7 August 2018

Meggitt PLC
2018 Interim results

Strong H1; well positioned to deliver upgraded full year guidance

Meggitt PLC ("Meggitt" or "the Group"), a leading international engineering company specialising in high performance components and sub-systems for the aerospace, defence and energy markets, today announces unaudited interim results for the six months ended 30 June 2018.

Group headlines

				Change	
£m		**H1 2018**	H1 2017[1]	Reported	Organic[2]
Orders		**1,087.2**	968.3	12%	24%
Revenue		**952.2**	965.4	(1%)	9%
Underlying[3]					
	EBITDA[4]	**197.3**	202.6	(3%)	3%
	Operating profit	**150.8**	161.4	(7%)	(2%)
	Profit before tax	**136.1**	143.1	(5%)	(1%)
	Earnings per share (p)	**13.9**	14.2	(2%)	
Statutory					
	Operating profit	**123.8**	196.3	(37%)	
	Profit before tax	**105.2**	172.2	(39%)	
	Earnings per share (p)	**11.7**	19.6	(40%)	
Free cash flow		**27.1**	22.8	19%	
Net borrowings[5]		**1,032.3**	1,115.9	(7%)	
Dividend (p)		**5.30**	5.05	5%	

- Organic revenue growth of 9% reflects strong trading performance in civil aftermarket, military and energy. Reported revenue declined by 1% due to currency and non-core divestments.
- Full year organic revenue growth forecast raised (on 2 July) to 4 to 6% following better than anticipated trading in H1 and strong order intake with organic book to bill of 1.13x.
- Underlying operating profit declined organically by 2% to £150.8m, within which underlying operating profit at Meggitt Polymers & Composites ('MPC') was £2.3m (June 2017 as restated: £21.9m). Excluding MPC, underlying operating profit was up 7% (170 basis point margin improvement).
- Statutory operating profit declined by 37% as a result of lower gains from disposals and non-cash mark to market of our financial instruments, compared to the prior period.
- Free cash flow increased by 19% to £27.1m (June 2017 as restated: £22.8m) resulting in net borrowings:EBITDA on a covenant basis of 1.9x (June 2017: 2.2x).
- Strong progress on key strategic initiatives:
  - Completed three further divestments to focus the portfolio, with 70% of revenue now in attractive markets where Meggitt has a strong competitive position;
  - Continued investment in differentiated technologies;
  - Factory consolidation and expansion activity ahead of plan; work at UK Super Site now underway;
  - Moving to a customer-aligned divisional structure from January 2019 in order to accelerate organic growth and realise the operational benefits of our continued journey to becoming an integrated Group.
- Interim dividend up 5% to 5.3p reflecting our continued confidence in the prospects for the Group.

[1] Restated for IFRS 9 / 15 / 16.
[2] Organic numbers exclude the impact of acquisitions, disposals and foreign exchange.
[3] Underlying profit and EPS are used by the Board to measure the trading performance of the Group as set out in notes 4 and 9.
[4] Underlying EBITDA represents underlying operating profit adjusted to add back depreciation, amortisation and impairment losses.
[5] Net borrowings represent net debt adjusted to exclude lease liabilities.

Tony Wood, Chief Executive, commented:

"Trading in the first half was strong, with organic growth accelerating across our civil aftermarket, military and energy end markets. As a result, in July we increased our full year revenue growth guidance to 4 to 6%.

Good progress has been made in the ongoing execution of our strategy in the first half. We have continued to sharpen the strategic focus of our portfolio and taken further steps in the delivery of our operational transformation. Relationships with our key customers are expanding and we have announced our intention to move to a customer-aligned organisation structure from 2019. These steps will further accelerate our transition to an integrated aerospace, defence and selected energy Group.

As previously indicated, elevated costs at Meggitt Polymers & Composites ('MPC') mean that we expect full year operating margins to be towards the lower end of our 17.7 to 18.0% guidance range. We remain focused on delivering further operational improvements at MPC and expect financial recovery to build through the second half and into 2019.

Looking forward, we remain well placed to deliver our 2021 targets to achieve an underlying operating margin of at least 19.9% and to deliver £200m of cash from increasing inventory turns from 2.3x to 4.0x.

The acceleration in growth and our continuing confidence in the prospects for the Group, underpins our interim dividend increase of 5% to 5.3p."

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Analyst presentation
There will be a presentation for analysts today at 9.30am BST in London. There will be a live webcast on the Meggitt website, http://www.meggittinvestors.com, where copies of the presentation will be available afterwards.

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

GROUP OVERVIEW

Meggitt is a global engineering company specialising in high-performance components and sub-systems for aerospace, defence and selected energy markets. We have a broad-based and well-balanced portfolio, with equipment on approximately 70,000 aircraft and many ground vehicles and energy applications worldwide. This significant and expanding installed base provides us with an aftermarket revenue stream stretching out for decades. Good customer relationships and high levels of embedded intellectual property span a broad range of products and capabilities. This has enabled us to increase our content by up to 250% on the new civil aerospace programmes which have recently entered service.

Significant increases in our content on new aircraft drove our research and development ('R&D') and new product introduction ('NPI') costs to record levels in recent years but we are now beyond the peak of spend in both areas. We have completed a major refresh of our in-service portfolio and this investment provides a strong platform for future revenue growth. Having passed the development peak we are now focused on operational execution and have outlined four strategic priorities to accelerate growth and improve return on capital employed. These priorities are: Portfolio, Customers, Competitiveness and Culture.

Portfolio

We will focus investment in attractive markets where we have or can develop a leading position. This encompasses organic investment in differentiated products and manufacturing technologies; targeted, value enhancing acquisitions; and selective non-core disposals.

In the six months to June 2018, we have made further progress in focusing our portfolio, with the sale of three non-core businesses. In January 2018, we completed the sale of Aviation Mobility to Smart Carte Inc. In March 2018, we completed the sale of Linear Motion (also known as Thomson) to Umbra Cuscinetti S.p.A. and in April 2018, we completed the sale of Precision Micro to LDC.

We have also continued to advance the development of innovative new technologies, with a view to sustaining growth in market share on future generation aircraft platforms. For example, in July 2018 we reached an agreement with Textron Aviation to provide wireless tyre pressure monitoring systems which can accurately check tyre pressures in seconds on equipped business jets, without the need for a manual gauge, enabling significant savings in maintenance costs, increased reliability and improved safety. We have also made progress on innovative new technology applications in areas including thermal systems, optical sensing, time domain reflectometry and digital manufacturing.

Customers

We continue to focus on delivery, quality and improvements in services and support in order to increase customer satisfaction throughout the product lifecycle. We are also increasing the depth of our relationships with major customers through the expanding scope of products and services we provide and by securing long term agreements.

During the period, we have further increased our market share on new civil aircraft platforms including the Airbus A321neo, where we have secured Wizz Air as the launch customer for our new wheels and brakes; and the XAC MA700, where we have been awarded contracts to supply fire detection and suppression systems, bleed air leak detection systems, heat exchangers and integrated standby flight displays.

Order growth in military has also been strong, with awards including contracts to provide advanced engine composite components for the F-135 engine; a $21m contract to provide fuel tanks for the UH-60 Black Hawk helicopter; wheels and brakes, fire detectors and bleed air leak detection systems for the KFX multi-role fighter jet; and thermal systems for the M1 Abrams tank.

The Customer Services & Support ('CSS') organisation is driving improvements in our aftermarket, which have contributed to good growth across both civil and military aftermarket. We continue to build capabilities to improve customer service and improve our routes to market including the development of strategic alliances with leading aircraft maintenance service providers including Boeing and Pratt & Whitney.

Competitiveness

We remain focused on making our operational performance a key competitive strength. This includes the continued deployment of the Meggitt Production System ('MPS'), our global approach to continuous improvement, together with initiatives to reduce purchased costs through supply chain consolidation and the rationalisation of our factory footprint by at least 20% by 2021.

During the period, we have made good progress in rationalising our supply chain and reducing purchased costs. Deploying category management in commodities including fasteners, machining, electrical assemblies and printed circuit board assemblies has enabled us to reduce purchased costs by 1.4% during the period (June 2017: 1.2%). We continue to monitor the potential secondary effects of import tariffs on raw materials but remain focused on delivering our 2021 target to achieve annual net purchased cost reductions of 2%.

Continued deployment of MPS has helped us to increase inventory turns by 0.2x to 2.7x (December 2017 as restated: 2.5x), in line with our target to achieve 4.0x inventory turns by 2021, while building inventory at CSS to better service customer demand and support continued growth.

During the first half, we have refocused MPS to accelerate the progress of sites at the earliest stages in order to increase the pace of improvements in customer service. One example is Meggitt Polymers & Composites in Erlanger, a red-stage site which has made significant investments in people, processes and technology in order to deliver a significant increase in production across a range of composite parts on the new narrowbody engine programmes. We have begun to see yield, output volumes and lead times improve but expect costs to remain elevated into 2019, as we continue to prioritise our commitments to customers over short term financial performance.

Culture

We are focused on building and nurturing a high performance culture where our ambitious and diverse teams act with integrity and help us to accelerate the execution of our strategy. In support of this we recently announced plans to restructure our five current capability based divisions and CSS into four customer-aligned divisions: Airframe Systems; Engine Systems; Energy & Equipment; and Services & Support. This new structure will help us to accelerate growth and better leverage the operational benefits of our continued transition from a holding company to an integrated aerospace, defence and selected energy market Group. The new structure will take effect from 1 January 2019.

HEADLINE FINANCIALS

Orders grew by 12% on a reported basis and by 24% on an organic basis to £1,087.2m. Organic orders grew by 31% in civil aerospace, with good underlying growth, further enhanced by the Wizz Air aftermarket contract for wheels and brakes. In military, organic order growth was also strong at 23% as a number of multi-year awards were booked in the period. Organic orders in energy declined by 6% compared to strong organic growth secured in the prior year. Energy book to bill was 0.97x (2017 as restated: 1.35x).

Reported Group revenue of £952.2m (2017: £965.4m) decreased by 1% as analysed in the table below:

	£m	% impact
H1 2017 revenue	965.4	
Acquisitions and disposals	(35.4)	(3.9)
Currency movements	(61.2)	(6.7)
Organic growth	83.4	9.1
H1 2018 revenue	**952.2**	**(1.4)**

Currency movements in the first six months reflect the recovery of Sterling against our trading currencies, principally the US dollar, from the low levels in the first half of 2017. The more recent weakness in Sterling, if sustained, would result in a modest currency tailwind in the second half. Acquisitions and disposals relate to the sale of Meggitt Maryland, Piezo Technologies and Piher (completed in June 2017), Aviation Mobility (completed in January 2018), Thomson (completed in March 2018) and Precision Micro (completed in April 2018) partly offset by the acquisition of Elite Aerospace in March 2017. Strong organic revenue growth reflects particularly good performance in civil aftermarket (up 11%), military (up 8%) and energy (up 32%) markets.

The Board's preferred measure of the Group's trading performance is underlying profit. Underlying operating profit was down 7% to £150.8m (2017: £161.4m), representing a margin of 15.8% (2017 as restated: 16.7%). The margin decline reflects continued challenges at MPC where prolonged elevated learning curve costs at our Erlanger site and investments to support military revenue growth at our Rockmart site have eroded margins; together with the expected increase in depreciation and amortisation and free of charge costs related to strong positions on growing new platforms. These headwinds were partially offset by favourable end-market mix, reductions in net purchasing costs and increased operational efficiencies across the broader Group, including productivity improvements from MPS and initial reductions in NPI costs.

Underlying net finance costs decreased to £14.7m (2017 as restated: £18.3m) due principally to lower average borrowings and beneficial exchange rate movements reducing the Sterling value of our largely US dollar denominated finance costs.

Underlying profit before tax was £136.1m (2017 as restated: £143.1m). As previously guided the underlying tax rate decreased to 21% (2017 as restated: 23%) as a result of the US tax reforms enacted in late 2017. Underlying earnings per share was 13.9p (2017 as restated: 14.2p).

On a statutory basis, operating profit for the period decreased by 37% to £123.8m (2017 as restated: £196.3m) and profit before tax decreased by 39% to £105.2m (2017 as restated: £172.2m). Statutory profit includes the £22.0m gain (2017: £53.2m) on the disposal of the three non-core businesses and a £2.7m gain (2017 as restated: £36.5m) on the non-cash marking to market of financial instruments. Earnings per share decreased by 40% to 11.7p (2017 as restated: 19.6p), driven by the reduction in profit before tax. The adjustments between underlying and statutory profit are consistent with prior periods and are described in notes 4 and 9.

The interim dividend is increased by 5% to 5.30p (2017: 5.05p) reflecting our ongoing confidence in the outlook for the Group and our commitment to a progressive dividend. This will be paid on 28 September 2018 to shareholders on the register on 7 September 2018.

Free cash flow increased 19% to £27.1m (2017 as restated: £22.8m), driven by reductions in development costs, working capital outflows, operating exceptionals and interest payments. This was partly offset by increased capital expenditure to expand capacity and support future site rationalisation, and pension deficit payments.

The seasonal net cash outflow of £35.8m (2017 as restated: outflow of £3.0m) includes the £32.9m net proceeds from the sale of non-core businesses together with the payment of the 2017 final dividend.

There are two main financial covenants in our financing agreements. The net borrowings:underlying EBITDA ratio, which must not exceed 3.5x, was 1.9x at 30 June 2018 (June 2017: 2.2x) and interest cover, which must be not less than 3.0x, was 14.7x (June 2017: 12.5x). The Group has, therefore, significant headroom against both key covenant ratios, and net borrowings:underlying EBITDA is in the middle of our target range of 1.5x to 2.5x.

The Group has £293.5m of undrawn headroom against committed bank facilities, after taking account of surplus cash.

TRADING SUMMARY

	Revenue (£m)		Growth (%)	
	H1 2018	H1 2017 restated	Reported	Organic
Civil OE	217.7	224.7	(3.1)	3.8
Civil AM	300.9	290.3	3.7	11.0
Total Civil	**518.6**	**515.0**	**0.7**	**7.9**
Military	321.2	322.2	(0.3)	7.6
Energy	61.8	57.5	7.5	31.8
Other	50.6	70.7	(28.4)	9.1
TOTAL	**952.2**	**965.4**	**(1.4)**	**9.1**

Civil aerospace

Meggitt operates in three main segments of the civil aerospace market: large jets, regional aircraft and business jets. The large jet fleet includes over 23,000 aircraft, the regional aircraft fleet over 6,000 and business jets around 19,000. The Group has products on virtually all these platforms and hence a very large, and growing, installed base. The split of civil revenue, which accounts for 55% of the Group total, is 58% aftermarket and 42% original equipment (OE).

Civil OE revenue grew 3.8% on an organic basis. Large jet OE, the most significant driver of our OE revenue, also grew by 3.8% with particularly good growth on the Airbus A320neo family, A350XWB and Boeing 737MAX offset by declining revenue on widebody platforms, including Boeing 777 and 787 and Airbus A380. The growth rate in large jets was also diluted by lower demand for our composite radomes, as we had anticipated. Radomes for inflight connectivity have grown consistently since we acquired the advanced composites businesses in 2015, but our principal customer experienced delays in other parts of its supply chain during late 2017 and, as expected, has reduced radome demand in 2018 as it restocked other critical components. This, together with some of our customers reducing buffer stocks they had built to reduce risk in moving to full rate production, resulted in first quarter large jet revenue declining by 3.4%. In the second quarter, large jet revenue grew by 11.4%, where our market share gains on new platforms combined with steady growth in deliveries have enabled us to outperform the market.

Business jet OE revenue returned to growth for the first time since 2015 during the first half, with organic revenue growth of 18.0% reflecting good demand for Legacy 500 and Global 7000 aircraft. Regional aircraft OE revenue was down 27.5% on an organic basis, with lower demand for CRJ, E-170, E-190 and SJ100 aircraft, partially offset by modest growth on ARJ21 and MRJ.

Civil aftermarket revenue grew organically by 11.0% driven by particularly strong growth in large jet aftermarket where our growing content on new generation aircraft and the improved capabilities within our CSS organisation have been further enhanced by positive demand drivers. These have included continued good traffic growth and the scarcity of Meggitt used surplus material ('USM') as a result of low levels of retirements from the global fleet and record passenger load factors. Civil aftermarket revenue growth also benefitted from continued stocking demand associated with distributor agreements signed in late 2017.

In the first six months, large jet aftermarket grew by 14.8% on an organic basis with strong demand for spares on Airbus A320ceo and A350XWB and Boeing 777 and 787, together with growing demand for our brakes on the Airbus A220 (formerly Bombardier CSeries) which has now been in service for two years. This growth was partially offset by lower demand on the Airbus A380 and for brakes on old platforms (particularly MD80 and MD90) which had strong comparatives in 2017.

Regional jet aftermarket revenue grew by 8.6% organically, reflecting good demand for E-170, Dornier 228/328, CRJ1000 and ARJ21 driven by an acceleration in aircraft utilisation in the second quarter. This was offset by declining revenue on platforms including Fokker aircraft and ATR-72.

Business jet aftermarket revenue grew by 4.6% on an organic basis. In the first quarter, revenue declined by 5.7% compared to a much stronger first three months in 2017 when we had grown by 22.0%. In the second quarter, revenue grew by 15.1% reflecting good demand for Gulfstream G-I/II/III and G500/550, Dassault 7X and Hawker 750-900. This was offset by lower revenue on Gulfsream G-V and G-650 platforms.

Overall civil aerospace revenue increased by 7.9% on an organic basis.

Deliveries of large jets by Airbus and Boeing are underpinned by a firm order backlog extending over a number of years, which together with our increased shipset content on these platforms, gives us further confidence in the growth outlook for OE revenue. Deliveries of regional aircraft are expected to remain at current rates over that period. Deliveries of business jets are set to grow gradually to 2020, with the most potential coming at the smaller end of the market which was hardest hit during the last downturn.

Air traffic, measured in available seat kilometres (ASKs), is a key driver of demand for spares and repairs on large and regional aircraft. ASKs grew 6% globally in the five months to May 2018, above the long-term trend rate of 5%. Industry forecasts are for air traffic to continue to grow at or above the trend rate in the medium term. Regional jet utilisation (measured in terms of take offs and landings) grew by 3% in the six months to June 2018 and, with strong positions as the provider of braking systems on the larger regional aircraft (principally the Embraer E-Jet and Bombardier CRJ), we would expect to outperform the market over the medium term. Business jet utilisation in the US and Europe grew by 2% during the five months to May 2018 and with our higher value content and growing market share in brakes for large cabin business jets, we should continue to drive above market revenue growth over the medium term.

Military

Military business accounted for 34% of Group revenue in H1 2018. We have equipment on an installed base of around 22,000 fixed wing and rotary aircraft and a significant number of ground vehicles and training applications. Direct sales to US customers accounted for 72% of military revenue (June 2017: 69%), with 19% to European customers (June 2017: 23%) and 9% to the rest of the world (June 2017: 8%).

Military revenue grew 7.6% on an organic basis. In the first quarter, revenue increased by 2.0% as we continued to see a lag between good order growth (1.08x book to bill in military during the full year 2017) and revenue. In the second quarter, revenue grew by 13.7% as a result of demand for fighter jets, particularly F-35 Lightning where we provide a broad range of composite parts for the engine and F/A-18 Hornet where we have begun deliveries of the recent large retrofit order forfuel tanks. Good growth on helicopters and ground vehicles and increased demand for training systems offset declining revenue on light attack and transport aircraft.

The long term outlook for defence expenditure in the US, our single most important military market, is more positive than it has been in recent years. Military budgets are forecast to grow by at least 4% per annum from a higher base and there remains significant opportunity for retrofit and reset activity.

Energy and other

Energy and other revenue (11% of Group total) come from a variety of end markets of which the single most significant is energy (6% of Group total). Our energy capabilities centre on providing valves and condition-monitoring equipment for power generation installations, including ground-based gas and wind turbines, and printed circuit heat exchangers used primarily in the oil and gas market. Other markets (5% of Group total) include the automotive, industrial, test, consumer goods and medical sectors.

As expected energy revenue grew strongly, by 31.8% on an organic basis. Heatric revenue increased significantly in the first half having passed a trough in demand during the same period in 2017. Organic revenue in power generation segments grew by 8.9%, driven by steady demand for gas turbines where we have good positions with customers including Siemens, GE and Solar Turbines based on strong aero-derivative technology.

The long-term growth expectations for our energy businesses, and particularly Heatric, remain good. We have differentiated technology which plays a critical role in the extraction and transport of deep-water offshore gas reserves and good opportunities for use in adjacent markets. The balance of our energy businesses will continue to benefit from synergistic relationships across business divisions and the long term demand for energy, particularly in emerging markets.

OPERATIONAL PERFORMANCE

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

Revenue (£m)					Underlying Operating Profit (£m)			
		% Growth					% Growth	
H1 2018	H1 2017[6]	Reported	Organic	Division	H1 2018	H1 2017[6]	Reported	Organic
162.4	172.0	-6	+1	Aircraft Braking Systems	40.2	49.6	-19	-18
268.2	256.5	+5	+13	Control Systems	61.3	56.3	+9	+18
173.3	167.4	+4	+10	Polymers & Composites	2.3	21.9	-90	-91
237.0	252.3	-6	+5	Sensing Systems	34.8	32.0	+9	+14
111.3	117.2	-5	+23	Equipment Group	12.2	1.6	n/m	n/m
952.2	**965.4**	**-1**	**+9**	**Total Group**	**150.8**	**161.4**	**-7**	**-2**

[6] Prior period figures for the Group have been restated to reflect the impact of IFRS 15 / 16.

Meggitt Aircraft Braking Systems (MABS) provides wheels, brakes and brake control systems for around 35,000 in-service aircraft. It continues to develop innovative technology for new programmes enabling the business to retain its leading position in business jets, regional jets and military jets; and to build a growing position in large jet braking systems. The division represents 17% of Group revenue, generating 91% of its revenue from the aftermarket and 9% from OE sales.

MABS revenue grew by 1% on an organic basis with growth in civil partly offset by declining military revenue.

MABS civil revenue grew by 3% on an organic basis. In large jets, growing demand for spares on the Airbus A220 which has now been in service for over two years, was offset by decreasing revenue on older aircraft (including MD90, MD80, MD11, DC10 and DC9) that performed well during the full year 2017. In regional jets, organic aftermarket revenue increased by 9% as a result of good growth in utilisation during the second quarter, driving increased demand for brakes on E-170/190, CRJ and ARJ21 which offset lower growth on Fokker and Saab platforms. Business jet aftermarket revenue grew by 4% with good growth on Gulfstream G500/550, G-I/II/III and Hawker 750/900, partially offset by lower demand for Gulfstream G-V.

Military revenue at MABS declined by 7% on an organic basis with declining revenue on Typhoon, Hawk and transport aircraft, only partially offset by increased demand on helicopters and F-16. Growth on F-35 brakes was negligible during the period as a result of delays during the first quarter but we expect demand on F-35 brakes to accelerate during the second half.

Operating margins declined from 28.8% to 24.8%, driven by lower demand for brakes on older large jet aircraft, which are typically some of our highest margin spare parts, and growth in free of charge shipsets.

Meggitt Control Systems (MCS) designs and manufactures products which manage the flow of liquids and gases around aero and industrial turbines, and control the temperature of oil, fuel and air in aircraft engines. The division, which also provides fire protection equipment to engines and airframes, represents 28% of Group revenue, generating 60% of its revenue from the aftermarket and 40% from OE.

MCS revenue was up 13% on an organic basis with 16% growth in civil aerospace, 7% growth in military and 8% growth in energy.

In civil aerospace, OE revenue grew organically by 8% with market share gains on new platforms contributing to strong growth in large jets (principally on A320neo family, 737MAX and A350XWB) offset by declining revenue on 787, 767 and in regional jets.

Aftermarket revenue grew organically by 21%, which was supplemented in the period by stocking associated with our new distributor agreement signed in late 2017 to manage the long tail of small distributors that had previously purchased spares direct from the Group. Underlying performance was also strong in large jets where air traffic growth, record passenger load factors and scarce supply of USM have driven growth in the underlying market. Revenue growth was particularly strong on 777, 737, A320, A350XWB and A340. Aftermarket revenue in business jets and regional jets also increased during the first six months.

In military, revenue grew organically by 7% with strong demand on F-16, UH-60, C-130J, F/A-18 and V-22 offset by declines on F-15. Lastly energy grew organic revenue by 8%, driven by a good performance in demand for industrial gas turbines and safety systems for the energy sector.

Operating margins increased from 21.9% to 22.9% driven by reductions in NPI costs and favourable mix, partly offset by continued investment in new capabilities and capacity in CSS.

Meggitt Polymers & Composites (MPC) supplies a range of fuel systems, complex composite assemblies and seals packages for civil and military platforms. These products are linked by their dependence on similar materials technology and manufacturing processes. It supplies over 80% of the US military requirements for fuel bladders and ballistically-resistant and crashworthy fuel tanks and is the leading independent provider of high temperature engine composites. MPC represents 18% of Group revenue and generates 64% of its revenue from OE and 36% from the aftermarket.

MPC revenue increased 10% on an organic basis with 21% growth in military revenue partly offset by modest civil aerospace revenue growth. In civil aerospace, growth in demand for engine composites was offset by lower demand for our composite radomes where our principal customer experienced delays elsewhere within its supply chain during late 2017 which has led, as anticipated, to destocking in the first six months.

In military, organic growth of 21% was driven by good demand for F/A-18 fuel tanks and F-35 engine composites. Additional growth on EH-101, V-22, P-8, AH-64 and Lynx helicopters offset declining revenue on KC-135, F-15 and UH-60, although on the latter we have recently secured a $21m orders for fuel tanks.

Operating margin decreased from 13.1% to 1.3% reflecting the increased costs required to ramp up production of advanced engine composites that first materialised during the second half of 2017. The on-going investment in people, process and plant to meet this complex challenge has begun to deliver operational improvements. Whilst we expect some financial improvement in the second half, the full recovery will extend into 2019.

We have also made significant investments in capacity to support accelerated growth in military, including recruitment of over 300 new staff at our Rockmart site required to manufacture retrofit fuel tanks for the F/A-18. The training investment and build-up of finished product has added significant incremental costs which are now starting to generate meaningful revenue growth.

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 as well as power storage, conversion and distribution systems and avionics suites for aerospace applications. Its products are designed to operate effectively in the extreme conditions of temperature, vibration and contamination that exist in an aircraft or ground-based turbine engine. Sensors are combined into broader electronics packages, providing condition data to operators and maintainers of engines, contributing to improved safety and lower operating costs. Combining its capabilities with MABS, it has a number of civil aerospace tyre pressure monitoring systems already in service and further systems under development, having secured positions for this technology on 10 aircraft platforms. It has also secured a contract to provide wireless tyre pressure monitoring systems across the Textron Aviation business jet fleet. MSS represents 25% of Group revenue and generated 76% of its revenue from OE and 24% from the aftermarket.

MSS revenue grew 5% on an organic basis, with growth in each of its end markets. In civil aerospace, OE revenue grew organically by 6%, driven by good growth in business jets and civil helicopters.

Aftermarket revenue grew organically by 1% with growth in large jet platforms including Boeing 787 and 767 and Airbus A320 offset by lower demand for 747. Military revenue was up 1% with good growth on F-35 offset by declining revenue on Hawk, Typhoon, UH-60 and A400M. Energy revenue increased by 10% on an organic basis following a reorganisation of the business and a more focused sales campaign to both distributors and direct to end users of industrial gas turbines.

Operating margins increased from 12.7% to 14.7% reflecting reductions in NPI costs, lower R&D expenses, increased productivity and the disposal of lower margin businesses which were more than enough to offset an increase in free of charge costs within the division.

Meggitt Equipment Group (MEG) comprises principally our dedicated military businesses and Heatric. The division represents 12% of Group revenue and generates 78% of its revenue from OE and 22% from the aftermarket.

MEG revenue increased by 23% on an organic basis, driven by the expected growth in energy following the weak comparative period last year, as well as good military revenue growth. Military revenue grew by 8% on an organic basis, reflecting strong growth in our training business as well as good demand for defence systems on M1 Abrams, helicopters and F/A-18.

Operating margins increased from 1.4% to 11.0% driven by the recovery at Heatric and improved operational leverage at Meggitt Training Systems.

In March 2018, we completed the sale of Thomson to Umbra Cuscinetti and in April 2018, we completed the sale of Precision Micro to LDC. In aggregate, these two units generated £11.6m of revenue in the first half.

INVESTING FOR THE FUTURE

£m	H1 2018	H1 2017 Restated	% Change *Reported*	*Organic*
Total research and development (R&D)	65.7	76.6	*-14*	*-9*
Less: Customer funded	(13.0)	(15.1)	*-14*	*-9*
Less: Capitalised	(27.1)	(29.0)	*-7*	*-5*
Add: Amortisation / Impairment	10.9	8.1	*+35*	*+39*
Charge to net operating costs	36.5	40.6	*-10*	*-2*
Capital expenditure	36.8	33.4	*+10*	*+29*

Targeted investment in technology development remains critical to our long-term organic growth. Total R&D expenditure in the first half reduced to £65.7m and was 6.9% of revenue (2017 as restated: £76.6m, 7.9%), of which 20% (2017 as restated: 20%) was funded by customers. The charge to net operating costs, including amortisation and impairment, decreased by 10% (2% on an organic basis) to £36.5m (2017 as restated: £40.6m).

Reduced spend on R&D reflects the progress made on development programmes for major new aircraft platforms including the Airbus A220, the Gulfstream G500/600 which is due to enter service in 2018 and Boeing 777X which is due to enter service in 2019. As more programmes pass key milestones over the next few years, we expect R&D to reduce further as a percentage of revenue.

The NPI expenditure associated with these platforms has now also reached its peak, with production efficiencies beginning to contribute to margin improvement in Meggitt Control Systems and Meggitt Sensing Systems.

We continue to expect growth in expensed R&D relating to our successful applied research and technology (AR&T) programmes, which will develop the next generation products and manufacturing technologies required to enable future aircraft programmes. Investment in retrofit, modification and upgrades will also continue to grow as we target more growth from mid-life upgrades, capitalising on the increased market and product performance knowledge garnered through our CSS organisation.

Capital expenditure on property, plant and equipment and intangible assets was £36.8m (2017: £33.4m) a 29% increase on an organic basis. This is principally driven by continued investment to build capacity and support growth. Capital expenditure will increase further in the second half, as we accelerate rationalisation of the Group’s manufacturing footprint and IT infrastructure.

FOREIGN EXCHANGE

The strengthening of Sterling against the US dollar adversely affected our reported results for the period.

Translation of results from overseas businesses reduced Group revenue by £49.2m and underlying profit before tax (PBT) by £7.2m in the first six months. The sensitivity of full-year revenue and underlying PBT to future exchange rate translation movements, when compared to the 2018 H1 average rates, is shown in the table below:

	2018 H1 average rate	Revenue £’m	Underlying PBT £’m
Impact of 10 cent movement			
US Dollar	1.36	90	12
Swiss Franc	1.33	8	3
Euro	1.14	11	2

Transaction exposure, where revenue and/or costs of our businesses are denominated in a currency other than their own, reduced revenue by £12.0m and increased underlying PBT by £1.2m in the period. We typically hedge transaction exposure and the following table details hedging currently in place:

	Hedging in place[7] %	Average transaction rates[8]
2018		
US Dollar/Sterling	100	1.43
US Dollar/Swiss Franc	89	1.07
US Dollar/Euro	88	1.21
2019 – 2022 inclusive		
US Dollar/Sterling	59	1.40
US Dollar/Swiss Franc	40	1.08
US Dollar/Euro	38	1.22

[7] Based on forecast transaction exposures.
[8] Hedging in place with unhedged exposures based on exchange rates at 30 June 2018

Taking translation and transaction benefit into account, 2018 reported revenue reduced by £61.2m and underlying PBT reduced by £6.0m.

RETIREMENT BENEFIT SCHEMES

Scheme deficits in the period reduced from £308.1m (at 31 December 2017) to £245.5m. The financial assumptions used to discount scheme liabilities moved favourably with an increase in the rate used to discount scheme liabilities in both the UK and US and a small reduction in UK long term inflation assumptions. These, together with deficit reduction payments, more than offset a volatile asset performance.

The Group made deficit reduction payments in the first half of £16.4m (2017: £14.0m). In the UK, the 2018 triennial valuation is in progress with a modest increase in the deficit, not covered by the existing recovery plan which ends in March 2024, anticipated. The valuation is expected to be finalised in 2019 and will have no impact on contributions for 2018.

In the US, we are planning to accelerate deficit reduction contributions scheduled over the next four years into a single $40m payment in the third quarter of 2018. This will have the benefit of reducing our Pension Benefit Guaranty Corporation (‘PBGC’) levy while also being allowable against our 2017 taxable income.

GROUP OUTLOOK

The outlook for our civil markets is good. Growth in deliveries of large jets is expected to continue, and the increased shipset values we enjoy on the latest generation of large jets support organic civil OE revenue growth over the medium term ahead of overall market growth. In 2018, we continue to expect civil OE revenue to grow organically, albeit at a lower rate than the recent past given the destocking trends on large jets and for composite radomes we have seen during the past nine months. Civil OE revenue grew organically by 4% in the first half and the Group expects organic revenue of between 2 and 4% for the full year.

.Available seat kilometres, an important driver of our large and regional jet aftermarket, continue to grow above the long-term trend of 5% per annum. This, combined with the benefits of our CSS organisation, expanded content on new aircraft, and low rates of retirements which have led to reduced availability of surplus parts means that we expect to outgrow the market for civil spares in the medium term. In H1 2018, civil aftermarket organic revenue grew by 11%, with strong underlying demand enhanced by initial provisioning for new distributor agreements. For the full year, we expect organic civil aftermarket revenue growth of 4 to 6% reflecting an expectation of lower revenue growth in the second half as a result of the non-recurrence of distributor stocking revenue, slower growth in business and regional jet segments and the accelerated rate of growth delivered in the fourth quarter in 2017.

In military markets the potential for growth over the medium term is good, with the US Department of Defense forecast to grow total expenditure by 4% and by 7% in its procurement and research, development, test and evaluation accounts, which are of most relevance to our business. Our compelling technology offering and broad platform exposure should enable us to outgrow the market overall. Strong order momentum during the past 18 months began to translate into accelerated revenue growth during the second quarter, with particular strength in demand for training equipment and retrofit fuel tanks for the F/A-18. For the full year, we expect organic military revenue growth of between 6 and 8% reflecting an expectation of continued good demand for new production equipment, spares and repairs and training equipment.

In energy, the Group has strong positions in selected markets based on aero-derivative technologies (valves, actuators and sensing systems for industrial gas turbines) and other applications linked to our core aerospace competencies (thermal management). Growth in global economic activity will increase demand for Meggitt products and services over the long term. In the near term, the return of investment in oil and gas infrastructure and potential for growth in demand for liquid natural gas will provide good growth opportunities for Heatric. As a result of increased confidence in this near-term recovery at Heatric, the Group now expects full year organic revenue growth in the segment to exceed 5%.

On the basis of the above, we expect 4 to 6% Group organic revenue growth in 2018 (increased on 2 July from 2 to 4%). An improving performance at MPC in the second half of 2018 will lead to improved margins in the remainder of the year with operating margins expected to be towards the lower end of our guidance range of 17.7 to 18.0%.

CONDENSED CONSOLIDATED UNAUDITED INCOME STATEMENT
For the six months ended 30 June 2018

	Notes	**Six months ended 30 June 2018 £m**	Six months ended 30 June 2017 Restated £m
Revenue	3	**952.2**	965.4
Cost of sales		**(607.8)**	(597.2)
Gross profit		**344.4**	368.2
Net operating costs		**(220.6)**	(171.9)
Operating profit [1]		**123.8**	196.3
Finance income		**0.5**	0.7
Finance costs		**(19.1)**	(24.8)
Net finance costs	7	**(18.6)**	(24.1)
Profit before tax [2]		**105.2**	172.2
Tax	8	**(14.8)**	(20.6)
Profit for the period attributable to equity owners of the Company		**90.4**	151.6
Earnings per share:			
Basic [3]	9	**11.7p**	19.6p
Diluted [4]	9	**11.5p**	19.2p

1	Underlying operating profit	3 & 4	**150.8**	161.4
2	Underlying profit before tax	4	**136.1**	143.1
3	Underlying basic earnings per share	9	**13.9p**	14.2p
4	Underlying diluted earnings per share	9	**13.7p**	13.9p

CONDENSED CONSOLIDATED UNAUDITED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2018

	Notes	**Six months ended 30 June 2018 £m**	Six months ended 30 June 2017 Restated £m
Profit for the period attributable to equity owners of the Company		**90.4**	151.6
Items that may be reclassified to the income statement in subsequent periods:			
Currency translation movements	23	**22.6**	(82.9)
Movements in fair value of financial liabilities arising from changes in credit risk	15	**0.5**	(1.0)
Cash flow hedge movements	23	**(0.3)**	(0.1)
Tax effect		**-**	0.2
		22.8	(83.8)
Items that will not be reclassified to the income statement in subsequent periods:			
Remeasurement of retirement benefit obligations		**55.1**	31.4
Tax effect		**(10.7)**	(5.7)
		44.4	25.7
Other comprehensive income/(expense) for the period		**67.2**	(58.1)
Total comprehensive income for the period attributable to equity owners of the Company		**157.6**	93.5

CONDENSED CONSOLIDATED UNAUDITED BALANCE SHEET
As at 30 June 2018

	Notes	**30 June 2018 £m**	31 December 2017 Restated £m
Non-current assets			
Goodwill	12	**1,978.6**	1,944.9
Development costs	12	**523.3**	496.4
Programme participation costs	12	**17.1**	17.1
Other intangible assets	12	**638.1**	672.1
Property, plant and equipment	13	**405.3**	406.8
Investments		**13.8**	13.6
Trade and other receivables		**34.4**	38.7
Contract assets		**29.4**	29.6
Derivative financial instruments	15	**17.6**	28.5
Deferred tax assets		**26.5**	26.4
		3,684.1	3,674.1
Current assets			
Inventories		**452.7**	401.7
Trade and other receivables		**377.5**	389.7
Contract assets		**53.0**	44.8
Derivative financial instruments	15	**10.6**	3.6
Current tax recoverable		**4.8**	4.3
Cash and cash equivalents		**103.7**	118.5
Assets classified as held for sale		**-**	9.7
		1,002.3	972.3
Total assets	3	**4,686.4**	4,646.4
Current liabilities			
Trade and other payables		**(381.8)**	(400.6)
Contract liabilities		**(47.0)**	(46.9)
Derivative financial instruments	15	**(15.3)**	(17.3)
Current tax liabilities		**(49.4)**	(39.6)
Lease liabilities		**(14.2)**	(14.5)
Bank and other borrowings	14 & 15	**(63.1)**	(71.4)
Provisions	16	**(61.5)**	(65.7)
Liabilities directly associated with assets classified as held for sale		**-**	(7.8)
		(632.3)	(663.8)
Net current assets		**370.0**	308.5
Non-current liabilities			
Trade and other payables		**(7.6)**	(5.5)
Contract liabilities		**(23.3)**	(23.1)
Derivative financial instruments	15	**(15.0)**	(14.6)
Deferred tax liabilities		**(151.6)**	(144.4)
Lease liabilities		**(76.2)**	(79.6)
Bank and other borrowings	14 & 15	**(1,072.9)**	(1,005.8)
Provisions	16	**(74.4)**	(82.5)
Retirement benefit obligations	17	**(245.5)**	(308.1)
		(1,666.5)	(1,663.6)
Total liabilities		**(2,298.8)**	(2,327.4)
Net assets		**2,387.6**	2,319.0
Equity			
Share capital		**38.8**	38.8
Share premium		**1,222.5**	1,222.2
Other reserves		**15.7**	15.7
Hedging and translation reserves		**422.4**	399.6
Retained earnings		**688.2**	642.7
Total equity attributable to owners of the Company		**2,387.6**	2,319.0

CONDENSED CONSOLIDATED UNAUDITED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2018

	Equity attributable to owners of the Company					
	Share capital	**Share premium**	**Other reserves**	**Hedging and translation reserves**	**Retained earnings**	**Total equity**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 January 2017 (Restated)	38.8	1,219.8	15.7	552.3	433.6	2,260.2
Profit for the period	-	-	-	-	151.6	151.6
Other comprehensive (expense)/income	-	-	-	(83.8)	25.7	(58.1)
Total comprehensive (expense)/income for the period	-	-	-	(83.8)	177.3	93.5
Employee share schemes:						
Value of services provided	-	-	-	-	4.5	4.5
Issue of equity share capital	-	0.2	-	-	(0.2)	-
Purchase of own shares for employee share schemes	-	-	-	-	(9.0)	(9.0)
Dividends (note 10)	-	-	-	-	(79.6)	(79.6)
At 30 June 2017 (Restated)	38.8	1,220.0	15.7	468.5	526.6	2,269.6
At 1 January 2018 (Restated)	**38.8**	**1,222.2**	**15.7**	**399.6**	**642.7**	**2,319.0**
Profit for the period	**-**	**-**	**-**	**-**	**90.4**	**90.4**
Other comprehensive income	-	-	-	22.8	44.4	67.2
Total comprehensive income for the period	**-**	**-**	**-**	**22.8**	**134.8**	**157.6**
Employee share schemes:						
Value of services provided	-	-	-	-	6.8	6.8
Issue of equity share capital	-	0.3	-	-	(0.3)	-
Purchase of own shares for employee share schemes	-	-	-	-	(12.5)	(12.5)
Dividends (note 10)	-	-	-	-	(83.3)	(83.3)
At 30 June 2018	**38.8**	**1,222.5**	**15.7**	**422.4**	**688.2**	**2,387.6**

CONDENSED CONSOLIDATED UNAUDITED CASH FLOW STATEMENT
For the six months ended 30 June 2018

	Notes	**Six months ended 30 June 2018 £m**	Six months ended 30 June 2017 Restated £m
Cash inflow from operations before business acquisition and disposal expenses and exceptional operating items		**123.9**	124.7
Cash outflow from business acquisition and disposal expenses	24	**(3.6)**	(2.1)
Cash outflow from exceptional operating items	5	**(5.3)**	(8.0)
Cash inflow from operations	21	**115.0**	114.6
Interest received		**0.1**	0.1
Interest paid		**(15.5)**	(19.4)
Tax paid		**(11.4)**	(10.2)
Cash inflow from operating activities		**88.2**	85.1
Business acquired		**-**	(18.7)
Businesses disposed	24	**36.5**	83.6
Capitalised development costs	12	**(27.1)**	(29.0)
Capitalised programme participation costs		**(0.8)**	(2.0)
Purchase of intangible assets		**(9.2)**	(6.5)
Purchase of property, plant and equipment		**(29.4)**	(28.4)
Proceeds from disposal of property, plant and equipment		**1.8**	1.5
Cash (outflow)/inflow from investing activities		**(28.2)**	0.5
Dividends paid to Company's shareholders	10	**(83.3)**	(79.6)
Purchase of own shares for employee share schemes		**(12.5)**	(9.0)
Proceeds from bank and other borrowings	14	**122.6**	36.3
Repayments of bank and other borrowings	14	**(93.9)**	(103.8)
Repayments of lease liabilities		**(6.8)**	(4.3)
Cash outflow from financing activities		**(73.9)**	(160.4)
Net decrease in cash and cash equivalents		**(13.9)**	(74.8)
Cash and cash equivalents at start of the period		**118.5**	173.8
Exchange losses on cash and cash equivalents		**(0.9)**	(2.4)
Cash and cash equivalents at end of the period		**103.7**	96.6

NOTES TO THE CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. General information

Meggitt PLC is a public limited company listed on the London Stock Exchange, domiciled in the United Kingdom and incorporated in England and Wales with the registered number 432989. It is the parent company of a Group whose principal activities during the period were the design and manufacture of high performance components and sub-systems for aerospace, defence and other specialist markets, including energy, medical, industrial, test and automotive.

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 2017 were approved by the Board of Directors on 26 February 2018 and delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and International Accounting Standard 34, 'Interim Financial Reporting' as adopted by the European Union. They should be read in conjunction with the Group's financial statements for the year ended 31 December 2017 which have been prepared in accordance with IFRSs as adopted by the European Union. 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 a period of at least 12 months from the date of approval of this interim management report. For this reason, the directors continue to adopt the going concern basis in preparing these condensed consolidated financial statements.

2. Accounting policies

The condensed consolidated financial statements have been prepared using the same accounting policies adopted in the Group's financial statements for the year ended 31 December 2017, except as described below.

A number of new standards have been adopted for the current reporting period. The Group has updated its accounting policies to reflect the impact of these standards, which has resulted in a restatement of prior period comparatives as described in note 25. The standards which have been adopted for the first time and which have had a significant impact on the condensed consolidated financial statements are:

- IFRS 9, 'Financial instruments';
- IFRS 15, 'Revenue from contracts with customers'; and
- IFRS 16, 'Leases'.

The tax charge for the period has been calculated using the expected effective tax rates for each tax jurisdiction for the year ended 31 December 2018. These rates have been applied to the pre-tax profits made in each jurisdiction for the six months ended 30 June 2018.

In applying the Group's accounting policies, the Group is required to make certain estimates and judgements concerning the future. These estimates and judgements are regularly reviewed and revised as necessary. The estimates and judgements that have the most significant effect on amounts included in the condensed consolidated financial statements are the same as those that applied to the consolidated financial statements for the year ended 31 December 2017, as disclosed on pages 121 to 122 of the Group's 2017 Annual Report, with the exception of programme participation costs – free of charge/deeply discounted manufactured parts. Following the adoption of IFRS 15, all such programme participation costs are now expensed as incurred and a judgement is therefore no longer required as to when such costs meet the requirements to be capitalised under the Group's previous accounting policy.

3. Segmental analysis

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

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

In addition to the impact of restating the prior period segmental analysis for the impact of IFRS 15 and IFRS 16, it has also been restated to reflect the transfer of responsibility for certain aftermarket operations from Meggitt Aircraft Braking Systems and Meggitt Sensing Systems to Meggitt Control Systems.

Six months ended 30 June 2018:

	Meggitt Aircraft Braking Systems	**Meggitt Control Systems**	**Meggitt Polymers & Composites**	**Meggitt Sensing Systems**	**Meggitt Equipment Group**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Gross segmental revenue	165.5	268.8	173.9	254.1	118.4	980.7
Inter-segment revenue	(3.1)	(0.6)	(0.6)	(17.1)	(7.1)	(28.5)
Revenue	**162.4**	**268.2**	**173.3**	**237.0**	**111.3**	**952.2**
At a point in time	148.3	265.7	171.3	234.9	73.7	893.9
Over time:						
PbH/CBL*	14.1	2.5	-	2.1	-	18.7
Other	-	-	2.0	-	37.6	39.6
Revenue	**162.4**	**268.2**	**173.3**	**237.0**	**111.3**	**952.2**
Civil OE	6.3	68.7	56.2	85.3	1.2	217.7
Civil Aftermarket	120.6	124.4	19.8	35.7	0.4	300.9
Military	34.7	46.6	89.5	65.8	84.5	321.1
Energy	-	19.6	-	25.4	16.8	61.8
Other	0.8	8.9	7.8	24.8	8.4	50.7
Revenue	**162.4**	**268.2**	**173.3**	**237.0**	**111.3**	**952.2**
Underlying operating profit **	**40.2**	**61.3**	**2.3**	**34.8**	**12.2**	**150.8**

Six months ended 30 June 2017 (Restated):

	Meggitt Aircraft Braking Systems	Meggitt Control Systems	Meggitt Polymers & Composites	Meggitt Sensing Systems	Meggitt Equipment Group	Total
	£m	£m	£m	£m	£m	£m
Gross segmental revenue	174.7	257.2	168.4	264.1	124.1	988.5
Inter-segment revenue	(2.7)	(0.7)	(1.0)	(11.8)	(6.9)	(23.1)
Revenue	172.0	256.5	167.4	252.3	117.2	965.4
At a point in time	157.0	253.1	165.9	246.6	82.5	905.1
Over time:						
PbH/CBL*	15.0	3.4	-	1.7	-	20.1
Other	-	-	1.5	4.0	34.7	40.2
Revenue	172.0	256.5	167.4	252.3	117.2	965.4
Civil OE	8.9	68.2	60.0	85.1	2.4	224.6
Civil Aftermarket	122.4	110.4	18.6	37.8	1.1	290.3
Military	39.9	47.8	79.1	69.3	86.0	322.1
Energy	-	19.5	0.2	31.8	6.2	57.7
Other	0.8	10.6	9.5	28.3	21.5	70.7
Revenue	172.0	256.5	167.4	252.3	117.2	965.4
Underlying operating profit **	49.6	56.3	21.9	32.0	1.6	161.4

* Power by the hour/cost per brake landing contracts.

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

3. Segmental analysis continued

Segment assets

	30 June 2018 £m	31 December 2017 Restated £m
Meggitt Aircraft Braking Systems	**553.8**	540.8
Meggitt Control Systems	**384.8**	349.1
Meggitt Polymers & Composites	**260.4**	233.7
Meggitt Sensing Systems	**487.5**	472.7
Meggitt Equipment Group	**182.7**	193.5
Total segmental trading assets	**1,869.2**	1,789.8
Centrally managed trading assets *	**103.1**	115.1
Goodwill (note 12)	**1,978.6**	1,944.9
Other intangible assets	**558.5**	592.0
Investments	**13.8**	13.6
Derivative financial instruments – non-current (note 15)	**17.6**	28.5
Deferred tax assets	**26.5**	26.4
Derivative financial instruments – current (note 15)	**10.6**	3.6
Current tax recoverable	**4.8**	4.3
Cash and cash equivalents	**103.7**	118.5
Assets classified as held for sale	**-**	9.7
Total assets	**4,686.4**	4,646.4

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

4. Reconciliations between profit and underlying profit

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

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 Restated £m
Operating profit	**123.8**	196.3
Exceptional operating items (note 5)	**8.1**	6.7
Amounts arising on the acquisition, disposal and closure of businesses (note 24)	**(22.0)**	(53.2)
Amortisation of intangible assets acquired in business combinations (note 12)	**43.6**	48.1
Financial instruments (note 6)	**(2.7)**	(36.5)
Adjustments to operating profit *	**27.0**	(34.9)
Underlying operating profit	**150.8**	161.4
Profit before tax	**105.2**	172.2
Adjustments to operating profit per above	**27.0**	(34.9)
Net interest expense on retirement benefit obligations (note 7)	**3.9**	5.8
Adjustments to profit before tax	**30.9**	(29.1)
Underlying profit before tax	**136.1**	143.1
Profit for the period	**90.4**	151.6
Adjustments to profit before tax per above	**30.9**	(29.1)
Tax effect of adjustments to profit before tax	**(13.8)**	(12.7)
Adjustments to profit for the period	**17.1**	(41.8)
Underlying profit for the period	**107.5**	109.8

* Of the adjustments to operating profit, £4.0m (2017: £2.0m) relating to exceptional operating items has been charged to cost of sales with the balance of £23.0m debited (2017: £36.9m credited) to net operating costs.

5. Exceptional operating items

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

		Income statement		Cash expenditure	
		Six months ended 30 June 2018 £m	Six months ended 30 June 2017 £m	**Six months ended 30 June 2018 £m**	Six months ended 30 June 2017 £m
	Note				
Site consolidations	a	**5.7**	4.0	**3.1**	5.3
Integration of acquired businesses		**0.6**	2.7	**0.6**	2.7
Business restructuring costs		**1.8**	-	**1.6**	-
Exceptional operating items		**8.1**	6.7	**5.3**	8.0

a. In 2018, this principally relates to costs incurred in respect of the move to a new facility being constructed at Ansty Park in the West Midlands which will enable the Group to consolidate a range of manufacturing, engineering and support operations into a single centre of excellence.

6. Financial instruments

Although the Group uses foreign currency forward contracts to hedge against foreign currency exposures, it has decided that the costs of meeting the extensive documentation requirements to be able to apply hedge accounting under IFRS 9 'Financial Instruments' 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 qualify to be hedge accounted, any difference between the movement in fair value of derivatives and in the fair value of fixed rate borrowings is excluded from underlying profit. Where cross currency derivatives and treasury lock derivatives do not qualify to be hedge accounted, movements in fair value of the derivatives are excluded from underlying profit (note 4).

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 Restated £m
Movement in fair value of foreign currency forward contracts	**(13.0)**	47.8
Impact of retranslating net foreign currency assets and liabilities at spot rate	**-**	2.5
Movement in fair value of interest rate derivatives	**(5.6)**	(2.3)
Movement in fair value of fixed rate borrowings due to interest rate risk (note 15)	**4.5**	2.7
Movement in fair value of cross currency derivatives	**16.5**	(14.5)
Movement in fair value of treasury lock derivative	**0.3**	0.3
Financial instruments – Gain	**2.7**	36.5

7. Net finance costs

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 Restated £m
Unwinding of interest on other receivables	**0.4**	0.6
Other finance income	**0.1**	0.1
Finance income	**0.5**	0.7
Interest on bank borrowings	**0.6**	1.3
Interest on senior notes	**13.3**	15.9
Interest on lease liabilities	**2.1**	2.0
Unwinding of discount on provisions	**0.8**	1.0
Net interest expense on retirement benefit obligations (note 4)	**3.9**	5.8
Amortisation of debt issue costs	**0.4**	0.4
Less: amounts capitalised in the cost of qualifying assets (note 12)	**(2.0)**	(1.6)
Finance costs	**19.1**	24.8
Net finance costs	**18.6**	24.1

8. Tax

The Finance (No 2) Act 2015 and Finance Act 2016, included legislation to reduce the main rate of corporation tax in the UK from 19% to 17% with effect from 1 April 2020. As these changes were substantively enacted in prior years, they had no significant impact on the tax charge for the current period. On 22 December 2017, the US government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (“TCJA”). Among the changes within the TCJA reforms was a significant reduction in the generally applicable US federal corporate tax rate from 35% to 21%, with effect from 1 January 2018. As this change was enacted in 2017, the impact of remeasuring the Group’s deferred tax balances relating to its US operations was reflected in that year. Tax payable on profits for the current period has benefited from the tax reforms, resulting in a reduction in the Group’s underlying tax rate to 21.0% (2017 as restated: 23.3%).

9. Earnings per ordinary share

Earnings per ordinary share (‘EPS’) is calculated by dividing the profit attributable to equity owners of the Company of £90.4m (2017 as restated: £151.6m) by the weighted average number of shares in issue during the period of 772.7m (2017: 774.1m). The weighted average number of shares used excludes treasury shares and shares bought by the Group and held during the period by an independently managed Employee Share Ownership Plan Trust. The weighted average number of treasury shares excluded was Nil shares (2017: NIL) and the weighted average number of own shares excluded was 3.7m shares (2017: 1.6m).

Underlying EPS is based on underlying profit for the period (note 4) and is reconciled to basic EPS below:

	Six months ended 30 June 2018 Pence	Six months ended 30 June 2017 Restated Pence
Basic EPS	**11.7**	19.6
Adjust for the effects of:		
Exceptional operating items	**0.8**	0.6
Amounts arising on the acquisition, disposal and closure of businesses	**(3.0)**	(6.8)
Amortisation of intangible assets acquired in business combinations	**4.3**	4.1
Financial instruments	**(0.3)**	(3.8)
Net interest expense on retirement benefit obligations	**0.4**	0.5
Underlying basic EPS	**13.9**	14.2

Diluted EPS for the period is 11.5p (2017 as restated: 19.2p). The calculation of diluted EPS adjusts the weighted average number of shares to reflect the assumption that all potentially dilutive ordinary shares convert. For the Group, this means assuming all share awards in issue are exercised. The weighted average number of shares used in the calculation of diluted EPS was 785.3m (2017: 788.5m). Underlying diluted EPS for the period is 13.7p (2017 as restated: 13.9p). The calculation of underlying diluted EPS is based on underlying profit (note 4) and the same weighted average number of shares used in the calculation of diluted EPS.

10. Dividends

The directors have declared an interim dividend of 5.30p per ordinary share (2017: 5.05p) which will be paid on 28 September 2018 to shareholders on the register on 7 September 2018. As the dividend was approved by the directors after 30 June 2018, the dividend cost of £40.9m (2017: £39.2m) is not recorded as a liability at the balance sheet date. A dividend reinvestment plan will be available for shareholders who wish to take the dividend in the form of shares rather than cash and the last date for receipt of forms of election for the dividend reinvestment plan is 14 September 2018.

During the period, the final dividend of 10.80p per ordinary share in respect of the year ended 31 December 2017 was paid (2017: 10.30p final dividend in respect of the year ended 31 December 2016). The total cost of the final dividend was £83.3m (2017: £79.6m) and was paid in cash.

11. Related party transactions

During the period, the Group made sales to the joint venture of £1.3m (2017: £1.9m) and purchases from the joint venture of £0.1m (2017: £0.2m). Amounts due from the joint venture at the balance sheet date were £0.3m (2017: £0.4m). There were no amounts due to the joint venture at the balance sheet date (2017: £Nil).

Transactions between the Company and its subsidiaries have been eliminated on consolidation.

The remuneration of key management personnel of the Group, which is defined for 2018 as members of the Board and the Group Executive Committee, is set out below. Prior period comparatives have not been restated to reflect changes to the definition of key management during the current period.

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 £m
Salaries and other short-term employee benefits	**3.5**	3.4
Retirement benefit expense	**0.1**	0.1
Share-based payment expense	**1.3**	0.6
Total	**4.9**	4.1

12. Intangible assets

	Goodwill £m	**Development costs £m**	**Programme participation costs £m**	**Other intangible assets £m**
At 1 January 2018 (Restated)	1,944.9	496.4	17.1	672.1
Exchange rate adjustments	34.5	8.7	0.4	10.7
Additions	-	27.1	-	7.6
Businesses disposed (note 24)	(0.8)	-	-	(0.2)
Interest capitalised (note 7)	-	2.0	-	-
Amortisation and impairment loss *	-	(10.9)	(0.4)	(52.1)
At 30 June 2018	**1,978.6**	**523.3**	**17.1**	**638.1**

* Amortisation of other intangible assets includes £43.6m (2017: £48.1m) in respect of intangible assets acquired in business combinations and which has been excluded from underlying operating profit (note 4).

Goodwill is tested for impairment annually or more frequently if there is any indication of impairment. There have been no indications of impairment in the period. A full impairment review was conducted for the year ended 31 December 2017 and no impairment charge was required. The cumulative impairment charge recognised to date is £Nil (2017: £Nil).

13. Property, plant and equipment

	Land and buildings £m	**Plant, equipment and vehicles £m**	**Right of use assets £m**	**Total £m**
At 1 January 2018 (Restated)	138.0	181.1	87.7	406.8
Exchange rate adjustments	1.7	2.7	1.7	6.1
Additions	10.5	14.9	1.3	26.7
Disposals	(0.5)	(1.9)	(0.1)	(2.5)
Businesses disposed (note 24)	(2.1)	(1.4)	-	(3.5)
Depreciation *	(5.8)	(15.1)	(7.4)	(28.3)
At 30 June 2018	**141.8**	**180.3**	**83.2**	**405.3**

* Depreciation includes £1.6m (2017: £Nil) in respect of amounts charged to exceptional operating items and which has been excluded from underlying operating profit (note 4).

14. Bank and other borrowings

	Current £m	Non-current £m	Total £m
At 1 January 2018	71.4	1,005.8	1,077.2
Exchange rate adjustments	3.3	31.2	34.5
Proceeds from borrowings	50.0	72.6	122.6
Repayments of borrowings	(61.7)	(32.2)	(93.9)
Other non-cash movements	0.1	(4.5)	(4.4)
At 30 June 2018	**63.1**	**1,072.9**	**1,136.0**

Analysed as:	**30 June 2018 £m**	31 December 2017 £m
Bank loans	**53.6**	62.1
Other loans	**9.5**	9.3
Total current	**63.1**	71.4
Bank loans	**309.1**	254.1
Other loans	**763.8**	751.7
Total non-current	**1,072.9**	1,005.8

15. Financial Instruments – fair value measurement

For trade and other receivables, cash and cash equivalents, trade and other payables, lease liabilities and the current element of floating rate bank and other borrowings, fair values approximate to book values. For trade and other receivables, allowances are made within book value for credit risk. For other financial instruments, a comparison of book values and fair values is provided below:

	Book value		**Fair value**	
	30 June 2018 £m	31 December 2017 £m	**30 June 2018 £m**	31 December 2017 £m
Derivative financial instruments – non-current	**17.6**	28.5	**17.6**	28.5
Derivative financial instruments – current	**10.6**	3.6	**10.6**	3.6
Financial assets	**28.2**	32.1	**28.2**	32.1
Derivative financial instruments – current	**(15.3)**	(17.3)	**(15.3)**	(17.3)
Bank and other borrowings – current	**(63.1)**	(71.4)	**(63.1)**	(71.4)
Derivative financial instruments – non-current	**(15.0)**	(14.6)	**(15.0)**	(14.6)
Bank and other borrowings – non-current	**(1,072.9)**	(1,005.8)	**(1,056.3)**	(1,001.9)
Financial liabilities	**(1,166.3)**	(1,109.1)	**(1,149.7)**	(1,105.2)
Total	**(1,138.1)**	(1,077.0)	**(1,121.5)**	(1,073.1)

15. Financial Instruments – fair value measurement continued

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

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

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

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

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 Restated £m
Fair value at 1 January	**(1.1)**	1.0
Gain/(Loss) recognised in other comprehensive income	**0.5**	(1.0)
Fair value at 30 June	**(0.6)**	-

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

	30 June 2018 £m	31 December 2017 £m
Fair value	**235.4**	235.2
Difference between fair value and contractual amount at maturity	**(8.1)**	(13.0)
Contractual amount payable at maturity	**227.3**	222.2

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

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 Restated £m
Bank and other borrowings at fair value through profit and loss:		
At 1 January	**235.2**	344.3
Exchange rate adjustments	**5.1**	(15.9)
Gain recognised in net operating costs (note 6)	**(4.5)**	(2.7)
Loss recognised in net finance costs	**0.1**	0.1
(Gain)/Loss due to changes in credit risk recognised in other comprehensive income	**(0.5)**	1.0
At 30 June	**235.4**	326.8

The largest movement in credit spread seen in a six month period since inception of the borrowings is 70 basis points. A 70 basis point movement in the credit spread used as an input in determining fair value at 30 June 2018, would impact other comprehensive income by approximately £4.2m.

16. Provisions

	30 June 2018 £m	31 December 2017 Restated £m
Environmental *	**90.2**	99.9
Onerous contracts	**19.0**	21.8
Warranty costs	**19.8**	18.9
Other	**6.9**	7.6
Total	**135.9**	148.2
Analysed as:		
Current	**61.5**	65.7
Non-current	**74.4**	82.5
Total	**135.9**	148.2

* Included within trade and other receivables is £49.7m (December 2017: £64.1m) in respect of amounts recoverable from insurers and other third parties. During the period, £15.0m (June 2017: £15.8m) was received.

During the period, expenditure of £22.5m (June 2017: £19.4m) was incurred, of which £12.4m (June 2017: £11.0m) related to environmental provisions. The charge to the income statement in the period in respect of additional provisions created was £8.6m (June 2017: £5.4m) and the credit to the income statement in respect of the reversal of unused amounts was £2.2m (June 2017: £7.6m).

17. Retirement benefit obligations

	30 June 2018 £m	31 December 2017 £m
Amounts recognised in the balance sheet:		
Present value of scheme liabilities	**1,236.8**	1,303.4
Fair value of scheme assets	**(991.3)**	(995.3)
Total	**245.5**	308.1
Analysis of retirement benefit obligations:		
Pension schemes	**196.9**	258.3
Healthcare schemes	**48.6**	49.8
Total	**245.5**	308.1

Key financial assumptions:

	30 June 2018	31 December 2017
UK Scheme:		
Discount rate	**2.80%**	2.55%
Inflation rate	**3.10%**	3.20%
Salary increases	**4.10%**	4.20%
Current life expectancy – Male aged 65 (years)	**21.4 to 23.0**	21.6 to 23.1
Overseas Schemes*:		
Discount rate	**4.05%**	3.55%
Current life expectancy – Male aged 65 (years)	**20.1 to 20.7**	20.2 to 20.8

* Provided in respect of the most significant overseas schemes.

Cash contributions paid during the period were £24.5m (June 2017: £22.8m) including deficit reduction payments of £16.4m (June 2017: £14.0m).

18. Issued share capital

	30 June 2018 No. m	31 December 2017 No. m
Allotted and fully paid	**776.5**	776.4

The increase in the number of shares during the period relates to shares issued on the exercise of Sharesave awards.

19. Contingent liabilities

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

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

20. Capital commitments

	30 June 2018 £m	31 December 2017 £m
Contracted for but not incurred:		
Intangible assets	**1.9**	2.8
Property, plant and equipment	**12.1**	18.8
Total	**14.0**	21.6

21. Cash inflow from operations

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 Restated £m
Profit for the period	**90.4**	151.6
Adjustments for:		
Finance income (note 7)	**(0.5)**	(0.7)
Finance costs (note 7)	**19.1**	24.8
Tax	**14.8**	20.6
Depreciation (note 13)	**28.3**	25.4
Amortisation and impairment losses (note 12)	**63.4**	63.8
Loss on disposal of property, plant and equipment	**0.7**	1.5
Gain on disposal of businesses before disposal expenses (note 24)	**(26.6)**	(53.2)
Financial instruments – Gain (note 6)	**(2.7)**	(36.5)
Share of loss after tax of joint venture not distributed to the Group	**0.1**	-
Retirement benefit obligation deficit payments (note 17)	**(16.4)**	(14.0)
Share-based payment expense	**4.9**	2.0
Changes in working capital	**(60.5)**	(70.7)
Cash inflow from operations	**115.0**	114.6

The Board uses free cash flow to monitor and measure the underlying trading cash performance of the Group. It is reconciled to cash from operating activities below:

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 Restated £m
Cash inflow from operating activities	**88.2**	**85.1**
Add back cash outflow from business acquisition and disposal expenses	**3.6**	**2.1**
Capitalised development costs	**(27.1)**	**(29.0)**
Capitalised programme participation costs	**(0.8)**	**(2.0)**
Purchase of intangible assets	**(9.2)**	**(6.5)**
Purchase of property, plant and equipment	**(29.4)**	**(28.4)**
Proceeds from disposal of property, plant and equipment	**1.8**	**1.5**
Free cash inflow	**27.1**	**22.8**

22. Movements in net debt

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 Restated £m
At 1 January	**1,052.8**	1,277.1
Cash inflow from operating activities	**(88.2)**	(85.1)
Cash outflow from investing activities	**28.2**	(0.5)
Dividends paid to Company's shareholders (note 10)	**83.3**	79.6
Purchase of own shares for employee share schemes	**12.5**	9.0
Net cash generated – outflow	**35.8**	3.0
Debt acquired with business	**-**	0.7
Debt disposed with businesses	**-**	(0.9)
Lease liabilities entered	**1.4**	-
Exchange rate adjustments	**34.8**	(65.7)
Other non-cash movements	**(2.1)**	(1.9)
At 30 June	**1,122.7**	1,212.3

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 Restated £m
Analysed as:		
Bank and other borrowings – current	**63.1**	200.6
Bank and other borrowings – non-current	**1,072.9**	1,011.9
Cash and cash equivalents	**(103.7)**	(96.6)
Net borrowings	**1,032.3**	1,115.9
Lease liabilities – current	**14.2**	14.9
Lease liabilities – non-current	**76.2**	81.5
Total	**1,122.7**	1,212.3

23. Components of other comprehensive income

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 Restated £m
Arising in the period	**25.6**	(69.4)
Transferred to the income statement	**(3.0)**	(13.5)
Currency translation movements – Gain/(Loss)	**22.6**	(82.9)
Movement in fair value	**0.1**	(0.1)
Transferred to the income statement	**(0.4)**	-
Cash flow hedge movements – Loss	**(0.3)**	(0.1)

24. Business disposals

On 12 January 2018, the Group disposed of 100% of the equity in Aviation Mobility, LLC ('Aviation Mobility') for a consideration of USD 14.0m.

On 14th November 2017, the Group agreed to the disposal of 100% of the equity of Linear Motion LLC ('Linear Motion') subject to certain regulatory clearances being obtained. The related assets were classified as a disposal group held for sale and were presented separately at 31 December 2017 together with directly associated liabilities. The disposal subsequently completed on 26 March 2018 for a consideration of USD 4.4m and is subject to a customary adjustment for working capital in the business at the date of disposal.

On 21 April 2018, the Group disposed of 100% of the ordinary shares of Precision Micro Limited ('Precision Micro') for a consideration of £22.5m, which is subject to a customary adjustment for working capital in the business at the date of disposal. The company specialised in production photo etching for the automotive and medical sectors, where synergies with the rest of the Group were limited.

The businesses were not a major line of business or geographical area of operation of the Group. Aviation Mobility was reported within Meggitt Control Systems and Linear Motion and Precision Micro within the Meggitt Equipment Group.

The net assets of the businesses at the date of disposal were as follows:

	Aviation Mobility £m	Linear Motion £m	Precision Micro £m	**Total £m**
Goodwill (note 12)	-	-	0.8	**0.8**
Other intangible assets (note 12)	-	-	0.2	**0.2**
Property, plant and equipment (note 13)	-	-	3.5	**3.5**
Inventories	-	-	1.1	**1.1**
Trade and other receivables – current	0.3	-	3.4	**3.7**
Current tax recoverable	-	-	0.6	**0.6**
Cash and cash equivalents	-	-	0.7	**0.7**
Assets classified as held for sale	-	10.4	-	**10.4**
Trade and other payables – current	-	-	(1.9)	**(1.9)**
Liabilities directly associated with assets classified as held for sale	-	(6.6)	-	**(6.6)**
Net assets	0.3	3.8	8.4	**12.5**
Currency translation gain transferred from equity				**(3.0)**
Business disposal expenses				**4.2**
Working capital adjustment payable				**1.1**
Gain on disposal of businesses				**22.4**
Total consideration received in cash				**37.2**

Cash inflow arising on disposal:	
Total consideration received in cash	**37.2**
Less: cash and cash equivalents disposed of	**(0.7)**
Businesses disposed	**36.5**
Less: business disposal expenses paid	**(3.6)**
Total cash inflow	**32.9**

The Group separately presents amounts arising on the acquisition, disposal and closure of businesses. These include gains or losses made on the disposal or closure of a business, adjustments to the fair value of contingent consideration payable in respect of an acquired business or receivable in respect of a disposed business and costs directly attributable to the acquisition and disposal of businesses.

	Six months ended 30 June 2018 £m	Six months ended 30 June 2017 £m
Gain on disposal of businesses before disposal expenses (note 21)	**26.6**	53.2
Costs related to the disposal of businesses in the current period	**(4.2)**	-
Gain on disposal of businesses	**22.4**	53.2
Costs related to the disposal of businesses in prior periods	**(0.4)**	-
Amounts arising on the acquisition, disposal and closure of businesses (note 4)	**22.0**	53.2

25. Restatement of prior period comparatives

This note explains the impact on the condensed consolidated financial statements of the adoption of IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments' which became effective for the financial period beginning 1 January 2018 and of IFRS 16 'Leases' which the Group has early adopted. As a result of changes required to the Group's accounting policies arising from adoption of these standards, prior period comparatives have been restated.

In addition, the Group has finalised the fair values of assets and liabilities of Elite Aerospace, Inc. ('Elite') which was acquired on 28 March 2017. IFRS 3 requires fair value adjustments to be recorded with effect from the date of acquisition and consequently have resulted in a restatement of previously reported results.

The following tables show the impact of these changes on each line item affected. Line items which are not impacted by the restatement have been aggregated within the relevant sub-totals. The impact of each new standard is also explained in more detail within the footnotes that follow the tables.

Condensed consolidated unaudited income statement (extract)

	Six months ended 30 June 2017 As previously reported £m	IFRS 15 £m	IFRS 16 £m	IFRS 9 £m	Six months ended 30 June 2017 Restated £m
Revenue	968.1	(2.7)	-	-	965.4
Cost of sales	(586.9)	(10.3)	-	-	(597.2)
Gross profit	381.2	(13.0)	-	-	368.2
Net operating costs	(173.0)	(0.7)	0.8	1.0	(171.9)
Operating profit	208.2	(13.7)	0.8	1.0	196.3
Net finance costs	(22.7)	-	(1.4)	-	(24.1)
Profit before tax	185.5	(13.7)	(0.6)	1.0	172.2
Tax	(24.9)	4.3	0.2	(0.2)	(20.6)
Profit for the period	160.6	(9.4)	(0.4)	0.8	151.6
Earnings per share:					
Basic (pence)	20.7	(1.2)	-	0.1	19.6
Diluted (pence)	20.4	(1.2)	(0.1)	0.1	19.2
Underlying operating profit	174.3	(13.7)	0.8	-	161.4
Underlying profit before tax	157.4	(13.7)	(0.6)	-	143.1
Underlying basic earnings per share (pence)	15.5	(1.2)	(0.1)	-	14.2
Underlying diluted earnings per share (pence)	15.2	(1.2)	(0.1)	-	13.9

25. Restatement of prior period comparatives continued

Condensed consolidated unaudited statement of comprehensive income (extract)

	Six months ended 30 June 2017 As previously reported £m	IFRS 15 £m	IFRS 16 £m	IFRS 9 £m	Six months ended 30 June 2017 Restated £m
Profit for the period	160.6	(9.4)	(0.4)	0.8	151.6
Items that may be reclassified to the income statement in subsequent periods:					
Currency translation movements	(89.9)	7.0	-		(82.9)
Movements in fair value of financial liabilities arising from changes in credit risk	-	-	-	(1.0	(1.0)
Cash flow hedge movements	(0.1)	-	-	-	(0.1)
Tax effect	-	-	-	0.2	0.2
	(90.0)	7.0	-		(83.8)
Items that will not be reclassified to the income statement in subsequent periods:	25.7	-	-		25.7
Other comprehensive (expense)/income	(64.3)	7.0	-	(0.8)	(58.1)
Total comprehensive income for the period	96.3	(2.4	(0.4)	-	93.5

Condensed consolidated unaudited balance sheet (extract)

	1 January 2017 As previously reported £m	IFRS 15 £m	IFRS 16 £m	IFRS 9 £m	1 January 2017 Restated £m
Net assets	2,456.4	(193.8)	(2.4)	-	2,260.2
Equity					
Hedging and translation reserves	551.5	-	-	0.8	552.3
Retained earnings	630.6	(193.8)	(2.4)	(0.8)	433.6
Other equity	1,274.3	-	-	-	1,274.3
Total equity	2,456.4	(193.8)	(2.4)	-	2,260.2

25. Restatement of prior period comparatives continued

Condensed consolidated unaudited balance sheet (extract)

	31 December 2017 As previously reported	IFRS 15	IFRS 16	IFRS 9	Elite	31 December 2017 Restated
	£m	£m	£m	£m	£m	£m
Non-current assets						
Goodwill	1,947.0	-	-	-	(2.1)	1,944.9
Development costs	482.3	14.1	-	-	-	496.4
Programme participation costs	332.1	(315.0)	-	-	-	17.1
Property, plant and equipment	322.9	-	83.9	-	-	406.8
Trade and other receivables	39.2	(0.5)	-	-	-	38.7
Contract assets	-	29.6	-	-	-	29.6
Deferred tax assets	11.5	14.8	0.1	-	-	26.4
Other non-current assets	714.2	-	-	-	-	714.2
	3,849.2	(257.0)	84.0	-	(2.1)	3,674.1
Current assets						
Inventories	404.1	(2.4)	-	-	-	401.7
Trade and other receivables	437.1	(47.4)	-	-	-	389.7
Contract assets	-	44.8	-	-	-	44.8
Other current assets	136.1	-	-	-	-	136.1
	977.3	(5.0)	-	-	-	972.3
Total assets	4,826.5	(262.0)	84.0	-	(2.1)	4,646.4
Current liabilities						
Trade and other payables	(445.5)	44.9	-	-	-	(400.6)
Contract liabilities	-	(46.9)	-	-	-	(46.9)
Lease liabilities	(0.1)	-	(14.4)	-	-	(14.5)
Provisions	(64.2)	-	-	-	(1.5)	(65.7)
Other current liabilities	(136.1)	-	-	-	-	(136.1)
	(645.9)	(2.0)	(14.4)	-	(1.5)	(663.8)
Net current assets	331.4	(7.0)	(14.4)	-	(1.5)	308.5
Non-current liabilities						
Trade and other payables	(5.5)	-	-	-	-	(5.5)
Contract liabilities	-	(23.1)	-	-	-	(23.1)
Derivative financial instruments	(14.6)	-	-	-	-	(14.6)
Deferred tax liabilities	(201.7)	54.1	0.9	-	2.3	(144.4)
Lease liabilities	(6.0)	-	(73.6)	-	-	(79.6)
Other non-current liabilities	(1,396.4)	-	-	-	-	(1,396.4)
	(1,624.2)	31.0	(72.7)	-	2.3	(1,663.6)
Total liabilities	(2,270.1)	29.0	(87.1)	-	0.8	(2,327.4)
Net assets	2,556.4	(233.0)	(3.1)	-	(1.3)	2,319.0
Equity						
Hedging and translation reserves	386.9	13.4	0.2	(0.9)	-	399.6
Retained earnings	892.8	(246.4)	(3.3)	0.9	(1.3)	642.7
Other equity	1,276.7	-	-	-	-	1,276.7
Total equity	2,556.4	(233.0)	(3.1)	-	(1.3)	2,319.0

25. Restatement of prior period comparatives continued

Impact of IFRS 15

In accordance with the transition provisions in IFRS 15, the standard has been adopted retrospectively with restatements made to prior period comparatives. A summary of the principal areas of IFRS 15 that have impacted the Group are shown in the tables below and footnotes that follow.

	Programme participation costs (a) £m	Programme participation costs (b) £m	Customer funding on development programmes (c) £m	Other (d) £m	Reclassifications (e) £m	Six months ended 30 June 2017 Impact £m
Revenue	-	(1.2)	-	(1.5)	-	(2.7)
Cost of sales	(12.7)	1.2	-	1.2	-	(10.3)
Gross profit	(12.7)	-	-	(0.3)	-	(13.0)
Net operating costs						(0.7)
Operating profit						(13.7)
Tax						4.3
Profit for the period						(9.4)

	Programme participation costs (a) £m	Programme participation costs (b) £m	Customer funding on development programmes (c) £m	Other (d) £m	Reclassifications (e) £m	1 January 2017 Impact £m
Net assets	(186.5)		-	(7.3)	-	(193.8)

	Programme participation costs (a) £m	Programme participation costs (b) £m	Customer funding on development programmes (c) £m	Other (d) £m	Reclassifications (e) £m	31 December 2017 Impact £m
Development costs	-	-	14.1	-	-	14.1
Programme participation costs	(285.4)	(29.6)	-	-	-	(315.0)
Trade and other receivables – non-current	-	-	-	(0.5)	-	(0.5)
Contract assets – non-current	-	29.6	-	-	-	29.6
Deferred tax assets	14.8	-	-	-	-	14.8
Inventories	-	-	-	(2.4)	-	(2.4)
Trade and other receivables – current	-	-	-	-	(47.4)	(47.4)
Contract assets – current	-	-	-	-	44.8	44.8
Trade and other payables	-	-	-	-	44.9	44.9
Contract liabilities – current	-	-	-	(4.6)	(42.3)	(46.9)
Contract liabilities – non-current	-	-	(14.1)	(9.0)	-	(23.1)
Deferred tax liabilities	50.8	-	-	3.3	-	54.1
Net assets	(219.8)	-	-	(13.2)	-	(233.0)

a) Programme participation costs – Free of charge/deeply discounted manufactured parts
Programme participation costs consist of incentives given to Original Equipment Manufacturers in connection with their selection of the Group's products for installation onto new aircraft where the Group has obtained principal supplier status. Where these incentives comprise the supply of initial manufactured parts on a free of charge or deeply discounted basis, amounts are recognised within costs of sales as incurred. Under the Group's previous accounting policy, amounts were recognised as an intangible asset and amortised over their useful lives to cost of sales over periods typically up to 15 years.

b) Programme participation costs – Cash payments
Where programme participation costs are in the form of cash payments, the treatment depends on the contractual relationship between the Group and the third party to whom the payment is made. Where the payment is made to a third party under a revenue contract (as defined by IFRS 15), or the award of future IFRS 15 revenue contracts on the programme from the same party is highly probable, payments are recognised as a contract asset and amortised, as a deduction from revenue, over the periods expected to benefit from those contracts. This situation most frequently arises where the payment is made to the same party to whom OE and/or aftermarket parts are sold. Other payments are recognised as an intangible asset and amortised as a charge to cost of sales. Under the Group's previous accounting policy, all programme participation cash payments were recognised as intangible assets and amortised as a charge to cost of sales.

25. Restatement of prior period comparatives continued

Impact of IFRS 15 continued

c) Customer funding towards development costs
Where a customer contributes to the Group's development costs and those costs meet the criteria under IAS 38 to be recognised as an intangible asset, the funding is recognised as a contract liability and is amortised, as an increase to revenue, over the periods expected to benefit from future revenue from the customer over the life of the programme. Under the Group's previous accounting policy, customer funding was netted off amounts recognised as development costs and accordingly reduced the subsequent amortisation charged to net operating costs.

d) Other
A number of other revenue timing differences, none of which is individually significant, arose from the adoption of IFRS 15:

i. Revenue recognised over time
The Group recognises revenue under power by the hour and cost per brake landing type contracts over time using costs incurred as the measure of contract completion. Under the Group's previous accounting policy, revenue was recognised based on the number of aircraft flying hours or the number of aircraft landings.

Where the Group builds a product with no alternative use and has an enforceable right to payment from the customer for costs incurred, plus a reasonable margin, throughout the life of the contract then revenue is recognised over time using costs incurred as the measure of contract completion. Under the Group's previous accounting policy, the majority of contracts that meet this requirement were accounted for in a similar way using contract accounting, although the method of measuring progress has, in some cases, changed. For instance, funded research and development contracts were previously recognised as revenue over time using customer agreed milestones achieved as a measure of contract completion. Additionally a small number of contracts for which contract accounting was previously applied no longer meet the IFRS 15 criteria to be recognised over time, particularly certain contracts in the Heatric business, and are now recognised at a point in time, usually when the goods are delivered to the customer. Conversely, certain military contracts for which revenue was previously recognised as goods were delivered to the customer meet the IFRS 15 over time criteria and accordingly revenue is recognised as costs are incurred.

ii. Revenue recognised at a point in time
The timing of revenue on the substantial majority of the Group's contracts, previously recognised at a point in time, has not been significantly affected by IFRS 15, with revenue continuing to be recognised as goods are delivered to the customer and at the price agreed with the customer for those goods. A minority of contracts required changes to the timing of revenue recognition to reflect IFRS 15 guidance on areas such as whether multiple deliveries and services provided to a customer should be accounted for individually, variable consideration and material rights.

e) Reclassifications
Certain balances representing amounts recoverable on contracts, previously included within trade and other receivables, and deferred income and advance payments received from customers, previously included within trade and other payables, have been reclassified to contract assets and contract liabilities as appropriate.

Impact of IFRS 16

The Group has early adopted IFRS 16 using the full retrospective approach on transition. Under IFRS 16, except for certain short term leases and leases of low-value assets, a liability is recognised at lease inception equal to the present value of payments due under the lease. The lease liability is subsequently measured using the effective interest rate method, with interest charged to finance costs. At lease inception, a right of use asset is also recognised equal to the lease liability, adjusted to reflect any lease incentives paid to or received from the lessor, asset restoration and other direct costs. The right of use asset is depreciated over the shorter of the life of the asset or the lease term to either costs of sales or net operating costs.

Under the Group's previous accounting policy, the majority of the Group's leases were accounted for as operating leases with rentals charged to cost of sales or net operating costs on a straight line basis over the lease term, with no element of the rentals charged to finance costs. No asset or lease liability was recognised on the Group's balance sheet for these leases.

Impact of IFRS 9

Under IFRS 9, where financial liabilities are subsequently measured at fair value, any element of the fair value gain or loss arising attributable to changes in credit risk is recognised in other comprehensive income. Under the Group's previous accounting policy, such amounts were recognised within net operating costs.

26. Approval of interim management report

The interim management report was approved by the Board of Directors on 6 August 2018.

27. Availability of interim management report

The interim management report will be available on the Group's website www.meggitt.com from 7 August 2018. 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 2017 Annual Report the principal risks and uncertainties which the Group is exposed to. These risks have not changed significantly over the period and are expected to continue to be relevant for the remaining six months of the year.

The risks relate to those arising from fundamental changes in the Group's business model, reduced demand for the Group's products, not aligning technology strategies with customer requirements, quality escape/equipment fault, business interruption, failure to meet new product development and programme milestones and certification requirements, failure to meet customers' cost, quality and delivery standards, failure to integrate effectively acquisitions, IT/systems failure, supply chain management, failure to successfully and simultaneously deliver significant change programmes, legal and regulatory matters and changes in tax legislation. Further details can be found in the 'Risk management' section of the 2017 Annual Report on pages 40 to 45, together with details of strategies adopted to mitigate these exposures.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors confirm that to the best of their knowledge:

- This condensed set of consolidated interim financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union; and

- The interim management report (including the interim financial statements, management report and responsibility statements) includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

    - An indication of important events that have occurred during the six months ended 30 June 2018 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 2018 and any material changes to the related party transactions described in the last annual report.

By order of the Board:

A Wood
Director
6 August 2018

D R Webb
Director
6 August 2018

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