

The background of the entire page is a high-resolution aerial photograph of Earth from space. The top half shows a bright blue sky with scattered white cumulus clouds. The bottom half shows the dark, curved horizon of the planet, with a thin layer of white clouds and blue oceans visible. The overall image has a slight halftone or dithered texture.

# Annual Report

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## Aerospatiale Matra is a world-class aerospace and defense enterprise.

Strategic vision and innovation are the cornerstones of our corporate philosophy. Aerospatiale Matra has always excelled in creating new concepts and products. As the driving force behind alliances with other majors, Aerospatiale Matra has initiated some of Europe's most striking successes: Airbus, Arianespace, Euromissile, Astrium in the space sector and New MBD in the missile sector.

### Sales

**84.6** billion francs  
**12.9** billion euros

### Order book

**251.9** billion francs  
**38.4** billion euros

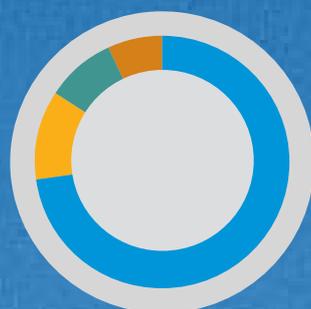
### Operating income

**3.15** billion francs  
**0.48** billion euros

### Workforce

**52,387**

Breakdown of 1999 sales

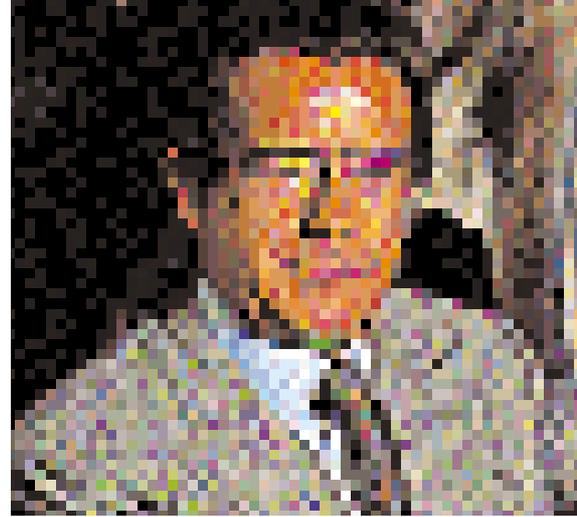


72.8% Aircraft  
11.5% Space  
9.0% Missile Systems  
6.7% Systems, Services and Telecoms



Message from  
the Chairman  
of the  
Supervisory  
Board

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Your company was created on June 11, 1999 and Aerospatiale Matra has been listed on the Paris Bourse since June 4. Less than a year has passed since then, and this period has been particularly rich in events that bode well for our future.

When we created the Aerospatiale Matra Group in June, we clearly indicated that it signaled a start to the restructuring of the European aerospace and defense industry – a development in which we were determined to take the leading role. European consolidation is a reality and I have always believed that it is up to businesses to lead the way rather than follow in the path of others.

Our teams worked exceptionally hard to ensure the success of the merger. The excellent results we achieved in 1999 stand as a testimony to their efforts. The corporate cultures of Aerospatiale and Matra Hautes Technologies turned out to be extremely close.

The Aerospatiale Matra share was added to the CAC 40 stock market index on November 5. This reflects the importance of the enterprise and is a key factor both in its valuation and the share's liquidity.

**We are committed to meeting three strategic objectives:**

- First, we must continue to consolidate our leadership positions, as in 1999. In the key commercial jetliner market, we have now attained parity with our main competitor.
- Next, we must improve our profitability. We have already implemented several major action plans to achieve our goal of doubling operating margins by 2003.
- And we must be a pivotal player in the ongoing consolidation of our industry.

On October 14, 1999 in Strasbourg and on December 2 in Madrid we formalized our relationship with our German and Spanish partners to create EADS, the European Aeronautic, Space and Defense Company. This historic development is much more than a symbol. As you all know, it was front page news around the world. The merger is the logical conclusion of over thirty years of partnership and also set the stage for the agreement with Finmeccanica, signed on April 14, 2000. EADS will be one of three global leaders in the aerospace and defense industry and will take a premier position in all its markets.

I look forward to the future with great confidence, and with rock-solid faith in the abilities of our people and our extensive technological expertise.

Jean-Luc Lagardère





Message from  
the Chairman  
of the  
Management  
Board





Nineteen-ninety nine was a watershed year in the history of both Aerospatiale Matra and the aerospace and defense industry as a whole.

Our company was created in June 1999 and I would like to take this opportunity to review the three commitments I made on the occasion of the merger between Aerospatiale and Matra Hautes Technologies:

- Make a success of the merger.
- Improve the profitability of the new enterprise.
- Put the new group at the heart of the European aerospace and defense industry consolidation, critical to its survival in a hotly contested global market.

Our excellent performance in 1999 and the first few months of 2000 is a clear indication that these commitments have been honored.

The reorganization of Aerospatiale Matra was achieved in record time and has proved a great success. I am particularly pleased with the rate of progress on 17 consolidation initiatives, started last summer, and found this a particularly eloquent testimony to the truly dynamic spirit of the enterprise.

Our 1999 results and long-term outlook demonstrate that we are well on the way to achieving our goal of significantly improving our profitability.

As for our third goal, it is clear that the agreements reached for European consolidation of the satellite and missile sectors — and in particular the agreement between Aerospatiale Matra, DaimlerChrysler Aerospace and CASA leading to the creation of EADS — have put Aerospatiale Matra at the core of European industry restructuring. The enterprise has reenergized the sector and created the conditions for the success of European aerospace and defense consolidation. We intend to maintain this dynamic spirit, since 2000 will undoubtedly be a year of major decisions that will shape the future of the enterprise and enable us to continue our development.

**Philippe Camus**



Strategy

Management

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**A significant breakthrough.** The creation of EADS constitutes a major step forward in Aerospatiale Matra's strategy. Large-scale cross-border consolidation, Europe's objective for many years to reduce overcapacity, has finally been achieved.

**Rupture and continuity.** The creation of EADS represents both rupture and continuity:

- Rupture in that EADS is the first genuinely large-scale cross-border merger in the aerospace and defense industry;
- Continuity, because the creation of EADS cements the alliance of three partners who have worked together for over thirty years across most of their businesses, patiently building up a powerful pan-European aerospace and defense industry.

**Economic efficiency.** The creation of EADS will above all generate economic benefits. The merger of these major aerospace companies will generate synergies in a number of areas, notably procurement, R&D, international sales and production.

At an operational level, as a majority shareholder in a number of joint ventures, EADS will also be in a position to boost their efficiency and profitability through rationalization and restructuring.

**Opening up to the world.** However, EADS should in no way be seen as the embodiment of a "Fortress Europe" mentality. The new Group will maintain close relations with BAE Systems, its key partner in a number of programs, as well as with Thomson-CSF and Finmeccanica. In addition, developing transatlantic partnerships remains a prime strategic goal for EADS in the years to come.

**Future developments.** The creation of EADS last year marked a watershed in Aerospatiale Matra's strategy. In 2000, new initiatives will be launched

to achieve the Group's near-term strategic goals:

- Create value for our shareholders by increasing profit margins.
- Ensure the rapid consolidation of all our business lines and disciplines into single high-performance entities.
- Strengthen Airbus business through the creation of the Airbus Integrated Company (AIC), by consolidating EADS and BAE Systems' Airbus operations in an independent company offering superior profitability, efficiency and responsiveness.
- Strengthen EADS's position in the military aircraft segment, based on the agreement with Finmeccanica.
- Develop our portfolio of defense systems and consolidate the European missile sector around MBD, one of the world's top two companies in this segment.
- Consolidate the European space industry through the creation of Astrium, which will be expanded to include Finmeccanica and other European and U.S. partners, and by reorganizing the launcher business around Ariane.
- Forge partnerships in the United States, meeting the common aspirations of all governments and manufacturers concerned, building on promising contacts such as those with Lockheed Martin.

# Corporate governance

## Supervisory Board

**Jean-Luc Lagardère** - *Chairman*

General Managing Partner, Lagardère SCA  
Chairman of the Board of Directors of Lagardère SCA

**Philippe Pontet** - *Deputy Chairman*

Chairman of the Board of Directors of Sogepa

**Bernard Attali**

Vice President, European Investment Banking, Deutsche Bank

**Philippe Coq**

Assistant Director, Aircraft, Missiles and Space  
Cooperation and International Affairs Division

**Joël Danto**

Head of University/Industry Relations, Aerospatiale Matra Airbus

**Didier Dernoncourt**

Purchasing, Logistics and Sales & Marketing Department Manager,  
Aerospatiale Matra Airbus

**Dominique D'Hinnin**

Chief Financial Officer, Lagardère SCA

**Pierre Graff**

Director General of Civil Aviation

**Nicolas Jachiet**

Equity Investments Department Manager, Treasury Division

**Daniel Jalouzet**

Head of Internal Communications, Matra BAe Dynamics

**Arnaud Lagardère**

Senior Vice President and Chief Operating Officer of Arjil, Managing  
Partner of ARCO

**Raymond H. Lévy**

Chairman of the Supervisory Board of Lagardère SCA

**François Roussely**

Chairman of EDF

**Philippe Rouvillois**

Chief Tax Inspector

**Christian Saulnier**

Foreman Aerospatiale Matra Airbus

**Jean-Yves Helmer**

Representing the State's golden share

**Joseph Mailloux**

Government Commissioner, Controller

**Philippe Simon**

Secretary of the Board

## Executive Committee

1

**Philippe Camus**

Chairman of the Management Board, Chief Executive Officer

2

**François Auque**

Member of the Management Board  
Chief Financial Officer  
Group Managing Director, Satellites

3

**Jean-François Bigay**

Member of the Management Board  
Group Managing Director, Aircraft

4

**Jean-Paul Gut**

Group Managing Director, Defense and Space Transport  
Chairman, Aerospatiale Matra Lagardère International

5

**Jean-Louis Gergorin**

Group Managing Director, Strategic Coordination

6

**Denis Verret**

Group Managing Director, Business Development

7

**René Chabod**

Corporate Executive Vice President, Human Resources

8

**Jean-Marie Mir**

Corporate Secretary

9

**Pierre Bayle**

Corporate Vice President, Communications and External Relations

10

**Marwan Lahoud**

Co-Group Managing Director, Defense and Space Transport

11

**Jean Barrio**

Co-Group Managing Director, Strategic Coordination

12

**Frédéric d'Allest**

Special Advisor to the Management Board for Space

## Company Management

The overall governance of Aerospatiale Matra is based on a dual system which separates management and supervision.

The **Management Board** comprises three members, including the Chairman. It is responsible for the management and administration of company affairs. The **Supervisory Board**, appointed by the General Meeting of Shareholders, supervises the actions of the Management Board. No member of the Management Board may be a member of the Supervisory Board.

This supervision is notably based on a report on company operations by the Management Board, which is presented to the Supervisory Board at least quarterly.

Each year, the Supervisory Board presents to the General Meeting of Shareholders a review of the Management Board report and the financial statements.

The Supervisory Board comprises:

- Four members representing the French State as shareholder.
- Two members representing the public sector.
- Four members appointed by the General Meeting of Shareholders on the recommendation of Lagardère SCA, the core private shareholder.
- An independent member, appointed by the shareholders and exercising no management responsibilities in any Group company, nor representing any major shareholder in or a significant or regular manufacturing, commercial or financial partner of the Group.

In addition, in accordance with the provisions of French Law 86-912 of August 6, 1986, three members are elected to the Supervisory Board by all Group employees and another member is elected by employee shareholders, designated by the General Meeting of Shareholders from a list of candidates elected by shareholder employees.

A representative of the French state, because of the golden share, and a State Controller also attend Board sessions.

Listed in the **financial section** are the responsibilities and terms of each member of the Management and Supervisory Boards, along with their age and the number of shares they hold in the company.

Beyond legal obligations, shareholders demonstrated their commitment to establishing statutory principles of operation for the Management and the Supervisory Boards.

The Management Board must request the opinion of the Supervisory Board on certain operations which modify the share capital, impact on the Group's strategy, change the Group's financial structure or its scope of activity, or concern industrial or financial strategic alliance or cooperation agreements.

In addition, the Supervisory Board has created three Commissions:

- **The International Strategy Commission** studies the Group's international environment and analyzes the projects developed by the enterprise. This Commission meets at least twice a year. Chaired by Jean-Luc Lagardère, it also includes Philippe Coq, Arnaud Lagardère and François Roussely. It reports to the Supervisory Board.

- **The Remuneration Commission** makes recommendations to the Supervisory Board concerning the remuneration of members of the Management and Supervisory Boards. It also issues recommendations on remuneration policies across the Group. It meets regularly under the chairmanship of Jean-Luc Lagardère. The other members of this commission are Bernard Attali, Nicolas Jachiet, Raymond H. Lévy and Philippe Rouvillois.

- **The Accounts and Audit Commission** comprises Philippe Pontet (Chairman), Dominique D'Hinnin, Pierre Graff, Nicolas Jachiet and Raymond H. Lévy. The Commission examines:
  - annual and half-year accounts
  - annual budgets
  - Group accounting principles and methods
  - auditors' schedules
  - the Group's internal audit program
  - reports of the external and internal auditors and the Group's action programs.



\* Not pictured: Marwan Lahoud (10) and Frédéric d'Allest (12).



# Financial and Operating Highlights

## Sales (millions)

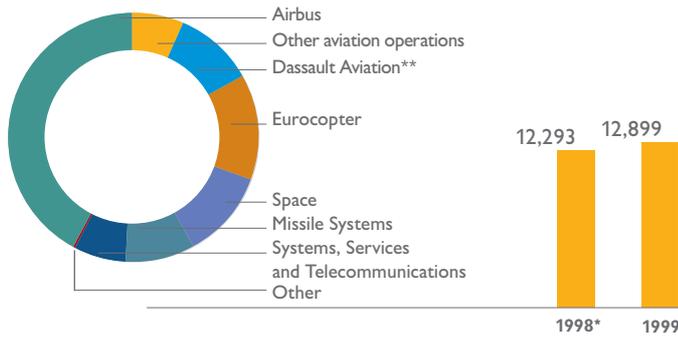
	1998		1999	
	Francs	Euros	Francs	Euros
Airbus	28,626	4,364	35,887	5,471
Other aviation operations	5,084	775	5,581	851
Dassault Aviation (45.76%)	9,217	1,405	8,648	1,318
Eurocopter	11,139	1,698	11,500	1,753
Space	9,910	1,511	9,719	1,482
Missile Systems	10,931	1,666	7,567	1,154
Systems, Services and Telecommunications	5,651	862	5,643	860
Other	76	12	63	10
<b>Total</b>	<b>80,634</b>	<b>12,293</b>	<b>84,608</b>	<b>12,899</b>

## Orders (millions)

	1998		1999	
	Francs	Euros	Francs	Euros
Airbus	54,818	8,357	36,943	5,632
Other aviation operations	4,428	675	6,452	984
Dassault Aviation (45.76%)	15,087	2,300	10,233	1,560
Eurocopter	12,201	1,860	20,761	3,165
Space	12,719	1,939	8,999	1,372
Missile Systems	15,212	2,319	12,412	1,892
Systems, Services and Telecommunications	3,437	524	5,635	859
<b>Total</b>	<b>117,902</b>	<b>17,974</b>	<b>101,435</b>	<b>15,464</b>

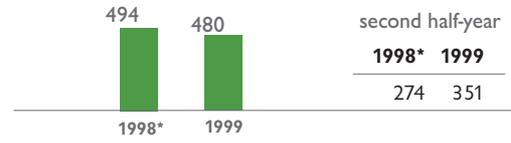
### Sales

millions of euros



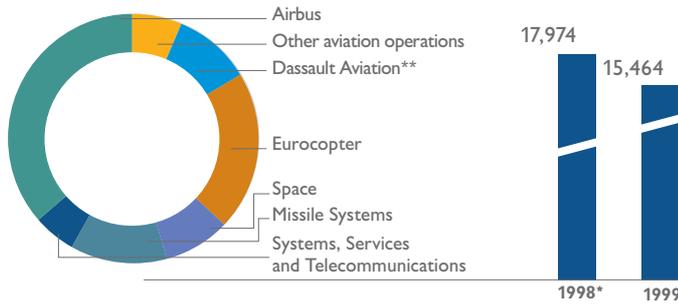
### Operating income

millions of euros



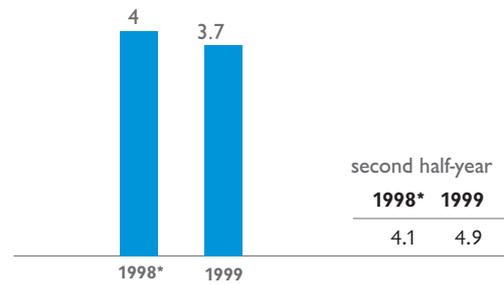
### Orders

millions of euros



### Operating margin

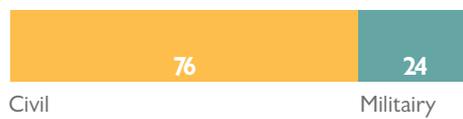
(%)



10  
11

### Civil/Military share of sales

(%)



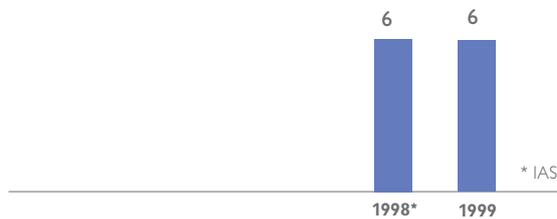
### Sales by geographic area

(%)



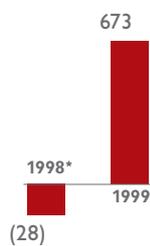
### Internally-financed\* R&D to sales ratio

(%)



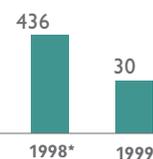
### Net cash (debt) position

millions of euros



### Net income, excluding minority interests

millions of euros



\* 1998 data: pro forma.

\*\* Aerospatiale Matra holds a 45.76% equity stake in Dassault Aviation.

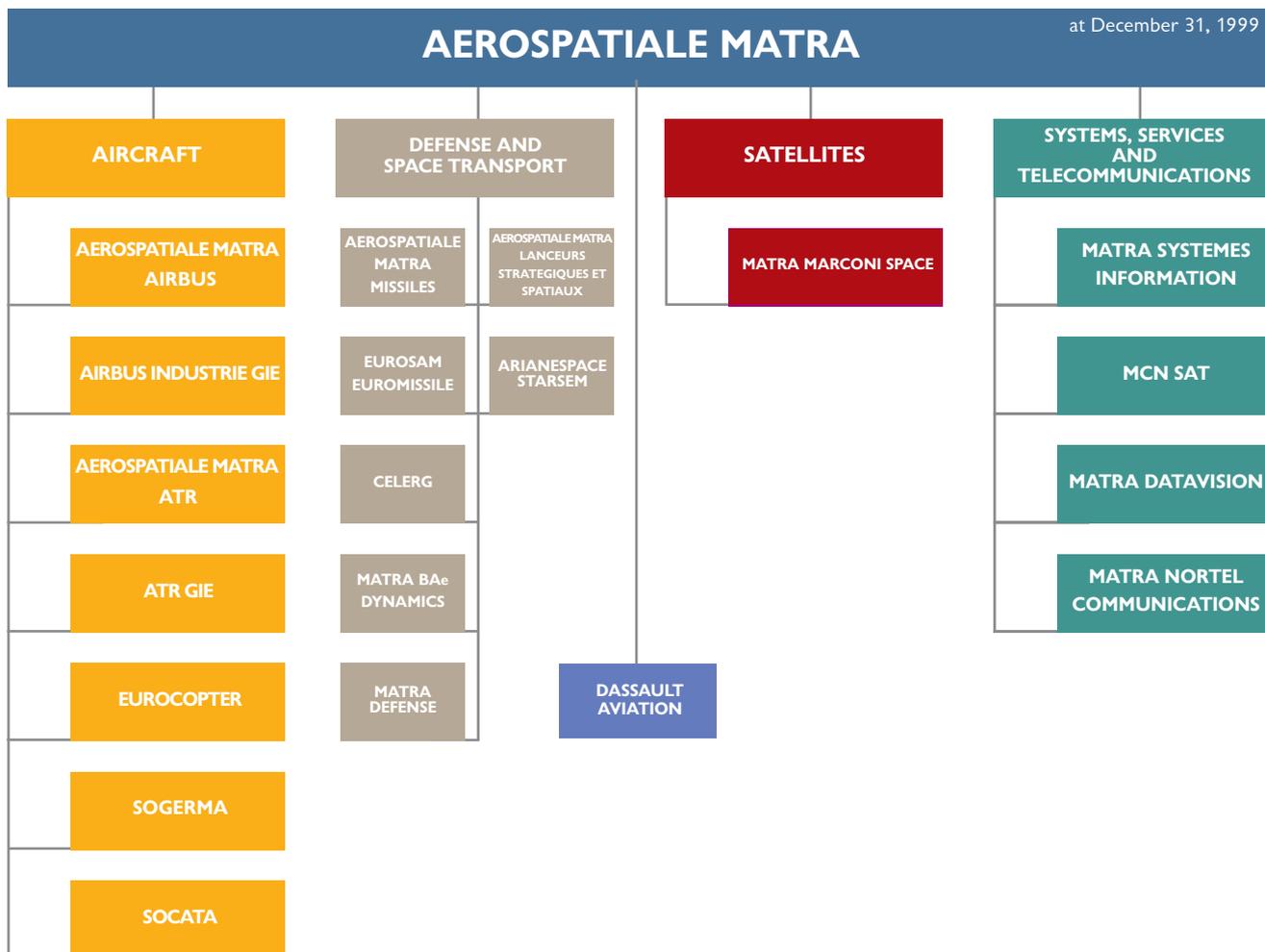


The

Aerospaziale Matra Group

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The Aerospatiale Matra Group is organized into four core businesses



## Aerospatiale Matra: unrivaled expertise and a pivotal European partnership

The Aerospatiale Matra Group boasts a unique medley of competencies encompassing the design, development and integration of complex aerospace systems. For over 30 years, it has been an integral part of strategic European alliances.

To facilitate the necessary consolidation of the French and European aerospace and defense industries in 1999, Aerospatiale Matra reorganized its operations into subsidiaries based on core businesses.

The Group will pursue its development in 2000:

Creation of New MBD in the Missile sector	Creation of Astrium in the Space sector	Merger with DASA and CASA to create EADS
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# 1999 Highlights



At the 1999 Paris Air Show



Aerospatiale Matra is born



CASA joins EADS on December 2, 1999



A340-600

## Successful merger and privatization

On January 13, the French government issued a decree providing for the privatization of Aerospatiale.

On January 15, the French State and Lagardère SCA signed an agreement defining the procedures for the merger of Aerospatiale and Matra Hautes Technologies.

**On June 4,** Aerospatiale Matra was listed for the first time on the Premier Marché, the Paris Bourse's monthly settlement market. June 11 saw the official birth of the new Aerospatiale Matra Group. The official opening of the Paris Air Show took place on the following day, with the new group making its first appearance as a united entity. On November 18, the first General Meeting of Shareholders took place.

By the end of the year, most integration steps had been completed to ensure a successful merger in record time.

## European aerospace and defense industry integration accelerates

On October 14, Aerospatiale Matra and DASA announced in Strasbourg the merger of their aerospace and defense businesses within a new group dubbed EADS. They are joined by CASA of Spain on December 2.

On October 18, the Astrium agreement was signed by Aerospatiale Matra, DaimlerChrysler Aerospace and Marconi Electronic Systems. On October 20, a strategic agreement was signed by Aerospatiale Matra, BAE Systems and Finmeccanica for the creation of an integrated operating company for missiles and missile systems.

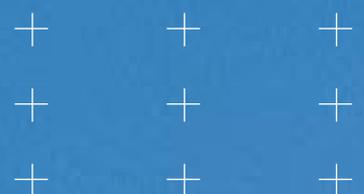
## Development of transatlantic alliances

During the Paris Air Show, two Aerospatiale Matra/Lockheed Martin agreements were signed. On October 25, Aerospatiale Matra, Dassault Aviation, Snecma and Thomson-CSF signed an agreement with Embraer to take a 20-percent equity stake in the Brazilian company.

## First year of existence features major successes

Aerospatiale Matra booked 15.5 billion euros worth of orders in 1999, an excellent level after the record year of 1998. Exports accounted for 71 percent of the total.

Excellent order intake (20 percent above sales) bolstered the order book, which reached 38.4 billion euros at December 31, 1999, equal to three years of business.

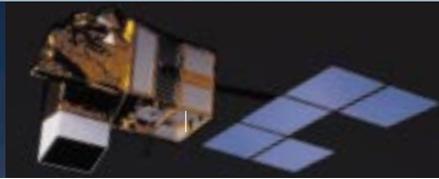




Meteor



Ariane 5



Helios



Tiger

## Aircraft

### ● Airbus leads market in 1999

Airbus is going from success to success, as it moved ahead of its direct competitor in 1999 with 55 percent of orders for commercial jetliners over 100 seats. In 1999, Airbus delivered 294 aircraft, a 28-percent increase on the previous record year. Firm orders were booked for 476 aircraft, including 120 for the new A318, which was launched in April and has proved an instant hit with airlines. The order book continues to grow, reaching 1,445 aircraft by December 31, 1999 – fully half of the global market.

### ● Special-mission aircraft

January 1999 saw the creation of the Airbus Military Company and the submission of their proposal for the FLA/A400M military transport to the seven countries concerned.

### ● ATR: a promising year

Objectives were met with the delivery of 35 aircraft and 30 orders. A commercial agreement with Embraer opens up new business opportunities.

### ● Eurocopter, the global leader with rising market share

Helicopter order intake reached an excellent 3.2 billion euros – 65 percent in export markets – compared with 1.9 billion euros in 1998. The first flight demonstration of the EC 155 took place at the 1999 Paris Air Show. France and Germany placed a first order for two lots of 80 Tigers. A total of 382 helicopters were ordered during the year, and Eurocopter delivered 241 aircraft, including the 100th EC 135, the 500th Super Puma and the very **first EC 155**, the most recent member of the Dauphin family. This impressive performance demonstrates that Eurocopter's product line perfectly matches the needs of its customers.

### ● Dassault: 48 Rafale fighters ordered

Despite the transitional phase experienced in the defense market (with a major export contract being completed in 1998), Dassault maintained good business levels, with 1.6 billion euros worth of orders in 1999. This was largely thanks to excellent performance in the civil market (Falcon business jets in particular) and the French government order for 48 Rafale fighters, of which 28 were firm orders.

## Space

Orders worth 1.4 billion euros were booked, with a little over 60 percent in export markets.

### ● Ariane and Starsem launchers: success in a difficult market

Highlights of the year included the remarkable achievements of both Ariane 4, with 53 successful consecutive launches by the end of the year, and Ariane 5, with its first commercial flight on December 10, carrying the XMM scientific satellite.

Ariane feted its 20th anniversary in December and retains its leadership in the commercial satellite launch market. In the same month, Arianespace awarded a contract for 20 Ariane 5 launchers. Starsem, in which the Group holds a 35-percent equity stake, clocked up six successful launches in 1999 for the Globalstar constellation.

### ● Matra Marconi Space: Astrium launched

Nineteen-ninety-nine was a pivotal year in the restructuring of the European space industry, with the agreement to create the integrated space company Astrium signed on October 18. Major contracts in 1999 underline the key role played by MMS in all space segments:

**Earth observation:** contract for the Helios 2 ground user segment.

**Commercial telecommunications:** sec-

ond Nilesat satellite for Egypt (March 1999).

**Military communications:** design studies for the British MoD on the new-generation Skynet 5 satellite system.

**Science:** contract with the European Space Agency (ESA) for Mars Express, Europe's first Mars exploration vehicle.

**Weather forecasting:** Metop contract (three satellites).

## Missiles: a record order book, equal to 5 years of business

At year-end 1999, orders stood at 1.9 billion euros. Business wins included the Principal Anti-Air Missile System (PAAMS) contract for around 1.1 billion euros, announced on August 11 by the British MoD, and covering the needs of the United Kingdom, France and Italy. Following France and Germany, the British gave the green light in June for the European antitank missile program, Trigat. In October, the Italian government signed a major contract with Matra BAe Dynamics to equip the Eurofighter and Tornado fighter aircraft with Storm Shadow cruise missiles.

On October 20, Aerospatiale Matra, British Aerospace and Finmeccanica signed an agreement to create a single missile company.

This new entity will be the leading European and second-largest global manufacturer of tactical missile systems.

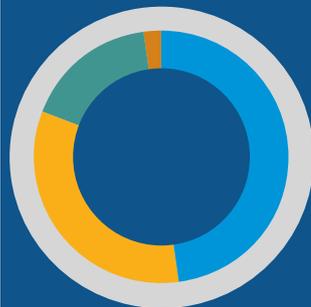
## Systems, Services and Telecoms: at the heart of tomorrow's technologies

September 1 saw the creation of a new business unit, dubbed Systems, Services and Telecommunications. Its new organization was finalized in December, based on the creation of an Integrated Systems Division and the grouping of all telecoms and Internet subsidiaries with strong growth potential. Highlights this past year included a business recovery in the telecoms segment and implementation of civil/military synergies.

# Aerospatiale Matra

## share performance

### Shareholding structure



- 48% French State
- 33% Lagardère
- 17% Public
- 2% Employees

### Stock Exchange

**Monthly Settlement**

### SICOVAM code

**18379**

### Number of shares

**403,687,775**

### Capitalization at December 31, 1999

**8.6 billion euros**

## Investor relations

The Investor Relations and Financial Communications Division was created in mid-1999 to provide information to retail and institutional investors, current and former employees, or simply anyone who has a passion for air and space.

Led by Marc Paganini, its mission is to listen to you and discover your needs in order to better respond to your questions.

To keep you up to date on all Group developments, the division has developed a range of communications resources, including newsletters and regular publications in the financial press. It has also launched a program of roadshows for shareholders in several French cities.

A financial information section has also been added to the Group's corporate website ([www.aeromatra.com](http://www.aeromatra.com)).

For more specific questions please don't hesitate to contact us:

French Hotline: 0 800 01 2001  
Email: [comfi@aeromatra.com](mailto:comfi@aeromatra.com)

## Share performance outpaces competitors

**The privatization of Aerospatiale Matra was a huge success:** the share offering was seven times oversubscribed among retail investors and more than 35 times oversubscribed by institutional investors. Privatization and listing on the Paris Bourse also met with success among Group employees – over 82 percent now own shares in the enterprise.

Since June 4, 1999, the Aerospatiale Matra share has been listed on the Premier Marché, the monthly settlement market of the Paris Bourse. **The share was added to the CAC 40 stock market index on November 5, 1999.**

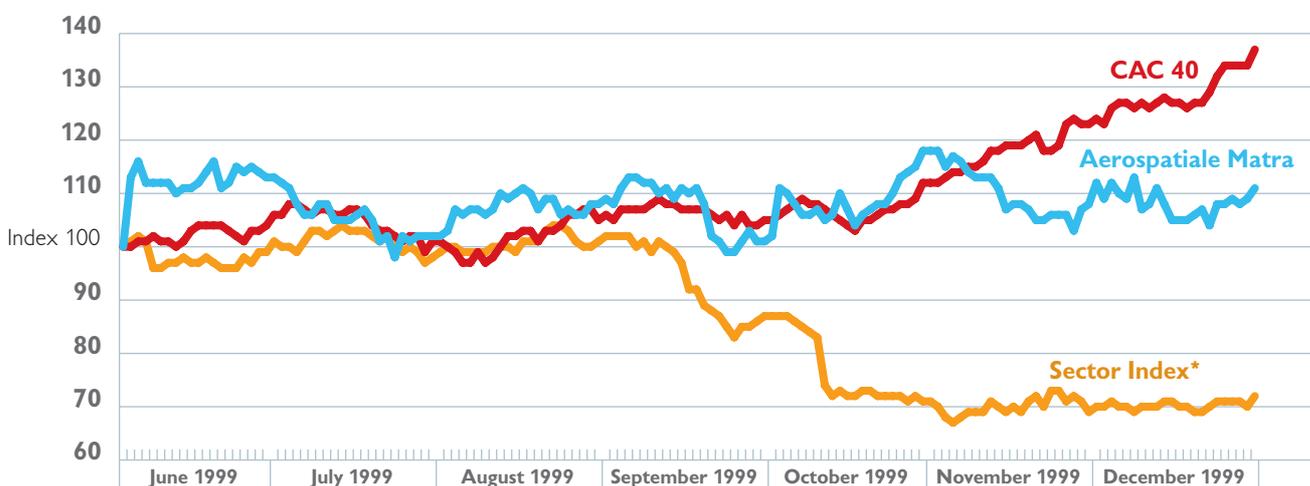
**At December 31, 1999, the share closed at 21.33 euros, up 11 percent on its IPO level of 19.20 euros.** This increase is less than the average increase registered by CAC 40 companies (up 36 percent). However, the CAC 40 index was bolstered by strong growth in telecoms, media and Internet shares in the last two months of 1999.

Aerospatiale Matra is on the other hand one of the top performers in its market. Over the same period, Thomson progressed by only 5 percent, and all other international aerospace and defense companies were significantly down: BAE Systems (down 1 percent), Boeing (down 6 percent) and above all Lockheed Martin (down 50 percent).

**For 2000, most analysts issued a buy recommendation,** based on the enterprise's key strengths:

Large order backlog at year-end, equal to three years of business • The commercial success of Airbus, which now boasts an order book equal to that of its direct competitor • The success and speed of the merger between Aerospatiale and Matra • Significant synergies generated through the merger of Aerospatiale Matra, DASA and CASA in EADS, and its strong positions in all markets.

## Share performance



\* BAe, Boeing, Lockheed

476

Airbus  
aircraft ordered

294

Airbus  
aircraft delivered

1,445

Airbus  
aircraft in order book

30

ATR  
aircraft ordered

48

Rafale  
aircraft ordered

9.5

billion euros  
in sales



# Aircraft

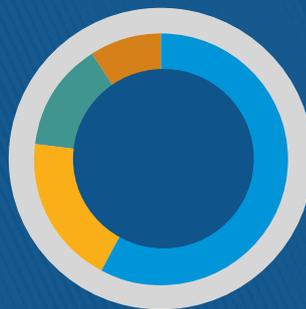
The sustained growth of **Aerospatiale Matra's aircraft business was confirmed in 1999.**

With **476 firm orders**, Airbus pulled ahead of its direct competitor.

**Eurocopter** retained its status as the world's leading helicopter maker and won a first order for **160 Tiger combat helicopters** from France and Germany, worth over 3 billion euros. Other aircraft subsidiaries — **ATR, Socata, Sogerma** — improved their earnings and made significant progress in their markets.

Thanks to its complete offering of high-tech products that perfectly match market requirements, **Aerospatiale Matra** enjoys a global reputation as a benchmark company in all aircraft segments.

- Airbus
- ATR
- Eurocopter
- Dassault Aviation
- Socata
- Sogerma



- 58% Airbus
- 19% Helicopters
- 14% Dassault Aviation (45.76% interest)
- 9% Other aviation operations



EC 155



AIRBUS



RAFALE

A complete lineup of aircraft



## Aircraft

# Airbus

### Favorable market and airline traffic growth

The **global economy** is marked by renewed confidence in growth. After a flattening off in 1998 (+ 2.1 percent) due to the Asian crisis, global GDP growth reached 2.8 percent in 1999 and should exceed 3 percent in 2000.

After bottoming out at only 2 to 3 percent growth in 1998 following the Asian crisis, **global passenger traffic** (outside the CIS) has returned to annual growth of 5 to 5.5 percent.

Asian airline traffic swung back to growth of 9 percent (following a one-percent decline in 1998), while the major American carriers continued to progress, posting traffic growth of 2.3 percent in 1998 and 4.5 percent in 1999. European airlines performed even better, with traffic growth of 7.5 percent. This growth was supported by a sustained 71-percent passenger load factor.

**Air cargo traffic has recovered strongly**, especially in Asia where the economic turnaround drove growth of over 10 percent in 1999, following the fall of 2 percent in 1998. The cargo business in Europe has also returned to growth, rising 4 percent after a decline of 1 percent in 1998. In the United States, growth remains steady at 3 percent.

Airline **operating profits should decline compared with the previous record years** (over \$16 billion in 1997 and 1998). This decline is largely linked to rising costs (fuel and payroll) and lower per-passenger revenues (price war following overcapacity linked to the Asian crisis). **However, the passenger load factor remained high.**

Following record levels in 1998 (1,222 orders), **the market for jetliners with over 70 seats remained extremely buoyant and performed better than expected:** 875 orders were placed, with over 80 percent for single-aisle aircraft.

In 1999, 52 percent of all orders were placed by leasing companies (versus 15 percent in 1998),

underscoring their growing importance in air transport and their confidence in medium-term demand. Representing 26 and 12 percent of total orders booked, respectively, American and European airlines continue to modernize their aging fleets. The Asian market (7 percent of orders) also seems to be improving despite continuing cancellations by airlines still on the road to recovery.

### Airbus: best seller in 1999

Aerospatiale Matra holds a 37.9-percent stake in the Airbus Industrie consortium, equal to the stake of DaimlerChrysler Aerospace of Germany. The other partners are BAE Systems (20 percent) of the United Kingdom and CASA (4.2 percent) of Spain.

**Aerospatiale Matra's broad-based technological and industrial expertise, pooled within its subsidiary Aerospatiale Matra Airbus, make up the core of the Airbus system. Aerospatiale Matra Airbus's role as "industrial architect" means that it is responsible for the entire industrial process concerning the aircraft family, from design through to the final commercial flight.**

**Aerospatiale Matra Airbus enjoyed a string of successes in 1999.**

### 55 percent of global orders

With 476 firm orders placed by 34 customers, order intake was at its second-highest level ever in 1999, following the extraordinary performance of 1998. Once again, orders largely outpaced deliveries (294 aircraft).

Airbus consolidated its positions in the global market and was the world market leader for orders booked in 1999.

Airbus attracted 17 new customers in 1999, and underscored the soundness of its family concept by booking additional orders from major clients such as British Airways. This performance is quite remarkable considering the significant slowdown in the global market (down 25 percent in a year).



A340 cockpit



A400M



The Airbus family

The A320 family accounted for 408 firm orders, bolstered by the considerable success of the A318, for which 120 orders were placed in the first year since its introduction. Sixty-eight A330/A340 aircraft were ordered, despite a flat global market for medium/long-haul jetliners.

At December 31, the aggregate total of Airbus orders stood at 3,633 aircraft from 169 customers.

#### Intents to purchase 103 additional aircraft

In addition to the 476 firm orders, this past year customers signed letters of intent to purchase a further 103 Airbus aircraft, underscoring the dynamic commercial performance of Airbus and its perfect match with market requirements.

#### Deliveries up 28 percent compared to 1998

The 294 aircraft delivered in 1999 — including 222 single-aisle aircraft — represent an increase of more than 28 percent compared with the previous year. This performance reflects the success of the Group's production policy based on continuous improvement in terms of quality, costs and lead times. At December 31, 1999, the aggregate total of deliveries stood at 2,188 Airbus aircraft. The number of Airbus users now stands at 178.

#### Order book:

##### 49 percent of the global market

Airbus's order book has reached record levels thanks to sustained performance. It now counts 1,445 aircraft to deliver, equal to more than four years of production. In five years, Airbus's order book has almost doubled (615 aircraft in 1994), while that of its direct competitor only increased by 35 percent over the same period.

## Innovation and enhanced productivity

Strategic goals this past year included production ramp-up, meeting contractual delivery deadlines and the implementation of the **CAP productivity improvement program**. Meeting these goals was the focus of 13,000 employees at Aerospatiale Matra Airbus's four production sites: Saint-Nazaire, Toulouse, Méaulte and Nantes.

Aerospatiale Matra also pursued studies for the A3XX and A400M programs and ongoing development of the A318. Development and production phases for the first subassemblies of the latest A340/500-600 were accelerated through the implementation of significant technological innovations, such as the **carbon keel beam, a world first**.

Thanks to a management policy tailored to professional skills and human resources, as well as a work organization based on concurrent engineering, the SAP integrated management tool and integrated work teams involving over 400 specialists and airline representatives, Aerospatiale Matra Airbus **reduced the development cycle for the 340/500-600 program by over 30 percent**.

Aerospatiale Matra Airbus, a subsidiary of Aerospatiale Matra since 1999, is now gearing up for the integration of Airbus activities within EADS and **the creation of an independent Airbus company**.

**Our management principles are anchored in meeting customer expectations by being the best in all our core businesses, creating value for our shareholders by continuously improving our financial results, and providing our employees with long-term security by preparing for the future.**

## Aircraft



Flight deck maintenance



TBM 700



Falcon 900EX

## Other Aviation Operations

### ATR: meeting objectives

Aerospatiale Matra is a key player in the ATR regional aircraft consortium formed with Alenia/Finmeccanica in 1981.

Its wholly-owned subsidiary Aerospatiale Matra ATR is responsible for this business and is in charge of final assembly and wing structures.

The ATR consortium, in which Aerospatiale Matra has a 50-percent stake, markets the aircraft and provides customer support. The new ATR 42-500 and ATR 72-500 versions boast significantly improved performance and passenger comfort. Since the beginning of the program, ATR has recorded 613 orders and delivered 591 aircraft, making the ATR regional aircraft fleet the largest in the world.

**The market.** The regional aircraft market is growing strongly across the globe, driven largely by regional jet sales. The complementary turboprop market also remains healthy, representing some **60-70 aircraft per year, in line with ATR's planned deliveries of 30 aircraft in 2000.**

**Market share.** With 30 aircraft sold and 35 delivered, ATR met all its objectives for 1999. In the 40-70 seat segment, ATR's **market share reached 69 percent of turboprop aircraft** and 30 percent of the combined jet/turboprop market.

**Market potential.** ATR continues to revamp its organization and develop new cooperative projects (thanks notably to its alliance with Embraer). **Asia and Europe** both harbor significant business opportunities.

### Aircraft maintenance: a growth business

Through Sogerma and its subsidiaries, the Group offers global repair and maintenance services for airline fleets and air forces. It also handles conversions and major modifications, such as cargo conversions. The Group's maintenance businesses are based in Bordeaux, Le Bourget, Rochefort, Toulouse and Caudebec-en-Caux in France, with further operations in the United States and Morocco. Sogerma and its subsidiaries employ 3,630 people and posted **sales of 3.7 billion francs in 1999, a significant advance on 1998**, thanks to growth in Airbus and turbo-prop engine business.

The Group met all its objectives in 1999. The outlook is for continued growth in sales and income, in line with corporate strategic goals. Sogerma will notably develop its Airbus support activities, which constitute a core competency. Construction of two hangars in 2000 should further bolster large jetliner capacity and keep pace with market growth.

**Markets.** Sogerma's maintenance business is developing in all maintenance and modification/upgrade markets for both civil and military aircraft, and includes global support, engineering and fleet technical management, as well as computer-aided design and manufacturing tools (CAD/CAM). **Competition is therefore highly diversified and segmented**, and includes major airlines, independent maintenance firms, state-owned workshops, equipment suppliers and airframe manufacturers.

**Civil market.** This concerns the maintenance and modification of airframes for Airbus, MDD, ATR, Lockheed L100 and other aircraft, as well as cargo conversions and equipment/engine maintenance and repair for regional aircraft, business jets and helicopters.



Rafale



Falcon 2000



TB20



ATR 42-500

**Military market.** This concerns the maintenance and modification of military aircraft (Lockheed Hercules C130, Transall) and combat aircraft (Mirage, Jaguar, F5, etc.).

Sogerma is also a manufacturing company:

**Interior installations:** pilot seats, first-class passenger seats, rest areas and galleys for Airbus and Boeing.

**Aerostructures:** Airbus, Galaxy (Israeli business jet), Dassault, AST assembly (Airbus Super Transporter/Beluga) and cargo conversion kits.

**Equipment:** test suitcases, smoke detectors, composite materials for aircraft, rail and ballistic applications.

### Light aircraft: Socata confirms recovery

Socata confirmed its recovery in 1999.

**For the first time ever, the company posted sales in excess of 1 billion francs** and swung into the black, with income in line with objectives.

**It significantly reduced its debt load**, thanks to solid results and a reduction in working capital requirements despite a significant increase in its operations (production cycles reduced through industrial reorganization). The company also received a capital injection from its shareholder Aerospatiale Matra.

The aerostructure business saw a rise of 8 percent in 1999 thanks to increased business from the A320 and A330/340 programs (up 12 to 18 percent), and stable Dassault business. The **light aircraft business grew very strongly (up 50 percent)**, particularly the TBM 700 program (up 80 percent) and the TB range.

At December 31, 1999, the order book for light aircraft represented 200 million francs.

In line with its strategy, **Socata bolstered its presence in the United States** (70-80 percent of the global market) and is developing a distribution network in the country.

It maintained its market share in the rest of the world, notably in the government market, where it has strong positions (for pilot training in particular).

**Industrial reorganization** continued on schedule, and **should be completed in 2000**.

As part of its reorganization, Socata has started to install a SAP information system, which should be on line by the end of 2001.

### Dassault Aviation: an exceptional year for Falcon jets

Aerospatiale Matra holds a 45.76-percent stake in Dassault Aviation — listed on the Paris Bourse — along with Groupe Industriale Marcel Dassault (49.9 percent) and public investors (4.34 percent).

Dassault Aviation won a French government order for **48 Rafale aircraft** (of which 28 were firm orders) and **sold 72 Falcon jets**, underscoring the company's status as the world's leading supplier of high-end business jets. This was the third consecutive year of extremely robust business levels for corporate aircraft, enabling Dassault Aviation to post excellent sales and operating profits despite the hiatus in major military export contracts.

Along with Aerospatiale Matra, Snecma and Thomson-CSF, Dassault Aviation took a 20-percent equity stake in the Brazilian manufacturer Embraer in November 1999.



Tiger



Cougar-SAR AS532



EC 135

## Aircraft

# Helicopters

### Eurocopter, No. 1 worldwide

The Eurocopter Group, owned 70 percent by Aerospatiale Matra of France and 30 percent by DaimlerChrysler Aerospace of Germany, designs and manufactures a wide range of civil and military helicopters. **The world's leading maker of helicopters, it further strengthened this position in 1999.**

Eurocopter offers helicopters from the 2-ton to the 10-ton class, **covering virtually all international demand.** The range is constantly upgraded and incorporates a number of advanced technologies, including the Fenestron shrouded tail rotor, wide use of composite materials, advanced avionics, fly-by-wire controls, etc.

Eurocopter has two plants in France (La Courneuve and Marignane) and two in Germany (Ottobrunn and Donauwörth). It also has 14 subsidiaries around the world, in the United States, Brazil, Singapore, Canada, etc., including several production facilities.

The **civil helicopter market** (including sales to state agencies) was generally stable in 1999, despite the significant impact of the Brazilian financial crisis. Thanks to the success of its expanded product range, **Eurocopter increased its market share** by 6 percent over 1998.

This past year also saw the start of a new growth trend in the **military helicopter market**, driven by attack helicopter acquisition programs and above all by the need to replace several aging fleets. **Eurocopter is particularly well positioned in these markets, with its Tiger and NH 90 helicopters.** A large proportion of these military contracts should be in Europe. For example, Eurocopter logged the first orders from France and Germany for 160 Tiger helicopters, giving it world leadership in the military helicopter market (in both quantity and value).

### Exceptional order intake and 3 percent sales growth

The Eurocopter Group enjoyed an exceptional year in 1999, booking orders for 382 helicopters: 160 Tigers, 22 Super Pumas, 18 Dauphins, 95 single-engine Ecureuils, 10 twin-engine Ecureuils, 11 BK 117s, 30 EC 135s, and 36 EC 120s.

**Total orders amounted to 20.8 billion francs**, including new helicopters (15.3 billion francs), R&D contracts (500 million francs), customer services (3.9 billion francs) and miscellaneous (1.1 billion francs).

Eurocopter posted **sales of 11.5 billion francs** in 1999, up 3.3 percent on 1998. The civil/state agency sector accounted for 52 percent of sales, and the military sector 48 percent. Sales to export markets accounted for 84 percent of the total.

### Income stable despite heavy investments

**Operating income for 1999 remained steady at FF 499 million**, while Eurocopter invested in new SAP computer management systems, plus the service entry and production ramp-up of its new-generation helicopters (EC 120, EC 135, EC 155). As in previous years, it invested extensively in developing new products and improving current products, independently financing part of these investments.

At the same time, Eurocopter continued to improve its **cash position, which stood at nearly one billion francs at the end of the year.**

### Focus on partnerships

While continuing its joint arrangements with international partners (on the EC 120, with China and Singapore, and the BK 117, with Kawasaki Heavy Industries, for example), Eurocopter also actively focused on other international collaboration initiatives to grow its market share and provide solid foundations for the future.



Super Puma AS 332



EC 155



NH 90



EC 120 B



Dauphin A365



Ecureuil B3  
AS 350

Building on its long teaming experience, Eurocopter successfully implemented several overseas co-production programs, for the Cougar in **Turkey**, and for the BO 105 in **South Korea**. In addition, several new projects are now being negotiated as part of major acquisition programs, most notably in **Spain, Australia and Poland**.

Last year also saw Eurocopter confirm its intention of assessing in-depth the **tilt-rotor** aircraft concept. Along with several European partners it launched a joint initiative aimed at the construction of a tilt-rotor demonstrator.

### A modernized, renewed range

The success of the Eurocopter product line, now largely modernized, was confirmed worldwide in 1999.

Over **2,900 Ecureuil helicopters** have been sold since the start of this very popular program. Its success was further consolidated with the higher performance B3 version, certified in 1997. The 100th B3 was delivered in 1999.

The EC 155 was off to an excellent start, with eight ordered in 1999. At the same time, interest in the high-performance N3 version of the Dauphin was confirmed, with orders for ten aircraft.

The EC 135 was certified for single-pilot IFR operation and production was stepped up to meet demand. A contract for nine aircraft at the end of the year by the Portuguese army enabled Eurocopter to launch the military variant, designated EC 635.

An order by the French air force in 1999 enabled Eurocopter to launch the enhanced performance "MK2+" version of the Super Puma. This new version is especially well suited to civil and military missions requiring higher payload capacity and longer range.

Market demand for an EC 145 type (BK 117C2) helicopter was also confirmed during the year, with a second major order. The French Gendarmerie ordered eight of these enhanced versions.

Eurocopter also tripled deliveries of the EC 120, produced jointly with Singapore Technologies Aerospace and Catic/Hamc of China.

### Tiger

France and Germany placed an order with Eurocopter for a **first batch of 160 Tiger helicopters** (80 + 80) at the 1999 Paris Air Show. Development tests of the weapon systems were successful for both the antitank and escort versions of this helicopters. The antitank version carried out successful day/night firing tests of four Hot missiles.

### NH 90

Five NH 90 prototypes are now flying. This past year saw the maiden flight of the PT4 prototype (TTH tactical transport version) in Germany, and the PT5 prototype (NFH naval version) in Italy.

The four partner nations in this program also renewed their commitment to launching production of a first batch of aircraft, increased from 151 to 196, within the scope of an **agreement signed in Bonn in March 1999**.

### Customer support and production resources

The results of Eurocopter's customer support business were **positive in 1999, in terms of both revenues and customer satisfaction**. From a production standpoint, Eurocopter continued to improve its facilities and optimize its skills base, for example, by increasing production staff and streamlining its organization.

9

Ariane 4  
launches

First

Ariane 5  
commercial  
launch

20

Ariane 5  
ordered

6

Soyuz  
launches

Creation

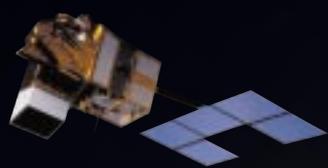
of Astrium

# Space

Commercial launchers  
Ballistic missiles  
Satellites

1999 was a pivotal year for the European space industry. Ariane 5, with Aerospatiale Matra Lanceurs as industrial architect, made its first commercial flight in 1999, and MMS and DASA merged operations to create a new satellite company, Astrium.

The merger of Aerospatiale Matra, DASA and CASA in 2000 will make the new entity, EADS, the European space industry leader. But we are aiming even higher, by capitalizing on our technological excellence, greater economic efficiency and expanded partnerships.



HELIOS II



ARIANE 5



METOP

A full line of space products

## Space



International Space Station



Soyuz



M51

### World leader in commercial launchers

Aerospatiale Matra's launcher business was very successful in 1999, with the launch of nine Ariane 4 rockets and the first Ariane 5 commercial flight. Operating in a market shaken by the uncertain future of constellations and shrinking business volumes, **Arianespace** nonetheless **bolstered its leadership by winning 12 out of the 15 satellite launch contracts up for bid worldwide in 1999**. This performance was underpinned by Arianespace's service excellence, reliability and flexibility. At December 31, 1999, Arianespace's backlog stood at 40 satellites to be launched.

Aerospatiale Matra Lanceurs Stratégiques et Spatiaux (Aerospatiale Matra Lanceurs), a wholly-owned subsidiary, is **industrial architect for Ariane 4 and 5**, with responsibility for the design and manufacture of the main stages. Aerospatiale Matra Lanceurs is also **prime contractor for space vehicles**, such as the Automated Transfer Vehicle (ATV), the "cargo ship" for the international space station.

During the year, Aerospatiale Matra signed a production contract with Arianespace for the P2 batch of 20 Ariane 5 launchers. This contract also includes a cost reduction clause to enable Ariane 5 to maintain its competitive edge over American launchers.

**Starsem**, the joint Franco-Russian subsidiary of Aerospatiale Matra (35 percent), Arianespace (15 percent), the Samara Space Center (25 percent) and the Russian space agency RKA (25 percent), **successfully launched six Soyuz** rockets from the Baikonur cosmodrome for Globalstar.

### Strategic ballistic missiles

Aerospatiale Matra Lanceurs is the prime contractor for French strategic ballistic missiles, in charge of design, production, installation and maintenance. The **M51** program successfully passed its No. 2 preliminary system design review, while two **M4/M45** acceptance firing tests were also successful.

In addition to these major domestic programs, Aerospatiale Matra Lanceurs sells space products to outside customers. For example, its **dispensers** operated flawlessly on the six Starsem launches this past year for Globalstar. These dispensers are designed to carry and release clusters of satellites for constellations.

Aerospatiale Matra also signed a multiyear agreement with Alcatel Space to supply antenna reflectors and other composite satellite structures.

Aerospatiale Matra Lanceurs' industrial facilities are grouped at Les Mureaux near Paris and in the Aquitaine region near Bordeaux, and employ a total of 3,450 people.

### Satellites: creation of Astrium

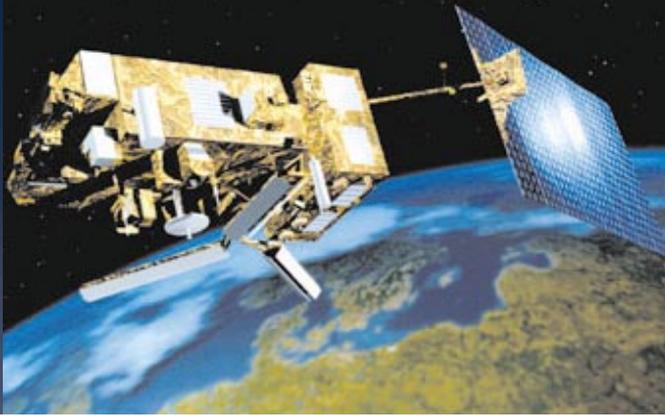
On October 18, 1999, the two equal shareholders in **Matra Marconi Space**, Aerospatiale Matra and BAE Systems, signed an agreement with **DASA to create a new company, Astrium**, by transferring the satellite operations of DASA to MMS. On December 2, 1999, this agreement was extended to encompass CASA of Spain, making Astrium a quadrilateral company. **Alenia Spazio** was immediately invited to join Astrium. MMS's business was jolted in 1999 due to difficulties – since resolved – with the solar panels produced by one of its subcontractors. Working closely with customers and suppliers, and with a constant focus on the customers' interests, MMS was able to develop solutions to limit as much as possible the impact of this incident on satellites in orbit, and guarantee zero defects for satellites still to be launched.

The space business **signed a number of contracts** in 1999, including scientific spacecraft (signature of the **Metop** contract, selection as prime contractor for Mars Express), the military sector (**Helios 2 ground segment**) and commercial telecommunications (signature of the Intelsat 102 contract, and in **early 2000**, signature of the N1 Alpha contract with **Intelsat**, launching the Eurostar 3000 platform).





Ariane 5



Metop



ATV - Automated Transfer Vehicle

Matra Marconi Space offers three main product lines: Earth observation satellites (62 percent of 1999 sales), telecommunications satellites (19 percent) and launchers and orbital infrastructures (19 percent).

### Leadership in scientific and observation satellites

MMS produces both civil and military observation satellites, as well as the associated ground segments. The civil sector accounted for about 70 percent of business in 1999, and the military sector the remaining 30 percent.

MMS won several major French and international competitions in 1999, reflecting its technological excellence and confirming its leadership.

### Promising satcom contracts

Not only is the communications satellite market highly competitive, but it was affected in 1998-99 by the Asian crisis and the failure of various constellation programs. However, MMS has been selected as prime contractor for Intelsat's N1 Alpha satellite. This is the launch contract for the new-generation Eurostar 3000 platform, which augurs well for the technical and commercial competitiveness of this platform.

Egypt also placed an order with MMS for a second direct broadcast satellite.

MMS is the leader in the military satcom market, and was chosen by the British Ministry of Defence to carry out a major design study for Skynet 5.

It was also chosen by the Turkish Ministry of Defence to develop the complete military telecommunications satellite system ground segment, the largest in the world to date.

### Space transport and orbital infrastructure: technological expertise

MMS is in charge of the design and production of Ariane's vehicle equipment bay, the "brains" of the launcher. Production continued at a sustained pace, as it supplied VEBs for the nine Ariane 4 launches during the year.

Matra Marconi Space is also involved in the construction of the international space station, as supplier of the computer systems for the Columbus Orbital Facility and the ATV cargo vehicle, both financed by the European Space Agency. MMS is also developing advanced space rendezvous technologies for this program.

### Astrium: No. 1 in Europe

The creation of Astrium took effect on March 21, 2000, when the project was approved by the European Commission.

It is the third largest space company in the world, with operations in three countries, France, the United Kingdom and Germany. It will soon expand to five countries, following the addition of the space businesses of CASA (Spain) and the Finmeccanica group (Italy). Astrium is the culmination of a process that began back in 1990, and the reflection of an unrelenting commitment by its shareholders to develop their presence in this sector.

Astrium will be a space industry "major", with the enabling technologies and vast experience needed for continued growth. **Furthermore, this merger should generate major commercial, industrial and human synergies.**

**6.1**billion euros  
order book**1.1**billion euros  
PAAMS contract**240**million euros  
Storm Shadow contract**200**million euros  
Rapier contract**Launch**

of "New MBD"



# Missile Systems

The merger creating the new **Aerospatiale Matra Group** took place in **June 1999**. This merger also led to the consolidation of the missile systems operations of **Aerospatiale Matra Missiles (AMM)** and **Matra British Aerospace Dynamics** (an equally-owned joint venture of **Aerospatiale Matra** and **BAE Systems**). The new entity logged sales of **1.2 billion euros in 1999**, down 30 percent on 1998, as expected, because of an exceptional export contract that was completed in 1998.

Business was sustained however, ensuring excellent long-term viability. Orders were booked for **1.9 billion euros**, bringing the year-end order book to a new record of **6 billion euros**, equal to five years of work. Furthermore, the new orders booked in 1999 were fundamental, since they enabled the launch of key European programs, in particular **PAAMS**, an air defense system using **Aster** missiles, to be deployed by new-generation British, Italian and French frigates. Major export contracts included **Rapier** missiles for the **U.K.** and **Turkey**, and the **Storm Shadow** for Italy. In domestic markets, contracts were signed for new phases of programs already under way (**Aster FSAF**, upgraded **Roland**, **ASMP**, etc.).

With the advent of **EADS**, and the agreement providing for the creation of a new joint missile systems company by **Aerospatiale Matra**, **BAE Systems** and **Finmeccanica**, temporarily dubbed "**New MBD**", this new company will be the leading missile-maker in Europe and **Number 2** worldwide, just behind **Raytheon**. With **New MBD**, **Aerospatiale Matra** – and soon **EADS** – will be able to offer a real alternative to **U.S.** missiles.



PIVER CL 289



METEOR



APACHE

## Missile Systems



Apache



AS 30 Kaiser

The group's Missile Systems business includes Matra BAe Dynamics, in which it has a 50-percent stake, and the former Aerospatiale Missiles.

### Sustained orders ensure future growth

Following exceptional deliveries and orders in 1998, especially export orders, **this past year once again saw healthy orders. Missile Systems orders totaled 1.9 billion euros, outpacing sales by 58 percent.**

Although there were no major new domestic programs, the group garnered additional funding for existing programs, in particular for counter-measure systems and development contracts for missile integration on Rafale and Mirage 2000-5 aircraft.

Business in Britain, on the other hand, was buoyant, and **the group is now a key player in major pan-European programs.** The highlight was the announcement by the British MoD on August 11 of the PAAMS contract for 1.1 billion euros, covering requirements by France, the U.K. and Italy. This contract is the **first concrete reflection of the successful integration of MBD and the former Aerospatiale Missiles.** The organization set up for this program provides for a clear distribution of responsibilities and cooperation on cost reduction.

The British government awarded another major contract, worth 320 million euros, for Rapier Mark 2 short-range surface-to-air missiles.

#### **Two major export contracts were signed in 1999.**

The Italian government selected **Storm Shadow cruise missiles** for its Eurofighter and Tornado aircraft in a contract worth 240 million euros. In addition to the supply of a substantial number of missiles, along with ground support equipment and maintenance systems, the contract provides for the establishment of a wide-ranging partnership with Italian industry on the Storm Shadow/Scalp-EG program. The second contract was awarded by Turkey: an order for Rapier missiles worth 200 million euros.

### Order book expected to expand in 2000

Several major contracts are expected this year, in particular the Medium Range Trigat antitank weapon and especially the future air-to-air missile for the Eurofighter. The British government has already issued a request for proposals (RFP) for this missile, and MBD has responded by setting up the **Meteor** consortium along with Marconi, Alenia, LFK, CASA and Saab. The objective of this consortium is to focus European energies and provide a common solution for the air forces of the U.K., Germany, Italy, Spain and Sweden, as well as the French air force, which recently joined the program. In a major development at the end of 1999, Boeing also joined the consortium, which should facilitate American market access.

### Improved productivity

Missile Systems productivity continues to improve, driven by two major factors:

- **Synergies generated by the merger of the former Aerospatiale Missiles with MBD.**
- **The continuation of productivity enhancement initiatives launched in each company before the merger.**

In particular, the profitability of the former Aerospatiale part of this business has improved substantially due to restructuring and cost reduction actions implemented in recent years. These productivity improvement initiatives are pursued within the scope of the **"Perf 2001"** plan. Restructuring of the workforce also continued, with the number of employees reduced from 3,184 at the beginning of the year to 2,964 at December 31, 1999 (full-time equivalent, including consortiums). Profitability will continue to augment in 2000 and beyond, based on the continuation of these restructuring plans and productivity improvement measures. New synergies are expected starting in the second half of 2000, due to the creation of EADS, and above all to the integration of Aerospatiale Matra Missiles within the future European missile company.



Meteor



Trigat



The NSM medium-range antiship missile

### Technical milestones

- Demonstration of the trouble-free operation of equipment in the Vesta ramjet, intended for the ASMP-A missile.
- Start of qualification firing tests for the Aster 15 system, to be installed on the Charles-de-Gaulle aircraft carrier.
- Integration of the first upgraded Roland firing station, equipped with the Glaive sight.
- Success, on schedule, of all functional integration operations and on-wing carriage tests of the Storm Shadow/Scalp-EG cruise missile.
- The operational effectiveness of the second version of the Mica missile, with infrared guidance, was proven in flight tests.

#### Other milestones are expected in 2000, including:

- Start of volume production of Apache, Europe's first cruise missile.
- First flight of the Storm Shadow/Scalp-EG cruise missile.
- Qualification of the French Aster antimissile missile.

### The No. 2 missile company in the world

Right from the time of its creation in 1996, MBD shareholders intended it to be the consolidation hub for the European missile industry. These partners' own growth paths – creation of Aerospatiale Matra, then the advent of EADS and BAE Systems in 1999 – created the conditions necessary for a new expansion of Matra BAe Dynamics. On October 20, 1999, Aerospatiale Matra, BAE Systems and the Italian group Finmeccanica announced that they were **creating a jointly owned missile and missile systems company, to be called "New MBD"**.

Starting this year, the company will encompass the following entities: **Aerospatiale Matra Missiles, Alenia Marconi Systems-Missiles and Matra BAe Dynamics**. Once consolidated, stock in the new company will be owned by Aerospatiale Matra and BAE Systems, each with 37.5 percent, and by Finmeccanica, with 25 percent. It may also incorporate LFK, in which it already has a 30 percent stake, with the remaining 70 percent held by DASA.

Once completed, this consolidation will create the world's second largest missiles company. A full-fledged missile systems prime contractor, it will offer an attractive alternative to American competitors. **The new entity will have annual sales of about 2.5 billion euros**, a solid order book and 10,000 skilled employees. It will be either prime contractor or main partner in all main joint European programs. In addition, it will offer products for all segments of the market, and all branches of the armed forces, and will have the resources needed to ensure sustained competitiveness. Furthermore, "New MBD" will enjoy structural access to the four largest European markets: France, the United Kingdom, Italy and Germany.

860

million euros  
sales

67

million euros  
independently-financed  
R&D

5,936

employees

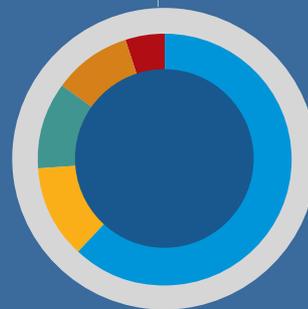


# Systems, Services and Telecommunications

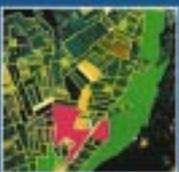
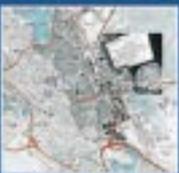
The Systems, Services and Telecommunications (SST) Sector was created on September 1, 1999, reflecting the Group's commitment to energizing and organizing its internal telecoms, services, test and Internet capabilities. These activities put **Aerospatiale Matra** at the heart of the dynamic New Economy and enables the enterprise to offer its traditional military customers leading-edge technologies from the civil sector.

To leverage synergies between civil and military activities, a new organization was implemented in the last quarter of 1999, based on five core businesses: **C4ISR** (secure transmission systems in particular for armed forces), **Services & Tests**, **Computer-aided Design and Manufacturing (CAD/CAM)**, **Internet Services** and **Telecommunications**.

These units will enable the Group to leverage the synergies created by blending the assets of **Aerospatiale** and **Matra Hautes Technologies** and to benefit from the strong growth potential of new information technologies.



- 62% Telecoms
- 12% C4 ISR
- 11% Services & Tests
- 10% CAD/CAM
- 5% Internet





## Systems, Services and Telecommunications

### Leveraging civil/military synergies

Defense markets offer remarkable growth potential for SST, but the **technologies used (telecoms, secure Internet networks, etc.) are often developed in the civil sector**. Aerospatiale Matra's objective is to leverage civil expertise in Group subsidiaries — such as Matra Nortel Communication, Sycomore, Matranet and Matra-Datavision — to develop new applications for traditional clients, notably armed forces. **It was this dual military/civil strategy which drove the reorganization of the business.**

From January 1, 2000, all Systems, Services and Telecoms activities were grouped into five business units and rounded out by an Integrated Systems Division, the aim of which is to cross-fertilize disparate skills to develop a unified service offering.

### C4ISR: secure telecommunications systems for armed forces

The C4ISR business unit (Command, Control, Communications, Computers, Intelligence, Surveillance, Reconnaissance) constitutes the **core of SST for information technologies and control systems**. It encompasses the subsidiaries MS&I, APIC, Fleximage and ISTAR.

As the defense market continues to shrink across the globe, the C4ISR segment is experiencing relative growth, as demonstrated by recent multinational military operations (Kosovo in particular) that count on C3I and observation systems (satellites, drones, etc.). Aerospatiale Matra is a key player in this market segment in France, with a 15 to 20 percent market share depending on the application. It also boasts promising growth potential in the global marketplace.

### Services & Tests: meeting growing demand by armed forces and airlines for outsourced services

This business unit offers outsourced testing and other services, and is based on specialized engineering companies such as APSYS, CRIS and G2I.

- The advent of professional armies is now a global reality. In Europe, this has led chiefs-of-staff to outsource a number of tasks to industry. The aim of SST's Outsourced Services Division is to build its business in the aviation and defense segments for governments, state agencies and private customers.

**The target market is experiencing burgeoning growth, with annual sales in France of over 10 billion francs.** Aerospatiale Matra boasts the comprehensive expertise needed to offer outsourced services, since it benefits not only from the technical resources of the SST sector, but is also the preferred partner of airlines and armed forces across the globe.

- Aerospatiale Matra is also a leader in equipment test stands, notably for avionics equipment. Test stands and benches are sold to airlines, armed forces, aircraft and equipment manufacturers, etc. In the **civil sector, Aerospatiale Matra's Services & Tests unit holds an 80-percent share of the global market** with sales of 150 million francs, including to **19 of the 20 largest airlines**. In the **military sector**, the unit is a European leader with **40 percent of the market** and 450 million francs in sales. This segment harbors strong consolidation potential in Europe and is moving towards comprehensive full-service offerings. Our leadership in test stands and our understanding of customer needs puts us in an excellent position in this market.

### CAD/CAM: strengthening our leadership in a market growing by 20 percent per year

The global market for computer-aided design and manufacturing (CAD/CAM) and data management services and software is estimated at \$5 billion, and the **services business is growing at over 20 percent per year**. While the software segment is being rapidly consolidated and is restricted to a few suppliers, the service offering

remains highly scattered. Matra Datavision, a wholly-owned subsidiary of Aerospatiale Matra, is a European leader in this market with 720 employees in 12 countries.

### **Internet and Operator Services: a booming market with significant opportunities in aerospace and defense**

This business unit is based around Internet Protocol services and includes subsidiaries Sycomore (secure Internet network architecture), Matranet (software for Internet network security and e-business applications), MGN (hosting of websites) and Multicom (Internet protocol applications via satellite services).

In 1999 these subsidiaries posted relatively modest sales of 45 million euros. However, they **enjoy excellent growth potential, with the largest of them, Sycomore, doubling its sales in two years.** Originally developed for civil applications, their offer essentially targets major civil groups. However, a contract in 1999 for a secure email system for the French army demonstrates the potential for developing applications for its traditional clientele in the aerospace and defense sectors.

For each of these subsidiaries, Aerospatiale Matra is currently reviewing the most appropriate means of financing development, from alliances to the total or partial listing of certain subsidiaries.

### **Telecoms: huge potential, particularly in the secure digital radio market**

This business unit comprises Intecom (a wholly-owned subsidiary) and Matra Nortel Communications (50-percent stake, along with Nortel). It operates in the following segments:

- Professional mobile radio: MNC is a global leader in secure digital networks with 30 networks in 15 countries. **MNC currently holds a 17-percent share of the global digital market, and aims to boost this figure to 25 percent by 2003.** Growth of the global PMR market is estimated at 5 percent per year. The digital segment in which MNC operates should grow fourfold between 1999 and 2003.
- Operators, transmission and voice/data access technologies for fixed and wireless networks. **MNC is the leading supplier of telecom equipment in France,** following the deregulation of the national market. It holds an 8-percent market share, with a target of 15 percent by 2002. In the business communications systems segment, MNC enjoys a 30-percent share of the French market and a 10 percent share in Europe. This market is characterized by burgeoning growth in voice-over-IP and high-value-added services.

In 1999, Matra Nortel Communications returned to break-even following the sale of its loss-making GSM terminal business, and maintained revenue levels despite the divestment.

On March 30, 2000, Aerospatiale Matra and Nortel announced the creation of twin companies spun off from MNC:

- A company specialized in professional mobile radio (PMR) held 55 percent by Aerospatiale Matra and 45 percent by Nortel;
- A company grouping MNC's other civil communications activities, held 55 percent by Nortel and 45 percent by Aerospatiale Matra.

**This reorganization reflects Aerospatiale Matra's strategic ambitions in the telecoms sector.**

### **Integrated Systems Division: leveraging synergies between the five business units**

An Integrated Systems Division has been created to handle more general "systems system" responsibilities, as opposed to the more conventional C31 missions of the other SSI business units. This Division proposes a **holistic approach for the coordination, integration and optimization of technologies and systems management services.**

**Within this new context, the Systems, Services and Telecommunications sector is pursuing the following objectives:**

- **establish** itself as a major supplier of operating and telecom systems;
- **develop** C4ISR systems and services, by leveraging leading-edge information technologies;
- **seize** opportunities to develop outsourcing services for the armed forces;
- **capitalize** on the growth opportunities of this market to boost profit margins.

To prepare for the future growth of these businesses, Aerospatiale Matra significantly boosted independently-financed R&D expenditures in 1999, up 65 percent on the previous year, and representing 8 percent of sales in this sector.



# Research and Development

+

## Aerospatiale Matra's Research and Development efforts focus on four strategic goals:

- reduce product development costs and cycles
- respect the environment
- improve product performance and competitiveness
- maintain the Group's technological lead and strengthen areas of excellence.

### Sustained efforts and effective organization

The Group spent 13 billion francs on R&D in 1999, equivalent to 15 percent of sales. R&D expenditure was up 20 percent (pro forma) on the previous year.

Research and technology (R&T), the upstream part of R&D, grew by 10 percent in 1999, reaching 1.5 billion francs, or 2 percent of Group sales.

An organization based on networked research initiatives enhances synergies between different Group entities and with the Joint Research Center. By rationalizing R&D actions, this organization unites the strengths of Aerospatiale and Matra Hautes Technologies.

Research is also carried out in cooperation with public and private bodies offering highly complementary skills. R&D is increasingly a pan-European affair, particularly under the auspices of the European Commission.

The Group's substantial R&D efforts reflect the importance it attaches to staying on the cusp of technological innovation, the key to long-term viability.

### Significant achievements in 1999

- Flight tests of a new-concept silent helicopter demonstrator.
- Structural integration of a composite keel beam on the Airbus A340-500/600 (weight reduction combined with enhanced performance).
- Fiberoptic guidance of new-generation multi-mission missile (winner of the "Ingénierie General Chanson" Award).
- Development of a new flight control system, to upgrade Ariane 5's payload capacity and for certain strategic missiles.

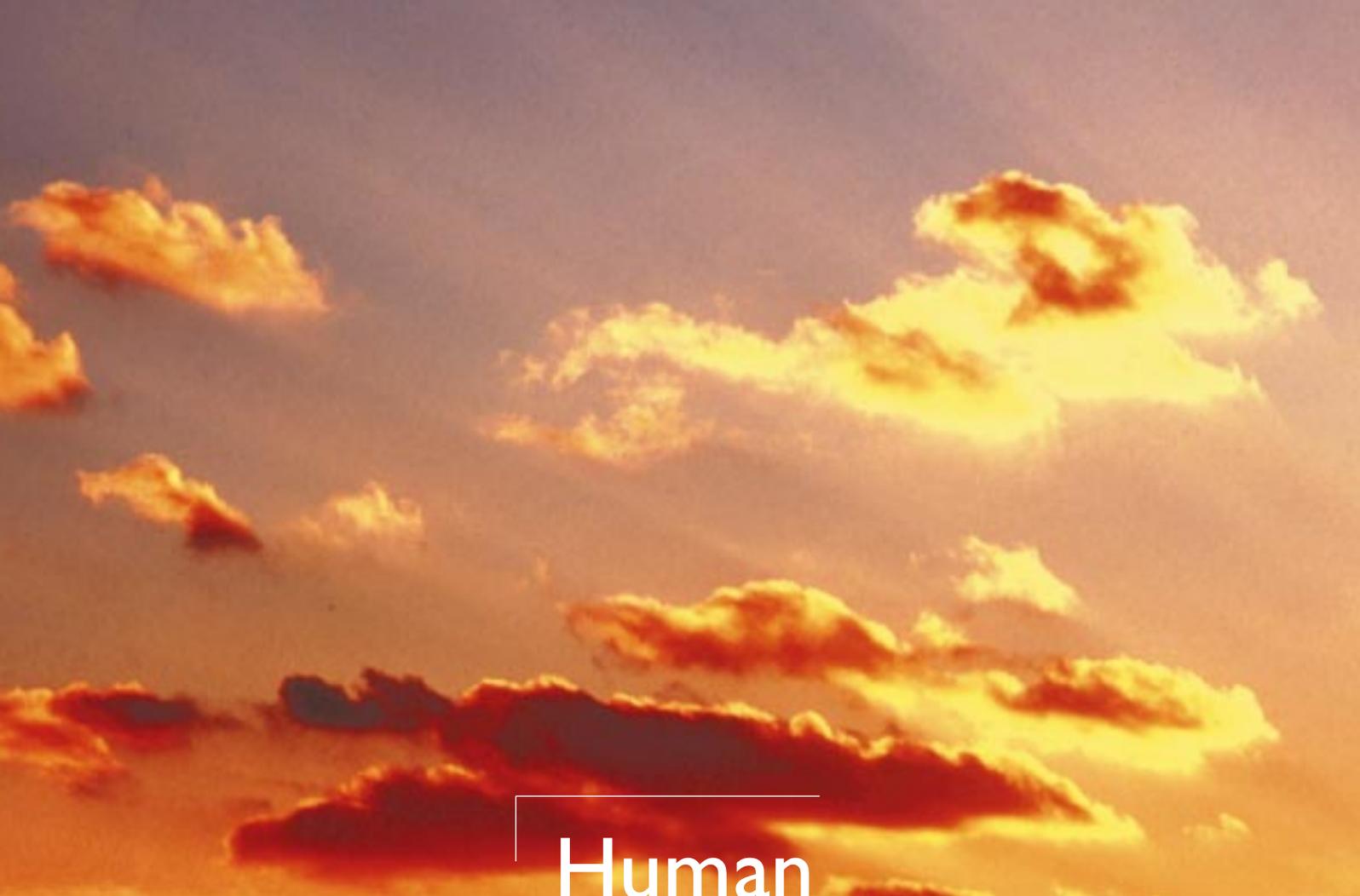
- Deployment of new non-destructive testing concepts for the production of new-generation fuselages, leading to lower costs by significantly reducing scrap.

### New information technologies

- Development of a new server for high-speed video and multimedia IP transmission.
- Development of technologies for voice recognition in environments subject to interference.
- New telephony concept with innovative switching architectures.

### Long-range research goals

- Digital enterprise, concurrent engineering, new production methods.
- Technologies for a tilt-rotor system.
- Technologies for very large jetliners (A3XX).
- Scramjet technologies for hypersonic air-breathing propulsion systems.
- New concepts for data fusion and synthetic images for Earth observation, medical and military applications, etc.
- Space-borne optical instruments with extremely high resolution.
- Design of secure software for electronic commerce applications.



# Human Resources

Aerospatiale Matra experienced major changes in 1999. This included the spin-off of its businesses in April, the Aerospatiale/Matra Hautes Technologies merger and privatization in June, agreements on the creation of EADS in October and December, and negotiations on the reduction of the work week, another key issue in 1999. These milestone events engendered deep organizational changes, successfully accomplished through careful Human Resources management. The Group's approach has been to combine respect for its people with a future-focused dynamic, anchored in high-quality labor relations.



## Employee shareholding, a major new development

Aerospatiale Matra's IPO included a share offering reserved for Group employees, constituting a powerful lever for staff motivation.

Employees greeted Aerospatiale Matra's business plan with enthusiasm and **subscription levels reached 82.25 percent, the highest level ever for the privatization of a manufacturing company** (nearly 95 percent subscription for management, over 80 percent for supervisory staff and 67 percent for line workers).

These remarkable results demonstrate the motivation of Aerospatiale Matra employees and their sense of attachment to their enterprise.

## Integrating people and cultures

The successful integration of Aerospatiale and Matra Hautes Technologies teams constituted a key management commitment and a particularly important challenge. This integration was accomplished in record time and almost all integration initiatives have been completed well ahead of schedule.

Rising to the challenge of the deep changes wrought in 1999, the Human Resources Division coordinated all the social, cultural and industrial integration processes fundamental to any merger project. The network approach nurtured over several years within the enterprise proved to be an effective means of blending cultures.

**Seventeen integration initiatives were launched in 1999, with the Human Resources Division playing a pivotal role in three major projects:** integration of General Management, harmonization of Human Resources values and practices, and internal communications. The first project is now completed and 70 people from the Lagardère group have been integrated in the newly-merged enterprise.

Over 80 people from the two cultures worked on harmonizing Human Resources values and practices, reviewing and proposing innovative, high-performance solutions. The implementation of work group recommendations should provide an excellent theoretical base from which to launch EADS. Lastly, the internal communications project continues to make solid progress, resulting in several articles in in-house publications and a dedicated "integration" intranet site, featuring information from the different work groups and initiatives.

## Dynamic, flexible employment policy

Within the context of ongoing integration, Aerospatiale Matra has deployed specific resources geared to the quantitative and qualitative management of Group employees. The merger of the two groups has in no way impinged upon continuous skills-building initiatives within the enterprise, nor on the career development of its people, notably through internal mobility.



**The total number of consolidated Group employees, expressed in equivalent full-time positions, rose from 46,841 at December 31, 1998, to 47,078 a year later.**

**A total of 2,212 people were hired in 1999.** Opportunities for career development within the Group attracted the interest of a large number of young graduates.

At the same time, around 500 people moved to jobs in new locations, as part of the restructuring program implemented in previous years. Positions to be filled throughout the Group, including in ex-MHT subsidiaries, are now open to everyone via the intranet. These restructuring efforts are also supported by numerous training initiatives aimed at developing employee versatility.

## Reduction in the work week and contractual policy

Four meetings of the Group employee-management committee and 12 meetings of the Central Committee were held in 1999. Eleven agreements were signed, including the **Aerospatiale framework agreement on March 30, 1999 on the reduction of the work week**, and the agreement signed on July 7 on the new group employee-management committee and Aerospatiale Matra union delegates, both signed by five unions. The agreement on the reduction of the work week applies to all Group subsidiaries and provides a framework for the **implementation of the 35-hour work week as of August in Launcher and Missiles subsidiaries**. The actions implemented from this period led to the establishment of a new remuneration system applicable from January 1, 2000.

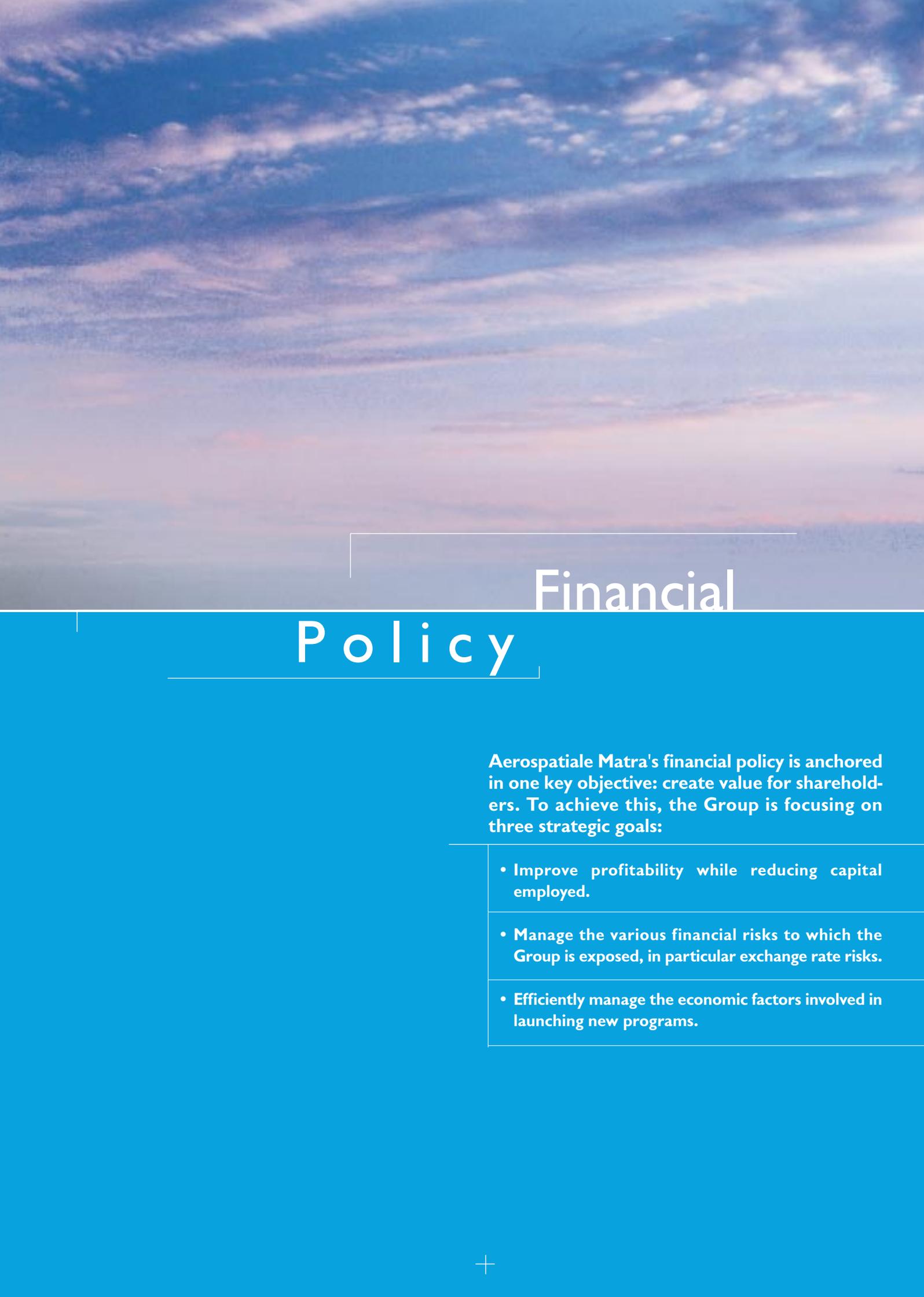
## Aerospatiale Matra Institute

For a number of years the Aerospatiale Matra Institute has deployed a progress-oriented strategy to support high-quality performance and competitiveness.

During 1999, Institute initiatives enabled the Group to achieve several objectives:

1. Develop the professionalism of managers and specialists: 1,956 people trained, of whom 328 in 1999.
2. Enhance competitiveness in global markets and strengthen European integration: 1,282 people trained, of whom 289 in 1999.
3. Strengthen the strategic function through functional networks: 4,500 people trained to date, of whom 301 in 1999.
4. In addition, the Aerospatiale Matra Institute has established a knowledge network and flexible training systems based on multimedia applications, involving 2,000 people in 1999.

These initiatives bring together managers from all entities and foster the creation of internal networks to improve the efficiency and profitability of the Group.



# Financial Policy

**Aerospatiale Matra's financial policy is anchored in one key objective: create value for shareholders. To achieve this, the Group is focusing on three strategic goals:**

- **Improve profitability while reducing capital employed.**
- **Manage the various financial risks to which the Group is exposed, in particular exchange rate risks.**
- **Efficiently manage the economic factors involved in launching new programs.**

## Improving profitability and reducing capital employed

At the time of Aerospatiale Matra's listing on the Paris Bourse, we set a clear and ambitious target of achieving an 8-percent operating margin by 2003, double that of 1998 on a pro forma basis (excluding the costs of launching the A3XX). To meet this target, **we have deployed measures aimed at achieving 600 million euros in annual savings on a recurrent basis**, including 450 million euros linked to productivity improvement plans. A further 150 million euros in savings derives from a reduction in independently financed research and development expenditures, since we are currently in the completion phase of a major upgrade effort for product ranges in all our activities.

The savings plans are a direct outgrowth of ongoing optimization of production processes, renegotiations of procurement contracts with our suppliers, synergies generated by the merger, and amortization of fixed costs due to sales growth. To date, these plans are on schedule and we should start to see the concrete benefits of synergies in 2000.

**We are ahead of schedule** in meeting our objective of an 8-percent operating margin by 2003. On the occasion of our IPO in June 1999 we indicated that operating income in 1999 would be significantly lower than the previous year, when income was boosted by a defense export contract with exceptional profit margins. In fact, operating income in 1999 was on a par with 1998, despite the hiatus in major defense contracts and technical difficulties (since resolved) in the satellite business.

In addition, we have pursued **our efforts to reduce capital employed**, where we also exceeded objectives, since the Group's net cash position **improved by more than 700 million euros in 1999**, largely due to a 504 million euro improvement in working capital requirements.

## Managing exchange rate risk

Faced with exchange rate risks, due primarily to fluctuations in the value of the dollar, Aerospatiale Matra has established a hedging strategy which is designed to guarantee dollar flows at rates higher than the industrial break-even point (5 francs). In 1999, the Group spent 401 million euros to **restructure its hedging arrangements**, in line with its strategy. Recorded under extraordinary items, this expenditure was designed to provide shareholders with maximum visibility. The Group does not expect to make any additional expenditure for at least four years.

Market conditions and scrupulously following our strategy enabled the Group to cover dollar flows at a much higher rate than the industrial break-even point: 5.50 francs in 1999 and between 5.50 and 5.60 francs for 2000 and 2001. In 2002, the hedging rate will be 0.40 francs higher than the market dollar, with a ceiling of 5.60 francs. For 2003, we have begun to cover projected dollar fluctuations at higher levels of between 6.20 and 6.30 francs.



### Managing economic criteria for program launches

Faced with an increasingly competitive and fast-evolving technological environment, constant product renewal is required to sustain long-term development and market leadership. **This involves the launch of core programs harboring significant growth potential, such as Ariane 5, the NH 90 or the A3XX.** For each new program we have established very strict decision criteria for technical feasibility, return on investment and market potential. The role of the Financial Division is to evaluate return on investment and to seek the means of reducing impact on capital employed. For a program such as the A3XX, the return on investment required is in line with the Group's capital costs after tax and the risk premium inherent to this type of project. In addition we have sought to **reduce the independently financed part** as much as possible by bringing in venture capital partners to cover 40 percent of total costs. The A3XX program, for which a decision is expected in 2000, will only be launched if we are convinced that it will create value for the Group.

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