

Company registration number 03477890 (England and Wales)

**MEGGITT AEROSPACE LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2021**



# MEGGITT AEROSPACE LIMITED

## COMPANY INFORMATION

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**Directors**

M L Thomas  
I K Pargeter  
A Wood  
L Burdett  
K Lewis  
A Garard

**Secretary**

S R Grant

**Company number**

03477890

**Registered office**

Pilot Way  
Ansty Business Park  
Coventry  
CV7 9JU

**Independent auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
3 Forbury Place  
23 Forbury Road  
Reading  
Berkshire  
RG1 3JH

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# MEGGITT AEROSPACE LIMITED

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# MEGGITT AEROSPACE LIMITED

## STRATEGIC REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2021

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The directors present the strategic report for the year ended 31 December 2021.

#### **Review of the business**

##### **Results for the year**

The company made a loss for the financial year of £4,777,000 (2020: profit of £13,616,000) and has net assets as at 31 December 2021 of £337,585,000 (2020: £359,081,000).

##### **Principal activities and business review**

The Company is a wholly owned subsidiary of Meggitt PLC, a global engineering company specialising in high-performance components and sub systems for the aerospace, defence and selected energy markets.

The Company's principal activities are carried out by its operating divisions as follows:

##### *Meggitt Airframe Systems*

Airframe Systems is comprised of the wheel and brakes and polymer seals and composites operations. The designers and manufacturers of aircraft wheels, brakes and brake control systems are based in Coventry, UK. The polymer seals manufacturers specialising in fuel containment, engineered aircraft sealing systems and technical polymers, electro-thermal ice protection and complex composite structures and assemblies are based in Loughborough, Shepshed and Stevenage, UK.

##### *Meggitt Engine Systems - Flow Control and Thermal Systems*

Flow Control and Thermal Systems are manufacturers specialising in rigid and flexible metallic ducting systems and components for aerospace, space vehicle, marine, nuclear and industrial applications. Based in Coventry, UK.

##### *Meggitt Services & Support*

The aftermarket division for the company. Based in Coventry, UK.

The COVID-19 pandemic continues to cause disruptions to the UK and global economy and financial markets and the recovery in the civil aviation market has been slower to materialise than anticipated. The company's revenue and profits continue to be impacted by the pandemic; however, no impairments or credit losses have been noted in 2021 as a result of COVID-19.

##### **Future prospects**

The directors consider that the company is well placed to continue its activities during 2021, as discussed in the context of the Group in the Meggitt PLC 2021 Annual Report on page 60, which does not form part of this report.

The Group regularly reviews the impact of price inflation from its supply chain on its future financial performance as part of its short and medium term planning processes, through which appropriate mitigation strategies are developed in order to minimise the impact from inflation.

##### *Implications of COVID-19 on the business*

It is our view, to the best of our current knowledge, that although the COVID-19 pandemic has had an adverse impact on the company, the measures taken by the Group will continue to mitigate this and there will not be a material effect on the company's ability to continue as a going concern. The directors have considered the impact on going concern in note 1.2.

##### *Proposed acquisition of the group by Parker-Hannifin Corporation*

On 21 September 2021, the shareholders of Meggitt PLC approved an all-cash offer of 800 pence per share for the group by Parker-Hannifin Corporation. The proposed acquisition is expected to complete during Q3 2022, subject to receiving all remaining regulatory approvals. The directors have considered the impact on going concern in note 1.2.

##### *Climate change*

The company is subject to certain impacts or opportunities due to climate change. The key impacts of climate change are fully discussed, in the context of the group, on pages 58 to 63 of the Meggitt PLC 2021 Annual Report, which does not form part of this report.

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# MEGGITT AEROSPACE LIMITED

## STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

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### **Principal risks and uncertainties**

The management of the business and the execution of the company's strategy are subject to certain risks. The key business risks, both external and internal including climate change risks, are fully discussed, in context of the group, on pages 50 to 57 of the Meggitt PLC 2021 Annual Report, which does not form part of this report.

### **Key performance indicators**

The directors of Meggitt PLC manage the group's operations on a divisional basis. For this reason, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business of the company. The development, performance and position of the divisions of Meggitt PLC, which includes the business units of the company, are discussed on pages 26 to 29 of the Meggitt PLC 2021 Annual Report which does not form part of this report.

### **Section 172 (1) statement**

As set out in Section 172 of the Companies Act 2006 (the "Act"), the 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 to, amongst other things, the interests of employees, the impact of operations on the communities and environment in which the company operates, and the need to foster relationships with suppliers, customers and other key stakeholders in order to maintain a reputation for high standards of business conduct and the sustainable long-term success of the company.

As a wholly owned subsidiary, the company's directors are subject to Group policies set by Meggitt PLC, the ultimate parent company, which sets out the expectation to act ethically and conduct business fairly and impartially. The Group Corporate Responsibility and Sustainability Policy in particular requires business to be conducted in a manner that achieves sustainable growth by balancing the interests of all stakeholders. This policy, and other Group policies, prompt consideration of the matters set out in section 172 of the Act and by complying with these policies the directors ensure that the company is ran for the benefit of its members and the Group as a whole.

### *Employee engagement*

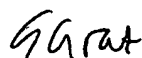
The Company benefits from Group activities to consult and engage with employees. As part of their Group roles, Mr Wood, Mrs Burdett, Mr Garard and Ms Thomas host town halls and provide employees with regular updates via the intranet on the Group's financial performance, strategy, culture and other matters of concern. The results of the Group employee engagement survey are reviewed by Meggitt PLC's Executive Committee and Board of Directors which includes Mr. Wood, Mrs Burdett, Mr Garard and Ms Thomas, to ensure that the views of employees inform the Group's strategy and Group Policies, thereby influencing decisions taken at all levels of the organisation. Employees are also encouraged to participate in the Group's success through share ownership via the Share Incentive Plan and Sharesave plan.

### *Engagement with other stakeholders*

Similarly, the company benefits from stakeholder engagement activities at Group level, details of which can be found on pages 90 to 94 of the Meggitt PLC 2021 Annual Report.

Approved by the Board of Directors on 26 August 2022.

Signed by order of the Board:



S R Grant  
**Secretary**  
26 August 2022

# MEGGITT AEROSPACE LIMITED

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2021

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The directors present their annual report and audited financial statements for the year ended 31 December 2021.

#### **Results and dividends**

The results for the year are set out on page 9. Particulars of dividends paid are detailed in note 10 of the financial statements.

#### **Directors**

The directors who held office during the year and up to the date of approval of the financial statements were as follows:

M L Thomas  
I K Pargeter  
L Burdett  
A Wood  
K Lewis  
A Garard (appointed 17 May 2021)

#### **Directors' indemnities**

The directors have the benefit of qualifying third-party indemnity provisions for the purposes of Section 234 of the Companies Act 2006. This remained in force during the financial year and at the date of approval of these financial statements.

#### **Financial risk management objectives and policies**

The company's operations expose it to a variety of financial risks including foreign exchange risk and credit risk. As the company's operations are principally funded through group loan arrangements it is not exposed directly to external risk factors such as liquidity risk. As these group loan arrangements carry interest on a floating rate basis, there is an element of interest rate risk. However any impact will be offset by an equal and opposite amount at the group level. These risks are managed on a group-wide basis by the company's ultimate parent undertaking, Meggitt PLC. The key financial risk management objectives and policies are fully discussed in context of the Meggitt PLC group as a whole, in note 3 on pages 188 to 189 of the Group's 2021 Annual Report which does not form part of this report.

#### **Foreign exchange risk**

The company operates internationally and is subject to foreign exchange risk on future commercial transactions with the principal exposure being the US dollar against the Pound Sterling. To mitigate risks associated with future commercial transactions the policy is to hedge known and certain forecast transaction exposures based on historical experience and projections. These hedges are taken out centrally by Meggitt PLC and then amounts are allocated to individual business operations. The overall aim of hedging is to achieve, on a group-wide basis, at least 70% of the next 12 months anticipated exposure with additional cover to hedge up to five years ahead. The amount of hedging cover achieved per business unit will therefore not necessarily always be 70% as it may fluctuate as circumstances necessitate within the overall group-wide policy parameters. The company has determined that the additional costs of meeting the extensive documentation requirements to meet the requirements to be able to apply hedge accounting for the company's large number of foreign currency forward contracts is not merited. Accordingly gains and losses arising from measuring the contracts at fair value are recorded immediately in the income statement and hedge accounting is not applied.

# MEGGITT AEROSPACE LIMITED

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

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### **Credit risk**

The company is not subject to a significant concentration of credit risk with exposure spread across a large number of customers around the world. Policies are maintained to ensure the company 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 necessary.

### **Research and development**

The directors recognise the importance of investing in research and development programmes which bring innovative improvements to the company both in the products supplied to the consumer and in production techniques. Expenditure in 2021 on research and development amounted to £4,987,000 (2020: £5,037,000), of which £nil (2020: £397,000) was capitalised in accordance with the company's accounting policy.

### **Disabled persons**

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment within the company continues and that the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

### **Employee involvement**

The company's policy is to consult and discuss with employees, through unions, staff councils and at meetings, matters likely to affect employees' interests. Information of matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the group's performance. The directors encourage employees to become shareholders to improve active participation in, and commitment to, the Meggitt group's success. This policy has been pursued for all UK employees through the Share Incentive Plan and the Sharesave Scheme.

### **Supplier payment policy**

The company's policy concerning the payment of trade payables is to:

- settle the terms of payment with suppliers when agreeing the terms of each transaction;
- ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- pay in accordance with the company's contractual and other legal obligations.

For the year ended 31 December 2021, the average number of days to pay suppliers was 85 days. The aggregate of the amounts which were owed to trade creditors at the end of the year was £21,399,000 and the aggregate of the amounts in which the company was invoiced by suppliers during the year was £91,581,000.

### **Independent auditors**

PricewaterhouseCoopers LLP is deemed to be reappointed as the Company's auditor under section 487 of the Companies Act 2006.

# MEGGITT AEROSPACE LIMITED

## DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

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### Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report 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 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 company and of the profit or loss of the company 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 United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for safeguarding the assets of the 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

### Directors' confirmations

In the case of each director in office at the date the Directors' report is approved:

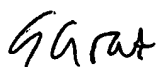
- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

### Strategic report

Certain laws and regulations require that specific information should be included in the Directors' report. The stakeholder engagement and future prospects are set out in the Strategic report on pages 1 to 3.

Approved by the Board of Directors on 26 August 2022.

Signed by order of the Board:



**S R Grant**  
Secretary  
26 August 2022

# MEGGITT AEROSPACE LIMITED

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MEGGITT AEROSPACE LIMITED

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Report on the audit of the financial statements

### Opinion

In our opinion, Meggitt Aerospace Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss for the year then ended;
- 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
- 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 Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2021; the income statement and the statement 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.

### 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 company 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Conclusions relating to going concern

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 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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

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. 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.

# MEGGITT AEROSPACE LIMITED

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MEGGITT AEROSPACE LIMITED (CONTINUED)

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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 company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

### **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, 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 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 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 company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of trade compliance, bribery and corruption, aviation regulation, data protection 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 Companies Act 2006 and 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, omitting, advancing or delaying recognition of events or transactions that have occurred during the reporting period and management bias in accounting estimates or judgements to manipulate results. Audit procedures performed by the engagement team included:

- Holding discussions with Meggitt PLC and Meggitt Aerospace Limited's management, Head of Internal Audit, legal and tax advisors, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud.
- Evaluating Management's controls designed to prevent and detect irregularities.

# MEGGITT AEROSPACE LIMITED

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MEGGITT AEROSPACE LIMITED (CONTINUED)

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- Reviewing meeting minutes of the Board (Meggitt Aerospace Limited and Meggitt PLC) and the Group's Audit, Nominations, Remuneration, Corporate Responsibility and Finance Committees.
- Assessing matters reported on the Group's Speak Up Line and the results of management's investigation of such matters.
- Challenging assumptions and judgements made by management in their significant accounting estimates and judgements.
- Identifying and testing journal entries based on our risk assessment and evaluating whether there was evidence of management bias that represents a risk of material misstatement due to fraud.

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. 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.

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](http://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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: prepare financial statements in accordance with the small companies regime. We have no exceptions to report arising from this responsibility.



John Ellis (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Reading  
26 August 2022

# MEGGITT AEROSPACE LIMITED

## INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2021

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	Note	2021 £000	2020 £000
Revenue	3	224,339	262,660
Cost of sales		(164,907)	(175,832)
<b>Gross profit</b>		<u>59,432</u>	<u>86,828</u>
Distribution costs		(9,175)	(10,073)
Administrative expenses		(30,161)	(41,919)
Other (losses)/gains	4	(5,571)	3,482
Exceptional items	5	(11,894)	(19,937)
<b>Operating profit</b>	4	<u>2,631</u>	<u>18,381</u>
Finance costs	8	(4,806)	(3,966)
<b>(Loss)/profit before taxation</b>		<u>(2,175)</u>	<u>14,415</u>
Tax on (loss)/profit	9	(2,602)	(799)
<b>(Loss)/profit for the financial year</b>		<u><u>(4,777)</u></u>	<u><u>13,616</u></u>

The income statement has been prepared on the basis that all operations are continuing operations.

The company has no other comprehensive income or expenses other than the profits for the years set out above and therefore no separate statement of comprehensive income has been presented.

# MEGGITT AEROSPACE LIMITED

## STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

		31 December 2021	31 December 2020
	Note	£000	£000
<b>Non-current assets</b>			
Goodwill	11	182,287	182,287
Other intangible assets	11	58,877	63,154
Property, plant and equipment	12	156,404	136,227
Investments	13	50,600	50,600
Contract assets	15	2,298	1,689
Derivative financial instruments	16	1,309	4,198
		<u>451,775</u>	<u>438,155</u>
<b>Current assets</b>			
Inventories	17	85,716	85,283
Derivative financial instruments	16	1,504	3,204
Trade and other receivables	18	58,637	117,655
Contract assets	15	9,118	6,214
Cash and cash equivalents	19	-	3,804
		<u>154,975</u>	<u>216,160</u>
<b>Current liabilities</b>			
Trade and other payables	20	(103,272)	(113,004)
Derivative financial instruments	16	(916)	(160)
Contract liabilities	21	(21,212)	(15,995)
Lease liabilities	22	(1,741)	(1,784)
Provisions for liabilities	23	(717)	(1,886)
		<u>(127,858)</u>	<u>(132,829)</u>
<b>Net current assets</b>		<u>27,117</u>	<u>83,331</u>
<b>Total assets less current liabilities</b>		<u>478,892</u>	<u>521,486</u>
<b>Non-current liabilities</b>			
Trade and other payables	20	(55,866)	(83,571)
Derivative financial instruments	16	-	(153)
Contract liabilities	21	(344)	(3,352)
Deferred tax liabilities	24	(11,097)	(8,259)
Provisions for liabilities	23	(2,376)	(2,914)
Lease liabilities	22	(71,624)	(64,156)
		<u>(141,307)</u>	<u>(162,405)</u>
<b>Net assets</b>		<u><u>337,585</u></u>	<u><u>359,081</u></u>

# MEGGITT AEROSPACE LIMITED

## STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 31 DECEMBER 2021

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		31 December 2021 £000	31 December 2020 £000
	Note		
<b>Equity</b>			
Called up share capital	28	200,000	200,000
Retained earnings		137,585	159,081
<b>Total equity</b>		<u>337,585</u>	<u>359,081</u>

The notes on pages 13 to 40 form an integral part of these financial statements.

The financial statements on pages 9 to 40 were approved by the Board of Directors and authorised for issue on 26 August 2022.

Signed on behalf of the directors:



**I K Pargeter**

Director

26 August 2022

Company Registration No. 03477890

# MEGGITT AEROSPACE LIMITED

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2021

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	Note	Share capital £000	Retained earnings £000	Total equity £000
<b>Balance at 1 January 2020</b>		200,000	145,665	345,665
Profit for the financial year		-	13,616	13,616
Total comprehensive income for the year		-	13,616	13,616
Recognition of equity-settled share-based payments in the year	27	-	(200)	(200)
<b>Balance at 31 December 2020</b>		200,000	159,081	359,081
Loss for the financial year		-	(4,777)	(4,777)
Total comprehensive expense for the year		-	(4,777)	(4,777)
Dividends paid	10	-	(17,676)	(17,676)
Recognition of equity-settled share-based payments in the year	27	-	957	957
<b>Balance at 31 December 2021</b>		200,000	137,585	337,585

\* Relates to share-based payment transactions.

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

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### 1 Accounting policies

#### General Information

The company is a manufacturer and designer of aerospace products. The company is private, limited by shares, incorporated and domiciled in the United Kingdom. The address of its registered office is Pilot Way, Ansty Business Park, Coventry, CV7 9JU.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

#### 1.1 Accounting convention

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The financial statements have been prepared on the historical cost basis, modified by the revaluation of derivative financial assets and liabilities held at fair value through profit and loss and in accordance with the Companies Act 2006.

The true and fair override provisions of the Companies Act 2006 have been invoked - see Intangible assets - Goodwill (paragraph 1.9).

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 'Share based Payment';
- the requirements of IFRS 7 'Financial Instruments: Disclosures';
- the requirements of paragraphs 91-99 of IFRS 13 'Fair Value Measurement';
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of: (i) paragraph 79(a) (iv) of IAS 1, (ii) paragraph 73(e) of IAS 16 'Property Plant and Equipment'; and (iii) paragraph 118 (e) of IAS 38 'Intangibles Assets';
- the requirements of paragraphs 10(d), 16 and 134-136 of IAS 1 'Presentation of Financial Statements';
- the requirements of IAS 7 'Statement of Cash Flows';
- the requirements of 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, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- the requirements of paragraphs 10(f) and 40A-D of IAS 1 to present a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements;
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 'Impairment of Assets';
- the requirements of the second sentence of paragraph 110 and paragraphs 113 (a), 114, 115, 118, 119 (a-c), 120-127 and 129 of IFRS 15, 'Revenue from Contracts with Customers';
- the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'; and
- The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 'Leases'.

The company has taken advantage of the exemption under section 400 of the Companies Act 2006 not to prepare consolidated financial statements. These financial statements present information about the company as an individual entity and not about its group.

Meggitt Aerospace Limited is a wholly owned subsidiary of Meggitt PLC and the results of Meggitt Aerospace Limited are included in the consolidated financial statements of Meggitt PLC which are publicly available, as set out in note 29.

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2021

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#### 1 Accounting policies

(Continued)

##### 1.2 Going concern

The directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the company has 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 company financial statements.

In reaching this conclusion, the directors have considered:

- the financial position of the company as set out in this report and additional information provided in the financial statements;
- the resources available to the company;
- the principal risks and uncertainties to which the Meggitt PLC group is exposed, as set out on pages 50 to 57 of the Meggitt PLC 2021 Annual Report (which does not form part of these financial statements), the likelihood of them arising and the mitigating actions available; and
- the impact of COVID-19 on both the entity and the Meggitt PLC group as part of their assessment.

Meggitt PLC (the "group"), is closely monitoring the impact of COVID-19 on its 2022 financial results and cashflows and has prepared a detailed model and projections for the business. The group has leveraged the output of this model covering the period to 31 August 2023 in assessing whether the going concern principle remains appropriate. As part of this assessment, the group also considered the liquidity and financing available to it over the same period. This model has been stress tested and the group considers the likelihood of circumstances occurring that would result in it breaching either of its financial covenant ratios during the assessment period to be remote.

On 21 September 2021, the shareholders of Meggitt PLC approved an all-cash offer of 800 pence per share for the group by Parker-Hannifin. In assessing whether the going concern principle remains appropriate, the group also considered the impact in the event the proposed acquisition is completed, including the intent and ability of Parker-Hannifin to finance the purchase, repay liabilities becoming due on change of control, and continue to operate the group as a going concern for the remainder of the assessment period. Having taken account of publicly available information, the group believe Parker-Hannifin will be able to meet these obligations.

Based on the above, the directors have therefore concluded it is appropriate to adopt the going concern principle in these financial statements.

##### 1.3 New standards, amendments and IFRIC interpretations

During the year, no new accounting standards, amendments or revisions to existing standards, or interpretations have become effective which had a significant impact on the financial statements.

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2021

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#### 1 Accounting policies

(Continued)

##### 1.4 Revenue

Revenue represents the fair value of consideration received or receivable in respect of goods and services provided in the normal course of business to external customers, net of trade discounts, returns and sales related taxes.

##### **Revenue from external customers**

Revenue is recognised when control of goods or services provided by the company is transferred to the customer and at an amount reflecting the consideration the company expects to receive from the customer in exchange for those goods and services.

There are no significant judgements required in either determining the company's performance obligations or, because the majority of the company's revenue is recognised when goods or services are provided to the customer, in 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.

Estimates of total contract costs are required to determine the extent to which revenue is recognised in a period on over time contracts. The company does not consider there to be any reasonably foreseeable changes in these estimates that could give rise to a significant impact on revenue recognised in the period.

##### **Transfer of control – At a point in time**

For the majority of goods and services provided by the company, 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 company'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 the company of 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 company's facility, and normal credit terms apply, transfer of control occurs when these contractual terms have been met, which will typically be when goods are completed, packaged and segregated at the company's facility;
- Goods and services are not distinct performance obligations. Where a contract involves the supply of multiple goods and services, the company has concluded that typically each good and service supplied is a distinct performance obligation. However, contracts may require the company 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 company and not when delivery of the goods takes place;
- Goods are delivered subject to consignment arrangements. Where the company delivers goods to a customer facility, such as an airline operator, but retains control of those goods until they are used by the customer, control transfers when the company is notified by the customer of their use; and
- Goods supplied subject to customer acceptance. Within the aerospace industry goods are frequently subject to customer acceptance testing on delivery, or at the company's facilities. Normally the company is able, through its own testing procedures, to predict with reasonable certainty that acceptance testing will be successful and accordingly acceptance testing will not affect the determination of when control passes. Where however the company cannot predict the outcome with reasonable certainty, control is not considered to transfer until the goods have been accepted by the customer.

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2021

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#### 1 Accounting policies

(Continued)

##### **Transfer of control – Over time**

The principal circumstances in which control transfers over time are where the company 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.

Certain defence contracts include clauses entitling the company to be awarded a reasonable profit margin in the event the customer cancels for convenience. Where the company 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 company; and the goods and services have no alternative use, control will transfer over time.

An alternative use exists where there are multiple potential customers, OEMs (Original Equipment Manufacturer) and/or aftermarket customers, to whom the company could provide those goods or services.

Where a contract is structured such that non-refundable milestone payments are receivable from a customer in advance of work being performed, and the company 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 company 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.

##### **Consideration expected to be received from the customer**

The majority of the company's contracts provide that consideration is payable 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 company 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.

In certain instances the company will receive contributions from customers during the development phase of an aerospace programme, typically in the form of cash, and where the company expects to retain the intellectual property of the developed technology throughout the programme life. Such contributions 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, the financing element of the contribution, if significant, is separately identified and recognised as finance income over the period goods and services are provided.

Where the company makes contributions to customers to participate in aerospace programmes, typically in the form of cash, such payments are initially recognised as a contract asset provided the company has received, or it is highly probable that it will receive, contracts from the same customer and relating to the same aerospace programme (see also programme participation costs policy).

#### 1.5 Investments

Investments held as non-current assets are stated at cost less provision for impairment in value arising from an annual review (see also impairment of non-current, non-financial assets).

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

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### 1 Accounting policies

(Continued)

#### 1.6 Property, plant and equipment

Property, plant and equipment is 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. Lease incentives receivable from the lessor are recognised as a reduction in cost.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Freehold buildings	Up to 50 years
Plant and machinery	3 to 10 years
Right-of-use assets: Property	Shorter of the useful economic life of the asset and the lease term
Right-of-use assets: Other	Shorter of the useful economic life of the asset and the lease term

Residual values and useful lives are reviewed annually and adjusted if appropriate. When property, plant and equipment is disposed, the difference between sale proceeds, net of related costs, and the carrying value of the asset is recognised in the income statement.

#### 1.7 Intangible assets

##### Customer relationship costs

Customer relationship costs are recognised at fair value, which is regarded as their cost. These 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, typically over 20 years.

##### Research and development costs

Research expenditure is recognised as an expense in the income statement as incurred. Development costs incurred on projects where the related expenditure is separately identifiable, measurable and management are satisfied as to the ultimate technical and commercial viability of the project and that the project will generate future economic benefit are recognised as an intangible asset.

Amortisation is charged over the periods expected to benefit, typically up to 15 years, commencing with aircraft entry into service.

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

---

### 1 Accounting policies

(Continued)

#### 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.

#### Software

Software is recognised 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, typically over periods up to 10 years. Residual values and useful lives are reviewed annually and adjusted if appropriate.

Amortisation charges are included within administrative expenses in respect of development costs and software within cost of sales in respect of programme participation costs.

### 1.8 Goodwill

The purchased goodwill of the company is regarded as having an indefinite useful economic life and in accordance with FRS 101, is not amortised but is subject to annual tests for impairment. This represents a departure, for the purpose of giving a true and fair view, from the requirements of schedule 4:21 of the Companies Act 2006, which requires goodwill to be amortised.

In the opinion of the directors, it is not possible to determine a finite useful economic life for goodwill arising, due to the inherent durability of the corporate profile and the continued position of market leadership. Since it is not possible to identify any finite useful economic life, it is not possible to quantify any amortisation which would be charged.

Goodwill is tested for impairment annually by assessing the value in use of the business to which it relates and the Board has considered the separate plans and cash flows of the business when making this assessment, consistent with requirements of FRS 101.

Goodwill arising on acquisitions before the date of transition to FRS 101 has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

### 1.9 Impairment of non-current, non-financial assets

At each reporting end date, the company reviews the carrying amounts of its non-current, non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. 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 to which the asset belongs.

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2021

---

#### 1 Accounting policies

(Continued)

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 cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

#### 1.10 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost represents 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. 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.

#### 1.11 Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost less any impairment losses. The company applied the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, other receivables have been grouped based on shared credit risk characteristics and the days past due. For amounts due from fellow group undertakings that are repayable on demand the expected credit losses are based on the assumption that repayment is demanded at the reporting date. The borrowers access to sufficient accessible highly liquid assets in order to repay the amount due if demanded at the reporting date, is assessed. The expected manner of recovery is considered when measuring the expected credit losses. If the recovery strategies indicate that the company would fully recover the outstanding amounts due, the expected credit loss will be limited to the effect of discounting the amount due using the effective interest rate, over the period until cash is expected to be realised.

Contract assets relating to conditional rights to consideration on over time contracts are subject to substantially the same risks as trade receivables on the same types of contracts. The company therefore applies the same loss rates to these contract assets that it uses for trade receivables.

#### 1.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts.

#### 1.13 Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost.

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

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### 1 Accounting policies

(Continued)

#### 1.14 Derivative financial instruments

The company uses derivative financial instruments to hedge its exposure to 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 remeasured at fair value each reporting date using values determined indirectly from quoted prices that are observable for the asset or liability.

To the extent the maturity of the financial instrument is more than 12 months from the reporting date, the fair value is reported as a non-current asset or non-current liability. All other derivative financial instruments are reported as current assets or current liabilities.

The company utilises foreign currency forward contracts to mitigate against currency fluctuations. The company has determined that the additional costs of meeting the extensive documentation requirements for the company's large number of foreign currency forward contracts is not merited. Accordingly gains and losses arising from measuring the contracts at fair value are recorded immediately in the income statement and hedge accounting is not applied.

#### 1.15 Current tax

Current tax is based on taxable profit for the period, calculated using tax rates enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The company establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax is recognised in the income statement, other comprehensive income or directly in equity depending on where the item to which they relate has been recognised.

#### **Deferred tax**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

#### 1.16 Provisions

Provisions are made for onerous contracts, warranty claims and business restructuring when the company has a present obligation as a result of past events, it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. 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.

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

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### 1 Accounting policies

(Continued)

#### 1.17 Employee benefits

##### Pension schemes

The company is a wholly owned subsidiary undertaking of Meggitt PLC and certain employees of the company are members of group pension schemes, which are both defined benefit and defined contribution schemes funded by both employers' and employees' contributions.

For the defined contribution scheme, the annual contributions payable are charged to the income statement.

With regard to the defined benefit scheme, as more than one employer participates in the Meggitt PLC group pension scheme and because each company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis, the company is accounting for its contributions to the scheme as if it was a defined contribution scheme. Accordingly, the cost of the company's contributions to the scheme are equal to the contributions payable to the scheme during the year, and this cost has been recognised in the income statement. The overall position of the scheme is disclosed in the financial statements of Meggitt PLC.

#### 1.18 Share-based payments

The company operates a number of equity-settled share-based compensation schemes. The fair value of an award is measured at the date of grant and reflects any market-based vesting conditions. Non-market-based vesting conditions are excluded from the fair value of the award. At the date of the grant the company estimates the number of awards expected to vest as a result of non-market-based vesting conditions and the fair value of this estimated number of awards is recognised as an expense in the income statement on straight-line basis over the period for which services are received. At each reporting date the company revises its estimate of the number of awards expected to vest as a result of non-market-based vesting conditions and adjusts the amount recognised cumulatively in the income statement to reflect the revised estimate.

#### 1.19 Leases

A lease liability is recognised when the company obtains control of the right-of-use asset, that is the subject of the lease. The lease liability is subsequently measured using the effective interest method, with interest charged to finance costs. 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.

#### 1.20 Foreign exchange

The financial statements are presented in 'pounds sterling' (£), which is also the company's functional currency. Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation are included in the income statement for the period.

#### 1.21 Exceptional items

Items which are significant by virtue of their size or nature, which are considered non-recurring are classified as exceptional items. They include, for instance, costs directly attributable to the integration of an acquired business and significant site consolidation and other restructuring costs.

#### 1.22 Dividend recognition and distribution

Dividend income is recognised when the right to receive payment is established.

Dividend distributions to the company's shareholders are recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders.

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

*FOR THE YEAR ENDED 31 DECEMBER 2021*

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### **2 Critical accounting estimates and judgements**

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. There are no estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities.

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

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### 3 Revenue

The revenue and profit before taxation are attributable to the principal activities of the company as stated in the Strategic report on pages 1-3.

An analysis of revenue by category is given below:

Category	2021 £000	2020 £000
At a point in time	208,429	241,895
Over time - Power by the hour/Cost per brake landing	8,867	11,453
Over time: Other	7,043	9,312
	<u>224,339</u>	<u>262,660</u>

A geographical analysis of revenue is given below:

Geographical market by destination	2021 £000	2020 £000
United Kingdom	48,103	57,438
Rest of Europe	56,139	65,035
North America	84,430	93,106
Rest of World	35,667	47,081
	<u>224,339</u>	<u>262,660</u>

Included within revenue above are sales to fellow group companies of £38,727,000 (2020: £38,474,000).

Revenue recognised in the current year relating to performance obligations satisfied or partially satisfied in the prior year was £1,400,000 (2020: £nil).

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2021

4 Operating profit	2021 £000	2020 £000 Restated
Operating profit is stated after (crediting)/charging:		
Net foreign exchange (gain)/loss	771	967
Capitalisation of development costs (see note 11)	-	(397)
Depreciation of property, plant and equipment (see note 12)	10,764	8,225
Amortisation of intangible assets (see note 11)	7,851	4,595
Raw materials and consumables used*	75,837	86,188
Change in inventories of finished goods and work in progress (see note 17)*	(483)	(2,684)
Staff costs (see note 7)	72,289	80,946
Site related costs	18,123	24,413
Loss/(gain) on movement in fair value of foreign currency forward contracts	5,571	(3,482)
Other costs	19,091	25,571
Exceptional costs (see note 5)	11,894	19,937
	<u>          </u>	<u>          </u>

\* Prior year figures have been restated by £7,754,000 to reflect raw materials and work in progress previously reflected as finished goods.

Total research and development expenditure in the year is £4,987,000 (2020: £5,037,000) of which £3,830,000 (2020: £1,770,000) is charged to cost of sales or manufacturing work in progress, £1,157,000 (2020: £2,870,000) is charged to net operating costs and £nil (2020: £397,000) is capitalised as development costs (see note 11).

5 Exceptional items		2021 £000	2020 £000
Site consolidation and restructuring costs	a	12,017	10,511
Impairment (reversals)/losses (see note 17)	b	(507)	3,163
COVID-19 incremental non-recurring costs	c	1,034	6,263
Other		(650)	-
		<u>          </u>	<u>          </u>
Exceptional operating items		11,894	19,937
		<u>          </u>	<u>          </u>

- a Site consolidation and restructuring costs relate principally to costs incurred in respect of the move to a new facility being constructed at Ansty Park in the West Midlands which will enable the company to consolidate a range of manufacturing, engineering and support operations into a single centre of excellence.
- b The company recognised material impairment losses in 2020 arising from the uncertainty facing the commercial aerospace industry following the COVID-19 outbreak as an exceptional item. In 2021, £0.5m of the impairment losses originally recognised in 2020 were reversed.
- c The company continues to recognise incremental income and expenditure directly attributable to the COVID-19 pandemic, and which is not expected to recur in future years, such as additional cleaning costs, shift premiums and protective equipment, as an exceptional item.

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2021

#### 6 Auditors' remuneration

Audit fees for the year were borne by the ultimate parent company, Meggitt PLC. The following allocation is made and has been recharged to the company:

	2021 £	2020 £
Audit fees payable to the company's auditors	213,400	171,100
Fees payable to the company's auditors for other services:		
Other assurance services	-	5,000
	<u>213,400</u>	<u>176,100</u>

#### 7 Employees and directors

The average monthly number of persons employed by the company during the year was:

	2021 Number	2020 Number
Manufacturing	1,048	1,278
Sales and distribution	108	115
Administration	232	227
	<u>1,388</u>	<u>1,620</u>

Their aggregate remuneration comprised:

<b>Employment costs</b>	<b>2021 £000</b>	<b>2020 £000</b>
Wages and salaries	59,386	66,357
Social security costs	5,775	6,848
Other pension costs (see note 23)	6,244	7,851
Equity-settled share-based payments (see note 24)	884	(110)
	<u>72,289</u>	<u>80,946</u>

Persons who are employed by the ultimate parent company, Meggitt PLC, but who work wholly for the company are included in the average monthly number of persons. The cost of these employees is recharged to the company and is included in employment costs.

#### Directors' remuneration

All of the directors as at the year end are employees of either the ultimate parent company, Meggitt PLC, or the company and are remunerated by those companies for their services to the group as a whole. The directors do not receive any remuneration in their capacity as directors of the company as their services as directors of the company are incidental to their services to the group.

Three of the directors exercised options in the shares of the ultimate parent company, Meggitt PLC, during the year ended 31 December 2021 (2020: four). No options were issued in regards to services for Meggitt Aerospace Limited (2020: none).

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2021

#### 8 Finance costs

	2021 £000	2020 £000
Interest on bank overdrafts and loans	632	348
Interest on lease liabilities	2,342	2,128
Interest payable to group undertakings	1,832	1,490
	<u>4,806</u>	<u>3,966</u>

#### 9 Tax on (loss)/profit

	2021 £000	2020 £000
<b>Current tax</b>		
Current year taxation	221	(2,352)
Adjustments in respect of prior periods	(803)	1,222
	<u>(582)</u>	<u>(1,130)</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	1,279	3,873
Adjustments in respect of prior periods	1,905	(1,944)
	<u>3,184</u>	<u>1,929</u>
Total tax charge	<u>2,602</u>	<u>799</u>

The tax charge for the year is higher (2019: lower) than the standard rate of corporation tax in the UK for the year ended 31 December 2020 of 19.00% (2020: 19.00%). The difference is explained below:

	2021 £000	2020 £000
(Loss)/profit before taxation	<u>(2,175)</u>	<u>14,415</u>
Effects of:		
(Loss)/profit before taxation multiplied by the standard rate of tax in the UK of 19.00% (2020: 19.00%)	(413)	2,739
Current tax adjustments in respect of prior periods	(803)	1,222
Deferred tax adjustments in respect of prior periods	1,905	(1,944)
Uncertain tax provisions	(595)	(2,586)
Permanent differences	(34)	821
Effect of changes in statutory tax rates	2,542	547
Total tax charge for the year	<u>2,602</u>	<u>799</u>

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

(Continued)

### 9 Tax on (loss)/profit

#### Factors that may affect future tax charges

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25%. This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

10 Dividends paid	2021 pence per share	2020 pence per share	2021 £000	2020 £000
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Amounts recognised as distributions to equity holders:

Paid during the year	8.84	-	17,676	-
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On 17 December 2021 the directors approved the payment of an interim dividend of £8.84 per £1 ordinary share totalling £17,676,000 (2020: no dividends were approved for payment in the financial year).

### 11 Intangible assets

	Goodwill £000	Customer relationships £000	Software £000	Development costs £000	Programme contributions £000	Total other intangible assets £000
<b>At 1 January 2021</b>						
Cost	296,698	24,800	23,038	59,483	4,042	111,363
Accumulated amortisation	(114,411)	(2,537)	(11,442)	(31,072)	(3,158)	(48,209)
<b>Net book amount</b>	<b>182,287</b>	<b>22,263</b>	<b>11,596</b>	<b>28,411</b>	<b>884</b>	<b>63,154</b>
<b>Year ended 31 December 2021</b>						
Opening net book amount	182,287	22,263	11,596	28,411	884	63,154
Additions	-	-	3,574	-	-	3,574
Charge for the year	-	(1,183)	(2,612)	(3,830)	(226)	(7,851)
<b>Net book amount</b>	<b>182,287</b>	<b>21,080</b>	<b>12,558</b>	<b>24,581</b>	<b>658</b>	<b>58,877</b>
<b>At 31 December 2021</b>						
Cost	296,698	24,800	26,436	57,936	4,042	113,214
Accumulated amortisation	(114,411)	(3,720)	(13,878)	(33,355)	(3,384)	(54,337)
<b>Net book amount</b>	<b>182,287</b>	<b>21,080</b>	<b>12,558</b>	<b>24,581</b>	<b>658</b>	<b>58,877</b>

Included within intangible assets are capitalised development costs amounting to £13,630,000 (2020: £15,200,000) relating to one aerospace programme (2020: one) with the remaining amortisation period being 14 years (2020: 15 years).

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

### 11 Intangible assets

(Continued)

#### Impairment testing of goodwill

An analysis of goodwill by CGU or group of CGUs is shown below:

	2021	2020
	£000	£000
Airframe Systems ('AS')	117,725	117,725
Engine Systems ('ES')	32,981	32,981
Services & Support ('S&S')	31,581	31,581
	<u>182,287</u>	<u>182,287</u>

At each reporting date and whenever events indicate the carrying value may not be recoverable, the company reviews the carrying amounts of goodwill to determine whether there is any indication that those assets have suffered an impairment loss. For the purposes of impairment testing, the company historically used value-in-use calculations to determine recoverable amounts as it has not considered there to be reliable estimates of fair value less costs of disposal (FVL COD). However, following the approval by the Meggitt PLC shareholders on 21 September 2021 of the proposed acquisition of the group by Parker-Hannifin Corporation, FVL COD of the group has been determined to be £6,200.0m. The fair value of each CGU in the company has been estimated by allocating the FVL COD for the group using the relative value-in-use of each CGU.

The value-in-use calculations are based on cash flow forecasts derived from the most recent budgets and plans as approved by management. These value-in-use calculations are dependent on estimates of future cash flows and long-term growth rates. The resultant cash flows are discounted using a pre-tax discount rate appropriate to the relevant CGU or group of CGUs.

As a result of the impairment testing, no impairment losses were identified for any CGU in the company. Having modelled a number of sensitivities, it was concluded that no reasonably foreseeable change in key assumptions would result in a significant impairment charge being recognised.

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

### 12 Property, plant and equipment

	Freehold land & buildings & leasehold improvements	Plant and machinery	Right-of-use assets: Property	Right-of-use assets: Other	Total
	£000	£000	£000	£000	£000
<b>At 1 January 2021</b>					
Cost	36,798	141,854	68,565	857	248,074
Accumulated depreciation	(4,742)	(103,941)	(2,663)	(501)	(111,847)
<b>Net book amount</b>	<b>32,056</b>	<b>37,913</b>	<b>65,902</b>	<b>356</b>	<b>136,227</b>
<b>Year ended 31 December 2021</b>					
Opening net book amount	32,056	37,913	65,902	356	136,227
Additions	17,854	12,129	2,848	223	33,054
Charge for the year*	(3,188)	(4,923)	(2,713)	(228)	(11,052)
Transfer from inventory**	-	3,263	-	-	3,263
Disposals	(3,897)	(1,191)	-	-	(5,088)
<b>At 31 December 2021</b>	<b>42,825</b>	<b>47,191</b>	<b>66,037</b>	<b>351</b>	<b>156,404</b>
<b>Carrying amount</b>					
Cost	50,755	142,163	70,231	772	263,921
Accumulated depreciation	(7,930)	(94,972)	(4,194)	(421)	(107,517)
<b>Net book amount</b>	<b>42,825</b>	<b>47,191</b>	<b>66,037</b>	<b>351</b>	<b>156,404</b>

\* The charge for the year includes £288,000 charged to operating exceptional items.

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

### 13 Investments

	2021 £000	2020 £000
Investments in subsidiaries	50,600	50,600
	<u>50,600</u>	<u>50,600</u>

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

### 13 Investments (Continued)

#### Movements in investments

	£000
<b>Cost or valuation</b>	
At 1 January 2021 & 31 December 2021	75,426
	<u>          </u>
<b>Accumulated Impairment</b>	
At 1 January 2021 & 31 December 2021	(24,826)
	<u>          </u>
<b>Carrying amount</b>	
At 31 December 2021	50,600
	<u>          </u>
At 31 December 2020	50,600
	<u>          </u>

### 14 Subsidiaries

Details of the company's subsidiaries at 31 December 2021 are as follows:

	Country of incorporation (or residence)	Proportion of ownership interest (%)	Proportion of voting power held (%)	Nature of business
Meggitt (Hurn) Limited	United Kingdom	100	100	Dormant
Meggitt Advanced Composites Limited	United Kingdom	100	100	Non-trading company

All subsidiaries are directly held. Unless otherwise stated, ownership comprises ordinary shares representing 100% of the issued share capital. The registered office address for all subsidiaries incorporated in the United Kingdom is Pilot Way, Ansty Business Park, Coventry, CV7 9JU.

### 15 Contract assets

	2021 £000	2020 £000
<b>Current assets</b>		
Conditional rights to consideration on over time contracts	9,118	6,214
	<u>          </u>	<u>          </u>
<b>Non-current assets</b>		
Conditional rights to consideration on over time contracts	1,252	-
Programme participation cash payments	1,046	1,689
	<u>          </u>	<u>          </u>
<b>Total</b>	<u>11,416</u>	<u>7,903</u>

Amortisation of programme participation cash payments of £104,000 (2020: £61,000) has been recognised as a reduction in revenue in the year. No provision for impairment losses attributable to contract assets was recognised in the year (2020: nil).

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

### 16 Derivative financial instruments

	2021				2020			
	Assets		Liabilities		Assets		Liabilities	
	Current	Non Current	Current	Non Current	Current	Non Current	Current	Non Current
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Fair value:</b>								
US \$ dollars sales/ purchases (\$/£):	1,504	1,309	(916)	-	3,204	4,198	(160)	(153)
<b>Nominal value:</b>								
US \$ dollars sales/ purchases (\$/£):	29,696	29,696	(35,635)	-	55,088	58,604	(42,194)	(35,162)

### 17 Inventories

	2021	2020
	£000	Restated* £000
Raw materials	23,464	23,514
Work in progress	24,810	22,952
Finished goods	37,442	38,817
	<u>85,716</u>	<u>85,283</u>

\* Prior year figures have been restated by £9,438,000 to reflect raw materials and work in progress previously reflected as finished goods.

The cost of inventories recognised as an expense includes £8,962,000 (2020: £8,035,000) in respect of write-downs of inventory to net realisable value. Of this write-down, a £507,000 reversal (2020: £3,163,000 write-down) has been recognised as an exceptional operating item (see note 5).

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

### 18 Trade and other receivables

	2021 £000	2020 £000
Trade receivables	36,582	45,248
Provision for bad and doubtful debts	(2,420)	(1,962)
	<u>34,162</u>	<u>43,286</u>
Other receivables	4,091	3,053
Corporation tax recoverable	9,263	9,882
Amounts due from fellow group undertakings	8,236	58,585
Prepayments	2,885	2,849
	<u>58,637</u>	<u>117,655</u>

Amounts due from fellow group undertakings are unsecured, non-interest bearing and repayable on demand and the expected credit loss is negligible.

There is a bank account of the company in the name of 'Meggitt PLC - Re Meggitt Aerospace Limited'. The legal title to this account rests with Meggitt PLC and it is recorded as an amount due from fellow group undertakings.

### 19 Cash and cash equivalents

	2020 £000	2019 £000
Cash and cash equivalents	<u>-</u>	<u>3,804</u>

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

### 20 Trade and other payables

	2021 £000	2020 £000
Trade payables	23,323	27,563
Amounts due to fellow group undertakings	66,262	69,154
Accruals	7,775	7,104
Social security and other taxation	2,758	4,368
Other payables	3,154	4,815
<b>Current liabilities</b>	<b>103,272</b>	<b>113,004</b>
Amounts due to fellow group undertakings	55,866	83,571
<b>Non-current liabilities</b>	<b>55,866</b>	<b>83,571</b>
<b>Total</b>	<b>159,138</b>	<b>196,575</b>

Amounts due to fellow group undertakings totalling £58,862,000 (2020: £66,764,000) are interest bearing, unsecured and repayable on demand. Interest accrues at 2% (2020: 2%).

Non-current amounts due to fellow group undertakings totalling £55,866,000 (2020: £83,571,000) are interest bearing, unsecured and not repayable on demand. Interest accrues at 2%.

The remaining amounts due to fellow group undertakings totalling £7,400,000 (2020: £2,390,000) are unsecured, non interest bearing and repayable on demand.

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

### 21 Contract liabilities

	2020 £000	2019 £000
Contributions received from customers during development phase of programmes	3,002	2,450
Cost per brake landing/Power by the hour contracts	385	308
Other consideration received in advance of performance	17,825	13,237
	<u>          </u>	<u>          </u>
Current portion	21,212	15,995
Contributions received from customers during development phase of programmes	344	394
Cost per brake landing/Power by the hour contracts	-	2,958
Other consideration received in advance of performance	-	-
	<u>          </u>	<u>          </u>
Non-current portion	344	3,352
	<u>          </u>	<u>          </u>
Total	21,556	19,347
	<u>          </u>	<u>          </u>

Revenue recognised in the year relating to amounts recognised as a contract liability at the beginning of the year was £5,574,000 (2020: £9,363,000).

The aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partly satisfied at 31 December 2021, is £65,237,000 (2020 (restated): £75,048,000). Of this aggregate amount, the company expects to recognise £12,841,000 (2020 (restated): £12,396,000) 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. The company 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.

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2021

#### 22 Lease liabilities

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

	<b>2021</b>	<b>2020</b>
	<b>£000</b>	<b>£000</b>
Depreciation charge for right-of-use assets (see note 12)	2,941	1,945
Additions to right-of-use assets (see note 12)	3,071	727
Net book amount of right-of-use assets (see note 12)	66,388	66,258
Interest on lease liabilities (see note 8)	2,342	2,128
Expense related to short-term leases and low-value assets	-	607
Net cash outflow for leases	4,112	4,621
Analysis of lease liabilities:		
	<b>2021</b>	<b>2020</b>
	<b>£000</b>	<b>£000</b>
In one year or less	1,741	1,784
In more than one year but not more than five years	7,713	6,025
In more than five years	63,911	58,131
Present value of lease liabilities	73,365	65,940
Current portion	1,741	1,784
Non-current portion	71,624	64,156
	<u>73,365</u>	<u>65,940</u>

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

### 23 Provisions for liabilities

	2020 £000	2020 £000
Current provisions	717	1,886
Non-current provisions	2,376	2,914
At 31 December	<u>3,093</u>	<u>4,800</u>

	Warranty costs £000	Business restructuring £000	Onerous contract obligations £000	Total £000
At 1 January 2021	1,971	829	2,000	4,800
Additional provision	937	-	-	937
Reversal of provision	(318)	-	(2,000)	(2,318)
Utilisation of provision	(214)	(112)	-	(326)
At 31 December 2021	<u>2,376</u>	<u>717</u>	<u>-</u>	<u>3,093</u>

#### Warranty claims

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.

#### Business restructuring

Provision has been made for business restructuring costs and are principally in respect of the move to a new facility being constructed at Ansty Park in the West Midlands. The provision will be utilised in 2022.

#### Onerous contracts

Provision has been made for estimated losses and claims under certain trading contracts. Amounts previously recognised have been released as future obligation is considered to no longer exist.

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2021

#### 24 Deferred tax liabilities

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon during the current and prior reporting year.

	Accelerated capital allowances	Deferred tax on development expenditure	Revaluation of derivative financial instruments	Other	Losses	Total
	£000	£000	£000	£000	£000	£000
Deferred tax asset/(liability) at 1 January 2020	(667)	(5,124)	(617)	482	(170)	(6,096)
<b>Deferred tax movements in prior year</b>						
(Charge)/credit to the income statement	(923)	(161)	(730)	(290)	175	(1,929)
Credit direct to equity	-	-	-	(234)	-	(234)
Deferred tax (liability)/asset at 31 December 2020	(1,590)	(5,285)	(1,347)	(42)	5	(8,259)
<b>Deferred tax movements in current year</b>						
(Charge)/Credit to the income statement	(2,762)	(293)	986	(1,110)	(5)	(3,184)
Charge direct to equity	-	-	-	346	-	346
<b>Deferred tax (liability)/ asset at 31 December 2021</b>	<b>(4,352)</b>	<b>(5,578)</b>	<b>(361)</b>	<b>(806)</b>	<b>-</b>	<b>(11,097)</b>

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2021 £000	2020 £000
Deferred tax liabilities	11,097	8,259

#### 25 Capital commitments

At 31 December 2021 the company had capital commitments as follows:

	2021 £000	2020 £000
Contracted for but not provided in the financial statements:		
Acquisition of property, plant and equipment	3,502	7,599
Acquisition of intangible assets	2,608	1,467
	6,110	9,066

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2021

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#### 26 Retirement benefit schemes

The company is a wholly owned subsidiary undertaking of Meggitt PLC and certain employees of the company are members of group pension schemes, which are both defined benefit and defined contribution schemes. Particulars of the defined benefit scheme's most recent actuarial valuation are disclosed in the financial statements of Meggitt PLC for the year ended 31 December 2021.

For the defined contribution scheme, the pension cost charged to the income statement, representing employers' contributions, was £5,964,000 (2020: £5,004,000).

For the defined benefit scheme, the pension cost charged to the income statement consists of employers' contributions payable which are similar across the group as a whole as a percentage of pensionable earnings. Based on advice from a qualified actuary, the company contribution for the year was £280,000 (2020: £2,847,000).

With regard to the defined benefit scheme, the full deficit is recorded in the books of Meggitt PLC as the sponsoring employer following its transition to FRS 101. The company is therefore accounting for its contributions to the scheme as if it was a defined contribution scheme. At 31 December 2021, the valuation of the scheme showed a net pension liability as disclosed on pages 221 to 226 of Meggitt PLC's 2021 annual report, which does not form part of this report.

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2021

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#### 27 Share-based payment transactions

The group operates a number of share schemes for the benefit of its employees. The total charge to the company in net operating costs in respect of such schemes is £884,000 (2020: credit of £110,000) (see note 7). The nature of each scheme which has a significant impact on the credit recorded in the income statement is set out below.

##### **Meggitt Long-Term Incentive Plan 2014: Equity settled**

Under this plan an annual award of shares may be made to certain senior executives. The number of shares, if any, that an executive ultimately receives, 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. 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 employees. The fair value of the award made in 2021 has been estimated at the market price of the share on the date of grant, which was 433.20 pence (2020: 579.60 pence). A charge of £394,000 (2020: credit of £318,000) was recorded in the year.

Movements in the number of outstanding shares that may potentially be released to employees are as follows:

	<b>2021</b>
	<b>Number of shares under award outstanding</b>
At 1 January	3,322,111
Awarded	1,131,404
Vested	(876,065)
Exercised	(257,097)
Lapsed	(1,050,281)
<b>At 31 December</b>	<b>2,270,072</b>

At 31 December 2021, 1,438,935 of the shares under award are eligible for release. The remaining 831,137 shares under award have a weighted average life of 700 days until they are eligible for release.

# MEGGITT AEROSPACE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

### 27 Share-based payment transactions

(Continued)

#### Meggitt Share Incentive and Retention Plan Equity-settled

Under this plan an award of shares may be made to certain senior executives. For the vast majority of awards there is no performance condition but for a small minority, granted in lieu of LTIP awards that were not made due to an administrative error, the relevant year's LTIP performance condition is attached.

The expense recorded in respect of the scheme was £46,000 (2020: £25,000). Awards are made as share awards. 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.

As at 31 December 2021, 340,282 (2020: 340,282) awards with a weighted average contractual life of 0.01 years (2020: 0.01 years), were outstanding. No shares were exercised in 2021 (2020: none).

#### Meggitt 2018 Sharesave Plan (SAYE)

This plan is open to all group UK employees (including directors) on identical terms. Employees may save up to the maximum monthly savings limit (£250) over a three or five year periods. Options under the plan are usually granted at a discount of up to 20% to the market value of shares for the five trading days preceding the date of grant. The expense recorded in respect of the scheme was £444,000 (2020: £183,000).

28 Called up share capital	2021 No.	2020 No.	2021 £000	2020 £000
<b>Ordinary share capital</b>				
<b>Allotted, issued and fully paid</b>				
Ordinary shares of £1 each	200,000,100	200,000,100	200,000	200,000

### 29 Ultimate parent undertaking and controlling party

The immediate parent company is Dunlop Limited. The ultimate parent undertaking and controlling party is Meggitt PLC, a company incorporated in England and Wales. Meggitt PLC is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements at 31 December 2021. The consolidated financial statements of Meggitt PLC are available from its registered office; Pilot Way, Ansty Business Park, Coventry, CV7 9JU.