

Company Registration No. 00629814 (England and Wales)

MEGGITT (UK) LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2023



MEGGITT (UK) LIMITED

COMPANY INFORMATION

Directors	J Weir J A D Elsey C P Mason
Company number	00629814
Registered office	Pilot Way Ansty Business Park Coventry CV7 9JU
Independent auditors	Deloitte LLP Four Brindleyplace Birmingham B1 2HZ

MEGGITT (UK) LIMITED

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MEGGITT (UK) LIMITED

STRATEGIC REPORT

FOR THE PERIOD ENDED 30 JUNE 2023

The directors present the strategic report for the Period ended 30 June 2023. The financial statements cover the period 1 January 2022 to 30 June 2023. The financial year end was changed from 31 December to 30 June to align with the parent company Parker Hannifin Corporation, resulting in an 18 month reporting period therefore the amounts presented in the financial statements will not be entirely comparable with prior period numbers.

Review of the business

Results for the period

The company made a loss for the financial period of £8,629,000 (2021: profit of £25,766,000 restated) and has net assets as at 30 June 2023 of £104,925,000 (2021: £118,291,000 restated).

Revenue increased by 60% for the 18 month period, on an organic basis, than the comparative 12 month period. Underlying operating loss of £8.7m (FY 2021: +£32.9m) with underlying gross margin 10% lower than the comparative period at 26% (FY 2021: 36%).

On 13 September 2022 Parker Hannifin Corporation completed the acquisition of Meggitt Limited (previously Meggitt Plc). From that date Parker Hannifin Corporation, a company incorporated in the state of Ohio, United States of America, is the ultimate parent undertaking and controlling party of the company.

As a result of the acquisition, the Company incurred integration costs of £4,780,000.

On 13 January 2022, the Company acquired the remaining 67% equity of HiETA Technologies Ltd from Renishaw plc and the two founding members for a cash consideration of £1.2m. At the date the remaining equity in the joint ventures was acquired, the value-in-use of the investments was lower than the carrying value and was accordingly impaired by £6,012,000.

On 1st May 2023 the trade and assets of HiETA Technologies Limited was transferred to Meggitt Aerospace Limited. Following the transaction the investment in subsidiary was impaired by £1,750,000.

Principal activities and business review

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

Airframe Systems

Airframe Systems carry out in service support for, and are designers and manufacturers of avionics, life support equipment, marine navigation instrumentation systems and related test equipment. Based in Fareham, UK.

Organic revenue increased by 37% for the 18 months with civil revenue up 114% and defence revenue up 30%.

Civil OE revenue increased 90% on an organic basis with growth reflecting the continuing recovery in OEM build rates during the period.

Civil aftermarket revenue grew by 156% on an organic basis with increase in large jet revenue by £1.2m (FY2021: £0.2m) and general aviation up 38%.

Defence revenue grew by 30% on an organic basis with aftermarket revenue 29% higher and OE revenue 31% higher than prior year.

Engine Systems

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

Organic revenue grew by 57% for the 18 months with civil revenue up 165% and defence revenue up 16%.

Civil OE revenue increased 219% on an organic basis with large jet up 220% and regional down 68%. Business jets revenue increased by £4.9m (FY 2021: £273k).

MEGGITT (UK) LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

Civil aftermarket revenue increased by 17% on an organic basis driven by the continued recovery in demand in large jets up 52% offset by decreases in regional and business jets down 82% and 61% respectively.

Defence revenue increased by 16% on an organic basis with OE defence up 62% offset by aftermarket defence down 21%.

Energy and Equipment - Heatric

Heatric are designers and manufacturers of compact printed circuit heat exchangers. Based in Poole and Birmingham, UK.

Organic revenue increased 94% for the 18 months with Energy OE revenue increased by 58% on an organic basis and aftermarket revenue increased by 226%.

During the period the business benefited from the post-pandemic rebound in the Aerospace Market. This growth trend in aerospace and defense markets is expected to continue into future years.

Future prospects

It is anticipated that the company will continue to operate in its current form for the foreseeable future.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the Company are considered to relate to the expansion or contraction of the aerospace economy, industry competition and employee retention.

The Company believes there is a high correlation between interest rates and aerospace activity. Increases in interest rates could have a negative impact on activity thereby lowering future orders. Interest rates and their impact are constantly monitored by the central Treasury function.

Industry competition creates a potential for the business's competitors to impact its growth and success, the associated risk is mitigated through effective marketing and a customer-focused approach.

Employee retention is key for the employment of a highly-engaged workforce which works together to achieve the company's goals and values, this is managed through effective performance management and talent development.

Climate change represents a significant environmental challenge with the potential to impact our business operations, supply chains, and market demand. We recognize the importance of addressing climate-related risks and are committed to integrating climate considerations into our strategic planning and risk management processes.

Our operations are subject to the volatility of energy costs and commodity prices. The rising prices of raw materials and energy represent a significant risk to our cost base, potentially affecting our margins and overall profitability. We are implementing energy efficiency measures across our operations to reduce consumption. Additionally, we are working to enhance our inventory management and procurement processes to manage the risks associated with commodity price fluctuations.

Key performance indicators

Parker Hannifin Corporation manages its operations on a divisional basis. For this reason, the company's directors believe that monitoring the business performance using key performance indicators relative to each individual division is more appropriate than applying this on a total entity basis. The company does review and monitor revenue and related margin across all divisions on a regular basis.

MEGGITT (UK) LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

Section 172 (1) statement

The directors of the company, in addition to their set of general duties, must act in accordance with a set of duties set out in section 172 of the Companies Act, summarised below.

A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- a. The likely consequences of any decision in the long term,
- b. The interests of the company's employees,
- c. The need to foster the company's business relationships with suppliers, customers and others,
- d. The impact of the company's operations on the community and the environment,
- e. The desirability of the company maintaining a reputation for high standards of business conduct, and
- f. The need to act fairly as between members of the company.

The directors fulfil their duties as follows:

The likely consequences of any decision in the long term

The directors understand the business and the diverse sectors and challenging environments in which it operates. The strategies set by the Board are driven by the Win Strategy, Parker's business system which has been in existence since 2001.

The Win Strategy builds on the competitive differentiators of Parker, which include:

- The Win Strategy
- Decentralized Business Model
- Technology Breadth and Interconnectivity
- Engineered Products with Intellectual Property
- Long Product Life Cycles
- Global Distribution
- Low Capital Investment Needs

These strategies set the basis for decision-making and therefore seek to ensure that the long-term consequences of the decision-making are in line with Parker values.

The Board meet on a quarterly basis and decisions are approved and ratified in accordance with the provisions of the company's articles of association. These decisions include operational, financial and strategic decisions. The Board includes representatives of various functions, including operations, finance and human resources.

Principal decisions taken by the business in the period are as follows:

- Acquisition of the remaining 67% equity of HiETA Technologies Ltd, this was to eliminate the holding of minority interests within the group.
- Not to declare any dividends for the period, the Company decided to focus on core activities in the immediate period following acquisition.

MEGGITT (UK) LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

The interests of the company's employees

The directors believe that strong performance requires passionate team members who are immersed in their daily work and are empowered to improve their portion of the business. Performance management and talent development is key to ensuring that the business thrives through developing our employees and bringing through talent in the most efficient way. We share common values in every area such that the objectives of the business are achieved in the correct and expected manner. Environmental, health and safety measures are of paramount importance across the business. As such, detailed metrics, actions and enhancements to the manner in which we work and our surrounding working environment are constantly monitored and reviewed to ensure that all employees remain safe. The company's employees are engaged with on a regular basis by means of various surveys and various internal committees to ensure that employee interests are understood and are continually being addressed. Efforts are also made to communicate relevant information to employees on a timely basis, obtain feedback from employees and act on that feedback.

The need to foster the company's business relationships with suppliers, customers and others

The business strives to provide a premier customer experience, driven by providing quality solutions to our customers on time. The business's supply chain is vital to achieving this objective through the maintenance of relationships with all suppliers. Customers and suppliers are engaged with through relevant, dedicated teams to ensure that needs are met and to maintain communication channels. Any relevant matters are raised and discussed at Board level with subsequent feedback to the business.

The impact of the company's operations on the community and the environment

The business implements initiatives, such as community volunteering days, which help to strengthen communities, conserve resources and make a positive environmental impact at the local level. While implementing sustainable business practices across the operations of a global organisation is a complex challenge, doing so also presents a meaningful opportunity to make a positive impact on the lives of team members, the environment and local communities.

The desirability of the company maintaining a reputation for high standards of business conduct

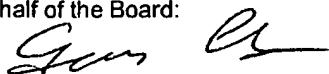
The business has a solid foundation of integrity, with a heritage which is based on a commitment to treat everyone fairly and with consideration. Our commitment to acting ethically is not just a core part of our heritage; we know that it is the right thing to do and is good for our business. The company delivers its ethical standards through the identification of seven virtue ethics which not only deal with the rightness or wrongness of individual actions, but provide guidance for our behaviours, decisions and actions while conducting business.

The need to act fairly as between members of the company

The company has one member, being the immediate holding company, and the directors take all actions to ensure that the affairs of the company are conducted in a manner to the benefit of that sole member. The member is officially communicated with as and when specifically required.

Approved by the Board of Directors on 7 May 2024.

Signed on behalf of the Board:



J A D Elsey
Director
7 May 2024

MEGGITT (UK) LIMITED

DIRECTORS' REPORT

FOR THE PERIOD ENDED 30 JUNE 2023

The directors present their annual report and audited financial statements for the Period ended 30 June 2023.

Results and dividends

The results for the Period are set out on page 12. The directors have not declared a dividend for the period ended 30 June 2023 (2021: £nil).

Directors

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

M L Thomas (resigned 12 September 2022)
I K Pargeter (resigned 12 September 2022)
L Burdett (resigned 12 September 2022)
A Wood (resigned 12 September 2022)
K Lewis (resigned 12 September 2022)
A Garard (resigned 12 September 2022)
G M Ellinor (appointed 12 September 2022, resigned 8 March 2024)
J A D Elsey (appointed 12 September 2022)
C P Mason (appointed 12 September 2022)
J Weir (appointed 11 April 2024)

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 period and at the date of approval of these financial statements.

Financial risk management

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. There is an element of interest rate risk, however, these risks are managed centrally by Parker Hannifin EMEA Sarl, a fellow group company, which maintains the Parker EMEA treasury function.

Going Concern

The Directors have considered going concern in preparing these financial statements. The Company participates in a cash pool arrangement. Each company participating in the cash pooling arrangement has cash automatically swept to/from its account on a daily basis so that the balance reverts to zero at the end of each day. For all companies within the Parker Group, cash is swept to/from Parker Hannifin EMEA S.a.r.l. and balances are interest bearing.

Should the need arise, a signed letter of support, confirming ongoing support for a period of 12 months from the date of approval of these financial statements, has been obtained from the Company's ultimate parent company, Parker Hannifin Corporation.

Having received confirmation of ongoing support from the ultimate parent company for the next 12 months from the date of approval of these financial statements, and their willingness and ability to provide financial support to the Company if needed, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

MEGGITT (UK) LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

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 group's success. This policy has been pursued for all UK employees through the Share Incentive Plan and the Sharesave Scheme, which has been accounted for by the company as share-based payments.

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 our customers and in production techniques. Expenditure in the period on research and development amounted to £14,331,000 (2021: £8,429,000), of which £1,409,000 (2021: £2,543,000) was capitalised in accordance with the company's accounting policy.

Supplier payment policy

The company's policy concerning the payment of trade payables is to follow the Department for Business, Energy & Industrial Strategy's Prompt Payment Code as administered by the Chartered Institute of Credit Management.

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.

Overseas branches

The company operates a branch in Germany.

Political donations

There were no political donations or expenditure in the current or prior period.

Charitable donations

There were no charitable donations or expenditure in the current or prior period.

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 with 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.

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.

MEGGITT (UK) LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE PERIOD ENDED 30 JUNE 2023

Emmissions and energy consumption

<i>Environmental metrics</i>	Period ended		Year ended
	30 June 2023	Change*	31 December 2021
Utilities			
Purchased electricity -gWh	13.76	16.00%	7.91
KWh per £000 revenue	67.38	(27.60)%	62.06
Purchased natural gas - gWh	1.66	39.10%	1.19
KWh per £000 revenue	8.12	(13.15)%	9.34
Greenhouse gas emissions (CO2e) scope 1 and 2, location-based reporting) - thousands of tonnes	1.07	(50.10)%	1.43
Waste - tonnes	5,774	117.40%	1,771
Tonnes per £000 revenue	28,285	35.72%	13,895
Water - cubic metres	76,411	19.50%	42,645
Cubic meters per £000 revenue	374,312	(25.42)%	334,576

*Percentage change based on prior year numbers prorated for 18 months.

Company's chosen intensity metric – tCO2e/Sales (£'000s)

	Period ended		Year ended
	30 June 2023	Change*	31 December 2021
Tonnes per £000 revenue	5.24	(68.85)%	11.22

Methodology and Estimates

Our reporting period is for the financial period 1st January 2022 to 30th June 2023, reporting all material GHG emissions using "Tonnes of CO2 equivalent" (tCO2e) as the unit of measurement and reporting energy use in kWh. We have included the energy and emissions for the buildings owned and operated (i.e. those within the financial control boundary).

The methodology used to calculate total energy consumption and carbon emissions has been invoice data for the financial periods stated. Where data was not available, estimates have been calculated using historical profiles and details kept in the client's evidence pack.

We have selected the most appropriate intensity metric in line with the primary drivers of energy consumption, where possible. For this report, we have selected Sales value in thousands of pounds (£000s) as the most appropriate to achieve a benchmark which aligns with existing reporting metrics within the business.

Post reporting date events

The Directors have considered all post-year end transactions, information received and events, up to the date these accounts are signed, for anything that may be either an adjusting or non-adjusting post balance sheet event. There was nothing identified requiring adjustment to, or disclosure in the current year financial statements.

Independent auditors

PricewaterhouseCoopers LLP resigned as auditors and Deloitte LLP was appointed as auditors during the period. Deloitte LLP is deemed to be reappointed as the Company's auditors under section 487 of the Companies Act 2006.

MEGGITT (UK) LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

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 4.

Approved by the Board of Directors on 7 May 2024.

Signed on behalf of the Board:



J A D Elsey
Director
7 May 2024

MEGGITT (UK) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MEGGITT (UK) LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Meggitt (UK) Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 30 June 2023 and of its loss for the 18 month period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity;
- the related notes 1 to 28.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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.

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.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

MEGGITT (UK) LIMITED

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

Auditor's 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 auditor's 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.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

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.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as tax, valuations, pensions and IT regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in development cost impairment assessments. The company holds a significant amount of development costs on the balance sheet. These assets are subject to impairment testing at the individual asset (programme) level at least annually. Our procedures performed to address this identified risk include the following:

- Tested the mathematical integrity of the models.
- Tested the discount rate used by management in determining the NPV of the projects, using specialists to assess the rate used was within our expected range by comparing to externally derived data.
- Tested the forecast data included in the models.
- Tested the integrity of the fleet forecasting information.
- Performed sensitivity analysis on key assumptions in the models.

MEGGITT (UK) LIMITED

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

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Sukhpal Kaur Gill (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
7 May 2024

MEGGITT (UK) LIMITED

INCOME STATEMENT

FOR THE PERIOD ENDED 30 JUNE 2023

		Period ended 30 June 2023 £000	Year ended 31 December 2021 £000 Restated (note 28)
Revenue	4	204,137	127,425
Cost of sales		(150,904)	(81,143)
Gross profit		53,233	46,282
Distribution costs		(9,622)	(5,393)
Administrative expenses		(48,236)	(18,793)
Other (losses)/gains		(4,026)	10,839
Operating (loss)/profit	5	(8,651)	32,935
Finance costs	8	(723)	(897)
(Loss)/profit before taxation		(9,374)	32,038
Tax on (loss)/profit	9	745	(6,272)
(Loss)/profit for the financial period		(8,629)	25,766

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 results for the periods set out above, and therefore no separate statement of comprehensive income has been presented.

MEGGITT (UK) LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2023

		Period ended 30 June 2023 £000	Year ended 31 December 2021 £000 Restated (note 28)
Non-current assets			
Goodwill	10	13,619	13,619
Other intangible assets	10	31,349	39,499
Property, plant and equipment	11	11,896	11,178
Investments	12	-	6,595
Derivative financial instruments	14	-	354
		<u>56,864</u>	<u>71,245</u>
Current assets			
Inventories	15	21,212	20,324
Trade and other receivables	16	99,301	100,816
Contract assets	17	19,907	15,502
Derivative financial instruments	14	-	402
Cash and cash equivalents	18	-	72,000
		<u>140,420</u>	<u>209,044</u>
Total assets		<u>197,284</u>	<u>280,289</u>
Current liabilities			
Trade and other payables	19	(52,542)	(50,061)
Contract liabilities	20	(9,190)	(13,255)
Derivative financial instruments	14	-	(476)
Provisions	21	(8,895)	(3,875)
Lease liabilities		(20)	(40)
		<u>(70,647)</u>	<u>(67,707)</u>
Net current assets		<u>69,773</u>	<u>141,337</u>
Total assets less current liabilities		<u>126,637</u>	<u>212,582</u>
Non-current liabilities			
Derivative financial instruments	14	-	(74)
Contract liabilities	20	(15,916)	(10,945)
Deferred tax liabilities	22	(4,599)	(6,404)
Lease liabilities		(18)	(30)
Trade and other payables	19	-	(72,000)
Provisions	21	(1,179)	(4,838)
		<u>(21,712)</u>	<u>(94,291)</u>
Net assets		<u>104,925</u>	<u>118,291</u>

MEGGITT (UK) LIMITED

STATEMENT OF FINANCIAL POSITION (CONTINUED)

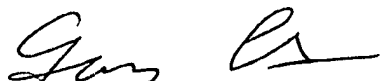
AS AT 30 JUNE 2023

		Period ended 30 June 2023 £000	Year ended 31 December 2021 £000 Restated (note 28)
Equity			
Share capital	25	22,700	22,700
Retained earnings		82,225	95,591
Total equity		<u>104,925</u>	<u>118,291</u>

The notes on pages 16 to 44 are an integral part of these financial statements.

The financial statements on pages 12 to 44 were approved by the Board of Directors and authorised for issue on 7 May 2024.

Signed on behalf of the directors:



J A D Elsey
Director
7 May 2024

Company Registration No. 00629814

MEGGITT (UK) LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2023

	Note	Share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2021 as previously reported		22,700	69,875	92,575
Restatement (note 28)		-	(284)	(284)
At 1 January 2021 as restated		22,700	69,591	92,291
Profit for the year restated (note 28)		-	25,766	25,766
Total comprehensive income for the year		-	25,766	25,766
Recognition of equity-settled share-based payments in the year	24	-	234	234
Balance at 31 December 2021 restated (note 28)		22,700	95,591	118,291
Impact of adopting amendments to IAS 37 (note 2)		-	(1,677)	(1,677)
At 1 January 2022 as restated		22,700	93,914	116,614
Loss for the period		-	(8,629)	(8,629)
Total comprehensive expense for the period		-	(8,629)	(8,629)
Tax impact on share-based payment transactions		-	877	877
Recognition of equity-settled share-based payments in the period	24	-	(3,937)	(3,937)
Balance at 30 June 2023		22,700	82,225	104,925

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2023

1 Accounting policies

General Information

The company is a designer and manufacturer operating within the civil aerospace, military and energy markets. 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 periods 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 financial liabilities held at fair value through profit and loss and in accordance with the Companies Act 2006.

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

- 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 paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based Payment';
- 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 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' and
- the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

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 (UK) Limited is a wholly owned subsidiary of Parker Hannifin Corporation and the results of Meggitt (UK) Limited are included in the consolidated financial statements of Parker Hannifin Corporation which are publicly available, as set out in note 27.

1.2 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 (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

1 Accounting policies

(Continued)

1.3 Going concern

The Directors have considered going concern in preparing these financial statements. The Company participates in a cash pool arrangement. Each company participating in the cash pooling arrangement has cash automatically swept to/from its account on a daily basis so that the balance reverts to zero at the end of each day. For all companies within the Parker Group, cash is swept to/from Parker Hannifin EMEA S.a.r.l. and balances are interest bearing.

Should the need arise, a signed letter of support, confirming ongoing support for a period of 12 months from the date of approval of these financial statements, has been obtained from the Company's ultimate parent company, Parker Hannifin Corporation.

Having received confirmation of ongoing support from the ultimate parent company for the next 12 months from the date of approval of these financial statements, and their willingness and ability to provide financial support to the Company if needed, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

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;

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

1 Accounting policies

(Continued)

- 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.

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.

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 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. Where the payment is made 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. Other than such payments, the company does not incur significant incremental costs to obtain contracts.

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

1 Accounting policies

(Continued)

1.5 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 asset: 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.

1.6 Intangible assets

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 asset will generate future economic benefit are recognised as an intangible asset. Capitalised development costs are carried at cost less accumulated amortisation and impairment losses. Amortisation is charged over the periods expected to benefit, typically 15 years, commencing with launch of the product. Development costs not meeting the criteria for capitalisation are expensed as incurred.

Software & patents

Software and patents are 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 and patents.

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

1 Accounting policies

(Continued)

1.7 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, 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.

1.8 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.

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.

1.9 Inventories

Inventories are recorded 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 where appropriate.

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

1 Accounting policies

(Continued)

1.10 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.

1.11 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.

1.12 Trade and other payables

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

1.13 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.

1.14 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.

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

1 Accounting policies

(Continued)

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.

1.15 Provisions

Provision is made for 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.

1.16 Employee benefits

Pension schemes

The company is a wholly owned subsidiary undertaking of Meggitt Limited 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 Limited 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 period, and this cost has been recognised in the income statement. The overall position of the scheme is disclosed in the financial statements of Meggitt Limited.

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

1 Accounting policies

(Continued)

1.17 Share-based payments

The company operated a number of equity-settled share-based compensation schemes. All awards were either settled or lapsed in the current period. The fair value of an award was measured at the date of grant and reflects any market-based vesting conditions. Non-market-based vesting conditions were excluded from the fair value of the award. At the date of the grant the company estimated 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 was recognised as an expense in the income statement on straight-line basis over the period for which services were received. At each reporting date the company revised its estimate of the number of awards expected to vest as a result of non-market-based vesting conditions and adjusted the amount recognised cumulatively in the income statement to reflect the revised estimate.

1.18 Leases

The majority of the Company's leases relate to property. A lease liability is recognised when the Company obtains control of the right-of-use asset, that is the subject of the lease. The initial lease liability recognised represents the discounted value of payments due under the lease less any incentives receivable. Where lease payments are variable, often because they are based on future inflation rates or indices, they are initially measured using the inflation rate or index value at lease inception. Typically the interest rate implicit in the Company's leases cannot be easily determined and accordingly the Group's incremental borrowing rate, for borrowings of similar amounts and maturity periods, is used to discount amounts due under the lease. The lease liability is subsequently measured using the effective interest method, with interest recognised within finance costs.

At inception, the Company evaluates whether it is reasonably certain that any option to extend a lease term will be exercised. Typically, where the initial lease term for a property used for the Company's manufacturing operations is for at least five years, the option to extend the lease term is at market rates and the right-of-use asset is not considered specialised, the Company will not assess the likelihood of the lease being extended at inception as reasonably certain. The Company continues to evaluate the likelihood of exercising such options however throughout the initial lease term. When the Company is committed to extending the lease, having considered the alternative options available and where appropriate lessor consent to the extension has been obtained, the Company will consider the option to be reasonably certain to be exercised. When an option is reasonably certain to be exercised, the right-of-use asset and lease liabilities recognised are adjusted to reflect the extended term.

Leases, which at inception have a term of less than 12 months or relate to low-value assets, are not recognised on the balance sheet. Payments made under such leases are charged to the income statement on a straight-line basis over the period of the lease.

1.19 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.

1.20 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.

1.21 Recognition and Measurement of Climate-Related Risks

In recognising and measuring the impacts of climate-related risks, our company adheres to the principles set out in the International Financial Reporting Standards (IFRS). We assess the potential financial impacts of climate change on our assets, liabilities, income, and expenditure on an ongoing basis.

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

2 Adoption of new and revised standards and changes in accounting policies

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

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

Under the Group's previous accounting policy, it only included incremental direct costs in measuring the costs to fulfil a contract under IAS 37. The IAS 37 amendments clarify however, that the costs of fulfilling a contract should include an allocation of other direct costs. The amendments are effective for accounting periods beginning on, or after, 1 January 2022 to open contracts at that date, with any additional amounts required to be recognised as an adjustment to retained earnings at that date.

The Group has implemented these amendments within its accounting policies for both onerous contracts and warranty provisions with effect from 1 January 2022. This has resulted in an increase in the onerous contract provision of £1,547,000 and an increase in the measurement of existing product warranty claims of £130,000. The aggregate increase in provisions as a result of the amendments was £1,677,000. As a result of these provision increases, the total adjustment to retained earnings at 1 January 2022 was £1,677,000.

No other accounting standards, amendments or revisions to existing standards, or interpretations have become effective which had a significant impact on the Group's condensed consolidated financial statements.

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

3 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.

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are outlined below.

Critical accounting judgements

Development costs

The company is required to make judgements as to when development costs meet the criteria to be recognised as intangible assets. The majority of capitalised development costs relate to technology developed for aerospace programmes. In such cases, costs are typically not capitalised until a contract to develop the technology is awarded by a customer as, prior to this date, it is generally not possible to reliably estimate the point at which research activities conclude and development activities commence. Absent a contract, the company also does not believe there is generally sufficient certainty over the future economic benefits that will be generated from the technology, to allow capitalisation of these costs. Post contract award, the company will capitalise development costs provided it expects to retain the intellectual property in the technology throughout substantially all of the life of the aircraft or engine and it is probable that future economic benefits will flow to the company. In making a judgement as to whether economic benefits will flow to the company, the company makes estimates of aircraft or engine volumes (taking into account the extent to which the company has a sole-source position), aftermarket revenues which are dependent on aircraft utilisation, fleet lives and operator service routines, costs of manufacture and costs to complete the development activity. During the period, the company recognised £1,409,000 (2021: £2,543,000) of development costs as an intangible asset (see note 10).

Goodwill impairment

The company tests goodwill for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company is required to make judgements around triggers for impairment, and in the current year, the company took into account the continued recovery in relevant end markets that the cash generating units are exposed to in making this assessment. For the period ended 30 June 2023 the Company used a FVLCOD approach in assessing impairment for goodwill, as noted within note 10.

Critical accounting estimates

There are no key sources of estimation uncertainty.

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

4 Revenue

The revenue and profit before tax are attributable to the principal activities of the company as detailed in the Strategic report on page 1.

An analysis of revenue by category is given below:

Category	Period ended	Year ended
	30 June 2023	31 December 2021
	£000	£000
At a point in time	132,755	76,042
Over time: Power by the hour	65,258	6,135
Over time: Other	6,124	45,248
	<u>204,137</u>	<u>127,425</u>

A geographical analysis of revenue is given below:

Geographical market by destination

	Period ended	Year ended
	30 June 2023	31 December 2021
	£000	£000
United Kingdom	24,329	19,392
Rest of Europe	81,648	52,360
North America	40,248	23,468
Rest of World	57,912	32,205
	<u>204,137</u>	<u>127,425</u>

Included within revenue are sales to fellow group companies of £11,741,000 (2021: £11,673,000).

Revenue recognised in the current period relating to performance obligations satisfied or partially satisfied in the prior period was £321,000 (2021: £126,000).

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 JUNE 2023

5 Operating (loss)/profit

The operating (loss)/profit is stated after charging/(crediting):

	Period ended 30 June 2023 £000	Year ended 31 December 2021 £000
Net foreign exchange losses/(gains)	1,999	25
Movement in fair value of foreign currency forward contracts	206	1,769
Capitalisation of development costs (see note 10)	(1,409)	(2,543)
Impairment of development costs (see note 10)	5,080	-
Depreciation of property, plant and equipment (see note 11)	3,184	2,309
Impairment in investments (see note 12)	7,762	-
Integration costs*	4,780	-
Amortisation of intangible assets (see note 10)	5,120	2,582
Raw materials and consumables used	72,112	46,240
Change in inventories of finished goods and work in progress (see note 15)	3,431	(1,604)
Staff costs (see note 7)	55,984	33,582
Gain on disposal of subsidiary	-	(12,608)

Total research and development expenditure in the period is £12,922,000 (2021: £8,429,000) of which £5,618,000 (2021: £2,720,000) is charged to cost of sales or manufacturing work in progress, £8,713,000 (2021: £3,166,000) is charged to net operating costs and £1,409,000 (2021: £2,543,000) is capitalised as development costs (see note 10).

* Integration costs relate to costs associated with the acquisition of Meggitt Limited by Parker Hannifin Corporation.

6 Auditors' remuneration

Audit fees for the period were borne by Meggitt Limited. The following allocation is made, and has been recharged to the company:

	Period ended 30 June 2023 £000	Year ended 31 December 2021 £000
Audit fees payable to the company's auditors	456	239

There were no non audit services provided in either year.

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

7 Employees and directors

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

	Period ended 30 June 2023 Number	Year ended 31 December 2021 Number
Manufacturing	478	456
Sales and distribution	37	41
Administration	40	53
	<u>555</u>	<u>550</u>

	Period ended 30 June 2023 £000	Year ended 31 December 2021 £000
Employment costs		
Wages and salaries	47,927	27,957
Social security costs	4,032	2,709
Other pension costs (see note 23)	3,457	2,448
Equity-settled share based payments (see note 24)	568	468
	<u>55,984</u>	<u>33,582</u>

Persons who are employed by the parent company, Meggitt Limited, 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.

All of the directors as at the period end are employees of other group entities 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 to the company were incidental to their services to the group.

Five of the directors exercised options in the shares of Meggitt Limited, during the period (2021: three). No options were issued in regards to services for Meggitt (UK) Limited.

8 Finance costs

	Period ended 30 June 2023 £000	Year ended 31 December 2021 £000
Interest on bank overdrafts and loans	17	-
Interest payable to group undertakings	706	897
	<u>723</u>	<u>897</u>

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

9 Tax on (loss)/profit

	Period ended 30 June 2023 £000	Year ended 31 December 2021 £000 Restated (note 28)
Current tax		
Current period taxation	877	3,456
Adjustments in respect of prior periods	967	1,439
	<u>1,844</u>	<u>4,895</u>
Deferred tax		
Origination and reversal of temporary differences	(1,424)	1,813
Adjustments in respect of prior periods	(1,165)	(436)
	<u>(2,589)</u>	<u>1,377</u>
Total tax (credit)/charge	<u>(745)</u>	<u>6,272</u>

Tax charge for the period is lower (2021: higher) than the standard rate of corporation tax in the UK for the period ended 30 June 2023 of 20.00% (2021: 19.00%). The difference is explained below:

	Period ended 30 June 2023 £000	Year ended 31 December 2021 £000 Restated (note 28)
(Loss)/profit before taxation	<u>(9,374)</u>	<u>32,038</u>
Effects of:		
(Loss)/profit before taxation multiplied by the standard rate of tax in the UK of 20.00% (2021: 19.00%)	(1,875)	6,088
Adjustment in respect of prior periods	967	1,439
Group relief claimed	(532)	-
Sundry disallowable items	-	138
Deferred tax adjustments in respect of prior periods	(1,165)	(436)
Permanent differences	2,145	(2,395)
Effect of changes in statutory tax rates	(285)	1,438
Tax charge/(credit) for the period	<u>(745)</u>	<u>6,272</u>

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

(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 Intangible fixed assets

	Goodwill	Software	Patents	Development costs	Total
	£000	£000	£000	£000	£000
Cost					
At 1 January 2022	26,160	7,547	10,372	76,719	120,798
Opening balance sheet adjustments	-	-	-	480	480
Additions	-	206	-	1,409	1,615
Disposals	-	(1,110)	-	(340)	(1,450)
At 30 June 2023	26,160	6,643	10,372	78,268	121,443
Amortisation and impairment					
At 1 January 2022	(12,541)	(6,517)	(10,364)	(38,258)	(67,680)
Charge for the period	-	(618)	(8)	(4,494)	(5,120)
Impairment loss	-	-	-	(5,080)	(5,080)
Disposals	-	1,065	-	340	1,405
At 30 June 2023	(12,541)	(6,070)	(10,372)	(47,492)	(76,475)
Carrying amount					
At 30 June 2023	13,619	573	-	30,776	44,968
At 31 December 2021	13,619	1,030	8	38,461	53,118

Included within intangible assets are capitalised development costs amounting to £30,776,000 (2021: £38,461,000) relating to ten aerospace programmes (2021: six) with an amortisation period of 15 years (2021: 15 years).

Impairment testing of goodwill

Goodwill is tested annually for impairment. It is allocated to cash generating units as follows:

	30 June 2023	31 December 2021
	£000	£000
Airframe Systems ('AS')	8,985	8,985
Energy & Equipment ('E&E')	4,634	4,634
	13,619	13,619

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

10 Intangible fixed assets

(Continued)

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.

In the year ended 31 December 2020 and previous years the company used value-in-use (VIU) calculations to determine recoverable amounts as management did not consider there to be reliable estimates of fair value less costs of disposal (FVLCOB).

Following approval of the acquisition of the Meggitt group by Parker Hannifin Corporation (Parker) the impairment testing for the year ended 31 December 2021 was performed using estimates of FVLCOB of each cash generating unit (CGU), determined by allocating the FVLCOB of the total Meggitt group using the relative VIU of each CGU.

For the period ended 30 June 2023 the FVLCOB approach has been followed, in assessing how to estimate the FVLCOB for each CGU the following have been considered:

- Profit and cashflow forecasts produced at a reporting unit level.
- Valuation of intangible assets by an independent third party valuer on acquisition by Parker, then allocated to individual reporting units.

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.

11 Property, plant and equipment

	Freehold land & buildings & leasehold improvements	Plant and Machinery	Right-of-use asset: Other	Total
	£000	£000	£000	£000
Cost				
At 1 January 2022	5,453	38,165	217	43,835
Additions	556	3,797	25	4,378
Disposals	-	(4,075)	(18)	(4,093)
At 30 June 2023	6,009	37,887	224	44,120
Accumulated depreciation				
At 1 January 2022	(3,345)	(29,164)	(148)	(32,657)
Charge for the Period	(759)	(2,359)	(66)	(3,184)
Eliminated on disposal	-	3,596	21	3,617
At 30 June 2023	(4,104)	(27,927)	(193)	(32,224)
Carrying amount				
At 30 June 2023	1,905	9,960	31	11,896
At 31 December 2021	2,108	9,001	69	11,178

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

12 Investments

	30 June 2023 £000	31 December 2021 £000
Investments in subsidiaries	-	-
Investments in joint ventures	-	6,595
	<u> </u>	<u> </u>

Movements in investments in joint ventures

	£000
Cost or valuation	
At 1 January 2022	6,595
Impairment*	(6,012)
Disposal on acquisition of remaining equity in the joint ventures	(583)
	<u> </u>
At 30 June 2023	-
	<u> </u>

On 13 January 2022, the Group acquired the remaining 67% equity of HiETA from Renishaw plc and the two founding members for a cash consideration of £1.2m.

*At the date the remaining equity in the joint ventures was acquired, the value-in-use of the investments was lower than the carrying value and accordingly impaired.

Movements in investments in subsidiaries

	£000
Cost or valuation	
At 1 January 2022	-
Additions	1,750
Impairment	(1,750)
	<u> </u>
At 30 June 2023	-
	<u> </u>

On 1st May 2023 the trade and assets of HiETA Technologies Limited was transferred to Meggitt Aerospace Limited and the investment was written down to £Nil.

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 JUNE 2023

13 Joint ventures and subsidiaries

Details of the company's subsidiaries at 30 June 2023 are as follows:

	Country of Incorporation (or residence)	Proportion of ownership Interest (%)	Proportion of voting power held (%)	Nature of business
HiETA Technologies Ltd*	England & Wales	100	100	Manufacturer

Unless otherwise stated, ownership comprises ordinary shares representing 100% of the issued share capital and are directly held. The registered office addresses are as follows:

- HiETA Technologies Ltd - Pilot Way, Ansty Business Park, Coventry, United Kingdom, CV7 9JU.

14 Derivative financial instruments

	30 June 2023				31 December 2021			
	Assets		Liabilities		Assets		Liabilities	
	Current	Non Current	Current	Non Current	Current	Non Current	Current	Non Current
	£000	£000	£000	£000	£000	£000	£000	£000
Fair value:								
US \$ dollars sales/ purchases (\$/£):	-	-	-	-	402	354	(476)	(74)
Nominal value:								
US \$ dollars sales/ purchases (\$/£):	-	-	-	-	9,280	1,856	(14,291)	(2,042)

During the period all derivative contracts were settled or closed out early.

15 Inventories	30 June 2023 £000	31 December 2021 £000
Raw materials	10,292	5,973
Work in progress	7,732	10,732
Finished goods	3,188	3,619
	<u>21,212</u>	<u>20,324</u>

The cost of inventories recognised as an expense includes £2,480,000 (2021: £275,000) in respect of write-downs of inventory to net realisable value.

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 JUNE 2023

16 Trade and other receivables

	30 June 2023 £000	31 December 2021 £000 Restated (note 28)
Trade receivables	22,925	24,622
Provision for bad and doubtful debts	(594)	(416)
	<u>22,331</u>	<u>24,206</u>
Other receivables	10,204	9,693
Corporation tax recoverable	6,581	4,385
Amounts due from fellow group undertakings	59,576	61,486
Prepayments	609	1,046
	<u>99,301</u>	<u>100,816</u>

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

17 Contract assets

	30 June 2023 £000	31 December 2021 £000
Conditional rights to consideration on over time contracts	19,907	15,502
Current assets	<u>19,907</u>	<u>15,502</u>
Total	<u>19,907</u>	<u>15,502</u>

No provision for impairment losses attributable to contract assets was recognised in the period (2021: £nil).

18 Cash and cash equivalents

	30 June 2023 £000	31 December 2021 £000
Cash and cash equivalents	-	72,000

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 JUNE 2023

19 Trade and other payables

	30 June 2023 £000	31 December 2021 £000 Restated (note 28)
Trade payables	16,609	14,663
Amounts due to fellow group undertakings	29,164	28,690
Accruals	3,962	4,969
Social security and other taxation	877	727
Other payables	1,930	1,012
Current liabilities	52,542	50,061
Amounts due to fellow group undertakings	-	72,000
Non-current liabilities	-	72,000
Total	52,542	122,061

Amounts due to fellow group undertakings totalling £25,538,000 (2021: £20,707,000) are interest bearing, unsecured and repayable on demand. Interest accrues at 2%.

Amounts due to fellow group undertakings totalling £nil (2021: £72,000,000) are interest bearing, unsecured and due for repayment on 30 June 2023. Interest accrues at 2%.

The remaining amounts due to fellow group undertakings totalling £3,626,000 (2021: £6,219,000) are non-interest bearing, unsecured and repayable on demand.

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 JUNE 2023

20 Contract liabilities

	30 June 2023 £000	31 December 2021 £000
Contributions received from customers during development phase of programmes	12	-
Other consideration received in advance of performance	9,178	13,255
Current liabilities	9,190	13,255
Contributions received from customers during development phase of programmes	728	-
Power by the hour contracts	3,084	2,956
Other consideration received in advance of performance	12,104	7,989
Non-current liabilities	15,916	10,945
Total	25,106	24,200

Revenue recognised in the period relating to amounts recognised as a contract liability at the beginning of the period was £5,314,000 (2021: £6,629,000).

The aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partly satisfied at 30 June 2023, is £100,210,000 (2021: £52,199,000). Of this aggregate amount, the Company expects to recognise £69,229,000 (2021: £34,462,000) as revenue during FY24, with the balance recognised in more than one year but not more than five years. 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 (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

21 Provisions

	30 June 2023 £000	31 December 2021 £000
Current provisions	8,895	3,875
Non-current provisions	1,179	4,838
	<u>10,074</u>	<u>8,713</u>

	Warranty costs £000	Onerous contract obligations £000	Total £000
At 1 January 2022 as previously reported	785	7,928	8,713
Impact of adopting amendments to IAS 37 (note 2)	130	1,547	1,677
At 1 January 2022 as restated	915	9,475	10,390
Additional provisions in the period	1,047	2,334	3,381
Reversal of provision	(516)	(1,006)	(1,522)
Utilisation of provision	(584)	(1,591)	(2,175)
Reclassification	438	(438)	-
At 30 June 2023	<u>1,300</u>	<u>8,774</u>	<u>10,074</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.

Onerous contracts

Provision has been made for estimated losses and claims under certain trading contracts. All amounts have been determined based on management's current estimate of likely outcomes, though there can be no guarantee that such provisions, which may be subject to potentially material revision from time to time, will accurately reflect the actual costs and liabilities that may be incurred. These provisions are expected to be mainly utilised over the next five years.

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

22 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	Revaluation of derivative financial instruments	Intangibles	Other	Total
	£000	£000	£000	£000	£000
Deferred tax asset/(liability) at 1 January 2021	199	(375)	(5,982)	801	(5,357)
Deferred tax movements in prior year					
Credit/(charge) to profit or loss	294	336	(1,467)	(540)	(1,377)
Credit direct to equity	-	-	-	330	330
Deferred tax asset/(liability) at 31 December 2021	493	(39)	(7,449)	591	(6,404)
Deferred tax movements in current period					
Credit/(charge) to profit or loss	1,023	39	1,334	193	2,589
Credit direct to equity	-	-	-	(784)	(784)
Deferred tax asset/(liability) at 30 June 2023	1,516	-	(6,115)	-	(4,599)

Deferred tax assets and liabilities are offset in the financial statements only where the company has a legally enforceable right to do so.

	30 June 2023 £000	31 December 2021 £000
Deferred tax liabilities	(4,599)	(6,404)

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

23 Retirement benefit schemes

The company is a subsidiary of Meggitt Limited 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 Limited for the period ended 30 June 2023.

For the defined contribution scheme, the pension cost charged to the income statement, representing employer's contributions, was £3,457,000 (2021: £2,175,000).

For the defined benefit scheme, the pension cost charged to the income statement consists of employer's 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 period was £Nil (2021: £273,000).

With regard to the defined benefit scheme, the full deficit is recorded in the books of Meggitt Limited 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 30 June 2023, the valuation of the scheme showed a net pension surplus as disclosed on pages 36 to 38 of Meggitt Limited's financial statements, which does not form part of this report.

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

24 Share-based payment transactions

The company operates a number of share schemes for the benefit of its employees. The total charge in net operating costs in respect of such schemes is £568,000 (2021: £468,000) (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 the period has been estimated at the market price of the share on the date of grant, which was 753.80 pence (2021: 433.20 pence). A charge of £424,000 (2021: £293,000) was recorded in the period.

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

	Number of shares under award outstanding
At 1 January 2022	201,614
Awarded	59,899
Exercised	(119,814)
Lapsed	(141,699)
	<hr/>
At 30 June 2023	-
	<hr/> <hr/>

Meggitt 2018 Sharesave Plan (SAYE)

This plan is open to all UK employees on identical terms. Employees may save up to the maximum monthly savings limit (£250) over a three or five year period. 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 £144,000 (2021: £163,000).

25 Share capital	30 June 31 December		30 June 31 December	
	2023	2021	2023	2021
	No.	No.	£000	£000
Ordinary share capital				
Allotted, issued and fully paid				
Ordinary shares of £1 each	22,700,000	22,700,000	22,700	22,700
	<hr/>	<hr/>	<hr/>	<hr/>

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

26 Capital commitments

At the end of the period the company had capital commitments as follows:

	30 June 2023 £000	31 December 2021 £000
Contracted for but not provided in the financial statements:		
Acquisition of property, plant and equipment	536	1,100
Acquisition of intangible assets	1,617	5,241
	<u>2,153</u>	<u>6,341</u>

27 Ultimate parent undertaking and controlling party

The immediate parent undertaking of the company is Meggitt Properties Limited.

On 13 September 2022 Parker Hannifin Corporation completed the acquisition of Meggitt Limited (previously Meggitt Plc). From that date Parker Hannifin Corporation, a company incorporated in the state of Ohio, United States of America, is the ultimate parent undertaking and controlling party of the company. Parker Hannifin Corporation is the parent undertaking of the largest and smallest group to consolidate the company's financial statements and copies of its consolidated financial statements can be obtained from the company secretary, Parker Hannifin Corporation, 6035 Parkland Boulevard, Cleveland, Ohio, 44124-4141, United States of America.

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

28 Prior year adjustments

Included within current period expenses are management charges that relate to prior periods. As a result, these have been reversed out of current period and written back to opening reserves in 2021 and prior as a retrospective analysis indicates this should have been recognised in prior year financial statements, and therefore the comparative balances for intercompany payables and retained earnings have been restated in this period's financial statements. The tax has been recognised under corporation tax recoverable therefore trade and other receivables have also been restated.

The adjustment resulted in £1,764,000 of management charge expenses being reversed out of current period. £1,413,000 of this related to FY21 and has been adjusted through the 2021 profit and loss while £351,000 related to periods prior to this and therefore adjusted through retained earnings.

Income statement restatements

	31 December 2021 £000	Management charges £000	31 December 2021 £000 Restated
Revenue	127,425	-	127,425
Cost of sales	(81,143)	-	(81,143)
Gross profit	46,282	-	46,282
Distribution costs	(5,393)	-	(5,393)
Administrative expenses	(17,380)	(1,413)	(18,793)
Other (losses)/gains	10,839	-	10,839
Operating (loss)/profit	34,348	(1,413)	32,935
Finance costs	(897)	-	(897)
(Loss)/profit before taxation	33,451	(1,413)	32,038
Tax on (loss)/profit	(6,540)	268	(6,272)
(Loss)/profit for the financial period	26,911	(1,145)	25,766

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

28 Prior year adjustments (Continued)

Balance sheet restatements

	31 December 2021 £000	Management charges £000	31 December 2021 £000 Restated
Non-current assets			
Goodwill	13,619	-	13,619
Other intangible assets	39,499	-	39,499
Property, plant and equipment	11,178	-	11,178
Investments	6,595	-	6,595
Derivative financial instruments	354	-	354
	<u>71,245</u>	<u>-</u>	<u>71,245</u>
Current assets			
Inventories	20,324	-	20,324
Trade and other receivables	100,481	335	100,816
Contract assets	15,502	-	15,502
Derivative financial instruments	402	-	402
Cash and cash equivalents	72,000	-	72,000
	<u>208,709</u>	<u>335</u>	<u>209,044</u>
Total assets	<u>279,954</u>	<u>335</u>	<u>280,289</u>
Current liabilities			
Trade and other payables	(48,297)	(1,764)	(50,061)
Contract liabilities	(13,255)	-	(13,255)
Derivative financial instruments	(476)	-	(476)
Provisions	(3,875)	-	(3,875)
Lease liabilities	(40)	-	(40)
	<u>(65,943)</u>	<u>(1,764)</u>	<u>(67,707)</u>
Net current liabilities	<u>142,766</u>	<u>(1,429)</u>	<u>141,337</u>
Non-current liabilities			
Derivative financial instruments	(74)	-	(74)
Contract liabilities	(10,945)	-	(10,945)
Deferred tax liabilities	(6,404)	-	(6,404)
Lease liabilities	(30)	-	(30)
Trade and other payables	(72,000)	-	(72,000)
Provisions	(4,838)	-	(4,838)
	<u>(94,291)</u>	<u>-</u>	<u>(94,291)</u>
Net assets	<u>119,720</u>	<u>(1,429)</u>	<u>118,291</u>

MEGGITT (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 JUNE 2023

28 Prior year adjustments

(Continued)

	31 December 2021 £000	Management charges £000	31 December 2021 £000 Restated
Equity			
Share capital	22,700	-	22,700
Retained earnings	97,020	(1,429)	95,591
Total equity	<u>119,720</u>	<u>(1,429)</u>	<u>118,291</u>

Statement of changes in equity restatements

	Share capital	Retained earnings	Total equity
Balance at 1 January 2021	22,700	69,875	92,575
Impact of management charges expense	-	(284)	(284)
At 1 January 2021 as restated	<u>22,700</u>	<u>69,591</u>	<u>92,291</u>
Profit for the year restated	-	25,766	25,766
Total comprehensive income for the year	-	25,766	25,766
Recognition of equity-settled share-based payments in the year	-	234	234
Balance at 31 December 2021	22,700	95,591	118,291
Impact of adopting amendments to IAS 37 (note 2)	-	(1,677)	(1,677)
At 1 January 2022 as restated	<u>22,700</u>	<u>93,914</u>	<u>116,614</u>
Loss for the period	-	(8,629)	(8,629)
Total comprehensive expense for the period	-	(8,629)	(8,629)
Tax impact on share-based payment transactions	-	877	877
Recognition of equity-settled share-based payments in the period	-	(3,937)	(3,937)
Balance at 30 June 2023	<u>22,700</u>	<u>82,225</u>	<u>104,925</u>