8 September 2020

Meggitt PLC

2020 Interim results

DEFENCE ROBUST AS GROUP RESPONDS TO CIVIL AEROSPACE DOWNTURN

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 2020.

Tony Wood, Chief Executive, commented:

"The Meggitt team remains focused on protecting the safety of our people, serving our customers and communities, and building on our strengths, and I want to thank all of my colleagues for their hard work and dedication over the last few months.

We had a very challenging second quarter in which we acted fast, executed well operationally and took action to position the Group for the recovery in civil aerospace. Our first half performance was impacted by the ongoing effects of COVID-19 in our civil aerospace business driven by the unprecedented reduction in global air traffic activity. Our defence business continued to perform strongly and represented 43% of the Group's revenue in the period. Overall, we made very good progress on those elements within our control, including our targeted cost and cash preservation actions as well as resizing the Group as we look ahead to 2021. Despite the disruption caused by COVID-19, we have continued to execute against our strategic priorities and these remain our focus for the second half.

We are still working through a difficult and uncertain COVID-19 environment, and while it's too early to precisely predict the trajectory of the return to prior levels of activity in civil aerospace, we continue to focus on ensuring that the business is well positioned to benefit from the recovery. Based on the effective actions we've taken to strengthen liquidity and the resilience of the Group, underpinned by our diverse end market exposure and strong market positions, we believe we are well placed to benefit from the recovery and to continue the transformation of Meggitt to deliver long-term, profitable growth."

Summary

- Performance of the Group reflects the unprecedented impact of COVID-19 on the civil aerospace sector, with revenue slightly ahead of our guidance in our 2 July trading update
- Group organic revenue down 13% with a robust performance in Defence, where revenues grew 7%, more than offset by significantly lower revenues in Civil Aerospace and Energy where revenue was 27% and 6% lower respectively
- Underlying operating profit was 37% lower at £102m (H1 2019: £161m)
- Statutory operating loss of £349m (H1 2019: profit of £91m) largely as a result of non-cash impairment of intangible assets and other asset write downs
- Rapid and decisive action taken by the Group on areas within its control to reduce cost, protect cash and resize the Group's cost base; on track to deliver cash savings of £400m to £450m for the full year
- Free cash outflow of £122m (H1 2019: inflow of £49m) largely offset by cash inflow of £110m from the sale of Training Systems
- Net debt of £1,000m (FY 2019: £911m) including adverse foreign exchange movement of £65m
- Robust liquidity position with headroom of £856m on committed facilities; access to additional liquidity via Bank of England's and HM Treasury's CCFF (total funds available up to £600m); extended maturity of our debt with a forward start on our RCF to September 2022; ratios of net debt:EBITDA of 1.8x and interest cover of 14.1x, well within covenant limits
- Continued progress on key strategic initiatives including sale of Training Systems, new customer contract wins and further consolidation of our global footprint
- The Board recognises the importance of the dividend to its shareholders, but has taken the prudent decision not to pay an interim dividend in order to retain cash within the Group, manage net debt levels and preserve flexibility
- The recovery in civil aerospace remains sensitive to spikes in COVID-19 cases, creating near term uncertainty about the pace and shape of a recovery. As a result, and recognising that there could be a range of outcomes in our civil business in the last four months of the year, our guidance for the Group for the full year remains suspended. For cash, as a result of a proportion of inventory reduction moving into 2021, we now expect to be broadly free cash flow neutral for the full year.

Group first half performance

£m		**H1 2020**	H1 2019	Change	
				Reported %	Organic[1] %
Orders		**882**	1,193	(26)	(31)
Revenue		**917**	1,071	(14)	(13)
Underlying[2]					
	EBITDA[3]	**156**	212	(27)	(27)
	Operating profit	**102**	161	(37)	(36)
	Profit before tax	**86**	145	(41)	(40)
	Earnings per share (p)	**8.7**	14.7	(41)	
Statutory					
	Operating (loss)/profit	**(349)**	91		
	(Loss)/profit before tax	**(368)**	73		
	(Loss) / earnings per share (p)	**(44.3)**	7.3		
Free cash flow		**(122)**	49		
Net cash flow		**(19)**	(37)		
Net debt		**1,000**	1,124		
Dividend (p)		**-**	5.55		

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Analyst presentation

There will be a live webcast of the interim results at 9am BST today available on the Meggitt website http://www.meggittinvestors.com. Copies of the presentation will be available.

A live dial-in is available. Please use the below details to join:
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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.

[1] Organic numbers exclude the impact of acquisitions, disposals and foreign exchange.
[2] Underlying profit and EPS are used by the Board to measure the trading performance of the Group as set out in notes 6 and 11.
[3] Underlying EBITDA represents underlying operating profit adjusted to add back depreciation, amortisation and impairment losses.

MARKET CONTEXT

The outbreak of COVID-19 and subsequent lockdowns across the globe, caused a significant and unprecedented reduction in commercial air traffic in the first half, particularly in the second quarter when global air traffic, as measured by RPKs, was down 90% with up to 60% of the global fleet grounded in April. Load factors in the second quarter were 50% compared with 83% in the comparative period. Looking ahead, IATA's latest forecast is for air traffic to be 63% and 36% lower than 2019 levels in 2020 and 2021 respectively, reflecting a gradual recovery as lockdowns are eased and passengers return to flying.

As a result of the severe slowdown across civil aerospace and the expectation that a recovery to 2019 activity levels is likely to take a number of years, demand from operators for new build aircraft softened, with Airbus and Boeing deliveries down 50% and 71% respectively for the six months to the end of June. Deliveries of regional and business jets in the first six months of the year were down 46% and 24% respectively. In response to the lower demand for aircraft, OEMs have reduced their production rates accordingly, a key driver of our OE revenue.

While positive signs started to emerge at the end of the second quarter with airlines gradually increasing capacity and future flight schedules, particularly in domestic markets, the level of air traffic and customer demand remains sensitive to spikes in COVID-19 infection rates and the potential for lockdowns and other measures such as post flight quarantining. Accordingly, the recovery in passenger numbers has been slow with global RPKs down 94% in April improving to down 80% in July, compared with the same period in 2019.

Although activity in domestic markets has started to come back, especially in regions where the outbreak was first seen, such as China, international air traffic has remained at extremely low levels, down 97% in the second quarter.

Within civil aerospace, the extent to which different platform categories have been affected has varied, with global business jet utilisation down 51% in the second quarter compared with down 90% for the wider global commercial fleet. In June, business jet utilisation had recovered to 75% of the levels seen in 2019 and in July this had risen to 83%.

While the defence sector has not been immune from the effects of COVID-19, spending in the US and overall defence activity levels have remained robust in the first half, a trend reflected in our own business following a strong performance in 2019.

In energy, both supply and demand side factors led to volatility in the oil price moving from $57 in January to a low of $21 per barrel in April. While the oil price has increased off its lows ($43 per barrel on 7 September), this has dampened capital expenditure levels and delayed projects across the oil and gas sector.

Looking to the recovery in civil aerospace, most industry commentators expect air traffic to return to 2019 levels by around 2023 (IATA forecasting 2024) and production rates to recover to pre-COVID-19 levels by 2024/25.

Within any recovery, with business jet activity having already recovered to over 80% of 2019 levels, we expect regional jets and narrow bodies to recover next as short haul routes are restored, with wide body levels coming back last reflecting a change in consumer attitudes towards long haul, including business travel. Beyond the recovery period, the drivers supporting air traffic growth over the long term remain in place with IATA forecasting a growth rate in passenger journeys of 3.7% per annum over the next 20 years.

With diverse end market exposure, including a strong Defence business representing 43% of the Group's revenue in the first half, and having refreshed our aftermarket annuity with strong content on the latest platforms, we are well positioned to benefit from the recovery in civil aerospace.

OUR RESPONSE TO THE CRISIS

Leveraging our experience of navigating previous downturns and through close communication with our customers and supply chain, the Group moved quickly to create a base case for planning purposes and adjusted production levels early in the second quarter accordingly. We have subsequently fine-tuned our scenario as new data has become available. Alongside this, and incorporated into our scenario planning we have taken a series of decisive actions on areas within our control in response to the crisis focused on reducing costs, protecting cash and resizing the business:

- Safeguarding our people – our number one priority and the focus of our COVID-19 crisis management committee has been to ensure the safety of our employees, where we have followed local government and health authority guidelines as they relate to safe working practices at our sites.

- Supporting the community – our employees continue to support their local communities in the regions where we operate in response to COVID-19. In the UK, we were part of the Ventilator UK Challenge with responsibility for programme management of the consortium's production of an additional 13,000 ventilators to help patients hospitalised with COVID-19 fight the disease. We have also had numerous examples of employees at our sites leveraging their capabilities to produce a wide range of personal protective equipment for key workers and employees.

- Business continuity – the majority of our manufacturing facilities remained open during the first half to continue to support our customers in the critical markets that we serve in Defence, Energy and in Aerospace for repatriation of citizens and transport of food, freight and medical supplies. As part of the national response to COVID-19, we were granted $15m in funding under the CARES Act from the US Department of Defence to sustain critical industrial base capability for military grade fuel bladders at our Rockmart, US facility.

  Throughout the second quarter, the majority of our employees continued to work at our sites while adhering to enhanced procedures relating to personal protection and cleaning, with the remainder either working from home or on furlough. As lockdowns have progressively eased, we are continuing the process of enabling employees to gradually return safely to the workplace where it is safe to do so. We have also supported our suppliers through ePayables schemes and increasing their awareness of local government support schemes.

- Reducing costs, protecting cash and resizing the Group – in April we announced a series of actions to help the Group navigate the crisis which will help to deliver substantial cash savings in the year. These actions reflect a series of base case assumptions incorporating the most likely impact on the Group's revenues and cash flow this year and over the next five years:

  1. *Cost reduction* – cancellation of all pay rises, pay reductions for senior employees and material cuts in discretionary spend including travel;
  2. *Protect cash* – in addition to the cost measures, targeted reductions in capital expenditure against our previous guidance in February 2020; achieving absolute reduction in inventory levels; and the cancellation of the final dividend for 2019; and
  3. *Resize the Group* – having already taken action to reduce variable costs including accessing furlough schemes and reducing temporary labour, we took the difficult decision to reduce the size of our global workforce by around 15% to ensure that our internal capacity across our civil aerospace business reflects the reduction in demand and positions us appropriately as we enter 2021.

As announced in our July trading update, we have made good progress executing our action plan. The reduction in our global workforce is substantially complete representing a reduction of 18% at the end of the half compared with the end of December 2019. As a result of the early actions taken in the first quarter, we also anticipate being able to derive higher savings than originally planned from reducing our discretionary operating costs.

Notwithstanding this, reducing inventory is taking longer than first anticipated, reflecting a degree of variation in demand signals across the extended supply chain and as customers consume buffer stocks in parallel with adjusting their own end market demand. After a slow start, we are making steady progress in this area and while we continue to anticipate delivering good levels of cash saving from this initiative in the second half, some of the benefits will now move into the first quarter of 2021. This is also the key driver of our assumption that the Group will now be free cash flow neutral for the full year. Despite this, we still anticipate being able to deliver cash savings in 2020 of between £400m and £450m in line with our target range set out in April.

BASE CASE AND DOWNSIDE SCENARIOS

In light of the unprecedented downturn in civil aerospace and associated reduction in revenue, and as noted in our RNS announcement on 6 August 2020, the Group has modelled the following two scenarios: a 'base case' which the business is performing in line with and which we are using to run the Group; and, given the inherent uncertainty over the extent and pace of recovery in the Group's civil aerospace markets, a 'downside case' for planning purposes, in the event that we move significantly away from the trajectory of the base case, covering the period to 31 December 2021.

Base case

Our base case scenario assumes civil aftermarket and OE levels recover progressively from a low point in Q2/Q3 2020, with no subsequent global lock down as a result of a 2nd wave of COVID-19. An increasing return of passenger flights is anticipated with a progressive increase in the fourth quarter of 2020 feeding into civil revenue, with RPKs returning to pre-COVID-19 levels in 2024 in line with the most recent IATA outlook data. Civil OE deliveries, which reflect the emerging build rates from the Group's customer base, remain below 2019 levels until the end of the five year forecast period in 2025. The base case assumes continued robust funding of defence expenditure, particularly by the US government, and that energy and other markets are not materially impacted by COVID-19 over the five year forecast period.

Downside case to 31 December 2021

In the downside case, further waves of COVID-19 infection occur globally impacting passengers' ability and confidence to resume travelling, with an effective vaccine not widely available during the period and a reduction in consumer discretionary expenditure due to recession. Weakening RPKs are assumed to result in production build rates for OEM deliveries to airlines being depressed further. Additionally, as a result of the wider impact of a more prolonged pandemic, higher levels of government borrowing lead to defence spending being constrained. Energy and other markets remain depressed as the weaker economic environment results in reduced investment in oil and gas markets.

Using these downside assumptions we have conservatively modelled a 15% reduction in the Group's civil revenues in 2021 compared with the 2020 base case assumption. Defence markets experience growth in 2021, but are constrained to levels of assumed inflation. In the downside case, the Group is also able to implement further appropriate mitigating actions to reduce its cost base and to preserve cash flows. Under the downside case, the Group has sufficient financing to be able to meet its covenants and interest cover obligations as they fall due in the period.

INTERIM MANAGEMENT REPORT 2020

In common with previous years, underlying profit is used by the Board to measure the underlying trading performance of the Group and excludes certain items including: amounts arising on the acquisition, disposal and closure of businesses; amortisation of intangible assets acquired in business combinations; movements in financial instruments; and exceptional operating items.

In light of the unprecedented downturn in civil aerospace this year, the level of exceptional costs at £402m is significantly higher than usual, including impairment of goodwill and asset write-offs resulting in Group underlying operating profit becoming a loss at the statutory level. Within these exceptional costs, £373m is attributable to impairment losses and other asset write downs comprising: goodwill (£341m); development costs (£8m); inventory (£16m); and trade receivables (£8m). Further details relating to impairment losses and other asset write-downs are set out in note 8.

Reconciliation between underlying operating profit and statutory operating loss

	£m
Underlying operating profit	**102.2**
Impairment losses and other asset write-downs	(373.2)
COVID-19 incremental non-recurring costs	(13.2)
Site consolidations	(14.8)
Other	(0.6)
Exceptional operating items	(401.8)
Amortisation of intangible assets arising on acquisition of businesses	(45.0)
Financial instruments	(38.0)
Amounts arising on the acquisition, disposal and closure of businesses	33.9
Statutory operating loss	**(348.7)**

Our results in the first half, particularly the second quarter, reflect the effects of COVID-19 and the unprecedented reduction in civil aerospace activity with Group revenue, underlying operating profit, underlying earnings and cash all declining in the period.

In our trading statement on 23 April 2020, we reported that Group revenue for the three months ended 31 March 2020 was 6% higher than the comparative period, despite the impact of COVID-19 during the last two weeks in March. In our post close trading update on 2 July, we reported that we had seen a marked deterioration in trading in our civil aerospace business in the second quarter as a result of the significant reduction in commercial air traffic and grounding of a large proportion of the global fleet.

In the second quarter, Civil Aerospace organic revenue was 49% lower, with OE down 53% (large jets -55%, regional -69% and business jets -40%) and aftermarket down 47% (large jets -48%, regional -57% and business jets -30%). After a very strong first quarter with organic growth of 19% (excluding Training Systems), Defence revenue was 3% lower, with revenue from Energy 8% lower than the comparative period.

Group orders were 31% lower in the first half on an organic basis with book to bill of 0.9x. Our order book in Defence remains robust with book to bill of 1.2x. Group organic revenue was down 13% with lower revenue in Civil Aerospace and Energy more than offsetting a strong performance in Defence where revenue grew 7%. In Civil Aerospace, revenue was 27% lower, with sales from civil OE and civil AM down 29% and 25% respectively. Energy revenue was 6% lower on an organic basis.

As a result of the reduction in Group revenue, including within our higher margin aftermarket business, and the under-recovery of fixed overheads as demand fell, the Group's underlying operating margins decreased by 390 basis points, to 11.1% (H1 2019: 15.0%), with underlying operating profit 37% lower in the period at £102.2m (H1 2019: £161.1m).

Underlying profit before tax decreased by 41% to £85.5m (H1 2019: £145.4m) with underlying earnings per share also down 41% at 8.7 pence (H1 2019: 14.7 pence).

Moving from underlying to statutory measures, as a result of the impairment losses and other asset write downs, Group loss before tax was £368.4m (H1 2019: £72.6m profit) and basic loss per share was 44.3 pence (H1 2019: earnings per share of 7.3 pence).

In line with our guidance in July, the Group generated a free cash outflow of £121.5m (H1 2019: £48.8m inflow) driven by the lower operating result, higher working capital and, as expected, an increase in cash tax and capital expenditure, with the latter reflecting the Group being at the peak in the investment cycle on strategic projects. Investment in capital expenditure was £57.4m (H1 2019: £37.1m) and working capital was an outflow of £127.5m (H1 2019: £76.9m outflow). Payments made in respect of retirement benefit schemes were £7.1m (H1 2019: £17.2m) following an agreement with the trustees of the UK scheme to defer four months of payments totalling £11m that will now be spread across the 2021 to 2023 period. The free cash outflow was substantially offset by proceeds from the sale of Training Systems which generated net proceeds of £110m, with a net cash outflow for the Group of £18.8m in the first half (H1 2019: £36.9m outflow).

At the end of June, our net debt was £1,000.2m (H1 2019: £1,124.2m) including capitalised leases of £155.2m, an increase of £89.0m from December 2019 after taking into account adverse currency movements of £65.2m and we had ample headroom of £855.5m on committed facilities of £1,700.5m. On 15 June 2020, we paid $125m on the maturity of a tranche of 2010 US Private Placement Notes, covered by bilateral loans put in place at the end of December 2019. In October 2020, we will pay $150m on maturity of another tranche of the 2010 US Private Placement Notes.

First half cash flow statement £m

	H1 20	H1 19
Underlying operating profit	**102.2**	**161.1**
Depreciation and amortisation	53.6	51.3
Working capital movements	(127.5)	(76.9)
Net interest paid	(16.5)	(15.9)
Tax paid	(24.4)	(4.4)
Exceptional operating items paid	(28.1)	(11.9)
Purchase of property, plant and equipment	(57.4)	(37.1)
Proceeds from disposal of property, plant and equipment	0.3	21.6
Capitalised development costs/programme participation costs	(19.4)	(26.3)
Retirement benefit deficit reduction payments	(7.1)	(17.2)
Other	2.8	4.5
Free cash flow	**(121.5)**	**48.8**
Net proceeds from disposal/acquisition of businesses	102.0	6.3
Dividends paid to Company's shareholders	0.0	(87.5)
Other	0.7	(4.5)
Net cash generated	**(18.8)**	**(36.9)**
Lease liabilities entered	(6.5)	(15.9)
Lease liabilities disposed with business	4.5	0.0
Exchange differences	(65.2)	5.7
Other movements	(3.0)	(3.0)
Net debt movements	**(89.0)**	**(50.1)**
Net debt at 1 January	(911.2)	(1,074.1)
Net debt at 30 June	(1,000.2)	(1,124.2)

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 2020 (June 2019: 1.8x) and interest cover, which must be not less than 3.0x, was 14.1x (June 2019: 15.0x). The Group has significant headroom against both key covenant ratios, and net borrowings:underlying EBITDA is well within our target range of 1.5x to 2.5x.

In April, the Group was confirmed as an eligible issuer under the Bank of England and HM Treasury's CCFF, under which the Group can draw up to £600m. The Group has issued commercial paper under this facility totalling £130m at 30 June 2020 which is included within our committed facilities of £1,701m, with additional headroom of £470m under the CCFF as at that date. On 11 May, we extended the duration of our debt by securing a forward start on our revolving credit facility, with the signing of a new one year $575m multi-currency facility maturing in September 2022.

The Board is very aware of the importance of dividends to our shareholders. However, the Board concluded that it was prudent not to pay a final dividend for 2019 and in light of ongoing challenging market conditions, the Board is not recommending the payment of an interim dividend for 2020. This will retain cash within the Group, ensure the continued management of net debt levels and preserve flexibility.

ASSUMPTIONS FOR THE FULL YEAR

While the gradual improvement in some segments of the commercial aerospace sector in the second and beginning of the third quarter was encouraging, particularly domestic travel and business jets, events in the last few weeks have shown that any recovery remains highly sensitive to national spikes in COVID-19 cases, the imposition of regional lockdowns, restrictions at international borders and quarantining measures. As a result, near term uncertainty about the pace and shape of a recovery across the sector is likely to remain and could stretch into 2021, thereby limiting visibility on the performance of our civil business for the remainder of the financial year, including what has historically been our most important fourth quarter with the largest revenue and profit impact.

In our base case, for civil aerospace we assume that new build rates remain at or near current levels and the progressive recovery in air traffic feeds through into aftermarket revenue. In defence, we expect outlays in our core US market to remain robust for the rest of the financial year and conditions in our energy end markets to remain stable. For cash, as a result of a proportion of inventory reduction moving into 2021, we now expect to be broadly free cash flow neutral for the full year.

Based on the above, and recognising that there could be a range of outcomes in our civil business in the last four months leading to a significant variation in where we finish the year, our guidance for the Group for the full year remains suspended.

As we move further through the second half, we will continuously review the shape of the recovery in our end markets to ensure our businesses are aligned appropriately and will provide a further update in our third quarter trading statement.

Having taken early and decisive action in the first half to strengthen liquidity and resize the cost base and capacity of the Group and with diverse end market exposure, we remain well placed to benefit from the recovery in civil aerospace.

GROUP OVERVIEW AND STRATEGY UPDATE

Despite the disruption in civil aerospace in the first half, we remain focused on operational execution and our four strategic priorities to accelerate growth, increase cash flow and improve return on capital employed. These priorities are: Strategic Portfolio, Customers, Competitiveness and Culture.

Strategic Portfolio

We 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 further focused our portfolio with the sale of Training Systems, consistent with our strategy to focus on businesses of scale in markets where leading positions offer greater potential for growth and operational efficiencies. As a result of this disposal, 82% of our revenue is now generated from businesses in attractive markets and where we have a strong competitive position, above our target of 80% set out three years ago.

Within braking systems, we are intensifying our focus on generating improved margin and returns while continuing to remain highly selective on investing in new opportunities. Recognising the change in fleet dynamics as a result of the downturn in civil aerospace, we have also significantly re-phased and reduced our planned investment in both carbon and production capacity.

In technology, we made good progress working with major aircraft OEMs towards the certification of VERDAGENT™, Meggitt's new and proprietary fire suppressant agent to replace Halon 1301. We successfully completed the first customer trials of our optical dynamic pressure sensing system for gas turbines which has resulted in a follow-up demonstration project with an energy customer and an agreement with a major engine OEM to install the new technology on a demonstrator engine in 2021. And, working with our JV partner HiETA Technologies, we have developed additively manufactured heat exchangers to operate at high-temperatures to enable high efficiency, sustainable power generation cycles, with prototype units undergoing performance trials.

While our focus remains on three core markets: aerospace, defence and selected energy, over the medium-term we also look to increase the application of our aero-derivative intellectual property and technology in adjacent markets, including space and ground vehicles, to further strengthen the portfolio.

Customers

Our success in moving from a transactional approach to building long term relationships through our customer-aligned divisions, extends our visibility of near term customer requirements and has enabled us to better support the demand for original equipment and spare parts and maintenance, repair and overhaul ('MRO') in the aftermarket.

During the first half, we maintained close contact with our customers which has been critical in the creation of our base case, including the adjustment of production schedules for original equipment based on new build rates from the OEMs and tracking customer sentiment by region in the aftermarket.

In the period, we continued to win a number of new customer contracts including orders for: $15m from the Defence Logistics Agency to support the supply of fuel bladders; a multi-million dollar award from GE Aviation to continue the supply of thermal, sensing and flow control solutions across a number of platforms; $73m from Bell Textron Inc for the supply of composite ice protection components on the V22 Osprey programme; $20m from Northrop Grumman for the supply of the supply of fuel bladders on the F/A-18 Super Hornet; and £8m from MODEC for the supply of Heatric printed circuit heat exchangers, representing the largest order for that business for over five years.

We saw continued momentum with SMARTSupport®, our long-term contract offering for aftermarket customers, adding an additional 6 agreements, including those with ST Aerospace and Derco taking the total to 31 with an aggregate value of £176m, with a number of additional opportunities in the pipeline. These long-term contracts underpin our aftermarket and market share growth in the future and provide better insights into customer requirements and order patterns.

Competitiveness

While our priority during the first half has been to ensure that people and sites operate safely as we respond to the challenges posed by COVID-19, we remained focused on driving operational improvements in line with our strategy.

We made further progress reducing our global footprint, with site closures and consolidations in the UK (Basingstoke) and the US (Orange County) and the divestment of Training Systems at the end of the period. As a result of these actions, we now have 39 Meggitt manufacturing sites, reduced from our original 56 sites in 2016 and 42 sites at the end of December 2019 and have identified additional opportunities to reduce this further over the next two to three years. We opened our new UK manufacturing and engineering centre for Braking systems, Thermals systems and Services & Support together with our relocated Group Headquarters at Ansty Park, providing office-based employees that have been working from home with the flexibility to gradually return to the workplace. During the second half, we will complete the preparation to enable the full transition of manufacturing from four UK sites into Ansty Park which has been deferred to 2021 from 2020 as a result of the disruption caused by COVID-19, with the capital expenditure associated with this transition also moving into 2021.

On inventory, where we have steadily increased inventory turns from just above 2.0x in 2016 to 2.7x in 2019, our priority in the first half has been on the management of absolute inventory levels as we respond to the change in demand from our customers. We have used the change in market conditions as an opportunity to further tighten our supply parameters and production scheduling (including moving from monthly to weekly deliveries of raw materials). The management of absolute inventory levels will remain a key objective and represents an important part of our cash saving targets in 2020, also helping us to return to focusing on improving our inventory turns in 2021 and beyond.

Within purchasing, we have actively supported our suppliers through the crisis through ePayables enrolment and access to government funding in the US, UK and France. Alongside this, we have also taken the opportunity to further strengthen and consolidate our supply chain, including identifying opportunities to derive further savings by moving more of our supply base to low cost countries where appropriate.

Our recovery plan in Engine Composites continues as we apply engineering and process improvements to achieve higher quality and further improvements in yields. In April, our facility in Saltillo, Mexico reached the first of two milestones to enable the direct shipment of high volume composite parts to end customers with the final milestone reached this month. In addition, lower production of aircraft engines caused by COVID-19 has allowed us to accelerate the adoption of new manufacturing technology in Mexico, transfer production lines and transition further high volume parts in 2021.

Culture

Our priority over the last few months has been to look after our people across our sites and their response to the crisis has been outstanding, enabling us to support all our stakeholders in what have been extremely challenging circumstances. Our teams have also used their capabilities to support our local communities in a variety of ways – from supporting the production of critical ventilators for the NHS in the UK, to visors and masks and other protective equipment for key workers.

Over the last three years we have worked hard to build and nurture a high performance culture and improve engagement where our ambitious and diverse teams help us to accelerate the execution of our strategy. The progress we have made in this area and the support of our employees has been instrumental in the Group being able to respond strongly to the crisis.

In addition, our customer-aligned organisational structure and more integrated approach to working across teams has been a key enabler as we moved quickly to manage the business to our base case and respond to a significant adjustment in demand across our civil business.

TRADING SUMMARY

	Revenue (£m)		Growth (%)	
	H1 2020	H1 2019	Reported	Organic
Civil OE	184.1	259.6	(29%)	(29%)
Civil AM	248.2	329.3	(25%)	(25%)
Total Civil	**432.3**	**588.9**	**(27%)**	**(27%)**
Defence	392.4	376.7	4%	7%
Energy	60.7	63.1	(4%)	(6%)
Other	31.4	42.2	(26%)	2%
TOTAL	**916.8**	**1,070.9**	**(14%)**	**(13%)**

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 the vast majority of these platforms and hence a large, installed base. With c.55% of our civil aftermarket revenue (full year 2019) generated from platforms under 10 years old, we are well placed to continue to generate good returns over the coming years as the market recovers.

The split of civil revenue in the first half, which accounted for 47% of the Group total, was 57% aftermarket and 43% original equipment (OE).

In the first half, civil OE revenue was down 29% organically reflecting lower demand for original equipment from the OEMs, with large jets, the largest component of our OE revenue, down 33% and regional jets down 37%. Business jet OE was down 11%. Within the first half, civil OE was down 1% and 53% in the first and second quarters respectively.

As a result of lower levels of air traffic activity in the period, civil aftermarket revenue was down 25% organically as airlines and other aftermarket customers deferred orders for spares and repairs, with large jets down 27%, regional down 33% and business jets down 10%. Within the first half, civil AM was up 2% and down 47% in the first and second quarters respectively. Overall, civil aerospace revenue was 27% lower in the first half on an organic basis.

Defence

Our Defence business accounted for 43% of Group revenues in H1 2020 (including Training Systems) with 60% of revenue from OE and 40% from the aftermarket. We have equipment on an installed base of around 22,000 fixed wing and rotary aircraft and a significant number of ground vehicles and are well placed having secured strong positions on some of the newest and hardest worked platforms. Direct sales to US customers accounted for 72% of defence revenue, with 17% to European customers and 11% to the rest of the world.

Defence spending remained robust during the first half with continuing good outlays by the US DoD and our order book remains healthy with book to bill of 1.2x, underpinned by a number of multi-year contracts.

Defence revenue grew 7% on an organic basis (excluding Training Systems) with particularly strong growth in the first quarter. In OE, revenue grew 18% driven by continuing strong growth on parts for the F-35 Joint Strike Fighter and in rotary wing, the AH-64 Apache. Aftermarket revenue was 5% lower organically, with growth in fighters more than offset by lower revenue on rotary wing and special mission aircraft.

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 (7% 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 (3% of Group total) include the automotive, industrial, test, consumer goods and medical sectors.

Energy revenue was down 6% on an organic basis with Heatric revenue up 6% on the back of a strong order book as we entered the year, more than offset by lower revenue derived from our valve and condition monitoring business. Revenue from other markets was up 2% on the comparative period. The medium-term growth expectations for our energy businesses remain solid. We have differentiated aero-derivative technologies which play a critical role in the extraction of deep water offshore gas reserves and the growth in demand for liquid natural gas, green and renewable energy positions this business well for the future.

DIVISIONAL PERFORMANCE

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

Revenue (£m)				Division	Underlying Operating Profit (£m)			
H1 2020	H1 2019	% Growth			H1 2020	H1 2019	% Growth	
		Reported	Organic				Reported	Organic
430.8	484.6	-11	-12	Airframe Systems	70.3	101.6	-31	-33
128.3	159.2	-19	-20	Engine Systems	(9.7)	4.7	-306	-349
180.8	191.5	-6	+8	Energy & Equipment	16.9	21.6	-22	-1
176.9	232.5	-24	-25	Services & Support	24.7	33.0	-25	-28
0.0	3.1			Other[4]	0.0	0.2		
916.8	**1,070.9**	**-14**	**-13**	**Total Group**	**102.2**	**161.1**	**-37**	**-36**

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. As well as increasing our content on the new generation aircraft by as much as 250%, 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 54% of its revenue from OE sales and 46% from the aftermarket.

Organic revenue was down 12% in the half. Civil OE revenue was down 23% with large jets and regional jets OE down 28% and 26% respectively, reflecting lower end market demand for new aircraft and OEMs reducing new build rates. Business jet OE was down 4% outperforming large and regional jets on a relative basis.

Civil aftermarket revenue was 20% lower on an organic basis reflecting the unprecedented reduction in commercial air traffic particularly in the second quarter and lower demand for spares within our wheels and brakes business. In the period, organic aftermarket revenue in large, regional and business jets was down 11%, 34% and 8% respectively.

Defence revenue was up 1%, with OE 3% higher driven by growth in fighters and transports. In the aftermarket, which represents 47% of Airframe Systems defence revenue, revenues were 2% lower than the prior year with growth on Typhoon, F/A-18 and light attack platforms more than offset by declining demand on rotary wing and special mission.

As a result of the lead time to adjust our cost base in response to the sudden drop in civil OE volume and the resultant under-recovery of fixed overhead combined with the reduction in higher margin civil aftermarket revenues, underlying operating margin was 470 basis points lower than the comparative period at 16.3% (H1 2019: 21.0%).

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 14% of Group revenue, generating 90% of its revenue from OE and 10% from the aftermarket as a result of its principal route to the aftermarket being through the Services & Support division.

Revenue decreased by 20% on an organic basis with good growth in defence segments more than offset by lower demand for OE parts across civil aerospace. Civil OE revenue was 38% lower on an organic basis, with the absolute reduction in revenue mainly driven by large jets. In defence, revenue grew by 16% on an organic basis with particularly strong growth on the F-135 programme and higher revenues in rotary wing/other transports.

Engine Systems generated an underlying operating loss in the first half of £9.7m (H1 2019: profit of £4.7m) resulting from the lower civil volumes across all product groups and, as with Airframe Systems, the under-recovery of fixed overheads.

Within our Engine Composites business, where revenue was up 2% in the first half driven by strong defence, we continued to make good progress with operational improvements and the transfer of high volume parts to our facility in Mexico. We remain on track to ship parts directly from Mexico to end customers in the second half and plan to move additional volumes down to Mexico in 2021. We remain firmly focused on our recovery plan in Engine Composites and returning this product group to mid-teens margins having made good progress on this in 2019. However, due to the severe and sudden downturn in civil OE demand, this will now take longer and extend beyond our previous timeline of the end of 2021.

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

[4] 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'.

monitoring systems for oil and gas applications. Heatric provides innovative printed circuit heat exchanger technology for offshore gas applications. Defence Systems provides a series of complex engineered products to defence agencies in electronic cooling, ammunition handling and scoring systems. Training Systems was sold on 30 June 2020 and revenue from this product group (H1 2020: revenue of £33.2m) is excluded from organic figures. Energy & Equipment represents 20% of Group revenue and generates 85% of its revenue from OE and 15% from the aftermarket.

Revenue was up 9% organically (down 6% on a reported basis with the inclusion of Training Systems) with a strong performance in Defence Systems driven by strong OE growth in particular on the Apache AH-64, other rotary wing aircraft and ground vehicles. In energy, on the back of entering the year with a strong order book, Heatric grew revenue 6% in the half, with demand in our Energy Sensors and Controls business 21% lower than the comparative period as a result of weaker market conditions in oil and gas. Underlying operating margins at 9.3% were 200 basis points lower than the comparative period (H1 2019: 11.3%).

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. The division represents 19% of Group revenue and generates 100% of its revenue from the aftermarket.

Within S&S, order intake in civil aftermarket was down 40% in the first half as our aftermarket customers deferred orders for both spare parts and MRO. In APAC, orders were down 25% with the recovery in the Chinese domestic market underpinning the region; order intake was down 37% in the Americas and as a result of the border controls within EMEA, order intake was down 47% in the period. Organic revenue was down 24% in APAC and 27% in both the Americas and EMEA.

Revenue was 24% lower organically with civil aerospace revenue down 29%. Large jet revenue, which represents 82% of civil revenue, was down 30% in the first half, with regional jets down 29%. Revenue from business jets was down 17% in the period. In defence, order intake was 30% down on the comparative period with revenue 5% lower on an organic basis.

Underlying operating margin was broadly flat at 14.0% (H1 2019: 14.2%).

INVESTING FOR THE FUTURE

£m	H1 2020	H1 2019	*% Change*	
			Organic	*Reported*
Total research and development (R&D)	**55.7**	65.0	(17)	(14)
Less: Charged to cost of sales / WIP	**(13.6)**	(14.5)	(12)	(6)
Less: Capitalised	**(18.8)**	(25.1)	(28)	(25)
Add: Amortisation / Impairment	**16.6**	13.4	22	24
Charge to underlying net operating costs	**39.9**	38.8	(1)	3
Capital expenditure	**57.4**	37.1		55

While we have scaled back expenditure on R&D in the period as part of our overall cash saving initiative, we have continued to invest in new technologies to support new product development and future growth opportunities. Accordingly, total R&D expenditure in the first half of £55.7m stayed constant as a percentage of revenue at 6.1% (H1 2019: £65.0m, 6.1%). The charge to underlying net operating costs, including amortisation and impairment, increased by 1% (decreased by 3% on an organic basis) to £39.9m (2019: £38.8m).

As expected, capital expenditure increased in the first half to £57.4m (H1 2019: £37.1m) driven by investment in transformation and growth projects including the fit-out of Ansty Park and investment in carbon brakes capacity.
At the time of our full year results in February, we expected total Group capital expenditure on property, plant and equipment and intangible assets would increase in 2020 to between £120m and £140m (FY2019: £94m) driven by these major projects. As part of our actions to preserve cash this year in response to the crisis, we have scaled back this investment and now expect capital expenditure to be around £100m for the full year.

OTHER FINANCIAL INFORMATION

Group Orders and Revenue

Orders reduced by 26% on a reported basis (31% on an organic basis) to £881.5m. Reported Group revenue of £916.8m (H1 2019: £1,070.9m) decreased by 14% as analysed in the table below:

	£m	**% impact**
H1 2019 revenue	1,070.9	
Business disposals	(27.9)	-3
Currency movements	11.4	+2
Organic growth	(137.6)	-13
H1 2020 revenue	**916.8**	**-14**

Business disposals include the sale of Angouleme (completed in March 2019), Orange County product lines (completed in June to December 2019) and Training Systems (completed in June 2020). Currency movements in the first six months reflect the weakening of pound sterling against our trading currencies, principally the US dollar. The current level of sterling at the date of this report, would generate a headwind for the Group in the second half. The reduction in organic revenue growth reflects the impact of COVID-19 on civil aerospace (down 27%) partially offset by good performance in defence (up 7%).

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 £9.9m and underlying profit before tax (PBT) by £0.9m in the first six months.

The sensitivity of full-year revenue and underlying PBT to exchange rate translation movements against sterling, when compared to the 2019 average rates, is shown in the table below:

	2019 average rate	**Revenue £'m**	**Underlying PBT £'m**
*Impact of 10 cent movement**			
US Dollar	1.28	120	20
Swiss Franc	1.27	8	3
Euro	1.14	11	2

* As measured against 2019 actual full-year revenue and underlying PBT.

Transaction exposure, where revenues and/or costs of our businesses are denominated in a currency other than their own, increased revenue by £1.5m and increased underlying PBT by £2.0m in the period. We typically hedge transaction exposure and the following table details hedging currently in place:

	Hedging in place[5] %	**Average transaction rates[6]**
2020		
US dollar/sterling	100	1.37
US dollar/Swiss franc	86	1.08
US dollar/euro	100	1.15
2021 – 2024 inclusive		
US dollar/sterling	79	1.33
US dollar/Swiss franc	7	1.09
US dollar/euro	23	1.17

Taking translation and transaction benefit into account, H1 2020 reported revenue increased by £11.4m and underlying PBT increased by £2.9m.

Finance costs

Underlying net finance costs were £16.7m (H1 2019: £15.7m) principally increasing as a result of additional interest arising from the new Ansty Park lease, which commenced in H2 2019.

[5] Based on forecast transaction exposures.
[6] Hedging in place with unhedged exposures based on exchange rates at 30 June 2020.

Tax charge

The Group's underlying tax rate was 21.2% (H1 2019: 22.0%). As reported in 2019, the Group is impacted by the EU Commission ruling that the UK CFC regime constituted partial state aid. The Group maintains the provision held at 31 December 2019 of £18.3m in respect of this matter. During the period the Group has been in dialogue with HMRC and continue to appeal against the ruling, in parallel with the UK government's own appeal, to the European General Court. Currently dates for these appeals to be heard have not been set, nor have timings for cash payments. As expected, cash tax increased in the period to £24.4m (H1 2019: £4.4m) largely driven by the phasing of payments.

For the full year, we expect the level of cash tax to be around £50m.

Retirement benefit schemes

The Group's principal defined benefit schemes are in the UK and US and are closed to new members. Total deficits increased to £326.3m (December 2019: £267.9m). The main driver of the increase was re-measurement losses on scheme liabilities of £91.1m, primarily arising from a significant reduction in AA corporate bond yields used to determine their valuation, which are at their lowest levels over the last 15 years. Asset performance was mixed with a strong return from the schemes' liability hedge portfolio of government bonds, corporate bonds and derivatives more than offsetting a volatile equity performance where markets, despite a partial recovery in the second quarter, fell significantly over the period.

Deficit reduction payments in the period were £7.1m (2019: £17.2m). In the UK, following the COVID-19 outbreak, the Group agreed with the trustees deferral of four months deficit contributions amounting to £11m, which will now be made over the remainder of the current recovery plan to 2023, with payments of £35.5m, £37.2m and £27.0m in 2021, 2022 and 2023 respectively. Deficit contributions have now resumed in the UK.

At 30 June 2020, principally due to the fall in bond yields since the date of the 2018 valuation, the current UK funding position is approximately £190m lower than that projected in the 2018 valuation. This funding shortfall will, should it remain, be addressed through a revised recovery plan as part of the 2021 triennial valuation. In the US, legislation was passed in response to COVID-19, allowing companies to defer contributions due in 2020 to 2021. Contributions to the US scheme are expected to remain at modest levels for the next three years.

CONDENSED CONSOLIDATED UNAUDITED INCOME STATEMENT
For the six months ended 30 June 2020

	Notes	**Six months ended 30 June 2020 £m**	Six months ended 30 June 2019 £m
Revenue	4	**916.8**	1,070.9
Non-GAAP measures			
Exceptional Impairment losses and other asset write-offs	8a	**(16.0)**	-
Other cost of sales		**(640.6)**	(697.0)
Cost of sales		**(656.6)**	(697.0)
Gross profit		**260.2**	373.9
Non-GAAP measures			
Exceptional Impairment losses and other asset write-offs	8a	**(357.2)**	-
Other operating costs		**(287.1)**	(286.5)
Operating costs		**(644.3)**	(286.5)
Operating income	5	**35.4**	4.0
Net operating costs		**(608.9)**	(282.5)
Operating (loss)/profit [1]		**(348.7)**	91.4
Finance income		**0.3**	0.6
Finance costs		**(20.0)**	(19.4)
Net finance costs	9	**(19.7)**	(18.8)
(Loss)/profit before tax [2]		**(368.4)**	72.6
Tax credit/(charge)	10	**24.1**	(16.0)
(Loss)/profit for the period attributable to equity owners of the Company		**(344.3)**	56.6
(Loss)/earnings per share:			
Basic [3]	11	**(44.3)p**	7.3p
Diluted [4]	11	**(43.7)p**	7.2p

Non-GAAP Measures			
[1] Underlying operating profit	4 & 6	**102.2**	161.1
[2] Underlying profit before tax	6	**85.5**	145.4
[3] Underlying basic earnings per share	11	**8.7p**	14.7p
[4] Underlying diluted earnings per share	11	**8.5p**	14.5p

CONDENSED CONSOLIDATED UNAUDITED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2020

	Notes	**Six months ended 30 June 2020 £m**	Six months ended 30 June 2019 £m
(Loss)/profit for the period attributable to equity owners of the Company		**(344.3)**	56.6
Items that may be reclassified to the income statement in subsequent periods:			
Currency translation movements	27	**100.0**	16.4
Movements in fair value of financial liabilities arising from changes in credit risk:			
Bank and other borrowings	19	**2.2**	(0.6)
Derivative financial instruments		**(1.4)**	-
Tax effect		**(0.1)**	0.1
		100.7	15.9
Items that will not be reclassified to the income statement in subsequent periods:			
Remeasurement of retirement benefit obligations		**(51.3)**	(63.2)
Tax effect		**12.0**	11.1
		(39.3)	(52.1)
Other comprehensive income/(expense) for the period		**61.4**	(36.2)
Total comprehensive (expense)/income for the period attributable to equity owners of the Company		**(282.9)**	20.4

CONDENSED CONSOLIDATED UNAUDITED BALANCE SHEET

At 30 June 2020

	Notes	**30 June 2020 £m**	31 December 2019 £m
Non-current assets			
Goodwill	14	**1,655.3**	1,966.6
Development costs	14	**588.7**	575.9
Programme participation costs	14	**20.8**	18.0
Other intangible assets	14	**489.2**	503.6
Property, plant and equipment	15	**485.4**	449.4
Investments	16	**23.8**	14.1
Other receivables		**16.1**	17.0
Contract assets		**63.4**	55.2
Derivative financial instruments	19	**7.4**	14.6
Deferred tax assets		**32.3**	23.3
		3,382.4	3,637.7
Current assets			
Inventories		**521.2**	489.8
Trade and other receivables		**331.8**	379.9
Contract assets		**62.7**	66.3
Derivative financial instruments	19	**1.0**	3.8
Current tax recoverable		**7.9**	11.1
Cash and cash equivalents		**236.9**	155.3
		1,161.5	1,106.2
Total assets	4	**4,543.9**	4,743.9
Current liabilities			
Trade and other payables		**(328.9)**	(464.5)
Contract liabilities		**(53.1)**	(50.5)
Derivative financial instruments	19	**(22.0)**	(16.5)
Current tax liabilities		**(68.3)**	(81.6)
Lease liabilities		**(16.2)**	(16.4)
Bank and other borrowings	18 & 19	**(263.2)**	(219.4)
Provisions	20	**(48.5)**	(36.2)
		(800.2)	(885.1)
Net current assets		**361.3**	221.1
Non-current liabilities			
Other payables		**(4.7)**	(2.1)
Contract liabilities		**(77.5)**	(77.0)
Derivative financial instruments	19	**(25.5)**	(4.6)
Deferred tax liabilities		**(121.1)**	(155.3)
Lease liabilities		**(139.0)**	(136.2)
Bank and other borrowings	18 & 19	**(818.7)**	(694.5)
Provisions	20	**(60.5)**	(64.4)
Retirement benefit obligations	21	**(326.3)**	(267.9)
		(1,573.3)	(1,402.0)
Total liabilities		**(2,373.5)**	(2,287.1)
Net assets		**2,170.4**	2,456.8
Equity			
Share capital	22	**39.0**	38.8
Share premium		**1,226.6**	1,226.5
Other reserves		**15.7**	15.7
Hedging and translation reserves		**526.1**	425.4
Retained earnings		**363.0**	750.4
Total equity attributable to owners of the Company		**2,170.4**	2,456.8

CONDENSED CONSOLIDATED UNAUDITED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2020

	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 2019	38.8	1,223.9	15.7	493.8	720.2	2,492.4
Profit for the period	-	-	-	-	56.6	56.6
Other comprehensive income/(expense)	-	-	-	15.9	(52.1)	(36.2)
Total comprehensive income for the period	-	-	-	15.9	4.5	20.4
Employee share schemes:						
Value of services provided	-	-	-	-	9.8	9.8
Issue of equity share capital	-	0.4	-	-	(0.4)	-
Dividends (note 12)	-	-	-	-	(87.5)	(87.5)
At 30 June 2019	38.8	1,224.3	15.7	509.7	646.6	2,435.1
At 1 January 2020	**38.8**	**1,226.5**	**15.7**	**425.4**	**750.4**	**2,456.8**
Loss for the period	**-**	**-**	**-**	**-**	**(344.3)**	**(344.3)**
Other comprehensive income/(expense)	-	-	-	100.7	(39.3)	61.4
Total comprehensive income/(expense) for the period	**-**	**-**	**-**	**100.7**	**(383.6)**	**(282.9)**
Employee share schemes:						
Value of services provided	-	-	-	-	(3.5)	(3.5)
Issue of equity share capital	0.2	0.1	-	-	(0.3)	-
At 30 June 2020	**39.0**	**1,226.6**	**15.7**	**526.1**	**363.0**	**2,170.4**

CONDENSED CONSOLIDATED UNAUDITED CASH FLOW STATEMENT
For the six months ended 30 June 2020

	Notes	**Six months ended 30 June 2020 £m**	Six months ended 30 June 2019 £m
Non-GAAP Measures			
Cash inflow from operations before business disposal expenses and exceptional operating items		**21.2**	118.3
Cash outflow from business disposal expenses	28	**(2.7)**	(0.9)
Cash outflow from exceptional operating items	8	**(28.1)**	(11.9)
Cash (outflow)/inflow from operations	25	**(9.6)**	105.5
Interest received		**0.1**	0.3
Interest paid		**(16.6)**	(16.2)
Tax paid		**(24.4)**	(4.4)
Cash (outflow)/inflow from operating activities		**(50.5)**	85.2
Businesses disposed	28	**112.3**	7.2
Purchase of investment	16	**(7.6)**	-
Capitalised development costs	14	**(18.8)**	(25.1)
Capitalised programme participation costs		**(0.6)**	(1.2)
Purchase of intangible assets		**(10.8)**	(3.7)
Purchase of property, plant and equipment		**(46.6)**	(33.4)
Proceeds from disposal of property, plant and equipment		**0.3**	21.6
Cash inflow/(outflow) from investing activities		**28.2**	(34.6)
Dividends paid to Company's shareholders	12	**-**	(87.5)
Proceeds from bank and other borrowings	18	**394.5**	17.8
Debt issue costs paid	18	**(1.6)**	-
Repayments of bank and other borrowings	18	**(294.4)**	(37.0)
Reverse lease premium received	17	**3.5**	-
Repayments of lease liabilities		**(8.2)**	(7.5)
Cash inflow/(outflow) from financing activities		**93.8**	(114.2)
Net increase/(decrease) in cash and cash equivalents		**71.5**	(63.6)
Cash and cash equivalents at start of the period		**155.3**	181.9
Exchange gains/(losses) on cash and cash equivalents		**10.1**	(1.9)
Cash and cash equivalents at end of the period		**236.9**	116.4

NOTES TO THE CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS
For the six months ended 30 June 2020

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 2019 were approved by the Board of Directors on 24 February 2020 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 2020 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 2019 which have been prepared in accordance with IFRSs as adopted by the European Union.

Going concern
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.

In making an assessment as to whether the going concern principle should be adopted, the directors have considered the period starting with the date these condensed consolidated financial statements were approved by the Board and ending on 31 December 2021.

The impact on the commercial aerospace segment following the outbreak of COVID-19 is substantial and unprecedented, affecting many areas of the Group's business including its employees, supply chain and customer base. To model the expected impact on the Group, a base case model has been developed which reflects its current view of the most likely impact on the Group's revenues, the extent to which appropriate mitigating actions on costs can be implemented and how this impacts cash flows over the next five years. In assessing whether the going concern principle remains appropriate, the Group has used the output from this model covering the period to 31 December 2021. The Group has also considered the liquidity available to it over the period to 31 December 2021.

Base case scenario
The base case scenario assumes civil aftermarket and OE levels recover progressively from a low point expected to take place in Q2/Q3 2020, with no second wave of global lock down restrictions. An increasing return of passenger flights is anticipated, with RPKs returning to pre-COVID-19 levels in 2024. Civil OE deliveries, which reflect the emerging build rates from the Group's customer base, remain below 2019 levels until the end of the five year forecast period. The base case assumes continued robust funding of defence expenditure, particularly by the US government, and that energy and other markets are not largely impacted by COVID-19 over the five year forecast period.

The Group has already made good progress in executing the actions announced in April 2020 to reduce its cost base, preserve cash and resize the business for H2 2020 and 2021. The reduction in the Group's global workforce has proceeded as planned. Inventory reduction remains a key objective for the Group and cash savings from this initiative are assumed in the second half of 2020 and into early 2021. Overall, the Group is on track to reduce cash outflows by around £400m to £450m in 2020 and these have been assumed in the base case model.

1. General information – Going concern continued

Liquidity

At 30 June 2020. The Group had the following committed credit facilities with its relationship banks and private placement investors:

- A USD 750m syndicated revolving credit facility which matures in September 2021. On 11 May 2020, the Group additionally secured a forward start on its revolving credit facility, with the signing of a new one year USD 575m multi-currency facility maturing in 2022;
- Two sterling denominated committed bilateral facilities totalling £145m and a USD 125m committed bilateral facility. These facilities all mature in 2023;
- USD 600m loan notes issued to private placement investors, of which USD 300m are due for repayment in 2023 and USD 300m in 2026; and
- USD 275m loan notes issued to private placement investors, of which USD 150m are due for repayment in H2 2020 and USD 125m in 2022.

Additionally, the Group has been confirmed as an eligible issuer under the Bank of England's and HM Treasury's Covid Corporate Financing Facility ('CCFF'), under which the Group can draw up to £600m. The Group has issued commercial paper under this facility totalling £129.9m at June 30, 2020.

During the period covered by the going concern assessment, the Group has assumed that no additional refinancing is carried out. Using exchange rates prevailing at 30 June 2020, the following committed credit facilities have therefore been assumed:

	30 June 2020 £m	**31 December 2021 £m**
Revolving syndicated credit facility	611.0	468.4
Bilateral facilities	246.8	246.8
Notes issued to private placement investors	712.8	590.6
CCFF	129.9	-
Committed credit facilities	**1,700.5**	**1,305.8**

Uncommitted liquidity of up to £600m under the CCFF remains available to draw until May 2021, for up to a one year term.

At 30 June 2020, the Group's net borrowings, excluding finance lease obligations, were £845.0m and it had £855.5m of headroom against its committed facilities.

Downside scenario ("Severe but plausible scenario")

Due to the inherent uncertainty over the extent and pace of a recovery in the Group's commercial aerospace markets in particular, and to stress test the assumption that the going concern principle remains appropriate, the Group has also developed a downside scenario covering the period to 31 December 2021. Under this scenario, waves of COVID-19 infection occur globally, impacting consumers' ability and confidence to resume traveling, with an effective vaccine not widely available during the period and reduced consumer discretionary spending power. Weakening RPKs are assumed to result in production build rates for OEM deliveries to airlines being depressed further. Additionally, as a result of the wider impact of a more prolonged pandemic, higher levels of government borrowing lead to defence spending being constrained. These result in the Group's civil revenues falling by 15% in 2021, when measured against the 2020 base case assumption. Defence markets experience growth in 2021, but this is constrained to levels of assumed inflation. Energy and other markets remain depressed as the weaker economic environment results in reduced investment in oil and gas markets.

The downside scenario assumes the Group takes further appropriate mitigating actions to reduce its cost base and to preserve cash flows. The continued availability of the CCFF during the going concern assessment period has not been assumed.

Under the downside scenario, the Group has sufficient financing to be able to meet its obligations as they fall due in the period under assessment.

1. General information – Going concern continued

Covenants

Credit facilities provided by the Group's relationship banks and private placement investors contain two financial ratio covenants – net debt/EBITDA and interest cover. The covenant calculations are drafted to protect the Group from potential volatility caused by accounting standard changes, sudden movements in exchange rates and exceptional items. This is achieved by measuring EBITDA on a frozen GAAP basis, excluding exceptional operating items and retranslating net debt and EBITDA at similar average exchange rates. Covenant ratios are required to be measured on a trailing 12 month basis twice a year (at June 30 and December 31), with net debt/EBITDA not to exceed 3.5x and interest cover to be not less than 3.0x. In the downside scenario, the Group does not breach either of these ratios during the going concern assessment period.

Principal risks

The Group has also considered whether its principal risks (as described in the Risks and Uncertainties section of these condensed consolidated financial statements) have been appropriately reflected in the downside scenario. In making this assessment, the Group has considered the likelihood of the risks taking place during the period and, were they to occur, the extent to which the impacts would be experienced during this period and the timing of mitigation actions available to the Group. The Group has concluded that the downside scenario has been appropriately adjusted to reflect these risks.

Conclusion

Based on the above, the directors have therefore concluded it is appropriate to adopt the going concern principle in 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 2019 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 judgements and estimates concerning the future. These judgements and estimates are regularly reviewed and revised as necessary. The judgements and estimates that have the most significant effect on amounts included in the condensed consolidated financial statements are set out in note 3.

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 2020. These rates have been applied to the pre-tax profits made in each jurisdiction for the six months ended 30 June 2020.

3. Critical accounting judgements and estimates

In applying its accounting policies, the Group is required to make certain judgements and estimates concerning the future. These are regularly reviewed and revised as necessary.

The COVID-19 pandemic has had a dramatic impact in the period on the commercial aerospace industry, with significant uncertainty over the duration of the current disruption to air traffic movements and the eventual pace and extent of the recovery. Forward looking assessments of Revenue Passenger Kilometres (RPKs) and new aircraft production build rates, which impact the Group's civil aftermarket and OE revenues and hence its cash flows, are therefore subject to significant estimation uncertainty.

The area most impacted by this estimation uncertainty is the assessment by the Group of the extent to which goodwill has become impaired. Details on the assumptions made in making this assessment, the impairment recognised and the sensitivities of the amounts recorded to reasonably foreseeable changes in assumptions are set out in note 14.

Forward looking assessments have also impacted the Group's estimates of the recoverable value of development costs, net realisable value of inventory and expected credit losses on trade receivables. Note 8 sets out the impairment losses and other asset write-downs recognised by the Group having completed these assessments. Based on available current information, the Group does not believe that any reasonably foreseeable changes in the assumptions made would require a material change to the impairment losses or other asset write downs recognised in respect of these individual asset classes.

An update on the critical accounting judgements and estimates disclosed in the Group's 2019 Annual Report is set out below:

- Critical accounting judgements
  The Group's judgement as to when development costs meet the criteria to be recognised as intangible assets remains a critical judgement for the current period. The estimation uncertainty described above has been reflected in the Group's assessment in the current period of when costs should be capitalised.

  The other critical judgements disclosed in 2019 arose specifically from the change in divisional structure implemented in 2019, how this impacted the level at which goodwill testing should be performed and the reallocation of goodwill to the new CGUs and groups of CGUs identified. These are no longer critical judgments in 2020, following the completion of this restructuring in 2019.

- Critical accounting estimates
  The Group's critical estimates relating to retirement benefit obligations, environmental provisions and income taxes remain critical estimates. The estimates have not been significantly impacted by the COVID-19 pandemic.

4. Segmental analysis

The Group manages its businesses under four customer-aligned divisions: Airframe Systems, Engine Systems, Energy & Equipment and Services & Support.

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 2020:

	Airframe Systems £m	**Engine Systems £m**	**Energy & Equipment £m**	**Services & Support £m**	**Other * £m**	**Total £m**
Gross segmental revenue	543.9	186.5	196.5	180.3	-	1,107.2
Inter-segment revenue	(113.1)	(58.2)	(15.7)	(3.4)	-	(190.4)
Revenue from external customers	**430.8**	**128.3**	**180.8**	**176.9**	**-**	**916.8**
At a point in time	411.3	120.3	90.9	172.0	-	794.5
Over time: Power by the hour/Cost per brake landing	13.8	2.4	-	4.9	-	21.1
Over time: Other	5.7	5.6	89.9	-	-	101.2
Revenue by basis of recognition	**430.8**	**128.3**	**180.8**	**176.9**	**-**	**916.8**
Underlying operating profit/(loss) **	**70.3**	**(9.7)**	**16.9**	**24.7**	**-**	**102.2**

Six months ended 30 June 2019 Restated *:**

	Airframe Systems £m	Engine Systems £m	Energy & Equipment £m	Services & Support £m	Other * £m	Total £m
Gross segmental revenue	596.3	223.3	223.9	238.1	3.3	1,284.9
Inter-segment revenue	(111.7)	(64.1)	(32.4)	(5.6)	(0.2)	(214.0)
Revenue from external customers	484.6	159.2	191.5	232.5	3.1	1,070.9
At a point in time	462.0	156.1	118.4	232.5	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
Revenue by basis of recognition	484.6	159.2	191.5	232.5	3.1	1,070.9
Underlying operating profit **	101.6	4.7	21.6	33.0	0.2	161.1

* 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, were presented separately as 'Other'.

** A detailed reciliation of underlying operating profit to operating profit is shown in note 6.

*** Prior period figures have been restated to reflect the transfer of the external customer facing relationships for the UK braking systems MRO business from Airframe Systems to Services & Support with effect from 1 January 2020. The restatement comprised external revenue of £13.7m and underlying operating profit of £1.3m.

4. Segmental analysis continued

Analysis of segmental trading assets

	30 June 2020 £m	31 December 2019 Restated* £m
Airframe Systems	**1,219.6**	1,147.1
Engine Systems	**440.3**	437.5
Energy & Equipment	**266.6**	306.8
Services & Support	**97.9**	77.6
Total segmental trading assets	**2,024.4**	1,969.0
Centrally managed trading assets **	**148.5**	162.1
Goodwill (note 14)	**1,655.3**	1,966.6
Other intangible assets	**406.4**	424.0
Investments (note 16)	**23.8**	14.1
Derivative financial instruments – non-current (note 19)	**7.4**	14.6
Deferred tax assets	**32.3**	23.3
Derivative financial instruments – current (note 19)	**1.0**	3.8
Current tax recoverable	**7.9**	11.1
Cash and cash equivalents	**236.9**	155.3
Total assets	**4,543.9**	4,743.9

* The prior year figures have been restated to reflect the transfer of the external customer facing relationships for the UK braking systems MRO business from Airframe Systems to Services & Support with effect from 1 January 2020.

** 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.

5. Operating income

Operating profit is stated after crediting:

	Six months ended 30 June 2020 £m	Six months ended 30 June 2019 £m
Amounts arising on the acquisition, disposal and closure of businesses (note 28)	**33.9**	1.5
Gain on disposal of property, plant and equipment	**-**	0.4
Net foreign exchange gains	**0.4**	-
Share of profit after tax of joint venture	**-**	0.1
Other income	**1.1**	2.0
Operating income	**35.4**	4.0

6. 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 2020 £m	Six months ended 30 June 2019 £m
Operating (loss)/profit	**(348.7)**	91.4
Amounts arising on the acquisition, disposal and closure of businesses (note 28)	**(33.9)**	(1.5)
Amortisation of intangible assets acquired in business combinations (note 14)	**45.0**	44.9
Financial instruments (note 7)	**38.0**	15.3
Exceptional operating items (note 8)	**401.8**	11.0
Adjustments to operating profit *	**450.9**	69.7
Underlying operating profit	**102.2**	161.1
(Loss)/profit before tax	**(368.4)**	72.6
Adjustments to operating profit per above	**450.9**	69.7
Net interest expense on retirement benefit obligations (note 9)	**3.0**	3.1
Adjustments to profit before tax	**453.9**	72.8
Underlying profit before tax	**85.5**	145.4
(Loss)/profit for the period	**(344.3)**	56.6
Adjustments to profit before tax per above	**453.9**	72.8
Tax effect of adjustments to profit before tax	**(42.2)**	(16.0)
Adjustments to profit for the period	**411.7**	56.8
Underlying profit for the period	**67.4**	113.4

* Of the adjustments to operating profit, £31.6m (2019: £4.3m) relating to exceptional operating items has been charged to cost of sales with the balance of £419.3m (2019: £65.4m) included within net operating costs.

7. 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 marking 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.

	Six months ended 30 June 2020 £m	Six months ended 30 June 2019 £m
Movement in fair value of foreign currency forward contracts	**40.2**	3.0
Impact of retranslating net foreign currency assets and liabilities at spot rate	**2.3**	1.4
Movement in fair value of interest rate derivatives	**(0.9)**	(2.2)
Movement in fair value of fixed rate borrowings due to interest rate risk (note 19)	**1.1**	1.8
Movement in fair value of cross currency derivatives	**(4.4)**	11.6
Movement in fair value of treasury lock derivative	**(0.3)**	(0.3)
Financial instruments – Loss (note 6)	**38.0**	15.3

8. Exceptional operating items

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

	Note	Income statement		Cash expenditure	
		Six months ended 30 June 2020 £m	Six months ended 30 June 2019 £m	**Six months ended 30 June 2020 £m**	Six months ended 30 June 2019 £m
Impairment losses and other asset write-offs	a	**373.2**	-	**-**	-
COVID – 19 incremental non-recurring costs	b	**13.2**	-	**8.7**	-
Site consolidations	c	**14.8**	8.9	**18.7**	9.6
Business restructuring costs		**0.6**	2.1	**0.7**	2.3
Exceptional operating items		**401.8**	11.0	**28.1**	11.9

a. The Group has recognised material impairment losses and other reductions in asset values arising from the current uncertainty facing the commercial aerospace industry. These have been aggregated and classified as an exceptional operating item given their size and that they all arise from the unprecedented circumstances that the industry has experienced in 2020. This treatment is consistent with the Group's policy, with impairment losses and other asset write downs following the cancellation of the Dassault 5X programme treated as an exceptional operating item in 2017.

Following the COVID-19 outbreak, governments have imposed strict travel restrictions contributing to a dramatic reduction in flight numbers and passenger load factors, the parking by operators of record numbers of aircraft, several airlines filing for bankruptcy and OE customers significantly reducing production levels. These events, together with uncertainty over the extent and pace of recovery in the sector, have impacted the reliability of forecasts for commercial aerospace more generally and also for specific aircraft platforms. Whilst management believes the COVID-19 outbreak is directly responsible for substantially all of the amounts recorded, it recognises the inherent difficulties in making a reliable estimate of the impact directly attributable to the pandemic and accordingly has not disclosed the amounts as related solely to COVID-19 or attempted to quantify the COVID-19 specific element.

The amounts recognised in the period comprise:

	Cost of sales £m	**Operating costs £m**	**Total £m**
Impairment of goodwill (note 14)	-	341.1	341.1
Impairment of development costs (note 14)	-	8.2	8.2
Write down of inventory to net realisable value	16.0	-	16.0
Expected credit losses on trade receivables	-	7.9	7.9
Impairment losses and other asset write-offs	**16.0**	**357.2**	**373.2**

The tax credit in respect of these items was £19.0m.

The amounts recognised represent the largest single exceptional item recorded by the Group in its history and given the significance of the amounts involved the Group has chosen to present these separately on the face of the income statement as it believes this presents better information for shareholders.

Under IAS 36 'Impairment of assets', reversal of goodwill impairment losses recognised in interim financial statements is not permitted. However, to the extent reversals of any other amounts recognised in this period are required in future accounting periods, such reversals will be treated consistently as exceptional operating items.

b. In 2020, given its significance, the Group has excluded income and expenditure directly attributable to the global COVID-19 pandemic, and which is not expected to recur in future periods, from its underlying profit measures. This principally relates to severance costs arising from the Group's announcement on 23 April 2020 that it would be reducing its global workforce by around 15% in response to the COVID-19 outbreak. Other amounts include additional cleaning costs; the purchase of personal protective equipment; and shift premiums and other associated costs arising from social distancing measures. Of the amounts classified as exceptional operating items, £7.8m has been recognised within cost of sales, with the balance of £5.4m recognised within other operating costs. The tax credit in respect of these items was £2.9m.

8. Exceptional operating items continued

c. 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 6) 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.

Amounts principally relate to costs incurred in respect of the Group's previously announced plans to reduce its footprint by the end of 2021. Cumulative costs since the announcement are £78.5m. In 2020, costs are principally in respect of the move to the new facility 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 and the move of one of its Energy & Equipment businesses following the disposal of a number of its product lines in 2019. Of the amounts classified as exceptional operating items, £7.8m has been recognised within cost of sales with the balance of £7.0m recognised within other operating costs. The tax credit in respect of these items was £3.2m.

9. Net finance costs

	Six months ended 30 June 2020 £m	Six months ended 30 June 2019 £m
Interest on bank deposits	**0.1**	0.1
Unwinding of interest on other receivables	**0.1**	0.3
Other finance income	**0.1**	0.2
Finance income	**0.3**	0.6
Interest on bank borrowings	**0.2**	1.0
Interest on senior notes	**13.7**	13.5
Interest on lease liabilities	**3.3**	2.1
Unwinding of discount on provisions	**0.4**	0.8
Net interest expense on retirement benefit obligations (note 6)	**3.0**	3.1
Amortisation of debt issue costs	**0.3**	0.4
Less: amounts capitalised in the cost of qualifying assets (note 14)	**(0.9)**	(1.5)
Finance costs	**20.0**	19.4
Net finance costs	**19.7**	18.8

10. Tax

The statutory tax credit for the period was £24.1m (2019: charge of £16.0m) based on the reported loss before tax of £368.4m (2019: profit of £72.6m). The disposal of the Meggitt Training Systems business (note 28), did not have a significant impact on the statutory tax charge for the current period as the taxable gain calculated under US tax law was minimal. The exceptional impairment losses and other asset write-offs in the current period of £373.2m (note 8) resulted in a non-underlying tax credit of £19.0m, reflecting the net adjustment to deferred tax assets and liabilities.

Based on underlying profit before tax of £85.5m (2019: £145.4m) the Group's underlying tax rate for the current period was 21.2% (2019: 22.0%).

The Spring Budget 2020 announced that the main rate of corporation tax in the UK applicable from 1 April 2020 will remain at 19%, rather than the previously enacted reduction to 17%. As this change was substantively enacted during the period, it has been reflected in these financial statements. The change did not have a significant impact on the tax charge for the current period.

11. Earnings per ordinary share

For the period, the loss per ordinary share is calculated by dividing the loss attributable to owners of the Company of £344.3m (2019: profit of £56.6m) by the weighted average number of shares in issue during the period of 777.0m (2019: 772.9m). 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 3.4m shares (2019: 4.0m).

Underlying EPS is based on underlying profit for the period (note 6) and is reconciled to basic (loss)/earnings per share below:

	Six months ended 30 June 2020 Pence	Six months ended 30 June 2019 Pence
Basic (loss)/earnings per share	**(44.3)**	7.3
Adjust for the effects of:		
Amounts arising on the acquisition, disposal and closure of businesses	**(4.4)**	(0.1)
Amortisation of intangible assets acquired in business combinations	**4.6**	4.5
Financial instruments	**4.0**	1.6
Exceptional operating items	**48.5**	1.1
Net interest expense on retirement benefit obligations	**0.3**	0.3
Underlying basic earnings per share	**8.7**	14.7

Diluted loss per share for the period is 43.7p (2019: earnings per share of 7.2p). The calculation of diluted (loss)/earnings per share 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 is 788.2m (2019: 784.7m). Underlying diluted EPS for the period is 8.5p (2019: 14.5p). The calculation of underlying diluted EPS is based on underlying profit (note 6) and the same weighted average number of shares used in the calculation of diluted (loss)/earnings per share.

12. Dividends

On the 27 March 2020, the Group announced that the Board had decided that it was prudent to withdraw the recommendation to pay the final dividend in respect of the year ended 31 December 2019 of 11.95 pence per share. That action, together with a series of significant measures to reduce costs and tightly manage cash flow, was taken to further strengthen the financial position and liquidity of the Group. The directors do not recommend the payment of an interim dividend in respect of 2020.

During the 6 months to June 2019, the final dividend of 11.35p per ordinary share in respect of the year ended 31 December 2018 was paid. The total cost of the final dividend was £87.5m and was paid in cash. During the same period, the directors declared an interim dividend of 5.55p per ordinary share which was paid on 4 October 2019. As there was no legal obligation to make the dividend payment, the dividend cost of £42.9m was not recorded as a liability at the balance sheet date.

13. Related party transactions

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

	Six months ended 30 June 2020 £m	Six months ended 30 June 2019 £m
Salaries and other short-term employee benefits	**2.9**	3.2
Share-based payment expense	**(0.9)**	1.9
Total	**2.0**	5.1

14. Intangible assets

	Goodwill	Development costs	Programme participation costs	Other intangible assets
	£m	£m	£m	£m
At 1 January 2020	1,966.6	575.9	18.0	503.6
Exchange rate adjustments	114.6	37.3	1.3	29.6
Additions	-	18.8	2.1	10.9
Business disposed (note 28)	(84.8)	(19.7)	-	(0.1)
Disposals	-	-	-	(0.1)
Interest capitalised (note 9)	-	0.9	-	-
Transfers	-	0.3	-	(0.1)
Impairment losses (note 8a)	(341.1)	(8.2)		
Amortisation *		(16.6)	(0.6)	(54.6)
At 30 June 2020	**1,655.3**	**588.7**	**20.8**	**489.2**

* Amortisation of other intangible assets includes £45.0m (2019: £44.9m) in respect of intangible assets acquired in business combinations and which has been excluded from underlying operating profit (note 6).

Goodwill

On 19 March 2020, the Group released a trading update in response to the COVID-19 pandemic including an announcement that in light of the highly fluid market and global macro-economic situation, it was too early to provide earnings guidance for the remainder of the current financial year. The Group considers this to be the date a trigger event under IAS 36 "Impairment of Assets" occurred and has therefore performed an additional impairment test of its goodwill balances at the end of March, the closest month end date to this announcement. Under the Group's annual impairment testing cycle, goodwill would normally be tested in Q4 2020.

For the purpose of impairment testing, the Group has used value-in-use calculations to determine recoverable amounts as it does not believe that reliable estimates of fair value less costs of disposal exist given the current market uncertainty. No changes were made in 2020 to the level at which impairment testing was performed. The key assumptions used in the value-in-use calculations were:

- Discount rates applied to future cash flows
  The Group has used the same methodology to determine pre-tax discount rates to those disclosed in its 2019 Annual Report. The pre-tax discount rates derived in 2020 were as follows:

Airframe Systems	10.7%
Engine Systems	9.1%
Services & Support	10.4%
CGUs within Energy & Equipment	8.1% to 11.0%

- Cash flows covered by management estimates
  Estimates of cash flows prepared and approved by management subsequent to the COVID-19 outbreak and which cover a five year period have been used. The Group does not believe there is sufficient reliability over forecasts in excess of five years for longer periods to be used for impairment testing, even though as a result it is possible that elements of the aerospace recovery will not be captured by using this shorter period.

  Given the current uncertainty affecting forecasts for the markets in which the Group operates, it does not consider the approach adopted in prior periods of using a single set of cash flows as its best estimate to be appropriate. Accordingly in 2020, the Group has prepared cash flow forecasts covering a number of potential scenarios which have then been probability weighted to derive an expected value for the cash flows to be used for impairment testing. The three scenarios modelled reflect different assumptions as to the extent and pace of recovery in the civil aerospace sector in particular, although the impacts on other markets of the economic uncertainty arising from COVID-19 were also considered.

14. Intangible assets – goodwill continued

The base case described in note 1 was one of the models used. A variant of the base case has also been developed which, whilst assuming revenue levels consistent with those reflected in the base case, assumes a slower level of gross margin improvement over the five years. In aggregate a 70% probability has been assigned to these two base scenarios. The third scenario, to which a 30% probability has been assigned, uses the downside scenario developed for the period to the end of 2021 as part of the going concern assessment (note 1), and then assumes a gradual recovery from 2022 onwards, with gross margin improvements year on year consistent with the base case variant model. Under this scenario, revenues in year five are approximately 10% lower than in either of the base case models. The sensitivity of the amounts recorded as an impairment charge to the probabilities assigned to the three scenarios is such that increasing to 80% or reducing to 60% the percentage applied to the two base scenarios would have resulted in a reduction or increase in the impairment charge of £70.0m respectively.

- Growth rates used for periods beyond those covered by management estimates
  The Group's assumptions reflect a number of different inputs: its own estimates taking into account the long term nature of the industry in which the CGUs operate and their sole source positions, industry estimates where available, the impacts of climate change and other potential structural changes in markets and long term inflation forecasts for the countries in which the CGUs operate. These different assumptions were probability weighted to derive an expected growth rate and the lower of this value and the long term inflation forecasts for the countries in which the CGUs operate was used. Growth rates used range from 0.7% to 2.2%.

As a result of the impairment test, a charge of £341.1m has been recognised as an exceptional operating item (note 8a). The cumulative impairment charge recognised to date is £341.1m (2019: £Nil). The impairment charge in the period is analysed by CGU or group of CGUs as follows:

	£m
Airframe Systems	124.4
Engine Systems	202.9
Energy & Equipment - Fribourg	13.8
Total (note 8a)	**341.1**

It is reasonably foreseeable that the adverse changes in assumptions set out below could arise and would lead to an increased impairment charge in future accounting periods:

- Discount rates applied to future cash flows increase by 50 basis points
  This would lead to an additional impairment of £195.8m, comprising Airframe Systems of £154.9m, Engine Systems of £36.8m and Energy & Equipment – Fribourg of £4.1m. Goodwill relating to other CGUs and groups of CGUs would not be impacted.

- Probability weighted cash flows move adversely by 5% over the five year period
  This would lead to an additional impairment of £213.0m, comprising Airframe Systems of £175.2m, Engine Systems of £31.6m and Energy & Equipment – Fribourg of £6.2m. Goodwill relating to other CGUs and groups of CGUs would not be impacted.

- Long term growth rates reduce by 50bps
  This would lead to an additional impairment of £181.8m, comprising Airframe Systems of £142.7m, Engine Systems of £35.1m and Energy & Equipment – Fribourg of £4.0m. Goodwill relating to other CGUs and groups of CGUs would not be impacted.

It is also reasonably foreseeable that favourable movements in assumptions of similar levels to those adverse movements described could occur. However, under IAS 36 'Impairment of assets', amounts previously recognised as a goodwill impairment charge are not permitted to be reversed.

Development costs
During the period an impairment charge of £8.2m (2019: £Nil) has been recognised (note 8a).

The programmes with the largest capitalised development cost balances are the Airbus A220 (£98.5m), Bombardier Global 7500 (£53.7m), Embraer Legacy 450/500 (£45.1m), Irkut MC-21 (£43.8m) and Gulfstream G500/600 (£32.2m). No reasonably foreseeable change in cash flow estimates for any of these platforms would result in a material impairment charge being recognised. In making this assessment, the Group has assumed no cancellation of any platform occurs.

15. Property, plant and equipment

	Land and buildings	Plant, equipment and vehicles	Right-of-use assets*	Total
	£m	£m	£m	£m
At 1 January 2020	126.1	207.3	116.0	449.4
Exchange rate adjustments	7.6	12.9	4.1	24.6
Additions	14.5	26.0	6.5	47.0
Business disposed (note 28)	(0.4)	(2.4)	(4.0)	(6.8)
Disposals	-	(0.1)	(0.1)	(0.2)
Transfers	0.3	(0.4)	-	(0.1)
Depreciation **	(3.9)	(16.4)	(8.2)	(28.5)
At 30 June 2020	**144.2**	**226.9**	**114.3**	**485.4**

* The net book amount comprises property of £112.3m (December 2019: £113.5m) and other assets of £2.0m (December 2019: £2.5m).

** Depreciation includes £1.7m (2019: £0.1m) in respect of amounts charged to exceptional operating items and which has been excluded from underlying operating profit (note 6).

16. Investments

The Group's investments in its joint ventures, Meggitt UTC Aerospace Systems, LLC and HiETA Technologies Limited are accounted for using the equity method and are stated as follows:

	£m
At 1 January 2020	14.1
Additions *	10.3
Exchange rate adjustments	1.1
Share of loss after tax	(1.7)
At 30 June 2020	**23.8**

***** In January 2020, the Group acquired an investment in HiETA Technologies Ltd, a UK company with world-leading capabilities in metal additive manufacturing and a focus on developing new ways to make heat exchangers using additive manufacturing technology. The investment comprised £7.6m paid in cash during the period and contingent consideration of £2.7m.

17. Lease Liabilities

The Group leases various factories, warehouses, offices, plant and equipment. The following amounts are included in these condensed consolidated financial statements in respect of its leases:

	Six months ended 30 June 2020 £'m	Six months ended 30 June 2019 £'m
Depreciation charge for right-of-use assets (note 15)	**8.2**	7.3
Additions to right-of-use assets (note 15)	**6.5**	19.6
Net book amount of right-of-use assets (note 15)	**114.3**	91.7
Interest on lease liabilities (note 9)	**3.3**	2.1
Expense related to short-term leases and low-value assets	**0.1**	0.1
Net cash outflow*	**8.0**	9.6

* Comprises capital payments of £8.2m (2019: £7.5m) and interest payments of £3.3m (2019: £2.1m), less a reverse lease premium received of £3.5m (2019: £Nil) relating to the new Ansty Park site.

18. Bank and other borrowings

	Current £m	Non-current £m	Total £m
At 1 January 2020	219.4	694.5	913.9
Exchange rate adjustments	15.9	54.1	70.0
Proceeds	130.6	263.9	394.5
Repayments	(101.8)	(192.6)	(294.4)
Other non-cash movements	(0.9)	0.4	(0.5)
Debt issue costs paid	-	(1.6)	(1.6)
At 30 June 2020	**263.2**	**818.7**	**1,081.9**

Analysed as:

	30 June 2020 £m	31 December 2019 £m
Bank loans	**130.8**	0.2
Other loans*	**132.4**	219.2
Total current	**263.2**	219.4
Bank loans	**223.5**	141.4
Other loans	**595.2**	553.1
Total non-current	**818.7**	694.5

* Includes at 30 June 2020, USD150.0m senior notes which are due for repayment in October 2020.

19. 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 and contract assets, allowances are made within their book value for credit risk. As required by IFRS 7 'Financial Instruments: Disclosures', a comparison of book values and fair values for certain other financial instruments is provided below:

	Book value		**Fair value**	
	30 June 2020 £m	31 December 2019 £m	**30 June 2020 £m**	31 December 2019 £m
Derivative financial instruments – non-current	**7.4**	14.6	**7.4**	14.6
Derivative financial instruments – current	**1.0**	3.8	**1.0**	3.8
Financial assets	**8.4**	18.4	**8.4**	18.4
Derivative financial instruments – current	**(22.0)**	(16.5)	**(22.0)**	(16.5)
Bank and other borrowings – current	**(263.2)**	(219.4)	**(263.8)**	(220.7)
Derivative financial instruments – non-current	**(25.5)**	(4.6)	**(25.5)**	(4.6)
Bank and other borrowings – non-current	**(818.7)**	(694.5)	**(835.5)**	(702.7)
Financial liabilities	**(1,129.4)**	(935.0)	**(1,146.8)**	(944.5)
Total	**(1,121.0)**	(916.6)	**(1,138.4)**	(926.1)

Derivative financial instruments measured at fair value, are classified as level 2 in the fair value measurement hierarchy, as they have been determined using significant inputs based on observable market data. The fair values of 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. Credit risk is not significant for these instruments.

19. Financial Instruments – fair value measurement continued

Floating rate bank and other borrowings are classified as level 1 in the fair value measurement hierarchy as the fair values approximate to book values due to the short maturity periods of these liabilities. 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 fair value 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 2020 £m	Six months ended 30 June 2019 £m
Fair value at 1 January	**0.3**	0.3
(Gain)/loss recognised in other comprehensive income	**(2.2)**	0.6
Fair value at 30 June – arising from changes in credit risk	**(1.9)**	0.9

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

	30 June 2020 £m	31 December 2019 £m
Fair value	**148.8**	234.6
Difference between fair value and contractual amount at maturity	**(6.2)**	(7.5)
Contractual amount payable at maturity	**142.6**	227.1

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

	Six months ended 30 June 2020 £m	Six months ended 30 June 2019 £m
At 1 January	**234.6**	242.7
Exchange rate adjustments	**14.9**	0.7
Settled on maturity	**(99.5)**	-
Loss recognised in net operating costs (note 7)	**1.1**	1.8
(Gain)/loss recognised in net finance costs	**(0.1)**	0.1
(Gain)/loss due to changes in credit risk recognised in other comprehensive income	**(2.2)**	0.6
At 30 June	**148.8**	245.9

The largest movement in credit spread seen in a six month period since inception of the borrowings is 100 basis points. A 100 basis point movement in the credit spread used as an input in determining fair values at 30 June 2020, would impact other comprehensive income by approximately £2.0m.

20. Provisions

	30 June 2020 £m	31 December 2019 £m
Environmental *	**68.3**	66.7
Onerous contracts	**17.5**	13.3
Warranty costs	**16.0**	14.8
Other	**7.2**	5.8
Total	**109.0**	100.6
Analysed as:		
Current	**48.5**	36.2
Non-current	**60.5**	64.4
Total	**109.0**	100.6

* Included within other receivables is £18.3m (December 2019: £17.0m) in respect of amounts recoverable from insurers and other third parties. During the period, £Nil (June 2019: £7.4m) was received.

During the period, expenditure of £8.3m (June 2019: £19.5m) was incurred, of which £3.8m (June 2019: £12.7m) related to environmental provisions. The charge to the income statement in the period in respect of additional provisions created was £10.5m (June 2019: £9.5m) and the credit to the income statement in respect of the reversal of unused amounts was £1.9m (June 2019: £1.0m).

21. Retirement benefit obligations

	30 June 2020 £m	31 December 2019 £m
Amounts recognised in the balance sheet:		
Present value of liabilities	**1,471.4**	1,347.5
Fair value of assets	**(1,145.1)**	(1,079.6)
Total	**326.3**	267.9
Analysis of retirement benefit obligations:		
Pension schemes	**272.7**	222.0
Healthcare schemes	**53.6**	45.9
Total	**326.3**	267.9

Key financial assumptions:

	30 June 2020	31 December 2019
UK Scheme:		
Discount rate	**1.60%**	2.05%
Inflation rate	**2.90%**	3.00%
Salary increases	**2.90%**	2.85%
Current life expectancy – Male aged 65 (years)	**21.6 to 23.4**	21.6 to 23.4
Overseas Schemes*:		
Discount rate	**2.45%**	3.10%
Current life expectancy – Male aged 65 (years)	**19.8 to 20.6**	19.8 to 20.6

* Provided in respect of the most significant overseas schemes.

Cash contributions paid during the period were £14.8m (June 2019: £23.6m) including deficit reduction payments of £7.1m (June 2019: £17.2m).

22. Issued share capital

	30 June 2020 No. m	31 December 2019 No. m
Allotted and fully paid	**780.7**	777.5

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

23. 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 believe that the probability of an outflow of economic benefits arising from these guarantees is remote.

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.

24. Capital commitments

	30 June 2020 £m	31 December 2019 £m
Contracted for but not incurred:		
Intangible assets	**3.6**	3.7
Property, plant and equipment	**46.2**	46.9
Total	**49.8**	50.6

25. Cash inflow from operations

	Six months ended 30 June 2020 £m	Six months ended 30 June 2019 £m
(Loss)/profit for the period	**(344.3)**	56.6
Adjustments for:		
Finance income (note 9)	**(0.3)**	(0.6)
Finance costs (note 9)	**20.0**	19.4
Tax (note 10)	**(24.1)**	16.0
Depreciation (note 15)	**28.5**	27.5
Amortisation and impairment losses (note 14)	**421.1**	68.8
Loss/(gain) on disposal of property, plant and equipment	**0.1**	(0.4)
Gain on disposal of businesses before disposal expenses (note 28)	**(38.1)**	(3.0)
Financial instruments – Loss (note 7)	**38.0**	15.3
Impact of retranslating net foreign currency cash at spot rate	**0.7**	(4.5)
Share of loss/(profit) after tax of joint venture	**1.7**	(0.1)
Change in carrying value of assets held for sale to date of disposal	**-**	0.6
Retirement benefit obligation deficit payments (note 21)	**(7.1)**	(17.2)
Share-based payment (credit)/charge	**(3.7)**	6.4
Changes in working capital	**(102.1)**	(79.3)
Cash (outflow)/inflow from operations	**(9.6)**	105.5

25. 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 2020 £m	Six months ended 30 June 2019 £m
Cash (outflow)/inflow from operating activities	**(50.5)**	85.2
Add back cash outflow from business disposal expenses	**2.7**	0.9
Add back impact of retranslating net foreign currency cash at spot rate	**(0.7)**	4.5
Capitalised development costs	**(18.8)**	(25.1)
Capitalised programme participation costs	**(0.6)**	(1.2)
Purchase of intangible assets	**(10.8)**	(3.7)
Purchase of property, plant and equipment	**(46.6)**	(33.4)
Proceeds from disposal of property, plant and equipment	**0.3**	21.6
Reverse lease premium received	**3.5**	-
Free cash (outflow)/ inflow	**(121.5)**	48.8

26. Movements in net debt

	Six months ended 30 June 2020 £'m	Six months ended 30 June 2019 £'m
At 1 January	**911.2**	1,074.1
Cash outflow/(inflow) from operating activities	**50.5**	(85.2)
Cash (inflow)/outflow from investing activities	**(28.2)**	34.6
Dividends paid to Company's shareholders (note 12)	**-**	87.5
Lease liabilities disposed with businesses (note 28)	**(4.5)**	-
Lease liabilities entered	**6.5**	15.9
Exchange rate adjustments	**65.2**	(5.7)
Other movements	**(0.5)**	3.0
Total	**1,000.2**	1,124.2

Analysed as:		
Bank and other borrowings – current	**263.2**	110.5
Bank and other borrowings – non-current	**818.7**	1,023.9
Lease liabilities – current	**16.2**	17.2
Lease liabilities – non-current	**139.0**	89.0
Cash and cash equivalents	**(236.9)**	(116.4)
Total	**1,000.2**	1,124.2

27. Components of other comprehensive income

	Six months ended 30 June 2020 £m	Six months ended 30 June 2019 £m
Arising in the period	**144.0**	16.4
Transferred to the income statement (note 28)	**(44.0)**	-
Currency translation movements – Gain	**100.0**	16.4

28. Business disposals

On 30 June 2020, the Group disposed of Meggitt Training Systems, for a cash consideration of USD150.4m which included an adjustment for net debt and working capital in the business at the date of disposal. The transaction is consistent with the Group's strategy to focus on businesses of scale in markets where its leading positions offer greater potential for growth and operational efficiencies.

Meggitt Training Systems was a leader in developing and deploying advanced technology-enabled training systems. During the year to 31 December 2019, it generated £104.0 million revenue, had gross assets of £149.0 million and an underlying operating profit of £11.2 million.

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

	Meggitt Training Systems £m
Goodwill (note 14)	84.8
Development costs (note 14)	19.7
Other intangible assets (note 14)	0.1
Property, plant and equipment (note 15)	6.8
Inventories	11.6
Trade and other receivables	9.4
Contract assets - current	22.6
Cash and cash equivalents	9.8
Trade and other payables - current	(15.5)
Contract liabilities – current	(4.4)
Lease liabilities – current (note 26)	(1.5)
Provisions – current	(0.1)
Deferred tax liabilities	(7.8)
Lease liabilities – non-current (note 26)	(3.0)
Net assets	**132.5**
Currency translation gain transferred from equity (note 27)	(44.0)
Business disposal expenses	3.1
Deferred consideration receivable	(4.5)
Gain on disposal of business	35.0
Total consideration received in cash	**122.1**

Cash inflow arising on disposal:

Total consideration received in cash	122.1
Less: cash and cash equivalents disposed of	(9.8)
Business disposed	112.3
Less: business disposal expenses paid *	(2.7)
Total cash inflow	**109.6**

* Of the total business disposal expenses paid, £1.5m were in respect of the disposal of Meggitt Training Systems, with the balance relating to disposals in the prior year.

28. Business disposals continued

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 businesses, adjustments to the fair value of contingent consideration payable in respect of acquired businesses or receivable in respect of disposed businesses and costs directly attributable to the acquisition and disposal of businesses.

	Six months ended 30 June 2020 £m	Six months ended 30 June 2019 £m
Gain on disposal of business before disposal expenses (note 25)	**38.1**	3.0
Costs related to the disposal of businesses in the current period	**(3.1)**	(1.2)
Gain on disposal of businesses in the current period	**35.0**	1.8
Costs related to the disposal of businesses in prior periods	**(1.1)**	(0.3)
Amounts arising on the acquisition, disposal and closure of businesses (note 6)	**33.9**	1.5

29. Approval of interim management report

The interim management report was approved by the Board of Directors on 7 September 2020.

30. Availability of interim management report

The interim management report will be available on the Group's website www.meggitt.com from 8 September 2020. Paper copies of the report will be available to the public from the Company's registered office at Pilot Way, Ansty Business Park, Coventry, CV7 9JU.

RISKS AND UNCERTAINTIES

The Group's principal risks and uncertainties are disclosed in its 2019 Annual Report. Our risk management process is a formal, continuous process that requires risk owners to regularly reassess risks and include learnings from events to drive improvements in our control environment. During the first half of 2020 we have considered the significant impact of COVID-19 on civil aviation, our business and the industries in which it operates.

Most importantly, we have implemented specific COVID-19 safety measures to ensure the safe operation of all our factories and offices, and to limit the spread of COVID-19, including personal protective equipment, social distancing and changes to shift patterns, temperature checks, improved cleaning regimes and increased remote working.

The Group has determined it is most appropriate to consider the impact of COVID-19 on its principal risks individually, rather than introducing a single, all-encompassing COVID-19 risk. The principal risks that are most significantly impacted by COVID-19, together with our mitigating actions are described below:

Risk of industry change: The Group's risk relating to industry changes incorporated, among other scenarios, the risk of a pandemic, a dramatic reduction in OE build rates and an oil price shock, all of which have occurred in the first half of 2020. The Group's response has included the deployment of our crisis management team to ensure the safety and wellbeing of our employees and on-going operational ability of our facilities. Strategically the Group has set-up a CEO-led project team to reassess its end markets and take prompt action to preserve cash and re-size the business. These decisive actions are set out on pages 3 and 4.

Financing risk: The material reduction in civil demand has reduced our cash inflows. The rapid actions taken in H1 2020 to preserve cash, reduce cost and secure external liquidity, including a new forward start RCF facility and access to the UK Government's Covid Corporate Financing Fund ("CCFF"), are reported on pages 3 and 4. To assess the possibility of a covenant breach and our ability to access financing on commercial terms, we have also stress tested downside trading scenarios, as described in note 1 to the condensed consolidated financial statements.

Business interruption risk: We are closely monitoring our supply chain and putting in place mitigations where appropriate.

Project/ programme management risk: The Group's programme-related risks include the financial health of customers and suppliers; the timeliness and quality of our manufacturing activity; and the potential for any resultant impairments of associated assets. These continue to be monitored and managed as part of the Group's COVID-19 response project team's activities. Impairment of goodwill and development costs are disclosed in note 14 to the condensed consolidated financial statements.

We have updated the remaining risks for any COVID-19 specific impacts.

Further details can be found in the 'Risk management' section of the 2019 Annual Report on pages 44 to 51, 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 2020 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 2020 and any material changes to the related party transactions described in the last annual report.

By order of the Board:

A Wood
Director
7 September 2020

L Burdett
Director
7 September 2020

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