

EADS 1Q Profit Falls 39 Percent

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PARIS (AP) -- Airbus parent company EADS NV on Friday reported that first quarter net profit fell 39 percent as its planemaker unit struggled with the "challenges" of producing its A380 superjumbo.

Paris-based European Aeronautic Defence & Space Co. said that net profit in the January to March period fell to euro103 million (\$129 million) from euro170 million a year earlier.

Revenue fell 6 percent to euro9 billion in the period, EADS said in a statement.

Airbus is struggling to ramp up production of the A380 because the cabins of the hulking plane require greater customization than other plane models.

The plane "will continue to weigh substantially on" earnings in 2010, EADS said.

The first A380 was delivered almost two years late to Singapore Airlines in 2007. Chief Financial Officer Hans Peter Ring said on a conference call that Airbus is still on track to deliver 20 A380s this year, and could even exceed the target.

EADS also said its hedging position -- contracts designed to lock in currency rates and protect it from negative effects of foreign exchange fluctuations -- deteriorated, weighing on earnings.

The hedging contracts were set before the recent strengthening of the dollar -- linked to fears over sovereign debt in some of Europe's weaker economies.

EADS CEO Louis Gallois said the cheaper euro is good news for the company, which sells planes in dollars but has most of its costs in euros.

"EADS should benefit in the mid-and long-term if the dollar trend is confirmed," he said in a statement.

Shares were up 2.9 percent at euro15.98 in Paris midday trading.

Analysts said EADS results were more or less in line with expectations, and the company is starting to deliver on its promises. The A380 problems had been already been flagged to the market.

"Boring is just brilliant," said Sandy Morris, an analyst with Royal Bank of Scotland. "It could be for the first time in years we are seeing a set of numbers that are straight down the middle. Slowly but surely the good things are starting to outweigh the bad."

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Overall, Gallois said he is "cautiously optimistic that our industry is slowly on its way back up," but recent market turmoil shows that "the crisis is not yet fully behind us."

Success for the year requires Airbus getting on top of three big aircraft projects.

That means mastering the "operational challenges" of the A380, finalizing contract changes with customer nations of the A400M military transport plane -- another troubled program -- and "moving forward" with the A350 XWB widebody plane that Airbus is developing to compete with Boeing Co.'s 787, Gallois said.

The revenue contribution from the A400M in the quarter was zero, EADS said.

EADS reached a last-ditch agreement with customer nations in March, allowing the over budget and much delayed project to continue.

In total, EADS has taken provisions of euro4.2 billion for the A400M, but canceling the project would have cost more.

Earnings before interest and taxes, or EBIT, fell 64 percent in the quarter to euro83 million at EADS. Airbus underlying profit was almost erased, dropping 92 percent to euro7 million.

Last month archrival Boeing said first-quarter profit fell almost 15 percent to \$519 million in the first quarter as it delivered fewer aircraft.

EADS confirmed its 2010 outlook given in March. Airbus expects gross orders between 250 and 300 planes in 2010 and to deliver the same number of aircraft as in 2009.

Revenues should be roughly stable in 2010.

Asked about plans to upgrade Airbus' A320 single-aisle workhorse by fitting a new engine, Ring said discussions notably with engine makers are ongoing and there may be an announcement made at the Farnborough International Airshow in July.

Airbus CEO Tom Enders has described the decision about changes to Airbus' main money earner as the most important of his career.

EADS' North American unit is planning to compete against Boeing and bid for a \$35 billion Pentagon tanker project to build 179 refueling jets.

The Pentagon is telling bidders to be ready to start the contract on Nov. 12 and Ring said: "I think we will have a strong team in place very soon."

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