

**Aerospace sales of £1,493 million compared with £1,451 million in 2000. The year on year trend is significantly affected by the formation of AgustaWestland, the acquisition of the St. Louis facility from Boeing and currency movements. 2001 should be seen as the base year from which the restructured business will move forward.**

**Similarly, the profit increase to £119 million from £116 million in 2000 is not capable of direct comparison due both to changes in status and the inclusion in 2000 of financial credits arising on defence-related contracts. The AgustaWestland joint venture made a good start and the contribution from GKN's 50% holding was similar to the profit from Westland Helicopters as a subsidiary in 2000.**

#### **GKN Aerospace Services**

Using its experience as a global automotive supplier, GKN set out in 1997 to create an international tier one aerospace supplier to the world's manufacturers of aircraft and aero engines. The business has achieved substantial growth. Annual subsidiary sales have risen from £150 million in 1997 to £630 million in 2001. The business is now a leading supplier of aerospace structures, components and engineering services with a solid base on which to build.

GKN Aerospace Services conducts 59% of its business in the US, the world's largest aerospace market, and 41% in Europe. Military aircraft are an important market and defence sales account for 60% of revenue.

The most significant event in 2001 was the completion in January of the purchase of the Boeing Military Aircraft and Missile Systems Group's fabrication operations in St. Louis, Missouri, USA. This plant manufactures metal and composite structural components primarily for the F18E/F tactical aircraft and the C17 airlifter. These are both large programmes, with the US Navy and Marine Corps set to acquire 480 F18s and the US Air Force more than 180 C17s. These two programmes represent future business worth an estimated \$1.9 billion to GKN.

As part of the acquisition of the St. Louis plant, GKN agreed significant productivity improvements with employees. This, together with a strong new management team, has enabled the plant to deliver high levels of quality and operating performance in its first year under GKN ownership.

During 2001, GKN also completed a wide-ranging restructuring of its aerospace activities which involved the closure of three manufacturing sites in the UK and US and the divestment of a small actuation business in Germany. Operations are now focused on seven centres of excellence in Germany, the UK and the US. Some minor asset write-downs were made in anticipation of a modest down cycle in civil demand.

All of these measures brought about a significant improvement in performance during 2001. However, following the terrorist attacks of 11th September and the

<b>Sales 2001</b>	By origin £m	By market £m
Europe	1,121	999
Americas	372	448
Rest of the world	–	46
<b>Total</b>	<b>1,493</b>	<b>1,493</b>



## **A SIGNIFICANT IMPROVEMENT IN PERFORMANCE BY GKN AEROSPACE SERVICES**

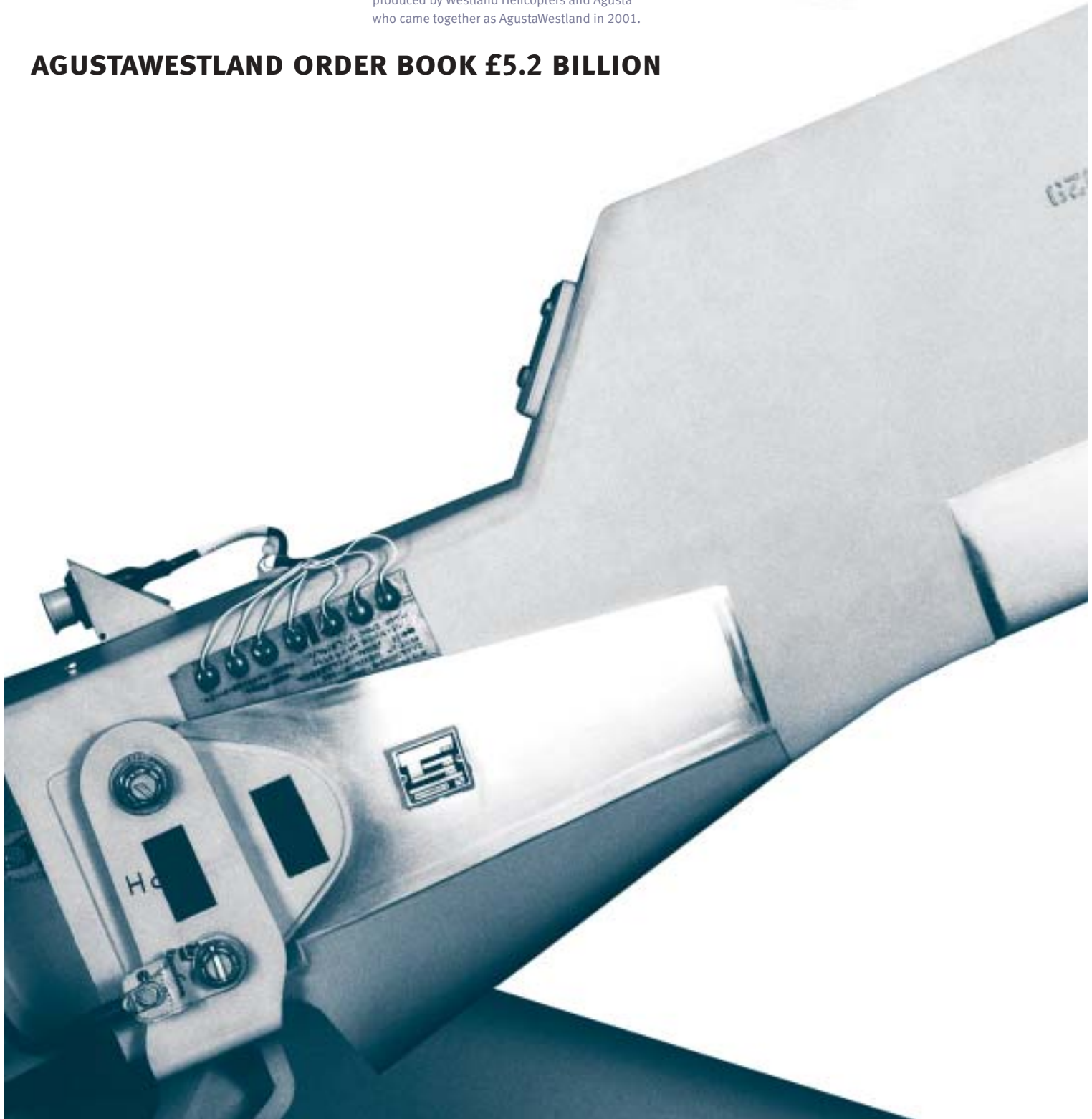
Airbus A340 500/600. GKN produces a range of composite wing components for this four-engined civil airliner including the aft pylon fairing shown here.

**Andy Ennever** (right) joined GKN's International Leadership Development Programme (ILDP) in 1999 and is now Project Controller on a joint UK Ministry of Defence/Industry team working on the Apache helicopter programme. "So far at GKN I've worked for our automotive driveline, sinter metals and helicopter businesses in the US, Germany and the UK. I've now left the ILDP to take up my current role developing an improved support solution for the British Army's Apache attack helicopter. Our aim is to reduce through-life costs whilst increasing operational flexibility."

The tail rotor of the EH101. This medium lift, three-engined helicopter has enjoyed considerable success. The EH101 was jointly developed and produced by Westland Helicopters and Agusta who came together as AgustaWestland in 2001.



## AGUSTAWESTLAND ORDER BOOK £5.2 BILLION



impact of those events on the world airline industry, GKN took action to implement a significant further reduction in its cost base as civil aircraft manufacturers reduced or cancelled their programmes. This resulted in a 5% reduction in employee numbers within GKN Aerospace Services by December 2001 with a further 10% taking effect in early 2002. The Group also wrote down by £50 million the carrying value of some aerospace assets mainly in respect of the non-recurring initial costs of design, development and tooling for new programmes.

In early 2002, GKN acquired the specialist Thermal Joining Centre (TJC) in Kent, Washington State, USA, from Boeing's Military Aircraft and Missile Systems Group. The TJC, which uses electron beam welding to produce an important titanium assembly for the highly advanced F22 fighter aircraft, fits well with GKN's existing titanium capability. The additional F22 business which this transaction brings means that the F22 programme is now worth an estimated \$1.4 billion to the Group.

GKN Aerospace Services has also won important design and development contracts on the RAH-66 Comanche – the world's most advanced battlefield helicopter. Current programmes envisage more than 1,200 Comanche aircraft being produced for the US Army over the next 25 years.

The Airbus A380, which will be launched into production in 2002, represents another significant opportunity. GKN and Airbus have initiated a ground-breaking collaborative design concept for significant parts of the A380 wing. GKN has also secured a significant package of composite design and build activity on the wing.

### AgustaWestland

With effect from 1 January 2001, GKN and Finmeccanica merged their respective helicopter subsidiaries – GKN Westland Helicopters and Agusta – into a new 50:50 joint venture, AgustaWestland. Both managements had worked together extensively on the EH101 programme over a number of years and quickly came together as an effective team. Existing programmes were delivered without disruption against a strong order book. New orders were won in a number of highly competitive situations. The year-end order book, plus major contracts booked in January 2002, stood at £5.2 billion.

In September, Denmark announced the selection of the multi-role EH101 to meet its search and rescue and troop transport requirements and later confirmed an order for 14 aircraft to replace its existing fleet of Sikorsky aircraft.

In December, Portugal confirmed its decision to acquire 12 EH101 helicopters for combat search and rescue and fishery protection in a competition which pitched the EH101 against Sikorsky and Eurocopter. The successes in Denmark and Portugal have confirmed the competitiveness of the EH101. So far there have been orders for 124 EH101 helicopters from Canada, Denmark, Italy, Japan, Portugal and the UK.

A total of 62 NH90 helicopters were ordered by Finland, Norway, Portugal and Sweden. AgustaWestland is a 32% partner in NH Industries which produces the NH90.

A significant opportunity available to AgustaWestland is the potential access to the US market for the EH101. This follows a prospective partnership with Lockheed Martin announced in October to initiate a joint effort to address the US Government medium-lift helicopter market with immediate attention being focused on the US Air Force combat search and rescue requirement for approximately 130 aircraft. There are also programmes for the US Navy, Marine Corps and Coastguard for which an American version of the EH101 could be a highly competitive aircraft.

The Royal Thai Navy ordered two Super Lynx helicopters and, in January 2002, 16 were ordered by Oman. More than 400 Lynx have so far been sold worldwide.

As part of the UK Bowman digital military communications system, AgustaWestland was awarded a £100 million conversion, training and support programme.

The AB139 helicopter, being developed in collaboration with Bell Helicopter Textron, completed a successful series of flight trials in 2001.

In January 2002, AgustaWestland announced the consolidation of UK operations onto the Yeovil site and a reduction in the workforce. GKN's share of the costs of this reorganisation, which are estimated at £11 million, will be charged to operating profit in the first half of 2002.

**Joanne Plumbley** (right) recently moved out of the GKN International Leadership Development Programme to become Business and Contracts Co-ordinator, GKN Aerospace Services in Alabama. Her role is to support operations and programme directors in contractual and commercial negotiations. "Since I joined GKN in 1999 I've been involved with lean manufacturing initiatives in our UK wheels and German sinter metals operations and with cost analysis on the Lynx helicopter programme."

