Press information

MEGGITT

4 August 2015

Meggitt PLC
2015 Interim results

Robust aerospace performance offsets energy challenges

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 2015.

Group headlines

£m		**H1 2015**	H1 2014	% change	
				Reported	Organic [1]
Orders		**775.3**	782.7	-1	-6
Revenue		**793.7**	718.9	+10	+3
Underlying[2]:					
	EBITDA[3]	**204.2**	188.5	+8	+3
	Operating profit	**160.2**	151.4	+6	+1
	Profit before tax	**152.0**	143.8	+6	+1
	Earnings per share (p)	**15.3**	14.0	+9	
Statutory:					
	Operating profit	**129.5**	110.7	+17	
	Profit before tax	**115.8**	98.2	+18	
	Earnings per share (p)	**12.5**	10.2	+23	
Free cash flow		**38.1**	20.6	+85	+79
Net debt		**711.6**	568.3	+25	
Dividend (p)		**4.60**	4.25	+8	

- Good organic revenue growth in civil aerospace (+5%) and military (+6%), partially offset by organic decline in energy (-18%).
- Operating margin reflects higher expensed R&D and further investment in new product introduction continuing from H2 last year.
- Significant investment in future growth: Total R&D spend at 9.9% of revenue.
- Excellent progress made on deployment of the Meggitt Production System
    - Launched at 36 sites – on course to complete all 45 site launches by the end of 2015.
    - Quality improved by 86%; on-time delivery up by 10% since inception
- Good working capital management driving a strong free cash flow performance – further improvement expected in second-half.
- Share buyback progressing in line with plan – 19.2 million shares purchased in H1.
- Strong balance sheet: net debt at 1.5x 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, exceptional operating items, costs related to M&A and disposals 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:

"First half revenue growth of 10% was in line with expectations, with military revenue stronger than expected offsetting the effect of challenging trading conditions in the energy market. We remain confident in delivering low to mid-single digit organic revenue growth for the full year, as guided at the beginning of the year.

"Over the last few years we have made important decisions to further improve our competitiveness in the markets we serve. With implementation of the Meggitt Production System we are delivering valued improvements in customer experience through enhanced quality and delivery and, while this will take several years to optimise fully, the experience we have gathered to date serves to increase our confidence that over the medium term it will drive further cost and working capital benefits.

"We are investing significant sums in research and development and new product introduction, both of which remain near cyclical highs. These investments are delivering highly visible, good quality revenue streams extending out for many decades.

Reflecting our continuing confidence in the prospects for the Group, the interim dividend has been increased by 8% to 4.60 pence."

Please contact

Stephen Young, Chief Executive
Doug Webb, Chief Financial Officer
Richard Cashin, Group Head of Investor Relations
Meggitt PLC
Tel: +44 1202 597597

Charles Ryland, Richard Oldworth or Helen Chan
Buchanan
Tel: +44 20 7466 5000

GROUP OVERVIEW

Meggitt is a global engineering Group 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 63,000 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.

Recent years have seen high levels of new platform announcements by aircraft manufacturers. The Group has been successful in securing positions on these platforms, resulting in elevated levels of development expenditure. While this development activity continues, we are now in the process of moving record numbers of new parts into production as the platforms enter service. This adds cost to the business in the near-term but represents a major enhancement of our in-service portfolio and will drive revenue for decades ahead.

Our capability-based Group structure is tailored to the requirements of our customers, and our increased focus on operational efficiency and programme management as part of the Meggitt Production System (MPS) will make us ever more attractive as a supplier of choice. Our customer focus was further enhanced at the beginning of the year by the creation of two key management positions with mandates to strengthen OE customer relationships and to evolve the way we provide products and services to aftermarket customers in response to a more dynamic market environment.

HEADLINE FINANCIALS

Orders declined organically by 6% in the first half, with civil aftermarket and military both having tough comparators from H1 2014 when we received significant orders from a major business jet customer and signed a number of military multi-year contracts. The 28% growth in civil original equipment orders demonstrates the typical variability in multi-year order placement rates.

Group revenue in the first half of £793.7m (2014: £718.9m) represents a 10% increase and is analysed in the table below:

	£m	% change
2014 Revenue	718.9	
Organic	20.7	+3
Currency	45.9	+6
PECC acquisition	8.2	+1
2015 Revenue	**793.7**	**+10**

Organic revenue growth of 3%, with good growth in civil and military end markets partially offset by weakness in energy, is consistent with our expectation of low to mid-single digit organic growth for the year. The currency tailwind reflects the relative strengthening of the US Dollar versus Sterling and the Euro, partly offset by the strengthening of Sterling versus the Euro. Precision Engine Controls Corporation (PECC) was acquired in December 2014.

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 £160.2m (2014: £151.4m), representing a margin of 20.2% (2014: 21.1%). The principal contributors to the margin decline were the full-year effect of the higher costs associated with new product introduction seen in the second half of 2014, an increase in expensed R&D and the impact of the 40% decline in revenue at Heatric, a relatively high fixed cost business. These were offset in part by improved efficiency and a modest improvement in mix from higher aftermarket revenue growth.

Underlying net finance costs increased to £8.2m (2014: £7.6m) as a result of higher average debt driven by the share buyback, partially offset by lower interest rates following the refinancing undertaken in September 2014.

Underlying profit before tax was £152.0m (2014: £143.8m).

The underlying tax rate was 20% (2014: 22%), with the reduction versus last year reflecting closure of a number of historical tax items. Our planning assumption remains 22% for future years assuming no

legislative changes, but we acknowledge increasing uncertainty in the longer term international tax environment. Underlying earnings per share was up 9% to 15.3 pence (2014: 14.0 pence).

On a statutory basis, profit before tax was up 18% to £115.8m (2014: £98.2m) and earnings per share was up 23% to 12.5p (2014: 10.2p).

Reflecting our ongoing confidence in the medium term outlook for the Group, the interim dividend is increased by 8% to 4.60p (2014: 4.25p).

The Group's cash flow each year is significantly second-half weighted. Free cash flow was 85% higher at £38.1m (2014: £20.6m) and demonstrates a solid improvement in working capital versus 2014, particularly in customer collections, more than offsetting increased investment and higher tax payments.

The increased net cash outflow of £146.2m (2014: outflow of £18.2m) reflects the share buyback (£102.0m, 19.2m shares) and an increase in cash dividends to £75.6m (2014: £33.4m) following the cancellation of the scrip dividend. Net debt at the end of the first half was £711.6m (2014: £568.3m).

There are two main financial covenants in our banking agreements. The net debt/EBITDA ratio, which must not exceed 3.5x, was 1.5x at 30 June 2015 (2014: 1.3x) and is on track to be at or slightly above 1.5x by the end of the year, consistent with guidance issued at the time of the commencement of the share buyback programme. Interest cover, which must be not less than 3.0x, was a very strong 20.7x (2014: 23.4x). The Group has, therefore, significant headroom against both key covenant ratios.

The Group has £243m of undrawn headroom against committed bank facilities, with no refinancing required before 2017.

TRADING SUMMARY

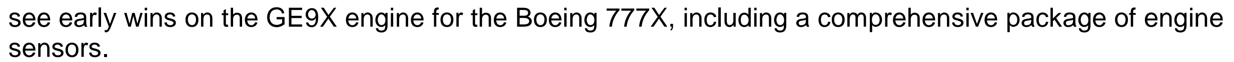
	H1 Revenue		H1 Growth	
	2015 £m	2014 £m	Reported %	Organic %
Civil OE	162.2	149.1	+9	+4
Civil AM	229.3	199.0	+15	+5
Total civil aerospace	**391.5**	**348.1**	**+12**	**+5**
Military	266.8	237.4	+12	+6
Energy	77.0	79.6	-3	-18
Other	58.4	53.8	+9	+6
Total	**793.7**	**718.9**	**+10**	**+3**

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 20,000 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, accounting for 49% of the Group total, is 59% aftermarket and 41% original equipment (OE).

Total civil aerospace revenue grew 5% on an organic basis. OE revenue grew 4%, underpinned by solid growth in large jets and business jets, partially offset by a modest decline in general aviation revenue. Civil aftermarket revenue grew 5% organically, with a continuation of the uneven improvement seen through 2014. The most significant contributor to aftermarket growth in the period was business jets, where revenue increased by over 20% with Meggitt Aircraft Braking Systems seeing particularly strong demand. We are, however, still seeing the effect of the parting out of older aircraft in some areas of the business, most notably on large jets within Meggitt Control Systems. Further to the announcement made at the time of the 2014 full-year results in February, we now have a team focusing solely on the aftermarket to address, among other things, the issue of parting out and how we can best mitigate any impact it has on our business. The team is exploring a range of measures including participation in the surplus market and enhancing our overall service offering to compete more effectively with providers of surplus parts.

We have been awarded some notable contracts in the period, including full ATA26 fire protection and control systems on the Airbus A330neo and the AVIC MA700 regional aircraft. We have also started to



see early wins on the GE9X engine for the Boeing 777X, including a comprehensive package of engine sensors.

Deliveries of large jets by Airbus and Boeing are underpinned by a firm order backlog extending over seven years at current production rates, giving us confidence in the continued growth outlook for OE. While we continue to anticipate delivery growth, we believe that the rate of growth will slow to an average of 4-5% per annum over the next five years in comparison to an average of 9% over the preceding five years. Deliveries of regional aircraft are expected to grow strongly in 2015, flattening off over the next few years with business jets, particularly larger ones, continuing to grow.

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 5.7% in 2014. Year to date trends suggest growth will continue to be above the long term trend rate of 5% in 2015, having grown by 6% in the five months to the end of May. Business jet utilisation in the US and Europe has been broadly flat this year. However, our higher value content and growing market share should continue to drive above average 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 34% 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 53% of military revenue, with 28% to European customers and 19% to the rest of the world.

Military revenues grew by 6% on an organic basis. The drivers of this better than expected revenue performance include a recovery in aftermarket shipments which were impacted by DCMA inspector availability in the first half of 2014, and strong growth in the training businesses, partially offset by the completion of B-1B and Taiwanese Air Force upgrade programmes in Meggitt Aircraft Braking Systems in 2014.

The Group won some significant contracts during the first half of 2015, including a US$42m contract for the provision of a linkless ammunition handling system on the UK MoD Scout armoured vehicle programme, retrofit fuel tank awards on various platforms within the US military fleet including V-22 and Apache, with the potential for many more to follow, and a number of training and targets contracts, notably in India, Canada and the UK.

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.

Our medium-term expectation for military revenue remains a compound organic growth rate of 2%, driven by fleet growth and retrofit opportunities.

Energy and other

Energy and other revenues (17% of Group total) come from a variety of end markets, of which the most significant is energy (10% 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 (7% of Group total) include the automotive, test and measurement, consumer goods and medical sectors.

Energy revenue declined by 18% on an organic basis in the first half, reflecting the particularly challenging trading environment in oil and gas markets following the recent decline in the oil price and associated deferral of capital expenditure by customers. Within the overall energy performance, Heatric declined by 40%, while the remaining energy businesses within MSS and MCS grew at an aggregated 9% on an organic basis. PECC bolstered this growth further, contributing £8.2m of revenue in the first half.

The long-term outlook for our energy businesses, and particularly Heatric, remains very strong. Shorter term, however, visibility is low and the timing of a recovery remains uncertain. Additionally, the outcome of the judicial review being undertaken at our local content provider in Brazil, and any resultant financial impact from our credit exposure, remain uncertain. The Heatric business is in the process of realigning its cost base to reflect the challenging near-term revenue environment, while retaining core skills and sufficient flexibility to respond when orders pick up.

OPERATIONAL HIGHLIGHTS

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

£m	Revenue				Underlying Operating Profit			
2015	2014*	% Growth Reported	% Growth Organic		2015	2014*	% Growth Reported	% Growth Organic
166.7	150.3	+11	+3	Aircraft Braking Systems	**62.5**	56.3	+11	+4
197.4	162.5	+21	+6	Control Systems	**49.5**	44.2	+12	+4
82.3	76.9	+7	0	Polymers & Composites	**7.6**	10.0	-24	-26
233.2	212.8	+10	+6	Sensing Systems	**36.6**	29.1	+26	+26
114.1	116.4	-2	-5	Equipment Group	**4.0**	11.8	-66	-63
793.7	**718.9**	**+10**	**+3**	**Total Group**	**160.2**	**151.4**	**+6**	**+1**

* 2014 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 its position as sole-source supplier of the all-electric brake and tyre pressure monitoring system on the Bombardier C-Series, due to enter into commercial service early next year. 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 3% on an organic basis in the first half, with good growth in civil aerospace across both OE and aftermarket being partially offset by a 12% decline in military following the previously reported completion of retrofit contracts for the US B-1B fleet and Taiwanese Air Force. Regional aftermarket grew 3% driven by continued improvement in regional aircraft utilisation rates, and business jet aftermarket grew by 28%, largely as a result of market share gains in this segment and restocking at a major aftermarket customer. These were partially offset by a 1% decline in large jet aftermarket. Operating margin was flat at 37.5%, with the positive effect of civil aftermarket growth being offset by a decreasing average fleet age and the decline in military aftermarket.

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 25% of total Group revenue, generating 49% of its revenue from OE and 51% from the aftermarket.

For MCS, revenue grew 6% on an organic basis, with 7% growth in civil OE and 25% growth in military being partially offset by a modest decline in civil aftermarket. Military revenues saw a recovery from the shipment issues reported at the first half 2014 and growth in A400M fire protection equipment sales. MCS' civil aftermarket revenue is currently the area of the Group most impacted by parting out. The unfavourable mix effects of good growth in civil OE and military and a decline in civil aftermarket, and continued growth in investment in new product introduction resulted in operating margin reducing to 25.1% (2014: 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 10% of total Group revenue and generated 56% of its revenue from OE and 44% from the aftermarket.

MPC revenue was flat on an organic basis, with 2% growth in civil aerospace being offset by a 2% decline in military. Operating margin declined from 13.0% to 9.2% reflecting lower volume through the fuel bladder facility and an increase in new product introduction costs ahead of the commencement of revenue on a number of new products including the fuel sponson for the S-92 helicopter. Initial volumes on the S-92 will be a little lower than originally anticipated reflecting weakness in demand from the oil & gas market, but the overall programme size remains very attractive. Expensed R&D also increased reflecting investment on new programmes in the early phase of development, including the Bell V280 tiltrotor aircraft.

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 engines. 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 civil aerospace tyre pressure monitoring systems for various platforms. MSS also manufactures power storage, conversion and distribution systems and avionics products for aerospace applications. MSS represents 30% of total Group revenue and generated 76% of its revenue from OE and 24% from the aftermarket.

MSS revenue grew by 6% in the first half on an organic basis, with growth in all markets including 9% growth in energy reflecting recovery from the lack of availability of tourmaline which impacted performance in the first half of 2014. Operating margin on a like-for-like basis (including the transfer of Meggitt Avionics affected in the first half of 2015) saw a good recovery to 15.7% (2014: 13.7%) driven by the resolution of operational issues and positive mix, partly offset by increased investment in new product introduction.

Meggitt Equipment Group (MEG) comprises principally our non-engine actuation, dedicated military and Heatric businesses. The division represents 14% of total Group revenue and generates 83% of its revenue from OE and 17% from the aftermarket.

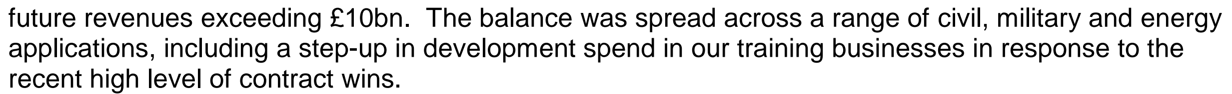
Revenue in MEG declined by 5% on an organic basis, representing a 40% reduction in Heatric partially offset by an 18% increase in military. Heatric continues to be impacted by the slowdown in the oil and gas market, but the military businesses have benefitted from strong demand for training products, particularly in the US, and sales of targets and training systems to India, Canada and the UK. Operating margin of 3.5% (2014: 10.1%) reflects weakness in the relatively high fixed cost Heatric business, and the mix effect of high levels of low margin customer funded military R&D within the division. Customer funded R&D will lead to good margin production revenues over the next few years.

INVESTING FOR THE FUTURE

£m	**H1 2015**	H1 2014	% change	
			Reported	Organic
Total research and development	**78.9**	72.0	+10	+3
Of which: Customer funded	**10.9**	12.1	-10	-14
Capitalised	**40.1**	37.9	+6	-2
Charge to net operating costs	**35.2**	27.2	+29	+24
Programme participation costs	**23.2**	19.8	+17	+10
Capital expenditure	**27.8**	22.1	+26	+15

Developing and owning intellectual property is fundamental to Meggitt's successful strategy. Total research and development expenditure in the six months to June 2015 was £78.9m or 9.9% of revenue (2014: £72.0m, 10.0%), of which 14% (2014: 17%) was funded by customers. Capitalised development in the first half was £40.1m (2014: £37.9m). R&D expensed to net operating costs increased by 29% to £35.2m (2014: £27.2m) reflecting, among other items, product upgrade work on a dual-sourced civil platform in MABS and the large number of small development programmes, particularly in Meggitt Polymers & Composites, which fall below the de minimis level at which we do not capitalise spend. We anticipate total R&D expenditure to trend down towards our long-term average of 6-8% of sales from the end of 2016.

Targeted investment in technology development remains critical to our long-term organic growth. Organic growth in R&D of 3% in the first half was consistent with our guidance of total development spend remaining at elevated levels through 2015 and 2016, reflecting our impressive win rate on new programmes and our ongoing investment in new technology aligned to our customers' future technology requirements. A third 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. These two categories support


future revenues exceeding £10bn. The balance was spread across a range of civil, military and energy applications, including a step-up in development spend in our training businesses in response to the recent high level of contract wins.

Meggitt's investment in supplying equipment free of charge to new aircraft and making programme participation contributions, mostly in the Aircraft Braking Systems business, increased organically by 10% driven by continued market share gains in business jets. This increased investment reflects the accelerating pace of deliveries on programmes equipped with our wheels and brakes, and is expected 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 £27.8m (2014: £22.1m), with the organic increase driven primarily by the investment in additional furnace capacity within MABS and capacity increases in the MCS North Hollywood facility. Overall capital expenditure for the year will be lower than initially expected owing to the deferral of investment in capacity at Heatric.

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 36 sites in total. 26 sites have now successfully completed the first phase, of which four have also completed the second. The launch of the programme at the remainder of the Group's facilities is on track to be complete by the end of 2015, and work has now commenced on the functional roll-out, starting with Human Resources, which will enable us to extend the reach of the programme beyond operations.

We have already seen some significant improvements in quality and delivery, with defective parts per million down 86% and on-time delivery up by 10% since inception. This sustained improvement is being recognised by our customers, and has resulted in the Group winning a number of supplier awards in the first half of 2015.

FOREIGN EXCHANGE

Foreign exchange movements benefited revenue by £45.9m. Of this, translation was £34.6m and transaction was £11.3m (hedging only mitigates the impact at the underlying operating profit level). The primary driver was the stronger US Dollar, partially offset by the translation impact of a weaker Euro relative to Sterling. The foreign exchange impact on underlying operating profit was a benefit of £7.3m, reflecting the translation-driven tailwind partially offset by an adverse transaction effect of £1.8m due to our US Dollar:Sterling hedge rate of 1.57 (H1 2014: 1.54). Average and closing rates for the US Dollar against Sterling in the first half were $1.52 and $1.57 (2014: $1.67 and $1.71); and for the Euro were €1.38 and €1.41 (2014: €1.22 and €1.25).

RETIREMENT BENEFIT SCHEMES

Scheme deficits reduced in the period from £317.8m (at December 31, 2014) to £285.2m driven principally by an increase in AA corporate bond yields used to discount scheme liabilities and deficit reduction payments.

The Group made deficit reduction payments in the period of £14.8m (2014: £16.4m). Deficit payments on US schemes reduced as expected, due to the impact of changes in legislation on funding requirements which came into effect in the second half of 2014. UK payments continue to be made in accordance with the repayment plan agreed with the trustees following the 2012 triennial actuarial valuation. The 2015 valuation is in process and is expected to be finalised in early 2016.

BOARD OF DIRECTORS

During the first half of 2015, Sir Colin Terry retired after 12 years of outstanding service on the Board, and Sir Nigel Rudd joined the Board on 1 March 2015, becoming Non-Executive Chairman on 23 April 2015. In the same period, we announced that Phil Cox (Non-Executive Director) left the Board in January 2015.

GROUP OUTLOOK

The outlook for our civil markets remains encouraging. Production rates of large jets are expected to continue to grow and our increased shipset values on the latest generation of widebody aircraft, together with our positions on the re-engined narrowbodies, should underpin organic civil OE revenue growth of 7-8% over the medium term. As previously guided, 2015 will be moderately below this level reflecting recent inventory build at aircraft manufacturers ahead of new product launches and production rate increases. Available seat kilometres, the key driver of our large and regional jet aftermarket, are growing at above the long-term trend, and lower oil prices should see this continue. We expect that aftermarket revenue growth in the second half of 2015 will be consistent with that seen in the first half.

The military environment looks increasingly benign, with an expected return to growth in military budgets, especially the US, in the short to medium term. There also looks to be an increasing opportunity for reset and retrofit work, and both of these factors give us confidence in our medium term organic growth guidance of 2% per annum. The 6% growth in military seen to date was better than expected although, due to the second half weighting of revenue last year, we believe the rate of growth will moderate for the remainder of the year.

In energy, our Heatric business will remain impacted by the effect of low oil prices on the capital expenditure plans of our customers, although we continue to expect a partial offset in our energy condition monitoring business as we recover from the raw material availability issue seen last year. Overall, we expect energy revenues to be slightly down in the second half of 2015 compared to the second half of 2014, and it will take some months for the benefits of the initiatives being taken on Heatric's fixed cost base to come through. Longer term, driven by heightened demand for our printed circuit heat exchangers and increasing market share in condition-monitoring equipment, our combined energy businesses should continue to deliver revenue growth averaging greater than 10%, although we anticipate we will continue to see weakness in 2016. Other markets should see continued growth in the second half.

On the basis of the above, the Group continues to expect organic revenue growth for 2015 in the low to mid-single digits, in line with our earlier guidance. Reported revenue will also benefit from the first-half foreign exchange movements and the acquisition of PECC.

CONDENSED CONSOLIDATED UNAUDITED INCOME STATEMENT
For the six months ended 30 June 2015

	Notes	**Six months ended 30 June 2015**	Six months ended 30 June 2014
		£m	£m
Revenue	3	**793.7**	718.9
Cost of sales		**(473.5)**	(437.7)
Gross profit		**320.2**	281.2
Net operating costs		**(190.7)**	(170.5)
Operating profit [1]	4	**129.5**	110.7
Finance income		**1.6**	0.1
Finance costs		**(15.3)**	(12.6)
Net finance costs	7	**(13.7)**	(12.5)
Profit before tax [2]		**115.8**	98.2
Tax	8	**(16.2)**	(16.6)
Profit for the period attributable to equity owners of the Company		**99.6**	81.6
Earnings per share:			
Basic [3]	9	**12.5p**	10.2p
Diluted [4]	9	**12.4p**	10.0p

		Notes	2015	2014
1	Underlying operating profit	3 & 4	**160.2**	151.4
2	Underlying profit before tax	4	**152.0**	143.8
3	Underlying basic earnings per share	9	**15.3p**	14.0p
4	Underlying diluted earnings per share	9	**15.1p**	13.8p

CONDENSED CONSOLIDATED UNAUDITED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2015

	Note	**Six months ended 30 June 2015 £m**	Six months ended 30 June 2014 £m
Profit for the period attributable to equity owners of the Company		**99.6**	81.6
Items that may be reclassified to the income statement in subsequent periods:			
Currency translation differences – arising in the period		**(8.0)**	(48.8)
Cash flow hedge movements	23	**(0.8)**	(0.9)
Tax effect		**0.2**	0.3
		(8.6)	(49.4)
Items that will not be reclassified to the income statement in subsequent periods:			
Remeasurement of retirement benefit obligations		**23.3**	(36.8)
Tax effect		**(7.0)**	8.7
		16.3	(28.1)
Other comprehensive income/(expense) for the period		**7.7**	(77.5)
Total comprehensive income for the period attributable to equity owners of the Company		**107.3**	4.1

CONDENSED CONSOLIDATED UNAUDITED BALANCE SHEET

As at 30 June 2015

	Notes	**30 June 2015 £m**	31 December 2014 £m
Non-current assets			
Goodwill	12	**1,529.0**	1,541.1
Development costs	12	**375.9**	342.9
Programme participation costs	12	**249.7**	242.4
Other intangible assets	12	**631.5**	673.0
Property, plant and equipment	13	**254.2**	251.1
Trade and other receivables		**84.4**	93.4
Derivative financial instruments	15	**33.1**	29.6
Deferred tax assets		**1.0**	0.9
		3,158.8	3,174.4
Current assets			
Inventories		**359.1**	327.2
Trade and other receivables		**309.9**	331.9
Derivative financial instruments	15	**3.2**	1.1
Current tax recoverable		**3.5**	3.3
Cash and cash equivalents		**95.3**	105.5
		771.0	769.0
Total assets	3	**3,929.8**	3,943.4
Current liabilities			
Trade and other payables		**(330.7)**	(358.5)
Derivative financial instruments	15	**(6.9)**	(9.6)
Current tax liabilities		**(30.2)**	(36.5)
Obligations under finance leases		**(0.1)**	(0.1)
Bank and other borrowings	14 & 15	**(25.4)**	(58.9)
Provisions	16	**(31.4)**	(45.1)
		(424.7)	(508.7)
Net current assets		**346.3**	260.3
Non-current liabilities			
Trade and other payables		**(5.8)**	(5.9)
Derivative financial instruments	15	**(6.3)**	(2.9)
Deferred tax liabilities		**(228.3)**	(214.8)
Obligations under finance leases		**(5.2)**	(5.3)
Bank and other borrowings	14 & 15	**(776.2)**	(616.7)
Provisions	16	**(131.1)**	(130.5)
Retirement benefit obligations	17	**(285.2)**	(317.8)
		(1,438.1)	(1,293.9)
Total liabilities		**(1,862.8)**	(1,802.6)
Net assets		**2,067.0**	2,140.8
Equity			
Share capital		**39.1**	40.1
Share premium		**1,218.9**	1,218.9
Other reserves		**15.4**	14.4
Hedging and translation reserves		**150.5**	159.1
Retained earnings		**643.1**	708.3
Total equity attributable to owners of the Company		**2,067.0**	2,140.8

CONDENSED CONSOLIDATED UNAUDITED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2015

	Share capital £m	Share premium £m	Other reserves £m	Hedging and translation reserves £m	Retained earnings £m	Total equity £m
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	-	0.1	-	-	-	0.1
Purchase of own shares	-	-	-	-	(5.3)	(5.3)
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
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 option schemes:						
Value of services provided	-	-	-	-	(1.1)	(1.1)
Purchase of own shares	-	-	-	-	(7.7)	(7.7)
Share buyback – cancelled in the period	(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**

CONDENSED CONSOLIDATED UNAUDITED CASH FLOW STATEMENT

For the six months ended 30 June 2015

	Notes	**Six months ended 30 June 2015 £m**	Six months ended 30 June 2014 £m
Cash inflow from operations before exceptional operating items		**159.9**	122.9
Cash outflow from business acquisition expenses		**(0.1)**	(0.2)
Cash outflow from exceptional operating items	5	**(8.4)**	(8.4)
Cash inflow from operations	21	**151.4**	114.3
Interest received		**0.1**	0.1
Interest paid		**(9.0)**	(8.1)
Tax paid		**(13.4)**	(6.1)
Cash inflow from operating activities		**129.1**	100.2
Business acquired		**0.3**	-
Business disposed		**0.8**	-
Capitalised development costs	12	**(40.1)**	(37.9)
Capitalised programme participation costs	12	**(23.2)**	(19.8)
Purchase of intangible assets		**(5.1)**	(7.4)
Purchase of property, plant and equipment		**(22.8)**	(16.8)
Proceeds from disposal of property, plant and equipment		**0.1**	2.1
Cash outflow from investing activities		**(90.0)**	(79.8)
Dividends paid to Company's shareholders	10	**(75.6)**	(33.4)
Issue of equity share capital		**-**	0.1
Purchase of own shares		**(7.7)**	(5.3)
Share buyback – purchased in the period	18	**(102.0)**	-
Proceeds from borrowings		**193.1**	40.8
Repayments of borrowings		**(55.8)**	(62.6)
Cash outflow from financing activities		**(48.0)**	(60.4)
Net decrease in cash and cash equivalents		**(8.9)**	(40.0)
Cash and cash equivalents at start of the period		**105.5**	116.1
Exchange losses on cash and cash equivalents		**(1.3)**	(1.5)
Cash and cash equivalents at end of the period		**95.3**	74.6

NOTES TO THE CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS
For the six months ended 30 June 2015

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 2014 were approved by the Board of Directors on 23 February 2015 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 2015 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 2014. 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 2014.

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 2015. These rates have been applied to the pre-tax profits made in each jurisdiction for the six months ended 30 June 2015.

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 currently becomes effective for accounting periods beginning on or after 1 January 2017, although a proposal to defer the effective date until accounting periods beginning on or after 1 January 2018 has been published by the International Accounting Standards Board. 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. During the period, the Group announced that the Meggitt Avionics business had been transferred from Meggitt Equipment Group to Meggitt Sensing Systems with effect from the beginning of 2015. 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 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**

Six months ended 30 June 2014 (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	150.3	162.9	77.4	215.3	116.8	722.7
Inter-segment revenue	-	(0.4)	(0.5)	(2.5)	(0.4)	(3.8)
Revenue	150.3	162.5	76.9	212.8	116.4	718.9
Underlying operating profit *	56.3	44.2	10.0	29.1	11.8	151.4

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

Segment assets

	30 June 2015 £m	31 December 2014 Restated £m
Meggitt Aircraft Braking Systems	**602.0**	568.3
Meggitt Control Systems	**304.5**	295.0
Meggitt Polymers & Composites	**98.0**	94.0
Meggitt Sensing Systems	**382.1**	366.7
Meggitt Equipment Group	**152.8**	159.1
Total segmental trading assets	**1,539.4**	1,483.1
Centrally managed trading assets *	**167.9**	181.4
Goodwill (note 12)	**1,529.0**	1,541.1
Other intangible assets **	**557.4**	597.4
Derivative financial instruments – non-current (note 15)	**33.1**	29.6
Deferred tax assets	**1.0**	0.9
Derivative financial instruments – current (note 15)	**3.2**	1.1
Current tax recoverable	**3.5**	3.3
Cash and cash equivalents	**95.3**	105.5
Total assets	**3,929.8**	3,943.4

* Centrally managed trading assets principally include amounts recoverable from insurers and other third parties in respect of environmental issues relating to former sites, property, plant and equipment and software assets 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 2015 £m	Six months ended 30 June 2014 £m
Operating profit	**129.5**	110.7
Exceptional operating items (note 5)	**3.6**	4.1
Amounts arising on the acquisition, disposal and closure of businesses *	**0.1**	0.2
Amortisation of intangible assets acquired in business combinations (note 12)	**35.0**	33.6
Financial instruments (note 6)	**(8.0)**	2.8
Adjustments to operating profit **	**30.7**	40.7
Underlying operating profit	**160.2**	151.4
Profit before tax	**115.8**	98.2
Adjustments to operating profit per above	**30.7**	40.7
Net interest expense on retirement benefit obligations (note 7)	**5.5**	4.9
Adjustments to profit before tax	**36.2**	45.6
Underlying profit before tax	**152.0**	143.8
Profit for the period	**99.6**	81.6
Adjustments to profit before tax per above	**36.2**	45.6
Tax effect of adjustments to profit before tax	**(14.2)**	(15.0)
Adjustments to profit for the period	**22.0**	30.6
Underlying profit for the period	**121.6**	112.2

* In 2015, the Group has decided to separately present amounts arising on the acquisition, disposal and closure of businesses. Such amounts include directly related expenditure, gains and losses made on the disposal and closure of businesses and adjustments recorded in the income statement to amounts previously recognised in respect of contingent consideration payable on the acquisition of a business or receivable on the disposal of a business. Such amounts were previously recorded as exceptional operating items. Prior period comparatives have been restated to reflect this change. Amounts incurred in both 2015 and 2014 relate to acquisition expenses.

** Of the adjustments to operating profit, £1.9 million (2014: £2.7 million) relating to exceptional operating items has been charged to cost of sales with the balance of £28.8 million (2014: £38.0 million) included within net operating costs.

Underlying earnings per ordinary share ('EPS') for the period is 15.3p (2014: 14.0p) and diluted underlying EPS for the period is 15.1p (2014: 13.8p). 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 (note 4), are classified as exceptional operating items.

	Notes	Income statement		Cash expenditure	
		Six months ended 30 June 2015 £m	Six months ended 30 June 2014 £m	**Six months ended 30 June 2015 £m**	Six months ended 30 June 2014 £m
Site consolidations	a	**0.7**	3.8	**0.7**	3.9
Business restructuring costs	b	**2.9**	-	**3.2**	-
Integration of acquired businesses		**-**	0.7	**-**	0.8
Raw material supply issue		**-**	-	**4.5**	2.2
Other		**-**	(0.4)	**-**	1.5
Exceptional operating items		**3.6**	4.1	**8.4**	8.4

a. This relates to the movement of production to the Group's low cost manufacturing locations and, in 2014, to the consolidation of the Group's two North American sensor businesses onto a single new site in California, USA.

b. This relates to costs incurred as part of a Group-wide initiative to structurally reduce its cost base.

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 (note 4).

As at 31 December 2014, the Group recognised a liability of £20.0 million in respect of an irrevocable non-discretionary contract to purchase for cancellation shares on its behalf during the close period, as part of the share buyback programme commenced in 2014. The gain arising from the remeasurement of this financial liability during the current period is excluded from underlying profit.

	Six months ended 30 June 2015 £m	Six months ended 30 June 2014 £m
Movement in the fair value of foreign currency forward contracts	**(7.3)**	(1.0)
Impact of retranslating net foreign currency assets and liabilities at spot rates	**0.1**	1.6
Movement in the fair value of interest rate derivatives	**1.8**	(2.3)
Movement in the fair value of fixed rate borrowings	**0.9**	4.5
Remeasurement of share buyback close period commitment	**(3.5)**	-
Financial instruments – (gain)/loss	**(8.0)**	2.8

7. Net finance costs

	Six months ended 30 June 2015 £m	Six months ended 30 June 2014 £m
Interest on bank deposits	**0.1**	0.1
Unwinding of interest on other receivables	**1.5**	-
Finance income	**1.6**	0.1
Interest on bank borrowings	**1.6**	1.4
Interest on senior notes	**6.4**	6.1
Interest on obligations under finance leases	**0.5**	0.5
Unwinding of interest on provisions	**1.8**	-
Net interest expense on retirement benefit obligations (note 4)	**5.5**	4.9
Amortisation of debt issue costs	**0.4**	0.6
Less: amounts capitalised in the cost of qualifying assets (note 12)	**(0.9)**	(0.9)
Finance costs	**15.3**	12.6
Net finance costs	**13.7**	12.5

8. Tax

The Finance Bill 2015 includes proposed legislation to reduce the main rate of corporation tax in the UK from 20% to 19% in 2017 and to 18% in 2020. As these changes were not substantively enacted at the balance sheet date, the impact has not been reflected in these condensed consolidated financial statements. If the changes had been substantively enacted at the balance sheet date, the impact on net deferred tax liabilities as at 30 June 2015, 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 £99.6 million (2014: £81.6 million) by the weighted average number of shares in issue during the period of 794.6 million (2014: 801.1 million).

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

	Six months ended 30 June 2015 pence	Six months ended 30 June 2014 pence
Basic EPS	**12.5**	10.2
Adjust for the effects of:		
Exceptional operating items	**0.3**	0.4
Amortisation of intangible assets acquired in business combinations	**2.9**	2.7
Financial instruments	**(0.9)**	0.3
Net interest expense on retirement benefit obligations	**0.5**	0.4
Underlying basic EPS	**15.3**	14.0

Diluted EPS for the period is 12.4p (2014: 10.0p). 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 804.8 million (2014: 812.0 million).

Diluted underlying EPS for the period is 15.1p (2014: 13.8p). 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 4.60p per ordinary share (2014: 4.25p) which will be paid on 2 October 2015 to shareholders on the register on 4 September 2015. As the dividend was approved by the directors after 30 June 2015, the dividend cost of £36.0 million (2014: £34.2 million) is not recorded as a liability at the balance sheet date.

During the period, the final dividend of 9.50p per ordinary share in respect of the year ended 31 December 2014 was paid (2014: 8.80p final dividend in respect of the year ended 31 December 2013). The total cost of the final dividend was £75.6 million (2014: £70.1 million). Cash paid during the period in respect of the final dividend was £75.6 million (2014: £33.4 million). 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 11 September 2015.

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 2015 £m	Six months ended 30 June 2014 £m
Salaries and other short-term employee benefits	**3.3**	2.9
Retirement benefit expense	**0.2**	0.2
Share-based payment expense	**0.1**	0.8
Total	**3.6**	3.9

12. Intangible assets

	Goodwill £m	**Development costs £m**	**Programme participation costs £m**	**Other intangible assets £m**
At 1 January 2015	1,541.1	342.9	242.4	673.0
Exchange rate adjustments	(12.1)	(0.7)	(1.7)	(5.1)
Additions *	-	40.1	23.2	4.7
Interest capitalised (note 7)	-	0.9	-	-
Amortisation and impairment losses **	-	(7.3)	(14.2)	(41.1)
At 30 June 2015	**1,529.0**	**375.9**	**249.7**	**631.5**

* Additions to programme participation costs represent £21.7 million in respect of free of charge/deeply discounted manufactured parts and £1.5 million in respect of cash payments.

** Amortisation of other intangible assets includes £35.0 million (2014: £33.6 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. A full impairment review was conducted for the year ended 31 December 2014 and no impairment charge was required. The cumulative impairment charge recognised to date is £Nil (2014: £Nil).

13. Property, plant and equipment

	30 June 2015 £m	31 December 2014 £m
Land and buildings	**121.6**	123.1
Plant, equipment and vehicles	**132.6**	128.0
Net book amount	**254.2**	251.1

During the period, capital expenditure of £21.5 million was incurred and the net book value of disposals was £0.1 million. Depreciation in the period was £16.4 million.

14. Bank and other borrowings

	Current £m	Non-current £m	Total £m
At 1 January 2015	58.9	616.7	675.6
Exchange rate adjustments	0.7	(13.1)	(12.4)
Proceeds from borrowings	21.6	171.5	193.1
Repayments of borrowings	(55.8)	-	(55.8)
Other non-cash movements	-	1.1	1.1
At 30 June 2015	**25.4**	**776.2**	**801.6**

Analysed as:

	30 June 2015 £m	31 December 2014 £m
Bank loans	**22.4**	10.8
Other loans	**3.0**	48.1
Total current	**25.4**	58.9
Bank loans	**374.2**	212.6
Other loans	**402.0**	404.1
Total non-current	**776.2**	616.7

15. Financial Instruments – fair value measurement

For trade and other receivables, cash and cash equivalents, trade and other payables and obligations under finance leases, fair values approximate to book values, principally 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 2015 £m	31 December 2014 £m	**30 June 2015 £m**	31 December 2014 £m
Derivative financial instruments – non-current	**33.1**	29.6	**33.1**	29.6
Derivative financial instruments – current	**3.2**	1.1	**3.2**	1.1
Financial assets	**36.3**	30.7	**36.3**	30.7
Derivative financial instruments – current	**(6.9)**	(9.6)	**(6.9)**	(9.6)
Bank and other borrowings – current	**(25.4)**	(58.9)	**(25.4)**	(61.6)
Derivative financial instruments – non-current	**(6.3)**	(2.9)	**(6.3)**	(2.9)
Bank and other borrowings – non-current	**(776.2)**	(616.7)	**(785.6)**	(625.7)
Financial liabilities	**(814.8)**	(688.1)	**(824.2)**	(699.8)
Total	**(778.5)**	(657.4)	**(787.9)**	(669.1)

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. The same methods of valuation have been used to derive the fair value of the current and non-current element of fixed rate borrowings which are 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.

15. Financial Instruments – fair value measurement continued

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

	Six months ended 30 June 2015 £m	Six months ended 30 June 2014 £m
Bank and other borrowings at fair value through profit and loss:		
At 1 January	**276.9**	256.8
Exchange rate adjustments	**(2.3)**	(7.6)
Charge to net operating costs	**1.0**	4.5
At 30 June	**275.6**	253.7

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 2015 £m	Six months ended 30 June 2014 £m
At 1 January	**7.7**	7.0
Charge to net operating costs	**(2.5)**	(2.0)
At 30 June	**5.2**	5.0

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 2015, would impact profit before tax by approximately £8.5 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 2015 £m	31 December 2014 £m
Fair value	**275.6**	276.9
Difference between fair value and contractual amount at maturity	**(20.3)**	(19.5)
Contractual amount payable at maturity	**255.3**	257.4

16. Provisions

	30 June 2015 £m	31 December 2014 £m
Environmental *	**125.0**	133.0
Onerous contracts	**17.8**	22.3
Warranty costs	**12.8**	13.0
Other	**6.9**	7.3
Total	**162.5**	175.6
Disclosed as:		
Current	**31.4**	45.1
Non-current	**131.1**	130.5
Total	**162.5**	175.6

* Included within trade and other receivables is £88.2 million (2014: £95.5 million) in respect of amounts recoverable from insurers and other third parties. During the period, £9.0 million was recovered.

During the period, expenditure of £17.3 million was incurred, of which £9.0 million related to environmental provisions. The charge to the income statement in the period in respect of additional provisions created was £5.9 million and the credit to the income statement in respect of the reversal of unused amounts was £0.6 million.

17. Retirement benefit obligations

	30 June 2015 £m	31 December 2014 £m
Amounts recognised in the balance sheet:		
Present value of scheme liabilities	**1,059.1**	1,078.9
Fair value of scheme assets	**(773.9)**	(761.1)
Total	**285.2**	317.8
Analysis of retirement benefit obligations:		
Pension schemes	**240.2**	271.0
Healthcare schemes	**45.0**	46.8
Total	**285.2**	317.8

Key financial assumptions:

	30 June 2015	31 December 2014
UK Scheme:		
Discount rate	**3.80%**	3.60%
Inflation rate	**3.25%**	3.10%
Salary increases	**4.25%**	4.10%
Current life expectancy – Male aged 65 (years)	**22.0 to 23.7**	21.9 to 23.6
Overseas Schemes:		
Discount rate	**4.25%**	3.85%
Salary increases	**4.83%**	4.74%
Current life expectancy – Male aged 65 (years)	**20.3 to 20.9**	20.3 to 20.9

Cash contributions paid during the period were £22.1 million including deficit reduction payments of £14.8 million.

18. Issued share capital

	30 June 2015 No. m	31 December 2014 No. m
Allotted and fully paid	**782.7**	802.3

Under the share buyback programme commenced in 2014, 19.7 million shares were cancelled in the period at a cost of £104.2 million. Cash expenditure in the period was £102.0 million in respect of 19.2 million shares purchased under the programme.

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 2015 £m	31 December 2014 £m
Contracted for but not incurred:		
Intangible assets	**1.3**	0.9
Property, plant and equipment	**8.5**	11.0
Total	**9.8**	11.9

21. Cash inflow from operations

	Six months ended 30 June 2015 £m	Six months ended 30 June 2014 £m
Profit for the period	**99.6**	81.6
Adjustments for:		
Finance income (note 7)	**(1.6)**	(0.1)
Finance costs (note 7)	**15.3**	12.6
Tax	**16.2**	16.6
Depreciation	**16.4**	15.1
Amortisation and impairment losses (note 12)	**62.6**	55.6
Loss on disposal of property, plant and equipment	**-**	0.4
Financial instruments – (gain)/loss (note 6)	**(8.0)**	2.8
Retirement benefit obligation deficit payments (note 17)	**(14.8)**	(16.4)
Share-based payment expense	**0.4**	2.3
Changes in working capital	**(34.7)**	(56.2)
Cash inflow from operations	**151.4**	114.3

22. Movements in net debt

	Six months ended 30 June 2015 £m	Six months ended 30 June 2014 £m
At 1 January	**575.5**	564.6
Free cash inflow	**(38.1)**	(20.6)
Business acquisition expenses (note 4)	**0.1**	0.2
Business acquired	**(0.3)**	-
Business disposed	**(0.8)**	-
Dividends paid to Company's shareholders (note 10)	**75.6**	33.4
Issue of equity share capital	**-**	(0.1)
Purchase of own shares	**7.7**	5.3
Share buyback – purchased in the period	**102.0**	-
Net cash outflow	**146.2**	18.2
Exchange rate adjustments	**(11.2)**	(19.6)
Other non-cash movements	**1.1**	5.1
At 30 June	**711.6**	568.3
Disclosed as:		
Bank and other borrowings – current (note 14)	**25.4**	67.9
Bank and other borrowings – non-current (note 14)	**776.2**	570.1
Obligations under finance leases – current	**0.1**	0.1
Obligations under finance leases – non-current	**5.2**	4.8
Cash and cash equivalents	**(95.3)**	(74.6)
Total	**711.6**	568.3

23. Components of other comprehensive income

	Six months ended 30 June 2015 £m	Six months ended 30 June 2014 £m
Movement in fair value	**(1.2)**	(1.3)
Transferred to income statement	**0.4**	0.4
Cash flow hedge movements – loss	**(0.8)**	(0.9)

24. Business combinations

On 31 December 2014, the Group acquired 100% of the voting rights of Precision Engine Controls Corporation ('PECC'). PECC is a leading supplier of actuation systems and fuel metering valves to manufacturers of small-frame gas turbines used predominantly in the oil and gas power generation industries. PECC's products are complementary to Meggitt's existing valve technology in the aero-derivative gas turbine market and expand our range of actuation capabilities.

The difference between the book value of acquired net assets and consideration has been provisionally recognised as goodwill. During the second half of 2015, 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.

25. Approval of interim management report

The interim management report was approved by the Board of Directors on 3 August 2015.

26. Availability of interim management report

The interim management report will be available on the Group's website www.meggitt.com from 4 August 2015. 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 2014 the principal risks and uncertainties to which the Group is exposed. 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 relate to those arising from fundamental changes in the Group's business model, not aligning technology strategies with customer requirements, 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 2014 on pages 24 to 26 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 (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 2015 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 2015 and any material changes to the related party transactions described in the last annual report.

By order of the Board:

S G Young
Director
3 August 2015

D R Webb
Director
3 August 2015

- E N D S -