

## AEROSPACE: CONTINUING STRONG GROWTH FOR MILITARY AIRCRAFT BUT CIVIL SECTOR DOWN MORE THAN 30% FROM 2001 PEAK.

Sales 2002 £m	By origin	By market
Europe	1,126	977
Americas	376	440
Rest of the World	–	85
<b>Total</b>	<b>1,502</b>	<b>1,502</b>

### Aerospace financial highlights

Aerospace sales of £1,502 million were level with 2001 but with different year-on-year performance in subsidiaries and joint ventures. Subsidiary sales of £559 million were £71 million (11%) lower as a consequence of the fall in demand for civil aircraft. Joint venture and associate sales (mainly AgustaWestland) were £943 million, an increase of £80 million (9%) as production peaked on EH101 and Apache.

Operating profit before goodwill amortisation and exceptional items, after charging GKN's £11 million share of redundancy and reorganisation costs in AgustaWestland, was £118 million compared with £119 million in 2001.

The net impact from currency, acquisitions and divestments on sales and profit was not material.

On a reported basis, profits of subsidiaries of £23 million were £9 million (28%) lower than 2001 with joint ventures and associates £8 million (9%) higher at £95 million. However, in addition to redundancy and reorganisation costs, currency and acquisitions, these comparisons are also affected by the treatment of one-off fees paid in 2001. Adjusting for all these items, the subsidiaries' profits of £23 million represented a £1 million (4%) reduction while joint ventures and associates were level at £95 million.

Operating profit after goodwill amortisation and exceptional items was £91 million (2001 – £32 million).

### Market background

Expectations of a near-term recovery in the civil aerospace market have now been discounted by industry forecasters. The decline in deliveries has been precipitate. In 2001 Boeing and Airbus delivered a total of 850 aircraft. The figure for 2002 was 684 aircraft and their forecast for 2003 is for 580 new aircraft deliveries. This represents a 32% decline over two years and some forecasters expect further falls in 2004. Current low levels of new civil aircraft build are therefore likely to continue for some time.

By contrast the military aerospace market has entered a period of growth. In North America and Western Europe new military programmes are either well established or being brought into production. Approximately 80% of the combined revenues of GKN's wholly-owned aircraft structures business, GKN Aerospace Services, and its helicopter joint venture, AgustaWestland, are defence-related. This mitigates the effects of the downturn in civil aerospace.

### Aerospace Services Sales £559 million (2001 – £630 million)

Following the events of September 11th 2001, GKN responded rapidly to the downturn in civil aerospace which was exacerbated for the Group by BAE Systems' cancellation of its RJX regional jet

Above: The A380 Airbus, designed to fly 550 passengers non-stop over distances up to 8,000 nautical miles has become known as the 'Superjumbo'. At the end of 2002 Airbus had taken orders from eight customers for 95 of these aircraft. The A380 will use a higher content of composites – up to 25% of the airframe – than any previous airliner. GKN's engineering and composite technology is playing a major role in the design and manufacture of critical sections of the aircraft's wings, airframe and propulsion systems.

**Some aerospace awards received in 2002**

Defence Helicopter Magazine Systems Integrator of the Year (AgustaWestland)

American Airlines Platinum Supplier Status for fourth consecutive year (GKN Aerospace Chem-tronics)

Boeing Quality Hero Award for 100% on time delivery with no rejects (GKN Aerospace Services, Europe)

Computerworld Honors Program Commemorative Medallion for accelerated ERP implementation programme (GKN Aerospace Services, St Louis)

Overall winner KPMG and Human Resources Magazine Human Resources Excellence Award and Best HR Contribution to Merger and Acquisition Integration (GKN Aerospace Services, St Louis)

programme and the financial collapse of Fairchild Dornier in early 2002. GKN was a significant supplier to both. A rationalisation of GKN Aerospace Services' civil operations in the UK announced in late 2001 resulted in more than 800 redundancies within the workforce, mainly at Cowes on the Isle of Wight. The rationalisation was mostly completed in the first half of 2002. The business is now operating at a size appropriate to current demand but the management task continues to be challenging.

GKN Aerospace Services has grown rapidly through acquisition and outsourcing. In 2002 it completed two small but significant US transactions which brought new technology to the business. In January, GKN acquired the assets of Boeing's Thermal Joining Center (TJC) located in Kent, Washington State. The facility produces a critical titanium assembly for the F/A-22 using electron beam welding. The TJC, acquired for \$2.5 million, has the largest electron beam welding chamber in the US.

In May, GKN acquired ASTECH Inc for \$32 million. ASTECH is a US technology leader in super alloy, honeycomb structures and a market leader for key airframe and engine products which operate in high stress, high temperature environments. It is based in Santa Ana, California in the US.

GKN is a leader in the development of new composite technologies such as Resin Film Infusion (RFI) and Resin Transfer Moulding (RTM). These technologies enable higher levels of precision, quality and productivity. RTM is also capable of substituting a wider range of metallic components and structures. During 2002 a new GKN composite engineering centre was opened at Meriden, Connecticut in the US and the largest RTM facility in the US was established within GKN's St Louis, Missouri facility.

This enhanced expertise in composites combined with GKN's established capability in high performance alloys has had a number of positive outcomes in 2002.

On the F35 Joint Strike Fighter GKN has been selected to develop and manufacture critical composite structures on the aircraft's F135 engine using its new RTM technology. It will also supply titanium components for the F135. GKN has also established a partnership with BAE Systems for the design and production of airframe structures for the F35 using the RTM process. BAE is a leading member of the F35 team with responsibility for production of the rear section of the airframe.

The Airbus A380 will be the launch platform for RFI composite manufacturing technology which GKN has developed with Airbus. GKN has been awarded a number of contracts on the A380 with a value of \$2 million per aircraft, including the design and manufacture of the wing trailing edge panels.

During 2002 GKN joined Boeing's technology development team working on new material technologies for the next generation civil airliner to be produced by Boeing. Work was initially focused on the radical Sonic Cruiser concept but Boeing has since announced that its focus is now on a more conventional aircraft but one which will still require a high content of advanced materials. This is GKN's first major involvement as a tier one supplier to Boeing's commercial aircraft operations.

**AgustaWestland Sales £865 million (2001 – £784 million)**

AgustaWestland, a 50:50 joint venture between GKN and Finmeccanica, continued to perform well and, on the basis of reported revenues, maintained its position as the world's largest helicopter company. After a series of export wins in 2001 and 2002, the order book currently stands at £4.7 billion.

In early 2002, anticipating the completion of UK military orders for 66 EH101 helicopters, UK operations were consolidated onto the Yeovil site in Somerset and the smaller nearby facility at Weston-super-Mare was closed. The UK workforce of AgustaWestland was reduced by some 800. The consolidation was announced in January 2002 and completed by mid-year.

EH101 export programmes for Portugal and Denmark were confirmed and Oman ordered 16 Super Lynx 300. The UK Ministry of Defence (MoD) also placed a £30 million engineering study with AgustaWestland to examine the feasibility of an upgrade of the British Army's existing Lynx fleet to meet a requirement for a new battlefield light utility helicopter (BLUH). In its announcement the MoD estimated that BLUH could be worth £1 billion to AgustaWestland.

At the Farnborough Airshow in July 2002 AgustaWestland and Lockheed Martin announced that they had signed a 10-year definitive agreement to jointly market, produce and support a medium-lift helicopter in the US. The US101, an American version of the EH101, will initially be offered to three key markets where there are emerging opportunities – US Air Force combat search and rescue, US Coast Guard civilian search and rescue and US Marine Corps executive transport. It is estimated that these three programmes represent a combined requirement for 200 aircraft over 10 years.