

2 August 2021

**Meggitt PLC**

**2021 Interim results**

**STRONG CASH 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 2021.

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

*"The sequential quarterly improvement we have seen in our civil aerospace business in the first half is encouraging including a 31% increase in civil aftermarket organic revenue, reflecting the progressive increase in global air traffic and the active fleet. Thanks to the ongoing dedication of our global teams, we delivered a strong cash performance underpinned by our continued focus as we manage the Group through the recovery and position our operations for the anticipated increase in new build rates. With a strengthening order book, particularly in Energy, the pick-up in order activity in the second quarter provides a supportive backdrop as we enter the second half."*

**Group first half performance**

	H1 2021 £'m	H1 2020 £'m	Change	
			Reported %	Organic <sup>1</sup> %
Orders	<b>671.4</b>	881.5	(24)	(9)
Revenue	<b>680.0</b>	916.8	(26)	(16)
Underlying <sup>2</sup>				
EBITDA <sup>3</sup>	<b>116.2</b>	155.8	(25)	(20)
Operating profit	<b>61.7</b>	102.2	(40)	(37)
Profit before tax	<b>48.4</b>	85.5	(43)	(42)
Earnings per share (p)	<b>4.9</b>	8.7	(44)	
Statutory				
Operating profit/(loss)	<b>49.0</b>	(348.7)	114	
Profit before tax/(loss)	<b>33.6</b>	(368.4)	109	
Earnings per share/(loss) (p)	<b>3.6</b>	(44.3)	108	
Free cash outflow	<b>(34.5)</b>	(121.5)	72	
Net cash outflow	<b>(14.9)</b>	(18.8)	21	
Net debt	<b>822.6</b>	1,000.2	(18)	
Dividend (p)	-	-		

**Summary**

- Recommended cash offer for Meggitt at a price of 800p per share by Parker Hannifin Corporation as set out in the separate Rule 2.7 firm offer announcement released this morning
- Sequential quarterly improvement in civil aerospace performance during the first half: civil aerospace aftermarket organic orders and revenue up 40% and 31% respectively in the second quarter compared with the first quarter of 2021
- Increase in Group organic order intake in the second quarter up 20% sequentially; book to bill ratio in Energy at 1.38x, with book to bill in civil aerospace at 1.04x
- Performance of the Group in the first half reflects the impact of COVID-19 on civil aerospace, with Group organic revenue down 16% in the period against a comparator of a normal trading first quarter in 2020 before the onset of the pandemic
- Defence revenue 9% lower on an organic basis compared with a strong first half in 2020
- Underlying operating profit for the first half 37% lower on an organic basis at £61.7m (H1 2020: £102.2m) reflecting a strong comparator in the first quarter of 2020. Sequential improvement in Group profitability in the second quarter after COVID-related disruption and lower productivity at two of our US sites in the first quarter

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

<sup>2</sup> Underlying profit and EPS are used by the Board to measure the trading performance of the Group as set out in notes 5 and 10.

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

- Statutory operating profit of £49.0m (H1 2020: loss of £348.7m)
- Strong cash performance with free cash outflow ahead of expectations at £34.5m (H1 2020: outflow of £121.5m)
- Net debt of £822.6m (H1 2020: £1,000.2m) with ratios of net debt:EBITDA of 2.4x and interest cover of 9.7x at 30 June 2021, well within covenant limits
- Liquidity remains strong with committed facilities of £1,516.3m and headroom of £857.6m
- Continued focus on key strategic initiatives and rate readiness ahead of recovery in civil OE and AM demand
- The Board recognises the importance of the dividend to its shareholders, but has taken the decision not to pay an interim dividend in light of ongoing market conditions
- Notwithstanding the difficulties in forecasting demand within civil aerospace with precision and the risks associated with regional spikes in COVID-19 infections, for the full year, we continue to expect the Group to generate:
  - Revenue broadly in line with 2020 on an organic basis
  - Underlying operating profit ahead of 2020<sup>4</sup>
  - Positive free cash flow

## Enquiries

Tony Wood, Chief Executive  
 Louisa Burdett, Chief Financial Officer  
 Mathew Wootton, Vice President, Investor Relations  
 Vikas Gujadhur, Investor Relations Manager  
 Meggitt PLC  
 Tel: 02476 826 900

Nick Hasell, Managing Director  
 Dwight Burden, Managing Director  
 Alex Le May, Managing Director  
 FTI Consulting  
 Tel: +44 203 727 1340

## Availability

The interim management report will be available on the Group's website [www.meggitt.com](http://www.meggitt.com) from 2 August 2021. 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.

## Analyst presentation and Q&A

There will be a webcast of the interim results at 10am BST today available on the Meggitt website at <http://www.meggitt.com/investors>. Copies of the presentation will also be available.

Please use the following link to watch the webcast.

<https://www.investis-live.com/meggitt/60e853da0ed69a0a003cd5db/hyr21>

Please use the following dial-in details to listen to the broadcast and ask a question:

UK: 0800 640 6441  
 UK Local: 020 3936 2999  
 Global: +44 203 936 2999  
 Passcode: 500602

## 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. Except where expressly identified as such, 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.

<sup>4</sup> This statement constitutes a profit forecast for the purposes of Rule 28.1 of the City Code on Takeovers and Mergers. Further information on the basis of the preparation of the Meggitt 2021 Profit Forecast, including the principal assumptions on which it is based, can be found in Appendix I

## END MARKET CONTEXT

### Civil aerospace

The progressive rollout of vaccines, lower infection rates and the easing of lockdown restrictions in a number of countries has resulted in a gradual recovery in civil aerospace in the first half of 2021, with airlines increasing capacity and a strong recovery in some domestic markets, business jets and cargo against a backdrop of continuing low levels of international activity as borders remain closed. As at the end of June, the active commercial fleet had increased to 74%, up from 70% at the end of December 2020.

While signs of the recovery are encouraging, its trajectory remains highly sensitive to regional spikes in COVID-19 infection rates, the emergence and spread of new variants and associated government border restrictions. In addition, it is clear that unlocking further airline capacity for the remainder of 2021 and beyond remains dependent on the continued successful global rollout of vaccines and improvements in treatments.

In the first half, the level of global commercial air traffic activity (as measured by ASKs) steadily improved, with ASKs -51.6% at the end of June compared with -57.3% at the end of December 2020 against 2019 levels, with domestic -15.5% and international -71.0%. Regionally, both China and US domestic activity have continued to lead the recovery. While activity in India has improved off its lows, as a result of rising infection rates in other countries across the Asia Pacific region, capacity growth has slowed and at the end of the half stood at 56.9% below 2019 levels. European ASKs continued to lag other regions at -59.1% below 2019 levels however, daily flight activity in the region has improved in recent weeks with activity in July above the equivalent summer peak in 2020.

On the back of the strong domestic recovery in the US, regional jet activity has also strengthened with larger regional jets one of the most active fleets at the end of the period.

Outside of commercial aerospace, both business jets and cargo have performed very strongly with daily flight activity (WINGX data) levels across both sub sectors now above pre pandemic levels at +14.4% and +5.6% respectively at the end of June.

Deliveries of large jets in the first six months of 2021 were 452, up 70% on the comparative period (H1 2020: 266 deliveries). In the second quarter, there were further positive signs of the recovery, with both Airbus and Boeing issuing guidance on future build rates, with major narrow body platforms such as A320neo and 737MAX forecast to ramp up significantly in the coming years. As a result of robust levels of business jet activity, the market for used business jets remains tight with deliveries of new jets down 5% in the first half.

Industry forecasts continue to anticipate air traffic returning to 2019 levels in the 2023/2024 timeframe and new aircraft production rates to recover to pre-COVID-19 levels slightly later in the 2024/2025 timeframe. Beyond the recovery period, the drivers supporting air traffic growth over the long term remain in place with industry forecasting a growth rate in RPKs of up to 3.6% annually over the next 20 years.

### Defence

Global defence spending remained robust in the first half and is expected to increase by 2.8% in 2021 and exceed the \$2 trillion mark. In the US, outlays in the first six months were +5.1% versus the same period in 2020 with procurement and RDT&E up 8.5% and 10.4% respectively over the same period.

In May 2021, the US DoD FY22 budget request of \$715Bn was proposed, a slight increase on FY21 of c.2%, including an increase of 5% in RDT&E, with procurement down 6%. Looking further ahead, US defence spending is expected to remain solid over the next five years and broadly around current levels.

Defence spending in the UK remained robust and is forecast to be up 6% in 2021, with the outlook for defence spending in the EU also solid.

### Energy

Investment in renewable energy has continued to increase year on year across all applications including carbon capture, low carbon fuels, solar, wind and hydro. Capital expenditure investments in clean energy by the oil and gas sector has also increased significantly over the past five years.

Oil prices have continued to recover in 2021 driven by a recovery in global economic activity trading at \$71.65 per barrel at 27 July representing an increase of 48% since the start of the year, providing a supportive backdrop for ongoing investment in the sector and capital expenditure on energy projects.

## INTERIM MANAGEMENT REPORT 2021

### Group Orders and Revenue

While civil aerospace activity levels have continued to recover in 2021 with a sequential improvement in the second quarter compared with the first, our half year results reflect the effects of COVID-19 and continued lower overall levels of civil aerospace activity compared with the prior year period.

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

#### Quarterly trading

In our trading statement on 29 April 2021, we reported Group revenue for the first quarter was 29% lower than the comparative period, with both civil OE and AM down 46%, versus a normal trading quarter in 2020 before the onset of the pandemic.

In the second quarter, Group orders were up 77% compared with the comparative period with Group revenue flat. In Civil Aerospace, revenue grew by 7% with civil OE up 3% and AM up 10% reflecting an improvement in air traffic activity levels in the period. Defence revenue was down 7% with OE -8% and AM -6%, with revenue from Energy 7% higher.

On a sequential basis, Group orders and revenue in the second quarter were up 20% and 10% respectively on the first quarter, with growth in revenue across civil aerospace, defence and energy.

#### First half trading

Group book to bill for the period stood at 0.97x with civil aerospace at 1.04x, Defence at 0.82x and Energy remaining strong at 1.38x. Group revenue was down 16%. In Civil Aerospace, revenue was 26% lower, with sales from civil OE and civil AM down 28% and 24% respectively. Defence revenue ended the period 9% lower compared with a strong first half last year where revenue grew 7%, with revenue from Energy up 4%.

	£'m	% impact
H1 2020 revenue	916.8	
Business disposals	(36.5)	(4)
Currency movements	(57.1)	(6)
Organic growth	(143.2)	(16)
<b>H1 2021 revenue</b>	<b>680.0</b>	<b>(26)</b>

The adjustments for business disposals comprise the sale of Meggitt Training Systems on 30 June 2020 and Dunstable on 30 January 2021.

Currency movements in the period reflect the strengthening of the pound sterling against our trading currencies, principally the US dollar. The organic revenue decline largely reflects the impact of COVID-19 on civil aerospace.

### Profit and earnings per share

In common with previous years, 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 decreased by 200 basis points, to 9.1% (H1 2020: 11.1%) reflecting lower revenue (particularly higher margin aftermarket) as well as the impact from COVID-related disruption and lower productivity at two of our sites in the US as previously announced in our first quarter trading update. Underlying operating profit was 37% lower in the period at £61.7m (H1 2020: £102.2m).

Underlying profit before tax decreased by 42% to £48.4m (H1 2020: £85.5m) with underlying earnings per share down 44% on a reported basis at 4.9 pence (H1 2020: 8.7 pence).

Moving from underlying to statutory measures, Group profit before tax was £33.6m (H1 2020: £368.4m loss) and basic earnings per share was 3.6 pence (H1 2020: loss per share of 44.3 pence), with the prior period performance significantly adversely impacted by exceptional impairment losses and other asset write-downs arising from the uncertainty facing the commercial aerospace industry following the COVID-19 outbreak.

## Cash flow and net debt

We continued to maintain a disciplined approach to managing our cash during the first half. Consistent with normal seasonal patterns, the Group generated a free cash outflow in the first half, although at £34.5m this was better than expected and substantially lower than the comparative period (H1 2020: £121.5m outflow) and also included the cash payment to HMRC of £18.0m in respect of the CFC regime in the UK.

In the first half, investment in working capital generated an outflow of £51.0m (H1 2020: £127.5m outflow). Investment in capital expenditure was £31.7m (H1 2020: £57.4m). Deficit payments made in respect of retirement benefit schemes were £21.7m (H1 2020: £7.1m), with the prior period reflecting the deferral of three months deficit contributions to the UK scheme. Including cash proceeds from M&A activity of £18.3m (principally from the sale of Dunstable), the net cash outflow for the Group was £14.9m in the first half (H1 2020: £18.8m outflow).

At the end of June, net debt was £822.6m (H1 2020: £1,000.2m) including lease liabilities of £163.9m, an increase of £49.6m from December 2020 after taking into account adverse currency movements of £7.1m and we had ample headroom of £857.6m on committed facilities of £1,516.3m.

### First half cash flow statement

	H1 2021 £'m	H1 2020 £'m
<b>Underlying operating profit</b>	<b>61.7</b>	102.2
Depreciation and amortisation	<b>54.5</b>	53.6
Working capital movements	<b>(51.0)</b>	(127.5)
Net interest paid	<b>(14.9)</b>	(16.5)
Tax paid	<b>(29.4)</b>	(24.4)
Exceptional operating items paid	<b>(12.2)</b>	(28.1)
Purchase of property, plant and equipment and intangible assets	<b>(31.7)</b>	(57.4)
Proceeds from sale of property, plant and equipment	<b>22.7</b>	0.3
Capitalised development costs/programme participation costs	<b>(12.5)</b>	(19.4)
Retirement benefit deficit reduction payments	<b>(21.7)</b>	(7.1)
Other	-	2.8
<b>Free cash flow</b>	<b>(34.5)</b>	(121.5)
Net proceeds from disposal/acquisition of businesses	<b>18.3</b>	102.0
Other	<b>1.3</b>	0.7
<b>Net cash generated</b>	<b>(14.9)</b>	(18.8)
Lease liabilities entered	<b>(28.0)</b>	(6.5)
Lease liabilities disposed with business	-	4.5
Exchange differences	<b>(7.1)</b>	(65.2)
Other movements	<b>0.4</b>	(3.0)
<b>Net debt movements</b>	<b>(49.6)</b>	(89.0)
Net debt at 1 January	<b>(773.0)</b>	(911.2)
Net debt at 30 June	<b>(822.6)</b>	(1,000.2)

There are two main financial covenants in our financing agreements. The net borrowings:underlying EBITDA ratio, which must not exceed 3.5x, was 2.4x at 30 June 2021 (June 2020: 1.8x) and interest cover, which must be not less than 3.0x, was 9.7x (June 2020: 14.1x). 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.

### Dividends

The Board is aware of the importance of dividends to our shareholders. However, the Board concluded that in light of ongoing market conditions, it is not recommending the payment of an interim dividend for 2021.

## OUTLOOK FOR THE FULL YEAR

The gradual recovery in civil aerospace during the first half and improving quarterly trends are encouraging and provide reasons to be cautiously optimistic as we look ahead to the second half. Recognising the ongoing risks posed by regional spikes in infections, the associated difficulty in forecasting demand within civil aerospace with precision, and assuming no extended disruption from the pandemic and continued recovery in air traffic in the second half, for the full year we continue to expect the Group to generate:

- Revenue broadly in line with 2020 on an organic basis
- Underlying operating profit ahead of 2020<sup>5</sup>
- Positive free cash flow

While we recognise the need to remain agile and respond quickly to changes in the external environment, based on the significant progress we have made over the last four years to transform the Group, our diverse end market exposure, leading market positions and strong IP, we are well placed to benefit from the recovery in civil aerospace and to deliver long-term profitable growth.

## STRATEGY UPDATE

As the industry recovers from the pandemic and flight activity gradually resumes around the world, 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 made strong progress on our sustainable technology portfolio across civil and energy markets meeting a number of important milestones:

- Thermal management – as part of our ATI sponsored Ultra High Bypass Ratio (UHBR) programme completion, we delivered five new technologies to the demonstrator stage in support of the next generation of more efficient gas turbines. We are currently exploring the application of these technologies to other sustainable aviation platform applications and in the second half we are planning to deliver a production version of our integrated air/liquid thermal system for a ground based demonstrator platform.
- Energy / hydrogen – we are working with a number of energy majors to establish the long term viability of green hydrogen production and new product development opportunities focused on blended hydrogen fuels for power generation. In the first half, Heatric secured participation in an EU programme to broaden the potential application of its leading PCHE technology in the facilitation of de-carbonisation, specifically in the field of super critical CO<sub>2</sub> power cycles using waste heat from industrial processing.
- Green fire suppression – we continue to make good progress working with major aircraft OEMs with VERDAGENT™, our proprietary 'green' fire suppressant agent to replace ozone depleting Halon 1301, with further customer testing for cargo applications successfully completed in the first half. In the second half, we will continue preparation for a flight test with Boeing on the ecoDemonstrator and work to gain approval for VERDAGENT™ in the US.
- Optical sensing – following further successful internal testing of our first high temperature engine mounted optical pressure sensing system, we are looking to conduct further testing with major aerospace customers in the second half and in 2022. In Energy, testing with a major energy OEM of our dynamic pressure sensing system continued in the first half. In 2022, we are planning an evaluation test of this technology in a hydrogen combustion environment.
- Engine data management – we successfully developed a prototype of an Engine Data Concentration System (EDCS), an innovative modular distributed health monitoring solution for engine and airframe OEMs, enabling them to access end-to-end data for next generation engines in real time. While creating new opportunities for engine maintenance optimisation, it will also enable implementation of advanced monitoring and control functions leveraging engine mounted electronics with wireless capabilities.

---

<sup>5</sup> This statement constitutes a profit forecast for the purposes of Rule 28.1 of the City Code on Takeovers and Mergers. Further information on the basis of the preparation of the Meggitt 2021 Profit Forecast, including the principal assumptions on which it is based, can be found in Appendix I

- Electric flight – testing with a major urban air mobility customer using our Electric Power Unit (EPU) technology continued in the period, with further testing planned for the second half. We also continued to make good progress on the certification of our lithium ion battery family.

We have also continued to leverage advanced manufacturing technology and processes across our sites:

- Additive layer manufacturing (ALM) – working with our partners including HiETA, we have commenced a project sponsored by the Aerospace Technology Institute to deliver larger scale ALM capability at our Ansty Park facility. We have also continued to apply ALM in the manufacture of aftermarket spare parts including low volume heat exchanger casing & flow control components. Our development cell in North Hollywood has also been supporting operations across Meggitt sites with production of tooling, jigs, fixtures and rapid prototyping.
- Digital manufacturing – our Innovate UK sponsored Smart Connected Shop Floor proof of concept programme continued in the first half, with the installation of a real time toolkit location system. We are also broadening the scope of our remote machine monitoring capability as we transfer production to our Ansty Park facility, aimed at improving operational equipment effectiveness and allowing more rapid intervention.

## 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.

A key area of focus in the first half as the recovery in civil aerospace activity continues has been on ensuring rate readiness and planning, ahead of the airframe and engine OEMs ramping up production through the latter part of 2021 and beyond. We also continue to closely monitor customer sentiment in our three core aftermarket regions to understand likely future demand patterns for spares and repair services as traffic levels rise.

During the period, we booked a number of customer contracts across our three core end markets of civil aerospace, defence and energy, including:

- An order with Boeing displacing a competitor for a range of cockpit indicators on the 737MAX
- A £98m life of programme contract for a civil airframe OEM for the supply of Rate Gyrometer Units
- A £21m order from a civil airframe OEM for the supply of our Wireless Emergency Lighting System
- In Energy, multiple orders for Heatric's printed circuit heat exchangers for renewable, LNG and offshore applications
- Multiple Defence orders for communications and composite radome products

During the period, we were pleased to support the first test flight of the Dassault Falcon 6X for which we provide the complete braking system solution, including wheels, brakes, brake controls and landing gear controls.

We saw continued momentum with SMARTSupport®, our long-term contract offering for aftermarket customers, adding an additional five agreements, taking the total to 44 with an aggregate value of £194m, 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.

Having completed critical design review and safety of flight declaration of our wheel and brake on the A321neo, as a result of an Airbus aircraft level issue, we have reached commercial agreement with Airbus to delay the final test (MERTO) as part of the certification process. We remain excited about the future potential of our technology and this platform and continue to work with our launch customer, Wizz Air, and a number of other parties interested in our wheel and brake technology.

## Competitiveness

Having opened our offices at Ansty Park in July 2020, our new UK manufacturing and engineering centre, full commissioning of the site remains on track with excellent progress on the fit out of the core manufacturing and production areas. Along with a new warehouse facility, a number of lines are operational supporting civil OE and AM and defence customers with direct shipments also taking place from the site. At the end of July, approximately 50% of the planned workforce had transitioned to Ansty Park, with the remainder due to move over the coming months. In the second half, our priority is to complete the transition allowing us to support key platforms such as the Airbus A220 and LEAP engine and once complete, we will have a total of 34 manufacturing sites globally, representing a reduction of 39% since 2016.

Our High Performance System (HPS) replaces and builds on, the original Meggitt Production System (MPS). HPS is designed to measure and drive efficiency across all Group functions and sites at different stages of maturity, and has now been deployed across the Group. During the period, we successfully implemented our Spitfire operations leadership

programme, with 60 people trained to date with our target to train a total of 200 by the middle of 2022.

As previously announced, competition for labour combined with COVID-related disruption lowered productivity at two of our earlier stage HPS sites in the US, dampening profitability in the period, particularly in our Engine Systems division. The introduction of a range of retention and incentive schemes combined with lower numbers of employees quarantining at these sites is taking effect. As more economies recover from the worst of the pandemic, we will continue to monitor the impact of labour market tightness on our operations and take action as necessary.

The increase in global economic activity is also placing upward pressure on the prices for certain raw materials such as iron ore and aluminium, creating cost headwinds and likely to make the delivery of our annual net purchase cost savings targets more difficult this year.

Managing our supply chain and inventory levels will continue to be key areas of focus across the Group as we prepare our sites to increase production as OE build rates increase and demand across the civil aerospace sector continues to recover.

## Culture

Over the last three years we have worked hard to build and nurture a high performance culture (HPC) and maintain high levels of engagement where our ambitious and diverse teams help us to accelerate the execution of our strategy.

Our priority over the last few months has continued to be to look after our people across our sites and, where possible, manage the safe return of people working from home to the office, as well as continuing with our broader HPC and diversity and inclusion initiatives.

Following nine years of success in our Engineering & Operations Graduate programme, we launched our Corporate Graduate Programme to business functions in the UK promoting professional development opportunities across Finance, Corporate Affairs and IT. In the first half we also launched two new training programmes: Spitfire for our Operations leaders and LeadX, for future business leaders.

Our eight employee led employee resource groups (ERGs) have been instrumental in promoting engagement, diversity and inclusion across the Group. Some notable points in the half were our Veterans Group ERG's initiative 'Steps for Vets' in aid of the Jon Egging Trust and working with our SHINE ERG, recording over 20 million steps from participants across the globe. Additionally, we have achieved Disability Confident Level 2 in the UK, a key phase in building an inclusive workplace.

Meggitt has also committed to support the UK 10,000 Black intern programme, which seeks to offer annual internships, with the aim of transforming the horizons and prospects of young black people in the UK, with eight placements available across four of our UK sites, starting in summer 2022.

## TRADING SUMMARY

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

	Revenue (£'m)		Growth (%)	
	H1 2021	H1 2020	Reported	Organic
Civil OE	121.0	184.1	(34)	(28)
Civil AM	171.9	248.2	(31)	(24)
<b>Total Civil</b>	<b>292.9</b>	<b>432.3</b>	<b>(32)</b>	<b>(26)</b>
Defence	301.9	392.4	(23)	(9)
Energy	60.1	60.7	(1)	4
Other	25.1	31.4	(20)	(11)
<b>TOTAL</b>	<b>680.0</b>	<b>916.8</b>	<b>(26)</b>	<b>(16)</b>

## Civil aerospace

Meggitt operates in three main segments of the civil aerospace market: large jets, regional aircraft and business jets. The large jet fleet includes over 23,000 aircraft, the regional aircraft fleet over 6,000 and business jets around 19,000. The Group has products on 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 43% of the Group total, was 41% original equipment (OE) and 59% aftermarket (AM).



### Civil OE

Despite an increase in large jet deliveries in the first six months of 2021 (including a number from OEMs' inventory) compared with the same period in 2020, in the first half, civil OE revenue was down 28%, with large jets, the largest component of our OE revenue, down 31% and regional jets down 36%. Business jet OE was down 19%. Within the first half, civil OE was down 46% and up 3% in the first and second quarters respectively, and up 5% sequentially between the first and second quarters.

### Civil AM

While global air traffic has continued to steadily recover during the first half of 2021 and was substantially up on 2020 levels in the second quarter, overall global ASKs and RPKs in the first six months of the year were 56.4% and 66.7% lower respectively than the same period in 2019.

The positive trends seen in the first half have also been reflected in a sequential improvement in our own business, with civil AM orders up 40% and revenue up 31% in the second quarter compared with the first quarter this year.

As a result of lower overall air traffic activity across the half, and a combination of the lag between traffic activity and AM order patterns and the use of green time and spare parts inventory by operators, civil AM revenue was down 24% in the first half. Within that, large jets were down 29%, regional down 32% and business jets outperformed down 6%. Within the first half, civil AM revenue was down 46% and up 10% in the first and second quarters respectively compared with the corresponding periods in 2020.

A summary of civil aftermarket organic revenue growth rates comparing 2021 to 2020 and quarterly trends in 2021 is set out in the table below.

Growth (%)	Year on year (21 vs 20)			Sequential 21
	Q1	Q2	H1	Q1 vs Q2
Large jets	(53)	11	(29)	46
Regional jets	(51)	(1)	(32)	23
Business jets	(24)	19	(6)	12
<b>Total Civil AM</b>	<b>(46)</b>	<b>10</b>	<b>(24)</b>	<b>31</b>

Overall, civil aerospace revenue was 26% lower in the first half on an organic basis.

### Defence

Our Defence business accounted for 44% of Group revenues in H1 2021 with 59% of revenue from OE and 41% 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 19% to European customers and 9% to the rest of the world.

Defence revenue was 9% lower reflecting: a strong first half in 2020 where revenue grew by 7%; in the aftermarket, COVID-19 related disruption causing delays in the receipt of orders from the DLA; and on the OE side, lower throughput at one of our key US defence focused sites impacted by high employee quarantining in the first quarter, where we have subsequently agreed with the customer to re-phase volume over the next two years.

In OE, revenue was down 6% with the aftermarket 13% lower. Our order book remains solid, with book to bill of 0.94 in the second quarter.

### Energy and other

Energy and other revenues (13% 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 (4% of Group total) include the automotive, industrial, test, consumer goods and medical sectors.

Energy revenue was up 4% with Heatric revenue up 8% and energy sensing and controls up 15%, partially offset by lower energy sales in the Airframes division. Revenue from other markets was 11% lower against the comparative period.

The medium-term growth prospects of our energy businesses remain strong with book to bill of 1.38x for the period underpinned by a number of contract wins and 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

The financial performance of the individual divisions for the six months ended 30 June 2021 (restated)\* is summarised in the table below. Unless otherwise stated, all growth comparisons are presented on an organic basis.

	Revenue				Underlying Operating Profit/(Loss)			
	H1 2021 £'m	H1 2020* £'m	% Growth		H1 2021 £'m	H1 2020* £'m	% Growth	
			Reported	Organic			Reported	Organic
Airframe Systems	<b>339.9</b>	430.8	(21)	(15)	<b>41.7</b>	70.3	(41)	(37)
Engine Systems	<b>91.4</b>	140.0	(35)	(27)	<b>(14.5)</b>	(8.9)	(63)	(77)
Energy & Equipment	<b>130.9</b>	169.1	(23)	4	<b>20.4</b>	16.1	27	17
Services & Support	<b>117.8</b>	176.9	(33)	(27)	<b>14.1</b>	24.7	(43)	(38)
<b>Total Group</b>	<b>680.0</b>	916.8	<b>(26)</b>	<b>(16)</b>	<b>61.7</b>	102.2	<b>(40)</b>	<b>(37)</b>

\* Prior period figures have been restated to reflect the transfer of a number of product lines from the Energy & Equipment division to the Engine Systems division with effect from 1 January 2021.

**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 50% of Group revenue, generating 54% of its revenue from OE sales and 46% from the aftermarket.

Revenue was down 15% in the half. Civil OE revenue was down 29% with large jets and regional jets OE down 33% and 41% respectively, reflecting lower end market demand for new aircraft and OEMs. Business jet OE was down 15% outperforming large and regional jets on a relative basis.

Civil aftermarket revenue was 17% lower with large, regional and business jets down 22%, 31% and 2% respectively. We are encouraged by order intake in our brakes business, with a book to bill across civil aerospace in the division of 1.04x (across OE and aftermarket).

Defence revenue was down 2%, with OE 6% higher driven by fighters (including the F-35) and rotary wing aircraft. In the aftermarket, which represents 43% of Airframe Systems defence revenue, revenue was 10% lower than the comparative period, principally as a result of lower revenue on the Typhoon and light attack aircraft which more than offset growth on the F-35.

Underlying operating margin was 400 basis points lower than the comparative period at 12.3% (H1 2020: 16.3%).

**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 13% of Group revenue, generating 92% of its revenue from OE and 8% from the aftermarket as a result of its principal route to the aftermarket being through the Services & Support division.

Revenue decreased by 27%. Civil OE revenue was 27% lower, with the absolute reduction in revenue mainly driven by large jets. In defence, revenue was also down 27% with lower revenue principally on the F-35 reflecting a large order in the prior year period and quality issues from a key supplier which have since been resolved.

Engine Systems generated an underlying operating loss in the first half of £14.5m (H1 2020: loss of £8.9m) resulting from lower revenue and, as previously mentioned, lower productivity caused by COVID-related disruption at one of our US sites.

While overall volumes in Engine Composites remain below 2019 levels, we continue to make good progress on our recovery plan, transferring more production down to our low cost facility in Saltillo, Mexico as well as introducing further process improvements and increasing yields significantly on certain parts. As civil volumes recover, we expect the financial performance of this product group to steadily improve with our ultimate target of returning the product group to mid-teens margins unchanged.

**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 19% of Group revenue and generates 83% of its revenue from OE and 17% from the aftermarket.

Revenue was up 4% with a very strong performance in energy up 12%, partially offset by defence where revenue was flat. Heatric grew revenue 8% in the first half underpinned by a strong order book as we entered the year, with demand in our Energy Sensors and Controls business up 15% driven by the oil and gas sector.

Underlying operating margins at 15.6% were 610 basis points higher than the comparative period (H1 2020: 9.5%).

**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 17% of Group revenue and generates 100% of its revenue from the aftermarket, with 75% generated from civil aerospace, 23% from defence and 2% from energy.

Overall order intake in the division was down 16% in the first half, with civil aerospace down 13% and defence down 30%. Civil orders recovered strongly in the second quarter up 76% on the comparative period, having been 52% lower in the first quarter.

Revenue for the division was 27% lower in the first half, with civil aerospace revenue down 29% and defence 26% lower reflecting the delay to normal order patterns in the US received from the DLA. Civil aerospace revenue was 5% lower in the second quarter having been down 47% in the first quarter against the comparative period, and up 30% sequentially. Within civil aerospace, large jet revenue, which represents 80% of civil revenue, was down 30% in the first half, with regional jets down 32%. Revenue from business jets was down 19% in the period. Regionally and on a sequential basis, revenue increased 37%, 20% and 27% in the US, Europe and Asia Pacific respectively.

Underlying operating margin was 200 basis points lower at 12.0% (H1 2020: 14.0%).

## INVESTING FOR THE FUTURE

£m	H1 2021	H1 2020	% Change	
	£'m	£'m	Organic	Reported
Total research and development (R&D)	<b>39.4</b>	55.7	(18)	(29)
Less: Charged to cost of sales / WIP	<b>(10.7)</b>	(13.6)	(11)	(21)
Less: Capitalised	<b>(11.7)</b>	(18.8)	(21)	(38)
Add: Amortisation / Impairment	<b>17.3</b>	16.6	26	4
Charge to underlying net operating costs	<b>34.3</b>	39.9	(2)	(14)
Capital expenditure	<b>31.7</b>	57.4		(45)

While R&D in the period has reduced, in part due to a lower number of customer programmes together with our overall cash saving initiative, we have continued to invest in new technologies to support new product development and future growth. In the first half, total R&D expenditure of £39.4m was slightly down as a percentage of revenue at 5.8% (H1 2020: £55.7m, 6.1%).

The charge to underlying net operating costs, including amortisation and impairment, decreased by 14% (decreased by 2% on an organic basis) to £34.3m (2020: £39.9m).

As expected, capital expenditure was lower in the first half at £31.7m (H1 2020: £57.4m).

## OTHER FINANCIAL INFORMATION

### Foreign Exchange

The strengthening of sterling against the US dollar negatively affected our reported results for the period. Translation of results from overseas businesses decreased Group revenue by £48.1m and underlying profit before tax (PBT) by £2.4m 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 2020 average rates, is shown in the table below:

	2020 average rate	Revenue £'m	Underlying PBT £'m
<i>Impact of 10 cent movement*</i>			
US Dollar	1.29	85	5
Swiss Franc	1.22	6	1
Euro	1.14	9	1

\* As measured against 2020 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, decreased revenue by £9.0m and underlying PBT by £0.7m in the period. We typically hedge transaction exposure and the following table details hedging currently in place:

	Hedging in place <sup>6</sup> %	Average transaction rate <sup>7</sup>
<i>2021</i>		
US dollar/sterling	100	1.36
US dollar/Swiss franc	100	1.13
US dollar/euro	100	1.16
<i>2022 – 2024 inclusive</i>		
US dollar/sterling	81	1.33
US dollar/Swiss franc	14	1.13
US dollar/euro	64	1.20

Taking translation and transaction impacts into account, H1 2021 reported revenue decreased by £57.1m and underlying PBT decreased by £3.1m.

### Finance costs

Underlying net finance costs of £13.3m were lower than the comparative period (H1 2020: £16.7m), principally due to lower interest rates and a favourable impact of the weaker US dollar.

### Tax charge

The Group's underlying tax rate for the period was 21.4% (HY 2020: 21.2%).

As anticipated, during the period the Group received assessments from the UK tax authority in connection with state aid partially applying to the UK's CFC exemptions that were utilised by the Group. The assessments amounted to £18.0m and were covered by provisions held at 31 December 2020. The amounts have been paid in full in the first half and continue to be appealed by the UK Government and the Group. For the full year, we continue to expect the level of cash tax to be around £60m.

<sup>6</sup> Based on forecast transaction exposures.

<sup>7</sup> Hedging in place with unhedged exposures based on exchange rates at 30 June 2021.

## Retirement benefit schemes

The Group's principal defined benefit pension schemes are in the UK and US. Following completion of a consultation process, the UK scheme was closed to future accrual with effect from 6 April 2021. All of the Group's US pension schemes have previously been closed to future accrual.

Total scheme deficits in 2021 reduced to £201.1m (December 2020: £295.4m), with the principal drivers of the net reduction being:

- A reduction of £88.0m (H1 2020: increase of £91.1m) relating to re-measurement gains on scheme liabilities, principally arising from an increase in AA corporate bond yields in both the UK and US, reversing the trend seen in recent periods;
- An increase of £22.3m (H1 2020: reduction of £39.9m) due to re-measurement losses on scheme assets; and
- Deficit reduction payments of £21.7m (H1 2020: £7.1m) of which £18.5m was paid in respect of the UK scheme (June 2020: £7.1m).

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 £38.0m in 2021, £40.2m in 2022 and £29.9m in 2023.

The UK 2021 triennial valuation has recently commenced and the Group and trustees are currently discussing the appropriate assumptions to be used. The Group anticipates the valuation will likely result in a further funding shortfall, not covered by the deficit payments being made under the existing amended recovery plan. However, until the significant assumptions are agreed it is not possible to reliably estimate the value of this shortfall. The valuation is expected to be finalised during H1 2022, with deficit contributions to address any additional deficit commencing at a date to be agreed with the trustees once the valuation is finalised.

In the US, the Group made deficit payments in respect of its funded defined benefit pension schemes of £2.8m in the period (June 2020: £0.5m). Under current legislation, no further payments are expected to be required in either H2 2021 or 2022.

## CONDENSED CONSOLIDATED UNAUDITED INCOME STATEMENT

For the six months ended 30 June 2021

	Note	Six months ended 30 June 2021 £'m	Six months ended 30 June 2020 £'m
<b>Revenue</b>	4	<b>680.0</b>	916.8
<b>Non-GAAP measures</b>			
Exceptional impairment losses and other asset write-downs	7a	-	(16.0)
Other cost of sales		<b>(484.6)</b>	(640.6)
Cost of sales		<b>(484.6)</b>	(656.6)
<b>Gross profit</b>		<b>195.4</b>	260.2
<b>Non-GAAP measures</b>			
Exceptional impairment losses and other asset write-downs	7a	-	(357.2)
Other operating costs		<b>(183.2)</b>	(287.1)
Operating costs		<b>(183.2)</b>	(644.3)
Operating income		<b>36.8</b>	35.4
Net operating costs		<b>(146.4)</b>	(608.9)
<b>Operating profit/(loss) <sup>1</sup></b>		<b>49.0</b>	(348.7)
Finance income		<b>0.4</b>	0.3
Finance costs		<b>(15.8)</b>	(20.0)
Net finance costs	8	<b>(15.4)</b>	(19.7)
<b>Profit/(loss) before tax <sup>2</sup></b>		<b>33.6</b>	(368.4)
Tax (charge)/credit	9	<b>(5.3)</b>	24.1
<b>Profit/(loss) for the period attributable to equity owners of the Company</b>		<b>28.3</b>	(344.3)
Earnings/(loss) per share:			
Basic <sup>3</sup>	10	<b>3.6p</b>	(44.3)p
Diluted <sup>4</sup>	10	<b>3.6p</b>	(43.7)p
<b>Non-GAAP measures</b>			
<sup>1</sup> Underlying operating profit	4 & 5	<b>61.7</b>	102.2
<sup>2</sup> Underlying profit before tax	5	<b>48.4</b>	85.5
<sup>3</sup> Underlying basic earnings per share	10	<b>4.9p</b>	8.7p
<sup>4</sup> Underlying diluted earnings per share	10	<b>4.9p</b>	8.5p

**CONDENSED CONSOLIDATED UNAUDITED STATEMENT OF COMPREHENSIVE INCOME**

For the six months ended 30 June 2021

	Note	<b>Six months ended 30 June 2021 £'m</b>	Six months ended 30 June 2020 £'m
<b>Profit/(loss) for the period attributable to equity owners of the Company</b>		<b>28.3</b>	(344.3)
<b>Items that may be reclassified to the income statement in subsequent periods:</b>			
Currency translation movements:			
Arising in the period		<b>(49.9)</b>	144.0
Transferred to the income statement		-	(44.0)
Movements in fair value of financial liabilities arising from changes in credit risk:			
Bank and other borrowings	19	<b>(0.8)</b>	2.2
Derivative financial instruments		-	(1.4)
Tax effect		<b>0.2</b>	(0.1)
		<b>(50.5)</b>	100.7
<b>Items that will not be reclassified to the income statement in subsequent periods:</b>			
Remeasurement of retirement benefit obligations	21	<b>65.7</b>	(51.3)
Tax effect		<b>(11.3)</b>	12.0
		<b>54.4</b>	(39.3)
<b>Other comprehensive income for the period</b>		<b>3.9</b>	61.4
<b>Total comprehensive income/(expense) for the period attributable to equity owners of the Company</b>		<b>32.2</b>	(282.9)

## CONDENSED CONSOLIDATED UNAUDITED BALANCE SHEET

At 30 June 2021

	Note	30 June 2021 £'m	31 December 2020 £'m
<b>Non-current assets</b>			
Goodwill	13	1,498.5	1,519.5
Development costs	13	513.6	531.9
Programme participation costs	13	18.9	18.7
Other intangible assets	13	349.9	401.1
Property, plant and equipment	14	455.1	458.8
Investments	15	19.8	20.8
Other receivables		18.7	16.5
Contract assets		56.0	59.6
Derivative financial instruments	19	14.6	15.0
Deferred tax assets		5.2	19.2
		<b>2,950.3</b>	3,061.1
<b>Current assets</b>			
Inventories		426.5	426.9
Trade and other receivables		261.9	251.1
Contract assets		59.2	48.8
Derivative financial instruments	19	8.7	5.4
Current tax recoverable		9.1	11.5
Cash and cash equivalents		139.3	178.6
Assets classified as held for sale	16	-	14.7
		<b>904.7</b>	937.0
<b>Total assets</b>	4	<b>3,855.0</b>	3,998.1
<b>Current liabilities</b>			
Trade and other payables		(260.0)	(296.5)
Contract liabilities		(51.7)	(50.8)
Derivative financial instruments	19	(2.7)	(21.6)
Current tax liabilities		(30.8)	(56.9)
Lease liabilities		(15.5)	(14.7)
Bank and other borrowings	18 & 19	(105.1)	(10.5)
Provisions	20	(36.0)	(32.6)
Liabilities directly associated with assets classified as held for sale	16	-	(3.7)
		<b>(501.8)</b>	(487.3)
<b>Net current assets</b>		<b>402.9</b>	449.7
<b>Non-current liabilities</b>			
Other payables		(5.2)	(8.5)
Contract liabilities		(72.1)	(73.9)
Derivative financial instruments	19	(0.1)	(0.3)
Deferred tax liabilities		(86.8)	(93.4)
Lease liabilities		(148.4)	(129.6)
Bank and other borrowings	18 & 19	(692.9)	(796.8)
Provisions	20	(78.5)	(80.3)
Retirement benefit obligations	21	(201.1)	(295.4)
		<b>(1,285.1)</b>	(1,478.2)
<b>Total liabilities</b>		<b>(1,786.9)</b>	(1,965.5)
<b>Net assets</b>		<b>2,068.1</b>	2,032.6
<b>Equity</b>			
Share capital		39.0	39.0
Share premium		1,227.1	1,226.6
Other reserves		15.7	15.7
Hedging and translation reserves		298.4	348.9
Retained earnings		487.9	402.4
<b>Total equity attributable to owners of the Company</b>		<b>2,068.1</b>	2,032.6



## CONDENSED CONSOLIDATED UNAUDITED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

	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 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) for the period	-	-	-	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
<b>At 1 January 2021</b>	<b>39.0</b>	<b>1,226.6</b>	<b>15.7</b>	<b>348.9</b>	<b>402.4</b>	<b>2,032.6</b>
<b>Profit for the period</b>	-	-	-	-	<b>28.3</b>	<b>28.3</b>
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)	-
<b>At 30 June 2021</b>	<b>39.0</b>	<b>1,227.1</b>	<b>15.7</b>	<b>298.4</b>	<b>487.9</b>	<b>2,068.1</b>

## CONDENSED CONSOLIDATED UNAUDITED CASH FLOW STATEMENT

For the six months ended 30 June 2021

	Note	Six months ended 30 June 2021 £'m	Six months ended 30 June 2020 £'m
<b>Non-GAAP measures</b>			
Cash inflow from operations before business disposal expenses and exceptional operating items		<b>44.3</b>	21.2
Cash outflow from business disposal expenses	27	<b>(1.0)</b>	(2.7)
Cash outflow from exceptional operating items	7	<b>(12.2)</b>	(28.1)
<b>Cash inflow/(outflow) from operations</b>	25	<b>31.1</b>	(9.6)
Interest received		<b>0.1</b>	0.1
Interest paid		<b>(15.0)</b>	(16.6)
Tax paid		<b>(29.4)</b>	(24.4)
<b>Cash outflow from operating activities</b>		<b>(13.2)</b>	(50.5)
Investment acquired	15	<b>(0.9)</b>	(7.6)
Business disposed	27	<b>20.2</b>	112.3
Capitalised development costs	13	<b>(11.7)</b>	(18.8)
Capitalised programme participation costs		<b>(0.8)</b>	(0.6)
Purchase of intangible assets		<b>(6.2)</b>	(10.8)
Purchase of property, plant and equipment		<b>(29.6)</b>	(46.6)
Government grants received in respect of purchase of property, plant and equipment		<b>4.1</b>	-
Proceeds from disposal of property, plant and equipment		<b>22.7</b>	0.3
<b>Cash (outflow)/inflow from investing activities</b>		<b>(2.2)</b>	28.2
Issue of equity share capital		<b>0.5</b>	-
Proceeds from bank and other borrowings		<b>2.8</b>	394.5
Repayments of bank and other borrowings		<b>(15.8)</b>	(294.4)
Debt issue costs paid		<b>(0.3)</b>	(1.6)
Reverse lease premium received	25	<b>-</b>	3.5
Repayments of lease liabilities	17	<b>(7.6)</b>	(8.2)
<b>Cash (outflow)/inflow from financing activities</b>		<b>(20.4)</b>	93.8
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(35.8)</b>	71.5
Cash and cash equivalents at start of the period		<b>178.6</b>	155.3
Exchange (losses)/gains on cash and cash equivalents		<b>(3.5)</b>	10.1
<b>Cash and cash equivalents at end of the period</b>		<b>139.3</b>	236.9

## NOTES TO THE CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

### 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 2020 were approved by the Board of Directors on 3 March 2021 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 2021 have been prepared in accordance 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 2020.

#### 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 2 August 2022.

#### Current liquidity

At 30 June 2021, the Group had the following committed credit facilities with its relationship banks and private placement investors:

	During assessment period £'m	Later £'m	Total £'m
USD 750m multi-currency syndicated revolving credit facility*	126.2	414.8	541.0
USD 125m loan notes issued to private placement investors in 2010**	90.2	-	90.2
USD 125m bilateral facilities	-	90.2	90.2
Sterling bilateral facilities***	-	145.0	145.0
USD 600m loan notes issued to private placement investors in 2016	-	432.8	432.8
USD 300m loan notes issued to private placement investors in 2020	-	216.4	216.4
Other loans	-	0.7	0.7
<b>Total committed credit facilities</b>	<b>216.4</b>	<b>1,299.9</b>	<b>1,516.3</b>

\* Comprises USD 175m maturing in September 2021, with the balance of USD 575m covered by the additional forward start facility maturing in September 2022.

\*\* Due for repayment in June 2022.

\*\*\* With effect from 1 July 2021, the facilities were reduced to £95.0m.

## 1. General information and basis of preparation continued

At 30 June 2021, the Group had the following headroom against its committed credit facilities:

	<b>Total £'m</b>
Committed credit facilities	1,516.3
Bank and other borrowings (note 18)	798.0
Less: Cash	(139.3)
Net borrowings excluding lease liabilities	658.7
<b>Headroom</b>	<b>857.6</b>

### **Covenants**

The committed credit facilities set out above 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 2021, the first covenant assessment period with a full 12 month trailing EBITDA performance since the outbreak of Covid-19, net debt/EBITDA was 2.4x and interest cover was 9.7x. No covenant waivers have been sought by the Group.

### **Downside scenario (“severe but plausible scenario”)**

ASK's, a key metric for the Group's commercial aerospace markets, have grown in H1. Domestic markets have shown the strongest recovery, led by China and the US, with Europe starting to see strong growth in more recent months. However, outside of regional markets, long haul traffic has been weaker with national governments restricting the countries it allows passengers entry from. The recovery also remains sensitive to regional spikes in Covid-19 infection levels and the emergence of new variants of the virus. Accordingly, there remains uncertainty over the extent and pace of recovery in the Group's commercial aerospace markets in particular. The Group has continued therefore to update its view of a severe but plausible downside scenario, with the most recent update prepared and approved by the Board in July 2021.

To stress test the assumption that the going concern principle remains appropriate, the Group has used the outputs from this model covering the assessment period. Under this scenario, a combination of continued slow vaccine roll-out in developing economies and the emergence of further, new variants of the virus leads to governments imposing tighter travel restrictions than those currently in place. Under this severe scenario, the Group's civil AM revenues in H2 2021 remain flat compared to those in H2 2020, before recovering in 2022 as further vaccine derivatives and better treatments lead to consumer confidence and ability to travel returning.

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. During the assessment period, the Group does not breach either of the financial covenant ratios.

The Group has also performed a reverse stress test to identify the extent to which civil aerospace revenues would need to fall, before taking any actions to mitigate costs and preserve cash that would be available to the Group, and has concluded that the likelihood of this scenario is remote.

### **Principal risks**

The Group has also considered whether its principal risks 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 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 Group has not assumed that any of the catastrophic events described within its business interruption risk occur during the going concern assessment period. The Board has regularly reviewed these risks throughout the period since the start of the COVID-19 outbreak and up to the date of the financial statements, and has approved an updated Group risk appetite statement with associated risk tolerances to ensure that risks are managed within acceptable limits. 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 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 the 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 2020, 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 2021. These rates have been applied to the pre-tax profits made in each jurisdiction for the six months ended 30 June 2021.

During the period, no new accounting standards, amendments or revisions to existing standards, or interpretations have become effective which had a significant impact on the condensed consolidated financial statements.

### Recent accounting developments

#### *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 current accounting policy, it only includes 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 Group has yet to assess the impact of these amendments, which may result in the recognition of additional onerous contracts and will result in the measurement of existing onerous contract provisions increasing. 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. These amendments have not been early adopted.

A number of other additional 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 judgements and estimates disclosed in the Group's 2020 Annual Report is set out below:

- **Critical accounting estimates**  
The Group's estimates relating to impairment of goodwill and other assets and the determination of retirement benefit obligations remain critical estimates for the current period. There are no new critical estimates applicable to the current period.
- **Critical accounting judgements**  
The Group's judgements that the going concern basis is appropriate and when development costs meet the criteria to be recognised as intangible assets remain critical judgements 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 2021

	Airframe Systems £'m	Engine Systems £'m	Energy & Equipment £'m	Services & Support £'m	Total £'m
Gross segment revenue	429.2	136.6	139.3	120.5	825.6
Inter-segment revenue	(89.3)	(45.2)	(8.4)	(2.7)	(145.6)
<b>Revenue from external customers</b>	<b>339.9</b>	<b>91.4</b>	<b>130.9</b>	<b>117.8</b>	<b>680.0</b>
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
<b>Revenue by basis of recognition</b>	<b>339.9</b>	<b>91.4</b>	<b>130.9</b>	<b>117.8</b>	<b>680.0</b>
<b>Underlying operating profit/(loss)*</b>	<b>41.7</b>	<b>(14.5)</b>	<b>20.4</b>	<b>14.1</b>	<b>61.7</b>

##### Six months ended 30 June 2020 (restated)\*\*

	Airframe Systems £'m	Engine Systems £'m	Energy & Equipment £'m	Services & Support £'m	Total £'m
Gross segment revenue	543.9	206.1	175.5	180.3	1,105.8
Inter-segment revenue	(113.1)	(66.1)	(6.4)	(3.4)	(189.0)
Revenue from external customers	430.8	140.0	169.1	176.9	916.8
At a point in time	411.3	132.0	79.2	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	140.0	169.1	176.9	916.8
Underlying operating profit/(loss)*	70.3	(8.9)	16.1	24.7	102.2

\* 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 reflect the transfer of a number of product lines from the Energy & Equipment division to the Engine Systems division with effect from 1 January 2021.

#### 4. Segmental analysis continued

##### Segmental assets

	<b>30 June 2021</b>	31 December 2020 (restated)**
	<b>£'m</b>	<b>£'m</b>
Airframe Systems	<b>1,018.0</b>	1,036.5
Engine Systems	<b>363.5</b>	390.2
Energy & Equipment	<b>207.7</b>	200.3
Services & Support	<b>104.5</b>	90.4
<b>Total segmental trading assets</b>	<b>1,693.7</b>	1,717.4
Centrally managed trading assets*	<b>182.6</b>	167.4
Goodwill (note 13)	<b>1,498.5</b>	1,519.5
Other intangible assets excluding software assets	<b>283.5</b>	328.6
Investments (note 15)	<b>19.8</b>	20.8
Derivative financial instruments – non-current (note 19)	<b>14.6</b>	15.0
Deferred tax assets	<b>5.2</b>	19.2
Derivative financial instruments – current (note 19)	<b>8.7</b>	5.4
Current tax recoverable	<b>9.1</b>	11.5
Cash and cash equivalents	<b>139.3</b>	178.6
Assets classified as held for sale (note 16)	<b>-</b>	14.7
<b>Total assets</b>	<b>3,855.0</b>	3,998.1

\* 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.

\*\* Prior period figures have been restated to reflect the transfer of a number of product lines from the Energy & Equipment division to the Engine Systems division with effect from 1 January 2021.

## 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.

	<b>Six months ended 30 June 2021</b>	Six months ended 30 June 2020
	<b>£'m</b>	£'m
<b>Operating profit/(loss)</b>	<b>49.0</b>	(348.7)
Amounts arising on the acquisition, disposal and closure of businesses (note 5a)	<b>(7.5)</b>	(33.9)
Amortisation of intangible assets acquired in business combinations (note 13)	<b>40.1</b>	45.0
Financial instruments (gain)/loss (note 6)	<b>(24.6)</b>	38.0
Exceptional operating items (note 7)	<b>4.7</b>	401.8
Adjustments to operating profit*	<b>12.7</b>	450.9
<b>Underlying operating profit</b>	<b>61.7</b>	102.2
<b>Profit/(loss) before tax</b>	<b>33.6</b>	(368.4)
Adjustments to operating profit per above	<b>12.7</b>	450.9
Net interest expense on retirement benefit obligations (note 8)	<b>2.1</b>	3.0
Adjustments to profit before tax	<b>14.8</b>	453.9
<b>Underlying profit before tax</b>	<b>48.4</b>	85.5
<b>Profit/(loss) for the period</b>	<b>28.3</b>	(344.3)
Adjustments to profit before tax per above	<b>14.8</b>	453.9
Tax effect of adjustments to profit before tax	<b>(5.1)</b>	(42.2)
Adjustments to profit for the period	<b>9.7</b>	411.7
<b>Underlying profit for the period</b>	<b>38.0</b>	67.4

\* Of the adjustments to operating profit, £2.0m relating to exceptional operating items has been charged to cost of sales (2020: £31.6m), with the balance of £10.7m (2020: £419.3m) 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 a business, 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.

	<b>Six months ended 30 June 2021</b>	Six months ended 30 June 2020
	<b>£'m</b>	£'m
Gain on disposal of businesses before disposal expenses (note 25)	<b>(9.5)</b>	(38.1)
Costs related to disposal of businesses in the current period (note 27)	<b>0.4</b>	3.1
Gain on disposal of businesses in the current period (note 27)	<b>(9.1)</b>	(35.0)
Amounts recognised in respect of disposals in other periods	<b>1.6</b>	1.1
<b>Amounts arising on the acquisition, disposal and closure of businesses</b>	<b>(7.5)</b>	(33.9)



## 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 swap contracts or treasury lock derivatives. The Group's underlying profit figures exclude amounts which would not have been recognised if hedge accounting had been applied.

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.

	<b>Six months ended 30 June 2021 £'m</b>	Six months ended 30 June 2020 £'m
Movement in fair value of:		
Foreign currency forward contracts	<b>1.8</b>	40.2
Cross currency derivatives	<b>(24.9)</b>	(4.4)
Treasury lock derivative	<b>(0.3)</b>	(0.3)
Interest rate derivatives	<b>1.7</b>	(0.9)
Fixed rate borrowings due to interest rate risk (note 19)	<b>(1.6)</b>	1.1
Impact of retranslating net foreign currency assets and liabilities at spot rate	<b>(1.3)</b>	2.3
<b>Financial instruments – (gain)/loss</b>	<b>(24.6)</b>	38.0

## 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, 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. In addition, the impact of the global COVID-19 pandemic, and the resulting uncertainty facing the commercial aerospace industry, have given rise to significant non-recurring incremental costs and, in 2020, significant impairment losses and asset write-downs which have been treated as exceptional operating items.

	Note	Income statement		Cash flow	
		<b>Six months ended 30 June 2021 £'m</b>	Six months ended 30 June 2020 £'m	<b>Six months ended 30 June 2021 £'m</b>	Six months ended 30 June 2020 £'m
Impairment losses and other asset write-downs	a	-	373.2	-	-
COVID-19 incremental non-recurring costs	b	<b>1.6</b>	13.2	<b>2.4</b>	8.7
Site consolidations	c	<b>3.1</b>	14.8	<b>9.7</b>	18.7
Business restructuring costs and other items		-	0.6	<b>0.1</b>	0.7
<b>Exceptional operating items</b>		<b>4.7</b>	401.8	<b>12.2</b>	28.1

a. The Group recognised material impairment losses and other reductions in asset values in 2020 arising from the uncertainty facing the commercial aerospace industry following the COVID-19 outbreak. These were aggregated and classified as an exceptional operating item given their size and that they all arose from the unprecedented circumstances that the industry experienced. Amounts recognised comprised £16.0m which was charged to cost of sales and £357.2m which was charged to operating costs.

## 7. Exceptional operating items continued

- b. 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, in 2020, 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, in both periods, 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 in 2021, £1.3m has been recognised within cost of sales, with the balance of £0.3m recognised within other operating costs. The tax credit in respect of these items was £0.4m.
- c. 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 £100.3m. In 2021, costs are principally in respect of the move to the new facility at Ansty Park in the West Midlands, UK which will enable 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 items, £0.7m has been recognised within cost of sales, with the balance of £2.4m recognised within other operating costs. The tax credit in respect of these items was £0.3m.

## 8. Net finance costs

	Six months ended 30 June 2021 £'m	Six months ended 30 June 2020 £'m
Interest on bank deposits	0.3	0.1
Unwinding of interest on other receivables	0.1	0.1
Other finance income	-	0.1
<b>Finance income</b>	<b>0.4</b>	0.3
Interest on bank borrowings	-	0.2
Interest on senior notes	10.6	13.7
Interest on lease liabilities	2.9	3.3
Unwinding of discount on provisions (note 20)	0.3	0.4
Net interest expense on retirement benefit obligations (notes 5 & 21)	2.1	3.0
Amortisation of debt issue costs	0.6	0.3
Less: amounts capitalised in the cost of qualifying assets (note 13)	(0.7)	(0.9)
<b>Finance costs</b>	<b>15.8</b>	20.0
<b>Net finance costs</b>	<b>15.4</b>	19.7

## 9. Tax

The statutory tax charge for the period was £5.3m (2020: credit of £24.1m) based on the reported profit before tax of £33.6m (2020: loss of £368.4m). Based on underlying profit before tax of £48.4m (2020: profit of £85.5m) the Group's underlying tax rate for the period was 21.4% (2020: 21.2%).

In the Spring Budget 2021, the UK Government announced that effective 1 April 2023, the UK corporation tax rate would increase from 19% to 25%. This legislation, which was substantively enacted in the period, has resulted in an estimated increase in the current tax charge of £2.9m with a credit to other comprehensive income of £3.7m as a result of the impact of remeasuring impacted deferred tax assets and liabilities.

As anticipated, during the period, the Group received assessments from the UK tax authorities in connection with the European Commission decision that state aid partially applies to one of the UK's CFC exemptions that was utilised by the Group. The assessments comprised £17.0m in respect of taxes and £1.0m in respect of interest. These assessments, for which a full provision was held at 31 December 2020, have been paid in full in the period. The European Commission decision continues to be appealed by both the UK Government and the Group.

## 10. Earnings per ordinary share

Earnings per ordinary share ('EPS') for the period is calculated by dividing the profit attributable to owners of the Company of £28.3m (2020: loss of £344.3m) by the weighted average number of shares in issue during the period of 779.7m (2020: 777.0m). The weighted average number of shares 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 2.7m shares (2020: 3.4m).

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:

	<b>Six months ended 30 June 2021 Pence</b>	Six months ended 30 June 2020 Pence
<b>Basic EPS</b>	<b>3.6</b>	(44.3)
Adjust for effects of:		
Amounts arising on the acquisition, disposal and closure of businesses	<b>(1.0)</b>	(4.4)
Amortisation of intangible assets acquired in business combinations	<b>4.2</b>	4.6
Financial instruments – (gain)/loss	<b>(2.6)</b>	4.0
Exceptional operating items	<b>0.5</b>	48.5
Net interest expense on retirement benefit obligations	<b>0.2</b>	0.3
<b>Underlying basic EPS</b>	<b>4.9</b>	8.7

Diluted EPS for the period is 3.6p (2020: loss per share of 43.7p). The calculation of diluted EPS adjusts the weighted average number of shares to reflect the assumption that all potentially dilutive ordinary shares convert. The weighted average number of shares used in the calculation of diluted EPS is 782.8m (2020: 788.2m). Underlying diluted EPS for the period is 4.9p (2020: 8.5p). 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 2020. The directors also do not recommend the payment of an interim dividend in respect of 2021. The Board is aware of the importance of dividends to our shareholders. However, the Board concluded that in light of ongoing market conditions, it is not recommending the payment of an interim dividend for 2021.

## 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.

	<b>Six months ended 30 June 2021 £'m</b>	Six months ended 30 June 2020 £'m
Salaries and other short-term employee benefits	<b>2.9</b>	3.1
Share-based payment expense/(credit)	<b>0.5</b>	(0.9)
<b>Total</b>	<b>3.4</b>	2.2

### 13. Intangible assets

	Goodwill	Development Costs	Programme participation costs	Other intangible assets	Total
	£'m	£'m	£'m	£'m	£'m
At 1 January 2021	1,519.5	531.9	18.7	401.1	2,471.2
Exchange rate adjustments	(21.0)	(9.3)	(0.3)	(5.4)	(36.0)
Additions	-	11.7	1.1	4.2	17.0
Interest capitalised (note 8)	-	0.7	-	-	0.7
Transfers to contract assets	-	(2.9)	-	-	(2.9)
Disposals	-	(0.1)	-	(0.3)	(0.4)
Amortisation*	-	(15.6)	(0.6)	(49.7)	(65.9)
Impairment**	-	(2.8)	-	-	(2.8)
<b>At 30 June 2021</b>	<b>1,498.5</b>	<b>513.6</b>	<b>18.9</b>	<b>349.9</b>	<b>2,380.9</b>

\* Included within amortisation of other intangible assets is £40.1m (2020: £45.0m) relating to intangible assets acquired in business combinations and which is excluded from the Group's underlying profit figures (note 5).

\*\* Included within impairment of development costs is £1.1m (2020: £24.5m) in respect of amounts charged to exceptional operating items and which has been excluded from underlying operating profit (note 5).

#### Goodwill impairment

Goodwill is tested for impairment annually or more frequently if there is any indication of impairment. There have been no indications of impairment in the period.

A full impairment review was conducted during the year ended 31 December 2020 and an impairment charge of £335.7m was recognised in the income statement. The cumulative impairment charge recognised at 30 June 2021 is £316.8m (December 2020: £321.9m), 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	Plant, equipment and vehicles	Right-of-use assets*	Total
	£'m	£'m	£'m	£'m
At 1 January 2021	148.2	206.0	104.6	458.8
Exchange rate adjustments	(2.6)	(3.1)	(0.7)	(6.4)
Additions	10.5	11.8	22.2	44.5
Disposals	(13.5)	(0.3)	(0.2)	(14.0)
Transfers	0.3	(0.3)	-	-
Depreciation**	(5.0)	(15.2)	(7.6)	(27.8)
<b>At 30 June 2021</b>	<b>137.9</b>	<b>198.9</b>	<b>118.3</b>	<b>455.1</b>

\* The net book amount comprises property of £116.4m (December 2020: £102.6m) and other assets of £1.9m (December 2020: £2.0m).

\*\* Depreciation includes £0.8m (2020: £1.7m) 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 are accounted for using the equity method and are stated as follows:

	<b>Total £'m</b>
At 1 January 2021	20.8
Exchange rate adjustments	(0.2)
Share of loss after tax	(0.8)
<b>At 30 June 2021</b>	<b>19.8</b>

During the period, contingent consideration of £0.9m was paid in respect of the investment in HiETA Technologies Limited.

## 16. Assets classified as held for sale

In December 2020, the sale of the Group's aircraft ducting business, based in Dunstable UK, together with a small product line from one of the Group's other businesses was agreed. Accordingly, the related assets of the business were classified as a disposal group held for sale and presented separately at 31 December 2020, together with directly associated liabilities. The sale completed on 30 January 2021.

	<b>Assets classified as held for sale £'m</b>	<b>Liabilities directly associated with assets classified as held for sale £'m</b>	<b>Total £'m</b>
At 1 January 2021	14.7	(3.7)	11.0
Change in carrying value up to date of disposal	(0.2)	0.1	(0.1)
Business disposed (note 27)	(14.5)	3.6	(10.9)
<b>At 30 June 2021</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 17. Lease Liabilities

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

	<b>Six months ended 30 June 2021 £'m</b>	Six months ended 30 June 2020 £'m
Depreciation charge for right-of-use assets (note 14)	<b>7.6</b>	8.2
Additions to right-of-use assets (note 14)	<b>22.2</b>	6.5
Net book amount of right-of-use assets (note 14)	<b>118.3</b>	114.3
Interest on lease liabilities (note 8)	<b>2.9</b>	3.3
Expense related to short-term leases and low-value assets	<b>0.2</b>	0.1
Net cash outflow for leases*	<b>10.5</b>	8.0

\* Comprises capital payments of £7.6m (2020: £8.2m) and interest payments of £2.9m (2020: £3.3m), less a reverse lease premium received of £Nil (2020: £3.5m) relating to the new Ansty Park site.

## 18. Bank and other borrowings

	<b>30 June 2021 £'m</b>	31 December 2020 £'m
Bank loans	4.3	2.2
Other loans	<b>100.8</b>	8.3
<b>Current portion</b>	<b>105.1</b>	10.5
Bank loans	44.1	43.7
Other loans	<b>648.8</b>	753.1
<b>Non-current portion</b>	<b>692.9</b>	796.8

## 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.

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

	<b>Book value</b>		<b>Fair value</b>	
	<b>30 June 2021 £'m</b>	31 December 2020 £'m	<b>30 June 2021 £'m</b>	31 December 2020 £'m
Derivative financial instruments – non-current	<b>14.6</b>	15.0	<b>14.6</b>	15.0
Derivative financial instruments – current	<b>8.7</b>	5.4	<b>8.7</b>	5.4
<b>Financial assets</b>	<b>23.3</b>	20.4	<b>23.3</b>	20.4
Derivative financial instruments – current	<b>(2.7)</b>	(21.6)	<b>(2.7)</b>	(21.6)
Bank and other borrowings – current	<b>(105.1)</b>	(10.5)	<b>(105.1)</b>	(10.5)
Derivative financial instruments – non-current	<b>(0.1)</b>	(0.3)	<b>(0.1)</b>	(0.3)
Bank and other borrowings – non-current	<b>(692.9)</b>	(796.8)	<b>(691.8)</b>	(813.1)
<b>Financial liabilities</b>	<b>(800.8)</b>	(829.2)	<b>(799.7)</b>	(845.5)
<b>Total</b>	<b>(777.5)</b>	(808.8)	<b>(776.4)</b>	(825.1)

Where financial instruments are measured at fair value, the fair value measurement hierarchy and methods of determining fair value are unchanged from those disclosed in the Group's consolidated financial statements for the year ended 31 December 2020.

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

## 19. Financial Instruments – fair value measurement continued

The Group designates loans that are in a hedge relationship with interest rate derivatives as fair value through profit and loss. The difference between fair values and contractual amounts at maturity of the current and non-current elements of bank and other borrowings designated as fair value through profit and loss is as follows:

	<b>30 June 2021 £'m</b>	31 December 2020 £'m
Contractual amount payable at maturity	<b>90.2</b>	91.6
Cumulative fair value adjustments arising from changes in interest rate risk	<b>3.2</b>	4.8
Cumulative fair value adjustments arising from changes in credit risk	<b>(0.7)</b>	(1.5)
Accrued interest and debt costs	<b>0.1</b>	0.1
<b>Fair value</b>	<b>92.8</b>	95.0

Changes in fair value in the period of bank and other borrowings held at fair value through profit and loss are as follows:

	<b>Total £'m</b>
At 1 January 2021	95.0
Exchange rate adjustments	(1.4)
Gain recognised in net operating costs due to interest rate risk (note 6)	(1.6)
Loss recognised in other comprehensive income due to changes in credit risk	0.8
<b>At 30 June 2021</b>	<b>92.8</b>

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 2021 would impact other comprehensive income by approximately £0.9m.

## 20. Provisions

	<b>Total £'m</b>
At 1 January 2021	112.9
Exchange rate adjustments	(1.6)
Additional provisions	13.6
Unused amounts reversed	(7.1)
Charge to net finance costs (note 8)	0.3
Transfers from trade and other payables	2.9
Amounts utilised	(6.5)
<b>At 30 June 2021</b>	<b>114.5</b>

	<b>30 June 2021 £'m</b>	31 December 2020 £'m
<b>Disclosed as:</b>		
Current	<b>36.0</b>	32.6
Non-current	<b>78.5</b>	80.3
<b>Total</b>	<b>114.5</b>	112.9
<b>Analysed as:</b>		
Environmental*	<b>68.9</b>	72.7
Onerous contracts	<b>17.8</b>	13.0
Warranty costs	<b>19.1</b>	16.0
Other	<b>8.7</b>	11.2
<b>Total</b>	<b>114.5</b>	112.9

\* Included within other receivables is £16.2m (December 2020: £18.8m) in respect of amounts recoverable from insurers and other third parties in respect of environmental issues relating to historic sites.

## 21. Retirement benefit obligations

	<b>Total £'m</b>
At 1 January 2021	295.4
Exchange rate adjustments	(2.4)
Service cost	4.3
Curtailed gain	(7.8)
Net interest expense (note 8)	2.1
Contributions – Group	(26.0)
Administrative expenses borne directly by schemes	1.2
Remeasurement of retirement benefit obligations	(65.7)
<b>At 30 June 2021</b>	<b>201.1</b>

### Amounts recognised in the balance sheet

	<b>30 June 2021 £'m</b>	31 December 2020 £'m
Present value of liabilities	<b>1,343.8</b>	1,463.9
Fair value of assets	<b>(1,142.7)</b>	(1,168.5)
<b>Total</b>	<b>201.1</b>	295.4
<i>Analysed as:</i>		
Pension schemes	<b>160.3</b>	248.7
Healthcare schemes	<b>40.8</b>	46.7
<b>Total</b>	<b>201.1</b>	295.4

### Key financial assumptions used to calculate scheme liabilities

	<b>30 June 2021</b>	31 December 2020
<i>UK scheme*:</i>		
Discount rate	<b>1.90%</b>	1.40%
Inflation rate	<b>3.20%</b>	3.00%
Current life expectancy: Male aged 65 years	<b>21.7 to 23.6</b>	21.7 to 23.6
<i>US schemes:</i>		
Discount rate	<b>2.80%</b>	2.30%
Current life expectancy: Male aged 65 years	<b>19.8 to 20.7</b>	19.7 to 20.6

\* Salary increases for the UK scheme are no longer applicable following its closure to future accrual in the period.

Group cash contributions paid during the period included deficit reduction payments of £21.7m (2020: £7.1m).

## 22. Issued share capital

	<b>30 June 2021 No. m</b>	31 December 2020 No. m
<b>Allotted and fully paid</b>	<b>781.4</b>	781.2

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

	<b>30 June 2021 £'m</b>	31 December 2020 £'m
Contracted for but not incurred:		
Intangible assets	<b>3.7</b>	3.8
Property, plant and equipment	<b>13.3</b>	24.0
<b>Total</b>	<b>17.0</b>	27.8

## 25. Cash inflow from operations

	<b>Six months ended 30 June 2021 £'m</b>	Six months ended 30 June 2020 £'m
Profit/(loss) for the period	<b>28.3</b>	(344.3)
Adjustments for:		
Finance income (note 8)	<b>(0.4)</b>	(0.3)
Finance costs (note 8)	<b>15.8</b>	20.0
Tax	<b>5.3</b>	(24.1)
Depreciation (note 14)	<b>27.8</b>	28.5
Amortisation and impairment losses (note 13)	<b>68.7</b>	421.1
(Gain)/loss on disposal of property, plant and equipment	<b>(2.4)</b>	0.1
Gain on disposal of businesses before disposal expenses (note 5a)	<b>(9.5)</b>	(38.1)
(Gain)/loss on financial instruments (note 6)	<b>(24.6)</b>	38.0
Impact of retranslating net foreign currency cash at spot rate	<b>0.8</b>	0.7
Share of loss after tax of joint venture (note 15)	<b>0.8</b>	1.7
Change in carrying value of held for sale assets and liabilities up to date of disposal (note 16)	<b>0.1</b>	-
Retirement benefit obligation deficit payments (note 21)	<b>(21.7)</b>	(7.1)
Share-based payment expense/(credit)	<b>2.7</b>	(3.7)
Changes in working capital	<b>(60.6)</b>	(102.1)
<b>Cash inflow/(outflow) from operations</b>	<b>31.1</b>	(9.6)

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

	<b>Six months ended 30 June 2021 £'m</b>	Six months ended 30 June 2020 £'m
Cash inflow from operating activities	<b>(13.2)</b>	(50.5)
Add back cash outflow from business disposal expenses	<b>1.0</b>	2.7
Add back impact of retranslating net foreign currency cash at spot rate	<b>(0.8)</b>	(0.7)
Capitalised development costs (note 13)	<b>(11.7)</b>	(18.8)
Capitalised programme participation costs	<b>(0.8)</b>	(0.6)
Purchase of intangible assets	<b>(6.2)</b>	(10.8)
Purchase of property, plant and equipment (net of government funding)	<b>(25.5)</b>	(46.6)
Proceeds from disposal of property, plant and equipment	<b>22.7</b>	0.3
Reverse lease premium received	<b>-</b>	3.5
<b>Free cash outflow</b>	<b>(34.5)</b>	(121.5)

## 26. Movements in net debt

	Gross debt	Cash and cash equivalents	Net debt
	£'m	£'m	£'m
At 1 January 2021	951.6	(178.6)	773.0
Cash outflow from operating activities	-	13.2	13.2
Cash outflow from investing activities	-	2.2	2.2
Cash outflow from financing activities	(20.9)	20.4	(0.5)
Lease liabilities entered	28.0	-	28.0
Exchange rate adjustments	3.6	3.5	7.1
Other movements	(0.4)	-	(0.4)
<b>At 30 June 2021</b>	<b>961.9</b>	<b>(139.3)</b>	<b>822.6</b>

  

	30 June 2021	31 December 2020
	£'m	£'m
<i>Analysed as:</i>		
Bank and other borrowings – current	105.1	10.5
Bank and other borrowings – non-current	692.9	796.8
Lease liabilities – current	15.5	14.7
Lease liabilities – non-current	148.4	129.6
Cash and cash equivalents	(139.3)	(178.6)
<b>Total</b>	<b>822.6</b>	<b>773.0</b>

## 27. Business disposals

On 30 January 2021, the Group disposed of its aircraft ducting business, based in Dunstable UK, together with a small product line from one of the Group's other businesses, for a consideration of £20.4m. 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. 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:

	Total
	£'m
Goodwill	3.7
Property, plant and equipment	1.7
Inventories	5.6
Trade and other receivables - current	3.5
Trade and other payables - current	(1.4)
Lease liabilities – current	(0.1)
Provisions – current	(0.1)
Contract liabilities – non-current	(1.1)
Lease liabilities – non-current	(0.9)
<b>Net assets (note 16)</b>	<b>10.9</b>
Business disposal expenses (note 5a)	0.4
Deferred consideration	(0.2)
Gain on disposal (note 5a)	9.1
<b>Total consideration received in cash</b>	<b>20.2</b>
Cash inflow arising on disposal:	
Total consideration received in cash	20.2
Less: business disposal expenses paid *	(1.0)
<b>Total cash inflow</b>	<b>19.2</b>

\* Of the total business disposal expenses paid, £0.4m were in respect of the disposal of the Dunstable business, with the balance relating to disposals in prior periods.

## RISKS AND UNCERTAINTIES

The Group disclosed in its 2020 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 management; failure to successfully and simultaneously deliver significant change programmes; and failure to attract and retain people.
- Corporate – legal and regulatory matters; insufficient funding of pension scheme deficits; and inability to maintain sufficient liquidity.

Further details can be found in the 'Risk management' section of the 2020 Annual Report on pages 54 to 60, 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 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 2021 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 2021 and any material changes to the related party transactions described in the last annual report.

The names and functions of the Directors of Meggitt PLC at 3 March 2021 are listed on pages 92 to 95 of its 2020 Annual Report. Subsequently, Alison Goligher has replaced Guy Berruyer as Senior Independent Director; Guy remains on the Board as a non-executive Director.

By order of the Board:

A Wood  
Chief Executive Officer  
2 August 2021

L Burdett  
Chief Financial Officer  
2 August 2021

## APPENDIX I - Meggitt FY2021 Profit Forecast

### 1. Meggitt 2021 Profit Forecast

On 4 March 2021, Meggitt released its preliminary statement of annual results for the financial year ended 31 December 2020 (the "2020 Prelims"). The 2020 Prelims included the following statement, which, subject to the clarification below in relation to revenue, has been repeated in this interim results announcement:

- "Assuming no further disruption to normal operations during the year as a result of additional lockdowns, in 2021 we expect the Group to generate:
  - Revenue broadly in line with 2020;
  - An increase in underlying operating profit versus 2020; and
  - Positive free cash flow."

This statement has been repeated in the interim results announcement with one clarification:

- Revenue broadly in line with 2020 on an organic basis

The statement that operating profit during the financial year ending 31 December 2021 is expected to increase when compared to the financial year ended 31 December 2020 constitutes a profit forecast for the purposes of Rule 28.1 of the City Code on Takeovers and Mergers (the "Meggitt 2021 Profit Forecast").

The directors of Meggitt confirm that, as at the date of this announcement, the Meggitt 2021 Profit Forecast remains valid and confirm that the Meggitt 2021 Profit Forecast has been properly compiled on the basis of the assumptions stated below and that the basis of accounting used is consistent with Meggitt's accounting policies which are in accordance with IFRS and are those that Meggitt applied in preparing its financial statements for the financial year ended 31 December 2020.

Further information on the basis of the preparation of the Meggitt 2021 Profit Forecast, including the principal assumptions on which it is based, is set out below.

### 2. Basis of preparation and principal assumptions

The Meggitt 2021 Profit Forecast is based upon internal Meggitt forecasts and excludes any impact from any successful acquisition of, or any unsuccessful attempt to acquire, Meggitt (for the purposes of this Appendix only, the "Acquisition"). In particular, the Meggitt 2021 Profit Forecast excludes any costs associated with the Acquisition and does not take into account any future effect that may result from completion of the Acquisition.

In confirming that the Meggitt 2021 Profit Forecast remains valid, the directors of Meggitt have made the following assumptions in respect of the financial year ending 31 December 2021:

#### (A) Factors outside the influence or control of the directors of Meggitt:

- i. a continued gradual economic recovery across the sectors and within the geographies served by the Meggitt group as COVID-19 related restrictions are slowly lifted and, in particular, continued recovery in air traffic and no further extended disruption to normal operations during the financial year ending 31 December 2021 as a result of additional lockdowns or other COVID-19 related restrictions;
- ii. in civil aerospace, progressive revenue growth throughout the second half of 2021, with recovery weighted more towards the second half of the year;
- iii. no material change in market conditions during the financial year ending 31 December 2021, particularly in relation to customer demand or the competitive environment and that conditions in defence and energy end markets remain robust;
- iv. no material adverse events which will have a significant impact on the operating results or financial position of Meggitt;
- v. no material changes to labour costs, including pension and other post-retirement benefits;
- vi. no material change in interest, tax and inflation rates in the markets in which the Meggitt group operates;
- vii. no sustained strengthening of pound sterling above the average foreign exchange rates that have applied during the period 1 January 2021 to the business day prior to the date of this announcement in respect of the major territories in which Meggitt operates, in particular the US dollar;
- viii. no material adverse outcome from any ongoing or future disputes with any customer, competitor, regulator or tax authority; and
- ix. no material change in legislation, taxation, regulatory requirements or the position of any regulatory bodies impacting the Meggitt group's operations or accounting policies.

#### (B) Factors within the influence or control of the directors of Meggitt:

- i. no significant acquisitions, disposals, partnership or joint venture agreements being entered into by the Meggitt group;
- ii. no material change in the dividend or capital policies of Meggitt;
- iii. no material change to the senior leadership team of Meggitt;
- iv. no material change to Meggitt's strategy; and
- v. Meggitt's accounting policies will be consistently applied over the forecast period to 31 December 2021.

**- ENDS -**