

MEGGITT PLC

2008 Preliminary results  
3 March 2009



**MEGGITT**  
smart engineering for  
extreme environments

## Excellent progress in 2008

- Significant growth in orders, revenues and underlying operating profit
- Continued investment in the future
- Significant new business wins
- K&F integration savings on track
- Operational excellence benefits
- Refinanced bank facilities

# Well positioned in a challenging environment

- **Balanced portfolio**
  - 46% of the Group revenues generated from the civil aerospace market,
  - 39% from military market and,
  - 15% from other markets, primarily energy.
- **Proprietary technology and large installed base generating significant aftermarket revenues**
- **Operational excellence programmes producing incremental savings**
- **Further savings at the rate of £50m a year by the end of 2010**
- **Meggitt's balance sheet is strong**
  - Net debt/EBITDA (covenant calculation basis) at 2.35x
  - Bank financing through to March 2012

# Income statement

£m	Statutory		Underlying			Statutory	
	2008	Adj*	2008	2007		Adj*	2007
Revenue	1,162.6	-	1,162.6	878.2	+32%	-	878.2
EBITDA	281.2	62.2	343.4	249.7	+38%	35.2	214.5
Operating profit	172.4	124.0	296.4	216.3	+37%	73.6	142.7
Finance costs: Pension	(4.7)	-	(4.7)	(1.2)		-	(1.2)
Interest	(48.4)	-	(48.4)	(36.1)		-	(36.1)
Profit before tax	119.3	124.0	243.3	179.0	+36%	73.6	105.4
Tax	(20.2)	(47.9)	(68.1)	(49.2)		(33.1)	(16.1)
<i>Tax rate</i>			28.0%	27.5%			
Profit after tax	99.1	76.1	175.2	129.8		40.5	89.3
EPS	15.0p	11.5p	26.5p	22.1p	+20%	7.5p	14.6p
Dividend	8.45p		8.45p	8.20p	+3%		8.20p

\* A full explanation of adjustments is given in Notes 3 and 7 of today's preliminary announcement.

# Impact of currency\* and acquisitions

£m	Revenue			Underlying operating profit			Underlying profit before tax		
	2008	2007	change	2008	2007	change	2008	2007	change
Reported	1,162.6	878.2	32%	296.4	216.3	37%	243.3	179.0	36%
Convert to 2007 FX	(82.2)			(20.2)			(15.7)		
At constant currency	1,080.4	878.2	23%	276.2	216.3	28%	227.6	179.0	27%
Add K&F H1 07		100.2			35.5			20.3	
Organic	1,080.4	978.4	10%	276.2	251.8	10%	227.6	199.3	14%

\* Effective FX rates (£1=): transaction 2008 \$1.84; (2009 is fully hedged at \$1.82)  
translation 2008 \$1.83 (2007: \$2.02)

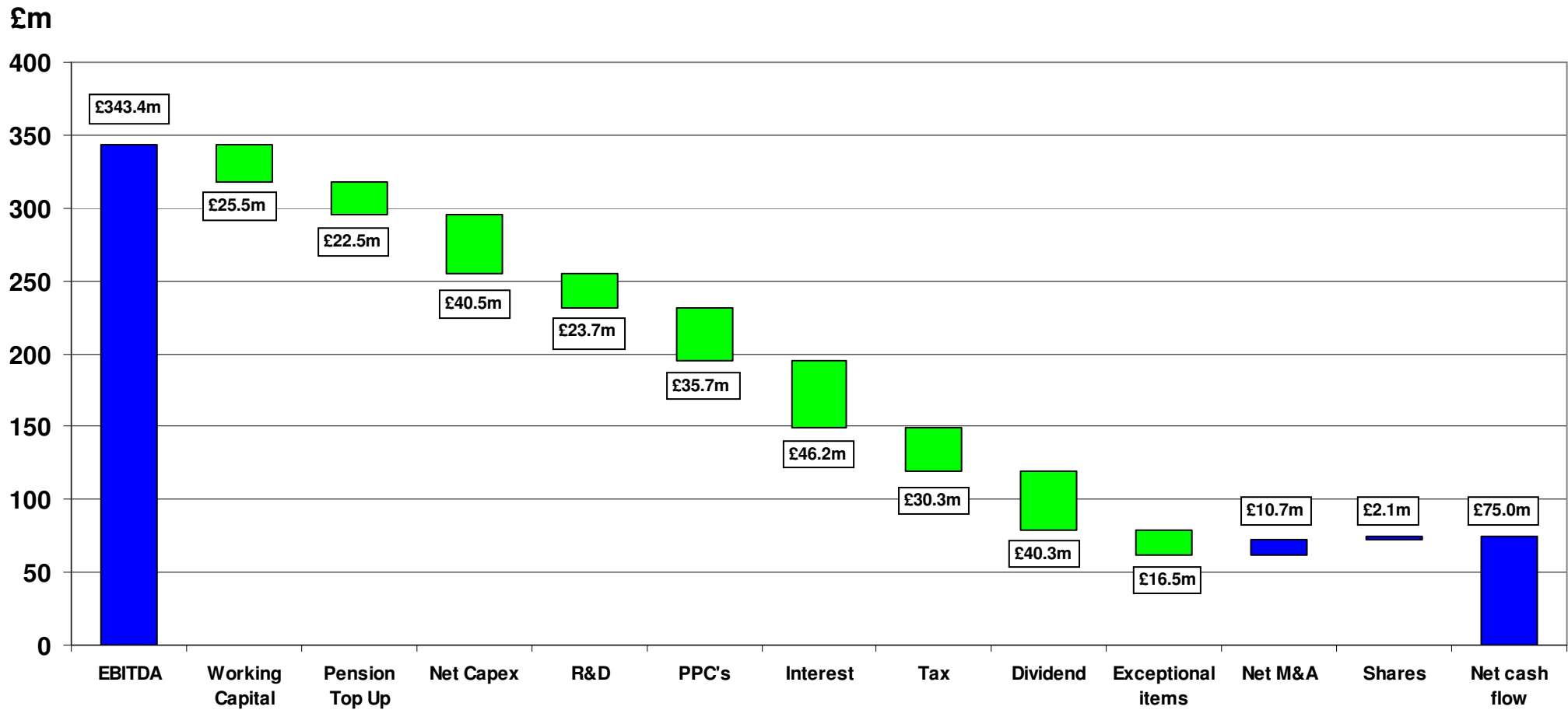
2009 currency sensitivity: ± 5 cents = ± £5m PBT

# Segmental analysis

£m Revenue				Underlying Operating Profit			Return on Sales %	
2008	2007	change		2008	2007	change	2008	2007
763.7	528.1	+45%	Aerospace Equipment	230.6	158.2	+46%	30.2%	30.0%
		+14%	<i>Organic*</i>			+10%		
267.8	235.9	+14%	Sensing Systems	46.7	41.5	+13%	17.4%	17.6%
		+4%	<i>Organic*</i>			+9%		
131.1	114.2	+15%	Defence Systems	19.1	16.6	+15%	14.6%	14.5%
		+6%	<i>Organic*</i>			+4%		
<u>1,162.6</u>	<u>878.2</u>	<u>+32%</u>	<b>Total</b>	<u>296.4</u>	<u>216.3</u>	<u>+37%</u>	<u>25.5%</u>	<u>24.6%</u>

\* Organic growth includes K&F results (unaudited) for H1 2007 and is measured using constant 2007 exchange rates. No adjustment has been made for the minor impacts of the acquisition of Ferroperm and disposal of S-Tec.

# Cash flow



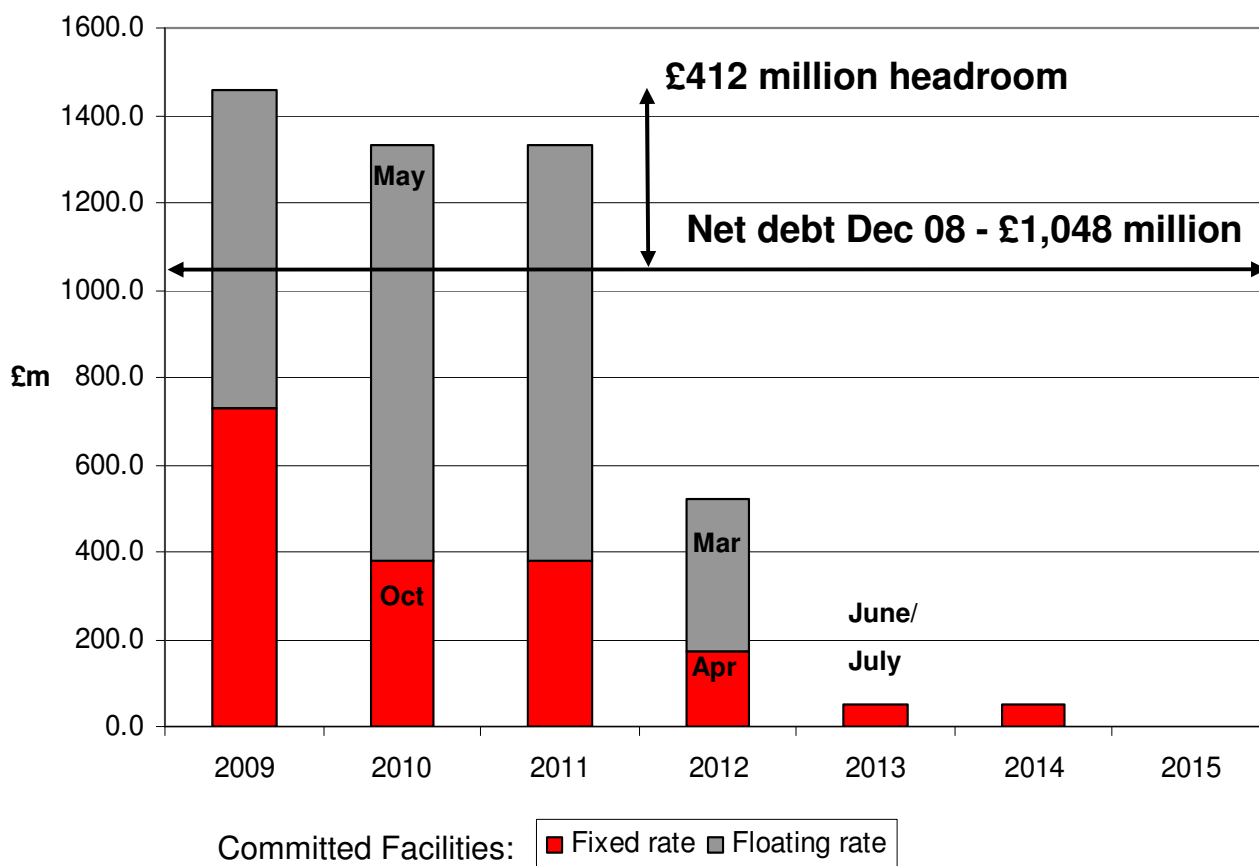
• Estimates for 2009 pension top-up payments, capex, R&D, PPCs given in Appendices

# Balance sheet

£m	At 1 Jan	FX	Other	At 31 Dec
Total assets (excluding cash)	2,681.1	748.9	72.7	3,502.7
Retirement benefit obligations	(153.3)	(44.8)	(43.1)	(241.2)
Other liabilities	(649.0)	(176.3)	(101.9)	(927.2)
Capital employed	<u>1,878.8</u>	<u>527.8</u>	<u>(72.3)</u>	<u>2,334.3</u>
Net debt	<u>(815.4)</u>	<u>(312.0)</u>	<u>79.5</u>	<u>(1,047.9)</u>
Net assets	<u>1,063.4</u>	<u>215.8</u>	<u>7.2</u>	<u>1,286.4</u>

# Financing

## Maturity profile of credit facilities:



## Covenant tests:

	<u>Per bank agreements</u>		<u>Memo per accounts</u>
	<u>Covenant</u>	<u>Actual</u>	
Net debt/ EBITDA	≤ 3.5x	2.4x	3.1x
Interest cover	≥ 3.0x	6.6x	5.6x

Appendix 3 outlines covenant principles. Summary:

- Calculations are based on 'frozen' UK GAAP as defined by credit agreements
- Exchange rates used in debt and EBITDA calculations based on trailing 12 month average

## Good covenant (net debt/EBITDA) headroom

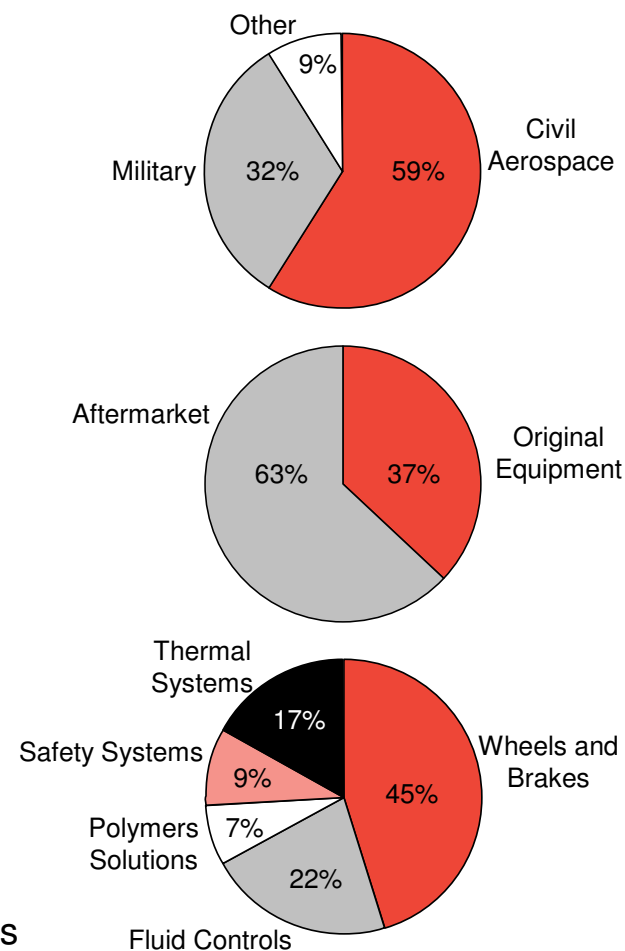
		<i>EBITDA (before exceptionals)</i>				
			-10%	-20%	-30%	
<b>Net debt (FX sensitivity)</b>	Avge \$1.50	<b>2.3</b>	<b>2.6</b>	<b>3.0</b>	<b>3.5</b>	( -29% EBITDA ≤ 3.5x )
	Avge \$1.25	<b>2.4</b>	<b>2.7</b>	<b>3.2</b>	<b>3.7</b>	( -26% EBITDA ≤ 3.5x )
	Avge \$1.00	<b>2.5</b>	<b>2.9</b>	<b>3.3</b>	<b>3.8</b>	( -24% EBITDA ≤ 3.5x )

Ratios calculated in accordance with credit agreements.  
Sensitivity scenario assumes that 2008 results in currency are repeated in 2009.  
This is for illustrative purposes only and is not a forecast.

# Aerospace Equipment update

- ▶ Excellent organic growth
- ▶ Multiple programme wins for military and commercial markets
  - Gulfstream G650; G250 and Embraer Legacy 450/500
  - A350 fire detection system
  - Significant wins on MULE and Mantis unmanned vehicles
- ▶ Investment in new technologies and sub-systems
  - Motor control technology for more electric vehicles
  - Lightweight seals
  - Ebrake®
- ▶ Continued focus on operational improvement
  - K&F integration on track
    - Targeted savings for 2008 exceeded
    - Savings for 2009 £18m, 2010 £22m on plan
  - Consolidated two UK Polymer factories
  - Expanded low cost manufacturing for wheels & brakes, polymers and ground fuelling

2008 Revenue Breakdown



# Sensing Systems update

## Strong organic growth

- Good growth in condition monitoring for the Aerospace and Energy markets
  - Some weakness in other markets, particularly consumer goods
  - Advanced Airborne Vibration Monitor on all new Boeing 737 Next-Generation aircraft
  - Multiple monitoring systems for steam and gas turbines
- Numerous avionics wins for the military market

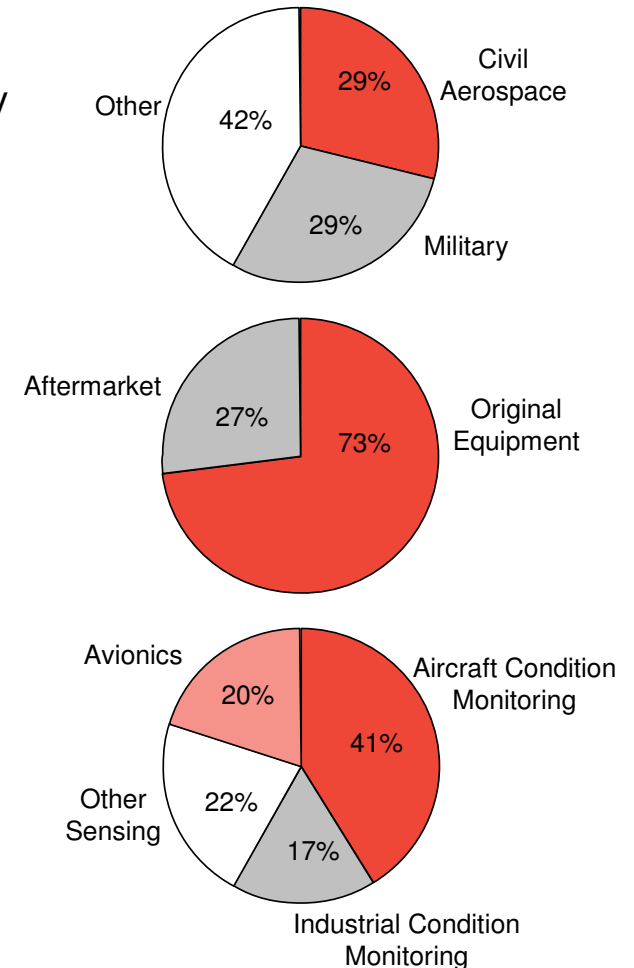
## Investing in leading-edge technologies

- Acquired Ferroperm high temperature sensing capability
- Founding member of IVHM research consortium with Cranfield University

## Expanding in energy markets

- Developing new innovative products and service offering
- Expanding sales infrastructure, including new office in India

2008 Revenue Breakdown

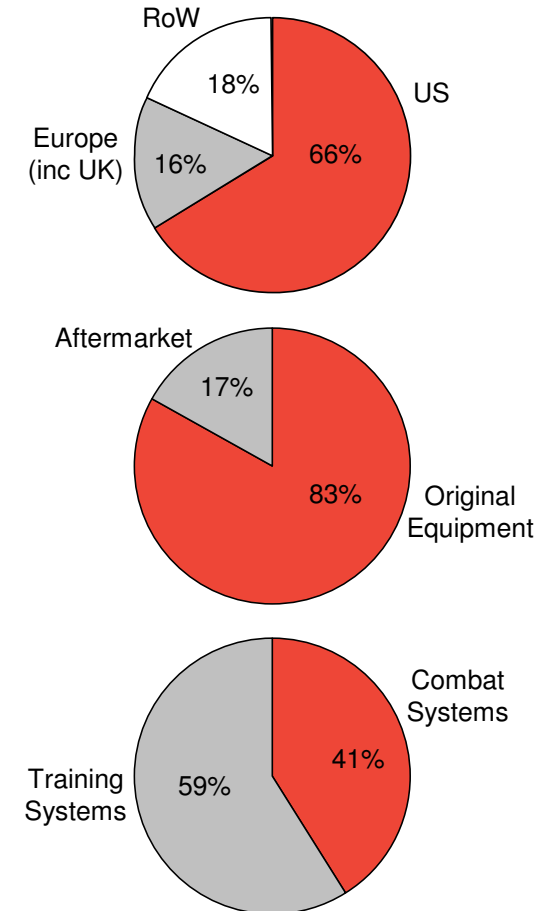


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# Defence Systems update

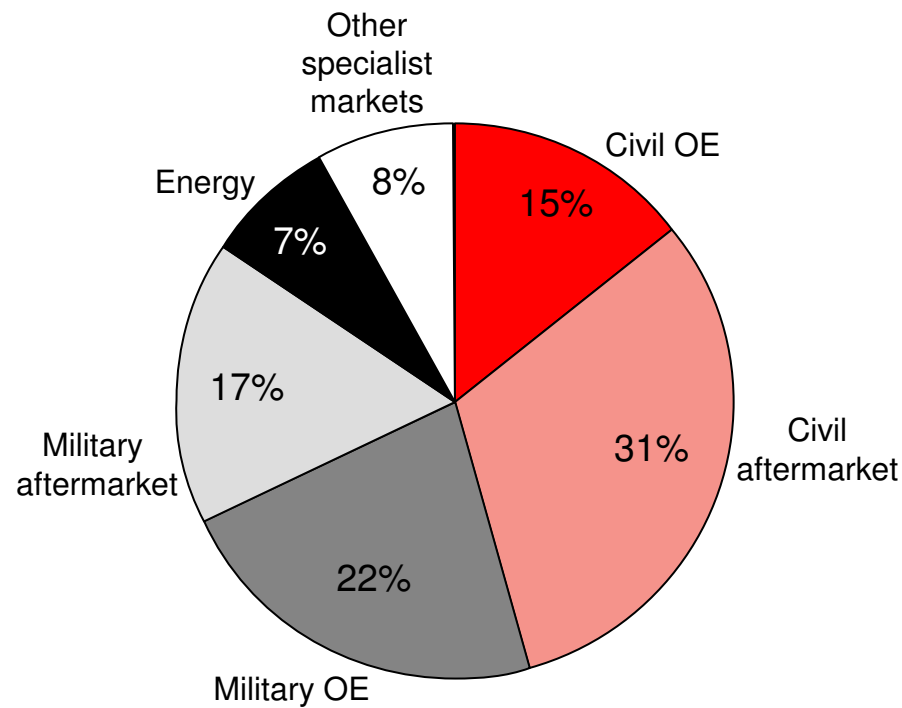
- ▶ **Better second half drives full year growth**
  - Training Systems
    - Record number of Banshee targets (380) delivered
    - Won follow-on contract for LM RVS virtual convoy trainer
  - Combat Systems
    - Strong demand for electronics cooling capability, including contract for M1A2SEP Abrams TMS
    - Further automatic 105 mm ammunition replenisher systems for Stryker
- ▶ **Investment in products and markets**
  - Launched two new products into law enforcement markets
  - Opened office in Middle East to position for growth in International markets
- ▶ **Consolidation complete**
  - Completed integration of live-fire and virtual capability in Atlanta
  - Seven factories consolidated into three (2US; 1UK) since early 2007

2008 Revenue Breakdown



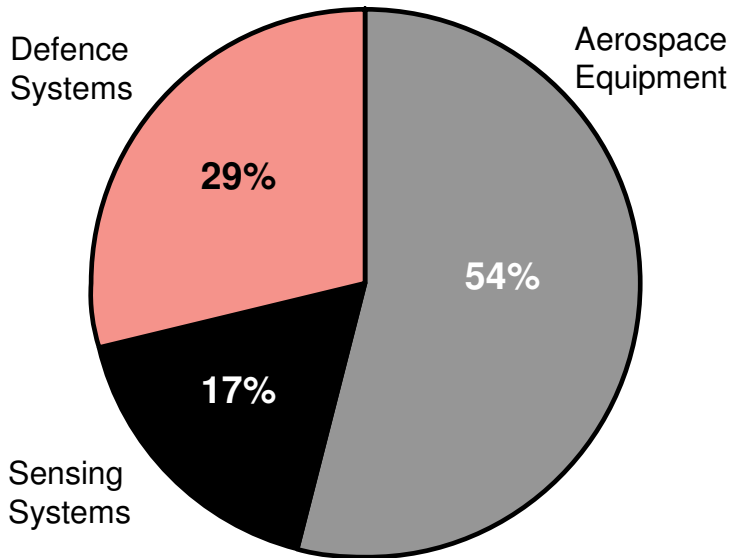
# Group 2008 revenue

Revenue by market segment  
£1,162.6m

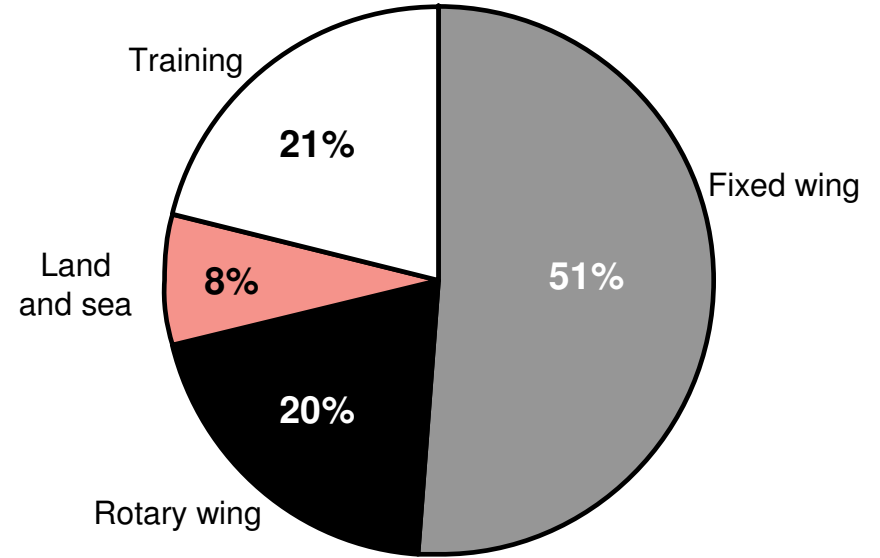


# Military 2008 – 39% of Group revenues

**Military Revenues by Division**  
£455.8m

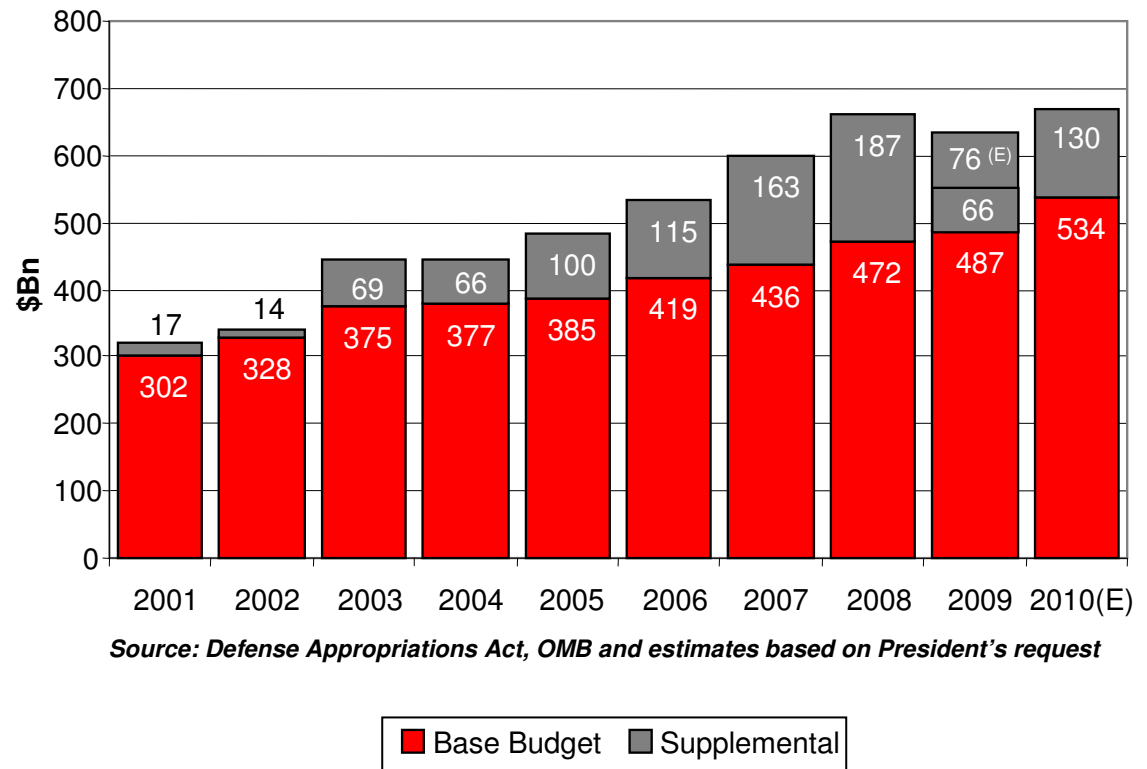


**Military Revenues by Market Segment**  
£455.8m



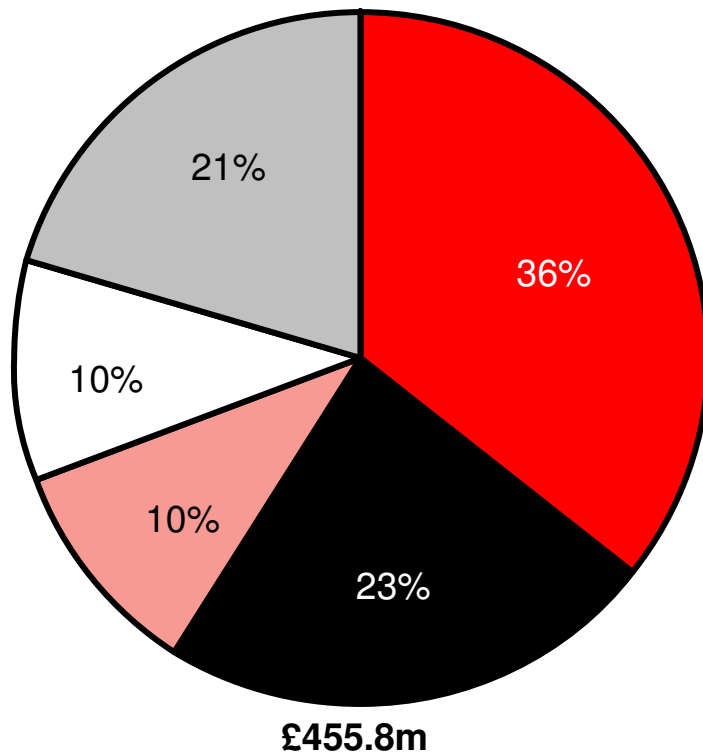
# DoD budget – opportunities for growth

- ▶ Base budget grew by 3% in FY2009 and is expected to grow by up to 10% in FY2010, to address reset requirements
- ▶ Supplementals are expected to reduce in line with gradual withdrawal from Iraq and shift of reset to the base budget



# Well positioned for military revenue growth

Breakdown of military revenue across lifecycle



- Growth military platforms**  
Platforms with expanding fleets and current production build rates at 25% to 100% of peak levels, or development programs
- Stable military platforms**  
Platforms with stable fleet sizes for at least 5 to 20 years, ongoing upgrades, budget support, but have low production rates (<25% of peak) or are out-of-production
- Mature military platforms**  
Platforms where fleet size may see some decline (gradual erosion not extinction) during the next 5 years
- Other military platforms**  
Programmes at various lifecycle stages, growth to mature
- Training**  
Targets, training systems and countermeasure products

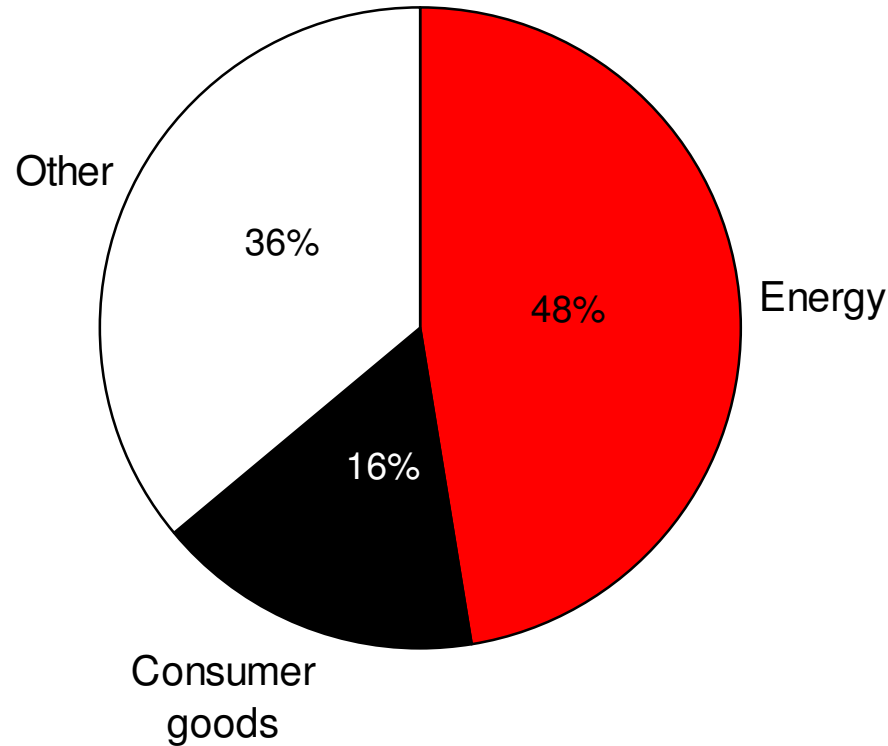
## Summary of Meggitt's military business

- ▶ Military revenues balanced throughout Group and across platform segments
- ▶ Excellent content on new fighters and rotary wing platforms will provide a stable growth base throughout next decade
  - Eurofighter Typhoon
  - F-35 Lightning II JSF
  - Apache, Black Hawk and V22
- ▶ Meggitt is winning strategic positions on long term unmanned air and land vehicle technology programmes
  - Key wins include Mantis and the MULE programme
- ▶ Well positioned to capture funding for reset and repair
  - Apache, Black Hawk, Stryker, M1A1 tank
- ▶ Well positioned to capture training funding
- ▶ Meggitt's military business is significant, secure and growing

# Other markets 2008 – 15% of Group revenues

## Other revenue by market segment

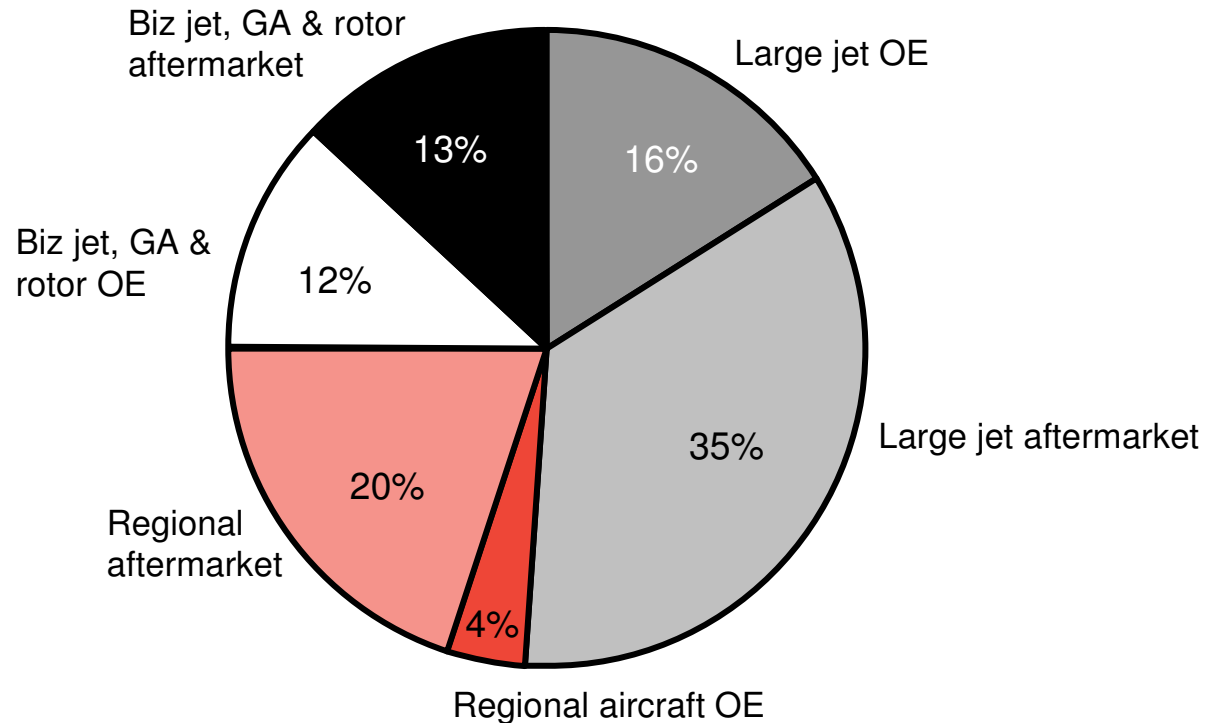
£179.4m





# Civil aerospace - 46% of total revenues

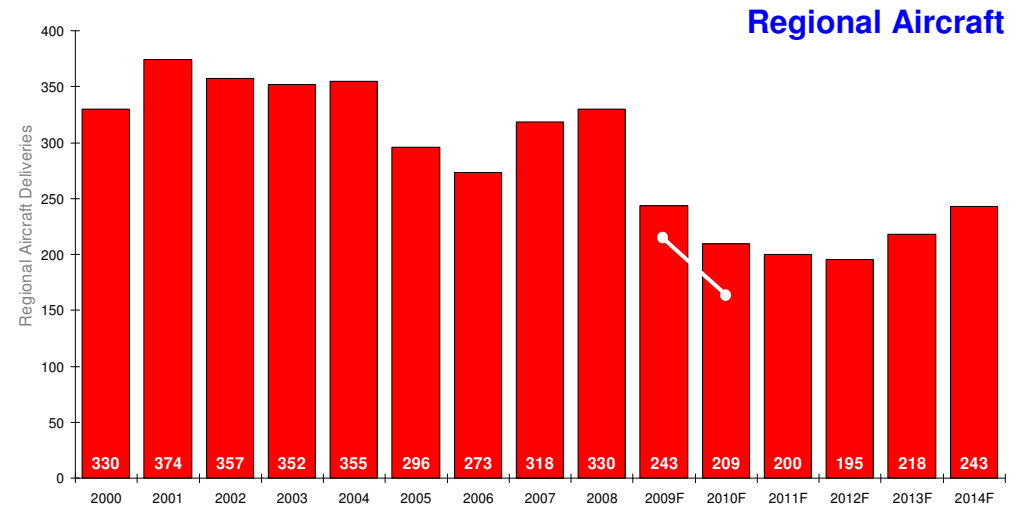
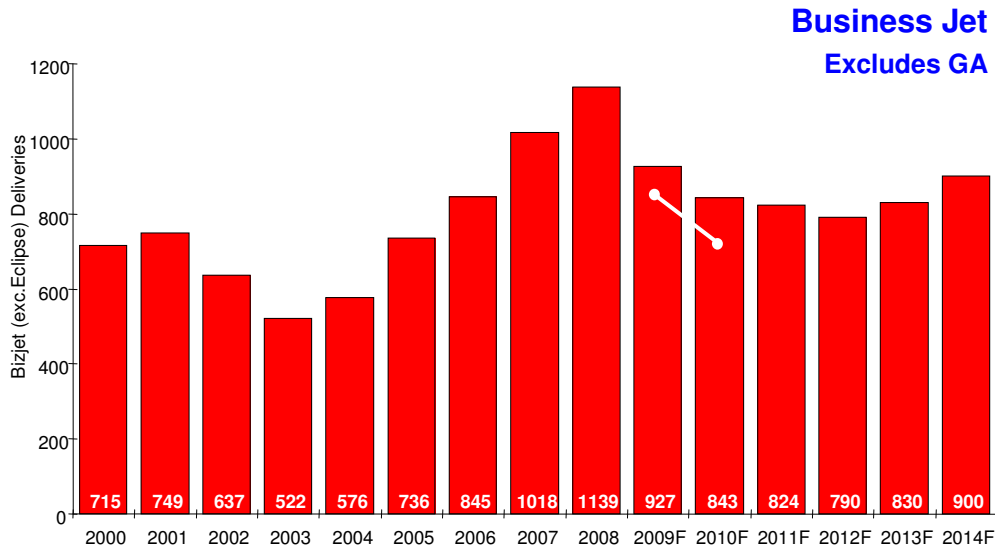
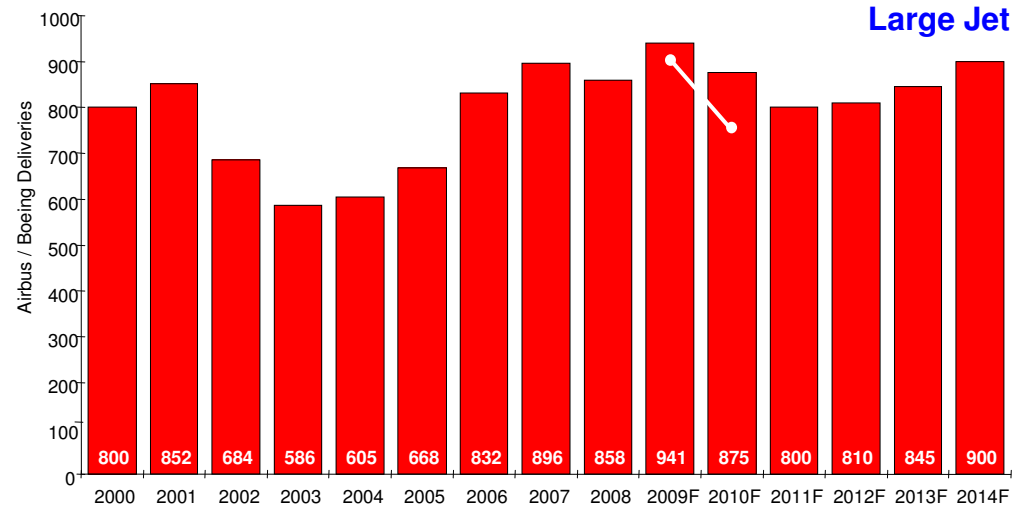
## Civil revenues by market segment

£527.4m



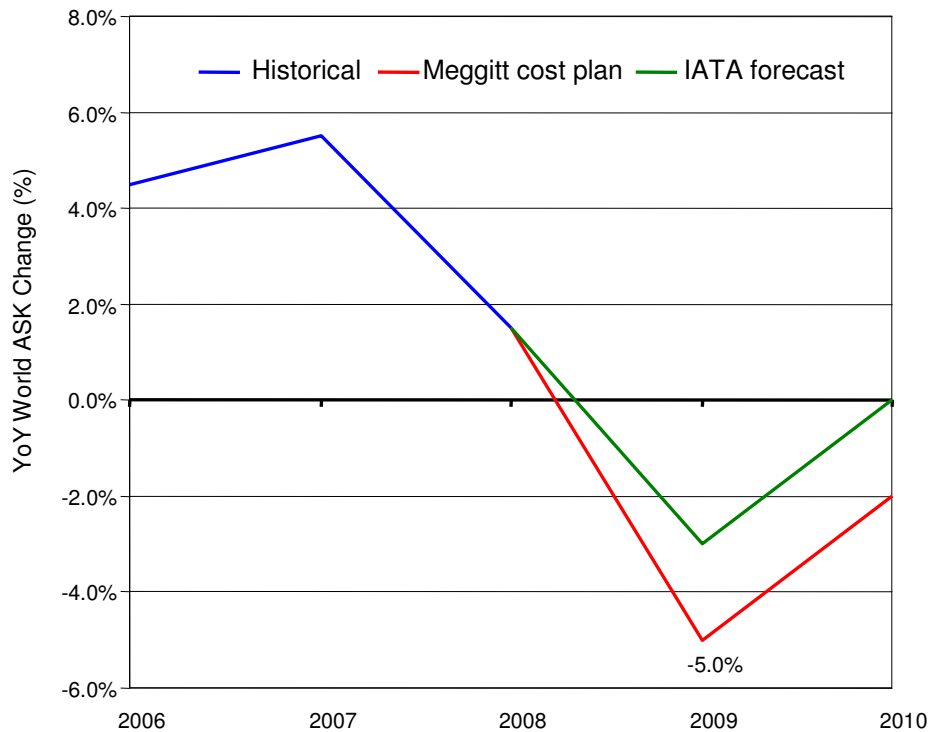
# Aircraft OE deliveries

-  Meggitt cost plan
-  Meggitt view of consensus forecasts



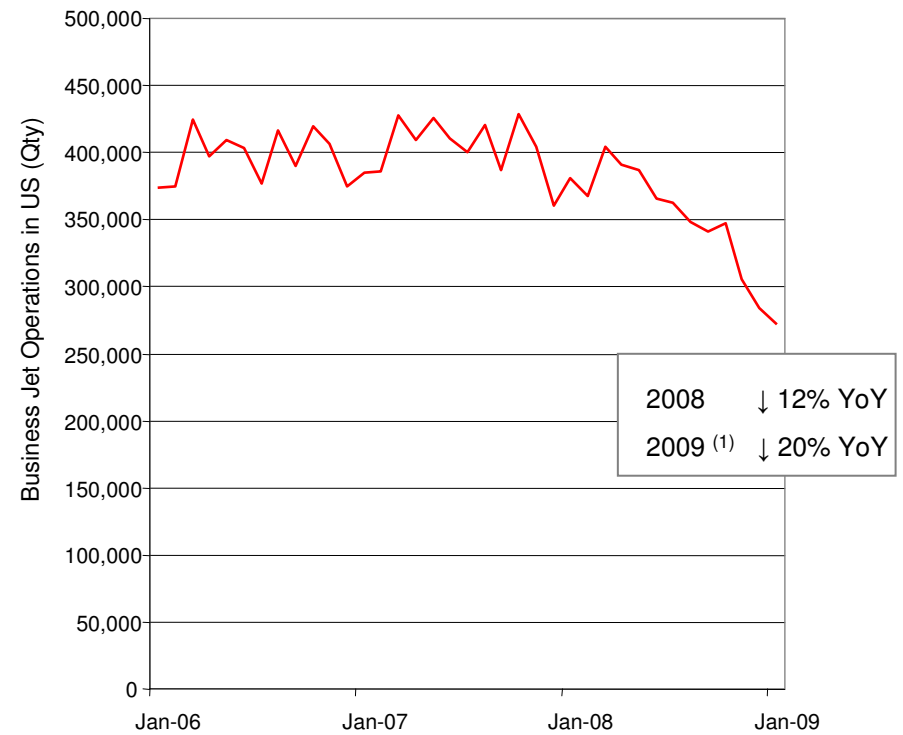
# Civil aftermarket

## Large Jet and Regional Aircraft



Source: IATA world forecast / Meggitt management estimates

## Business Jet (excludes GA)



Source: FAA ETMSC Database / Meggitt management estimates  
 Note: (1) Meggitt cost plan

## Cost savings

- ▀ Management restructuring
- ▀ Additional operational improvements
- ▀ Plans in place for up to 15% reduction in Civil workforce
- ▀ Other initiatives
  - Executive pay freeze (top 200)
  - Overtime working minimised
  - Short time working in impacted factories
  - Pensions & medical benefits review

**In total, the Group has plans to deliver cost savings of £20m in 2009, rising to an annual run rate of £50m by the end of 2010**

## 2008 Summary

- Meggitt continued to make excellent progress in 2008, with good organic growth in revenue (10%) and profit (10%)
- Meggitt's military business continues to trade in line with expectations
- Our energy business is growing
- Cost reduction plans are being implemented
- The financial position of the Group is strong and we are comfortable with our covenant position
- The Board increased the total dividend by 3% to 8.45 pence

## Outlook

- Meggitt has plans to respond to a challenging 2009
- Our military demand and energy business will remain robust in 2009
- Civil air traffic declining in 2009
  - Large jet deliveries will peak
  - Regional Jets and Business Jets deliveries will decline
  - Aftermarket impacted
- In response, the Group will cut costs
  - Savings of £20m in 2009
  - Rising to an annual run rate of £50m by the end of 2010
- The \$ exchange rate will provide a significant benefit in 2009 if it remains at current levels
- Well positioned for the long term

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# Appendices

1. Group strategy
2. Operating exceptionals
3. Covenant definitions per credit agreements
4. Cash vs P&L for investment activity
5. Civil aftermarket maturity profile

**Group strategy**

Deliver sustainable upper quartile returns through focused leadership positions in Aerospace, Defence & specialist extreme environments



**Group strategic objectives**

Focused investment	Leverage group capabilities	Achieve Operational Excellence	Satisfy our customers	Maintain a culture of strong performance
<ul style="list-style-type: none"> <li>- Components &amp; value-added sub- systems</li> <li>- High technology content</li> <li>- Aftermarket value</li> <li>- Growth by organic investment &amp; acquisition</li> </ul>	<ul style="list-style-type: none"> <li>- Adding value with cross-business solutions</li> <li>- Leveraging scale of operations</li> <li>- Strengthening central functions</li> <li>- Shared services and best practices</li> </ul>	<ul style="list-style-type: none"> <li>- Lean manufacturing and continuous improvement</li> <li>- Strategic sourcing</li> <li>- Low cost manufacturing</li> </ul>	<ul style="list-style-type: none"> <li>- Develop strategic supplier relationships</li> <li>- Strengthen our customer and industry partnerships</li> <li>- Be easier to do business with</li> </ul>	<ul style="list-style-type: none"> <li>- Delivering against targets</li> <li>- Leadership development</li> <li>- Financial rigour</li> </ul>

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

## Operating exceptionals

£m	2009	2010	2008-2010 Total
P&L charge			
K&F	8.7	5.4	14.1
Cost reduction plan	<u>16.0</u>	<u>9.0</u>	<u>25.0</u>
Total	24.7	14.4	39.1
Cash out			
K&F	12.2	5.4	17.6
Cost reduction plan	<u>12.0</u>	<u>13.0</u>	<u>25.0</u>
Total	24.2	18.4	42.6

# Covenant definitions per credit agreements

## Key principles

- Currency amounts translated to Sterling at trailing 12 month average exchange rates
- Calculations based on frozen UK GAAP and exclude changes brought in with IFRS
- Profit numbers are before exceptional items
- Financial covenants measured at 30 June and 31 December

## Consequences

- EBITDA/EBITA calculated broadly consistent with Meggitt definition of 'underlying profit'
- Currency profit translated to Sterling at profit weighted average of preceding 12 month end rates (\$1.83 in 2008)
- Currency borrowings translated to Sterling at average of preceding 12 month end rates (\$1.84 in 2008)
- Covenants relatively insensitive to exchange rate movements

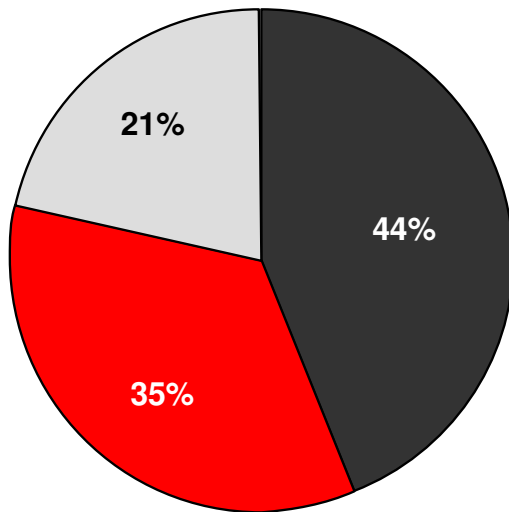
## Cash vs P&L for investment activity

£m	2008	2009 est	2010 est
	\$1.83	\$1.50	\$1.50
1. R&D			
Total expenditure	78.8	85.7	81.4
Less: customer funded	(19.4)	(22.6)	(21.5)
Company spend	<u>59.4</u>	<u>63.1</u>	<u>59.9</u>
Capitalised	(23.7)	(28.7)	(27.3)
Amortised	<u>3.5</u>	<u>6.4</u>	<u>11.6</u>
P&L	<u>39.2</u>	<u>40.8</u>	<u>44.2</u>
2. Programme participation costs			
Capitalised	35.7	37.4	32.3
Amortised	14.1	19.1	20.0
3. Fixed assets			
Capex	40.9	36.6	36.6
Depreciation	26.6	36.7	39.8
4. Net capitalisation*	56.1	40.5	24.8
5. Pension deficit reduction payments	22.5	25.8	31.0

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

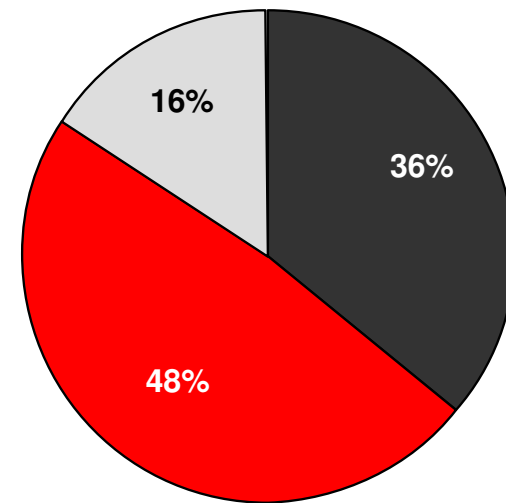
# Civil aftermarket maturity profile

Meggitt civil fleet by age



■ 0 - 10 years ■ 10 - 20 years □ >20 years

Meggitt civil revenues by fleet age



■ 0 - 10 years ■ 10 - 20 years □ >20 years