

Message from the CEOs

A tough year for the aerospace industry around the world confirmed the strength and potential of EADS in all its markets. We need to remain alert and flexible in an uncertain world, but we are taking decisive action to cut costs, win new contracts and build shareholder value for the future.

Q:
Can you give us an overview of how EADS coped with 2002?

A:
2002 was undoubtedly a difficult year for our industry. Global economic slowdown and geopolitical instability with new terrorist threats affected businesses throughout the world, and we were no exception: our operating businesses have been specially hit since the end of 2001 by the passenger air traffic slump and the set-back on commercial space market.

At the same time, we can point real successes during the year, and these should not be overlooked. Despite a difficult environment, we have been able to deliver more than what we promised. We showed our capability to react and adjust to the uncertainties and at the same time we continued to pursue our strategy of global leadership.

First we have once again met – and in some cases exceeded – our financial targets. We maintained a net cash position of over €1.2 billion, and we have slightly surpassed our EBIT target.

Second, we have made real progress in building EADS up as a strong, united company, with a coherent management structure and with a clear strategy fit to face future market demands by enhancing profit growth potential. This was shown through our continued investment in the development of the 555-seat Airbus A380 and of new products adapted to emerging threats, like the European Unmanned Aerial Vehicle Eurohawk, the AGS (Air Ground Surveillance System) and the naval base cruise missile Scalp Naval. The integration phase is clearly over, and we can go forward as a fully integrated Group.

Q:
Last year, you spoke of building up the Defence side of the business as a strategic priority. How is this working out?

A:
We have to bear in mind that creating, marketing and managing defence projects take years to mature, and are subject to all kinds of political uncertainties and changes. But yes, we're beginning to see rewards from our efforts to develop our Defence business.

During the year, we completed the formation of MBDA, the second-largest missile systems company in the world, together with our partners BAE Systems and Finmeccanica. A major milestone was achieved with the signing of the development contract for the European Meteor programme in late December (€0.9 billion EADS share). This new generation air-to-air missile, powered by a ramjet, will give outstanding air superiority to all European fighter aircraft. The selection by the UK MoD of our Paradigm entity for the Skynet 5 project as the preferred bidder is likely to have a very significant impact on our breakthrough into all the European markets and even NATO. Despite the difficult situation in Germany, the A400M programme seems now secured as Germany reduced its off-take but committed to go-ahead for 60 Aircraft. This €18 billion programme will generate profit growth and will trigger synergies with Airbus civil activities. Other major defence successes were helicopter orders: 22 Tiger in Australia, a reference market for weapons acquisition and 14 NH90 in Norway.

Additionally we made inroads in new markets, particularly the US. The selection as a major supplier to Lockheed Martin for the US Coast Guard Deepwater programme and also the invitation to tender for the \$20 billion air tanker programme of the US Airforce underline our credibility as a potential defence supplier to the US. The establishment of a North America EADS holding company will strengthen our presence, improve our market access and is a clear commitment to our US strategy.



Philippe Camus (left)
Chief Executive Officer
Rainer Hertrich (right)
Chief Executive Officer

Q:

How did the downturn affect your Civil businesses?

A:

Almost all our civil businesses had some progress to report, but also disappointments such as the failure of the maiden flight of the new Ariane 5 ESCA. 2002 was the confirmation of Airbus leadership and products supremacy. In a market characterised by lacklustre air traffic figures and airlines' financial difficulties, Airbus has quickly adapted production to market demand and preserved high profitability and a sound balance sheet, while delivering 303 aircraft – slightly ahead of target.

Although in terms of total gross order intake (551 aircraft) the 2002 global market was down by 22% compared to 2001, Airbus proved its enhanced competitiveness by an order intake of 300 units (233 units net). This down-cycle is definitely harsh and unpredictable, but it is certainly not the first one in Airbus' 30-year history and this time, the company is in even better shape to manage it. Progression of market share and solid order book allow management to secure stability in a world of uncertainty and to benefit from scale, while permanent efforts to improve productivity are successfully pursued.

While managing the consequences of the downturn, the Airbus product portfolio has been extended by the entry into service of the A340-600 and certification of the A340-500 and A318. Airbus has also won new clients such as Air New Zealand, South African Airways or the British low-cost carrier easyJet and has been continuing to develop the very large future aircraft A380 on track for entry into service into 2006. Airbus is now entering the peak R&D and capital expenditures for this programme, which it has the ability to self-finance. Eurocopter has once again enjoyed an excellent year on the civil and parapublic markets and benefited from increased demand from security forces, especially in the US, in the wave of the events of 11th September 2001. Eurocopter strengthened its worldwide leadership with a worldwide civil and parapublic revenue market share of 60%, having shown constant improvement from its 34% market share in 1995.

Q:

So much for the successes. What about the challenges?

A:

The Space business is certainly the most challenging one. For the past two years we have been facing industry overcapacity in a market that has simply collapsed from 20–25 civil satellites ordered a year to six in 2002. We have to adapt our organisation to lower demand – as well as continuing to lead consolidation in the industry. The launcher business is directly affected by the difficult telecommunications satellites market. And we are working intensely on solving the problems with our new Ariane 5 ESCA launcher.

To confront this dire situation, our Space management is implementing a further and drastic programme to restore profitability by 2004, and our ability to restructure the business has been strengthened by the acquisition of the remaining 25% of Astrium from BAE Systems. Then again, we can look forward to some healthy growth potential driven by expected programmes like Paradigm secure communication for the UK MoD and the Galileo navigation system for Europe.

As mentioned before, with our defence products, we have the opportunity for short-term growth, and this is already being driven by programmes like the Tiger and NH90 helicopters, Eurofighter combat aircraft and missiles including Aster, Storm Shadow, Taurus and Meteor. The big challenge here is to accelerate this growth by winning a share of the US market and by forming winning partnerships with other leading players in the defence sector.



A320 family



Galileo satellite



Eurofighter in formation

Q:
Looking forward, what are the company's main strengths?

A:
Apart from successful products, it is the quality of our people. We have a wealth of talented and highly-motivated managers and qualified engineers, and we build on that wealth by promoting them to the appropriate positions. We've also made two key appointments to the Executive Committee; Ralph Crosby, an experienced US aerospace industry executive, who is tasked with developing our US activities, and the Finnish Jussi Itävuori, who heads up our Human Resources function.

Another strength is a very clear vision on ways in which we can grow. An example is our establishment of EADS International – a unit that works across divisional boundaries to support business units by efficient marketing of their products around the world. Essentially, the unit leverages our undoubted technological and production expertise through close, expert knowledge of local markets and customers. For example, in 2002, it made an important contribution to export successes in countries including Australia, Russia, Vietnam, South Africa, Norway, Greece – and a dozen others.

Yet another asset is our realistic approach to our business. We are and we will remain ambitious to achieve and maintain global leadership across a number of markets; but we recognise that the world we live in is – especially at the moment – an unpredictable one. So where there exist growth prospects, we set our managers demanding development targets. When growth is simply unavailable, we set equally demanding targets for cost savings and cash generation, that are other ways to add value. Today, the cash position and order book are firmly in line with our expectations and major efforts are on the way to reduce our costs still further, and control our cash resources.

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