

Financial Policy

Once again, EADS management has delivered on its commitment to adding sustainable long-term value for all stakeholders: shareholders, employees, and customers. Underlying this success are strong business ethics, financial discipline and dependability, shared throughout our businesses and headquarters. We take pride in these.

Three priorities are embedded in our financial strategy.

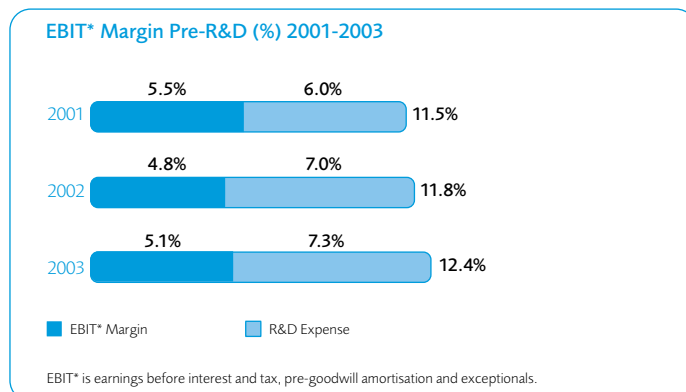
First, we aim at increasing overall profitability and cash generation. Managers have incentives to meet or exceed their targets, which are set as milestones in our plan towards the double digit EBIT* margin. Capacity adaptation plans, such as we are conducting in the Space division, or productivity improvements and cost saving initiatives, such as the Airbus "Route 06" plan, are also part of the execution of our financial strategy.

We are not acting on cost structure alone, as we pursue sensible investments to sustain profitable growth. For instance, the civil aviation weakness has not undermined our R&D and capital expenditure effort in the Airbus A380 program, from which we expect large cash and profit generation (Graph 1).

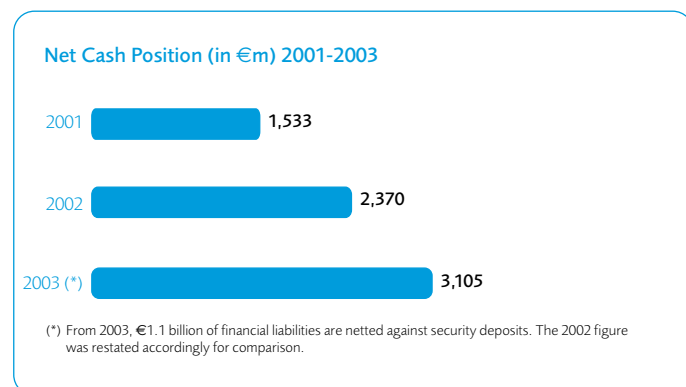
Regarding the high level of our net cash position (Graph 2), we are particularly satisfied that we ended the year well above plan: it reflects our focus on cash preservation. Working capital requirement is tightly managed, and managers of our Businesses are strongly encouraged to implement cash savings actions.

Rating Agencies have rewarded our discipline by keeping our ratings unchanged (S&P: single A- negative outlook; Moody's: A3 stable outlook).

Graph 1:



Graph 2:



Second, our financial strategy supports the EADS goal of rebalancing our civil and defence businesses, in order to buffer the effects of civil aviation cycles and optimise resource allocation.

We foster our financial engineering expertise to respond to exacting governmental customers requirements. As European Defence budgets are under pressure, the ability to design customer-tailored, tax-payer friendly, financial solutions will be a key asset for our defence growth strategy: so, in 2003, we gathered highly skilled resources in-house to capture important PFI (Private Financing Initiatives) opportunities. First, the UK MoD awarded our Paradigm subsidiary a contract, worth £ 2.5 billion, to provide secure communication satellites services over the next 20 years; currently, we are negotiating another record-size PFI with the UK MoD to provide tanker aircraft services. We expect further prospects worldwide in military space, secure communications, mission aircraft businesses and their related services.

Thirdly, EADS strives to deserve the reputation of financial reliability, and transparency with which it is increasingly credited by financial markets, contractors and customers.

Programme control is key as we start on such giant projects as the € 20 billion A400M military transport aircraft contract, or as we implement technologically demanding telecom satellites and qualify the 10t version of Ariane 5, expected to be launched in 2004. To effectively monitor programme progress, we have enhanced regular and methodical reporting procedures comprehensively addressing technological, commercial and financial milestones.

The U.S. dollar value against the Euro and Pound Sterling calls for close scrutiny. While we generate around U.S.\$20 billion annual revenues denominated in US dollars, mostly from aircraft sales, we still have a high proportion of Euro and Pound Sterling denominated costs; this leaves us with an annual net exposure of broadly U.S.\$10 billion, dealt with through a systematic and prudent hedging policy.

Presently, our 2004 and 2005 results are fully hedged against currency volatility, as well as a very significant part of the cash flows from 2006 and 2007 firmly contracted deliveries. A380 firm orders, which extend into 2011, have also been hedged as they were placed (Graph 3). Hedging allows us to "buy time" and to improve our financial dependability. Besides that, we constantly look for devices to reduce net U.S. dollar exposure, such as Euro-denominated sales – the A400M contract is a good example – or through a higher proportion of U.S. dollar denominated outlays, for which the introduction of new programmes, the civil market upturn and new investments all present opportunities.

Hans Peter Ring
Chief Financial Officer
EADS Executive Committee Member

Graph 3:

