

## Briefing Book

### Questions and Answers Background

1. Q: In the news release it says that investors in the Republic of China are buying up to a 40% share of McDonnell Douglas' commercial aircraft business. Isn't Douglas military as well as commercial? Will the Taiwan Aerospace Corporation be buying government contracts as well?

A: On November 6, Douglas Aircraft Company announced that they had begun to separate the commercial and government operating segments. Their goal to complete the split by January 1, 1992. The agreement with Taiwan Aerospace involves the commercial segment only. Regardless of the sale of a minority portion of the commercial business, the splitting of the two segments for accounting purposes makes sense. The military segment of the business (principally the C-17 program) will remain 100% wholly owned and operated by McDonnell Douglas.

1a.Q: Why have you done this?

A: This alliance constitutes a dynamic look to the future of commercial aviation while building on numerous global alliances that have been crafted by aviation manufacturers. McDonnell Douglas has a long, distinguished history of producing commercial aircraft and an outstanding capability to product future commercial aircraft. Taiwan Aerospace Corporation provides financial resources and increased access to Asian markets. By putting these two together, we expect to create a venture that will be a premier manufacturer of commercial aircraft.

1b. Q: What happens next?

A: An agreement in principle has been reached. As soon as possible, we will send a team to Taiwan to engage in final negotiations. We hope to sign a binding agreement in about two months. Production on the MD-12 is

scheduled to begin early in 1992 (providing the market warrants a launch decision). Plans call for a first flight to take place in November 1995, FAA certification in December 1996 and first deliveries in January 1997. A final, U.S. site for assembly will be selected by early 1992.

2. Q: Won't there be opposition to this sale from those who are concerned about the loss of American technology, particularly those that guard U.S. military technology?

A: Commercial aircraft technology is not unique to the United States. The European consortium that builds the AIRBUS are on an even technological footing with Boeing and McDonnell Douglas. The U.S. will not be losing any unique technology. Military technology is protected since no part of our military operations are involved in the sale. Douglas began to separate its military and commercial programs on November 6, 1991.

3. Q: Won't you be giving American jobs away to Asians?

A: We don't think so. Without the financial backing to build the MD-12, McDonnell Douglas will cease to be a real competitor in commercial aviation. The result would be a steady erosion of jobs at Douglas. The MD-12 we will be able to go after a significant portion of the lucrative wide-body market.

4. Q: Why are you selling out to the Asians? Haven't we already lost significant portions of our auto, steel and shipbuilding industries to the Far East? Does this mean that aerospace is next to go?

A: Aerospace is the United States' leading export commodity and we expect it will remain that way so long as America maintains its technological lead. The foreign content in all airliners is already considerable. All three of the world's major aircraft manufacturers utilize some form of strategic alliance. Boeing is working with the Japanese on commercial airliners. General Dynamics is working with Japan and Korea on military aircraft. MDC has working relationships

with the People's Republic of China on twin-jet airliners. Global alliances are becoming the way to do business in commercial aerospace. McDonnell Douglas will maintain majority ownership of this new company so we reject the notion that we are selling out. By taking on an Asian risk-sharing partner we will gain a significant marketing presence in the region. And last, the cash generated by a venture of this type will strengthen our overall corporation thereby providing a benefit to the government aerospace side of our corporation.

5. Q: Why Taiwan? Why not Japan or \_\_\_\_\_?

A: The Republic of China (or Taiwan) has emerged as a world economic power: 13th largest trading nation in the world; a growing percapita GNP, and foreign exchange reserves of more than \$70 billion; and it has opened its economy and society to the outside world. The Island is one of the most modern and progressive societies in Asia, enjoying a democratic form of government, a free press. The Taiwan Aerospace Corporation is agreeing to build the most modern manufacturing and sub assembly facilities in the world. That coupled with the new MD-12 final assembly facility to be built in the United States will make the new company the highest quality lowest cost producer of wide-body jetliners in the world.

6. Q: Couldn't you find risk sharing partners in the United States?

A: No -- at least none who were willing to buy into our commercial aircraft operations and to make the substantial investment in facilities to help us become the highest quality, lowest cost producer of commercial aircraft in the world.

7. Q: It has been reported in the press that you also sought risk sharing partners in Japan, Singapore, Korea and Indonesia. Was Taiwan the only one willing to join you in this venture?

A: Taiwan was willing to take the largest portion of the minority share of the new commercial aircraft company. We continue to have talks with other prospective risk-sharing partners around the world, but in no case will McDonnell Douglas give-up majority interest in the company.

8. Q: What will be the impact of this new company on Exon-Florio?

A: We are confident that any final agreement between McDonnell Douglas and the Taiwan Aerospace Corporation will be permissible under the Exon-Florio process. There are no national security implications under the kind of agreement we are pursuing. Any final definitive agreement will be subject to requisite government approvals in both the United States and Republic of China.

9 Q: MDC and Boeing have been complaining for a number of years about the subsidization of Airbus. Given the anticipated involvement of Taiwan in the project you have announced, and given the large amounts of money involved, isn't MDC essentially "selling out" to the benefits of heavy government subsidization?

A: There is a world of difference between the \$10-20 billion in direct subsidies that Airbus member companies have received from and the equity investment being contemplated here.

-If one or more European governments had simply bought equity investments in Airbus at prices that reflected the market value of the shares being acquired, there would be no trans-Atlantic dispute over the subsidization of Airbus. Instead, what we have in the case of Airbus is massive government support in the form of (a) noncommercial investment in government-owned companies (b) direct grants, (c) loans and loan guarantees on noncommercial terms, (d) loan forgiveness, and (e) foreign exchange rate guarantees.

- McDonnell Douglas's commercial transport business is not a Taiwan company, and it is thus a bit difficult to see why the government of that country would be so kind as to subsidize us. Taiwan has carefully reviewed

financial, product development, marketing, and other information related to our commercial transport business, and any investment it makes will undoubtedly reflect its careful assessment of the market value of the shares it will receive.

10 Q: The United States is currently pursuing two GATT cases against Airbus, one of which is reportedly close to a panel decision and the other of which apparently awaits a US decision on whether or not to request the formation of a panel. Isn't the transaction you have described likely to undercut the US Government's interest in pursuing these GATT cases, and your chances of success if the cases are pursued?

A: We see no reason why the transaction we have described would hurt the strong GATT cases against Airbus, and we have every confidence that the U.S. Government will continue to aggressively confront the massive European subsidization of Airbus.

- As explained above, there is a world of difference between the massive government assistance accorded to Airbus and Taiwan's contemplated equity investment in MDC's commercial transport business.

-The GATT cases constitute US claims against the EC and the Airbus member governments. There is nothing whatsoever in the contemplated transaction that undercuts the US right to be free of, or to be compensated for, massive European subsidies that are inconsistent with GATT obligations.

- Finally, a number of U.S. Government officials have been briefed concerning the formation of this new company. We have no reason to believe that the transaction will in any way affect -- not should it affect -- US pursuit of its GATT claims against Airbus.

11. Q: Who is Taiwan Aerospace Corporation?

A: Taiwan Aerospace is a group of Republic of China business interests that got together earlier in the year to be both a prime contractor and subcontractor in the aerospace industry. Several major ROC companies have provided the start-up capital for the venture. Additional funding has

come from government backed institutions. TAC is headed by Dr. David H. Huang, a pioneer of the aviation industry in the ROC., and by Dr. Denny R.S. Ko, a leader in promoting high technology industries in the Pacific Rim. Huang is TAC Chairman and chief executive officer and brings more than 35 years of experience in the aerospace industry. He was most recently acting president of Chung Shan Institute of Science and Technology. For 22 years, Huang was part of the Rockwell International, USA Team working on U.S. space programs. He holds four U.S. patents in rocket propulsion systems and has been awarded the NASA Apollo Lunar-Launching Achievement Award and the NASA Space-Lab Achievement Award. (separate fact sheet available)

12. Q: Could the technology gained by Taiwan be put to other, less desirable uses?

A: The expertise on both sides is in commercial aviation only. It is not anticipated that it would be used for any other purpose, and there are no national security implications. Taiwan is a very small, but very open society. It will be very easy to monitor the uses of commercial aerospace technology.

12A: Aren't you worried that Taiwan will become a competitor at some time in the future?

Q: No. With a direct equity stake in this venture, there would be no motivation for them to pull out of this new company. They would neither have the final assembly site, the design capabilities, the market network or the product support infrastructure to be a competitor.

13: Q: Aren't you concerned about the relations between Taiwan and the PRC? Won't it affect your good relations with them?

A: Relations between the two are at an all time high-point. MDC has excellent relations with both. The alliance with Taiwan will in no way harm our present operations or our future in the Peoples Republic of China.

14. Q: What will happen to existing airline contracts?

A: There will be no change. MDC will stand behind existing airliner orders. Once the new company is up and running, new orders will be secured through it.

15. Q: When will this deal become final?

A: Both sides are now in a "due diligence phase" leading to an agreement. The deadline for that phase is 31 January 1992. Shortly after that, the new company will be formed.

16. Q: What will happen to current Douglas employees?

A: Those working on military programs (C-17) will remain working for MDC. Those associated with the commercial programs will be transferred to the new company. People in central support and services roles will be divided according to the needs of the two companies. The division should be complete by the first of the year.

17. Q: How many will be transferred?

A: Our best estimate is about 36 thousand. I don't have a precise figure for you at this time. As we near the first of the year, we will have a clearer picture.

18. Q: For those being transferred, what will happen to their pay and benefits?

A: There will be no change. Pay and benefits will be the same.

19 Q: Will the new company honor the current union contracts?

A: Yes, all existing contracts will be honored?

20. Q: At the end of the existing contracts, will the new company set new wage and benefits packages?

A: It is our intention that the new company will offer pay and benefit packages which attract and retain motivated people.

21. Q: Will people have a choice between which company they work for -- MDC military transport or the new commercial company?

A: Essentially no, but that would not prevent people in one company from later on applying for a job in the other.

22. Q: What will be the effect of this split on the C-17 program?

A: There will be no change. One side benefit will be a less complicated billing and accounting system. One clear benefit is that this venture will allow us to pay down a significant portion of our debt, thereby strengthening our entire corporation.

23 Q: Does this spell the end for Long Beach?

A: Not at all. Long Beach will be the headquarters for this new company. Long Beach will provide overall program direction, design leadership, systems integration, and will continue to be the center for marketing and product support. The C-17 program will continue to be built at Long Beach, as will the MD-80, the MD-90, and the MD-11. MDC never planned to build the MD-12 at Long Beach. Without a risk sharing partner taking an equity stake in the commercial airliner, the MD-12 would never be built. Without the MD-12, widebody commercial work at Douglas would decline in any event.

24. Q: What manufacturing and subassembly work will be done in Taiwan?



A: The details have to be worked out, but planning indicates that the Wing and Fuselage sections can be built in Taiwan and then shipped to the United States for final assembly.

25.Q: If the wing is built in Taiwan, are you abandoning your Canadian wing facility?

A: No, they already have a full production line with the MD-80/90 and MD-11 wing. What future work they get is yet to be determined.

26. Q: How does this announcement impact on your plans to build a new final assembly facility somewhere in the United States?

A: This announcement is in keeping with our planning and strategy. In fact, this agreement, once finalized will make building that new U.S. facility a reality. We plan to announce the new site sometime after the first of the year.

27.Q: How will the company be administered? Who will be in charge?

A: MDC will retain majority interest in the new company and will appoint the CEO. There will be two primary operations, one in the U.S. and one in Asia.. A joint board of directors will be chosen, with proportional representation. Other details will be announced as the agreement is finalized.

28.Q: How soon can this new venture build the MD-12?

A: Plans call for initial production to begin during 1992, with a goal of achieving a first flight by 1995 and FAA certification by December 1996. Deliveries will take place in early 1997.

29. Q: Won't the MD-12 kill the market for the MD-11? How can you make a decision to build the MD-12 when the MD-11 has not been profitable?

A: The MD-11 has a market segment of its own that is complementary to the MD-12. The interest in the MD-12 as a head-to-head competitor of the Boeing 747 will help increase orders for the MD-11. In general, airlines like to have the ability to cross-train flight crews, stockpile parts and simplify maintenance. Marketing a family of airplanes makes sense.

- MDC believes that the MD-12 will be a very competitive product in the fastest growing market for commercial transport aircraft. Currently there is only one other product in that market segment ( The Boeing 747-400), and the MD-12 will have significant advantage over that aircraft. The MD-12 will also have a considerable lead time advantage over any new products that could potentially be introduced into that market segment.

- The business plan for the MD-12 has assumed a conservative market capture of about 20%, assuming head-to-head competition with the established Boeing 747-400. This will result in over 300 MD-12s being delivered by the year 2005, with total program deliveries expected to exceed 700 by the year 2010. In terms of dollar value, the 300 MD-12s anticipated by the year 2005 will generate approximately \$60 billion in revenue (then year dollars).

30. Q: Couldn't MDC finance the new MD-12 on its own -- and then you would maintain 100% interest?

A: It is doubtful that MDC could raise the entire \$4-5 billion needed to finance the MD-12 in a reasonable amount of time. Timing is very important in the airline market.

31. Q: Does this sale require Congressional approval?

A: No

32. Q: Won't the MD-12 that this new venture proposes to build erode your own MD-11 market?

A: On the contrary, we think that the MD-12 will have a positive effect. Interest in the MD-12 can spur additional sales of the MD-11. In general, airlines like consistency of aircraft and continuity from one plane to the next generation, because of the streamlined maintenance and standardization. The MD-12 is a logical extension of the McDonnell Douglas family of aircraft.

33. Q: What will this new company be called? Have you decided on a name?

A: That will be decided once the new company is formed. Right now, the name is not important