Press information

MEGGITT

5 August 2014

Meggitt PLC
2014 Interim results

Strong orders in a challenging market

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 2014.

Group headlines

£m	**H1 2014**	H1 2013	% change	
			Reported	Organic[1]
Orders	**782.7**	778.7	+1	+9
Revenue	**718.9**	810.1	-11	-3
Underlying[2]:				
EBITDA[3]	**188.5**	233.1	-19	-14
Operating profit	**151.4**	193.3	-22	-17
Profit before tax	**143.8**	182.4	-21	-17
Earnings per share (p)	**14.0**	18.1	-23	
Statutory:				
Operating profit	**110.7**	139.2	-20	
Profit before tax	**98.2**	122.4	-20	
Earnings per share (p)	**10.2**	13.0	-22	
Free cash flow	**20.5**	11.5	+78	+73
Net debt	**568.3**	700.9	-19	
Dividend (p)	**4.25**	3.95	+8	

- Good order intake: book to bill of 1.1x supports growth in H2, with order growth across all end markets.
- Continued revenue growth in civil aerospace offset by currency (£53m), disposals (£15m) and weaker military performance.
- Reduced operating margin from unusually high second-half revenue weighting and unfavourable mix.
- Continued investment in future growth: Total R&D spend at 10.0% of revenue.
- Excellent progress made on deployment of the Meggitt Production System
    - Launched at 24 sites, 60% of manufacturing footprint;
    - Defective parts per million reduced by 78%;
    - On-time delivery improved by 15%.
- Good working capital management, further progress expected in second-half.
- Strong balance sheet: net debt at 1.3x EBITDA.
- Interim dividend increased by 8%.

1. Organic numbers exclude the impact of acquisitions, disposals and foreign exchange.
2. Underlying profit and EPS are used by the Board to measure the trading performance of the Group and exclude the amortisation of acquired intangibles, operating exceptional items and the marking to market of financial instruments, as set out in notes 4 and 9.
3. Underlying EBITDA represents underlying operating profit adjusted to add back depreciation and amortisation.

Stephen Young, Chief Executive, commented:

"Performance in the first half was mixed, with very strong orders but weaker than expected military revenue. Group revenue was lower due to the well-trailed impacts of currency, disposals and an unusually high second-half weighting this year, which also impacted our margin. Orders growth of 9%, including 17% growth in civil aftermarket orders, gives us confidence in a good second half organic revenue and margin recovery, although currency will remain a drag.

"The Group made excellent progress in rolling out its operational improvement programme, and has pulled forward plans to roll out some key elements to the supply chain. R&D was at record levels as we deliver on the record number of contracts won in recent years.

"Reflecting our continuing confidence in the prospects for the Group, the interim dividend has been increased by 8% to 4.25 pence."

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GROUP OVERVIEW

Meggitt is a global engineering company specialising in high-performance components and sub-systems for aerospace, defence and energy markets. We have a broad-based and well balanced portfolio, with equipment on over 60,000 aircraft and numerous ground vehicles and energy applications worldwide. This significant and expanding installed base provides us with an aftermarket revenue stream stretching out for decades. Our high levels of embedded intellectual property and strong customer relationships are enabling us to continue to win good positions on new more fuel efficient platforms, normally on a sole source basis, strengthening our future original equipment and aftermarket revenue growth.

Our capability-based Group structure is tailored to the requirements of our customers and, following the completion of integration activities from the Pacific Scientific acquisition, we incorporated the fire protection and power businesses into our Control Systems and Sensing Systems divisions respectively. Our ongoing commitment to invest in the technologies and people needed to achieve world-class performance across our businesses underpins the 6 to 7% medium-term organic revenue growth target we set in 2010, assuming no further significant US military budget cuts.

The increased focus on operational efficiency and programme management, as part of the Meggitt Production System, will make us ever more attractive as a supplier of choice to meet the changing needs of our customers.

The Group continues to identify and act on opportunities to improve operating efficiencies, enabling us to fund future technology development programmes and respond to changing customer requirements. Examples of this include strategic procurement, where we have significantly grown our procurement activity in emerging markets over the last few years, and manufacturing optimisation activities which have resulted in a reduction in the total number of operating facilities across the Group. We have also expanded our emerging market manufacturing footprint, where we continue to move product lines from high cost locations into our facilities in Mexico, China and Vietnam. During the period, we have accelerated implementation of the supply chain elements of the Meggitt Production System (MPS) which, coupled with the optimisation of the Group's manufacturing footprint, will enable us to continue to drive consistently high levels of quality, cost and delivery performance across all of our businesses.

HEADLINE FINANCIALS

Orders grew organically by 9% in the first half, with the principal contributors being civil aftermarket at 17% and civil OE at 11%. All end markets saw positive order momentum, and book to bill at a Group level was 1.1x. While not all these orders will generate revenue this year, they give us confidence in delivering the good growth anticipated in the second half.

Group revenue in the first half of £718.9m (2013: £810.1m) represents an 11% decline versus the equivalent period in 2013, analysed in the table below:

	£m	% impact
2013 Revenue	810.1	
Currency	(52.6)	-6
Net business disposals	(14.8)	-2
Organic decline	(23.8)	-3
2014 Revenue	718.9	-11

As expected, currency and disposals had a significant impact on first half revenue. Currency headwinds, reflecting the strengthening of Sterling against the Group's major reporting currencies of US Dollar, Swiss Franc and Euro, contributed over 6% to the decline, of which £42.9m (5%) is attributable to Sterling/US Dollar. Disposals represented an additional net headwind of £14.8m, primarily reflecting the 2013 disposals of the Addison and Sunbank businesses. In the first half, good growth in civil was more than offset by a softening in military revenue, resulting in a 3% organic decline in Group revenue, a little weaker than expected.

The Board's preferred measure of the Group's trading performance is underlying profit. The adjustments between underlying profit and statutory profit are described in notes 4 and 9. Underlying operating profit for the first six months was £151.4m (2013: £193.3m), representing a margin of 21.1% (2013: 23.9%). Of the 280 basis point decline, a combination of product mix and the unusually high second half revenue weighting contributed 175 basis points, much of which is expected to reverse in the second half. A further 63 basis point impact arose from lower profitability on three contracts, with the remaining 42 basis points arising from other items including new product introduction and accelerated MPS costs, offset by a 20 basis point improvement from the disposal of lower margin businesses.

Underlying net finance costs decreased to £7.6m (2013: £10.9m) as a result of lower average debt and lower interest rates following the repayment of $180m of US private placement debt in June 2013.

Underlying profit before tax was £143.8m (2013: £182.4m).

The underlying tax rate was 22% (2013: 22%) and underlying earnings per share was 14.0 pence (2013: 18.1 pence).

On a statutory basis, profit before tax was £98.2m (2013: £122.4m) and earnings per share was 10.2p (2013: 13.0p).

Reflecting our ongoing confidence in the medium term outlook for the Group, the interim dividend is increased by 8% to 4.25p (2013: 3.95p).

The Group's cash flow each year is significantly second-half weighted. Free cash flow of £20.5m (2013: £11.5m) demonstrates a solid improvement in working capital versus 2013 despite the greater than normal weighting of revenue in the second half of 2014.

The improvement in net cash outflow to £18.1m (2013: outflow of £24.2m) is primarily as a result of the better free cash flow in the period. The cash impact of the market purchase of £5.6m of Meggitt shares to satisfy Group long-term incentive plans (2013: £Nil) and the non-recurrence of the proceeds from the sale of the Addison business (2013: £26.4m) were largely offset by higher take-up of the scrip dividend.

There are two main financial covenants in our banking agreements. The net debt/EBITDA ratio, which must not exceed 3.5x, remained steady at 1.3x at 30 June 2014 (2013: 1.3x) and interest cover, which must be not less than 3.0x, was a very strong 23.4x (2013: 19.1x). The Group has, therefore, significant headroom against both key covenant ratios.

The Group has £467m of undrawn headroom against committed bank facilities, with no refinancing required before 2016.

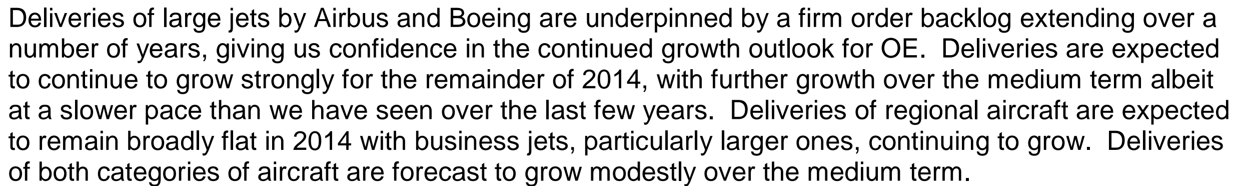
TRADING SUMMARY

	H1 Revenue		H1 Growth	
	2014 £m	2013 £m	Reported %	Organic %
Civil OE	149.1	152.5	-2	+9
Civil AM	199.0	212.5	-6	+2
Total civil aerospace	**348.1**	**365.0**	**-5**	**+5**
Military	237.4	305.4	-22	-13
Energy	79.6	83.6	-5	-2
Other	53.8	56.1	-4	-2
Total	**718.9**	**810.1**	**-11**	**-3**

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 19,000 aircraft, the regional aircraft fleet over 6,000 and business jets over 16,000. The Group has products on virtually all these platforms and hence a very large, and growing, installed base. The split of civil revenues, which account for 48% of the Group total, is 57% aftermarket and 43% original equipment (OE).

Total civil aerospace revenues grew 5% on an organic basis. There was strong growth in large and regional aircraft OE, driving organic growth of 9%. Aftermarket continued to grow in the first half, albeit with significant month-to-month variation. The rate of improvement slowed a little in the second quarter, growing at 1.2% against 3.5% in the first quarter. This reflects a continuation of the patchy improvement in aftermarket we reported at the full year 2013 results, with some shorter cycle businesses coming back strongly while others, particularly those which have seen an impact from parting out of older aircraft, have yet to recover. Importantly, aftermarket orders grew by 17% on an organic basis during the first half underscoring our confidence in accelerating revenue growth through the remainder of the year. We have been awarded some notable contracts in the period, including full ATA26 fire protection and control systems on Boeing's newest family of single-aisle aircraft, the Boeing 737MAX, wheels and brakes on the recently launched Dassault Falcon 8X business jet and condition monitoring equipment on a new, as yet undisclosed, aero engine where we can add significant value with our high level of diagnostic capability packaged in a new low cost, light weight system.



Deliveries of large jets by Airbus and Boeing are underpinned by a firm order backlog extending over a number of years, giving us confidence in the continued growth outlook for OE. Deliveries are expected to continue to grow strongly for the remainder of 2014, with further growth over the medium term albeit at a slower pace than we have seen over the last few years. Deliveries of regional aircraft are expected to remain broadly flat in 2014 with business jets, particularly larger ones, continuing to grow. Deliveries of both categories of aircraft are forecast to grow modestly over the medium term.

Available seat kilometres (ASKs), a good proxy for air traffic which is a key driver of the demand from airlines for spares and repairs on large and regional aircraft, grew at 4.5% in 2013. Year to date trends suggest these will be above the long term trend rate of 5% in 2014. Business jet utilisation in the US and Europe has grown at around 3% so far in 2014, and our higher value content and growing market share should continue to drive revenue growth over the medium term.

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

Military

Our military business accounts for 33% of the Group's revenues. We have equipment on an installed base of over 20,000 fixed wing and rotary aircraft and a significant number of ground vehicles and training applications. Direct sales to US customers account for 57% of military revenue, with 29% to European customers and 14% to the rest of the world.

Military revenues declined by 13% on an organic basis. This was in part due to the previously announced wind-down of two retrofit programmes in the first half of 2013, with the remainder driven by the impact of the ongoing drawdown in Afghanistan and timing issues including a lack of availability of US government inspectors who are required to release shipments from our factories.

The Group won some significant contracts during the first half of 2014, including a major package of seals and associated components for the KC390 platform within our Polymers and Composites business, and the ESTII virtual training contract for the US Department of Defense from our US Training Systems business with an estimated value of $99m, although this is currently subject to a formal protest by one of the other bidders.

Our OE revenues are generated from a broad range of platforms and applications, with good positions on key platforms such as Typhoon, F-35, Rafale, E/F-18 Hornet and BlackHawk.

The outlook for defence expenditure in the US, our single most important military market, remains uncertain given troop withdrawals and a lack of clarity over equipment reset plans. However, we expect an easing of the headwinds experienced in the first half resulting in a broadly flat year-on-year performance in the second half of 2014.

Energy and other

Other revenues (19% of Group total) come from a variety of end markets, of which the most significant is energy (11% 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, test, consumer goods and medical sectors.

Energy revenue declined by 2% on an organic basis in the period, reflecting the tough comparator from the same period in 2013 when our energy businesses grew by 22%. Our condition monitoring business was the primary contributor to the decline, being impacted by the previously disclosed lack of available tourmaline, an important raw material. We continue to work on the introduction of new sensors which do not require high-grade tourmaline, and we have active engagement from the majority of our customers, some of whom are now using the new sensors in their products.

Heatric saw modest organic growth in the first half despite the tough comparator. Heatric's local content provider in Brazil, however, has filed for protection from its creditors in July. We are implementing contingency plans but there will be some impact on revenue growth and costs in the second half, the quantum of which is uncertain at this stage. We have assumed $25m to $30m of revenue is deferred to 2015 in our revised guidance for 2014. Our energy businesses have grown organically by over 90% since 2009, and despite the tourmaline driven decline in the first half of 2014, we remain confident in our medium term expectation of greater than 10% average organic revenue growth per annum driven by new products in the condition monitoring market and the strong pipeline of new business opportunities for Heatric.

OPERATIONAL HIGHLIGHTS

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

£m								
Revenue					Underlying Operating Profit			
2014	2013*	% Growth Reported	% Growth Organic		2014	2013*	% Growth Reported	% Growth Organic
150.3	159.2	-6	+2	Aircraft Braking Systems	**56.3**	56.2	0	+5
162.5	189.4	-14	-5	Control Systems	**44.2**	57.8	-24	-18
76.9	93.0	-17	-11	Polymers & Composites	**10.0**	16.6	-40	-38
188.0	200.5	-6	-1	Sensing Systems	**21.7**	34.0	-36	-30
141.2	168.0	-16	-4	Equipment Group	**19.2**	28.7	-33	-33
718.9	**810.1**	**-11**	**-3**	**Total Group**	**151.4**	**193.3**	**-22**	**-17**

* 2013 comparators have been restated to reflect the new divisional structure.

Meggitt Aircraft Braking Systems (MABS) provides wheels, brakes and brake control systems for over 30,000 in-service aircraft. It continues to develop innovative technology for new programmes allowing the business to retain its leading positions in its target markets, underscored by the recent programme award on the Dassault Falcon 8X business jet. The division targets sole-source programmes and is particularly strong in regional aircraft, large business jets and military aircraft. The division represents 21% of total Group revenue, generating 85% of its revenue from the aftermarket and 15% from OE sales.

MABS' revenue grew by 2% on an organic basis in the first half, with growth in civil and military markets across both OE and aftermarket. Regional aftermarket grew 3% driven by continued improvement in regional aircraft utilisation rates, and bizjet aftermarket grew by 8%. These were partially offset by a 6% decline in large jet aftermarket. Operating margins grew from 35.3% to 37.5%, benefiting from positive mix and operating efficiencies.

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 23% of total Group revenue, generating 48% of its revenue from OE and 52% from the aftermarket.

For MCS, revenue declined 5% on an organic basis, with 6% growth in civil aerospace being more than offset by a 26% decline in military, primarily aftermarket. The primary contributors to the military performance were a very strong first half in 2013, the lack of availability of government inspectors, and more general aftermarket softness related to the withdrawal from Afghanistan. We expect a substantial second half recovery in military revenue, including recovery from the short-term timing effects. The volume decline and an unfavourable mix in civil saw operating margins decrease from 30.5% to 27.2%.

Meggitt Polymers & Composites (MPC) has a bias towards military, representing 53% of its sales. It supplies flexible bladder fuel tanks, ice protection products and composite assemblies for a range of fixed wing and rotorcraft platforms and complex seals packages for civil and military platforms. These markets are linked by their dependence on similar materials technology and manufacturing processes. It supplies over 80% of the US military requirements for fuel bladders and ballistically-resistant and crashworthy fuel tanks. MPC represents 11% of total Group revenue and generated 57% of its revenue from OE and 43% from the aftermarket.

MPC revenue declined by 11% on an organic basis, driven largely by the wind-down of the Bradley and KC135 retrofit programmes completed in 2013. This was partially offset by modest growth in civil aerospace seals, both OE and aftermarket. Operating margins declined from 17.8% to 13.0% due to lower volumes in the fuel bladder facility and high levels of up-front new product introduction costs ahead of production ramp-up on upcoming aircraft programmes over the next few years.

Meggitt Sensing Systems (MSS) designs and manufactures highly engineered sensors to measure a variety of parameters such as vibration, temperature, pressure, fluid level and flow. 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. Sensors are combined into broader electronics packages, providing condition data to operators and maintainers of engines, contributing to improved safety and lower operating costs. MSS has migrated these products into other specialist markets requiring similar capabilities, such as test and measurement, automotive crash test and medical. Combining its capabilities with MABS, it is currently developing a number of civil aerospace tyre pressure monitoring system contracts. MSS also manufactures power storage, conversion and distribution systems for aerospace applications. MSS represents 26% of total Group revenue and generated 82% of its revenue from OE and 18% from the aftermarket.

MSS revenue was broadly flat in the first half on an organic basis, with 5% growth in civil, predominantly OE, offsetting a 9% decline in military and an 11% decline in energy. The military decline reflected disruption linked to the US site consolidation in 2013, as well as the shortage of tourmaline which impacted both military and energy growth. Operating margins decreased from 17.0% to 11.5% reflecting both growth and adverse mix in the lower margin civil OE revenue stream, the significant H2 revenue phasing and additional costs incurred as a result of the tourmaline shortage.

Meggitt Equipment Group (MEG) comprises principally our avionics, non-engine actuation, dedicated military and Heatric businesses. The division represents 19% of total Group revenue and generates 80% of its revenue from OE and 20% from the aftermarket.

Revenue in MEG declined by 4% on an organic basis. Modest growth in Heatric against a tough comparator and good growth in civil aerospace were more than offset by declines in military, largely driven by lower international training revenue in the period. Operating margins decreased from 17.1% to 13.6%, driven by product mix, investment in strengthening the Heatric business for future growth and lower profitability on three contracts.

INVESTING FOR THE FUTURE

£m		**H1 2014**	H1 2013	% change	
				Reported	Organic
Total research and development		**72.0**	67.3	7	14
Of which:	Customer funded	**12.1**	9.7	25	31
	Capitalised	**37.9**	35.3	7	15
Charge to income statement		**27.2**	28.6	(5)	1
Programme participation costs		**19.8**	19.3	3	10
Capital expenditure		**22.1**	36.3	(39)	(35)

Developing and owning intellectual property is fundamental to Meggitt's successful strategy. Total research and development expenditure in the six months to June 2014 was £72.0m or 10.0% of revenues (2013: £67.3m, 8.3%), of which 17% (2013: 14%) was funded by customers. Capitalised development in the first half was £37.9m (2013: £35.3m).

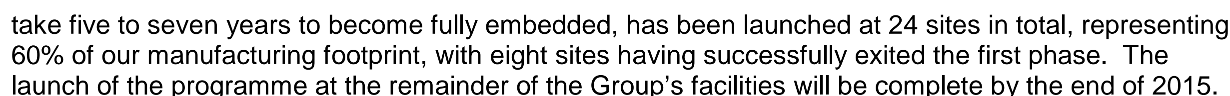
Targeted investment in technology development remains critical to our long-term organic growth. Growth in R&D in the first half largely reflects our impressive win rate on new programmes, as well as our ongoing investment in new technology aligned to our customers' future technology requirements. Roughly a quarter of the expenditure in the first half was on new wheels and brakes programmes and over 40% focused on products for engines and engine accessories, including development of the new light weight condition monitoring system referenced earlier. These two categories support future revenues exceeding £10bn. The balance was spread across a range of civil, military and energy applications including some spend resulting from the strong order intake in the period.

Meggitt investment in supplying equipment free of charge to new aircraft and making programme participation contributions, mostly in the Aircraft Braking Systems business, increased by 10% organically. This increased investment reflects the accelerating pace of deliveries on programmes equipped with our wheels and brakes, and is anticipated to grow further over the medium term. These programmes will drive aftermarket revenue for decades.

Capital expenditure on property, plant and equipment and intangible assets was £22.1m (2013: £36.3m), with the phasing of 2013 expenditure affected by site consolidations and expansions. We anticipate an acceleration in expenditure in the second half driven by further investment in Heatric capacity expansion and the increasing movement of production to low cost manufacturing locations.

DRIVING ORGANIC GROWTH THROUGH OPERATIONAL EXCELLENCE

The Meggitt Production System, 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 the elimination of the cost of poor quality. MPS, a six-phase programme which will



take five to seven years to become fully embedded, has been launched at 24 sites in total, representing 60% of our manufacturing footprint, with eight sites having successfully exited the first phase. The launch of the programme at the remainder of the Group's facilities will be complete by the end of 2015.

We have already seen some significant improvements in quality and delivery, with defective parts per million down 78% and on-time delivery up by 15%. Given the demonstrable success we have seen internally, we have accelerated the planned deployment of the key tools and competencies to long term partners in our supply chain.

RETIREMENT BENEFIT SCHEMES

Scheme deficits increased in the period from £238.1m (at December 31, 2013) to £260.9m driven by a decrease in AA corporate bond yields, which are used to discount scheme liabilities, more than offsetting good underlying investment returns and deficit reduction payments.

The Group made deficit reduction payments in the period of £16.4m (2013: £11.9m). Deficit payments on US schemes are driven principally by regulation, and the increase in payments to the UK schemes are in accordance with the repayment plan agreed with the trustees following the completion of the triennial actuarial valuation during the first half of 2013. Deficit reduction payments are expected to remain at current levels for the remainder of the year.

BOARD OF DIRECTORS

During the first half of 2014, David Robins retired from his position as Non-Executive Director following 12 years of outstanding service on the Board. As previously advised, Sir Colin Terry has announced his intention to retire as Chairman of the Board at the date of next year's AGM, and a search for his successor has commenced.

GROUP OUTLOOK

The outlook for our civil markets remains encouraging. Production of large jets is expected to continue to grow in the medium term, and the relatively high shipset values we enjoy on the latest generation of widebody aircraft, together with our positions on the re-engined narrowbodies, should underpin organic civil OE revenue growth over the medium term in line with our previously published expectation of an average of 7 to 8% per year. Available seat kilometres, the key driver of our large and regional jet aftermarket, are growing at above the long-term trend, and aftermarket order intake grew 17% in the first half. We continue to expect that aftermarket growth, even allowing for short term variability, will return to more normal levels during the second half of 2014.

In the military market, uncertainties around US DoD spending, government inspectors and the impact of the withdrawal from Afghanistan persist, although we have seen a book to bill exceeding 1.2x in the first half of 2014 which suggests a recovery in the 2nd half. As a result of the weaker than expected first half, we are revising our full-year military guidance from a low single digit decline to a mid single digit decline, driven largely by a reduction in the relatively higher margin aftermarket businesses. We continue to anticipate a return to slow growth in the medium term, underpinned by strong sole source positions on a broad range of workhorse platforms and a growing installed base.

Our energy businesses, driven by heightened demand for our printed circuit heat exchangers and increasing market share in condition-monitoring equipment, should continue to deliver revenue growth averaging greater than 10% over the medium term. The lack of availability of tourmaline and the slippage of deliveries into 2015 at Heatric due to financial difficulties at our Brazilian local content provider will hold back growth through 2014. Other markets should see modest growth.

On the basis of the above, the Group now expects good organic revenue growth in the second half, resulting in full year organic revenue growth in the low single digits while reported revenue will also include the adverse impact of currency and business disposals.

CONDENSED CONSOLIDATED UNAUDITED INCOME STATEMENT
For the six months ended 30 June 2014

	Notes	**Six months ended 30 June 2014**	Six months ended 30 June 2013
		£m	£m
Revenue	3	**718.9**	810.1
Cost of sales		**(437.7)**	(470.2)
Gross profit		**281.2**	339.9
Net operating costs		**(170.5)**	(200.7)
Operating profit[1]	4	**110.7**	139.2
Finance income	7	**0.1**	1.4
Finance costs	7	**(12.6)**	(18.2)
Net finance costs		**(12.5)**	(16.8)
Profit before tax[2]		**98.2**	122.4
Tax	8	**(16.6)**	(20.1)
Profit for the period attributable to equity owners of the Company		**81.6**	102.3
Earnings per share:			
Basic[3]	9	**10.2p**	13.0p
Diluted[4]	9	**10.0p**	12.8p

		Notes	2014	2013
1	Underlying operating profit	3 & 4	**151.4**	193.3
2	Underlying profit before tax	4	**143.8**	182.4
3	Underlying basic earnings per share	9	**14.0p**	18.1p
4	Underlying diluted earnings per share	9	**13.8p**	17.8p

CONDENSED CONSOLIDATED UNAUDITED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2014

	Notes	**Six months ended 30 June 2014 £m**	Six months ended 30 June 2013 £m
Profit for the period		**81.6**	102.3
Items that may be reclassified to the income statement in subsequent periods:			
Currency translation differences	23	**(48.8)**	86.9
Cash flow hedge movements	23	**(0.9)**	2.6
Tax effect		**0.3**	(0.6)
		(49.4)	88.9
Items that will not be reclassified to the income statement in subsequent periods:			
Remeasurement of retirement benefit obligations		**(36.8)**	34.4
Tax effect		**8.7**	(12.3)
		(28.1)	22.1
Other comprehensive (expense)/income for the period		**(77.5)**	111.0
Total comprehensive income for the period attributable to equity owners of the Company		**4.1**	213.3

CONDENSED CONSOLIDATED UNAUDITED BALANCE SHEET
As at 30 June 2014

	Notes	**30 June 2014 £m**	31 December 2013 £m
Non-current assets			
Goodwill	12	**1,419.5**	1,457.1
Development costs	12	**296.6**	270.5
Programme participation costs	12	**213.5**	210.6
Other intangible assets	12	**657.3**	707.3
Property, plant and equipment	13	**239.8**	245.5
Trade and other receivables		**83.0**	89.9
Derivative financial instruments	15	**38.1**	35.5
Deferred tax assets		**8.0**	9.1
		2,955.8	3,025.5
Current assets			
Inventories		**327.0**	299.2
Trade and other receivables		**321.9**	328.9
Derivative financial instruments	15	**10.6**	11.2
Current tax recoverable		**2.8**	2.8
Cash and cash equivalents	22	**74.6**	116.1
		736.9	758.2
Total assets	3	**3,692.7**	3,783.7
Current liabilities			
Trade and other payables		**(313.6)**	(329.1)
Derivative financial instruments	15	**(0.3)**	(0.7)
Current tax liabilities		**(43.7)**	(40.6)
Obligations under finance leases	22	**(0.1)**	(2.4)
Bank and other borrowings	14	**(67.9)**	(7.2)
Provisions	16	**(36.3)**	(44.3)
		(461.9)	(424.3)
Net current assets		**275.0**	333.9
Non-current liabilities			
Trade and other payables		**(4.9)**	(5.2)
Derivative financial instruments	15	**(0.1)**	(0.1)
Deferred tax liabilities		**(208.6)**	(219.3)
Obligations under finance leases	22	**(4.8)**	(5.1)
Bank and other borrowings	14	**(570.1)**	(666.0)
Provisions	16	**(137.6)**	(149.2)
Retirement benefit obligations	17	**(260.9)**	(238.1)
		(1,187.0)	(1,283.0)
Total liabilities		**(1,648.9)**	(1,707.3)
Net assets		**2,043.8**	2,076.4
Equity			
Share capital		**40.3**	39.9
Share premium		**1,202.7**	1,166.3
Other reserves		**14.1**	14.1
Hedging and translation reserves		**33.3**	82.7
Retained earnings		**753.4**	773.4
Total equity attributable to owners of the Company		**2,043.8**	2,076.4

CONDENSED CONSOLIDATED UNAUDITED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2014

	Share capital	Share premium	Other reserves	Hedging and translation reserves	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m
At 1 January 2013	39.3	1,143.9	14.1	117.9	590.2	1,905.4
Profit for the period	-	-	-	-	102.3	102.3
Other comprehensive income	-	-	-	88.9	22.1	111.0
Total comprehensive income for the period	-	-	-	88.9	124.4	213.3
Employee share option schemes:						
Value of services provided	-	-	-	-	14.7	14.7
Issue of equity share capital, net of transactions in own equity	0.2	0.4	-	-	(0.2)	0.4
Dividends (note 10)	-	1.9	-	-	(64.4)	(62.5)
At 30 June 2013	39.5	1,146.2	14.1	206.8	664.7	2,071.3
At 1 January 2014	**39.9**	**1,166.3**	**14.1**	**82.7**	**773.4**	**2,076.4**
Profit for the period	**-**	**-**	**-**	**-**	**81.6**	**81.6**
Other comprehensive expense	-	-	-	(49.4)	(28.1)	(77.5)
Total comprehensive (expense)/income for the period	**-**	**-**	**-**	**(49.4)**	**53.5**	**4.1**
Employee share option schemes:						
Value of services provided	-	-	-	-	1.9	1.9
Issue of equity share capital, net of transactions in own equity	-	0.1	-	-	(5.3)	(5.2)
Dividends (note 10)	0.4	36.3	-	-	(70.1)	(33.4)
At 30 June 2014	**40.3**	**1,202.7**	**14.1**	**33.3**	**753.4**	**2,043.8**

CONDENSED CONSOLIDATED UNAUDITED CASH FLOW STATEMENT
For the six months ended 30 June 2014

	Notes	**Six months ended 30 June 2014 £m**	Six months ended 30 June 2013 £m
Cash inflow from operations before exceptional operating items		**122.9**	147.2
Cash outflow from exceptional operating items	5	**(8.6)**	(5.0)
Cash inflow from operations	21	**114.3**	142.2
Interest received		**0.1**	0.1
Interest paid		**(8.1)**	(11.4)
Tax paid		**(6.1)**	(28.5)
Cash inflow from operating activities		**100.2**	102.4
Business disposed		**-**	26.4
Capitalised development costs	12	**(37.9)**	(35.3)
Capitalised programme participation costs	12	**(19.8)**	(19.3)
Purchase of intangible assets		**(7.4)**	(10.5)
Purchase of property, plant and equipment		**(16.8)**	(25.8)
Proceeds from disposal of property, plant and equipment		**2.1**	-
Cash outflow from investing activities		**(79.8)**	(64.5)
Dividends paid to Company's shareholders	10	**(33.4)**	(62.5)
Issue of equity share capital, net of transactions in own equity		**(5.2)**	0.4
Proceeds from borrowings		**40.8**	160.7
Repayments of borrowings		**(62.6)**	(154.7)
Cash outflow from financing activities		**(60.4)**	(56.1)
Net decrease in cash and cash equivalents		**(40.0)**	(18.2)
Cash and cash equivalents at start of the period		**116.1**	104.9
Exchange (losses)/gains on cash and cash equivalents		**(1.5)**	0.4
Cash and cash equivalents at end of the period	22	**74.6**	87.1

NOTES TO THE CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

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 2013 were approved by the Board of Directors on 3 March 2014 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 2014 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 2013. 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 2013.

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 2014. These rates have been applied to the pre-tax profits made in each jurisdiction for the six months ended 30 June 2014.

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. This 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 is yet to assess the full impact of IFRS 15 which becomes effective for accounting periods beginning on or after 1 January 2017. 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. On 7 May 2014, the Group announced that the Group divisional structure had been altered to reflect the following changes:

- The fire protection business has moved from Meggitt Equipment Group to Meggitt Control Systems; and
- The power businesses have moved from Meggitt Equipment Group to Meggitt Sensing Systems.

Prior period comparatives have been restated to reflect this new divisional structure. The key performance measure reviewed by the Chief Operating Decision Maker ('CODM') is underlying operating profit.

Six months ended 30 June 2014:

	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	150.3	162.9	77.4	189.6	142.5	722.7
Inter-segment revenue	-	(0.4)	(0.5)	(1.6)	(1.3)	(3.8)
Revenue	**150.3**	**162.5**	**76.9**	**188.0**	**141.2**	**718.9**
Underlying operating profit*	**56.3**	**44.2**	**10.0**	**21.7**	**19.2**	**151.4**

Six months ended 30 June 2013 (as restated):

	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	159.2	189.9	94.0	201.6	168.5	813.2
Inter-segment revenue	-	(0.5)	(1.0)	(1.1)	(0.5)	(3.1)
Revenue	159.2	189.4	93.0	200.5	168.0	810.1
Underlying operating profit*	56.2	57.8	16.6	34.0	28.7	193.3

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

Segment assets

	30 June 2014 £m	31 December 2013 Restated £m
Meggitt Aircraft Braking Systems	**516.5**	502.2
Meggitt Control Systems	**251.0**	242.0
Meggitt Polymers & Composites	**93.6**	87.8
Meggitt Sensing Systems	**318.3**	314.4
Meggitt Equipment Group	**198.7**	194.9
Total segmental trading assets	**1,378.1**	1,341.3
Centrally managed trading assets*	**177.5**	176.5
Goodwill (note 12)	**1,419.5**	1,457.1
Other intangible assets**	**583.5**	634.1
Derivative financial instruments – non-current (note 15)	**38.1**	35.5
Deferred tax assets	**8.0**	9.1
Derivative financial instruments – current (note 15)	**10.6**	11.2
Current tax recoverable	**2.8**	2.8
Cash and cash equivalents (note 22)	**74.6**	116.1
Total assets	**3,692.7**	3,783.7

* 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.

** Other intangible assets exclude software assets as these are included within trading assets reviewed by the CODM.

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 2014 £m	Six months ended 30 June 2013 £m
Operating profit	**110.7**	139.2
Exceptional operating items (note 5)	**4.3**	(6.4)
Amortisation of intangible assets acquired in business combinations (note 12)	**33.6**	39.2
Financial instruments (note 6)	**2.8**	21.3
Adjustments to operating profit*	**40.7**	54.1
Underlying operating profit	**151.4**	193.3
Profit before tax	**98.2**	122.4
Adjustments to operating profit per above	**40.7**	54.1
Net interest expense on retirement benefit obligations (note 7)	**4.9**	5.9
Adjustments to profit before tax	**45.6**	60.0
Underlying profit before tax	**143.8**	182.4
Profit for the period	**81.6**	102.3
Adjustments to profit before tax per above	**45.6**	60.0
Tax effect of adjustments to profit before tax	**(15.0)**	(20.0)
Adjustments to profit for the period	**30.6**	40.0
Underlying profit for the period	**112.2**	142.3

* Of the adjustments to operating profit, £2.7 million (2013: £3.7 million) relating to exceptional operating items has been charged to cost of sales with the balance of £38.0 million (2013: £50.4 million) included within net operating costs.

Underlying earnings per ordinary share ('EPS') for the period is 14.0p (2013: 18.1p) and diluted underlying EPS for the period is 13.8p (2013: 17.8p). See note 9 for the definition of underlying EPS and its reconciliation to basic EPS.

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 (see note 4), are classified as exceptional operating items.

		Income statement		**Cash expenditure**	
	Notes	**Six months ended 30 June 2014 £m**	Six months ended 30 June 2013 £m	**Six months ended 30 June 2014 £m**	Six months ended 30 June 2013 £m
Site consolidations	a	**3.8**	4.9	**3.9**	2.8
Gain on disposal of business	b	**-**	(14.0)	**-**	0.2
Raw material supply issue	c	**-**	-	**2.2**	-
Integration of acquired businesses		**0.7**	2.2	**0.8**	1.5
Business acquisition expenses		**0.2**	-	**0.2**	-
Other		**(0.4)**	0.5	**1.5**	0.5
Exceptional operating items		**4.3**	(6.4)	**8.6**	5.0

a. This relates to the consolidation of the Group's two North American sensor businesses onto a single new site in California, USA and the movement of production to the Group's low cost manufacturing locations.

b. On 23 May 2013, the Group disposed of the shares of Meggitt (Addison), Inc, and realised a profit of £14.0 million.

c. On 1 November 2013, the Group announced it had identified an issue relating to the supply from a vendor of non-conforming raw material in one of our businesses. A provision of £20.0 million was made for the estimated cost of this issue in the second half of 2013, including where necessary the replacement of the relevant parts over the next few years.

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 the derivatives and in the fair value of fixed rate borrowings is excluded from underlying profit (note 4).

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m
Movement in the fair value of foreign currency forward contracts	**(1.0)**	18.2
Impact of retranslating net foreign currency assets and liabilities at spot rates	**1.6**	(0.3)
Movement in the fair value of interest rate derivatives	**(2.3)**	12.7
Movement in the fair value of fixed rate borrowings (note 15)	**4.5**	(9.3)
Financial instruments – loss	**2.8**	21.3

7. Finance costs

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m
Interest on bank borrowings	**1.4**	1.3
Interest on senior notes	**6.1**	9.4
Interest on finance lease obligations	**0.5**	0.6
Unwinding of interest on provisions	**-**	1.3
Net interest expense on retirement benefit obligations (note 4)	**4.9**	5.9
Amortisation of debt issue costs	**0.6**	0.6
Less: amounts capitalised in the cost of qualifying assets (note 12)	**(0.9)**	(0.9)
Finance costs	**12.6**	18.2

Comparative figures for finance income and finance costs have both been reduced by £12.6 million. This change reflects the requirement under IAS 19 (Revised 2011), 'Employee benefits', to report a single figure for net interest expense on retirement benefit obligations, rather than to disclose the interest income on retirement benefit scheme assets and the interest expense on retirement scheme liabilities separately. The change does not affect previously reported figures for net finance cost, profit before tax (underlying or statutory) or the calculation of any covenant ratios under the Group's loan agreements.

8. Tax

The Finance Act 2013 included legislation to reduce the main rate of corporation tax in the UK from 23% to 21% with effect from 1 April 2014 and to 20% with effect from 1 April 2015. As these changes were substantively enacted in 2013, they were reflected in the prior period.

9. Earnings per ordinary share

Earnings per ordinary share ('EPS') is calculated by dividing the profit attributable to equity owners of the Company of £81.6 million (2013: £102.3 million) by the weighted average number of shares in issue during the period of 801.1 million (2013: 787.5 million).

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

	Six months ended 30 June 2014 pence	Six months ended 30 June 2013 pence
Basic EPS	**10.2**	13.0
Adjust for the effects of:		
Exceptional operating items	**0.4**	(0.7)
Amortisation of intangible assets acquired in business combinations	**2.7**	3.2
Financial instruments	**0.3**	2.1
Net interest expense on retirement benefit obligations	**0.4**	0.5
Underlying basic EPS	**14.0**	18.1

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 812.0 million (2013: 801.3 million).

Diluted underlying EPS for the period is 13.8p (2013: 17.8p). The calculation of diluted underlying 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 4.25p per ordinary share (2013: 3.95p) which will be paid on 3 October 2014 to shareholders on the register on 15 August 2014. A scrip dividend 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 scrip dividend will be 19 September 2014. As the dividend was approved by the directors after 30 June 2014, the dividend cost of £34.2 million (2013: £31.2 million) is not recorded as a liability at the balance sheet date.

During the period, the final dividend of 8.80p per ordinary share in respect of the year ended 31 December 2013 was paid (2013: 8.20p final dividend in respect of the year ended 31 December 2012). The total cost of the dividend was £70.1 million (2013: £64.4 million). Cash paid during the period in respect of the dividend, after taking account of the scrip element, was £33.4 million (2013: £62.5 million).

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, the Executive Board and the Operations Board, is set out below:

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m
Salaries and other short-term employee benefits	**2.9**	2.6
Retirement benefit expense	**0.2**	0.2
Share-based payment expense	**0.8**	2.3
Total	**3.9**	5.1

12. Intangible assets

	Goodwill £m	Development costs £m	Programme participation costs £m	Other intangible assets £m
At 1 January 2014	1,457.1	270.5	210.6	707.3
Exchange rate adjustments	(37.6)	(7.5)	(5.1)	(17.9)
Additions	-	37.9	19.8	6.5
Interest capitalised (note 7)	-	0.9	-	-
Amortisation	-	(5.2)	(11.8)	(38.6)*
At 30 June 2014	**1,419.5**	**296.6**	**213.5**	**657.3**

* Amortisation of other intangible assets includes £33.6 million (2013: £39.2 million) in respect of intangible assets arising 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. A full impairment review was conducted for the year ended 31 December 2013 and no impairment charge was required and the cumulative impairment charge recognised to date is £Nil (2013: £Nil).

13. Property, plant and equipment

	30 June 2014 £m	31 December 2013 £m
Land and buildings	**121.0**	128.6
Plant, equipment and vehicles	**118.8**	116.9
Net book amount	**239.8**	245.5

During the period, capital expenditure of £17.1 million was incurred and the net book value of disposals was £2.5 million.

14. Bank and other borrowings

	Current £m	Non-current £m	Total £m
At 1 January 2014	7.2	666.0	673.2
Exchange rate adjustments	(0.4)	(20.3)	(20.7)
Reclassification*	40.9	(40.9)	-
Proceeds from bank and other borrowings	24.2	16.6	40.8
Repayments of bank and other borrowings	(4.0)	(56.4)	(60.4)
Other non-cash movements	-	5.1	5.1
At 30 June 2014	**67.9**	**570.1**	**638.0**

Analysed as:

	30 June 2014 £m	31 December 2013 £m
Bank loans	**24.0**	3.9
Other loans	**43.9**	3.3
Total current	**67.9**	7.2
Bank loans	**199.3**	245.8
Other loans	**370.8**	420.2
Total non-current	**570.1**	666.0

* In June 2015, USD 70 million loan notes issued to private placement investors in 2003 fall due for repayment. These loan notes, which are all drawn, are therefore classified as current liabilities at 30 June 2014.

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 their book values due to the short maturity periods of these financial instruments. For trade and other receivables, allowances are made within the 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 2014 £m	31 December 2013 £m	**30 June 2014 £m**	31 December 2013 £m
Derivative financial instruments – non-current	**38.1**	35.5	**38.1**	35.5
Derivative financial instruments – current	**10.6**	11.2	**10.6**	11.2
Financial assets	**48.7**	46.7	**48.7**	46.7
Derivative financial instruments – current	**(0.3)**	(0.7)	**(0.3)**	(0.7)
Derivative financial instruments – non-current	**(0.1)**	(0.1)	**(0.1)**	(0.1)
Bank and other borrowings – non-current	**(570.1)**	(666.0)	**(579.8)**	(676.3)
Financial liabilities	**(570.5)**	(666.8)	**(580.2)**	(677.1)
Total	**(521.8)**	(620.1)	**(531.5)**	(630.4)

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 have been derived from forward interest rates based on yield curves observable at the balance sheet date together with the contractual interest 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. Similar methods of valuation have been used to derive the fair value of the non-current portion 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.

Cumulative 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 2014 £m	Six months ended 30 June 2013 £m
At 1 January	**7.0**	10.0
Charge to net operating costs	**(2.0)**	(1.6)
At 30 June	**5.0**	8.4

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 2014 £m	31 December 2013 £m
Fair value	**253.7**	256.8
Difference between fair value and contractual amount at maturity	**(19.8)**	(15.3)
Contractual amount payable at maturity	**233.9**	241.5

15. Financial Instruments – fair value measurement continued

Movements in the fair value of financial instruments classified as level 3 in the hierarchy are as follows:

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m
Bank and other borrowings at fair value through profit and loss:		
At 1 January	**256.8**	274.9
Exchange rate adjustments	**(7.6)**	16.5
Loss/(gain) recognised in net operating costs (note 6)	**4.5**	(9.3)
At 30 June	**253.7**	282.1

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 2014, would impact profit before tax by approximately £9.0 million.

16. Provisions

	30 June 2014 £m	31 December 2013 £m
Environmental, legal and regulatory*	**126.5**	140.7
Onerous contracts	**35.6**	40.2
Warranty costs	**11.8**	12.6
Total	**173.9**	193.5
Disclosed as:		
Current	**36.3**	44.3
Non-current	**137.6**	149.2
Total	**173.9**	193.5

* Included within trade and other receivables is £87.2 million (2013: £95.9 million) in respect of amounts recoverable from insurers and other third parties.

During the period, expenditure of £13.8 million was incurred in respect of these provisions.

17. Retirement benefit obligations

	30 June 2014 £m	31 December 2013 £m
Amounts recognised in the balance sheet:		
Present value of scheme liabilities	**973.6**	926.5
Fair value of scheme assets	**(712.7)**	(688.4)
Total	**260.9**	238.1
Analysis of retirement benefit obligations:		
Pension schemes	**211.9**	189.8
Healthcare schemes	**49.0**	48.3
Total	**260.9**	238.1
Key financial assumptions:		
UK Scheme:		
Discount rate	**4.30%**	4.60%
Inflation rate	**3.40%**	3.40%
Salary increases	**4.40%**	4.40%
Current life expectancy – Male aged 65 (years)	**21.9 to 23.6**	21.8 to 23.6
Overseas Schemes:		
Discount rate	**4.05%**	4.55%
Salary increases	**4.76%**	4.76%
Current life expectancy – Male aged 65 (years)	**19.3**	19.3

Cash contributions paid during the period were £22.7 million including deficit reduction payments of £16.4 million.

18. Issued share capital

	30 June 2014 No. m	31 December 2013 No. m
Allotted and fully paid	**805.6**	797.1

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 2014 £m	31 December 2013 £m
Contracted for but not incurred:		
Intangible assets	**1.2**	1.4
Property, plant and equipment	**9.6**	7.5
Total	**10.8**	8.9

21. Cash inflow from operations

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m
Profit for the period	**81.6**	102.3
Adjustments for:		
Finance income	**(0.1)**	(1.4)
Finance costs (note 7)	**12.6**	18.2
Tax	**16.6**	20.1
Depreciation	**15.1**	16.6
Amortisation (note 12)	**55.6**	62.4
Loss on disposal of property, plant and equipment	**0.4**	-
Gain on disposal of business (note 5)	**-**	(14.0)
Financial instruments (note 6)	**2.8**	21.3
Retirement benefit obligation deficit payments (note 17)	**(16.4)**	(11.9)
Share-based payment expense	**2.3**	7.7
Changes in working capital	**(56.2)**	(79.1)
Cash inflow from operations	**114.3**	142.2

22. Movements in net debt

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m
At 1 January	**564.6**	642.5
Free cash inflow	**(20.5)**	(11.5)
Business disposed	**-**	(26.4)
Dividends paid to Company's shareholders (note 10)	**33.4**	62.5
Issue of equity share capital, net of transactions in own equity	**5.2**	(0.4)
Net cash outflow	**18.1**	24.2
Exchange rate adjustments	**(19.5)**	42.9
Other non-cash movements (note 14)	**5.1**	(8.7)
At 30 June	**568.3**	700.9
Disclosed as:		
Bank and other borrowings – current (note 14)	**67.9**	11.0
Bank and other borrowings – non-current (note 14)	**570.1**	768.8
Obligations under finance leases – current	**0.1**	2.9
Obligations under finance leases – non-current	**4.8**	5.3
Cash and cash equivalents	**(74.6)**	(87.1)
Total	**568.3**	700.9

23. Components of other comprehensive income

	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m
Arising in the period	**(48.8)**	91.9
Transferred to income statement	**-**	(5.0)
Currency translation differences – (loss)/gain	**(48.8)**	86.9
Movement in fair value	**(1.3)**	2.6
Transferred to income statement	**0.4**	-
Cash flow hedge movements – (loss)/gain	**(0.9)**	2.6

24. Approval of interim management report

The interim management report was approved by the Board of Directors on 4 August 2014.

25. Availability of interim management report

The interim management report will be available on the Group's website www.meggitt.com from 5 August 2014. 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 2013 the principal risks and uncertainties which the Group is exposed to. These risks have not changed significantly over the period and are expected to continue to be relevant for the remaining six months of the year.

The risks include those arising from fundamental changes in the civil and military aftermarket, 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, IT and physical security and reduced demand for the Group's products. Further details can be found in the 'Principal risks and uncertainties' section of the Annual Report and Accounts 2013 on pages 15 to 17 together with details of strategies adopted to mitigate these exposures.

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 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 2014 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 2014 and any material changes to the related party transactions described in the last annual report.

By order of the Board:

S G Young	D R Webb
Director	Director
4 August 2014	4 August 2014

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