

Global Economic Conditions' Effects on the Defence Industry



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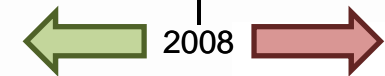
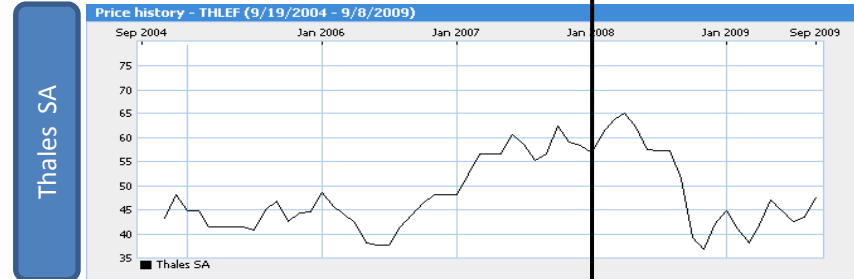
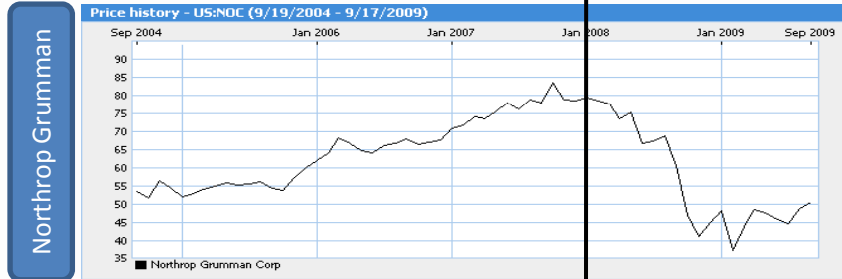
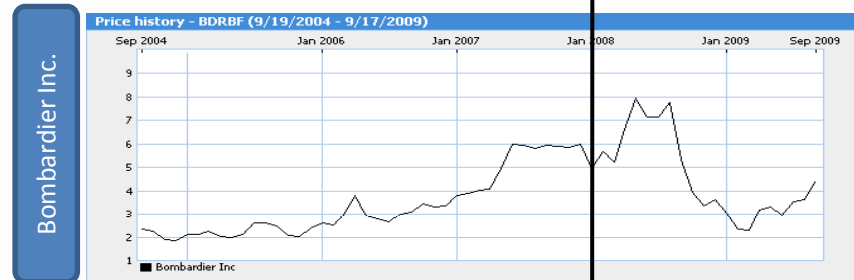
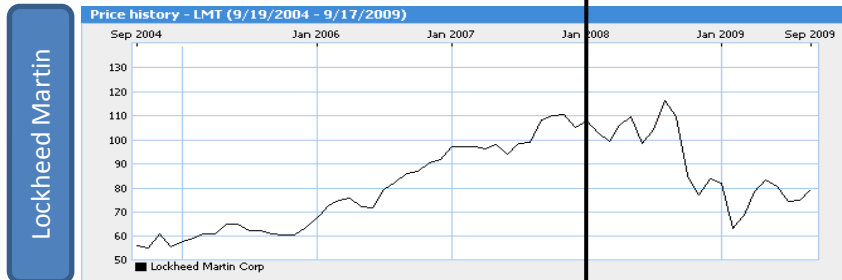
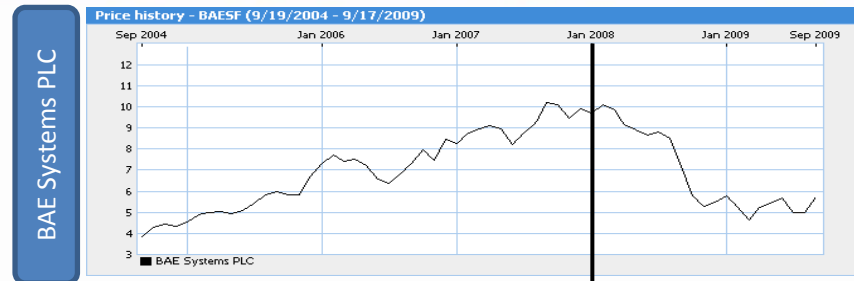
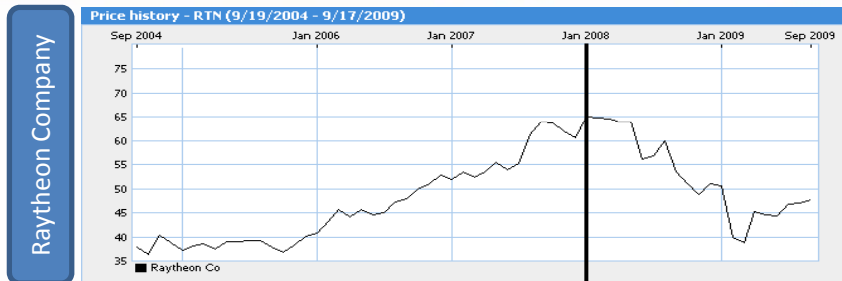


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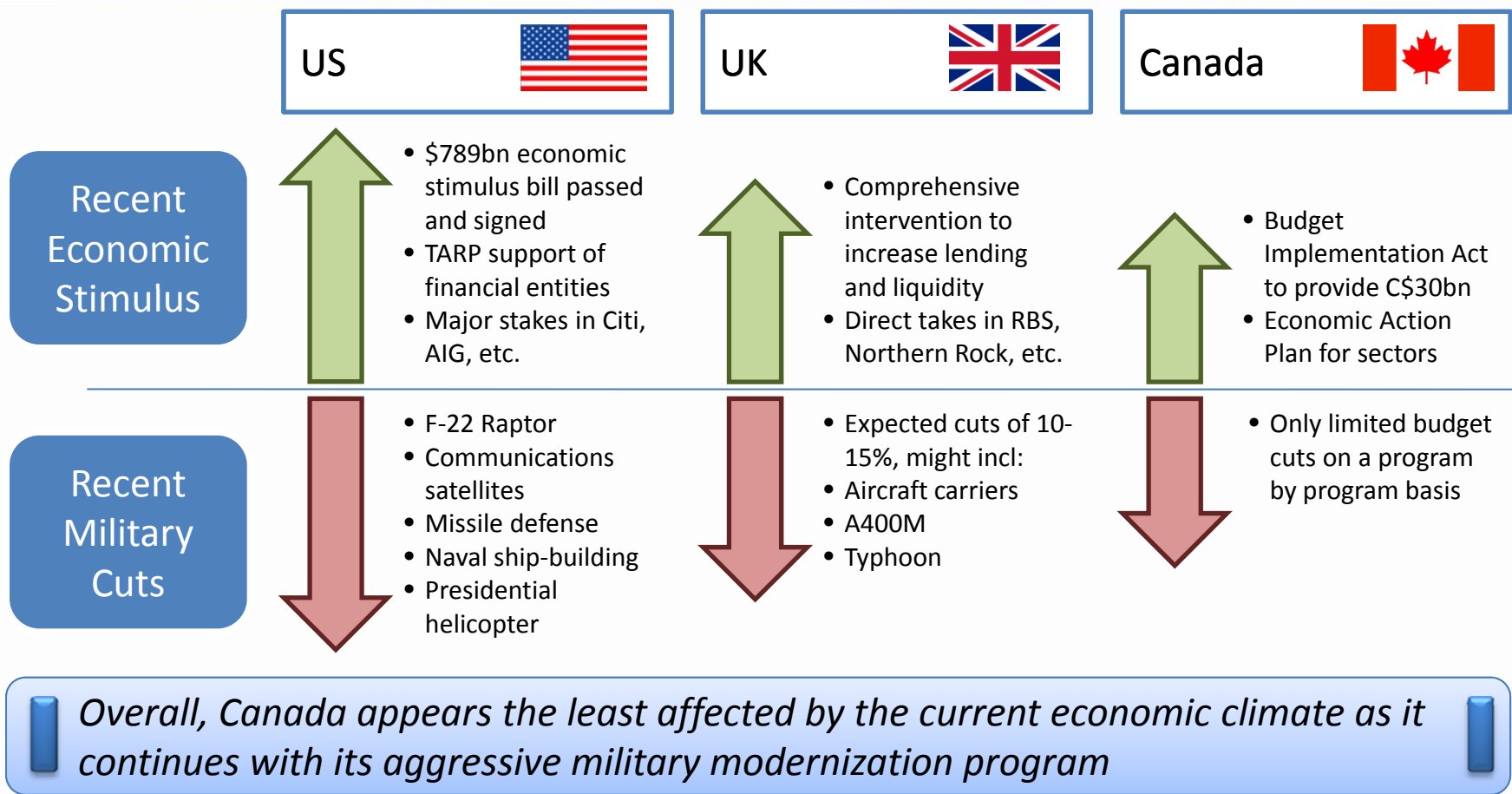
Industry peaked along with the world economy in early 2008



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Economic stimulus has recently correlated to national Defense cuts



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Suppliers will now focus on exports until national procurement rebounds

1. Reduction in national Defense procurement

- National priorities favor alternative spending priorities, such as economic stimulus, healthcare, social welfare and infrastructure
- Major cuts to procurement will occur but military force levels will generally remain unchanged



3. Rebound in national Defense procurement

- National forces eventually enter a new procurement upswing to modernize aging equipment
- International sales allow suppliers to keep costs down and innovate during the downturn, resulting in a quick refocus to the domestic market

2. Prominence of International Marketplace

- International customers offer revenue and profit opportunities
- Recent attempts in the US to reform export policy indicate the need for suppliers to aggressively pursue the export market

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Economic considerations are a major force in the export market

Economic trends

Industrial Participation & Offset

US



- Buy America (minimum 50% local content)
- US job requirement even if platform is foreign (e.g. Presidential Helicopter, KC-X)

UK



- UK Defence & Security Organisation, Industrial Participation
- Provides subcontracting, technology and R&D to UK defense industry

Canada



- Industrial & Regional Benefits program through Industry Canada
- Promotes defence subcontracting and investment

Defense Procurement Financing

Future?

- PPP / PFI
- Military Flight Training System
- Future Strategic Tanker
- C-17 lease

- Pilot training PFI
- Lease of commercial helicopters
- Heron and other small UAV leases

Governments will need to look to stimulate local industry through innovative financing to overcome budget constraints on major procurement items – Offsets – an economic tool which may be leveraged in such support

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