

2 August 2016

Meggitt PLC 2016 Interim results

First half as expected; orders support stronger second half

Meggitt PLC (“Meggitt” or “the Group”), a leading international engineering company specialising in high performance components and sub-systems for the aerospace, defence and energy markets, today announces unaudited interim results for the six months ended 30 June 2016.

Group headlines

£m		H1 2016	H1 2015	% change	
				Reported	Organic ⁽¹⁾
Orders		911.8	775.3	+18	+6
Revenue		882.9	793.7	+11	-2
Underlying ⁽²⁾					
	EBITDA ⁽³⁾	213.1	204.2	+4	-6
	Operating profit	163.3	160.2	+2	-9
	Profit before tax	152.0	152.0	0	-10
	Earnings per share (p)	15.4	15.3	+1	
Statutory					
	Operating profit	63.0	129.5	-51	
	Profit before tax	46.6	115.8	-60	
	Earnings per share (p)	5.4	12.5	-57	
Free cash flow		-32.7	38.1		
Net debt		1,276.7	711.6	+79	
Dividend (p)		4.8	4.6	+4	

- Strong order intake supports second half growth expectations.
- Reported revenue up 11%, benefiting from foreign currency movements and composites acquisitions.
- Organic revenue decline of 2% reflecting tough comparators in military and further weakness in energy.
- Statutory results significantly impacted by £50.8m negative mark to market of our financial instruments, principally as a result of the recent weakness of Sterling.
- Excellent progress made on deployment of the Meggitt Production System (MPS)
 - Defective parts per million down 87% and on-time delivery up 14% since inception;
 - Site launches now under way at the composites facilities acquired in 2015.
- Cost reduction initiative launched in October 2015 completed on schedule; two site closures announced as part of footprint consolidation plan.
- Integration of two composites acquisitions in late 2015 progressing well.
- Net debt:EBITDA up to 2.6x on a covenant basis, commensurate with typical seasonality of cash flow and phasing of profit. Will be within 1.5x-2.5x target range at year end as previously indicated.
- Interim dividend up 4.3% to 4.8p.
- Full-year 2016 guidance reconfirmed.

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

2. Underlying profit and EPS are used by the Board to measure the trading performance of the Group as set out in notes 4 and 9.

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



Stephen Young, Chief Executive, commented:

“First half results reflect a period of strong order intake, supportive of our guidance for the full year. Organic revenue was in line with expectations, with reported revenue helped by favourable foreign currency movements and a full six-month benefit from the two composites acquisitions completed in late 2015. These businesses are trading in line with our business plan, and the integration activities under way will deliver the synergies set out at the time of acquisition.

“I am encouraged by the progress being made by our recently launched Customer Services and Support organisation. It’s early days, but implementation is tracking in line with expectations and we are excited by the potential for the business in the coming years. MPS continues to make excellent progress, enhancing product quality and customer service.

“Reflecting our continuing confidence in the prospects for the Group, the interim dividend has been increased by 4.3% to 4.8p.”

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Analyst meeting

A meeting for analysts will be held today at 9.00am at FTI Consulting, 200 Aldersgate, London EC1A 4HD.

Webcast link

<http://www.investis-live.com/meggitt/578f81e8123a7b060020c740/sfdt>

Cautionary Statement

This Results Announcement contains forward looking statements with respect to the financial condition, results of operations and businesses of Meggitt PLC and its strategy, plans and objectives. These statements are made in good faith based on the information available at the time this announcement was approved. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a number of risks and uncertainties that are inherent in any forward-looking statement and which could cause actual results to differ materially from those currently anticipated. Meggitt does not intend to update these forward-looking statements. Nothing in this document should be regarded as a profit forecast. This report is intended solely to provide information to shareholders and neither the Company nor its directors accept liability to any other person, save as would arise under English law.



GROUP OVERVIEW

Meggitt is a global engineering company specialising in high-performance components and sub-systems for aerospace, defence and energy markets. We have market-leading positions within our well balanced portfolio, with highly-engineered equipment on over 65,000 aircraft and many ground vehicles and energy applications worldwide. This significant and expanding installed base provides us with an aftermarket revenue stream stretching out for decades. Strong customer relationships and high levels of embedded intellectual property spanning a broad range of products and capabilities have enabled us to win good positions on new platforms, largely on a sole-source basis, underpinning our medium-term growth expectations.

The considerable success we have had in winning positions on the broad range of new platforms announced by aircraft manufacturers in recent years has resulted in significant investment in research and development. This will deliver a substantial refresh of our in-service product portfolio and will drive revenue for decades to come. Investment levels are expected to reduce from their recent peak as the new platforms enter service, and this reduction started in the first half of 2016 during which total investment in research and development represented 8.9% of Group revenue (2015: 9.9%).

Our capability-based Group structure is tailored to the requirements of our customers, and the recent formation of the Customer Services & Support (CSS) organisation is designed to further improve levels of customer engagement and service delivery. CSS has a mandate to explore and execute opportunities for enhanced revenue growth including increasing our market share in the maintenance, repair and overhaul of our components and participating directly in the surplus parts market.

The increased focus on product quality, operational efficiency and programme management as part of the Meggitt Production System (MPS) has started to make us ever more attractive as a supplier of choice to meet the changing needs of our customers. Over the long term this will enable us to increase our organic growth rate and, ultimately, drive improved shareholder return.


The cost reduction initiative announced during 2015, which was expanded at the time of our full-year results announcement in February 2016, targeted a reduction in the employee base of 400 in order to realign the Group cost base with the current trading environment. This exercise was successfully completed during the first half of 2016, and we have recognised an exceptional cost of £5m in the six months to 30 June, lower than the guidance provided in February. We have also announced the closure of two sites as part of our footprint consolidation plan. These closures will take effect in the first half of 2017.

HEADLINE FINANCIALS

Orders in the period grew 18%. The organic increase was 6%, with strong growth in civil aftermarket (AM) (+16%) and military (+28%) more than offsetting declines in civil original equipment (OE) (-15%) and energy (-25%). This order performance reflects the normal variability as we book and ship against multi-year contracts but the overall book to bill ratio of 1.03 is encouraging and supports a stronger second half.

Reported Group revenue of £882.9m (2015: £793.7m) represents an increase of 11% as analysed in the table below:

	£m	% impact
H1 2015 Revenue	793.7	
Acquisitions	60.1	7.6
Currency	43.0	5.4
Organic change	(13.9)	-1.8
H1 2016 Revenue	882.9	11.2



As expected, first half revenue benefited from acquisitions and foreign exchange. Currency movements, reflecting the movement of Sterling against the Group's major operating currencies, in particular the US Dollar, contributed £43m to reported revenue growth. Organic revenue growth of 4% in civil aerospace was more than offset, as expected, by declines in military, against strong prior year comparatives, and further weakness in energy.

The Board's preferred measure of the Group's trading performance is underlying profit. The adjustments between underlying and statutory profit are consistent with prior years and are described in notes 4 and 9. Underlying operating profit for the six months to 30 June was £163.3m (2015: £160.2m), representing a margin of 18.5% (2015: 20.2%). The principal drivers of the margin decline include the phasing of revenues in the year, the previously advised movement of our Heatric business from a profit in H1 2015 to a loss in H1 2016 and adverse mix, primarily within civil, where revenue growth was biased away from older aircraft and business jets where margins tend to be higher. The composites acquisitions were also, as expected, dilutive to the overall Group margin.

Underlying net finance costs increased to £11.3m (2015: £8.2m) with the benefit of lower interest rates being more than offset by foreign currency movements and higher average debt following the composites acquisitions.

Underlying profit before tax was £152.0m (2015: £152.0m).

The underlying tax rate was 22% (2015: 20%), higher than last year principally due to the close out of historical tax uncertainties in 2015, along with the increased proportion of Group profit generated in the US following the completion of the two composites acquisitions. Underlying earnings per share was 15.4p (2015: 15.3p).

On a statutory basis, profit before tax was £46.6m (2015: £115.8m), principally reflecting the adverse year-on-year impact of the mark to market of financial instruments, primarily foreign exchange hedging, arising from the weakening of Sterling following the EU referendum. A loss of £50.8m (2015: profit of £8.0m) was recorded on these contracts. The loss on the foreign exchange contracts does not represent an economic loss as they will be held to maturity and at settlement be offset by stronger operating cash flow from the weaker value of Sterling. Earnings per share decreased by 57% to 5.4p (2015: 12.5p).

The interim dividend is increased by 4.3% to 4.8p (2015: 4.6p) reflecting our ongoing confidence in the outlook for the Group and our commitment to a progressive dividend. This will be paid on 30 September 2016.

The Group's cash flow each year is significantly second-half weighted. Free cash outflow of £32.7m (2015: inflow of £38.1m) reflects the non-recurrence of project completion cash receipts at Heatric in 2015, inventory build in support of new programmes and second half revenue growth, and phasing of supplier payments.

Net cash outflow of £106.7m (2015: outflow of £146.2m) reflects a broadly stable cash dividend of £75.8m (2015: £75.6m) and net deferred consideration relating to prior M&A activity of £1.8m (2015: £1.0m). Share buyback costs and the purchase of our own shares in the first half were £Nil (2015: £109.7m). Currency movements in the period represented £107.8m of the overall increase in gross debt of £223.6m.

There are two main financial covenants in our financing agreements. The net debt/EBITDA ratio, which must not exceed 3.5x under normal circumstances but which benefits from an acquisition spike to 4.0x for two reporting periods following significant spend on acquisitions, was at 2.6x at 30 June 2016 (December 2015: 2.3x). The covenant calculation applies average exchange rates to both net debt and EBITDA. The calculation at 30 June 2016 reflects the typical seasonality of cash flow as well as weaker trailing 12 months EBITDA following the softer H2 in 2015. Interest cover, which must be not less than 3.0x, was 18.6x (December 2015: 21.4x). The Group has, therefore, significant headroom against both key covenant ratios, and net debt/EBITDA will be within the previously stated target range of 1.5x to 2.5x at the end of 2016.

The Group has £294m of undrawn headroom against committed US Dollar-denominated bank facilities, with no significant refinancing required before 2020. During the six months to 30 June, we successfully executed a USD600m US private placement to refinance the acquisition bridge

financing put in place in 2015. The new debt is in two equal tranches with maturities of 7 and 10 years with an all-in effective interest rate of 3.67%. The new debt was drawn down on 6 July 2016.

TRADING SUMMARY

	H1 Revenue		H1 Growth	
	2016 £m	2015 £m	Reported %	Organic %
Civil OE	204.9	162.2	+26	+4
Civil AM	253.4	229.3	+11	+4
Total civil aerospace	458.3	391.5	+17	+4
Military	293.9	266.8	+10	-5
Energy	65.2	77.0	-15	-19
Other	65.5	58.4	+12	-3
Total	882.9	793.7	+11	-2

Civil aerospace

Meggitt operates in three main segments of the civil aerospace market: large jets, regional aircraft and business jets. The large jet fleet includes over 21,000 aircraft, the regional aircraft fleet over 6,000 and business jets around 18,000. The Group has products on virtually all these platforms and hence a very large, and growing, installed base. The split of civil revenue, which accounts for 52% of the Group total, is 55% AM and 45% OE.

Total civil aerospace revenue grew 17%, with acquisitions and currency movements contributing to the growth. Revenue grew 4% on an organic basis. Large jet OE, the most significant component of our OE revenue, grew 9% driven principally by growth in narrow-body and A350XWB revenue. Regional aircraft revenue increased by 8%, while business jet and general aviation declined 7%. Civil aftermarket revenue grew 4% organically in the first half, with a strong return to growth in large jet, up 15%, and 8% growth in regional aircraft offsetting a 21% decline in business jet. Year on year business jet aftermarket weakness was anticipated following exceptionally strong growth in the first half of 2015. Within the overall aftermarket growth performance, the contribution from CSS is tracking modestly ahead of our expectations. Mix within civil aftermarket continues to be adversely impacted by strong growth in deliveries of new aircraft, and commensurate increase in the retirement of older aircraft, in recent years.

Deliveries of large jets by Airbus and Boeing are underpinned by a firm order backlog extending over a number of years which, together with our increasing shipsets, give us confidence in the continued growth outlook for OE. The rate of growth in large jet deliveries is expected to accelerate in the near term but average 5% per annum over the next five years, broadly consistent with the long-term trend rate of traffic growth. Deliveries of regional aircraft are expected to remain broadly steady over the next five years. Deliveries of business jets are expected to decline modestly in 2016 and 2017 with growth returning towards the end of the next five years, with the most potential coming at the smaller end of the market which was hardest hit during the last downturn.

Available seat kilometres (ASKs), a good proxy for air traffic which is the key long-term driver of airline demand for spares and repairs on large and regional aircraft, grew at 5.7% in the five months to May 2016, above the long-term trend rate of 5% per annum albeit with traffic growth moderating through April and May. Industry forecasts suggest continued growth through 2016. Business jet utilisation in the US and Europe declined by 0.1% in the five months to May 2016, impacted in part by weakness in oil & gas markets. Our higher value content and growing market share in business jets should continue to drive revenue growth over the medium term, although we expect continued weakness in the second half of 2016 following particularly strong growth in 2015.

The medium-term outlook for civil revenues, both OE and aftermarket, remains robust.



Military

Military business accounted for 33% of Group revenues in the six months to 30 June. We have equipment on an installed base of around 22,000 fixed wing and rotary aircraft and a significant number of ground vehicles and training applications. Direct sales to US customers account for 63% of military revenue, with 27% to European customers and 10% to the rest of the world.

Reported military revenue increased by 10%, boosted by acquisitions and currency movements. On an organic basis, revenue declined by 5% reflecting strong performance in the first half of 2015, which benefited from the revenue phasing in our training businesses, a T-50 retrofit contract in MABS and the recovery from shipment challenges in 2014. The second half of 2016 will benefit from the commencement of deliveries against the significant training orders received in recent months.

Our OE revenues are generated from a broad range of platforms and applications, with good positions on key platforms such as Typhoon, F-35, V22, Apache and BlackHawk.

The outlook for defence expenditure in the US, our single most important military market, is more benign than in recent years. Military budgets are increasing in many regions for the first time in several years, and there remains significant opportunity for retrofit and reset of repatriated assets – work which Meggitt is well equipped to win.

Energy and other

Energy and other revenues (15% of Group total) are derived from a variety of end markets, of which the most significant is energy (7% of Group total). Our energy capabilities centre on providing valves and condition-monitoring equipment for power generation installations, including ground-based gas and wind turbines, and printed circuit heat exchangers used primarily in the oil and gas market. Other markets (8% of Group total) include the automotive, industrial, test, consumer goods and medical sectors.

Energy revenue declined by 19% on an organic basis, with trading conditions in both the oil and gas and power generation markets contributing to the weakness. Heatric, which declined by a further 29% in the first half, continues to be impacted by low levels of capital investment in its core upstream gas production market. As reported with the full-year results in February, this has had a significant adverse impact on profitability, but the recently completed cost reduction activities have reduced the breakeven point for the business to around £30m of revenue from 2017. As previously disclosed, we have retained sufficient flexibility in this business following the cost reduction activities to benefit from an improvement in demand when the market turns.

Declines in the balance of our energy market within Meggitt Control Systems and Meggitt Sensing Systems reflect weaker underlying trading in the first half and a good performance in the first half of 2015. We continue to expect headwinds in energy in the short term, with contracts subject to deferrals and cancellations. The timing of order placement remains difficult to predict.

The long-term growth expectations for our energy businesses, and particularly Heatric, remain good. The award last year of a contract from NetPower to supply Heatric equipment on a 50MW pilot power generation plant, using supercritical CO₂, is an excellent example of our differentiated technology being used in adjacent markets and represents an exciting opportunity for Heatric. The balance of our energy operations will continue to benefit from recent investments to broaden the product range and global footprint.

OPERATIONAL PERFORMANCE

The financial performance of the individual divisions is summarised in the table below:

Revenue				Underlying Operating Profit				
2016	2015	% Growth		2016	2015	% Growth		
		Reported	Organic			Reported	Organic	
175.9	166.7	+6	0	Aircraft Braking Systems	59.4	62.5	-5	-9
211.2	197.4	+7	+1	Control Systems	51.0	49.5	+3	-4
146.3	82.3	+78	0	Polymers & Composites	16.1	7.6	+112	+5
244.9	233.2	+5	-1	Sensing Systems	36.1	36.6	-1	-10
104.6	114.1	-8	-12	Equipment Group	0.7	4.0	-83	-106
882.9	793.7	+11	-2	Total Group	163.3	160.2	+2	-9

Meggitt Aircraft Braking Systems (MABS) provides wheels, brakes and brake control systems for around 35,000 in-service aircraft. It continues to develop innovative technology for new programmes which enable the business to retain its leading position in its target markets, as demonstrated by its strong market share gains in recent years, notably on super mid-size and long range business jets. The division targets sole-source programmes and is particularly strong in regional aircraft, large business jets and military aircraft. The division represents 20% of Group revenue, generating 88% of its revenue from the aftermarket and 12% from OE sales.

MABS' revenue remained steady on an organic basis, with 6% growth in civil aerospace being offset by a 14% decline in military following the completion of a Korean Air Force T-50 retrofit programme in 2015. Strong growth in large jet and regional aircraft aftermarket more than offset an 18% decline in business jets, where the year-on-year performance was impacted by particularly strong growth in H1 2015. Operating margins declined from 37.5% to 33.8%, with unfavourable aftermarket revenue mix driven by business jet declines, and lower overhead recovery related to phasing of production.

Meggitt Control Systems (MCS) designs and manufactures products which manage the flow of liquids and gases around aero and industrial turbines, and control the temperature of oil, fuel and air in aircraft engines. The division, which also provides fire protection equipment to engines and airframes, represents 24% of Group revenue, generating 44% of its revenue from OE and 56% from the aftermarket.

For MCS, revenue grew 1% on an organic basis. Civil aerospace grew by 7% overall, with 3% growth in OE being augmented by 9% growth in aftermarket, representing a strong recovery from the aftermarket weakness seen in H1 2015. Within this aftermarket performance, strong growth in large jets and regional aircraft were partially offset by a decline in business jet revenue. Military revenue declined by 6% following last year's recovery from the previously highlighted shipment issues. Operating margins decreased from 25.1% to 24.1% driven by weaker aftermarket mix and continuing investment in new product introduction.

Meggitt Polymers & Composites (MPC) supplies ice protection products, radomes and advanced composite airframe and engine assemblies for a range of fixed wing and rotorcraft platforms. It also provides complex seals packages for civil and military aircraft and flexible bladders which fulfil over 80% of the US military requirement for ballistically-resistant and crashworthy fuel tanks. MPC's overall capability has been significantly enhanced by 2015's acquisitions of two advanced composites businesses, with established positions on a range of high-growth aircraft platforms. MPC represents 17% of Group revenue and generated 70% of its revenue from OE and 30% from the aftermarket.

MPC revenue grew 78% with the contributions from the acquisitions augmented by foreign exchange translation. Organic revenue was flat, with declining civil aerospace revenue offset by 8% growth in military. Operating margins improved from 9.2% to 11.0%, which reflects both the inclusion of the acquired businesses and an improved organic performance, partially offset by a weaker product mix.

Meggitt Sensing Systems (MSS) designs and manufactures highly engineered sensors and condition monitoring systems to measure a variety of parameters such as vibration, temperature, pressure, fluid level and flow as well as power storage, conversion and distribution systems and avionics suites for aerospace applications. Its products are designed to operate effectively in the extreme conditions of temperature, vibration and contamination that exist in an aircraft or ground-

based turbine engine. MSS has migrated many of its products into other specialist markets requiring similar capabilities, such as test and measurement, automotive crash test and medical. Combining its capabilities with MABS, it has a number of civil aerospace tyre pressure monitoring systems already in service and further systems under development, having secured positions for this technology on 10 aircraft platforms. MSS represents 27% of Group revenue and generated 77% of its revenue from OE and 23% from the aftermarket.

MSS revenue declined 1% on an organic basis, with declines in energy, military and other markets being broadly offset by 10% growth in civil OE. Operating margins decreased from 15.7% to 14.7% reflecting growth in the lower margin civil OE revenue stream.

Meggitt Equipment Group (MEG) comprises principally our non-engine actuation, dedicated military and Heatric businesses. The division represents 12% of Group revenue and generates 80% of its revenue from OE and 20% from the aftermarket.

Revenue in MEG declined by 12% on an organic basis. Heatric declined by 29% in the first half, reflecting continued weakness in its core oil and gas market, while military performance was impacted by the phasing of training revenue, which will accelerate in the second half as deliveries commence in support of the significant new contract wins achieved in the last 12 months. Operating margins decreased from 3.5% to 0.7% driven principally by the weakness in Heatric, which was loss-making in the period. Second half performance will benefit from the recent cost reduction activities at Heatric and an acceleration in training revenue.

INVESTING FOR THE FUTURE

£m	2016	2015	% change	
			Reported	Organic
Total research and development (R&D)	78.8	78.9	0	-6
<i>Of which:</i> Customer funded	13.6	10.9	+25	+11
Capitalised	37.4	40.1	-7	-11
Charge to net operating costs	34.5	35.2	-2	-7
Programme participation costs	26.9	23.2	+16	+10
Capital expenditure	29.3	27.8	+5	-7

Targeted investment in technology development remains critical to our long-term organic growth, future cash flows and market-leading positions, which are often sole-source. Total R&D expenditure in the six months to June 2016 of £78.8m was 8.9% of revenue (2015: £78.9m, 9.9%), of which 17% (2015: 14%) was funded by customers. The charge to net operating costs including amortisation and impairment decreased to £34.5m (2015: £35.2m), representing a 7% organic decline.

High levels of R&D largely reflect our excellent win rate on new programmes during the last bid cycle, and the ongoing investment in new technology aligned to our customers' future product requirements. A third of the expenditure was on new wheels and brakes programmes and over 40% focused on products for engines and engine accessories. These two categories support future revenue exceeding £10bn, with the balance spread across a range of civil, military and energy programmes. As the large number of aircraft programmes currently in development start to enter into service, R&D investment is expected to decline to the normalised range of 6-8% of revenue, and the reduction to 8.9% of revenue in the first half of 2016 represents the first stage in this decline. New product introduction expenditure associated with these platforms will remain elevated for a period of time, which is good for future revenues but impacts profitability in the short term.

Our investment in programme participation costs including the supply of equipment free of charge to new aircraft, mostly in MABS, increased by 10% organically, boosted by deliveries of the first production shipsets for the Bombardier CSeries aircraft, along with growth in biz jet platforms such as the Gulfstream G650. Growth is expected to continue through the remainder of the year as deliveries of aircraft equipped with our wheels and brakes increase, which in turn will drive

aftermarket revenue stretching out for decades. Our 65% market share of wheels and brakes on the fleet of super mid-size and large business jets, as reported at the full-year results in February, is supportive of our expectation that we will have a market share on the overall fleet in excess of 70% by 2020.

Capital expenditure on property, plant and equipment and intangible assets was £29.3m (2015: £27.8m). This includes investments at a number of sites in support of the production ramp-up for the re-engined narrow-bodies and the initial phase of a significant capacity increase in our Vietnamese facility. Capital expenditure will accelerate in the second half of 2016, driven by further production ramp-up spend and the previously disclosed investment in capacity at the acquired composites facilities.

DRIVING ORGANIC GROWTH THROUGH OPERATIONAL EXCELLENCE

The Meggitt Production System (MPS), our single, global approach to continuous improvement, was launched during 2013. MPS will create the sustainable quality and delivery culture that confers competitive advantage beyond our technical expertise, enabling the Group to deliver a higher rate of organic growth over the long term. It will also enable us to become more cost competitive through the reduction of working capital and increased operational efficiency. MPS, a six-stage programme which will take five to seven years to become fully embedded, has now been launched at all of our major locations and is being rolled out at an accelerated pace across the composites sites acquired during 2015 as part of the integration activities. Two sites have entered the fourth stage - the point at which we expect to start to see meaningful improvements in financial performance – and we expect further maturity of the programme during 2016. Meanwhile, expansion of the programme beyond OE manufacturing operations and into aftermarket and key support functions has continued.

We have already seen some significant sustainable improvements in quality and delivery since inception, with defective parts per million down 87% and on-time delivery up by 14%. These improvements are recognised and appreciated by our customers, as evidenced by the receipt of a number of supplier awards in recent months. Our employees are now engaged more than ever across the globe, resulting in a significant increase in the number of ideas they are proposing in an environment conducive to all ideas being heard and acted upon. This will, over time, lead to increased competitive advantage.

We retain a key focus on optimising our manufacturing footprint. As recently announced, two factory closures will take place during the first half of 2017, with the output being absorbed within existing Group facilities. As our sites move through the six stages of MPS, greater levels of process and workflow standardisation will benefit future footprint consolidation activity. This will enable us to drive greater productivity and efficiency once the current manufacturing ramp-up activity is complete.

FOREIGN EXCHANGE

Foreign exchange movements increased Group reported revenue by £43.0m and underlying profit before tax by £10.1m in the six months to 30 June. Of this, the translation of the results of overseas businesses into Sterling increased revenue by £35.4m, and underlying profit before tax by £6.3m. The sensitivity of full-year revenue and underlying PBT to future exchange rate translation movements when compared to the 2016 H1 average rates is shown in the table below:

	2016 H1 average rate	Revenue £'m	Underlying PBT £'m
Impact of 10 cent movement			
US Dollar	1.43	85	17
Euro	1.28	11	1
Swiss Franc	1.41	8	2

Transaction exposure, where revenues and/or costs of our businesses are denominated in a currency other than their own, increased revenue by £7.6m, and underlying PBT by £3.8m in the first six months, principally reflecting the movement of the US Dollar against Sterling and Euro. The following table details transaction hedging currently in place.

	Hedging in place ¹ %	Average transaction rates
2016		
US Dollar/ Sterling	88	1.56
US Dollar/ Euro	100	1.21
US Dollar/ Swiss Franc	94	1.07
2017 – 2019 inclusive		
US Dollar/ Sterling	77	1.54
US Dollar/ Euro	82	1.19
US Dollar/ Swiss Franc	75	1.07

1. Based on forecast transaction exposures.

Based on the hedged rates, transaction exposure is expected to provide a £7m benefit to full-year 2016 profit before tax.

RETIREMENT BENEFIT SCHEMES

Scheme deficits increased in the period from £284.5m (at 31 December 2015) to £373.6m, principally due to a significant decrease in AA corporate bond yields which are used to discount scheme liabilities.

The Group made deficit reduction payments in the first half of £11.1m (2015: £14.8m). Discussions with the trustees of the UK pension scheme have concluded following the triennial valuation in April 2015, and payments against the revised deficit recovery plan have commenced. Amounts required to be paid in the US reduced in the period, as expected, reflecting the impact of new legislation implemented in the latter part of 2014. These are expected to increase from 2017. Total retirement benefit deficit reduction payments will be in line with the estimates provided at the time of the full-year results in February 2016.

BREXIT

The UK's decision to withdraw from the European Union has created broad economic and political uncertainty. In the short term, the resultant weakening of Sterling against our primary trading currencies will create a currency translation tailwind, although transaction exposure was substantially hedged for the next four years prior to the referendum. Over the longer term, we have assessed the potential impact on our business and have no reason, other than further currency movements, to expect a UK withdrawal from the EU to have a significant impact on underlying financial performance. Given the prevailing uncertainty which is likely to last for some time, we continue to monitor developments closely in order to understand the potential impact on our business and develop the appropriate responses.



GROUP OUTLOOK

The outlook for our civil markets is encouraging. Production of large jets is expected to continue to grow in the medium term, and the increased shipset values we enjoy on the latest generation of large jets support organic civil OE revenue growth over the medium term ahead of the overall market growth. In 2016, we continue to expect civil OE to grow organically in the low- to mid-single-digit percentage range, and for the composites acquisitions to add a further 20 percentage points of growth.

Available seat kilometres, an important driver of our large and regional jet aftermarket, are growing at the long-term trend. In combination with the expected contribution from the CSS organisation, which will enable us to address some of the areas of weakness we have seen in recent years, we expect to be able to outgrow the market for civil spares and repairs in the medium term. Shorter term, however, we anticipate a continued impact from the availability of surplus parts. This is expected to limit organic aftermarket growth in 2016 to low- to mid-single digits, with a further modest negative margin impact from revenue mix in the balance of the year.

In military markets, we look to be entering a more benign phase with military budgets returning to growth for the first time in a number of years. We believe our strong technology offering and broad platform and customer exposure will enable us to outgrow the overall military market over the medium term, but we maintain a relatively cautious stance for 2016 reflecting weaker orders in 2015 and our view that it will take some time for cash to flow on the back of the 2016 budget in the US. We therefore anticipate organic growth in the low-single-digit percentage range, reflecting an expected improvement in the second half, with a further 10 percentage points of growth from the composites acquisitions.

Our energy businesses have been impacted by the global slowdown in investment following the decline in the oil price, although we expect that the rate of revenue decline will moderate during the second half of 2016. As previously indicated, the recently completed cost reduction activities will partially mitigate the financial impact of this decline. Medium term, the strong technology franchise in Heatric and growth opportunities in power generation products give us confidence that our energy revenues will resume their growth trajectory.

On the basis of the above, the Group continues to expect organic revenue growth in 2016 of low single digit percentage points, in line with the guidance given in February, representing a recovery in the second half consistent with a return to normal revenue phasing in 2016. The headcount reduction programme completed in the first half should offset margin headwinds from revenue mix. The acquisitions completed in the fourth quarter of 2015 will further enhance reported growth, as will foreign exchange if rates stay at or close to current levels.

CONDENSED CONSOLIDATED UNAUDITED INCOME STATEMENT

For the six months ended 30 June 2016

	Notes	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m
Revenue	3	882.9	793.7
Cost of sales		(547.4)	(473.5)
Gross profit		335.5	320.2
Net operating costs		(272.5)	(190.7)
Operating profit ¹		63.0	129.5
Finance income		0.9	1.6
Finance costs		(17.3)	(15.3)
Net finance costs	7	(16.4)	(13.7)
Profit before tax ²		46.6	115.8
Tax	8	(4.5)	(16.2)
Profit for the period attributable to equity owners of the Company		42.1	99.6
Earnings per share:			
Basic ³	9	5.4p	12.5p
Diluted ⁴	9	5.4p	12.4p

¹	Underlying operating profit	3 & 4	163.3	160.2
²	Underlying profit before tax	4	152.0	152.0
³	Underlying basic earnings per share	9	15.4p	15.3p
⁴	Underlying diluted earnings per share	9	15.1p	15.1p

**CONDENSED CONSOLIDATED UNAUDITED STATEMENT OF COMPREHENSIVE INCOME**

For the six months ended 30 June 2016

	Note	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m
Profit for the period attributable to equity owners of the Company		42.1	99.6
Items that may be reclassified to the income statement in subsequent periods:			
Currency translation differences – arising in the period		178.1	(8.0)
Cash flow hedge movements	23	(1.3)	(0.8)
Tax effect		0.3	0.2
		<hr/>	<hr/>
		177.1	(8.6)
Items that will not be reclassified to the income statement in subsequent periods:			
Remeasurement of retirement benefit obligations		(74.7)	23.3
Tax effect		18.0	(7.0)
		<hr/>	<hr/>
		(56.7)	16.3
Other comprehensive income for the period		<hr/>	<hr/>
		120.4	7.7
Total comprehensive income for the period attributable to equity owners of the Company		<hr/> <hr/>	<hr/> <hr/>
		162.5	107.3

CONDENSED CONSOLIDATED UNAUDITED BALANCE SHEET

As at 30 June 2016

	Notes	30 June 2016 £m	31 December 2015 £m
Non-current assets			
Goodwill	12	2,024.2	1,866.0
Development costs	12	477.4	408.4
Programme participation costs	12	300.6	267.6
Other intangible assets	12	702.2	689.1
Property, plant and equipment	13	313.4	290.3
Trade and other receivables		61.0	58.9
Derivative financial instruments	15	33.4	25.5
Deferred tax assets		0.5	0.3
		3,912.7	3,606.1
Current assets			
Inventories		496.5	415.2
Trade and other receivables		393.8	353.7
Derivative financial instruments	15	1.3	8.4
Current tax recoverable		4.7	5.5
Cash and cash equivalents		61.2	145.4
		957.5	928.2
Total assets	3	4,870.2	4,534.3
Current liabilities			
Trade and other payables		(377.9)	(402.1)
Derivative financial instruments	15	(22.2)	(12.7)
Current tax liabilities		(35.9)	(37.3)
Obligations under finance leases		-	(0.1)
Bank and other borrowings	14	(15.3)	(4.0)
Provisions	16	(41.1)	(36.0)
		(492.4)	(492.2)
Net current assets		465.1	436.0
Non-current liabilities			
Trade and other payables		(4.7)	(4.2)
Derivative financial instruments	15	(42.2)	(13.7)
Deferred tax liabilities		(253.5)	(255.8)
Obligations under finance leases		(6.1)	(5.4)
Bank and other borrowings	14 & 15	(1,316.5)	(1,189.0)
Provisions	16	(112.7)	(111.0)
Retirement benefit obligations	17	(373.6)	(284.5)
		(2,109.3)	(1,863.6)
Total liabilities		(2,601.7)	(2,355.8)
Net assets		2,268.5	2,178.5
Equity			
Share capital		38.8	38.8
Share premium		1,218.9	1,218.9
Other reserves		15.7	15.7
Hedging and translation reserves		420.3	243.2
Retained earnings		574.8	661.9
Total equity attributable to owners of the Company		2,268.5	2,178.5

CONDENSED CONSOLIDATED UNAUDITED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Share capital	Share premium	Other reserves	Hedging and translation reserves	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m
At 1 January 2015	40.1	1,218.9	14.4	159.1	708.3	2,140.8
Profit for the period	-	-	-	-	99.6	99.6
Other comprehensive (expense)/income	-	-	-	(8.6)	16.3	7.7
Total comprehensive (expense)/income for the period	-	-	-	(8.6)	115.9	107.3
Employee share schemes:						
Value of services provided	-	-	-	-	(1.1)	(1.1)
Purchase of own shares	-	-	-	-	(7.7)	(7.7)
Share buyback – purchased and cancelled	(1.0)	-	1.0	-	(104.2)	(104.2)
Share buyback – movement in close period commitment	-	-	-	-	7.5	7.5
Dividends (note 10)	-	-	-	-	(75.6)	(75.6)
At 30 June 2015	39.1	1,218.9	15.4	150.5	643.1	2,067.0
At 1 January 2016	38.8	1,218.9	15.7	243.2	661.9	2,178.5
Profit for the period	-	-	-	-	42.1	42.1
Other comprehensive income/(expense)	-	-	-	177.1	(56.7)	120.4
Total comprehensive income/(expense) for the period	-	-	-	177.1	(14.6)	162.5
Employee share schemes:						
Value of services provided	-	-	-	-	3.3	3.3
Dividends (note 10)	-	-	-	-	(75.8)	(75.8)
At 30 June 2016	38.8	1,218.9	15.7	420.3	574.8	2,268.5



CONDENSED CONSOLIDATED UNAUDITED CASH FLOW STATEMENT

For the six months ended 30 June 2016

	Notes	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m
Cash inflow from operations before business acquisition expenses and exceptional operating items		98.8	159.9
Cash outflow from business acquisition expenses		(1.1)	(0.1)
Cash outflow from exceptional operating items	5	(8.6)	(8.4)
Cash inflow from operations	21	89.1	151.4
Interest received		-	0.1
Interest paid		(15.6)	(9.0)
Tax paid		(14.7)	(13.4)
Cash inflow from operating activities		58.8	129.1
Business acquired		0.6	0.3
Business disposed		2.3	0.8
Capitalised development costs net of funding from customers	12	(36.4)	(40.1)
Capitalised programme participation costs	12	(26.9)	(23.2)
Purchase of intangible assets		(7.4)	(5.1)
Purchase of property, plant and equipment		(22.2)	(22.8)
Proceeds from disposal of property, plant and equipment		0.3	0.1
Cash outflow from investing activities		(89.7)	(90.0)
Dividends paid to Company's shareholders	10	(75.8)	(75.6)
Purchase of own shares		-	(7.7)
Share buyback – purchased in the period		-	(102.0)
Proceeds from borrowings		18.2	193.1
Debt issue costs		(1.0)	-
Repayments of borrowings		(1.1)	(55.8)
Cash outflow from financing activities		(59.7)	(48.0)
Net decrease in cash and cash equivalents		(90.6)	(8.9)
Cash and cash equivalents at start of the period		145.4	105.5
Exchange gains/(losses) on cash and cash equivalents		6.4	(1.3)
Cash and cash equivalents at end of the period		61.2	95.3



NOTES TO THE CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. General information

The condensed consolidated financial statements presented in this document have not been audited or reviewed and do not constitute Group statutory accounts as defined in section 434 of the Companies Act 2006. Group statutory accounts for the year ended 31 December 2015 were approved by the Board of Directors on 22 February 2016 and delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' as adopted by the European Union. They should be read in conjunction with the Group's financial statements for the year ended 31 December 2015. After making enquiries, the directors have formed a judgement, at the time of approving the condensed consolidated financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing these condensed consolidated financial statements.

2. Accounting policies

The condensed consolidated financial statements have been prepared using the same accounting policies adopted in the Group's financial statements for the year ended 31 December 2015.

The tax charge for the period has been calculated using the expected effective tax rates for each tax jurisdiction for the year ended 31 December 2016. These rates have been applied to the pre-tax profits made in each jurisdiction for the six months ended 30 June 2016.

A number of new standards and amendments and revisions to existing standards have been published and are mandatory for the Group's future accounting periods. They have not been adopted early in these condensed consolidated financial statements. None of these are expected to have a significant impact on the consolidated financial statements when adopted except as disclosed below:

- IFRS 9, 'Financial instruments'. The main change is expected to relate to the way in which movements in the fair value of the Group's fixed rate borrowings, attributable to changes in the Group's own credit risk, are accounted for. The Group is yet to assess the full impact of IFRS 9 which becomes effective for accounting periods beginning on or after 1 January 2018. The standard is subject to endorsement by the European Union.
- IFRS 15, 'Revenue from contracts with customers'. This standard establishes principles for reporting the nature, amount and timing of revenue arising from an entity's contracts with customers. The Group, along with the aerospace industry as a whole, is continuing to assess the full impact of IFRS 15. Areas which are currently under review by the Group, and where a change to current practice may be required, are the recognition as an intangible asset of programme participation costs, the method of accounting for revenue on power by the hour and cost per brake landing contracts and contract revenue recognition. The standard becomes effective for accounting periods beginning on or after 1 January 2018 and is subject to endorsement by the European Union.
- IFRS 16, 'Leases'. The main change is expected to relate to the recognition on the Group's balance sheet of assets and liabilities relating to leases which are currently being accounted for as operating leases. The Group is yet to assess the full impact of IFRS 16 which becomes effective for accounting periods beginning on or after 1 January 2019. This standard is subject to endorsement by the European Union.

3. Segmental analysis

The Group manages its business under the five key segments of Meggitt Aircraft Braking Systems, Meggitt Control Systems, Meggitt Polymers & Composites, Meggitt Sensing Systems and Meggitt Equipment Group.

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

Six months ended 30 June 2016:

	Meggitt Aircraft Braking Systems £m	Meggitt Control Systems £m	Meggitt Polymers & Composites £m	Meggitt Sensing Systems £m	Meggitt Equipment Group £m	Total £m
Gross segmental revenue	175.9	211.5	146.9	248.4	105.0	887.7
Inter-segment revenue	-	(0.3)	(0.6)	(3.5)	(0.4)	(4.8)
Revenue	175.9	211.2	146.3	244.9	104.6	882.9
Underlying operating profit *	59.4	51.0	16.1	36.1	0.7	163.3

Six months ended 30 June 2015:

	Meggitt Aircraft Braking Systems £m	Meggitt Control Systems £m	Meggitt Polymers & Composites £m	Meggitt Sensing Systems £m	Meggitt Equipment Group £m	Total £m
Gross segmental revenue	166.9	197.8	82.6	236.6	114.5	798.4
Inter-segment revenue	(0.2)	(0.4)	(0.3)	(3.4)	(0.4)	(4.7)
Revenue	166.7	197.4	82.3	233.2	114.1	793.7
Underlying operating profit *	62.5	49.5	7.6	36.6	4.0	160.2

* A detailed reconciliation of underlying operating profit to operating profit is shown in note 4.

Segment assets

	30 June 2016 £m	31 December 2015 £m
Meggitt Aircraft Braking Systems	766.5	666.6
Meggitt Control Systems	350.8	303.7
Meggitt Polymers & Composites	211.5	187.5
Meggitt Sensing Systems	445.1	387.7
Meggitt Equipment Group	168.1	145.9
Total segmental trading assets	1,942.0	1,691.4
Centrally managed trading assets *	178.7	179.8
Goodwill (note 12)	2,024.2	1,866.0
Other intangible assets	624.2	612.0
Derivative financial instruments – non-current (note 15)	33.4	25.5
Deferred tax assets	0.5	0.3
Derivative financial instruments – current (note 15)	1.3	8.4
Current tax recoverable	4.7	5.5
Cash and cash equivalents	61.2	145.4
Total assets	4,870.2	4,534.3

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

4. Reconciliations between profit and underlying profit

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

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m
Operating profit	63.0	129.5
Exceptional operating items (note 5)	7.6	3.6
Amounts arising on the acquisition, disposal and closure of businesses	0.6	0.1
Amortisation of intangible assets acquired in business combinations (note 12)	41.3	35.0
Financial instruments (note 6)	50.8	(8.0)
Adjustments to operating profit *	<u>100.3</u>	<u>30.7</u>
Underlying operating profit	<u>163.3</u>	<u>160.2</u>
Profit before tax	46.6	115.8
Adjustments to operating profit per above	100.3	30.7
Net interest expense on retirement benefit obligations (note 7)	5.1	5.5
Adjustments to profit before tax	<u>105.4</u>	<u>36.2</u>
Underlying profit before tax	<u>152.0</u>	<u>152.0</u>
Profit for the period	42.1	99.6
Adjustments to profit before tax per above	105.4	36.2
Tax effect of adjustments to profit before tax	(28.6)	(14.2)
Adjustments to profit for the period	<u>76.8</u>	<u>22.0</u>
Underlying profit for the period	<u>118.9</u>	<u>121.6</u>

* Of the adjustments to operating profit, £3.1 million (2015: £1.9 million) relating to exceptional operating items has been charged to cost of sales with the balance of £97.2 million (2015: £28.8 million) included within net operating costs.

5. Exceptional operating items

Items which are significant by virtue of their size or nature, which are considered non-recurring and which are excluded from the underlying profit measures used by the Board to monitor and measure the underlying performance of the Group (note 4), are classified as exceptional operating items.

	Notes	Income statement		Cash expenditure	
		Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m
Business restructuring costs	a	5.1	2.9	6.2	3.2
Integration of acquired businesses	b	1.7	-	1.7	-
Site consolidations		0.8	0.7	0.2	0.7
Raw material supply issue		-	-	0.5	4.5
Exceptional operating items		<u>7.6</u>	<u>3.6</u>	<u>8.6</u>	<u>8.4</u>

a. This relates to costs incurred as part of a Group-wide initiative to structurally reduce its cost base announced on 28 October 2015. Total costs incurred since the announcement in 2015 are £10.4 million.

b. This relates to costs incurred in respect of the on-going integration of the Advanced Composites and EDAC businesses acquired in November and December 2015 respectively.

6. Financial instruments

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

Where interest rate derivatives do not qualify to be hedge accounted, movements in the fair value of the derivatives are excluded from underlying profit. Where interest rate derivatives do qualify to be hedge accounted, any difference between the movement in the fair value of derivatives and in the fair value of fixed rate borrowings is excluded from underlying profit. Where cross currency derivatives and treasury lock derivatives do not qualify to be hedge accounted, movements in the fair value of the derivatives are excluded from underlying profit (note 4).

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m
Movement in the fair value of foreign currency forward contracts	28.1	(7.3)
Impact of retranslating net foreign currency assets and liabilities at spot rates	2.1	0.1
Movement in the fair value of interest rate derivatives	(8.2)	1.8
Movement in the fair value of fixed rate borrowings	7.7	0.9
Movement in the fair value of cross currency derivatives	12.3	-
Movement in the fair value of treasury lock derivative	8.8	-
Remeasurement of share buyback close period commitment	-	(3.5)
Financial instruments – loss/(gain)	50.8	(8.0)

7. Net finance costs

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m
Interest on bank deposits	-	0.1
Unwinding of interest on other receivables	0.9	1.5
Finance income	0.9	1.6
Interest on bank borrowings	4.5	1.6
Interest on senior notes	6.2	6.4
Interest on obligations under finance leases	0.5	0.5
Unwinding of discount on provisions	1.2	1.8
Net interest expense on retirement benefit obligations (note 4)	5.1	5.5
Amortisation of debt issue costs	0.7	0.4
Less: amounts capitalised in the cost of qualifying assets (note 12)	(0.9)	(0.9)
Finance costs	17.3	15.3
Net finance costs	16.4	13.7

8. Tax

The Finance (No 2) Act 2015, included legislation to reduce the main rate of corporation tax in the UK from 20% to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. As these changes were substantively enacted during 2015, they are reflected in the tax charge for the period. The Finance (No 2) Bill 2016 includes proposed legislation to further reduce the main rate of corporation tax in the UK to 17% from 1 April 2020. As this change is not substantively enacted at the balance sheet date, the impact has not been reflected in these condensed consolidated financial statements. If the change had been substantively enacted at the balance sheet date, the impact on net deferred tax liabilities as at 30 June 2016, profit for the period (underlying and statutory) and comprehensive income for the period would not have been significant.

9. Earnings per ordinary share

Earnings per ordinary share ('EPS') is calculated by dividing the profit attributable to equity owners of the Company of £42.1 million (2015: £99.6 million) by the weighted average number of shares in issue during the period of 774.4 million (2015: 794.6 million). The weighted average number of shares used excludes treasury shares and any shares bought by the Group and held during the period by an independently managed Employee Share Ownership Plan Trust. The weighted average number of treasury shares excluded was 0.3 million shares (2015: Nil million) and the weighted average number of own shares excluded was 1.7 million shares (2015: 0.4 million).

Underlying EPS is based on underlying profit (note 4) and is calculated below:

	Six months ended 30 June 2016 pence	Six months ended 30 June 2015 pence
Basic EPS	5.4	12.5
Adjust for the effects of:		
Exceptional operating items	0.7	0.3
Amounts arising on the acquisition, disposal and closure of businesses	0.1	-
Amortisation of intangible assets acquired in business combinations	3.4	2.9
Financial instruments	5.3	(0.9)
Net interest expense on retirement benefit obligations	0.5	0.5
Underlying basic EPS	15.4	15.3

Diluted EPS for the period is 5.4p (2015: 12.4p). The calculation of diluted EPS adjusts the weighted average number of shares to reflect the assumption that all potentially dilutive ordinary shares convert. For the Group this means assuming all share awards in issue are exercised. The weighted average number of shares used in the calculation of diluted EPS was 786.5 million (2015: 804.8 million).

Underlying diluted EPS for the period is 15.1p (2015: 15.1p). The calculation of underlying diluted EPS is based on underlying profit (note 4) and the same weighted average number of shares used in the calculation of diluted EPS.

10. Dividends

The directors have declared an interim dividend of 4.80p per ordinary share (2015: 4.60p) which will be paid on 30 September 2016 to shareholders on the register on 9 September 2016. As the dividend was approved by the directors after 30 June 2016, the dividend cost of £37.2 million (2015: £36.0 million) is not recorded as a liability at the balance sheet date. A dividend reinvestment plan will be available for shareholders who wish to take the dividend in the form of shares rather than cash and the last date for receipt of forms of election for the dividend reinvestment plan is 16 September 2016.

During the period, the final dividend of 9.80p per ordinary share in respect of the year ended 31 December 2015 was paid (2015: 9.50p final dividend in respect of the year ended 31 December 2014). The total cost of the final dividend was £75.8 million (2015: £75.6 million) and was paid in cash.

11. Related party transactions

Transactions between the Company and its subsidiaries have been eliminated on consolidation. The remuneration of the key management personnel of the Group, which is defined as members of the Board and the Group Executive Committee, is set out below:

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m
Salaries and other short-term employee benefits	3.8	3.3
Retirement benefit expense	0.1	0.2
Share-based payment expense	0.5	0.1
Total	4.4	3.6

12. Intangible assets

	Goodwill	Development costs	Programme participation costs	Other intangible assets
	£m	£m	£m	£m
At 1 January 2016	1,866.0	408.4	267.6	689.1
Exchange rate adjustments	157.6	38.4	21.7	57.0
Additions net of funding from customers *	0.6	36.4	26.9	5.7
Interest capitalised (note 7)	-	0.9	-	-
Amortisation and impairment losses **	-	(6.7)	(15.6)	(49.6)
At 30 June 2016	2,024.2	477.4	300.6	702.2

* Additions to programme participation costs comprise £26.1 million (2015: £21.7 million) in respect of free of charge/deeply discounted manufactured parts and £0.8 million (2015: £1.5 million) in respect of cash payments.

** Amortisation of other intangible assets includes £41.3 million (2015: £35.0 million) in respect of intangible assets acquired in business combinations and which has been excluded from underlying operating profit (note 4).

Goodwill is tested for impairment annually or more frequently if there is any indication of impairment. There have been no indications of impairment in the period. A full impairment review was conducted for the year ended 31 December 2015 and no impairment charge was required. The cumulative impairment charge recognised to date is £Nil (2015: £Nil).

13. Property, plant and equipment

	30 June 2016	31 December 2015
	£m	£m
Land and buildings	138.1	131.0
Plant, equipment and vehicles	175.3	159.3
Net book amount	313.4	290.3

During the period, capital expenditure of £21.8 million (2015: £21.5 million) was incurred and the net book value of disposals was £1.1 million (2015: £0.1 million). Depreciation in the period was £19.2 million (2015: £16.4 million).

14. Bank and other borrowings

	Current	Non-current	Total
	£m	£m	£m
At 1 January 2016	4.0	1,189.0	1,193.0
Exchange rate adjustments	0.9	112.7	113.6
Proceeds from borrowings	10.8	7.4	18.2
Debt issue costs	-	(1.0)	(1.0)
Repayments of borrowings	(1.1)	-	(1.1)
Other non-cash movements	0.7	8.4	9.1
At 30 June 2016	15.3	1,316.5	1,331.8

Analysed as:

	30 June 2016	31 December 2015
	£m	£m
Bank loans	11.7	0.7
Other loans	3.6	3.3
Total current	15.3	4.0
Bank loans	842.5	763.2
Other loans	474.0	425.8
Total non-current	1,316.5	1,189.0

15. Financial Instruments – fair value measurement

For trade and other receivables, cash and cash equivalents, trade and other payables, obligations under finance leases, and the current element of bank and other borrowings fair values approximate to book values, due to the short maturity periods of these financial instruments. For trade and other receivables, allowances are made within book value for credit risk.

For other financial instruments, a comparison of book values and fair values is provided below:

	Book value		Fair value	
	30 June 2016 £m	31 December 2015 £m	30 June 2016 £m	31 December 2015 £m
Derivative financial instruments – non-current	33.4	25.5	33.4	25.5
Derivative financial instruments – current	1.3	8.4	1.3	8.4
Financial assets	34.7	33.9	34.7	33.9
Derivative financial instruments – current	(22.2)	(12.7)	(22.2)	(12.7)
Derivative financial instruments – non-current	(42.2)	(13.7)	(42.2)	(13.7)
Bank and other borrowings – non-current	(1,316.5)	(1,189.0)	(1,326.5)	(1,196.9)
Financial liabilities	(1,380.9)	(1,215.4)	(1,390.9)	(1,223.3)
Total	(1,346.2)	(1,181.5)	(1,356.2)	(1,189.4)

Derivative financial instruments measured at fair value, are classified as level 2 in the fair value measurement hierarchy, as they have been determined using significant inputs based on observable market data. The fair values of foreign currency forward contracts have been derived from forward exchange rates observable at the balance sheet date together with the contractual forward rates. The fair values of interest rate derivatives and the treasury lock derivative have been derived from forward interest rates based on yield curves observable at the balance sheet date together with the contractual interest rates. The fair value of cross currency derivatives have been derived from forward interest rates based on yield curves and forward exchange rates observable at the balance sheet date and the contractual interest and forward exchange rates.

The non-current portion of bank and other borrowings measured at fair value, is classified as level 3 in the fair value measurement hierarchy, as it has been determined using significant inputs which are a mixture of those based on observable market data (interest rate risk) and those not based on observable market data (credit risk). The fair value attributable to interest rate risk has been derived from forward interest rates based on yield curves observable at the balance sheet date together with the contractual interest rates and with the credit risk margin kept constant. The fair value attributable to credit risk has been derived from quotes from lenders for borrowings of similar amounts and maturity periods. The same methods of valuation have been used to derive the fair value of the non-current element of bank and other borrowings which is held at amortised cost, but for which a fair value is provided in the table above.

There were no transfers of assets or liabilities between levels of the fair value hierarchy during the period.

Changes in the fair value of financial liabilities classified as level 3 in the hierarchy are as follows:

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m
Bank and other borrowings at fair value through profit and loss:		
At 1 January	290.8	276.9
Exchange rate adjustments	28.0	(2.3)
Loss recognised in net operating costs	7.7	1.0
At 30 June	326.5	275.6

15. Financial Instruments – fair value measurement continued

Cumulative unrealised changes in the fair value of the non-current portion of bank and other borrowings, designated as fair value through profit or loss, arising from changes in credit risk are as follows:

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m
At 1 January	3.3	7.7
Gain/(loss) recognised in net operating costs	1.3	(2.5)
At 30 June	4.6	5.2

The largest movement in credit spread seen in a six month period since inception of the borrowings is 70 basis points. A 70 basis point movement in the credit spread used as an input in determining the fair value at 30 June 2016, would impact profit before tax by approximately £8.0 million.

The difference between the fair value and contractual amount at maturity of the non-current portion of bank and other borrowings, designated as fair value through profit or loss, is as follows:

	30 June 2016 £m	31 December 2015 £m
Fair value	326.5	290.8
Difference between fair value and contractual amount at maturity	(27.3)	(18.4)
Contractual amount payable at maturity	299.2	272.4

16. Provisions

	30 June 2016 £m	31 December 2015 £m
Environmental *	119.3	111.0
Onerous contracts	13.1	16.3
Warranty costs	15.4	14.2
Other	6.0	5.5
Total	153.8	147.0
Analysis of provisions:		
Current	41.1	36.0
Non-current	112.7	111.0
Total	153.8	147.0

* Included within trade and other receivables is £83.2 million (December 2015: £80.1 million) in respect of amounts recoverable from insurers. During the period, £5.5 million (June 2015: £9.0 million) was received.

During the period, expenditure of £9.1 million (June 2015: £17.3 million) was incurred, of which £4.1 million (June 2015: £9.0 million) related to environmental provisions. The charge to the income statement in the period in respect of additional provisions created was £5.5 million (June 2015: £5.9 million) and the credit to the income statement in respect of the reversal of unused amounts was £4.2 million (June 2015: £0.6 million).

17. Retirement benefit obligations

	30 June 2016 £m	31 December 2015 £m
Amounts recognised in the balance sheet:		
Present value of scheme liabilities	1,254.6	1,078.6
Fair value of scheme assets	(881.0)	(794.1)
Total	373.6	284.5
Analysis of retirement benefit obligations:		
Pension schemes	319.6	239.1
Healthcare schemes	54.0	45.4
Total	373.6	284.5

Key financial assumptions:

UK Scheme:		
Discount rate	2.95%	3.85%
Inflation rate	2.80%	3.10%
Salary increases	3.80%	4.10%
Current life expectancy – Male aged 65 (years)	21.7 to 23.2	21.9 to 23.4
Overseas Schemes:		
Discount rate	3.50%	4.20%
Salary increases	4.51%	4.66%
Current life expectancy – Male aged 65 (years)	20.3 to 21.0	20.3 to 21.0

Cash contributions paid during the period were £19.1 million (2015: £22.1 million) including deficit reduction payments of £11.1 million (2015: £14.8 million).

18. Issued share capital

	30 June 2016 No. m	31 December 2015 No. m
Allotted and fully paid	775.5	775.5

19. Contingent liabilities

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

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

20. Capital commitments

	30 June 2016 £m	31 December 2015 £m
Contracted for but not incurred:		
Intangible assets	0.8	0.6
Property, plant and equipment	22.3	8.2
Total	23.1	8.8

21. Cash inflow from operations

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m
Profit for the period	42.1	99.6
Adjustments for:		
Finance income (note 7)	(0.9)	(1.6)
Finance costs (note 7)	17.3	15.3
Tax	4.5	16.2
Depreciation (note 13)	19.2	16.4
Amortisation and impairment losses (note 12)	71.9	62.6
Loss on disposal of property, plant and equipment	0.8	-
Financial instruments – loss/(gain) (note 6)	50.8	(8.0)
Retirement benefit obligation deficit payments (note 17)	(11.1)	(14.8)
Share-based payment expense	1.7	0.4
Changes in working capital	(107.2)	(34.7)
Cash inflow from operations	89.1	151.4

22. Movements in net debt

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m
At 1 January	1,053.1	575.5
Free cash outflow/(inflow)	32.7	(38.1)
Business acquisition expenses	1.1	0.1
Business acquired	(0.6)	(0.3)
Business disposed	(2.3)	(0.8)
Dividends paid to Company's shareholders (note 10)	75.8	75.6
Purchase of own shares	-	7.7
Share buyback – purchased	-	102.0
Net cash generated - outflow	106.7	146.2
Exchange rate adjustments	107.8	(11.2)
Other non-cash movements	9.1	1.1
At 30 June	1,276.7	711.6

Disclosed as:

Bank and other borrowings – current (note 14)	15.3	25.4
Bank and other borrowings – non-current (note 14)	1,316.5	776.2
Obligations under finance leases – current	-	0.1
Obligations under finance leases – non-current	6.1	5.2
Cash and cash equivalents	(61.2)	(95.3)
At 30 June	1,276.7	711.6

23. Components of other comprehensive income

	Six months ended 30 June 2016 £m	Six months ended 30 June 2015 £m
Movement in fair value	(1.6)	(1.2)
Transferred to income statement	0.3	0.4
Cash flow hedge movements – loss	(1.3)	(0.8)



24. Business combinations

On 25 November 2015, the Group acquired the advanced composites businesses of Cobham plc (“Advanced Composites”) for USD 200 million in cash, subject to an adjustment for working capital in the business at completion. The acquisition comprised 100% of the voting rights of Cobham Advanced Composites Limited and Cobham Composites Products Inc. together with certain assets of Cobham Advanced Electronic Solutions Inc.

On 21 December 2015, the Group acquired 100% of the voting rights in EDAC Composites LLC (“EDAC”), the owner and operator of the former EDAC composites business, formerly known as Parkway Aerospace & Defense, from Greenbriar Equity Group and other associated sellers for USD 340 million in cash.

The difference between the book value of acquired net assets and consideration for both acquisitions has been provisionally recognised as goodwill. During the second half of 2016, the Group will finalise the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed, with any corresponding adjustment necessary being made to the value of goodwill recognised.

During the second half of 2015, the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed of Precision Engine Controls Corporation, which was acquired on 31 December 2014, were finalised. The income statement comparatives for the period ended 30 June 2015 have not been restated to reflect the impact had the adjustments to record the fair values been reflected at the date of acquisition, as the impact is not considered material. Had the income statement been restated, there would have been no impact on underlying profit before tax for the period and statutory profit before tax would have been £2.6 million lower.

25. Approval of interim management report

The interim management report was approved by the Board of Directors on 1 August 2016.

26. Availability of interim management report

The interim management report will be available on the Group’s website www.meggitt.com from 2 August 2016. Paper copies of the report will be available to the public from the Company’s registered office at Atlantic House, Aviation Park West, Bournemouth International Airport, Christchurch, Dorset, BH23 6EW.

Risks and uncertainties

The Group disclosed in its Annual Report and Accounts 2015 the principal risks and uncertainties to which the Group is exposed.

The risks relate to those arising from fundamental changes in the Group’s business model, reduced demand for the Group’s products, not aligning technology strategies with customer requirements, failure to integrate effectively acquisitions, equipment fault, failure to meet customers’ cost, quality and delivery standards, IT/systems failure, supply chain management, failure to meet new product development and programme milestones and certification requirements, legal and regulatory matters and changes in tax legislation. Further details can be found in the ‘Principal risks and uncertainties’ section of the Annual Report and Accounts 2015 on pages 26 to 28 together with details of strategies adopted to mitigate these exposures.

Economic and political uncertainty has followed the UK referendum decision to withdraw from the EU and is expected to continue for some time. In the short term, the weakening of sterling against the Group’s primary trading currencies is creating a favourable translation impact on financial performance. In the longer term, the Group currently has no reason to expect the withdrawal to have a significant impact on its financial performance beyond currency fluctuations. The Group however continues to monitor developments closely in order to understand any potential impacts and to develop appropriate responses.

The Group’s existing principal risks include a risk relating to reduced demand for the Group’s products, arising from significant political or economic events. Other risks monitored by management following the Brexit decision, including pension funding strain, tax and currency sensitivity are being managed separately but the potential adverse impact of each is not currently considered significant. Accordingly, the Group believes the risks disclosed in the 2015 Annual Report continue to be relevant and are not expected to change over the remainder of the year.



STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors confirm that to the best of their knowledge:

- this condensed set of consolidated interim financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union;
- the interim management report (including the interim financial statements, management report and responsibility statements) includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:
 - an indication of important events that have occurred during the six months ended 30 June 2016 and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
 - material related party transactions in the six months ended 30 June 2016 and any material changes to the related party transactions described in the last annual report.

By order of the Board:

S G Young
Director
1 August 2016

D R Webb
Director
1 August 2016

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