

6 August 2019

## Meggitt PLC

### 2019 Interim results

#### Organic revenue growth outlook upgraded; on track to deliver margin improvement of 0 to 50 basis points in 2019

Meggitt PLC ("Meggitt" or "the Group"), a leading international engineering company specialising in high performance components and sub-systems for the aerospace, defence and selected energy markets, today announces unaudited interim results for the six months ended 30 June 2019.

#### Group headlines

£m	H1 2019	H1 2018	Change	
			Reported	Organic <sup>1</sup>
Orders	<b>1,193</b>	1,087	10%	7%
Revenue	<b>1,071</b>	952	12%	9%
Underlying <sup>2</sup>				
EBITDA <sup>3</sup>	<b>212</b>	197	8%	2%
Operating profit	<b>161</b>	151	7%	2%
Profit before tax	<b>145</b>	136	7%	2%
Earnings per share (p)	<b>14.7</b>	13.9	6%	
Statutory				
Operating profit	<b>91</b>	124	(26%)	
Profit before tax	<b>73</b>	105	(31%)	
Earnings per share (p)	<b>7.3</b>	11.7	(38%)	
Free cash flow	<b>49</b>	27	80%	
Net borrowings	<b>1,018</b>	1,032	(1%)	
Dividend (p)	<b>5.55</b>	5.30	5%	

- Organic revenue growth of 9% reflects strong trading performance in civil OE and defence. Reported revenues increased by 12% due to organic growth and currency, partly offset by non-core divestments.
- Full year organic revenue growth guidance increased 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 increased by 7% to £161m. Underlying operating margin reduced to 15.0% reflecting additional investment in Engine Composites and the growth in our installed base which was partly offset by the growing financial contribution from strategic initiatives.
- Statutory operating profit decreased by 26% to £91m, principally as a result of lower gains from disposal of businesses compared to the prior period.
- Free cash flow increased by 80% to £49m inclusive of the sale of land and buildings associated with our move to the Ansty Park site.
- Strong progress on key strategic initiatives:
  - Continued investment in differentiated technologies with good progress made in priority areas such as thermal systems, optical sensing, fire protection and braking systems;
  - Factory consolidation and expansion activity ahead of plan; three sites exited since the beginning of the year with footprint reduced by 25% compared to the 2016 baseline;
  - Good momentum in reducing purchased costs sustained, with 2% purchased cost decrease achieved in the first half; and
  - Completed two further non-core divestments to focus the portfolio, with 75% of revenue now in attractive growth markets where Meggitt has a strong competitive position.
- Interim dividend up 5% to 5.55p reflecting our continued confidence in the prospects for the Group.

<sup>1</sup> Organic numbers exclude the impact of acquisitions, disposals and foreign exchange.

<sup>2</sup> 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.

<sup>3</sup> Underlying EBITDA represents underlying operating profit adjusted to add back depreciation, amortisation and impairment losses.

**Tony Wood, Chief Executive, commented:**

*“Trading in the first half was strong, with robust growth in both civil original equipment and defence and good performance in our civil aftermarket business, despite an easing in air traffic growth and lower demand for initial provisioning spares following the grounding of the 737 MAX. As a result, we have increased our full year organic revenue growth guidance to 4 to 6% and remain on track to deliver a margin improvement of between 0 and 50 basis points in 2019.*”

*“We continue to make good progress in the operational transformation of the Group, including our centred approach to purchasing, footprint rationalisation programme and driving improved operational performance at our Engine Composites product group. We have strengthened and focused our portfolio, with further investment in priority technology areas such as thermal systems, optical sensing, fire protection and braking systems and the completion of two non-core divestments.*”

*“The acceleration in growth and our continuing confidence in the prospects for the Group underpins our interim dividend increase of 5% to 5.55p.”*

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**Analyst presentation**

There will be a presentation for analysts today at 11.00am 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 71,000 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 entered service in the last five years.

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: Strategic Portfolio, Customers, Competitiveness and Culture.

### Strategic 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.

More than 70% of revenue is generated from sole-source, life of programme positions underpinned by Meggitt-owned intellectual property. As such the continued strengthening of our technology portfolio remains a critical priority of the Group. In the first half, we have made excellent progress on building upon our differentiated portfolio of products and technologies in focus areas such as thermal systems, optical sensing, fire protection and braking systems. For example, we have secured an exclusive licensing agreement with Luna Innovations for the supply of fibre-optic components to our next-generation Bleed Air Leak Detection systems which will deploy optical sensors in order to provide a far quicker, more accurate and versatile detection of fires or overheat.

As the industry continues to focus on achieving a step-change reduction in fuel consumption and greenhouse gas emissions, there is an increasing trend towards the development of hybrid propulsion. We are well placed to provide some of the critical technologies and components needed to enable future sustainable aviation, such as radically improved thermal systems including advanced manufacturing technologies, such as diffusion bonding and additive manufacturing.

We have also further strengthened our portfolio with the sale of two non-core businesses. In April 2019, we completed the sale of the trade and assets of Meggitt France SAS, a provider of ignition systems and in August 2019, we completed the sale of our non-aerospace test and measurement sensing business.

### Customers

Organic book to bill of 1.13x reflects good progress in growing our relationships with key customers, including new contract awards announced today for the Embraer Praetor 500/600 braking system valued at \$500m over the life of the aircraft. We have also finalised terms to provide the Dassault Falcon 6X braking and tyre pressure monitoring system worth \$1.2bn over the life of programme.

In civil aerospace, our continued success in moving from a transactional approach to building long term relationships with our customers in the aftermarket, extends our visibility of near term customer requirements and enables us to better support the demand for spare parts and maintenance, repair and overhaul ('MRO'). During the first six months, we have secured seven new contracts based on our Smart Support™ proposition which enables customers to tailor the service we provide to them across the breadth of Meggitt capabilities, with fixed prices, parts availability and exchange pools as required. These new contracts in aggregate, secure £23m per annum in revenue, and include customers such as Pratt & Whitney, Air China, Delta, Lufthansa Technik and Collins Aerospace.

Order growth in defence has been particularly strong, with organic book to bill of 1.33x in the first half. This included the previously announced ten year long term agreement with Pratt & Whitney to provide a range of high temperature engine composites on the F-135 engine, together with more recent awards with Lockheed Martin, Boeing and the Defense Logistics Agency.

## Competitiveness

We remain focused on making our operational performance a key competitive strength.

Our increasingly centre-led approach to procurement continues to enable the Group to reduce net purchased costs by 2% p.a. We continue to work closely with a smaller number of preferred suppliers in areas including electronics, fasteners, castings, machining and factory consumables, where we have been able to simplify our supply chain whilst better leveraging our scale to reduce cost.

We have also made further progress in our programme to consolidate our footprint. We have exited three sites in Angouleme, France; Miami, Florida; and in Sunnyvale, California; reducing our overall footprint to 42 sites. This represents an overall reduction of 25%, ahead of our original target to reduce our estate by 20% by 2021 compared to the 2016 baseline. We continue to target further rationalisation, with seven site consolidations currently in progress and due to complete over the next three years. The key footprint project is the construction of a state of the art manufacturing campus at Ansty Park, which will become home to our braking systems and thermal systems product groups; and headquarters for the Group and both Airframe Systems and Services & Support divisions. The Ansty Park project has made excellent progress, with the exterior of the building largely complete. It remains on track for initial occupation in 2020.

Inventory turns during the first half are flat at 2.7x (December 2018: 2.7x) after the continued investment in buffer stocks to support our ongoing site consolidation plans and as part of our contingency planning for a no-deal Brexit, together with investment in spare parts to serve our growing number of Smart Support™ contracts in the aftermarket. We are making good progress at many of our sites and we continue to target inventory turns of 4.0x by 2021.

Our efforts to increase competitiveness and reduce cost continue to be underpinned by the Meggitt Production System ('MPS'), our global approach to continuous improvement. The financial and operational performance improvements at our most advanced facilities continue to demonstrate the potential we can achieve when we move a critical mass of sites to the latter phases of the programme. We now have 13 sites in the bronze phase or later equivalent to over 30% of the Group and have made good progress in our efforts to drive sustainable operational improvements at eight large but early stage sites that constrained overall performance in 2018.

Two of these eight sites are in the Engine Composites product group where we have made good progress in improving operational performance, with yield now over 90% across the majority of key parts, despite continued rapid growth in demand given our strong positions on growth platforms including the F-135, GTF and Leap engines. As anticipated we incurred additional costs in the first half, particularly at our recently expanded factory in Mexico. The replication of capability in Mexico has enabled us to secure the approval we need from our customers to progressively move volume production to the site. This is a critical step and underpins our confidence in improving financial performance in Engine Composites in the second half and beyond.

## 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 adopted a new organisational structure on 1 January 2019, built upon four customer-aligned divisions: Airframe Systems; Engine Systems; Energy & Equipment; and Services & Support.

Initial customer feedback on the changes we have made has been very positive, most notably at the successful Paris Air Show where we announced six new orders. Our new customer aligned-structure is making us easier to do business with and enabling us to engage in much more effective technology discussions now that our divisions have responsibility for the full suite of capabilities our airframe or engine customers may require.

The successful transition to this new structure has been underpinned by our high performance culture ('HPC') programme which we launched in 2017. We have now rolled out HPC training to over 4,500 employees and it has proven highly effective in helping our teams work productively together to deliver common goals as a more integrated Group.

This morning we are also announcing that after a 25 year career at Meggitt, Philip Green will retire from his position as Executive Director, Commercial & Corporate Affairs and will step down from the Board at the end of December 2019.

## HEADLINE FINANCIALS

Orders grew by 10% on a reported basis (and by 7% on an organic basis) to £1,193.2m.

Reported Group revenue of £1,070.9m (2018: £952.2m) increased by 12% as analysed in the table below:

	£m	% impact
H1 2018 revenue	952.2	
Acquisitions and disposals	(14.2)	(2%)
Currency movements	51.0	5%
Organic growth	81.9	9%
<b>H1 2019 revenue</b>	<b>1,070.9</b>	<b>12%</b>

Currency movements in the first six months reflect the weakness of Sterling against our trading currencies, principally the US dollar. The more recent weakness in sterling, if sustained at similar levels to the past six months, would result in the Group being broadly currency neutral in the second half. Acquisitions and disposals include the sale of Thomson (completed in March 2018), Precision Micro (completed in April 2018) and Meggitt France SAS (completed in April 2019). Strong organic revenue growth reflects particularly good performance in civil OE (up 11%) and defence (up 13%) end-markets.

The Board's preferred measure of the Group's trading performance is underlying profit. Underlying operating profit increased 7% to £161.1m (2018: £150.8m), representing a margin of 15.0% (2018: 15.8%). The margin decline reflects continued investment in our Engine Composites product group during the first half, to support continued high growth and double running costs incurred at our recently expanded facility in Mexico. Investments in the growth of our installed base also diluted margin during the first half with an increase of free of charge components and an unfavourable revenue mix, resulting from particularly strong growth in Civil OE. These headwinds were partially offset by the continued financial benefits from our strategic initiatives, including reductions in purchased costs, efficiencies from the Meggitt Production System.

Underlying net finance costs increased to £15.7m (2018: £14.7m) due principally to higher US interest rates and exchange rate movements increasing the sterling value of our largely US dollar denominated finance costs.

In April, the European Commission ruled that certain aspects of the UK Group Financing Exemption under the Controlled Foreign Corporation (CFC) regime constitute unlawful state aid. The UK Government has applied to the EU courts for annulment of this decision as has the Group. As previously reported, the Group has taken advantage of this regime, generating tax benefits of approximately \$22m. The Group has now received a letter from HMRC setting out how it intends to identify the amount of any such aid received. It is currently unclear what proportion of the \$22m will be so determined. Any assessed aid is expected to be payable by the Group in H2 2019.

Underlying profit before tax was £145.4m (2018: £136.1m). As previously guided, the underlying tax rate increased to 22% (2018: 21%) reflecting increases in non-US tax exposure related to the Base Erosion and Profit Shifting project in the UK and related initiatives across OECD countries. Underlying earnings per share increased by 6% to 14.7p (2018: 13.9p).

On a statutory basis, operating profit for the period decreased by 26% to £91.4m (2018: £123.8m) and profit before tax decreased by 31% to £72.6m (2018: £105.2m). Statutory profit includes a £1.5m gain (2018: gain of £22.0m) from the disposal of businesses and a £15.3m loss (2018: gain of £2.7m) on the non-cash marking to market of financial instruments. Earnings per share decreased by 38% to 7.3p (2018: 11.7p), 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 5.55p (2018: 5.30p) reflecting our ongoing confidence in the outlook for the Group and our commitment to a progressive dividend. This will be paid on 4 October 2019 to shareholders on the register on 6 September 2019.

Free cash flow increased 80% to £48.8m (2018: £27.1m), as a result of further reductions in capitalised development costs, lower cash tax and the £21.0m proceeds from the sale of land and buildings relating to our transfer to the Ansty Park site in 2020. This was partly offset by an increase in working capital as we continue to build buffer stocks to support work in progress footprint consolidations, manage any Brexit related disruption and mitigate supply chain risks in areas including forgings and castings. We have also increased inventory in our Services & Support division as we look to accelerate growth through increased availability of stock.

The seasonal net cash outflow of £36.9m (2018: outflow of £35.8m) includes the £6.3m net proceeds from the sale of non-core businesses together with the payment of the 2018 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 at 1.8x at 30 June 2019 (June 2018: 1.9x) and interest cover, which must be not less than 3.0x, was 15.0x (June 2018: 14.7x). The Group has, therefore, significant headroom against both key covenant ratios, and net borrowings:underlying EBITDA is well within our target range of 1.5x to 2.5x.

The Group has £358.8m of undrawn headroom against committed credit facilities, after taking account of surplus cash.

## TRADING SUMMARY

	Revenue (£m)		Growth (%)	
	H1 2019	H1 2018	Reported	Organic
Civil OE	259.6	217.7	19%	11%
Civil AM	329.3	300.9	9%	7%
<b>Total Civil</b>	<b>588.9</b>	<b>518.6</b>	<b>14%</b>	<b>9%</b>
Defence	376.7	321.2	17%	13%
Energy	63.1	61.8	2%	(1%)
Other	42.2	50.6	(17%)	(14%)
<b>TOTAL</b>	<b>1,070.9</b>	<b>952.2</b>	<b>12%</b>	<b>9%</b>

### 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 56% aftermarket and 44% original equipment (OE).

Civil OE revenue grew 11% on an organic basis. Large jet OE, the most significant driver of our OE revenue, grew by 8% with particularly good growth on Boeing 787 and new narrowbody aircraft including Airbus A220 and A320neo family and Boeing 737 MAX. Demand for new parts was also strong in both business jets and regional jets. In business jets, OE revenue grew by 20% with growth across the majority of programmes. In regional jets, OE revenue grew by 37% reflecting good demand on Dash-8, ATR-72 and ARJ21 partly offset by lower demand for E-Jets.

Civil aftermarket revenue grew organically by 7% driven by strong underlying growth in large jet aftermarket where our growing content on new generation aircraft and the improved capabilities within our Services & Support division, have been further enhanced by positive demand drivers. Despite an easing in air traffic growth, the grounding of the 737 MAX aircraft has constrained capacity and increased passenger load factors which has limited aircraft retirements and driven the continued scarcity of Meggitt used surplus material ('USM'). Good underlying growth in civil aftermarket revenue was more than enough to offset the impact of a prior year comparator which had seen one-off demand associated with distributor agreements signed in late 2017.

Large jet aftermarket revenue increased by 13% organically, reflecting good demand across a broad range of capabilities on the Airbus A330, A320ceo and Boeing 787 aircraft; and brakes on the A220 and DC10, the latter of which was partly offset by lower demand across a broad range of other mature programmes. Initial provisioning grew strongly in the period on both A320neo and 737 MAX aircraft. However, we had anticipated much greater levels of initial provisioning on the 737 MAX at the beginning of the year, prior to its grounding.

Regional jet aftermarket revenue declined by 1% organically, reflecting growth on ATR-72, Dash-8 and E 170/175 aircraft which was offset by declining revenue on Dornier 228/328, BAE 146 and CRJ1000. Business jet aftermarket revenue grew by 3% on an organic basis. Key growth platforms were the Falcon 7X, G-350/450 and G-V which offset declining demand on Hawker 750-900, Falcon 50 and smaller Gulfstream platforms (most notably G-I/II/III and G-IV).

Overall civil aerospace revenues increased by 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 revenues up to the early 2020s when we expect growth of new large jets to plateau. Deliveries of regional aircraft are expected to remain at current rates over that period. Deliveries of business jets are set to grow modestly in the near term.

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 4.6% globally in the five months to May 2019, reflecting an easing of growth compared to 2018 when traffic grew strongly. Industry forecasts are for air traffic to continue to grow between 4% and 5% over the medium term. Regional jet utilisation (measured in terms of take offs and landings) grew by 3% in the six months to June 2019. With strong positions as the provider of braking systems on the two key current generation regional aircraft (the Embraer E-Jet and Bombardier CRJ families), we would expect to outperform the market over the near term. Business jet utilisation in the US and Europe was flat during the six months to June 2019 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.

## **Defence**

Defence business accounted for 35% of Group revenues in H1 2019. 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 defence revenue (June 2018: 72%), with 18% to European customers (June 2018: 19%) and 10% to the rest of the world (June 2018: 9%).

Defence revenue grew 13% on an organic basis, reflecting our strong positions on the fastest growing and hardest worked platforms. Fighter jet revenue increased by 14%, with particularly strong demand on the F-35, Typhoon, F-15 and F-16 platforms. Helicopters and transport aircraft growth was also strong. Revenue grew across the majority of Meggitt capabilities, most notably in Engine Composites, Defence Systems, Braking Systems, Power & Motion and Fuel Systems. Demand for spares was also enhanced by one-off stocking associated with a new distributor agreement which was signed in December 2018.

Revenue growth was particularly strong in the first quarter, when defence revenue increased by 18%, reflecting the weaker prior year comparator in 2018, when defence grew by 2% in the first three months before accelerating thereafter to double digit growth for the last nine months of the year.

The long term outlook for defence expenditure in the US, our single most important market, continues to look positive over the medium term. The US Department of Defense FY20 budget request of \$738bn implies growth of 3% per annum from a higher base and there remains significant opportunity for retrofit and reset activity.

## **Energy and other**

Energy and other revenues (10% 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 (4% of Group total) include the automotive, industrial, test, consumer goods and medical sectors.

As anticipated, energy revenue declined by 1% on an organic basis compared to the prior year, when a recovery in the Heatric business contributed to growth of 31% in energy as a whole. We continue to see good underlying demand for our heat exchangers, valves and sensors in energy markets, with the return of spending in liquid natural gas ('LNG') and the growth in renewables increasing volumes of small frame gas turbines. We have also generated good growth in services revenue in the first half, offsetting lower demand for large frame gas turbine OE parts.

The long-term growth expectations for our energy businesses 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)				Division	Underlying Operating Profit (£m)			
H1 2019	H1 2018	% Growth			H1 2019	H1 2018	% Growth	
		Reported	Organic				Reported	Organic
498.3	449.6	11%	6%	Airframe Systems	103.0	96.6	7%	2%
159.2	125.3	27%	21%	Engine Systems	4.7	10.4	(55%)	(57%)
191.5	167.3	15%	9%	Energy & Equipment	21.5	11.7	84%	69%
218.8	190.8	15%	9%	Services & Support	31.7	31.5	1%	(5%)
3.1	19.2	(84%)	-	Other <sup>4</sup>	0.2	0.6	(67%)	-
<b>1,070.9</b>	<b>952.2</b>	<b>12%</b>	<b>9%</b>	<b>Total Group</b>	<b>161.1</b>	<b>150.8</b>	<b>7%</b>	<b>2%</b>

**Airframe Systems** provides Braking Systems, Fire Protection & Safety Systems, Power & Motion, Fuel Systems, Avionics & Sensors and Polymer Seals for around 35,000 in-service civil and 22,000 defence aircraft. Having increased our content on the new generation aircraft by as much as 250%, Airframe Systems is well positioned to grow as the OEMs increase production rates. We also have a strong presence on all of the fastest growing and hardest worked defence platforms. As such, we have strong relationships with all of the major OEMs, whether commercial, defence or business jet; fixed wing or rotorcraft; US, European or Rest of World. The division represents 47% of Group revenue, generating 53% of its revenue from OE sales and 47% from the aftermarket.

Revenue was up by 6% organically. Civil aerospace grew organically by 5%, driven principally by 8% growth in civil OE, with good growth on Boeing 787, 737 and 777 platforms and the Airbus A220. OE revenue growth also benefited from strong demand in business (Cessna Citation and multiple Gulfstream platforms) and regional jets (Q400 and ARJ-21) which in aggregate account for 27% of divisional civil OE revenue.

Civil aftermarket revenue increased by 2% on an organic basis, with good underlying demand in large jets partly offset by declining revenue in regional jets which account for 44% of civil aftermarket revenue; and flat revenue in business jets which account for 35% of civil aftermarket revenue.

Defence revenue grew by 9%, with strong demand for OE parts on fighter jet (F/A-18) and rotorcraft (Apache, Chinook and NH-90) platforms which offset declining demand on special mission and trainer aircraft. In the aftermarket, which represents 49% of Airframe Systems defence revenue, strong growth on Typhoon and F-35 platforms offset declining demand on other fighter jets, notably the F/A-18 which had been strong during 2018.

Underlying operating margin declined by 80 basis points to 20.7%, reflecting accelerated growth of free of charge brakes and a small number of high growth at sites in the lower stages of the Meggitt Production System which offset the growing efficiencies from strategic initiatives including centralised procurement, the transfer of production to low cost countries and production efficiencies from more mature MPS sites.

**Engine Systems** has a leading position in aero sensing with a broad range of technologies and sensor applications including vibration monitoring and engine health management systems. This division also provides aero-engine heat exchangers, flow control and advanced engine composites. Strong positions on high volume platforms mean we are well positioned for growth in Engine Systems. The division represents 15% of Group revenue, generating 92% of its revenue from OE and 8% from the aftermarket as a result of its principal route to the aftermarket being through the Services & Support division, in the new reporting structure.

Revenue increased by 21% on an organic basis with particularly strong growth in civil OE and defence segments.

Civil OE revenue increased organically by 18%, driven by strong demand for parts on large jet engine programmes, principally the Leap and GENx engines. Demand for regional and business jet programmes was also strong during the first half. In defence, revenue grew by 26% on an organic basis with particularly strong growth on the F-135 programme.

<sup>4</sup> Those businesses which were disposed of prior to the effective date of the new divisional structure or were classified as held for sale at that date are presented separately as 'Other'.



Underlying operating margin decreased to 3% (2018: 8%), reflecting the anticipated increase in costs at our Engine Composites product group, where we continue to increase production rates and have invested to build duplicate capabilities at our recently expanded site in Mexico. We have made encouraging progress in improving operational performance and have secured the customer support required to begin the progressive transfer of volume production to Mexico during the second half. This progress will underpin an improvement in Engine Systems margin during the second half.

**Energy & Equipment** consists of our energy product groups and businesses that provide products directly to defence customers. Energy Sensors & Controls provides a range of valves, actuators, sensor and condition monitoring systems for oil and gas applications and Heatric provide innovative printed circuit heat exchanger technology for offshore gas applications. Training Systems is a market leader in providing small arm virtual training systems with major contracts for the US Army and Marine Corps, and Defense Systems provides a series of complex engineered products to defence agencies in electronic cooling, ammunition handling and scoring systems. Energy & Equipment represents 18% of Group revenue and generates 83% of its revenue from OE and 17% from the aftermarket.

Revenue grew by 9% on an organic basis, with strong growth in defence offsetting slower growth in energy and declining revenue in other markets. Defence revenue grew by 17% on an organic basis with strong demand for both Defense Systems and Training Systems equipment. Key platforms include the M1A Abrams and F-16 which offset declining demand on the P-8. In energy, good performance at Heatric together with growth in services revenue offset lower demand for large frame gas turbine OE parts.

Underlying operating margin increased by 420 basis points to 11.2%, reflecting strong operational leverage from increased volume across the division.

**Services & Support** provides a full service aftermarket offering including spares distribution and MRO to our commercial, business jet and defence customer base, throughout the lifecycle of our products. With an extensive installed base of over 71,000 aircraft equipped by Meggitt technology this provides a significant opportunity for profitable growth over decades to come. The division represents 20% of Group revenue and generates 100% of its revenue from the aftermarket.

Revenue grew by 9% on an organic basis, with good growth in both civil and defence aftermarkets.

In the civil aftermarket, revenue grew organically by 7% driven by strong underlying demand in large jets which accounts for 87% of revenue. Key platforms were the Airbus A330ceo, A320ceo and A350XWB; and the Boeing 787, 737 original class and 747. Revenue grew strongly in the first quarter on 737 MAX as airlines took delivery of initial provisioning spares as the aircraft entered service. Following the grounding of the 737 MAX in March 2019, initial provisioning spares have been deferred, limiting growth on this platform during the second quarter.

In defence, revenue grew by 16% on an organic basis with particularly strong demand on fighter jets (principally the F-15, F-16 and F/A-18), special mission (B-2) and transport (KC-135 and C-130J) aircraft; offsetting lower demand on rotorcraft platforms. Defence revenue also benefited from one-off stocking associated with a new distributor agreement signed in December 2018, which contributed circa 10% growth in the first half of 2019.

Underlying operating margin decreased by 200 basis points to 14.5%, reflecting an unfavourable revenue mix, driven by the growth of our defence aftermarket.

## INVESTING FOR THE FUTURE

£m	H1 2019	H1 2018	% Change	
			Reported	Organic
Total research and development (R&D)	64.9	65.7	(1)	(5)
Less: Charged to cost of sales / WIP	(14.4)	(13.0)	11	6
Less: Capitalised	(25.1)	(27.2)	(8)	(12)
Add: Amortisation / Impairment	13.4	10.9	23	18
Charge to net operating costs	38.8	36.4	7	4
Capital expenditure	37.1	38.6	(4)	(7)

Total R&D expenditure in the first half reduced to £64.9m and was 6.1% of revenue (2018: £65.7m, 6.9%). The charge to net operating costs, including amortisation and impairment, increased by 7% (4% on an organic basis) to £38.8m (2018: £36.4m).

Reduced spend on R&D reflects the progress made on development programmes for major new aircraft platforms including the Bombardier Global 7500/8000 and the Gulfstream G500/600 which have now entered service and Boeing 777X which is due to enter service in 2020. As more programmes pass key milestones over the next few years, we expect R&D to reduce further as a percentage of revenue.

Targeted investment in technology development remains critical to our long-term organic growth and 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 Services & Support division.

Capital expenditure on property, plant and equipment and intangible assets was £37.1m (2018: £38.6m) a 7% decrease on an organic basis. Expenditure is principally driven by continued investment to build capacity to support growth and our site consolidation programme. Capital expenditure is expected to increase significantly during the second half in line with our guidance of between £95m and £120m for the full year. We expect growth in the second half in investment related to the fit out of our state-of-the-art manufacturing campus at Ansty Park and an expansion of our carbon brakes capacity, in order to support the anticipated growth in large jets such as the Airbus A220 and new business jet programmes.

## FOREIGN EXCHANGE

The weakening of Sterling against the US dollar positively affected our reported results for the period.

Translation of results from overseas businesses increased Group revenue by £40.8m and underlying profit before tax (PBT) by £5.9m in the first six months. The sensitivity of full-year revenue and underlying PBT to future exchange rate translation movements, when compared to the 2019 H1 average rates, is shown in the table below:

	2019 H1 average rate	Revenue £'m	Underlying PBT £'m
<i>Impact of 10 cent movement</i>			
US Dollar	1.28	120	20
Swiss Franc	1.30	8	3
Euro	1.15	11	2

Transaction exposure, where revenues and/or costs of our businesses are denominated in a currency other than their own, increased revenue by £10.2m and increased underlying PBT by £1.3m in the period. We typically hedge transaction exposure and the following table details hedging currently in place:

	Hedging in place <sup>5</sup> %	Average transaction rates <sup>6</sup>
<i>2019</i>		
US Dollar/Sterling	100	1.43
US Dollar/Swiss Franc	88	1.06
US Dollar/Euro	93	1.19
<i>2020 – 2022 inclusive</i>		
US Dollar/Sterling	64	1.35
US Dollar/Swiss Franc	24	1.12
US Dollar/Euro	18	1.22

Taking translation and transaction benefit into account, 2019 reported revenue increased by £51.0m and underlying PBT increased by £7.2m.

### RETIREMENT BENEFIT SCHEMES

Scheme deficits in the period increased from £209.1m (at 31 December 2018) to £260.7m. The financial assumptions used to discount scheme liabilities moved adversely with a significant reduction in the rates used to discount scheme liabilities in both the UK and US. These more than offset benefits from deficit reduction payments and strong asset performance.

The Group made deficit reduction payments in the first half of £17.2m (2018: £16.4m). In the UK, the 2018 triennial valuation has been completed. Under the new recovery plan agreed with the trustees, deficit payments will continue at the same levels as under the previous valuation but, following a modest improvement in the funding position, will now end in H2 2023 (H1 2024 under the previous valuation).

### 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. Civil OE revenue grew organically by 11% in the first half with strong demand on large jet platforms where we have secured increases in market share and tailwinds from a recovery in business and regional jets. Looking forward, we expect large jet demand to remain strong but we anticipate slower growth in business and regional jets. As a result, the Group now expects civil OE organic revenue of between 5 and 7% for the full year (up from previous guidance of between 4 and 6%).

Civil aftermarket revenue grew organically by 7% in the first half, with strong underlying growth in large jets offset by lower demand for initial provisioning spares as a result of the grounding of the 737 MAX, modest growth in business jet and declining demand in regional jets. Growth in air traffic, an important driver of our large jet aftermarket, slowed during the first five months of 2019, with revenue passenger kilometre growth of 4.6% (compared to 6.0% in the first half of 2018). This, together with modest growth anticipated in business and regional jets, where utilisation growth is weak, means the Group continues to expect organic civil aftermarket revenue growth of between 3% and 5% for the full year.

In defence markets the potential for growth over the medium term is good, with the US Department of Defense spend set to grow at around 3% over the next few years. Our compelling technology offering and broad platform exposure has enabled us to grow strongly in the first half, with organic revenue growth of 13%. For the full year, we expect organic defence revenue growth of between 6 and 8% (up from previous guidance of between 4 and 6%), with lower growth in the second half due to slowing benefit from our new distributor agreement and tougher prior year comparators when spares demand exceeded 30% in the fourth quarter of 2018. We also anticipate risk to spending in the fourth quarter should there be a Continuing Resolution in the US.

<sup>5</sup> Based on forecast transaction exposures.

<sup>6</sup> Hedging in place with unhedged exposures based on exchange rates at 30 June 2019.

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, whilst growth in demand for renewables will offset falling demand for large frame gas turbines. The Group continues to expect energy organic revenue growth of between 0 and 5% for the full year.

On the basis of the above, we expect 4 to 6% Group organic revenue growth in 2019 (up from previous guidance of between 3 and 5%).

An improving financial performance at Engine Composites in the second half of 2019, together with the growing financial benefits from our strategic initiatives underpin our confidence in delivering the full year margin guidance which remains unchanged at between 17.7 and 18.2% (an improvement of 0 to 50 basis points).

## CONDENSED CONSOLIDATED UNAUDITED INCOME STATEMENT

For the six months ended 30 June 2019

	Notes	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 £m
<b>Revenue</b>	3	<b>1,070.9</b>	952.2
Cost of sales		<b>(697.0)</b>	(607.8)
<b>Gross profit</b>		<b>373.9</b>	344.4
Net operating costs		<b>(282.5)</b>	(220.6)
<b>Operating profit<sup>1</sup></b>		<b>91.4</b>	123.8
Finance income		<b>0.6</b>	0.5
Finance costs		<b>(19.4)</b>	(19.1)
Net finance costs	7	<b>(18.8)</b>	(18.6)
<b>Profit before tax<sup>2</sup></b>		<b>72.6</b>	105.2
Tax	8	<b>(16.0)</b>	(14.8)
<b>Profit for the period attributable to equity owners of the Company</b>		<b>56.6</b>	90.4
Earnings per share:			
Basic <sup>3</sup>	9	<b>7.3p</b>	11.7p
Diluted <sup>4</sup>	9	<b>7.2p</b>	11.5p

### Non-GAAP Measures

<sup>1</sup> Underlying operating profit	3 & 4	<b>161.1</b>	150.8
<sup>2</sup> Underlying profit before tax	4	<b>145.4</b>	136.1
<sup>3</sup> Underlying basic earnings per share	9	<b>14.7p</b>	13.9p
<sup>4</sup> Underlying diluted earnings per share	9	<b>14.5p</b>	13.7p

**CONDENSED CONSOLIDATED UNAUDITED STATEMENT OF COMPREHENSIVE INCOME**

For the six months ended 30 June 2019

	Notes	<b>Six months ended 30 June 2019 £m</b>	Six months ended 30 June 2018 £m
<b>Profit for the period attributable to equity owners of the Company</b>		<b>56.6</b>	90.4
<b>Items that may be reclassified to the income statement in subsequent periods:</b>			
Currency translation movements	24	<b>16.4</b>	22.6
Movements in fair value of financial liabilities arising from changes in credit risk	16	<b>(0.6)</b>	0.5
Cash flow hedge movements	24	-	(0.3)
Tax effect		<b>0.1</b>	-
		<b>15.9</b>	22.8
<b>Items that will not be reclassified to the income statement in subsequent periods:</b>			
Remeasurement of retirement benefit obligations		<b>(63.2)</b>	55.1
Tax effect		<b>11.1</b>	(10.7)
		<b>(52.1)</b>	44.4
<b>Other comprehensive (expense)/income for the period</b>		<b>(36.2)</b>	67.2
<b>Total comprehensive income for the period attributable to equity owners of the Company</b>		<b>20.4</b>	157.6

## CONDENSED CONSOLIDATED UNAUDITED BALANCE SHEET

At 30 June 2019

	Notes	30 June 2019 £m	31 December 2018 £m
<b>Non-current assets</b>			
Goodwill	12	2,033.6	2,035.3
Development costs	12	572.2	557.1
Programme participation costs	12	18.7	18.2
Other intangible assets	12	560.4	610.4
Property, plant and equipment	13	409.0	404.0
Investments		13.0	12.9
Trade and other receivables		20.4	21.5
Contract assets		61.7	61.1
Derivative financial instruments	16	8.2	10.0
Deferred tax assets		22.7	16.3
		<b>3,719.9</b>	<b>3,746.8</b>
<b>Current assets</b>			
Inventories		492.2	441.2
Trade and other receivables		401.0	413.6
Contract assets		55.1	47.9
Derivative financial instruments	16	2.8	9.3
Current tax recoverable		3.3	6.4
Cash and cash equivalents		116.4	181.9
Assets classified as held for sale	14	17.7	10.3
		<b>1,088.5</b>	<b>1,110.6</b>
<b>Total assets</b>	3	<b>4,808.4</b>	<b>4,857.4</b>
<b>Current liabilities</b>			
Trade and other payables		(421.8)	(452.5)
Contract liabilities		(34.8)	(47.9)
Derivative financial instruments	16	(24.1)	(18.8)
Current tax liabilities		(54.3)	(39.5)
Lease liabilities		(17.2)	(16.1)
Bank and other borrowings	15 & 16	(110.5)	(10.2)
Provisions	17	(32.2)	(33.0)
		<b>(694.9)</b>	<b>(618.0)</b>
<b>Net current assets</b>		<b>393.6</b>	<b>492.6</b>
<b>Non-current liabilities</b>			
Trade and other payables		(1.6)	(1.3)
Contract liabilities		(63.3)	(43.9)
Derivative financial instruments	16	(16.2)	(17.4)
Deferred tax liabilities		(149.6)	(161.9)
Lease liabilities		(89.0)	(81.4)
Bank and other borrowings	15 & 16	(1,023.9)	(1,148.3)
Provisions	17	(74.1)	(83.7)
Retirement benefit obligations	18	(260.7)	(209.1)
		<b>(1,678.4)</b>	<b>(1,747.0)</b>
<b>Total liabilities</b>		<b>(2,373.3)</b>	<b>(2,365.0)</b>
<b>Net assets</b>		<b>2,435.1</b>	<b>2,492.4</b>
<b>Equity</b>			
Share capital	19	38.8	38.8
Share premium		1,224.3	1,223.9
Other reserves		15.7	15.7
Hedging and translation reserves		509.7	493.8
Retained earnings		646.6	720.2
<b>Total equity attributable to owners of the Company</b>		<b>2,435.1</b>	<b>2,492.4</b>

**CONDENSED CONSOLIDATED UNAUDITED STATEMENT OF CHANGES IN EQUITY**

For the six months ended 30 June 2019

	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
<b>At 1 January 2018</b>	38.8	1,222.2	15.7	400.1	634.7	2,311.5
Profit for the period	-	-	-	-	90.4	90.4
Other comprehensive income	-	-	-	22.8	44.4	67.2
<b>Total comprehensive income for the period</b>	-	-	-	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	-	-	-	-	(12.5)	(12.5)
Dividends (note 10)	-	-	-	-	(83.3)	(83.3)
<b>At 30 June 2018</b>	<b>38.8</b>	<b>1,222.5</b>	<b>15.7</b>	<b>422.9</b>	<b>680.2</b>	<b>2,380.1</b>
<b>At 1 January 2019</b>	<b>38.8</b>	<b>1,223.9</b>	<b>15.7</b>	<b>493.8</b>	<b>720.2</b>	<b>2,492.4</b>
<b>Profit for the period</b>	-	-	-	-	<b>56.6</b>	<b>56.6</b>
Other comprehensive income/(expense)	-	-	-	15.9	(52.1)	(36.2)
<b>Total comprehensive income for the period</b>	-	-	-	<b>15.9</b>	<b>4.5</b>	<b>20.4</b>
Employee share schemes:						
Value of services provided	-	-	-	-	9.8	9.8
Issue of equity share capital	-	0.4	-	-	(0.4)	-
Dividends (note 10)	-	-	-	-	(87.5)	(87.5)
<b>At 30 June 2019</b>	<b>38.8</b>	<b>1,224.3</b>	<b>15.7</b>	<b>509.7</b>	<b>646.6</b>	<b>2,435.1</b>



**CONDENSED CONSOLIDATED UNAUDITED CASH FLOW STATEMENT**

For the six months ended 30 June 2019

	Notes	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 £m
<b>Non-GAAP Measures</b>			
Cash inflow from operations before business disposal expenses and exceptional operating items		<b>118.3</b>	123.9
Cash outflow from business disposal expenses	25	<b>(0.9)</b>	(3.6)
Cash outflow from exceptional operating items	6	<b>(11.9)</b>	(5.3)
<b>Cash inflow from operations</b>	22	<b>105.5</b>	115.0
Interest received		<b>0.3</b>	0.1
Interest paid		<b>(16.2)</b>	(15.5)
Tax paid		<b>(4.4)</b>	(11.4)
<b>Cash inflow from operating activities</b>		<b>85.2</b>	88.2
Businesses disposed	25	<b>7.2</b>	36.5
Capitalised development costs	12	<b>(25.1)</b>	(27.1)
Capitalised programme participation costs		<b>(1.2)</b>	(0.8)
Purchase of intangible assets		<b>(3.7)</b>	(9.2)
Purchase of property, plant and equipment		<b>(33.4)</b>	(29.4)
Proceeds from disposal of property, plant and equipment		<b>21.6</b>	1.8
<b>Cash outflow from investing activities</b>		<b>(34.6)</b>	(28.2)
Dividends paid to Company's shareholders	10	<b>(87.5)</b>	(83.3)
Purchase of own shares for employee share schemes		<b>-</b>	(12.5)
Proceeds from bank and other borrowings	15	<b>17.8</b>	122.6
Repayments of bank and other borrowings	15	<b>(37.0)</b>	(93.9)
Repayments of lease liabilities		<b>(7.5)</b>	(6.8)
<b>Cash outflow from financing activities</b>		<b>(114.2)</b>	(73.9)
<b>Net decrease in cash and cash equivalents</b>		<b>(63.6)</b>	(13.9)
Cash and cash equivalents at start of the period		<b>181.9</b>	118.5
Exchange losses on cash and cash equivalents		<b>(1.9)</b>	(0.9)
<b>Cash and cash equivalents at end of the period</b>		<b>116.4</b>	103.7

## NOTES TO THE CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

### 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 and test.

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 2018 were approved by the Board of Directors on 25 February 2019 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 2019 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 2018 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 2018 except as described below.

A number of amendments to, and the interpretation of, existing accounting standards became effective during the period, none of which have had a significant impact on the condensed consolidated financial statements.

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 2018, as disclosed on pages 142 to 144 of the Group's 2018 Annual Report except as described below.

- In 2018, the Group concluded that following its selection in the year to supply the wheel and braking system for the Dassault Aviation Falcon 6X programme there were no indicators that any element of the previously recorded impairment of development costs related to the Dassault 5X programme should be reversed. This is no longer a critical estimate for 2019.
- In 2018, the Group made a judgement regarding the level at which level impairment testing of goodwill was performed. The changes to the organisational structure on 1 January 2019, result in changes to the level at which this testing is performed and estimates of the allocation of goodwill to the new CGUs/groups of CGUs. The annual impairment exercise is performed in the second half of the year but the Group has confirmed that there was no impairment immediately prior to introducing the new organisational structure and that there have been no events or changes in circumstances that indicate the carrying value attributable to the new CGUs/groups of CGUs may not be recoverable.

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 2019. These rates have been applied to the pre-tax profits made in each jurisdiction for the six months ended 30 June 2019.

### 3. Segmental analysis

The Group adopted a new organisation structure on 1 January 2019 and now manages its businesses under four customer-aligned divisions: Airframe Systems, Engine Systems, Energy & Equipment and Services & Support. Prior period comparatives have been restated to reflect this change.

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

#### Six months ended 30 June 2019:

	Airframe Systems £m	Engine Systems £m	Energy & Equipment £m	Services & Support £m	Other *	Total £m
Gross segmental revenue	699.2	164.4	211.1	228.0	3.1	1,305.8
Inter-segment revenue	(200.9)	(5.2)	(19.6)	(9.2)	-	(234.9)
<b>Revenue from external customers</b>	<b>498.3</b>	<b>159.2</b>	<b>191.5</b>	<b>218.8</b>	<b>3.1</b>	<b>1,070.9</b>
At a point in time	475.7	156.1	118.4	218.8	3.1	972.1
Over time: Power by the hour/Cost per brake landing	18.4	3.1	-	-	-	21.5
Over time: Other	4.2	-	73.1	-	-	77.3
<b>Revenue by basis of recognition</b>	<b>498.3</b>	<b>159.2</b>	<b>191.5</b>	<b>218.8</b>	<b>3.1</b>	<b>1,070.9</b>
<b>Underlying operating profit **</b>	<b>103.0</b>	<b>4.7</b>	<b>21.5</b>	<b>31.7</b>	<b>0.2</b>	<b>161.1</b>

#### Six months ended 30 June 2018 (Restated):

	Airframe Systems £m	Engine Systems £m	Energy & Equipment £m	Services & Support £m	Other *	Total £m
Gross segmental revenue	609.3	130.4	184.4	200.9	19.2	1,144.2
Inter-segment revenue	(159.7)	(5.1)	(17.1)	(10.1)	-	(192.0)
Revenue from external customers	449.6	125.3	167.3	190.8	19.2	952.2
At a point in time	431.4	122.8	129.7	190.8	19.2	893.9
Over time: Power by the hour/Cost per brake landing	16.2	2.5	-	-	-	18.7
Other time: Other	2.0	-	37.6	-	-	39.6
Revenue by basis of recognition	449.6	125.3	167.3	190.8	19.2	952.2
<b>Underlying operating profit **</b>	<b>96.6</b>	<b>10.4</b>	<b>11.7</b>	<b>31.5</b>	<b>0.6</b>	<b>150.8</b>

\* Those businesses which were disposed of prior to the effective date of the new divisional structure or were classified as held for sale at that date are presented separately as 'Other'.

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

### 3. Segmental analysis continued

#### Analysis of segmental trading assets

	30 June 2019	31 December 2018 Restated
	£m	£m
Airframe Systems	1,148.1	1,107.6
Engine Systems	435.9	402.2
Energy & Equipment	323.3	344.1
Services & Support	79.0	69.9
<b>Total segmental trading assets</b>	<b>1,986.3</b>	1,923.8
Centrally managed trading assets *	120.4	123.4
Goodwill (note 12)	2,033.6	2,035.3
Other intangible assets	484.0	527.8
Investments	13.0	12.9
Derivative financial instruments – non-current (note 16)	8.2	10.0
Deferred tax assets	22.7	16.3
Derivative financial instruments – current (note 16)	2.8	9.3
Current tax recoverable	3.3	6.4
Cash and cash equivalents	116.4	181.9
Assets classified as held for sale (note 14)	17.7	10.3
<b>Total assets</b>	<b>4,808.4</b>	4,857.4

- \* 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 2019 £m	Six months ended 30 June 2018 £m
Operating profit	91.4	123.8
Amounts arising on the acquisition, disposal and closure of businesses (note 25)	(1.5)	(22.0)
Amortisation of intangible assets acquired in business combinations (note 12)	44.9	43.6
Financial instruments (note 5)	15.3	(2.7)
Exceptional operating items (note 6)	11.0	8.1
Adjustments to operating profit *	69.7	27.0
<b>Underlying operating profit</b>	<b>161.1</b>	150.8
Profit before tax	72.6	105.2
Adjustments to operating profit per above	69.7	27.0
Net interest expense on retirement benefit obligations (note 7)	3.1	3.9
Adjustments to profit before tax	72.8	30.9
<b>Underlying profit before tax</b>	<b>145.4</b>	136.1
Profit for the period	56.6	90.4
Adjustments to profit before tax per above	72.8	30.9
Tax effect of adjustments to profit before tax	(16.0)	(13.8)
Adjustments to profit for the period	56.8	17.1
<b>Underlying profit for the period</b>	<b>113.4</b>	107.5

- \* Of the adjustments to operating profit, £4.3m (2018: £4.0m) relating to exceptional operating items has been charged to cost of sales with the balance of £65.4m (2018: £23.0m) included within net operating costs.

## 5. Financial instruments

To ensure appropriate and timely commercial decisions are made as to when and how to mitigate the Group's foreign currency and interest rate exposures, gains and losses arising from the mark to market of financial instruments that are not hedge accounted are excluded from underlying profit measures.

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 recognised in the income statement between the movements in fair value of the 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).

	<b>Six months ended 30 June 2019 £m</b>	Six months ended 30 June 2018 £m
Movements in fair value of foreign currency forward contracts	<b>3.0</b>	13.0
Impact of retranslating net foreign currency assets and liabilities at spot rate	<b>1.4</b>	-
Movements in fair value of interest rate derivatives	<b>(2.2)</b>	5.6
Movements in fair value of fixed rate borrowings due to interest rate risk (note 16)	<b>1.8</b>	(4.5)
Movements in fair value of cross currency derivatives	<b>11.6</b>	(16.5)
Movements in fair value of treasury lock derivative	<b>(0.3)</b>	(0.3)
<b>Financial instruments – Loss/(Gain)</b>	<b>15.3</b>	<b>(2.7)</b>

## 6. Exceptional operating items

Delivery of the Group's strategy includes the restructuring of its cost base to deliver operational improvements. The exclusion from underlying profit measures (see note 4) of significant items arising from site consolidations and business restructuring is designed by the Board to align short-term operational decisions with this longer-term strategy.

	Note	<b>Income statement</b>		<b>Cash expenditure</b>	
		<b>Six months ended 30 June 2019 £m</b>	Six months ended 30 June 2018 £m	<b>Six months ended 30 June 2019 £m</b>	Six months ended 30 June 2018 £m
Site consolidations	a	<b>8.9</b>	5.7	<b>9.6</b>	3.1
Business restructuring costs		<b>2.1</b>	1.8	<b>2.3</b>	1.6
Integration of acquired businesses		-	0.6	-	0.6
<b>Exceptional operating items</b>		<b>11.0</b>	8.1	<b>11.9</b>	5.3

- a. This relates to costs incurred in respect of the Group's previously announced plans to reduce its footprint by 20% by the end of 2021. Cumulative costs since the announcement are £52.5m. In 2019, costs are principally 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.

## 7. Net finance costs

	<b>Six months ended 30 June 2019 £m</b>	Six months ended 30 June 2018 £m
Interest on bank deposits	0.1	-
Unwinding of interest on other receivables	0.3	0.4
Other finance income	0.2	0.1
<b>Finance income</b>	<b>0.6</b>	<b>0.5</b>
Interest on bank borrowings	1.0	0.6
Interest on senior notes	13.5	13.3
Interest on lease liabilities	2.1	2.1
Unwinding of discount on provisions	0.8	0.8
Net interest expense on retirement benefit obligations (note 4)	3.1	3.9
Amortisation of debt issue costs	0.4	0.4
Less: amounts capitalised in the cost of qualifying assets (note 12)	(1.5)	(2.0)
<b>Finance costs</b>	<b>19.4</b>	<b>19.1</b>
<b>Net finance costs</b>	<b>18.8</b>	<b>18.6</b>

## 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 have had no significant impact on the tax charge for the current period.

## 9. Earnings per ordinary share

Earnings per ordinary share ('EPS') is calculated by dividing the profit attributable to equity owners of the Company of £56.6m (2018: £90.4m) by the weighted average number of shares in issue during the period of 772.9m (2018: 772.7m). The weighted average number of shares used excludes shares bought by the Group and held during the period by an independently managed Employee Share Ownership Plan Trust. The weighted average number of own shares excluded is 4.0m shares (2018: 3.7m).

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

	<b>Six months ended 30 June 2019 Pence</b>	Six months ended 30 June 2018 Pence
<b>Basic EPS</b>	<b>7.3</b>	<b>11.7</b>
Adjust for the effects of:		
Amounts arising on the acquisition, disposal and closure of businesses	(0.1)	(3.0)
Amortisation of intangible assets acquired in business combinations	4.5	4.3
Financial instruments	1.6	(0.3)
Exceptional operating items	1.1	0.8
Net interest expense on retirement benefit obligations	0.3	0.4
<b>Underlying basic EPS</b>	<b>14.7</b>	<b>13.9</b>

Diluted EPS for the period is 7.2p (2018: 11.5p). 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 is 784.7m (2018: 785.3m). Underlying diluted EPS for the period is 14.5p (2018: 13.7p). 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 5.55p per ordinary share (2018: 5.30p) which will be paid on 4 October 2019 to shareholders on the register on 6 September 2019. At 30 June 2019, as there is no legal obligation to make the dividend payment, the dividend cost of £42.9m (2018: £40.9m) is not recorded as a liability. 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 20 September 2019.

During the period, the final dividend of 11.35p per ordinary share in respect of the year ended 31 December 2018 was paid (2018: 10.80p final dividend in respect of the year ended 31 December 2017). The total cost of the final dividend was £87.5m (2018: £83.3m) and was paid in cash.

## 11. Related party transactions

The remuneration of key management personnel of the Group, which is defined for 2019 as members of the Board and the Group Executive Committee, is set out below.

	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 £m
Salaries and other short-term employee benefits	3.2	3.5
Retirement benefit expense	-	0.1
Share-based payment expense	1.9	1.3
<b>Total</b>	<b>5.1</b>	<b>4.9</b>

## 12. Intangible assets

	Goodwill £m	Development costs £m	Programme participation costs £m	Other intangible assets £m
At 1 January 2019	2,035.3	557.1	18.2	610.4
Exchange rate adjustments	5.5	1.9	-	1.2
Additions	-	25.1	1.0	3.7
Transfer to assets classified as held for sale	(5.4)	-	-	-
Businesses disposed (note 25)	(1.8)	-	-	-
Interest capitalised (note 7)	-	1.5	-	-
Amortisation and impairment loss *	-	(13.4)	(0.5)	(54.9)
<b>At 30 June 2019</b>	<b>2,033.6</b>	<b>572.2</b>	<b>18.7</b>	<b>560.4</b>

\* Amortisation of other intangible assets includes £44.9m (2018: £43.6m) 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 (note 2). There have been no indications of impairment in the period. A full impairment review was conducted for the year ended 31 December 2018 and no impairment charge was required. The cumulative impairment charge recognised to date is £Nil (2018: £Nil).

### 13. Property, plant and equipment

	Land and buildings	Plant, equipment and vehicles	Right-of-use assets*	Total
	£m	£m	£m	£m
At 1 January 2019	128.7	196.2	79.1	404.0
Exchange rate adjustments	0.4	0.4	0.3	1.1
Additions	2.8	25.1	19.6	47.5
Transfer to assets classified as held for sale	-	(0.6)	-	(0.6)
Disposals	(15.3)	(0.2)	-	(15.5)
Transfers	3.2	(3.2)	-	-
Depreciation **	(4.6)	(15.6)	(7.3)	(27.5)
<b>At 30 June 2019</b>	<b>115.2</b>	<b>202.1</b>	<b>91.7</b>	<b>409.0</b>

\* The net book amount comprises property of £89.4m (2018: £76.7m) and of other assets £2.3m (2018: £2.4m).

\*\* Depreciation includes £0.1m (2018: £1.6m) in respect of amounts charged to exceptional operating items and which has been excluded from underlying operating profit (note 4).

### 14. Assets classified as held for sale

On 16 January 2019, the Group completed the sale and leaseback of land and buildings relating to its manufacturing facilities in Coventry, West Midlands, UK, including properties which were classified as held for sale at 31 December 2018. Following completion of the sale and leaseback transaction, right-of-use assets have been recognised.

On 1 April 2019, the Group completed the disposal of the trade and assets of Meggitt (France) SAS previously classified as held for sale (note 25).

During the period, the Group decided to dispose of its non-aerospace test and measurement sensing business (reported within Energy & Equipment) and determined at 30 June 2019 that a sale was highly probable. In August 2019, the disposal was completed.

	Total £'m
At 1 January 2019	10.3
Change in carrying value of assets held for sale to date of disposal	0.6
Business disposed (note 25)	(1.5)
Disposals	(9.4)
Additions	17.7
<b>At 30 June 2019</b>	<b>17.7</b>



## 15. Bank and other borrowings

	Current £m	Non-current £m	Total £m
At 1 January 2019	10.2	1,148.3	1,158.5
Exchange rate adjustments	-	(7.9)	(7.9)
Transfers	98.3	(98.3)	-
Proceeds	-	17.8	17.8
Repayments	-	(37.0)	(37.0)
Other non-cash movements	2.0	1.0	3.0
<b>At 30 June 2019</b>	<b>110.5</b>	<b>1,023.9</b>	<b>1,134.4</b>

### Analysed as:

	30 June 2019 £m	31 December 2018 £m
Bank loans	0.5	0.4
Other loans*	110.0	9.8
<b>Total current</b>	<b>110.5</b>	<b>10.2</b>
Bank loans	329.1	358.5
Other loans	694.8	789.8
<b>Total non-current</b>	<b>1,023.9</b>	<b>1,148.3</b>

\* Includes at 30 June 2019, USD125.0m senior notes which fall due for repayment in June 2020.

## 16. Financial Instruments – fair value measurement

For trade and other receivables, contract assets, cash and cash equivalents, trade and other payables and contract liabilities, fair values approximate to book values due to the short maturity periods of these financial instruments. For trade and other receivables, allowances are made within their book value for credit risk. The fair values of lease liabilities approximate to their book values due to the measurement of lease liabilities at the Group's incremental borrowing rate, which has not changed significantly since the inception of the lease liabilities. Leases are also negotiated at market rates with independent, unrelated third parties and are subject to periodic rental reviews. For other financial instruments, a comparison of book values and fair values is provided below:

	Book value		Fair value	
	30 June 2019 £m	31 December 2018 £m	30 June 2019 £m	31 December 2018 £m
Derivative financial instruments – non-current	8.2	10.0	8.2	10.0
Derivative financial instruments – current	2.8	9.3	2.8	9.3
<b>Financial assets</b>	<b>11.0</b>	<b>19.3</b>	<b>11.0</b>	<b>19.3</b>
Derivative financial instruments – current	(24.1)	(18.8)	(24.1)	(18.8)
Bank and other borrowings – current	(110.5)	(10.2)	(110.5)	(10.2)
Derivative financial instruments – non-current	(16.2)	(17.4)	(16.2)	(17.4)
Bank and other borrowings – non-current	(1,023.9)	(1,148.3)	(1,035.9)	(1,136.5)
<b>Financial liabilities</b>	<b>(1,174.7)</b>	<b>(1,194.7)</b>	<b>(1,186.7)</b>	<b>(1,182.9)</b>
<b>Total</b>	<b>(1,163.7)</b>	<b>(1,175.4)</b>	<b>(1,175.7)</b>	<b>(1,163.6)</b>

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.

## 16. Financial Instruments – fair value measurement continued

Fixed rate bank and other borrowings measured at fair value, are classified as level 3 in the fair value measurement hierarchy, as they have 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 values attributable to interest rate risk have 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 values attributable to credit risk have 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 fixed rate 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 the fair value of bank and other borrowings, designated as fair value through profit and loss, arising from changes in credit risk are as follows:

	<b>Six months ended 30 June 2019 £m</b>	Six months ended 30 June 2018 £m
Fair value at 1 January	0.3	1.1
Loss/(Gain) recognised in other comprehensive income	0.6	(0.5)
<b>Fair value at 30 June</b>	<b>0.9</b>	<b>0.6</b>

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

	<b>30 June 2019 £m</b>	31 December 2018 £m
Fair value	245.9	242.7
Difference between fair value and contractual amount at maturity	(9.9)	(7.5)
<b>Contractual amount payable at maturity</b>	<b>236.0</b>	<b>235.2</b>

Changes in fair value of bank and other borrowings classified as level 3 in the hierarchy are as follows:

	<b>Six months ended 30 June 2019 £m</b>	Six months ended 30 June 2018 £m
At 1 January	242.7	235.2
Exchange rate adjustments	0.7	5.1
Loss/(Gain) recognised in net operating costs (note 5)	1.8	(4.5)
Loss recognised in net finance costs	0.1	0.1
Loss/(Gain) due to changes in credit risk recognised in other comprehensive income	0.6	(0.5)
<b>At 30 June</b>	<b>245.9</b>	<b>235.4</b>

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 2019, would impact other comprehensive income by approximately £3.0m.

## 17. Provisions

	30 June 2019	31 December 2018
	£m	£m
Environmental *	68.9	80.6
Onerous contracts	14.1	13.7
Warranty costs	15.1	15.7
Other	8.2	6.7
<b>Total</b>	<b>106.3</b>	<b>116.7</b>
<b>Analysed as:</b>		
Current	32.2	33.0
Non-current	74.1	83.7
<b>Total</b>	<b>106.3</b>	<b>116.7</b>

- \* Included within trade and other receivables is £27.0m (December 2018: £34.1m) in respect of amounts recoverable from insurers and other third parties. During the period, £7.4m (June 2018: £15.0m) was received.

During the period, expenditure of £19.5m (June 2018: £22.5m) was incurred, of which £12.7m (June 2018: £12.4m) related to environmental provisions. The charge to the income statement in the period in respect of additional provisions created was £9.5m (June 2018: £8.6m) and the credit to the income statement in respect of the reversal of unused amounts was £1.0m (June 2018: £2.2m).

## 18. Retirement benefit obligations

	30 June 2019	31 December 2018
	£m	£m
Amounts recognised in the balance sheet:		
Present value of scheme liabilities	1,359.3	1,224.7
Fair value of scheme assets	(1,098.6)	(1,015.6)
<b>Total</b>	<b>260.7</b>	<b>209.1</b>
Analysis of retirement benefit obligations:		
Pension schemes	208.5	161.5
Healthcare schemes	52.2	47.6
<b>Total</b>	<b>260.7</b>	<b>209.1</b>

### Key financial assumptions:

UK Scheme:		
Discount rate	2.25%	2.90%
Inflation rate	3.20%	3.20%
Salary increases	2.95%	2.95%
Current life expectancy – Male aged 65 (years)	21.7 to 23.6	21.7 to 23.5
Overseas Schemes*:		
Discount rate	3.35%	4.15%
Current life expectancy – Male aged 65 (years)	20.0 to 20.6	20.2 to 20.8

- \* Provided in respect of the most significant overseas schemes.

Cash contributions paid during the period were £23.6m (June 2018: £24.5m) including deficit reduction payments of £17.2m (June 2018: £16.4m).

## 19. Issued share capital

30 June 2019 No. m	31 December 2018 No. m
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**Allotted and fully paid**

<b>777.0</b>	<b>776.9</b>
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The increase in the number of shares during the period relates to shares issued on the exercise of Sharesave awards.

## 20. Contingent liabilities

The Company has given guarantees in respect of credit facilities for certain of its subsidiaries, some property and other leases 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.

## 21. Capital commitments

30 June 2019 £m	31 December 2018 £m
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Contracted for but not incurred:

Intangible assets

2.3	0.6
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Property, plant and equipment

16.2	14.3
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**Total**

<b>18.5</b>	<b>14.9</b>
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At 30 June 2019, the Group additionally has a significant lease commitment relating to its new facility being constructed at Ansty Park, West Midlands, UK. The Group expects to recognise this lease in the second-half of 2019, when it obtains control of the right-of-use asset and to recognise a lease liability and right-of-use asset of approximately £60.0m at that date. The lease term is 30 years. At the date the lease is recognised, the Group expects undiscounted cash flows to be: £9.0m inflow in one year or less; £11.0m outflow in more than one year but not more than five years; and £99.0m outflow in more than five years.

## 22. Cash inflow from operations

Six months ended 30 June 2019 £m	Six months ended 30 June 2018 £m
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Profit for the period

56.6	90.4
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Adjustments for:

Finance income (note 7)

(0.6)	(0.5)
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Finance costs (note 7)

19.4	19.1
------	------

Tax

16.0	14.8
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Depreciation (note 13)

27.5	28.3
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Amortisation and impairment losses (note 12)

68.8	63.4
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(Gain)/Loss on disposal of property, plant and equipment

(0.4)	0.7
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Gain on disposal of businesses before disposal expenses (note 25)

(3.0)	(26.6)
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Financial instruments – Loss/(Gain) (note 5)

15.3	(2.7)
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Impact of retranslating net foreign currency cash at spot rate

(4.5)	-
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Share of (profit)/loss after tax of joint venture

(0.1)	0.1
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Change in carrying value of assets held for sale to date of disposal (note 14)

0.6	-
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Retirement benefit obligation deficit payments (note 18)

(17.2)	(16.4)
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Share-based payment expense

6.4	4.9
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Changes in working capital

(79.3)	(60.5)
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**Cash inflow from operations**

<b>105.5</b>	<b>115.0</b>
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## 22. Cash inflow from operations continued

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 2019 £m	Six months ended 30 June 2018 £m
Cash inflow from operating activities	85.2	88.2
Add back cash outflow from business disposal expenses	0.9	3.6
Add back impact of retranslating net foreign currency cash at spot rate	4.5	-
Capitalised development costs	(25.1)	(27.1)
Capitalised programme participation costs	(1.2)	(0.8)
Purchase of intangible assets	(3.7)	(9.2)
Purchase of property, plant and equipment	(33.4)	(29.4)
Proceeds from disposal of property, plant and equipment	21.6	1.8
<b>Free cash inflow</b>	<b>48.8</b>	<b>27.1</b>

## 23. Movements in net debt

	Six months ended 30 June 2019 £m	Six months ended 30 June 2018 £m
At 1 January	1,074.1	1,052.8
Cash inflow from operating activities	(85.2)	(88.2)
Cash outflow from investing activities	34.6	28.2
Dividends paid to Company's shareholders (note 10)	87.5	83.3
Purchase of own shares for employee share schemes	-	12.5
<b>Net cash generated – outflow</b>	<b>36.9</b>	<b>35.8</b>
Lease liabilities entered	15.9	1.4
Exchange rate adjustments	(5.7)	34.8
Other non-cash movements	3.0	(2.1)
<b>At 30 June</b>	<b>1,124.2</b>	<b>1,122.7</b>
Analysed as:		
Bank and other borrowings – current	110.5	63.1
Bank and other borrowings – non-current	1,023.9	1,072.9
Cash and cash equivalents	(116.4)	(103.7)
<b>Net borrowings</b>	<b>1,018.0</b>	<b>1,032.3</b>
Lease liabilities – current	17.2	14.2
Lease liabilities – non-current	89.0	76.2
<b>At 30 June</b>	<b>1,124.2</b>	<b>1,122.7</b>

## 24. Components of other comprehensive income

	<b>Six months ended 30 June 2019 £m</b>	Six months ended 30 June 2018 £m
Arising in the period	16.4	25.6
Transferred to the income statement	-	(3.0)
<b>Currency translation movements – Gain</b>	<b>16.4</b>	<b>22.6</b>
Movements in fair value	-	0.1
Transferred to the income statement	-	(0.4)
<b>Cash flow hedge movements – Loss</b>	<b>-</b>	<b>(0.3)</b>

## 25. Business disposals

During 2018, the Group decided to dispose of the trade and assets of Meggitt (France) SAS, a producer of engine ignition technology, and at 31 December 2018 determined that a sale was highly probable. The related assets were classified as a disposal group held for sale and were presented separately together with directly associated liabilities. The disposal subsequently completed on 1 April 2019 for a consideration of EUR1.0m. Additionally, on 26 June 2019, the Group disposed of a small number of product lines from within one of its Energy and Equipment businesses for a consideration of USD8.0m.

The businesses disposed were not a major line of business or geographical area of operation of the Group. The net assets of the businesses at the date of disposal were as follows:

	<b>Total £m</b>
Goodwill (note 12)	1.8
Inventory	0.9
Assets classified as held for sale (note 14)	1.5
<b>Net assets</b>	<b>4.2</b>
Business disposal expenses	1.5
Gain on disposal of businesses (note 4)	1.5
<b>Total consideration received in cash</b>	<b>7.2</b>
Cash inflow arising on disposal:	
Total consideration received in cash	7.2
Less: business disposal expenses paid	(0.9)
<b>Total cash inflow</b>	<b>6.3</b>

Delivery of the Group's strategy includes investment in acquisitions that enhance its technology portfolio. The exclusion of significant items arising from M&A activity is designed by the Board to align short-term operational decisions with this longer term strategy. Accordingly amounts arising on the acquisition, disposal and closure of businesses are excluded from underlying profit measures. 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.

	<b>Six months ended 30 June 2019 £m</b>	Six months ended 30 June 2018 £m
Gain on disposal of businesses before disposal expenses (note 22)	3.0	26.6
Costs related to the disposal of businesses in the current period	(1.2)	(4.2)
Gain on disposal of businesses	1.8	22.4
Costs related to the disposal of businesses in prior periods	(0.3)	(0.4)
<b>Amounts arising on the acquisition, disposal and closure of businesses (note 4)</b>	<b>1.5</b>	<b>22.0</b>

## 26. Approval of interim management report

The interim management report was approved by the Board of Directors on 5 August 2019.

## 27. Availability of interim management report

The interim management report will be available on the Group's website [www.meggitt.com](http://www.meggitt.com) from 6 August 2019. 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 2018 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, failure to attract and retain people, legal and regulatory matters and changes in tax legislation. Further details can be found in the 'Risk management' section of the 2018 Annual Report on pages 46 to 53, 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 2019 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 2019 and any material changes to the related party transactions described in the last annual report.

By order of the Board:

A Wood  
Director  
5 August 2019

L Burdett  
Director  
5 August 2019

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