Tom Enders, chief executive of EADS, has written to senior managers to express concern about hitting year-end cash targets after the European aerospace manufacturer said it burnt through €900m of its cash in the nine months to September.

In a letter sent yesterday, and seen by the Financial Times, Mr Enders wrote: “Unfortunately, with our schedules so heavily back-loaded, we are still a long way from where we need to be for our year-end cash flow commitments. The 2012-year-end race will be particularly tough.”

EADS’s shares fell 4 per cent, and 32 per cent of its negative free cash flow in the period was €3.2bn, partly because of deliveries of Airbus A380 super-timers and delays with the German government over development aid for its new wide-body A350 passenger jet.

Mr Enders also used the letter to warn executives of a “zero tolerance” approach to corruption, a day after German police raided EADS offices and put an investigation into alleged bribes related to the sale of Eurofighters to Austria. Investors’ cash concerns overshadowed a largely positive third-quarter results statement, the first since Mr Enders had to abandon merger talks with BAE Systems, the British defence manufacturer. EADS reported a doubling of net income to €911m during the nine months to September. However, it acknowledged that the flagship A380 programme remained challenging. It also warned of significant cost-cutting pressures on its passenger jets. The company has been bedevilled by cost overruns and delays on its most important programmes, such as the A380, helping explain jitters over cash flow.

Mr Enders said: “We will not run out of operational challenges anytime soon, especially at Eurofighter and Airbus… Aircraft deliveries are key.”

Harald Wilhelm, finance director, said the number of A380s being awaited was falling in part because of extra work needed to fix cracks on wing components of the A380. A variety of other factors contributed to the cash shortfall.

EADS said it should break even on a free cash flow basis this year, but A380s were delivered. It had net cash of €3.8bn on 19 November, down from €7.7bn at the end of last year. Group sales were 14 per cent to €57.3bn in the nine months, while net income rose 14 per cent to €900m.

See Lex

Europe’s hardest-pressed carmakers have been frustrated with lack of action by governments over the crisis.

Guarded welcome for EU drive to help struggling car industry

News analysis

‘Real action’ needed ahead of shake-ups

James Fontanella-Khan and John Reed

The European Union launched an action plan yesterday to bolster the struggling car industry — its first concerted response to a deepening crisis that is hurting some of the continent’s biggest companies and endangering tens of thousands of jobs.

Carmakers welcomed the plan’s long-term measures to support the sector but urged the EU to take “real action” immediately and provide financial resources to help them as they embark on deep restructuring.

Antonio Tajani, industry commissioner, described the measures as the first concrete steps by the EU to promote competitiveness for an industry that supports 12m jobs in Europe.

The strategy, dubbed Cars 2020 and the evolution of a plan formed in 2005, includes proposals to promote investment in new technologies and clean vehicles, streamline regulation, support skills and training and help carmakers to compete globally, including through “balanced trade deals”.

However, it offers no immediate proposal to tackle the most pressing challenge facing Europe’s carmakers this year: the need to cut excess plant capacity and jobs, a politically sensitive task in which some struggling carmakers had asked Brussels to act as a broker.

“The responsibility for dealing with the issue of restructuring lies primarily with the industry,” Tajani told parliamentarians at a Brussels hearing yesterday.

Tajani this year set to be their lowest since 1995. In March, Sergio Marchionne, Fiat’s chief executive and the president of Asea, called on the EU to help carmakers make a “structural fix” similar to its restructuring of the steel industry in the 1980s.

However, Europe’s more successful carmakers, led by Volkswagen, opposed the proposal.

Ford, Peugeot and General Motors have since then begun restructuring on their own, announcing they will close five plants between them by 2016.

After Peugeot backed out of Barque PSA’s lending arm, Ford, Renault and the state of Lower Saxony, which is VW’s second largest shareholder, questioned the move. They said it should be studied to make sure the proposal respected EU state aid rules.

Mr Tajani spoke out against ad hoc aid for ailing carmakers, a The responsibility for dealing with . . . restructuring lies mainly with the industry.
**Foreign banks stalling in China**

Lenders take less than 7% of market

**Growth to benefit domestic groups**

By Paul J Davies

in Hong Kong

Foreign banks are failing to make headway in China and will not create profitable mainland businesses just through riding the expected growth in the market, according to a study.

The onshore investment banking, securities trading and corporate lending ventures of foreign banks have won less than 7 per cent market share between them at best and that has barely changed in five years, according to consultants at Oliver Wyman.

Banks from the US, Europe and elsewhere continue to invest in China against the promise of the growth to come. When Citi-group officially launched its mainland securities venture recently, it said it expected China to supply 10 per cent of the world’s bond and equity issues in a year to 18 months’ time.

Oliver Wyman forecasts that the wholesale banking market in China will grow at 10 per cent a year on average over the next decade, with annual revenues of Rmb1tn ($163bn) by 2020.

However, Christian Edeleman, lead author of the study, said domestic banks would be the biggest winners because of government connections and deep balance sheets. Foreign banks would remain hampered by restrictions on what they were allowed to do.

“The banks still believe that in five years’ time, the growth in the market will create better economics onshore and that’s a real fallacy,” he said.

Foreign banks’ joint ventures in China remained sub-scale and suffered from poor profitability, he said. In the securities business, for example - which helps companies list on the Chinese stock exchanges - the foreign banks’ ventures have an average cost-income ratio of 60 per cent compared with an average of 60 per cent for domestic groups and 40 per cent for the top 20 domestic groups.

The story is similar in commercial banking and asset management joint ventures, though the differences are less extreme.

Banks such as Goldman Sachs and UBS, which have the longest history in the mainland securities markets, and others that operate in China, all argue that the onshore business cannot be looked at alone.

The benefit, they say, is in the offshore business derived from relationships won through onshore ventures. This includes Hong Kong stock market listings and the hedging of foreign exchange exposures.

Mr Edeleman said some banks did build significant foreign exchange contracts with corporate clients.

“Banks historically have justified their onshore footprint by looking at the money they’re printing offshore,” he said. But instead, he added, they should review their operations and redesign their strategy.

**See Lex**

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**EADS chief’s concern over cash targets**

By James B Roads in Paris

and Andrew Parker

in London

Tom Enders, chief executive of EADS, has written to senior managers to express concern about hitting year-end cash targets for the European aerospace manufacturer.

Mr Enders’ letter to employees has come less than a week after EADS reported a doubling of net income to €916m during the nine months to September, cash consensus forecast.

In a letter sent yesterday, and seen by the Financial Times, Mr Enders wrote: “Unfortunately, with our schedules so heavily back-loaded, we are still a long way from where we need to be for our year-end cash flow commitments. The 2013 year-end race will be particularly tough.”

EADS’s shares fell 4 per cent after the company said it would cut the 2013 forecast guidance for free cash flow in the period was €3.3bn, partly because of hold-ups in delivering the Airbus A380 superjumbo and a fuselage with the German government over development aid for its new wide-body A350 passenger jet.

Mr Enders also used the letter to warn executives of a “zero-tolerance” approach to corruption, a day after German police raided EADS’s offices in an investigation into alleged bribes related to the sale of Eurofighters to Austria.

The CEO of the Airbus manufacturer, the first since Mr Enders had to abandon merger talks with BAE Systems, the British defence manufacturer, EADS reported a doubling of net income to €916m during the nine months to September.

However, it acknowledged that the flagship A380 programme remained challenging. It also warned of significant pricing pressure on its passenger jets. The company has been bedevilled by cost overruns and delays on its most important programmes, such as the A350, helping explain jitters over cash flow.

Mr Enders said: “We will not run out of operational challenges any time soon, especially at Eurocopter and Airbus... Aircraft deliveries are key.”

Harald Wilhelm, finance director, said a number of A380s were awaiting delivery because of extra work needed to fix cracks on wing components of the A380. A variety of other factors contributed to the cash shortfall.

EADS said it should break even on a free cash flow basis this year if the A380s were delivered. It had expected €3bn of free cash flow in the third quarter, down from €3.7bn in the third quarter last year.

Group sales rose 14 per cent to €37.3bn in the nine months, while net income rose 62 per cent to €916m.

Guarded welcome for EU drive to deal with credit crisis

Europe’s hardest-pressed carmakers have been frustrated with lack of action by governments over the crisis.

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