Airbus hedging strategy

Group Members:

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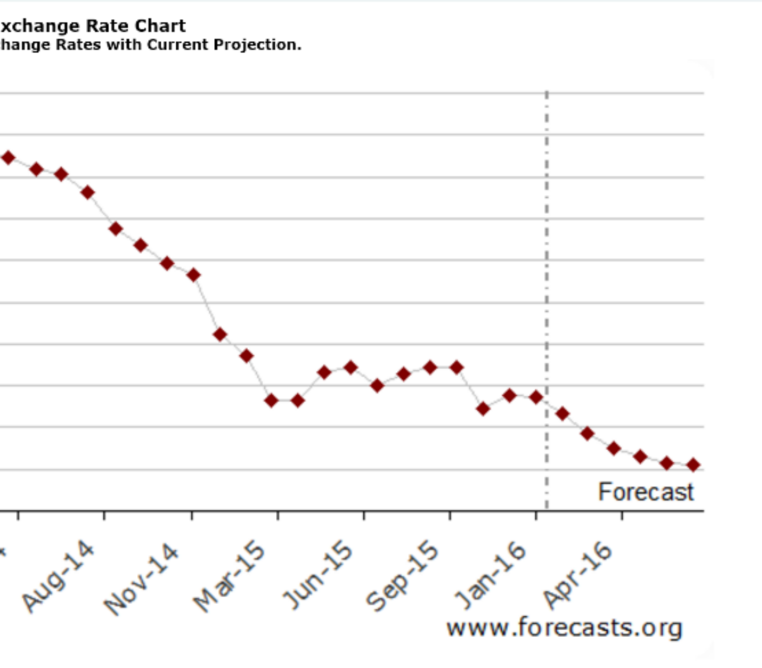
Case Assumptions:

- There is NO budget constraint.
- You are the CFO and you are the rule maker.
- WACC is 12%.
- You utilize the current market rates of interest for borrowing or lending.
- The forecast of the Euro is based on the current economic and financial conditions.
- You have bought 5 Airbus each costing €46MM to be paid entirely in € in 6 months.

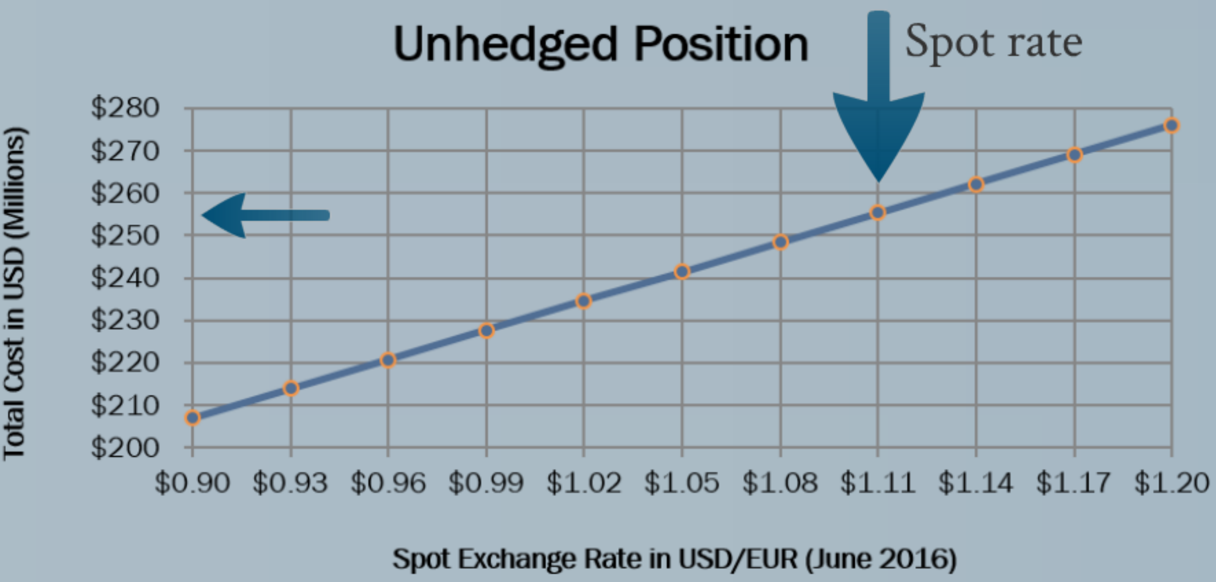
Nancy Diaz-Quinones

Current Market Rate Assumptions:



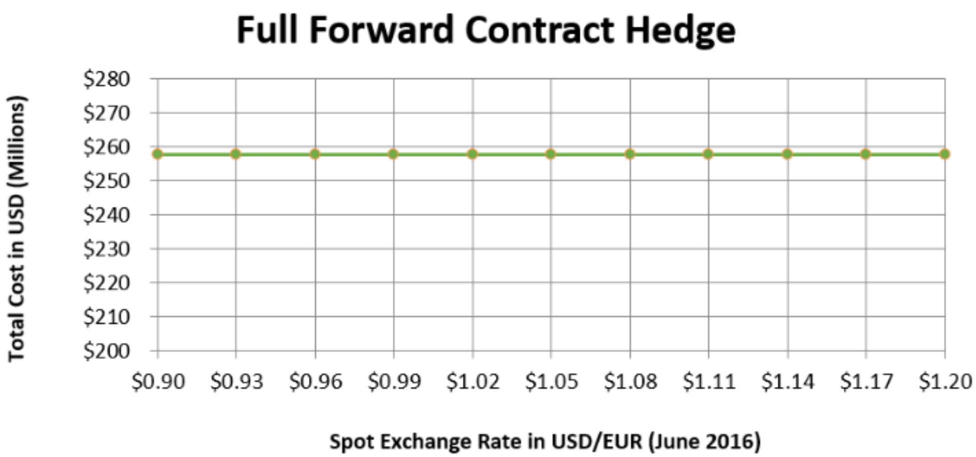
- Spot Rate: \$1.11/€ (WSJ)
- Forecast Rate (6 mo): \$1.00/€
- 6 Mo Forward Rate: \$1.12/€ (Investing.com)
- Risk Free U.S. Investment Rate: 1.84% (Bloomberg)
- Risk Free Europe (France 10 year Government bond) Investment Rate: 0.59% (Bloomberg)
- Commercial Borrowing Rate: 4.56% (LIBOR + inflation + additional risk)

Vanessa Bryan



- This strategy is the one with the maximun risk. It represents the greatest potential benefits if the dollar strengthens, and the greatest potential cost if the dollar weakens.
- Many firms consider it to be currency speculation.
- Total cost at Spot Rate: $255.3MM
- Total Cost at $1.00/€: $230MM
- Total Cost at $1.20/€: $276MM

Yenny Passanante



A forward hedge involves a forward contract and source of funds to fulfill that contract

It is booked at the spot rate of exchange existing on the booking date

Total Cost at Spot Rate $255.3
Total Cost at Forward Rate $257.6

Fully eliminate currency exposure by locking in the exchange rate

The difference is recorded as a foreign exchange loss

Forwards VS Futures contracts

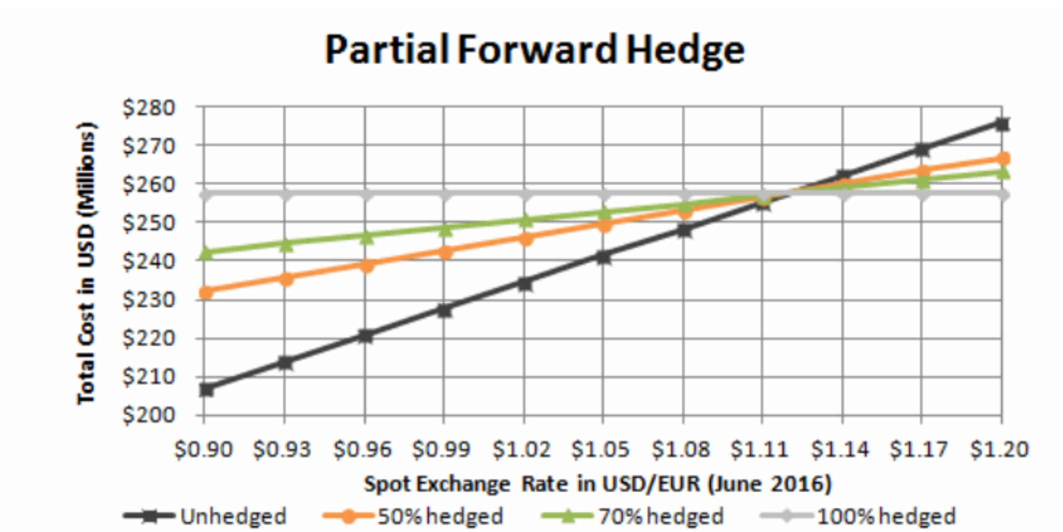
Forwards

- A forward contract is a private transaction (unregulated)
- Forwards are customized to meet the user's special needs
- Forwards have credit risk

Futures

- Takes place on an organized exchange where all of the contract's terms and conditions, except price, are formalized
- Prices change daily in the marketplace and are marked to market on a daily basis
- Regulated at the federal government level. The regulation is there to ensure that no manipulation occurs, that trades are reported in a timely manner and that the professionals in the market are qualified and honest.

Cristobal Lopez



Vanessa Bryan

Covers only part of the total exposure leaving the remaining exposure uncovered

There are a few objective methods available for determining the proper balance

Total potential exposure is still unlimited although it is highly unlikely to occur.

50%-50% Scenario

Best: $243.8 million @ $1.00/€

Worst: $266.8 milliom @ $1.20 /€

70%-30% Scenario

Best: $249.3 milliom @ $1.00 /€

Worst: $263.1 million @ $1.20 /€