

MEGGITT PLC

Interim presentation

For the 6 months ended 30 June 2010

3 August 2010

A large industrial turbine engine, likely a jet engine, is shown in a close-up, low-angle view. The engine is metallic and features several large, curved blades. A prominent red wireframe overlay is superimposed on the engine, extending from the left side of the frame and curving around the engine's core. The background is dark, making the metallic surfaces and the red wireframe stand out.

**MEGGITT**  
smart engineering for  
extreme environments

## Business model validated

- ▶ Robust business model
  - Proprietary technology
  - Sole source positions
  - Large installed base >30,000 fleet
  - Balanced portfolio
  
- ▶ Excellent progress on management changes
  - Leaner structure
  - More outsourcing, sharing of resources
  - Raised cost savings target by 10%
  
- ▶ K&F integration concluded – higher synergies at lower cost
  
- ▶ Strong balance sheet
  - Net debt/EBITDA 2.3x
  - \$600m private placement at attractive rates

## Continuing strong performance

- Order book up 9% on Dec 09
- Strong civil order growth (+35%)
- Military orders down due to timing
- Revenues down 6%; -10% in Q1, -2% in Q2
- Operating profit margins improved from 24.0% to 25.7%
- PBT up 3%
- Net cash flow up 63%
- Interim dividend increased 6% to 2.85p

# Income statement

£m	Reported		Underlying			Reported	
	2010	Adj	2010	2009	<i>Growth</i>	Adj	2009
Revenue	549.7	-	549.7	586.4	-6%	-	586.4
Operating profit	91.4	49.9	141.3	140.8	0%	12.2	128.6
Net finance costs	(25.1)	-	(25.1)	(28.5)		-	(28.5)
Profit before tax	66.3	49.9	116.2	112.3	+3%	12.2	100.1
Tax	(14.5)	(16.9)	(31.4)	(31.4)		(5.9)	(25.5)
Profit after tax	51.8	33.0	84.8	80.9	+5%	6.3	74.6
EPS	7.5p	4.8p	12.3p	12.1p	+2%	1.0p	11.1p
Dividend	2.85p		2.85p	2.70p	+6%		2.70p

## Cash flow

£m	2010	2009	% change
<b>Underlying EBITDA</b>	<b>171.0</b>	<b>169.5</b>	<b>+1%</b>
Working capital movement	(27.2)	(17.5)	
Capex	(11.4)	(14.6)	
Capitalised R&D and PPC's	(33.1)	(32.0)	
<b>Operating cash flow</b>	<b>99.3</b>	<b>105.4</b>	<b>-6%</b>
Interest and tax	(34.6)	(45.0)	
Pension deficit payments	(11.0)	(11.1)	
Operating exceptionals	(9.7)	(12.7)	
<b>Free cash flow</b>	<b>44.0</b>	<b>36.6</b>	<b>+20%</b>
Dividends	(19.9)	(20.0)	
Issue of share capital	3.6	0.0	
Mergers and acquisitions	0.0	0.4	
<b>Net cash flow</b>	<b>27.7</b>	<b>17.0</b>	<b>+63%</b>

## Balance sheet

£m	At 1 Jan 2010 \$1.61	FX	Other	At 30 Jun 2010 \$1.50
Total assets (excluding cash)	3,187.4	182.5	12.2	3,382.1
Retirement benefit obligations	(280.5)	(11.9)	(29.4)	(321.8)
Other liabilities	<u>(824.7)</u>	<u>(44.0)</u>	<u>20.1</u>	<u>(848.6)</u>
Capital employed	2,082.2	126.6	2.9	2,211.7
Net debt	<u>(808.6)</u>	<u>(63.0)</u>	<u>17.0</u>	<u>(854.6)</u>
Net assets	<u>1,273.6</u>	<u>63.6</u>	<u>19.9</u>	<u>1,357.1</u>

▀ UK deficit reduction payments agreed with Trustees

# US private placement completed

- ▶ US private placement raised \$600m
  - Improved maturity at attractive rates (c 5%)
  - Delays need for re-financing to 2013
  - Halves likely re-financing requirement
- ▶ Headroom of over £800m at June 2010
  - Expected headroom over £400m after cancelling some facilities
- ▶ Covenant metrics very comfortable
  - Net debt/EBITDA 2.3x (Covenant  $\leq$  3.5x)
  - Interest cover 8.4 (Covenant  $\geq$  3.0x)

# Organisation – New divisional structure

Aircraft Braking Systems	Control Systems	Polymers & Composites	Sensing Systems	Equipment Group
<ul style="list-style-type: none"><li>Wheels, brakes &amp; brake control</li></ul>	<ul style="list-style-type: none"><li>Thermal management &amp; ECS</li><li>Fluid control</li><li>Electronic control</li></ul>	<ul style="list-style-type: none"><li>Seals</li><li>Fuel bladders</li><li>Ice protection</li></ul>	<ul style="list-style-type: none"><li>Condition monitoring systems</li><li>High performance sensors</li></ul>	<ul style="list-style-type: none"><li>Safety systems</li><li>Training systems</li><li>Combat systems</li><li>Avionics</li><li>Compact PCHE</li><li>Position sensors</li></ul>

Previous division:  Aerospace Equipment  Sensing Systems  Defence Systems



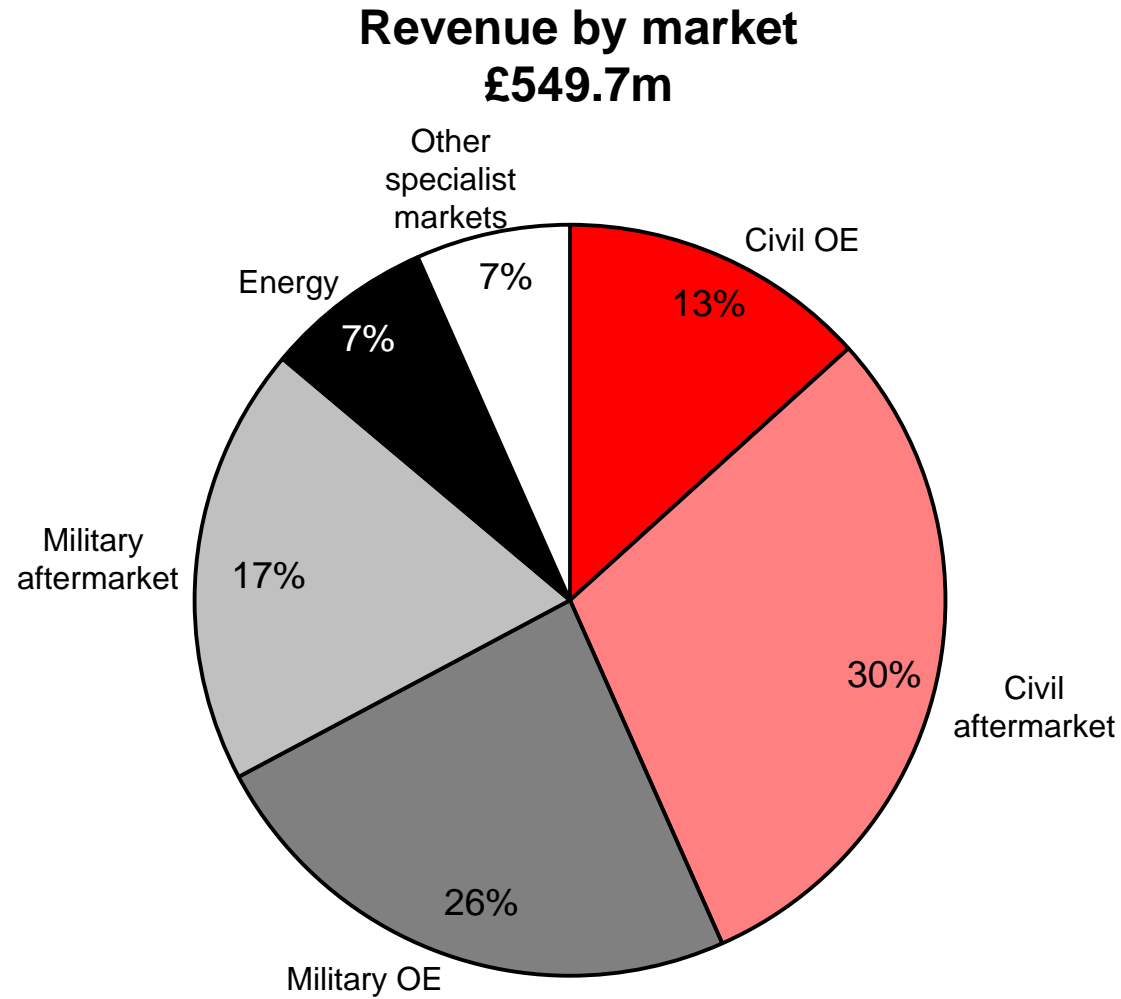
# Segmental analysis

Revenue				Underlying Operating Profit			Return on Sales	
2010	2009			2010	2009		2010	2009
£m	£m			£m	£m		%	%
147.3	164.6	-11%	Aircraft Braking Systems	55.3	59.2	-7%	37.5%	36.0%
91.5	93.7	-2%	Control Systems	23.6	21.8	8%	25.8%	23.3%
75.4	74.8	1%	Polymers & Composites	15.6	13.3	17%	20.7%	17.8%
98.0	98.2	0%	Sensing Systems	18.0	15.4	17%	18.4%	15.7%
137.5	155.1	-11%	Equipment Group	28.8	31.1	-7%	20.9%	20.1%
<b>549.7</b>	<b>586.4</b>	<b>-6%</b>	<b>Total</b>	<b>141.3</b>	<b>140.8</b>	<b>0%</b>	<b>25.7%</b>	<b>24.0%</b>

## Commercial successes

- ▶ Tyre Pressure Monitoring System awards
  - First step into condition monitoring on ATA 32
  - CSeries and 2<sup>nd</sup> (confidential) package
- ▶ Blast-resistant fuel tank contract for US military ground vehicle
- ▶ Russian MC-21 braking system
- ▶ Range of seals packages including A350 XWB and Boeing

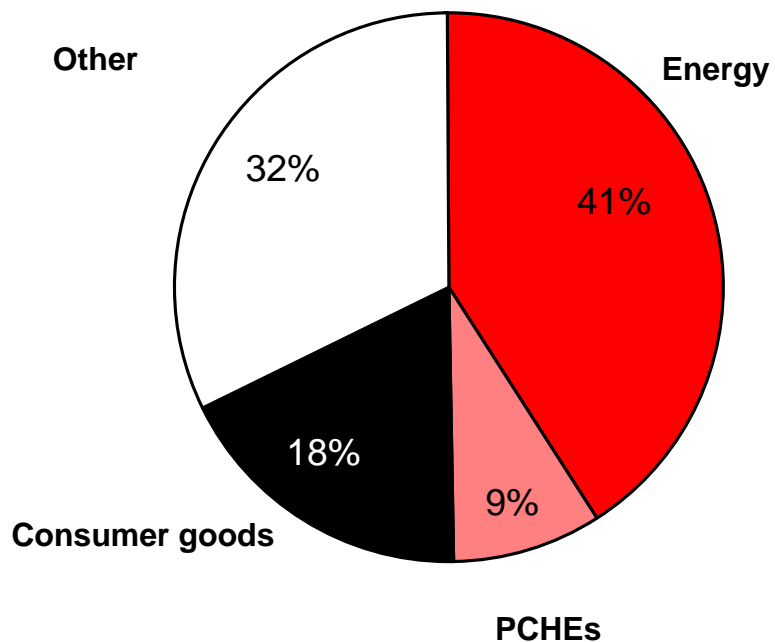
# Group H1 2010 revenue – A balanced portfolio



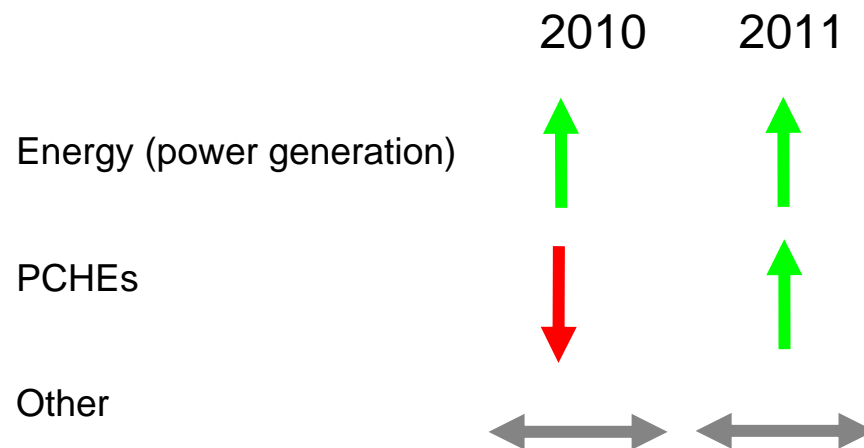
# Other markets H1 2010 – 14% of Group revenues

Other revenue by market

£74.0m



Trend

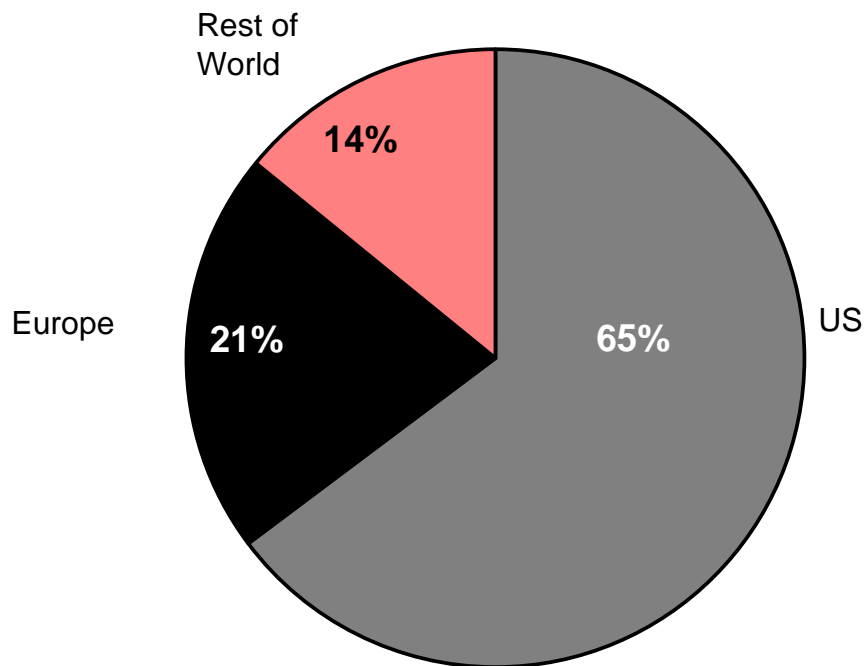


PCHE – printed circuit heat exchanger

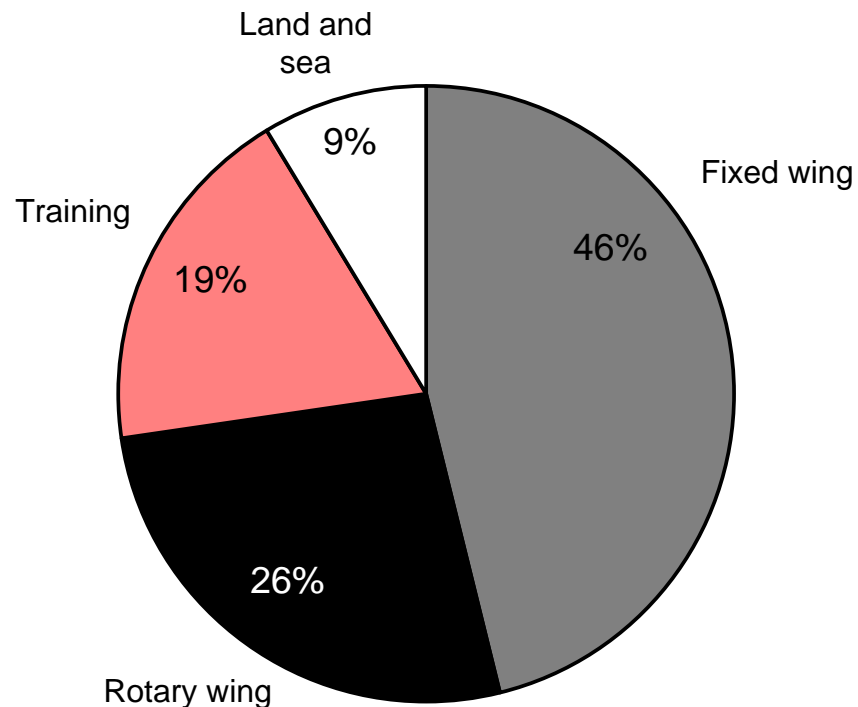
# Military H1 2010 – 43% of Group revenues

£236.7m

Meggitt military revenues by destination (estimate)



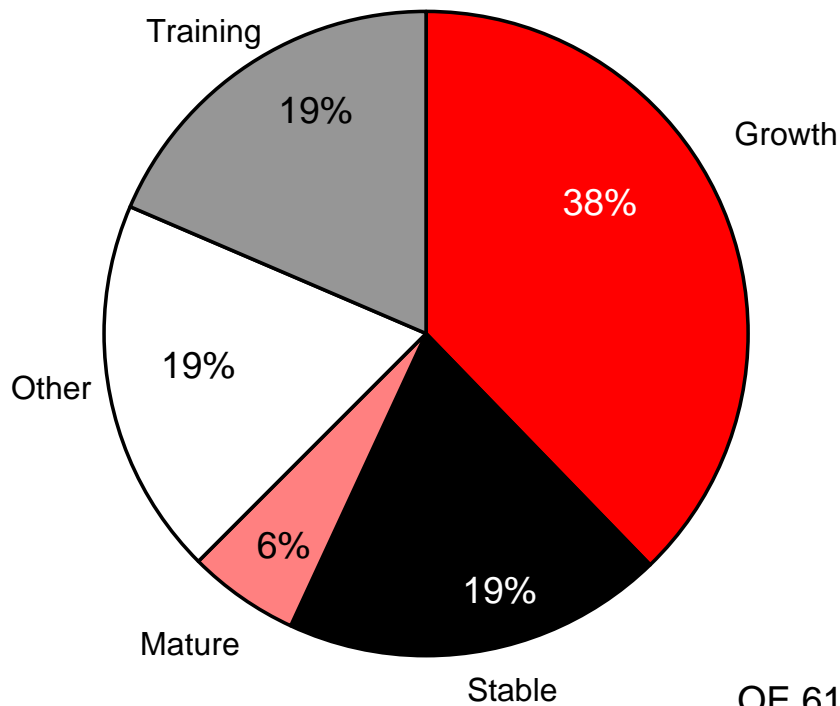
Military revenues by market



# Military life cycle

£236.7m

Breakdown of military revenue across lifecycle



Key platforms in each lifecycle stage

Growth	Eurofighter	Black Hawk
	FA-18	V-22
	F-22	CH-47
Stable	F-16	AH-64
	C130J	AH-1
	KC-135	Lynx
Mature	F-15	B1-B
	Tornado	E-6A
	Harrier	AV8B

OE 61%; Aftermarket 39%

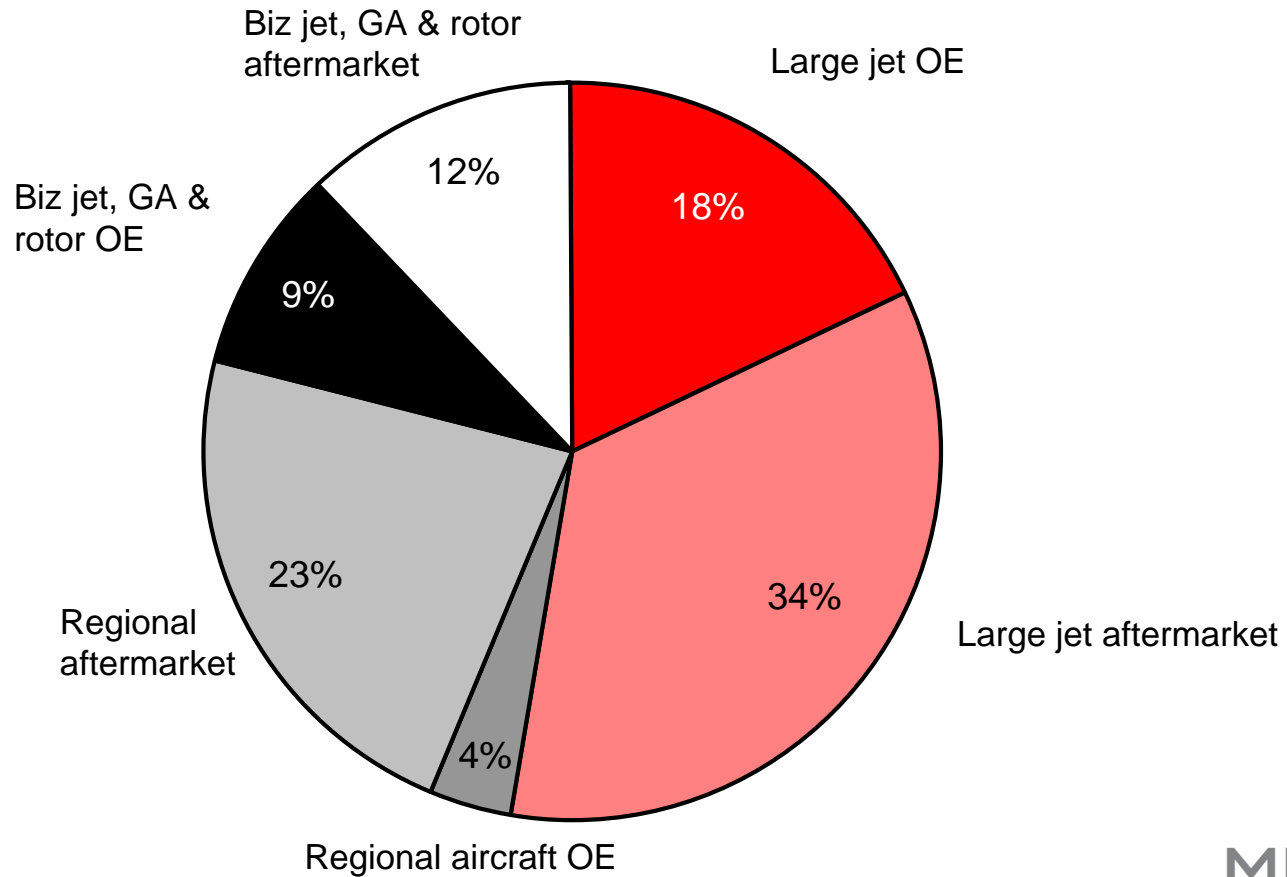
## Military growth expected in H2

- H1 orders down due to timing on several large multi year orders in '09
- Military OE revenues continuing to grow (EFA, Black Hawk, V-22)
- H1 Military AM impacted by timing of OCO
  - 24 May '07; 30 June '08, 1 July '09, ? August '10
- Revenue growth expected in H2
  - Initial deliveries of ground vehicle blast-resistant fuel tank
  - Full year broadly flat with return to growth in 2011

# Civil aerospace – 43% of total revenues

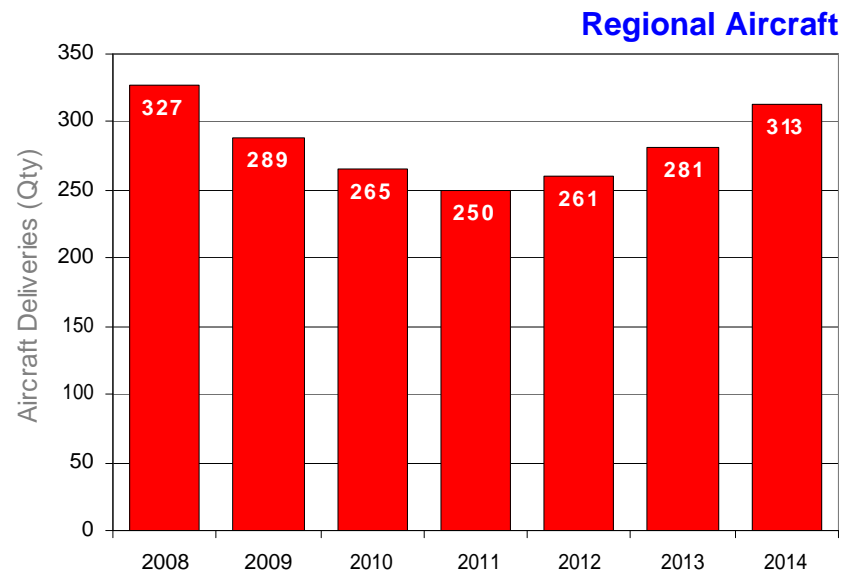
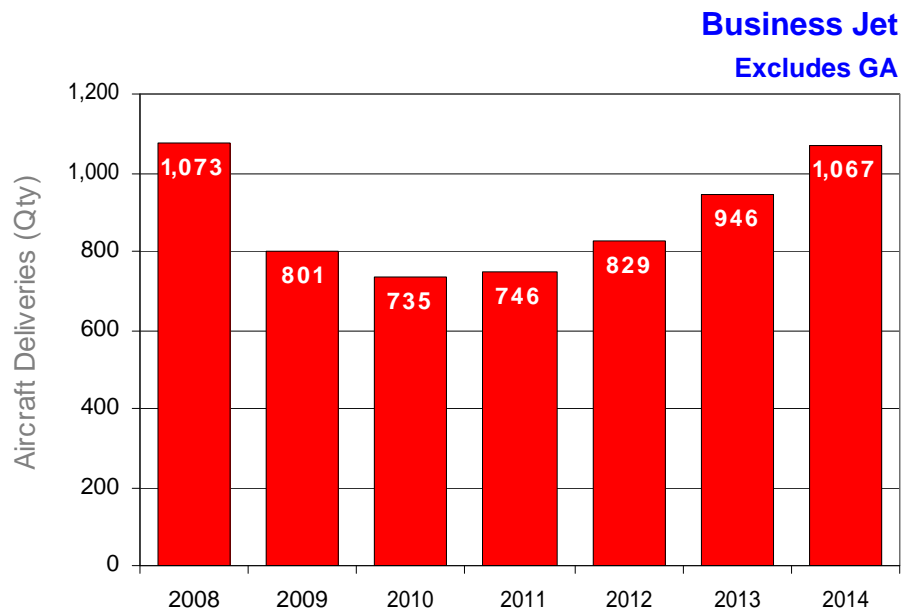
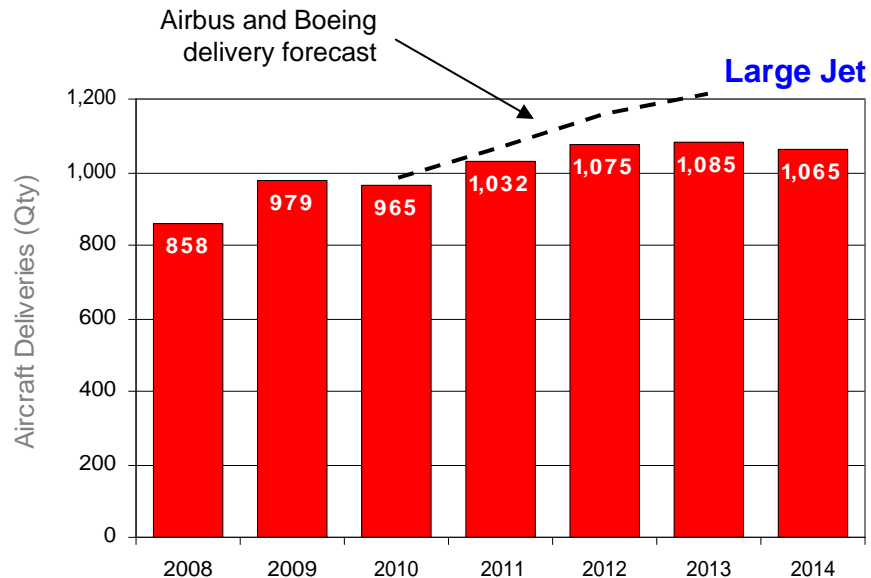
## Civil revenues by market

£239.0m



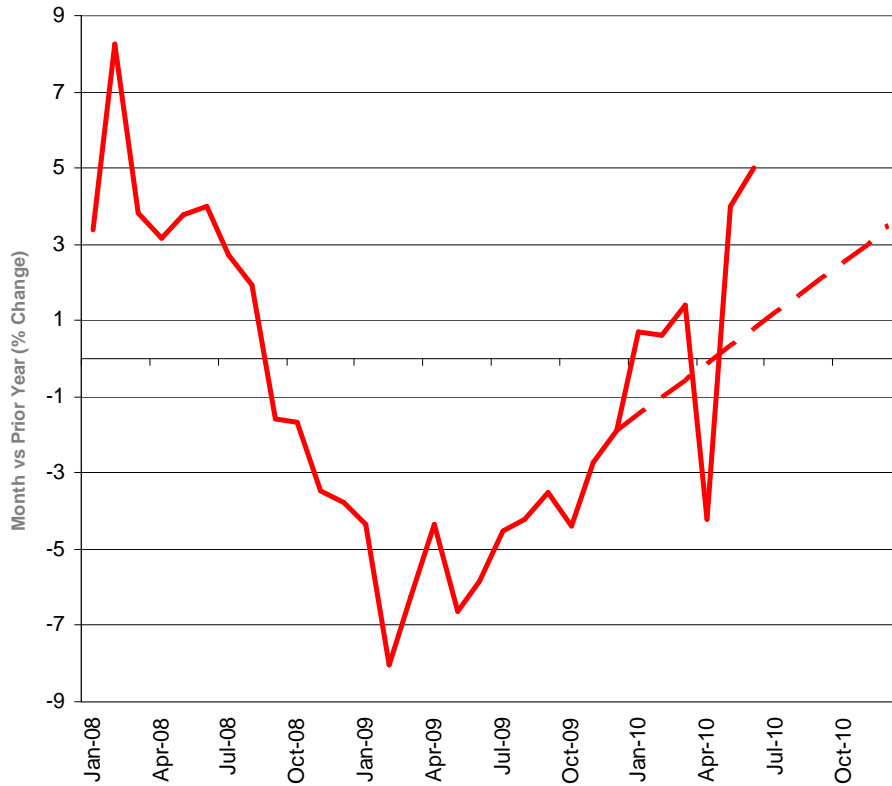


# Aircraft OE deliveries

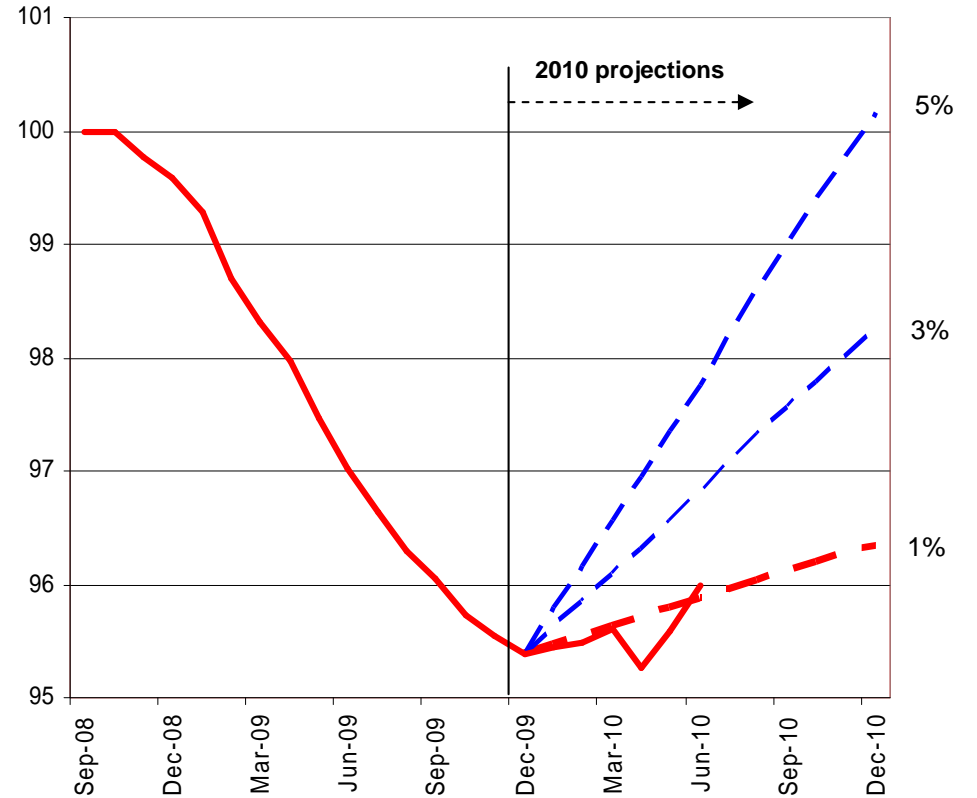


# Civil aftermarket – large jets and regionals

Monthly available seat kilometres

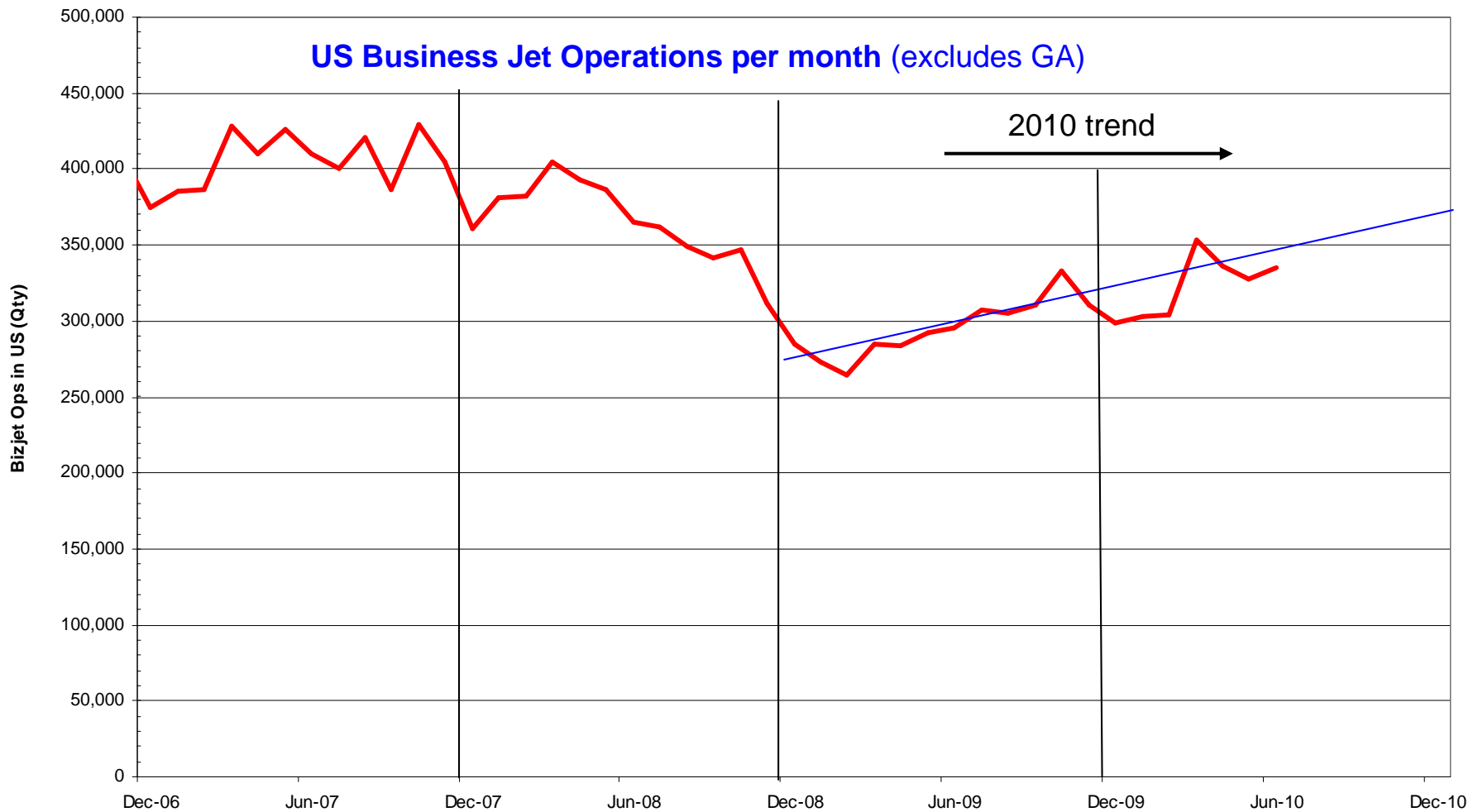


Available seat kilometers MAT Index



Source: Meggitt Management

# Civil aftermarket – business jets



\*Projections excludes seasonal variations

## Delivering productivity

- ▶ **K&F integration concluded; synergies exceeded at lower cost**
  - Delivered synergies of £22m against acquisition target of £16m
  - One-off costs of £19m
  - Headcount reduced by 222 from June 2007 acquisition date
  
- ▶ **Strategic sourcing continues to deliver**
  - Dedicated team of c20 people delivering savings of £7m in H1
  - Asian procurement office supporting all divisions
  
- ▶ **Transformation programme**
  - H1 savings £24m
  - Expect to achieve £50m recurring by end of year
  - Raising run rate target to £55m by end of 2011

# Transforming the way we do business

## ▀ Operational standardisation

- Building standard processes across the Group (e.g. engineering, sales & marketing, programme management)
- Building common systems; enabler for shared services and more

## ▀ Increasing customer focus

- Fewer but higher level points of contact
- Stronger pool of resources at customers' disposal (e.g. engineering)
- Able to respond to the challenge of more complex work packages

## ▀ Enhanced shareholder proposition

- Improved competitive position
- Ability to grow with fewer resources
- Future acquisitions easier to integrate

# Summary

- Good first half in line with expectations
- Revenues down but operating margins improved
- PBT up
- Good cash flow
- Cost savings achieved and expectations raised
- Successful private placement
- Dividend up 6%

# Outlook

- Order book up 9%
- Large jet OE increasing, regional and biz jets unchanged
- Civil aftermarket orders increasing from beginning Q2
- Military funding in place, orders starting to flow
- Energy/PCHE sales growing
- H2 should see revenues recovering

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# Appendices

1. Group strategy
2. Currency PBT impact
3. Operating exceptionals
4. Cash v profit for investment activity
5. Divisional overviews

### Group strategy

Deliver sustainable upper quartile returns through focused leadership positions in Aerospace, Defence & Energy markets



### Group strategic objectives

Focused investment	Achieve Operational Excellence	Satisfy our customers	Maintain a culture of strong performance
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- Components & value-added sub- systems
- High technology content
- Aftermarket value
- Growth by organic investment & acquisition

- Optimising our manufacturing footprint
- Improving our cost, quality and delivery performance
- Strengthening central functions
- Sharing services and best practice

- Strengthen our partnerships with customers
- Become easier to do business with
- Improve our delivery

- Delivering against targets
- Leadership development
- Financial rigour
- High standards of compliance

**Be the leading provider of smart engineering for extreme environments**



# Currency PBT impact

	2009			2010			2011
	H1	H2	FY	H1	H2	FY	FY
<b>\$/£ rate</b>	<b>Act</b>	<b>Act</b>	<b>Act</b>	<b>Act</b>	<b>Est</b>	<b>Est</b>	<b>Est</b>
Translation rate (unhedged)	1.52	1.63	1.58	1.51	1.55	1.53	1.55
Transaction rate (hedged)	1.80	1.80	1.80	1.65	1.65	1.65	1.66
<b>CHF rate</b>							
£ Translation rate (unhedged)	1.70	1.68	1.69	1.64	1.70	1.68	1.70
\$ Transaction rate (hedged)	1.06	1.06	1.06	1.13	1.13	1.13	1.11
<b>PBT impact £m</b>							
Year-on-year translation				1.0	2.6	3.6	(2.5)
Year-on-year transaction				<u>2.5</u>	<u>2.7</u>	<u>5.2</u>	<u>(0.9)</u>
Year-on-year currency benefit/(headwind)				<u>3.5</u>	<u>5.3</u>	<u>8.8</u>	<u>(3.4)</u>

# Operating exceptionals

£m	H1 10	FY10 est
<b>Income statement</b>		
Integration of K&F	0.7	0.7
Transformation programme	6.4	11.1
Total	<u>7.1</u>	<u>11.8</u>
<b>Cash out</b>		
Integration of K&F	0.7	0.7
Transformation programme	9.0	11.7
Total	<u>9.7</u>	<u>12.4</u>

# Cash vs profit for investment activity

£m

	H1 2010	2010 est	2011 est
	\$1.51	\$1.55	\$1.55
<b>1.R&amp;D</b>			
Total expenditure	41.1	90.4	79.4
Less: customer funded	(8.1)	(20.6)	(19.1)
Company spend	33.0	69.9	60.2
Capitalised	(17.0)	(35.2)	(30.5)
Amortised	3.6	7.6	13.3
Income statement	19.6	42.3	43.0
<b>2.Programme participation costs</b>			
Capitalised	16.1	30.8	30.8
Amortised	9.6	19.5	21.1
<b>3.Fixed assets</b>			
Capex	11.5	41.0	46.3
Depreciation	14.7	33.5	38.5
<b>4.Retirement benefit deficit reduction payments</b>	11.0	22.8	30.8

\* Capitalised R&D, PPCs and fixed assets less depreciation/amortisation

## Divisional revenue split – Full year 2009

£'m	Civil	Military	Energy	Other	Total	OE	AM
Aircraft Braking Systems	207.0	110.4	0.3	1.1	318.8	42.3	276.5
Control Systems	96.5	60.0	9.8	15.6	181.9	102.5	79.4
Polymers & Composites	43.8	98.8	1.5	3.8	147.9	90.5	57.4
Sensing Systems	70.7	40.3	45.7	35.9	192.6	140.9	51.7
Equipment Group	52.3	210.6	25.4	21.0	309.3	205.7	103.6
<b>Total</b>	<b>470.3</b>	<b>520.1</b>	<b>82.7</b>	<b>77.4</b>	<b>1150.4</b>	<b>581.9</b>	<b>568.6</b>

# Braking Systems

## ▀ Wheels and brakes

- Carbon
- Steel
- Electrically-actuated
- Wheels: main and nose

## ▀ Brake control systems

- Antiskid
- Integrated brake metering/antiskid
- Brake-by-wire
- Auto braking

## ▀ Highly engineered, proprietary products

## ▀ Well positioned on high cycle, single source programmes

## ▀ Significant installed base – over 30,000 aircraft

## ▀ High wear and tear = big aftermarket

## ▀ Related capabilities

- Park/emergency valve
- Brake temperature monitoring system
- Tyre pressure monitoring systems
- Other braking system hydraulic components
- Auto spoiler deployment
- Landing gear computers

# Control Systems

- ▶ Flow control
  - Aero engine
  - Airframe
  - Refuelling
  - Ground based turbines
- ▶ Heat management
  - Heat exchangers
  - Cabin air conditioning (small planes)
- ▶ Highly engineered, proprietary products & sole source positions
- ▶ Complexity of qualification & industry certifications
- ▶ Harsh environment + wear and tear = big aftermarket



# Polymers & Composites

- ▶ Fuel bladders
  - ▶ Ice protection
  - ▶ Composite assemblies & components
  - ▶ Sealing solutions
- 
- ▶ Market leader in life-saving fuel bladder technology
  - ▶ Well positioned in sealing solutions, ice protection & composites
  - ▶ Opportunities for continued strong growth

# Sensing Systems

## What

- Sensors that measure, eg vibration, temperature, pressure, fluid level
- Designed to operate in extremes, eg temperature, vibration
- Tier 1 integrator of sensor packages
- Package sensors with electronics/software to provide condition monitoring data

➤ Technology leader and sole source positions provides secure OE and aftermarket

➤ Growing demand for efficiency improvements and “health monitoring” solutions

## Where

- Rotating equipment, such as gas turbines
- Aerospace and power generation
- Adjacent markets, eg T&M, crash tests

## Equipment Group

- ▶ Aerospace fire protection
- ▶ Avionics
- ▶ Position sensors
- ▶ Training systems
- ▶ Ammunition handling
- ▶ Environmental control systems
- ▶ Printed circuit heat exchangers
- ▶ Technology leader and sole source position provides secure OE and aftermarket
- ▶ Multiple growth opportunities
- ▶ Investing in application led technologies