

The world in which we operate

EADS sells its products and services in an unusually wide range of markets. Our customers range from governments and public services such as police forces to airlines and other commercial clients. Responding effectively to change in demand and market conditions is essential; as is investing in those areas offering the highest potential. The following is a brief overview of conditions in four key markets at the beginning of 2003.

No 1 global order book
No 1 helicopters
No 1 commercial launcher
No 1 light/medium military transport aircraft
No 2 commercial aircraft
No 2 missiles systems
No 3 satellites
No 4 combat aircraft

Except order book, all rankings in revenues



Top: Low-cost carriers emerging as a significant segment within the total market

Bottom: Border control initiatives by the US Coastguard

Commercial aviation

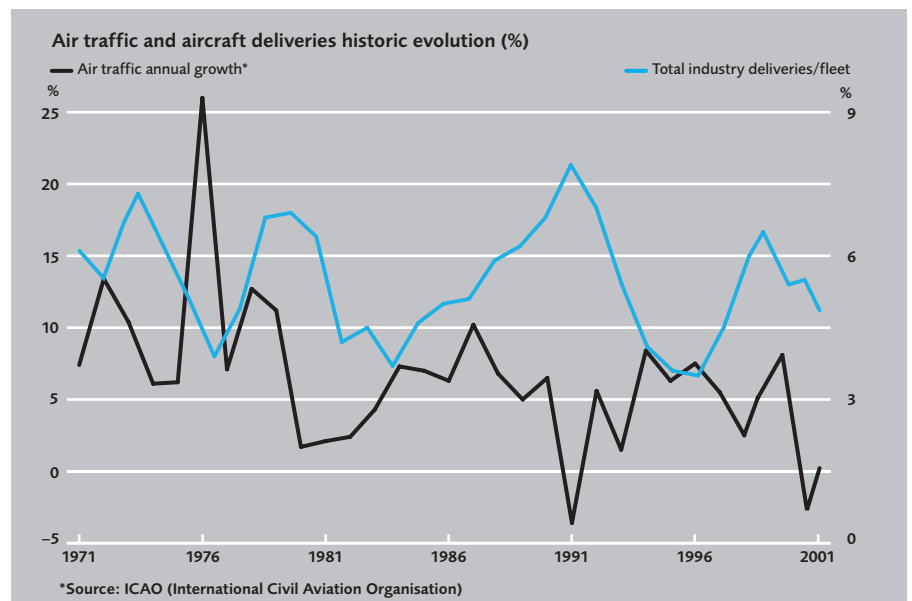
The market downturn, which started in 2001, driven by weakening world economies and exacerbated by the terrorist attacks on 11th September 2001, continues to be the focus of the industry. Passenger demand in 2002 remained slack as compared to pre-downturn traffic, with US domestic, trans-Atlantic and trans-Pacific traffic flows particularly negatively affected. As well as overall demand decreasing as a result of the factors mentioned above, the volume of higher yield business passengers decreased just as such passengers became more price sensitive.

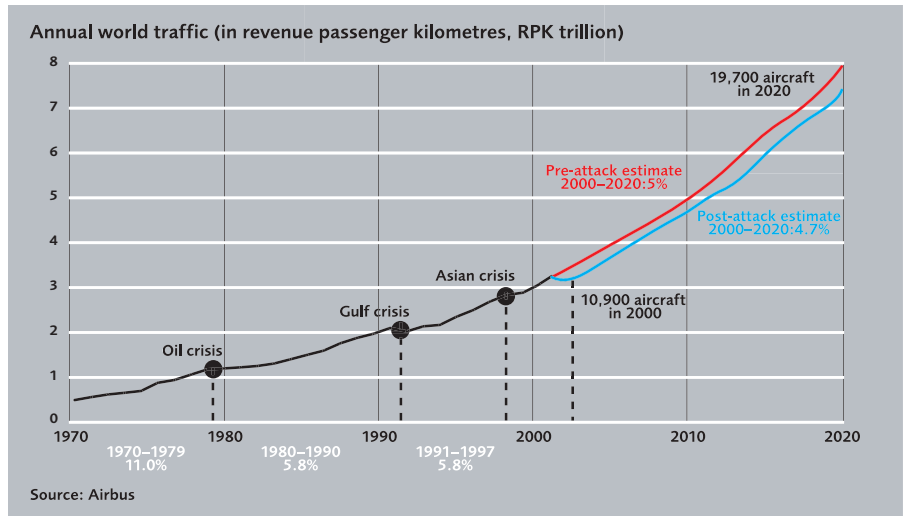
By contrast, no-frills/low-cost carriers have emerged as a significant segment within the total market. They have developed in the US and Europe by following a business model that leverages the benefits of minimising costs while stimulating demand by offering low fares to and from short- and medium-range, often under-served, destinations.

The market for passenger jetliners depends primarily on the demand for air travel, which is itself mainly driven by economic or GDP growth, fare levels and demographic growth. Measured in revenue passenger kilometres, air travel increased every year from 1967 to 2000, except for 1991 due to the Gulf War, resulting in an average annual growth rate of 7.9% for the period. In 2002, Airbus projected that air travel would grow on average at 4.7% per annum during the period 2000–2020. However, although those in the industry feel that long-term growth in air travel is secure, the market for aircraft has proven to be cyclical, due to the volatility of airline profitability and cycles in the world economy.

As a consequence of deregulation policies, major airlines are constantly adapting their fleet, network and commercial strategies. This adaptation is possible because of the availability of new aircraft capable of meeting customer requirements in terms of cost and performance. In response to the price demands of passengers and competition of new low cost carriers, major airlines have organised their operations around strategically located "hub" airports enabling them to link more cities at lower fares. This affects demand as hubs permit fleet standardisation around both smaller aircraft types, such as the A320, for the short, thin and high frequency routes feeding the hubs and larger aircraft, such as the A380, for longer and higher density routes between hubs.

The trend towards fragmentation on long and very long haul routes, driven by the development of new routes between secondary cities, will be facilitated by the availability of more modern, efficient aircraft. As an example, in the Atlantic market, the development of new non-stop services between secondary cities is expected to drive demand for intermediate wide body aircraft such as the A330.





Helicopters

On present estimates, the global market – civil and military combined – will more than double in the next ten years to more than €10 billion.

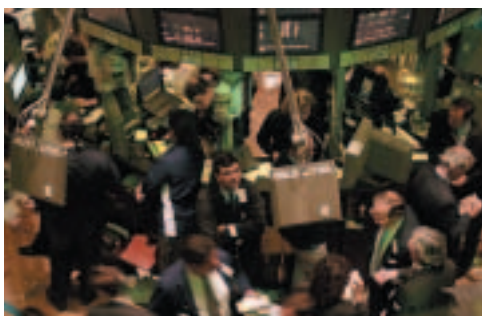
The military helicopter market in Europe is growing at an average 10% per annum, thanks to significant new programmes like the NH90 and Tiger, which also have high export potential. Additional growth is coming from new areas including Search and Rescue and the Rapid Reaction Force. The US is the largest military helicopter market, but is hardly accessible to any European manufacturer.



In the civil and parapublic markets total sales by all manufacturers have declined by 20% over the past two years and global orders now lie somewhere in the range of 400 to 450 aircraft per year. A return to growth after the events of 11th September 2001 has been delayed, but is expected to become gradually visible through 2003. Estimates are for average growth of 4% per annum in the period up to 2012, with new opportunities being created by homeland security and border control initiatives by the US in the Gulf of Mexico and by Europe in the North Sea.

Defence

The global security environment is nowadays mainly characterised by global "asymmetrical threats" from terrorism and the proliferation of mass destruction weapons causing an increasing need for out-of-area law enforcement and military operations not only for "fight-and-win" but also for deterrence, conflict prevention and peacetime engagement. This will require joint mission capabilities, multi-national collaborations, interagency cooperation and especially shortened, reaction times. Time, speed and precision have become decisive. This will impact the definition of future military system capabilities as well as the modernisation of existing legacy systems, in order to provide appropriate and interoperable battle management, command, control and communication structures all focused on information superiority as the most important prerequisite to success.



At the moment, an important share of both US and European defence budgets is allocated to air combat and missile systems as well as to air mobility systems. In consequence of the changing threat environment, however, growing resources will be devoted to air and missile defence, intelligence and surveillance systems and support services including communications, refuelling and transportation. Higher efficiency will be achieved by an increasing degree of networked resources, which in addition will lead to new and more effective network-enabled capabilities.



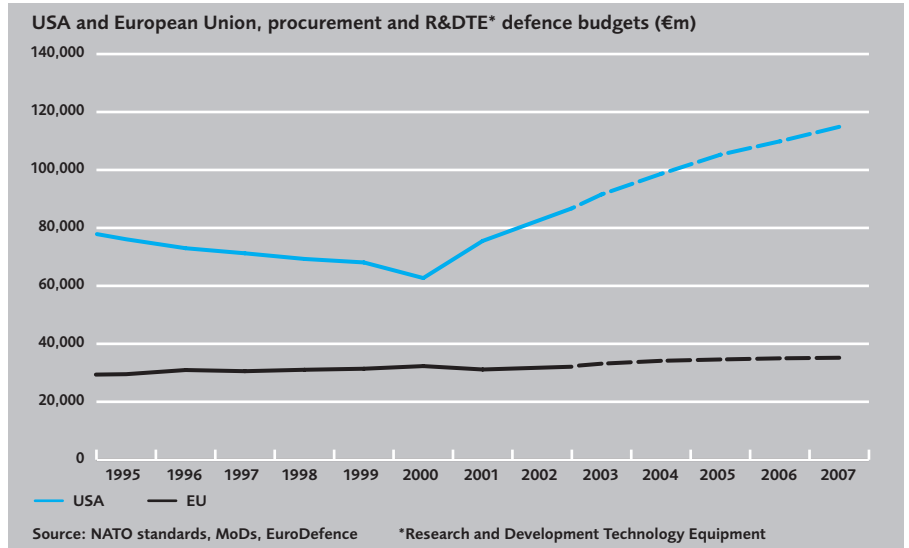
President Bush's proposed defence budget for 2004 is US\$379.9 billion – a rise of 4.2% over that for 2003 – and this figure is expected to rise by 4.9% per annum compound to a peak of US\$483.6 billion in 2009. Research and Development expenditures will peak in 2005, with procurement growing strongly in 2006 and beyond. The separate US Homeland Security budget is US\$38 billion.

In Europe, the total defence budget is estimated at €150 billion, growing at 1–2% per annum. The UK remains the motor for growth, but France has launched a multi-year defence programme with some increase in funding. The German defence budget is under strain; nevertheless, programmes like Eurofighter, Tiger and NH90 have been confirmed, the Meteor programme started in December and the launch of the A400M is imminent. European Union enlargement might leave smaller resources for defence spending, and the Maastricht criteria on public spending – capping public sector deficits at 3% of GDP – might also prove limiting. On the other hand, there is increased awareness that Continental Europe should match or at least reduce the gap between

Top: NATO expansion in 2002

Middle: World stock market

Bottom: Afghanistan was a focal point of politics in 2002



the US and UK equipment per soldier ratio (i.e., fewer men, better equipped). There is also a trend to outsourcing non-front line services, which should free up resources for systems and equipment. The first steps are being taken towards a unified European approach on defence, and joint maintenance and procurement arrangements are becoming more common.

Space

Commercial telecommunications satellite markets remain challenging as the industry is consolidating, in the phase of overcapacity and more intense competition between satellite suppliers. In 2002, many suppliers suffered order cancellations, and the launcher business suffered accordingly.

Over the next five years, however, the existing fleet of ageing satellites will need to be replaced, and this alone should account for over €8 billion of orders, with corresponding benefits to launch activities. In the medium to long term, we expect the re-emergence of the information technology market to increase demand for satellite bandwidth. Drivers for this demand will include broadband internet access, direct-to-home television and video-on-demand.

In the institutional sector, budgets from the European Space Agency and national agencies are fairly stable, declining slightly after adjustment for inflation. This situation is likely to persist.

The military space sector, on the other hand, is a growing market in global terms. The US is leading the way towards network-enabled capabilities providing for the instantaneous collection and dissemination of high volumes of information on a global basis. This requires large bandwidths that can be deployed rapidly, flexibly and securely, together with reconnaissance and telecommunications satellites. The Ballistic Missile Defence programme is another major growth area, accessible to suppliers via cooperation agreements.

The European military space market remains small compared with the US, but is also growing. The expected harmonisation of EU defence R&D and procurement should pave the way towards more Ballistic Missile Defence demonstrator programmes and, eventually, to operational assets in the form of satellites and launch vehicles. A number of governments have confirmed the need for an independent European access to space and this should eventually favour European manufacturers of launcher systems and telecommunications and observation satellites.

There is also increased demand for Public Private Partnerships and Private Finance Initiatives telecommunications solutions in both institutional and military sectors. Forthcoming examples in the military domain include Skynet 5 for the UK MoD and the expected DmilSatcom and NATO 2000 programmes. In the civil domain, the EU, together with ESA, after having secured funds for its development, is now preparing the deployment phase of the €3 billion Galileo navigation satellite venture.



Top: Skynet 5
Bottom: Satellite control centre