

ARCHIVED REPORT

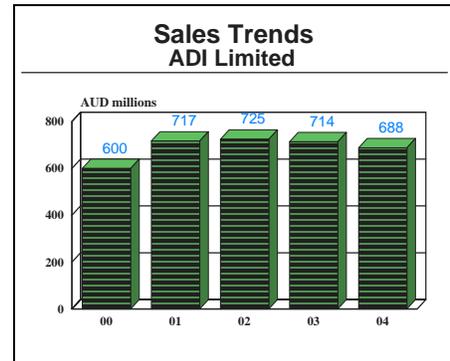
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ADI Limited - Archived 10/2008

Outlook

- In October 2006, Thales Australia took control of ADI, acquiring a 100 percent stake
- Thales acquired the company in order to boost its presence not only in Australia but in the entire region
- ADI's operations will now be covered in the Thales entry, and this report will be archived in 2008



Headquarters

Thales Australia
Locked Bag 3000
Potts Point, New South Wales 2011
Australia
Telephone: + 61 2 9562 3333
Web site: <http://www.adi-limited.com>

Australia Defence Industries Limited, a wholly Commonwealth-owned company, was formed in 1989 to take over the assets and operations of Australia's Defence Production facilities, then under the control of the Office of Defence Production.

Following two internal reorganizations in 1993 and 1995, the Australian Defence Industries name was dropped in January 1996 to become, simply, ADI.

ADI's major customer continues to be the Australian Department of Defence, and it is Australia's top defense contractor, employing almost 2,630 people.

Following its privatization by the Australian government in November 1999, ADI became a 50/50 joint venture of Transfield and Thales. This shareholding held until October 2006, when Thales acquired Transfield's stake. The firm is now 100 percent owned by Thales. ADI now joins the other fully owned Thales subsidiaries – Thales Underwater Systems, Air Traffic Management, Training and Simulation, trading under the single name of Thales Australia.

Structure and Personnel

Norman Gray
Managing Director, Thales Australia
Chris Jenkins
Operations
David Harvey
Sales and Marketing
Alan Ball
Finance and Commercial
Liz Bell (acting)
Human Resources
Ali Baghaei
Naval

Darryl Page
Land Systems
Norman Gray
Joint Systems
Ian Irving
Defence Services and Aerospace
Pierre Maciejowski
Civil
Bachu Murthi
Air Systems

ADI Limited

Product Area

ADI is a highly integrated business offering capabilities in project management and heavy and precision engineering. It produces military and specialist commercial vehicles and live-fire computerized training systems, and designs, installs and supports command information and telecommunications systems. It is also involved in shipbuilding and maintenance, ordnance production, and the provision of environmental remediation and logistic support services. Prior to its acquisition by Thales, ADI was believed to be managed as follows:

1. Electronic Systems
 - 1.1 Aerospace and UAV Programs
 - 1.2 Electronic Warfare
 - 1.3 Network Centric Warfare
 - 1.4 Naval Electronic Systems
 - 1.5 Land Electronic Systems
 - 1.6 Joint Systems, C2, Comms, Sensors, NCW
 - 1.7 Security Systems
 - 1.8 Thales Services (IS)
 - 1.9 E-Transport Systems
 - 1.10 Telematics
 - 1.11 Calibration
2. Naval
 - 2.1 FFG Upgrade
 - 2.2 Naval Shipbuilding
 - 2.3 Naval Combat Systems
 - 2.4 Naval In-Service Support
 - 2.5 Commercial Maritime Support
 - 2.6 Marine Engineering
 - 2.7 Mine Countermeasures
 - 2.8 Weapon Systems
 - 2.9 Naval Programs
3. Land - Ordnance
 - 3.1 Munitions
 - 3.2 Propellants, Explosives, and Chemicals

- 3.3 Product Development
- 3.4 Small Arms and Light Precision Engineering
- 3.5 Guided Weapons
- 3.6 Ordnance Programs
- 3.7 Explosive Ordnance
4. Land - Engineering and Vehicles
 - 4.1 Military and Specialist Vehicles
 - 4.2 Engineering
 - 4.3 Weapons Support (OEM)
 - 4.4 Land Vehicle Programs

Electronics Systems. Capabilities for this unit include information systems, software and services, C4ISR (command, control, communications, computers, intelligence, surveillance and reconnaissance), system integration, aerospace and unmanned aerial vehicle (UAV) programs, and electronic programs.

Naval. According to ADI management, the Naval group is tasked with establishing itself as the most critical naval engineering capability in Australia. The Naval group takes on the roles of prime contractor and prime systems integrator in significant projects that involve bringing together the technology and skills of ADI and its shareholders in the civil and military maritime industry.

Land - Ordnance. This group designs, develops, and manufactures small arms, munitions, explosives, and propellants for military and sporting applications.

Land - Engineering and Vehicles. This segment is active in heavy and light engineering, military and specialist vehicle design and manufacture, land vehicle programs, marine equipment manufacture, gun manufacture, in-service support on a range of equipment, and the design and development of a range of integrated military systems and services.

Facilities

ADI Limited, Cowper Wharf Rd, Woolloomooloo, New South Wales. Telephone: + 61 2 9562 3333. The head offices of the Electronic Systems and Naval business groups are located here, in addition to the corporate office.

ADI, Electronic Systems, 22 Stirling Hwy, Nedlands, Western Australia. Telephone: + 61 8 9333 8888.

ADI, Advanced Systems Facility, 100 Levels Rd, Mawson Lakes, South Australia, 5095. Telephone: + 61 8 8368 2700.

ADI, Land - Engineering and Vehicles, Finn St, Bendigo, Victoria 3550. Telephone: + 61 3 5440 4311.

ADI, Land - Ordnance, Level 18, 607 Bourke St, Melbourne, Victoria 3000. Telephone: + 61 3 8614 2222.

ADI, Land - Ordnance (Munitions), Yarrowonga Rd, Benalla, Victoria, 3672. Telephone: + 61 3 5760 3222.

Corporate Overview

ADI is Australia's leading defense contractor. The company supplies the command support systems used by all major Australian Defence Force (ADF) headquarters, and is the Defence Force's major supplier of military vehicles. It has achieved international sales for its live-fire training systems, mine countermeasures systems, command support systems, telecommunication products, and military vehicles. On a smaller scale and outside the defense sector, it is also moving increasingly into the environmental remediation market.

New Products and Services

Tanker MAS Rig. In March 2005, ADI was contracted to design and produce the military avionics system (MAS) integration rig for the Royal Australian Air Force's multirole tanker transport project. The role of the rig is to prove on the ground the air-to-air refueling tanker's MAS. ADI will also use the rig to provide through-life support for the five aircraft. ADI has been subcontracted by its joint owner, Thales, which is providing the MAS for the tankers. Prime contractor EADS is supplying the multirole tanker transport solutions, based on the Airbus A330-200 aircraft, to the RAAF for the project. ADI will complete the design and build the rig in Sydney. It will include an internal communications system developed by Thales. Flight testing of the first of the tankers is due for completion in 2008.

HMEE. In May 2003, the U.S. Army selected ADI Limited as one of two remaining contenders for a \$500 million military vehicles contract. The U.S. Army is seeking up to 1,500 next-generation, High Mobility Engineering Excavators (HMEEs). ADI supplied the U.S. with 40 interim HMEEs, and was invited with its U.S. partner, Oshkosh Truck Company, to bid to develop the evaluation vehicles for the bigger contract. However, ADI lost the competition to JCB in late 2005.

Plant Expansion/Organization Update

Restructuring. In September 2003, ADI restructured its operations in order to be better aligned with the ADF's single service sectors of sea, air, and land. A key feature of the reorganization was the consolidation of ADI's electronic systems capabilities into a single business group. Under ADI's new organizational structure, business groups are responsible for the following sectors: Naval; Land - Ordnance; Land - Engineering and Vehicles; Electronics and Aerospace; and Services and Security.

ADI Establishes Optronics Unit. In May 2001, ADI Ltd fast-tracked its planned optronics capability following Thales' success in winning the Australian Army's Ninox TSS contract. A new ADI optronics capability has been established as a part of ADI's C⁴ISR business unit, which will house Thales Optronics' Australian project office for the contract. As well as providing management support on Ninox, ADI's new capability targets the military and paramilitary markets in Australia and New Zealand, providing life support for in-service sensors and systems.

Mergers/Acquisitions/Divestitures

Thales Acquires ADI. In October 2006, Thales became the sole owner of Australian defense contractor ADI when it acquired Transfield Holding's 50 percent share in the company. ADI now joins the other fully owned Thales subsidiaries – Thales Underwater Systems, Air Traffic Management, and Training and Simulation – under the single organization of Thales Australia. Thales Australia, with 3,500 employees and annual revenues of \$900 million, is divided into six business groups: Naval, Land, Joint Systems, Defence Services and Aerospace, Air Systems, and Civil.

Tenix and ADI Call Off Shipyard Merger. In June 2003, ADI and Tenix halted their plans to form a new joint venture that would have merged their shipbuilding and ship-repair operations. Announced in early 2003, the proposed plan would bring together all current naval shipbuilding, upgrade, and repair businesses of both companies. The resulting new company formed from the merger would be majority-owned by Tenix. The new venture was also expected to bid for ownership of the Australian Submarine Corp (ASC). However, by mid-year, the two companies decided that such a transaction would not meet the objectives they originally set, and the deal was canceled. The two firms stated that they would continue to explore other ways to work together in the future.

Live-Fire Target Systems Sale. In July 2002, ADI signed a contract to sell its target systems business to Polytronic International AG of Switzerland. Polytronic is one of the biggest live-fire target systems companies in the world. Terms of the transaction were not disclosed. ADI said that the sale was pursued because the operations were not considered core assets. Earlier in 2002, ADI sold its target systems manufacturing assets to Millspec Manufacturing Pty Ltd, based in Albury, for the same reason.

ADI Limited

Transfield and Thomson Acquire ADI. In August 1999, the Australian government selected the AUD346.78 million Transfield and Thomson-CSF bid for the acquisition of the whole of ADI. Through the acquisition, Transfield and Thomson-CSF intended to strengthen ADI's technology expertise and system integration capabilities, consolidating the company's leadership position in the Australian defense market. According to the company, Thomson-CSF's acquisition of ADI was fully in line with the group's strategy of building a global network of alliances and partnerships. There were expected to be opportunities for synergies between Thomson-CSF (now Thales) and ADI in naval combat systems, surveillance systems, communications, and simulation and training. The sale was completed in November 1999.

Teaming/Competition/Joint Ventures

Armaris. In January 2006, ADI teamed with the Thales-DCN joint venture Armaris to offer the DCN Mistral design for Australia's amphibious ship project. The teaming agreement, which will see ADI bid as prime contractor, brings together complementary strengths to build and support two landing ship helicopter/dock (LHD) amphibious ships for the Royal Australian Navy. The LHDs are expected to enter service by 2012.

Caterpillar. Caterpillar's Australia-wide dealer network will help provide maintenance and support for Bushmaster, the combat vehicle ADI will be supplying for the Australian Army's infantry mobility vehicle Bushranger project.

Eurocopter. ADI has teamed with Eurocopter for Project Air 87, a \$1.2 billion effort to provide armed reconnaissance helicopters to the Australian Navy. ADI Limited is well advanced with its key systems responsibilities for the 22 Tiger armed reconnaissance helicopters (ARH) that Eurocopter's subsidiary company, Australian Aerospace, is supplying to the Australian Army. ADI is providing a wide range of systems engineering and project management services, including customizing the Tiger's mission system and its software to meet Australian operating conditions.

ADI has signed contracts totaling about AUD200 million for its role in the ARH project.

Forgacs. In September 2004, ADI Limited teamed with Newcastle-based Forgacs to bid for the Department of Defence's amphibious ship and oil tanker conversion projects. ADI was to lead the team as prime contractor of the two projects and work closely with Forgacs to utilize its skills and expertise. The ADI and Forgacs team brings together extensive existing naval facilities and capabilities in Sydney, Newcastle, and Brisbane. These facilities include the Captain Cook Dry Dock in Sydney, the Forgacs floating Dry Dock in Newcastle, and the Cairncross Dry Dock in Brisbane. In addition, the team has at its disposal a comprehensive and highly skilled engineering and design team. The \$2 billion amphibious ship program is the larger of the two projects for which the ADI/Forgacs team was to be competing.

General Electric. In 1997, ADI teamed with General Electric to supply gas turbine engine components to the U.S. Navy. The contract had a life of nine years, with the gas turbine engine modules to be built at ADI's Bendigo, Victoria, plant. They were to be used in Australian Navy vessels, as well as ships in 23 other navies.

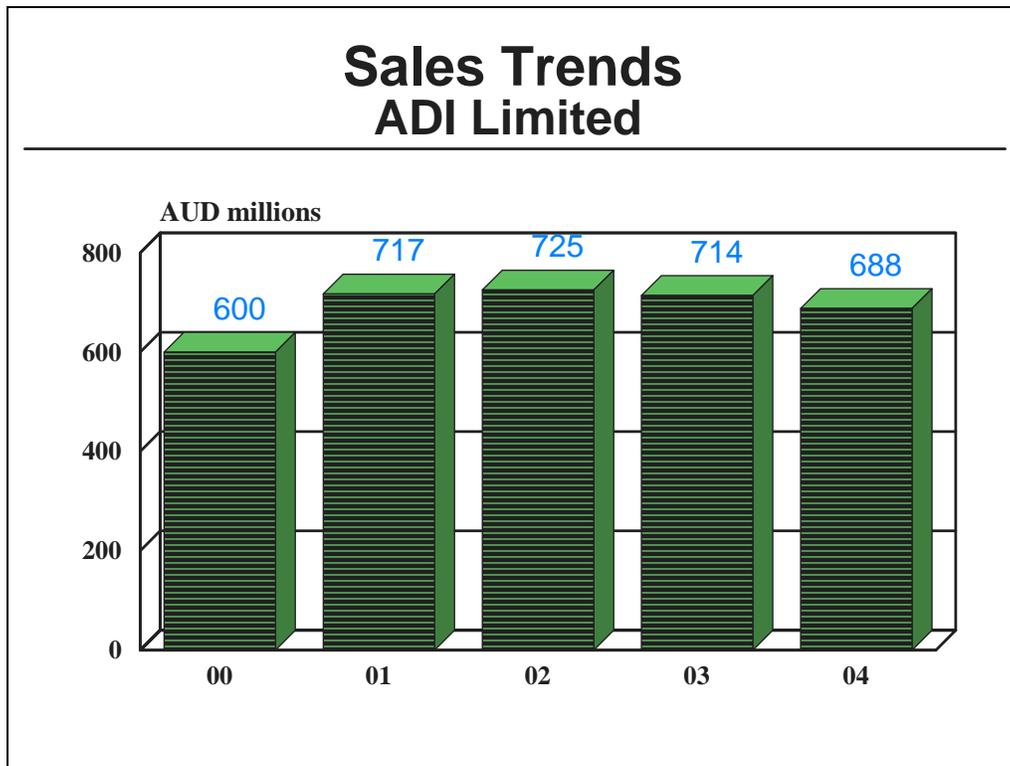
Giat. In September 2004, ADI Limited and Giat Industries signed a cooperation agreement to offer the CAESAR artillery system to the Australian Army for its Land 17 Artillery Replacement program. The teaming agreement would enable the wheeled, self-propelled artillery system to be a key element of the networked system solution ADI was proposing for Land 17. This agreement covers both delivery and through-life support of the system and the ability to provide ongoing development to meet the future needs of the ADF.

Land 121. ADI Limited will be a highly competitive bidder for Land 121, the ADF's project to replace its field vehicle and trailer fleet. ADI as prime contractor has teamed with two military vehicle manufacturers for the bid - Oshkosh Truck Corporation of the U.S. and Automotive Technik Limited from the U.K., the manufacturer of the Pinzgauer range of vehicles.

Financial Results/Corporate Statistics

Following its privatization, ADI financial results were no longer officially reported. However, in 2003, the company began publishing limited financial information, detailed below. Figures for 2000 are estimated. U.S. dollar amount, in millions, translated as of December 31, 2004, at the rate of USD1 = AUD1.28271 *Financial data from 2005 on is unavailable.*

Y/E December 31	2000	2001	2002	2003	2004	2004
(AUD millions)						USD
Net Sales	600	717	725	714	688	536



Strategic Outlook

With little government assistance in terms of contracts, ADI was struggling in the late 1990s. However, a window of opportunity opened for the contractor when Thales and Transfield acquired it. Several years later, Thales bought out its partner's stake to become sole owner. As a key component of Thales Australia, ADI now has access to new technologies, improved economies of scale, and, perhaps most importantly, new international markets.

It is likely that just these international markets were the reason that Thales took over the firm in its entirety. By

taking control of ADI, Thales is looking to boost its presence not only in Australia but in the entire region.

Thales already has a presence in Australia through its existing businesses of air traffic management, training and simulation, and underwater systems. The acquisition of ADI will boost Thales' Australian staff to about 3,500 and give the firm control over key defense projects, including the Royal Australian Navy frigate upgrade and Bushmaster armored vehicle production for the Australian Army.

Program Activity

Business Interests. Some important aerospace and government programs currently under way at ADI are listed below. The briefs are intended to provide a list of programs of major importance to the company. For detailed information or analysis of specific aerospace and defense programs or equipment, please refer to the appropriate Forecast International binder (for example, *Aircraft, Military Vehicles, Warships, Missiles,*

Electronic Systems, and Gas Turbines). The following are the company's business interests:

- Command and Control Information Systems
- Logistic Support Services at Defence Facilities
- Military Vehicles
- Minesweeping Systems
- Munitions Manufacture

ADI Limited

- Ship Repair, Refit and Modernization, Naval and Civil
- Ship Maintenance Management
- Systems Support
- Test and Calibration Services for Civil and Defence Customers
- Weapons and Component Manufacture

Electronics Programs

APCO-25

ADI says that it has significantly advanced its APCO-25 digital mobile radio technology development program. This has included the first shipment of product to public safety and law enforcement customers in the U.S.

Electronic Warfare Command Support System

This system is being developed for the Australian Army.

IVSS 1000

IVSS 1000, a day and night sighting system with a ruggedized display unit, is part of a product range developed by ADI that builds on its eye-safe laser technology. The products were designed primarily for the Australian Light Armored Vehicle.

Joint Command Support Environment System

A contract was extended for the supply of command support systems to all major defense force headquarters and air bases in Australia.

Joint Military Decision Support System

This system is for the Royal Thai Supreme Command and Army Headquarters.

Live Fire Computerized Training Systems

A contract has been awarded to provide what is claimed to be the world's most sophisticated indoor firing range complex for the United Arab Emirates armed forces.

Gas Turbine Programs

General Electric LM2500

ADI has been selected for the sole worldwide supply of modules for the General Electric LM2500 marine gas turbine engines used by the navies of the U.S. and 23 other countries. This work is valued at \$250 million.

Military Vehicle Programs

Bushmaster Infantry Mobility Vehicle

This combat vehicle was selected for the Australian Army's Project Bushranger. A feature of the

Bushmaster is the V-shaped hull designed by ADI to deflect anti-vehicle blast mines. All fuel cells are located externally to shield passengers from fire. The vehicle provides protection from land mines, 81mm mortar blasts, NATO 5.56mm and 7.62mm ball ammunition, and Claymore anti-personnel mines. It can also be upgraded to protect against a range of armor-piercing ammunitions. The Bushmasters are built at ADI's Bendigo facility. Serial production of the Bushmaster Infantry Mobility Vehicle (IMV) began in mid-2004 for Australian Army procurement; production continues toward a revised Australian Army initial procurement objective of 299 vehicles. In December 2006, this was increased to 443. An additional 250 Bushmasters were reportedly ordered in August 2007. In anticipation of potential U.S. Department of Defense procurement and possible export sales, Oshkosh Truck Corp has secured a licensing agreement with ADI Limited to produce and market the Bushmaster IMV. In addition, Oshkosh is already leveraging its global parts and service network to provide logistical support for Australian Army Bushmaster vehicles deployed to Iraq and Afghanistan. However, in August 2007 the Bushmaster was officially removed from the Mine Resistant Ambush Protected (MRAP) vehicle competition.

High-Mobility Engineering Vehicle

The High-Mobility Engineering Vehicle (HMEV) was designed by ADI to meet an Army requirement for an all-terrain, earthmoving vehicle that could travel at convoy speed. ADI claims that it is the only vehicle in the world that can self-deploy at 100 kilometers per hour with a backhoe and front-end loader attached. The vehicle performs a wide range of earthmoving functions. The Australian Army has ordered 27 HMEVs, and the Canadian Department of National Defence purchased an HMEV in order to carry out field evaluation jointly with the U.S. Army.

Missile Programs

Penguin

ADI is developing Australia's first insensitive munitions capability for use in the warheads it will be supplying for the Penguin air-to-surface missiles ordered by the Royal Australian Navy from Norway's Kongsberg Defense and Aerospace.

Ordnance and Munitions Programs

Munitions

ADI has signed a \$1.7 billion, 17-year contract to provide munitions for the Australian Defence Force from its Benalla facility. The deal will be worth around \$100 million a year to ADI.

Warship Programs

AMASS

The ADI Minesweeping and Support System (AMASS) is described as a systems approach to minesweeping. It is claimed to offer portability, minimum maintenance, and easy deployment. The AMASS includes ADI dyad influence sweeps, acoustic generator, a mission planning support system, a minesweeping control system, and mechanical sweeps.

ANZAC Ship Communication Systems

ADI was awarded a contract to provide external and internal systems for 10 ANZAC ships.

Guided Missile Frigate Fleet Upgrade

In November 1998, ADI was selected for a deal worth almost \$1 billion to upgrade the Australian Navy's six guided missile frigates.

Collins Class Submarine

The Australian Submarine Corporation, in which ADI holds a 48.45 percent stake, was established to develop

and construct, as prime contractor, six Collins class submarines for the Australian Navy.

Huon Class Minehunter

In 1994, ADI won the AUD1 billion, six-vessel Huon class minehunter contract.

Hydrographic Ships' Communications Systems

ADI has received a contract for the supply and integration of advanced communications systems for two new hydrographic ships for the Royal Australian Navy.

MIDAS System

The development, supply, installation, and support of the Royal Australian Navy's MIDAS system (maritime intelligence, dissemination, and analysis) is ongoing. MIDAS will be installed on most of the Navy's ships and in onshore facilities.

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