

# Finance

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# Safe Harbour Statement



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## Disclaimer

This presentation includes forward-looking statements. Words such as “anticipates”, “believes”, “estimates”, “expects”, “intends”, “plans”, “projects”, “may” and similar expressions are used to identify these forward-looking statements. Examples of forward-looking statements include statements made about strategy, ramp-up and delivery schedules, introduction of new products and services and market expectations, as well as statements regarding future performance and outlook. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances and there are many factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements.

### These factors include but are not limited to:

- ▶ Changes in general economic, political or market conditions, including the cyclical nature of some of EADS' businesses;
- ▶ Significant disruptions in air travel (including as a result of terrorist attacks);
- ▶ Currency exchange rate fluctuations, in particular between the Euro and the U.S. dollar;
- ▶ The successful execution of internal performance plans, including cost reduction and productivity efforts;
- ▶ Product performance risks, as well as programme development and management risks;
- ▶ Customer, supplier and subcontractor performance or contract negotiations, including financing issues;
- ▶ Competition and consolidation in the aerospace and defence industry;
- ▶ Significant collective bargaining labour disputes;
- ▶ The outcome of political and legal processes, including the availability of government financing for certain programmes and the size of defence and space procurement budgets;
- ▶ Research and development costs in connection with new products;
- ▶ Legal, financial and governmental risks related to international transactions;
- ▶ Legal and investigatory proceedings and other economic, political and technological risks and uncertainties.

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Any forward-looking statement contained in this presentation speaks as of the date of this presentation. EADS undertakes no obligation to publicly revise or update any forward-looking statements in light of new information, future events or otherwise.



## ▶▶ Cash

- ▶▶ Exceptional starting position
- ▶▶ Effective operational management
- ▶▶ Consistent investment in organic growth and M&A
- ▶▶ Consistent long term hedging policy
- ▶▶ Cautious management of cash assets

## ▶▶ Growth

- ▶▶ Record backlog driven by emerging countries
- ▶▶ “Crisis proven” tools in place to monitor risks
- ▶▶ Significant underlying profitability improvement should unfold in the coming years monitored by an integrated finance team

**EADS is a cash machine and a growth story!**

# Cash & Hedging

Customer financing

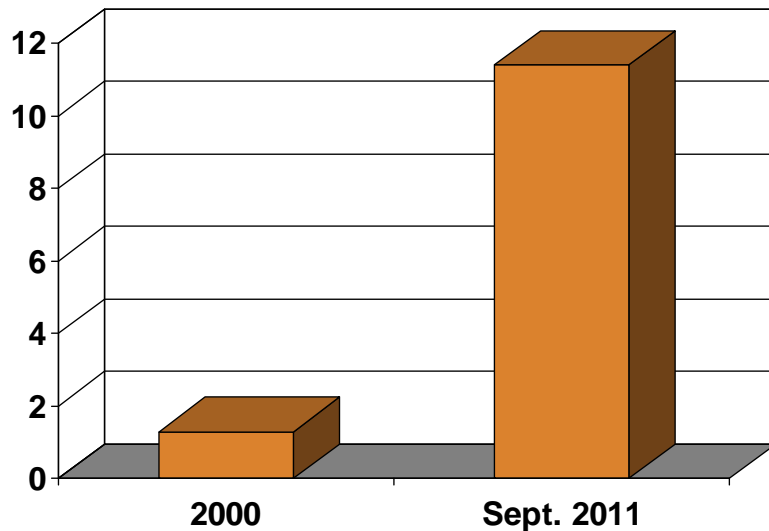
Business overview



EADS

# EADS a cash machine since inception!

### Net Cash Position (€bn)



Share price      €17.50                      €21

### Compared to 2000, we have :

- ▶ **100% of Airbus** and Astrium
- ▶ A380 in operation
- ▶ A400M flying
- ▶ A significantly bigger backlog
- ▶ A meaningful service offering
- ▶ Managed a fair amount of execution issues
- ▶ Reduced and contained customer financing exposure

# Enterprise Value Adjustments

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Adjustments from EV to market capitalization	Description of Adjustments	Corresponding EBIT adjustment
<b>Net cash</b>	+ Net cash position adjusted for non-recourse debt	
<b>Non Operating Assets</b>	+ Investments (Dassault Aviation & Others)	-Reduce EBIT by the income from investments 2011 estimate ~€154M
<b>« Quasi Debt »</b>	- Pensions  - Provisions if they have cash impact and are not recurring	+ Add back Pensions Net Interest Cost to EBIT 2011 estimate~ €134 M€

- ▶ Refundable Advances (€5.9bn) are not treated as debt by credit agencies
- ▶ If treated like debt,
  - underlying assumption is full success of the programmes,
  - working capital needs then to be adjusted by the repayment (in 2011 +€0.1bn on free cash-flow to adjust from refundable advances reimbursement by EADS)
  - EBIT\* needs to be adjusted upwards (+€80M)

# EADS view on Enterprise Value

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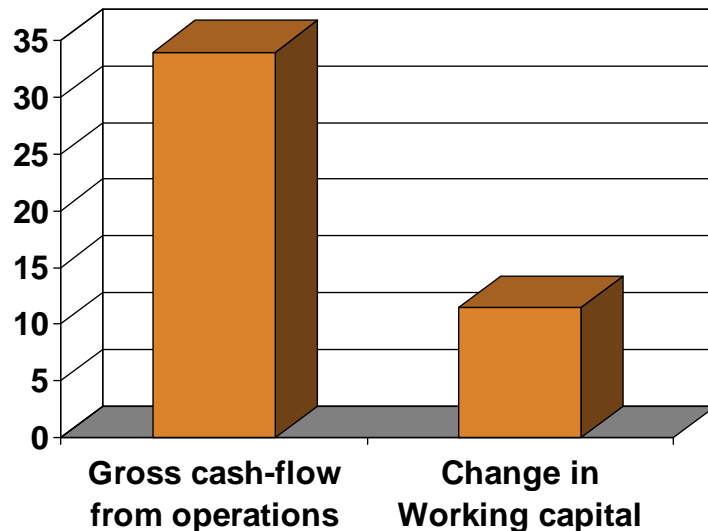
<b>End of September 2011 in bn€</b>	<b>EADS</b>
Net (cash) debt position	11.4
Non-recourse debt	0.5
Net cash position after non-recourse	11.9
Off-Balance Sheet customer financing	-0.5
Pensions provisions	-5.4
Deferred Tax	0.7
Provisions on programmes (Loss making contracts & settlement)	-4.0
Dassault 46% Stake (based on December 5 price: €620)	2.5
Other investments	0.7
<b>Net cash adjusted</b>	<b>5.9</b>
Number of shares in millions	812
Stock price in € (December 5 close)	22.1
<b>Market capitalisation</b>	<b>17.9</b>

**EADS Enterprise Value at around €12bn  
at the current share price ?**

# Cash-flow Generation comes from operations



## Cash-flow generation since 2000 (€bn)



## Cash-flow generation since inception

- ▶ Cash-flow generation comes 3 times more from operations than from working capital!
- ▶ Change in working capital driven by advance payments and inventory ramp-up
- ▶ Pre delivery payments linked to future deliveries but work-in-progress and advance payments made to suppliers

# Strong Liquidity Position as at 30 September 2011



<b>€3.0 bn</b> <b>Credit Facility</b>		<ul style="list-style-type: none"> <li>▶ <b>Maturity 2016*</b>, undrawn</li> <li>▶ <b>Fully committed by 39 banks</b></li> <li>▶ <b>No financial covenants</b></li> <li>▶ <b>No MAC clause</b></li> </ul>
<b>€16.1 bn</b> <b>Total Gross Cash</b> Invested in highly rated securities	<b>€4.7 bn</b> <b>Financing Liabilities</b> (incl. € 1.5 bn liabilities of <b>EMTN</b> )	
		<b>€ 11.4 bn</b> <b>Net Cash</b>

\*the facility provides for two 1-year extension options at the choice of the lender

## Capital and liquidity preservation first

### ▶ Main principles

- ▶ Globally, diversified portfolio of liquid senior securities of large benchmark issues only, no private placements or structured credit products
- ▶ Maximum maturity 5 years but 50% of exposure with maturity <1 year (€2 to 3 bn overnight reserve)
- ▶ Minimum rating of A-/A3 required (reference to the lowest published rating)
- ▶ Active management of interest rate duration to limit MtM losses from rate changes

### ▶ Tactical implementation is under continuous review taking into account the deteriorated market environment

- ▶ **40%** (+15%) held in AAA rated sovereigns or agencies (including sovereign money market funds), **25%** (unchanged) in corporates and **35%** (-15%) in financials (including covered bonds and liquidity money market funds)
- ▶ No direct sovereign exposure to periphery countries and Belgium
- ▶ Minor allocation (~3%) to few, selected relationship banks as well as to selected corporates incorporated in periphery countries

## Hedging policy

- ▶ EADS policy is to hedge its \$ net exposure well-in advance in order to provide financial stability and help protect its industrial competitiveness
- ▶ Once a month, Airbus Treasury Committee agrees on a speed grid. This is a tool to calibrate the hedging speed in order to build protection for at least the next 2 years
- ▶ First success to extend € contracting

## As of October 2011

- ▶ Despite a very volatile market environment, EADS has put in place \$17bn new hedges (@ 1.37 for €/€ and 1.58 for £/\$)
- ▶ The portfolio has slightly increased to \$72bn compared to \$70bn end of December 2010
- ▶ EADS FX hedging policy has allowed the group to benefit from € weakening (hedge rhythm tripled when €/€ forward rates were below 1.35)
- ▶ A significant number of FX counterparties allows EADS, at current levels, to have sufficient hedging capacity to benefit from market levels.

Cash & Hedging

# Customer financing

Business overview

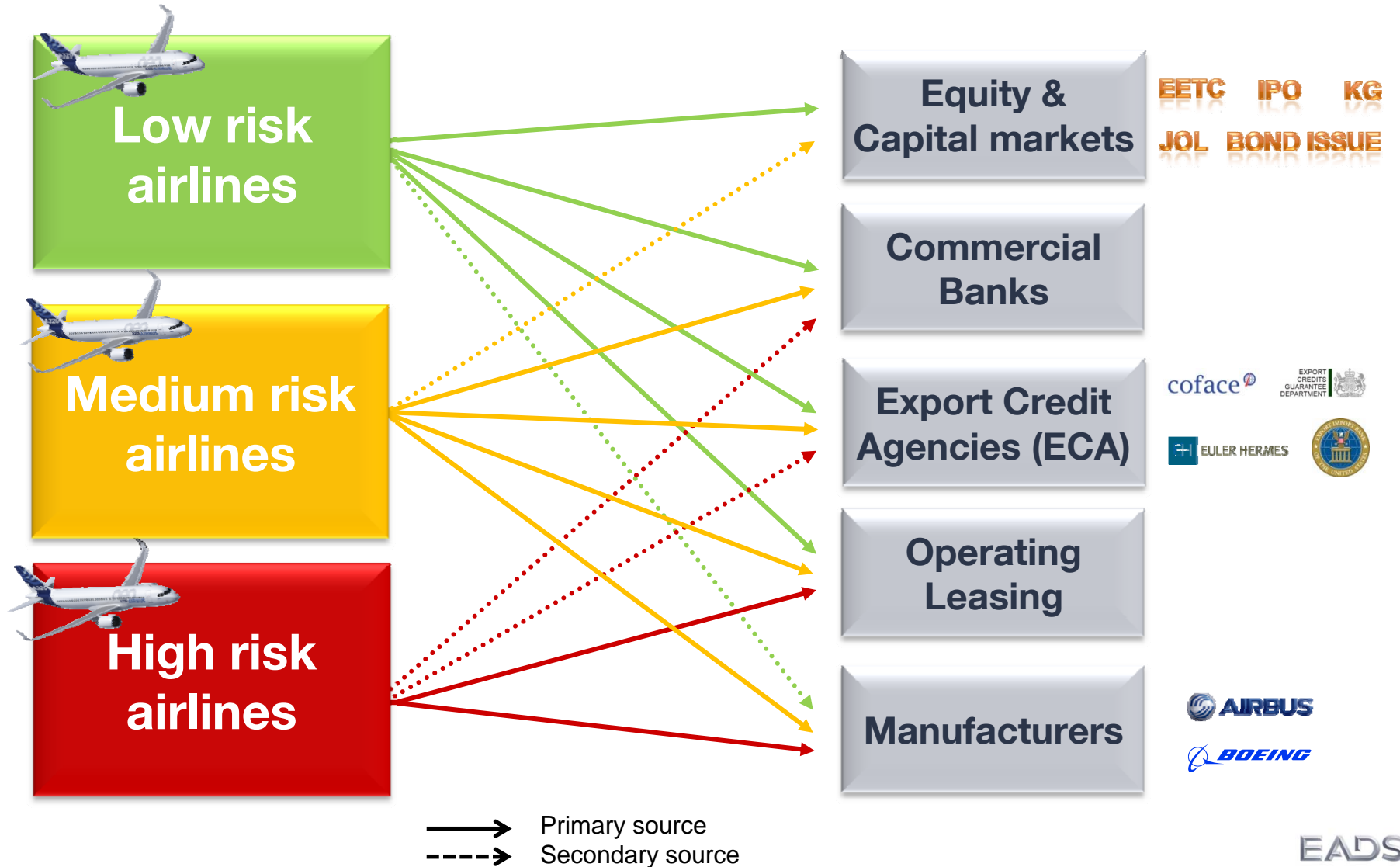


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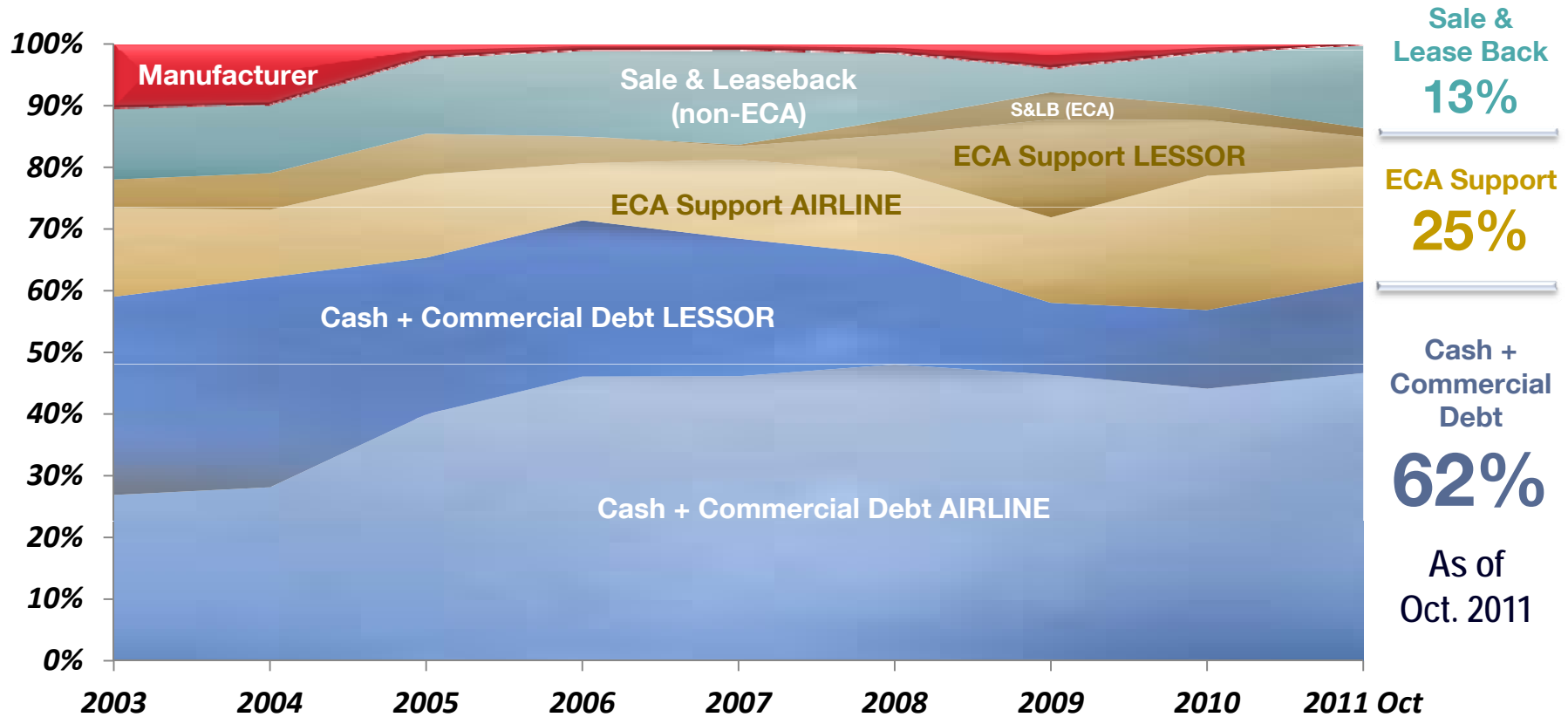
## Customer Financing policy : “hold and sell”

- ▶ Only to protect deliveries : we are a lender of last resort
  
- ▶ Limit exposure by
  - ▶ Using market to its full capacity
  - ▶ Anticipating downturns and customer requirements (Watchtower)
  - ▶ Engine manufacturer participation
  
- ▶ Reduce exposure - structure transactions based on market conditions to allow sell-down

# What are the funding sources of our customers?



# Financing of Airbus deliveries over time

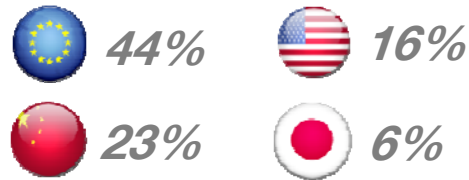


**Aircraft financing is asset secured**

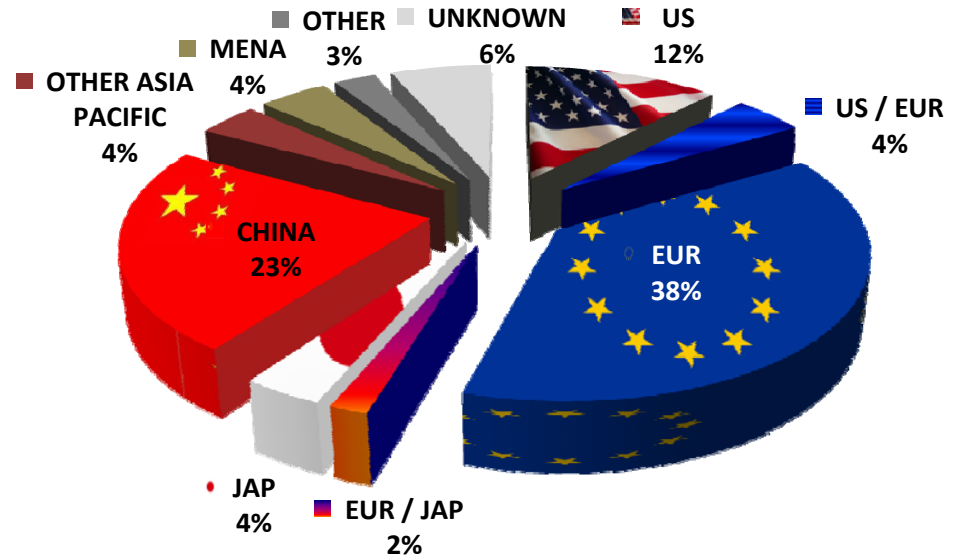
**Airbus finance support needed for very limited amount of deliveries**

## Who's providing the debt?

Share of participation in all direct debt financed Airbus deliveries\* by bank nationality



Share in number of aircraft out of 581 aircraft financed in 2010 and 2011 (Jan-Sep) with commercial or ECA backed debt



- ▶ Commercial market performed strongly despite recent banking crisis
- ▶ Asian banks are becoming more active and Japanese banks are returning
- ▶ Concern on USD funding affecting some traditional European aerospace banks
- ▶ We have continued to develop co-operation with Chinese banks beyond Chinese market

## Current situation

- ▶ Airbus exposure at historical low : \$1.4b of gross exposure at the end of September 2011
- ▶ Customer financing cash-flow generative in 2011
- ▶ Financing of Airbus deliveries put in place 3 to 6 months ahead of deliveries: bank commitments for end of 2011 and Q1 2012 are being maintained

## Challenges

- ▶ Long term USD funding shortage and Basel III requirements
- ▶ Cost increase -but **ownership costs ~ only 10 to 15%** of total airline operating expenses
- ▶ On average, continued volatility of airline margins and balance sheets

## Strengths

- ▶ Strong demand for fuel efficient equipment -**fuel represents 25%- 40%** of airlines operating costs-
- ▶ Aircraft are mobile and high quality assets to finance
- ▶ Airbus aircraft with their strong customer base world-wide, commonality and high value retention are particularly attractive assets for investors and lenders alike

## Initiatives to enhance liquidity

- ▶ Access to US capital markets for non US airlines
- ▶ Capital market access with ECA guarantees to be further developed
- ▶ Enhance relationships with existing aviation banks and new entrants
  - ▶ Work with Chinese banks on their off-shore development (ICBC, BOC and CDB in particular)
  - ▶ Develop appetite from Asia/ Japan/Middle East
  - ▶ Expand activities with US, UK and european banks
  - ▶ Euro financing to alleviate liquidity issues but hurdles to overcome like the US\$ residual value risk

Cash & Hedging

Customer financing

**Business overview**



**EADS**

## ▶ Assumptions

- ▶ No world-wide double dip recession
- ▶ No major disruption caused by government debt issues
- ▶ No further material cut on defence and institutional budgets

## ▶ Airbus commercial

- ▶ Air traffic still expanding but macro unstable
- ▶ “Watchtower” process & Overbooking policy protect future growth :
  - So far no sign of exceptional postponements/cancellations but
  - Backlog delivery slots screened regularly through the “watchtower” process
  - Customer risk is monitored carefully to allow reshuffling of backlog
- ▶ **High single digit average revenue growth per year** expected over the mid term with current assumptions
- ▶ Increasing volume, better pricing and improvement on A380 loss drive future earnings growth
- ▶ A350 remains a challenging programme to monitor
- ▶ 10% EBIT\* before off margin ambition within reach in the mid term with the expected ramp-up, at €/€\$ 1.30 and before dilution of first A350 deliveries

## ▶ Airbus Military

- ▶ Revenue growth driven by A400M and tanker ramp-up
- ▶ A400M revenues at 0 EBIT\* for the foreseeable future
- ▶ Earnings improvement coming from measures on operational improvement, export and service opportunities on the A400M

## ▶ Eurocopter

- ▶ Slow post-crisis ramp-up with high number of 2<sup>nd</sup> hand helicopters
- ▶ **Recovery of light and medium helicopter sales and strong super Puma ramp-up**
- ▶ Pressure on military budget leads to discussion based on current contracts
- ▶ Overall, **recovery of Eurocopter earnings** is confirmed (starting slowly in 2012 )
- ▶ Mid-term margin of high single digit EBIT\* margin within reach

## ▶ Astrium

- ▶ “Services” provides higher growth rate than “Space transportation” and “Satellites” in the mid term
- ▶ Non recurring costs of optimisation programme (AGILE) and short term pressure on services weigh slightly on 2012
- ▶ Mid-term margin of high single digit EBIT\* margin within reach thanks to strong programme execution and AGILE

## ▶ Cassidian

- ▶ Stabilisation of revenues secured by current backlog
- ▶ Investment and reorganization efforts to capture export orders in the mid term
- ▶ Ramp-up of the security business weighs on short term profitability
- ▶ Earnings recovery should really start in 2013 with high single digit margin within reach in the mid term

**EBIT\* before one-off expected to improve significantly in the years to come**

**First significant step in 2012 mainly thanks to Airbus Commercial**