

# FX Risk Hedging at EADs

THANK YOU

By:  
Annisa Swavira  
lefty Rinjayuni Nipparchi  
Rayhan Armand Nasution  
Sirad Handito  
Veby Zhara Kansil

# TheCaseSolutions.com

**ISSUES**

1. The company's exposure to foreign exchange risk is significant, particularly in the context of its international operations and the volatility of the exchange rates of the currencies it deals with.

2. The company's current hedging strategy is not sufficient to protect its earnings and cash flows from the adverse effects of currency fluctuations.

3. The company's management needs to develop a more comprehensive and proactive approach to managing its foreign exchange risk, taking into account the company's long-term strategic goals and the global economic environment.



**BACKGROUND**

1. The company's operations are heavily dependent on international trade, which exposes it to significant foreign exchange risk.

2. The company's revenue is primarily generated in US dollars, while its expenses are incurred in various foreign currencies.

3. The company's management has recognized the need to implement a robust foreign exchange risk management strategy to ensure the stability of its financial performance.

**TABLE**

Year	Revenue	Expenses	Net Income
2010	100	80	20
2011	110	90	20
2012	120	100	20
2013	130	110	20
2014	140	120	20



**AT CROSSROAD**

1. The company is faced with a critical decision regarding its foreign exchange risk management strategy.

2. The company's management needs to evaluate the pros and cons of different hedging options and choose the most appropriate one for the company's needs.

3. The company's management needs to consider the impact of each hedging option on the company's financial performance and its long-term strategic goals.

**RE-CALCULATION**

Year	Revenue	Expenses	Net Income
2010	100	80	20
2011	110	90	20
2012	120	100	20
2013	130	110	20
2014	140	120	20



**TABLE**

Year	Revenue	Expenses	Net Income
2010	100	80	20
2011	110	90	20
2012	120	100	20
2013	130	110	20
2014	140	120	20

**TABLE**

Year	Revenue	Expenses	Net Income
2010	100	80	20
2011	110	90	20
2012	120	100	20
2013	130	110	20
2014	140	120	20

**TABLE**

Year	Revenue	Expenses	Net Income
2010	100	80	20
2011	110	90	20
2012	120	100	20
2013	130	110	20
2014	140	120	20

**TABLE**

Year	Revenue	Expenses	Net Income
2010	100	80	20
2011	110	90	20
2012	120	100	20
2013	130	110	20
2014	140	120	20

**TABLE**

Year	Revenue	Expenses	Net Income
2010	100	80	20
2011	110	90	20
2012	120	100	20
2013	130	110	20
2014	140	120	20



**TABLE**

Year	Revenue	Expenses	Net Income
2010	100	80	20
2011	110	90	20
2012	120	100	20
2013	130	110	20
2014	140	120	20



END STATEMENT FINANCIAL STATEMENTS



**TABLE**

Year	Revenue	Expenses	Net Income
2010	100	80	20
2011	110	90	20
2012	120	100	20
2013	130	110	20
2014	140	120	20

# FX Risk Hedging at EADs

THANK YOU

By:  
Annisa Swavira  
lefty Rinjayuni Nipparchi  
Rayhan Armand Nasution  
Sirad Handito  
Veby Zhara Kansil

# TheCaseSolutions.com

**ISSUES**

1. The company's exposure to foreign exchange risk is significant, particularly in the context of its international operations and the volatility of the exchange rates of the currencies it deals with.

2. The company's current hedging strategy is inadequate, leading to significant fluctuations in its earnings and cash flows.

3. The company's management is not fully aware of the risks associated with foreign exchange risk, and there is a need for a more comprehensive risk management framework.



**BACKGROUND**

1. The company's operations are highly international, with a significant portion of its revenue generated from foreign markets.

2. The company's financial statements are denominated in the local currency, which exposes it to foreign exchange risk.

3. The company's management has a history of using various hedging instruments, but the results have been inconsistent.

**TABLE**

Year	Revenue	Expenses	Profit
2010	100	80	20
2011	120	90	30
2012	140	100	40
2013	160	110	50
2014	180	120	60



**AT CROSSROAD**

1. **FORWARD CONTRACTS**

2. **OPTIONS**

3. **NATURAL HEDGING**

**RE-CALCULATION**

Item	Value
1	10
2	20
3	30
4	40
5	50



**TABLE**

Category	Value
A	10
B	20
C	30
D	40
E	50

**TABLE**

Year	Value
2010	10
2011	20
2012	30
2013	40
2014	50

**TABLE**

Year	Value
2010	10
2011	20
2012	30
2013	40
2014	50

**TABLE**

Year	Value
2010	10
2011	20
2012	30
2013	40
2014	50

**TABLE**

Year	Value
2010	10
2011	20
2012	30
2013	40
2014	50



**TABLE**

Year	Value
2010	10
2011	20
2012	30
2013	40
2014	50



END STATEMENT FINANCIAL STATEMENTS



**TABLE**

Year	Value
2010	10
2011	20
2012	30
2013	40
2014	50

# ISSUES ?



In early May 2008, Jean- Baptiste Pons, Head of Corporate Finance and Treasury at European Aeronautic Defense and Space Company N.V (EADS), a global aerospace and defense company, was preparing for the next week's meeting with the company's senior executives.

Over the last 3 years, Airbus EADS 's commercial jet division and its primary source of revenue, had reported record order intakes, exceeding the company's turnover at that time by 3 factors:

- Since 2006, the U.S. Dollar (\$) had depreciated substantially against the euro (€)
- Airbus billed customers in dollars, while the costs and reported its financial statements in euros
- EADS hedged future revenues with FX forward contract
- EADS considered to choose FX options to hedge its foreign exchange exposures



# BACKGROUND



2000

- EADS was established
  - Dual Headquarters located in Paris - France and Munich - Germany
- 

2007

- Grown its workforce:
  - Employ 116,500 people in 19 countries
  - Increased its annual revenues from €24.2 billion to €39.1 billion
  - Booked €550 billion of orders, which more than doubled its order backlog to €339.5 billion
  - Had become a major global player and generated more than half of its revenues and sealed around two-thirds of its orders outside Europe
  - Generated €25.2 billion in revenues of Airbus as a core business
- 

2008

Airbus' order book of 3,540 aircraft represented roughly 83% of the group's €351.4 billion backlog at list prices

## Exhibit 2

## BACKGROUND

(€ billions except percentages) 2007

Region	Revenues	% of Revenues	Sourcing	% of Sourcing	Order Intake	% of Order Intake
Europe	€ 17.4	45%	€ 25.3	76%	€ 42.9	31%
North America	€ 7.9	20%	€ 7.3	22%	€ 15.5	11%
Asia-Pacific	€ 8.8	23%	€ 0.4	1%	€ 30.2	22%
Middle East	€ 2.5	6%	€ -	0%	€ 44.2	32%
Rest of the World	€ 2.5	6%	€ 0.1	0%	€ 4.0	3%
<b>TOTAL</b>	<b>€ 39.1</b>	<b>100%</b>	<b>€ 33.1</b>	<b>100%</b>	<b>€ 136.8</b>	<b>100%</b>

Division	FY 2007 Results			Description
	Sales	EBIT	Backlog	
Airbus	€ 25.126	€ (881)	€ 283.829	A leading producer of commercial aircrafts of more than 100 seats with a presence across all airliner segments: from the A320 single-aisle jet to the A380 super jumbo for 600 passengers
Eurocopter	€ 4.172	€ 211	€ 13.455	The world's biggest civil and military helicopter manufacturer with products like the Tiger military combat helicopter
Defence & Security	€ 5.465	€ 340	€ 17.886	A global leader in security solutions for armed forces and civil security. It also made EADS the major partner in the Eurofighter combat aircraft consortium and a stakeholder in a leading missile systems provider MBDA
Military Transport Aircraft	€ 1.140	€ (155)	€ 19.932	Utilized existing Airbus platforms to manufacture special mission planes for military purposes such as in-flight refueling, coastal surveillance, or military equipment transportation
Astrium	€ 3.550	€ 174	€ 12.895	The global leader in launcher systems and a producer of satellites and orbital infrastructure for public and defense markets
Other Businesses	€ 1.269	€ 94	€ 2.444	Included: regional turboprop manufacturer ATR; Aerostructures, Systems, and Services division; and Maintenance businesses
<b>Total</b>	<b>€ 39.123</b>	<b>€ (446)</b>	<b>€ 339.532</b>	<b>N/A</b>

## Exhibit 3

(€ millions) 2007