European Defense Trends: Budgets, Regulatory Frameworks, and the Industrial Base

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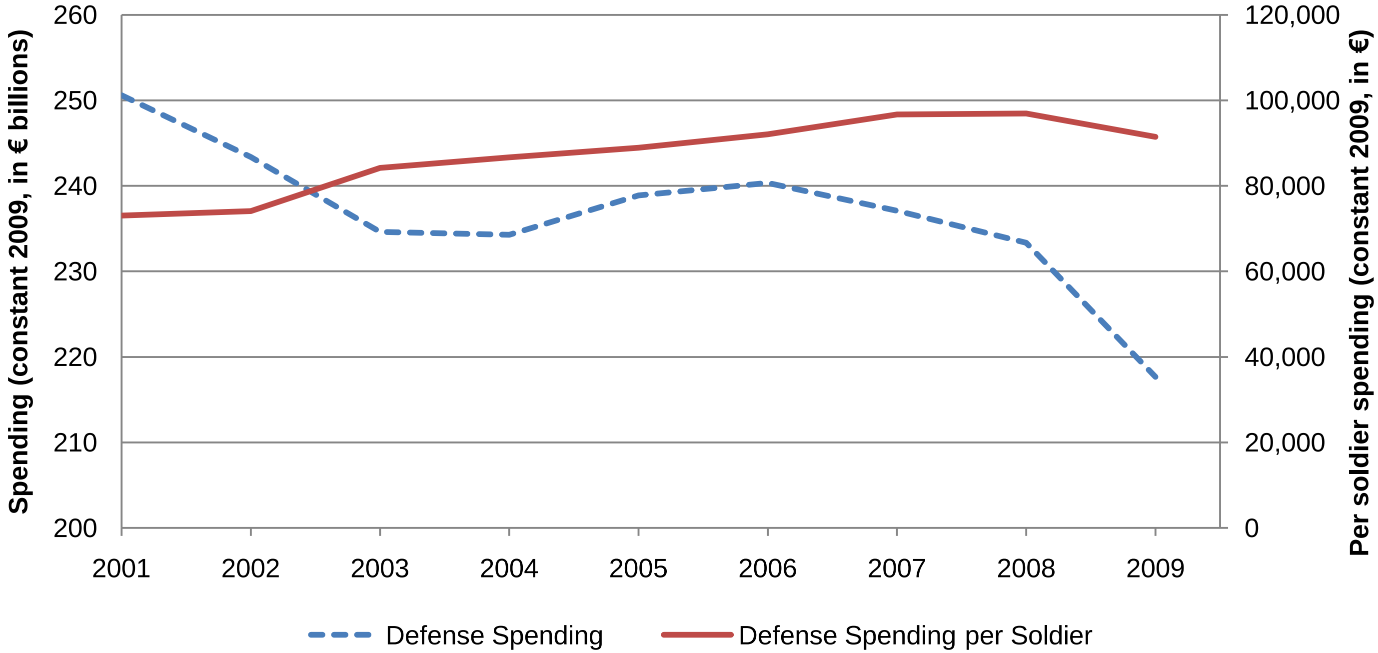
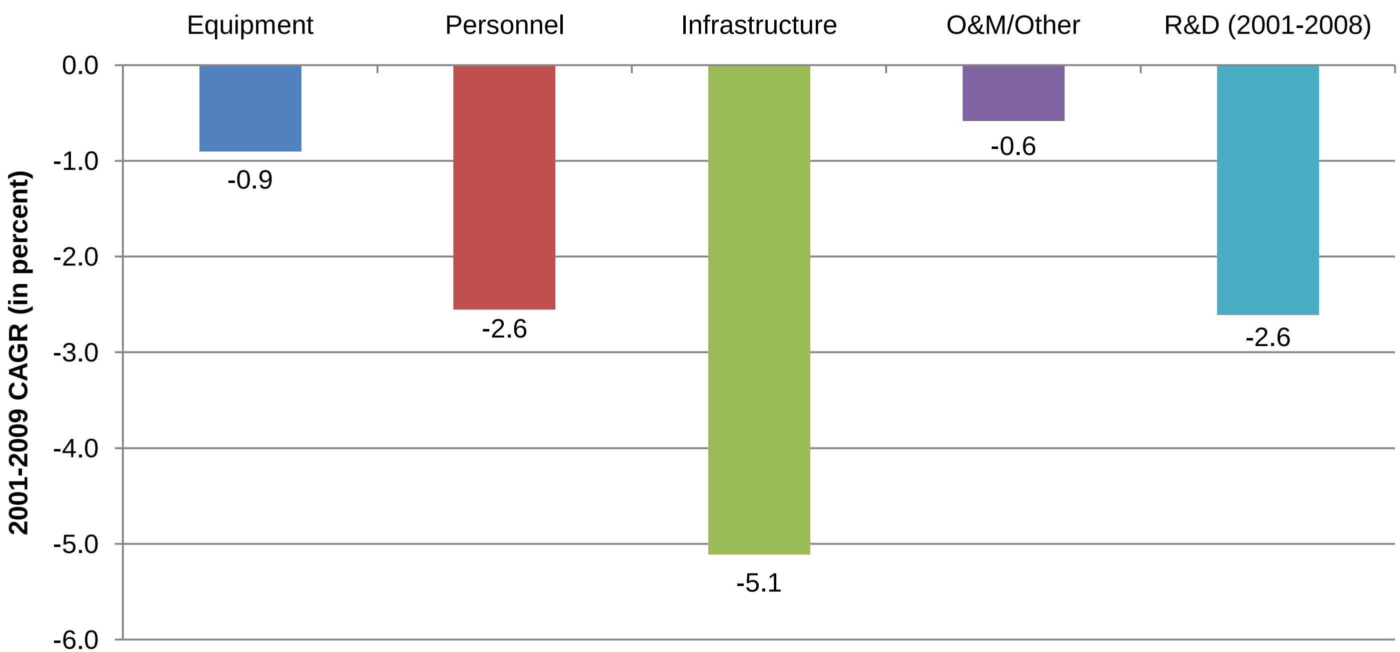
Outline

- **Individual Trends**
  - Defense Spending
  - Regulatory Framework
  - Financial Health
- **Integrated Trends**
- **Future Outlook and Recommendations**

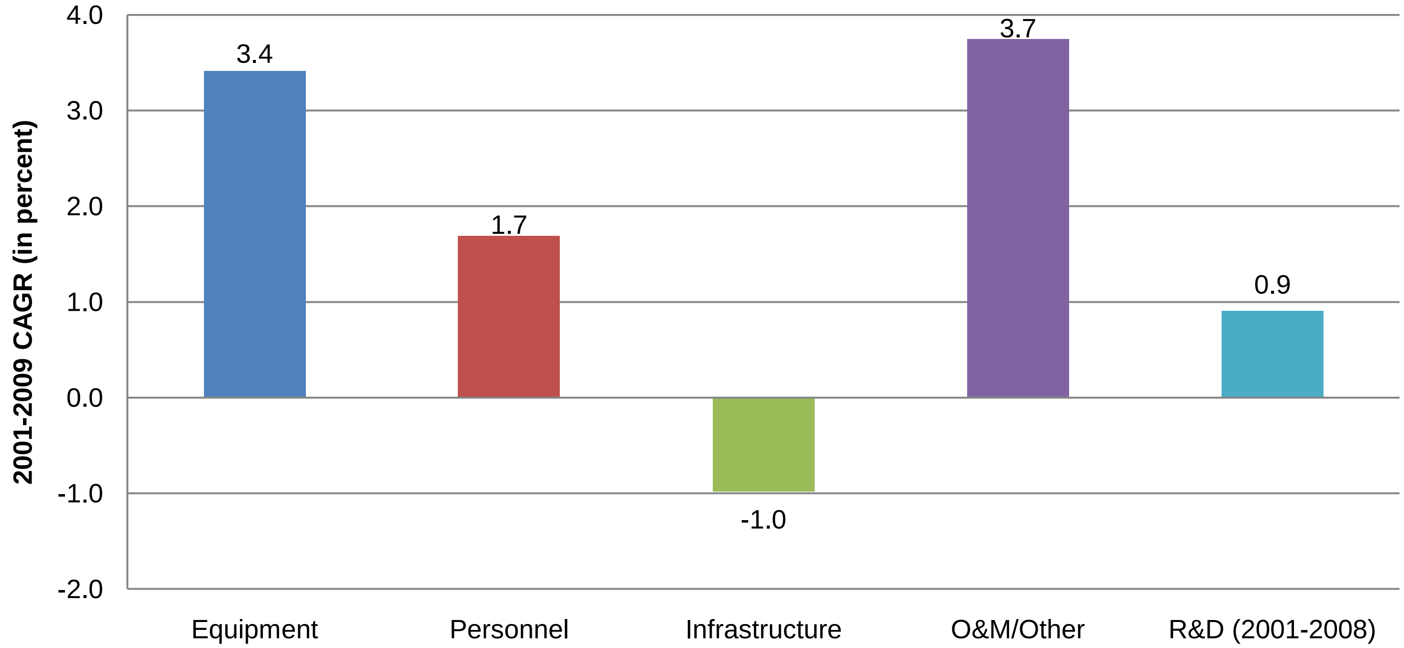
Total European Defense Spending and Defense Spending Per Soldier (2001-2009)



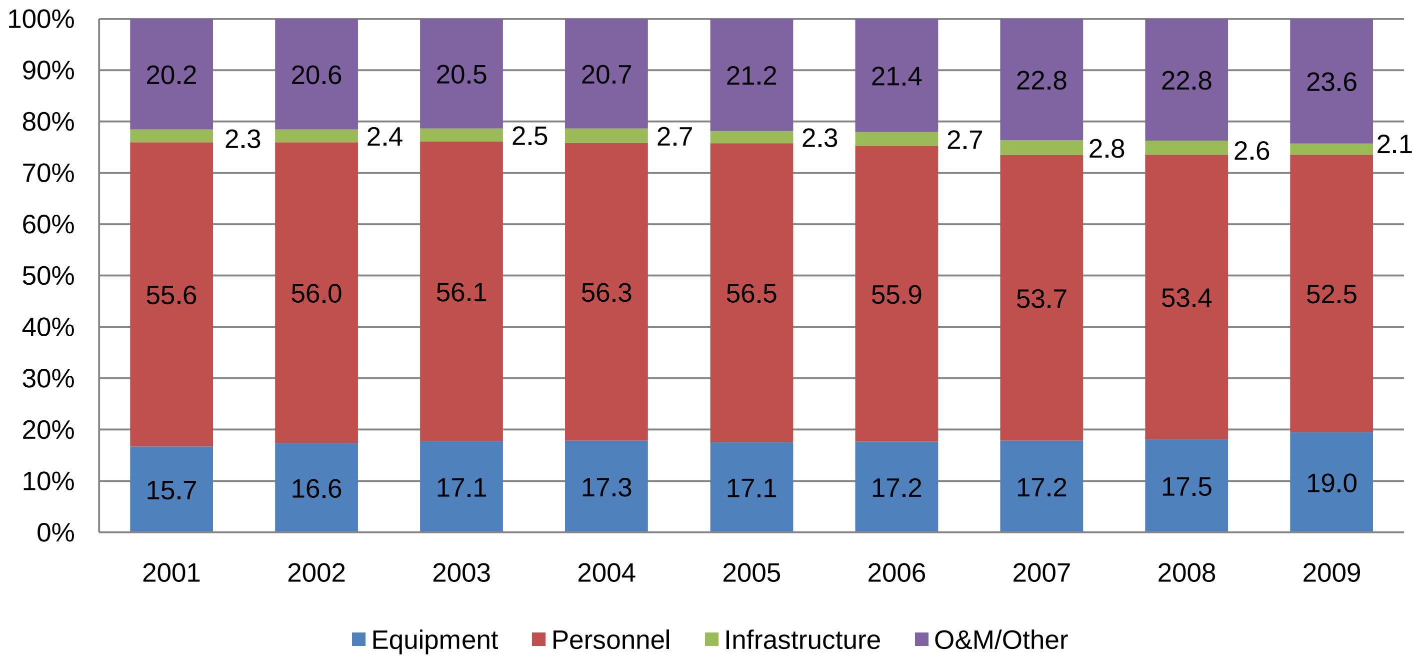
Growth Rate for Total European Defense Spending by Budget Categories (2001-2009)



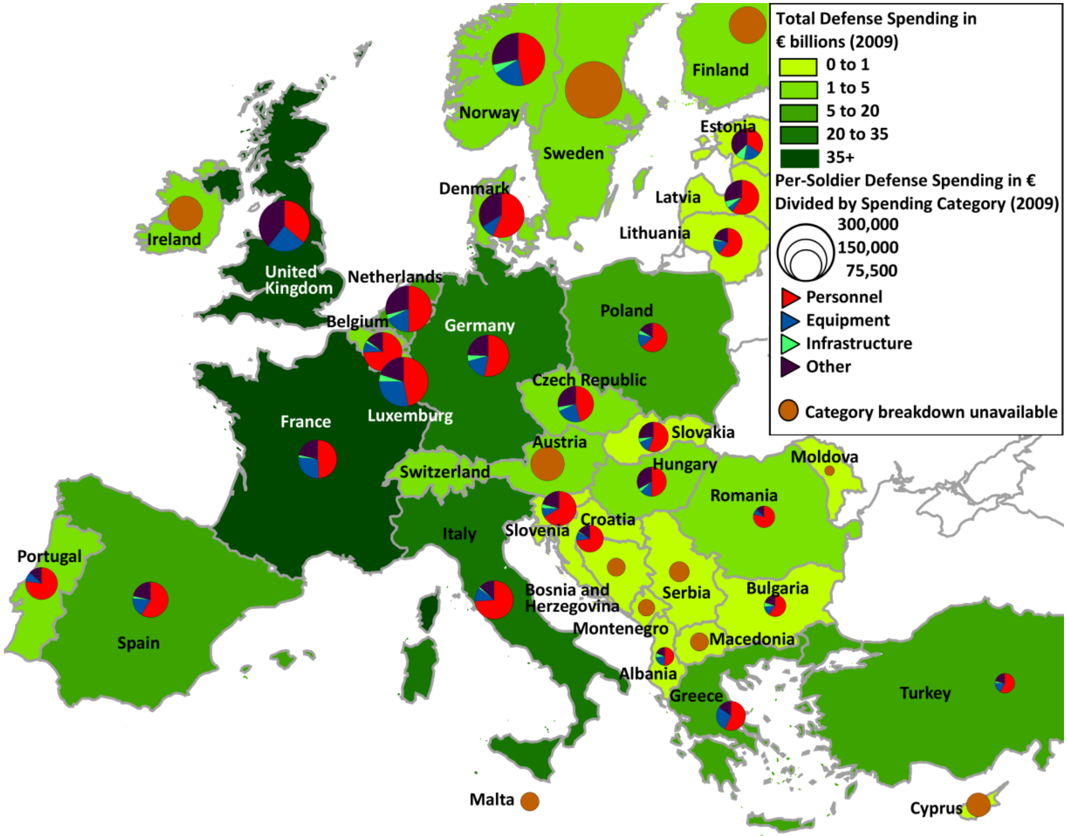
Growth Rate for Per-Solider European Defense Spending by Budget Categories (2001-2009)



Distribution of Total European Defense Spending by NATO Budget Categories (2001-2009)



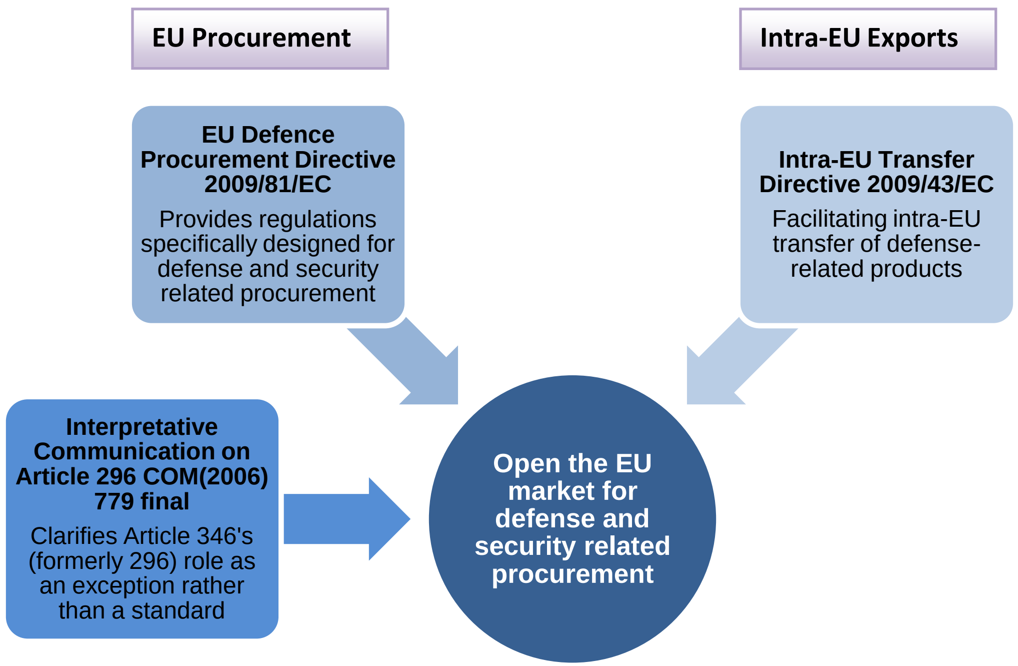
European Defense Spending by Country



The European Defense Market

- **No integrated European defense market, but instead fragmented national defense markets**
  - Leads to inefficiencies and duplication of efforts in acquisition and R&D
- **Article 346 of Lisbon Treaty key regulatory challenge**

Key EU Regulatory Reforms for Defense Procurement

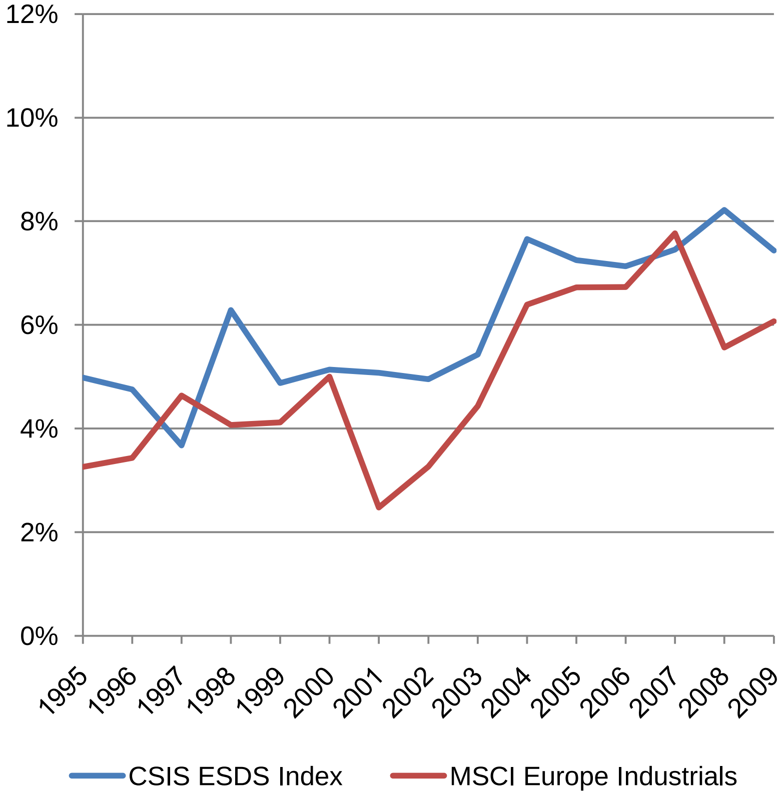


CSIS ESDS Index

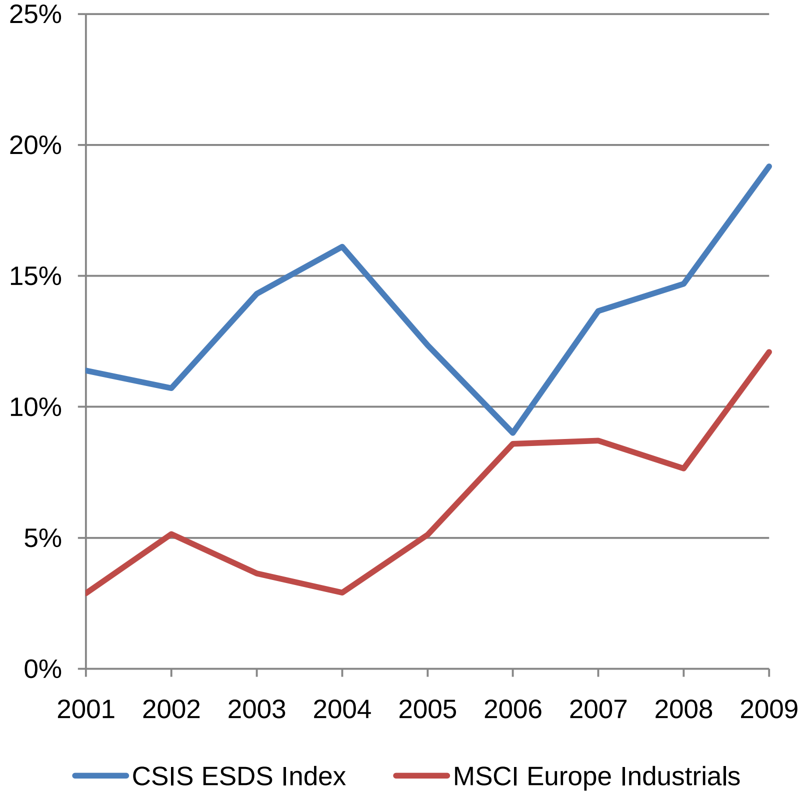
Company Name	*Country*	*Company Name*	*Country*
Babcock Intl Group	United Kingdom	Qinetiq Group	United Kingdom
BAE Systems	United Kingdom	Rheinmetall	Germany
Chemring Group	United Kingdom	Rolls-Royce Group	United Kingdom
Cobham	United Kingdom	SAAB	Sweden
Comrod Communication	Norway	Safran	France
Dassault Aviation	France	Serco Group	United Kingdom
Finmeccanica	Italy	Simrad Optronics	Norway
Indra Sistemas	Spain	Thales	France
Lubawa	Poland	Ultra Electronics Hldgs	United Kingdom
Meggitt	United Kingdom	VT Group	United Kingdom
OHB Technology	Germany	Zodiac Aerospace	France

Profitability of ESDS companies

CSIS ESDS and MSCI Europe Industrials: EBIT Margin Comparison (1995-2009; Revenue Weighted; Current Euros)

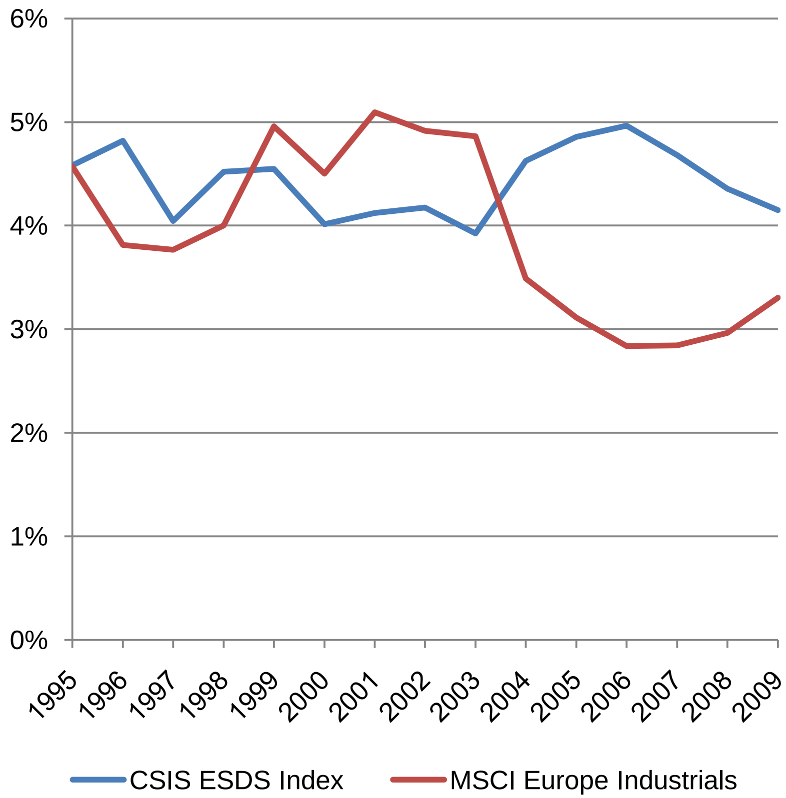


CSIS ESDS and MSCI Europe Industrials: Cash Flow Return on Investment (2001-2009; Revenue Weighted)

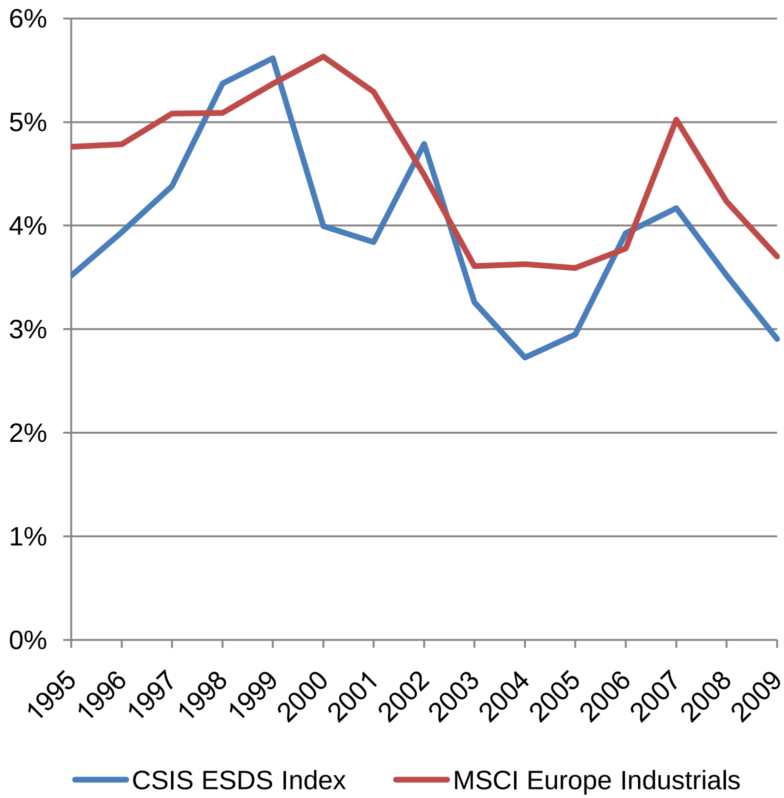


Investment trends of ESDS companies

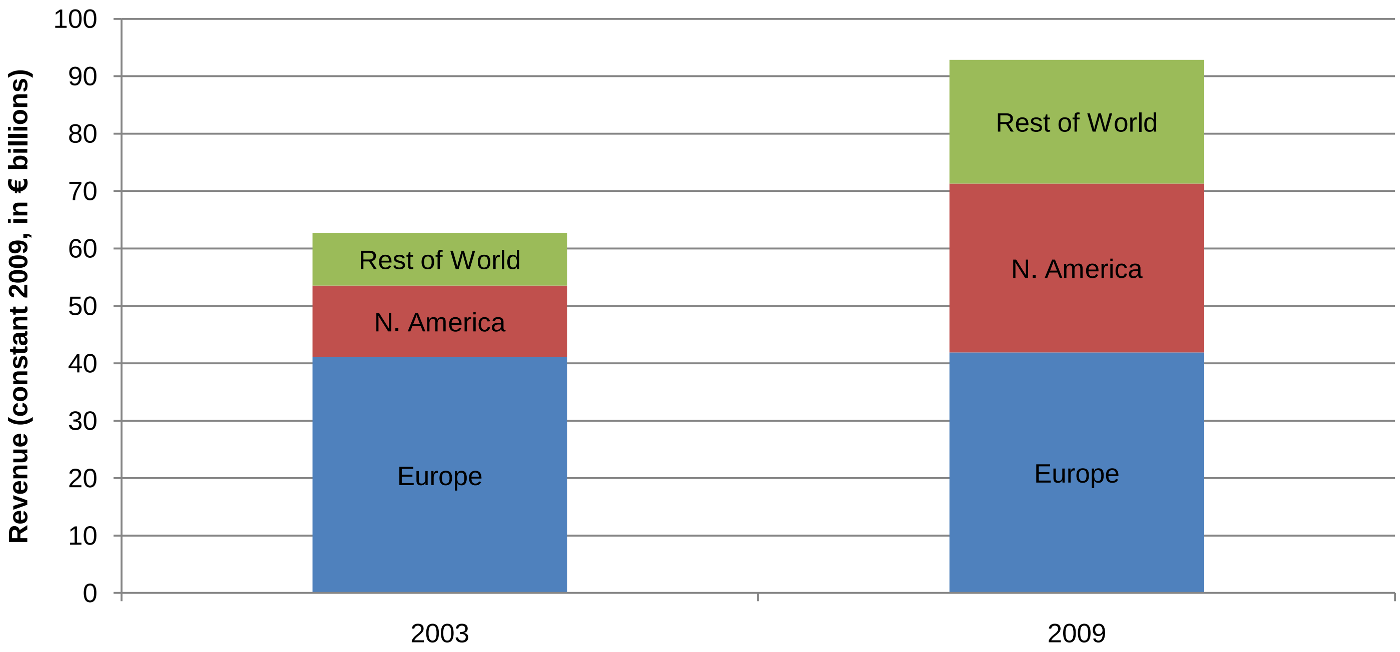
CSIS ESDS and MSCI Europe Industrials: R&D as Percentage of Revenue (1995-2009; Average of Index Companies)



CSIS ESDS, MSCI Europe Industrials: CAPEX as Share of Revenue (2001-2009; Average of Index Companies)



CSIS ESDS Index: Revenue Mix by Geographic Origin (2003, 2009)



Integrated Trends

- Budget declines offset by troop reductions
- Demand changes alter the defense market
- Defense industry needs sufficient financial incentives
- Government and industry responses determine regulatory reform impact
- Defense market supports greater international involvement

Future Outlook and Recommendations

- **Maintain per-soldier spending trend**
- **Enforce regulatory reforms**
- **Develop European DIB strategy**
- **Use economic recession as opportunity**

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