An insight into Airbus profitability

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North America Investor Forum 2004
New York – December 3rd, 2004

1. US$ evolution and how it impacts Airbus
   *Airbus revenue & cost structure*

2. The counter measures
   *Hedging but also A380 and volume effects*

3. Improving the cost side
   *Route 06 : a reality*
USD vs EUR in the last 20 years

$ volatility is high

Structure of Airbus FX exposure - by nature

<table>
<thead>
<tr>
<th>HIGH USD CONTENT</th>
<th>LOW USD CONTENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment 95%</td>
<td>Aerostructure 40%</td>
</tr>
<tr>
<td>Propulsion systems 100%</td>
<td>General procurement 20%</td>
</tr>
<tr>
<td>Materials 100%</td>
<td>Salaries 2%</td>
</tr>
</tbody>
</table>

Airbus has a high portion of its costs in $
Structure of Airbus FX exposure examples

A320 $ content: ~75% of unit costs
A340 $ content: ~70% of unit costs

Each Airbus product having a different $ cost content, delivery mix influences the $ portion of Airbus costs

Airbus Cost structure

Aircraft price : 100% $

Revenues

Costs

Ebit €

€ costs

£ costs

Propulsion system $

$ costs

Net Exposure

Natural cover

Qualitative view only, proportions do not follow actual data

Airbus has maximised its Natural Cover
Hedging for Airbus:
A disciplined management of $ exposure based on strict rules

- With hedging, Airbus fixes today a future $/€ rate
- Only the firm exposure is eligible for hedging.
- Current Airbus hedge book provides much better $/€ rates than current market rates

Airbus uses hedging to cover $ Exposure

EADS Hedge Book
Approx. half of EADS US$ revenues are naturally hedged by US$ procurement for 305 a/c deliveries a year the annual net exposure was around $9bn in 2003.

EADS hedge portfolio (US$ 42 bn) on Sept, 30th 2004 at an average 1 € = 1.02 $

Marked-to-market value = € 6.7 bn
New Hedges: $6.8bn @ EUR/USD 1.23
Settlements: ($7.5bn) @ EUR/USD 0.97
Hedge Book 31.12.2003: average rate EUR/USD 0.96

The $40bn Hedge Book is a value adding asset.

Airbus hedging activity to secure Ebit predictability

Hedging is a means to diffuse currency impact

Hedging gives time to take more permanent measures

A delayed impact of today’s rate spread over years

2004 2005 2006 2007 2008 2009 2010 2011
**Volume impact on costs - rationale**

Qualitative view only, proportions do not follow actual data

*Fixed costs do not increase through volume*

**A long term counter-measure against Foreign Exchange exposure**

*Continuous improvement*

*Airbus launched Route 06:*

*$1.5bn cost savings from 2006 onwards*
Airbus cost structure

More than 80% of Airbus costs are procured costs

Route 06 milestones

- Programme Generation Phase
- Route 06 Projects Scoping Phase
- Analysis and Design Phase
- Implementation Phase
- Quick Hits Implementation Phase
- Delivery Phase

Status Today:
- Project analysis and design phase completed
- Major internal communication program completed
- Implementation on-going. Targets part of incentive system
Savings by Functions

%age of total savings by function

Procurement | Engineering | Manufacturing | Programmes | Other
---|---|---|---|---
35 | 30 | 25 | 15 | 10

Route 06 example: Faster Development of New Projects

Robust Launch
Streamline Development Org. & Ways of Working
Knowledge Management
Lean Development
Flexible Jigs and Tools
Test Means Rationalisation
Verification & Validation

€150m
Net Savings in 2006

Action plans and benefits are committed, Implementation has started
Source Achievements – Systems & Airframe

- New Programmes Leverage
  - Landing Gear
  - Cockpit systems
- Flap Actuation System
- Wing Spar and Trailing Edge package

- Consolidated supply base through International Commodity organisation strategy
  - Turning parts supply base reduced by 50%
  - Consolidated work packages

- New common system
  - Single common Fuel Measurement & Management system for SA fleet

- Consolidated supply base through International Commodity organisation strategy
  - Turning parts supply base reduced by 50%
  - Consolidated work packages

- Ex: Alcoa + Alcan (Aluminium)

- Single Aisle APU

- Single Aisle & Long Range aircraft
- Material change (Aluminium) for wing top panels

500m€ Net Savings in 2006

Support (N°1 in Customer Services)

Enhanced Services (30 new products and services)

- Migration of Technical Data from paper to digital support
- Customize Spares Logistics: Airbus is taking responsibility to deliver spares & kits directly to the customer, generating additional revenues

Customer Satisfaction Airbus Profitability

- 92% of Major Repairs achieved with a lead-time reduced by 50% (Oct 04)
- Significant reduction of Major In Service Problem backlog

Services and Organ. based on new IS tools

- Implementation of new organisation allows to achieve an AOG (Aircraft On Ground) answer-time lower than 3 hours (1h24 in Sept 04)

60m€ Net Savings in 2006

New ways to operate

Implementation of new organisation allows to achieve an AOG (Aircraft On Ground) answer-time lower than 3 hours (1h24 in Sept 04)
Route 06 – Domain Fulfil: Productivity
Design change of inner Flap for A320 Family

**Description**
- Flap design modification to allow automation
- Use of automated riveting machine, surface protection and optimised material flow concept

**Achievements**
- Cost of Sales Savings 1M€
- Lead Time Reduction - 40%
- Dvt. and implementation for 07/05
- Materialisation for 08/05

**Site Services Saving Projects – Example**

**Building Construction & Maintenance**
- Contract management & Process optimisation in Maintenance:
  - Optimisation and automation of service processes
  - Long term agreements with a reduced number of suppliers who are responsible for availability of a system for a fixed amount of money
- Reduce costs for office moving through standardisation of equipment:
  - No more moves with office furniture
  - No individual requests for specific (non-standard) office designs

20m€ Net Savings in 2006
The lead time reduction programme

This lead time reduction programme allows:

- To adapt rapidly to customer requests
- €1.5bn working capital improvement

<table>
<thead>
<tr>
<th>Programme</th>
<th>Current Lead Time</th>
<th>New Lead Time</th>
<th>Improvement</th>
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<tbody>
<tr>
<td>SA</td>
<td>9 months</td>
<td>6 months</td>
<td>-33%</td>
</tr>
<tr>
<td>LR Basic</td>
<td>12 months</td>
<td>8 months</td>
<td>-33%</td>
</tr>
<tr>
<td>LR Stretch</td>
<td>15 months</td>
<td>12 months</td>
<td>-20%</td>
</tr>
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Securing Route 06

- Savings are fully integrated within the Airbus Operative Plan 2005-2007, and are now part of budgetary targets
- Targets are committed by Airbus managers at functional level and thus part of the incentive scheme
- Deliverables are secured
- No specific monitoring is needed: Route 06 is now part of day-to-day function and project controlling activities
- Full €1.5bn recurrent saving from 2006 onwards
Route 06: savings flow

- Projects with main impact on structures and processes:
  - Overhead cost reduction
  - Lean management structure

- Projects with main impact on programme costs:
  - Manufacturing
  - Procurement
  - Product development

Beyond Route 06

- In a permanent effort to reduce costs, Airbus has already started thinking about ways to further reduce costs, beyond the $1.5bn recurring savings from 2006 onwards:

**Future Fit: overhead rationalisation project**

*Airbus is permanently seeking ways of improving its cost structure*
FutureFit – a project to optimise overhead activities

• FutureFit would boost Route 06 and as such, be vital to ensuring Airbus' long term viability

• FutureFit aims
  – to review overhead activities
  – to optimise and maintain them at an appropriate level

• FutureFit commitment to seek appropriate solutions for affected people, e.g.:
  – internal re-deployment
  – reclaiming subcontracting/temporary positions
  – tailored measures

• Project feasibility is currently being assessed

How will this project be run?

• Benchmark to determine what the optimal level of overheads should be

• Identify areas in which overheads should be reduced in order to optimise the activity (as per benchmark)

• Identify who is performing these activities
  – Airbus employees
  – Subcontractors, temporary staff

• Finally, cancel the excess activities and find solutions for Airbus’ employees affected:
  – internal re-deployment
  – reclaiming subcontracting/temporary positions
  – tailored measures
The aim of the project: focus on core business

- Route 06 and FutureFit aim to increase our efficiency and ensure that Airbus is ideally poised to remain the leader of our industry in both good times and bad.
- This project is not about lay-offs, it is about redressing the balance and ensuring the optimal use of our people to drive the core business.

Airbus success story

Through:

- Pro-active FX risk mitigation
- Productivity & efficiency improvement
- Control of our costs

*Airbus will continue setting profitability standards in the industry*
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This forward-looking information is based upon a number of assumptions including without limitation:

- Assumption regarding demand
- Current and future markets for the Company’s products and services
- Internal performance including the ability to successfully integrate EADS’ activities to control costs and maintain quality
- Customer financing
- Customer, supplier and subcontractor performance or contract negotiations
- Favourable outcomes of certain pending sales campaigns

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- Product performance risks
- Collective bargaining labour disputes
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