



Aug. 15. 2006 / 4:00PM, MAL.TO - Q2 2006 Magellan Aerospace Earnings Conference Call

## CORPORATE PARTICIPANTS

**Richard Neill**

*Magellan Aerospace Corp. - President and CEO*

**John Dekker**

*Magellan Aerospace Corp. - VP, Finance*

**Jim Butyniec**

*Magellan Aerospace - Chief Operating Officer*

**Steve Groot**

*Magellan Aerospace Corp. - Corporate Controller and Treasurer*

**Bill Matthews**

*Magellan Aerospace - Marketing*

## CONFERENCE CALL PARTICIPANTS

**Jacques Kavafian**

*Research Capital - Analyst*

**Stephen Andersons**

*Sprott Securities - Analyst*

**Tim James**

*CIBC World Markets - Analyst*

**Cameron Doerksen**

*Versant Partners - Analyst*

**Richard Stoneman**

*Dundee Securities - Analyst*

**Nick Morton**

*RBC Capital Markets - Analyst*

## PRESENTATION

**Operator**

Welcome to the Magellan Aerospace fourth-quarter earnings release conference call. All participants' lines are on listen-only mode, and after the presentation, will open the call for question-and-answer. We would like to formally inform all participants that this call is being recorded. We remind you that our presentation may contain forward-looking statements reflecting the company's expectation regarding its future growth and results and performance. These forward-looking statements reflect the current views of the company's management and are subject to various risks and uncertainties, which could cause the company's future growth, results and performance to differ materially from those expressed in or implied by these statements. Certain of these risks are described in the Magellan Aerospace annual report. Magellan Aerospace disclaims any intention or obligation to update or revise these forward-looking statements. I would now like to turn the call over to the President and CEO of Magellan Aerospace, Mr. Richard Neill. Please go ahead, sir.

**Richard Neill - Magellan Aerospace Corp. - President and CEO**

Thank you, Michelle, thank you for the introduction and for all these words that the lawyers carefully crafted that you should read of. We, of course, underwrite the words that were said, that we are trying to share as much as we can that we can legally do and be as open as we can, and we hope when we get to questions and answers, you can see it that way.

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Just to quickly recap some key things that happened in quarter 2 that may reflect in our numbers and give you an understanding of where the sector is at this point -- going through the big people in the commercial airplane business, Airbus and Boeing -- in Airbus, of course, the key thing was the announced delays on the A380 program where it's not only affected them but affected the whole supply chain, and some of it washed through into us as well.

On top of that, there was the indecision that we had around the whole A350 program, and then the final decision to go with what is now known as the 350 WBX as a competitor to Boeing's latest product. They took pains in getting there and, in doing so, they sent a number of concerns back not only through the investment community but through the supply chain as well, especially for those who had already started working on the A350 program.

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Coupled with that, turmoil in the Airbus organization at the most senior levels didn't help. We won't dwell on that. Interestingly enough, though, in that same time period they managed orders at a good old clip with single-aisle airplanes being the model that was in most demand and, of course, they've moved their production rates up on the single-aisle product -- that's the A320 family -- to they're trying to get to 32 a month, which is a significant rate.

Behind, again, all of this, they were also working in the military program, the A400. They are making progress. They're a little behind their plan, they're not on schedule, but they are struggling through and, of course, we are involved with them on that in an engineering context.

In Boeing's case -- different story. The story for the quarter was the strength of the order book for the Boeing 77 that built through that period but also for the Boeing 777 as well. In fact, Boeing won the bulk of the orders for twin-aisle airplanes and had, for the first time, some success that they could boast about. We saw that at the Farnborough Air Show.

There is some concern on the Boeing 77, however, as Boeing struggled to maintain the announced dates for deliveries of the airplanes, especially as key supply has now got to be delivered through the next six, nine months, 12 months, and we are picking up signals that some of the Pacific Rim suppliers are behind schedule. I don't know if other people have had this or not, but it is a signal that we have received.

On the Defense side, the major programs managed to hit the milestones and orders, and shipments were pretty much as planned. Joint Strike Fighter went through a development phase and made the milestone, and it seems to be unfolding as planned originally and, of course, some shipments were made to Joint Strike Fighter by us through this quarter. The same can be said for the F18E, and other programs that are in [count] production for the U.S. DOD.

What we were seeing, however, was a little strain on the budgets that are used to support operations and maintenance, and some orders were slowed down so that the different departments could stay within their approved spending envelopes. We would anticipate some of these orders to flow out in the third quarter and be in place for Q4 and the beginning of next year.

The business at General Aviation sector continued to be strong, and noteworthy was the way that shipments continue to hold at high levels.

For us in operations it was a tough quarter. At our annual meeting we announced the plans to reorganize and rejuvenate certain parts of our business, and we are on plan doing just that. We may be not on as tight a schedule as we would like to have been, but we anticipate that being in completed in Q3 and that flowing through to help us in the second half.

Similarly, some of the orders that we have seen in the past for part generation equipment have been delayed and primarily because in Canada, in particular, you seem to be strangled with regulatory hurdles that are sort of getting in the way of a lot of activity, which is affecting orders for manufactured parts for the big turbines that we sell to other people and then for our one small generation unit as well. And, of course, we can't forget the Canadian dollar that waxes its way, sometimes up, sometimes down. Through Q3 there was an impact of the dollar on our operations, and John will describe that a little bit more fully when it comes to the financial commentary.

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**Richard Neill** - Magellan Aerospace Corp. - President and CEO

Yes, and there's a lot of real estate and park land around it that we own as well.

**Nick Morton** - RBC Capital Markets - Analyst

How much would you own there in acres, do you know?

**Richard Neill** - Magellan Aerospace Corp. - President and CEO

Oh, man alive -- it's big -- I think -- it's big. At one point, at the peak of the housing or the real estate market in Mississauga it was valued well over 20 million. That was, like, three or four years ago. What's it's at today, I don't know.

And then in the UK, we own Bournemouth, and we own [Reksom], and what have I forgotten?

**Unidentified Company Representative**

We own Haley.

**Richard Neill** - Magellan Aerospace Corp. - President and CEO

We own Haley and, in Arizona, we own Presto, and we lease in [Wendome]. On [Chickopea] we lease it -- or, no, we own it?

**Unidentified Company Representative**

Yes.

**Nick Morton** - RBC Capital Markets - Analyst

Okay, so you have quite a bit of real estate. You couldn't sell on leaseback if you wanted to?

**Richard Neill** - Magellan Aerospace Corp. - President and CEO

Absolutely.

**Nick Morton** - RBC Capital Markets - Analyst

Okay, and how much credit do you have left on your line?

**Richard Neill** - Magellan Aerospace Corp. - President and CEO

Oh, the \$64,000 question. We have enough to be sufficient to see us through operations right now.

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**Nick Morton** - RBC Capital Markets - Analyst

Okay, so you're not tight at all for money?

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**Richard Neill** - *Magellan Aerospace Corp. - President and CEO*

Money is always tight, Nick. No matter how much money we have, we can find ways of spending it, but, no, we're managing.

**Operator**

Stephen Andersons, Sprott Securities.

**Stephen Andersons** - *Sprott Securities - Analyst*

Just one follow-up – were you saying 5 to 10% revenue increase in '07 or is that 15% that you previously talked about?

**Richard Neill** - *Magellan Aerospace Corp. - President and CEO*

We're saying right now '07.

**Stephen Andersons** - *Sprott Securities - Analyst*

I understood previously that '07 was looking at 15%, not 5 to 10.

**Richard Neill** - *Magellan Aerospace Corp. - President and CEO*

At one time we were thinking that, and that's when the 380 was on plan and everything was flowing through as it was, but we had to come back from that kind of number with some of the changes we've seen in schedule over the past two months.

Now, we will be into our strat planning cycle during Q3, which makes us look at the five years, going out. And we'll look at year one in some detail, so we'll have a much better feel for that number in about three months' time.

**Stephen Andersons** - *Sprott Securities - Analyst*

I thought you'd said 15% in my previous question, that's why.

**Richard Neill** - *Magellan Aerospace Corp. - President and CEO*

Okay.

**Stephen Andersons** - *Sprott Securities - Analyst*

So actually on this call.

**Operator**

[OPERATOR INSTRUCTIONS] Thank you, sir, there are no further questions at this time.

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