits with the Group Head of Assurance & Risk between Committee meetings, and at each meeting the Committee receives a status update on the internal audit programme, discusses and challenges any significant issues arising and monitors implementation by the business of any recommendations made.

The Committee routinely meets with the Group Head of Assurance & Risk without executive management present. No concerns have been raised and it was confirmed that the internal auditors had been able to carry out their work and offer constructive challenge to executive management during the year. The Committee considered the effectiveness of the internal audit function in 2021, taking into consideration its discussions with the Group Head of Assurance & Risk without management present, its assessment of the internal audit plan and the delivery against that plan, the reports it received on the work of internal audit and the role and effectiveness of the internal audit function in the context of the wider risk management system and was satisfied that the quality, experience and expertise of the function remained appropriate for the size and complexity of the Group.

Communications with the FRC

During the year there was no interaction with the FRC's Corporate Reporting Review team.

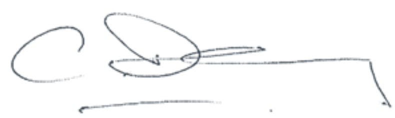
Whistleblowing

To help us encourage the highest standards of ethical behaviours, corporate governance and accountability in our business activities, the Group operates an independent and anonymous Speak Up Line which is available 24 hours a day, seven days a week. A summary of whistleblowing activity, together with details of related investigations, is provided to the Corporate Responsibility Committee, which is responsible for oversight and review of the process for handling allegations from whistleblowers. The Board also reviews whistleblowing reports on a quarterly basis and routinely reviews the arrangements for employees to raise concerns.

Compliance with Audit Services Order

We comply with the Competition and Market Authority Order 2014 relating to audit tendering and the provision of non-audit services, as discussed further above.

On behalf of the Audit Committee



Colin Day
Chairman of the Audit Committee

2 March 2022

Nominations Committee report

Overseeing the composition of the Board to ensure that it has the right balance of skills, experience and expertise to deliver on the Group's strategic objectives.

Committee membership and attendance in 2021

Member	Meetings attended
Sir Nigel Rudd Committee Chairman	3 of 3
Mr G S Berruyer Non-Executive Director	3 of 3
Mr C R Day Non-Executive Director	3 of 3
Mrs N L Gioia Non-Executive Director	3 of 3
Ms A J P Goligher Non-Executive Director	3 of 3
Mr G C Hachey Non-Executive Director	3 of 3
Mrs C L Silver Non-Executive Director	3 of 3

Meetings attended Non-attendance

Dear Shareholder,

The Nominations Committee plays a leading role in assessing the balance of skills, knowledge, experience and diversity on the Board and its Committees. It leads the process for appointments, ensures plans are in place for orderly succession to both the Board and senior management positions, and oversees the development of a diverse pipeline for succession.

The Committee reviews the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and makes recommendations to the Board on any proposed changes. Decisions on Board changes are taken by the Board as a whole taking into consideration the Committee's recommendations. In performing its duties, the Committee has access to the services of the Group HR Director and the Company Secretary and may seek external professional advice at the Group's expense.

The full terms of reference for the Committee can be found on our website.

Committee effectiveness

In 2021, as a Committee we reviewed our own effectiveness by way of a questionnaire as set out on pages 110 to 111. Overall the evaluation was positive, with the Committee satisfied with its own effectiveness and no further actions to take as a result.

Board composition and tenure

We consider a comprehensive skills matrix that sets out the experience and background of each Director and review it against the Group's strategic objectives and principal risks to ensure the Board comprises the skills and capabilities required to meet the demands of the business.

In February 2022 we expanded our skills matrix to include details of Directors' experience in respect of sustainability/climate change in the sectors in which we operate. This provides a clearer picture of expertise in this area and will assist in determining the requisite skill set of future appointees.

Our skills matrix also includes the tenure of myself and the Non-Executive Directors to ensure that our succession is regularly discussed and planned accordingly in order to facilitate regular refreshment of Board membership.

Guy Berruyer's third three-year term expired on 1 October 2021. During the year, we carefully considered his independence, taking into consideration his relationship with executive management and the challenge and support he provided at Board and Committee meetings. We established that he remained independent and provided a key point of stability during a period of significant change. We also determined that Guy's skills and experience remained relevant, and his capabilities and contribution at Board and Committee meetings added great value to the Company. Recognising the importance of continuity whilst the proposed acquisition of the Group by Parker-Hannifin progresses, we recommended to the Board that Guy continue to serve as an independent Non-Executive Director. The Board accepted this recommendation and extended his service contract for a further one-year term.

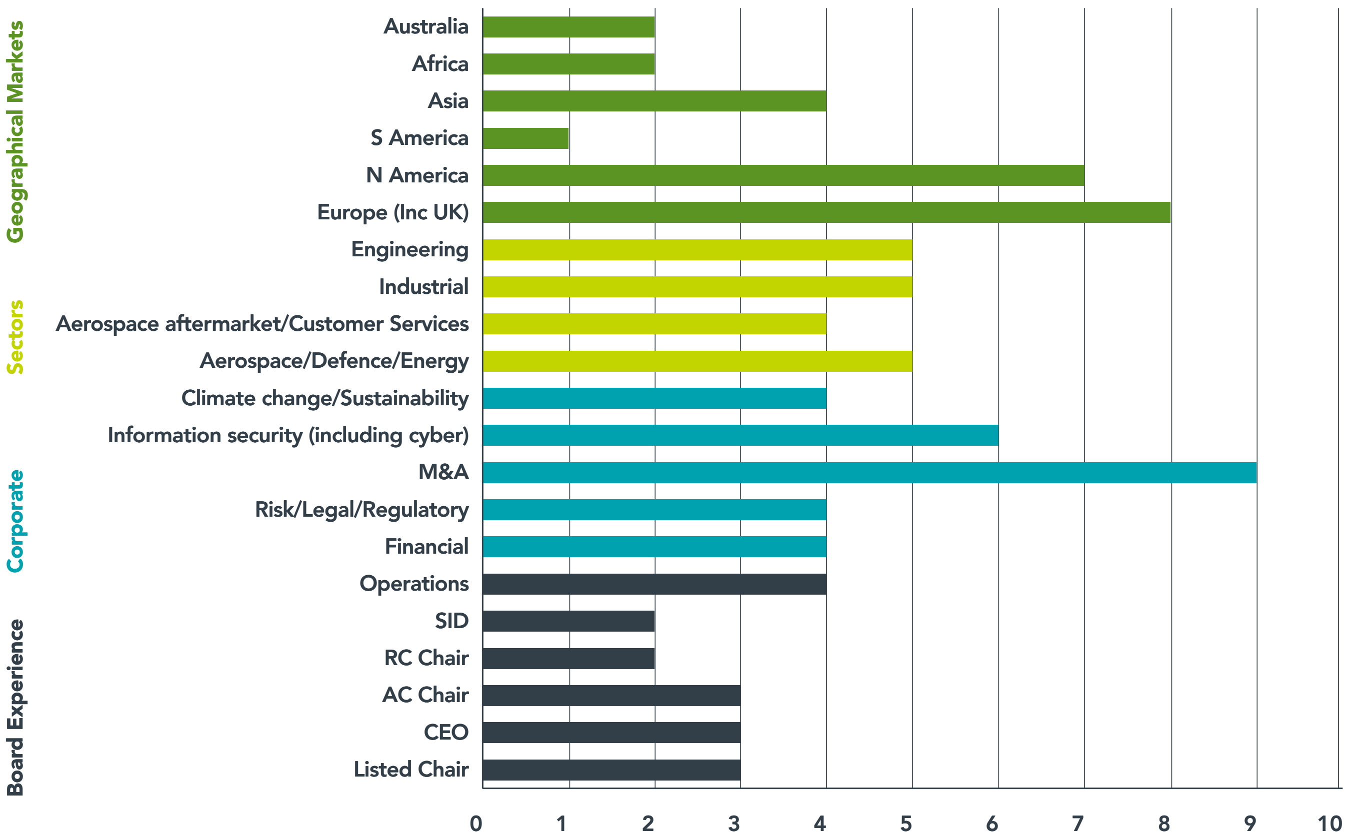
Colin Day's second three-year term also expired during the year. We recognised the significant contribution he had made during the year to Board and Committee discussions, the additional time he had dedicated to his Audit Committee duties, including regular meetings with management and the internal and external auditors outside formal proceedings and the time he had dedicated to the employee engagement programme (see page 92 for details) and were satisfied that he was able to continue to discharge his duties effectively notwithstanding his external appointments. We recommended that he remain on the Board as an independent Non-Executive Director and the Board accepted this recommendation and extended his service contact for a further three-year term.

Guy Hachey's first three-year term as a Non-Executive Director expired on 31 December 2021. During this first term Guy has brought significant insight, challenge and expertise to Board and Committee discussions and has provided valuable support to the employee engagement programme. Following consideration of Guy's contribution to the Group we recommended that he remain on the Board as an independent Non-Executive Director. The Board accepted this recommendation and extended his service contract for a further three-year term.

In light of Guy Berruyer's length of service, we agreed in 2020 that Alison Goligher should succeed Guy as Senior Independent Director and she was appointed to the role immediately following the 2021 Annual General Meeting. Alison has nearly seven years' experience on the Board and has, as a result, built good relationships with the Non-Executive Directors and executive management, has relevant experience of Board dynamics, and has a detailed understanding of the Group, which makes her well qualified to succeed Guy as Senior Independent Director.

As a Committee we are mindful of Guy Berruyer's tenure on the Board, my announcement to retire from the Board (which was postponed until further notice during the COVID-19 pandemic) and that Alison Goligher's nine-year term is due to expire in 2023. Whilst focus in 2020 and 2021 has been on continuity to guide the Company through the COVID-19 pandemic and the proposed acquisition of the Group by Parker-Hannifin we are aware that, should the proposed acquisition not go ahead, changes will need to be made

Board skills and experience



Nominations Committee report
continued

to ensure our Board is appropriately refreshed. We have reviewed and discussed the skills matrix and any future appointments will focus on ensuring the Board is appropriately diverse with the right balance of skills and experience to lead the Company in achieving its strategic objectives.

Board effectiveness

In February 2022 we reviewed the Board skills matrix and the output of the Board evaluation process (described on pages 110 to 111) and considered the Board's effectiveness. We paid particular attention to the skillset each Director brings to the Board, Guy Berruyer's independence, and to whether Colin Day and Caroline Silver continued to have sufficient time to discharge their duties effectively in light of their external appointments. On review, we were satisfied that the Group has a strong, dynamic and effective Board capable of delivering the Group's strategic objectives and recommended to the Board that all Directors be put forward for re-election at the 2022 Annual General Meeting.

Executive succession planning

The Group operates a succession planning process which enables the identification and development of employees with the potential to fill key business leadership positions.

The succession plans for the executive team, including the Executive Directors are reviewed by the Committee to ensure that they are effective, based on merit and objective criteria, promote a diverse talent pool and take into account the challenges and opportunities facing the Group as well as the Group's strategic priorities. The plan identifies emergency replacements, those who are ready to fulfil leadership roles now, those that will be ready in the short term following further development and those that will be ready in the longer term.

Diversity and inclusion

The Board places great emphasis on ensuring that its own membership reflects diversity in its broadest sense. A combination of demographics, skills, experience, race, age, gender, educational and professional background and other relevant personal attributes on the Board is important in providing a range of perspectives, insights and challenge needed to support good decision-making.

Whilst we do not currently have an ethnic minority Director on our Board, the Board remains diverse in terms of demographics, skills, experience, age, gender and professional background. Further details on the diverse attributes of Board members can be found in the pie charts on pages 102 and 103 and in the Board skills and experience chart above.

It is our policy that Board appointments are made on merit, taking account of the specific skills and experience, independence and knowledge needed to ensure a rounded Board and the diversity benefits each candidate can bring to the overall Board composition. The policy aims for all appointments to diversify and strengthen the overall composition of the Board by contributing something new to the overall board dynamic, be it in terms of experience, skills, perspective, interests or other attributes.

Our Diversity and Inclusion Policy, which is available on our website, is brought to the attention of any executive search firm used as part of the selection and appointment process for a Board position and we request that they be proactive in marketing to a truly diverse range of candidates.

On gender diversity, the Board currently has four female Board members representing 44% of the Board. This year, Meggitt appeared 78th in the list of FTSE 100 companies on the FTSE Women Leadership Review gender diversity rankings. Our position is largely impacted by the combined data for Executive Committee members and their direct reports which stands at 18.2% and shows that we can improve further in this area. Details of the work underway to strengthen the diversity of our talent pipeline can be found on page 74.

The Board has discussed the suggested target set out in the Parker Review of having "at least one Director of colour on the Board by the end of 2021" and was planning to take this into account, alongside diversity of gender, nationality, skills and experience, in filling the next Board position. However, due to the focus on managing the Group's response to and recovery from the COVID-19 pandemic, the significant cost and time commitment required to identify and select suitable Board candidates and the high probability that the proposed acquisition of the Group by Parker-Hannifin will complete in 2022, the Committee determined that it would not be practical to recruit an additional Board member during the year. As such there was no opportunity to strengthen the ethnic diversity of our Board in 2021. Whilst no appointments are currently planned for 2022, should the proposed acquisition of the Group by Parker-Hannifin not complete, a detailed review of the Board's composition will be conducted and whilst appointments will always be made on merit, strengthening the ethnic diversity of the Board will be a key consideration in the recruitment process for any new Director.

The Board, our executive leadership team, and management at all levels recognise that a diverse and inclusive workforce is critical to running a sustainable and successful business. Our Diversity and Inclusion Policy, which was reviewed and updated during the year, seeks to increase and leverage diversity by employing a diverse workforce that reflects the communities within which we operate and fostering an inclusive culture where people are valued, respected and supported. The Board and Executive Committee remain focused on this area.

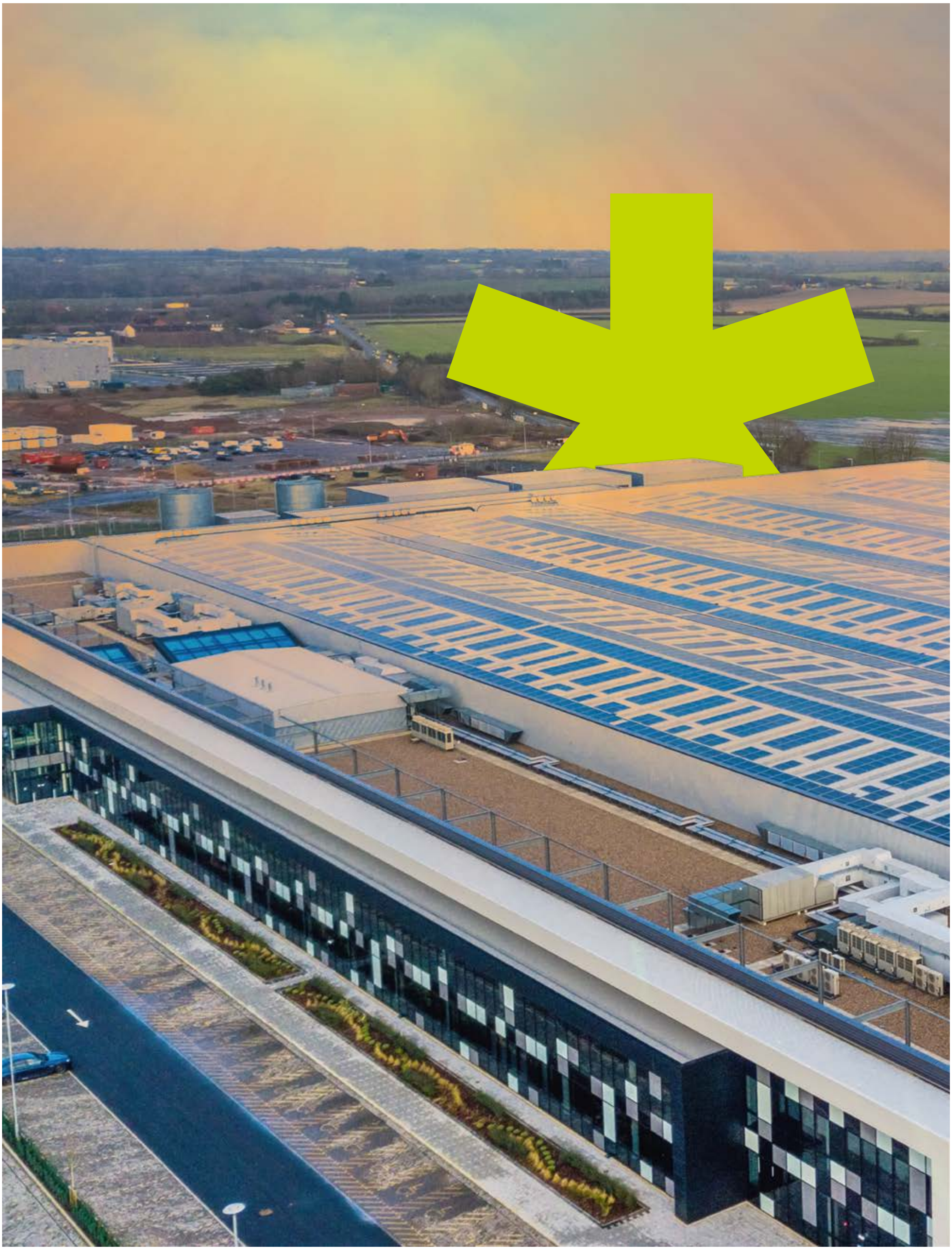
Candidate selection

When recruitment is undertaken, an independent external search consultancy is used for the appointment of the Chairman and Non-Executive Directors with guidance provided by the Committee on the requisite skills, knowledge and experience to fill any gaps identified by the Board skills matrix and complement those of existing Board members. Instruction is also given to provide long and short lists, with a diverse range of candidates.

On behalf of the
Nominations Committee

Sir Nigel Rudd
Chairman of the
Nominations Committee

2 March 2022



Directors' remuneration report

It has been a busy year during which we have continued to engage with our wider stakeholders during an exciting, interesting and challenging period for the Group.

Committee membership and attendance in 2021

Ms A J P Goligher
Committee Chairperson

Mrs C L Silver
Non-Executive director

Mr C R Day
Non-Executive director

Mrs N L Gioia
Non-Executive director

Mr G C Hachey
Non-Executive director

Mr G S Berruyer
Non-Executive director

x Scheduled meetings
x Additional meetings

Meetings attended Non-attendance

Chair's introduction and annual statement

Introduction

I am pleased to present the Directors' remuneration report for the year ended 31 December 2021. In addition to this introduction and annual statement, the report includes: an "At a Glance" summary; the Annual Report on Remuneration for the year; and a copy of the Directors' Remuneration Policy which was approved by shareholders at the 2021 AGM.

Looking back... performance and remuneration in 2021

Many of the challenges of 2020, driven by the external environment, continued to impact the civil aerospace industry in 2021, including the rise of the Omicron COVID-19 variant in the latter part of the year. Despite these ongoing challenges, Meggitt has continued to position itself well to benefit from the recovery over time of the civil aerospace sector, delivering robust performance outcomes against its KPIs. This is reflective of the significant ongoing contribution of all our colleagues, and the leadership of the Executive Directors and the wider leadership team. Significant time and effort was also invested in the proposed acquisition of the Group by Parker-Hannifin, to protect the interests of all our stakeholders and, if successful, significantly accelerate and de-risk our plans to deliver value to our shareholders.

It is this challenging, but exciting, context that framed the Committee's decision-making in the year, and which is summarised below.

Salary

The April 2021 annual merit based increases were deferred for all employees until October due to the continued uncertainty for the industry. Additionally, during the first half of 2021, in order to manage cost and capacity with continued volatility in civil aerospace markets, most of our employees, including the Executive Committee, took mandatory or voluntary unpaid leave ranging from 8-13 days. Our Board also volunteered a salary/fee reduction of 10% during the same period. In October 2021, a delayed increase was awarded to all employees of 2.5%, including Executive Directors, Executive Committee and Non-Executive Directors.

STIP

2021 performance was above threshold for underlying operating profit but below threshold for the free cash flow element.

The Executive Directors' performance against the strategic objectives set at the start of year, and in the context of the evolving priorities of the Group during the year, was rated as significantly exceeding expectations, using the same scoring methodology as for the wider STIP population. This outcome warranted full payout of this element, resulting in an overall STIP outcome of 46.7% of maximum. The Committee is satisfied that the outcome is warranted by underlying performance and accordingly did not exercise any discretion. 25% of the amount earned will be deferred into shares for two years.

LTIP

Although our financial performance in 2019 was strong, the outturn for the financial metrics in the 2019 LTIP award (based on three-year performance to 31 December 2021) was below the threshold vesting, against the backdrop of the continuing impact of COVID-19 on the civil aerospace market. Progress against our long-term strategic targets produced an overall vesting of 13.2%. The Committee considered this outcome in the wider context of the Group's performance, recognising the outturn was in line with the employee and shareholder experience and no adjustments were made.

The Committee is confident that the 2021 remuneration outcome for Executive Directors is appropriate given the context of the internal and external environment.

2021 AGM

Prior to the 2021 AGM, the Committee carried out an extensive consultation on proposed changes to the Policy with our largest shareholders, representing a significant proportion of the register. As a result of the initial consultation, the Committee implemented changes to its proposals to take account of feedback received, as detailed in last year's report. We were pleased that the Policy was supported by a wide range of our shareholders as a result, registering a 75.66% vote in favour.

In accordance with the UK Corporate Governance Code, and reflecting that the Policy resolution received less than 80% of votes in favour, the Committee published an update on the 2021 AGM vote via RNS during the year. As noted in that market announcement, the Committee was aware at the time of the AGM that shareholders have divergent views on the proposals, mainly regarding the use of multiple long-term incentive vehicles. However, the Committee continues to believe that the hybrid approach adopted by the Policy, including both performance and restricted share awards, is appropriate for Meggitt, allowing us to maintain alignment between our shareholders and motivating our leadership and senior management team. Following shareholder approval of the Remuneration Policy in 2021, the Executive Directors received Long Term Incentive Plan awards under the performance share award (PSA) at 125% of salary and restricted share awards (RSA) at 62.5% of salary. However, we will continue to assess the suitability of the hybrid approach during the Policy period.

2022 implementation of Policy

The Committee remains confident that the Remuneration Policy continues to effectively support Meggitt's short- and long-term strategic objectives and promote management and shareholder alignment.

The Committee took actions to apply our Directors' Remuneration Policy appropriately and in shareholders' best interests in the context of the offer for the Company by Parker-Hannifin, which was approved by our shareholders in September 2021. Remuneration arrangements relating to the offer for the Company are detailed in the Co-Operation Agreement for the transaction. In the process with Parker-Hannifin, we were supportive of the treatments secured by management to protect the interests of employees, including the preservation of all terms and conditions until the end of 2022, and beneficial terms to compensate participating employees for the closing of our Sharesave schemes following deal completion.

Fixed pay

Effective 1 April 2022, Executive Director salaries will be increased by 3% in line with the broader employee population. In line with our commitment to reduce Executive Director pensions over time, pension allowances will be further reduced; from 18% to 15% of salary in respect of the CEO and from 17.5% to 15% of salary from 1 January 2022.

STIP

The STIP will operate on the same basis as last year, with a maximum opportunity of 150% of salary for both Executive Directors and with performance assessed against a small number of key financial and strategic measures. If the Parker-Hannifin proposed acquisition completes, Meggitt will assess the performance conditions for the period up to the court sanction date and pay out the relevant portion of the STIP at that time, in accordance with the Co-Operation Agreement.

Long-term incentives

As in 2021, Executive Directors will receive LTIP awards in the form of both performance share awards (PSA) and restricted share awards (RSA).

PSAs will be granted at 125% of salary, with vesting assessed against an equal blend of EPS, ROCE and strategic objectives measured over three years. RSAs will be granted at 62.5% of salary, with final vesting (at the end of a three-year vesting period for 2022 RSAs) subject to a Committee assessment of a range of business factors and overall Group performance.

If the Parker-Hannifin proposed acquisition completes, the LTIP awards will vest on completion, in accordance with the Co- Operation Agreement.

Looking forward

The Committee considers that the current remuneration structure is clear, simple, and appropriately aligned with the Group's strategy, risk appetite and culture, and that incentives are appropriately capped.

Our Remuneration Policy and practice is in line with the UK Corporate Governance Code (with the exception of Provision 38 on pension allowances).

I hope that you find this report a clear account of the Committee's decisions for the year and would be happy to answer any questions you may have at the AGM.

Alison Goligher

Alison Goligher
Chair of the Remuneration Committee

Directors' remuneration report
continued

2021 activity

Approved	• The 2018 LTIP vesting outcome. • The 2021 STIP and PSA performance targets. • The 2021 PSA and RSA opportunity levels. • The 2020 Directors' remuneration report and revised Remuneration Policy (which were subsequently approved by shareholders at the 2021 AGM). • The key remuneration terms of the Co-Operation Agreement with Parker-Hannifin. • Terms of Reference for the Committee (available on our website). • Since the year end, we have approved the structure of the 2022 STIP and both the 2022 PSA and RSA awards, and confirmed the vesting outcome of the 2021 STIP and 2019 LTIP awards.
Discretion exercised	• After due consideration, no discretion was exercised by the Committee during the year.

Remuneration at a glance

Remuneration principles

Our Remuneration Policy is designed to deliver against these key remuneration principles for the long-term growth of the business:

Attract	an overall remuneration package that is competitive in the global markets where Meggitt competes for talent;
Align	with investors: a significant proportion of remuneration is delivered in shares and subject to long-term performance and holding periods; and between our Executive Directors and other senior managers who work as one team towards the same goals;
Incentivise	short and long-term incentive plans provide an opportunity for management to meet and exceed targets whilst outcomes are appropriately aligned with financial and operational performance; and
Retain	the remuneration structure and opportunity supports retention in an increasingly competitive global setting.

Linking our remuneration to our strategy

Strategic Portfolio
Investing in differentiated technologies
Delivering sustainability goals
Enhancing our business portfolio

LTIP: Innovation targets and ROCE in the LTIP. Sustainability targets in the LTIP.

STIP: Strategic objectives for Executive Directors include portfolio-related activity and sustainability goals.

Customers
Accelerate organic growth
Maximising our share of the aftermarket

LTIP: Quality and delivery and other operational targets to facilitate business recovery are included in the LTIP.

STIP: Strategic objectives for Executive Directors include improving customer satisfaction.

KPIs: Growth ROCE

Competitiveness
Outstanding operations and processes

LTIP: Quality and delivery targets, programme management, ROCE and inventory improvement targets are measures in the LTIP.

STIP: Strategic objectives for Executive Directors include operational performance, footprint consolidation and net purchasing costs.

Culture
Attracting and developing diverse talent
High performance culture

STIP: Strategic objectives for Executive Directors include measures to improve employee engagement and embed our high performance culture.

KPIs

2021 STIP

Financial Measures	Strategic Measures
£184m Underlying Operating Profit	✓ Culture – Engagement
£119m Free Cash Flow[1]	✓ Customer – Operational Improvements
	✓ Strategic Portfolio

1 As with previous years, the 2021 STIP uses the Free Cash Flow measure excluding the impact of interest and taxation.

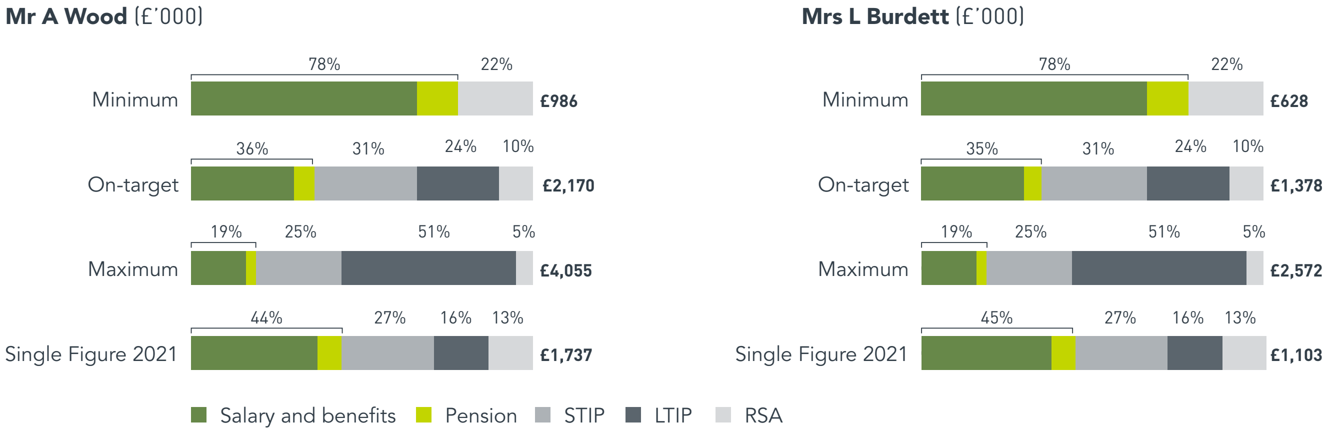
2019-2021 LTIP

Financial Measures	Strategic Measures Outturn 2021
72.4p Earnings per share (3-year cumulative)	✓ Inventory 2.1[1]
7% ROCE (3-year average)	✓ Prog Excellence 3.1 On time delivery 68% Quality Escapes 681

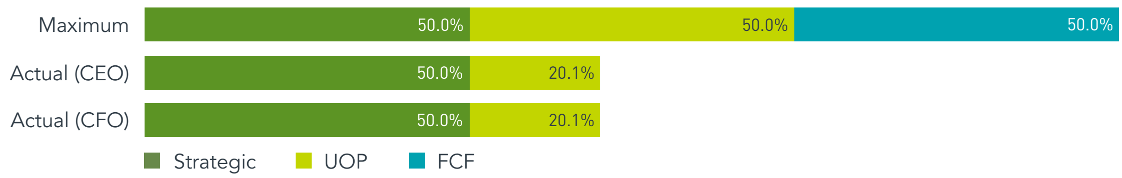
1 Cost of Sales as used in the inventory turns measure includes the impact of exceptional items.

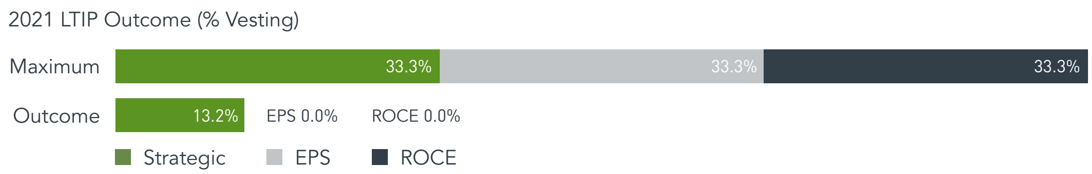
Directors' remuneration report
continued

2021 Outcomes
Outcomes versus pay scenarios

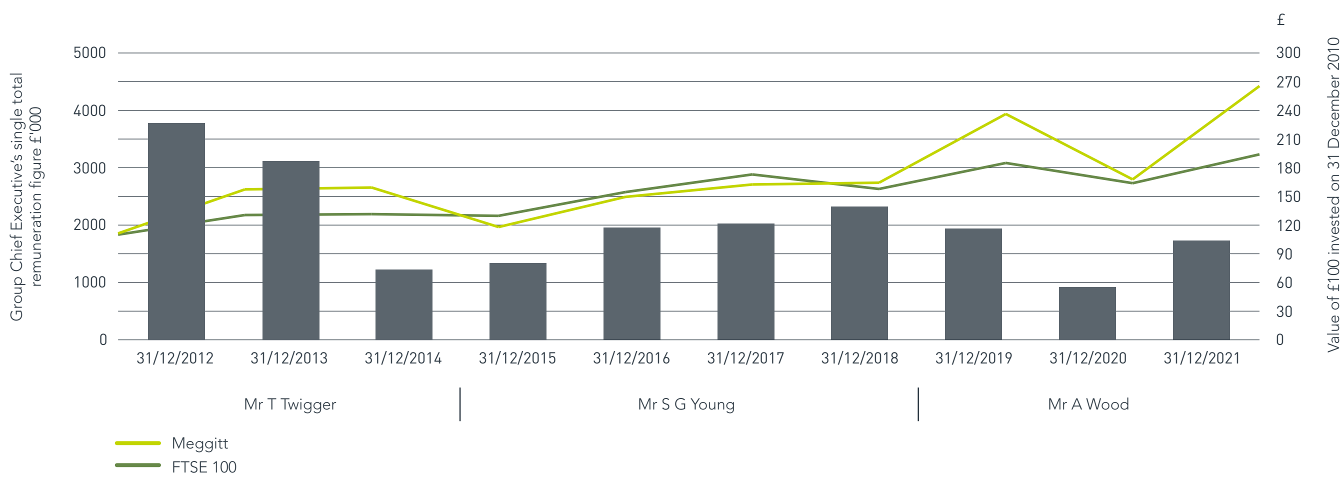


Incentive outcomes
2021 STIP Outcome





Pay for performance history



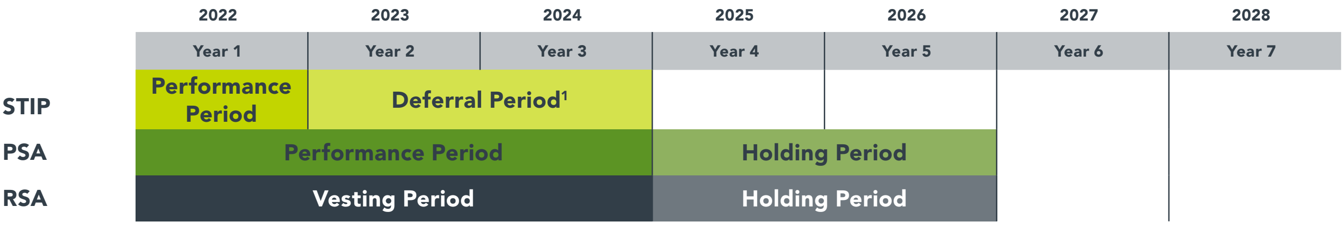
2022 Remuneration

The summaries and illustrations below do not include any impact of the Parker-Hannifin proposed acquisition and associated Co-Operation Agreement. In the event that the proposed acquisition completes, the terms of the Co-Operation Agreement with Parker-Hannifin will take effect.

Components of Executive Directors' remuneration 2022

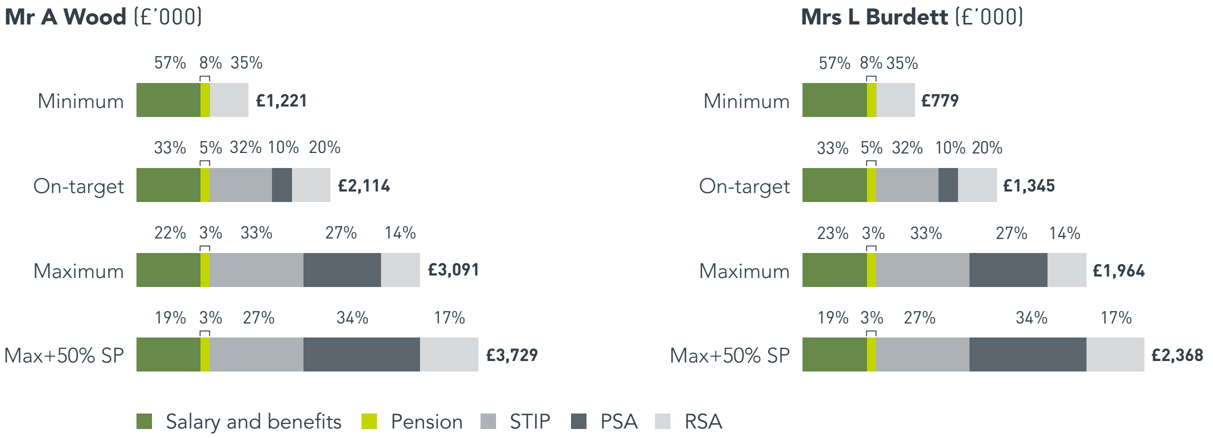
Base salary	Set at a competitive level to attract and retain high calibre Directors in the relevant talent market.
Pension	To provide post-retirement benefits for Executive Directors in a cost-efficient manner. New Directors are eligible for a pension allowance at the same level as the wider workforce. Pension allowances for incumbent Executive Directors are being reduced to 15% with effect from 1 January 2022.
Benefits	Provides non-cash benefits which are competitive in the market where the Director is employed.
Annual bonus (STIP)	Incentivises Executive Directors to deliver annual financial and strategic targets set at the start of each year. There is a maximum award opportunity of up to 150% of salary, with 25% of any amount earned deferred in Meggitt shares for two years.
LTIP (PSA and RSA)	Aligns the interests of Executive Directors with shareholders in growing the value of the Group over the long term. Awards vest after three years and are subject to a two-year holding period. Executive Directors are currently eligible for Performance Share Awards of up to 125% of salary and Restricted Share Awards of up to 62.5% of salary. The Executive Directors are subject to post-cessation shareholding requirements, along with malus and clawback provisions.
Sharesave Scheme and Share Incentive Plan (SIP)	To align the interests of UK employees and shareholders by encouraging all UK employees to own Meggitt shares.

2022 remuneration time horizons



1 STIP deferral of 25% of the outcome into shares for two years.

2022 pay scenario summaries



2022 Incentive Plans

Short-Term Incentive Plan (STIP)

Underlying operating profit	33.3%
Free cash flow	33.3%
Strategic and financial objectives	33.3%
Total STIP	100.0%

Long-Term Incentive Plan (LTIP) – Performance Share Awards

Underlying EPS	33.3%
ROCE	33.3%
Strategic measures: HPS / Inventory / Programmes / Sustainability	33.3%
Total PSA	100.0%

Directors' remuneration report
continued

Annual report on remuneration

Executive Directors

Single total figure of remuneration for Executive Directors (audited)

The table below sets out a single figure for the total remuneration received by each Executive Director for the year ended 31 December 2021 and the prior year:

	Mr A Wood		Mrs L S Burdett	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Salary[1]	**634**	597	**402**	378
Taxable benefits[2]	**14**	14	**14**	14
Pension Allowance[3]	**120**	143	**74**	84
Total fixed	**768**	754	**490**	476
Annual bonus[4]	**357**	–	**226**	–
Deferred bonus[4]	**119**	–	**75**	–
LTIP[5]	**275**	171	**174**	–
RSA[6]	**218**	n/a	**138**	n/a
Total variable	**969**	171	**613**	–
Total remuneration	**1,737**	925	**1,103**	476

1 Salary for both Executive Directors is reported with a voluntary reduction of 10% in the first half of the year in exchange for unpaid leave, aligned with the wider workforce. For the CEO the annual salary of £663k reduced by £33k from January to June 2021, and for the CFO the annual salary of £420k reduced by £21k from January to June 2021. Executive Director salaries were increased by 2.5% with effect from the deferred salary review date of 1 October 2021, in line with the wider workforce.
2 Taxable benefits consist primarily of company car or car allowance, fuel allowance and private health care insurance. Mrs Burdett received a relocation allowance as part of the transition of the head office to Ansty Park of £6,240 in 2021.
3 Pension allowances were calculated on the unreduced salary for 2021 at 18% of salary for the CEO and 17.5% for the CFO.
4 STIP paid for performance over the relevant financial year. 25% of the payout was deferred into shares. Further details of the 2021 STIP, including performance measures, actual performance and bonus payouts, can be found on pages 132 to 133.
5 LTIP is calculated as the number of shares vesting based on certain performance measures and valued at the market value of the shares on the vesting date. The value includes distribution payments. For 2021, the figure represents the actual vesting outcome of the 2019 award. Based on performance to 31 December 2021 the 2019 LTIP award will vest at 13.2%. The market value of vested shares has been estimated using the average share price over the last quarter of 2021 of 742.80 pence. £80k and £51k of the value of the 2019 LTIP shown for the CEO and CFO respectively is attributable to share price appreciation, with Meggitt's share price increasing by 42% since the grant date. The value also includes accrued dividends of £2k and £1k for the CEO and CFO respectively. This value will be trued up in next year's report to reflect the actual share price on the vesting date. Further details on performance criteria, achievement and resulting vesting levels can be found on page 134. For 2020, the figure represents the actual vesting of the 2018 award which has been trued up, compared to that reported last year, to reflect the share price on the date of vesting. The value of the 2018 LTIP (for the CEO only, the CFO having joined Meggitt in 2019) vesting has been updated from the 2020 report from £131k to £171k due to increase in share price owing to the proposed acquisition by Parker-Hannifin since the figures were estimated in February 2021.
6 RSA (Restricted Share Awards) were granted in 2021 as 3 separate tranches with a 1, 2 and 3-year vesting period. They are subject to a holding period, which when added to the vesting period, will not be less than 5 years from date of grant and ends on the relevant expiry date. The 2021 figure represents full vesting of the 1-year tranche of awards granted in April 2021, the Committee assessment period for which was substantially completed as at year end which is reported on page 135. The market value of vested shares has been estimated using the share price over the last quarter of 2021 of 742.80 pence, with this value to be trued up in next year's report. £79k and £50k of the value of the RSA shown for the CEO and CFO, respectively, is attributable to share price appreciation, with Meggitt's share price increasing by 58% since the grant date. See page 135 for further details.

Incentive outcomes for the year ended 31 December 2021 (audited)

STIP in respect of 2021 performance

The Board set stretching financial and strategic targets for the STIP at the start of the 2021 financial year. These targets, and the performance against these, are summarised in the table below.

Executive Directors

Measure	Weighting (as a percentage of maximum)	Threshold 1/3 payout	Target 2/3 payout	Stretch full payout	Actual[1]	Percentage of element
Financial Underlying operating profit	33.3%	£175.3m	£219.1m	£241.0m	£184.2m	40.1%
Financial Free cash flow	33.3%	£130.4m	£163.0m	£179.3m	£118.6m	0%
Strategic See below	33.3%					See tables below

1 For the purpose of STIP, targets and actual performance for both underlying operating profit and free cash flow are measured on a constant currency basis, adjusted where appropriate for any M&A activity and, in the case of free cash flow, excludes interest and tax. The STIP targets and actual performance for underlying operating profit are measured before the impact of any share-based payment expense. Other adjustments are also made at the discretion of the Committee to ensure the outcome is a fair reflection of the underlying performance of the Group for the year. These are described on page 133 of this report.

A summary of the strategic objectives applying to each Executive Director and the outcome is provided below:

Tony Wood

Chief Executive

	Performance against objectives
Strategy Deliver sustainability goals and enhance portfolio to underpin margin and earnings growth	• Implemented pricing review across all Product Groups. • Implemented pricing review across all Product Groups.
Customer Increase satisfaction levels and grow aftermarket and defence	• Organic AM growth closed up 6.6% against a slower than anticipated recovery in air travel globally. Quality Escapes – significant improvement following Zero Defect Plan success closing the year 48% lower than target, with DPPM also better by 17%.
Competitiveness Improve core business processes and efficiencies	• Successful transition of multiple business units to Ansty Park.
Culture Improve employee engagement and embed high performance culture programmes	• Engagement index achieved all-time best result at 76% with a 73% response rate – a very good result in very challenging circumstances for the business given the extended pandemic and Parker-Hannifin deal impacts during the year. • Lowest to date TRIR achieved at 0.63 and two key leadership and operations leadership training programmes successfully delivered and positively received by employees.

Louisa Burdett

Chief Financial Officer

	Performance against objectives
Strategy Provide liquidity for the Company	• Implemented necessary financial arrangements in place to enable the business to operate safely through an extended pandemic and to position it with sufficient flexibility to operate successfully as civil aerospace recovers.
Customer Support investors and MIS and FSSC as internal partners	• Managed investor messages during 2021 especially during acquisition discussions and supported ESG disclosures.
Competitiveness Improve Meggitt's recurring cost base	• Significant de-risking in UK pension plan liabilities. • Implemented new Investment Committee. • Lead the acquisition of HiETA.
Culture Drive incremental change to impact overall score	• Improvements and automation delivering significant improvements in cash forecasting capability. • Balance sheet reviews and an in-depth assessment of SOx in readiness for 2022 action.

The Committee sets the above stated objectives for the Executive Directors at the start of the year. In its adjudication of the outcome under the personal element of the STIP opportunity, the Committee also considered it appropriate to reflect the Executive Directors' personal performance in the context of the evolution in short-term strategic priorities presented by the approaches from Parker-Hannifin and TransDigm. The Committee's adjudication therefore reflects not only the basket of objectives outlined above, but also a qualitative overlay of the significant contribution made to protecting stakeholder interests throughout the year. This includes the significant value created through the potential transaction with Parker-Hannifin, which was strongly supported by shareholders, and the work undertaken to safeguard wider stakeholder interests, including employees, pension plan members, customers and suppliers, through the transaction should it proceed. In this context, the Committee assessed the performance of the Executive Directors to have significantly exceeded expectations. In line with the approach adopted for the wider STIP population, this rating outcome corresponds to full payout of the strategic element.

CEO and CFO payout based on assessment of objectives (% of element): 100%

As a result, the following STIP awards were received by Executive Directors in respect of 2021 performance:

Executive	% salary	£'000
Mr A Wood	70.1%	476
Mrs L S Burdett	70.1%	301

Directors' remuneration report

continued

STIP – deferral into shares (audited)

As a result of the 2021 STIP outcome described above, and in line with the Remuneration Policy, 25% of the payout will be deferred into shares and released (with no further performance conditions attached) after two years. Deferred STIP awards may lapse in certain leaver circumstances.

Last year the Committee used its discretion to reduce the 2020 STIP vesting to zero. Accordingly, no deferred bonus share awards were made under the Share Incentive and Retention Plan during the 2021 financial year.

LTIP 2019 outcome

The LTIP award granted in April 2019 was subject to performance measures comprising three-year cumulative underlying EPS, three-year average ROCE and a scorecard of strategic measures. The outcome of the EPS measure has been adjusted for disposals. Performance against each of these measures over the completed performance period is summarised in the table below:

	Performance period				Targets			Actual	% vesting
Element	2019	2020	**2021**	Weighting	Threshold 30%	Mid-point 65%	Stretch 100%	Performance	(of LTIP)
Underlying EPS (pence) three-year aggregate	•	•	**w**	33.3%	108.9	115.5	122.3	72.4	0.0%
ROCE % average over three years	•	•	•	33.3%	12.1%	12.5%	12.9%	7.0%	0.0%
Strategic Measures[1]	•	•	•						
Programme excellence[2]	•	•	•	11.1%	2.0	3.0	4.0	2019: 3.1	
								2020: 2.8	7.3%
								2021: 3.1	
MPS[3]	•	•		7.4%	40%	50%	60%	2019: 50.0% 2020: 44.6%	4.1%
HPS (MPS) Quality[4]			•	1.9%	1,225	1,192	1,165	681	1.8%
HPS Delivery[4]			•	1.9%	74%	84%	94%	68%	0.0%
Inventory Turns[5]	•	•	•	11.1%	3.0	3.2	3.4	2019: 2.7	
								2020: 2.1	0.0%
								2021: 2.1	
Overall outcome									13.2%

1 Progress against the targets for all strategic measures are assessed annually and the final vesting outcome is based on the average warranted outcome for performance in each year covered by the relevant measure. For example the score for MPS is the average vesting warranted by for delivering a score of 50% in 2019 and 44.6% in 2020 (being the two years of the 2019 LTIP for which MPS targets were set).
2 Performance score out of 5. Programme excellence is the combined score of programmes and AR&T programmes (previously "innovation") weighted 50/50.
3 Vesting is based on the number of our sites that have progressed up one stage of HPS in the year.
4 HPS (Quality and Delivery) vesting is based on progress against specific targets in each of these areas. For each of these measures, vesting criteria were set at the start of the year and assessed at the end of the year and reviewed by internal audit.
5 Cost of Sales as used in the inventory turns measure includes the impact of exceptional items.

Based on these performance outcomes, 13.2% of the 2019 LTIP award will vest. Details of the awards vesting for Executive Directors are set out in the table below:

Executive	Interests held	Vesting %	Interests vesting	Date of vesting	Share price at vesting[1]	Value £'000[2]
Mr A Wood	278,443	13.2	36,754	08.04.2022	742.8p	275
Mrs L Burdett	176,389	13.2	23,283	08.04.2022	742.8p	174

1 The market value of vested stock is based on the average share price over the last quarter of 2021.
2 The value includes the accrued distribution payable on the shares that vest (equivalent to a dividend, paid as income) of £2k for Mr A Wood and £1k for Mrs L Burdett.

LTIP – 2021 Restricted Share Award (RSA) Tranche 1

As set out in last year's remuneration report, the 2021 RSA vests in equal instalments after 1, 2 and 3 years, subject to a discretionary assessment by the Committee of Meggitt's performance against a basket of measures. The Committee evaluated a range of performance categories, including: balance sheet strength (management of interest cover to 2.4x, and safeguarding the balance sheet through successful RCF refinancing during the year); employee engagement scores (which increased in 41 of 42 parameters); health & safety (our best TRIR results to date); customer measures (escapes and AM growth); and progress against our sustainability roadmap (exceeding our target for R&D expenditure in sustainable technologies, and ensuring no reputational incidents in the year). Following the Committee's assessment of Meggitt's overall performance against this range of categories in 2021 it is confirmed that 100% of the first tranche of the 2021 RSA will vest in full as set out below:

Executive	Interests held	Vesting %	Interests vesting	Date of vesting	Share price at vesting[1]	Value £'000
Mr A Wood	29,292	100	29,292	29.04.2022	742.8p	218
Mrs L Burdett	18,556	100	18,556	29.04.2022	742.8p	138

1 The market value of vested stock is based on the average share price over the last quarter of 2021.

Scheme interests awarded in the year ended 31 December 2021 (audited)

LTIP – Performance Share Award (PSA)

Executive Directors were each granted PSA awards in 2021. Vesting is dependent on the achievement of three-year targets ending on 31 December 2023. As disclosed in last year's report, due to the impact of the continuing COVID-19 pandemic, the Committee decided to delay setting the targets for the PSAs for 2021 until such time that it could finalise appropriate performance ranges. Awards were granted on 29 April 2021 and the accompanying market announcement set out full details of the targets applying to these awards, as below:

Weighting	Measure	Threshold[1]	Mid-point[1]	Stretch[1]
33.3%	**Underlying EPS** (pence) three-year cumulative	57.4	67.6	77.7
33.3%	**ROCE** average over three years	5.3%	6.8%	8.3%
	Strategic measures:			
11.1%	**Programme excellence** (programme performance on NPI and AR&T programme health, and progress with sustainable technology programmes)	2.0	3.0	4.0
11.1%	**High Performance System** Delivery Outcomes Quality Outcomes (outcomes are averaged based on our Company performance)	74% 1,225	84% 1,192	94% 1,165
11.1%	**Inventory Turns**	2.3	2.8	3.3

1 Vesting is 25% at threshold, 62.5 at mid-point and 100% at stretch.

2021 PSA

Executive	Form of award	Date of award	Shares over which awards granted	Award price[1]	Face value £'000	Face value % of salary[2]	End of Performance Period
Mr A Wood	Conditional Award	29.04.2021	175,753	471.54p	829	125%	31.12.23
Mrs L S Burdett	Conditional Award	29.04.2021	111,337	471.54p	525	125%	31.12.23

1 The award price is the average close price for the five days prior to the award date. The face value has been calculated using the award price for each award.
2 Based on salary at the date of award.

Directors' Report

Directors' remuneration report

continued

LTIP – Restricted Share Award (RSA)

Following shareholder approval of the new Remuneration Policy, Executive Directors were each granted RSA awards in 2021. Vesting of RSAs awards is subject to continued employment, but not any formal performance measures; however, the Committee has assessed the vesting based on a basket of measures, as adjusting these measures to be appropriate for the position in the recovery period. These measures have been disclosed on page 135. The balance and weighting of the factors may be adjusted as priorities for the Group develop over time to align with the anticipated recovery, and the Committee will consider performance in the round. The factors considered in the assessment will be fully disclosed in the relevant Annual Report. In order to address immediate issues of incentive and retention during the recovery period, and as disclosed last year, vesting of this first grant of RSA awards will occur on a phased basis over the three-year period, i.e. a third annually, but with release of the vested shares to remain at five years following grant owing to the application of the normal holding period.

2021 RSA

Executive	Form of award	Date of award	Shares over which awards granted	Award price[1]	Face value £'000	Face value % of salary[2]	Date of vesting
Mr A Wood	Conditional Award	29.04.2021	87,876	471.54p	414	62.5%	29.04.2022-29.04.2024
Mrs L S Burdett	Conditional Award	29.04.2021	55,668	471.54p	262	62.5%	29.04.2022-29.04.2024

1 The award price is the average close price for the five days prior to the award date. The face value has been calculated using the award price for each award.
2 Based on salary at date of grant.

Total pension entitlements (audited)

Mr Wood and Mrs Burdett received pensions allowances in 2021 of 18.0% and 17.5% of salary respectively. The pension allowance payments made in 2021 are included in the single total figure of remuneration table. Consistent with all employees, the Executive Directors received pension contributions and all other benefits based on their unreduced salary (and the data in the single total figure of remuneration reflects this).

In 2022, Mr Wood and Mrs Burdett's pension allowances are being reduced to 15% of salary. Neither Executive Director participates in a defined benefit pension. Further reductions to their pension allowances will be reviewed by the Committee later in 2022.

Share ownership guidelines (audited)

The minimum shareholding guideline for Executive Directors is 300% of base salary for the Chief Executive and 200% of base salary for the Chief Financial Officer. There is no set time frame within which Executive Directors have to meet the guideline, however, until they meet the guideline they are not permitted to sell more than 50% of the after-tax value of a vested share award.

Post-cessation shareholding guidelines of two years from vesting applies to the Executive Directors. Further information on their progress towards meeting their shareholding guidelines is set out below. The Executive Directors have each executed a deed under which they acknowledge and agree to the Company's post-employment shareholding requirements and acknowledge that Meggitt reserves the right to take action to enforce compliance with the requirements. In the event of a breach of the post-employment shareholding obligations, Meggitt reserves the right to require the individual to revoke any assignment, transfer or charge, or acquire shares to replace disposed shares. Meggitt may also apply malus against unvested awards. To date, no Executive Directors have left office following the introduction of our post-employment shareholding requirements.

As at 31 December 2021, the Chief Executive's shareholding was 252% of base salary and the Chief Financial Officer's shareholding was 32% of base salary.

Executive Director	Shareholding Guideline (% 2021 salary)	Shareholding	Current Shareholding (% 2021 salary)	Guideline Met?
Mr A Wood	300%	232,316	252%	Building
Mrs L S Burdett	200%	18,413	32%	Building

Executive Directors' beneficial interests (audited)

The beneficial interests of the Executive Directors and their connected persons in the ordinary shares of the Group at 31 December 2021, as notified under the Disclosure Guidance and Transparency Rules (DTR) of the Financial Conduct Authority (FCA) (including shares held beneficially in the SIP by Executive Directors), were as follows:

	Shareholding Ordinary shares of 5p each	
Executive Director	**2021**	2020
Mr A Wood	**123,348**	43,291
Mrs L S Burdett	**8,628**	5,500

Between 1 January 2022 and 1 March 2022, the following changes to the interests of the Directors in the ordinary shares of the Company took place: 1) Mr Wood acquired 40 shares through the Meggitt PLC Share Incentive Plan; and 2) Mr Wood and Mrs Burdett retained 15,419 shares and 9,768 shares respectively following the vesting of their 2020 SIRP award on 28 February 2022.

Executive Directors' shareholding requirements (audited)

Shares which are included within the shareholding requirement are:

Source of shares	Description
LTIP (PSA and RSA)	Shares awards that have vested but not been exercised on a net of tax basis and share awards that have been exercised and retained
SIRP (Deferred Bonus)	Share awards that have not vested on a net of tax basis and shares released after the two-year deferral period
Ordinary shares	Shares purchased directly in the market
Dividend reinvestment plan	Shares acquired through the dividend reinvestment plan
SIP	Shares acquired under the SIP (including those held in trust)
Sharesave Scheme	Shares exercised and retained

Directors' remuneration report
continued

Executive Directors' interests in share schemes (audited)

All outstanding LTIP PSA awards have performance conditions attached (as detailed in the Directors' remuneration report in the year of grant and in this report for those awards made in 2021). The awards made up to and including 2018 have already vested to the extent detailed in this and previous reports and the figures shown in the table below for those years are the vested share award amounts. The awards made in 2019 and later years were unvested as at 31 December 2021. RSA awards (the first grant of which took place in 2021) are not subject to a formal performance condition. Sharesave awards are not subject to performance conditions.

		Number of shares under award								
	Date of award	At 1 January 2021	Awarded	Exercised	Lapsed	At 31 December 2021	Exercise price	Market price at date of exercise	Date exercisable from	Expiry Date
Mr A Wood										
LTIP (2016)	1.12.16	112,506	0	-112,506	0	0	0	740.75p	1.12.19	1.12.21
LTIP (2017)[1]	7.4.17	142,837	0	0	0	142,837	0	n/a	7.4.20	7.4.22
LTIP (2018)[1]	3.4.18	332,852	0	0	-299,234	33,618	0	n/a	3.4.21	3.4.23
LTIP (2019)[2]	8.4.19	278,443	0	0	0	278,443	0	n/a	8.4.22	8.4.24
LTIP (2020)[3]	28.2.20	251,638	0	0	0	251,638	n/a	n/a	28.2.23	n/a
LTIP (2021 – RSA)[3]	294.21	0	29,292	0	0	29,292	n/a	n/a	29.4.22	n/a
LTIP (2021 – RSA)[3]	294.21	0	29,292	0	0	29,292	n/a	n/a	29.4.23	n/a
LTIP (2021 – RSA)[3]	294.21	0	29,292	0	0	29,292	n/a	n/a	29.4.24	n/a
LTIP (2021 – PSA)[3]	294.21	0	175,753	0	0	175,753	n/a	n/a	29.4.24	n/a
SIRP 2019	8.4.19	38,155	0	-38,155	0	0	n/a	n/a	8.4.21	n/a
SIRP 2020[3]	28.2.20	29,146	0	0	0	29,146	n/a	n/a	28.2.22	n/a
Sharesave 2018[4]	13.9.18	847	0	0	0	847	425.02p	n/a	1.11.21	1.5.22
Sharesave 2019[5]	17.9.19	1,826	0	0	0	1,826	492.80p	n/a	1.11.24	1.5.25
Total		1,188,250	263,629	-150,661	-299,234	1,001,984				

1 Nil cost options – vested (unexercised).
2 Nil cost options – unvested.
3 Conditional award – unvested.
4 Options – vested (unexercised).
5 Options – unvested.

		Number of shares under award								
	Date of award	At 1 January 2021	Awarded	Exercised	Lapsed	At 31 December 2021	Exercise price	Market price at date of exercise	Date exercisable from	Expiry Date
Mrs L S Burdett										
LTIP (2019)[1]	8.4.19	176,389	0	0	0	176,389	n/a	n/a	8.4.22	8.4.24
LTIP (2020)[2]	28.2.20	159,409	0	0	0	159,409	n/a	n/a	28.2.23	n/a
LTIP (2021 – RSA)[2]	294.21	0	18,556	0	0	18,556	n/a	n/a	294.22	n/a
LTIP (2021 – RSA)[2]	294.21	0	18,556	0	0	18,556	n/a	n/a	294.23	n/a
LTIP (2021 – RSA)[2]	294.21	0	18,556	0	0	18,556	n/a	n/a	294.24	n/a
LTIP (2021 – PSA)[2]	294.21	0	111,337	0	0	111,337	n/a	n/a	294.24	n/a
SIRP (2019)	8.4.19	5,913	0	-5,913	0	0	n/a	n/a	8.4.21	n/a
SIRP (2020)[2]	28.2.20	18,463	0	0	0	18,463	n/a	n/a	28.2.22	n/a
Sharesave (2019)[3]	17.9.19	1,826	0	0	0	1,826	492.80p	–	1.11.24	1.5.25
Total		362,000	167,005	-5,913	0	523,092				

1 Nil cost options – unvested.
2 Conditional award – unvested.
3 Options – unvested.

External appointments held by Executive Directors as at 31 December 2021

Executive Director	Company	Role	Fees retained 2021 £'000
Mr A Wood	National Grid plc	Non-Executive Director (from 1 September 2021)	30
		Committee membership	5
			35
Mrs L S Burdett	Electrocomponents plc	Non-Executive Director	61
		Chair of Audit Committee	14
		Total	**75**

Exit payments made in the year (audited)

No exit payments have been made in 2021.

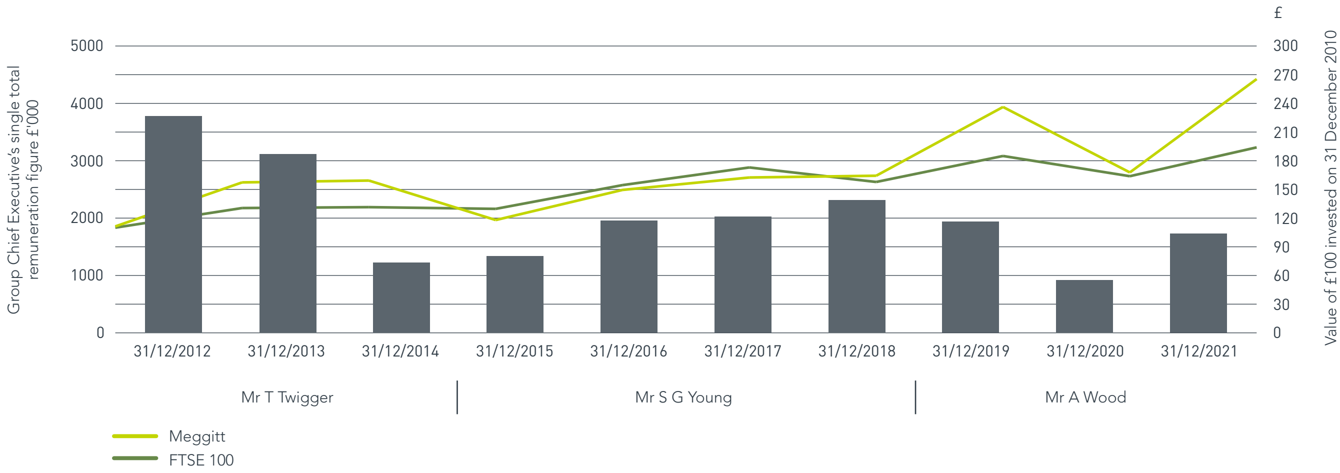
Payments to past Directors (audited)

There were no payments to past Directors in 2021. A de minimis of £10,000 applies to all disclosures under this note.

Review of past performance

The remuneration package is structured to help ensure alignment with shareholders. However, there may be no direct correlation between share price movement and the change in the value of the pay package in any one year (as the remuneration package comprises several components, some fixed and others based on non-financial measures).

The graph below illustrates the Group's performance compared to the FTSE 100 Index, which is considered an appropriate broad equity market index against which the Group's performance should be measured. Performance, as required by legislation, is measured by TSR over the ten-year period from 31 December 2011 to 31 December 2021.



Directors' remuneration report

continued

Pay for performance history

The table below details the CEO's single total figure of remuneration over the same period:

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Mr A Wood[1]										
Single total figure of remuneration (£'000)							2,334	1,949	925	**1,737**
STIP outcome[2]							82%	68%	0%	**70%**
LTIP vesting[2]							52.1%	62.4%	10.1%	**13.2%**
Mr S G Young[1]										
Single total figure of remuneration (£'000)		1,296	1,232	1,347	1,969	2,040				
STIP outcome[2]		39%	23%	31%	60%	68%				
EPP vesting[2]		38%	0%	0%	N/A	N/A				
ESOS vesting[2]		76%	0%	0%	N/A	N/A				
LTIP vesting[2]		–	–	–	17.3%	18.9%				
Mr T Twigger[1]										
Single total figure of remuneration (£'000)	3,812	1,845								
STIP outcome[2]	80%	35%								
EPP vesting[2]	88%	56%								
ESOS vesting[2]	100%	98%								

1 Figures are provided for Mr T Twigger for the period up to 1 May 2013, for Mr S G Young for the period up to 31 December 2017 and for Mr A Wood from his appointment as CEO on 1 January 2018.
2 The outcomes are for those awards which are included in the single figure of remuneration for that year. For 2021, this represents the outcome of the 2019 LTIP and the 2021 STIP. Outcomes are expressed as a percentage of maximum.

Change in Executive Directors' pay for the year in comparison to that of Meggitt employees

The table below shows the year-on-year percentage change in salary, benefits and annual bonus earned between the years ended 31 December 2019 to 31 December 2021 for all Executive Directors compared to the change in earnings for employees of Meggitt PLC, and UK employees over the same periods.

	Salary		Benefits		Annual Bonus	
	2020-2021	2019-2020	**2020-2021**	2019-2020	**2020-2021**[2]	2019-2020
CEO	6.2%[3]	-9.5%	0.0%	0.0%	n/a	-100%
CFO	6.3%[3]	-10%	0.0%	0.0%	n/a	-100%
Meggitt PLC Employees	2.1%	-3.2%	0.0%[1]	0.0%	n/a	-100%
UK Meggitt Employees	0.4%	-0.5%	0.0%	0.0%	n/a	-100%

1 Benefits changes for the PLC and All UK populations are based on value of entitlement, and exclude, for example, the change in Benefit in Kind value created by a change in Company Car.
2 "n/a" for 2020-2021 reflects a nil bonus outcome for 2020 (the base year of the calculation).
3 The % increases to CEO/CFO salaries in 2020/2021, reflect the material voluntary reductions taken in 2020/2021. Excluding those voluntary reductions, the increases in salary earnt by Executive Directors in 2020/2021 would have been in line with the Employee populations stated above.

A similar analysis is provided for the Non-Executive Directors on page 144.

CEO pay ratio

The lower quartile, median and upper quartile employees were determined using Calculation Method A, which involved calculating the actual full-time equivalent remuneration for all UK employees for the year ending 31 December 2021. Where variable pay data was available for the 2021 financial year outturn (to be paid in March 2022 in respect of executive and senior management annual bonus and LTIP), actual amounts were used. Where the outturn of variable pay for 2021 was unknown at the date of calculation (for managerial, professional and direct workforce), the amount to be paid in March 2022 was estimated.

From this analysis, three employees were then identified as representing the 25th, 50th and 75th percentile of the UK employee population. The Committee chose this method as it is the preferred approach of the Government and that of institutional shareholders, and Meggitt has the systems in place to undertake this method.

The three individuals identified were full-time employees during the year and did not receive any exceptional incentive award which would otherwise inflate their pay figures. No adjustments or assumptions were made by the Committee, with the total remuneration of these employees calculated in accordance with the methodology used to calculate the single figure of the Chief Executive. The calculation was made as at 31 December 2021 and the Committee considered the median pay ratio to be reflective of pay and progression policies, together in the context of the ratio reported in prior years as well as the figures produced by sector comparators and across the FTSE more generally.

The CEO pay ratio is based on comparing the Chief Executive's pay to that of the Group's UK-based workforce, a large proportion of whom are production workers. The Committee expects that the ratios will be largely driven by the Chief Executive's incentive pay outcomes, which will likely lead to greater variability in his pay than that observed at lower levels who, consistent with market practices, have a greater proportion of their pay linked to fixed components. This expectation has been realised in the change between 2020 and 2021 ratios.

The Committee takes into account these ratios when making decisions around the Executive Director pay packages, and the Group takes the need to ensure competitive pay packages across the organisation seriously.

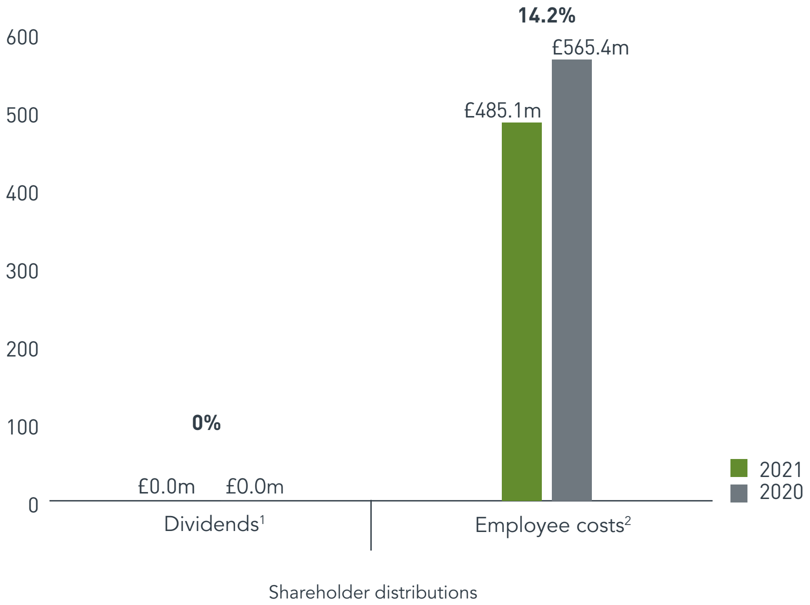
		Lower quartile (25th percentile)		Median		Upper quartile (75th percentile)	
(£)	Method	Total Pay & Benefits	Total Salary	Total Pay & Benefits	Total Salary	Total Pay & Benefits	Total Salary
2021	**A**	**35,376**	**33,637**	**44,570**	**40,016**	**60,952**	**52,206**
2020	A	34,019	31,788	43,831	40,584	59,994	55,550
2019	A	32,879	27,986	42,861	41,317	58,479	52,776

(£)	Method	Pay Ratio 25th Percentile	Pay Ratio Median	Pay Ratio 75th Percentile
2021	**A**	**47:1**	**38:1**	**28:1**
2020[1]	A	26:1	20:1	15:1
2019	A	59:1	45:1	33:1

1 2020 Ratio has been updated due to the true up of the value at vesting of the 2018 LTIP. Prior reported ratio at median was 20:1.

Relative importance of spend on pay

The chart below shows shareholder distributions (i.e. dividends) and total employee expenditure for 2021 and the prior year, along with the percentage change in both.



1 See Note 15 to the Group's consolidated financial statements.
2 Comprises wages and salaries and retirement benefit costs. See Note 8 to the Group's consolidated financial statements.

2021 Committee evaluation

The Committee reviewed its own effectiveness and the effectiveness of their advisors using a detailed questionnaire and follow up discussion. Overall, the results of the review were positive, in what was another challenging year including the continued significant impact of COVID-19 on the aerospace market, and the Parker-Hannifin proposed acquisition, both of which had implications for remuneration, recruitment and retention across Meggitt. The response of the Committee was viewed as proactive and appropriate in these circumstances.

Overall, the meetings were well run, with papers of the right length, and discussions being both well-informed and appropriately robust. The Committee considered it important to consider proactive and pragmatic approaches to remuneration structures, whilst also taking into account international aerospace and defence comparators.

Context for the Committee's decisions in 2021

The Committee included regular updates from executive management on the experience of key stakeholders in Meggitt to ensure that this context was front of mind as the Committee discussed executive pay, with regular updates on impacts on wider stakeholders, including employees, shareholders, customers and suppliers. The Committee also considered reports from Ellason on the views of investors and investor advisory bodies on remuneration.

Directors' remuneration report
continued

2022 Policy implementation

Base salary, pension and benefits

With effect from 1 April 2022, the Executive Directors' salaries will be increased by 3%, in line with the salary increases for the wider employee population effective from that date.

The following table shows the base salaries for the Executive Directors:

	From 1 April 2022 £'000	% change	From 1 October 2021 £'000
Mr A Wood	**700**	**+3%**	**680**
Mrs L S Burdett	**443**	**+3%**	**431**

The Committee periodically benchmarks Executive Director salaries against other FTSE companies of similar size, as well as a defined group of UK-listed industry comparators, comprising: BAE Systems, Halma, IMI, Melrose Industries, Rolls-Royce, Rotork, Senior, Spectris, Spirax-Sarco, Ultra Electronics and Weir Group.

From 1 January 2022, the Committee agreed a reduced pensions allowance for the Chief Executive and Chief Financial Officer of 15% of salary. There are no other changes to benefit provisions for 2022.

2022 Incentive Opportunities

No changes are proposed to the implementation of the 2021 Policy in 2022. The maximum STIP opportunity for Executive Directors will continue to be 150% of salary. Performance Share Awards (PSA) are expected to be granted with face values of 125% of salary for the Executive Directors, alongside Restricted Share Awards (RSA) with face values of 62.5% of salary.

2022 Incentive Plan Measures

Targets for the 2022 STIP and 2022 PSAs have been set following the usual methodology.

For 2022, the Committee has considered the increasing importance of ESG-related factors and has incorporated a new sustainability measure into the PSA scorecard. The 2022 goal is to reduce Meggitt's gross Scope 1 & 2 carbon emissions (normalised for revenue, excluding carbon brake manufacturing) by 3% from 2022 levels. Carbon brake manufacturing emissions are excluded as they arise from the brake manufacturing process itself and specific projects are underway to review and reduce emissions from brake manufacturing. Strategic measures under the STIP for the Executive Directors also include sustainability goals.

STIP

STIP design for 2022 is unchanged from 2021, as follows:

- Underlying operating profit 33.3%
- Free cash flow 33.3%
- Strategic Objectives 33.3%

The STIP targets for 2022 are considered to be commercially sensitive, and will be disclosed, together with details of whether they have been met, in the 2022 Directors' remuneration report (subject to them being no longer considered sensitive).

LTIP – Performance Share Awards

The measures for the 2022 PSAs are earnings per share (weighted one-third), ROCE (weighted one-third) and four strategic measures (weighted one-third in aggregate, and which include our High Performance System, programme excellence, sustainability and inventory):

- HPS: site specific Quality and Delivery targets measure two of the key outputs of HPS.
- Programme excellence: this measure scores the health of all of the Group's programmes, including specific sustainability programmes.
- Sustainability: based on reducing gross Scope 1 & 2 carbon emissions (CO_2e), normalised for revenue, excluding carbon brake manufacturing.
- Inventory: based on inventory turns.

Targets

	Weight	Threshold	Mid-point	Stretch Financial measures
EPS (3-year average)	33.33%	76.0p	89.4p	102.8p
ROCE (3-year average)	33.33%	7.1%	8.6%	10.1%
Strategic measures*				
HPS – quality escapes	5.6%	666	646	626
HPS – on-time delivery	5.6%	74%	84%	94%
Programme excellence	5.6%	2.0	3.0	4.0
Sustainability	5.6%	2%	3%	4%
Inventory	11.1%	2.2	2.7	3.2
Total	**100%**			

* The targets apply to year 1 of the 2022 PSA, and also apply to year 2 of the 2021 PSA and year 3 of the 2020 LTIP.

LTIP – Restricted Share Awards

Although not subject to any formal performance measures, the Committee will assess RSAs vesting based on a basket of measures, adjusting these measures to be appropriate for Meggitt's stage in the recovery period. A wide range of business factors is expected to be considered including, free cash flow, balance sheet health, adherence to dividend policy and overall cash returns to shareholders, customer service, health and safety performance, ESG performance and corporate culture. The balance and weighting of the factors may be adjusted as priorities for the Group develop over time to align with the anticipated recovery, and the Committee will consider performance in the round. The factors considered in the application of discretion used will be fully disclosed in the relevant Annual Report.

Co-Operation Agreement with Parker-Hannifin

The Committee took actions to apply our Directors' Remuneration Policy appropriately and in shareholders' best interests in the context of the proposed acquisition for the Company by Parker-Hannifin which was approved by our shareholders in September 2021.

All incentive plan outcomes for executives in the context of the transaction will be appropriately assessed by the Committee against the relevant performance conditions (and subject to time pro-rating) prior to completion of the transaction which is anticipated in Q3 2022. Complete details of the remuneration arrangements agreed by Meggitt and Parker-Hannifin relating to the offer for the Company are detailed in the Co-Operation Agreement for the transaction which is available to view at www.meggittoffer.com.

Owing to the lengthy regulatory process prior to completion, and as set out in the Co-Operation Agreement, the Committee intends to operate the STIP and LTIP as normal in 2022 up until the deal completes. Further information is included in the STIP/LTIP sections in this report.

Directors' remuneration report
continued

Non-Executive Directors

Chairman and Non-Executive Director fee structure for 2021 and 2022

In Q1 2021, it was agreed to continue to freeze fees at 2020 levels, and to apply a 10% fee reduction from 1 January 2021 to 30 June 2021, aligned with the 10% voluntary unpaid leave reduction for Executive Directors.

On 1 October 2021, the Chairman and Non-Executive Director fees were increased by 2.5% from 2020 levels, consistent with the delayed increase awarded to the wider workforce.

The Committee has approved a 3% increase to the Chairman's fee with effect from 1 April 2022, in line with the salary increases for the wider employee population effective from that date. The Finance Committee approved the same increase to the Non-Executive Director base fee from that date.

The fee structure and levels for the Chairman and Non-Executive Directors in 2022 and 2021 (not including COVID-19 reductions) are as follows:

	2022[1] £'000	2021[1] £'000
Chairman fee[2]	**366**	364
Non-Executive Director base fee[3]	**61**	60
Additional fee for chairing Audit or Remuneration Committee	**11**	11
Additional fee for chairing Corporate Responsibility Committee and Non-Executive Director responsible for Employee Engagement	**11**	11
Additional fee for Senior Independent Director	**11**	11

1 Fees shown are effective for a year from 1 April.
2 Sir Nigel Rudd receives additional benefits of £20,000 per annum for secretarial and car services required for business purposes.
3 A fee of £4,000 is paid per meeting to non-UK Directors when travelling to meetings outside of their home continent.

Single total figure of remuneration Non-Executive Directors (audited)

The table below sets out a single figure for the total remuneration received by each Non-Executive Director in 2021 and 2022:

	2021[1] £'000	2020[1] £'000
Sir Nigel Rudd	**348**	328
Mr G S Berruyer	**61**	65
Mr C R Day	**69**	65
Mrs N L Gioia[1]	**69**	62
Ms A J P Goligher	**76**	65
Mr G Hachey[1]	**57**	58
Mrs C L Silver	**57**	54

1 Includes fees to cover the cost of attendance at meetings that took place outside continent of residence.

Change in Non-Executive Directors' pay for the year in comparison to that of Meggitt employees

The table below shows the year-on-year percentage change in fees earned between the years ended 31 December 2019 to 31 December 2021 for all Non-Executive Directors compared to the change in salary, benefits and annual bonus for Meggitt PLC employees, and all Meggitt UK employees over the same periods.

	Salary		**Benefits**		**Annual Bonus**	
	2020-2021	2019-2020	**2020-2021**	2019-2020	**2020-2021**	2019-2020
Sir Nigel Rudd	**6%**	-9%	**–**	–	**–**	–
Mr G S Berruyer	**-6%**	-4%	**–**	–	**–**	–
Mr C R Day	**6%**	-8%	**–**	–	**–**	–
Mrs N L Gioia	**11%**	-26%	**–**	–	**–**	–
Ms A J P Goligher	**17%**	-4%	**–**	–	**–**	–
Mr G Hachey	**-2%**	-34%	**–**	–	**–**	–
Mrs C L Silver	**6%**	32%	**–**	–	**–**	–
Meggitt PLC employees	**2.1%**	-3.2%	**0%**	n/a	**0%**	-100%
UK Meggitt employees	**0.4%**	-0.5%	**0%**	n/a	**0%**	-100%

Non-Executive Directors' beneficial interests (audited)

The beneficial interests of the Non-Executive Directors and their connected persons in the ordinary shares of the Group at 31 December 2021, as notified under the Disclosure Guidance and Transparency Rules (DTR) of the Financial Conduct Authority (FCA), were as follows:

	Shareholding Ordinary shares of 5p each	
	2021	2020
Sir Nigel Rudd	**250,000**	250,000
Mr G S Berruyer	**38,000**	38,000
Mr C R Day	**76,937**	76,937
Mrs N L Gioia	**3,188**	3,188
Ms A J P Goligher	**6,000**	6,000
Mr G Hachey	**3,000**	3,000
Mrs C L Silver	**5,000**	5,000

Between 1 January 2022 and 28 February 2022, there were no changes in the beneficial interests of the Non-Executive Directors in the ordinary shares of the Company.

Other disclosures

Advisors to the Committee

Ellason LLP was appointed as the independent remuneration advisor to the Committee effective 1 January 2021 as a result of a competitive tender run by the Committee for remuneration advisory services in H2 2020. The Committee undertakes due diligence periodically to ensure that Ellason is independent and that the advice provided is impartial and objective. During 2021, Ellason provided independent advice including support on the review of the Remuneration Policy and consultation, remuneration provisions as part of the proposed acquisition by Parker-Hannifin, updates on the external remuneration environment and Directors' remuneration report drafting support. Ellason reports directly to the Chair of the Remuneration Committee and does not advise the Company on any other issues. Their total fees for the provision of remuneration services to the Committee in 2021 were £46,085 (2020: £81,117 to previous advisors, Mercer) on the basis of time and materials.

Ellason is member and signatory of the Code of Conduct for Remuneration Consultants, details of which can be found at www.remunerationconsultantsgroup.com. None of the individual Directors have any direct personal connections with Ellason.

AGM voting

The following table shows the results of the advisory vote on the 2020 Directors' remuneration report at the 2021 AGM:

Resolution text	Votes for	% of votes cast for	Votes against	% of votes cast against	Total votes cast	Votes withheld[1] (abstentions)
Approval of Directors' remuneration report	603,974,822	95.82	26,349,305	4.18	630,324,127	5,384,782

1 A withheld vote is not a vote in law and is not counted in the calculation of the proportion of votes cast for and against a resolution.

The following table shows the results of the binding vote on the Directors' Remuneration Policy at the 2021 AGM:

Resolution text	Votes for	% of votes cast for	Votes against	% of votes cast against	Total votes cast	Votes withheld[1] (abstentions)
Approval of Directors' remuneration policy	477,572,623	75.66	153,628,927	24.34	631,201,550	4,507,829

1 A withheld vote is not a vote in law and is not counted in the calculation of the proportion of votes cast for and against a resolution.

Following the AGM, the Committee reviewed shareholder feedback in relation to the remuneration resolutions, as described in the Chair's introduction to this report. The Committee acknowledges the differing views of shareholders regarding the use of multiple long-term incentive vehicles, but believes this to be appropriate in facilitating Meggitt's ability to compete effectively in its key talent markets to attract motivate and retain talent. We remain committed to keeping under review our approach during the life of the Policy.

Remuneration Policy

The Policy that was approved by shareholders at the AGM on 29 April 2021 is reproduced in full below. The only change is the update to the pay scenario charts to reflect 2022 remuneration and updating the pension allowance rates payable in 2022. The Policy is effective for a period of up to three years from the date it was approved. In developing the 2021 Remuneration Policy, the Committee took into account the provisions of the Code. The Policy is compliant with the Code, with the exception of Provision 38 on pension allowances. We recap below our assessment of how we believe the current Policy complies with Provision 40 of the Code.

Directors' remuneration report
continued

Clarity: Our approach to remuneration disclosure and decision-making is transparent and supported by clear rationale. We remain committed to consulting shareholders on the Policy (and any changes to it), as well as our approach – and material revisions – to how it is implemented.

Simplicity: The Remuneration Policy and our approach to implementation is logical and well understood internally, as well as externally. The performance measures used in the STIP and LTIP are well aligned to the Group's strategy, as illustrated on page 129.

Risk: The Committee regularly reviews remuneration arrangements to ensure that these continue to drive an appropriate focus on performance (through short- and long-term performance-based incentives), without encouraging and rewarding excessive risk taking (for example, by having an element of longer-term variable remuneration – restricted shares – linked to continued employment only). We set incentive targets to be stretching and achievable, while retaining appropriate discretion to adjust formulaic bonus and LTIP outcomes to ensure that pay reflects underlying performance.

Predictability: Incentive opportunities are capped, with clearly defined payout schedules aiding participants' understanding of how incentives operate and the performance expectations attaching to these. The use of restricted share awards, further enhances the predictability of pay outcomes.

Proportionality: Performance ranges are calibrated to ensure that incentive outcomes do not reward poor performance. The use of sliding scales helps ensure that incremental performance is incentivised and rewarded by incremental reward, while discretion helps safeguard against the possibility that pay outcomes are disproportionate to performance outcomes.

Culture: The Policy is consistent with Meggitt's culture and strategy, and it reflects our approach to remuneration across the Group more widely. This consistency of approach aligns the focus of our employees and drives collective behaviours that promote the long-term success of the Company for the benefit of all stakeholders.

Remuneration Policy

Executive Directors' Policy Table

Base salary

Function	To attract and retain talent by ensuring base salaries are competitive in the relevant talent market.
Operation	Salary will be reviewed by the Committee annually, in February, with changes effective from 1 April of that year. Salaries for the year under review are disclosed in the annual report on remuneration. In deciding salary levels, the Committee considers personal performance including how the individual has helped to support the strategic objectives of the Group. The Committee will also consider employment conditions and salary levels across the Group, prevailing market conditions, and market data for FTSE companies in similar industries and those with similar market capitalisation. Salaries are paid to existing Executive Directors in GBP, however the Committee reserves the right to pay future and existing Executive Directors in any other currency (converted at the prevailing market rate when a change is agreed).
Opportunity	The percentage salary increases for Executive Directors will not exceed those of the wider workforce over the life of this Remuneration Policy in the normal course of business. Higher increases may be awarded (i.e. in excess of the wider employee population) in instances where, for example, there is a material change in the responsibility, size or complexity of the role, or if a new Executive Director was intentionally appointed on a below-market salary. The Committee will provide the rationale for any such higher increases in the relevant year's annual report on remuneration.
Performance metrics	None explicitly, but salaries are independently benchmarked periodically against FTSE companies in similar industries and those with similar market capitalisation. Personal performance is also taken into account when considering salary increases.

Pension

Function	To provide post-retirement benefits for executive directors in a cost-efficient manner.
Operation	The pension plans operated by the Group, of which Executive Directors are or could be members, are: • Meggitt Pension Plan (defined benefit pension plan, closed to new members). • Meggitt Workplace Savings Plan (defined contribution personal pension scheme, open to new members). Salary is the only element of remuneration that is pensionable. There are no unfunded pension promises or similar arrangements for Directors.
Opportunity	New directors are eligible for a pension allowance at the same level as the wider workforce. In 2022, for incumbent Executive Directors, the pension allowance will be 15% of salary.
Performance metrics	None.

Benefits

Function	To provide market-competitive benefits for Executive Directors.
Operation	The Group may provide benefits including, but not limited to, a company car or car allowance, private medical insurance, permanent health insurance, life assurance, a fuel allowance, a mobile phone, relocation costs and any other future benefits made available either to all employees globally or all employees in the region in which the Executive Director is employed.
Opportunity	Benefits vary by role and individual circumstances; eligibility and cost is reviewed periodically. Benefits in respect of the year under review are disclosed in the annual report on remuneration. It is not anticipated that the costs of benefits provided will increase significantly in the financial years over which this Remuneration Policy will apply, although the Committee retains discretion to approve a higher cost in exceptional circumstances (e.g. to facilitate recruitment, relocation, expatriation, etc.) or in circumstances where factors outside the Group's control have changed materially (e.g. market increases in insurance costs).
Performance metrics	None.

Directors' remuneration report
continued

Annual bonus – Short-Term Incentive Plan (STIP)

Function	To incentivise Executive Directors to deliver annual financial and strategic objectives.
Operation	Performance measures, targets and weightings are set at the start of the year. The performance period of the STIP is a financial year. After the end of the financial year, to the extent that the performance criteria have been met, 75% of the STIP Award is paid in cash to the Director (or at the discretion of the Committee, in shares). The remaining 25% of the award will be deferred into shares and released (with no further performance conditions attached and no matching shares provided) after a further period of two years. Under the STIP, the Committee may decide to apply malus and/or clawback to STIP Awards and deferred STIP Awards to reduce the vesting of awards and/or require repayment of awards in the event of: (a) The participant leaves employment and facts emerge which, if known earlier, would have caused the award to lapse or caused the Committee to exercise discretion differently. (b) Any error in the assessment of a performance condition or vesting calculation that resulted in an overpayment. (c) The Group being the subject of a regulatory investigation or in breach of any applicable laws, rules or codes of conduct or the standards reasonably expected of it. (d) A material failure of risk management for any period which caused serious harm to the reputation of the Group and/or significant financial loss to the Group. (e) A serious breach of health and safety which caused serious harm to the reputation of the Group and/or significant financial loss to the Group. (f) The Committee determines that the underlying financial health of the Group has significantly deteriorated such that there are severe financial constraints on payment of awards. (g) The participant, after having left employment, is found to be in breach of any restrictive covenant, non-solicitation, anti-disparagement or confidentiality undertakings. Deferred STIP Awards may lapse in certain leaver circumstances.
Opportunity	The STIP provides for a maximum award opportunity of up to 150% of salary in normal circumstances, with an on-target opportunity of 100% of salary and an opportunity of 50% of salary at threshold performance. The Committee has discretion to make a STIP award of up to 200% of salary in exceptional circumstances (e.g. a substantial contract win which has a significant positive financial impact in the long term but which has no, or negative, short-term financial impact). Dividends accrue on unvested deferred STIP awards over the vesting period and are released on the vesting date.
Performance metrics	STIP awards are based on the achievement of financial and strategic performance targets. For Executive Directors, the STIP will be based on a combination of the financial performance of the Group and strategic performance. The relative weightings of the financial and strategic elements for any STIP period, and the measures used to assess financial and non-financial performance, will be set by the Committee in its absolute discretion to align with the Group's operating and strategic priorities for that year. However, the weighting for strategic performance will not exceed one-third of the maximum STIP opportunity in any year. The award for performance under each element of the STIP will be calculated independently. The Committee has discretion to review the consistency of the payout of the financial and strategic elements and adjust the total up or down (within the levels specified above) if it does not consider this to be a fair reflection of the underlying performance of the Group or the individual. The strategic performance element will typically be based on three to five objectives, both financial and strategic, relevant to the Executive Director's role cascaded from the Group's strategy. Details of the measures, weightings and targets applicable to the STIP for each year, including a description of how they were chosen and whether they were met, will be disclosed retrospectively in the annual report on remuneration for the following year (subject to commercial sensitivity).

Long-Term Incentive Plan (LTIP)

Function	To align the interests of Executive Directors with shareholders in growing the value of the Group over the long term.
Operation	Under the LTIP, Executive Directors are eligible to receive annual awards over the Company's shares normally vesting after three years. Two different types of awards can be granted: 1. Performance Share Awards (PSAs) which are subject to the achievement of stretching performance targets. 2. Restricted Share Awards (RSAs) for which vesting levels are subject to a general assessment by the Committee as to overall performance and any other wider considerations. The Committee has discretion to apply additional conditions to some or all of an RSA. Under the LTIP rules, the Committee may decide to apply malus and/or clawback to awards to reduce the vesting of awards and/or require repayment of awards in the event of: (a) The participant leaves employment and facts emerge which, if known earlier, would have caused the award to lapse or caused the Committee to exercise discretion differently. (b) Any error in the assessment of a performance condition or vesting calculation that resulted in an overpayment. (c) The Group being the subject of a regulatory investigation or in breach of any applicable laws, rules or codes of conduct or the standards reasonably expected of it. (d) A material failure of risk management for any period which caused serious harm to the reputation of the Group and/or significant financial loss to the Group. (e) A serious breach of health and safety which caused serious harm to the reputation of the Group and/or significant financial loss to the Group. (f) The Committee determines that the underlying financial health of the Group has significantly deteriorated such that there are severe financial constraints on payment of awards. (g) The participant, after having left employment, is found to be in breach of any restrictive covenant, non-solicitation, anti-disparagement or confidentiality undertakings. PSAs and RSAs made to Executive Directors are subject to a holding period after the vesting period, normally a two-year period after a three-year vesting period but, in any case, the vesting plus holding period will always be no shorter than five years from grant.
Opportunity	Executive Directors will normally be eligible for annual LTIP awards of 250% of salary. RSAs will be granted at a discount of 50% of the regular PSA, i.e. a regular award of 250% value would be made up of 125% of salary PSA and 62.5% of salary RSA. Awards (PSA and RSA combined) up to a maximum of 300% of salary may be granted in exceptional circumstances (e.g. to support the recruitment of a key executive or to recognise exceptional individual performance). 25% of a PSA will vest if performance against each performance condition is at threshold and 100% if each is at maximum, with straight-line vesting in between. Dividends accrue on unvested awards granted under the LTIP (i.e. PSA and RSA) over the vesting period and are released, to the extent the award vests, on the vesting/exercise date.

Directors' remuneration report
continued

Long-Term Incentive Plan (LTIP) continued

Performance metrics	Vesting of PSAs is subject to continued employment and performance against corporate measures, which are intended to be as follows for awards made over the life of the Remuneration Policy but are subject to change at the discretion of the Committee: • Earnings per Share (EPS). • Return on Capital Employed (ROCE). • Strategic goals (typically but not always to be based on strategic priorities around execution, growth and innovation), which will be explained in the relevant annual report on remuneration. It is the intention that the weighting of the measures will be equal (e.g. one-third each if three measures are used) but that the Committee will consider, and adjust if deemed appropriate, the weighting at the start of each LTIP cycle. PSAs made under the LTIP have a performance period of three financial years, starting from 1 January of the year in which the award is made and ending on 31 December of the third year. If conditions are not met at the end of the relevant performance period, awards will lapse. Vesting of the strategic objectives element will also be subject to a discretionary assessment by the Committee of the extent to which achievement is consistent with the Group's underlying financial performance over the three-year period. The measures and targets in operation for the PSAs, and which are not deemed commercially sensitive, are normally disclosed in the annual report on remuneration for the relevant year of grant. Any commercially sensitive information on measures, targets and performance will be disclosed retrospectively. Vesting of RSAs is subject to a general underpin allowing the Committee to adjust vesting if business performance, individual performance or wider considerations mean, in its view, that an adjustment is required. Any vesting is also subject to any other conditions set by the Committee at grant.

Sharesave Scheme and Share Incentive Plan (SIP)

Function	To align the interests of employees and shareholders by encouraging all employees to own the Company's shares.
Operation	Sharesave Scheme – All-employee scheme under which all UK employees (including UK Executive Directors) may save up to a maximum monthly savings limit over a period of three or five years. Options under the Sharesave Scheme are granted up to a discount of up to 20% to the market value of shares at the date of grant. SIP – All-employee scheme under which: (i) all UK employees (including UK Executive Directors) may contribute up to a monthly maximum to purchase shares monthly from pre-tax pay; and (ii) all UK employees (including UK Executive Directors) may receive free shares up to an annual maximum value.
Opportunity	Savings, contributions and free shares are capped at or below the legislative maximum for tax-qualifying approved share plans at the time UK employees are invited to participate.
Performance metrics	None.

Notes to the Policy table

The Committee is satisfied that the above Remuneration Policy is in the best interests of shareholders and does not promote excessive risk-taking. The Committee retains discretion to make minor, non-significant changes to the Policy without reverting to shareholders.

Consideration of shareholder views

The Committee Chair is available to discuss remuneration matters with the Group's major shareholders and is also regularly updated on feedback on remuneration received by the Chairman of the Board and Executive Directors directly from shareholders. The Committee Chair ensures the Committee is kept informed of shareholder views.

External appointments

In cases of hiring or appointing a new Executive Director from outside the Group, the Committee may make use of all existing components of remuneration, as follows:

Component	Approach	Maximum annual grant value
Base salary	The base salaries of new appointees will be determined based on the experience and skills of the individual, internal comparisons, employment conditions and salary levels across the Group and prevailing market conditions. Initial salaries may be set below market conditions and consideration given to phasing any increases over two or three years subject to development in the role.	N/A
Pension	In line with the Remuneration Policy, new appointees will be entitled to become members of the Meggitt Workplace Savings Plan (defined contribution plan) or receive a cash pension allowance at the same level as the wider workforce in lieu of salary.	N/A
Benefits/ Sharesave/SIP	New appointees will be eligible to receive benefits in line with the Remuneration Policy and any applicable UK all-employee share plans.	N/A
STIP	The structure described in the Remuneration Policy table will apply to new appointees with the relevant maximum being pro-rated to reflect the proportion of the year worked. Targets for the strategic element will be tailored to the appointee.	150% of salary (200% in exceptional circumstances)
LTIP	New appointees will be granted awards under the LTIP on similar terms as other Executive Directors, as described in the Remuneration Policy table.	250% of salary (300%, combined, in exceptional circumstances)

In determining the appropriate remuneration structure and levels, the Committee will take into consideration all relevant factors to ensure that arrangements are in the best interests of shareholders and employees. The Committee may make an award in respect of a new appointment to "buy out" incentive arrangements forfeited on leaving a previous employer, i.e. over and above the approach outlined in the table above. Any such compensatory awards will be made under the Group's existing share plans, where appropriate, and will be subject to the normal rules and performance conditions of those schemes.

The Committee may also consider it appropriate to structure "buy-out" awards differently to the structure described in the Remuneration Policy table, exercising the discretion available under UKLA Listing Rule 9.4.2 R where necessary to make a one-off award to an Executive Director in the context of recruitment. In doing so, the Committee will consider relevant factors including any performance conditions attached to these awards, the likelihood of those conditions being met and the proportion of the vesting period remaining. The value of any such "buy-out" will be fully disclosed.

Internal promotion

Where a new Executive Director is appointed by way of internal promotion, the Remuneration Policy will be consistent with that for external appointees as detailed above. Any commitments made prior to an individual's promotion will continue to be honoured even if they would not otherwise be consistent with the Remuneration Policy prevailing when the commitment is fulfilled although the Group may, where appropriate, seek to revise an individual's existing service contract on promotion to ensure it aligns with other Executive Directors and prevailing market best practice.

Disclosure of the remuneration structure of any new Executive Director, including details of any exceptional payments, will be disclosed either in the RNS notification made at the time of appointment or in the annual report on remuneration for the year in which the recruitment occurred.

Approach to performance measure selection and target setting

Performance measures have been selected to closely align with and reinforce our strategic priorities (see pages 24 to 25).

Targets applying to the STIP and PSAs are reviewed annually, based on a number of internal and external reference points, including the Group's strategic plan, analyst forecasts for the Group and its sector comparators, historical growth achieved by the Group and its sector comparators, market practice and external expectations for growth in our markets.

STIP

The performance measures used in the STIP reflect financial targets for the year and non-financial performance objectives The Remuneration Policy provides the Committee with flexibility to select appropriate measures on an annual basis. STIP performance targets are set to be stretching but achievable, with regard to the particular strategic performance objectives and the economic environment in a given year. For financial measures, "target" is based around the annual budget approved by the Board. Prior to the start of the financial year, the Committee sets an appropriate performance range around target, which it considers provides an appropriate degree of "stretch" challenge and an incentive to outperform.

Directors' remuneration report

continued

STIP strategic measures are set each year under the themes of our four strategic blue chips: Strategy, Customer, Competitiveness and Culture. Each year every Executive Director is assigned measures against these themes which will drive the long-term success of the Group. These measures are then cascaded through the Executive Committee and beyond using a policy deployment matrix to ensure alignment across the entire organisation to the Group's strategic priorities. Strategic measures are disclosed retrospectively when they are considered not to be commercially sensitive.

LTIP – PSA

It is intended that the vesting of PSAs made during the life of this Remuneration Policy will be linked to EPS, ROCE and the achievement of long-term strategic goals, but may also include other measures to enable the PSA to reinforce appropriate financial and non-financial objectives aligned with our strategy. EPS is considered by the Board to be the most important measure of our financial performance. It is highly visible internally, is regularly monitored and reported and is strongly motivational for participants. EPS targets will continue to be set on a nominal cumulative (pence) basis to incentivise consistent performance and reflect the fact that our profits are generated to a large degree outside the UK and not significantly influenced by UK retail price inflation. ROCE helps to balance the achievement of growth and returns. The Committee believes ROCE is a good proxy for total shareholder return (TSR) which focuses executives on managing the balance sheet and the Group's operational performance. For Executive Directors, the use of ROCE targets reflects the fact that acquisition decisions come within the collective responsibility of the Board.

The Committee believes that the strategic goals component helps reinforce the realisation of the Group's strategy and the achievement of key non-financial and strategic goals over long product cycles which drive long-term value for the Group. This element will typically comprise a scorecard of three-year targets across a maximum of three core strategic areas for the Group. The Committee believes that this approach enables it to reflect the Group's long-term nature and shifting strategic priorities in the PSA to ensure executives' interests remain closely aligned with those of our shareholders over time. Specific measures and targets for each area will be developed and clearly defined at the start of each three-year cycle to balance leading and lagging indicators of performance. Vesting of this element is subject to a discretionary assessment by the Committee of the extent to which achievement of the strategic objectives is consistent with the Group's underlying financial performance over the performance period.

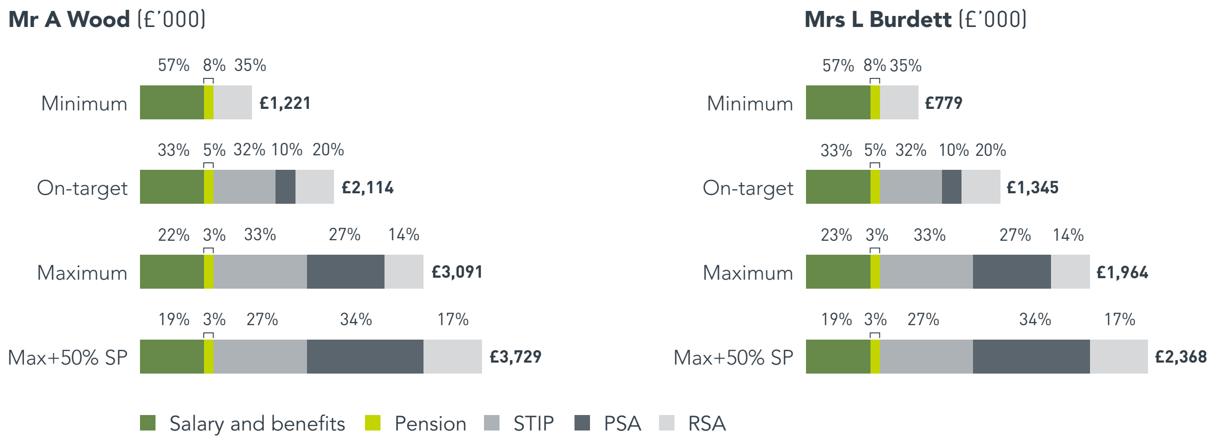
LTIP – RSA

The vesting of the RSAs is subject to a discretionary assessment of "corporate health" by the Committee, taking into account a wide range of business factors including, but not limited to, free cash flow, balance sheet health, adherence to dividend policy and overall cash returns to shareholders, customer service, health and safety performance, ESG performance and corporate culture. The balance and weighting of the factors may be adjusted as priorities for the Group develop over time, and the Committee will consider performance in the round.

Pay-for-performance: scenario analysis

The charts below provide an estimate of the potential future reward opportunities for the Executive Directors and the potential split between the different elements of remuneration under three different performance scenarios: "Minimum", "On-target" and "Maximum". This chart also shows the effect of future share price increases on executive pay outcomes under The Companies (Miscellaneous Reporting) Regulations 2018. Potential reward opportunities are based on the Policy, applied to 2022 base salaries. Note that the awards granted under the LTIP in a year will not normally vest until the third anniversary of the date of grant and the projected value excludes the impact of dividend accrual.

2022 pay scenario summaries



The following assumptions have been made in compiling the charts:

Scenario	Minimum	On-target	Maximum	Maximum +50% share price increase
Fixed pay	Latest known base salary, pension and value of benefits	Latest known base salary, pension and value of benefits	Latest known base salary, pension and value of benefits	Latest known base salary, pension and value of benefits
STIP	No STIP payable	On-target STIP payable (67% of maximum)	Maximum STIP payable	Maximum STIP payable
LTIP	PSA – Threshold not achieved (0% vesting)	PSA – Performance warrants threshold vesting (25%)	PSA – Performance warrants full vesting (100%)	PSA and RSA warrants full vesting plus 50% share price appreciation on all awards
	RSA – it is assumed that the Committee did not exercise its discretion to adjust vesting levels	RSA – it is assumed that the Committee did not exercise its discretion to adjust vesting levels	RSA – it is assumed that the Committee did not exercise its discretion to adjust vesting levels	

Exercise of discretion

The Committee will operate the Group's incentive plans according to their respective rules and the Remuneration Policy set out above, and in accordance with the Listing Rules and HMRC rules, where relevant. The Group's incentive plans enable the use of discretionary override and the Directors to exercise independent judgement and discretion when authorising remuneration outcomes, taking account of Group and individual performance, and wider circumstances. In line with common market practice, the Committee retains discretion as to the operation and administration of these incentive plans, including routine administration matters such as the participating employees, timing of awards and the manner in which they are settled. The Committee also retains discretion over the choice of performance measures and targets in accordance with the Remuneration Policy set out above and the rules of each plan and the measurement of performance in the event of a variation of share capital, change of control, special dividend, distribution or any other corporate event which may affect the current or future value of an award.

The Committee also has discretion over determination of a "good leaver" (in addition to any specified categories) for incentive plan purposes, based on the rules of each plan and the circumstances of the individual leaving and adjustments required in certain circumstances (e.g. rights issues, share buybacks, special dividends, other corporate events, etc.).

Any use of the above discretion in relation to the Executive Directors would, where relevant, be explained in the annual report on remuneration for the year in which the discretion was exercised. As appropriate, it might also be the subject of consultation with the Group's major shareholders.

Minor changes

The Committee may make minor amendments to the rules of the Group's incentive plans (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without requiring prior shareholder approval for that amendment.

Service contracts and exit payment policy

Executive Director service contracts, including arrangements for early termination, are carefully considered by the Committee and are designed to recruit, retain and motivate Directors of the quality required to manage the Group.

The Committee's policy is that Executive Directors' service contracts should be terminable on no more than 12 months' notice.

The Committee's approach to payments in the event of termination of employment of an Executive Director is to take account of the particular circumstances, including the reasons for termination, individual performance, contractual obligations and the rules of the Group's applicable incentive plans which apply to awards held by the Executive Directors:

- **Compensation for loss of office in service contracts**

Except as set out in the table below, under the terms of their service contracts, the Executive Directors may be required to work during their notice period or may, if the Group decides, be paid in lieu of notice if not required to work the full notice period. Payment in lieu of notice will be equal to base salary plus the cost to the Group of providing the contractual benefits (pensions allowance, health insurance and company car or car allowance) that would otherwise have been paid or provided during the notice period.

Payments will be in equal monthly instalments and will be subject to mitigation such that payments will either reduce, or stop completely, if the Executive Director obtains alternative employment. An Executive Director's employment can be terminated by the Group without notice or payment in lieu of notice in specific circumstances including summary dismissal, bankruptcy or resignation.

Directors' remuneration report
continued

- **Treatment of STIP**

Executive directors have no automatic entitlement to any bonus on termination of employment under the STIP, but the Committee may use its discretion to award a bonus (normally pro-rated). Where any bonus is deferred into shares, the award will normally lapse if an Executive Director's employment terminates unless the Executive Director leaves for specified reasons. The "good leaver" reasons are death, redundancy, retirement, injury, disability, the business or company which employs the Executive Director ceasing to be part of the Group or any other circumstances in which the Committee exercises discretion to treat the Executive Director as a "good leaver". If the Executive Director is a "good leaver", their award will vest on the normal vesting date and will not be subject to pro-rating.

Awards normally vest early on a change of control of the Company.

- **Treatment of long-term incentive plan awards**

The treatment of awards under the LTIP (both PSA and RSA) is governed by the rules of the plan which have been approved by shareholders and are described below. Awards will normally lapse if an Executive Director's employment terminates, unless the Executive Director leaves for specified "good leaver" reasons. The "good leaver" reasons are the same as described above. If the Executive Director is a "good leaver", awards will vest to the extent that the attached performance conditions are met, but on a time pro-rated basis, with Committee discretion to allow early vesting. Under the LTIP, awards vest on the normal vesting date subject to performance over the normal performance period, unless the Committee decides otherwise. Awards normally vest early on a change of control of the Company, subject to performance conditions and time pro-rating.

A summary of the key terms of the Executive Directors' service contracts on termination of employment or change of control is set out below.

Name	Position	Notice period from employer	Notice period from employee	Compensation payable on termination of employment or change of control
Mr A Wood Service contract dated 13 November 2017	Chief Executive Officer	12 months	6 months	As set out in the Remuneration Policy. No change of control provisions
Mrs L S Burdett Service contract dated 17 September 2018	Chief Financial Officer	12 months	6 months	As set out in the Remuneration Policy. No change of control provisions

Remuneration policy for other employees and engagement

The Committee has ensured "workforce remuneration and related policies and the alignment of incentives and rewards with culture" has been considered when making decisions regarding Executive Director remuneration in 2021.

In setting the Remuneration Policy, the Committee reviewed:

- Our Global Compensation Policy – it noted alignment between pay for performance provisions for Executive Directors and the wider workforce, along with an alignment of historic average pay increases.
- Our incentive plans (STIP and LTIP) – it noted alignment between the plans for the top 200 senior managers and the Executive Directors and that work is underway to align other short-term incentive plans lower down the organisation.
- Alignment of reward with culture, values and long-term success – it noted the successful implementation of our High Performance Culture programme (which is linked to our culture strategic priority) which is embedded in performance and talent processes across the Group. The success of our High Performance Culture programme is enhanced by the increase in employee engagement.

A report will be provided each year to the Committee, ensuring it is updated on remuneration of the wider workforce and ensuring context as it makes remuneration decisions related to the Executive Directors.

The Remuneration Committee primarily consults management to understand employee views on executive remuneration. The Board also regularly invites Meggitt's Non-Executive Director responsible for employee engagement, Nancy Gioia – who is a member of the Committee – to report on feedback received through the Board's very extensive engagement programme with the workforce (as outlined elsewhere in this Annual Report). Therefore there is an effective two-way mechanism in place for employees' views and feedback. As a Board generally, we keep our approach to employee engagement (as set out on pages 90 and 92) under review and look forward to evolving our approach further over time.

The Remuneration Policy for other employees is based on broadly consistent principles as that for Executive Directors. Annual salary reviews take into account personal performance, Group performance, local pay and market conditions, and salary levels for similar roles in comparable companies. Some employees below executive level are eligible to participate in annual bonus schemes; opportunities and performance measures vary by organisational level, geographical region and an individual's role. Senior executives are eligible for LTIP (PSA and RSA) on similar terms to the Executive Directors (except some of the performance conditions may vary), although award opportunities are lower and vary by organisational level. All UK employees are eligible to participate in the Sharesave Scheme and SIP on identical terms.

Pay ratios and pay gaps

Conscious of the increasing focus on the context of the wider stakeholder experience, the Committee also kept front of mind other remuneration metrics such as the CEO Pay Ratio and Gender Pay Gap. The Gender Pay Gap reduced from 9.3% to 5.7% in 2021. Our progress was driven by several senior executive changes and our increased focus on diversity and inclusion. The CEO Pay Ratio increased from 20x to 38x, due to a increased incentive outcome for the CEO relative to the more fixed remuneration packages for the UK workforce, a large proportion of whom are production workers.

Non-Executive Directors – Remuneration Policy table

Non-Executive Directors stand for re-election annually, do not have a contract of service and are not eligible to join the Group's pension or share schemes.

Fees

Function	To attract and retain Non-Executive Directors of the highest calibre with broad commercial and other experience relevant to the Group.
Operation	Fee levels are reviewed annually, with any adjustments effective 1 April each year. The fees paid to the Chairman of the Board are determined by the Committee, while the fees for all other Non-Executive Directors are reviewed by a committee of the Board formed of the Executive Directors. Fees for the year under review and for the current year are disclosed in the annual report on remuneration. Additional fees are paid to the Chair of the Remuneration Committee; Chair of the Audit Committee; Chair of the Corporate Responsibility Committee and Non-Executive Director responsible for employee engagement; and to the Senior Independent Director, to reflect the additional time commitment of these roles. Additional fees may also be paid to Non-Executive Directors to cover the cost of attendance at meetings which take place outside their continent of residence. In addition, Non-Executive Directors are reimbursed for reasonable business-related expenses. The Group may pay any tax due on these expenses on behalf of Non-Executive Directors. In deciding fee increases, the Committee considers external market benchmarks as well as salary increases across the Group and prevailing market conditions. Currently, all fees are paid in GBP, however the Committee reserves the right to pay future and existing Non-Executive Directors in any other currency (converted at the prevailing market rate when a change is agreed).
Opportunity	Fee increases will be applied taking into account the outcome of the annual review. The maximum aggregate annual fee for all Non-Executive Directors (including the Chairman) as provided in the Company's Articles of Association is £1,000,000.
Performance metrics	None.

Non-Executive Director expenses

Non-Executive Directors are already reimbursed for reasonable business-related expenses. The Group may decide to pay any tax that is due on such expenses on behalf of the Non-Executive Director.

Non-Executive Director recruitment

In recruiting a new Non-Executive Director, the Committee will use the Remuneration Policy as set out in the table above.

By order of the Board

Alison Goligher
Chair of the Remuneration Committee

2 March 2022

Other statutory information

The Directors present their report with the Group's audited consolidated financial statements (prepared in accordance with UK-adopted international accounting standards and the Companies Act 2006) and the Company's audited financial statements (prepared in accordance with Financial Reporting Standard 101, "Reduced Disclosure Framework" (FRS 101) and the Companies Act 2006) for the year ended 31 December 2021.

Incorporation by reference

Certain laws and regulations require that specific information should be included in the Directors' report. The table below shows the items which are incorporated into our Directors' report by reference:

Information incorporated into the Directors' report by reference	Location and page
Important events and likely future developments in the Group's business	Strategic report (pages 08 to 94)
Post balance sheet events	N/A
Employee information	Corporate responsibility report (pages 74 to 77)
Employee engagement	Stakeholder engagement pages (90 and 92)
Employment of disabled persons	Corporate responsibility report (page 76)
Engagement with stakeholders	Stakeholder engagement (pages 90 to 92)
Greenhouse gas emissions	Corporate responsibility report (page 82)
Research and development	Note 7 to the Group's consolidated financial statements (page 196) and Chief Financial Officer's review (page 44)
Policies on financial risk management, including the extent to which financial instruments are utilised to mitigate any significant risks to which the Group is exposed	Note 3 to the Group's consolidated financial statements (pages 188 and 189)
Statement of the amount of interest capitalised by the Group during the year with an indication of the amount and treatment of any related tax relief	Note 18 to the Group's consolidated financial statements (page 204)
Overseas branches	Note 45 to the Group's consolidated financial statements (pages 230 and 231)

Dividends

The Board recognises the importance of the dividend to the Company's shareholders, but due to the financial impact of the COVID-19 pandemic on the Group, the Board took the prudent decision not to recommend a final dividend per ordinary 5 pence share for 2020 in order to retain cash within the Group, manage net debt levels and preserve flexibility. The Board also took the decision not to pay an interim dividend in 2021 due to ongoing market conditions. Therefore no dividend was paid in 2021 (2020: nil). In line with the terms of the previously announced proposed acquisition with Parker-Hannifin, the Group is not paying a final dividend for 2021.

Dividend Reinvestment Plan

We operate a Dividend Reinvestment Plan (DRIP) which enables shareholders to buy the Company's shares on the London Stock Exchange with their cash dividend. Further information about the DRIP is available from Computershare, our Registrar. During 2021, no dividends were paid.

Directors

The Directors of the Company in office during the year and up to the date of signing the financial statements were:

Sir Nigel Rudd (Chairman), Mr A Wood, Mr G S Berruyer, Mrs L S Burdett, Mr C R Day, Mrs N L Gioia, Ms A J P Goligher, Mr G C Hachey and Mrs C L Silver.

All Directors listed above will be submitted for re-election at the Annual General Meeting (AGM).

Details of any unexpired terms of the Directors' service contracts are in the Directors' remuneration report. Membership of Committees and biographical information is disclosed on pages 100 to 103 and in the AGM notice. Succession activities are highlighted in the Nominations Committee report on pages 122 to 124.

The Directors benefit from qualifying third-party indemnity provisions for the purposes of Section 236 of the Companies Act 2006 pursuant to the Articles in effect throughout the financial year and up to the date of this Directors' report. The Company also purchased and maintained throughout the year Directors' and Officers' liability insurance. No indemnity is provided for the Company's auditors.

Conflicts of interest

We have a procedure for the disclosure, review, authorisation and management of Directors' conflicts of interest and potential conflicts of interest, in accordance with the provisions of the Companies Act 2006. In deciding whether to authorise a conflict or potential conflict, the Directors must have regard to their general duties under the Companies Act 2006.

The authorisation of any conflict matter and the terms of authorisation are regularly reviewed by the Board. Further details can be found on page 110.

Political donations

Neither the Group nor the Company made any political donations or incurred any political expenditure during the year (2020: None).

Share capital and control

As at 31 December 2021, the Company held 9,859 treasury shares with a nominal value of 5 pence each and the Company's issued share capital (excluding shares held in treasury) consisted of 782,005,314 shares with a nominal value of 5 pence each. As at 1 March 2022, the Company held 9,859 treasury shares with a nominal value of 5 pence each and the Company's issued share capital (excluding shares held in treasury) consisted of 782,021,555 shares with a nominal value of 5 pence each. The issued share capital of the Company at 31 December 2021 and details of shares issued during the financial year are shown in Note 37 to the Group's consolidated financial statements.

The ordinary shares are listed on the London Stock Exchange. The rights and obligations attaching to the Company's ordinary shares are set out in the Articles. A copy of the Articles is available for inspection at our registered office. The holders of ordinary shares are entitled to receive a copy of our Annual Report and Accounts, to attend and speak at our General Meetings, to appoint proxies to exercise full voting rights and to participate in any distribution of income or capital.

There are no restrictions on transfer, or limitations on holding ordinary shares, and no requirements for prior approval of any transfers. There are no known arrangements under which financial rights are held by persons other than holders of the shares and no known agreements or restrictions on share transfers or on voting rights. Shares acquired through Company share plans rank pari passu (on an equal footing) with the shares in issue and have no special rights.

We operate an Employee Share Ownership Plan Trust (the "Trust") that was formed to acquire shares to satisfy the vesting and exercise of awards under the Group's share-based incentive arrangements. The trustees do not exercise any voting rights on shares held by the Trust and a dividend waiver operates in respect of these shares. Once shares are transferred from the Trust to participants the participants are entitled to receive dividends and exercise voting rights attached to the shares.

Rules about the appointment and replacement of Directors are contained in the Articles which provide that a Director may be appointed by ordinary resolution of the shareholders or by the existing Directors, either to fill a vacancy or as an additional Director. Changes to the Articles must be submitted to the shareholders for approval by way of special resolution. The Directors may exercise all the powers of the Company subject to the provisions of relevant legislation, the Articles and any directions given by the Company in a General Meeting.

At the 2021 AGM, the Company was granted authority by shareholders to purchase up to 78,127,336 ordinary shares, being 10% of the Company's issued share capital, in accordance with the Articles. No shares were bought back under this authority during the year ended 31 December 2021. Shares purchased under this authority would have been cancelled or held as treasury shares to be sold at a later date or used to satisfy awards under the Company's share plans as the Board saw fit.

The Directors were also granted authority by shareholders to allot securities in the Company up to a maximum nominal amount of £26,042,444, of this amount £13,021,222 can only be allotted pursuant to a rights issue. The Directors were also authorised to allot securities, without the application of pre-emption rights, up to a nominal amount of £1,953,183 and a further £1,953,183 in connection with an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights. No such transaction is contemplated at present.

These authorities apply until the conclusion of the 2022 AGM or, if earlier, 30 June 2022. The Company will seek shareholder approval to renew these authorities at the 2022 AGM. Detailed explanatory notes are set out in the AGM notice.

The Group has significant financing agreements which include change of control provisions which, should there be a change of ownership of the Company, could result in renegotiation, withdrawal or early repayment of these financing agreements. These are a USD125m note purchase agreement dated June 2010, a USD600m note purchase agreement dated May 2016, two term loan facility agreements in the amounts of GBP30m and USD50m dated December 2019, a GBP50m term loan agreement dated June 2020, a USD300m note purchase agreement dated November 2020 and a USD410m syndicated revolving credit agreement dated November 2021.

There are a number of other long-term commercial agreements that may alter or terminate upon a change of control of the Company following a successful takeover bid. These arrangements are commercially sensitive and their disclosure could be seriously prejudicial to the Company.

Other statutory information
continued

Agreements with the Company's Directors or employees providing compensation in the event of a takeover bid:

Director	Contractual entitlement
Mr A Wood	None except that provisions in the Company's share plans may cause options and/or awards granted to employees under such plans to vest on a takeover.
Mrs L S Burdett	None except that provisions in the Company's share plans may cause options and/or awards granted to employees under such plans to vest on a takeover.
Non-Executive Directors	None.
All other employees	There are no agreements that would provide compensation for loss of employment resulting from a takeover except that provisions in the Company's share plans may cause options and/or awards granted to employees under such plans to vest on a takeover.

Substantial shareholdings

At 31 December 2021, the Company had been notified under the Disclosure Guidance and Transparency Rules (DTR) of the following substantial interests in the issued ordinary shares of the Company requiring disclosure:

	Direct voting rights*	Indirect voting rights*	Other financial instruments with voting rights*	Total voting rights*	Percentage of total voting rights**
BlackRock Inc.	–	33,087,041	60,961,162	94,048,203	12.02
JPMorgan Securities plc	–	2,157,686	68,237,708	70,395,394	9.00
Societe Generale	50,995,659	–	95,500	51,091,159	6.53
Morgan Stanley	–	47,052,874	183,169	47,236,043	6.04
FMR LLC (FIL Limited)	–	38,024,107	1,430,060	39,454,167	5.05
The Capital Group Companies, Inc	–	38,606,468	–	38,606,468	4.94
Harris Associates L.P.	–	38,323,051	–	38,323,051	4.94
T. Rowe Price Associates, Inc	–	37,789,977	–	37,789,977	4.84
Standard Life Investments Ltd	22,153,694	3,769,560	–	25,923,254	3.96
Legal & General Group plc	23,704,643	–	–	23,704,643	3.01

* One voting right per ordinary share.

** Percentage of the Company's issued share capital when the Company was notified of the change in holding.

In the period from 31 December 2021 to 1 March 2022 we received numerous notifications in accordance with DTR5 from Societe Generale, Morgan Stanley, Barclays Bank plc, JP Morgan Securities plc and UBS AG London Branch. Details of all notifications were published on a regulatory information service and are available on our website. The substantial interests notified to us as at 1 March 2022 are set out below:

	Direct voting rights*	Indirect voting rights*	Other financial instruments with voting rights*	Total voting rights*	Percentage of total voting rights**
BlackRock Inc.	–	33,087,041	60,961,162	94,048,203	12.02
JPMorgan Securities plc	–	2,764,678	68,955,589	71,720,267	9.17
Societe Generale	56,518,850	–	95,500	56,614,350	7.24
Barclays Bank plc	5,217,610	–	54,006,090	59,223,700	7.57
Morgan Stanley	–	43,625,560	18,950,751	62,576,311	8.00
FMR LLC (FIL Limited)	–	38,024,107	1,430,060	39,454,167	5.05
The Capital Group Companies, Inc	–	38,606,468	–	38,606,468	4.94
Harris Associates L.P.	–	38,323,051	–	38,323,051	4.94
T. Rowe Price Associates, Inc	–	37,789,977	–	37,789,977	4.84
Standard Life Investments Ltd	22,153,694	3,769,560	–	25,923,254	3.96
Legal & General Group plc	23,704,643	–	–	23,704,643	3.01

* One voting right per ordinary share.

** Percentage of the Company's issued share capital when the Company was notified of the change in holding.

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and Accounts and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with UK-adopted international accounting standards and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- State whether applicable UK- adopted international accounting standards have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements.
- Make judgements and accounting estimates that are reasonable and prudent.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

Each of the Directors, whose names and functions are listed on pages 100 to 103, 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.
- The Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities and financial position of the Company.
- The Strategic Report and this Directors' report include a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face.

In the case of each Director in office at the date the Directors' report is approved:

- So far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware.
- They have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

Fair, balanced and understandable

The Board of Directors as at the date of this report consider that 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 and Company's position, performance, business model and strategy. The Board has made this assessment on the basis of a review of the accounts process, a discussion on the content of the Annual Report assessing its fairness, balance and understandability, together with the confirmation from executive management that the Annual Report is fair, balanced and understandable.

Going concern

The Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for a period of at least 12 months from the date of this report. For this reason, the Directors continue to adopt the going concern basis in preparing the Group and Company financial statements. Details on how the Directors reached this judgement are set out in Note 1 to the Group's consolidated financial statements on pages 176 to 177.

This Directors' report, comprising pages 96 to 159, has been approved by the Board and is signed on its behalf by

M L Thomas
Company Secretary

2 March 2022

Independent auditors' report to the members of Meggitt PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- Meggitt PLC's Group financial statements and Company financial statements (the financial statements) give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2021 and of the Group's profit and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts 2021 (the Annual Report), which comprise: the Consolidated and Company balance sheets as at 31 December 2021; the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated cash flow statement, and the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 6 to the Group financial statements, we have provided no non-audit services to the Company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- We identified 12 reporting units which, in our view, required a full scope audit based on their size or risk. In addition, we determined that specified audit procedures were required at a further two reporting units to address specific risk characteristics and provide sufficient overall Group coverage of particular revenue streams. We used component teams in five countries to perform a combination of full scope audits and specified procedures at 14 reporting units.
- The Group team performed procedures over several different financial statement line items, including complex areas prepared by the head office finance function, to provide sufficient overall Group coverage. The consolidation and financial statement disclosures were audited by the Group team.
- Reporting units where we performed audit procedures accounted for 62% of Group profit before tax; 63% of Group underlying profit before tax; and 79% of Group total assets. Our audit scope provided sufficient appropriate audit evidence as a basis for our opinion on the Group financial statements as a whole. We considered the Group's climate change risk assessment process and this, together with involvement of our own climate change experts, provided us with an understanding of the potential impact of climate change on the financial statements. See the 'How we tailored the audit scope' section below for further details.

Key audit matters

- Going concern (Group and Company)
- Goodwill impairment assessment (Group)
- Development costs impairment assessments (Group)
- Environmental provisions (Group)
- Retirement benefit obligation liabilities and complex pension scheme assets (Group and Company)

Materiality

- Overall Group materiality: £13.2m (2020: £15.2m) based on a five-year average of 5% of underlying profit before tax.
- Overall Company materiality: £35.0m (2020: £35.0m) based on 1% of total assets.
- Performance materiality: £9.9m (2020: £11.4m) (Group) and £26.25m (2020: £26.25m) (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

COVID-19, provisions for uncertain tax positions and Company's investments in subsidiary undertakings impairment assessment, which were key audit matters last year, are no longer included because of the relative level of assessed audit risk associated with these matters having reduced in the current year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Going concern (Group and Company) The Directors have formed a judgement, at the time of approving the consolidated and Company financial statements, that there is a reasonable expectation that the Group and Company (hereinafter, the 'Group') have adequate resources to continue in operational existence for a period of at least 12 months from the date of approval. For this reason, the Directors continue to adopt the going concern basis in preparing these financial statements. In making an assessment as to whether the going concern principle should be adopted, the Directors have considered the period to 31 March 2023 (the 'assessment period'). The Directors have concluded that there are no material uncertainties around the Group's ability to continue as a going concern. In forming this assessment the Directors considered its liquidity requirements and compliance with its loan covenants based upon its plans, as approved by the Board in December 2021 and updated through to the date of approval of these financial statements. Further the Directors modelled a reverse stress test scenario under which the Group would be close to breaching its net debt:EBITDA covenant ratio and concluded that, the likelihood of such a scenario occurring to be remote and significantly outside any severe but plausible scenarios modelled. The Directors also considered the proposed acquisition of the Group by Parker-Hannifin Corporation (Parker). The Directors concluded that Parker has the intention and ability to: finance the equity purchase, repay liabilities falling due on a change of control and continue to operate the Group as a going concern throughout the assessment period. In light of the uncertainty that remains as to the precise timing and speed of the recovery and the challenging market conditions, particularly in civil aerospace, and the proposed acquisition by Parker, our audit devoted a significant amount of resources to evaluating the Directors' going concern assessment. Refer also to note 1 of the consolidated financial statements (pages 176 to 177).	For our audit response and conclusions in respect of going concern, see the 'Conclusions relating to going concern' section below.

Independent auditors' report to the members of Meggitt PLC continued

Key audit matter	How our audit addressed the key audit matter
Goodwill impairment assessment (Group) The Group holds significant amounts of goodwill (£1,531.8m) on the balance sheet. Management has performed their annual impairment review as at 30 June 2021. No triggering events have been identified during 2021 and therefore no additional impairment reviews have been performed. No impairment charge has been recorded against goodwill in the current year. The proposed acquisition by Parker provides a reliable estimate of fair value less costs of disposal (FVLCOD) and this has been used to determine the recoverable amount for the impairment review. The recoverable amount has been allocated to each cash-generating unit (CGU) or group of CGUs using the relative value-in-use of each CGU. The value-in-use model includes the following estimates: • The forecast cash flows in the five-year plan; • The probability weighting factors applied to each of the potential scenarios used to derive an expected value for the cash flow projections; • The growth rates applied to extrapolate forecasts beyond the plan; and • The discount rates applied to future cash flows. Our audit focused on the risk that the carrying value of goodwill could be overstated. Refer also to note 17 of the consolidated financial statements (pages 202 to 203).	We have performed the following procedures over the FVLCOD used to determine the recoverable amount for the impairment review: • Recalculated FVLCOD using information from the Scheme Document, including the offer price per ordinary share and the estimated costs of disposal; • Tested the mathematical accuracy of management's allocation of FVLCOD to each CGU or group of CGUs; and • Compared management's allocation of FVLCOD based on value-in-use with alternative allocations based on revenue and underlying profitability. We did not identify any indication of management bias or any material exceptions in these tests, with significant headroom across all CGUs or groups of CGUs. We have performed the following procedures over the value-in-use model used to by management to allocate the FVLCOD to each CGU or group of CGUs: • Evaluated management's future cash flow forecasts by obtaining the scenarios modelled by management and: – Tested the mathematical accuracy and integrity of the models; – Agreed the forecasts used to the five-year plan presented to the Board; – Identified the key assumptions applied, which we determined to be revenue growth and margins. We compared these assumptions against historical actuals and management's prior year value-in-use model; and – Assessed the appropriateness of the alternative scenarios and whether the weighting applied to each scenario was reasonable. We did not identify any material exceptions in these tests. • Compared the long-term growth rate used for each territory to long term inflation projections for the countries in which the CGUs operate. We did not identify any differences; and • Tested the discount rates used in management's impairment assessment by comparing key inputs, where relevant, to externally derived data or data for comparable listed organisations. Our specialists reviewed the discount rates and management's estimates were within our expected range, with one exception, which does not materially impact the level of headroom. We have not identified any impairment triggers which would require an updated impairment assessment in the intervening period to year end. We have assessed the related disclosures in the consolidated financial statements and consider them to be appropriate.

Key audit matter	How our audit addressed the key audit matter
Development costs impairment assessments (Group) The Group holds a significant amount of development costs (£524.7m) on the balance sheet. These assets are subject to impairment testing at the individual asset (programme) level, at least annually. Where headroom is limited, when comparing its value-in-use to its carrying value, or if events or changes in circumstances indicate the carrying value may not be recoverable, an impairment test is performed more frequently. An impairment charge of £3.7m has been recorded against development costs in the current year. This matter involves a high degree of estimation and judgement which necessitated us devoting significant time to this area. Our audit focused on the accuracy of the impairment charge recorded, whilst also considering the risk that the carrying value of development costs could be overstated post the impairment being recorded. We focused our audit procedures on those programmes against which management holds an impairment provision, those with limited headroom and those with a significant carrying value. The key estimates and assumptions assessed were: • The estimated aircraft or engine volumes (fleet forecasts) and the period over which future cash flows are forecast (fleet lives); • The sales price per part where a purchase price has not yet been agreed; • The cost per part where the programme is still in development; and • The discount rate applied to future cash flows. The impact of climate change is specifically related to the time that a platform (e.g. aircraft or aero engine on which the Group has content) will remain in service and thus generate revenue either through sales to the aircraft or engine OEM or to the Operators and MRO companies in the aftermarket. We considered the impact climate change is anticipated to have on future cash flows and assessed the appropriateness of how management had considered these in programme impairment assessments. We also considered management's assessment of programme useful economic lives in the context of risks posed by climate change. Refer also to note 4 and 18 of the consolidated financial statements (pages 190 to 191 and page 204).	We have performed the following procedures over the value-in-use models which support management's impairment assessment: • Tested the mathematical integrity of the model; • Tested the discount rates used in management's impairment assessment by comparing key inputs, where relevant, to externally derived data or data for comparable listed organisations. Our specialists reviewed the discount rates and management's estimates were within our expected range, with two exceptions, which do not materially impact the level of headroom; and • Agreed fleet forecast data used in calculating the programme forecast cash flow up to 2035 to external market forecasts for all heightened risk programmes (defined below) and on a sample basis over the remaining programme population. We corroborated any significant deviations applied by management to supporting evidence. We assessed fleet forecasts used beyond the period covered by the external market forecasts, considering average aircraft lives and trend analysis and considered them to be supported by the evidence we obtained. We identified those programmes which we considered to be of heightened risk based on their value or potential for the carrying amount not being recovered. For these models we performed the following additional audit procedures: • Agreed the sales price per part to customer contract or alternative supporting evidence; • Agreed cost per part to inventory historic cost per unit, including bill of materials, or alternative supporting evidence; and • Performed a sensitivity analysis over the discount rates and fleet forecasts. We did not identify any material exceptions in these tests. We compared management's assumptions to external industry benchmarks and reports, including forecasts for OE fleet sizes (fleet forecast data, see above) and civil aerospace passenger traffic forecasts measured using RPKs. We also considered the estimated weighted average remaining useful economic life of the development costs and the average period over which the carrying value will be recovered. The audit evidence that we obtained supports management's judgement that the fleet lives of the aircraft to which the development costs relate are not expected to reduce significantly. On this basis we have not identified an additional impairment as a result of the impact of climate change and consider the amortisation charge to be materially accurate. Based on the procedures described above, we consider the impairment charge recognised to be materially accurate. We evaluated and concluded that the assets, including significant estimates and judgements, were appropriately disclosed in the consolidated financial statements.

Independent auditors' report to the members of Meggitt PLC continued

Key audit matter	How our audit addressed the key audit matter
Environmental provisions (Group) The Group has liabilities of £93.6m relating to environmental matters. The environmental matters primarily relate to known exposures arising from environmental investigation and remediation of certain sites in the US for which the Group has been identified as a potentially responsible party under US law. The liabilities are based on subjective estimates of the level and timing of remediation costs, including the period of operating and monitoring activities required. Our audit procedures focused on the risk that the provisions in relation to these matters could be understated. The Group has separately recognised insurance and other receivables of £15.0m. We focused on the required asset recognition criteria being met and recoverability of these receivables. Refer also to note 4 and 34 of the consolidated financial statements (pages 190 to 191 and page 218).	Our work on the valuation of environmental liabilities comprised the following: • Confirmed that the Group's external environmental consultants and legal advisors have sufficient expertise, are qualified and affiliated with the appropriate industry bodies in the respective local territory, and are independent of the Group. In addition, we have held discussions with management's external experts for the most significant sites to further understand the cost estimates provided; • Obtained the cost estimates and reports prepared by the Group's external environmental consultants and legal advisors for the most significant sites. We assessed the consistency of the cost estimates year on year and the level of costs incurred compared to the prior year estimates to assess the historical accuracy of the estimates and understand significant changes to the scope of remediation plans. We confirmed that these changes have been appropriately reflected in the provision; • Reconciled the cost estimates and reports to the provision recorded and gained an understanding of all significant adjustments applied, such as differences in the period over which operating and monitoring activities are conducted and the application of additional provisions for incremental costs. We assessed the reasonableness of these, including reviewing historical data where appropriate and consider the provision to be supported by reasonable assumptions; • In respect of the matter set out in the 'Environmental provisions and associated recoveries from insurers and other third parties' section of note 4 of the consolidated financial statements, we obtained a letter from the Group's external legal advisors and a copy of the jury verdict form. The evidence obtained supported the amounts recorded in the financial statements in respect of this matter; and • We obtained evidence of the settlements and claims which resulted in the recognition of receivables and found that the evidence obtained supported asset recognition. We evaluated and concluded that the liabilities, related assets and potential exposures, including significant estimates, were appropriately disclosed in the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Retirement benefit obligation liabilities and complex pension scheme assets (Group and Company) The Group has retirement benefit obligations with gross liabilities of £1,355.1m, of which £899.3m is recognised by the Company. The liabilities are significant in the context of the overall Group and Company balance sheets. The valuation of retirement benefit obligations requires significant levels of estimation and technical expertise, including the use of actuarial experts to support management in selecting appropriate assumptions. Small changes in a number of the key financial and demographic assumptions used to value the Group's and the Company's retirement benefit obligation could have a material impact on the calculation of the liability. These include: • Discount rates; • Inflation rates; and • Mortality. Of the £1,228.0m of pension plan assets (of which £839.9m is recognised by the Company), there is a significant amount of complex pooled investment vehicles (PIVs). This is as a result of complex issues such as an element of the underlying investments being classified as level 2 or 3 of the fair value hierarchy, transfer restrictions, infrequent pricing and/or investments in less regulated markets. As the nature of these assets is more complex; the valuation of these PIVs could have a material impact on the valuation of the pension assets. Our audit procedures focused on the risk that the retirement benefit obligations could be understated. Refer also to note 36 of the consolidated financial statements (pages 221 to 226) and note 12 of the Company financial statements (pages 241 to 242).	We evaluated the assumptions made in relation to the valuation of the liabilities, with input from our actuarial experts. In particular we: • Confirmed that the Group's external experts are qualified and affiliated with the appropriate industry bodies in the respective local territory and are independent of the Group. In addition, we have held discussions with management's external expert for the UK, US and Swiss pension schemes to further understand the key assumptions; • Tested the completeness and accuracy of participant employee data used by the actuary in the liability calculation to underlying records; • Tested the discount and inflation rate assumptions used by comparing them to our internally developed benchmarks, which are based on externally derived data, and to comparable organisations. We observed the assumptions to be within our expected range; • Compared assumed mortality rates to national and industry averages. From the evidence obtained we found the assumptions to be within our expected range and methodology used to be appropriate; and • Considered the appropriateness of the methodology used to update estimates from the latest actuarial valuation and assessed changes in assumptions in aggregate from the prior year to assess the consistency of approach overall. From the evidence obtained we found the assumptions and methodology used to be appropriate. Our work on the valuation of complex pension assets comprised the following: • Obtained an understanding of the nature of the complex assets; • Obtained third party confirmations and Service Organisation Control (SOC) reports from investment and fiduciary managers and found that the evidence obtained supported the valuation of the complex assets; and • Considered the extent to which there was any evidence available which might contradict the valuation. No such contradictory evidence was identified. We evaluated and concluded that the pension assets and liabilities, including significant estimates, were appropriately disclosed in the consolidated and Company financial statements.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group's accounting process is structured around a local finance function in each of the Group's reporting units. These functions maintain their own accounting records and controls (although transactional processing and certain controls for some reporting units are performed at the Group's shared service centres) and report to the head office finance team through an integrated consolidation system.

In establishing the overall Group audit strategy and plan, we determined the type of work that needed to be performed at the reporting units by the Group engagement team and by component auditors from other PwC network firms. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

Independent auditors' report to the members of Meggitt PLC continued

For each reporting unit we determined whether we required an audit of their complete financial information (full scope) or whether specified audit procedures addressing a specific risk characteristic or financial statement line item would be sufficient. Those where a full scope audit was required included six reporting units considered to be individually financially significant (Airframe Systems based in Akron (US), Fareham (UK) and Coventry (UK), Defense Systems based in Irvine (US), Airframe Systems and Services & Support based in Ventura County (US) and Airframe Systems, Engine Systems, Energy & Equipment and Services & Support based in Fribourg (Switzerland)). We performed a full scope audit at a further six reporting units selected by their size or risk and reviewed certain working papers for those contributing material amounts to Group underlying profit before tax. We determined that specified audit procedures were required at a further two reporting units to address specific risk characteristics or to provide sufficient overall Group coverage of particular revenue streams.

In addition to the work performed at the in-scope reporting units, there is a substantial amount of work performed at head office by the Group audit engagement team. The Group team performs audit procedures over the Company's financial position and results and several financial statement line items, including complex areas prepared by the head office finance function, to provide sufficient overall Group coverage. These include goodwill, development costs, other intangible assets, investments, derivative financial instruments and related hedge accounting, cash and cash equivalents, bank and other borrowings and related finance costs, certain right-of-use assets and lease liabilities, environmental and other provisions and related receivables, retirement benefit obligations, certain current tax charges, deferred tax, share-based payments and amounts arising on the acquisition, disposal and closure of businesses. The Group team also performs procedures over the consolidation and financial statement disclosures.

These audit procedures covered 62% of Group profit before tax; 63% of Group underlying profit before tax; and 79% of Group total assets (key coverage metrics). As a result of its structure and size, the Group also has a large number of small reporting units that, in aggregate, make up a material portion of the key coverage metrics. The Group engagement team perform analytical review procedures over a significant proportion of these with the remaining population of reporting units contributing insignificant underlying profit before tax individually and in aggregate. These procedures include an analysis of year-on-year movements, at a level of disaggregation to enable a focus on higher risk balances and unusual movements. This gave us the evidence we needed for our opinion on the financial statements as a whole.

We considered the Group's climate change risk assessment and this, together with involvement of our own climate change experts, provided us with an understanding of the potential impact of climate change on the financial statements. We assessed that the key financial statement line items and estimates which are more likely to be materially impacted by climate risks are those associated with future cash flows, given the more notable impacts of climate change on the business are expected to arise in the medium to long term. These include the impairment assessments of the Group's goodwill and development costs, including the specific consideration of the impact of climate change on likely aircraft lives, and the related impact on annual amortisation charges, and the Company's investments in subsidiaries. For the impairment assessments of the Group's goodwill and the Company's investments in subsidiaries, the proposed acquisition by Parker provided a reliable estimate of fair value less costs of disposal (FVLCOD), and this has been used to determine the recoverable amount for the impairment review. This is a market based measure and factors in the buyer's assessment of climate change. Therefore our audit response for these areas did not require additional climate change considerations. Our 'development costs impairment assessments' key audit matter further explains how we evaluated the impact of climate change on the other risks identified.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – Group	Financial statements – Company
Overall materiality	£13.2m (2020: £15.2m)	£35.0m (2020: £35.0m)
How we determined it	A five-year average of 5% of underlying profit before tax	1% of total assets
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, underlying profit before tax is the primary measure used by the shareholders in assessing the performance of the Group. Further, we consider it appropriate to eliminate volatility and to preserve the link between materiality and the performance of the underlying business. As such, we have used a five-year average benchmark, consistent with the benchmark applied in 2020.	We believe that total assets is the primary measure used by the shareholders in assessing the performance and position of the entity and reflects the Company's principal activity as a holding company.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £0.89m and £11.88m. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £9.9m (2020: £11.4m) for the Group financial statements and £26.25m (2020: £26.25m) for the Company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.66m (Group audit) (2020: £0.8m) and £1.75m (Company audit) (2020: £1.75m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- Testing the mathematical integrity of the cash flow forecasts and the models and reconciled these to Board-approved budgets;
- Identifying the key assumptions included in the Group's base case scenario (as described in note 1 of the consolidated financial statements), which we determined to be revenue growth and margins, particularly in civil aerospace, taking account of the impact of COVID-19 and the pace of anticipated recovery. We evaluated these key assumptions by:
  - Revenue – We compared these assumptions to external industry benchmarks, including forecasts for civil OE fleet sizes, civil aerospace passenger traffic measured using RPKs, territory defence spend budgets and territory inflation projections; and
  - Margin – We compared these assumptions to historical margins and considered the feasibility of margin improvements throughout the assessment period.
- Reviewing the debt agreements to confirm the terms and conditions, including covenants. The covenants were consistent with those used in management's going concern assessment;
- Agreeing all borrowings as at 31 December 2021 to third-party confirmations and considered the Group's available financing and maturity profile. This supported the Directors' conclusion that sufficient liquidity headroom remained throughout the assessment period;
- Testing the mathematical accuracy of the covenant calculations, including confirming that the adjustments recorded to determine underlying EBITDA agreed to the terms of the covenant. We concluded that covenant compliance remained throughout the assessment period;
- Assessing management's reverse stress test (as described in note 1 of the consolidated financial statements) and the extent to which such a scenario is plausible, specifically to understand the change in forecast net debt or underlying EBITDA required to breach the financial covenant ratio. We concurred with the Directors' conclusion that the likelihood of such a set of circumstances occurring to be remote and significantly outside any severe but plausible scenarios the Group has modelled;
- On 21 September 2021, the shareholders of the Group approved an all-cash offer of 800 pence per share for the Group by Parker. In the event the acquisition by Parker is completed within the going concern assessment period, the directors considered the impact on the Group's going concern assessment. We have performed the following audit procedures on this scenario:
  - Examining documentation regarding Parker's ability to finance the proposed acquisition, including bridge credit and term loan agreements and recent financial results published by Parker. We did not identify any evidence to suggest that Parker could not finance the proposed acquisition, including the repayment of Meggitt liabilities falling due on a change of control; and
  - Examining intention statements outlined in the Scheme Document, including commitments by Parker to continue to run the Meggitt business in line with how it currently operates. In addition, we held discussions with management at Parker who, based on publicly available information, re-confirmed the intention statements and ability of Parker to finance the proposed acquisition.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Independent auditors' report to the members of Meggitt PLC continued

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

In relation to the Directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information, which includes reporting based on the Task Force on climate-related financial disclosures (TCFD) recommendations. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Directors' Remuneration

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the Directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Corporate governance report is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The Directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The Directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- The Directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the Directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The Directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of trade compliance legislation, bribery and corruption legislation, US Government contracting regulations, US environmental regulations, aviation regulations including the Federal Aviation Agency and Civil Aviation Authority, data protection legislation and competition/antitrust laws, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and international tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates or judgements to manipulate results. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Held discussions with Meggitt PLC's Group management, Head of Internal Audit, legal and tax advisors, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud.
- Evaluated management's controls designed to prevent and detect irregularities.
- Reviewed meeting minutes of the Board, Audit, Nominations, Remuneration, Corporate Responsibility and Finance Committees.
- Assessed matters reported on the Group's Speak Up Line and the results of management's investigation of such matters.
- Challenged assumptions and judgements made by management in their significant accounting estimates and judgements, particularly in relation to the key audit matters above.
- Identified and tested journal entries based on our risk assessment and evaluated whether there was evidence of management bias that represented a risk of material misstatement due to fraud.
- Incorporated elements of unpredictability into the audit procedures performed.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements.

Independent auditors' report to the members of Meggitt PLC continued

Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the Directors on 2 October 2003 to audit the financial statements for the year ended 31 December 2003 and subsequent financial periods. The period of total uninterrupted engagement is 19 years, covering the years ended 31 December 2003 to 31 December 2021.

Other matter

As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

John Ellis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
2 March 2022

Consolidated income statement

For the year ended 31 December 2021

	Notes	2021 £'m	2020 £'m
Revenue	5	**1,489.2**	1,684.1
Non-GAAP measures			
Exceptional impairment losses and other asset write-downs	10	**–**	(8.6)
Other cost of sales		**(1,016.8)**	(1,192.0)
Cost of sales	7	**(1,016.8)**	(1,200.6)
Gross profit		**472.4**	483.5
Non-GAAP measures			
Exceptional impairment losses and other asset write-downs	10	**–**	(365.6)
Other operating costs		**(435.7)**	(452.7)
Operating costs	7	**(435.7)**	(818.3)
Operating income	7	**26.7**	37.5
Net operating costs		**(409.0)**	(780.8)
Operating profit/(loss)[1]	5,7	**63.4**	(297.3)
Finance income	11	**0.5**	0.5
Finance costs	12	**(32.6)**	(37.2)
Net finance costs		**(32.1)**	(36.7)
Profit/(loss) before tax[2]		**31.3**	(334.0)
Tax (charge)/credit	13	**(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]	14	**4.0p**	(40.4)p
Diluted[4]	14	**4.0p**	(40.4)p

Non-GAAP measures			
[1] Underlying operating profit	9	**177.3**	190.5
[2] Underlying profit before tax	9	**149.3**	159.5
[3] Underlying basic earnings per share	14	**15.4p**	16.5p
[4] Underlying diluted earnings per share	14	**15.4p**	16.2p

Consolidated statement of comprehensive income

For the year ended 31 December 2021

	Notes	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		**(6.9)**	(79.9)
Movements in fair value of financial liabilities arising from changes in credit risk		**(1.3)**	1.8
Tax effect	13	**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	36	**115.4**	(42.6)
Tax effect	13	**(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

	Notes	2021 £'m	2020 £'m
Non-current assets			
Goodwill	17	**1,531.8**	1,519.5
Development costs	18	**524.7**	531.9
Programme participation costs	18	**19.0**	18.7
Other intangible assets	19	**306.6**	401.1
Property, plant and equipment	20	**478.6**	458.8
Investments	21	**18.7**	20.8
Other receivables	24	**18.8**	16.5
Contract assets	25	**55.8**	59.6
Derivative financial instruments	33	**10.0**	15.0
Deferred tax assets	35	**–**	19.2
		2,964.0	3,061.1
Current assets			
Inventories	23	**455.4**	426.9
Trade and other receivables	24	**294.5**	251.1
Contract assets	25	**53.7**	48.8
Derivative financial instruments	33	**4.8**	5.4
Current tax recoverable		**8.1**	11.5
Cash and cash equivalents	26	**190.8**	178.6
Assets classified as held for sale	22	**–**	14.7
		1,007.3	937.0
Total assets	5	**3,971.3**	3,998.1
Current liabilities			
Trade and other payables	27	**(317.9)**	(296.5)
Contract liabilities	28	**(62.7)**	(50.8)
Derivative financial instruments	33	**(3.2)**	(21.6)
Current tax liabilities	29	**(34.2)**	(56.9)
Lease liabilities	30	**(15.6)**	(14.7)
Bank and other borrowings	31	**(105.3)**	(10.5)
Provisions	34	**(55.8)**	(32.6)
Liabilities directly associated with assets classified as held for sale	22	**–**	(3.7)
		(594.7)	(487.3)
Net current assets		**412.6**	449.7
Non-current liabilities			
Other payables	27	**(3.7)**	(8.5)
Contract liabilities	28	**(72.6)**	(73.9)
Derivative financial instruments	33	**(1.3)**	(0.3)
Deferred tax liabilities	35	**(70.9)**	(93.4)
Lease liabilities	30	**(153.4)**	(129.6)
Bank and other borrowings	31	**(696.0)**	(796.8)
Provisions	34	**(80.3)**	(80.3)
Retirement benefit obligations	36	**(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	37	**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

The financial statements on pages 171 to 231 were approved by the Board of Directors on 2 March 2022 and signed on its behalf by:

A Wood
Director

L Burdett
Director

Consolidated statement of changes in equity

For the year ended 31 December 2021

		Equity attributable to owners of the Company					
	Notes	Share capital £m	Share premium £m	Other reserves* £m	Hedging and translation reserves** £m	Retained earnings £m	Total equity £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)/income for the year:							
Currency translation movements:							
Arising in the year		–	–	–	(35.9)	–	(35.9)
Currency translation gain transferred from equity		–	–	–	(44.0)	–	(44.0)
Movements in fair value of financial liabilities arising from changes in credit risk		–	–	–	1.8	–	1.8
Remeasurement of retirement benefit obligations	36	–	–	–	–	(42.6)	(42.6)
Other comprehensive expense before tax		–	–	–	(78.1)	(42.6)	(120.7)
Tax	13	–	–	–	1.6	10.8	12.4
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
Profit for the year		**–**	**–**	**–**	**–**	**31.2**	**31.2**
Other comprehensive (expense)/income for the year:							
Currency translation movements:							
Arising in the year		–	–	–	(6.9)	–	(6.9)
Movements in fair value of financial liabilities arising from changes in credit risk	32	–	–	–	(1.3)	–	(1.3)
Remeasurement of retirement benefit obligations	36	–	–	–	–	115.4	115.4
Other comprehensive (expense)/income before tax		–	–	–	(8.2)	115.4	107.2
Tax	13	–	–	–	3.2	(21.8)	(18.6)
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**

* Other reserves relate to capital reserves of £14.1m (2020: £14.1m) arising on the acquisition of businesses in 1985 and 1986 where merger accounting was applied and a capital redemption reserve of £1.6m (2020: £1.6m) created as a result of the share buyback programme in 2014 and 2015.

** Hedging and translation reserves comprise a credit balance on the hedging reserve of £1.9m (2020: £2.9m) and a credit balance on the translation reserve of £342.0m (2020: £346.0m).

Consolidated cash flow statement

For the year ended 31 December 2021

	Notes	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	44	**(3.5)**	(5.2)
Cash outflow from exceptional operating items	10	**(25.9)**	(49.3)
Cash inflow from operations	42	**171.2**	228.4
Interest received		**0.5**	0.1
Interest paid		**(28.7)**	(32.2)
Tax paid		**(37.7)**	(42.1)
Cash inflow from operating activities		**105.3**	154.2
Investment acquired	21	**(0.9)**	(7.6)
Deferred consideration paid in respect of business acquired in prior year		**(1.0)**	–
Businesses disposed	44	**16.7**	117.0
Capitalised development costs	18	**(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	20	**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	42	**–**	3.5
Repayments of lease liabilities	30	**(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	26	**190.8**	178.6

Notes to the consolidated financial statements

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. Its registered office is Pilot Way, Ansty Business Park, Coventry, England, CV7 9JU.

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.

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the year reported as a result of the change in framework.

The consolidated financial statements of the Group have 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. The consolidated financial statements have 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.

Going concern

The Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group and Company have 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 and the Company's 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 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 (see note 31)	**801.3**
Less: cash (see note 26)	**(190.8)**
Net borrowings excluding lease liabilities	**610.5**
Headroom	**572.6**

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.

1. General information and basis of preparation continued

Going concern continued

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 (as described on pages 50 to 54 of the Strategic Report) 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.

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 proposed 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 publicly 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 or Company's ability to continue as a going concern and it is appropriate to adopt the going concern principle in the financial statements.

Notes to the consolidated financial statements
continued

2. Summary of significant accounting policies

The principal accounting policies adopted by the Group in the preparation of the consolidated financial statements are set out below. These policies have been applied consistently to all years presented unless stated otherwise.

Basis of consolidation

The Group's consolidated financial statements consolidate the financial statements of the Company, all of its subsidiaries and the Group's share of the results of its joint ventures.

A subsidiary is an entity over which the Group has control. The Group has control over an entity where the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the power over the entity to affect those returns. The results of subsidiaries acquired are consolidated from the date on which control transfers to the Group. The results of subsidiaries disposed are consolidated up to the date on which control transfers from the Group. Transactions between, and balances with, subsidiary companies are eliminated together with unrealised gains on intra-Group transactions. Unrealised losses are eliminated to the extent the asset transferred is not impaired.

A joint venture is a contractual arrangement between the Group and one or more other parties, under which control is shared between the parties and the Group and other parties have rights to the net assets of the arrangement. A joint venture is accounted for using the equity method whereby the Group's share of profits and losses of the joint venture is recognised in the income statement within net operating costs and its share of net assets and goodwill of the joint venture is recognised as an investment. Unrealised gains and losses on transactions with the joint ventures are eliminated to the extent of the Group's interest in the arrangements.

The cost of an acquisition is the fair value of consideration provided, including the fair value of contingent consideration, measured at the acquisition date. Contingent consideration payable is measured at fair value at each subsequent balance sheet date, with changes in fair value recorded in the income statement within net operating costs. Identifiable assets and liabilities of an acquired business, meeting the conditions for recognition under IFRS 3, are recognised at fair value at the date of acquisition. The extent to which the cost of an acquisition exceeds the fair value of net assets acquired is recorded as goodwill. Costs directly attributable to an acquisition are recognised in the income statement within net operating costs as incurred.

When a business is acquired, the fair value of its identifiable assets and liabilities are finalised within 12 months of the acquisition date. All fair value adjustments are recognised with effect from the date of acquisition and consequently may result in the restatement of previously reported financial results. The accounting policies of acquired businesses are changed, where necessary, to be consistent with those of the Group.

When a business is disposed, the difference between the fair value of consideration receivable and the value at which the net assets of the business were recognised, immediately prior to disposal, is recognised in the income statement within net operating costs. Contingent consideration receivable is measured at fair value at the date of disposal in determining the gain or loss recognised. It is subsequently measured at fair value at each balance sheet date, with any changes in fair value recognised in the income statement within net operating costs.

When a foreign subsidiary is disposed, the cumulative exchange differences relating to the retranslation of the net investment in the foreign subsidiary are recognised in the income statement as part of the gain or loss on disposal. This applies only to exchange differences recognised in equity after 1 January 2004. Exchange differences arising prior to 1 January 2004 remain in equity on disposal as permitted by IFRS 1 (First time Adoption of International Financial Reporting Standards).

Amounts arising on the acquisition, disposal and closure of businesses recognised in the income statement are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 9). They comprise 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 or disposal of businesses. Additionally in 2021, they include amounts incurred in respect of the proposed acquisition of the Group by Parker-Hannifin Corporation. Amounts arising on the acquisition, disposal and closure of businesses are included within the appropriate consolidated income statement category, but are highlighted separately in the notes to the consolidated financial statements.

Foreign currencies

Functional and presentational currency

The Group's consolidated financial statements are presented in pounds sterling. Items included in the financial statements of each of the Group's subsidiaries are measured using the functional currency of the primary economic environment in which the subsidiary operates.

Transactions and balances

Transactions in foreign currencies are recognised at exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are reported at exchange rates prevailing at the balance sheet date.
Exchange differences on retranslating monetary assets and liabilities are recognised in the income statement within net operating costs, except where they relate to qualifying net investment hedges in which case exchange differences are recognised in hedging and translation reserves within other comprehensive income.

2. Summary of significant accounting policies continued

Foreign currencies continued

Foreign subsidiaries

The results of foreign subsidiaries are translated at average exchange rates for the year. Assets and liabilities of foreign subsidiaries are translated at exchange rates prevailing at the balance sheet date. Exchange differences arising from the retranslation of the results and net assets of foreign subsidiaries are recognised in hedging and translation reserves within other comprehensive income. Goodwill and fair value adjustments arising from the acquisition of foreign subsidiaries are treated as assets and liabilities of those subsidiaries and retranslated at exchange rates prevailing at the balance sheet date.

Segment reporting

Operating segments are those segments for which results are reviewed by the Group's Chief Operating Decision Maker (CODM) to assess performance and make decisions about resources to be allocated. The CODM has been identified as the Board (see page 104 of the Corporate governance report). The Group has determined that its segments for the year ended 31 December 2021, which are unchanged from the prior year, are: Airframe Systems, Engine Systems, Energy & Equipment and Services & Support.

The principal profit measure reviewed by the CODM is "underlying operating profit" as defined in note 9. A segmental analysis of underlying operating profit is accordingly provided in the notes to the consolidated financial statements (see note 5).

Segmental information on assets is provided in the notes to the consolidated financial statements in respect of "trading assets", which are defined to exclude from total assets, amounts which the CODM does not regularly review at a segmental level (see note 5). Excluded assets comprise centrally managed trading assets, goodwill, other intangible assets (excluding software assets), investments, derivative financial instruments, deferred tax assets, current tax recoverable, cash and cash equivalents and assets classified as held for sale.

No segmental information on liabilities is provided in the notes to the consolidated financial statements, as no such measure is reviewed by the CODM.

Revenue from external customers

Revenue is recognised when control of goods or services provided by the Group is transferred to the customer at an amount reflecting the consideration the Group expects to receive from the customer in exchange for those goods and services.

There are no significant judgements required in either determining the Group's performance obligations or, because the majority of the Group's revenue is recognised when goods or services are delivered to the customer, the timing of revenue recognition. As revenue is typically recognised at amounts agreed in advance with customers, no significant estimates are required in determining transaction prices.

Transfer of control – At a point in time

For the majority of goods and services provided by the Group, transfer of control occurs when delivery to the customer takes place which, depending on the specific terms agreed with the customer, may be when goods are collected from the Group's facilities or when they are delivered either to the customer's facilities or to a third-party transport agent. The more common exceptions to this assessment for when control passes are:

- *Bill and hold arrangements.* Where, under the terms of a contract, a customer agrees to accept title to goods which remain at the Group's facility, and normal credit terms apply, transfer of control occurs when contractual terms have been met, which will typically be when goods are completed, packaged and segregated at the Group's facility.
- *Goods and services are not distinct performance obligations.* Where a contract involves the supply of multiple goods and services, the Group has concluded that typically each good and service supplied is a distinct performance obligation. However, contracts may require the Group to provide installation and other services specific to the goods but subsequent to their delivery. Where installation and other services are specialised, significant and not capable of being performed by another party, control of the goods transfers when installation and other services are completed by the Group and not when delivery of the goods to the customer takes place.
- *Goods are delivered subject to consignment arrangements.* Where the Group delivers goods to a customer facility, such as an airline operator, but retains control of the goods until they are used by the customer, control transfers when the Group is notified by the customer of their use.
- *Goods supplied subject to customer acceptance.* Within the aerospace industry, goods are frequently subject to customer acceptance testing on delivery, or at the Group's facilities. Normally the Group is able, through its own testing procedures, to predict with reasonable certainty that customer acceptance testing will be successful and accordingly customer acceptance testing will not affect the determination of when control passes. However, where the Group cannot predict the outcome with reasonable certainty, control is not considered to transfer until the goods have been accepted by the customer.

Notes to the consolidated financial statements
continued

2. Summary of significant accounting policies continued

Revenue from external customers continued

Transfer of control – Over time

The principal circumstances in which control transfers over time are where the Group provides goods or services for which it has no alternative use and has the enforceable right to payment, plus a reasonable profit margin, throughout the life of the contract. An alternative use exists where there are multiple potential OEMs and/or aftermarket customers to whom the Group could provide those goods or services.

Certain defence contracts include clauses entitling the Group to be awarded a reasonable profit margin in the event the customer cancels for convenience. Where the Group considers such rights to be enforceable; is confident that a reasonable profit margin would be awarded regardless of the stage of contract completion and would apply to all costs incurred by the Group; and the goods and services have no alternative use, control will transfer over time.

Where a contract is structured such that non-refundable milestone payments are receivable from a customer in advance of work being performed, and the Group is reasonably certain at contract inception that the cumulative value of such milestone payments will exceed cumulative costs incurred throughout the duration of the contract, control will transfer over time.

Where control transfers over time, the Group considers costs incurred, as a proportion of total expected contract costs, to be the most appropriate measure of contract completion. For power-by-the-hour and cost-per-brake-landing contracts this results in revenue being recognised when maintenance events are performed. Estimates of total contract costs are required to determine the extent to which revenue is recognised in a year. The Group does not consider that any reasonably foreseeable changes in these estimates could give rise to a significant impact on revenue recognised in the current year.

Net transaction price

The majority of the Group's contracts provide that consideration is receivable by the Group within a short period after control of goods and services is transferred to the customer, typically up to three months, and accordingly no significant financing component to the consideration receivable exists.

Where a contract includes variable consideration, the Group estimates the variable consideration to which it will be entitled at contract inception and revises the estimate throughout the life of the contract. Estimates are constrained until it is highly probable that the uncertainty affecting the level of variable consideration has been resolved and a significant reversal of cumulative revenue recognised will not arise. For power-by-the-hour and cost-per-brake-landing contracts, this requires the Group to estimate the number of aircraft flying hours or landings expected over the contract.

In certain instances the Group will receive contributions from customers during the development phase of an aerospace programme, where the Group expects to retain the intellectual property of the developed technology throughout the programme life. Such contributions, typically in the form of cash, are treated as customer consideration and initially recognised as a contract liability when receivable. Contributions are subsequently included in the transaction price attributable to goods and services provided to the customer during the production phase of the programme. Where the contribution is received more than 12 months in advance of goods and services being provided to the customer and the financing element of the contribution is significant, it is separately identified and recognised within finance costs over the period beginning with receipt of the contribution and ending when the goods and services are provided to the customer.

Where the Group makes contributions to customers to participate in aerospace programmes, typically in the form of cash, such contributions are initially recognised within contract assets provided the Group has received, or it is highly probable that it will receive, contracts from the same customer relating to the same aerospace programme (see Programme participation costs policy). Where the contribution is made more than 12 months in advance of goods and services being provided to the customer and the financing element of the contribution is significant, it is separately identified and recognised within finance income over the period beginning with payment of the contribution and ending when the goods and services are provided to the customer. Other than such contributions, the Group does not typically incur significant incremental costs to obtain contracts.

2. Summary of significant accounting policies continued

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 9), 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.

Exceptional operating items are presented separately on the face of the income statement, where the Group considers it relevant to an understanding of the Group's financial performance. This separate presentation was adopted in 2020 in respect of the impairment losses and other asset write-downs as they were in aggregate of such a significance, that the Group considered separate presentation to have been appropriate (see note 10). Exceptional operating items which are not presented separately on the face of the income statement are included within the appropriate consolidated income statement category, but are highlighted separately in the notes to the consolidated financial statements.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of identifiable assets acquired and liabilities and contingent liabilities assumed. Goodwill is tested annually for impairment and also whenever events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is held at cost less amortisation charged prior to 1 January 2004 and accumulated impairment losses.

In the event a business to which goodwill relates is disposed, its attributable goodwill is included in the determination of the gain or loss on disposal. Where the Group restructures or reorganises its operations, goodwill relating to affected businesses is reallocated using a relative fair value basis.

Research and development

Research expenditure is recognised as an expense in the income statement as incurred. Development costs incurred on projects where the Group retains ownership of intellectual property; the related expenditure is separately identifiable and measurable; and management are satisfied as to the ultimate technical and commercial viability of the project and that the asset will generate future economic benefits based on all relevant available information, are recognised as an intangible asset. Capitalised development costs are subsequently held at cost less accumulated amortisation and impairment losses. Amortisation is charged to net operating costs over the periods expected to benefit, typically up to 15 years, commencing with launch of the product. Development costs not meeting the criteria for capitalisation are expensed as incurred.

Programme participation costs

Programme participation costs are contributions made to OEMs, typically in the form of cash, in connection with their selection of the Group's products for installation onto new aircraft where the Group has obtained principal supplier status. The recognition of programme participation costs depends on the contractual relationship between the Group and the third party to whom the contribution is made:

- Where the contribution is made to a customer under a revenue contract (as defined by IFRS 15), or the award of future IFRS 15 revenue contracts on the same aerospace programme from the same customer is highly probable such that the Group expects the contributions to be recovered, contributions are initially recognised within contract assets (see Revenue from external customers policy). These amounts are amortised to revenue as a reduction in the transaction price of those IFRS 15 revenue contracts over the period the relevant performance obligations are satisfied by the Group, typically up to 15 years.
- Where the contribution is made to a third party other than a customer, contributions are initially recognised as intangible assets and subsequently held at cost less accumulated amortisation and impairment losses. Amortisation is charged to net operating costs over periods expected to benefit from receiving the status of principal supplier, through the sale of replacement parts, typically up to 15 years.

Notes to the consolidated financial statements
continued

2. Summary of significant accounting policies continued

Intangible assets continued

Other intangible assets – Assets acquired as part of a business combination

The Group recognises intangible assets separately from goodwill provided they are separable or arise from contractual or other legal rights and their fair value can be measured reliably. Intangible assets are initially recognised at fair value, which is regarded as their cost. Intangible assets are subsequently held at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis to net operating costs over the estimated useful economic lives of the assets. The nature of intangible assets recognised and their estimated useful lives are as follows:

Customer relationships	Up to 20 years
Technology	Up to 20 years
Trade names and trademarks	Up to 15 years

Amortisation of intangible assets acquired as part of a business combination is excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 9).

Other intangible assets – Software and other intangible assets

Software and purchased licences, trademarks and patents are held at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over the estimated useful economic lives of the assets, commencing with the date the assets are available for use, typically over periods up to ten years. Residual values and useful lives are reviewed annually and adjusted if appropriate.

Property, plant and equipment

Property, plant and equipment are held at cost less accumulated depreciation and impairment losses. Cost includes expenditure directly attributable to the acquisition of the asset. For right-of-use assets, cost comprises an amount equal to the initial lease liability recognised, adjusted to include any payments made for the right to use the asset, initial direct costs incurred and estimated costs for dismantling, removing and restoring the asset at the end of the lease term. Depreciation is charged on a straight-line basis over the estimated useful economic lives of the assets, commencing with the date the assets are available for use, as follows:

Freehold buildings	Up to 50 years
Right-of-use assets	Shorter of the useful economic life of the asset and the lease term
Plant and machinery	3 to 10 years
Furnaces	Up to 20 years
Fixtures and fittings	3 to 10 years
Motor vehicles	4 to 5 years

Residual values and useful lives are reviewed annually and adjusted if appropriate. When items of property, plant and equipment are disposed, the difference between sale proceeds, net of related costs, and the carrying value of the asset is recognised in the income statement. When items of property, plant and equipment are disposed of through a sale and leaseback transaction, the Group retains a right-of-use asset following the transaction. In these situations, the amount recognised in the income statement on disposal is reduced by the portion of the gain or loss related to those retained rights. The amount not recognised in the income statement is recognised as an adjustment to the right-of-use asset.

Borrowing costs

Borrowing costs directly attributable to the construction or production of qualifying assets, are capitalised as part of the cost of those assets until such time as the assets are substantially ready for their intended use. Qualifying assets are those that necessarily take a substantial period of time to get ready for their intended use, typically at least 12 months. All other borrowing costs are recognised in the income statement within finance costs as incurred.

Impairment of non-current non-financial assets

Assets are reviewed for impairment annually and also whenever events or changes in circumstances indicate their carrying value may not be recoverable. To the extent the carrying value of an asset exceeds its recoverable amount, the difference is recognised as an expense in the income statement. The recoverable amount used for impairment testing is the higher of value in use and fair value less costs of disposal. For the purpose of impairment testing, assets are generally tested individually or at a CGU level which represents the lowest level for which there are separately identifiable cash inflows which are largely independent of cash inflows from other assets or groups of assets. Where it is not possible to allocate goodwill on a non-arbitrary basis to individual CGUs, it is allocated to the group of CGUs which represent the lowest level within the Group at which goodwill is monitored by management. At each balance sheet date, previously recognised impairment losses, other than any relating to goodwill, are reviewed and if no longer required reversed with a corresponding credit to the income statement.

2. Summary of significant accounting policies continued

Inventories

Inventories are recognised at the lower of cost and net realisable value. Cost comprises materials, direct labour, other direct costs and related production overheads, based on normal operating capacity, and is determined using the first-in first-out (FIFO) method. Production overheads relating to abnormal variations between actual volumes and normal operating capacity are excluded from the costs of inventory. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost less any impairment losses. To the extent outflows of economic benefits required to settle an obligation recognised as a provision are recoverable from an insurer or other third party and their recovery is considered virtually certain, typically when a signed binding agreement exists, an other receivable is recognised. Other receivables are discounted to present value where the impact is significant, using a pre-tax rate. The discount rate used is based on current market assessments of the time value of money, adjusted to reflect any risks specific to the receivable which have not been reflected in the undiscounted receivable. The impact of the unwinding of discounting is recognised in the income statement within finance income.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks. Bank overdrafts are disclosed as current liabilities, within bank and other borrowings, except where the Group participates in offset arrangements with certain banks whereby cash and overdraft amounts are offset against each other.

Impairment of financial assets

The Group's financial assets, which are subject to the expected credit loss (ECL) model, are:

- trade receivables;
- other receivables; and
- cash and cash equivalents.

For trade receivables, the simplified method has been applied whereby ECLs are measured using a lifetime expected loss allowance. Expected loss rates are based on historical ageing of receivables adjusted for risk-based estimates of future losses. The historical data is assessed over a period that reflects the current conditions and may change year on year.

For other receivables, which principally relate to amounts recoverable from insurers and other third parties in respect of environmental matters, ECLs are measured using those expected to arise in the 12 months subsequent to the balance sheet date. For cash and cash equivalents, the Group does not currently anticipate any future credit losses given the high quality credit rating of the financial institutions with which balances are held.

Trade and other payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost. Trade payables are not interest bearing.

The Group operates a supplier financing programme whereby suppliers can elect, on an invoice-by-invoice basis, to receive discounted early payment from a bank, rather than being paid directly by the Group in line with agreed payment terms. In the event the option for early payment is taken by a supplier, the amount payable by the Group remains unchanged but is assigned by the supplier under the programme as payable by the Group to the bank. The Group assesses the programme against indicators to assess if liabilities should be classified as other payables or borrowings. Under the Group's current supplier financing programme, contractual rights and obligations of the supplier and Group are not substantively modified when a supplier elects to participate in the programme, credit terms agreed between the Group and the bank do not differ significantly from those agreed by the Group with suppliers who do not participate in the programme; no additional security is provided by the Group to the bank; and to the extent the Group has existing committed or uncommitted facility arrangements with the same bank, the amounts due under the supplier financing programme are not considered by the bank to represent utilisation of those existing facilities. Accordingly, provided amounts due to the bank do not exceed agreed credit terms, they are classified as other payables. If the Group exceeds agreed credit terms, amounts that are overdue are classified as bank borrowings.

Notes to the consolidated financial statements
continued

2. Summary of significant accounting policies continued

Taxation

Current tax is based on taxable profit for the year, calculated using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax is provided in full using the liability method on temporary differences between the tax bases of assets and liabilities and their corresponding book values as recognised in the Group's consolidated financial statements. It is calculated using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax is provided on unremitted earnings of foreign subsidiaries, except where the Group can control the remittance and it is probable that earnings will not be remitted in the foreseeable future. Deferred tax assets are recognised only to the extent it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Current tax and deferred tax are recognised in the income statement, other comprehensive income or directly in equity, depending on where the item to which they relate has been recognised.

Liabilities for uncertain tax positions are recognised when the Group has a present obligation as a result of past events, it is probable an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. The Group typically uses a weighted average of outcomes assessed as possible to determine the liabilities required, unless a single best estimate of the outcome is considered to be more appropriate. Assessments are made at the level of an individual tax uncertainty, unless uncertainties are considered to be related in which case they are grouped together. Liabilities, which are not discounted given the short period over which they are expected to be utilised, are included within current tax liabilities, together with any liability for penalties, which to date have not been significant. Any liability relating to interest on tax liabilities is included within finance costs.

Bank and other borrowings

Bank and other borrowings are initially recognised at fair value, being proceeds received less directly attributable transaction costs incurred. Borrowings are generally subsequently held at amortised cost at each balance sheet date, with any transaction costs amortised to the income statement over the period of the borrowings using the effective interest method. Certain borrowings are in a fair value hedge relationship with the Group's interest rate swaps. Such borrowings are measured at amortised cost but have a fair value adjustment recognised as a result of the fair value hedge relationship. Movements in fair value recognised in net operating costs are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 9).

Any related interest accruals are included within borrowings. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Leases

The majority of the Group's leases relate to property. A lease liability is recognised when the Group obtains control of the right-of-use asset, that is the subject of the lease. The initial lease liability recognised represents the discounted value of payments due under the lease less any incentives receivable. Where lease payments are variable, often because they are based on future inflation rates or indices, they are initially measured using the inflation rate or index value at lease inception. Typically the interest rate implicit in the Group's leases cannot be easily determined and accordingly the Group's incremental borrowing rate, for borrowings of similar amounts and maturity periods, is used to discount amounts due under the lease. The lease liability is subsequently measured using the effective interest method, with interest recognised within finance costs.

At inception, the Group evaluates whether it is reasonably certain that any option to extend a lease term will be exercised. Typically, where the initial lease term for a property used for the Group's manufacturing operations is for at least five years, the option to extend the lease term is at market rates and the right-of-use asset is not considered specialised, the Group will not assess the likelihood of the lease being extended at inception as reasonably certain. The Group continues to evaluate the likelihood of exercising such options however throughout the initial lease term. When the Group is committed to extending the lease, having considered the alternative options available and where appropriate lessor consent to the extension has been obtained, the Group will consider the option to be reasonably certain to be exercised. When an option is reasonably certain to be exercised, the right-of-use asset and lease liabilities recognised are adjusted to reflect the extended term.

Leases, which at inception have a term of less than 12 months or relate to low-value assets, are not recognised on the balance sheet. Payments made under such leases are charged to the income statement on a straight-line basis over the period of the lease.

2. Summary of significant accounting policies continued

Derivative financial instruments and hedging

The Group uses derivative financial instruments to hedge its exposure to interest rate risk and foreign currency transactional risk. Derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently held at fair value at each balance sheet date, using values determined indirectly from quoted prices that are observable for the asset or liability.

The method by which any gain or loss arising from subsequent measurement at fair value is recognised, depends on whether the instrument is designated as a hedging instrument and if so the nature of the item hedged. The Group recognises an instrument as a hedging instrument by documenting, at its inception, the economic relationship between the instrument and the hedged item and the objectives and strategy for undertaking the hedging transaction. To be designated as a hedging instrument, an instrument must also be assessed, at inception and on an ongoing basis, to be effective in offsetting changes in fair values or cash flows of hedged items as outlined in the objectives and strategy for undertaking the hedging transaction and any changes in fair values must not be dominated by the effect of credit risk.

To the extent the maturity of the derivative financial instruments are more than 12 months from the balance sheet date, they are classified as non-current assets or non-current liabilities. All other derivative financial instruments are classified as current assets or current liabilities.

Fair value hedges

Changes in the fair value of derivative financial instruments, that are designated and qualify as fair value hedges, are recognised in the income statement within net operating costs together with changes in fair value of the hedged item not attributable to credit risk. Changes in the fair value of the hedged item attributable to credit risk are recognised in other comprehensive income. Any difference recognised in the income statement between movements in the fair value of the derivative and the hedged item is excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 9). The Group currently applies fair value hedge accounting to the hedging of fixed interest rate risk on bank and other borrowings.

Net investment hedges

Changes in the fair value of the effective portion of any net investment hedge are recognised in other comprehensive income. Changes in the fair value of any ineffective portion are recognised immediately in the income statement within net operating costs.

Derivatives not meeting the criteria for hedge accounting

Where derivatives do not meet the criteria for hedge accounting, changes in fair value are recognised immediately in the income statement within net operating costs. Gains and losses arising from measuring these derivatives at fair value are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (see note 9).

Provisions

Provision is made for environmental liabilities, onerous contracts, product warranty claims and other liabilities when the Group has a present obligation as a result of past events, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. In determining the estimated costs to fulfil a contract, the Group includes only incremental direct costs (e.g. direct materials and direct labour). The Group typically uses a single most likely outcome approach to determine the provision recognised unless, for instance in the case of product warranty claims, a weighted average of all possible outcomes is considered more appropriate. Provisions are discounted to present value where the impact is significant, using a pre-tax rate. The discount rate used is based on current market assessments of the time value of money, adjusted to reflect any risks specific to the obligation which have not been reflected in the undiscounted provision. The impact of the unwinding of discounting is recognised in the income statement within finance costs.

Notes to the consolidated financial statements
continued

2. Summary of significant accounting policies continued

Retirement benefit schemes

For defined benefit schemes, pension costs and the costs of providing other post-retirement benefits, principally healthcare, are charged to the income statement in accordance with the advice of qualified independent actuaries. Past service credits and costs and curtailment gains and losses are recognised immediately in the income statement.

Retirement benefit obligations represent, for each scheme, the difference between the fair value of the schemes' assets and the present value of the schemes' defined benefit obligations measured at the balance sheet date. The defined benefit obligation is measured annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the defined benefit obligations using interest rates of high quality corporate bonds denominated in the currency in which the benefits will be paid and with terms to maturity comparable with the terms of the related defined benefit obligations. Where the assets of a scheme exceed its defined benefit obligations, a retirement benefit asset is recognised equal to the lower of this surplus and the asset ceiling. The asset ceiling represents the present value of any economic benefits available in the form of refunds from the scheme or reductions in future contributions to the scheme and to which the Group has an unconditional right to. Changes in the asset ceiling are recognised in other comprehensive income, except for any related interest which is recognised in finance costs. Where the Group has a statutory or contractual minimum funding requirement to make contributions to a scheme in respect of past service and any such contributions are not available to the Group once paid (as a reduction in future contributions, or as a refund to which the Group has an unconditional right either during the life of the scheme or when the scheme liabilities are settled), an additional liability for such amounts is recognised.

Remeasurement gains and losses are recognised in the year in which they arise in other comprehensive income.

For defined contribution schemes, payments are recognised in the income statement when they fall due. The Group has no further obligations once the contributions have been paid.

Share-based compensation

The Group operates a number of share-based compensation schemes, which are subject to non-market-based vesting conditions and are principally equity-settled. For equity-settled schemes, at the date of grant, the Group estimates the number of awards expected to vest as a result of vesting conditions. The fair value of this estimated number of awards is recognised as an expense in the income statement on a straight-line basis over the period for which services are received. At each balance sheet date, the Group revises its estimate of the number of awards expected to vest and adjusts the amount recognised cumulatively in the income statement to reflect the revised estimate. When awards are exercised and the Company issues new shares, the proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted from the proceeds recognised in equity. Own shares represent shares in the Company that are held by an independently managed Employee Share Ownership Plan. Consideration paid for own shares, including any incremental directly attributable costs, is recognised as a deduction from retained earnings.

Dividends

Interim dividends are recognised when paid to shareholders. Final dividends are recognised when approved by the shareholders.

2. Summary of significant accounting policies continued

Adoption of new and revised accounting standards

Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 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 following financial instruments held by the Group are impacted by IBOR reform:

			Carrying value at 31 December 2021	
	Interest rate benchmark impacted	**Transitioned to alternative rate**	**Assets £'m**	**Liabilities £'m**
Bank and other borrowings (see note 31):				
Syndicated credit facility (USD410m) – GBP borrowings	GBP LIBOR	SONIA*	–	–
Syndicated credit facility (USD410m) – USD borrowings	USD LIBOR	Not yet transitioned*	–	–
Bilateral facility: Caixabank (GBP30m)	GBP LIBOR	SONIA**	–	(30.0)
Bilateral facility: SMBC (GBP50m)	GBP LIBOR	SONIA**	–	–
Bilateral facility: Bank of America (USD50m)	USD LIBOR	SOFR**	–	–
Derivative financial instruments (see note 33):				
Interest rate swaps (USD125m)	USD LIBOR	Not yet transitioned***	1.7	–
Total financial instruments exposed to IBOR reform			**1.7**	**(30.0)**

* 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 are in a fair value hedge relationship with the Group's USD fixed rate 2010 senior notes. Both the hedged items and hedging instruments mature in June 2022, prior to when the referenced USD LIBOR interest rate is expected to cease being published.

There are no changes to the Group's risk management strategy as a result of IBOR reform. Changes to IT systems, specifically the treasury management system, are in progress to enable the new reference rates to be used in calculations of interest on external borrowings.

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.

Notes to the consolidated financial statements
continued

3. Financial risk management

Financial risk factors

The Group's operations expose it to a number of financial risks including market risk (principally foreign exchange risk and interest rate risk), credit risk and liquidity risk. These risks are managed by a centralised treasury department, in accordance with Board-approved objectives, policies and authorities (see also pages 45 and 47 of the Chief Financial Officer's review). Regular reports monitor exposures and assist in managing the associated risks.

Market risk

Foreign exchange risk

The Group operates internationally and is subject to foreign exchange risks on future commercial transactions and the retranslation of the results of, and net investments in, foreign subsidiaries. The principal exposure arises with respect to the US dollar against the pound sterling. To mitigate risks associated with future commercial transactions, the Group policy is to hedge known and certain forecast transaction exposures based on historical experience and projections. The Group hedges at least 70% of the next 12 months anticipated exposures and can hedge expected exposures up to five years. Details of hedges in place are provided in note 33. The Group does not hedge exposure arising from the retranslation of the results of foreign subsidiaries. The Group uses borrowings denominated in the relevant currencies to partially hedge its net investments in foreign subsidiaries.

Interest rate risk

The Group has borrowings issued at both fixed and floating rates of interest. Borrowings issued at fixed rates expose the Group to fair value interest rate risk, whereas borrowings issued at floating rates expose the Group to cash flow interest rate risk. The Group's principal exposure is to changes in US interest rates. The Group's policy is to generally maintain at least 25% of its net borrowings at fixed rates and mitigates interest rate risks through interest rate derivatives which have the economic effect of converting fixed rate borrowings into floating rate borrowings and floating rate borrowings into fixed rate borrowings. Details of hedges in place are provided in note 33.

Sensitivity analysis

The table below illustrates the sensitivity of the Group's results to changes in the exchange rate between the US dollar and pound sterling and to changes in US interest rates at the balance sheet date. The analysis covers only financial assets and liabilities held at the balance sheet date and is made on the basis of the hedge designations in place on those dates, assuming no hedge ineffectiveness.

	2021		2020	
	Income statement £'m	**Equity £'m**	Income statement £'m	Equity £'m
US dollar/sterling exchange rate +/- 10%	**25.0**	**79.0**	37.8	80.3
US yield curve +/- 1%	**2.9**	**–**	6.3	–

The impact on equity from movements in the exchange rate comprises £78.3m (2020: £78.3m) in respect of US dollar net borrowings, and £0.7m (2020: £2.0m) in respect of other financial assets and liabilities. However, as all US dollar net borrowings are designated as a net investment hedge, or are held by US subsidiaries, this element of the impact is entirely offset by the retranslation of foreign subsidiaries. The impact of a 1% movement in the US yield curve includes the effect on the Group's foreign currency forward contracts and other financial assets and liabilities.

Credit risk

Concentration of credit risk on the Group's trade and other receivables and contract assets is spread across a large number of customers and third parties across the world. In addition, many of the Group's principal customers are either government departments or large multinationals. Note 32 details the Group's credit risk exposures in relation to its customers. Policies are maintained to ensure the Group makes sales to customers with an appropriate credit history. Letters of credit, or other appropriate instruments, are put in place to reduce credit risk where considered necessary. The Group is also subject to credit risk on the counterparties to its other financial assets and financial liabilities which it controls through only dealing with highly rated counterparties and netting transactions on settlement wherever possible. The credit quality of the Group's counterparties is set out in notes 32 and 33.

3. Financial risk management continued

Liquidity risk

The Group maintains sufficient committed facilities to meet projected borrowing requirements based on cash flow forecasts. Additional headroom is maintained to protect against the variability of cash flows and to accommodate small bolt-on acquisitions. Key ratios are monitored to ensure continued compliance with covenants contained in the Group's principal credit agreements. The following tables analyse the Group's derivative financial instruments and other non-derivative financial liabilities at the balance sheet date. The amounts disclosed in the tables are the contractual undiscounted cash flows:

	2021			
	Less than 1 year £'m	**Between 1 and 5 years £'m**	**Greater than 5 years £'m**	**Total £'m**
Trade and other payables*	**305.5**	**2.9**	**0.8**	**309.2**
Derivative financial instruments (Inflows)**	**(4.8)**	**(1.5)**	**–**	**(6.3)**
Lease liabilities	**21.1**	**67.4**	**133.1**	**221.6**
Bank and other borrowings (see note 31)	**95.5**	**698.6**	**0.2**	**794.3**
Interest payments on borrowings	**24.6**	**55.0**	**0.2**	**79.8**
Total	**441.9**	**822.4**	**134.3**	**1,398.6**

	2020			
	Less than 1 year £'m	Between 1 and 5 years £'m	Greater than 5 years £'m	Total £'m
Trade and other payables*	285.8	7.7	0.8	294.3
Derivative financial instruments (Inflows)**	(3.9)	(1.7)	–	(5.6)
Lease liabilities	19.5	61.4	112.1	193.0
Bank and other borrowings (see note 31)	2.2	576.1	219.8	798.1
Interest payments on borrowings	26.7	71.0	7.9	105.6
Total	330.3	714.5	340.6	1,385.4

* Excludes social security and other taxes of £12.4m (2020: £10.7m) (see note 27).
** Assumes no change in interest rates from those prevailing at the balance sheet date.

Capital risk management

The Group's objective when managing its capital structure is to minimise the cost of capital whilst maintaining adequate capital to protect against volatility in earnings and net assets. The strategy is designed to maximise shareholder return over the long term. The Group's capital structure is as follows:

	2021 £'m	2020 £'m
Net debt (see note 43)	**779.5**	773.0
Total equity	**2,162.0**	2,032.6
Debt/equity %	**36.1%**	38.0%

The Board believes that in maintaining an efficient balance sheet, a net debt:EBITDA ratio of between 1.5x and 2.5x is appropriate, whilst retaining the flexibility to move outside the range if appropriate. Further details on the Group's strategy for delivering net debt:EBITDA in this range can be found on pages 45 and 47 of the Chief Financial Officer's review, which includes details on how the Group has complied with the two principal financial covenant requirements contained in its committed credit facilities.

Notes to the consolidated financial statements
continued

4. Critical accounting estimates and judgements

In applying the Group's accounting policies set out in note 2, 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. Further consideration of these critical estimates and judgements can be found in the Audit Committee report on pages 114 to 121.

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 ongoing 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 MC-21

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. Further details on these estimates and sensitivities of the retirement benefit obligations to these estimates are provided in note 36.

4. Critical accounting estimates and judgements continued

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. As set out in note 17, 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 18).

Area no longer considered a critical accounting judgement

The Group previously disclosed in its 2020 Annual Report, a critical accounting judgement relating to the Directors' 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.

Notes to the consolidated financial statements
continued

5. Segmental analysis

Analysis by operating segment – current year

The Group manages its businesses under four customer-aligned divisions: Airframe Systems, Engine Systems, Energy & Equipment and Services & Support. Details of the Group's divisions can be found on pages 34 to 41 of the Strategic Report. Transactions between divisions are reflected in the segmental information below, are measured at arm's length and are eliminated on consolidation.

Year ended 31 December 2021: Analysis of income statement items

The key performance measure reviewed by the CODM is underlying operating profit. A detailed reconciliation of operating profit to underlying operating profit is provided in note 9.

	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 from external customers by basis of recognition	737.0	207.8	270.7	273.7	**1,489.2**
Civil OE	170.8	89.4	–	–	**260.2**
Civil aftermarket	201.8	3.4	–	219.5	**424.7**
Defence	343.5	96.6	126.5	53.4	**620.0**
Energy	11.6	1.7	121.4	0.3	**135.0**
Other	9.3	16.7	22.8	0.5	**49.3**
Revenue from external customers by end market	737.0	207.8	270.7	273.7	**1,489.2**
Underlying operating profit/(loss) (see note 9)*	120.2	(16.5)	42.1	31.5	**177.3**
Items not affecting underlying operating profit (see note 9)					**(113.9)**
Operating profit (see note 9)					**63.4**
Finance income (see note 11)					**0.5**
Finance costs (see note 12)					**(32.6)**
Net finance costs					**(32.1)**
Profit before tax					**31.3**
Tax charge (see note 13)					**(0.1)**
Profit for the year					**31.2**
Exceptional operating items**	2.7	10.8	1.3	(0.1)	**14.7**
Amortisation and impairment of intangible assets (see notes 18 and 19)***	101.5	26.8	8.8	2.0	**139.1**
Depreciation (see note 20)****	27.1	16.3	7.9	3.4	**54.7**

* 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.

** Of the total exceptional operating items in the year of £43.2m (see note 10), central items of £28.5m were not included in segmental exceptional operating items reviewed by the CODM.

*** Excludes impairment losses of £1.1m charged to exceptional operating items. Of the total amortisation and impairment in the year, £59.0m has been charged to underlying operating profit as defined in note 9.

**** Excludes depreciation of £1.2m charged to exceptional operating items.

The Group's largest customer accounts for 8.1% of revenue (£120.9m). Revenue from this customer arises across the Airframe Systems, Engine Systems and Services & Support segments. Revenue recognised in the current year relating to performance obligations satisfied or partially satisfied in the prior year was £3.6m.

5. Segmental analysis continued

Year ended 31 December 2021: Analysis of additions to non-current assets

	Airframe Systems £'m	Engine Systems £'m	Energy & Equipment £'m	Services & Support £'m	Total £'m
Development costs (see note 18)	15.9	3.9	7.5	0.3	27.6
Programme participation costs (see note 18)	1.4	–	–	–	1.4
Other purchased intangible assets*	0.1	0.7	0.1	1.6	2.5
Property, plant and equipment*	38.4	16.5	6.5	4.5	65.9
Total	**55.8**	**21.1**	**14.1**	**6.4**	**97.4**

* Relate to those non-current assets included within segmental trading assets reviewed by the CODM.

At 31 December 2021: Analysis of segmental trading assets

	Total £'m
Airframe Systems	**1,071.0**
Engine Systems	**384.0**
Energy & Equipment	**218.7**
Services & Support	**119.7**
Total segmental trading assets	**1,793.4**
Centrally managed trading assets*	**163.0**
Goodwill (see note 17)	**1,531.8**
Other intangible assets excluding software assets	**250.7**
Investments (see note 21)	**18.7**
Derivative financial instruments – non-current (see note 33)	**10.0**
Derivative financial instruments – current (see note 33)	**4.8**
Current tax recoverable	**8.1**
Cash and cash equivalents (see note 26)	**190.8**
Total assets	**3,971.3**

* 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.

Analysis by geography

	2021 £'m	2020 £'m
UK	**110.0**	129.7
Europe	**255.0**	270.8
United States of America	**911.9**	1,027.6
Rest of World	**212.3**	256.0
Revenue	**1,489.2**	1,684.1

Revenue is based on the location of the customer.

	2021 £'m	2020 £'m
UK	**610.2**	617.6
Europe	**166.5**	184.0
United States of America	**2,051.3**	2,094.3
Rest of World	**32.7**	34.1
Non-current assets	**2,860.7**	2,930.0

Segmental non-current assets are based on the location of the assets. They exclude investments, other receivables, contract assets and derivative financial instruments.

Notes to the consolidated financial statements
continued

5. Segmental analysis continued

Analysis by operating segment – prior year

Year ended 31 December 2020 (restated): Analysis of income statement items

The key performance measure reviewed by the CODM is underlying operating profit. A detailed reconciliation of operating profit to underlying operating profit is provided in note 9. 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. In addition, gross segment revenue and inter-segment revenue have both been reduced by £58.2m.

	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 from external customers by basis of recognition	793.1	253.3	315.3	322.4	1,684.1
Civil OE	207.8	98.2	–	–	306.0
Civil aftermarket	176.7	4.0	–	238.9	419.6
Defence	377.7	128.8	179.4	82.5	768.4
Energy	13.9	2.2	114.4	0.6	131.1
Other	17.0	20.1	21.5	0.4	59.0
Revenue from external customers by end market	793.1	253.3	315.3	322.4	1,684.1
Underlying operating profit/(loss) (see note 9)*	120.5	(16.2)	45.4	40.8	190.5
Items not affecting underlying operating profit (see note 9)					(487.8)
Operating loss (see note 9)					(297.3)
Finance income (see note 11)					0.5
Finance costs (see note 12)					(37.2)
Net finance costs					(36.7)
Loss before tax					(334.0)
Tax credit (see note 13)					19.8
Loss for the year					(314.2)
Impairment losses on goodwill and other intangible assets (see notes 17 and 18)**	145.5	201.1	14.7	–	361.3
Other exceptional operating items***	27.3	22.3	4.0	3.4	57.0
Amortisation of intangible assets (see notes 18 and 19)****	104.6	24.5	9.7	1.8	140.6
Depreciation (see note 20)	28.6	16.6	8.3	3.2	56.7

* 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.

** Of the total impairment losses in the year, £1.1m relating to Engine Systems has been charged to underlying operating profit as defined in note 9, with the balance of £360.2m charged to exceptional operating items (see note 10).

*** Comprises exceptional operating items other than those relating to impairment losses on goodwill and development costs. Of the total exceptional operating items in the year of £428.7m (see note 10), central items of £11.5m were not included in segmental exceptional operating items reviewed by the CODM.

**** Of the total amortisation in the year, £52.4m has been charged to underlying operating profit as defined in note 9.

The Group's largest customer accounts for 8.9% of revenue (£149.5m). Revenue from this customer arises across all segments. Revenue recognised in the current year relating to performance obligations satisfied or partially satisfied in the prior year was £3.2m.

5. Segmental analysis continued

Year ended 31 December 2020 (restated): Analysis of additions to non-current assets*

	Airframe Systems £'m	Engine Systems £'m	Energy & Equipment £'m	Services & Support £'m	Total £'m
Development costs (see note 18)	28.4	3.1	9.7	0.2	41.4
Programme participation costs (see note 18)	2.6	–	–	–	2.6
Other purchased intangible assets**	0.7	0.3	0.6	0.9	2.5
Property, plant and equipment**	36.9	23.6	6.1	3.5	70.1
Total	68.6	27.0	16.4	4.6	116.6

* 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 additions to non-current assets of £10.2m.

** Relates to those non-current assets included within segmental trading assets reviewed by the CODM.

At 31 December 2020 (restated): Analysis of segmental trading assets*

	Total £'m
Airframe Systems	1,036.5
Engine Systems	390.1
Energy & Equipment	200.4
Services & Support	90.4
Total segmental trading assets	1,717.4
Centrally managed trading assets**	167.4
Goodwill (see note 17)	1,519.5
Other intangible assets excluding software assets	328.6
Investments (see note 21)	20.8
Derivative financial instruments – non-current (see note 33)	15.0
Deferred tax assets (see note 35)	19.2
Derivative financial instruments – current (see note 33)	5.4
Current tax recoverable	11.5
Cash and cash equivalents (see note 26)	178.6
Assets classified as held for sale (see note 22)	14.7
Total assets	3,998.1

* 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.

** 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.

6. Auditors' remuneration

Payable to PricewaterhouseCoopers LLP and its associates:

	2021 £'m	2020 £'m
For the audit of the Company and consolidated financial statements in respect of the current year	**2.2**	2.2
For the audit of the accounts of any subsidiary of the Company in respect of the current year	**0.7**	0.6
Auditors' remuneration	**2.9**	2.8

Non-audit fees payable to PricewaterhouseCoopers LLP were £0.1m (2020: £0.1m), consisting of other assurance services.

Notes to the consolidated financial statements
continued

7. Operating profit/(loss)

Operating profit/(loss) is stated after charging/(crediting):

	2021 **£'m**	2020 (restated)* £'m
Raw materials and consumables used	**443.8**	457.1
Employee costs (see note 8)	**568.2**	659.3
Site related costs**	**109.7**	118.3
Change in inventories of finished goods and work in progress	**(20.9)**	38.5
Capitalisation of development costs (see note 18)	**(27.6)**	(41.4)
Free of charge/deeply discounted manufactured parts	**49.2**	53.4
Amortisation and impairment of capitalised development costs (see note 18)***	**35.6**	32.6
Amortisation of programme participation costs (see note 18)	**1.2**	1.2
Amortisation of intangible assets acquired in business combinations (see note 9)	**80.1**	88.2
Amortisation and impairment of software and other intangible assets (see note 19)	**22.2**	19.7
Depreciation (see note 20)***	**54.7**	52.9
Loss on disposal of property, plant and equipment	**–**	1.4
Exceptional operating items (see note 10)	**43.2**	428.7
Financial instruments – loss (see note 9)	**–**	2.9
Net foreign exchange loss	**5.4**	8.1
Amounts arising on the acquisition, disposal and closure of businesses (see note 9)****	**3.3**	–
Share of loss after tax of joint ventures (see note 21)	**0.4**	3.2
Other costs*****	**84.0**	94.8
Total	**1,452.5**	2,018.9

* Prior year figures have been restated on a comparable basis to 2021. As a result, prior year figures for raw materials and consumables used has reduced by £10.9m, amortisation and impairment of capitalised development costs has increased by £1.1m, depreciation has reduced by £3.8m, net foreign exchange losses has increased by £8.1m and other costs has increased by £5.5m.

** Site related costs comprise business insurance, energy, establishment and other factory costs.

*** Excludes amounts recorded as exceptional operating items.

**** Excludes £4.0m of costs related to the proposed acquisition of the Group by Parker-Hannifin Corporation which are included within employee costs.

***** Other costs principally comprise engineering materials of £22.4m (2020: £16.8m), freight costs of £20.5m (2020: £22.8m) and professional fees of £32.4m (2020: £27.7m).

Disclosed as:

	2021 **£'m**	2020 £'m
Cost of sales	**1,016.8**	1,200.6
Operating costs	**435.7**	818.3
Total	**1,452.5**	2,018.9

Total research and development expenditure in the year is £70.7m (2020: £97.9m) of which £14.5m (2020: £20.8m) is charged to cost of sales or manufacturing work in progress, £28.6m (2020: £35.7m) is charged to net operating costs and £27.6m (2020: £41.4m) is capitalised as development costs (see note 18).

Operating profit/(loss) is stated after crediting:

	2021 **£'m**	2020 £'m
Gain on disposal of property, plant and equipment	**5.3**	–
Amounts arising on the acquisition, disposal and closure of businesses (see note 9)	**–**	32.0
Financial instruments – gain (see note 9)	**16.7**	–
Other income	**4.7**	5.5
Operating income	**26.7**	37.5

8. Employee information

	2021 £'m	2020 £'m
Wages and salaries	**460.0**	530.2
Social security costs	**42.8**	53.0
Retirement benefit costs (see note 36)	**25.1**	35.2
Share-based payment expense/(credit) (see note 38)	**5.5**	(2.5)
Other benefits including US medical costs	**34.8**	43.4
Employee costs including Executive Directors	**568.2**	659.3

	2021 Average Monthly Number	2020 Average Monthly Number
Airframe Systems	**4,793**	5,324
Engine Systems*	**1,773**	2,013
Energy & Equipment*	**1,133**	1,479
Services & Support	**520**	543
Corporate including shared services**	**705**	510
Total persons employed including Executive Directors	**8,924**	9,869
Other persons providing similar services	**261**	651
Total	**9,185**	10,520

* A number of product lines from the Energy & Equipment division were transferred to the Engine Systems division with effect from 1 January 2021. If this transfer was reflected in 2020, it would result in an increase to Engine Systems average monthly headcount of 141, with a corresponding decrease to Energy & Equipment.

** Corporate headcount has increased as a result of further centralisation of activity previously performed at a divisional level.

9. 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.

	Notes	**2021 £'m**	2020 £'m
Operating profit/(loss)		**63.4**	(297.3)
Amounts arising on the acquisition, disposal and closure of businesses	a	**7.3**	(32.0)
Amortisation of intangible assets acquired in business combinations	b	**80.1**	88.2
Financial instruments – (gain)/loss	c	**(16.7)**	2.9
Exceptional operating items (see note 10)		**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 (see note 36)**		**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 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.

** The Board considers net interest expense on retirement benefit obligations to be a non-trading item and accordingly excludes it from underlying profit measures.

*** Of the tax effect of adjustments to profit/(loss) before tax, £10.4m (2020: £32.5m) relates to exceptional operating items (see note 10).

Notes to the consolidated financial statements
continued

9. Reconciliations between profit and underlying profit continued

a. Delivery of the Group's strategy includes investment in acquisitions that enhance its technology portfolio. The exclusion of significant items arising from M&A activity is designed by the Board to align short-term operational decisions with this longer-term strategy. Accordingly amounts arising on the acquisition, disposal and closure of businesses are excluded from underlying profit measures. 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 (see note 44)	**1.8**	3.8
Loss/(gain) on disposal of businesses in the current year (see note 44)	**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)

b. For the same reasons as described in note 9a, the Group also excludes from its underlying profit figures the amortisation of intangible assets acquired in business combinations.

	2021 £'m	2020 £'m
Amortisation of other intangible assets (see note 19)	**100.3**	107.9
Less: amortisation of software and other intangible assets (see note 19)	**(20.2)**	(19.7)
Amortisation of intangible assets acquired in business combinations	**80.1**	88.2

c. 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 (see note 33 for further details).

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)
Impact of retranslating net foreign currency assets and liabilities at spot rate	**(1.8)**	6.5
Movement in fair value of interest rate derivatives	**3.4**	1.6
Movement in fair value of fixed rate borrowings due to interest rate risk (see note 32)	**(3.3)**	(1.6)
Movement in fair value of cross-currency derivatives	**(24.5)**	12.8
Movement in fair value of treasury lock derivative	**(0.5)**	(0.5)
Financial instruments – (gain)/loss	**(16.7)**	2.9

10. Exceptional operating items

Delivery of the Group's strategy includes the restructuring of its cost base to deliver operational improvements. The exclusion from underlying profit measures of significant items arising from site consolidations, business restructuring and integration of acquired businesses is designed by the Board to align short-term operational decisions with this longer-term strategy. In 2021, given their significance and that they relate to historical environmental matters in respect of businesses disposed of by Whittaker Corporation prior to its acquisition by the Group in 1999, costs recognised have been treated as operating exceptional items. In 2020, the impact of the global COVID-19 pandemic, and the resulting uncertainty facing the commercial aerospace industry, gave rise to significant non-recurring impairment losses and asset write-downs which were treated as exceptional operating items.

		Income statement		Cash flow	
	Note	**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	e	**(1.0)**	(1.0)	**–**	(1.2)
Exceptional operating items		**43.2**	428.7	**25.9**	49.3

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 incremental 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 4 for further details. Amounts classified as exceptional operating items have been recognised within net operating costs. The tax credit in respect of this item was £6.8m.

e. This principally relates to the reversal of amounts previously recognised as exceptional operating items. Amounts classified as exceptional operating items have been recognised within cost of sales. The tax charge in respect of these items was £0.4m.

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11. Finance income

	2021 £'m	2020 £'m
Interest on bank deposits	–	0.1
Unwinding of interest on other receivables (see note 34)	0.2	0.2
Other finance income	0.3	0.2
Finance income	0.5	0.5

12. Finance costs

	2021 £'m	2020 £'m
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 (see note 34)	0.6	0.7
Net interest expense on retirement benefit obligations (see note 36)	4.1	5.7
Amortisation of debt issue costs	1.5	0.8
Less: amounts capitalised in the cost of qualifying assets (see note 18)	(1.3)	(1.8)
Finance costs	32.6	37.2

13. Tax

	2021 £'m	2020 £'m
Current tax – current year	29.3	29.3
Current tax – adjustment in respect of prior years	(5.2)	(10.5)
Deferred tax – origination and reversal of temporary differences	(26.3)	(44.6)
Deferred tax – adjustment in respect of prior years	2.3	6.0
Tax charge/(credit)	0.1	(19.8)

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. The 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.

Reconciliation of tax charge/(credit)

A reconciliation based on the weighted average tax rate applicable to the profit/(loss) of the Group's consolidated businesses is as follows:

	2021 £'m	2020 £'m
Profit/(loss) before tax at weighted average tax rate of 9.6%* (2020: 24.7%)	3.0	(82.4)
Effects of:		
Impact of impairment losses on intangible assets	–	67.9
Deferred tax – effects of changes in other statutory tax rates	1.8	0.3
Tax effect of share-based payments	–	1.5
Non-taxable gain on disposal of businesses	(0.5)	(4.8)
Tax losses not recognised	(1.0)	0.5
Tax credits and incentives	(1.4)	(2.7)
Provision for/(release of) uncertain tax positions	(1.1)	1.3
Other permanent differences	2.2	3.1
Current tax – adjustment in respect of prior years	(5.2)	(10.5)
Deferred tax – adjustment in respect of prior years	2.3	6.0
Tax charge/(credit)	0.1	(19.8)

* Calculated as the weighted average tax rate applicable to profits of the Group's businesses in their respective countries in the year. Accordingly it does not reflect any changes in tax rates that have been substantively enacted, but are not applicable until future years. The change in the weighted average applicable tax rate is caused by changes to the geographical balance of the Group's profits and losses due to the impact of the exceptional operating items. The sensitivity of the tax charge to changes in the tax rate is such that a one percentage point increase, or reduction, in the tax rate would cause the total taxation charge for 2021 to increase, or reduce respectively, by approximately £4.3m of which £3.2m arises from the impact of the change in tax rate on net deferred tax liabilities.

The tax reconciliation for 2021 includes £1.4m (2020: £2.7m) in respect of tax credit and incentives in the US for items such as research and development and certain foreign derived income, and a release of £1.1m (2020: £1.3m charge) in respect of various uncertain tax positions in the Group (see note 29).

13. Tax continued

Tax relating to components of other comprehensive income/(expense)

	2021			2020		
	Before tax £'m	Tax (charge)/ credit £'m	After tax £'m	Before tax £'m	Tax (charge)/ credit £'m	After tax £'m
Current tax – currency translation movements	(6.9)	2.9	(4.0)	–	–	–
Current tax – movements in fair value of financial liabilities arising from changes in credit risk	(1.3)	0.3	(1.0)	–	–	–
Deferred tax – currency translation movements	–	–	–	(79.9)	2.0	(77.9)
Deferred tax – movements in fair value of financial liabilities arising from changes in credit risk	–	–	–	1.8	(0.4)	1.4
Deferred tax – remeasurement of retirement benefit obligations	115.4	(21.8)	93.6	(42.6)	10.8	(31.8)
Other comprehensive income/(expense)	107.2	(18.6)	88.6	(120.7)	12.4	(108.3)

Tax relating to items recognised directly in equity

	2021 £'m	2020 £'m
Current tax relating to share-based payment expense	1.4	(0.2)
Deferred tax relating to share-based payment expense (see note 35)	1.3	(2.0)
Total credit/(charge)	2.7	(2.2)

14. Earnings/(loss) per share

Earnings per share (EPS) is calculated by dividing the profit attributable to owners of the Company by the weighted average number of shares in issue during the year. 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 (see note 39). The weighted average number of own shares excluded is 2.3m shares (2020: 3.6m shares). 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.

	2021			2020		
	Profit* £'m	Shares Number 'm	EPS Pence	Loss* £'m	Shares Number 'm	EPS Pence
Basic EPS	31.2	780.2	4.0	(314.2)	777.8	(40.4)
Potential effect of dilutive ordinary shares	–	4.2	–	–	11.6	–
Diluted EPS	31.2	784.4	4.0	(314.2)	789.4	(40.4)

* Profit/(loss) for the year attributable to equity owners of the Company.

Underlying EPS is based on underlying profit for the year (see note 9) 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 underlying EPS is based on underlying profit for the year (see note 9) and the same number of shares used in the calculation of diluted EPS. Diluted underlying EPS for the year is 15.4 pence (2020: 16.2 pence).

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15. 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.

16. Related party transactions

During the year, the Group made sales to the joint ventures of £0.4m (2020: £0.7m) and purchases from the joint ventures of £1.0m (2020: £0.6m). Transactions between the Company and its subsidiaries have been eliminated on consolidation.

The remuneration of key management personnel of the Group, which is defined for 2021 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

Full details of all elements in the remuneration package of each Director, together with Directors' share interests and share awards, are disclosed in the Directors' remuneration report on pages 126 to 155 which forms part of these consolidated financial statements.

17. Goodwill

	2021 £'m	2020 £'m
At 1 January	**1,519.5**	1,966.6
Exchange rate adjustments	12.3	(22.9)
Businesses disposed	–	(84.8)
Transferred to assets classified as held for sale	–	(3.7)
Impairment losses	–	(335.7)
At 31 December	**1,531.8**	1,519.5

The net book amount at 31 December 2021 comprises cost of £1,856.5m (2020: £1,841.4m) and accumulated impairment losses of £324.7m (2020: £321.9m).

An analysis of goodwill by CGU or group of CGUs is shown below:

	2021 £'m	2020 £'m
Airframe Systems	1,115.0	1,105.3
Engine Systems*	130.5	115.3
Services & Support	207.7	206.6
Defence Systems	30.6	30.2
Other*	48.0	62.1
Total	**1,531.8**	1,519.5

* As a result of the transfer of a number of product lines from the Energy & Equipment division to the Engine Systems division on 1 January 2021, the related goodwill of £13.9m has been reclassed from Other to the Engine Systems group of CGUs.

Impairment testing

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.

17. Goodwill continued

Impairment testing continued

For the purpose of impairment testing, the Group historically used value-in-use calculations to determine recoverable amounts as it had not considered there to be reliable estimates of fair value less costs of disposal (FVLCOD). However, following approval by the Group's shareholders on 21 September 2021 of the proposed acquisition of the Group by Parker-Hannifin Corporation, FVLCOD has been determined to be £6,200.0m based on the all-cash offer of 800 pence per share and estimated costs of disposal of £55.0m. This is higher than the Group's calculation of its estimated value-in-use which, by restricting cash flows to a five-year period and capping growth in subsequent periods to long-term inflation estimates, does not fully capture the extent of the anticipated civil aerospace recovery. Accordingly, for the purposes of impairment testing recoverable value has been based on FVLCOD.

FVLCOD for each CGU has been estimated by allocating the FVLCOD of the Group using the relative value-in-use of each CGU.

The key assumptions used in the value-in-use calculations were as follows:

Cash flows covered by management estimates

Estimates of cash flows prepared and approved by management covering a five-year period from the date of the impairment testing were used. Cash flow estimates covering three potential scenarios were prepared and probability weighted to derive an expected value for the cash flows to be used. The scenarios modelled reflected a range of assumptions as to the extent and pace of recovery in the civil aerospace sector in particular, although the impacts on other markets of the economic uncertainty arising from COVID-19 were also considered, together with different assumptions on the level of gross margin improvement over the five-year period.

Growth rates used for periods beyond those covered by management's detailed budgets and plans

The Group's assumptions reflected a number of different inputs: its own estimates taking into account the long-term nature of the industry in which the CGUs operate and their sole source positions; industry estimates where available; and the impacts of climate change and other potential structural changes in markets. These different assumptions were probability weighted to derive an expected growth rate and the lower of this value and the long-term inflation forecasts for the countries in which the CGUs operate was used. The growth rates used were as follows:

	2021 %	2020 %
Airframe Systems	**2.2**	2.0
Engine Systems	**1.7**	1.3
Services & Support	**2.2**	2.1
Defence Systems	**2.3**	2.2
Other	**1.1-2.3**	0.7-2.2

Discount rates applied to future cash flows

The Group's post-tax weighted average cost of capital (WACC) was used as the foundation for determining the discount rates to be applied. The WACC was adjusted to a pre-tax rate and to reflect risks specific to the CGU or group of CGUs not already reflected in its future cash flows. The pre-tax discount rates used were as follows:

	2021 %	2020 %
Airframe Systems	**9.9**	10.7
Engine Systems	**8.5**	9.1
Services & Support	**9.5**	10.4
Defence Systems	**9.9**	10.6
Other	**7.3-10.2**	8.1-11.0

As a result of the impairment test, no impairment of any CGU or group of CGUs was identified. With the exception of Airframe Systems, headroom measured in percentage terms for each of the CGUs and groups of CGUs was greater than 100% of the carrying value of the CGU's assets, including goodwill. For Airframe Systems, headroom was £1,474.0m (71% of the carrying value of the CGU's assets, including goodwill). Having modelled a number of sensitivities, it was concluded that no reasonably foreseeable change in key assumptions used in the impairment model would result in a significant impairment charge being recognised in the consolidated financial statements.

Notes to the consolidated financial statements
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18. Development costs and programme participation costs

	Development costs £'m	Programme participation costs £'m
At 1 January 2020		
Cost	814.4	38.4
Accumulated amortisation	(238.5)	(20.4)
Net book amount	575.9	18.0
Year ended 31 December 2020		
Opening net book amount	575.9	18.0
Exchange rate adjustments	(7.6)	(0.7)
Additions – Internal development costs	41.4	–
– Cash payments	–	2.6
Transfers to contract assets	(1.8)	–
Disposals	(1.0)	–
Interest capitalised (see note 12)	1.8	–
Businesses disposed	(19.7)	–
Impairment losses*	(25.6)	–
Amortisation – net operating costs	(31.5)	(1.2)
Net book amount	531.9	18.7
At 1 January 2021		
Cost	800.0	39.6
Accumulated amortisation	(268.1)	(20.9)
Net book amount	531.9	18.7
Year ended 31 December 2021		
Opening net book amount	531.9	18.7
Exchange rate adjustments	3.1	0.2
Additions – Internal development costs	27.6	–
– Cash payments	–	1.4
Transfers to contract assets	(2.5)	(0.1)
Interest capitalised (see note 12)	1.3	–
Impairment losses*	(3.7)	–
Amortisation – net operating costs	(33.0)	(1.2)
Net book amount	**524.7**	**19.0**
At 31 December 2021		
Cost	824.6	44.9
Accumulated amortisation	(299.9)	(25.9)
Net book amount	**524.7**	**19.0**

* Of the impairment losses, £1.1m (2020: £24.5m) has been charged to operating exceptional items (see note 10).

The net book amount of development costs includes £419.3m (2020: £423.3m) in respect of Airframe Systems which have an estimated weighted average remaining life of 12.7 years (2020: 12.7 years). Interest has been capitalised using the average rate payable on the Group's floating rate borrowings of 0.9% (2020: 1.2%). Tax relief claimed on interest capitalised in the year is £0.3m (2020: £0.3m).

The Group has individually material balances capitalised on the Airbus A220, Airbus A321NEO, Bombardier Global 7500/8000, Embraer 450/500, Irkut MC-21, Gulfstream G500/G600, LEAP-X, Dassault Falcon 6X, Boeing 787 and Boeing 737 programmes. These programmes have an aggregate net book amount of £333.4m (at 31 December 2020 these programmes had an aggregate net book amount of £331.8m). Of this net book amount, £67.6m (2020: £59.0m) relates to aircraft programmes not yet in service. In note 4, the Group discloses a critical accounting estimate in respect of the MC-21 programme. In respect of the other programmes with individually material capitalised balances, the Group does not believe there is a significant risk of an OEM bankruptcy, programme cancellation or other event in the next 12 months which would give rise to material loss in 2022.

19. Other intangible assets

	Acquired in business combinations*				
	Customer relationships £'m	Technology £'m	Trade names and trademarks £'m	Software and other assets £'m	Total £'m
At 1 January 2020					
Cost	1,099.9	321.8	30.0	202.4	1,654.1
Accumulated amortisation	(754.5)	(245.6)	(27.6)	(122.8)	(1,150.5)
Net book amount	345.4	76.2	2.4	79.6	503.6
Year ended 31 December 2020					
Opening net book amount	345.4	76.2	2.4	79.6	503.6
Exchange rate adjustments	(6.1)	(1.1)	–	(0.1)	(7.3)
Businesses disposed	–	–	–	(0.1)	(0.1)
Additions	–	–	–	13.2	13.2
Disposals	–	–	–	(0.4)	(0.4)
Amortisation – net operating costs	(67.0)	(20.5)	(0.7)	(19.7)	(107.9)
Net book amount	272.3	54.6	1.7	72.5	401.1
At 1 January 2021					
Cost	1,056.9	282.5	21.7	212.2	1,573.3
Accumulated amortisation	(784.6)	(227.9)	(20.0)	(139.7)	(1,172.2)
Net book amount	272.3	54.6	1.7	72.5	401.1
Year ended 31 December 2021					
Opening net book amount	272.3	54.6	1.7	72.5	401.1
Exchange rate adjustments	1.8	0.4	–	–	2.2
Additions	–	–	–	9.5	9.5
Disposals	–	–	–	(3.9)	(3.9)
Impairment losses – net operating costs	–	–	–	(2.0)	(2.0)
Amortisation – net operating costs	(63.6)	(15.8)	(0.7)	(20.2)	(100.3)
Net book amount	**210.5**	**39.2**	**1.0**	**55.9**	**306.6**
At 31 December 2021					
Cost	1,067.2	284.6	21.7	217.2	1,590.7
Accumulated amortisation	(856.7)	(245.4)	(20.7)	(161.3)	(1,284.1)
Net book amount	**210.5**	**39.2**	**1.0**	**55.9**	**306.6**

* Amortisation of these items is excluded from the Group's underlying profit figures (see note 9).

The net book amount of customer relationships includes £129.8m (2020: £182.8m) in respect of Airframe Systems and £70.6m (2020: £77.3m) in respect of Engine Systems. These have estimated weighted average remaining lives of 3.6 years (2020: 4.3 years) and 11.2 years (2020: 12.0 years), respectively.

The net book amount of technology includes £20.0m (2020: £32.0m) in respect of Airframe Systems and £18.0m (2020: £20.6m) in respect of Engine Systems. These have estimated weighted average remaining lives of 2.7 years (2020: 3.3 years) and 6.7 years (2020: 7.7 years), respectively.

Notes to the consolidated financial statements
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20. Property, plant and equipment

	Land and buildings £'m	Plant, equipment and vehicles £'m	Right-of-use assets: property £'m	Right-of-use assets: other £'m	Total £'m
At 1 January 2020					
Cost	221.7	570.3	203.8	4.6	1,000.4
Accumulated depreciation	(95.6)	(363.0)	(90.3)	(2.1)	(551.0)
Net book amount	126.1	207.3	113.5	2.5	449.4
Year ended 31 December 2020					
Opening net book amount	126.1	207.3	113.5	2.5	449.4
Exchange rate adjustments	(1.7)	(3.4)	(1.6)	(0.1)	(6.8)
Businesses disposed	(0.4)	(2.4)	(4.0)	–	(6.8)
Additions	30.8	40.8	10.4	1.0	83.0
Transfer to assets classified as held for sale	–	(0.8)	(0.9)	–	(1.7)
Disposals	(0.2)	(1.2)	–	(0.2)	(1.6)
Transfers	1.9	(1.9)	–	–	–
Depreciation*	(8.3)	(32.4)	(14.8)	(1.2)	(56.7)
Net book amount	148.2	206.0	102.6	2.0	458.8
At 1 January 2021					
Cost	233.2	567.5	188.2	5.0	993.9
Accumulated depreciation	(85.0)	(361.5)	(85.6)	(3.0)	(535.1)
Net book amount	148.2	206.0	102.6	2.0	458.8
Year ended 31 December 2021					
Opening net book amount	148.2	206.0	102.6	2.0	458.8
Exchange rate adjustments	0.2	1.2	0.5	–	1.9
Businesses disposed (see note 44)	–	(0.3)	(0.2)	–	(0.5)
Additions	25.8	35.1	25.8	0.8	87.5
Transfer from inventory**	–	6.4	–	–	6.4
Disposals	(17.7)	(1.6)	(0.2)	(0.1)	(19.6)
Transfers	2.4	(2.4)	–	–	–
Depreciation*	(11.2)	(30.3)	(13.5)	(0.9)	(55.9)
Net book amount	**147.7**	**214.1**	**115.0**	**1.8**	**478.6**
At 31 December 2021					
Cost	235.1	592.5	209.7	5.0	1,042.3
Accumulated depreciation	(87.4)	(378.4)	(94.7)	(3.2)	(563.7)
Net book amount***	**147.7**	**214.1**	**115.0**	**1.8**	**478.6**

* The depreciation charge includes £1.2m which has been charged to exceptional operating items (2020: £3.8m).

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

*** Included within the net book amount are assets under construction of £12.6m (2020: £9.2m) relating to land and buildings and £42.1m (2020: £26.9m) relating to plant, equipment and vehicles.

The Group received £7.4m (2020: £2.1m) under the Coronavirus Aid, Relief, and Economic Security (CARES) Act from the US Department of Defense to sustain critical industrial base capability for military grade fuel bladders at its Rockmart facility in the US. These amounts have been recognised in property, plant and equipment as a reduction in the cost of the related capital expenditure additions in the year.

21. Investments

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

	2021 £'m	2020 £'m
At 1 January	**20.8**	14.1
Exchange rate adjustments	**0.2**	(0.5)
Additions	**–**	10.4
Adjustment to contingent consideration*	**(1.9)**	–
Share of loss after tax	**(0.4)**	(3.2)
At 31 December	**18.7**	20.8

* During 2021, £0.9m in contingent consideration relating to HiETA 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.

Summarised financial information for the joint ventures

The information below reflects amounts presented in the financial statements of the joint ventures adjusted to reflect the Group's accounting policies (and not the Group's share of those amounts unless otherwise stated).

Summarised statement of comprehensive income

	2021			2020		
	UTC Aero £'m	**HiETA £'m**	**Total £'m**	UTC Aero £'m	HiETA £'m	Total £'m
Revenue	**12.6**	**2.4**	**15.0**	10.6	2.4	13.0
Operating profit/(loss)	**0.9**	**(2.3)**	**(1.4)**	(2.9)	(3.1)	(6.0)
Finance costs	**(0.2)**	**(0.2)**	**(0.4)**	(0.2)	(0.2)	(0.4)
Profit/(loss) before tax	**0.7**	**(2.5)**	**(1.8)**	(3.1)	(3.3)	(6.4)
Tax charge	**(0.1)**	**–**	**(0.1)**	(0.1)	–	(0.1)
Profit/(loss) after tax	**0.6**	**(2.5)**	**(1.9)**	(3.2)	(3.3)	(6.5)
Total comprehensive income/(expense)	**0.6**	**(2.5)**	**(1.9)**	(3.1)	(3.3)	(6.4)

Summarised balance sheet

	2021			2020		
	UTC Aero £'m	**HiETA £'m**	**Total £'m**	UTC Aero £'m	HiETA £'m	Total £'m
Property, plant and equipment	**2.5**	**1.1**	**3.6**	2.8	2.8	5.6
Cash and cash equivalents	**2.7**	**0.2**	**2.9**	4.3	0.3	4.6
Other current assets	**6.8**	**0.3**	**7.1**	7.3	0.6	7.9
Total assets	**12.0**	**1.6**	**13.6**	14.4	3.7	18.1
Financial liabilities (excluding trade payables)	**(4.0)**	**(5.5)**	**(9.5)**	(4.1)	(6.6)	(10.7)
Other liabilities	**(5.8)**	**(1.6)**	**(7.4)**	(8.7)	(1.0)	(9.7)
Total liabilities	**(9.8)**	**(7.1)**	**(16.9)**	(12.8)	(7.6)	(20.4)
Net assets/(liabilities)	**2.2**	**(5.5)**	**(3.3)**	1.6	(3.9)	(2.3)

Reconciliation of summarised financial information

	2021			2020		
	UTC Aero £'m	**HiETA £'m**	**Total £'m**	UTC Aero £'m	HiETA £'m	Total £'m
Net assets/(liabilities) at 1 January	**1.6**	**(3.9)**	**(2.3)**	4.7	(0.6)	4.1
Total comprehensive income/(expense)	**0.6**	**(2.5)**	**(1.9)**	(3.1)	(3.3)	(6.4)
Adjustment to equity*	**–**	**0.9**	**0.9**	–	–	–
Net assets/(liabilities) at 31 December	**2.2**	**(5.5)**	**(3.3)**	1.6	(3.9)	(2.3)
Group's interest in joint venture	**1.5**	**(1.8)**	**(0.3)**	1.1	(1.3)	(0.2)
Goodwill	**10.6**	**8.4**	**19.0**	10.4	10.6	21.0
Group's investment at 31 December	**12.1**	**6.6**	**18.7**	11.5	9.3	20.8

* Resulting from payment by the Group of contingent consideration relating to the acquisition of HiETA.

There are no contingent liabilities relating to the Group's interest in the joint ventures.

Notes to the consolidated financial statements
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22. 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 (see note 44).

	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 (see note 44)	(15.3)	3.6	(11.7)
At 31 December 2021	–	–	–

23. Inventories

	2021 £'m	2020 £'m
Raw materials and bought-in components	**173.4**	163.3
Manufacturing work in progress	**183.5**	160.3
Finished goods and goods for resale	**98.5**	103.3
Total	**455.4**	426.9

The cost of inventories recognised as an expense and included within cost of sales is £923.8m (2020: £1,080.9m). The cost of inventories recognised as an expense includes £9.1m (2020: £13.4m) in respect of write-downs of inventory to net realisable value. The cost of inventories recognised as an expense has been reduced by £4.1m (2020: £3.3m) in respect of the reversal of write-downs of inventory to net realisable value made in previous years.

24. Trade and other receivables

	2021 £'m	2020 £'m
Trade receivables	**248.0**	198.8
Prepayments	**14.5**	12.5
Other receivables	**32.0**	39.8
Current portion	**294.5**	251.1
Other receivables	**18.8**	16.5
Non-current portion	**18.8**	16.5
Total	**313.3**	267.6

As at 31 December 2021, £4.9m was due from one of the joint ventures (2020: £7.9m) and is included within trade receivables.

Other receivables include £15.0m (2020: £18.8m) in respect of amounts recoverable from insurers and other third parties, principally relating to businesses sold by Whittaker Corporation prior to its acquisition by the Group, of which £2.8m (2020: £5.0m) is shown as current (see note 34).

The Group does not hold any collateral as security. Trade and other receivables are denominated in the following currencies:

	2021 £'m	2020 £'m
Sterling	**39.1**	46.1
US dollar	**243.9**	189.3
Euro	**18.1**	19.3
Other	**12.2**	12.9
Total	**313.3**	267.6

25. Contract assets

	2021 £'m	2020 £'m
Conditional rights to consideration on over time contracts	**50.6**	45.7
Programme participation cash payments	**3.1**	3.1
Current portion	**53.7**	48.8
Conditional rights to consideration on over time contracts	**22.3**	24.6
Programme participation cash payments	**33.5**	35.0
Non-current portion	**55.8**	59.6
Total	**109.5**	108.4

Amortisation of programme participation cash payments of £3.1m (2020: £3.1m) has been recognised as a reduction in revenue in the year. Cumulative catch-up adjustments to revenue recognised in a prior year, arising from changes in the current year in the measure of progress or contract price on contract assets were £1.6m (2020: £0.4m).

Contract assets are also subject to the impairment requirements of IFRS 9, however the identified impairment loss was not significant.

26. Cash and cash equivalents

	2021 £'m	2020 £'m
Cash at bank and on hand	**190.8**	178.6
Total	**190.8**	178.6

Cash and cash equivalents are subject to interest at floating rates.

27. Trade and other payables

	2021 £'m	2020 £'m
Trade payables	**132.4**	131.4
Social security and other taxes	**12.4**	10.7
Accrued expenses	**64.3**	58.5
Other payables	**108.8**	95.9
Current portion	**317.9**	296.5
Other payables	**3.7**	8.5
Non-current portion	**3.7**	8.5
Total	**321.6**	305.0

Other payables include £26.3m (2020: £23.5m) due to banks in respect of the Group's supplier financing programme. No amounts due under the programme met the requirements to be classified as bank borrowings (2020: £Nil).

Notes to the consolidated financial statements
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28. Contract liabilities

	2021 £'m	2020 £'m
Contributions received from customers during development phase of programmes	**2.4**	1.7
Cost per brake landing/power by the hour contracts	**7.9**	4.9
Other consideration received in advance of performance	**52.4**	44.2
Current portion	**62.7**	50.8
Contributions received from customers during development phase of programmes	**44.9**	45.1
Cost per brake landing/power by the hour contracts	**4.1**	5.2
Other consideration received in advance of performance	**23.6**	23.6
Non-current portion	**72.6**	73.9
Total	**135.3**	124.7

Revenue recognised in the year relating to amounts recognised as a contract liability at the beginning of the year was £31.0m (2020: £36.1m). Cumulative catch-up adjustments to revenue recognised in a prior year, arising from changes in the current year in the measure of progress or contract price on contract liabilities were £2.2m (2020: £0.7m).

The aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partly satisfied at 31 December 2021 is £369.1m (2020 (restated): £387.2m). Of this aggregate amount, the Group expects to recognise £130.6m (2020 (restated): £174.0m) as revenue during 2022, with the balance recognised in more than one year but not more than five years. Prior year figures have been restated to incorporate the full contract life of a number of power by the hour contracts resulting in an increase in the aggregate amount of £178.6m and an increase in the amount expected to be recognised in 2021 of £12.6m. The Group has taken the practical expedients available in IFRS 15 not to include amounts relating to contracts which have an expected duration of less than 12 months when received, or amounts relating to contracts for which revenue is recognised using a method whereby the value to the customer corresponds to the right to invoice the customer.

29. Current tax liabilities

	Note	2021 £'m	2020 £'m
UK Controlled Foreign Company (CFC) regime	a	**1.9**	18.3
Other liabilities in respect of uncertain tax positions	b	**29.6**	30.8
Other current tax liabilities		**2.7**	7.8
Current tax liabilities		**34.2**	56.9

a. In April 2019, the European Commission announced its decision that state aid partially applies to one of the UK's CFC exemptions that was utilised by the Group. This decision has been appealed by the UK Government and the Group has also lodged its own separate appeal. There are a number of uncertainties that remain to be resolved, including the results of the appeals processes and, should these be unsuccessful, the extent to which historical tax benefits received by the Group are deemed to have derived from financing activities performed in the UK rather than overseas. In making an assessment of the appropriate tax liability related to historical tax benefits received by the Group under the CFC regime, the Group has estimated that the most likely outcome is that the appeals will not be successful and accordingly a liability for the Group's estimated exposure was held at 31 December 2020.

   On 17 December 2020, the Taxation (Post-transition Period) Act 2020 received Royal Assent which gave the UK tax authorities specific powers to recover amounts considered due from UK businesses. The Group received tax assessments during 2021 from the UK authority in this regard of £16.9m, for which a liability was held at 31 December 2020. The £16.9m was paid by the Group in the year. Separately, the Group is in discussion with the UK tax authorities over the applicability of one of the UK's CFC exemptions utilised by the Group under UK domestic law and while this issue largely overlaps with the State Aid benefit now repaid, a residual liability is held in this regard at 31 December 2021. The Group does not consider there to be a significant risk of a material adjustment to the residual liability recognised within the next 12 months.

b. In determining the Group's tax liabilities, it is also necessary to consider other transactions in key tax jurisdictions for which the ultimate tax determination is uncertain. The Group's tax liabilities for these matters reflect a number of estimates where the amount of tax payable is either currently under audit by the tax authorities or relates to a period which has yet to be audited. These areas include the deductibility of interest on certain borrowings used to finance acquisitions made by the Group and the value at which goods and services are transferred between Group companies. The nature of the items, for which a liability is held, is such that the final outcome could vary from the amounts recognised once a final tax determination is made, although currently none of these exposures are considered individually material. To the extent the estimated final outcome differs from the tax that has been provided, adjustments will be made to the liabilities held in the year the determination is made. The Group does not consider there to be a significant risk of a material adjustment to the liabilities recognised within the next 12 months.

30. 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 (see note 20)	**14.4**	16.0
Additions to right-of-use assets (see note 20)*	**26.6**	11.4
Net book amount of right-of-use assets (see note 20)	**116.8**	104.6
Interest on lease liabilities (see note 12)	**5.7**	6.0
Expense related to short-term leases and low-value assets	**1.0**	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 ten-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.

Analysis of lease liabilities

	Present value of minimum lease payments	
	2021 £'m	2020 £'m
In one year or less	**15.6**	14.7
In more than one year but not more than five years	**50.0**	45.4
In more than five years	**103.4**	84.2
Present value of lease liabilities	**169.0**	144.3
Current portion	**15.6**	14.7
Non-current portion	**153.4**	129.6

31. 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
Total	**801.3**	807.3
Analysis of bank and other borrowings repayable:		
In one year or less	**105.3**	10.5
In more than one year but not more than five years	**695.8**	577.4
In more than five years	**0.2**	219.4
Total	**801.3**	807.3
Analysis of bank and other borrowings:		
Drawn under committed facilities	**791.6**	795.9
Drawn under uncommitted facilities	**2.7**	2.2
Less unamortised debt issue costs	**(2.7)**	(2.4)
Fair value adjustment to fixed rate borrowings	**1.2**	3.3
Interest accruals	**8.5**	8.3
Total	**801.3**	807.3

Debt issue costs are amortised over the period of the facility to which they relate. The Group has no secured borrowings.

Notes to the consolidated financial statements
continued

31. Bank and other borrowings continued

Committed facilities

The Group has the following committed facilities at notional value:

	2021			2020		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
2010 Senior notes : USD125.0m	92.8	–	92.8	91.6	–	91.6
2016 Senior notes: USD600.0m	445.4	–	445.4	439.5	–	439.5
2020 Senior notes: USD300.0m	222.7	–	222.7	219.8	–	219.8
Syndicated credit facilities: USD410.0m (2020: USD 750.0m)	–	304.4	304.4	–	549.4	549.4
Bilateral facility: USD50.0m (2020: USD125.0m)	–	37.1	37.1	–	91.5	91.5
Bilateral facility: GBP50.0m (2020: GBP100.0m)	–	50.0	50.0	–	100.0	100.0
Bilateral facility: GBP30.0m (2020: GBP45.0m)	30.0	–	30.0	45.0	–	45.0
Other: EUR0.8m	0.7	–	0.7	–	–	–
Committed facilities	**791.6**	**391.5**	**1,183.1**	795.9	740.9	1,536.8

The Group issued USD400m of loan notes to private placement investors in 2010, of which USD125m remains outstanding. The outstanding notes carry an interest rate of 5.12% and are due for repayment in June 2022. These loan notes are in a fair value hedge relationship with the Group's interest rate swaps.

The Group issued USD600m of loan notes to private placement investors in 2016. The notes comprise two tranches as follows: USD300m carry an interest rate of 3.31% and are due for repayment in July 2023; and USD300m carry an interest rate of 3.60% and are due for repayment in July 2026. These loan notes are designated as net investment hedges of the net assets of USD denominated subsidiaries.

The Group issued USD300m of loan notes to private placement investors in 2020. The notes comprise two tranches as follows: USD100m carry an interest rate of 2.78% and are due for repayment in November 2023; and USD200m carry an interest rate of 3.00% and are due for repayment in November 2025.

In November 2021, the Group secured a three-year USD410m syndicated multi-currency revolving credit facility maturing in November 2024, which replaced the previous USD750m facility. At 31 December 2021, the amounts drawn under the facility are £Nil (2020: £Nil). Borrowings under the new facility are subject to interest at floating rates which are linked to SONIA (GBP), EURibor (EUR) and USD LIBOR (USD), until such future date to be agreed between the Group and the banks when USD borrowings will be linked to SOFR.

During 2021, the Group amended the three committed term loan bilateral facility agreements with its relationship banks. They now comprise a USD50m facility with Bank of America, a GBP50m facility with Sumitomo Mitsui Banking Corporation and a GBP30m facility with Caixabank. The USD facility now matures in December 2023 and the two GBP facilities mature in January 2024. Borrowings under the USD and GBP facilities are subject to interest at floating rates which are linked to SOFR and SONIA respectively.

Committed facilities expire as follows:

	2021			2020		
	Drawn £'m	Undrawn £'m	Total £'m	Drawn £'m	Undrawn £'m	Total £'m
In one year or less	92.8	–	92.8	–	128.2	128.2
In more than one year but not more than five years	698.6	391.5	1,090.1	576.1	612.7	1,188.8
In more than five years	0.2	–	0.2	219.8	–	219.8
Committed facilities	**791.6**	**391.5**	**1,183.1**	795.9	740.9	1,536.8

The Group also has various uncommitted facilities with its relationship banks. At 31 December 2021, £2.7m (2020: £2.2m) was drawn under these facilities.

31. Bank and other borrowings continued

Interest rate exposure

After taking account of financial derivatives entered into by the Group that alter the interest basis of its financial liabilities, the interest rate exposure on bank and other borrowings is:

At 31 December 2021:

	Floating	Fixed	Total	Fixed rate borrowings	
				Weighted average interest rate	Weighted average period for which rate is fixed
	£'m	£'m	£'m	%	Years
US dollar	93.0	452.4	545.4		
Swiss franc	–	148.8	148.8		
Euro	–	79.8	79.8		
Sterling	30.0	–	30.0		
Gross bank and other borrowings	123.0	681.0	804.0	2.9	3.1
Less: unamortised debt issue costs	(1.8)	(0.9)	(2.7)		
Bank and other borrowings	121.2	680.1	801.3		

At 31 December 2020:

	Floating	Fixed	Total	Fixed rate borrowings	
				Weighted average interest rate	Weighted average period for which rate is fixed
	£'m	£'m	£'m	%	Years
US dollar*	(133.1)	672.9	539.8		
Swiss franc	–	166.4	166.4		
Euro	–	58.5	58.5		
Sterling	45.0	–	45.0		
Gross bank and other borrowings	(88.1)	897.8	809.7	2.4	3.1
Less: unamortised debt issue costs	(1.4)	(1.0)	(2.4)		
Bank and other borrowings	(89.5)	896.8	807.3		

* Part of the proceeds from the issue of USD300m senior notes at fixed interest rates in 2020, was used to reduce the level of gross USD borrowings held at floating rates. Prior to this reduction, the Group had entered cross-currency derivatives, which matured during 2021, and which converted USD floating rate borrowings into fixed rate borrowings denominated in Swiss francs and euros. At 31 December 2020, the notional amounts of these cross-currency swaps exceeded the gross value of USD floating rate borrowings and accordingly a negative value is reported in the table above for floating rate USD borrowings after taking account of these financial derivatives.

The weighted average interest rate reflects the relative impact of interest rates based on the principal amounts and the duration of borrowings.

Hedges of net investments in foreign subsidiaries

The Group manages risks in respect of net operating assets held in foreign currencies by holding foreign currency denominated loans.

	2021 £'m	2020 £'m
Carrying value at 1 January	446.3	461.1
Loss/(gain) recognised in net finance costs due to movements in accrued interest and debt costs	0.3	(0.1)
Loss/(gain) recognised in other comprehensive income due to exchange rate movements	5.9	(14.7)
Carrying value at 31 December	452.5	446.3

Cumulative translation adjustments recognised in other comprehensive income in relation to continuing net investment hedge loans are a gain of £9.9m (2020: £15.8m gain).

The Group also uses the notional principal from cross-currency swaps in its net investment hedge which resulted in a £14.1m loss recognised in other comprehensive income.

Net investment hedges are considered effective unless the value of the hedging instrument exceeds the value of the hedged item. No ineffectiveness arose in either 2021 or 2020.

Notes to the consolidated financial statements
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32. Financial instruments
At 31 December 2021:

	Held at fair value		Held at amortised cost			
	Through profit & loss £'m	Derivatives designated for hedging £'m	Assets £'m	Liabilities £'m	Total book value £'m	Total fair value £'m
Non-current:						
Other receivables (see note 24)	–	–	18.8	–	18.8	18.8
Derivative financial instruments (see note 33)	10.0	–	–	–	10.0	10.0
Current:						
Trade and other receivables*	–	–	280.0	–	280.0	280.0
Derivative financial instruments (see note 33)	3.1	1.7	–	–	4.8	4.8
Cash and cash equivalents (see note 26)	–	–	190.8	–	190.8	190.8
Financial assets	**13.1**	**1.7**	**489.6**	**–**	**504.4**	**504.4**
Current:						
Trade and other payables**	–	–	–	(305.5)	(305.5)	(305.5)
Derivative financial instruments (see note 33)	(3.2)	–	–	–	(3.2)	(3.2)
Lease liabilities (see note 30)	–	–	–	(15.6)	(15.6)	(15.6)
Bank and other borrowings (see note 31)***	–	–	–	(105.3)	(105.3)	(105.3)
Non-current:						
Other payables (see note 27)	–	–	–	(3.7)	(3.7)	(3.7)
Derivative financial instruments (see note 33)	(1.3)	–	–	–	(1.3)	(1.3)
Lease liabilities (see note 30)	–	–	–	(153.4)	(153.4)	(153.4)
Bank and other borrowings (see note 31)	–	–	–	(696.0)	(696.0)	(692.6)
Financial liabilities	**(4.5)**	**–**	**–**	**(1,279.5)**	**(1,284.0)**	**(1,280.6)**
Total	**8.6**	**1.7**	**489.6**	**(1,279.5)**	**(779.6)**	**(776.2)**

* Excludes prepayments of £14.5m (see note 24).
** Excludes social security and other taxes of £12.4m (see note 27).
*** Current bank and other borrowings includes loan notes with a carrying amount of £94.2m which are designated as in a fair value hedge relationship (see note 31). This carrying amount includes a fair value hedge adjustment of £1.2m.

32. Financial instruments continued

At 31 December 2020:

	Held at fair value		Held at amortised cost			
	Through profit & loss £'m	Derivatives designated for hedging £'m	Assets £'m	Liabilities £'m	Total book value £'m	Total fair value £'m
Non-current:						
Other receivables (see note 24)	–	–	16.5	–	16.5	16.5
Derivative financial instruments (see note 33)	9.9	5.1	–	–	15.0	15.0
Current:						
Trade and other receivables*	–	–	238.6	–	238.6	238.6
Derivative financial instruments (see note 33)	5.4	–	–	–	5.4	5.4
Cash and cash equivalents (see note 26)	–	–	178.6	–	178.6	178.6
Financial assets	15.3	5.1	433.7	–	454.1	454.1
Current:						
Trade and other payables**	–	–	–	(285.8)	(285.8)	(285.8)
Derivative financial instruments (see note 33)	(21.6)	–	–	–	(21.6)	(21.6)
Lease liabilities (see note 30)	–	–	–	(14.7)	(14.7)	(14.7)
Bank and other borrowings (see note 31)	–	–	–	(10.5)	(10.5)	(10.5)
Non-current:						
Other payables (see note 27)	–	–	–	(8.5)	(8.5)	(8.5)
Derivative financial instruments (see note 33)	(0.3)	–	–	–	(0.3)	(0.3)
Lease liabilities (see note 30)	–	–	–	(129.6)	(129.6)	(129.6)
Bank and other borrowings (see note 31)***	–	–	–	(796.8)	(796.8)	(813.1)
Financial liabilities	(21.9)	–	–	(1,245.9)	(1,267.8)	(1,284.1)
Total	(6.6)	5.1	433.7	(1,245.9)	(813.7)	(830.0)

* Excludes prepayments of £12.5m (see note 24).

** Excludes social security and other taxes of £10.7m (see note 27).

*** Non-current bank and other borrowings includes loan notes with a carrying amount of £95.0m which are designated as in a fair value hedge relationship (see note 31). This carrying amount includes a fair value hedge adjustment of £3.3m.

Fair value measurement and hierarchy

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. Lease liabilities are outside the scope of IFRS 7 "Financial Instruments: Disclosures" with regards to fair value disclosures.

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

The current and non-current elements of fixed rate bank and other borrowings measured at fair value, are classified as level 3 in the fair value measurement hierarchy, as they have been determined using significant inputs which are a mixture of those based on observable market data (interest rate risk) and those not based on observable market data (credit risk). The fair values attributable to interest rate risk have been derived from forward interest rates based on yield curves observable at the balance sheet date and contractual interest rates, with the credit risk margin kept constant. The fair values attributable to credit risk have been derived from quotes from lenders for borrowings of similar amounts and maturity periods. The same methods of valuation have been used to derive the fair values of the current and non-current elements of fixed rate bank and other borrowings which are held at amortised cost, but for which fair values are provided in the tables above.

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

Notes to the consolidated financial statements
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32. Financial instruments continued

Impairment of financial assets

Trade receivables are stated after a loss allowance. Movements in the loss allowance during the year are as follows:

	2021 £'m	2020 £'m
At 1 January	**12.4**	6.1
Exchange rate adjustments	**0.1**	(0.2)
Businesses disposed	**–**	(0.2)
Utilised	**(1.4)**	(1.1)
(Credit)/charge to income statement – net operating costs*	**(0.3)**	7.8
At 31 December	**10.8**	12.4

* Includes £2.5m (2020: £5.4m charge) which has been credited to exceptional operating items (see note 10). This relates, in 2021, to a partial reversal of the additional credit loss allowances recognised as an exceptional operating item in 2020 as a result of the uncertainty facing the commercial aerospace industry and a number of airline operator bankruptcies subsequent to the COVID-19 outbreak.

The loss allowance is determined by reference to the ageing of gross balances which at 31 December 2021 is as follows:

	2021 £'m	2020 £'m
Current	**203.6**	165.4
Up to 1 month past due	**20.6**	20.7
Up to 2 months past due	**11.2**	7.3
Up to 3 months past due	**5.8**	4.1
More than 3 months past due	**17.6**	13.7
Gross balances	**258.8**	211.2
Loss allowance	**(10.8)**	(12.4)
Total	**248.0**	198.8

Impairment of other financial assets

The maximum exposure to credit risk at the balance sheet date is the fair value of each class of financial asset reported above.

Other receivables and cash and cash equivalents are also subject to the impairment requirements of IFRS 9, however the identified impairment loss was not significant. The credit quality of the financial institutions where cash and cash equivalents is held are as follows:

	2021 £'m	2020 £'m
Moody's rating:		
Aa	**81.5**	176.1
A	**107.7**	2.2
Baa	**1.6**	0.3
Total (see note 26)	**190.8**	178.6

33. Derivative financial instruments

At 31 December 2021:

	Contract or underlying principal amount		Fair value	
	Assets £'m	Liabilities £'m	Assets £'m	Liabilities £'m
Interest rate swaps – fair value hedges	92.8	–	1.7	–
Cross-currency swaps – not hedge accounted	–	(87.6)	–	(1.1)
Foreign currency forward contracts – not hedge accounted	89.6	(77.3)	3.1	(2.1)
Current portion	**182.4**	**(164.9)**	**4.8**	**(3.2)**
Cross-currency swaps – not hedge accounted	228.6	–	6.5	–
Foreign currency forward contracts – not hedge accounted	76.1	(50.6)	3.5	(1.3)
Non-current portion	**304.7**	**(50.6)**	**10.0**	**(1.3)**
Total	**487.1**	**(215.5)**	**14.8**	**(4.5)**

33. Derivative financial instruments continued

At 31 December 2020:

	Contract or underlying principal amount		Fair value	
	Assets £'m	Liabilities £'m	Assets £'m	Liabilities £'m
Cross-currency swaps – not hedge accounted	–	(299.5)	–	(20.0)
Foreign currency forward contracts – not hedge accounted	182.6	(40.3)	5.4	(1.6)
Current portion	182.6	(339.8)	5.4	(21.6)
Interest rate swaps – fair value hedges	91.6	–	5.1	–
Foreign currency forward contracts – not hedge accounted	172.0	(85.7)	9.9	(0.3)
Non-current portion	263.6	(85.7)	15.0	(0.3)
Total	446.2	(425.5)	20.4	(21.9)

Credit quality of derivative financial assets

The credit quality of derivative financial assets is as follows:

	2021 £'m	2020 £'m
Moody's rating:		
Aa	**9.0**	8.1
A	**5.8**	12.3
Total	**14.8**	20.4

The maximum exposure to credit risk at the balance sheet date is the fair value of the derivative financial instruments.

Interest rate swaps

The Group currently holds fixed to floating interest rate swap contracts, denominated in US dollars, that have the economic effect of converting fixed rate US dollar borrowings into floating rate US dollar borrowings. To the extent they continue to meet the criteria for hedge accounting, the contracts are accounted for as fair value hedges.

The total notional principal amount of outstanding interest rate swap contracts at 31 December 2021 is USD125m (2020: USD125m) which will expire in 2022. The weighted average floating rate payable on the swap contracts in 2021 was LIBOR +1.1% (2020: LIBOR +1.1%). As the critical terms of the interest rate swaps match the underlying hedged loan, there is an expectation that the value of the hedging instrument and the value of the hedged item will move in the opposite direction. The hedge ratio is therefore expected to be 1:1.

Any difference recognised in the income statement between movements in the fair value of the interest rate swaps and the fixed rate borrowings is considered to be hedge ineffectiveness. The fair value hedge ineffectiveness recognised in the year was a £0.1m charge (2020: £Nil) (see note 9). Possible sources of ineffectiveness arise from changes in the credit risk of either party to the derivative contract and timing differences on cash flows between the derivative and hedged item.

Cross-currency swaps

The cross-currency swap contracts are used to synthetically convert US dollar denominated floating borrowings into Swiss franc and euro denominated fixed borrowings to commercially hedge against Swiss franc and euro denominated assets of foreign subsidiaries. The contracts do not qualify to be hedge accounted.

Foreign currency forward contracts

Although the Group uses foreign currency forward contracts to hedge against foreign currency exposures, it has decided the costs of meeting the extensive documentation requirements to be able to apply hedge accounting under IFRS 9 "Financial Instruments" are not merited. Foreign currency forward contracts are analysed as follows:

	2021		2020	
	Assets £'m	**Liabilities £'m**	Assets £'m	Liabilities £'m
Fair value:				
US dollar/sterling forward sales	**6.4**	**(2.6)**	12.7	(1.7)
Forward sales denominated in other currencies	**0.3**	**(0.7)**	2.6	(0.2)
Total	**6.7**	**(3.3)**	15.3	(1.9)

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34. Provisions

	Provisions					
	Environmental (a) £'m	Onerous contracts (b) £'m	Warranty costs (c) £'m	Other (d) £'m	Total £'m	Environmental receivables (a) £'m
At 1 January 2021	72.7	13.0	16.0	11.2	112.9	(18.8)
Exchange rate adjustments	1.3	0.1	(0.1)	(0.1)	1.2	(0.3)
Additional provisions*	29.5	8.2	8.9	3.7	50.3	–
Unused amounts reversed*	(1.0)	(4.3)	(0.3)	(5.8)	(11.4)	1.0
Charge/(credit) to net finance costs (see notes 12 and 11 respectively)	0.6	–	–	–	0.6	(0.2)
Transfers from trade and other payables	–	1.2	–	1.6	2.8	–
Amounts (utilised)/settled	(9.5)	(3.1)	(5.3)	(2.4)	(20.3)	3.3
At 31 December 2021	**93.6**	**15.1**	**19.2**	**8.2**	**136.1**	**(15.0)**

	2021 £'m	2020 £'m
Current	**55.8**	32.6
Non-current	**80.3**	80.3
At 31 December	**136.1**	112.9

* Amounts in respect of warranty costs, a £5.0m charge in respect of onerous contract provisions and a £2.3m credit in respect of other provisions have been recognised in cost of sales. All other amounts have been recognised within net operating costs. Additional provisions of £29.5m in respect of environmental matters have been charged to exceptional operating items (see note 10).

a. The Group's operations and facilities are subject to laws and regulations that govern the discharge of pollutants and hazardous substances into the ground, air and water as well as the handling, storage and disposal of such materials and other environmental matters. Failure to comply with its obligations potentially exposes the Group to serious consequences, including fines, other sanctions and limitations on operations. The Group is involved in the investigation and remediation of current and former 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. Note 4 describes the Group's critical accounting estimate in respect of the £29.5m recorded as a provision in the year.

   Provisions are expected to be substantially utilised over the next 20 years and are discounted using an appropriate discount rate.

   The Group has insurance arrangements in place which, together with other agreements with third parties, partly mitigates the ongoing impact of historical environmental events on the Group. A receivable has been established to the extent these costs are virtually certain to be recoverable under the Group's environmental insurance policies or from other parties, typically when there is a binding signed agreement in place. Movements in the receivable are shown in the table above (see also note 24). Note 4 describes the Group's critical accounting estimate in respect of amounts recoverable from historic insurers and other third parties relating to the matter for which £29.5m has been recorded as a provision in the year.

b. Provision has been made for estimated losses under certain trading contracts. Provisions are expected to be substantially utilised over the next five years and are not discounted given the short period over which they will be utilised and accordingly the impact would be immaterial.

c. Provision has been made for product warranty claims. Provisions are expected to be substantially utilised over the next three years and are not discounted given the short period over which they will be utilised and accordingly the impact would be immaterial.

d. A number of asbestos-related claims have been made against subsidiary companies of the Group. To date, the amount connected with such claims in any year has not been material and many claims are covered fully or partly by existing insurance and indemnities. There is a provision, included within other provisions, for certain claims which cannot be recovered from insurers. Provisions are expected to be substantially utilised over the next ten years and are discounted, where appropriate, using a discount rate appropriate to each provision.

35. Deferred tax

Movements in deferred tax assets and liabilities without taking into consideration the offsetting of balances, are analysed below:

	Assets £'m	Liabilities £'m	Net £'m
At 1 January 2020	124.2	(256.2)	(132.0)
Exchange rate adjustments	(3.1)	5.2	2.1
Businesses disposed	(0.7)	7.4	6.7
Reclassifications	(1.9)	1.9	–
Credit to income statement (see note 13)	6.7	31.9	38.6
Credit to other comprehensive income (see note 13)	12.4	–	12.4
Charge to equity (see note 13)	(2.0)	–	(2.0)
At 31 December 2020	135.6	(209.8)	(74.2)
Exchange rate adjustments	1.5	(1.6)	(0.1)
Credit to income statement (see note 13)	4.3	19.7	24.0
Charge to other comprehensive income (see note 13)	(21.8)	–	(21.8)
Credit to equity	1.2	–	1.2
At 31 December 2021	**120.8**	**(191.7)**	**(70.9)**

Movements in gross deferred tax assets are analysed as follows:

	Assets				
	Provisions £'m	Retirement benefit obligations £'m	Contract liabilities £'m	Other (*) £'m	Total £'m
At 1 January 2020	30.8	52.2	15.5	25.7	124.2
Exchange rate adjustments	(1.1)	(0.4)	(2.0)	0.4	(3.1)
Businesses disposed	(0.5)	–	(0.9)	0.7	(0.7)
Reclassifications	–	–	–	(1.9)	(1.9)
Credit/(charge) to income statement	4.9	(1.7)	4.6	(1.1)	6.7
Credit to other comprehensive income	–	12.4	–	–	12.4
Charge to equity	–	(1.9)	–	(0.1)	(2.0)
At 31 December 2020	34.1	60.6	17.2	23.7	135.6
Exchange rate adjustments	0.8	0.1	0.2	0.4	1.5
Credit/(charge) to income statement	5.9	(9.5)	0.9	7.0	4.3
Charge to other comprehensive income	–	(21.8)	–	–	(21.8)
Credit to equity	–	–	–	1.2	1.2
At 31 December 2021	**40.8**	**29.4**	**18.3**	**32.3**	**120.8**

* Includes balances arising from temporary differences in relation to accruals, share-based payments, finance costs and derivative financial instruments, none of which are individually material at either balance sheet date or include any material movements during either year.

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35. Deferred tax continued

Movements in gross deferred tax liabilities are analysed as follows:

	Liabilities			
	Intangible assets £'m	Contract assets £'m	Accelerated tax depreciation £'m	Total £'m
At 1 January 2020	(222.4)	(10.9)	(22.9)	(256.2)
Exchange rate adjustments	4.2	0.4	0.6	5.2
Businesses disposed	7.3	–	0.1	7.4
Reclassifications	2.1	–	(0.2)	1.9
Credit/(charge) to income statement	30.4	(1.1)	2.6	31.9
At 31 December 2020	(178.4)	(11.6)	(19.8)	(209.8)
Exchange rate adjustments	(1.4)	(0.1)	(0.1)	(1.6)
Credit/(charge) to income statement	13.7	0.5	5.5	19.7
At 31 December 2021	**(166.1)**	**(11.2)**	**(14.4)**	**(191.7)**

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. The balances after allowing for such offsets are as follows:

	2021 £'m	2020 £'m
Deferred tax assets	–	19.2
Deferred tax liabilities	**(70.9)**	(93.4)
Net balance at 31 December	**(70.9)**	(74.2)

Deferred tax liabilities all fall due after more than one year. Deferred tax assets are analysed as follows:

	2021 £'m	2020 £'m
To be recovered within one year	–	4.4
To be recovered after more than one year	–	14.8
Total	–	19.2

The Group has unrecognised tax losses of £8.0m (2020: £8.0m) for which no deferred tax asset has been recognised. No asset has been recognised in respect of these losses, as it is not regarded as probable they will be recovered. Deferred tax assets not recognised would be recoverable in the event they reverse and suitable taxable profits are available. There are no unremitted earnings in foreign subsidiaries that would give rise to a tax liability in the event of those subsidiaries remitting their earnings.

36. Retirement benefit obligations

Pension schemes

The Group operates a number of pension schemes for the benefit of its employees. The nature of each scheme which has a significant impact on the consolidated financial statements is detailed below:

- In the UK, the Group operates a funded defined benefit scheme. This scheme is closed to new members and, following conclusion of a consultation process with active members of the scheme, the scheme was closed to future accrual for all members with effect from 6 April 2021. It is a registered scheme and subject to the statutory scheme-specific funding requirements outlined in UK legislation, including the payment of levies to the Pension Protection Fund. It is established under trust and the responsibility for its governance lies with the trustees who also agree funding arrangements with the Group.
- In the US, the Group operates three principal defined benefit schemes, each of which is closed to future accrual for all members. The schemes are tax-qualified pension schemes regulated by the US Internal Revenue Service and the Department of Labor, and are insured by the Pension Benefit Guarantee Corporation up to certain limits. They are established under, and governed by, the US Internal Revenue Code of 1986 and the Employee Retirement Income Security Act 1974, including the Pension Protection Act of 2006. Meggitt is a named fiduciary and plan administrator with the authority to manage the operation of the schemes. The Group also operates two small unfunded schemes.
- In Switzerland, the Group operates a funded defined benefit scheme which is open to new members and future accrual. The scheme is a tax-qualified pension plan subject to the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Plans which constitutes a legal framework setting out the minimum requirements for occupational pension plans. Responsibility for its governance lies with a foundation, which is similar in nature to a UK trustee board.

The UK and US schemes provide benefits to members in the form of a guaranteed level of pension payable for life. The benefits provided depend on a member's length of service. For the UK scheme, benefits are dependent on salary at the date of closure to future accrual or average salary over employment in the final years leading up to the date of closure to future accrual, together with inflation linked to CPI for the period from closure to future accrual to retirement. In the US, the schemes either provide a benefit linked to salary at the date they were closed to future accrual or provide a fixed benefit for each year of service. The Swiss scheme has many of the characteristics of a defined contribution scheme, but provides for certain minimum benefits to be guaranteed to members.

For all funded schemes, benefit payments are made from funds administered by third parties unrelated to the Group. The assets of such schemes are held in trust funds, or their equivalent, separate from the Group's finances. For all unfunded schemes, benefit payments are made by the Group as obligations fall due.

The Group also operates a number of defined contribution schemes under which the Group has no further obligations once contributions have been made.

Healthcare schemes

The Group has two principal other post-retirement benefit schemes providing medical and life assurance benefits to certain employees and former employees of Meggitt Aircraft Braking Systems Corporation and Meggitt (Rockmart), Inc. These schemes are unfunded and closed to new members.

Amounts recognised in the income statement

	2021 £'m	2020 £'m
Total charge in respect of defined contribution pension schemes	**26.5**	19.9
Service cost	**6.5**	14.5
Past service (credit)/cost	**(0.2)**	0.1
Curtailment gain	**(8.0)**	–
Administrative expenses borne directly by schemes	**2.5**	2.6
Net interest expense on retirement benefit obligations	**3.2**	4.3
Total charge in respect of defined benefit pension schemes	**4.0**	21.5
Service cost	**0.3**	0.7
Net interest expense on retirement benefit obligations	**0.9**	1.4
Total charge in respect of healthcare schemes	**1.2**	2.1
Total charge	**31.7**	43.5

Of the total charge, £25.1m (2020: £35.2m) is included in employee costs (see note 8), of which £14.8m (2020: £19.2m) has been recognised in cost of sales and £10.3m (2020: £16.0m) in net operating costs. Of the remaining charge, £2.5m (2020: £2.6m) has been recognised in net operating costs in respect of scheme administration expenses and £4.1m (2020: £5.7m) is recognised in finance costs (see note 12).

Notes to the consolidated financial statements
continued

36. Retirement benefit obligations continued

Amounts recognised in the income statement continued

Following closure of the UK scheme to future accrual, a curtailment gain of £8.0m was recognised in the year (2020: £Nil), which arises from the reduction in scheme liabilities as a result of breaking the salary and career average revalued earnings revaluation link for members in service at the date of closure.

The Group has estimated, with the advice of its actuary, that the impact of the High Court ruling in 2020 in respect of the requirement to provide uplifts to transfer values paid before 26 October 2018 to address inequalities in the calculation of Guaranteed Minimum Pension obligations is not significant.

Amounts recognised on the balance sheet

	2021				2020			
	UK pension scheme £'m	**Overseas* pension schemes £'m**	**US healthcare schemes £'m**	**Total £'m**	UK pension scheme £'m	Overseas* pension schemes £'m	US healthcare schemes £'m	Total £'m
Present value of liabilities	**899.3**	**417.3**	**38.5**	**1,355.1**	961.1	456.1	46.7	1,463.9
Fair value of assets	**(839.9)**	**(388.1)**	**–**	**(1,228.0)**	(774.5)	(394.0)	–	(1,168.5)
Effect of asset ceiling**	**–**	**9.3**	**–**	**9.3**	–	–	–	–
Retirement benefit obligations	**59.4**	**38.5**	**38.5**	**136.4**	186.6	62.1	46.7	295.4

* Includes £36.1m (2020: £46.8m) in respect of US schemes.

** The asset ceiling relates to surpluses in one of the Group's US defined benefit schemes and its Swiss defined benefit scheme, 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.

Of the total deficit of £136.4m (2020: £295.4m), £52.3m (2020: £61.7m) is in respect of unfunded schemes.

Changes in the present value of retirement benefit obligations

	2021				2020		
	Liabilities £'m	**Assets £'m**	**Asset ceiling £'m**	**Total £'m**	Liabilities £'m	Assets £'m	Total £'m
At 1 January	**1,463.9**	**(1,168.5)**	**–**	**295.4**	1,347.5	(1,079.6)	267.9
Exchange rate adjustments	**0.8**	**(0.7)**	**–**	**0.1**	(4.0)	2.2	(1.8)
Service cost	**6.8**	**–**	**–**	**6.8**	15.2	–	15.2
Past service (credit)/cost	**(0.2)**	**–**	**–**	**(0.2)**	0.1	–	0.1
Curtailment gain	**(8.0)**	**–**	**–**	**(8.0)**	–	–	–
Net interest expense (see note 12)	**24.6**	**(20.5)**	**–**	**4.1**	28.4	(22.7)	5.7
Contributions – Group	**–**	**(48.9)**	**–**	**(48.9)**	–	(36.9)	(36.9)
Contributions – Members	**2.8**	**(2.8)**	**–**	**–**	2.5	(2.5)	–
Benefits paid	**(58.3)**	**58.3**	**–**	**–**	(60.8)	60.8	–
Settlements	**–**	**–**	**–**	**–**	(1.1)	1.1	–
Administrative expenses borne directly by schemes	**–**	**2.5**	**–**	**2.5**	–	2.6	2.6
Remeasurement of retirement benefit obligations:							
Experience gain	**(9.4)**	**–**	**–**	**(9.4)**	(7.8)	–	(7.8)
Gain from change in demographic assumptions	**(20.7)**	**–**	**–**	**(20.7)**	(2.4)	–	(2.4)
(Gain)/loss from change in financial assumptions	**(47.2)**	**–**	**–**	**(47.2)**	146.3	–	146.3
Return on schemes' assets excluding amounts included in finance costs	**–**	**(47.4)**	**–**	**(47.4)**	–	(93.5)	(93.5)
Change in the effect of asset ceiling	**–**	**–**	**9.3**	**9.3**	–	–	–
Total remeasurement (gain)/loss	**(77.3)**	**(47.4)**	**9.3**	**(115.4)**	136.1	(93.5)	42.6
At 31 December	**1,355.1**	**(1,228.0)**	**9.3**	**136.4**	1,463.9	(1,168.5)	295.4

36. Retirement benefit obligations continued

Analysis of pension scheme assets

	2021				2020			
	Quoted £'m	Unquoted £'m	Total £'m	%	Quoted £'m	Unquoted £'m	Total £'m	%
Equities	199.1	–	199.1	23.7	208.5	–	208.5	26.9
Government bonds	371.9	–	371.9	44.3	314.5	–	314.5	40.6
Corporate bonds	85.5	0.3	85.8	10.2	102.4	0.5	102.9	13.3
Hedge funds	–	41.6	41.6	4.9	–	54.3	54.3	7.0
Property funds	–	47.7	47.7	5.7	–	41.6	41.6	5.4
Cash	42.0	–	42.0	5.0	24.4	–	24.4	3.1
Derivative assets/(liabilities)	15.9	23.7	39.6	4.7	8.1	(2.1)	6.0	0.8
Other assets*	–	12.2	12.2	1.5	9.0	13.3	22.3	2.9
UK pension scheme	714.4	125.5	839.9	100.0	666.9	107.6	774.5	100.0
Equities	39.3	0.9	40.2	10.4	35.1	4.5	39.6	10.1
Government bonds	81.1	–	81.1	21.0	87.6	–	87.6	22.2
Corporate bonds	187.5	–	187.5	48.2	203.3	–	203.3	51.6
Property funds	31.2	2.8	34.0	8.8	28.6	3.7	32.3	8.2
Cash	18.0	–	18.0	4.6	9.0	–	9.0	2.3
Derivative assets	7.8	–	7.8	2.0	5.3	–	5.3	1.3
Other assets*	19.5	–	19.5	5.0	16.9	–	16.9	4.3
Overseas pension schemes	384.4	3.7	388.1	100.0	385.8	8.2	394.0	100.0
Equities	238.4	0.9	239.3	19.5	243.6	4.5	248.1	21.2
Government bonds	453.0	–	453.0	36.9	402.1	–	402.1	34.4
Corporate bonds	273.0	0.3	273.3	22.2	305.7	0.5	306.2	26.2
Hedge funds	–	41.6	41.6	3.4	–	54.3	54.3	4.6
Property funds	31.2	50.5	81.7	6.6	28.6	45.3	73.9	6.3
Cash	60.0	–	60.0	4.9	33.4	–	33.4	2.9
Derivative assets/(liabilities)	23.7	23.7	47.4	3.9	13.4	(2.1)	11.3	1.0
Other assets*	19.5	12.2	31.7	2.6	25.9	13.3	39.2	3.4
Total pension schemes' assets	1,098.8	129.2	1,228.0	100.0	1,052.7	115.8	1,168.5	100.0

* Other assets principally comprise annuities, mortgages and emerging market debt, no category of which is individually material.

The schemes have no investments in any assets of the Group.

Financial assumptions used to calculate scheme liabilities

	2021			2020		
	UK pension scheme %	US pension schemes %	US healthcare schemes %	UK pension scheme %	US pension schemes %	US healthcare schemes %
Discount rate*	1.8	2.8	2.8	1.4	2.3	2.3
Inflation rate (RPI)	3.4	n/a	n/a	3.0	n/a	n/a
Increases to deferred benefits during deferment**	2.7	n/a	n/a	2.3	n/a	n/a
Increases to pensions in payment**	3.2	n/a	n/a	2.9	n/a	n/a
Salary increases***	n/a	n/a	n/a	2.8	n/a	n/a

* The discount rate for the Swiss scheme was 0.34% (2020: 0.08%).
** To the extent not overridden by specific scheme rules.
*** No longer relevant following closure of the UK scheme to future accrual with effect from 6 April 2021.

In determining the fair value of scheme liabilities, the Group uses mortality assumptions which are based on published mortality tables adjusted to reflect the characteristics of the scheme populations.

In the UK, mortality assumptions are based on the most recently published Continuous Mortality Investigation model (the CMI_20 model) using the default model parameter that since the long-term impacts of COVID-19 on mortality improvements are still largely unknown, no weighting is applied to actual mortality experience in 2020. Assumptions are adjusted to reflect the profile of the membership of the scheme, which includes the results of a refreshed analysis of the scheme's membership used to support the 2021 triennial actuarial valuation. Allowance has been made for rates of mortality to continue to fall at the rate of 1.25% per annum.

Notes to the consolidated financial statements
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36. Retirement benefit obligations continued

Financial assumptions used to calculate scheme liabilities continued

In the US, mortality assumptions are based on the PriH-2012 headcount weighted table, for schemes where benefits are not salary-linked, and the Pri-2012 table for other schemes, with both tables projecting rates of mortality to fall using the 2021 Social Security Administration's Intermediate-Cost Projections scale.

In Switzerland, mortality assumptions are based on the BVG/LPP 2020 (Generational) tables with an allowance for rates of mortality to continue to fall at the rate of 1.25% per annum.

	2021			2020		
	UK scheme Years	**US schemes Years**	**Swiss scheme Years**	UK scheme Years	US schemes Years	Swiss scheme Years
Member age 45 (life expectancy at age 65) – male	**22.9-24.8**	**21.0-21.9**	**23.3**	23.1-25.0	21.0-21.9	24.5
Member age 45 (life expectancy at age 65) – female	**25.5-26.9**	**23.5-23.7**	**25.0**	25.6-26.9	23.4-23.6	26.5
Member age 65 (current life expectancy) – male	**21.6-23.4**	**19.8-20.7**	**22.8**	21.7-23.6	19.7-20.6	22.7
Member age 65 (current life expectancy) – female	**24.0-25.5**	**22.3-22.6**	**24.9**	24.2-25.5	22.3-22.5	24.8

Details on the sensitivity of scheme liabilities to changes in key assumptions are provided below:

- The impact of either a 50 basis point reduction or increase in discount rate, the average annual movement in discount rates observed over the last five years, would cause scheme liabilities at 31 December 2021 to either increase by approximately £114.0m or decrease by approximately £101.0m respectively.
- The impact of a 50 basis point increase in inflation rates would cause scheme liabilities at 31 December 2021 to increase by approximately £50.0m.
- The impact of assuming every scheme member were to live for an additional year would cause scheme liabilities at 31 December 2021 to increase by approximately £51.0m.

The above sensitivities are based on a change in a single assumption while keeping all other assumptions constant. In practice, this is unlikely to occur and changes in assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method of calculating the defined benefit obligation has been used as when calculating the retirement benefit obligations recognised on the balance sheet. The methods and types of assumptions used in preparing the sensitivity analysis are consistent with the previous year. The sensitivity for inflation has been increased from 10 basis points in 2020 to 50 basis points in 2021, given the increases experienced in the current year. No changes have been considered necessary to any other sensitivity levels.

Risks

The Group is exposed to a number of risks arising from operating its defined benefit pension and healthcare schemes, the most significant of which are detailed below. The Group has not changed the process used to manage defined benefit scheme risks during the year unless otherwise stated.

Asset volatility

This risk is partly mitigated by funded schemes investing in matching corporate bonds, such that changes in asset values are offset by similar changes in the value of scheme liabilities. However, the Group also invests in other asset classes such as equities, property funds, hedge funds and derivatives where movements in asset values may be uncorrelated to movements in the yields on high quality corporate bonds. The Group believes that, due to the long-term nature of its scheme liabilities, it is appropriate to invest in assets which are expected to outperform corporate bonds over this timeframe. Scheme assets are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. Both the UK and US schemes have purchased equity derivatives which enable the schemes to benefit from equity-like returns, subject to certain caps, whilst providing an element of protection against falls in equity markets. These derivatives cover approximately 30% of the total equities held by the schemes and have an average remaining life of 0.7 years at 31 December 2021. The Group actively monitors how the duration and expected yield of scheme assets match the expected cash outflows arising from its pension obligations. For each UK and US funded scheme, there is a "glide-path" in place which provides, to the extent the funding position improves, for asset volatility to be reduced by reduced exposure to return seeking assets and increased investment in bonds with maturities that match benefit payments as they fall due.

Interest risk

In both the UK and the US, schemes invest in government bonds and corporate bonds as part of their hedging strategy. Additionally, in the UK, the scheme has invested in cash flow matching credit assets and interest rate derivatives to provide additional hedging against interest risk exposures. At 31 December 2021, approximately 85% of the interest rate risk on the UK scheme's liabilities, measured on a funding basis, is hedged (2020: 80%). In the US, across the three funded schemes, hedging levels range from 90% to 98% of scheme liabilities measured on a funding basis (2020: 80% to 90%).

36. Retirement benefit obligations continued

Risks continued

Inflation risk

Following closure of the UK scheme to future accrual with effect from 6 April 2021, it is no longer exposed to salary inflation risk. Inflation risk in the UK in respect of deferred benefits and pensions in payment is mitigated by caps on the levels of inflation under the scheme rules. Residual inflation risk (after scheme caps) is mitigated through investing in index linked gilts and inflation rate derivatives. At 31 December 2021, these assets cover approximately 85% of liabilities measured on a funding basis (2020: 80%).

In the US, schemes do not provide benefits at retirement which are dependent on future salary increases and the impact for the scheme in Switzerland of salary inflation is not significant. In both the US and Switzerland, schemes provide for no inflation to be applied to benefits in deferment or retirement. Exposure to inflation on US healthcare costs has been mitigated by freezing Group contributions to medical costs at 2011 cost levels.

Longevity risk

To the extent life expectancy exceeds the Group's estimates, the retirement benefit obligations recognised in the consolidated financial statements would increase. This risk is more significant in the UK scheme, where the average duration of its liabilities is longer compared to the US schemes and inflationary increases more common, resulting in higher sensitivity to changes in life expectancy. The Group currently does not use derivatives to mitigate this risk.

Other information

In the UK, the most recent triennial valuation was as at 5 April 2018 at which date the deficit was measured for funding purposes at £171.8m. As part of this valuation, the Group agreed with the trustees that it would make deficit contributions, which would increase by approximately 5% each year in the expectation that these payments, together with asset returns, would eliminate the deficit by August 2023. Following the COVID-19 outbreak, the Group agreed with the trustees to defer four months' deficit contributions originally due to be made in 2020 amounting to £9.6m and which are being made over the remainder of the current recovery plan to August 2023. Deficit contributions recommenced in Q3 of 2020. Under the amended recovery plan, the Group will make deficit contributions of £40.2m in 2022 and £29.9m in the period to August 2023.

The 2021 triennial valuation at 5 April 2021 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.

The buy-out valuation at the 2018 valuation date was measured at £467.9m. The draft 2021 valuation results indicate an equivalent buy-out valuation at the 2021 valuation date of approximately £380.0m. These buy-out valuations assume the Group were to transfer responsibility of the scheme to an insurance company, the Group has no current plans to make such a transfer.

To the extent the present value of future deficit payments agreed as part of the actuarial valuation exceed the scheme accounting deficit at the balance sheet date, such amounts would be recoverable by the Group under the scheme rules once the last member has died and accordingly no additional minimum funding liability arises.

In the US, minimum deficit reduction payments are driven by regulations and provide for deficits to be eliminated over periods up to 15 years. At 31 December 2021, the three funded schemes had funding levels of 81%, 93% and 98% respectively. Absent any changes in legislation, no deficit contributions are currently expected to be required until 2025. Deficit contributions are expected to be £0.8m in 2025 and £1.5m in 2026. The present value of deficit payments due under legislation does not exceed the schemes' deficits at 31 December 2021 and accordingly no additional minimum funding liability arises.

The Swiss scheme has a surplus on a funding basis of £30.0m and no additional minimum funding liability arises.

Estimated total Group contributions expected to be paid to the schemes during 2022 are £47.2m.

The weighted average duration of the schemes' defined benefit obligations are 18.7 years (UK scheme), 10.5 years (US schemes) and 17.8 years (Swiss scheme).

Notes to the consolidated financial statements
continued

36. Retirement benefit obligations continued

Other information continued

The expected maturity of undiscounted pension and healthcare benefits at 31 December 2021 is as follows:

	Pension schemes £'m	Healthcare schemes £'m	Total £'m
To be made in 2022	49.3	2.9	52.2
To be made in 2023	50.1	2.8	52.9
To be made in 2024 to 2026	153.3	7.7	161.0
To be made in 2027 to 2031	269.3	10.8	280.1
To be made in 2032 to 2036	271.9	8.5	280.4
To be made in 2037 to 2041	253.4	6.4	259.8
To be made in 2042 to 2046	223.1	4.7	227.8
To be made from 2047 onwards	549.0	7.8	556.8
Total expected benefit payments	**1,819.4**	**51.6**	**1,871.0**

37. Share capital

	Ordinary shares of 5p each Number 'm	Nominal value £'m	Net consideration £'m
Allotted and fully paid:			
At 1 January 2020	777.5	38.8	
Issued on exercise of Sharesave awards	3.7	0.2	–
At 31 December 2020	781.2	39.0	
Issued on exercise of Sharesave awards	0.8	0.1	–
At 31 December 2021	**782.0**	**39.1**	

The Company does not have an authorised share capital.

38. Share-based payment

The Group operates a number of share schemes for the benefit of its employees. The total expense recognised in net operating costs in respect of such schemes (see note 8) is analysed as follows:

	2021 £'m	2020 £'m
Meggitt Long-Term Incentive Plan 2014 – Equity-settled	**3.8**	(3.0)
Meggitt Long-Term Incentive Plan 2014 – Cash-settled	**–**	(0.1)
Deferred Share Bonus Plan – Equity-settled	**0.8**	0.3
Deferred Share Bonus Plan – Cash-settled	**0.2**	–
Sharesave Plans – Equity-settled	**0.7**	0.3
Total expense/(credit)	**5.5**	(2.5)

Meggitt Long-Term Incentive Plan 2014: Equity-settled

Under this plan, an annual award of shares may be made to certain senior executives. Two different awards can be granted under the Plan – Performance Share Awards (PSAs) and Restricted Share Awards (RSAs). The number of shares, if any, that an executive ultimately receives in respect of a PSA, depends on three performance conditions:

- an earnings per share measure (33% of the award);
- a return on assets measure (33% of the award); and
- a strategic goals measure (33% of the award).

Each of the conditions is measured over a three-year performance period. For RSAs, vesting is subject to a general assessment by the Remuneration Committee of overall Group performance, together with any wider considerations it considers appropriate. For both PSAs and RSAs, an employee is generally entitled to a payment at the end of the vesting period, equivalent to dividends that would have been paid during the vesting period, on any shares that vest. There is no exercise price payable by the employees. The fair value of the awards made in 2021 has been estimated at the market price of the share on the date of grant, which was 433.2 pence (2020: 579.6 pence).

38. Share-based payment continued

Meggitt Long-Term Incentive Plan 2014: Equity-settled continued

Movements in the number of outstanding shares that may potentially be released to employees are as follows:

	2021 Number of shares under award outstanding 'm	2020 Number of shares under award outstanding 'm
At 1 January	**14.7**	16.0
Awarded	**3.6**	4.1
Exercised	**(1.0)**	(2.4)
Lapsed	**(6.5)**	(3.0)
At 31 December	**10.8**	14.7

At 31 December 2021, there are 9.4m PSAs outstanding (2020: 14.7m) and 1.4m RSAs (2020: Nil). At 31 December 2021, 0.6m PSAs are eligible for release. The remaining 10.2m shares under award have a weighted average life of 385 days until they are eligible for release.

39. Own shares

Own shares represent shares in the Company that are held by an independently managed Employee Share Ownership Plan Trust (the trust) formed to acquire shares to be used to satisfy share options and awards under the employee share schemes as described in the Directors' remuneration report on pages 126 to 155. At December 2021, the trust holds 2.0m ordinary shares (2020: 3.8m ordinary shares) which are unallocated, being retained by the trust for future use. The shares are held for the benefit of employees. Of the shares held at 31 December 2021, 0.8m were issued during 2021 and 1.2m were issued during 2020. Their market value at 31 December 2021 is £14.4m (2020: £17.6m), representing 0.25% of the issued share capital of the Company (2020: 0.48%).

40. Contractual commitments

Capital commitments

	2021 £'m	2020 £'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

Other financial commitments

The Group enters into long-term arrangements with aircraft and original equipment manufacturers for the design and development of products. This represents a significant long-term financial commitment for the Group and requires the consideration of a number of uncertainties including the feasibility of the product and the ultimate commercial viability over a period which can extend over 35 years. The Directors are satisfied that, at this time, there are no significant contingent liabilities arising from these commitments. The future estimated expenditure under contractual commitments to incur development costs at 31 December 2021, is shown in the table below.

	2021 £'m	2020 £'m
In one year or less	**34.3**	33.4
In more than one year but not more than five years	**18.2**	17.8
In more than five years	**10.7**	8.9
Total	**63.2**	60.1

As part of the Scheme Document issued by the Group on 16 August 2021 in connection with the proposed acquisition of the Group by Parker-Hannifin Corporation, the Group estimated its aggregate fees relating to financial and corporate broking advice would be £43.0m, which are dependent on whether the acquisition is completed. These amounts have not been recognised in the consolidated financial statements, but represent a financial commitment of the Group in the event the acquisition is completed.

Notes to the consolidated financial statements
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41. 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.

42. Cash inflow from operations

	2021 £'m	2020 £'m
Profit/(loss) for the year	**31.2**	(314.2)
Adjustments for:		
Finance income (see note 11)	**(0.5)**	(0.5)
Finance costs (see note 12)	**32.6**	37.2
Tax charge/(credit) (see note 13)	**0.1**	(19.8)
Depreciation (see note 20)	**55.9**	56.7
Amortisation (see notes 18 and 19)	**134.5**	140.6
Impairment losses (see notes 17, 18 and 19)	**5.7**	361.3
(Gain)/loss on disposal of property, plant and equipment	**(5.3)**	1.4
Loss/(gain) on disposal of businesses (see note 9)	**7.3**	(32.0)
Costs arising on disposal of businesses	**(6.7)**	(3.8)
(Gain)/loss on financial instruments (see note 9)	**(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 (see note 21)	**0.4**	3.2
Retirement benefit obligation deficit payments	**(42.1)**	(21.7)
Share-based payment expense/(credit) (see note 38)	**5.5**	(2.5)
Changes in working capital:		
Inventories	**(32.8)**	39.8
Trade and other receivables	**(43.5)**	115.0
Contract assets	**(2.7)**	(4.3)
Trade and other payables	**16.4**	(146.2)
Contract liabilities	**12.6**	1.7
Provisions	**18.8**	14.0
Cash inflow from operations	**171.2**	228.4

The Board uses free cash flow to monitor and measure the underlying trading cash performance of the Group. It excludes amounts received and/or paid in respect of M&A activity for the reasons set out in note 9a. 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 (see note 18)	**(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.

43. Movements in net debt

	Bank and other borrowings: Current £'m	Bank and other borrowings: Non-current £'m	Lease liabilities: Current £'m	Lease liabilities: Non-current £'m	Total debt £'m	Cash and cash equivalents £'m	Net debt £'m
At 1 January 2020	219.4	694.5	16.4	136.2	1,066.5	(155.3)	911.2
Cash inflow from operating activities	–	–	–	–	–	(154.2)	(154.2)
Cash outflow from investing activities	–	–	–	–	–	22.0	22.0
Cash outflow from financing activities*	(215.1)	125.5	(11.9)	–	(101.5)	101.2	(0.3)
Lease liabilities entered	–	–	–	11.4	11.4	–	11.4
Businesses disposed or classified as held for sale	–	–	(1.7)	(3.9)	(5.6)	–	(5.6)
Exchange rate adjustments	9.1	(22.2)	(0.3)	(1.9)	(15.3)	7.7	(7.6)
Other movements	(2.9)	(1.0)	12.2	(12.2)	(3.9)	–	(3.9)
At 31 December 2020	10.5	796.8	14.7	129.6	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 outflow from financing activities*	0.4	(31.6)	(14.9)	–	(46.1)	44.8	(1.3)
Lease liabilities entered	–	–	4.0	34.7	38.7	–	38.7
Businesses disposed	–	–	(0.1)	–	(0.1)	–	(0.1)
Exchange rate adjustments	0.2	25.5	0.2	0.8	26.7	0.5	27.2
Other movements**	94.2	(94.7)	11.7	(11.7)	(0.5)	–	(0.5)
At 31 December 2021	**105.3**	**696.0**	**15.6**	**153.4**	**970.3**	**(190.8)**	**779.5**

* Cash flows relating to bank and other borrowings are disclosed in the cash flow statement as proceeds from borrowings of £1.2m (2020: £618.6m), repayments of borrowings of £30.5m (2020: £705.8m) and debt issue costs paid of £1.9m (2020: £2.4m).

** Other movements includes reclassification of bank and other borrowings from non-current to current of £92.8m, as their maturity date is now less than 12 months from the balance sheet date.

44. Business disposals

During 2020, the Group agreed the disposal of the trade and assets of its aircraft ducting business, based in Dunstable, UK, together with a small product line from one of the Group's other businesses. The related assets were classified as a disposal group held for sale at 31 December 2020, together with the directly associated liabilities. The disposal subsequently completed on 30 January 2021 for a consideration of £20.4m. 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 1 euro. In addition, a commercial subsidy payment by the Group of 9.8m euros 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 (see note 20)	–	0.5	**0.5**
Inventories	–	0.6	**0.6**
Lease liabilities – current	–	(0.1)	**(0.1)**
Assets classified as held for sale (see note 22)	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	(1.0)	(0.8)	**(1.8)**
Consideration receivable/(payable) net of business disposal expenses	19.4	(9.1)	**10.3**
Gain/(loss) on disposal	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	(1.0)	(0.8)	**(1.8)**
Total cash inflow/(outflow) relating to disposals in the year	19.4	(4.5)	**14.9**
Expenses paid relating to the proposed acquisition of the Group by Parker-Hannifin Corporation			**(1.1)**
Expenses paid relating to disposals in prior years			**(0.6)**
Total cash inflow			**13.2**

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45. Related undertakings

In accordance with Section 409 of the Companies Act 2006, a full list of related undertakings as at 31 December 2021 is disclosed below. Unless otherwise stated, undertakings are incorporated in England & Wales, have their registered office at Pilot Way, Ansty Business Park, Coventry, England, CV7 9JU, England, and have a single class of ordinary shares with 100% of the equity and votings rights owned by the Group. No material subsidiaries have been excluded from the consolidation.

Subsidiaries – directly owned

Dunlop Aerospace Limited
Integrated Target Services Limited
KDG Holdings Limited
Meggitt (Pamphill) Limited
Meggitt (Sand) Limited
Meggitt (Wimborne) Limited
Meggitt Engineering Limited
Meggitt International Holdings Limited[3]
Meggitt Pension Trust Limited
Negretti & Zambra Limited
Negretti Limited
Phoenix Travel (Dorset) Limited[1]
The Microsystems Group Limited

Subsidiaries – indirectly owned

Aero-Tech Composites de Mexico, S. de R.L. de C.V. (Mexico)[2]
Carretera a Zacatecas 5570-1, Parque Industrial Amistad Sur, Saltillo, Coahuila, 25070
Aircraft Braking Systems Europe Limited
Aircraft Braking Systems Services Limited
Alston Properties, LLC (USA)[7]
1955 N. Surveyor Ave., Simi Valley, California, 93063
Artus SAS (France)
Chemin du Champ des Martyrs, 49240 Avrillé
Atlantic House Pension Trustee Limited
BAJ Coatings Limited[4]
Bells Engineering Limited
Bestobell Aviation Products Limited
Bestobell Engineering Products Limited
Bestobell Insulation Limited
Bestobell Meterflow Limited
Bestobell Mobrey Limited
Bestobell Service Co Limited
Bestobell Sparling Limited
Cavehurst Limited
Dunlop Aerospace Group Limited[3]
Dunlop Aerospace Holdings Limited[3]
Dunlop Aerospace Overseas Investments Limited
Dunlop Aerospace Overseas Limited[3]
Dunlop Holdings Limited[3]
Dunlop Limited[3]
Europeenne de Conception et d'Etudes Technologiques SAS (France)
196 rue Louis Rustin, Archamps Technopole, 74160 Archamps
Evershed & Vignoles Limited
Heatric Limited[5]
King Tool International Limited
Meggitt (Baltimore), Inc. (USA)[6]
3310 Carlins Park Drive, Baltimore, Maryland 21215
Meggitt (Canford) Limited
Meggitt (Colehill) Limited
Meggitt (Erlanger), LLC (USA)[6]
1400 Jamike Avenue, Erlanger, Kentucky, 41018
Meggitt (France) SAS (France)
196 rue Louis Rustin, Archamps Technopole, 74160 Archamps
Meggitt (Hurn) Limited
Meggitt (Korea) Limited
Meggitt (North Hollywood), Inc. (USA)[6]
12838 Saticoy Street, North Hollywood, California 91605
Meggitt (Orange County), Inc. (USA)[6]
4 Marconi, Irvine, California 92618
Meggitt Overseas Limited
Meggitt (Rockmart), Inc. (USA)[6]
669 Goodyear Street, Rockmart, Georgia 30153
Meggitt (San Diego), Inc. (USA)[6]
6650 Top Gun Street, San Diego, California 92121
Meggitt (Sapphire) GmbH (Germany)
Kaiserleistraße 51, 63067 Offenbach
Meggitt (Sapphire) Limited
Meggitt (Sensorex) SAS (France)
196 rue Louis Rustin, Archamps Technopole, 74160 Archamps
Meggitt (Shapwick) Limited
Meggitt (Simi Valley), Inc. (USA)[6]
1955 N. Surveyor Ave., Simi Valley, California, 93063
Meggitt (Tarrant) Limited
Meggitt (Troy), Inc. (USA)[6]
3 Industrial Drive, Troy, Indiana 47588
Meggitt (UK) Limited
Meggitt (Vietnam) Co., Ltd (Vietnam)[8]
#7 Road 16A. Bienhoa Industrial Zone 2
Meggitt (Xiamen) Sensors & Controls Co., Ltd. (China)[9]
No.230, South 5 Gaoqi Road, Huli District, Xiamen City, Fujian Province
Meggitt A/S (Denmark)
Porthusvej 4, 3490 Kvistgaard
Meggitt Acquisition Limited[3]
Meggitt Advanced Composites Limited[3]
Meggitt Aerospace Asia Pacific Pte. Ltd. (Singapore)
1A Seletar Aerospace Link, 797552
Meggitt Aerospace Holdings Limited[3]
Meggitt Aerospace Limited
Meggitt Aircraft Braking Systems Corporation (USA)[6]
1204 Massillon Road, Akron, Ohio 44306
Meggitt Aircraft Braking Systems Kentucky Corporation (USA)[6]
190 Corporate Drive, Danville, Kentucky 40422
Meggitt Aircraft Braking Systems Queretaro S. de R.L. de C.V. (Mexico)[2]
Carretera Estatal 200 Queretaro-Tequisquiapan, Km 22 + 547 Interior A, Parque Aeroespacial, Queretaro, Colon, Qro., C.P. 76270
Meggitt Asia Pacific Pte. Ltd. (Singapore)
1A Seletar Aerospace Link, 797552
Meggitt Brasil Solucoes de Engenharia Ltda. (Brazil)[9]
Avenida João Cabral de Mello Neto, No. 850, Suites 815 and 816, Barra da Tijuca, CEP 22.775-057, City and State of Rio de Janeiro
Meggitt Canada Enterprises Inc. (Canada)[12]
6140 boul. Henri-Bourassa O, Montréal (Québec) H4R3A6
Meggitt Defense Systems, Inc. (USA)[6]
9801 Muirlands Boulevard, Irvine, California 92618
Meggitt Filtration & Transfer Limited
Meggitt Finance (Beta)
Meggitt Finance Limited
Meggitt GmbH (Germany)
Kaiserleistraße 51, 63067 Offenbach
Meggitt Holdings (France) SAS (France)
Chemin du Champ des Martyrs, 49240 Avrillé
Meggitt Holdings (USA) Inc. (USA)[6]
1955 N. Surveyor Ave., Simi Valley, California 93063
Meggitt India Private Limited (India)
901, Brigade Rubix, No.20, HMT Main Road, HMT Township, Bangalore 560022
Meggitt International Limited[3]
Meggitt Investments Limited[3]
Meggitt-Oregon, Inc. (USA)[6]
2010 Lafayette Avenue, McMinnville, Oregon 97128
Meggitt Properties PLC
Meggitt Queretaro LLC (USA)[7]
1204 Massillon Road, Akron, Ohio 44306
Meggitt SA (Switzerland)
Route de Moncor 4, 1752 Villars-sur-Glâne
Meggitt Safety Systems, Inc. (USA)[6]
1785 Voyager Avenue, Simi Valley, California 93063
Meggitt-USA Services, Inc. (USA)[6]
1955 Surveyor Avenue, Simi Valley, California 93063
Meggitt-USA, Inc. (USA)[6]
1955 N. Surveyor Ave., Simi Valley, California 93063
Miller Insulation and Engineering Limited (Scotland)
125 West Regent Street, Glasgow, Lanarkshire, G2 2SA
NASCO Aircraft Brake, Inc. (USA)[6]
13300 Estrella Avenue, Gardena, California 90248
OECO, LLC (USA)[7]
4607 SE International Way, Milwaukie, Oregon 97222
Pacific Scientific Company (USA)[6]
1955 N. Surveyor Ave., Simi Valley, California 93063
Park Chemical Company (USA)[6]
1955 Surveyor Avenue, Simi Valley, California 93063
Piher International Limited
Precision Engine Controls Corporation (USA)[6]
11661 Sorrento Valley Road, San Diego, California 92121
Securaplane Technologies, Inc. (USA)[6]
12350 N. Vistoso Park Road, Oro Valley, Arizona 85755
Serck Aviation Limited
Target Technology Petrel Limited
Tri-scan Limited
Vibro-Meter Limited
Vibro-Meter S.a.r.l (Switzerland)
Route de Moncor 4, 1752 Villars-sur-Glâne
Wallaby Grip (NSW) Ltd (in liquidation) (Australia)
PKF, Level 8, 1 O'Connell Street, Sydney, New South Wales 2000
Wallaby Grip Australia Pty Limited (in liquidation) (Australia)
PKF, Level 8, 1 O'Connell Street, Sydney, New South Wales 2000
Wallaby Grip B.A.E. Ltd (in liquidation) (Australia)
PKF, Level 8, 1 O'Connell Street, Sydney, New South Wales 2000

45. Related undertakings continued

Subsidiaries – indirectly owned continued

Wallaby Grip Industries Australia Pty Ltd (in liquidation) (Australia)
PKF, Level 8, 1 O'Connell Street, Sydney, New South Wales 2000

Wallaby Grip Limited

Whittaker Aerospace

Whittaker Corporation (USA)[6]
1955 Surveyor Avenue, Simi Valley, California 93063

Whittaker Development Co. (USA)[6]
1955 Surveyor Avenue, Simi Valley, California 93063

Whittaker Ordnance, Inc. (USA)[6]
1955 N. Surveyor Avenue, Simi Valley, California 93063

Whittaker Technical Products, Inc. (USA)[6]
1955 Surveyor Avenue, Simi Valley, California 93063

Zambra Legal Pty Ltd (Australia)
Suite 2, Level 11, 60 Castlereagh Street, Sydney, New South Wales 2000

Registered branches

Meggitt (Korea) Limited has a branch in South Korea

Meggitt (Xiamen) Sensors & Controls Co., Ltd. has a branch in Shanghai

Equity accounted investments

Meggitt UTC Aerospace Systems, LLC (USA)[13]
1400 Jamike Avenue, Erlanger, Kentucky 41018

Parkway-Hamilton Sundstrand Mexico S. de R.L. de C.V. (Mexico)[14]
Carretera 54 a Zacatecas 5690, Parque Industrial Amistad Sur Saltillo, Coahuila 25070

HiETA Technologies Limited[11]

Entities not included in the consolidation

Private company limited by guarantee without share capital

Meggitt Pension Plan Trustees Limited

Registered charity

Evershed Ayrton Fund

Joint venture

Valley Association Corporation (USA)[10]
1204 Massillon Road, Akron, Ohio 44306

Notes

1 Ownership held as ordinary B shares (50%).
2 Ownership held as quota interest (100%).
3 Entity has taken the audit exemption under Section 479A of the Companies Act 2006 for the financial year ended 31 December 2021.
4 Ownership held as deferred shares (55.55%) and ordinary shares (44.45%).
5 Ownership held as ordinary A shares (60%) and ordinary B shares (40%).
6 Ownership held as common stock (100%).
7 Ownership held as membership interest (100%).
8 Ownership held as owner's capital (100%).
9 Ownership held as registered capital (100%).
10 Ownership held as common stock (33.33%).
11 Ownership held as ordinary shares (33.33%).
12 Ownership held as class A common shares (100%).
13 Ownership held as membership interest (70%).
14 Subsidiary of Meggitt UTC Aerospace Systems which holds a quota interest (99.97%).

Company balance sheet
At 31 December 2021

	Notes	2021 £'m	2020 £'m
Non-current assets			
Intangible assets	4	**25.1**	36.1
Property, plant and equipment	5	**3.6**	0.4
Investments	6	**2,082.5**	2,078.8
Derivative financial instruments	10	**10.1**	15.1
Deferred tax assets	11	**20.3**	37.8
		2,141.6	2,168.2
Current assets			
Other receivables	7	**1,481.1**	1,451.4
Derivative financial instruments	10	**6.4**	5.2
Current tax recoverable		**–**	0.1
Cash and cash equivalents		**57.2**	27.7
		1,544.7	1,484.4
Total assets		**3,686.3**	3,652.6
Current liabilities			
Trade and other payables	8	**(171.6)**	(99.0)
Derivative financial instruments	10	**(5.4)**	(29.2)
Current tax liabilities		**(6.9)**	(8.4)
Lease liabilities		**(0.1)**	(0.5)
Bank and other borrowings	9	**(7.5)**	(7.4)
		(191.5)	(144.5)
Net current assets		**1,353.2**	1,339.9
Non-current liabilities			
Derivative financial instruments	10	**(3.0)**	(6.2)
Lease liabilities		**(0.3)**	–
Bank and other borrowings	9	**(444.1)**	(439.0)
Provisions		**–**	(0.2)
Retirement benefit obligations	12	**(59.4)**	(186.6)
		(506.8)	(632.0)
Total liabilities		**(698.3)**	(776.5)
Net assets		**2,988.0**	2,876.1
Equity			
Share capital	13	**39.1**	39.0
Share premium		**1,227.8**	1,226.6
Capital redemption reserve		**1.6**	1.6
Other reserves		**17.5**	17.5
Retained earnings:			
At 1 January		**1,591.4**	1,460.3
Profit for the year attributable to owners of the Company		**31.5**	177.0
Other changes in retained earnings		**79.1**	(45.9)
Total equity attributable to owners of the Company		**2,988.0**	2,876.1

The financial statements on pages 232 to 242 were approved by the Board of Directors on 2 March 2022 and signed on its behalf by:

Tony Wood.

A Wood
Director

L Burdett

L Burdett
Director

Company statement of changes in equity

For the year ended 31 December 2021

		Equity attributable to owners of the Company					
	Notes	Share capital £'m	Share premium £'m	Capital redemption reserve £'m	Other reserves* £'m	Retained earnings £'m	Total equity £'m
At 1 January 2020		38.8	1,226.5	1.6	17.5	1,460.3	2,744.7
Profit for the year		–	–	–	–	177.0	177.0
Other comprehensive expense for the year:							
Remeasurement of retirement benefit obligations	12	–	–	–	–	(54.1)	(54.1)
Other comprehensive expense before tax		–	–	–	–	(54.1)	(54.1)
Tax credit	11	–	–	–	–	12.1	12.1
Other comprehensive expense for the year		–	–	–	–	(42.0)	(42.0)
Total comprehensive income for the year		–	–	–	–	135.0	135.0
Employee share schemes:							
Value of subsidiary employee services		–	–	–	–	(3.0)	(3.0)
Value of services provided		–	–	–	–	(0.6)	(0.6)
Issue of equity share capital		0.2	0.1	–	–	(0.3)	–
At 31 December 2020		39.0	1,226.6	1.6	17.5	1,591.4	2,876.1
Profit for the year		**–**	**–**	**–**	**–**	**31.5**	**31.5**
Other comprehensive income for the year:							
Remeasurement of retirement benefit obligations	12	–	–	–	–	84.3	84.3
Other comprehensive income before tax		–	–	–	–	84.3	84.3
Tax charge	11	–	–	–	–	(15.8)	(15.8)
Other comprehensive income for the year		**–**	**–**	**–**	**–**	**68.5**	**68.5**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**100.0**	**100.0**
Employee share schemes:							
Value of subsidiary employee services		–	–	–	–	10.0	10.0
Value of services provided		–	–	–	–	1.9	1.9
Issue of equity share capital		0.1	1.2	–	–	(1.3)	–
At 31 December 2021		**39.1**	**1,227.8**	**1.6**	**17.5**	**1,702.0**	**2,988.0**

* Other reserves relate to the cancellation of the Company's share premium account in 1988, which was transferred to a non-distributable capital reserve.

Notes to the financial statements of the Company

1. Basis of preparation

The financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101, "Reduced Disclosure Framework" (FRS 101). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the UK (UK adopted international accounting standards), but makes amendments where necessary in order to comply with the Companies Act 2006 and has taken advantage of the following disclosure exemptions permitted by FRS 101:

- Paragraphs 10(d), 111 and 134–136 of IAS 1 "Presentation of financial statements".
- IAS 7 "Statement of cash flows".
- Paragraph 17 of IAS 24, "Related party disclosures".
- The requirements in IAS 24 "Related party disclosures to disclose related party transactions entered into between two or more members of a group".
- Paragraphs 45(b) and 46–52 of IFRS 2, "Share-based payment".
- IFRS 7 "Financial Instruments: Disclosures".

The Company has taken advantage of the legal dispensation contained in Section 408 of the Companies Act 2006 allowing it not to publish a separate income statement and related notes and not to publish a separate statement of comprehensive income.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial assets and liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006. 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 financial statements were approved by the Board and ending on 31 March 2023. Further details on the considerations made by the Directors are disclosed in note 1 to the Group's consolidated financial statements on pages 176 to 177.

2. Summary of significant accounting policies

The principal accounting policies adopted by the Company in the preparation of the financial statements are set out below. These policies have been applied consistently to all years presented unless stated otherwise.

Foreign currencies

The Company's financial statements are presented in pounds sterling. Transactions in foreign currencies are recorded at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities, denominated in foreign currencies are reported at exchange rates prevailing at the balance sheet date. Exchange differences on retranslating monetary assets and liabilities are recognised in the income statement.

Investments

Investments in subsidiaries are stated at cost less accumulated impairment losses, except for investments acquired before 1 January 1988 where Section 612 merger relief has been taken and investments are stated at the nominal value of the shares issued in consideration, using the deemed cost exemption in IFRS 1 on transition to FRS 101.

Intangible assets

Intangible assets, which comprise software, are recorded at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over the estimated useful economic lives of the assets, commencing with the date the assets are available for use, typically over periods up to five years. Residual values and useful lives are reviewed annually and adjusted if appropriate.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses. Cost includes expenditure directly attributable to the acquisition of the asset.

For right-of-use assets, cost comprises an amount equal to the initial lease liability recognised, adjusted to include any payments made for the right to use the asset, initial direct costs incurred and estimated costs for dismantling, removing and restoring the asset at the end of the lease term.

Depreciation is charged on a straight-line basis over the estimated useful economic lives of the assets, commencing with the date the assets are available for use, as follows:

Right-of-use assets	Shorter of the useful economic life of the asset and the lease term
Plant and equipment	3 to 5 years
Motor vehicles	5 years

Residual values and useful lives are reviewed annually and adjusted if appropriate. When items of property, plant and equipment are disposed, the difference between sale proceeds, net of related costs, and the carrying value of the asset is recognised in the income statement.

2. Summary of significant accounting policies continued

Impairment of non-current, non-financial assets

At each balance sheet date, the Company reviews the carrying amounts of its non-current, non-financial assets to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount.

Any impairment loss is recognised immediately in the income statement. Where an impairment loss is no longer required, it is reversed with a corresponding credit to the income statement.

Other receivables

Other receivables are initially recognised at fair value and subsequently measured at amortised cost less any impairment losses. The Company applies the IFRS 9 simplified approach to measuring expected credit losses (ECLs), which uses a lifetime expected loss allowance. To measure ECLs, other receivables have been grouped based on shared credit risk characteristics and their ageing. For amounts owed by subsidiary undertakings, which are repayable on demand, ECLs are based on the assumption that repayment is demanded at the balance sheet date. The subsidiary undertaking's access to sufficient accessible highly liquid assets in order to repay the amounts due if demanded at the balance sheet date is assessed. The expected manner of recovery is considered when measuring ECLs.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks. Bank overdrafts are disclosed as current liabilities, within bank and other borrowings, except where the Company participates in offset arrangements with certain banks whereby cash and overdraft amounts are offset against each other.

Taxation

Current tax is based on taxable profit for the year, calculated using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is provided in full using the liability method on temporary differences between the tax bases of assets and liabilities and their corresponding book values as recognised in the Company's financial statements. It is calculated using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Current tax and deferred tax are recognised in the income statement, other comprehensive income or directly in equity depending on where the item to which they relate has been recognised.

Retirement benefit schemes

For the Company's defined benefit scheme, pension costs are charged to the income statement in accordance with the advice of qualified independent actuaries. Past service credits and costs and curtailment gains and losses are recognised immediately in the income statement.

Retirement benefit obligations represent the difference between the fair value of the scheme assets and the present value of the scheme defined benefit obligations measured at the balance sheet date. The defined benefit obligation is measured annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the defined benefit obligations using interest rates of high quality UK corporate bonds with terms to maturity comparable with the terms of the related defined benefit obligations. Where the assets of a scheme exceed its liabilities, the surplus recognised is restricted to the lower of this amount and the future economic benefits to which the Company has an unconditional right to receive either in the form of reduced contributions or a cash refund. Where the Company has a statutory or contractual minimum funding requirement to make contributions to a scheme in respect of past service and any such contributions are not available to the Company once paid (as a reduction in future contributions or as a refund, to which the Company has an unconditional right either during the life of the scheme or when the scheme liabilities are settled), an additional liability for such amounts is recognised.

Remeasurement gains and losses are recognised in the year in which they arise in other comprehensive income.

For defined contribution schemes, payments are recognised in the income statement when they fall due. The Company has no further obligations once the contributions have been paid.

Notes to the financial statements of the Company
continued

2. Summary of significant accounting policies continued

Share-based compensation

The Company operates a number of share-based compensation schemes, which are subject to non-market based vesting conditions and are principally equity-settled.

For equity-settled schemes, at the date of grant, the Company estimates the number of awards expected to vest as a result of vesting conditions and the fair value of this estimated number of awards is recognised as an expense in the income statement on a straight-line basis over the period for which services are received. At each balance sheet date, the Company revises its estimate of the number of awards expected to vest and adjusts the amount recognised cumulatively in the income statement to reflect the revised estimate. When awards are exercised and the Company issues new shares, the proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium.

The grant by the Company of options over its equity instruments to employees of subsidiary undertakings, is treated as a capital contribution. The fair value of the awards made is recognised, over the vesting period, as an increase in investment in subsidiary undertakings, with a corresponding credit to retained earnings.

Derivative financial instruments and hedging

Derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently measured at fair value at each balance sheet date using values determined indirectly from quoted prices that are observable for the asset or liability.

To the extent the maturity of the derivative financial instruments are more than 12 months from the balance sheet date, they are classified as non-current assets or non-current liabilities. All other derivative financial instruments are classified as current assets or current liabilities.

The Company utilises a large number of foreign currency forward contracts to mitigate against currency fluctuations. The Company has determined that the additional costs of meeting the extensive documentation requirements in order to apply hedge accounting under IFRS 9 "Financial Instruments" are not merited. Therefore changes in fair value are recognised immediately in the income statement.

Borrowings

Borrowings are initially recognised at fair value, being proceeds received less directly attributable transaction costs incurred. Borrowings are generally subsequently held at amortised cost at each balance sheet date with any transaction costs amortised to the income statement over the period of the borrowings using the effective interest method.

Any related interest accruals are included within borrowings. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted from the proceeds recorded in equity.

Own shares represent shares in the Company that are held by an independently managed Employee Share Ownership Plan. Consideration paid for own shares, including any incremental directly attributable costs, is recorded as a deduction from retained earnings. Details of own shares in the Company are disclosed in note 39 to the Group's consolidated financial statements.

Dividends

Interim dividends are recognised when paid to shareholders. Final dividends are recognised when approved by the shareholders. Details of dividends paid and proposed by the Company are disclosed in note 15 to the Group's consolidated financial statements.

Adoption of new and revised accounting standards

Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 for interest rate benchmark (IBOR) reform became effective in the year. The effect of these amendments on the Company's committed syndicated credit facility and interest rate swaps is disclosed in note 2 to the Group's consolidated financial statements on page 187.

In addition, some of the Company's intercompany loan agreements which are used to manage liquidity between the UK and overseas subsidiaries referenced LIBORs at 31 December 2020. For GBP, CHF, EUR and USD loans, these have been amended in the year to reference SONIA, SARON, EURIBOR and SOFR respectively. For GBP, CHF and EUR loans the rate switch date is specified as 31 December 2021, for USD loans the rate switch date is to be a date to be agreed between the parties with a long stop date of 30 June 2023.

No other accounting standards, amendments or revisions to existing standards, or interpretations have become effective or have been published as mandatory for future accounting periods which had or will have a significant effect on the Company's financial statements.

3. Critical accounting estimates and judgements

In applying the Company's accounting policies set out in note 2, the Company 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 financial statements are described below.

Critical accounting estimates

Retirement benefit obligations

The liability recognised in respect of retirement benefit obligations is dependent on a number of estimates including 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. Further details on these estimates, and sensitivities of the retirement benefit obligations to these estimates, are disclosed in note 12.

Critical accounting judgements

There are no critical judgements for the current year. The Company previously disclosed in its 2020 Annual Report, a critical accounting judgement relating to the Directors' assessment that the adoption of the going concern basis in the financial statements was appropriate. For the reasons set out in note 1, to the Group's consolidated financial statements on pages 176 to 177, this is no longer considered a critical judgment for the current year.

4. Intangible assets

	Software £'m
At 1 January 2020	
Cost	89.4
Accumulated amortisation	(46.0)
Net book amount	43.4
Year ended 31 December 2020	
Opening net book amount	43.4
Additions	2.9
Disposals	(0.3)
Amortisation	(9.9)
Net book amount	36.1
At 1 January 2021	
Cost	92.0
Accumulated amortisation	(55.9)
Net book amount	36.1
Year ended 31 December 2021	
Opening net book amount	36.1
Additions	3.6
Disposals	(2.8)
Amortisation	(9.8)
Impairment losses	(2.0)
Net book amount	**25.1**
At 31 December 2021	
Cost	95.1
Accumulated amortisation	(70.0)
Net book amount	**25.1**

Notes to the financial statements of the Company
continued

5. Property, plant and equipment

	2021			2020		
	Plant, equipment and vehicles £'m	Other £'m	Total £'m	Plant, equipment and vehicles £'m	Other £'m	Total £'m
Cost	9.5	1.5	11.0	6.2	1.9	8.1
Accumulated depreciation	(6.3)	(1.1)	(7.4)	(6.2)	(1.5)	(7.7)
Net book amount	3.2	0.4	3.6	–	0.4	0.4

6. Investments

	2021 £'m	2020 £'m
Shares in subsidiary undertakings:		
At 1 January	2,078.8	2,082.7
Contributions to/(from) subsidiary undertakings	3.7	(3.9)
At 31 December	2,082.5	2,078.8

Each year, the Company carries out impairment tests of its investments which require estimates to be made of the value in use of its CGUs and groups of CGUs. The value-in-use calculations are dependent on estimates of future cash flows, long-term growth rates and appropriate discount rates to be applied to future cash flows. Having modelled a number of sensitivities, it was concluded that no reasonably foreseeable change in the key assumptions used in the impairment model would result in a significant impairment charge being recorded in the financial statements.

A list of all subsidiary undertakings is disclosed in note 45 to the Group's consolidated financial statements on pages 230 to 231.

7. Other receivables

	2021 £'m	2020 £'m
Amounts owed by subsidiary undertakings	1,478.4	1,450.8
Prepayments	1.6	0.4
Other	1.1	0.2
Total	1,481.1	1,451.4

Amounts owed by subsidiary undertakings are unsecured and are stated net of amounts due to subsidiary undertakings, where a right of set off exists. Within amounts owed by subsidiary undertakings are amounts totalling £1,401.2m (2020: £1,358.3m) which are interest bearing, have no fixed date for repayment and are repayable on demand.

Amounts owed by subsidiary undertakings are stated net of a loss allowance of £1.7m (2020: £1.7m). Each year, the Company performs an assessment of recoverability of amounts owed by subsidiary undertakings in accordance with IFRS 9 requirements. The Company does not believe there is a significant risk of a material adjustment to the loss allowance recognised in respect of these receivables in the next 12 months.

8. Trade and other payables – current

	2021 £'m	2020 £'m
Trade payables	1.3	1.7
Amounts owed to subsidiary undertakings	157.2	90.6
Social security and other taxes	2.3	0.5
Accrued expenses	5.6	4.1
Other payables	5.2	2.1
Total	171.6	99.0

Amounts owed to subsidiary undertakings are unsecured, non-interest bearing, have no fixed date for repayment and are repayable on demand.

9. Bank and other borrowings

	2021 £'m	2020 £'m
Other loans – current	**7.5**	7.4
Bank loans – debt costs non-current	**(0.9)**	–
Other loans – non-current	**445.0**	439.0
Total	**451.6**	446.4
Analysis of bank and other borrowings repayable:		
In one year or less	**7.5**	7.4
In more than one year but not more than five years	**444.1**	219.5
In more than five years	**–**	219.5
Total	**451.6**	446.4
Analysis of bank and other borrowings:		
Drawn under committed facilities	**445.4**	439.5
Less unamortised debt issue costs	**(1.3)**	(0.5)
Interest accruals	**7.5**	7.4
Total	**451.6**	446.4

Debt issue costs are amortised over the period of the facility to which they relate. The Company has no secured borrowings (2020: £Nil).

The Company has the following committed facilities at notional value:

	2021			2020 (restated)*		
	Drawn £'m	**Undrawn £'m**	**Total £'m**	Drawn £'m	Undrawn £'m	Total £'m
Syndicated credit facility: USD410.0m (2020: USD750.0m)	**–**	**304.4**	**304.4**	–	549.4	549.4
2016 Senior notes: USD600.0m	**445.4**	**–**	**445.4**	439.5	–	439.5
Committed facilities	**445.4**	**304.4**	**749.8**	439.5	549.4	988.9
The committed facilities expire as follows:						
In more than one year but not more than five years	**445.4**	**304.4**	**749.8**	219.8	549.4	769.2
In more than five years	**–**	**–**	**–**	219.7	–	219.7
Committed facilities	**445.4**	**304.4**	**749.8**	439.5	549.4	988.9

* Prior year figures have been restated to incorporate the undrawn USD750.0m syndicated credit facility, under which the Company was an eligible borrower at 31 December 2020.

Further details of the committed facilities are disclosed in note 31 to the Group's consolidated financial statements on pages 211 to 213.

The Company also has various uncommitted facilities with its relationship banks. No amounts had been drawn under these facilities at 31 December 2021 (2020: £Nil).

The fair value of bank and other borrowings is as follows:

	2021		2020	
	Book value £'m	**Fair value £'m**	Book value £'m	Fair value £'m
Current	**7.5**	**7.5**	7.4	7.4
Non-current	**444.1**	**443.4**	439.0	452.7
Total	**451.6**	**450.9**	446.4	460.1

Notes to the financial statements of the Company
continued

9. Bank and other borrowings continued

All borrowings are subject to interest at fixed rates. The interest rate exposure on bank and other borrowings is:

	2021			2020		
	Total £'m	**Weighted average interest rate %**	**Weighted average period for which rate is fixed Years**	Total £'m	Weighted average interest rate %	Weighted average period for which rate is fixed Years
US dollar denominated other loans	**452.9**	**3.5%**	**3.0**	446.9	3.5	4.0
Less unamortised debt issue costs	**(1.3)**			(0.5)		
Bank and other borrowings	**451.6**			446.4		

The weighted average interest rate reflects the relative impact of interest rates based on the principal amounts and the duration of borrowings.

10. Derivative financial instruments

	2021		2020	
	Assets £'m	**Liabilities £'m**	Assets £'m	Liabilities £'m
Interest rate swaps	**1.7**	**–**	–	–
Cross-currency swaps	**–**	**(1.1)**	–	(20.0)
Foreign currency forward contracts	**4.7**	**(4.3)**	5.2	(9.2)
Current portion	**6.4**	**(5.4)**	5.2	(29.2)
Interest rate swaps	**–**	**–**	5.1	–
Cross-currency swaps	**6.5**	**–**	–	–
Foreign currency forward contracts	**3.6**	**(3.0)**	10.0	(6.2)
Non-current portion	**10.1**	**(3.0)**	15.1	(6.2)
Total	**16.5**	**(8.4)**	20.3	(35.4)

The Company does not use hedge accounting for any of its derivative financial instruments. It is exempt from certain FRS 101 disclosures as the Group's consolidated financial statements provide the disclosures required by IFRS 7 (see note 33 to the Group's consolidated financial statements on pages 216 to 217).

The gain recorded in the income statement, recognised in net operating costs, arising from the measurement at fair value of derivative financial instruments, is £23.0m (2020: loss £7.3m).

The contract or underlying principal amount of foreign currency forward contracts in respect of derivative financial assets is £233.6m (2020: £443.1m) and in respect of derivative financial liabilities is £220.6m (2020: £362.1m).

The fair value of foreign currency forward contracts is analysed as follows:

	2021		2020	
	Assets £'m	**Liabilities £'m**	Assets £'m	Liabilities £'m
US dollar forward sales and purchases (USD/£)	**7.8**	**(6.2)**	13.0	(11.2)
Forward sales and purchases denominated in other currencies	**0.5**	**(0.9)**	2.2	(4.2)
Fair value	**8.3**	**(7.1)**	15.2	(15.4)

11. Deferred tax

Deferred tax assets are analysed as follows:

	2021 £'m	2020 £'m
To be recovered within one year	**16.3**	6.8
To be recovered after more than one year	**4.0**	31.0
Total	**20.3**	37.8

11. Deferred tax continued

Movements in deferred tax assets during the year are as follows:

	Assets		
	Retirement benefit obligations £'m	Other £'m	Total £'m
At 1 January 2020	25.8	1.6	27.4
Charge to income statement	(2.4)	(0.7)	(3.1)
Credit to other comprehensive income	12.1	–	12.1
Credit to equity	–	1.4	1.4
At 31 December 2020	35.5	2.3	37.8
(Charge)/credit to income statement	(8.0)	5.0	(3.0)
Charge to other comprehensive income	(15.8)	–	(15.8)
Credit to equity	–	1.3	1.3
At 31 December 2021	**11.7**	**8.6**	**20.3**

There are no unremitted earnings in foreign subsidiaries that would give rise to a tax liability in the event of those subsidiaries remitting their earnings.

12. Retirement benefit obligations

The Company is the sponsoring employer of the Meggitt Pension Plan, a funded defined benefit plan. Each participating company in the Meggitt Pension Plan bears employer contributions in respect of future service. No other amounts are recharged by the Company to any other participating employer. The Company has recognised the total deficit in respect of the Meggitt Pension Plan in these financial statements. Further details on the plan are disclosed in note 36 to the Group's consolidated financial statements on pages 221 to 226 in respect of the UK scheme.

The total charge to net operating expenses in respect of the defined contribution scheme in which employees of the Company participate is £2.6m (2020: £2.0m).

Changes in the present value of retirement benefit obligations are as follows:

	2021			2020		
	Liabilities* £'m	**Assets** £'m**	**Total £'m**	Liabilities* £'m	Assets** £'m	Total £'m
At 1 January	**961.1**	**(774.5)**	**186.6**	855.7	(705.1)	150.6
Service cost	**1.9**	**–**	**1.9**	7.8	–	7.8
Past service cost	**–**	**–**	**–**	0.1	–	0.1
Curtailment gain	**(8.0)**	**–**	**(8.0)**	–	–	–
Net interest cost	**16.6**	**(14.4)**	**2.2**	17.3	(14.6)	2.7
Contributions – Company	**–**	**(39.9)**	**(39.9)**	–	(29.6)	(29.6)
Benefits paid	**(30.9)**	**30.9**	**–**	(29.5)	29.5	–
Administrative expenses borne directly by scheme	**–**	**0.9**	**0.9**	–	0.9	0.9
Remeasurement of retirement benefit obligations:						
Experience gain	**(13.5)**	**–**	**(13.5)**	–	–	–
Gain from change in demographic assumptions	**(4.5)**	**–**	**(4.5)**	(1.6)	–	(1.6)
(Gain)/loss from change in financial assumptions	**(23.4)**	**–**	**(23.4)**	111.3	–	111.3
Return on scheme assets excluding amounts included in finance costs	**–**	**(42.9)**	**(42.9)**	–	(55.6)	(55.6)
Total remeasurement (gain)/loss	**(41.4)**	**(42.9)**	**(84.3)**	109.7	(55.6)	54.1
At 31 December	**899.3**	**(839.9)**	**59.4**	961.1	(774.5)	186.6

* Present value of scheme liabilities.
** Fair value of scheme assets.

Details on the sensitivity of scheme liabilities to changes in assumptions are provided below:

- The impact of either a 50 basis point reduction or increase in discount rate would cause scheme liabilities at 31 December 2021 to either increase by approximately £86.0m or decrease by approximately £76.0m respectively.
- The impact of a 50 basis point increase in inflation rates would cause scheme liabilities at 31 December 2021 to increase by approximately £48.0m.
- The impact of assuming every scheme member were to live for an additional year would cause scheme liabilities at 31 December 2021 to increase by approximately £35.0m.

Notes to the financial statements of the Company
continued

12. Retirement benefit obligations continued

Sensitivity analyses are based on a change in a single assumption while keeping all other assumptions constant. In practice, this is unlikely to occur, and changes in assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method of calculating the defined benefit obligation has been used as when calculating the retirement benefit obligations recognised on the balance sheet. The methods and types of assumptions used in preparing the sensitivity analysis are consistent with the previous year. The sensitivity for inflation has been increased from 10 basis points in 2020 to 50 basis points in 2021, given the increases experienced in the current year. No changes have been considered necessary to any other sensitivity levels.

The weighted average duration of the defined benefit obligation is 18.7 years. The expected maturity of undiscounted pension benefits at 31 December 2021 is as follows:

	Total £'m
To be made in 2022	**24.4**
To be made in 2023	**25.4**
To be made in 2024 to 2026	**82.6**
To be made in 2027 to 2031	**161.0**
To be made in 2032 to 2036	**180.0**
To be made in 2037 to 2041	**181.2**
To be made in 2042 to 2046	**170.2**
To be made from 2047 onwards	**458.0**
Total	**1,282.8**

13. Share capital

Disclosures in respect of share capital of the Company are provided in note 37 to the Group's consolidated financial statements on page 226.

14. Share-based payment

Share awards have been granted to employees of the Company under various plans. Details of the general terms and conditions of each share-based payment plan are provided in the Directors' remuneration report on pages 126 to 155. Disclosure is also made in the Group's consolidated financial statements in note 38 on pages 226 to 227.

15. Commitments and contingencies

The Company has no capital commitments (2020: Nil). Details of contingent liabilities impacting the Company are disclosed in note 41 to the Group's consolidated financial statements on page 228.

16. Other information

Directors' remuneration

Details of the remuneration paid to Directors of the Company are provided in the Directors' remuneration report on pages 126 to 155.

Auditors' remuneration

Remuneration payable to PricewaterhouseCoopers LLP for the audit of the Company was £29,800 (2020: £27,000).

Employee information

	2021 £'m	2020 £'m
Wages and salaries	**26.3**	21.0
Social security costs	**4.6**	4.2
Retirement benefit (credit)/expense	**(3.5)**	9.9
Share-based payment expense/(credit)	**1.9**	(0.6)
Employee costs including Executive Directors	**29.3**	34.5

The average number of persons employed by the Company in the year was 327 (2020: 278).

Five-year record

	2021 £'m	2020 £'m	2019 £'m	2018 £'m	2017 £'m
Revenue and profit					
Revenue	**1,489.2**	1,684.1	2,276.2	2,080.6	1,994.4
Underlying profit before tax	**149.3**	159.5	370.3	334.8	320.2
Amounts arising on the acquisition, disposal and closure of businesses	**(7.3)**	32.0	23.5	25.1	25.3
Amortisation of intangible assets acquired in business combinations	**(80.1)**	(88.2)	(89.8)	(91.5)	(93.5)
Financial instruments	**16.7**	(2.9)	15.0	(10.1)	60.7
Exceptional operating items	**(43.2)**	(428.7)	(26.2)	(34.2)	(73.1)
Net interest expense on retirement benefit obligations	**(4.1)**	(5.7)	(6.1)	(8.0)	(11.3)
(Loss)/profit before tax	**31.3**	(334.0)	286.7	216.1	228.3
Earnings and dividends					
(Loss)/earnings per share – basic	**4.0p**	(40.4)p	28.8p	23.2p	37.8p
Earnings per share – underlying	**15.4p**	16.5p	37.3p	34.2p	32.0p
Dividends per ordinary share in respect of the year	**–**	–	5.55p	16.65p	15.85p
Gearing ratio					
Net debt as a percentage of total equity	**36.1%**	38.0%	37.1%	43.1%	45.9%

Investor information

Contacts

Investor relations
E: investors@meggitt.com

Information on Meggitt PLC, including the latest share price: www.meggitt.com

Shareholder enquiries
Registrar:
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

T: 0370 703 6210
W: www.investorcentre.co.uk/contactus

Enquiries about the following matters should be addressed to Meggitt PLC's registrar:

- Change of address notification.
- Lost share certificates.
- Dividend payment enquiries.
- Dividend mandate instructions. Shareholders may have their dividends paid directly into their bank or building society accounts by completing a dividend mandate form. Dividend confirmations are sent directly to shareholders' registered addresses. Quarterly statements will be available online at www.investorcentre.co.uk. Shareholders will need their Shareholder Reference Number (SRN) and registered address details to get started. Statements will be available from 30 April, 31 July, 31 October and 31 January each year.
- Amalgamation of shareholdings. Shareholders who receive more than one copy of the Annual Report are invited to amalgamate their accounts on the share register.

Shareholders can view and manage their shareholdings online at www.investorcentre.co.uk, including updating address records, making dividend payment enquiries, updating dividend mandates and viewing the latest share price. Shareholders will need their Shareholder Reference Number, which can be found on their share certificate or a recent dividend tax voucher or dividend confirmation, to access this site. Once signed up to Investor Centre, an activation code may be sent to the shareholder's registered address to enable the shareholder to manage their holding.

Other useful contacts

Share dealing services are provided for shareholders by Computershare Investor Services PLC. These services are provided online, to access these services shareholders should have their SRN and log onto www.computershare.com/dealing/uk.

ShareGift (www.sharegift.org, registered charity number 1052686): PO Box 72253, London, SW1P 9LQ (0207 930 3737). ShareGift, the independent share donation charity, is especially useful for those who may want to dispose of a small number of shares which are uneconomic to sell on their own. Shares which have been donated to ShareGift are aggregated and sold when practicable, with the proceeds passed on to a wide range of UK registered charities.

FAQs on the impact of the proposed acquisition of Meggitt by Parker-Hannifin

How will the proposed acquisition affect the ordinary shares I hold in Meggitt?

On completion of the acquisition, all Meggitt share certificates will become invalid and should be destroyed.

Shareholders will automatically receive payment for their shares, by cheque or direct into their bank account if the distribution payment is £250,000 or more (bank details must be registered with Computershare for direct payments).

Alternatively, shareholders who hold their shares in Crest will receive their payment electronically directly through the Crest payment system.

I have lost my share certificate, do I need to get a new one before the acquisition completes?

No. On completion shareholders will automatically receive payment for their Meggitt shares.

Shareholders only need to obtain a new share certificate if they are planning to sell or transfer the shares to someone else before the acquisition completes.

When will payment be made?

Completion is currently expected to occur in Q3 2022 and payment is expected approximately 14 days from the effective date.

If shareholders do not receive payment within 14 days from completion they should contact Computershare on 0370 703 6210.

Do I need to take any action?

Yes.

1. Shareholders should ensure that their details registered with Computershare are accurate and up-to-date.

   Shareholders can update their details online at www.investorcentre.co.uk. To access this site shareholders will need their Shareholder Reference Number which can be found on their share certificate or a recent dividend confirmation voucher. Alternatively they can call Computershare on 0370 703 6210.

   Shareholders who will receive a distribution payment of £250,000 or more will need to provide consent for Computershare to use their bank details to make the payment. Computershare will contact affected shareholders separately to obtain consent.
2. Capital gains taxes could accrue in certain jurisdictions between the value of the shares when originally purchased/exercised an award and the value of the shares when Parker-Hannifin buys them. For capital gains purposes, shareholders should check their records of all transactions in Meggitt shares to make sure they can calculate any capital gains tax due. This is a personal tax liability and Meggitt cannot make this calculation for you.

Shareholders should seek independent financial advice if they are unsure as to their tax position. Meggitt is not authorised to provide tax advice in any form.

I'm an overseas shareholder, will I get a cheque in GBP?

Yes, shareholders will receive a cheque in GBP or payment direct into their bank account if the distribution payment is £250,000 or more (and if their bank details have been registered with Computershare).

Glossary

401(k)	An employer-sponsored defined-contribution pension in the United States
ADS	Aerospace, Defence, Security and Space Organisation
Aftermarket (AM)	Spares and repairs
AGM	Annual General Meeting
AR&T	Applied research and technology
ASK	Available seat kilometres
AOG	Aircraft on ground
BAME	Black, Asian, and Minority Ethnic
Basis point	One-hundredth of a percent
Board	Board of Directors
Book to bill	The ratio of orders received to revenue recognised in a period
BSI	British Standards Institution
Business jets	Aircraft used for non-commercial operations
CAA	Civil Aviation Authority
CAGR	Compound annual growth rate
Capability	Expertise in technology and manufacturing
CARES act	Coronavirus Aid, Relief and Economic Security act
CFC	Controlled Foreign Company
CGU	Cash-generating unit
CHF	Swiss franc
CI	Continuous improvement
CO2	Carbon dioxide
2018 Code	UK Corporate Governance Code 2018
CODM	Chief operating decision maker
Company	Meggitt PLC
Condition-monitoring	Monitoring the condition of aerospace and land-based turbines and supporting equipment to predict wear and tear, promoting safety, up-time and planned maintenance
Continuing Resolution	Appropriations legislation restricting modification from prior-year funding patterns
CR	Corporate Responsibility
CREST	Certificateless Registry for Electronic Share Transfer
D&A	Depreciation and amortisation
DECC	Department of Energy & Climate Change
DEFRA	Department for Environment, Food & Rural Affairs
DFARS	(US) Defense Federal Acquisition Relation Supplement
DLA	Daily layered accountability, the nervous system of Meggitt's High Performance System, DLA is a multi-layered structure of interlocking meetings at the start of each working day that flows fresh, accurate performance and operational information up and down the business enabling problems to be solved quickly by those best equipped to do so
DoD	(United States) Department of Defense
DPPM	Defective parts per million, a measure of quality
DRIP	Dividend reinvestment plan
DGTR	Disclosure Guidance and Transparency Rules
EBITA	Earnings Before Interest, Tax and Amortisation
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
E&C	Ethics & Compliance
ECR	(US) Export Controls Reform
ECL	Expected Credit Loss
EPS	Earnings per Share
ERG	Employee Resource Group
ESG	Environment, Social & Governance
ETES	Electro-thermal Energy Storage
EU	European Union
eVTOL	Electric vertical take-off and landing
Executive Committee	Assists the Chief Executive to develop and implement the Group's strategy, manage operations and discharge responsibilities delegated by the Board
FCA	Financial Conduct Authority
FIFO	First-in first-out
FIRST	For Inspiration and Recognition of Science and Technology
FOC	Free of charge
FVLCOD	Fair Value Less Cost of Disposal
FRC	Financial Reporting Council
FRS	Financial Reporting Standard
FTSE	Share index of companies listed on the London Stock Exchange
GAAP	Generally Accepted Accounting Practice
GBP	British pound or pound sterling
GDP	Gross domestic product
GDPR	General Data Protection Regulation
GHG	Greenhouse gas
Group	Meggitt PLC and its subsidiaries
HMRC	HM Revenue & Customs
HSE	Health, Safety & Environment
HPC	High Performance Culture (HPC) – our chosen culture, with a particular focus on diversity & inclusion and improved employee engagement, to accelerate execution of our strategy
HPS	High Performance System (HPS) – our new Emerging Stronger plan for Outstanding Operations, which replaced the Meggitt Production System (MPS) in 2021
IAS	International Accounting Standards
IATA	The International Air Transport Association
IBOR	Inter Bank Offered Rate
IET	Institution of Engineering and Technology
IFBEC	International Forum on Business Ethical Conduct

IFRS	International Financial Reporting Standards
Installed base	The sum total of the Meggitt products and sub-systems installed on customers' equipment
IR	Investor Relations
IP	Intellectual property
ISA	International Standards on Auditing
Jet Zero Council (JZC)	Partnership between industry and government bringing together ministers and chief executive officer-level stakeholders to drive the ambitious delivery of new technologies and innovative ways to cut aviation emissions
KPI	Key performance indicator
Large jets	Commercial aircraft with greater than 100 seats
Lean	A method for the continual elimination of waste within a manufacturing system
LIBOR	London Inter-Bank Offered Rate
LNG	Liquefied Natural Gas
LTIP	Long-Term Incentive Plan
M&A	Mergers and acquisitions
MPS	Meggitt Production System (MPS) – Replaced by our High Performance System in 2021
Mix	The impact on performance of revenue streams with higher or lower profitability growing at differing rates
MoD	UK Ministry of Defence
MPP	Meggitt Pension Plan
MRO	Maintenance, repair and overhaul
NBAA	National Business Aviation Association
Net borrowings	Net debt adjusted to exclude lease liabilities
NHS	National health Service
NPI	New product introduction
O&M	Operations and monitoring
OE	Original equipment
OECD	Organisation for Economic Cooperation and Development
OEM	Original equipment manufacturer
Operations excellence	A system of tools and processes that embraces the way in which every aspect of Meggitt is managed from the factory floor to all functions and every level of leadership from supervisors to the Group Executive Committee
Organic growth	Growth excluding the impact of currency and acquisitions and disposals of businesses
OSHA	Occupational Safety and Health Administration
OTD	On-time delivery
PBT	Profit before tax
PCHE	Printed circuit heat exchanger – a block of flat, diffusion bonded plates on to which fluid flow channels have been chemically milled
PFEP	Plan for every part
Platform	Aircraft or ground vehicle model incorporating Meggitt products
PMO	Project management office
PPC	Programme Participation Cost
Programme	The production and utilisation lifecycle of an aircraft model or ground vehicle
PwC	PricewaterhouseCoopers LLP
RDT&E	Research Development Test and Evaluation
R&D	Research and development
RCF	Revolving Credit Facility
REACH	Registration, Evaluation and Authorisation of Chemicals
RECs	Renewable Energy Credits
Regional aircraft	Commercial aircraft with fewer than 100 seats
Registrar	Computershare Investor Services PLC
RIDDOR	The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations
RMU	Retrofit, modification and upgrade
RNS	Regulatory News Service announcement
ROCE	Return on capital employed
ROTA	Return on trading assets
RPH	Retirement Plan Headcount
RPK	Revenue Passenger Kilometers
SAP	The Group's selected enterprise management system
SAF	Sustainable Aviation Fuels
Sell-side	Refers to the part of the financial industry that is involved in the creation, promotion, and sale of stocks, bonds, foreign exchange, and other financial instruments
Shipset	Value of Meggitt's content on aircraft platforms
SIP	Share Incentive Plan
SOC	Service Organisation Control
SRN	Shareholder Reference Number
STIP	Short-Term Incentive Plan
TCFD	Taskforce on Climate-related Financial Disclosures
TRIR	Total recordable injury rate
TSR	Total shareholder return
UAV	Unmanned aerial vehicle
UN SDG	United Nations Sustainable Development Goals
UKLA	UK Listing Authority
USD	United States dollar
Ventilator Challenge	A consortium led rapid production of ventilators to help patients hospitalised with COVID-19
WACC	Weighted average cost of capital
WBCSD	World Business Council for Sustainable Development
WIP	Work in Progress
WRI	World Resources Institute

Notes

MIX
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