2 August 2011

Strong organic growth

Meggitt PLC ("Meggitt" or "the Group"), a leading international 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 2011.

FINANCIAL HIGHLIGHTS

£m	**2011**	2010	% change
Revenue	**649.8**	549.7	+18%
Underlying[1]:			
EBITDA	**196.7**	171.0	+15%
Operating profit	**164.0**	141.3	+16%
Profit before tax	**146.2**	116.2	+26%
Earnings per share	**14.4p**	12.3p	+17%
Statutory:			
Operating profit	**130.0**	91.4	+42%
Profit before tax	**112.2**	66.3	+69%
Earnings per share	**11.7p**	7.5p	+56%
Net debt	**847.8**	854.6	-1%
Dividend	**3.20p**	2.85p	+12%

(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.

- Strong organic orders and revenue growth (13% at constant exchange rates) in all end markets, particularly civil (aerospace and energy).
- Pacific Scientific (PacSci) acquisition trading in line with expectations; integration and synergies on track.
- Transformation programme savings achieved – annual run rate of £57m.
- Increased investment in sales & marketing, engineering and manufacturing operations excellence to drive long-term growth.
- Free cash flow up 70%; net debt at a comfortable 1.9 times EBITDA.
- Balance sheet refinanced – no new facilities required before 2013.
- Interim dividend increased 12%.

Terry Twigger, Chief Executive, commented:

"The Group had an excellent first half, delivering 13% organic revenue growth at constant exchange rates, driven mainly by our civil markets. We are delighted with the PacSci acquisition, which is a great fit with Meggitt and brings exciting new capabilities to the Group. With our diversified end markets, the integration of the PacSci businesses and the benefits from our transformation programme, the Group is well positioned for further good growth."

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MARKET BACKGROUND

Civil

Civil revenues account for 60% of total Group revenues and delivered organic growth of 19%. Of these revenues, three quarters come from aerospace with the balance coming from energy and other markets.

Civil Aerospace

Meggitt operates in three main segments of the civil aerospace market: large jets, regional aircraft and business jets. Our large jet fleet includes approximately 17,000 aircraft, the regional aircraft fleet about 6,000, and business jets over 16,000, providing a very large, and growing, installed base. The split of civil aerospace revenues, which account for 45% of the Group total, is circa two thirds aftermarket and one third original equipment (OE).

Civil OE deliveries have continued to develop in line with our expectations. Manufacturers of large jets maintained deliveries at 2009 levels through 2010 and we expect additional deliveries in 2011 with the first deliveries of the Boeing 787 as well as an increase in the rate of production of narrow body aircraft. Further increases in expected build rates for narrow body aircraft have been announced by Boeing and Airbus for 2012 and beyond and deliveries of Boeing 787s should increase rapidly. Business jet and regional aircraft manufacturers reduced production levels in 2009 and 2010. In 2011 we expect regional aircraft deliveries to be broadly flat whilst business jet deliveries will continue to fall. We expect a recovery in both segments from 2012.

Over the five years to 2015 we expect our revenues from civil OE to grow at an average rate of around 7-8% per annum, helped by strong growth in business jets and new platform introductions including the Boeing 787, Airbus A350 and Bombardier CSeries. Our growth assumptions assume there will be no further economic downturn.

International and US Domestic Available Seat Kilometres (ASKs), a proxy for air traffic which is a key driver of the demand from airlines for spares on large and regional aircraft, declined by around 5% in 2009 before returning to growth in the second half of 2010. Full year ASK growth was just under 4% in 2010, with monthly growth rates in the latter months of the year around 7%. We expect 2011 ASK growth to be around 7%, slightly above the long term trend rate. In the first five months of 2011, ASKs continued to grow at 7-8%.

US business jet usage, which decreased 17% in 2009, rebounded strongly in 2010, and growth for the year as a whole was 12%. Continued growth is expected in 2011, albeit against progressively tougher comparatives. For the five months to May 2011 overall US business jet utilisation increased by 5%.

In the civil aftermarket, we expect our revenues to grow around 8-9% per annum on average over the five years to 2015. This is based on ASK growth of 5% per year, with business jets expected to grow aftermarket revenues at a double digit rate per annum based on a continuing recovery in utilisation, growing international demand, and on-going mix change from steel to carbon brakes which have a higher unit shipset price.

Other civil markets

Other revenues (15% of Group total) come from various end markets such as energy (just over half), automotive, test, consumer goods and medical.

Within the energy market, we have continued to see a strong recovery in demand for our printed circuit heat exchangers (PCHEs) from offshore oil and gas markets. Increases in the oil price combined with projected increases in global demand for energy (led especially by the BRIC economies) are stimulating oil and gas exploration and production investment.

With many of the opportunities being offshore our PCHE product offers an attractive solution to platform designers. Demand for new power generation equipment as well as maintenance and upgrade activity has also picked up, with the Group benefitting from the introduction of our VibroSight™ product as well as the expanded regional office network. We expect our energy revenues to grow at double digit percentages in the medium term.

Excluding energy, our other specialist markets generate revenue from a range of different products and end markets including airport ground fuelling, consumer electronics, automotive, test & measurement and medical. Most of these products are derivatives of our core capabilities. These diverse end markets are recovering steadily and we expect to see modest growth in the coming periods.

Military
The requirement for governments around the world to tackle their budget deficits is leading to increased pressure on military spending in most western countries, albeit tempered by the continuing requirement to provide military support to campaigns in Afghanistan and other conflict areas. In the US, which is by far the most important military market for Meggitt, the debate on future year budgets makes for an uncertain environment. For the coming years, flat to modest growth in nominal terms in the base budget looks likely, which would mean a fall in real terms. The Administration is looking to use efficiency savings to protect key programmes as far as possible, and to adapt the tools, equipment and training to meet the increasingly asymmetric threats of international terrorism.

Our revenues are generated from a broad range of platforms for all branches of the military, with a healthy split between OE and aftermarket. We are well positioned on the current growth platforms such as Eurofighter Typhoon, V22, F35 (JSF), E/F-18 Super Hornet and Black Hawk, but are not overly exposed to any single one. We believe that the focus on modernising and extending the life of existing platforms where Meggitt has an established aftermarket as well as new platforms to address the new threats will create opportunities for the Group despite the difficult end market environment and reduction in utilisation of certain aircraft types (rotary wing and transport aircraft) following the planned drawdown of troops from Afghanistan.

We believe that our growing fleet, opportunities to retrofit new technologies onto existing platforms and counter-cyclical opportunities in training mean we are well positioned to deliver continuing revenue growth of around 2% in the coming years (slightly more than this in 2011 due to strong orders in our training business).

ORDERS AND REVENUES

The strong recovery in orders and revenues, which began in the second half of 2010, has continued into 2011.

Orders in H1, excluding PacSci, increased by 13% at constant exchange rates with double digit increases in all end markets. Civil markets were particularly strong, led by aerospace OE and energy with growth of 23% and 25% respectively. Civil aerospace aftermarket and military orders were both up c10%.

First half revenue growth was positively impacted by a two month contribution from the PacSci businesses and adversely impacted by currency movements, largely translation of our US businesses' revenues to Sterling at a rate of $1.63 = £1 in 2011, compared to $1.51 = £1 in 2010. The table below takes our H1 reported revenue growth of 18% and backs out the impact of PacSci and currency, to show underlying organic growth of 13%.

	H1 2011 £m	H1 2010 £m	Growth
Reported revenue	**649.8**	549.7	+18%
PacSci	**(55.8)**		
Meggitt excl PacSci	**594.0**	549.7	+8%
Adjustment to 2010 exchange rates	**27.4**		
Organic growth	**621.4**	549.7	+13%

The following table analyses this organic growth of 13% by quarter and by end market.

	2011 Revenue £m	Organic growth vs same period 2010 H1	Q1	Q2
Civil aero OE	**89.2**	27%	23%	30%
Civil aero AM	**178.0**	14%	9%	18%
Total civil aero	**267.2**	18%	14%	22%
Energy	**49.7**	37%	28%	46%
Other	**38.4**	7%	4%	10%
Total civil	**355.3**	19%	14%	23%
Military	**238.7**	6%	10%	4%
Total	**594.0**	13%	12%	15%

Civil aerospace growth of 18% was led by strong growth in OE revenues. The OE growth reflects an element of both restocking in the supply chain and pipeline fill ahead of production rate increases by Boeing and Airbus. In the aftermarket, the recovery in ASKs noted above, together with a strong pick up in business jet revenues, combined to generate a 14% increase in revenues. Both OE and aftermarket growth accelerated in the second quarter (Q2).

Energy revenues increased 37%. As expected, revenues from our compact PCHEs grew particularly strongly following the surge in orders during 2010. Order intake continues to exceed revenues giving confidence that the strong growth in revenues will continue through the second half and into 2012. Power generation revenues continued to grow at a healthy double digit rate, supported by the successful development of our regional office network and the introduction of our upgraded VibroSight™ condition monitoring product range. Excluding energy, revenues from other specialist markets grew by 7%.

Military revenues were, as expected, boosted by strong orders for training-related products. The growth was primarily driven by international markets and, in particular, live fire and virtual simulation projects. Demand for other military products grew by approximately 2.5%, just above our medium term guidance.

PacSci

PacSci revenues in the first half of 2011 (pre and post acquisition) totalled $201.3m an increase of 13% over H1 2010. Underlying trends in these businesses are very similar to the other Meggitt businesses with mid teens growth in civil aerospace (OE and aftermarket) and growth of around 2% in military markets. Only the post acquisition element of PacSci's trading is consolidated in the Group's numbers.

PROFIT AND DIVIDENDS

The Board's preferred measure of the Group's trading performance is underlying operating profit (UOP). UOP for the half year grew 16% to £164.0m (2010: £141.3m), including a two month contribution from the PacSci businesses and adverse currency movements of £6.9m. Organic UOP growth in H1 was 12% as shown in the table below.

	H1 2011 £m	H1 2010 £m	Growth
Reported UOP	**164.0**	141.3	+16%
PacSci	**(12.2)**		
Meggitt excl PacSci	**151.8**	141.3	+7%
Adjustment to 2010 exchange rates	**6.9**		
Organic growth	**158.7**	141.3	+12%

The underlying operating margin decreased to 25.2% (2010: 25.7%), reflecting mainly the lower margin of the PacSci businesses. The underlying operating margin excluding PacSci reduced marginally from 25.7% to 25.6% reflecting the strong growth in lower margin civil aerospace OE revenues.

PacSci operating profits for the half year were $32.5m which compares to $30.1m in the equivalent period last year, representing a like-for-like operating margin of 16.3% (2010: 16.9%). The slight decline in margin is driven by relatively strong growth in OE revenues combined with some adverse currency movements.

Net finance costs decreased to £17.8m (2010: £25.1m) as a result of our strong cash generation and currency movements. Within this, post-retirement finance charges decreased to £2.2m (2010: £5.1m). Underlying profit before tax increased by 26% to £146.2m (2010: £116.2m).

The underlying tax charge was 25.0% (2010: 27.0%) and, after taking account of the increased share count due to the share placing and strong take up of the scrip dividend during the period, underlying earnings per share increased by 17% to 14.4 pence (2010: 12.3 pence).

On a statutory basis, profit before tax increased by 69% to £112.2m (2010: £66.3m) and earnings per share increased by 56% to 11.7p (2010: 7.5p). The adjustments between underlying profit and statutory profit are described in notes 4 and 10.

As a result of this very strong performance, the interim dividend is increased by 12% to 3.20p (2010: 2.85p).

OPERATING EXCEPTIONAL COSTS

The charge of £12.0m in H1 is detailed in note 5 and relates to the purchase and integration of PacSci, the transformation programme and the consolidation of two Sensing Systems facilities in the US which was recently announced and is scheduled to happen in 2013.

CASH FLOW AND BORROWINGS

Cash inflow from operations before exceptional operating items was a very healthy £174.8m, which was 107% of underlying operating profit (2010: £132.8m and 94%).

The Group had a net cash outflow in the period of £119.5m as a result of the purchase of PacSci. The Group also continued to invest significant amounts in our development programmes and the deployment of our common ERP solution. As a result, net debt increased from £721.4m at 31 December 2010 to £847.8m at 30 June 2011.

There are two main financial covenants in our banking agreements. The net debt/EBITDA ratio, which must not exceed 3.5x, was 1.9x at 30 June 2011 (December 2010: 1.9x) and interest cover, which must be not less than 3.0x, was 11.1x (December 2010: 9.1x). The Group therefore has significant headroom against both key covenant ratios and, at 30 June 2011, had £429m of undrawn headroom, net of cash, against committed bank facilities. During the period the Group refinanced its 2007 banking facility with a new 5 year committed revolving facility. The facility, which has been reduced from $920m to $700m as a result of our strong cash generation, was over-subscribed. No further refinancing is required before 2013.

PACSCI

The Group completed the acquisition of the PacSci businesses from Danaher Corporation on 21 April 2011 for a consideration of $685m, representing a multiple of 8.7x 2010 EBITDA (7.9x after a negotiated tax benefit). The transaction was funded through a combination of a share placing of approximately $400m (which took place in January) and existing debt facilities.

The businesses fit well into Meggitt's business model, with strong technology positions, a significant level of sole source content and aftermarket sales representing over one third of total revenue. The acquisition adds fire and smoke suppression capabilities to Meggitt's product portfolio, creating a leading integrated fire and smoke detection and suppression offering, and will enhance Meggitt's electric solutions offering as aircraft of the future shift away from hydraulic/pneumatic technology and towards electric power. It will also strengthen Meggitt's portfolio of sensors and anti-icing products, and enhance the Group's low cost manufacturing capability with the addition of factories in Mexico and Vietnam. The business had revenues of $378m in 2010, delivering EBITDA of $79m, and has significant positions on growth programmes which will drive revenue growth into the future.

Comprehensive integration plans are being finalised and synergy targets have been refined by function and by business. As a result we are very confident that we will deliver the targeted synergies of $18m per annum by 2014 at a cost of approximately $32m.

INVESTING FOR THE FUTURE

The business should deliver organic growth of 6-7% over the next five years and there are opportunities to increase this medium term growth rate by making selective investments in marketing and engineering resources.

Developing and owning intellectual property is a critical part of Meggitt's successful strategy. Total product development expenditure in the first half of 2011 was £47.5m (2010: £41.1m), of which 23% was funded by customers. The largest investment as a percentage of sales was in Sensing Systems at around 15% of segment revenues.

Whilst the majority of this investment is targeted at developing products to support contracts already won from our customers, we also continue to make strategic technology investments in areas such as integrated vehicle health monitoring, more electric aircraft, anti-icing and components able to withstand the more extreme temperature and pressure environments of next generation engines. These will add capabilities to our offering and help us to win incremental positions on new programmes.

Meggitt also invested £16.1m (2010: £12.8m) in supplying free of charge equipment to new aircraft coming into the fleet and in making programme participation contributions, mostly in the braking systems business.

Capital expenditure on property, plant and equipment and other intangible assets increased to £18.7m (2010: £10.5m), including investment in the deployment of our common ERP system across the Group.

Meanwhile we have continued to expand the range of products manufactured at our facilities in Xiamen, China and Queretaro, Mexico. The PacSci businesses have added low cost manufacturing capabilities in Vietnam and Mexico and we will be evaluating opportunities for the whole Group to take advantage of these.

We continue to believe there are opportunities to improve our operational execution through the adoption of a standard continuous improvement methodology across the Group. This is one of the strengths of the PacSci businesses and we will be looking to apply their expertise across the legacy Meggitt businesses.

RETIREMENT BENEFIT SCHEMES

The overall deficit on the Group's retirement benefit schemes reduced slightly to £262.0m (December 2010: £265.1m). Deficit reduction payments and favourable exchange movements were mainly offset by lower asset returns and a small increase in inflation assumptions.

OPERATIONAL HIGHLIGHTS

The financial performance of the individual divisions is highlighted in the table below. PacSci is part of the Equipment Group but is shown separately in the table below for ease of comparison:

Revenue			**Underlying OP**		**Return on Sales**	
2011 £m	**Constant FX growth**		**2011 £m**	**Constant FX growth**	**2011**	2010
147.0	6%	Aircraft Braking Systems	**53.0**	2%	**36.1%**	37.5%
93.9	9%	Control Systems	**24.3**	9%	**25.9%**	25.8%
79.8	12%	Polymers & Composites	**14.8**	1%	**18.5%**	20.7%
112.0	16%	Sensing Systems	**20.4**	11%	**18.2%**	18.4%
161.3	22%	Equipment Group	**39.3**	42%	**24.4%**	20.9%
594.0	13%	Total excl PacSci	**151.8**	12%	**25.6%**	25.7%
55.8		PacSci	**12.2**			
649.8		Group	**164.0**		**25.2%**	25.7%

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 C Series aircraft. The division targets sole source programmes, and is particularly strong in regional aircraft, business jets and military platforms. The division represents 23% of total Group revenue, generating approximately 85% of its revenues from the aftermarket and 15% from OE sales.

MABS' civil aftermarket (approximately two thirds of revenues) has recovered well from the downturn, growing 8% in the first half of 2011 at constant currency. The recovery has been strongest in business jets, reflecting the recovery in utilisation as well as the gradual switch of the fleet from steel to carbon brakes which have a higher shipset value. Regional aircraft aftermarket revenues also performed well led by the growth platforms of the Embraer 170/190 family and Bombardier's CRJ 1000 as well as turboprops such as the ATR 72. Large jet revenues were broadly flat. Military revenues were down 7%, largely due to the completion of a substantial resupply campaign on the B1 bomber which concluded in the first half of 2010. Total revenues were up 6% at constant currency. Operating margins remained strong with the year on year movement largely due to mix.

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 14% of total Group revenue, with a broadly equal split between OE and aftermarket.

For MCS, growing civil aerospace revenues drove total revenues up 9% at constant currency, with a strong performance from both OE and aftermarket segments. Military and other specialist market revenues were broadly flat.

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. We supply over 70% of the US military requirements for fuel bladders and ballistically tolerant or crashworthy fuel tanks. MPC represents 12% 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 12% in the half year at constant currency on the back of a strong recovery in civil sales, particularly of polymer seals. Civil OE revenues were especially strong, mainly in large jets, which reflects additional business won as well as the general recovery seen across the Group. Military revenues also continued to grow, led by increased shipments of aircraft fuel tanks. Operating margins declined from 20.7% to 18.5% as a result of the addition of a significant number of new production employees. Adding significant production headcount in high touch-labour operations tends to result in reduced production efficiencies for a short period. We expect margins to begin to recover in the second half as these operators become fully trained.

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. As well as migrating these products into other specialist markets which require similar capabilities, such as test and measurement, automotive crash test and medical pacemakers, MSS has teamed with MABS to apply their engine condition monitoring capability into tyre pressure monitoring where we are seeing significant market opportunities. MSS represents 17% of total Group revenue and generated approximately three quarters of its revenues from the OE market and a quarter from the aftermarket.

MSS reported good growth in civil aerospace, energy and other specialist market revenues, partly offset by a small decline in military revenues. Total constant currency revenue growth was 16%. Growth in civil markets was very strong in OE segments, including a ramp-up of deliveries for the Boeing 787 programme. The civil aerospace aftermarket also experienced double digit growth in response to increasing utilisation but was out-stripped by the OE strength. Energy revenues continued to grow as a result of the launch of our VibroSight™ condition monitoring product and our improved penetration of end user customers through our sales offices in India and China. The small decline in operating margins primarily reflects the strong growth of OE revenues, which tend to be at lower margins relative to aftermarket, as well as adverse currency transaction impacts (particularly for our Swiss-based business).

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, PCHEs and industrial sensors. The division (excluding PacSci) 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 (excluding PacSci) grew strongly with overall constant currency growth of 22%. The expected recovery in revenues from PCHEs was a significant driver with growth of almost 150% over a weak first half of 2010. As already noted order intake has remained strong in the first half and we expect continued PCHE revenue growth in H2 and 2012, albeit against stronger comparatives. The military training businesses in the division also reported growth of approximately 30% reflecting strong order intake at the end of 2010 and in the early months of 2011. The Safety Systems business saw growth led by orders from India to provide several thousand fire detectors in support of an upgrade of their main battle tank. Civil aerospace has also seen a recovery in OE and aftermarket sales consistent with the trends in other divisions. Operating margins improved to 24.4%, helped by an improved mix of product sales within the division.

CONTRACT WINS

Overall Group order intake, excluding PacSci and at constant exchange rates, increased by 13% over the first half of 2010, continuing the trend seen in the second half of last year. The growth was broad based but strongest in the civil aerospace OE and energy segments. In addition to booked orders, the Group continued its solid track record of contract wins in the period, which will typically drive order intake in this, or more often future, periods. Examples of significant contract wins, either because of their scale or strategic significance for the Group, include:

> **Tyre Pressure Monitoring System** (TPMS) – We have now been awarded three contracts to extend our condition monitoring capability into tyre pressure monitoring including Bombardier's CSeries and two additional, but as yet unannounced, business jet programmes;

Pratt & Whitney PurePower® engine. Control Systems and Sensing Systems have been selected by Hamilton Sundstrand to provide hardware for the new PurePower® engine. The PurePower® engine will power the A320NEO aircraft as well as the Bombardier CSeries, Mitsubishi Regional Jet and Irkut MC-21 aircraft programmes.

Particle discriminating smoke detection. Boeing has selected a Meggitt cargo and cabin smoke detection system for the KC-46 refuelling tanker. The advanced system features advanced optical measurement features and digital signal processing to eliminate the false alarms that disrupt airline schedules, incurring significant cost to airline operators and impairing the readiness of military aircraft. Immunity to false alarms is guaranteed because it will not, like conventional systems, react to harmless dust concentrations. We believe that our enhanced capability in this area, combined with our ability to offer a full ATA Chapter 26 detection and suppression system following the PacSci acquisition, will leave us well placed to win further contract awards;

Advanced lithium batteries. Securaplane's advanced lithium-ion battery system has been selected by Gulfstream for their new flagship G650 aircraft. We will provide main ship, emergency and flight control backup batteries, together with integral charging and control electronics. This technology is 50% lighter than conventional NiCad or lead acid batteries (equivalent to nearly one passenger) whilst delivering a higher energy density.

Blast resistant fuel tanks for Bradley Fighting Vehicle. We have received follow-on orders to apply our life-saving helicopter technology to the Bradley having completed deliveries on the initial order placed in 2010;

Military contracts – The training businesses won two important modernisation programmes, one for the Ministry of Defence's premier live-fire range for operational pre-deployment training at the British Army Training Unit Suffield in Alberta, Canada and one for the Australian Defence Force's Weapon Training Simulation System facilities. In aerospace, MABS was awarded a contract to supply upgraded wheels and brakes for the B1 Bomber which will support the extended capabilities and mission life of the aircraft.

Together these contracts are estimated to be worth over $1bn over the life of the programmes.

BOARD OF DIRECTORS

Brenda Reichelderfer was appointed as a non-executive director with effect from 7 June 2011. Brenda, who is a US citizen, was Senior Vice President, Director of Engineering and Chief Technology Officer of ITT Industries Corporation until her retirement in 2008 having previously held a number of senior roles within the corporation including Group President of one of their four strategic business units. Brenda will provide a welcome addition to the Board's engineering and manufacturing experience.

OUTLOOK

The Group had an excellent first half delivering double digit organic revenue and operating profit growth as well as very strong free cash flow. It also completed the acquisition of PacSci, refinanced banking facilities and was awarded several important positions on new platforms.

Strong civil aerospace markets will continue to drive good organic growth, as will energy markets as heat exchanger sales recover and sales to power generation customers grow helped by new product launches and an expanded sales network. Despite budgetary constraints the Group still expects modest growth in military revenues going forward, in line with its medium term guidance.

The integration of the PacSci businesses is on track and the Group remains confident that revenues of these businesses will grow at 6-7% over the medium term, in common with the rest of the Group, and that the target synergies will be delivered.

Based on current market indicators and at constant exchange rates, the Group expects to deliver good organic revenue growth in the second half of 2011 and is well positioned for the longer term. As a sign of its confidence the Board has increased the interim dividend by 12% to 3.20p.

CONSOLIDATED UNAUDITED INCOME STATEMENT

For the six months ended 30 June 2011

	Notes	**Six months ended 30 June 2011 £m**	Six months ended 30 June 2010 £m
Continuing operations			
Revenue	3	**649.8**	549.7
Cost of sales		**(365.3)**	(307.7)
Gross profit		**284.5**	242.0
Net operating costs		**(154.5)**	(150.6)
Operating profit*	4	**130.0**	91.4
Finance income	7	**18.4**	16.7
Finance costs	8	**(36.2)**	(41.8)
Net finance costs		**(17.8)**	(25.1)
Profit before tax**		**112.2**	66.3
Tax	9	**(23.0)**	(14.5)
Profit for the period from continuing operations attributable to equity holders		**89.2**	51.8
Earnings per share:			
Basic	10	**11.7p**	7.5p
Diluted	10	**11.6p**	7.5p

	Notes	2011	2010
* Underlying operating profit	4	**164.0**	141.3
** Underlying profit before tax	4	**146.2**	116.2

CONSOLIDATED UNAUDITED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	Six months ended 30 June 2011 £m	Six months ended 30 June 2010 £m
Profit for the period	**89.2**	51.8
Actuarial losses	**(9.5)**	(35.4)
Currency translation differences	**(18.4)**	63.6
Cash flow hedge movements	**(0.4)**	7.6
Other comprehensive (expense)/income before tax	**(28.3)**	35.8
Related tax movements	**0.6**	9.8
Other comprehensive (expense)/income for the period	**(27.7)**	45.6
Total comprehensive income for the period attributable to equity holders	**61.5**	97.4

CONSOLIDATED UNAUDITED BALANCE SHEET

As at 30 June 2011

	Notes	**30 June 2011 £m**	31 December 2010 £m	30 June 2010 £m
Non-current assets				
Goodwill	14	**1,654.6**	1,295.5	1,338.1
Development costs	14	**166.1**	151.3	137.8
Programme participation costs	14	**186.5**	183.8	188.4
Other intangible assets	14	**686.2**	722.1	773.1
Property, plant and equipment	15	**222.4**	207.1	214.7
Investments		**0.7**	-	-
Trade and other receivables		**91.7**	88.6	37.3
Derivative financial instruments		**17.8**	12.0	18.1
Deferred tax assets		**106.8**	105.0	194.4
		3,132.8	2,765.4	2,901.9
Current assets				
Inventories		**284.6**	239.1	254.8
Trade and other receivables		**277.3**	238.4	222.9
Derivative financial instruments		**7.5**	6.2	2.2
Current tax recoverable		**1.0**	0.8	0.3
Cash and cash equivalents	17	**106.4**	51.9	28.3
		676.8	536.4	508.5
Total assets	3	**3,809.6**	3,301.8	3,410.4
Current liabilities				
Trade and other payables		**(301.9)**	(249.9)	(230.3)
Derivative financial instruments		**(11.6)**	(4.0)	(13.7)
Current tax liabilities		**(66.0)**	(60.8)	(44.4)
Obligations under finance leases	17	**(0.7)**	(0.8)	(0.8)
Bank and other borrowings	16	**(16.9)**	(12.7)	(11.1)
Provisions	18	**(40.6)**	(40.7)	(37.0)
		(437.7)	(368.9)	(337.3)
Net current assets		**239.1**	167.5	171.2
Non-current liabilities				
Trade and other payables		**(9.2)**	(7.8)	(8.7)
Derivative financial instruments		**(4.7)**	(17.1)	(35.2)
Deferred tax liabilities		**(314.4)**	(329.6)	(407.5)
Obligations under finance leases	17	**(3.5)**	(3.9)	(4.6)
Bank and other borrowings	16	**(933.1)**	(755.9)	(866.4)
Provisions	18	**(119.3)**	(115.3)	(71.8)
Retirement benefit obligations	19	**(262.0)**	(265.1)	(321.8)
		(1,646.2)	(1,494.7)	(1,716.0)
Total liabilities		**(2,083.9)**	(1,863.6)	(2,053.3)
Net assets		**1,725.7**	1,438.2	1,357.1
Equity				
Share capital		**38.8**	34.9	34.7
Share premium		**1,128.5**	859.4	848.7
Other reserves		**14.1**	14.1	14.1
Hedging and translation reserves		**140.3**	159.1	186.4
Retained earnings		**404.0**	370.7	273.2
Total equity attributable to equity holders		**1,725.7**	1,438.2	1,357.1

CONSOLIDATED UNAUDITED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Share capital	Share premium	Other reserves	Hedging and translation reserves	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m
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
Actuarial losses	-	-	-	-	(35.4)	(35.4)
Currency translation differences:						
Arising in the period	-	-	-	63.6	-	63.6
Cash flow hedge movements:						
Movement 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
Related tax movements	-	-	-	(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
Shares issued	0.1	3.6	-	-	(2.2)	1.5
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
At 1 January 2011	34.9	859.4	14.1	159.1	370.7	1,438.2
Profit for the period	**-**	**-**	**-**	**-**	**89.2**	**89.2**
Actuarial losses	-	-	-	-	(9.5)	(9.5)
Currency translation differences:						
Arising in the period	-	-	-	(18.4)	-	(18.4)
Cash flow hedge movements:						
Movement in fair value	-	-	-	(2.9)	-	(2.9)
Transferred to income statement	-	-	-	2.5	-	2.5
Other comprehensive expense before tax	-	-	-	(18.8)	(9.5)	(28.3)
Related tax movements	-	-	-	-	0.6	0.6
Other comprehensive expense for the period	**-**	**-**	**-**	**(18.8)**	**(8.9)**	**(27.7)**
Total comprehensive (expense)/income for the period	**-**	**-**	**-**	**(18.8)**	**80.3**	**61.5**
Equity placing	3.5	242.5	-	-	-	246.0
Employee share schemes:						
Value of services provided	-	-	-	-	2.8	2.8
Shares issued	-	2.3	-	-	(1.0)	1.3
Dividends	0.4	24.3	-	-	(48.8)	(24.1)
At 30 June 2011	**38.8**	**1,128.5**	**14.1**	**140.3**	**404.0**	**1,725.7**

CONSOLIDATED UNAUDITED CASH FLOW STATEMENT

For the six months ended 30 June 2011

	Notes	**Six months ended 30 June 2011 £m**	Six months ended 30 June 2010 £m
Cash inflow from operations before exceptional operating items		**174.8**	132.8
Cash outflow from exceptional operating items	5	**(8.5)**	(9.7)
Cash inflow from operations	23	**166.3**	123.1
Interest received		**0.2**	0.1
Interest paid		**(15.2)**	(19.0)
Tax paid		**(24.9)**	(19.9)
Tax equalisation swap received*		**-**	4.2
Cash inflow from operating activities	17	**126.4**	88.5
Businesses acquired	12	**(418.1)**	-
Net cash acquired with businesses	12	**0.7**	-
Capitalised development costs	14	**(17.0)**	(17.0)
Capitalised programme participation costs		**(15.5)**	(16.1)
Purchase of other intangible assets		**(8.9)**	(5.2)
Purchase of property, plant and equipment		**(10.4)**	(6.3)
Proceeds from disposal of property, plant and equipment		**0.1**	0.1
Cash outflow from investing activities	17	**(469.1)**	(44.5)
Dividends paid to Company's shareholders	17	**(24.1)**	(19.9)
Issue of equity share capital	17	**247.3**	3.6
Proceeds from borrowings	16	**349.0**	175.6
Debt issue costs paid		**(2.8)**	(0.2)
Repayments of borrowings		**(171.5)**	(239.2)
Cash inflow/(outflow) from financing activities		**397.9**	(80.1)
Net increase/(decrease) in cash and cash equivalents		**55.2**	(36.1)
Cash and cash equivalents at start of period		**51.9**	62.9
Exchange (losses)/gains on cash and cash equivalents		**(0.7)**	1.5
Cash and cash equivalents at end of period	17	**106.4**	28.3

* Represents the settlement under a tax equalisation swap 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 2011

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 2010 were approved by the Board of Directors on 28 February 2011 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 2011 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 2010. The directors continue to adopt the going concern basis in these condensed consolidated financial statements.

Adoption of new and revised accounting standards

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 2010.

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 2011. These rates have been applied to the pre-tax profits made in each jurisdiction for the six months ended 30 June 2011.

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

- 'Improvements to International Financial Reporting Standards 2010';
- IAS 24 (Revised), 'Related party disclosures';
- IAS 32 (Amendment), 'Financial instruments: Presentation on classification of rights issues';
- IFRIC 14 (Amendment), 'IAS 19 – Prepayments of a minimum funding requirement';
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'.

Recent accounting developments

The following new standards and amendment to an existing accounting standard have been published and are mandatory for the Group's future accounting periods. They are subject to endorsement by the European Union. The standards are effective for annual periods beginning on or after 1 January 2013. They have not been early adopted in these financial statements. The expected impact is still being assessed in detail by management:

- IFRS 9, 'Financial instruments';
- IFRS 13, 'Fair value measurement';
- IAS 19 (revised 2011), 'Employee benefits'.

2. **Recent accounting developments** (continued)

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

Effective for annual periods beginning on or after 1 July 2011:
- Amendment to IFRS 1, 'First-time Adoption of International Financial Reporting Standards';
- Amendment to IFRS 7, 'Financial instruments: Disclosures';

Effective for annual periods beginning on or after 1 July 2012:
- Amendment to IAS 1, 'Presentation of financial statements';
- Amendment to IAS 12, 'Income taxes';

Effective for annual periods beginning on or after 1 January 2013:
- IFRS 10, 'Consolidated financial statements';
- IFRS 11, 'Joint arrangements';
- IFRS 12, 'Disclosures of interests in other entities';
- IAS 27 (revised 2011), 'Separate financial statements';
- IAS 28 (revised 2011), 'Associates and joint ventures'.

3. **Segmental analysis**

PacSci is managed within the Equipment Group. However, the results of PacSci have been reported separately to the Chief Operating Decision Maker for the period from acquisition to 30 June 2011 and accordingly PacSci is treated as a separate segment under IFRS 8 for this period.

Six months ended 30 June 2011:

	Aircraft Braking Systems £m	**Control Systems £m**	**Polymers & Composites £m**	**Sensing Systems £m**	**Equipment Group £m**	**PacSci £m**	**Total £m**
Gross segmental revenue	147.0	94.5	80.4	112.5	161.4	55.8	651.6
Inter-segment revenue	-	(0.6)	(0.6)	(0.5)	(0.1)	-	(1.8)
Revenue	**147.0**	**93.9**	**79.8**	**112.0**	**161.3**	**55.8**	**649.8**
Underlying operating profit*	**53.0**	**24.3**	**14.8**	**20.4**	**39.3**	**12.2**	**164.0**

Six months ended 30 June 2010:

	Aircraft Braking Systems £m	Control Systems £m	Polymers & Composites £m	Sensing Systems £m	Equipment Group £m	PacSci £m	Total £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

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

3. Segmental analysis (continued)

Segment assets	**30 June 2011**	31 December 2010	30 June 2010 Restated
	£m	£m	£m
Aircraft Braking Systems	**456.4**	454.6	464.3
Control Systems	**118.5**	114.5	120.1
Polymers & Composites	**73.6**	69.4	75.9
Sensing Systems	**195.5**	176.4	168.1
Equipment Group	**170.6**	179.6	170.7
PacSci	**97.7**	-	-
Total segmental trading assets	**1,112.3**	994.5	999.1
Centrally managed trading assets*	**116.3**	113.8	56.8
Goodwill	**1,654.6**	1,295.5	1,338.1
Other intangible assets	**686.2**	722.1	773.1
Investments	**0.7**	-	-
Derivative financial instruments – non-current	**17.8**	12.0	18.1
Deferred tax assets	**106.8**	105.0	194.4
Derivative financial instruments – current	**7.5**	6.2	2.2
Current tax recoverable	**1.0**	0.8	0.3
Cash and cash equivalents	**106.4**	51.9	28.3
Total assets	**3,809.6**	3,301.8	3,410.4

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

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 2011	Six months ended 30 June 2010
	£m	£m
Operating profit	**130.0**	91.4
Exceptional operating items (note 5)	**12.0**	7.1
Amortisation of intangibles acquired in business combinations (note 14)	**28.3**	33.2
Financial instruments (note 6)	**(6.3)**	9.6
Adjustments to operating profit*	**34.0**	49.9
Underlying operating profit	**164.0**	141.3
Profit before tax	**112.2**	66.3
Adjustments to operating profit per above	**34.0**	49.9
Underlying profit before tax	**146.2**	116.2
Profit for the period	**89.2**	51.8
Adjustments to operating profit per above	**34.0**	49.9
Tax effect of adjustments to operating profit	**(13.5)**	(16.9)
Adjustments to profit for the period	**20.5**	33.0
Underlying profit for the period	**109.7**	84.8

4. **Reconciliations between profit and underlying profit** (continued)

* Of the adjustments to operating profit, £1.1m (2010: £2.2m) relating to exceptional operating items has been charged to cost of sales with the balance of £32.9m (2010: £47.7m) 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 operating items.

		Six months ended 30 June 2011 £m	Six months ended 30 June 2010 £m
Transformation programme	a	**2.8**	6.4
Acquisition of Pacific Scientific Aerospace	b	**5.8**	-
Integration of Pacific Scientific Aerospace	c	**1.5**	-
Sensing Systems consolidation	d	**1.7**	-
Other		**0.2**	0.7
Total		**12.0**	7.1

a. The previously announced transformation programme has continued to make good progress during 2011 and the annual run-rate savings target of £57.0m set for the end of 2011 has been achieved.

b. Costs were incurred in the period in respect of the acquisition of Pacific Scientific Aerospace (‘PacSci’) which completed on 21 April 2011. Total costs associated with the acquisition were £7.1m of which £5.8m were incurred in the period (note 12).

c. Integration costs in respect of PacSci of £1.5m were incurred in the period. Cost synergies of USD 18.0m (£11.2m) per annum by the end of 2014 are anticipated to be achieved through the integration process at a one-off cost of USD 32.0m (£19.9m).

d. In June 2011, Sensing Systems announced the consolidation of its New Hampshire and San Juan Capistrano facilities into a single new location in Southern California. This decision will result in the closure of the New Hampshire site in 2013.

Total cash spend in the period on all exceptional operating items was £8.5m (2010: £9.7m).

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 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 those 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 2011 £m	Six months ended 30 June 2010 £m
Movement in the fair value of foreign currency forward contracts	**7.5**	(10.2)
Impact of retranslating net foreign currency assets and liabilities at spot rates	**(0.4)**	(0.5)
Movement in the fair value of interest rate derivatives	**4.8**	16.8
Movement in the fair value of fixed rate borrowings	**(5.6)**	(15.7)
Total gain/(loss)	**6.3**	(9.6)

7. Finance income

	Six months ended 30 June 2011 £m	Six months ended 30 June 2010 £m
Interest on bank deposits	**0.2**	0.1
Unwinding of interest on other receivables	**0.5**	0.6
Expected return on retirement benefit scheme assets	**17.7**	16.0
Total	**18.4**	16.7

8. Finance costs

	Six months ended 30 June 2011 £m	Six months ended 30 June 2010 £m
Interest on bank borrowings	**5.8**	14.6
Interest on senior notes	**9.0**	4.8
Interest on finance lease obligations	**0.1**	0.1
Unwinding of interest on provisions (note 18)	**0.6**	0.7
Unwinding of interest on retirement benefit scheme liabilities	**19.9**	21.1
Amortisation of debt issue costs	**1.1**	0.7
Amounts capitalised within the cost of qualifying assets (note 14)	**(0.3)**	(0.2)
Total	**36.2**	41.8

9. Tax

During the period, legislation to reduce the UK main corporation tax rate to 26% was substantially enacted with effect from 1 April 2011 and is reflected in these financial statements. The impact on net deferred tax liabilities as at 30 June 2011, underlying profit for the period, profit for the period and other comprehensive income for the period has not been significant.

Further reductions to the UK main corporation tax rate were announced in the June 2010 Budget and were later amended in the March 2011 Budget. The changes, which are expected to be enacted separately each year, propose to reduce the rate by 1% per annum to 23% by 1 April 2014. As these have not been substantially enacted at the balance sheet date, their impact is not reflected in these financial statements.

Changes in the UK main corporation tax rate have only a modest impact on the Group's overall tax rate.

10. Earnings per ordinary share

Earnings per ordinary share ("EPS") is calculated by dividing the profit attributable to equity holders by the weighted average number of shares in issue during the period. The weighted average number of shares used of 761.9m (2010: 687.8m) excludes 0.4m shares (2010: 0.4m) being the weighted average number of own shares bought by the Group and held during the period by an independently managed Employee Share Ownership Plan Trust.

The calculation of diluted EPS is based on the same profits as used in the calculation of basic EPS. The weighted average number of ordinary shares of 769.0m (2010: 692.3m) used in the calculation adjusts the weighted average number used in the calculation of basic EPS to reflect the assumption that all share options and equity-settled share appreciation rights in issue are exercised.

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

	Six months ended 30 June 2011 pence	Six months ended 30 June 2010 pence
Basic EPS	**11.7**	7.5
Add back effects of:		
Exceptional operating items	**1.0**	0.7
Amortisation of intangibles acquired in business combinations	**2.3**	3.1
Financial instruments	**(0.6)**	1.0
Underlying EPS	**14.4**	12.3

11. Dividends

The Directors have declared an interim dividend of 3.20p per ordinary share (2010: 2.85p) which will be paid on 30 September 2011 to shareholders on the register on 12 August 2011. 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 16 September 2011. As the dividend was approved by the Directors after 30 June 2011 the dividend cost of £24.8m (2010: £19.8m) is not recorded as a liability at the balance sheet date.

12. Business combinations

On 21 April 2011 the Group acquired Pacific Scientific Aerospace ('PacSci') from Danaher Corporation for a cash consideration of USD 685.0m. The consideration is subject to an adjustment for working capital in the business. The acquisition adds fire and smoke suppression capabilities to the Group's product portfolio creating a leading integrated fire and smoke detection and suppression offering. It will also enhance the Group's electric solutions offering, strengthen its portfolio of sensors and anti-icing products and enhance its low cost manufacturing capability.

The assets and liabilities of PacSci on 21 April 2011, including goodwill arising on consolidation, were as follows:

	£m
Non-current assets	
Goodwill (note 14)	372.5
Other intangible assets (note 14)	0.6
Property, plant and equipment (note 15)	19.6
Investments	0.6
Trade and other receivables	0.5
Deferred tax assets	7.8
	401.6
Current assets	
Inventories	33.8
Trade and other receivables	34.5
Cash and cash equivalents	0.7
	69.0
Total assets	470.6
Current liabilities	
Trade and other payables	(43.5)
	(43.5)
Net current assets	25.5
Non-current liabilities	
Trade and other payables	(2.0)
Deferred tax liabilities	(4.2)
Provisions (note 18)	(2.1)
Retirement benefit obligations	(1.7)
	(10.0)
Total liabilities	(53.5)
Net assets acquired	**417.1**
Total consideration satisfied in cash	**417.1***

Due to the proximity of the acquisition to the interim date the above figures reflect book values for the assets and liabilities of PacSci. Adjustments to finalise the fair values of assets and liabilities acquired will be made in the Group consolidated financial statements for the year ended 31 December 2011.

For the period from acquisition to 30 June 2011, PacSci contributed revenue of £55.8m, underlying profit before tax of £11.9m and profit before tax of £4.6m to the Group's results. Had PacSci been consolidated from 1 January 2011, the Group's consolidated income statement for the six months ended 30 June 2011 would show revenue of £717.9m, underlying profit before tax of £153.4m and profit before tax of £119.4m.

Costs related to the acquisition were £7.1m, of which £5.8m were incurred in the current period and £1.3 million in the prior year. These costs have been treated as an exceptional operating item (note 5).

* Additionally, consideration of £1.0m was paid in the period in respect of businesses acquired in prior years.

13. 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 including executive directors is set out below:

	Six months ended 30 June 2011 £m	Six months ended 30 June 2010 £m
Wages and salaries	**2.0**	2.0
Social security costs	**0.3**	0.2
Pension and other post-retirement benefit costs	**0.2**	0.3
Share-based payment expense	**1.5**	1.0
Total	**4.0**	3.5

14. Intangible assets

	Goodwill £m	**Development costs £m**	**Programme participation costs £m**	**Other intangible assets £m**
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	-	17.0	12.8	5.2
Interest capitalised (note 8)	-	0.2	-	-
Amortisation (note 23)	-	(3.6)	(9.6)	(35.0)*
At 30 June 2010	1,338.1	137.8	188.4	773.1
At 1 January 2011	1,295.5	151.3	183.8	722.1
Exchange rate adjustments	(13.4)	2.3	(3.3)	(14.0)
Businesses acquired (note 12)	372.5	-	-	0.6
Additions	-	17.0	16.1	8.6
Interest capitalised (note 8)	-	0.3	-	-
Amortisation (note 23)	-	(4.8)	(10.1)	(31.1)*
At 30 June 2011	**1,654.6**	**166.1**	**186.5**	**686.2**

* Amortisation of other intangible assets includes £28.3m (2010: £33.2m) 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 2010 and no impairment charge was required.

15. Property, plant and equipment

	2011 £m	2010 £m
At 1 January	**207.1**	215.9
Exchange rate adjustments	**0.7**	8.3
Businesses acquired (note 12)	**19.6**	-
Additions	**10.1**	5.3
Disposals	**(0.1)**	(0.1)
Depreciation (note 23)	**(15.0)**	(14.7)
At 30 June	**222.4**	214.7

16. Bank and other borrowings

	2011 £m	2010 £m
At 1 January	**768.6**	866.1
Exchange rate adjustments	**(0.4)**	63.6
Proceeds from bank and other borrowings	**349.0**	175.6
Repayments of bank and other borrowings	**(170.6)**	(238.5)
Other non-cash movements	**3.4**	10.7
At 30 June	**950.0**	877.5
Disclosed as:		
Current	**16.9**	11.1
Non-current	**933.1**	866.4
At 30 June	**950.0**	877.5

17. Net debt

	2011 £m	2010 £m
At 1 January	**721.4**	808.6
Cash inflow from operating activities	**(126.4)**	(88.5)
Cash outflow from investing activities excluding businesses acquired	**51.7**	44.5
Free cash inflow	**(74.7)**	(44.0)
Businesses acquired	**418.1**	-
Net cash acquired with businesses	**(0.7)**	-
Dividends paid to Company's shareholders	**24.1**	19.9
Issue of equity share capital	**(247.3)**	(3.6)
Net cash outflow/(inflow)	**119.5**	(27.7)
Exchange rate adjustments	**0.5**	63.0
Other non-cash movements	**6.4**	10.7
At 30 June	**847.8**	854.6
Disclosed as:		
Bank and other borrowings (note 16)	**950.0**	877.5
Obligations under finance leases – current	**0.7**	0.8
Obligations under finance leases – non-current	**3.5**	4.6
Cash and cash equivalents	**(106.4)**	(28.3)
Total	**847.8**	854.6

18. Provisions

	2011 £m	2010 £m
At 1 January	**156.0**	106.8
Exchange rate adjustments	**(3.3)**	7.0
Businesses acquired (note 12)	**2.1**	-
Transfers from trade and other payables	**0.8**	-
Charge to income statement – cost of sales	**3.7**	2.3
Charge to income statement – net operating costs	**7.7**	2.2
Charge to income statement – finance costs (note 8)	**0.6**	0.7
Utilised	**(7.7)**	(10.2)
At 30 June	**159.9**	108.8
Disclosed as:		
Current	**40.6**	37.0
Non-current	**119.3**	71.8
At 30 June	**159.9**	108.8

19. Retirement benefit obligations

	2011 **£m**	2010 £m
Amounts recognised in the balance sheet:		
Fair value of scheme assets	**580.8**	514.8
Present value of scheme liabilities	**(842.8)**	(836.6)
At 30 June	**(262.0)**	(321.8)
Analysis of retirement benefit obligations:		
Pension schemes	**(211.7)**	(250.7)
Healthcare schemes	**(50.3)**	(71.1)
At 30 June	**(262.0)**	(321.8)

Key financial assumptions:

	2011	2010
UK Schemes:		
Discount rate	**5.50%**	5.30%
Inflation rate	**3.50%**	3.10%
Salary increases	**4.50%**	4.10%
Current life expectancy – Male aged 65 (years)	**21.9 to 24.5**	21.8 to 24.4
Overseas Schemes:		
Discount rate	**5.25%**	5.25%
Salary increases	**4.00%**	4.00%
Current life expectancy – Male aged 65 (years)	**19.0**	18.9

The service cost recognised in the income statement for the period was £3.5m (2010: £6.2m). Employer cash contributions paid during the period were £16.2m (2010: £17.2m).

20. 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 and former 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 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.

21. Issued share capital

	2011 **No. m**	2010 No. m
At 1 January	**698.0**	685.3
Equity placing	**69.8**	-
Issued on exercise of executive share options	**0.8**	1.4
Issued on exercise of sharesave options	**0.1**	0.5
Scrip dividends	**7.3**	6.8
At 30 June	**776.0**	694.0

22. Capital commitments

	2011 £m	2010 £m
Contracted for but not incurred:		
Intangible assets	**0.2**	1.6
Property, plant and equipment	**5.4**	4.3
At 30 June	**5.6**	5.9

23. Cash inflow from operations

	Six months ended 30 June 2011 £m	Six months ended 30 June 2010 £m
Profit for the period	**89.2**	51.8
Adjustments for:		
Tax	**23.0**	14.5
Depreciation (note 15)	**15.0**	14.7
Amortisation (note 14)	**46.0**	48.2
Finance income (note 7)	**(18.4)**	(16.7)
Finance costs (note 8)	**36.2**	41.8
Financial instruments (note 6)	**(6.3)**	9.6
Retirement benefit obligation deficit payments	**(9.9)**	(11.0)
Share-based payment expense	**4.6**	3.3
Changes in working capital	**(13.1)**	(33.1)
Total	**166.3**	123.1

24. Approval of interim management report

The interim management report was approved by the Board of Directors on 1 August 2011.

25. Availability of interim management report

The interim management report will be available on the Group's website www.meggitt.com from 2 August 2011. 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 2010 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, IT security, 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 retention of key employees. Further details can be found in the 'Risks and Uncertainties' section of the Annual Report and Accounts 2010 on pages 34 to 37 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 has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union;
- the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:
    - An indication of important events that have occurred during the six months ended 30 June 2011 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 2011 and any material changes to the related party transactions described in the last annual report.

By order of the Board:

T Twigger
Chief Executive
1 August 2011

S Young
Group Finance Director
1 August 2011

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