4 August 2022
Meggitt PLC

2022 Interim results

STRONG ORDER BOOK PERFORMANCE AS RECOVERY IN CIVIL AEROSPACE CONTINUES

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 2022.

Tony Wood, Chief Executive, commented:

"We delivered a robust trading performance in the first half, with Group organic revenue up 11%, reflecting strong growth in our civil aftermarket and civil original equipment business, as well as a good performance in energy. We ended the half with a Group book to bill ratio of 1.23x.

We are encouraged by the strong recovery in passenger demand for our civil business as airlines bring more aircraft into service and the improving prospects for defence as we come out of a period of significant destocking in the aftermarket.

The Group has continued to invest in technologies and capabilities to support the decarbonisation of aviation and the delivery of clean energy. In the first half we concluded the acquisition of the remaining 67% of HiETA Technologies which specialises in additive manufacturing and the remaining 30% of our joint venture in Mexico which specialises in aerospace composites. Combined with our recent investments in facilities and the ongoing development of our engineering and manufacturing capabilities, the Group remains well positioned for the future.

However, we are mindful of the challenges that our industry continues to face with availability across the supply chain and continued cost inflation on materials and labour. We remain focused on mitigating these effects and the Group is well placed to do so.

The acquisition of Meggitt by Parker-Hannifin remains on track for completion in Q3 and I would like to thank all of my global colleagues for their hard work, resilience and dedication in delivering for our customers and wider stakeholders through the first half of the year."

Group performance

		H1 2022	H1 2021	Change	
		£'m	£'m	Reported %	Organic[1] %
Orders		**996.9**	671.4	48	38
Revenue		**821.0**	680.0	21	11
Underlying[2]					
	EBITDA[3]	**140.1**	116.2	21	9
	Operating profit	**78.6**	61.7	27	13
	Profit before tax	**63.6**	48.4	31	15
	Earnings per share (p)	**6.4**	4.9	31	
Statutory					
	Operating profit	**10.0**	49.0	(80)	
	(Loss)/profit before tax	**(6.5)**	33.6	(119)	
	Earnings per share (p)	**0.2**	3.6	(94)	
Free cash outflow		**(44.2)**	(34.5)	(28)	
Net cash inflow/(outflow)		**6.4**	(14.9)	143	
Net debt		**885.5**	822.6	8	
Dividend (p)		**-**	-		

[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 5 and 10.
[3] Underlying EBITDA represents underlying operating profit adjusted to add back depreciation, amortisation and impairment losses.

Summary and Highlights

- Group organic revenue up 11% in the period against the corresponding period last year *(down 21% vs. H1 2019)* with sequential improvement of 15% in the second quarter versus Q1 22.
- Group book to bill at 1.23x, with book to bill ratio in civil original equipment at 1.40x, civil aftermarket at 1.59x, Defence at 0.82x and Energy at 1.28x.
- Civil aerospace organic revenue up 30% in the first half *(down 30% vs. H1 2019)* with civil aerospace aftermarket organic orders and revenue up 112% and 36% respectively compared with H1 21.
- Defence revenue 8% lower on an organic basis compared with the first half of 2021.
- Underlying operating profit for the first half higher at £78.6m (H1 2021: £61.7m), an organic increase of 13%.
- Statutory operating profit of £10.0m (H1 2021: £49.0m) which includes the impairment of assets relating to the MC21 due to cessation of work following Russia's invasion of Ukraine.
- Free cash outflow of £44.2m (H1 2021: outflow of £34.5m), reflecting our normal seasonal working capital patterns, but also including inventory build to support growth and mitigate current supply chain challenges.
- Net debt of £885.5m (H1 2021: £822.6m) with ratios of net debt:EBITDA of 1.8x and interest cover of 11.8x at 30 June 2022. Liquidity remains strong with committed facilities of £1,207.5m and headroom of £523.5m.
- In the period, we completed the disposal of our Danish business for a cash consideration of £62.3m, subject to customary adjustments for working capital and net debt.
- Recommended all cash offer of 800 pence per share from Parker-Hannifin approved by shareholders on 21 September 2021 with the transaction still expected to complete in the third quarter of 2022.
- In line with the terms of the previously announced proposed transaction with Parker-Hannifin, the Group is not paying an interim dividend for 2022.
- Since the Group is in an offer period under the UK Takeover Code, we are not providing financial guidance for 2022, nor are we able to comment on expected performance relative to any analyst forecasts that may be available.

Enquiries

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Availability
The interim management report will be available on the Group's website www.meggitt.com from 4 August 2022. Paper copies of the report will be available to the public from Meggitt's registered office at Pilot Way, Ansty Business Park, Coventry, CV7 9JU.

Cautionary Statement
This results announcement contains forward looking statements with respect to the financial condition, results of operations and businesses of Meggitt 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 nor its directors accept liability to any other person, save as would arise under English law.

INTERIM MANAGEMENT REPORT

Group Orders and Revenue

Unless otherwise stated, all growth comparisons are presented on an organic basis.

First quarter trading
On 21 April 2022, we reported Group revenue for the first quarter was up 5% against the comparative period with civil OE and AM up 11% and 37% respectively.

Second quarter trading
Group orders were up 22% against the comparative period with Group revenue up 16%. In Civil Aerospace, revenue grew by 33% with civil OE up 30% and AM up 34% reflecting an improvement in air traffic activity levels in the period against the same quarter last year. Defence revenue was flat with OE up 2% and AM down 3%, with revenue from Energy 9% higher.

First half trading
Group book to bill for the period was 1.23x with civil aerospace at 1.51x, Defence at 0.82x and Energy at 1.28x. Group revenue was up 11%. In Civil Aerospace, revenue was 30% higher, with sales from civil OE and civil AM up 21% and 36% respectively. Defence revenue ended the period 8% lower with revenue from Energy up 18%.

	£'m	% impact
H1 2021 revenue	680.0	
M&A	2.0	-
Currency movements	64.8	10
Organic growth	74.2	11
H1 2022 revenue	**821.0**	**21**

The adjustments for M&A include the sale of the Group's Danish business on 30 June 2022, acquisitions of the remaining 67% of HiETA Technologies on 14 January 2022 and the remaining 30% of our joint venture in Mexico on 20 May 2022.

Currency movements in the period reflect the weakening of the pound sterling against our trading currencies, principally the US dollar.

Profit and earnings per share

Underlying profit is used by the Board to monitor and 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.

Group underlying operating margins increased by 50 basis points, to 9.6% (H1 2021: 9.1%) reflecting higher revenue partly offset by cost inflation and supply chain disruptions. Underlying operating profit was higher in the period at £78.6m (H1 2021: £61.7m), up 13%.

Underlying profit before tax increased by 15% to £63.6m (H1 2021: £48.4m) with underlying earnings per share up 31% on a reported basis at 6.4 pence (H1 2021: 4.9 pence).

Cash flow and net debt

Consistent with normal seasonal patterns, the Group generated a free cash outflow in the first half of £44.2m, higher than the comparative period (H1 2021: £34.5m outflow) reflecting increased working capital.

In the first half, investment in working capital generated an outflow of £85.9m (H1 2021: £51.0m outflow), which mainly reflects higher inventory to maintain continuity of supply and to support growth. Investment in capital expenditure was £29.5m (H1 2021: £31.7m).

Deficit payments made in respect of retirement benefit schemes were £21.7m (H1 2021: £21.7m).

Including cash proceeds from M&A activity of £50.3m (principally from the sale of our Danish business), the net cash generated by the Group was £6.4m in the first half (H1 2021: £14.9m outflow).

At the end of June, net debt was £885.5m (H1 2021: £822.6m) including lease liabilities of £201.5m, an increase of £106.0m from 31 December 2021 after adverse currency movements of £80.1m. There was ample headroom of £523.5m on committed facilities of £1,207.5m.

First half cash flow statement

	H1 2022 £'m	H1 2021 £'m
Underlying operating profit	**78.6**	61.7
Depreciation and amortisation	**61.5**	54.5
Working capital movements	**(85.9)**	(51.0)
Net interest paid	**(13.6)**	(14.9)
Tax paid	**(13.2)**	(29.4)
Exceptional operating items paid	**(9.0)**	(12.2)
Purchase of property, plant and equipment and intangible assets[4]	**(29.5)**	(31.7)
Proceeds from sale of property, plant and equipment[4]	**8.0**	22.7
Capitalised development costs/programme participation costs	**(19.4)**	(12.5)
Retirement benefit deficit reduction payments	**(21.7)**	(21.7)
Free cash flow	**(44.2)**	(34.5)
Net proceeds from disposal/acquisition of businesses	**50.3**	18.3
Issue of equity share capital	**0.3**	-
Other	**-**	1.3
Net cash generated	**6.4**	(14.9)
Lease liabilities entered	**(29.0)**	(28.0)
Debt acquired or disposed with businesses	**(5.2)**	-
Exchange differences	**(80.1)**	(7.1)
Other movements	**1.9**	0.4
Net debt movements	**(106.0)**	(49.6)
Net debt at 1 January	**(779.5)**	(773.0)
Net debt at 30 June	**(885.5)**	(822.6)

There are two main financial covenants in our financing agreements. The net borrowings:underlying EBITDA ratio, which must not exceed 3.5x, was 1.8x at 30 June 2022 (June 2021: 2.4x). In addition, interest cover, which must be not less than 3.0x, was 11.8x at 30 June 2022 (June 2021: 9.7x).

The Group has ample headroom against both key covenant ratios, and net borrowings:underlying EBITDA remains within our target range of 1.5x to 2.5x.

M&A

Consistent with our strategy of developing sustainable and differentiated technologies for our core end markets in aerospace, defence and energy, on 30 June 2022, we completed the sale of our Danish business to CTS Ceramics Denmark A/S for a cash consideration of £62.3m, subject to customary adjustments for working capital and net debt.

Also, in the first half of 2022, we completed the acquisition of the remaining 67% of HiETA Technologies, which specialises in additive manufacturing as well as acquiring the remaining 30% of our joint venture in Mexico which specialises in aerospace composites.

Environmental, Social and Governance

During the period, we have continued to invest in our advanced technologies and operations to decarbonise aviation. We have also submitted our SBTI (Science Based Targets initiative) targets and await feedback.

[4] Purchase of property, plant and equipment and intangible assets, and proceeds from sale of property, plant and equipment have been adjusted by £40.7m compared with the equivalent amounts reported on a statutory basis. This adjustment eliminates the gross effect of the simultaneous purchase and sale and leaseback of the Group's facility in Ventura County, USA. The combined transaction, which resulted in a cash inflow of £4.5m, is reflected on a net basis within proceeds from sale of property, plant and equipment.

TRADING SUMMARY

Unless otherwise stated, all growth comparisons are presented on an organic basis.

	Revenue (£'m)		Growth (%)	
	H1 2022	H1 2021	Reported	Organic
Civil OE	**158.6**	121.0	31	21
Civil AM	**257.4**	171.9	50	36
Total Civil	**416.0**	292.9	42	30
Defence	**302.4**	301.9	-	(8)
Energy	**75.3**	60.1	25	18
Other	**27.3**	25.1	9	-
TOTAL	**821.0**	680.0	21	11

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 51% of the Group total, was 38% original equipment (OE) and 62% aftermarket (AM).

Civil OE
In the first six months of 2022 compared with the same period in 2021, civil OE revenue was up 21%, with large jets, the largest component of our OE revenue, up 20% and regional jets up 31%. Business jet OE revenue was up 23%. Within the first half, civil OE was up 13% and 30% in the first and second quarters of 2022 respectively, in comparison to the corresponding quarters in 2021, and up 16% sequentially between the first and second quarters of 2022.

Civil AM
Global air traffic has continued to recover during the half, with global ASKs and RPKs in the first five months of the year 53% and 85% higher respectively than the same period in 2021.

Sequentially, in the first half, civil AM orders were down 20% and revenue up 21% in the second quarter compared with the first quarter of this year.

As a result of increasing passenger demand and the corresponding increase in air traffic activity across the period, civil AM revenue was up 36% in the first half. Within that, large jets were up 33%, regional jets up 61% and business jets up 26%. Within the first half, in the first and second quarters, civil AM revenue was up 39% and 34% respectively compared with the corresponding periods in 2021.

A summary of civil aftermarket organic revenue growth rates comparing 2022 to 2021 and quarterly trends in 2022 is set out in the table below.

Growth (%)	Year on year (HY22 vs HY21)			Sequential HY22
	Q1	**Q2**	**H1**	**Q1 vs Q2**
Large jets	42	26	33	24
Regional jets	67	56	61	9
Business jets	15	36	26	28
Total Civil AM	**39**	**34**	**36**	**21**

Overall, civil aerospace revenue was 30% higher in the first half on an organic basis.

Defence

Our Defence business accounted for 37% of Group revenues in H1 2022 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 working platforms. Direct sales to US customers accounted for 73% of defence revenue, with 19% to European customers and 8% to the rest of the world.

Defence revenue was 8% lower where in OE, revenue was down 7% with the aftermarket 9% lower, reflecting the continued effects of inventory destocking and weaker ordering from the US Defence Logistics Agency in the aftermarket. Our order book remains solid with book to bill of 0.82x, and we are starting to see initial signs of restocking in the aftermarket as well as original equipment growth,

Energy and other

Energy and other revenues (12% of Group total) come from a variety of end markets of which the single most significant is energy (9% 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 up 18% with Heatric revenue up 50%, partially offset by Energy Sensing and Controls where revenue was down 65%. Revenue from other markets was flat against the comparative period.

Our energy businesses had a strong book to bill of 1.28x for the period underpinned by a number of contract wins and a robust pipeline of new growth opportunities, particularly in the renewables and green energy space. 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

Unless otherwise stated, all growth comparisons are presented on an organic basis.

The financial performance of the individual divisions for the six months ended 30 June 2022 is summarised in the table below:

	Revenue				Underlying Operating Profit/(Loss)			
	H1 2022	H1 2021	% Growth		**H1 2022**	H1 2021	% Growth	
	£'m	£'m	Reported	Organic	**£'m**	£'m	Reported	Organic
Airframe Systems	**416.1**	339.9	22	13	**57.4**	41.7	38	23
Engine Systems	**124.3**	91.4	36	23	**(11.6)**	(14.5)	20	18
Energy & Equipment	**134.9**	130.9	3	(5)	**20.2**	20.4	(1)	(11)
Services & Support	**145.7**	117.8	24	13	**12.6**	14.1	(11)	(19)
Total Group	**821.0**	**680.0**	**21**	**11**	**78.6**	**61.7**	**27**	**13**

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 new generation aircraft, 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 the world. The division represents 51% of Group revenue, generating 49% of its revenue from OE sales and 51% from the aftermarket.

Revenue was up 13% in the half. Civil OE revenue was up 17% with large jets, regional jets and business jets OE up 14%, 53% and 19% respectively.

Civil aftermarket revenue was 52% higher with large, regional and business jets up 67%, 76% and 29% respectively. We are encouraged by the order intake across civil aerospace in the division of 1.76x (across OE and aftermarket).

Defence revenue was down 10%, with OE and AM down 11% and 9% respectively, driven by the lower orders received in 2021.

Underlying operating margin was 150 basis points higher than the comparative period at 13.8% (H1 2021: 12.3%).

Engine Systems has a leading position in aero sensing with a broad range of technologies and sensor applications including vibration monitoring and engine health management systems. This division also provides aero-engine heat exchangers, flow control and advanced engine composites. Strong positions on high volume platforms mean we are well positioned for growth in Engine Systems. The division represents 15% of Group revenue, generating 95% of its revenue from OE and 5% from the aftermarket as a result of its principal route to the aftermarket being through the Services & Support division.

Revenue increased by 23% in the first half. Civil OE revenue was 29% higher, mainly driven by large and business jets. Civil AM revenue was up 82% driven by large and regional jets. In defence, revenue was up 20% with strong growth in OE where we supply equipment on major platforms.

Engine Systems generated a reduced underlying operating loss in the first half of £11.6m (H1 2021: loss of £14.5m).

Our recovery plan for Engine Composites remains on track, with the main product transfers to our low cost facility in Saltillo, Mexico completed. However, whilst manufacturing volumes have continued to improve, they remain below 2019 levels.

Energy & Equipment consists of our energy product groups and businesses that provide products directly to defence customers. Energy Sensors & Controls provides a range of valves, actuators, sensor and condition monitoring systems for oil and gas applications. Heatric provides innovative printed circuit heat exchanger technology for offshore gas and lower carbon applications. Defence Systems provides a series of complex engineered products to defence agencies in electronic cooling, ammunition handling and scoring systems. Energy & Equipment represents 16% of Group revenue and generates 80% of its revenue from OE and 20% from the aftermarket.

Revenue was down 5% with a strong performance in energy up 15%, offset by defence where revenue was down 23%. Heatric grew revenue 50% in the first half underpinned by a strong order book as we entered the year, with revenue in our Energy Sensors and Controls business down 5% in the half.

Order intake for the division was up 35% in the half versus the same period last year with a particularly strong performance in defence where orders were up 119%.

Underlying operating margins at 15.0% were broadly flat against the comparative period (H1 2021: 15.6%).

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 18% of Group revenue and generates 100% of its revenue from the aftermarket, with 80% generated from civil aerospace and 20% from defence.

Overall order intake in the division was up 24% in the first half. Civil orders were 38% higher in the first half, with very strong growth in regional jets where orders were up 194%. Regionally orders were up 14%, 33% and 14%, in the US, Europe and Asia Pacific respectively.

Revenue for the division was 13% higher in the first half, with civil aerospace revenue up 21%, within which large jet, regional jet and business jet revenues were up 23%, 10% and 14% respectively in the period. Defence revenue was flat reflecting the delay to normal order patterns in the US from the DLA (Defence Logistics Agency).

Underlying operating margin was lower at 8.6% (H1 2021: 12.0%) due to adverse mix in civil and lower volumes in the defence aftermarket.

INVESTING FOR THE FUTURE

£m	**H1 2022**	H1 2021	% Change	
	£'m	£'m	Organic	Reported
Total research and development (R&D)	**42.8**	39.4	(2)	9
Less: Charged to cost of sales / WIP	**(4.1)**	(10.7)	(65)	(62)
Less: Capitalised	**(19.4)**	(11.7)	53	66
Add: Amortisation / Impairment	**20.0**	17.2	7	16
Charge to underlying net operating costs	**39.3**	34.2	4	15
Capital expenditure	**29.5**	31.7		(7)

R&D in the period increased slightly as we continued to invest in new technologies to support new product development and future growth. In the first half, total R&D expenditure of £42.8m was slightly down as a percentage of the increased revenue at 5.2% (H1 2021: £39.4m, 5.8%).

The charge to underlying net operating costs, including amortisation and impairment, increased by 15% (up 4% on an organic basis) to £39.3m (2021: £34.2m).

Capital expenditure was lower in the first half at £29.5m (H1 2021: £31.7m).

OTHER FINANCIAL INFORMATION

Tax charge

The statutory tax credit for the period was £7.8m (2021: £5.3m charge) based on the reported loss before tax of £6.5m (2021: £33.6m profit). Based on underlying profit before tax of £63.6m (2021: £48.4m) the Group's underlying tax rate for the period was 21.3% (2021: 21.4%).

The Group is aware of the European General Court judgment in June 2022 that supported the European Commission view that state aid applies to one of the UK's CFC exemptions utilised by the Group. The Group does not consider there to be a significant risk of a material adjustment to the financial statements in this regard as the Group received and paid tax assessments from the UK tax authorities of £16.9m, which the UK tax authority considered was recoverable from businesses. The Group is considering, with its external advisors, whether to appeal the European General Court judgment to the European Court of Justice.

Retirement benefit schemes

The trustees of the Group's UK defined benefit pension plan have advised the Pensions Regulator that the triennial valuation, as at 5 April 2021, will not be finalised until 30 September 2022. The delay is to allow the trustees, should the acquisition of the Group by Parker-Hannifin have completed by that date, to finalise the valuation based on the approach set out in the legally binding Memorandum of Understanding agreed with Parker-Hannifin.

In the event the acquisition is not anticipated to have completed by 30 September 2022, the trustees will finalise the valuation based on assumptions and a recovery plan agreed with the Group. Under such circumstances, the Group's disclosures in its 2021 Annual Report of the estimated funding position remain unchanged. If the valuation is agreed with the Group it will be finalised by 30 September 2022.

The Group's principal defined benefit pension schemes are in the UK and US, all of which are closed to future accrual.

Total scheme net deficits reduced to £72.1m at 30 June 2022 (31 December 2021: £136.4m), with the principal drivers of the net reduction being:

- A reduction of £333.3m (H1 2021: reduction of £88.0m) relating to re-measurement gains on scheme liabilities, principally arising from the significant increase in AA corporate bond yields in both the UK and US;
- An increase of £279.4m (H1 2021: increase of £22.3m) due to re-measurement losses on scheme assets; and
- Deficit reduction payments of £21.7m (H1 2021: £21.7m) of which £19.8m was paid in respect of the UK scheme (H1 2021: £18.5m).

In the UK, the Group is currently making deficit payments in accordance with a recovery plan agreed with the trustees following the 2018 triennial funding valuation, amended following the four month deferral of £9.6m of deficit contributions originally due to be made in 2020. This amended recovery plan provides for the 2018 deficit to be addressed by payments which gradually increase over the period to August 2023. Under the plan, the Group will make deficit contributions of £40.2m in 2022 and £29.9m in 2023.

CONDENSED CONSOLIDATED UNAUDITED INCOME STATEMENT
For the six months ended 30 June 2022

	Note	**Six months ended 30 June 2022 £'m**	Six months ended 30 June 2021 £'m
Revenue	4	**821.0**	680.0
Cost of sales		**(569.7)**	(484.6)
Gross profit		**251.3**	195.4
Operating costs		**(271.1)**	(183.2)
Operating income		**29.8**	36.8
Net operating costs		**(241.3)**	(146.4)
Operating profit[1]		**10.0**	49.0
Finance income		**0.7**	0.4
Finance costs		**(17.2)**	(15.8)
Net finance costs	8	**(16.5)**	(15.4)
(Loss)/profit before tax [2]		**(6.5)**	33.6
Tax credit/(charge)	9	**7.8**	(5.3)
Profit for the period attributable to equity owners of the Company		**1.3**	28.3
Earnings per share:			
Basic [3]	10	**0.2p**	3.6p
Diluted [4]	10	**0.2p**	3.6p

Non-GAAP measures

1	Underlying operating profit	4 & 5	**78.6**	61.7
2	Underlying profit before tax	5	**63.6**	48.4
3	Underlying basic earnings per share	10	**6.4p**	4.9p
4	Underlying diluted earnings per share	10	**6.4p**	4.9p

CONDENSED CONSOLIDATED UNAUDITED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2022

	Note	**Six months ended 30 June 2022 £'m**	Six months ended 30 June 2021 £'m
Profit for the period attributable to equity owners of the Company		**1.3**	28.3
Items that may be reclassified to the income statement in subsequent periods:			
Currency translation movements:			
Arising in the period		**171.5**	(49.9)
Transferred to the income statement		**(1.4)**	-
Movements in fair value of financial liabilities arising from changes in credit risk		**(0.8)**	(0.8)
Tax effect		**0.2**	0.2
		169.5	(50.5)
Items that will not be reclassified to the income statement in subsequent periods:			
Remeasurement of retirement benefit obligations	20	**53.9**	65.7
Tax effect		**(12.7)**	(11.3)
		41.2	54.4
Other comprehensive income for the period		**210.7**	3.9
Total comprehensive income for the period attributable to equity owners of the Company		**212.0**	32.2

CONDENSED CONSOLIDATED UNAUDITED BALANCE SHEET
At 30 June 2022

	Note	**30 June 2022 £'m**	31 December 2021 £'m
Non-current assets			
Goodwill	13	**1,672.3**	1,531.8
Development costs	13	**522.5**	524.7
Programme participation costs	13	**20.9**	19.0
Other intangible assets	13	**287.6**	306.6
Property, plant and equipment	14	**526.6**	478.6
Investments	15	**-**	18.7
Other receivables		**19.9**	18.8
Contract assets		**62.5**	55.8
Derivative financial instruments	18	**0.1**	10.0
Retirement benefit assets	20	**8.1**	-
		3,120.5	2,964.0
Current assets			
Inventories		**539.1**	455.4
Trade and other receivables		**334.0**	294.5
Contract assets		**60.6**	53.7
Derivative financial instruments	18	**19.8**	4.8
Current tax recoverable		**9.8**	8.1
Cash and cash equivalents		**105.2**	190.8
		1,068.5	1,007.3
Total assets	4	**4,189.0**	3,971.3
Current liabilities			
Trade and other payables		**(326.1)**	(317.9)
Contract liabilities		**(64.7)**	(62.7)
Derivative financial instruments	18	**(14.3)**	(3.2)
Current tax liabilities		**(35.2)**	(34.2)
Lease liabilities		**(16.0)**	(15.6)
Bank and other borrowings	17 & 18	**(17.2)**	(105.3)
Provisions	19	**(75.8)**	(55.8)
		(549.3)	(594.7)
Net current assets		**519.2**	412.6
Non-current liabilities			
Other payables		**(3.1)**	(3.7)
Contract liabilities		**(85.8)**	(72.6)
Derivative financial instruments	18	**(4.0)**	(1.3)
Deferred tax liabilities		**(63.7)**	(70.9)
Lease liabilities		**(185.5)**	(153.4)
Bank and other borrowings	17 & 18	**(772.0)**	(696.0)
Provisions	19	**(87.2)**	(80.3)
Retirement benefit obligations	20	**(80.2)**	(136.4)
		(1,281.5)	(1,214.6)
Total liabilities		**(1,830.8)**	(1,809.3)
Net assets		**2,358.2**	2,162.0
Equity			
Share capital	21	**39.1**	39.1
Share premium		**1,228.0**	1,227.8
Other reserves		**15.7**	15.7
Hedging and translation reserves		**513.4**	343.9
Retained earnings		**562.0**	535.5
Total equity attributable to owners of the Company		**2,358.2**	2,162.0

CONDENSED CONSOLIDATED UNAUDITED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2022

	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 2021	39.0	1,226.6	15.7	348.9	402.4	2,032.6
Profit for the period	-	-	-	-	28.3	28.3
Other comprehensive (expense)/income for the period	-	-	-	(50.5)	54.4	3.9
Total comprehensive (expense)/income for the period	-	-	-	(50.5)	82.7	32.2
Employee share schemes:						
Value of services provided	-	-	-	-	3.3	3.3
Issue of equity share capital	-	0.5	-	-	(0.5)	-
At 30 June 2021	39.0	1,227.1	15.7	298.4	487.9	2,068.1
At 1 January 2022 as previously reported	**39.1**	**1,227.8**	**15.7**	**343.9**	**535.5**	**2,162.0**
Impact of adopting amendments to IAS 37 (note 2)	-	-	-	-	(20.4)	(20.4)
At 1 January 2022 as restated	**39.1**	**1,227.8**	**15.7**	**343.9**	**515.1**	**2,141.6**
Profit for the period	**-**	**-**	**-**	**-**	**1.3**	**1.3**
Other comprehensive income for the period	-	-	-	169.5	41.2	210.7
Total comprehensive income for the period	-	-	-	169.5	42.5	212.0
Employee share schemes:						
Value of services provided	-	-	-	-	4.6	4.6
Issue of equity share capital	-	0.2	-	-	(0.2)	-
At 30 June 2022	**39.1**	**1,228.0**	**15.7**	**513.4**	**562.0**	**2,358.2**

CONDENSED CONSOLIDATED UNAUDITED CASH FLOW STATEMENT
For the six months ended 30 June 2022

	Note	**Six months ended 30 June 2022 £'m**	Six months ended 30 June 2021 £'m
Non-GAAP measures			
Cash inflow from operations before business acquisition and disposal expenses and exceptional operating items		**32.5**	44.3
Cash outflow from business acquisition and disposal expenses		**(1.9)**	(1.0)
Cash outflow from exceptional operating items	7	**(9.0)**	(12.2)
Cash inflow from operations	24	**21.6**	31.1
Interest received		**0.5**	0.1
Interest paid		**(14.1)**	(15.0)
Tax paid		**(13.2)**	(29.4)
Cash outflow from operating activities		**(5.2)**	(13.2)
Businesses acquired	26	**(5.6)**	(0.9)
Businesses disposed	27	**57.8**	20.2
Capitalised development costs	13	**(19.4)**	(11.7)
Capitalised programme participation costs		**-**	(0.8)
Purchase of intangible assets		**(6.7)**	(6.2)
Purchase of property, plant and equipment		**(64.4)**	(29.6)
Government grants received in respect of purchase of property, plant and equipment		**0.9**	4.1
Proceeds from disposal of property, plant and equipment		**48.7**	22.7
Cash inflow/(outflow) from investing activities		**11.3**	(2.2)
Issue of equity share capital		**0.3**	0.5
Proceeds from bank and other borrowings		**3.0**	2.8
Repayments of bank and other borrowings		**(96.6)**	(15.8)
Debt issue costs paid		**(0.1)**	(0.3)
Repayments of lease liabilities	16	**(7.7)**	(7.6)
Cash outflow from financing activities		**(101.1)**	(20.4)
Net decrease in cash and cash equivalents		**(95.0)**	(35.8)
Cash and cash equivalents at start of the period		**190.8**	178.6
Exchange gains/(losses) on cash and cash equivalents		**9.4**	(3.5)
Cash and cash equivalents at end of the period		**105.2**	139.3

NOTES TO THE CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS
For the six months ended 30 June 2022

1. General information and basis of preparation

Meggitt PLC is a public limited company listed on the London Stock Exchange, domiciled and incorporated in the United Kingdom with the registered number 432989. Meggitt PLC 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 2021 were approved by the Board of Directors on 2 March 2022 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 2022 have been prepared in accordance with UK Adopted International Accounting Standard 34, 'Interim Financial Reporting'. They should be read in conjunction with the Group's financial statements for the year ended 31 December 2021.

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 a judgement 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 3 August 2023. In reaching this judgement, the directors considered:

Existing financing
The Group has committed credit facilities with its relationship banks and private placement investors of £1,207.5m at 30 June 2022. With the exception of one tranche of USD300m private placement debt, which is due for repayment in July 2023, no other significant facilities mature during the going concern assessment period.

Current liquidity
At 30 June 2022, the Group had significant headroom against its committed credit facilities, as set out below, and no new financing is required to meet the repayment of the USD300m private placement debt in July 2023:

	Total £'m
Committed credit facilities	1,207.5
Bank and other borrowings (note 17)	789.2
Less: cash	(105.2)
Net borrowings excluding lease liabilities	684.0
Headroom	**523.5**

1. **General information and basis of preparation** (continued)

Going concern (continued)

Covenants

The Group's committed credit facilities 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 30 June and 31 December), with net debt/EBITDA not to exceed 3.5x and interest cover to be not less than 3.0x.

At 30 June 2022, net debt/EBITDA was 1.8x, well within the Group's target range of 1.5x to 2.5x and similar to that in the three financial years prior to the COVID-19 outbreak (2019: 1.5x, 2018: 1.8x and 2017: 1.9x). Interest cover at 30 June 2022 was 11.8x. No covenant waivers have ever been sought by the Group, including during the period since the COVID-19 outbreak.

Base case scenario

The Group has developed a base case scenario, using its forecasts for 2022 and for H1 2023. It assumes the recovery in civil aerospace markets continue and the outlook for defence markets is stable. As the Group is under an offer period under the UK Takeover Code, it is not providing financial guidance for 2022 and accordingly the base case scenario assumptions have not been disclosed. However, under this scenario, the Group had significant headroom under its existing committed facilities to meet its obligations as they fall due and does not breach either of its financial covenant ratios.

Reverse stress test scenario

The Group has performed a reverse stress test scenario to determine the conditions under which it would be close to breaching its net debt/EBITDA financial covenant ratio during the going concern assessment period. The Group considers the likelihood of such a set of circumstances occurring to be remote and significantly outside any severe but plausible scenarios the Group has modelled.

Principal risks

The Group has also considered whether its principal risks have been appropriately reflected in its going concern assessment. The Group has considered the likelihood of the risks taking place during the going concern assessment 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 Board has regularly reviewed these risks throughout the period and up to the date of these financial statements and maintains a risk appetite statement with associated risk tolerances to ensure that identified risks are managed within acceptable limits. The Group has concluded that the going concern assessment has been appropriately adjusted to reflect these risks.

Proposed acquisition of the Group by Parker-Hannifin Corporation ('Parker')

On 21 September 2021, the shareholders of the Group approved an all-cash offer of 800 pence per share for the Group by Parker. In the event the acquisition by Parker is completed within the going concern assessment period, the directors considered the intention and ability of Parker to be able to:

- Finance the equity purchase of the Group;
- Repay those liabilities of the Group which would immediately become due on a change of control; and
- Continue to operate the Group as a going concern for the reminder of the assessment period, post completion.

The directors believe that Parker will be able to meet these obligations, having taken into account publically available information.

Conclusion

Based on the above, the directors have concluded there are no material uncertainties around the Group's ability to continue as a going concern and 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 2021, except as described below.

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 2022. These rates have been applied to the pre-tax profits made in each jurisdiction for the six months ended 30 June 2022.

Adoption of new and revised accounting standards

Amendments to IAS 37 "Onerous contracts – costs of fulfilling a contract"

Under IAS 37, a contract is onerous when the unavoidable costs of meeting the contractual obligations exceed the economic benefits arising from the contract. Prior to the amendments to IAS 37, there was diversity in practice as to whether the costs of meeting contractual obligations should comprise only incremental costs (e.g. direct materials and direct labour) or also include an allocation of other direct costs (e.g. factory overheads), which would be incurred regardless of whether the contract was being performed or not.

Under the Group's previous accounting policy, it only included incremental direct costs in measuring the costs to fulfil a contract under IAS 37. The IAS 37 amendments clarify however, that the costs of fulfilling a contract should include an allocation of other direct costs. The amendments are effective for accounting periods beginning on, or after, 1 January 2022 to open contracts at that date, with any additional amounts required to be recognised as an adjustment to retained earnings at that date.

The Group has implemented these amendments within its accounting policies for both onerous contracts and warranty provisions with effect from 1 January 2022. This has resulted in the recognition of new onerous contract provisions of £15.2m (in respect of contracts which are not onerous on an incremental cost basis), an increase in the measurement of existing onerous contract provisions of £6.7m and an increase in the measurement of existing product warranty claims of £4.4m. The aggregate increase in provisions as a result of the amendments was £26.3m. After recognising a £5.9m reduction in deferred tax liabilities, arising as a result of these provision increases, the total adjustment to retained earnings at 1 January 2022 was £20.4m.

No other accounting standards, amendments or revisions to existing standards, or interpretations have become effective which had a significant impact on the Group's condensed consolidated financial statements.

Recent accounting developments

A number of new standards and amendments and revisions to existing standards have been published and are mandatory for the Group's future accounting periods. These have not been early adopted and are not expected to have a significant impact on the Group's consolidated financial statements when they are adopted.

3. Critical accounting estimates and judgements

In applying the Group's accounting policies, the Group is required to make certain estimates and judgements concerning the future. These estimates and judgements are regularly reviewed and revised as necessary. An update on the critical accounting estimates and judgements disclosed in the Group's 2021 Annual Report is set out below:

- Critical accounting estimates
  The Group's estimates relating to environmental provisions and associated recoveries from insurers and other third parties; and retirement benefit obligations remain critical estimates for the current period.

  The Group previously disclosed a critical estimate relating to its capitalised development costs on the Irkut MC-21 aircraft following the entry of Russian troops into Ukraine and Western countries imposing a number of sanctions on Russia in response. Since the date of the 2021 Annual Report, the conflict in Ukraine has escalated and further sanctions have been imposed on Russia. The Group has ceased development activity on the MC-21 aircraft and, given the significant uncertainty over the future of the aircraft and the participation by Western countries in its development, the Group has concluded that the full carrying value of its investment of £46.2m in the programme is impaired and has recognised this charge as an exceptional operating item (see note 7).

  There are no new critical estimates applicable to the current period.

- Critical accounting judgement
  The Group's judgement relating to when development costs meet the criteria to be recognised as intangible assets remains a critical judgement for the current period. There are no new critical judgements applicable to the current period.

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 2022

	Airframe Systems £'m	Engine Systems £'m	Energy & Equipment £'m	Services & Support £'m	Total £'m
Gross segment revenue	478.2	155.3	143.1	150.2	926.8
Inter-segment revenue	(62.1)	(31.0)	(8.2)	(4.5)	(105.8)
Revenue from external customers	**416.1**	**124.3**	**134.9**	**145.7**	**821.0**
At a point in time	395.2	121.8	65.4	143.5	725.9
Over time: Power by the hour/ cost per brake landing	13.7	2.1	-	2.2	18.0
Over time: Other	7.2	0.4	69.5	-	77.1
Revenue by basis of recognition	**416.1**	**124.3**	**134.9**	**145.7**	**821.0**
Underlying operating profit/(loss)*	**57.4**	**(11.6)**	**20.2**	**12.6**	**78.6**

4. **Segmental analysis** continued

Six months ended 30 June 2021 (restated)**

	Airframe Systems £'m	Engine Systems £'m	Energy & Equipment £'m	Services & Support £'m	Total £'m
Gross segment revenue	406.2	128.3	134.9	120.4	789.8
Inter-segment revenue	(66.3)	(36.9)	(4.0)	(2.6)	(109.8)
Revenue from external customers	339.9	91.4	130.9	117.8	680.0
At a point in time	324.4	90.1	55.3	116.6	586.4
Over time: Power by the hour/ cost per brake landing	8.8	1.2	-	1.2	11.2
Over time: Other	6.7	0.1	75.6	-	82.4
Revenue by basis of recognition	339.9	91.4	130.9	117.8	680.0
Underlying operating profit/(loss)*	41.7	(14.5)	20.4	14.1	61.7

* Central costs are allocated using a variety of bases designed to reflect the beneficial relationship between costs and segments. Bases include headcount, payroll costs, gross assets and revenue. A detailed reconciliation of underlying operating profit to operating profit is shown in note 5.

** Prior period figures have been restated to reduce both gross segment revenue and inter-segment revenue by £35.9m.

Segmental assets

	30 June 2022 £'m	31 December 2021 £'m
Airframe Systems	**1,175.6**	1,071.0
Engine Systems	**421.2**	384.0
Energy & Equipment	**231.8**	218.7
Services & Support	**130.0**	119.7
Total segmental trading assets	**1,958.6**	1,793.4
Centrally managed trading assets*	**180.4**	163.0
Goodwill (note 13)	**1,672.3**	1,531.8
Other intangible assets excluding software assets	**234.7**	250.7
Investments (note 15)	**-**	18.7
Derivative financial instruments – non-current (note 18)	**0.1**	10.0
Derivative financial instruments – current (note 18)	**19.8**	4.8
Retirement benefit assets (note 20)	**8.1**	-
Current tax recoverable	**9.8**	8.1
Cash and cash equivalents	**105.2**	190.8
Total assets	**4,189.0**	3,971.3

* Centrally managed trading assets principally include amounts recoverable from insurers and other third parties in respect of environmental issues relating to former sites, other receivables and property, plant and equipment of central companies, including the Group's Ansty Park facility.

5. Reconciliations between profit and underlying profit

Underlying profit is used by the Board to monitor and measure the underlying trading performance of the Group. Items excluded from underlying profit measures are treated consistently with the way performance is measured under the Group's short-term and long-term incentive plans and with covenant requirements defined in the Group's committed credit facilities.

	Six months ended 30 June 2022 £'m	Six months ended 30 June 2021 £'m
Operating profit	**10.0**	49.0
Amounts arising on the acquisition, disposal and closure of businesses (note 5a)	**(25.5)**	(7.5)
Amortisation of intangible assets acquired in business combinations (note 13)	**39.2**	40.1
Financial instruments loss/(gain) (note 6)	**3.1**	(24.6)
Exceptional operating items (note 7)	**51.8**	4.7
Adjustments to operating profit*	**68.6**	12.7
Underlying operating profit	**78.6**	61.7
(Loss)/profit before tax	**(6.5)**	33.6
Adjustments to operating profit per above	**68.6**	12.7
Net interest expense on retirement benefit obligations (note 8)	**1.5**	2.1
Adjustments to (loss)/profit before tax	**70.1**	14.8
Underlying profit before tax	**63.6**	48.4
Profit for the period	**1.3**	28.3
Adjustments to (loss)/profit before tax per above	**70.1**	14.8
Tax effect of adjustments to (loss)/profit before tax	**(21.3)**	(5.1)
Adjustments to profit for the period	**48.8**	9.7
Underlying profit for the period	**50.1**	38.0

* Of the adjustments to operating profit, £6.8m (2021: £2.0m) relating to exceptional operating items has been charged to cost of sales, with the balance of £61.8m (2021: £10.7m) included within net operating costs.

a. The Group separately presents amounts arising on the acquisition, disposal and closure of businesses. These include gains or losses made on the disposal or closure of 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. Additionally in 2022, it includes amounts incurred in respect of the proposed acquisition of the Group by Parker-Hannifin Corporation ('Parker') and fair value losses arising on the acquisition by the Group of the remaining equity in its joint ventures (note 15).

	Six months ended 30 June 2022 £'m	Six months ended 30 June 2021 £'m
Gain on disposal of businesses before disposal expenses	**(41.6)**	(9.5)
Costs related to disposal of businesses in the current period (note 27)	**1.5**	0.4
Gain on disposal of businesses in the current period (note 27)	**(40.1)**	(9.1)
Costs related to the proposed acquisition of the Group by Parker	**4.9**	-
Fair value adjustment to equity investments (note 15)	**9.9**	-
Costs relating to the acquisition of businesses in the current period	**0.3**	-
Amounts recognised in respect of disposals in prior periods	**(0.5)**	1.6
Amounts arising on the acquisition, disposal and closure of businesses	**(25.5)**	(7.5)

6. 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. The Group does not hedge account for foreign currency forward contracts, cross currency derivatives or treasury lock derivatives. When interest rate derivatives qualify to be hedge accounted, any difference recognised in the income statement as hedge ineffectiveness between movements in fair value of the derivatives and fair value of fixed rate borrowings is excluded from underlying profit measures.

	Six months ended 30 June 2022 £'m	Six months ended 30 June 2021 £'m
Movement in fair value of:		
Foreign currency forward contracts	**20.5**	1.8
Interest rate derivatives	**1.5**	1.7
Fixed rate borrowings due to interest rate risk	**(1.5)**	(1.6)
Cross currency derivatives	**(13.8)**	(24.9)
Treasury lock derivative	**(0.3)**	(0.3)
Impact of retranslating net foreign currency assets and liabilities at spot rate	**(3.3)**	(1.3)
Financial instruments – loss/(gain)	**3.1**	(24.6)

7. 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 monitor and measure the underlying performance of the Group (see note 5), are classified as exceptional operating items. They include, for instance, costs directly attributable to the integration of acquired businesses; significant site consolidations and other restructuring costs; incremental income and expenditure directly attributable to the COVID-19 pandemic; and in 2022, given its significance, impairment losses relating to the MC-21 aircraft programme (see note 3).

		Income statement		**Cash outflow**	
	Note	**Six months ended 30 June 2022 £'m**	Six months ended 30 June 2021 £'m	**Six months ended 30 June 2022 £'m**	Six months ended 30 June 2021 £'m
MC-21 impairment	a	**46.2**	-	**-**	-
Site consolidations	b	**6.0**	3.1	**8.2**	9.7
COVID–19 incremental non-recurring costs		**0.5**	1.6	**0.8**	2.4
Other items		**(0.9)**	-	**-**	0.1
Exceptional operating items		**51.8**	4.7	**9.0**	12.2

a. Of the amounts classified as exceptional operating items, £2.1m has been recognised within cost of sales, with the balance of £44.1m recognised within other operating costs. The tax credit in respect of these items was £10.4m (see note 3).

b. Amounts principally relate to costs incurred in respect of the Group's previously announced plans to reduce its footprint by the end of 2021. This was substantially complete at the end of 2021, however costs in respect of projects commenced prior to the end of 2021 are continuing to be incurred as these projects are completed. Cumulative costs since the announcement are £117.9m. In 2022, costs are principally in respect of the move to the new facility at Ansty Park in the West Midlands, UK which has enabled the Group to consolidate a range of manufacturing, engineering and support operations into a single centre of excellence. Of the amounts classified as exceptional operating costs, £4.4m has been recognised within cost of sales, with the balance of £1.6m recognised within other operating costs. The tax credit in respect of these items was £1.3m.

8. Net finance costs

	Six months ended 30 June 2022 £'m	Six months ended 30 June 2021 £'m
Interest on bank deposits	**0.6**	0.3
Unwinding of interest on other receivables	**0.1**	0.1
Finance income	**0.7**	0.4
Interest on bank borrowings	**0.4**	-
Interest on senior notes	**11.4**	10.6
Interest on lease liabilities	**3.3**	2.9
Unwinding of discount on provisions (note 19)	**0.8**	0.3
Net interest expense on retirement benefit obligations (notes 5 & 20)	**1.5**	2.1
Amortisation of debt issue costs	**0.5**	0.6
Less: amounts capitalised in the cost of qualifying assets (note 13)	**(0.7)**	(0.7)
Finance costs	**17.2**	15.8
Net finance costs	**16.5**	15.4

9. Tax

The statutory tax credit for the period was £7.8m (2021: £5.3m charge) based on the reported loss before tax of £6.5m (2021: £33.6m profit). Based on underlying profit before tax of £63.6m (2021: £48.4m) the Group's underlying tax rate for the period was 21.3% (2021: 21.4%).

In June 2022, the European General Court issued a judgment supporting the European Commission view that state aid applies to one of the UK's CFC exemptions utilised by the Group. No adjustments have been required in the period arising from this judgement as, in 2021, the Group received and paid tax assessments from the UK tax authorities of £16.9m, which the UK tax authority considered was recoverable in respect of state aid.

10. Earnings per share

Earnings per share ('EPS') is calculated by dividing the profit attributable to equity owners of the Company of £1.3m (2021: £28.3m) by the weighted average number of shares in issue during the period of 781.8m (2021: 779.7m). The weighted average number of shares excludes treasury shares and any 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 1.3m (2021: 2.7m).

Underlying EPS is based on underlying profit for the period (note 5) and the same number of shares used in the calculation of basic EPS. It is reconciled to basic EPS below:

	Six months ended 30 June 2022 Pence	Six months ended 30 June 2021 Pence
Basic EPS	**0.2**	3.6
Adjust for effects of:		
Amounts arising on the acquisition, disposal and closure of businesses	**(3.3)**	(1.0)
Amortisation of intangible assets acquired in business combinations	**3.9**	4.2
Financial instruments – loss/(gain)	**0.4**	(2.6)
Exceptional operating items	**5.1**	0.5
Net interest expense on retirement benefit obligations	**0.1**	0.2
Underlying basic EPS	**6.4**	4.9

Diluted EPS for the period is 0.2p (2021: 3.6p). The calculation of diluted EPS adjusts the weighted average number of shares to reflect the assumption that all potentially dilutive ordinary shares convert. For the Group, this means assuming all share awards currently expected to vest, based on performance to date, are exercised. The weighted average number of shares used in the calculation of diluted EPS is 785.3m (2021: 782.8m). Underlying diluted EPS for the period is 6.4p (2021: 4.9p). The calculation of underlying diluted EPS is based on underlying profit (note 5) and the same weighted average number of shares used in the calculation of diluted EPS.

11. Dividends

The directors did not recommend the payment of a dividend in respect of 2021. In line with the terms of the previously announced proposed transaction with Parker-Hannifin Corporation, the Board is not recommending an interim dividend for 2022.

12. 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 2022 £'m	Six months ended 30 June 2021 £'m
Salaries and other short-term employee benefits	**3.5**	2.9
Share-based payment expense	**0.6**	0.5
Total	**4.1**	3.4

13. Intangible assets

	Goodwill £'m	**Development Costs £'m**	**Programme participation costs £'m**	**Other intangible assets £'m**	**Total £'m**
At 1 January 2022	1,531.8	524.7	19.0	306.6	2,382.1
Exchange rate adjustments	136.3	45.2	2.1	25.0	208.6
Businesses acquired (note 26)	15.0	-	-	-	15.0
Business disposed (note 27)	(10.8)	-	-	(0.4)	(11.2)
Additions	-	19.4	0.7	6.5	26.6
Interest capitalised (note 8)	-	0.7	-	-	0.7
Transfers from contract assets	-	0.6	-	-	0.6
Amortisation*	-	(20.2)	(0.9)	(50.1)	(71.2)
Impairment losses**	-	(47.9)	-	-	(47.9)
At 30 June 2022	**1,672.3**	**522.5**	**20.9**	**287.6**	**2,503.3**

* Included within amortisation of other intangible assets is £39.2m (2021: £40.1m) relating to intangible assets acquired in business combinations and which is excluded from the Group's underlying profit figures (note 5).

** Included within impairment losses of development costs is £48.1m (2021: £1.1m) in respect of amounts charged to exceptional operating items and which has been excluded from underlying operating profit (note 5).

Goodwill impairment

Under the Group's annual impairment testing cycle, goodwill is tested for impairment at 30 June each year. During the period, the Group did not identify any trigger events indicating the carrying value of goodwill attributable to any of the Group's CGUs was impaired and accordingly no additional impairment testing was performed.

The cumulative impairment charge recognised at 30 June 2022 is £355.3m (December 2021: £324.7m), with the movement in the period wholly attributable to the impact of retranslating foreign currency denominated balances.

14. Property, plant and equipment

	Land and buildings £'m	Plant, equipment and vehicles £'m	Right-of-use assets* £'m	Total £'m
At 1 January 2022	147.7	214.1	116.8	478.6
Exchange rate adjustments	9.2	16.7	8.0	33.9
Businesses acquired (note 26)	-	1.9	2.1	4.0
Business disposed (note 27)	(0.7)	(2.2)	(0.1)	(3.0)
Additions	44.1	19.1	26.0	89.2
Disposals	(43.1)	(1.5)	(1.3)	(45.9)
Depreciation**	(5.8)	(16.4)	(8.0)	(30.2)
At 30 June 2022	**151.4**	**231.7**	**143.5**	**526.6**

* The net book amount comprises property of £141.0m (December 2021: £115.0m) and other assets of £2.5m (December 2021: £1.8m).

** Depreciation includes £0.5m (2021: £0.8m) in respect of amounts charged to exceptional operating items and which has been excluded from underlying operating profit (note 5).

15. Investments

The Group's investments in its joint ventures, Meggitt UTC Aerospace Systems, LLC and HiETA Technologies Limited were accounted for using the equity method. During the period, the Group acquired the remaining equity in these companies from its joint venture partners and the investments are fully consolidated into the Group's results from the date of acquisition (see note 26).

	Total £'m
At 1 January 2022	18.7
Exchange rate adjustments	0.9
Share of loss after tax	(0.3)
Fair value adjustments*	(9.9)
Disposal on acquisition of remaining equity in the joint ventures (see note 26)	(9.4)
At 30 June 2022	**-**

* At the date the remaining equity in the joint ventures was acquired, the value-in-use of the investments was higher than their carrying value and accordingly no impairment was required. However, on acquisition of the remaining equity IAS 28, requires the investments to be initially remeasured to fair value, which resulted in a reduction in their carrying value of £9.9m. As the fair value losses arose only as a result of the acquisition of the remaining equity, they have been excluded form underlying operating profit (note 5a).

16. Lease liabilities

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

	Six months ended 30 June 2022 £'m	Six months ended 30 June 2021 £'m
Depreciation charge for right-of-use assets (note 14)	**8.0**	7.6
Additions to right-of-use assets (note 14)*	**26.0**	22.2
Net book amount of right-of-use assets (note 14)	**143.5**	118.3
Interest on lease liabilities (note 8)	**3.3**	2.9
Expense related to short-term leases and low-value assets	**0.5**	0.2
Net cash outflow in respect of lease liabilities**	**11.0**	10.5

* In 2022, this includes £22.2m relating to the sale and leaseback of the Group's Airframe Systems facility in Ventura County, USA which has a lease term of 15 years.

** Comprises capital payments of £7.7m (2021: £7.6m) and interest payments of £3.3m (2021: £2.9m).

17. Bank and other borrowings

	30 June 2022 £'m	31 December 2021 £'m
Bank loans	**8.0**	2.8
Other loans	**9.2**	102.5
Current portion	**17.2**	105.3
Bank loans	**28.2**	28.2
Other loans	**743.8**	667.8
Non-current portion	**772.0**	696.0

During the period, the Group repaid USD125m of loan notes issued to private placement investors in 2010 on their maturity in June.

18. Financial instruments – fair value measurement

For trade and other receivables, cash and cash equivalents, trade and other payables and floating rate bank and other borrowings, fair values approximate to book values primarily due to the short maturity periods of these financial instruments. For trade and other receivables, allowances are made within their book value for credit risk. Lease liabilities are outside of the scope of IFRS 7 "Financial Instruments: Disclosures" with regards to fair value disclosures.

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 current and non-current elements of 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). There were no transfers of assets or liabilities between levels of the fair value hierarchy in the period. Where financial instruments are measured at fair value, the methods of determining their fair value are unchanged from those disclosed in the Group's consolidated financial statements for the year ended 31 December 2021.

A comparison of book values and fair values for certain financial instruments is provided below:

	Book value		**Fair value**	
	30 June 2022 £'m	31 December 2021 £'m	**30 June 2022 £'m**	31 December 2021 £'m
Derivative financial instruments – non-current	**0.1**	10.0	**0.1**	10.0
Derivative financial instruments – current	**19.8**	4.8	**19.8**	4.8
Financial assets	**19.9**	14.8	**19.9**	14.8
Derivative financial instruments – current	**(14.3)**	(3.2)	**(14.3)**	(3.2)
Bank and other borrowings – current	**(17.2)**	(105.3)	**(17.2)**	(105.3)
Derivative financial instruments – non-current	**(4.0)**	(1.3)	**(4.0)**	(1.3)
Bank and other borrowings – non-current	**(772.0)**	(696.0)	**(724.0)**	(692.6)
Financial liabilities	**(807.5)**	(805.8)	**(759.5)**	(802.4)

19. Provisions

	Total £'m
At 1 January 2022 as previously reported	136.1
Impact of adopting amendments to IAS 37 (note 2)	26.3
At 1 January 2022 as restated	162.4
Exchange rate adjustments	15.4
Businesses acquired (note 26)	0.2
Additional provisions	6.8
Unused amounts reversed	(3.5)
Charge to net finance costs (note 8)	0.8
Amounts utilised	(19.1)
At 30 June 2022	**163.0**

	30 June 2022 £'m	31 December 2021 £'m
Disclosed as:		
Current	**75.8**	55.8
Non-current	**87.2**	80.3
Total	**163.0**	136.1
Analysed as:		
Environmental*	**94.7**	93.6
Onerous contracts	**36.0**	15.1
Warranty costs	**23.9**	19.2
Other	**8.4**	8.2
Total	**163.0**	136.1

* Included within other receivables is £16.7m (December 2021: £15.0m) in respect of amounts recoverable from insurers and other third parties in respect of environmental issues relating to historic sites.

20. Retirement benefit obligations

	Total £'m
At 1 January 2022	136.4
Exchange rate adjustments	8.3
Service cost	1.9
Net interest expense (note 8)	1.5
Contributions – Group	(23.6)
Administrative expenses borne directly by schemes	1.5
Remeasurement of retirement benefit obligations	(53.9)
At 30 June 2022	**72.1**
Disclosed as:	
Retirement benefit assets	(8.1)
Retirement benefit obligations	80.2
At 30 June 2022	**72.1**

20. Retirement benefit obligations continued

Amounts recognised in the balance sheet

	30 June 2022	31 December 2021
Present value of liabilities	**1,049.2**	1,355.1
Fair value of assets	**(1,006.3)**	(1,228.0)
Effect of asset ceiling*	**29.2**	9.3
Total	**72.1**	136.4
Analysed as:		
Pension schemes	**36.0**	97.9
Healthcare schemes	**36.1**	38.5
Total	**72.1**	136.4

* The asset ceiling relates to surpluses in schemes which have not been recognised as future economic benefits are not available to the Group in the form either of a reduction in contributions or a refund.

Key financial assumptions used to calculate scheme liabilities

	30 June 2022 £'m	31 December 2021 £'m
UK scheme:		
Discount rate	**3.85%**	1.80%
Inflation rate (RPI)	**3.20%**	3.40%
Current life expectancy: Male aged 65 years	**21.6 to 23.4**	21.6 to 23.4
US schemes:		
Discount rate	**4.45%**	2.80%
Current life expectancy: Male aged 65 years	**19.8 to 20.7**	19.8 to 20.7

Group cash contributions paid during the period included deficit reduction payments of £21.7m (2021: £21.7m).

21. Issued share capital

	30 June 2022 No. m	31 December 2021 No. m
Allotted and fully paid	**782.9**	782.0

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

22. 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 the guarantees is remote.

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

23. Capital commitments

	30 June 2022 £'m	31 December 2021 £'m
Contracted for but not incurred:		
Intangible assets	**0.9**	0.8
Property, plant and equipment	**10.9**	6.8
Total	**11.8**	7.6

24. Cash inflow from operations

	Six months ended 30 June 2022 £'m	Six months ended 30 June 2021 £'m
Profit for the period	**1.3**	28.3
Adjustments for:		
Net finance costs (note 8)	**16.5**	15.4
Tax (credit)/charge (note 9)	**(7.8)**	5.3
Depreciation (note 14)	**30.2**	27.8
Amortisation and impairment losses (note 13)	**119.1**	68.7
Gain on disposal of property, plant and equipment	**(2.4)**	(2.4)
Gain on disposal of businesses before disposal expenses (note 5a)	**(41.6)**	(9.5)
Fair value adjustment to equity investments (note 5a)	**9.9**	-
Loss/(gain) on financial instruments (note 6)	**3.1**	(24.6)
Impact of retranslating net foreign currency cash at spot rate	**-**	0.8
Share of loss after tax of joint ventures (note 15)	**0.3**	0.8
Change in carrying value of held for sale assets and liabilities up to date of disposal	**-**	0.1
Retirement benefit obligation deficit payments (note 20)	**(21.7)**	(21.7)
Share-based payment expense	**4.3**	2.7
Changes in working capital	**(89.6)**	(60.6)
Cash inflow from operations	**21.6**	31.1

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 2022 £'m	Six months ended 30 June 2021 £'m
Cash outflow from operating activities	**(5.2)**	(13.2)
Add back cash outflow from business acquisition and disposal expenses	**1.9**	1.0
Add back impact of retranslating net foreign currency cash at spot rate	**-**	(0.8)
Capitalised development costs (note 13)	**(19.4)**	(11.7)
Capitalised programme participation costs	**-**	(0.8)
Purchase of intangible assets	**(6.7)**	(6.2)
Purchase of property, plant and equipment (net of grants received)*	**(63.5)**	(25.5)
Proceeds from disposal of property, plant and equipment**	**48.7**	22.7
Free cash outflow	**(44.2)**	(34.5)

* In 2022, includes £40.7m relating to the purchase of the Group's Airframes Systems facility in Ventura County, USA and £10.3m relating to the expansion of the Group's carbon facility in Kentucky, USA.

** In 2022, includes £45.2m relating to the subsequent sale and leaseback of the Group's Airframes Systems facility in Ventura County, USA.

25. Movements in net debt

	Gross debt £'m	Cash and cash equivalents £'m	Net debt £'m
At 1 January 2022	970.3	(190.8)	779.5
Cash outflow from operating activities	-	5.2	5.2
Cash inflow from investing activities	-	(11.3)	(11.3)
Cash (inflow)/outflow from financing activities	(101.4)	101.1	(0.3)
Lease liabilities entered	29.0	-	29.0
Businesses acquired (note 26)	5.3	-	5.3
Businesses disposed (note 27)	(0.1)	-	(0.1)
Exchange rate adjustments	89.5	(9.4)	80.1
Other movements	(1.9)	-	(1.9)
At 30 June 2022	**990.7**	**(105.2)**	**885.5**

	30 June 2022 £'m	31 December 2021 £'m
Analysed as:		
Bank and other borrowings – current	**17.2**	105.3
Bank and other borrowings – non-current	**772.0**	696.0
Lease liabilities – current	**16.0**	15.6
Lease liabilities – non-current	**185.5**	153.4
Cash and cash equivalents	**(105.2)**	(190.8)
Total	**885.5**	779.5

26. Businesses acquired

On 4th January 2022, the Group acquired the assets and business of a small company based in the USA and which is reported within the Airframe Systems division. On 14th January 2022, the Group acquired the remaining 67% equity in the joint venture HiETA Technologies Limited based in the UK and which is reported within the Engine Systems division. On 20 May 2022, the Group acquired the remaining 30% equity in the joint venture Meggitt UTC Aerospace Systems LLC (UTC Aero) based in Mexico and which is reported within the Engine Systems division. The aggregate cash consideration for these acquisitions was £6.6m.

The net assets of the businesses at the dates of acquisition were as follows:

	Total £'m
Property, plant and equipment (note 14)	4.0
Inventories	4.7
Trade and other receivables - current	4.6
Cash and cash equivalents	1.0
Trade and other payables - current	(7.8)
Lease liabilities – current (note 25)	(0.5)
Bank and other borrowings – current (note 25)	(2.8)
Lease liabilities – non-current (note 25)	(2.0)
Provisions – non-current (note 19)	(0.2)
Net assets of acquired businesses	**1.0**
Add: Goodwill arising on consolidation (note 13)	15.0
Less: Equity investments disposed (note 15)	(9.4)
Net assets acquired by Group	**6.6**
Consideration payable	6.6
Less: Cash and cash equivalents acquired	(1.0)
Businesses acquired before acquisition costs	**5.6**
Add: Acquisition expenses paid	0.3
Net cash outflow for businesses acquired	**5.9**

27. Business disposed

On 30 June 2022, the Group disposed of the trade and assets of Meggitt A/S, a piezoelectric ceramics manufacturer based in Denmark, for a cash consideration of £62.3m, which is subject to an adjustment for net debt and working capital in the business at the date of disposal. The business disposed, which was previously reported within the Energy & Equipment division, 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 A/S £'m
Goodwill (note 13)	10.8
Other intangible assets (note 13)	0.4
Property, plant and equipment (note 14)	3.0
Inventories	3.1
Trade and other receivables – current	2.6
Cash and cash equivalents	4.5
Trade and other payables – current	(1.7)
Lease liabilities – current (note 25)	(0.1)
Deferred tax liabilities – non-current	(0.5)
Net assets disposed	**22.1**
Consideration received	62.3
Less: Net assets disposed	(22.1)
Less: Business disposal expenses payable (note 5a)	(1.5)
Add: Currency translation gain transferred from equity	1.4
Gain on disposal (note 5a)	**40.1**
Consideration received	62.3
Less: Cash and cash equivalents disposed	(4.5)
Business disposed before disposal expenses	**57.8**
Less: Business disposal expenses paid*	(1.6)
Net cash inflow in respect of businesses disposed	**56.2**

* Business disposal expenses paid in the period were £0.4m in respect of Meggitt A/S and £1.2m in respect of the proposed acquisition of the Group by Parker-Hannifin Corporation.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group disclosed in its 2021 Annual Report the principal risks and uncertainties which the Group is exposed to. These risks have not changed significantly over the period and are expected to continue to be relevant for the remaining six months of the year. The risks relate to those arising from:

- Strategic – fundamental changes in the Group's business model; reduced demand for the Group's products; and failure to adapt to the impacts of climate change.
- Operational – quality escape/equipment fault; business interruption; failure to meet new product development and programme milestones and certification requirements; failure to meet customers' cost, quality and delivery standards; IT/systems failure (including cyber breach); supply chain failure; failure to successfully and simultaneously deliver significant change programmes; and failure to attract and retain people.
- Corporate – legal or regulatory breach; insufficient funding of pension scheme deficits; and inability to maintain sufficient liquidity.

Further details can be found in the 'Risk management' section of the 2021 Annual Report on pages 48 to 57, together with details of strategies adopted to mitigate these exposures.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors confirm that to the best of their knowledge:

- This condensed set of consolidated interim financial statements has been prepared in accordance with UK adopted IAS 34 'Interim Financial Reporting'; 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 2022 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 2022 and any material changes to the related party transactions described in the last annual report.

The details of the Directors of Meggitt PLC at 2 March 2022 are listed on pages 100 to 103 of the 2021 Annual Report.

By order of the Board:

A Wood
Chief Executive Officer
3 August 2022

L Burdett
Chief Financial Officer
3 August 2022

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