Press information

MEGGITT

3 August 2010

Interim Management Report for the six months ended 30 June 2010

"Early signs of civil recovery"

Meggitt PLC ("Meggitt" or "the Group"), a leading international engineering group specialising in aerospace, defence and energy markets, today announces unaudited interim results for the six months ended 30 June 2010.

2010 HALF YEAR FINANCIAL HIGHLIGHTS

£m	**2010**	2009	% change
Revenue	**549.7**	586.4	-6%
Underlying[1]:			
EBITDA	**171.0**	169.5	+1%
Operating profit	**141.3**	140.8	0%
Profit before tax	**116.2**	112.3	+3%
Earnings per share	**12.3p**	12.1p	+2%
Statutory:			
Operating profit	**91.4**	128.6	-29%
Profit before tax	**66.3**	100.1	-34%
Earnings per share	**7.5pp**	11.1p	-32%
Net debt	**854.6**	895.1	-5%
Dividend	**2.85p**	2.70p	+6%

(1) Underlying profit and EPS are used by the Board to measure the trading performance of the Group and exclude certain items, principally amortisation of acquired intangibles, operating exceptional items and the marking to market of financial instruments, as set out in notes 4 and 10.

- Leading indicators for our civil aerospace business continue to improve and order intake from the beginning of Q2 has shown a steady increase. Civil revenues should return to growth later in the second half on the back of the improving order intake.
- Military revenues, slightly down as a result of delays in placing orders, are expected to recover in the second half.
- Meggitt on track to exceed cost savings target of £50m, and raising savings target to £55m.
- Final K&F integration savings of £22.1m delivered and integration programme closed out.
- Underlying operating margins up from 24.0% to 25.7%.
- R&D investment maintained to fund pipeline of new programmes and technologies.
- Free cash inflow before dividends and corporate activity up 20% to £44.0m.
- $600m of long term debt raised from a US Private Placement at attractive rates to replace bank facilities maturing in 2012 and 2013.
- Interim dividend increased 6% to 2.85p.

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Terry Twigger, Chief Executive, commented:

"Trading conditions in the first half have remained challenging but, as expected, we have seen early signs of recovery in our civil markets. The leading indicators for our civil aftermarket (air traffic and business jet utilisation) continue their strong recovery and have started to show up in increased order intake. Our cost reduction programme has continued to make excellent progress, demonstrated by the improvement in our operating margins and we are on track to exceed our cost reduction targets by 10%. The Group has continued to focus on strong cash generation, and the $600m US Private Placement completed in the first half significantly reduces our refinancing requirements in 2012 and 2013."

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STRATEGIC POSITIONING

The Group has a robust business model which has continued to deliver strong results in an extremely challenging environment. Specifically:

- Meggitt's portfolio is well balanced, with 43% of Group revenues generated from the civil aerospace market, 43% from the military market and 14% from other markets, primarily energy. In total, aftermarket revenues were 49% of the Group total and original equipment (OE) revenues were 51%.
- Our proprietary technology, predominantly sole source positions and large installed fleet, enable Meggitt to generate significant aftermarket revenues for many years after the sale of the original equipment.

Meggitt has maintained its strong track record of managing through downturns, delivering resilient margins and strong cash flow. So far this year:

- Our cost reduction programme delivered savings of £24m, in line with our expectations. We are on track to achieve our targeted £50m run rate of savings by the end of 2010, and are setting a new target of a £55m run rate by the end of 2011.
- Our operating margin improved to 25.7% (2009: 24.0%).
- Meggitt maintained its focus on cash generation, delivering a net cash inflow of £27.7m, 63% ahead of last year's first half, whilst at the same time maintaining investment in R&D at 7% of sales.
- Meggitt raised $600m of long term debt in advance of bank facilities maturing in 2012 and 2013. This extends the maturity profile of our debt and reduces our reliance on the 2012 and 2013 bank refinancing.

Meggitt is therefore well placed to respond to the upturn in civil air traffic which is now underway.

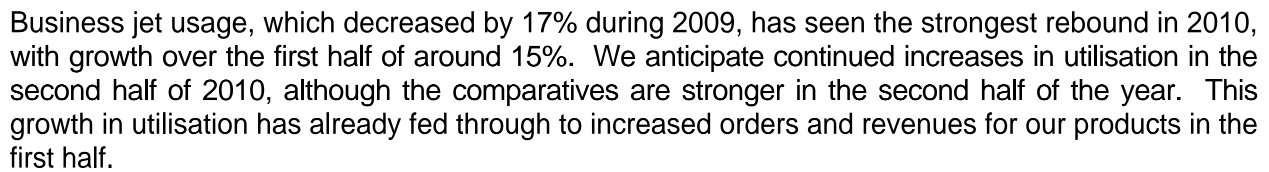
MARKET BACKGROUND

Civil

Meggitt operates in three main segments of the civil aerospace market: large jets, regional aircraft and business jets. The global large jet fleet size is over 16,000; the regional aircraft fleet is about 6,000 and business jets around 17,000. The Group has products on most of these aircraft and hence a very large, and growing, installed base. The split of civil revenues, which account for 43% of the Group total, is circa two thirds aftermarket and one third OE.

Economic factors weighed heavily on civil OE deliveries and air traffic throughout 2009. Despite this, manufacturers of large jets have maintained deliveries at close to 2009's record levels and, since the start of this year, have announced increases to production rates in 2011 and 2012. This demonstrates the resilience of their order book. Business jet and regional aircraft manufacturers on the other hand reduced production levels in 2009, and are further reducing deliveries in 2010. We anticipate these business jet and regional OE segments will recover in 2011 and 2012 respectively.

International and US domestic ASKs (a key driver of the demand from airlines for spares on large and regional aircraft) declined by around 5% in 2009, but have returned to moderate growth in the first half of 2010. Our own estimate, that overall growth in ASKs will be around 1-2% in 2010 (which should increase our spares revenue by a similar amount), may appear conservative but, at this stage in the cycle, we prefer to remain cautious.



Business jet usage, which decreased by 17% during 2009, has seen the strongest rebound in 2010, with growth over the first half of around 15%. We anticipate continued increases in utilisation in the second half of 2010, although the comparatives are stronger in the second half of the year. This growth in utilisation has already fed through to increased orders and revenues for our products in the first half.

Military
Approximately two thirds of Meggitt's military revenues come from the US where the Department of Defense (DoD) budget and Quadrennial Defence Review include 3-4% increases in spending over the medium term. Our revenues are generated from a broad range of platforms for all branches of the military, with a balanced split between OE and aftermarket. We are well positioned on the current growth platforms without being overly exposed to any single one. The focus on modernising and extending the life of existing platforms where Meggitt has an established aftermarket base should underpin military revenues for the Group and provide continued opportunities for growth. Products and technologies we are developing for new platforms can equally be retrofitted onto existing platforms, potentially accelerating revenue streams for the Group given the significant existing fleet sizes involved.

Delays in getting Overseas Contingency Operations (OCO) funding approved for the current fiscal year have contributed to delays in releasing funds to some programmes in our first half, in turn impacting our military revenues in the period. With the OCO expected to be approved prior to the summer recess we anticipate a return to growth in the second half of 2010.

Other
Other revenues (14% of Group total) come from various end markets such as energy (approximately 50%), automotive, test, consumer goods and medical.

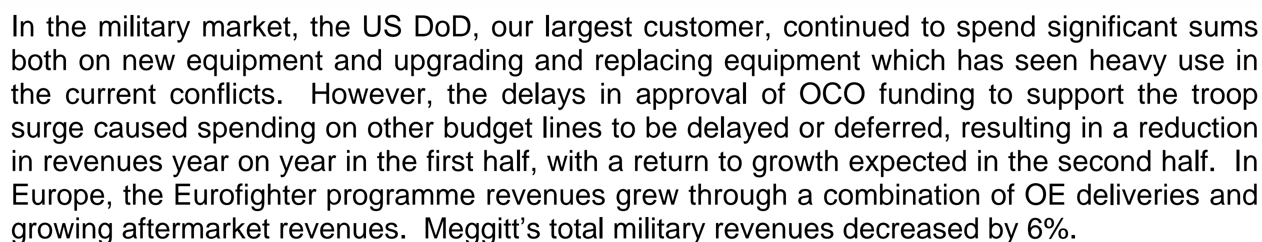
Within the energy market, demand for power generation products remained robust. Following the launch of our next generation ground-based turbine condition monitoring system, InSight®, and the expansion of our regional office network, we are well positioned for continued growth in this segment going forward. Orders in the offshore gas segment for our printed circuit heat exchangers (PCHE) were very low in 2009, but recovered well in the first half of 2010 to exceed total order intake for 2009. The low opening backlog reduced first half PCHE revenues given the delivery lead time of most orders, and this will continue to impact the full year although we expect the ongoing strong order performance to drive revenue growth in 2011. Demand in automotive, test equipment and consumer goods stabilised in the first half, but is not expected to recover until 2011.

REVENUES AND ORDERS

Civil order intake was up 35%, led by a strong recovery in OE and business jet aftermarket orders. This was mostly offset by a decline in military orders as a result of the delays in approving the OCO by the US Government, as well as some sizeable multi-year military orders placed during the first half of 2009. Total order intake was up 3% on the first half of last year and our closing order book was up 9% on December 2009, at over £750m.

Revenues overall declined by 6% to £549.7m (2009: £586.4m), with the decline spread across civil, military and other markets. There was only a minimal impact from currency in the period.

Civil aerospace revenues declined 6% as a result of the downturn in the global economy. This reduction reflects the continued decline in deliveries of new planes in the regional aircraft and business jet markets, as well as the conclusion of the destocking process. These declines were partly offset by growth in large jet OE and business jet aftermarket revenues, and we expect a broader based recovery in the second half.



In the military market, the US DoD, our largest customer, continued to spend significant sums both on new equipment and upgrading and replacing equipment which has seen heavy use in the current conflicts. However, the delays in approval of OCO funding to support the troop surge caused spending on other budget lines to be delayed or deferred, resulting in a reduction in revenues year on year in the first half, with a return to growth expected in the second half. In Europe, the Eurofighter programme revenues grew through a combination of OE deliveries and growing aftermarket revenues. Meggitt's total military revenues decreased by 6%.

Energy revenues decreased 12%, due entirely to the expected decline in revenues for our compact PCHEs. This resulted from the low order intake on PCHEs in 2009 caused by the impact of the depressed gas price on capital spending by our customers. Other energy market revenues were flat on last year, with improving order intake expected to drive continued growth in the second half of the year.

Meggitt's other specialist markets experienced mixed trading conditions. Sales for this segment were down 6% overall although there was some growth in the consumer focused sectors like automotive and consumer goods. We expect revenues in this segment to be broadly flat in the second half, resulting in a small overall decline for the full year.

PROFIT AND DIVIDENDS

The Board's preferred measure of the Group's trading performance is underlying profit. Underlying operating profit was slightly ahead of last year at £141.3m (2009: £140.8m), with operating margin increasing from 24.0% to 25.7%, reflecting the benefits of the Group's cost reduction programme.

Net finance costs decreased to £25.1m (2009: £28.5m) as a result of our strong cash generation and lower interest rates. Within this, net pension interest charges reduced by £1.5m to £5.1m (2009: £6.6m). Underlying profit before tax therefore increased by 3% to £116.2m (2009: £112.3m).

After a tax charge of 27.0% (2009: 28.0%), and after reflecting the increase in shares in issue largely due to strong take up of scrip dividends during the year, underlying earnings per share increased by 2% to 12.3 pence (2009: 12.1 pence).

On a statutory basis, profit before tax decreased by 34% to £66.3m (2009: £100.1m) and earnings per share decreased by 32% to 7.5p (2009: 11.1p). The major difference between the trend in statutory and underlying results is caused by movements in the fair value of our forward currency hedges which recorded a substantial gain in the first half of 2009 and a loss in the first half of 2010. The principal adjustments between underlying profit and statutory profit are described in notes 4 and 10.

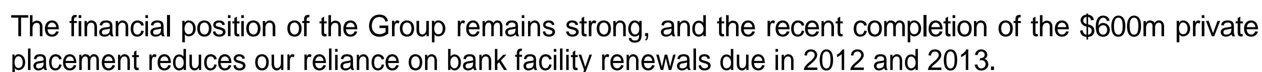
The interim dividend is increased by 5.6% to 2.85p (2009: 2.70p).

CASH FLOW AND BORROWINGS

Cash inflow from operations before exceptional operating items was £132.8m, which was 94% of underlying operating profit (2009: £140.9m).

After interest, tax and dividends, the business generated £27.7m of net cash, 63% greater than last year (2009: £17.0m) despite maintaining investment in our development programmes.

Net debt increased from £808.6m at 31 December 2009 to £854.6m at 30 June 2010, with the positive net cash generation more than offset by translation (our debt is mainly in US dollars) and other non-cash movements.



The financial position of the Group remains strong, and the recent completion of the $600m private placement reduces our reliance on bank facility renewals due in 2012 and 2013.

K&F INTEGRATION UPDATE

The Group has successfully completed the integration of K&F, its largest ever acquisition, delivering synergies which will yield over £22m of annual savings against our original target of £16m. Similarly, the overall one-off cost of the programme over the last three years has been £19.3m, significantly less than expected. Profits from the K&F businesses have exceeded our acquisition model targets.

TRANSFORMATION PROGRAMME

As part of the Group's response to the economic downturn we accelerated our ongoing initiative to achieve a higher level of efficiency across all functions in the business, and targeted £50m per annum of cost savings in addition to our on-going operational efficiency and strategic sourcing objectives. We remain confident that the full £50m run rate should be achieved by the end of 2010, and are increasing the final targeted run rate savings by 10% to £55m by the end of 2011.

The original £50m identified savings comprised three elements:

- £25m is volume-related and has largely been achieved through reductions in factory direct and indirect headcount and related costs. As volumes recover to 2008 levels the bulk of these costs are expected to come back.
- £20m is permanent cost savings achieved through transforming the way the business is managed, effectively removing a layer of management. These savings have been largely delivered.
- £5m saved through freezing executive pay and reducing pension and other benefits. Following executive pay freezes in 2009 and 2010, we will conduct a pay review in the second half of the year to determine the appropriate level of increases to award for 2011. The savings from reducing pension and other benefits are expected to be permanent.

The additional £5m savings to be achieved in 2011 (taking the total to £55m) should arise in the second of the three areas outlined above.

Cost saving is just one benefit from this transformation programme. Key business benefits include standard business processes, common IT platforms, centres of excellence in engineering, shared services in IT and administration and better customer relationships. It has been these areas which have been the major focus for us in the first half of 2010 as we have bedded down our new divisional structure. Together with the cost savings, the transformation programme leaves us well placed to take advantage of the civil upturn which, we believe, is underway.

In the first half of 2010 we achieved savings of £24m, an increase of £14m over the first half of last year.

The operating exceptional cost of achieving the £50m savings was estimated to be £25m, of which £16.9m was charged in 2009, and a further £6.4m in the first half of 2010. There will continue to be further costs in the second half of 2010 and 2011 as we continue to develop our new divisional structure and implement our new standard processes. We now expect to spend a total of £32m in order to deliver an increased run rate of savings of £55m by the end of 2011.

To date, our cost reduction initiatives (including K&F integration) have reduced headcount by over 14% (nearly 1200 people) from July 2008.

INVESTING FOR THE FUTURE

Developing and owning intellectual property is an important part of Meggitt's successful strategy. Total product development expenditure in the first half of 2010 was maintained at £41.1m (2009: £42.5m), of which 20% was funded by customers. The largest relative investment was once again in Sensing Systems at around 15% of segment revenues.

Meggitt invested £16.1m (2009: £15.8m) in supplying free of charge equipment to new aircraft coming into the fleet and in making programme participation contributions in the braking systems business.

Capital expenditure on property, plant and equipment and other intangible assets reduced to £11.4m (2009: £14.6m), although expenditure is expected to increase in the second half as we progress the implementation of our common IT platforms.

The Group continued to expand its low cost manufacturing capability in Xiamen, China and Queretaro, Mexico with additional product lines being transferred during the period. This is part of a continuing process of seeking out opportunities to reduce our cost base and win new business.

RETIREMENT BENEFIT SCHEMES

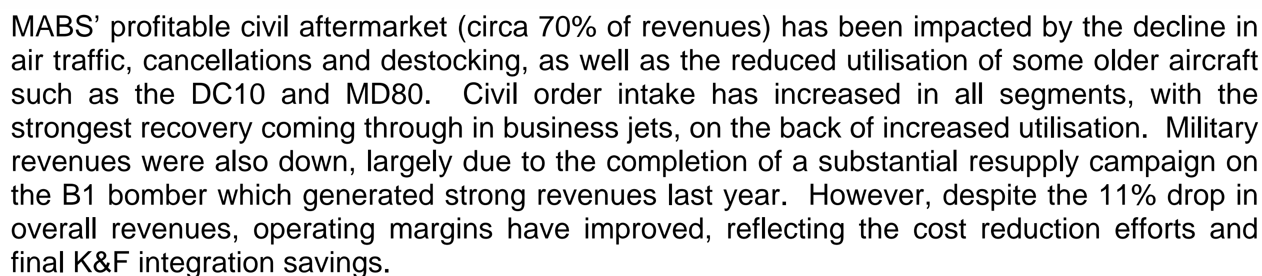
Since year end, Meggitt's pension deficit and healthcare costs deficit have increased to £321.8m (December 2009: £280.5m). This reflects lower AA corporate bond rates used to discount liabilities and reduced asset valuations. The Group made deficit reduction payments of £11.0m in 2010 (2009: £11.1m). During the period the triennial valuation for the UK pension fund was agreed with the trustees and concluded that deficit reduction payments should continue at broadly similar levels for the medium term.

OPERATIONAL HIGHLIGHTS

As reported previously, we have changed our organisational structure to reflect more focused capability groupings and are reporting against that structure for the first time. The financial performance of the new divisions is highlighted in the table below:

£m				Underlying				
Revenue				Operating Profit			Return on Sales	
2010	2009			2010	2009		2010	2009
147.3	164.6	-11%	Aircraft Braking Systems	55.3	59.2	-7%	37.5%	36.0%
91.5	93.7	-2%	Control Systems	23.6	21.8	8%	25.8%	23.3%
75.4	74.8	1%	Polymers & Composites	15.6	13.3	17%	20.7%	17.8%
98.0	98.2	0%	Sensing Systems	18.0	15.4	17%	18.4%	15.7%
137.5	155.1	-11%	Equipment Group	28.8	31.1	-7%	20.9%	20.1%
549.7	586.4	-6%	Total	141.3	140.8	0%	25.7%	24.0%

Meggitt Aircraft Braking Systems (MABS) provides wheels, brakes and brake control systems for over 30,000 in-service aircraft, and continues to develop innovative technology for new programmes such as the all-electric braking system on Bombardier's CSeries aircraft. The division targets sole source programmes, and is particularly strong in regional aircraft, business jets and military platforms. The division represents 27% of total Group revenue, generating 87% of its revenues from the aftermarket and 13% from the OE market.



MABS' profitable civil aftermarket (circa 70% of revenues) has been impacted by the decline in air traffic, cancellations and destocking, as well as the reduced utilisation of some older aircraft such as the DC10 and MD80. Civil order intake has increased in all segments, with the strongest recovery coming through in business jets, on the back of increased utilisation. Military revenues were also down, largely due to the completion of a substantial resupply campaign on the B1 bomber which generated strong revenues last year. However, despite the 11% drop in overall revenues, operating margins have improved, reflecting the cost reduction efforts and final K&F integration savings.

Meggitt Control Systems (MCS) designs and manufactures products which either manage the flow of liquids and gases around turbine engines (both aerospace and industrial) or control the temperature of oil, fuel and air around aircraft engines. Its valve business is also involved in the supply of airport ground fuelling products and it supplies cabin air conditioning for smaller aircraft. The division represents 17% of total Group revenue and generated 54% of its revenues from the OE market and 46% from the aftermarket.

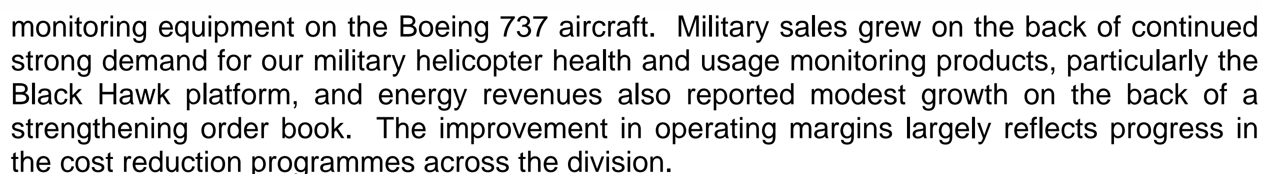
For MCS, civil aerospace revenues accounted for the small decline in overall revenue across the division and was focused around reduced demand in the general aviation segment for cabin air conditioning systems. The remaining civil aerospace, military and other segments were broadly flat. The reduction in revenues was more than compensated for by the benefits of the cost reduction programme which helped to improve operating margins from 23.3% to 25.8%.

Meggitt Polymers & Composites (MPC) has a strong military focus, representing approximately two thirds of its sales. It supplies flexible bladder fuel tanks, ice protection products and composite assemblies for a range of fixed wing and rotorcraft platforms, as well as complex seals packages for civil and military platforms. These market segments are linked by their dependence on similar materials technology and manufacturing processes. We supply over 70% of the US military requirements for fuel bladders and ballistically tolerant or crashworthy fuel tanks. MPC represents 14% of total Group revenue and generated approximately two thirds of its revenues from the OE market and one third from the aftermarket.

Revenues in MPC were up 1% in the half year on the back of continued growth in military sales. This was offset, as in the other divisions, by slow civil aerospace sales, predominantly in the aftermarket. Quotation activity in the civil aftermarket has picked up in recent months, underpinning our confidence that sales will return to growth in the second half of the year. Operating margins improved from 17.8% to 20.7%, helped by increased benefits from our cost reduction programme.

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. They combine these sensors into broader electronics packages which take data from the sensors and other systems around the engine to provide condition data to operators and maintainers of engines, contributing to improved safety and a reduced cost of operating the engine. The division has also migrated these products into other specialist markets which require similar capabilities, such as test and measurement, automotive crash test and medical pacemakers. MSS represents 18% of total Group revenue and generated 74% of its revenues from the OE market and 26% from the aftermarket.

MSS reported growth in civil and military revenues offset by weakness in its other specialist markets which continued to experience difficult market conditions. MSS was the only division in the Group to experience an increase in civil revenues over the period, albeit modest, led by an end to destocking and continuing healthy demand for the retrofit of its advanced vibration



monitoring equipment on the Boeing 737 aircraft. Military sales grew on the back of continued strong demand for our military helicopter health and usage monitoring products, particularly the Black Hawk platform, and energy revenues also reported modest growth on the back of a strengthening order book. The improvement in operating margins largely reflects progress in the cost reduction programmes across the division.

Meggitt Equipment Group (MEG) comprises a technologically diverse range of businesses, each of which has differentiated capabilities and a specific focus, ranging from high speed electromechanical devices through to sophisticated electronics and electromechanical components and sub systems. Products include fire protection, military training and combat systems, secondary flight displays, printed circuit heat exchangers (PCHEs) and industrial sensors. The division represents 25% of total Group revenue and generates approximately two thirds of its revenues from the OE market and one third from the aftermarket.

Revenues in MEG were down 11% on the same period last year as a result of the expected weak sales of our PCHEs at Heatric and the delays in releasing OCO (Supplemental) funding referred to previously. Although Heatric's PCHE business had weak first half revenues reflecting the low order intake in 2009, its order intake was much improved with half year order intake exceeding that achieved in the full year of 2009. These orders will only have a modest impact on the second half of 2010 but should underpin a recovery in sales volumes in 2011. Operating margins improved through a combination of improved mix and the benefits of the cost reduction programme.

CONTRACT WINS

The Group continued its solid track record of contract wins in the period. The following are examples of significant contract wins, either because of their scale or strategic significance for the Group:

CSeries – we were very pleased to be awarded a contract by Bombardier to provide a tyre pressure indicating system (TPIS) for the CSeries aircraft. During the period we were also awarded a further contract to supply similar technology on another programme which has yet to be announced and there are more opportunities in the pipeline.

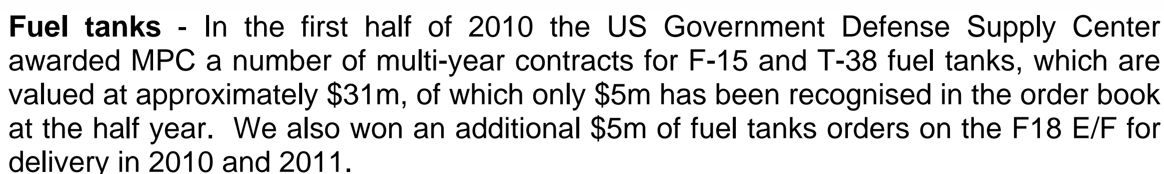
Also on **CSeries** we were awarded the thermal management package for Pratt & Whitney's PurePower™ engine, complementing an existing valve package for the same engine. Both packages are under development.

Blast-resistant fuel tanks for military ground vehicle - MPC were successful in breaking into the fighting vehicle blast-resistant fuel tank segment with the award of a $12m upgrade contract. This is the first contract Meggitt has won to supply its blast-resistant fuel tank technology on a ground vehicle platform, with the same life-saving potential our equipment has already demonstrated on helicopters. We expect to receive further orders in connection with this project in the second half of 2010.

MC-21 - MABS signed a memorandum of understanding with Irkut to develop the total braking system on the MC-21, the new Russian narrow body aircraft, and is now making good progress in the Joint Development Phase of the programme. The platform won a launch order for 50 aircraft from a Malaysian leasing company during the period adding international credibility to its anticipated success in the Russian domestic market.

Sealing solutions - MPC have been very successful in winning contracts for the provision of sealing solutions for the A350 XWB. Contracts so far awarded have a potential OE value in excess of $14m. Contracts have also been awarded for the supply of sealing solutions to a number of Boeing platforms through several customers. These contracts have a value of over $21m over the next 2-3 years.

Agusta Westland AW159 Lynx Wildcat – Agusta Westland awarded MPC long term contracts worth nearly £16m for the supply of assemblies to the AW159 Lynx Wildcat programme and anti-icing systems for the AW101. These contracts underpin the strong relationships MPC has with all the major helicopter manufacturers.



Fuel tanks - In the first half of 2010 the US Government Defense Supply Center awarded MPC a number of multi-year contracts for F-15 and T-38 fuel tanks, which are valued at approximately $31m, of which only $5m has been recognised in the order book at the half year. We also won an additional $5m of fuel tanks orders on the F18 E/F for delivery in 2010 and 2011.

FRES - Our ammunition handling business was part of the winning General Dynamics/Lockheed Martin team for the Future Rapid Effects System (FRES) scout variant, for which we will provide our leading linkless feed ammunition handling system for the 40mm cannon. The scale and timing of this programme is clearly subject to the results of the UK MoD's strategic defence review due in the autumn, although a prime contract has been signed between the MoD and General Dynamics UK.

InSight® industrial condition monitoring - Following the recent launch of our InSight® range of upgraded condition monitoring tools for land based turbines, we have received strong customer interest and recently won a contract in Korea to supply this upgraded product to the Samchunpo regional coalfired power station. In France we were awarded a contract to supply condition monitoring equipment at the Flamanville 3 nuclear power station. The Flamanville turbine, which is expected to come on line in 2012, will produce 1700 megawatts of power, equivalent to 34 of the largest aero engines, and more than 2% of France's electricity requirements.

Printed circuit heat exchangers (PCHE's) - Key amongst Heatric's PCHE orders was a £3.5m contract to supply heat exchangers for a floating production, storage and offloading vessel (FPSO) to be used in an offshore gas field. Further orders are expected to equip additional FPSO vessels in future.

BOARD OF DIRECTORS

We were pleased to announce the appointment of Paul Heiden as a non-executive director of the Group. Paul is Chairman of Talaris Topco Limited, and a non-executive director of The London Stock Exchange Group Plc and United Utilities Plc, and brings a wealth of experience in finance, engineering and manufacturing across a range of different commercial markets.

GROUP OUTLOOK

The outlook for our civil markets continues to improve in line with our expectations. Production of large jets is likely to remain strong in the current year before growing further in 2011, helped by the entry into service of the Boeing 787 Dreamliner. Air traffic growth is expected to accelerate in the second half with European and US markets turning positive over the last couple of months. We expect a continuing recovery in the second half in both our civil OE and aftermarket businesses driving year on year revenue growth overall.

In military markets, the delays in approving the OCO budget and the increased requirements associated with the troop surge have impacted first half revenues, but with OCO approval expected before the summer recess we anticipate returning to growth in the second half of the year, with flat to modest growth for the year as a whole. Our energy and other specialist markets are also expected to be broadly flat for the year with growth in energy compensating for the decline in PCHE and other specialist markets.

The Group has continued to implement its cost reduction programme and has increased its targeted run rate of savings to £55m by the end of 2011. Cash generation and the balance sheet are expected to remain strong, and we have underpinned our debt financing with the recent private placement.

Based on current market indicators and at constant exchange rates, the Group expects to return to revenue growth in the second half of 2010 and is well positioned for the longer term. As a consequence the Board has increased the dividend by 5.6% to 2.85p.

CONSOLIDATED UNAUDITED INCOME STATEMENT
For the six months ended 30 June 2010

	Notes	**Six months ended 30 June 2010 £m**	Six months ended 30 June 2009 £m
Continuing operations			
Revenue	3	**549.7**	586.4
Cost of sales	4	**(307.7)**	(337.4)
Gross profit		**242.0**	249.0
Net operating costs	4	**(150.6)**	(120.4)
Operating profit*	4	**91.4**	128.6
Finance income	7	**16.7**	14.5
Finance costs	8	**(41.8)**	(43.0)
Net finance costs		**(25.1)**	(28.5)
Profit before tax**		**66.3**	100.1
Tax	9	**(14.5)**	(25.5)
Profit for the period from continuing operations attributable to equity holders		**51.8**	74.6
Earnings per share:			
Basic	10	**7.5p**	11.1p
Diluted	10	**7.5p**	11.1p

	Notes	2010	2009
* Underlying operating profit	4	**141.3**	140.8
** Underlying profit before tax	4	**116.2**	112.3

CONSOLIDATED UNAUDITED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Six months ended 30 June 2010 £m	Six months ended 30 June 2009 £m
Profit for the period	**51.8**	74.6
Other comprehensive income/(expense) for the period:		
Actuarial losses	**(35.4)**	(27.5)
Currency translation differences	**63.6**	(99.9)
Cash flow hedge movements	**7.6**	6.7
Other comprehensive income/(expense) before tax	**35.8**	(120.7)
Tax relating to components of other comprehensive income/(expense)	**9.8**	(3.1)
Other comprehensive income/(expense) for the period	**45.6**	(123.8)
Total comprehensive income/(expense) for the period attributable to equity holders	**97.4**	(49.2)

CONSOLIDATED UNAUDITED BALANCE SHEET

As at 30 June 2010

	Notes	**30 June 2010 £m**	31 December 2009 £m	30 June 2009 Restated £m
Non-current assets				
Goodwill	13	**1,338.1**	1,261.9	1,240.9
Development costs	13	**137.8**	119.0	99.9
Programme participation costs	13	**188.4**	174.9	169.2
Other intangible assets	13	**773.1**	754.5	773.8
Property, plant and equipment	14	**214.7**	215.9	220.2
Trade and other receivables		**37.3**	36.2	16.8
Derivative financial instruments		**18.1**	1.9	3.6
Deferred tax assets		**194.4**	170.6	96.6
		2,901.9	2,734.9	2,621.0
Current assets				
Inventories		**254.8**	236.5	256.8
Trade and other receivables		**222.9**	211.3	231.1
Derivative financial instruments		**2.2**	4.5	9.7
Current tax recoverable		**0.3**	0.2	0.4
Cash and cash equivalents	16	**28.3**	62.9	46.0
		508.5	515.4	544.0
Total assets	3	**3,410.4**	3,250.3	3,165.0
Current liabilities				
Trade and other payables		**(230.3)**	(239.2)	(243.8)
Derivative financial instruments		**(13.7)**	(17.2)	(8.1)
Current tax liabilities		**(44.4)**	(34.6)	(59.2)
Obligations under finance leases	16	**(0.8)**	(0.8)	(0.9)
Bank and other borrowings	15	**(11.1)**	(9.7)	(11.9)
Provisions	17	**(37.0)**	(35.8)	(38.3)
		(337.3)	(337.3)	(362.2)
Net current assets		**171.2**	178.1	181.8
Non-current liabilities				
Trade and other payables		**(8.7)**	(9.2)	(10.4)
Derivative financial instruments		**(35.2)**	(24.5)	(40.4)
Deferred tax liabilities		**(407.5)**	(393.2)	(309.4)
Obligations under finance leases	16	**(4.6)**	(4.6)	(4.9)
Bank and other borrowings	15	**(866.4)**	(856.4)	(923.4)
Provisions	17	**(71.8)**	(71.0)	(51.7)
Retirement benefit obligations	18	**(321.8)**	(280.5)	(242.6)
		(1,716.0)	(1,639.4)	(1,582.8)
Total liabilities		**(2,053.3)**	(1,976.7)	(1,945.0)
Net assets		**1,357.1**	1,273.6	1,220.0
Equity				
Share capital		**34.7**	34.3	34.0
Share premium		**848.7**	825.9	816.4
Other reserves		**14.1**	14.1	14.1
Hedging and translation reserves		**186.4**	117.3	91.9
Retained earnings		**273.2**	282.0	263.6
Total equity attributable to equity holders		**1,357.1**	1,273.6	1,220.0

CONSOLIDATED UNAUDITED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Share capital £m	Share premium £m	Other reserves £m	Hedging and translation reserves £m	Retained earnings £m	Total equity £m
At 1 January 2009	33.3	798.8	14.1	195.7	244.5	1,286.4
Profit for the period	-	-	-	-	74.6	74.6
Other comprehensive income/(expense) for the period:						
Actuarial losses	-	-	-	-	(27.5)	(27.5)
Currency translation differences:						
Arising in the period	-	-	-	(99.9)	-	(99.9)
Cash flow hedge movements:						
Movements in fair value	-	-	-	0.1	-	0.1
Transferred to income statement	-	-	-	6.6	-	6.6
Other comprehensive expense before tax	-	-	-	(93.2)	(27.5)	(120.7)
Tax relating to components of other comprehensive expense	-	-	-	(10.6)	7.5	(3.1)
Other comprehensive expense for the period	-	-	-	(103.8)	(20.0)	(123.8)
Total comprehensive (expense)/income for the period	-	-	-	(103.8)	54.6	(49.2)
Employee share schemes:						
Value of services provided	-	-	-	-	2.8	2.8
Dividends	0.7	17.6	-	-	(38.3)	(20.0)
At 30 June 2009	34.0	816.4	14.1	91.9	263.6	1,220.0
At 1 January 2010	34.3	825.9	14.1	117.3	282.0	1,273.6
Profit for the period	-	-	-	-	51.8	51.8
Other comprehensive income/(expense) for the period:						
Actuarial losses	-	-	-	-	(35.4)	(35.4)
Currency translation differences:						
Arising in the period	-	-	-	63.6	-	63.6
Cash flow hedge movements:						
Movements in fair value	-	-	-	(4.1)	-	(4.1)
Transferred to income statement	-	-	-	11.7	-	11.7
Other comprehensive income/(expense) before tax	-	-	-	71.2	(35.4)	35.8
Tax relating to components of other comprehensive income/(expense)	-	-	-	(2.1)	11.9	9.8
Other comprehensive income/(expense) for the period	**-**	**-**	-	**69.1**	**(23.5)**	**45.6**
Total comprehensive income for the period	**-**	**-**	-	**69.1**	**28.3**	**97.4**
Employee share schemes:						
Value of services provided	-	-	-	-	4.5	4.5
Own shares purchased	-	-	-	-	(2.2)	(2.2)
Proceeds from shares issued	0.1	3.6	-	-	-	3.7
Dividends	0.3	19.2	-	-	(39.4)	(19.9)
At 30 June 2010	**34.7**	**848.7**	**14.1**	**186.4**	**273.2**	**1,357.1**

CONSOLIDATED UNAUDITED CASH FLOW STATEMENT

For the six months ended 30 June 2010

	Notes	**Six months ended 30 June 2010 £m**	Six months ended 30 June 2009 £m
Cash inflow from operations before exceptional operating items		**132.8**	140.9
Cash outflow from exceptional operating items	5	**(9.7)**	(12.7)
Cash inflow from operations	22	**123.1**	128.2
Interest received		**0.1**	1.0
Interest paid		**(19.0)**	(25.3)
Tax paid		**(19.9)**	(9.3)
Tax equalisation swap received/(paid)*		**4.2**	(11.4)
Cash inflow from operating activities	16	**88.5**	83.2
Proceeds from disposal of subsidiaries		**-**	0.4
Capitalised internal development costs		**(17.0)**	(16.2)
Capitalised programme participation costs		**(16.1)**	(15.8)
Purchase of other intangible assets	13	**(5.2)**	(3.0)
Purchase of property, plant and equipment		**(6.3)**	(11.9)
Proceeds from disposal of property, plant and equipment		**0.1**	0.3
Cash outflow from investing activities	16	**(44.5)**	(46.2)
Dividends paid to Company's shareholders	16	**(19.9)**	(20.0)
Issue of equity share capital	16	**3.6**	-
Proceeds from borrowings	15	**175.6**	48.0
Debt issue costs		**(0.2)**	-
Repayments of borrowings		**(239.2)**	(79.3)
Cash outflow from financing activities		**(80.1)**	(51.3)
Net decrease in cash and cash equivalents		**(36.1)**	(14.3)
Cash and cash equivalents at start of period		**62.9**	67.3
Exchange gains/(losses) on cash and cash equivalents		**1.5**	(7.0)
Cash and cash equivalents at end of period	16	**28.3**	46.0

* Represents settlements under tax equalisation swaps designed to hedge the Group's tax exposure on foreign exchange movements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 June 2010

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 2009 were approved by the Board of Directors on 1 March 2010 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.

2. Accounting policies

Basis of preparation
The condensed consolidated financial statements for the six months ended 30 June 2010 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 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 2009. 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 these condensed consolidated financial statements.

Changes in accounting policy
Except as disclosed below 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 2009.

The tax charge for the interim period has been calculated using the expected effective tax rates for each tax jurisdiction for the year ended 31 December 2010. These rates have been applied to the pre-tax profits made in each jurisdiction for the six months ended 30 June 2010.

The following amendment to an existing accounting standard became effective during the current period. It has had no impact on the current period but is likely to impact future financial statements:

- IFRS 3 (Revised), 'Business combinations' and consequential amendments to IAS 27 'Consolidated and separate financial statements', IAS 28, 'Investments in associates' and IAS 31 'Interests in joint ventures'. The revision to IFRS 3 requires the Group to record contingent consideration at fair value at the acquisition date and in subsequent periods remeasure such consideration at fair value through the income statement. The Group is also required to expense certain transaction costs rather than include them as part of the consideration paid. These changes are applicable to business combinations occurring in accounting periods beginning on or after 1 July 2009.

The following amendments to existing standards and new interpretations also became effective during the current period, but have had no impact on the Group's financial statements:

- 'Improvements to International Financial Reporting Standards 2009';
- IAS 27 (Revised), 'Consolidated and separate financial statements';
- IFRIC 15, 'Agreements for the construction of real estate';
- IFRIC 17, 'Distributions of non-cash assets to owners';
- IFRIC 18, 'Transfers of assets from customers'.

2. Changes in accounting policy (continued)

The following amendments to existing standards and new interpretations have been published and are mandatory for the Group's future accounting periods. They have not been early adopted in these financial statements and are not expected to have a significant impact on future financial statements when adopted:

- 'Improvements to International Financial Reporting Standards 2010' (Effective for annual periods beginning on or after 1 January 2011 subject to endorsement by the European Union);
- IAS 24 (Revised), 'Related party disclosures' (Effective for annual periods beginning on or after 1 January 2011 subject to endorsement by the European Union);
- IAS 32 (Amendment), 'Financial instruments: Presentation on classification of rights issues' (Effective for annual periods beginning on or after 1 February 2010);
- IFRS 9, 'Financial Instruments' (Effective for annual periods beginning on or after 1 January 2013 subject to endorsement by the European Union);
- IFRIC 14 (Amendment), 'IAS 19 – Prepayments of a minimum funding requirement' (Effective for annual periods beginning on or after 1 January 2011);
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments' (Effective for annual periods beginning on or after 1 July 2010 subject to endorsement by the European Union).

3. Segmental analysis

As part of the transformation programme (see note 5), the Group has created five new divisions. Results are reported in 2010 under this new segmental structure, in line with the format now reviewed by the Group's Chief Operating Decision Maker. Comparative segmental information for 2009 has been restated in line with the new segmental structure.

Six months ended 30 June 2010:

	Aircraft Braking Systems	**Control Systems**	**Polymer & Composites**	**Sensing Systems**	**Equipment Group**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Gross segmental revenue	147.3	91.7	75.6	98.1	137.6	550.3
Inter-segment revenue	-	(0.2)	(0.2)	(0.1)	(0.1)	(0.6)
Revenue	**147.3**	**91.5**	**75.4**	**98.0**	**137.5**	**549.7**
Underlying operating profit*	**55.3**	**23.6**	**15.6**	**18.0**	**28.8**	**141.3**

Six months ended 30 June 2009 restated:

	Aircraft Braking Systems	Control Systems	Polymer & Composites	Sensing Systems	Equipment Group	Total
	£m	£m	£m	£m	£m	£m
Gross segmental revenue	164.6	94.3	74.8	98.3	155.3	587.3
Inter-segment revenue	-	(0.6)	-	(0.1)	(0.2)	(0.9)
Revenue	164.6	93.7	74.8	98.2	155.1	586.4
Underlying operating profit*	59.2	21.8	13.3	15.4	31.1	140.8

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

3. **Segmental analysis** (continued)

Segment assets

	30 June 2010 £m	31 December 2009 Restated £m	30 June 2009 Restated £m
Aircraft Braking Systems	**2,286.9**	2,167.6	2,170.9
Control Systems	**220.8**	210.6	197.9
Polymers & Composites	**83.6**	79.4	82.9
Sensing Systems	**265.3**	247.9	238.6
Equipment Group	**307.9**	298.0	316.1
Total segmental operating assets	**3,164.5**	3,003.5	3,006.4
Centrally managed operating assets*	**2.6**	6.7	2.3
Derivative financial instruments – non-current	**18.1**	1.9	3.6
Deferred tax assets	**194.4**	170.6	96.6
Derivative financial instruments – current	**2.2**	4.5	9.7
Current tax recoverable	**0.3**	0.2	0.4
Cash and cash equivalents	**28.3**	62.9	46.0
Total assets	**3,410.4**	3,250.3	3,165.0

* Centrally managed operating assets include amounts recoverable under tax equalisation swaps and property, plant and equipment of central companies.

4. **Reconciliations between profit and underlying profit**

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

	Six months ended 30 June 2010 £m	Six months ended 30 June 2009 £m
Operating profit	**91.4**	128.6
Exceptional operating items (note 5)	**7.1**	11.5
Amortisation of intangibles acquired in business combinations (note 13)	**33.2**	35.2
Financial instruments (note 6)	**9.6**	(34.5)
Adjustments to operating profit*	**49.9**	12.2
Underlying operating profit	**141.3**	140.8
Profit before tax	**66.3**	100.1
Adjustments to operating profit per above	**49.9**	12.2
Underlying profit before tax	**116.2**	112.3
Profit for the period	**51.8**	74.6
Adjustments to profit before tax per above	**49.9**	12.2
Tax effect of adjustments to profit before tax	**(16.9)**	(5.9)
Adjustments to profit for the period	**33.0**	6.3
Underlying profit for the period	**84.8**	80.9

* Of the adjustments to operating profit £2.2m (2009: £5.0m) relating to exceptional operating items is charged to cost of sales, the balance of £47.7m (2009: £7.2m) is included within net operating costs.

5. Exceptional operating items

Items which are significant by virtue of their size or nature and which are considered non-recurring are classified as exceptional items.

In response to the economic downturn, the Group commenced in 2009 a transformation programme involving reductions in factory direct and indirect headcount and related costs arising from volume reductions, transforming the way the business is managed, effectively removing a layer of management, freezing executive pay and reducing pension and other benefits. The Group is on track to achieve the end of 2010 cost savings target of £50m, and is raising the savings target to an annual run rate of £55m by the end of 2011, at a one-off cost of £32m. Costs to date associated with the programme are treated as an exceptional operating item.

The K&F Industries Holdings Inc ("K&F") integration programme was completed with final savings of £22.1m delivered.

	Six months ended 30 June 2010 £m	Six months ended 30 June 2009 £m
Transformation programme	**6.4**	9.4
Integration of K&F	**0.7**	2.0
Other	**-**	0.1
Total	**7.1**	11.5

Total cash spend in the period on all exceptional operating items was £9.7m (2009: £12.7m).

6. Financial instruments

Although the Group uses foreign currency forward contracts to hedge against foreign currency exposures it has decided the costs of meeting the extensive documentation required 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 these derivatives are excluded from underlying profit. Where interest rate derivatives do qualify to be accounted for as fair value hedges, any difference between the movement in the fair values of the derivatives and in the fair value of fixed rate borrowings is excluded from underlying profit.

	Six months ended 30 June 2010 £m	Six months ended 30 June 2009 £m
Movement in the fair value of foreign currency forward contracts	**(10.2)**	36.9
Impact of excluding the effects of foreign currency forward contracts not hedge accounted	**(0.5)**	(3.5)
Movement in the fair value of interest rate derivatives	**16.8**	2.7
Movement in the fair value of fixed rate borrowings *	**(15.7)**	(1.6)
Total (loss)/gain	**(9.6)**	34.5

* Includes fair value movements on unrecognised firm commitments for which fair value hedges have been put in place.

7. Finance income

	Six months ended 30 June 2010 £m	Six months ended 30 June 2009 £m
Interest on bank deposits	**0.1**	0.5
Unwinding of interest on other receivables	**0.6**	0.6
Expected return on retirement benefit scheme assets	**16.0**	13.1
Other finance income	**-**	0.3
Total	**16.7**	14.5

8. Finance costs

	Six months ended 30 June 2010 £m	Six months ended 30 June 2009 £m
Interest on bank borrowings	**14.6**	17.4
Interest on senior notes	**4.8**	4.5
Interest on finance lease obligations	**0.1**	0.2
Unwinding of interest on provisions (note 17)	**0.7**	0.6
Unwinding of interest on retirement benefit scheme liabilities	**21.1**	19.7
Other finance costs	**0.5**	0.6
Total	**41.8**	43.0

9. Tax

The tax charge for the period has been calculated using the expected tax rate for the year for each tax jurisdiction. These rates have been applied to the pre-tax profits made in each jurisdiction for the six months to 30 June 2010.

The Finance (No. 2) Act 2010 included legislation to reduce the main rate of corporation tax in the UK from 28% to 27% with effect from 1 April 2011. Further reductions are proposed to reduce the main rate by 1% per annum to 24% by 1 April 2014.

As these changes to the main rate of UK corporation tax had not been substantially enacted at the balance sheet date, their impact is not reflected in these condensed consolidated financial statements.

The legislation to reduce the main tax rate to 27% has been substantially enacted subsequent to the balance sheet date and will be reflected in the financial statements for the year ended 31 December 2010. Had this change been enacted prior to the interim balance sheet date then the impact on net deferred tax liabilities as at 30 June 2010, profit for the period (underlying and statutory) and other comprehensive income for the period would not have been significant.

10. Earnings per ordinary share

The calculation of earnings per ordinary share is based on profits of £51.8m (2009: £74.6m) and on the weighted average 687.8m (2009: 669.9m) ordinary shares in issue during the six months to 30 June 2010. The weighted average number of shares used excludes shares bought by the Group and held as own shares.

The calculation of diluted earnings per ordinary share is based on the same profits as used in the calculation of basic earnings per ordinary share. The weighted average number of ordinary shares of 692.3m (2009: 670.0m) used in the calculation is based on the weighted average number used in the calculation of basic earnings per share adjusted to reflect the assumption all share options and equity-settled share appreciation rights in issue are exercised.

The calculation of underlying earnings per share is based on underlying profits (see note 4) of £84.8m (2009: £80.9m) and on the same number of ordinary shares as used in the calculation of basic earnings per ordinary share and is calculated below:

	Six months ended 30 June 2010 pence	Six months ended 30 June 2009 pence
Basic earnings per share	**7.5**	11.1
Add back effects of:		
Exceptional operating items	**0.7**	1.3
Amortisation of intangibles acquired in business combinations	**3.1**	3.4
Financial instruments	**1.0**	(3.7)
Adjustments to basic earnings per share	**4.8**	1.0
Underlying earnings per share	**12.3**	12.1

11. Dividends

The Directors have declared an interim net dividend of 2.85 pence per ordinary share (2009: 2.70 pence) which will be paid on 1 October 2010 to shareholders on the register on 13 August 2010. 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 17 September 2010. As the dividend was approved by the Directors after 30 June 2010 the dividend cost of £19.8m (2009: £18.4m) is not recorded as a liability at 30 June 2010.

12. Related party transactions

The remuneration of the key management personnel of the Group including executive directors is set out below:

	Six months ended 30 June 2010 £m	Six months ended 30 June 2009 £m
Wages and salaries	**2.0**	2.0
Social security costs	**0.2**	0.2
Pension costs	**0.3**	0.2
Share-based payment expense	**1.0**	1.5
Total	**3.5**	3.9

13. Intangible assets

	Goodwill £m	Development costs £m	Programme participation costs £m	Other intangible assets £m
At 1 January 2009	1,382.7	97.8	180.4	901.6
Exchange rate adjustments	(141.8)	(10.5)	(18.0)	(94.1)
Additions	-	16.2	15.8	3.0
Amortisation charge (note 22)	-	(3.6)	(9.0)	(36.7)*
At 30 June 2009	1,240.9	99.9	169.2	773.8
At 1 January 2010	1,261.9	119.0	174.9	754.5
Exchange rate adjustments	76.2	5.2	10.3	48.4
Additions	-	17.2	12.8	5.2
Amortisation charge (note 22)	-	(3.6)	(9.6)	(35.0)*
At 30 June 2010	**1,338.1**	**137.8**	**188.4**	**773.1**

* Amortisation of other intangible assets includes £33.2m (2009: £35.2m) of amortisation of intangible assets arising in business combinations which has been excluded from underlying 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 2009 and no impairment charge was required.

14. Property, plant and equipment

	2010 £m	2009 £m
At 1 January	**215.9**	245.2
Exchange rate adjustments	**8.3**	(20.6)
Additions	**5.3**	10.5
Disposals	**(0.1)**	(0.3)
Depreciation charge (note 22)	**(14.7)**	(14.6)
At 30 June	**214.7**	220.2

15. Bank and other borrowings

	2010 £m	2009 £m
At 1 January	**866.1**	1,108.0
Exchange rate adjustments	**63.6**	(141.7)
Proceeds from bank and other borrowings	**175.6**	48.0
Repayments of bank and other borrowings	**(238.5)**	(78.6)
Other non-cash movements	**10.7**	(0.4)
At 30 June	**877.5**	935.3
Disclosed as:		
Current	**11.1**	11.9
Non-current	**866.4**	923.4
At 30 June	**877.5**	935.3

16. Net debt

	2010 £m	2009 £m
At 1 January	**808.6**	1,047.9
Cash inflow from operating activities	**(88.5)**	(83.2)
Cash outflow from investing activities	**44.5**	46.2
Less: Proceeds from disposal of subsidiaries	**-**	0.4
Free cash inflow	**(44.0)**	(36.6)
Proceeds from disposal of subsidiaries	**-**	(0.4)
Dividends paid to Company's shareholders	**19.9**	20.0
Issue of equity share capital	**(3.6)**	-
Net cash inflow	**(27.7)**	(17.0)
Exchange rate adjustments	**63.0**	(135.4)
Other non-cash movements	**10.7**	(0.4)
At 30 June	**854.6**	895.1
Disclosed as:		
Bank and other borrowings (note 15)	**877.5**	935.3
Obligations under finance leases – current	**0.8**	0.9
Obligations under finance leases – non-current	**4.6**	4.9
Less: Cash and cash equivalents	**(28.3)**	(46.0)
Total	**854.6**	895.1

17. Provisions

	2010 £m	2009 £m
At 1 January	**106.8**	109.3
Exchange rate adjustments	**7.0**	(10.9)
Charge to income statement – cost of sales	**2.3**	1.1
Charge/(credit) to income statement – net operating costs	**2.2**	(0.9)
Charge to income statement – finance costs (note 8)	**0.7**	0.6
Utilised	**(10.2)**	(9.2)
At 30 June	**108.8**	90.0
Disclosed as:		
Current	**37.0**	38.3
Non-current	**71.8**	51.7
At 30 June	**108.8**	90.0

18. Retirement benefit obligations

	2010 £m	2009 £m
The amounts recognised in the balance sheet are as follows:		
Fair value of scheme assets	**514.8**	435.7
Fair value of scheme liabilities	**(836.6)**	(678.3)
At 30 June	**(321.8)**	(242.6)

18. Retirement benefit obligations (continued)

	2010	2009
	£m	£m
Analysis of retirement benefit obligations:		
Pension schemes	**(250.7)**	(180.9)
Healthcare schemes	**(71.1)**	(61.7)
At 30 June	**(321.8)**	(242.6)

Key financial assumptions:

	2010	2009
UK Schemes:		
Discount rate	**5.30%**	6.30%
Inflation rate	**3.10%**	3.30%
Salary inflation rate	**4.10%**	4.30%
Current life expectancy – Male aged 65 (years)	**21.8 to 24.4**	20.1 to 21.5
Overseas Schemes:		
Discount rate	**5.25%**	6.50%
Salary inflation rate	**4.00%**	4.00%
Current life expectancy – Male aged 65 (years)	**18.9**	18.8

Healthcare cost increases for US schemes are assumed to be 8.5% for 2010 trending down to 5.0% by 2017 (2009: 8.5% for 2009 trending down to 5.0% by 2016). There have been no changes to mortality or healthcare assumptions from those used at 31 December 2009.

The current service cost recognised in the income statement for the period was £6.2m (2009: £6.1m). Employer cash contributions paid during the period were £17.2m (2009: £17.2m).

19. Contingent liabilities

The Company has given guarantees in respect of uncommitted credit facilities for certain of its subsidiaries, some property leases, other leasing arrangements and the performance by some current subsidiaries of certain contracts. Also, there are similar guarantees given by certain other Group companies. The fair value of these guarantees is not considered to be significant.

The Company and various of its subsidiaries are, from time to time, parties to legal or regulatory 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. Share capital

	2010	2009
	No. m	No. m
At 1 January	**685.3**	665.6
Issued on exercise of executive share options	**1.4**	-
Issued on exercise of sharesave options	**0.5**	-
Scrip dividends	**6.8**	14.7
At 30 June	**694.0**	680.3

The company acquired 0.7m of its own shares through purchases by the independently managed share ownership plan on the London stock exchange on 3 March 2010. The total amount paid to acquire the shares, net of income tax, was £2.2m and has been deducted from retained earnings within shareholders' equity.

21. Capital commitments

	30 June 2010 £m	30 June 2009 £m
Contracted for but not incurred:		
Intangible assets	**1.6**	0.9
Property, plant and equipment	**4.3**	5.1
Total	**5.9**	6.0

22. Cash inflow from operations

	Six months ended 30 June 2010 £m	Six months ended 30 June 2009 £m
Profit for the period	**51.8**	74.6
Adjustments for:		
Tax	**14.5**	25.5
Depreciation (note 14)	**14.7**	14.6
Amortisation (note 13)	**48.2**	49.3
Profit on disposal of subsidiaries	**-**	(0.1)
Finance income (note 7)	**(16.7)**	(14.5)
Finance costs (note 8)	**41.8**	43.0
Financial instruments (note 6)	**9.6**	(34.5)
Retirement benefit obligation deficit payments	**(11.0)**	(11.1)
Share-based payment expense	**3.3**	3.8
Changes in working capital	**(33.1)**	(22.4)
Total	**123.1**	128.2

23. Restatement of prior year comparatives

IAS 1 (Revised), ‘Presentation of financial statements’ provided clarification on the classification of derivative financial instruments which are not hedge accounted, as current or non-current assets or liabilities. The balance sheet at June 2009 has been restated to reflect this reclassification.

As part of the transformation programme (see note 5), the Group has created five new divisions. Results are reported in 2010 under this new segmental structure, in line with the format now reviewed by the Group’s Chief Operating Decision Maker. Comparative segmental information for 2009 has been restated in line with the new segmental structure (see note 3).

24. Approval of interim management report

The interim management report was approved by the Board of Directors on 2 August 2010.

25. Availability of interim management report

The interim management report will be available on our website www.meggitt.com from 3 August 2010. 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 2009 Annual Report the principal risks and uncertainties which the Group is exposed to. These are expected to continue to be relevant for the remaining six months of the year.

The risks include those arising from market competition, reduced demand for the Group's products, acquisitions, fixed price contracts, contract violations, equipment fault, supply chain management, the Group's transformation programme, credit risk, exchange rate movements, renewal of debt facilities, interest rate risk, retirement benefit plan funding, environmental obligations, legal and regulatory matters and the maintenance of key employees. Further details can be found in the 'Risks and Uncertainties' section of the Annual Report and Accounts 2009 on pages 26 to 29 together with details of certain strategies adopted to mitigate any exposures.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors confirm that to the best of their knowledge:

- this condensed set of consolidated interim financial statements have 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 4.2.7 and DTR 4.2.8, namely:

    - An indication of important events that have occurred during the six months ended 30 June 2010 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 2010 and any material changes in the related party transactions described in the last annual report.

By order of the Board:

T Twigger
Chief Executive
2 August 2010

S Young
Group Finance Director
2 August 2010

ENDS