



# Preliminary Results

26<sup>th</sup> February 2009

# Agenda

- **Highlights and Key Messages** - **Simon Pryce**
- **Financial Performance** - **Andrew Wood**
- **Market Overview** - **Simon Pryce**
- **Business Review and Summary** - **Simon Pryce**
- **Q&A**

# Another positive performance in 2008

- Good results despite challenging markets
- Excellent progress in Aftermarket Services & Systems (now 46% of the Group)
- Sound trading in Flight Support
- Strong cash generation and cash conversion
- Proactive management action to adapt to uncertain environment
- Dividend maintained reflecting on-going cash generation and long term prospects

# BBA Aviation proving robust into downturn

- Market leading businesses
- Support service and aftermarket focus
- Well positioned, scale and strong barriers to entry
- Some portfolio and cyclical balance
- Low operational gearing
- Sufficient financial flexibility

# Actions undertaken to mitigate market weakness

- Significant structural headcount reduction
  - 300 heads in 2008
  - 350 in 2009, majority announced
- Closure of two small loss making businesses
  - CSE Engineering and APPH wheels and brakes
- Indirect/discretionary spend reduction programmes implemented
- Continued focus on cash generation and debt reduction
  - Net inventory reduction in 2008 £10m, more to come
  - Capex reduced to £9m in H2, significant further annual reductions in 2009
- Annualised reduction in underlying costs of £6m of which £3m was realised in 2008, partly offset by H1 input cost inflation
- Further annualised savings of £10m planned for 2009, majority to be realised in the year

# Continued strategic progress

- **Businesses executing strategic plans**
  - **Signature**
    - New 5 year preferred supplier agreement with NetJets US
    - Acquisitions adding 8 important locations to global network
  - **Legacy**
    - Significant new licence acquisitions, UK presence established
    - Honeywell APU a step change, adoption proceeding well
  - **ASIG, ERO and APPH**
    - Good continuing progress
- **Performance driven culture delivering**
  - **Focus on sustainable value creation from businesses with common priorities**
  - **Driving cash generation and ROIC improvements**
  - **Significant improvement in non-financial measures**
- **Senior appointments and organisational changes to support operational focus and cross business opportunities**

# Financial Performance



Andrew Wood

# Exchange Rates

	2008		2007	
	\$	€	\$	€
Average \$	1.85	1.26	2.00	1.46
Period End \$	1.44	1.03	1.99	1.36

- **For every one US cent movement from \$1.44**
  - Operating profit impacted by £0.6m
  - Interest by £0.15m
  - Pre-tax by £0.45m
  - Net debt by £4.0m
- **Movement in average rates increased translated value of underlying pre tax earnings by £4.4m**
- **Debt increased by £160m on a translated basis due to movement in exchange rates**

# Income Statement (1)

£m	2008	2007	Change	Change (constant fx)
Revenue	<b>1,156.1</b>	979.4	18%	11%
Revenue (Fuel adjusted)	<b>1,090.1</b>		11%	4%
Operating Profit*	<b>109.7</b>	105.7	4%	(4)%
Margin %*	<b>9.5%</b>	10.8%		
Margin % (Fuel adjusted)*	<b>10.1%</b>			
EBITDA*	<b>143.3</b>	135.0	6%	(1)%
EBITDA Margin*	<b>12.4%</b>	13.8%		
Net Interest	<b>(20.5)</b>	(19.3)	(6)%	9%
Pre Tax**	<b>89.2</b>	86.4	3%	(2)%
EPS*	<b>16.1p</b>	15.4p	5%	-
Dividend	<b>7.60p</b>	7.60p	-	-
Return on Invested Capital	<b>9.7%</b>	10.9%		

\* Pre restructuring costs and amortisation of acquired intangibles net of gain on disposal of businesses and claims

\*\* Operating profit less interest

# Income Statement (2)

£m	2008	2007
Pre Tax Profit*	<b>89.2</b>	86.4
Restructuring costs	<b>(8.2)</b>	(5.6)
Amortisation of acquired intangibles	<b>(2.1)</b>	(0.8)
Other operating income	<b>5.3</b>	-
Amounts written-off associates	-	(7.6)
Gain on disposal of businesses	-	38.4
Total Profit Before Tax	<b>84.2</b>	110.8
Profit for the period	<b>62.9</b>	87.2
Tax rate	<b>26.1%</b>	27.0%

\* Pre restructuring costs and amortisation of acquired intangibles net of gain on disposal of businesses and claims

# Flight Support

2008			2007 (at 2008 exchange rates)			2007		
Sales £m	Op Profit £m	Margin %	Sales £m	Op Profit £m	Margin %	Sales £m	Op Profit £m	Margin %
705.9	64.8	9.2	621.5	77.5	12.5	579.5	72.2	12.5

- Organic revenue decline of 6%
- Signature USA down 10%, ROW up 3%
- Underlying operating profit down 16% at constant exchange rates
- Fuel adjusted margins 10.1%
- Divisional ROIC 9.9% (Ex HB) (2007: 13.9%)
- Strong cash conversion of 95% (2007: 90%)

# Aftermarket Services & Systems

2008			2007 (at 2008 exchange rates)			2007		
Sales £m	Op Profit £m	Margin %	Sales £m	Op Profit £m	Margin %	Sales £m	Op Profit £m	Margin %
450.2	55.5	12.3	422.8	46.1	10.9	399.9	43.2	10.8

- Organic revenue growth of 10%
- Underlying operating profit up 20% at constant exchange rates
- Margins improved to 12.3%
- Represents 46% of operating profit (2007: 36%)
- Divisional ROIC (excl. Oxford) improved to 10.6% (2007: 9.5%)
- Strong cash conversion of 102% (2007: 86%)

# Cash Flow / Debt

£m	2008	2007
Cash flow from operating activities (continuing)	126.4	102.4
Cash flow from operating activities (total)	126.4	78.7
Gross Capital Expenditure (continuing)	30.9	37.3
Capital Expenditure to Depreciation	0.9x	1.3x
Working Capital Movement (continuing)	3.8	(5.2)
Free Cash Flow* (continuing)	77.2	44.3
Free Cash Flow* (total)	77.2	20.6
Acquisitions	76.4	75.9
Disposals (net of costs)	0.4	68.1
	<b>2008</b>	<b>2007</b>
Debt	554.4	368.6
Net Debt to EBITDA (covenant calculation)	2.9x	2.7x

\* Cash generated by operations plus dividends from associates less tax, interest & capital expenditure

# Capital Expenditure

£m	2008	2007
Signature	10	12
ASIG	12	8
Flight Support	22	20
ERO	6	5
Legacy Support	1	1
APPH	2	4
Oxford	-	7
After Market Services & Systems	9	17
Total Gross Capital Expenditure	31	37

# Cross Currency Swaps

- Historic practice of asset hedges to reduce fx impact on shareholders funds
- Current hedges \$550m at average rate of \$1.85
- Contingent loss of £98m at year end rates
- Loss only crystallising on maturity and will depend on spot rate at time
- Maturity profile
  - 2011        \$500m
  - 2013        \$ 50m
- Can be closed out at any time
- Strong US\$ will result in enhanced sterling cash flows

# Debt Profile

- **Total facilities available \$1,175m, headroom \$315m**
- **Mixture of term**
  - 2 year \$100m (Aug 2010)
  - 3 year \$175m (Aug 2011)
  - 5 year \$900m (Sept 2012)
- **Key covenant 3.5x Net debt to EBITDA**
  - Excludes cross currency swaps
  - Can test at average exchange rates
  - \$900m facility includes acquisition spike
    - 4.0x for a 12 month period following first covenant test (4.25x) after the acquisition
  - Hawker Beechcraft acquisition results in spike being available for 2009
  - Requires cancellation of two smaller facilities due to cross default
  - Currently sufficient headroom to achieve this if required

# 2009 Cash Flows & Covenants

- **Unrealised gain of £20m on cash management swaps at 31.12.08 has now been realised and debt reduced**
- **H1 09 covenant test based on rolling 12 months - 8 months known**
- **Free cash flow should increase significantly at current exchange rates**

£m

Free Cash Flow	60	80	100	120	140
Net Cash Flow	20	40	60	80	100
Debt	515	495	475	455	435
Minimum EBITDA required					
@ 3.5x	<b>147</b>	<b>141</b>	<b>136</b>	<b>130</b>	<b>124</b>
@ 4.0x	129	124	119	114	109
2008 EBIT at 2009 rates	135				
DA at 2009 rates	<u>42</u>				
Total EBITDA at 2009 rates	<u>177</u>				

# Summary

- 2008 earnings held up well in difficult markets
- Aftermarket businesses had an excellent 2008 with all financial metrics improving
- Strong free cash flow of £77m in 2008 should increase in 2009
  - Reduced capex
  - Improved working capital
  - Diversified funding for assets
- Excellent cash conversion of 101%
- Business being managed to generate cash, reduce debt and keep within 3.5x debt to EBITDA, additional flexibility to 4.0x if required
- Sufficient covenant headroom

# Market Overview



Simon Pryce

# B & GA is currently very difficult, but here to stay

## Existing challenges

OEMs

Order book deferrals, production cuts, mass lay-offs, VLJ failures

Operations

Flying hours sharply down, marginal users gone, inventories at all time highs

Outlook

Limited visibility until economic climate clearer

Political

Business jet usage irrationally challenged, short term perception change

Other

No impact from lower oil price, lack of financing

## Long term demand

Mobility

Continuing demand for mobility, flexibility and point to point service

Infrastructure

Congested airports, economic driven reversion hub and spoke, security

Productivity

Acknowledged, cost effective business efficiency and productivity tool

Structural

Sophisticated, increasingly lower cost business models, expanding affordability

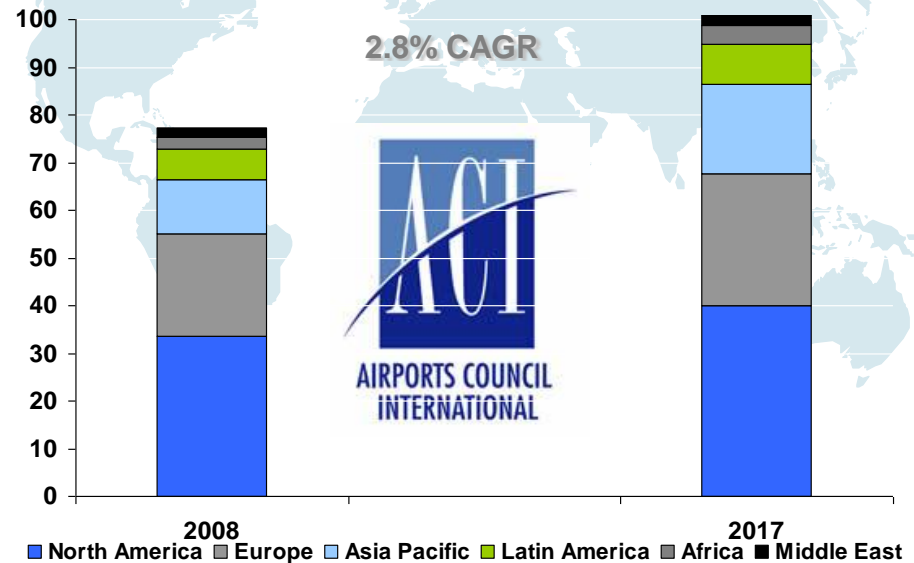
Other

Long term business and personal demographics

# Commercial market soft, but people still flying

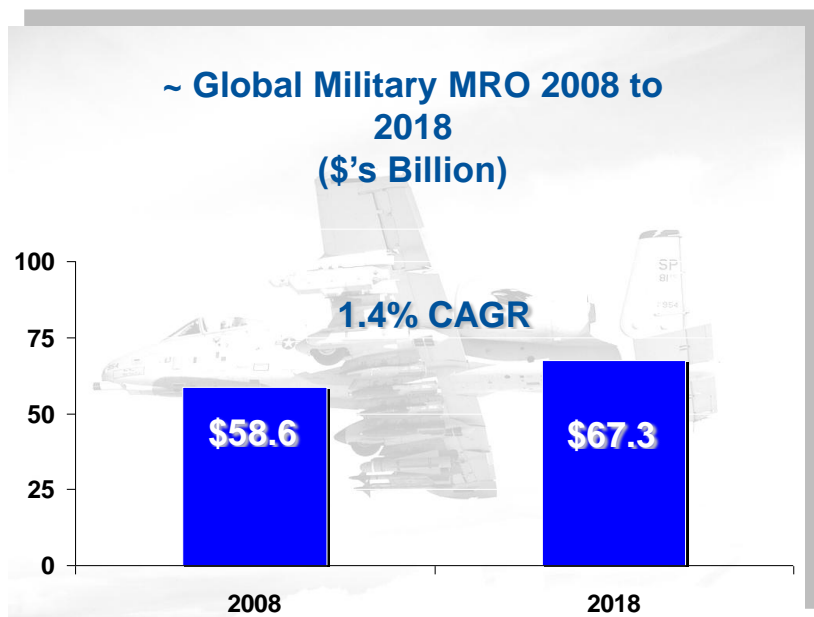
- Passenger counts and yields falling
- Air freight down significantly
- Continued fleet reductions (system capacity cuts) to improve yield
- Regional airports hit much harder than hubs and international
- Culling/ parking oldest aircraft from fleet (11% US domestic fleet parked); deferring addition of new aircraft
- US domestic capacity down ~10% '09
- Out-sourcing of services continues
- Further mergers and consolidation likely

Commercial Aircraft Movements (in Millions) 2007 to 2017

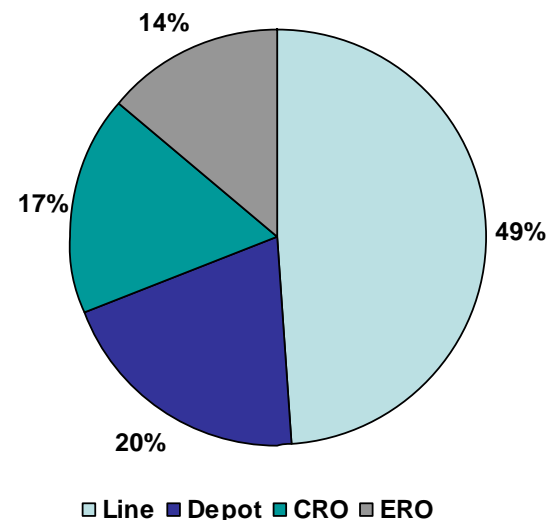


- Commercial fleet forecast to grow ~ 3% p.a.
- 38,520 aircraft in service globally by 2028

# Military stable even with future budget constraints



Military MRO Distribution



- Continued high level of U.S. military engagements abroad, commensurate level of MRO spend
- Approximately 15% growth in Military MRO 2008 to 2018 to \$67.3m annual spend; 35% USAF
- U.S. fleet aging; little discussion of force cuts
- Uncertainty surrounding sustainability of spend, positive for MRO

# Business Review



Simon Pryce

# APPH ~ 10% of the group

- 2008 performance satisfactory
  - Sales growth 9%
  - Margins broadly maintained despite increased OE content
  - Impacted in H 2 by moth-balling American Eagle SAAB 340 fleet
  - Stable ROIC\*
  - New orders
    - India LCH pitch control actuation c.\$30m over 10 years
    - BAE Systems UCAV Teranis
    - Approved by Boeing for R&O of B717 landing gears worldwide
- Entering 2009
  - Likely reduced B & GA OE demand, on-going impact of commercial retirement
  - Partly offset with stable military OE and MRO demand, new business wins
  - Loss making APPH wheels and brakes closed, further cost reduction plans in place

\*like-for-like

# Legacy ~ 10% of the group

- 2008 another excellent year
  - Sales growth 18%, organic 13%
  - Margins maintained
  - ROIC\* (pre Honeywell APU) further improved by > 2% points
  - Successful adoptions
    - Goodrich landing gear, Hamilton OBIGGs
  - Scale and technology step change acquisition of new licences
    - Honeywell APU, Kidde
    - Hamilton Sundstrand fuel controls, LANTIRN
  - Continuing benefits from greater group coordination (ERO, APPH)
- Entering 2009
  - Record order book, continues to grow
  - Growing demand for aftermarket products in main markets
  - Contribution from new adoptions
  - Strong pipeline of licence opportunities

\*Like-for-like

# ERO ~ 25% of the group

- 2008 a very good performance
  - Sales growth 11%, overseas now 45% , improved portfolio balance
  - Strong margin development
    - On-going operational improvements
    - Focus on cost control and inventory reduction yielding results
  - ROIC\* improved by > 2% points
  - Extended authorisations
    - PT6, PW 100, PW 500 and 16 new model types
  - Realising benefits from greater group coordination (Signature, Ontic)
- Entering 2009
  - B & GA focus, later cycle and shallower but will impact
  - Mitigation actions implemented
    - New business wins
    - 17% headcount furlough / reduction announced, on-going cost control actions
  - Continuing focus on operational improvement
  - Further inventory and working capital reduction

\*Like-for-like

# ASIG ~ 10% of the group

- 2008 a satisfactory result
  - Organic sales decline of 3%, out performing markets served
  - Margin impacted by input cost inflation, particularly in H1 (internal fuel cost, bad debts)
  - ROIC\* marginal decline
  - Positive TOGA start up leading to expanded JFK opportunity, small UK bolt-on performing well, exit from poor performing contracts complete, solid core contract retention rate
  - Continuing external recognition for exceptional service (“Best Airport Fuel Operator”)
- Entering 2009
  - Good start to de-icing
  - Focus on into-plane refuelling at hubs and international locations limits impact of weaker markets
  - Operating costs normalising, direct labour flexibility, full benefit of 2008 structural headcount reduction and continuing cost control

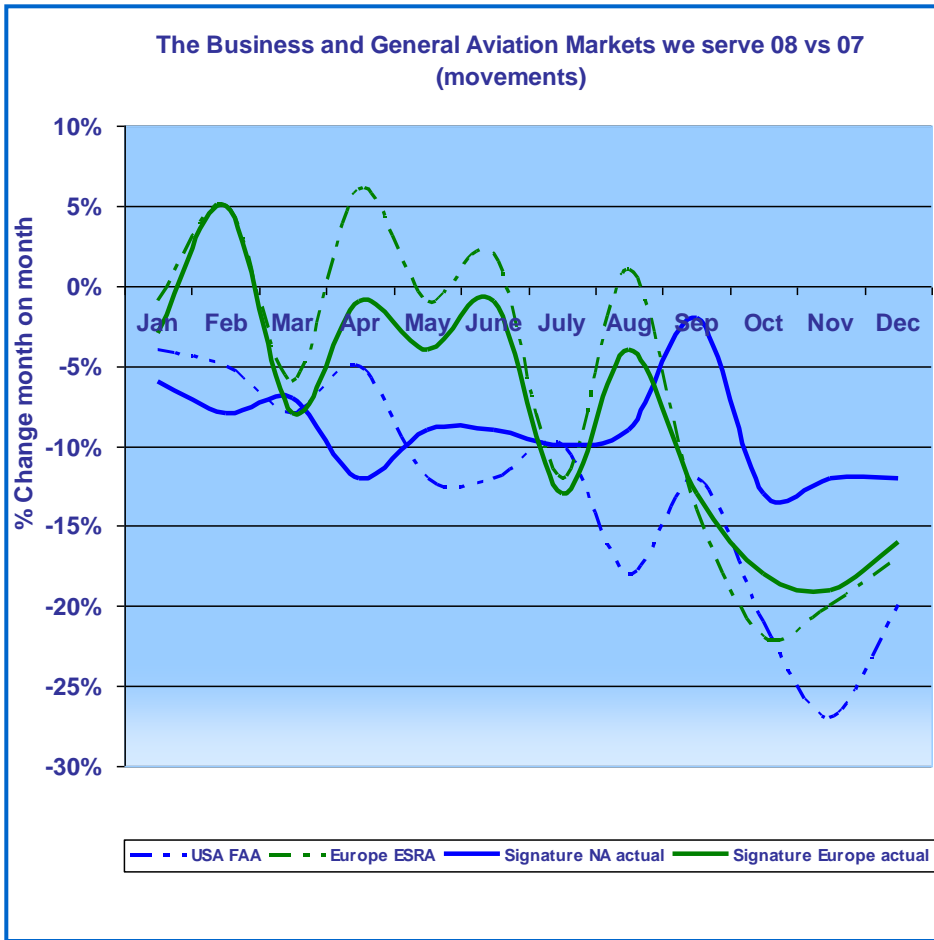
\*Like-for-like

# Signature ~ 45% of the group

- 2008 satisfactory financial results in an increasingly difficult market
  - Organic sales decline of 7%
    - North American revenue down 10%, fractionals weakened in H2
    - Despite 3% organic revenue growth in Europe, weakness seen in Q4
  - Input cost inflation, particularly in H1
  - Cost flexing actions implemented in North America
    - 5% headcount reduction
    - Cost control programme implemented
  - ROIC\* maintained at around BBA Aviation target cost of capital
  - Hawker Beechcraft, Munich and Gatwick acquisitions integrated adding 9 FBO's and 8 important additional network locations (6 in USA, 2 in Europe)
  - Entered into new 5 year preferred supplier contract with NetJets in North America

\*Like-for-like

# Signature out-performed its served markets



- **Benefit of unique network of premium locations in North America and Europe**
- **Medium and heavy jet focus**
- **Launch of programmes to deliver network benefits for non-network /less frequent users**
  - more flexible retail price and discount structures, reflecting individual FBO's unique competitive environment
  - launched in June
  - significant and continuing share gain
  - running ahead of expectations

# Signature entering 2009

- Service focus means limited short term impact of OE cycle
- Markets remain very difficult, limited visibility
  - Expect continued out-performance through network strength and continued success of new programmes
  - Full year benefit of 2008 cost reduction actions
  - Phase 2 headcount reduction implemented, a further 7% reduction ( 12% in total in north America)

# Summary



Simon Pryce

# BBA Aviation delivered another strong performance in 2008

- Good results, despite challenging conditions in principal markets
- Strong performance, reflecting underlying business quality, operational improvement and benefits of portfolio balance
- Low operational gearing and proactive management action delivered effective flexing in an uncertain environment
- Strong cash generation and cash conversion
- Continued strategic development

# BBA Aviation is positioned to deal with a difficult 2009

- B & GA markets remain volatile, little visibility, commercial aviation markets show continuing weakness
- BBA Aviation will be robust in this challenging environment
  - Services and aftermarket group, low operational gearing
  - Proactive management actions reducing ongoing cost base by £16m
  - Portfolio balance
  - Market leading businesses
    - Signature and ASIG will continue to out perform, ERO will see some impact, APPH neutral
    - Strong growth in Legacy
  - Full year benefit of acquisitions
  - Continued strong cash generation and focus on debt reduction
- Financial flexibility even in today's environment
- Dividend maintained reflecting on-going cash generation of BBA Aviation and long term prospects

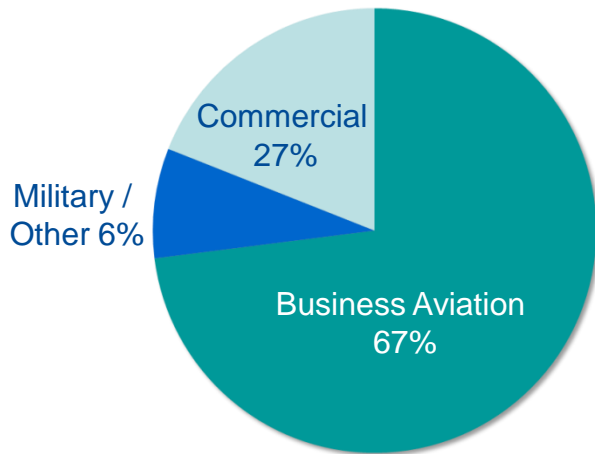


# APPENDICES

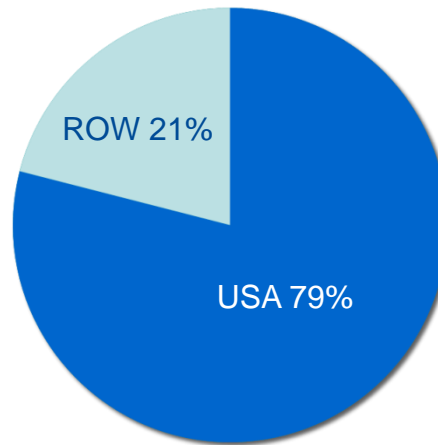
# BBA Aviation – A Reminder

- Unique, focused aviation services and systems and legacy support group

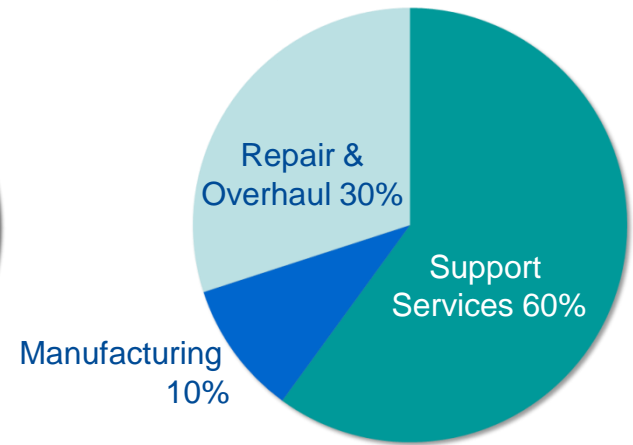
**Markets**



**Geography (Origin)**



**Type of Business**



- Focused on B&GA, with military & legacy mitigating cyclical exposure
- Services and aftermarket focus with repair and overhaul & manufacturing strengths
- US \$ based, US business but with growing non-US exposure

# Market leading, some balance and low operational gearing

Business	Principal Market	% Group	Barriers to Entry	Operational Gearing (% costs fixed)
Signature	Global B&GA support services	45%	Brand strength and reputation Long term leases in high quality locations Integrated global network Economies of scale	ca 30%
ASIG	UK, US commercial aviation services	10%	Licences to operate Technical expertise Brand strength and reputation Customer relationships	ca 25%
ERO	Global B&GA engine repair and overhaul	25%	Engine authorisations Sales and service infrastructure Capital investment OE/Customer relationships	ca 15%
Legacy	Military, commercial and B&GA legacy product support	10%	OEM sole source licences Intellectual property Adoption process Supply chain management expertise	ca 30%
APPH	Military and B&GA OE and aftermarket services	10%	Intellectual property, proprietary design Technological capability System integration expertise 3rd party approvals	ca 20%

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