



# Improvement

## Enhancing our business

As a global aerospace and defence company, we always need to put customers and shareholders first: customers expect performance as promised and shareholders expect the best possible return on their investments. Continuous improvements are key to ensure fulfilment of expectations.

EADS is continually leveraging groundbreaking technologies to develop products that provide its customers with competitive advantage. Yet the ambitious nature of EADS' new programmes brings operational challenges, both within EADS and at its sourcing partners. These may concern product development or the associated manufacturing processes.

In 2005, the CEOs made improvement a key element of their long-term strategy. They have initiated a Group-level examination of how operational processes can be improved to ensure that maximum control over programmes is delivered on quality, on specification, on cost and on time, and how best practice can be better shared within the Group.

In view of the increasing role of innovation in accelerating new product development and internationalisation in fostering future growth, operational improvement is more essential than ever. As a technology leader in aerospace and defence with industrial partners across the globe, EADS' need for world-class operational processes will be vital.

EADS' long-term improvement initiative will focus on execution of the key operational processes that flow across engineering, manufacturing and procurement. In particular, it will concentrate on new product introduction and the supply chain. It will build on programmes already started, pooling resources across the Group, giving people the skills they need to make real improvements, and implementing best-of-breed processes and information technology tools.

#### Mastering tried and tested solutions

When enhancing the processes behind introducing new products, EADS is looking to master solutions adopted by other technologically advanced industries. Cultural change is a priority. The challenge is becoming greater as EADS is ever-more dependent on key suppliers for product development. As EADS increasingly becomes the architect and integrator, so it must develop a spirit of true partnership with suppliers.

In the supply chain, EADS can adapt cutting-edge processes and supporting information technology solutions. In order to achieve world-class supply chain performance, it will be necessary to utilise state-of-the-art IT tools that complement those already being used in the Business Units.

Early-stage initiatives, like enhanced Customer Reviews or the Black Belt programme for building internal experts in the field, were well received by the Business Units during 2005, and there is strong demand for operational support.

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## Improvement – a strategic priority

Raising EADS' operational performance in terms of cost, quality and on-time delivery will ensure we benefit fully from our huge order book.

**Route 06**

Airbus has already carried out a similar improvement drive as part of its Route 06 initiative. Although primarily aimed at driving down cost, Route 06 is creating a much leaner and more efficient organisation, as indicated by a striking reduction in lead times. Between 2003 and 2005, the lead time between a buyer of a single-aisle aircraft stating its required specification, in terms of engines and cabins, and delivery, was reduced from nine to seven months. The experience of Route 06 can be used to make similar improvements in other parts of the Group.

In 2004, the Defence & Security Systems Division started a comprehensive 'Programme and Risk Management' (PRM) initiative, aimed at enhancing these critical skills and associated processes on a sustained basis throughout the Division. This programme will also be considered for Group-wide application.



AS350 helicopter

# Internationalisation



## Globalising our business

Internationalisation will make us part of the most attractive markets and allow us to tap the best resources worldwide. It will fuel our growth.



In selected countries, EADS is seeking to enhance its industrial presence significantly throughout the value chain – developing, manufacturing and selling in these major marketplaces.

In 2005, the CEOs decided to make global industrial development a key dimension of the Group's long-term strategy, and to dedicate a team to driving its implementation. The aim is to ensure future growth by becoming an integral part of growth markets and accessing the best resources worldwide. EADS is developing an industrial strategy for each of the key markets it has identified. The target is to capture growth in the most attractive markets through a selective industrial approach, while further developing the industrial base in the four home countries.

Aerospace and defence is a global industry. As such, globally allocated capabilities of research, development, sourcing, manufacturing and after-sales service are increasingly factors for success. Being active in all-important aerospace and high-tech countries gives EADS access to the best technology and know-how available. This improves its products and gives them a competitive advantage. It also has the benefit of reducing exposure to the Euro by balancing production costs across several currencies.

Additionally, governments often exercise strong control over markets and prefer to buy from local contractors – at the very least, they expect contractors to source significant contract percentages locally. Therefore, to continue its growth, EADS believes it is essential to become a local company, a good neighbour and a committed citizen in its target markets.

#### Focusing on the most attractive markets

EADS is focusing especially on the United States, the largest single market; on Asia-Pacific, the region with the highest growth potential; and on Russia, where a very capable aerospace industry is beginning to regain its former strength. Within Asia-Pacific, countries like China, India and South Korea are of high priority.

These countries have the greatest demand potential and are home to companies that would make high-quality partners with industrial capabilities, as well as local market know-how. On a global basis, the North American defence market and the Asian commercial and defence markets are the fastest-growing. In addition to these countries, EADS will further pursue its successful strategy of co-operation, and will acquire local players in all key markets. Examples of this are Patria in Finland and Australian Aerospace Industries, both creating growth opportunities and market access in their respective markets.

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**Global industrial development – a long-term theme**  
Internationalisation allies EADS' fortunes with those of countries that have large or growing aerospace and defence markets, assets and capabilities.

**Achievements for 2005**

The greatest achievements for this strategy in 2005 were in China. In December, Airbus and the National Development & Reform Commission of China (NDRC) agreed to expand industrial co-operation. At the same time, the China Aviation Supplies Import and Export Group (CASGC) signed an agreement for the purchase of 150 A320 Family aircraft, China's largest-ever aircraft order.

Also in December, China's AVIC II aerospace company and Eurocopter agreed to co-develop a six-seven-ton civil and parapublic helicopter, the EC175. A similar agreement was struck in Korea with Korea Aerospace Industries, for the co-development of an eight-ton military transport helicopter.

Substantial progress has also been made in the US, through teaming with major US primes on important programmes, (eg the renewal of the US tanker fleet), smaller acquisitions and the development of industrial ties in the southern US.

**Protecting our core assets**

EADS will, while globalising its operations in various ways, still continue to strengthen its role in the four home countries, benefiting from the strong European industrial and technological base. Any project is subject to careful review of its consequences in terms of technology transfer, intellectual property rights and continuity of operations in Europe. These are key elements of any decision.

For EADS, globalisation is a strategic must for profitable growth. As a multinational entity since inception, EADS has the skills for global success.



Outer flap of an A380 wing



Driving our business

Innovation creates competitive advantage for our customers, it means cheaper, quicker and safer processes for EADS, and it creates high-value jobs where EADS operates or sources.

# Innovation

The development of new products, services and processes that bring competitive advantage to customers are at the core of EADS' strategy. This has led to the family concept for Airbus planes, greater use of composites in planes and helicopters, the first fly-by-wire helicopters and the first PFI for military communications.

EADS invests substantially more than any of its competitors in innovation. In addition to institutional and government-financed research and development (R&D), the Group spent €2.1 billion on self-financed R&D during 2005, equivalent to over 6% of revenue. The Group also invested more than €600 million in research and technology to develop technologies for future products, services and processes.

#### **Accelerating technology research and product development**

To enhance the pace and relevance of innovation, management is reinvigorating technology research and product development. Speed is a key factor, and the Group will focus on ensuring the readiness level of new technologies at a much earlier stage. EADS' capabilities will be continuously benchmarked, ensuring that the Company remains at the forefront of developments and, in particular, responsive to breakthrough technologies.

EADS will further strengthen its approach to systems architecture and engineering skills and tools by streamlining the use of design and engineering tools. Ambitious targets to reduce development times by up to half for major platforms have been set. There will be fewer tools, but these will be used Company-wide, as well as implemented in suppliers' and partners' organisations, increasing overall homogeneity.

New technologies are being introduced to save both cost and time. One day, virtual mock-ups will take over from flight tests and iron birds. The wind tunnel will be replaced by digital simulation tools. Development programmes will be shared seamlessly across the Company, with suppliers and partners around the globe striving for progress independent of time zones and Company structures.

To cover all aspects and achieve its ambitious goals, EADS will open up more to the outside. Technological programmes developed with either academic or industrial partners on an international basis will therefore have at least doubled by 2010.

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## **Innovation at core of success**

**New products, services and processes drive value creation for customers and, in turn, shareholders.**

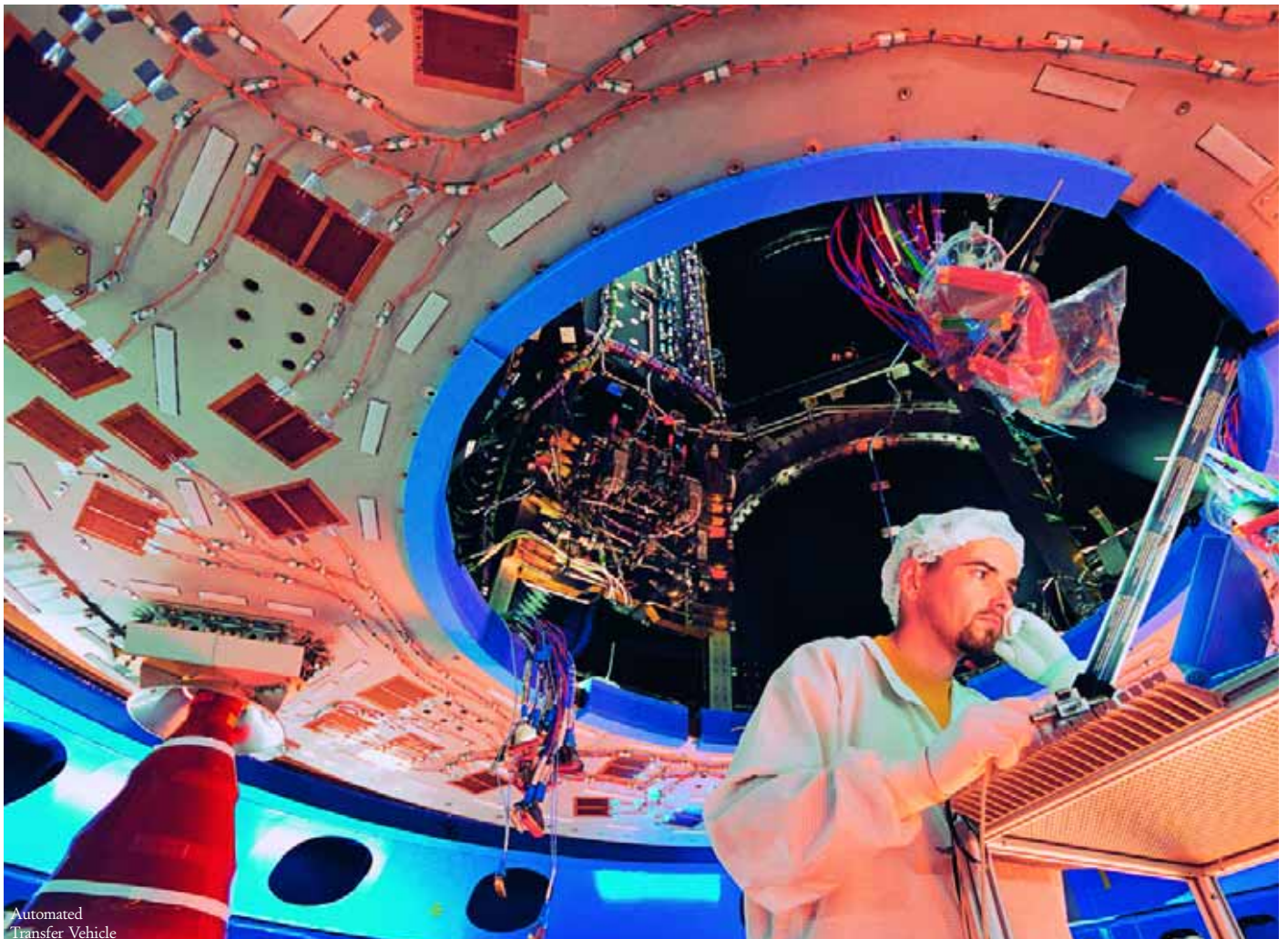
Defined areas of focus for technology innovations are, for example, advanced sensor systems, material and structures, alternative energy concepts and human-friendly platforms.

## Driving principles Innovation

A typical example of recent developments is the first flight in September 2005 of a helicopter using adaptive rotor blades, which can significantly reduce noise and vibrations. The technology demonstrator's rotor flaps are powered by actuators made from 'smart materials'. Following successful flight testing of the experimental system, it will be developed for series production.

Another example is the completion of the Airbus Visual Line (AVL) system on the shop floor at its final assembly stations in Toulouse. With its large electronic displays, it has replaced all paper printouts, providing detailed information about the work in progress, any problems and their resolution.

EADS will strive to go to the very limit of the achievable, delivering relevant breakthroughs and mature technologies as early as possible. This is challenging, but rewarding, and will bring further competitive advantage and nurture further growth; securing jobs, as well as bringing superior long-term shareholder value.



Automated  
Transfer Vehicle