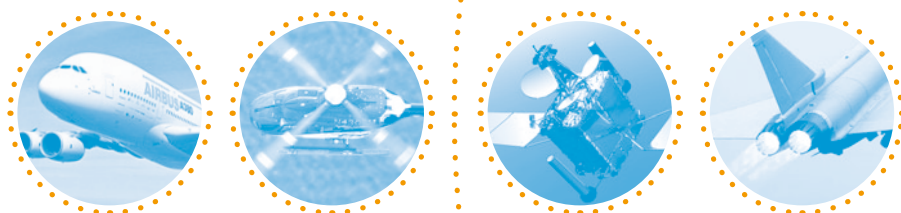


# Documentation for the Annual General Meeting

on Tuesday 1 June 2010 at 2 p.m.

at Hotel Okura Amsterdam  
Ferdinand Bolstraat 333,  
1072 LH Amsterdam,  
The Netherlands



Agenda	2
Text of the resolutions proposed by the Board of Directors	3
Presentation of the resolutions proposed by the Board of Directors	4
Report of the Board of Directors	6
Financial Statements 2009 (included in a separate booklet)	57
Useful Information	58



# Agenda

- 1 Opening and general introductory statements
- 2 Presentation by the Chairman and the Chief Executive Officer, including report by the Board of Directors in respect of the:
  - a. Corporate governance statement
  - b. Policy on dividend
  - c. Report on the business and financial results of 2009
- 3 Discussion of all Agenda items
- 4 Vote on the resolutions in respect of the:
  - a. Adoption of the audited accounts for the financial year 2009
  - b. Approval of the result allocation
  - c. Release from liability of the members of the Board of Directors
  - d. Appointment of Ernst & Young Accountants L.L.P. as co-auditor for the financial year 2010
  - e. Appointment of KPMG Accountants N.V. as co-auditor for the financial year 2010
  - f. Approval of the compensation policy and remuneration of the members of the Board of Directors
  - g. Renewal of the authorisation for the Board of Directors to repurchase shares of the Company
- 5 Closing of the meeting



# Text of the resolutions proposed by the Board of Directors

## FIRST RESOLUTION

### Adoption of the audited accounts for the financial year 2009

**RESOLVED THAT** the audited accounts for the accounting period from 1 January 2009 to 31 December 2009, as submitted to the Annual General Meeting by the Board of Directors, be and hereby are adopted.

## SECOND RESOLUTION

### Approval of the result allocation

**RESOLVED THAT** the net loss of €763 million, as shown in the income statement for the financial year 2009, shall be deducted from retained earnings.

## THIRD RESOLUTION

### Release from liability of the members of the Board of Directors

**RESOLVED THAT** the members of the Board of Directors be and hereby are granted a release from liability for the performance of their duties during and with respect to the financial year 2009, to the extent that their activity has been reflected in the audited annual accounts for the financial year 2009 or in the report of the Board of Directors.

## FOURTH RESOLUTION

### Appointment of Ernst & Young Accountants L.L.P. as co-auditor for the financial year 2010

**RESOLVED THAT** the Company's co-auditor for the accounting period being the financial year 2010 shall be Ernst & Young Accountants L.L.P., whose registered office is at Antonio Vivaldistraat 150, 1083 HP Amsterdam, The Netherlands.

## FIFTH RESOLUTION

### Appointment of KPMG Accountants N.V. as co-auditor for the financial year 2010

**RESOLVED THAT** the Company's co-auditor for the accounting period being the financial year 2010 shall be KPMG Accountants N.V., whose registered office is at Fascinatio Boulevard 200, 3065 WB Rotterdam, The Netherlands.

## SIXTH RESOLUTION

### Approval of the compensation policy and remuneration of the members of the Board of Directors

**RESOLVED THAT** the proposed compensation policy and remuneration including the rights to subscribe for shares for the members of the Board of Directors, as included in the report of the Board of Directors, be and hereby is accepted and adopted.

## SEVENTH RESOLUTION

### Renewal of the authorisation for the Board of Directors to repurchase shares of the Company

**RESOLVED THAT** the Board of Directors be and hereby is authorised, for a new period of 18 months from the date of this Annual General Meeting, to repurchase shares of the Company, by any means, including derivative products, on any stock exchange or otherwise, as long as, upon such repurchase, the Company will not hold more than 10% of the Company's issued share capital and at a price not less than the nominal value and not more than the higher of the price of the last independent trade and the highest current independent bid on the trading venues of the regulated market of the country in which the purchase is carried out. This authorisation supersedes and replaces the authorisation given by the Annual General Meeting of 27 May 2009 in its ninth resolution.



# Presentation of the resolutions proposed by the Board of Directors

## FIRST RESOLUTION

### Adoption of the audited accounts for the financial year 2009

We recommend that this Annual General Meeting (AGM) approve the audited accounts for 2009.

## SECOND RESOLUTION

### Approval of the result allocation

We recommend that this AGM resolve that the net loss of € 763 million, as shown in the income statement for the financial year 2009, shall be deducted from retained earnings.

The Board of Directors has decided that no dividend will be paid out for the financial year 2009.

For information on dividend policy, see Section 3.3 “Dividend Policy” of the Board report.

## THIRD RESOLUTION

### Release from liability of the members of the Board of Directors

We recommend that this AGM discharge the members of the Board of Directors from their responsibility for the conduct of the Company’s business with respect to the financial year 2009.

## FOURTH AND FIFTH RESOLUTIONS

### Appointment of the co-auditors for the financial year 2010

We recommend that the Company’s co-auditors for the financial year 2010 should be Ernst & Young Accountants L.L.P. whose registered office is at Antonio Vivaldistraat 150, 1083 HP Amsterdam, The Netherlands, and KPMG Accountants N.V. whose registered office is at Fascinatio Boulevard 200, 3065 WB Rotterdam, The Netherlands. Our proposal is thus to renew the appointment of the same co-auditors based on their respective qualifications, performance and independence. They are designated as co-auditors, jointly responsible for auditing the accounts for the financial year 2010. They will put forward a single audit opinion.

## SIXTH RESOLUTION

### Approval of the compensation policy and remuneration of the members of the Board of Directors

We recommend that the AGM adopt the compensation policy and remuneration including the rights to subscribe for shares for the members of the Board of Directors as described in the Board report (see in particular Section 4.5 “Compensation policy and remuneration of the members of the Board of Directors”).

For a report on the remuneration of the members of the Board of Directors during the year 2009, see:

- Note 11 to the Company Financial Statements; and
- Note 36 and 37 to the Consolidated Financial Statements (IFRS).



## SEVENTH RESOLUTION

### **Renewal of the authorisation for the Board of Directors to repurchase shares of the Company**

We recommend that this AGM approve the renewal of the authorisation to the Board of Directors to repurchase shares of the Company, for a new 18-month period by any means, including derivative products, on any stock exchange or otherwise. Although Dutch law allows companies to repurchase up to 50% of their share capital, EADS restricts itself to repurchase of up to 10% in accordance with its previous practice and general market practice.

This authorisation will supersede and replace the authorisation granted by the AGM on 27 May 2009. The purposes of the share buy-back programme to be implemented by EADS will be determined on a case-by-case basis by the Board of Directors

based on needs and possibilities. However, the main purpose of the programme is the reduction of share capital by cancellation of all or part of the repurchased shares, to avoid the dilution effect related to certain share capital increases reserved for employees of the EADS Group and/or in the context of the exercise of stock options. In addition, EADS does not currently envisage any other use, in particular within the context of any takeover bid. Indeed, this possibility is hypothetical considering the current shareholding structure of EADS.

For additional information on EADS' share buy-back programmes including their purposes, characteristics and status, the reader should refer to EADS' website at [www.eads.com](http://www.eads.com) (Investor Relations) and to the Registration Document posted thereon (see in particular Section 3.3.7.5 "Description of the share repurchase programme to be authorised by the annual general shareholders' meeting to be held on 1 June 2010").



# Report of the Board of Directors

(issued as of 8 March 2010)

Dear shareholders,

This is the report of the Board of Directors (the “**Board report**”) on the activities of European Aeronautic Defence and Space Company EADS N.V. (the “**Company**” or “**EADS**” and together with its subsidiaries, the “**Group**”) during the 2009 financial year, prepared in accordance with Dutch regulations.

For further information and detail regarding EADS’ activities, finances, financing, risk factors and corporate governance, the reader should refer to the EADS website at [www.eads.com](http://www.eads.com) (Investor Relations and Corporate Governance) and to the documents posted thereon.

## 1. GENERAL OVERVIEW

Since its creation, in July 2000, by combining the businesses previously operated by Aerospatiale Matra, DaimlerChrysler Aerospace AG (“DASA”) and Construcciones Aeronáuticas SA (“CASA”), EADS has been a recognised leader across most sectors of its operations, consolidating its control in such areas of longstanding collaboration as Airbus, Eurocopter, Eurofighter, Astrium, MBDA and the Ariane industrial framework.

With a workforce of 119,506 employees (at year-end 2009) and revenues of €42.8 billion in 2009, EADS is Europe’s number one aerospace and defence company, and the second largest aerospace and defence company in the world.

In terms of market share, EADS is among the top two manufacturers of commercial aircraft and civil helicopters, commercial space launch vehicles and missiles systems, and a leading supplier of military aircraft, satellites, defence electronics, integrated systems solutions for civil and defence applications, and related services. EADS has organised its businesses in four Divisions: (i) Airbus (incl. Airbus Military) (ii) Eurocopter, (iii) Astrium and (iv) Defence & Security.

In 2009, EADS generated 75% of its revenues in the civil sector and 25% in the defence sector.

## 2. MAIN EVENTS FOR 2009

In 2009, EADS demonstrated resilience in a difficult market environment: revenues for 2009 amount to €42.8 billion. Despite the economic downturn, EADS has protected its capacity to grow and innovate, thanks to a broad business portfolio, increased defence and institutional activities and a solid net cash position. EADS has also succeeded in maintaining a strong order book, which at €389.1 billion represents several years of full production. The Group marked the beginning of its 10<sup>th</sup> anniversary with a succession of significant milestones: A400M and EC175 first flights and celebration of the 30<sup>th</sup> anniversary of the Ariane launcher.

For the full year 2009, EADS delivered an EBIT\* of €-322 million. This EBIT\* was burdened by A400M and A380 provisions and exceptional negative foreign exchange impacts. EBIT\* before one-off – excluding non-recurring charges or profits – amounts to €2.2 billion. Revenues decreased by 1% to €42.8 billion in 2009. On 31 December 2009, the order book of EADS reached €389.1 billion. The Net Cash position is solid at €9.8 billion thanks to better than expected Free Cash Flow and remains a strong asset for the Group. The Net Cash figure includes customer payments at year-end 2009, which had been expected for 2010.

\* EBIT: earnings before interest and taxes, pre-goodwill impairment and exceptionals.



From an economic standpoint, EADS' performance is burdened by a weakening hedge book over time. In 2009, EADS dollar hedges matured at an average rate of €1 = US\$1.26, compared to a rate of €1 = US\$1.18 in 2008.

In the face of a tough economic environment, EADS and its Divisions are pursuing improvement programmes and cost-saving actions. Launched early in 2007, Airbus' turnaround programme Power8 exceeded targets, delivering around €2 billion of gross annual savings against the projected cost base. Power8 Plus, launched in 2008, aims to add a further €650 million in savings for Airbus and a total €1 billion in savings overall for the EADS Group against a projected cost base by the end of 2012. The "Future EADS" programme – launched at the end of 2008 with the declared goal of achieving by the end of 2012 an EBIT\* contribution of €350 million against the projected cost base – aims at further integrating the organisational structure, improving the decision making processes and saving costs. In 2009, Eurocopter launched a new corporate transformation programme called SHAPE in order to adapt the company to the new economic context while maintaining sustainable growth and aiming to save €200 million a year by the end of 2011, compared to the projected cost base. The programme includes Eurocopter's contribution to Future EADS. Priority is currently being given to cash protection through focused capital expenditures and R&D expenses, in order to protect the Group whilst preparing the future.

As a result of constructive negotiations over several months, the Customer Nations and EADS/Airbus/Airbus Military S.L. (AMSL) came in March 2010 to a principal agreement regarding the A400M Military Transport Aircraft ("A400M Understanding") with the intention to amend the original contract accordingly. In this principle agreement, the Launch Nations agree to increase the price of the contract by €2 billion; waive all liquidated damages related to current delays; provide an additional amount of €1.5 billion in exchange for a participation in future export sales (Export Levy Facilities); and accelerate pre-delivery payments in the period of 2010 to 2014 according to a new delivery plan.

Based on the ongoing progress on the commercial side since the 4<sup>th</sup> quarter 2009, the successful first flight of the A400M and a significantly higher visibility on total expected costs, EADS reassessed the A400M loss provision which led to an increase of this provision by €1.8 billion pre tax. As the envisaged contract amendments currently reflected in the A400M Understanding and its related documents have not been finalised yet with the Launch Nations, the reassessment of the A400M loss provision has been determined based on the best estimate of EADS' management and may be subject to changes depending on final contracts to be implemented. If substantial changes on this assessment were to occur, EADS' performance could be significantly impacted.

\* EBIT: earnings before interest and taxes, pre-goodwill impairment and exceptionals.

The year 2009 was also characterised by changes in the Board of Directors and Executive Committee of the Group. Bodo Uebber was appointed Chairman of the Board of Directors succeeding Rüdiger Grube in April. After the Annual General Meeting of shareholders ("AGM") in May, the Board of Directors welcomed a new member (Wilfried Porth) to fill the vacancy. Prior to this, the Board of Directors appointed Domingo Ureña-Raso as the new Head of Airbus Military. In October, Sean O'Keefe was appointed as Head of EADS North America, while Ralph Crosby will concentrate on his role as Chairman of EADS North America.

Following the financial crisis, the industry finished 2009 faced with some significant challenges to tackle although some early signs of a recovery were already emerging. The commercial aviation business experienced the largest ever decline in passenger demand with a significant impact on airlines operations and profitability. Aircraft manufacturers were required to take strong pro-active efforts to maintain the solid order books built over the preceding years. Defence and institutional activities proved less vulnerable to the downturn, as government spending is planned several years in advance.

Given continued uncertainty surrounding the duration of the economic downturn and the continuing effects, market actors need to remain attentive to the full spectrum of value drivers available. The weak US dollar has disadvantaged EU companies with a cost base mainly in euros whereas US manufacturers experienced some benefit as US exports became more attractive.

Despite short-term challenges, air traffic growth forecasts and indications of consolidation in the airline industry, the civil business maintained solid order books. Historically, air traffic follows changes in annual global GDP and consequently the recession has had an important slowdown effect on air transport and passenger traffic. Encouraging improvements were recorded at the end of the year, and longer-term growth in global passenger demand looks positive.

European defence budgets have been relatively stable over time but are facing increasing pressure as a result of public debts. This could limit growth. However, the long-term nature of the investments in Defence and Space makes these segments less exposed to short-term effects. Sustained growth in security spending both from government and private sectors has been driven by the continued presence of security and defence threats as well as an increased awareness of emergency response requirements (adverse weather conditions, pandemics, etc.).

**Airbus** delivered a total of 498 aircraft in 2009, 15 more than in 2008, which represents a new company delivery record for a single year. A380 deliveries fell short of the target set at the beginning of 2009, due to continued ramp-up difficulties.





In December 2009, the A380's production was reviewed and improvement measures have since been introduced to minimise delays on the final assembly line. Despite challenging market conditions, Airbus met its order intake target with a total of 310 gross orders worth US\$ 34.9 billion at list prices, or 54% of the worldwide market share of aircraft of more than 100 seats. Three years after its launch the next generation A350 XWB passed the 500 orders milestone.

Further company streamlining saw the formation of **Airbus Military**, signalling the full integration of military aircraft programmes within Airbus. In December 2009, the A400M took off for its maiden flight. Conversion work for the first A330-based Multi-Role Tanker Transport (MRTT) for the Royal Australian Air Force was completed and the MRTT received a further incremental order for three aircraft, raising the total orders to 28 at the end of 2009. The smaller military transport aircraft won 15 orders from seven customers in 2009. These include two orders for the C-212, two for the CN-235 and 11 for the C-295.

**Eurocopter** met its business and delivery objectives for 2009 with revenues roughly at the same level as in 2008. The sharp order decline in the civil market for light helicopters due to the economic crisis was over-compensated by military orders in terms of value. Service activities accounted for 35% of revenues in 2009. Eurocopter's key highlights in 2009 were the roll-out of the KUH (Korean Utility Helicopter) and the maiden flight of the EC175, a joint development with AVIC of China. The Tiger proved its operational reliability while deployed in Afghanistan with the French forces. NH90 deliveries continued throughout 2009, with 40 tactical transport version helicopters now in service in five countries. About 100 UH-72A Lakota have now been delivered to the US Army and Navy and a further 51 Lakotas were ordered in December 2009.

Regarding order bookings, a net total of 344 new helicopters were sold in 2009 (715 in 2008), which allowed Eurocopter to secure its leading position in 2009 in a weak civil and parapublic market. The Division's total order book at the end of 2009 amounted to 1,303 helicopters, or the equivalent of €15.1 billion, an increase of more than €1 billion compared to the end of 2008. Deliveries remained stable with 558 new civil and military helicopters to reach consolidated revenues of €4.6 billion. The Division retained its balance between the civil and military markets: 52% of the revenues deriving from civil and 48% from military products.

**Astrium** achieved strong growth in 2009 with revenues of over €4.8 billion and new orders totalling €8 billion, including a €4 billion order from Arianespace to produce 35 Ariane 5 launchers and a €500 million contract from SES ASTRA for 4 multi-purpose telecommunication satellites. The Ariane 5 launcher continued to prove its reliability completing seven launches for the year, for a sequence of 35 successful launches in a row. In the defence sector, Astrium also successfully tested the M51 ballistic missile and placed both the Spirale demonstrator and the Helios 2B military surveillance satellite in orbit for France. During a record year for telecommunications satellites, with seven new orders representing one quarter of the worldwide market, the COMSATBw-1 military communication satellite was placed in orbit for Germany. Despite missing out on the ESA contract for the next batch of Galileo satellites, Astrium will be responsible for a large part of the contract's value through subcontracting work for Astrium subsidiaries. Astrium remains committed to competing for the next batch.

Revenues at **Defence & Security** (DS) remained roughly stable in 2009. The Eurofighter partner nations awarded the Tranche 3a contract for 112 aircraft, which strengthened the Division's position in the global combat aircraft market. The year saw the delivery of the 200<sup>th</sup> Eurofighter. DS was awarded the border security programme covering the full borders of the Kingdom of Saudi Arabia. With this contract, DS confirmed its competitive position as lead systems integrator for global security projects. Regarding unmanned aerial vehicles ("UAVs"), 2009 was marked by the successful test of the UAV demonstrator Barracuda and completion of the risk reduction study for the Talarion UAV on behalf of France, Germany and Spain. Security capabilities developed through the expansion of TETRA networks in India, China, and Bulgaria. Adapting to new worldwide threats, DS participated in improving potential responses to cyber attacks thanks to its pioneering new solution for supervising information system security, "Cockpit Security".

The good performance of the military, institutional and space businesses in 2009 has demonstrated the validity of the Vision 2020 goal of counterbalancing revenues from the Airbus commercial aviation business with revenues from the other Divisions. EADS will further focus on eco-efficiency and research and development ("R&D") to prepare the Company for the future.





## 3. CHANGE IN THE SHAREHOLDING AND STOCK PRICE EVOLUTION

### 3.1 Shareholding and Voting Rights

#### ISSUED SHARE CAPITAL

As of 31 December 2009, EADS' issued share capital amounted to €816,105,061 divided into 816,105,061 shares of a nominal value of €1 each. The issued share capital of EADS as of such date represents 27.2% of the authorised share capital of €3,000,000,000 comprising 3,000,000,000 shares. The holder of one issued share has one vote and is entitled to the profit in proportion to his participation in the issued share capital.

#### MODIFICATION OF SHARE CAPITAL OR RIGHTS ATTACHED TO SHARES

Unless such right is limited or eliminated by the shareholders' meeting as described below, holders of shares have a pre-emptive right to subscribe for any newly issued shares *pro rata* to the aggregate nominal value of shares held by them, except for shares issued for consideration other than cash and shares issued to employees of the Company or of a Group company. For the contractual position as to pre-emption rights, see "3.4 Relationship with Principal Shareholders".

The shareholders' meeting has the power to issue shares. The shareholders' meeting may also authorise the Board of Directors for a period of no more than five years, to issue shares and to determine the terms and conditions of share issuances.

The shareholders' meeting also has the power to limit or to exclude pre-emption rights in connection with new issues of shares, and may authorise the Board of Directors for a period of no more than five years, to limit or to exclude pre-emption rights. All resolutions in this context must be approved by a two-thirds majority of the votes cast during the shareholders' meeting in the case where less than half of the capital issued is present or represented at said meeting.

The table below shows the total potential dilution that would occur if all the stock options issued as at 31 December 2009 were exercised:

	Number of shares	Percentage of diluted capital	Number of voting rights	Percentage of diluted voting rights*
Total number of EADS shares issued as of 31 December 2009	816,105,061	96.9%	812,989,265	96.9%
Total number of EADS shares which may be issued following exercise of stock options	25,785,645	3.1%	25,785,645	3.1%
<b>Total potential EADS share capital</b>	<b>841,890,706</b>	<b>100%</b>	<b>838,774,910</b>	<b>100%</b>

\* The potential dilutive effect on capital and voting rights of the exercise of these stock options may be limited as a result of the Company's share purchase programmes and in the case of subsequent cancellation of repurchased shares.

Pursuant to the shareholders' resolution adopted at the AGM held on 27 May 2009, the powers to issue shares and to grant rights to subscribe for shares which are part of the Company's authorised share capital and to limit or exclude preferential subscription rights for existing shareholders have been delegated to the Board of Directors provided that such powers shall be limited to 1% of EADS' authorised share capital. Such powers have been granted for a period expiring at AGM to be held in 2011.

At the AGM held on 27 May 2009, the Board of Directors was authorised, for a period of 18 months from the date of such AGM, to repurchase shares of EADS, by any means, including derivative products, on any stock exchange or otherwise, as long as, upon such repurchase, EADS would not hold more than 10% of EADS' issued share capital. Shareholders will be asked to renew this authority at the AGM to be held on 1 June 2010.

The shareholders' meeting may reduce the issued share capital by cancellation of shares or by reducing the nominal value of the shares by means of an amendment to the Articles of Association of EADS (the "**Articles of Association**"), the latter requiring the approval of at least two-thirds of the votes cast at the general meeting.

#### SECURITIES GRANTING ACCESS TO THE COMPANY'S CAPITAL

Except for stock options granted for the subscription of EADS shares (see "Notes to Consolidated Financial Statements (IFRS) — Note 36: Share-Based Payment"): there are no securities that give access, immediately or over time, to the share capital of EADS.



### CHANGES IN THE ISSUED SHARE CAPITAL IN 2009

During 2009, 22,987 treasury shares were cancelled in July 2009 in accordance with the resolution adopted at the AGM held on 27 May 2009.

In addition, in accordance with the resolution adopted at the AGM held on 27 May 2009, the Board of Directors approved the implementation of an employee share ownership plan (“**ESOP**”) for 2009. As a result, 1,358,936 subscribed shares were issued on 18 December 2009.

### SHAREHOLDING STRUCTURE AND DEVELOPMENT IN 2009

EADS combined the activities of *Aérospatiale Matra* (“**Aérospatiale Matra**” or “**ASM**”), Daimler Aerospace AG (“**DASA AG**”) (with the exception of certain assets and liabilities) and *Construcciones Aeronauticas SA* (“**CASA**”) pursuant to a series of transactions completed in July 2000.

In this document, the term “**Completion**” relates to the July 2000 completion of the contributions made by *Aérospatiale Matra*, *DASA AG* and *Sociedad Estatal de Participaciones Industriales* (“**SEPI**”) (a Spanish state holding company) to EADS to combine such activities into EADS.

The term “**Indirect EADS Shares**” relates to the EADS shares held by Daimler AG (“**Daimler**”), SEPI and *Société de Gestion de l’Aéronautique, de la Défense et de l’Espace* (“**Sogeadé**”), for which EADS Participations B.V. exercises all the attached voting rights, as well as, for Lagardère SCA (“**Lagardère**”) and *Société de Gestion de Participations Aéronautiques* (“**Sogepa**”), or the companies of their group, the number of EADS shares held indirectly via Sogeadé, reflecting by transparency, their respective interest in Sogeadé.

Unless the context requires otherwise, the shareholdings of *DASA AG* in EADS are referred to in this document as shareholdings of Daimler, and the rights and obligations of *DASA AG* pursuant to the agreements described herein are referred to as rights and obligations of Daimler.

As at 31 December 2009, 22.46% of EADS’ share capital was held by *DASA AG*, which is a 66.67% subsidiary of Daimler Luft- und Raumfahrt Holding AG (“**DLRH**”), a 99.90% subsidiary of Daimler. The remaining 33.33% of *DASA AG* is held by a consortium of private and public-sector investors. Sogeadé, a French partnership limited by shares (*société en commandite par actions*) whose share capital, as at 31 December 2009, is held 66,67% by Sogepa (a French state holding company)

and 33,33% by Désirade (a French *société par actions simplifiée* wholly owned by Lagardère), held 22.46% of the share capital of EADS. Thus, 44.92% of the share capital of EADS was held by Daimler and Sogeadé who jointly control EADS through a Dutch law contractual partnership managed by EADS Participations B.V. (the “**Contractual Partnership**”). SEPI which is a party to the Contractual Partnership, held 5.48% of the share capital of EADS. The public (including EADS employees) and the Company held, respectively, 49.15% and 0.39% of the share capital of EADS. The *République française* (the “**French State**”) held directly 0.06% of the share capital, such shareholding being subject to certain specific provisions.

In April 2006, Daimler reduced by 7.5% its stake in EADS and Lagardère issued bonds redeemable into EADS shares, as a result of which it is committed to reduce its stake in EADS by 2.5% in June 2007, 2.5% in June 2008 and 2.5% in June 2009, *i.e.* a total of 7.5%.

On 9 February 2007, Daimler reached an agreement with a consortium of private and public-sector investors by which it effectively reduced its shareholding in EADS from 22.5% to 15%, while keeping and maintaining the balance of voting rights between Germany and French controlling shareholders. Daimler has placed its entire 22.5% equity interest in EADS into a new company controlled by Daimler, in which the consortium of investors has acquired a one-third interest through a special-purpose entity. This effectively represents a 7.5% stake in EADS. Daimler continues to control the voting rights of the entire 22.5% package of EADS shares. Daimler has the option of dissolving the new structure on 1 July 2010 at the earliest. If the structure is dissolved, Daimler has the right either to provide the investors with EADS shares or to pay cash compensation. If EADS shares are provided, the German State, and the French State and Lagardère through Sogeadé, will be entitled to preempt such EADS shares to retain the balance between the German and the French side.

On 26 January 2009, Lagardère and Natixis, the sole subscriber to and sole holder of the outstanding mandatory exchangeable bonds issued by Lagardère in 2006, signed an amendment to the subscription contract whereby they agreed, on the initiative of Natixis, to bring forward the redemption date of the mandatory exchangeable bonds – and consequently, the delivery date of the third instalment of EADS shares – from 25 June 2009 to 24 March 2009. Under the terms of this amendment, Lagardère delivered 20,370,000 EADS shares, representing 2.5% of the capital and voting rights of EADS, to Natixis on 24 March 2009.





## RIGHT TO ATTEND MEETINGS

Each holder of one or more shares may attend shareholders' meetings, either in person or by written proxy, to speak and to vote according to the Articles of Association.

A shareholder or person who has the right to attend a meeting can see to it that he is represented by more than one proxy holder, provided that only one proxy holder can be appointed for each share.

In relation to holders of registered shares, the Board of Directors may provide in the convening notice that those persons are recognised as authorised to exercise the rights to attend, speak and vote at the shareholders' meetings, who at the point in time mentioned in the convening notice are authorised to exercise those rights and as such have been registered in the register appointed for the purpose by the Board of Directors, irrespective of who is authorised to exercise those rights on the day of the meeting.

Any person who is entitled to exercise the rights set out in the above paragraph (either in person or by means of a written proxy) and is attending the meeting from another location in such a manner that the person acting as Chairman of the meeting is convinced that such a person is properly participating in the meeting, shall be deemed to be present or represented at the meeting, shall be entitled to vote and shall be counted towards a quorum accordingly.

As a prerequisite to attending the shareholders' meeting and to casting votes, the holders of bearer shares and those who derived the aforementioned rights from these shares shall be obliged to deposit their share certificate or the documents evidencing their rights against receipt, at such locations as shall be determined by the Board of Directors and stated in the convening notice.

Such convening notice shall also state the day that has been fixed as the final day on which the share certificates and the documents evidencing the aforementioned rights may be deposited. That day may not be earlier than five business days, but in each case not earlier than the seventh day, prior to the meeting.

As far as registered shares are concerned, the Board of Directors should be informed in writing within the timeframe mentioned in the two preceding sentences of the intention to attend the meeting (the Board of Directors must receive such written information ultimately on the date specified in the notice by which the meeting is convened).

Holders of shares that are registered in the shareholders' register kept in Amsterdam have the option of holding them through Euroclear France S.A. In this case the shares are registered in the name of Euroclear France S.A.

Shareholders holding their EADS shares through Euroclear France S.A. who wish to attend general meetings will have to request from their financial intermediary or accountholder an admission card and be given a proxy to this effect from Euroclear France S.A. in accordance with the instructions specified by the Company in the convening notice. For this purpose, a shareholder will also be able to request that it be registered directly (and not through Euroclear France S.A.) in the register of the Company. However, only shares registered in the name of Euroclear France S.A. may be traded on stock exchanges.

In order to exercise their voting rights, the shareholders will also be able, by contacting their financial intermediary or accountholder, to give their voting instructions to Euroclear France S.A. or to any other person designated for this purpose, as specified by the Company in the convening notice.

Pursuant to its Articles of Association, EADS may set a "registration date" at which the persons entitled to attend and vote at the shareholders' meetings are recorded for this purpose irrespective of who is shareholder at the time of the meeting. It may also provide for electronic means of convocation, attendance and voting at the shareholders' meetings. The introduction of such electronic means will depend on the availability of the necessary technical means and the market practice.

## MANDATORY PUBLIC OFFER

### Dutch Law

In accordance with Dutch law, shareholders are required to make a public offer for all issued and outstanding shares in the Company's share capital if they – individually or acting in concert (as such terms are defined below), directly or indirectly – have 30% or more of the voting rights (significant control) in the Company. In addition to the other available exemptions listed below, the requirement to make a public offer does not apply to persons, who at the time the takeover provisions under Dutch law came into force, already held – individually or acting in concert – 30% or more of the voting rights in the Company.

Under Dutch law, natural persons, legal entities or companies are "acting in concert" if they cooperate on the basis of an agreement with the objective to acquire significant control (as defined above) in the target company, or if they cooperate with the target company with the objective to prevent the success of an announced public offer for the shares in such target company. The following categories of natural persons, legal entities or companies are deemed to be "acting in concert" under Dutch law:

- (i) legal entities or companies that form a group of companies,
- (ii) legal entities or companies and their subsidiaries, and
- (iii) natural persons and their subsidiary companies.



In addition to the exemption stated above, the obligation to make a public offer does not apply to the natural person, legal entity or company that, amongst others:

- acquires significant control as a result of declaring unconditional a public offer made for all shares (or depositary receipts) in the target company;
- is a legal entity, independent from the target company, that acquires significant control after a public offer has been announced by a third party, provided that such entity (i) holds the shares in the target company for a maximum period of two years and for purposes of protection of the target company and (ii) the corporate objects of such entity are to preserve the interests of the target company;
- is a legal entity, independent from the target company, which has issued depositary receipts for the shares in the target company;
- acquires significant control as a result of: (i) an intra-group transfer of the shares representing significant control; or (ii) a transfer between a parent company and its subsidiary;
- acquires significant control acting in concert with one or more other natural persons, legal entities or companies, in which case the obligation to make a public offer lies with the natural person, legal entity or company that can exercise most of the voting rights in the general meeting of shareholders of the target company;
- acts as a custodian (if and to the extent it cannot exercise any voting rights in its sole discretion).

The obligation to make a public offer also does not apply if:

- the natural person, legal entity or company, after acquiring significant control, loses such control within a 30 day grace period, unless (i) loss of control is due to a transfer to a natural person, legal entity or company to which one of the exemptions set out above applies, or (ii) the acquirer of the significant control has exercised its voting rights during this 30 day period; or
- the target company's general meeting of shareholders agrees upfront with the acquisition of significant control – and any subsequent acquisition of shares – by a third party with 95% of votes cast in favour of such proposal, excluding any votes by such third party and any of its concert parties.

Under Dutch Law, a minority shareholder may also make a request for his shares to be purchased by an offeror who holds at least 95% of the issued share capital and the voting rights.

This claim must be brought before the Enterprise Chamber of the Court of Appeals in Amsterdam within the three-month period after the closing of the acceptance period of the public offer.

### Articles of Association

Pursuant to Article 15 of the Articles of Association, in the event that a direct or indirect acquisition of shares in the Company results in a person acting alone or in concert holding shares or voting rights where the control over the number of shares or votes reaches or exceeds 33 1/3% of the issued share capital of the Company then such person(s) is (are) required to make an unconditional public offer to all shareholders to acquire all of their shares or to procure that such an offer is made. Such offer must comply with all of the applicable regulatory or other legal requirements in each jurisdiction in which the Company's shares are listed.

Pursuant to Article 16 of the Articles of Association, in the event of a failure to launch such an offer (or if the offer does not satisfy the relevant legal or regulatory requirements in each of the jurisdictions where the Company's shares are listed) within two months after notification to the Company of shareholdings reaching or exceeding 33 1/3% or failing such notification, within a period of 15 days of receipt of notice from the Board of Directors confirming the obligation to make the public offer, then any person(s) who is (are) required to make the offer shall within the period specified by the notice sent by the Board of Directors exchange for depositary receipts to be issued by the Stichting Administratiekantoor EADS (the “**Foundation**”), such percentage of shares they hold over and above the 33 1/3% of the shares issued by the Company (the “**Excess Percentage**”). From the date specified in the notice sent by the Board of Directors, the right to attend meetings, to vote and to receive dividends shall be suspended in respect of the Excess Percentage. If, within a period of 14 days from a further notice from the Board of Directors, the person required to exchange his shares representing his Excess Percentage for depositary receipts still has not done so, then the Company is irrevocably authorised to exchange such shares for depositary receipts issued by the Foundation. The constitutive documents of the Foundation provide that the Foundation shall not have the right to attend shareholders' meetings of the Company as a shareholder, to speak at such meetings and to exercise the voting rights attached to the shares it holds, except if, in the view of the Board of the Foundation, such action is required for the performance of the mandatory offer provisions in the Articles of Association.





The obligation to make a public offer does not apply in the following situations (Article 17 of the Articles of Association):

- (i) to a transfer of shares to the Company itself or to the Foundation;
- (ii) to a securities custody, clearing or settlement institution acting in that capacity, provided that the provisions of Article 16 of the Articles of Association described above shall be applicable where shares are held for persons acting in breach of the provisions of Articles 15 and 16 of the Articles of Association described above;
- (iii) to a transfer of shares by the Company or to an issue of shares by the Company on a merger or on an acquisition by the Company of another company or business;
- (iv) to a transfer of shares from one party to another party who is a party to an agreement as envisaged under Dutch law to define “concert parties” where the agreement is entered into before 31 December 2000 (as amended, supplemented or replaced by a new agreement by the admission of one or more new parties or the exclusion of one or more parties) except that this exemption will not apply to a new party that individually or with its subsidiaries and/or group companies holds at least 33 1/3% of the control over shares or votes in

the Company; this exemption is intended to exclude the parties to the Participation Agreement (See “3.4 Relationship with Principal Shareholders”) as amended, supplemented or replaced by a new agreement by the admission of one or more new parties or the exclusion of one or more parties from the obligation to make the mandatory offer in the event of a transfer of shares between themselves; or

- (v) to a transfer by a shareholder to a subsidiary in which it holds more than 50% or by a shareholder to a company which holds more than 50% in such transferring shareholder.

#### AMENDMENTS TO THE ARTICLES OF ASSOCIATION

According to the Articles of Association, resolutions to amend the Articles of Association require a two-thirds majority of the votes validly cast at a general meeting of shareholders. The proposal containing the literal text of the proposed amendment must be available for inspections by shareholders at EADS’ headquarters and at a location in Amsterdam to be determined by the Board of Directors, from the day the meeting is convened until after the end of the meeting.

## 3.2 Stock Price Evolution 2009

In 2009, EADS share price was mainly driven by concerns about the economic crisis, outlook for commercial aircraft deliveries, the weakness of the dollar and potential impacts associated with the A400M programme and A380 production. On 9 January 2009, EADS proposed a new approach for the A400M programme, raising concerns on the financial implications of the delay.

Until the end of March 2009, the EADS stock performed below the sector. A stock recovery began at the end of March 2009, however, supported by signals of continued commitment for the A400M from participating governments and signs of a potential recovery in the economy and traffic. From the latter half of

September the EADS stock fell again on dollar weakness and negative news-flow relating to the potential impact on Airbus’ profitability, the first assessments of the new US tanker draft RFP and the possibility of further production cuts if necessary to adapt to demand. From the beginning of December, the share price recovered, driven by positive market sentiment, a favourable dollar/euro development and positive company news-flow, such as the A400M first flight and United Airlines’ A350 XWB order announcement.

On 31 December, the EADS share price closed at € 14.09, 17.1% higher than year end 2008. In the same period the aerospace sector (MSCI) gained 19.3%, while the CAC 40 gained 22.3%.





### 3.3 Dividend Policy

EADS' dividend policy is determined by the Board of Directors, which may consider a number of factors, including the Group's financial performance, future cash needs as well as the dividends paid by other international companies in the same sector. EADS cannot guarantee the amount of dividends that may be paid in respect of any financial year.

Exceptionally, due to the significant loss in 2009, the EADS Board of Directors recommends no dividend payment this year.

### 3.4 Relationship with Principal Shareholders

Below is a summary of the agreements governing the relationship between the founders of EADS, entered into at the time of the creation of EADS with respect to: (i) restriction on the exercise of voting rights and (ii) restriction of rights to transfer shares.

The principal agreements governing the relationships between the founders of EADS are (i) an agreement (the "**Participation Agreement**") entered into on Completion between Daimler, DASA AG, Lagardère, Sogepa, Sogeadé and SEPI, and (ii) a Dutch law Contractual Partnership agreement entered into on Completion between Sogeadé, DASA AG, SEPI and EADS Participations B.V. (the "**Contractual Partnership Agreement**"), which repeats certain terms of the Participation Agreement and a certain number of other agreements (notably, a shareholder agreement (the "**Sogeadé Shareholders' Agreement**") entered into on Completion between Sogepa and Lagardère and an agreement between the French State, Daimler and DLRH). EADS Participations B.V. is a Dutch private company with limited liability and is the managing partner of the Contractual Partnership. The Indirect EADS Shares held by Daimler, Sogeadé and SEPI have been pledged to EADS Participations B.V., which has been granted the exclusive power to exercise the voting rights attached to the pledged shares (including the right to attend and speak at shareholders' meetings) in accordance with the Contractual Partnership Agreement.

The agreements above contain, among other things, provisions relating to the following matters:

- › the composition of the Boards of Directors of EADS, EADS Participations B.V. and Sogeadé Gérance (*gérant commandité* of Sogeadé);
- › restrictions on the transfer of EADS shares and Sogeadé shares;
- › pre-emptive and tag-along rights of Daimler, Sogeadé, Sogepa and Lagardère;

- › defences against hostile third parties;
- › consequences of a change of control of Daimler, Sogeadé, Lagardère, Sogepa or SEPI;
- › a put option granted by Sogeadé to Daimler over its EADS shares in certain circumstances;
- › specific rights of the French State in relation to certain strategic decisions, regarding among other issues, EADS' ballistic missiles activity; and
- › certain limitations on the extent of the French State's ownership of EADS.

Further details on the agreements among the principal shareholders of EADS are set out below.

#### ORGANISATION OF EADS PARTICIPATIONS B.V.

The Board of Directors of EADS Participations B.V. has an equal number of Directors nominated by Daimler and by Sogeadé, respectively (taking into account proposals made by Lagardère in respect of the Sogeadé-nominated directors). Daimler and Sogeadé each nominate two directors, unless otherwise agreed, and the Daimler-directors and the Sogeadé-directors jointly have the right to nominate and to remove the Chairman and the Chief Executive Officer. In addition, SEPI has the right to nominate a director, as long as the shareholding of SEPI in EADS is 5% or more but in any case until the AGM to be held in 2012. The Chairman shall either have French or German nationality and the Chief Executive Officer shall have the other nationality.

This structure gives Daimler and Sogeadé equal nominating rights in respect of the majority of the Directors of the decision-making body of EADS Participations B.V. All decisions of EADS Participations B.V.'s Board of Directors shall require the vote in favour of at least four Directors.



## TRANSFER OF EADS SHARES

Daimler, Sogead, SEPI, Lagardère and Sogepa each have the right to sell its EADS shares on the market, subject to the following conditions:

- if a party wishes to sell any EADS shares, it shall first sell its shares other than its Indirect EADS Shares before exercising its right to sell its Indirect EADS Shares in accordance with the provisions set out below;
- on the sale of Indirect EADS Shares, Daimler (in the case of a sale by Sogead), Sogead (in the case of a sale by Daimler) or Sogead and Daimler (in the case of a sale by SEPI) may either exercise a pre-emption right or sell its Indirect EADS Shares on the market in the same proportions as the respective Indirect EADS Shares of the relevant parties bear to each other;
- any transfer of Indirect EADS Shares by either Sogepa or Lagardère is subject to a pre-emption right in favour of Lagardère or Sogepa, as the case may be. In the event that such pre-emption right is not exercised, the Indirect EADS Shares may be sold (a) to an identified third party subject to Lagardère's or Sogepa's consent (as the case may be) and also to Daimler's consent and (b) if such consent is not obtained, the Indirect EADS Shares may be sold on the market, subject to Daimler's pre-emption right referred to above;
- Lagardère and Sogepa shall each have a proportional right to tag-along on a sale of its Indirect EADS Shares; and
- the pre-emption and tag-along rights of Lagardère and Sogepa referred to above do not apply to a transfer of EADS shares directly held by one of them.

Any sale on the market of EADS shares in accordance with the Participation Agreement shall be conducted in an orderly manner so as to ensure the least possible disruption to the market of EADS shares. To this effect, the parties shall consult with each other before any such sale.

## CONTROL OF EADS

In the event that a third party to which Daimler or Sogead objects (a "**Hostile Third Party**") has a direct or indirect interest in EADS shares equal to 12.5% or more of the number of such EADS shares the voting rights of which are pooled through the Contractual Partnership (a "**Qualifying Interest**"), then, unless a Hostile Offer (as defined below) has been made by the Hostile Third Party or until such time as Daimler and Sogead agree that the Hostile Third Party should no longer be considered a Hostile Third Party or the Hostile Third Party no longer holds a Qualifying Interest, the parties to the Participation Agreement shall exercise all means of control and influence in relation to EADS to avoid such Hostile Third Party increasing its rights or powers in relation to EADS.

The parties to the Participation Agreement may accept an offer (whether by way of tender offer or otherwise) by a Hostile Third Party which is not acceptable to either Daimler or Sogead (a "**Hostile Offer**"), subject to provisions requiring, inter alia, the party wishing to accept, to first offer its EADS shares to Daimler and/or Sogead, in which case Daimler and/or Sogead may exercise their pre-emption rights in respect some or all of the EADS shares held by the party wishing to accept the Hostile Offer.

Any sale of EADS shares, other than the EADS Indirect Shares, by Daimler, Sogead or Lagardère, at a time when a Hostile Third Party is a shareholder and purchaser of EADS shares on the market, is subject to the pre-emption right of Sogead, Daimler and Sogepa respectively. In the case of a sale by Lagardère, if Sogepa does not exercise its right of pre-emption, Daimler has in turn a pre-emption right.

## PLEDGE OVER EADS' SHARES GRANTED TO EADS PARTICIPATIONS B.V.

Upon Completion and in order to secure their undertakings under the Contractual Partnership Agreement and the Participation Agreement, Sogead, Daimler and SEPI granted a pledge over their respective Indirect EADS Shares to EADS Participations B.V. for the benefit of EADS Participations B.V. and the other parties to the Contractual Partnership Agreement.

## RELATED PARTY TRANSACTIONS

See "Notes to Consolidated Financial Statements (IFRS) — Note 37: Related Party Transactions".



## 3.5 Future ESOP and Long-Term Incentive Plan (LTIP)

In the past, EADS has implemented the Employee Share Ownership Plans (ESOP) and Long-Term Incentive Plans to retain and reward EADS employees.

Pursuant to shareholders' resolutions adopted at the AGM, the powers to issue shares and to set aside preferential subscription rights of existing shareholders have been granted to the Board of Directors. Such powers include the approval of ESOP and LTIP plans.

Under ESOP and LTIP, the Board of Directors shall have the discretionary authority to offer shares and grant performance and/or Restricted units to employees who, in the sole judgment of the Board of Directors, are eligible thereto and to subject such grant, as the case may be, to performance conditions; each unit giving right to payment in cash.

### 3.5.1 FUTURE ESOP

The Company intends to implement an ESOP in 2010, subject to approval by the Board of Directors. The 2010 ESOP is expected to have the following main characteristics: offering of up to approximately 2 million shares of the Company, *i.e.* up to 0.25% of its issued share capital, with discount to the market price (-20%) to all qualifying employees. In addition, EADS is evaluating alternative models for an ESOP, which might have an impact on the current plan design.

### 3.5.2 2009 LTIP AND FUTURE LTIP

On 13 November 2009, the Board of Directors approved the implementation of the 2009 LTIP. At vesting of the "2009 Unit Plan", payment is made in cash.

EADS has taken into account the market trend, which is moving from number of option/share/unit grants to face value grants. Accordingly, the size of the annual EADS LTIP grant will be adjusted in the future to reflect the face value in comparison of the different total target income of the Executive categories at target level.

At vesting dates, the eligible executives and selected individuals are entitled to a pay-out in cash based on the number of vested units times the value of the EADS share.

The Board of Directors approved the granting of 2,697,740 Performance units on target and 928,680 Restricted units to 1,749 EADS Executives and selected Non-Executives.

Performance units are rights to receive a payment in cash based on the value of the EADS share on the respective vesting dates. They are granted to Group Executives based on their hierarchical level. Vesting of these units is conditional upon mid-term business performance. The average vesting period is 4.25 years.

Restricted units are also rights to receive a payment in cash based on the value of the EADS share on the respective vesting dates. They are granted to selected individuals to reward personal performance and potential. Vesting of these units is subject to presence of the relevant individual in the Group.

Should the performance criteria be met and/or provided that the executive is still employed by the Company or any of its Group companies, the vesting of the Performance and Restricted units entitles the executives/selected individuals to four payments in cash between 3.5 and 5 years; each payment representing 25% of the vested units.

Performance units will vest at a minimum of 50%, 100% on target performance achievement and up to a maximum of 150% in case of overachievement of performance criteria. In case of negative cumulative EBIT\* during the performance period, the Board of Directors can decide to review the vesting of the Performance units including the 50% portion which is not subject to performance conditions (additional vesting condition).

In addition, and in order to strengthen the alignment of EADS top management with long-term growth objectives, the Board of Directors has approved mandatory share ownership rules together with the 2009 Unit plan. EADS Executive Committee members will have to own EADS shares equal to a minimum of 20% of the number of vested units. They will have to hold this number of EADS shares until the end of their mandate as an EADS Executive Committee member.

The proposed 2010 LTIP would be a Performance and Restricted Unit Plan, with the same general principles as the one described above for the 2009 Performance and Restricted Unit Plan.

The plan would offer the granting of about 4,200,000 Performance and Restricted units on target. This number of allocations will be strongly dependent on the number of beneficiaries and on the evolution of the share value. The value of each unit would be based on an average price of the EADS share at the respective dates of vesting.

The implementation of this plan would again have to be formally approved by the Board of Directors.

\* EBIT: earnings before interest and taxes, pre-goodwill impairment and exceptionals.



## 4. CORPORATE GOVERNANCE

### 4.1 Management and Control

#### 4.1.1 COMPOSITION, POWERS AND RULES

Pursuant to the Articles of Association, the Board of Directors is responsible for the management of the Company.

The Board of Directors consists of a maximum of 11 members appointed and removed by the shareholders' meeting. The Board of Directors adopted rules governing its internal affairs (the "Rules") at a Board of Directors meeting held on 7 July 2000. The Rules were amended at a Board of Directors meeting held on 5 December 2003 to take into account recommendations for changes to corporate governance. The Rules were further amended at a Board of Directors meeting held on 22 October 2007, to take into account the corporate governance modifications approved during the Extraordinary General Meeting of Shareholders held the same day.

The Rules specify the composition, the role and the key responsibilities of the Board of Directors, and also determine the manner of appointment and the responsibilities of the Chairman and the Chief Executive Officer. The Rules also specify the creation of three Committees (the Audit Committee, the Remuneration and Nomination Committee and the Strategic Committee) and specify their composition, role and operating rules.

The parties to the Participation Agreement (as amended on 22 October 2007 and as referred to in paragraph 3.4 hereof) have agreed that the voting rights attached to the Indirect EADS Shares shall be exercised by EADS Participations B.V. to ensure that the Board of Directors of EADS comprises the Directors of EADS Participations B.V. and four additional independent Directors.

According to the Rules, an independent director is defined as "*a director who is not an officer, director, employee, agent or otherwise has any significant commercial or professional connection with either the DASA Group, the Lagardère Group, the Sogepa Group, the Sepi Group, the French State, the German State, the Spanish State or the EADS Group*".

Pursuant to the Participation Agreement, the Board of Directors comprises 11 members as follows:

- one non-executive Chairman, appointed on joint proposal by the Daimler-directors and the Sogead-directors;
- the Chief Executive Officer of EADS, appointed on joint proposal by the Daimler-directors and the Sogead-directors;

- two Directors nominated by Daimler;
- two Directors nominated by Sogead;
- one Director nominated by SEPI, so long as the Indirect EADS Shares held by SEPI represent 5% or more of the total number of EADS Shares but in any case until the AGM to be held in 2012; and
- four independent Directors, jointly proposed by the Chairman and the Chief Executive Officer of EADS and individually approved by the Board of Directors.

Pursuant to the Articles of Association, each member of the Board of Directors holds office for a term expiring at the AGM to be held in 2012. Members of the Board of Directors will be elected at each fifth AGM thereafter.

The shareholders' meeting may at all times suspend or dismiss any member of the Board of Directors. There is no limitation on the number of terms that a Director may serve.

The Board of Directors appoints a Chairman, upon the joint proposal of the Daimler-directors and the Sogead-directors. The Chairman ensures the smooth functioning of the Board of Directors in particular with respect to its relations with the Chief Executive Officer with whom he teams up for top level strategic discussions with outside partners, which are conducted under his supervision.

The Chairman shall have either French or German nationality, provided that the Chief Executive Officer is of the other nationality.

The Chairman can submit his resignation as Chairman to the Board of Directors or can be dismissed as Chairman by the Board of Directors, upon the joint proposal of the Daimler-Directors and the Sogead-directors. The appointment further terminates if the Chairman is dismissed or resigns as Director. Immediately following the dismissal or resignation of the Chairman, and if the Daimler-directors and the Sogead-directors do not immediately jointly designate a new Chairman, the Board of Directors appoints by simple majority a director (with the same citizenship as the former Chairman) as interim Chairman for a period which expires at the earlier of either (i) 20 clear days after the Daimler-directors and the Sogead-directors jointly designate a new Chairman (during which period, a Board of Directors meeting is called in order to appoint the new Chairman, upon





the joint proposal of the Daimler-directors and the Sogeadirectors), or (ii) two months from that interim Chairman's appointment.

Upon request by any member of the Board of Directors made three years after the beginning of the Chairman's term and alleging that significant adverse deviation(s) from objectives and/or failure(s) to implement the strategy defined by the Board of Directors occurred, the Board of Directors shall meet, to decide whether deviations and/or failures actually occurred during this period and if so, to decide whether to renew its confidence to the Chairman (the "**Vote of Confidence**"). The Board of Directors resolves upon such Vote of Confidence by simple majority. The Chairman is removed if he does not obtain such Vote of Confidence, a new Chairman being then appointed in accordance with the above.

Upon the joint proposal by the Daimler-directors and the Sogeadirectors, the Board of Directors has appointed a Chief Executive Officer to be responsible for the day-to-day management of the Company. The way the Chief Executive Officer can resign or be dismissed and the way the Chief Executive Officer would, if any, be replaced are identical to those applying to the Chairman. The Vote of Confidence procedure stated above is also applicable to the Chief Executive Officer under the same conditions as for the Chairman.

### Powers of the Board of Directors members

The Company is represented by the Board of Directors or by the Chief Executive Officer. The Chief Executive Officer may not enter into transactions that form part of the key responsibilities of the Board of Directors unless these transactions have been approved by the Board of Directors.

The key responsibilities of the Board of Directors include amongst others:

- approving any change in the nature and scope of the business of the Group;
- approving any proposal to be submitted to the general meeting of shareholders in order to amend the Articles of Association (Qualified Majority, as defined below);
- approving the overall strategy and the strategic plan of the Group;
- approving substantial changes to the business plan and the yearly budget of the Group;
- setting the major performance targets of the Group;
- designating or removing the Chairman and the Chief Executive Officer and deciding upon the designation or

removal of the Chief Executive Officer of Airbus (Qualified Majority);

- appointing the members of the Executive Committee (see below), as a whole team, not on an individual basis;
- establishing and approving amendments to the Rules and to the rules for the Executive Committee (Qualified Majority);
- deciding upon the appointments of the Airbus Shareholder Committee, the EADS Corporate Secretary and the chairmen of the Supervisory Board (or similar organ) of other important Group companies and Business Units;
- approving material changes to the organisational structure of the Group;
- approving investments, projects or product decisions or divestments of the Group with a value exceeding €350,000,000 (it being understood that this item shall require the Qualified Majority only for investments, projects or product decisions or divestments of the EADS Group with a value exceeding €500,000,000);
- approving strategic alliances and co-operation agreements of the Group (Qualified Majority);
- approving matters of shareholder policy, major actions or major announcements to the capital markets;
- approving any material decision regarding the ballistic missiles business of the Group (Qualified Majority);
- approving other measures and business of fundamental significance for the Group or which involve an abnormal level of risk;
- approving any proposal by the Chairman and the Chief Executive Officer as to the appointment of the independent Directors, for submission to the AGM; and
- approving of principles and guidelines governing the conduct of the Group in matters involving non-contractual liabilities (like environmental matters, quality assurance, financial announcement, integrity) as well as the corporate identity of the Group.

### Voting and rules

Each Director has one vote, provided that, if there are more Sogead-nominated directors than Daimler-nominated Directors present or represented at the meeting, the Daimler-nominated director who is present at the meeting can exercise the same number of votes as the Sogead-nominated directors who are present or represented at the meeting, and vice versa. All decisions of the Board of Directors are taken by a simple



majority of votes (six Directors, present or represented, voting in favour of the decision), except for the votes relating to certain matters which can only be validly resolved upon a majority of votes including the unanimous vote of the two Sogeadenominated directors and the two Daimler-nominated directors (the “**Qualified Majority**”). The quorum for the transaction of business at meetings of the Board of Directors requires the presence of at least one of the Sogeadenominated directors and one of the Daimler-nominated directors. A director can authorise another director to represent him or her at a Board of Directors meeting and to vote on his or her behalf. Such authorisation must be in writing.

In the event of a deadlock in the Board of Directors, other than a deadlock giving Daimler the right to exercise the put option granted to it by Sogead, the matter shall be referred to Arnaud Lagardère (or such person as shall be nominated by Lagardère) as representative of Sogead and to the Chief Executive Officer of Daimler. In the event that the matter in question, including a deadlock giving Daimler the right to exercise the put option (but in this case with the agreement of Sogepa and Daimler) is a matter within the competence of the general meeting of EADS, a resolution on the issue shall be put to the general meeting, with the voting rights of Sogead, Daimler and SEPI being negated.

Pursuant to the Rules, the Board of Directors may form Committees from its members. In addition to the Audit Committee, the Remuneration and Nomination Committee and the Strategic Committee, the Board of Directors may form other Committees to which it may transfer certain minor or ancillary decision-making functions although such assignment does not negate the joint responsibility of all Directors. The quorum for the transaction of business at any meeting of a Committee requires the presence of at least one of the Sogeadenominated directors and one of the Daimler-nominated directors. All decisions of a Committee require the simple majority of the members.

In addition to the Rules, the work of the Board of Directors is governed by internal Directors’ guidelines (the “**Directors’ Guidelines**”) adopted in light of corporate governance best practices. The Directors Guidelines are composed of a Directors’ charter (the “**Directors’ Charter**”) detailing the rights and duties of the members of the Board of Directors, an Audit Committee charter (the “**Audit Committee Charter**”), a Remuneration and Nomination Committee charter (the “**Remuneration and Nomination Charter**”) and a Strategic Committee charter (the “**Strategic Committee Charter**”), with each such charter setting forth the respective Committees’ roles.

#### COMPOSITION OF THE BOARD OF DIRECTORS

Name	Age	Term started (as member of the Board of Directors)	Term expires	Principal function	Status
Bodo Uebber	50	2007	2012	Chairman of EADS	Non-Executive
Louis Gallois	66	2000, re-elected in 2005 and 2007	2012	Chief Executive Officer of EADS	Executive
Rolf Bartke	63	2007	2012	Chairman of Keiper-Recaro-Group	Nominated by Daimler
Dominique D’Hinnin	50	2007	2012	Chief Financial Officer of Lagardère	Nominated by Sogead
Juan Manuel Eguiagaray Ucelay	64	2005, re-elected in 2007	2012	Director of Studies at Fundación Alternativas	Nominated by SEPI
Arnaud Lagardère	49	2003, re-elected in 2005 and 2007	2012	General Partner and CEO of Lagardère	Nominated by Sogead
Hermann-Josef Lamberti	54	2007	2012	Member of the Management Board of Deutsche Bank AG	Independent
Lakshmi N. Mittal	59	2007	2012	President and Chief Executive Officer of ArcelorMittal	Independent
Sir John Parker	67	2007	2012	Chairman of National Grid	Independent
Michel Pébereau	68	2007	2012	Chairman of BNP Paribas	Independent
Wilfried Porth	51	2009	2012	Member of the Management Board of Daimler AG	Nominated by Daimler

Nota: The professional address of all members of the Board of Directors for any matter relating to EADS is Mendelweg 30, 2333 CS Leiden, The Netherlands.





More details of the curriculum vitae and other mandates of the individual Board of Directors members can be found at the Company's website [www.eads.com](http://www.eads.com).

Within EADS, each Board of Directors member must have the required mix of experience, qualifications, skills and industrial knowledge necessary to assist the Company in formulating and achieving its overall strategy, together with the specific expertise required to fulfil the duties assigned to him or her as member of one of the Board of Directors' Committees. The Board of Directors also that having a diverse composition among its members with respect to gender, experience national origin, etc. is valuable for the quality and efficiency of its work.

The Board of Directors will propose candidates who can, in combination with the other Board of Directors members, manage EADS in a way that strengthens its position as a leader in the aerospace and defence industry. In this regard, the Board of Directors will take diversity – in particular with respect to gender – into account when assessing and proposing candidates for the any renewal of the entire Board of Directors.

#### 4.1.2 OPERATION OF THE BOARD OF DIRECTORS IN 2009

##### Board of Directors meetings

The Board of Directors met 11 times during 2009 and was regularly informed of developments through business reports from the Chief Executive Officer, including rolling forecasts as well as strategic and operational plans. The average attendance rate at such meetings was 84%.

On 14 April 2009, Rüdiger Grube resigned from the Chairmanship of the EADS Board of Directors, and the Board of Directors designated Bodo Uebber as his successor in this position. Rüdiger Grube also resigned as member of the Board of Directors, and for the remaining term of his appointment (*i.e.* until the Annual General Meeting of shareholders to be held in 2012) the Board of Directors proposed as his replacement Mr Wilfried Porth who was elected by the AGM held on 27 May 2009. Furthermore, on 2 February, the Board of Directors appointed Domingo Ureña-Raso as member of the Executive Committee and new Head of Airbus Military, and in November, Sean O'Keefe as new Head of EADS North America. The latter became member of the Executive Committee on 1 January 2010. The Board of Directors also approved the contract renewals from other Executive Committee members.

Overall, in 2009, seven Board of Directors meetings covered A400M related matters. Other topics intensively discussed, and operations authorised at the Board of Directors meetings included: EADS' strategy (including M&A matters and the competitive environment), major business issues such as the A350 development and the Saudi Border Surveillance programme, regular updates on the other major programmes, progress of Vision 2020, the approval of the operational

plan, the Group's financial results and forecasts. In times of economic crisis, the Board of Directors focused on Enterprise Risk Management ("ERM"), the Corporate Audit plan and on progress of the Compliance Organisation, created in 2008. Ongoing legal cases and litigations were discussed as well. The Board of Directors also dealt with topics regarding personnel and Human Resources, such as compensation policy, management qualification, remuneration (including the long-term incentive plan and an employee share ownership plan) as well as attracting, retaining and developing individuals with high potential in order to ensure the future quality of EADS' management and the multinational leadership structure. Moreover, the Board of Directors tasked management to increase its efforts regarding diversity amongst its employees.

##### Assessment of the Performance of the Board of Directors

The Board of Directors carries out a self-assessment of its performance on an annual basis and a more thorough assessment every three years conducted by independent consultants. Due to the reconfiguration of the Board in October 2007, the Board selected Egon Zehnder International for a Board Effectiveness Review in 2010.

The Board Review was done by Egon Zehnder International in February 2010. The discussion of the result was planned for subsequent Board of Directors meetings in March and June 2010. The evaluation explored the role of the Board of Directors, the correlation of its operations with its mission, and the instruments and processes that affect its performance.

The assessment concluded that the Board is generally satisfied with its ability to work as a team and to tackle relevant matters openly in the best interest of the Company. While there is room for improvement, there is no need to alter the setup after 28 months of operation.

The Directors consider the frequency and the length of the Board meetings adequate and feel that issues are covered thoroughly. Supporting documentation contains all necessary information but needs to be better focused in support of decision making. The comprehensiveness of information arises from the complexity of the business, and the proportion of information delivery relative to discussion reflects this fact.

With regards to the Board's teamwork, attendance is adequate and the unanimous opinion is that conflicting views are expressed, discussions are open and dissent can be voiced constructively. Overall, the Board considers it assembles a very international, diverse and relevant set of skills, with strong finance competencies; in 2009, these skills were applied to discussing key programmes, the A400M contract re-negotiation, the risks inherent to the economic crisis and their impact on commerce operations and profitability. A closer working relationship between the Board and the Executive Committee was deemed conducive to better efficiency.



In addition, the Directors feel that the Board-work allows them to fulfill their duty, and attention to compliance permeates the work of the Board. But they sense that the Board is still absorbed in operational matters – especially A400M – at the expense of the longer term questions. Therefore the majority of Board members require more time devoted to long lead questions, such as shared values and strategy, structure and efficiency. Steps in that direction were taken, however, and for the first time, the Board devoted a full day meeting to strategy in 2009, including an assessment of Vision 2020 goals in a changing environment. This practice will be continued.

Committees are very thorough and professional, and the articulation of the Audit Committee and of the Remuneration and Nomination Committee with the rest of the Board is satisfactory; however, Committee work should increasingly be held on dates separate from the Board meeting, results of the Committee work should be more intensively discussed by the whole Board.

Finally, the Chairmanships of the Board and the Committees are recognised as very competent and dedicated.

Since the last self-assessment, in 2009, the dedication of a specific Board of Directors meeting to strategic matters, the diversity of the skill set and experience in the Board room, and the focus on the agenda are the most tangible improvements. The Board Secretary has taken measures so that Board documentation be better suited to support decisions in 2010.

Continuous improvement, competitiveness and effectiveness of governance and management of the Group will remain a prime focus and key success factor of EADS.

#### 4.1.3 THE AUDIT COMMITTEE

Pursuant to the Rules, the Audit Committee makes recommendations to the Board of Directors on the appointment of auditors and the determination of their remuneration, as well as the approval of the annual financial statements and the interim accounts, it discusses with the auditors their audit programme and the results of their audit of the accounts and it monitors the adequacy of the Group's internal controls, accounting policies and financial reporting. The Audit Committee has responsibility for ensuring that the internal and external audit activities are correctly directed and that audit matters are given due importance at meetings of the Board of Directors. The rules and responsibilities of the Audit Committee have been set out in the Audit Committee Charter.

The Audit Committee reviews the quarterly, half and full year accounts on the basis of the documents distributed in advance and its discussions with the auditors. It also surveys the Group's Enterprise ERM, and the Compliance Organisation.

In the first months of 2009, the Audit Committee was chaired by Hermann-Josef Lamberti, and also included Dominique D'Hinnin, Sir John Parker and Bodo Uebber as members. Following Bodo Uebber's appointment as Chairman of EADS, since 14 April 2009, the Audit Committee is chaired by Hermann-Josef Lamberti, and also includes Rolf Bartke, Dominique D'Hinnin and Sir John Parker as members. The Chairman of the Board of Directors and the Chief Executive Officer are invited as guests in each meeting of the Committee. The Head of Accounting and the Chief Financial Officer are requested to attend meetings of the Audit Committee.

The Audit Committee must meet four times a year, or more frequently in case of need. It met five times during 2009, with a 90% average attendance rate, to review the 2008 results as well as the first half-year results for 2009 of the Company, the quarterly financial reviews, and topics such as ERM, compliance and internal Audit matters.

#### 4.1.4 THE REMUNERATION AND NOMINATION COMMITTEE

Pursuant to the Rules, the Remuneration and Nomination Committee makes recommendations to the Board of Directors regarding the appointment of the EADS Corporate Secretary, the members of the Airbus Shareholder Committee, and the chairmen of the Supervisory Board (or similar organ) of other important group member companies and Business Units. The Remuneration and Nomination Committee also makes recommendations to the Board of Directors regarding remuneration strategies and long-term remuneration plans and decides on the service contracts and other contractual matters in relation to the Board of Directors and Executive Committee members. Once approved by the Chairman, it also reviews the proposals by the Chief Executive Officer for the appointment of members of the Executive Committee and of the Airbus Chief Executive Officer. The rules and responsibilities of the Remuneration and Nomination Committee have been set out in the Remuneration and Nomination Charter.

The guiding principle governing management appointments in the Group is that the best candidate should be appointed to the position ("best person for the job"), while at the same time seeking to achieve a diverse composition with respect to gender, experience, national origin, etc.

The implementation of these principles should not create restrictions on the diversity of nationalities within the EADS executive management team.



In 2009, the Remuneration and Nomination Committee:

- was chaired by Sir John Parker, and also included Rolf Bartke, Dominique D'Hinnin and Hermann-Josef Lamberti as members until 27 May 2009; and
- is since then chaired by Sir John Parker, and also includes Dominique D'Hinnin, Hermann-Josef Lamberti and Wilfried Porth as members.

The Chairman of the Board of Directors and the Chief Executive Officer are invited as guests in each meeting of the Committee.

The Remuneration and Nomination Committee must meet twice a year, or more frequently depending on need. It met four times during 2009, with a 94% average attendance rate. In addition to making recommendations to the Board of Directors for major appointments within the Group, the Remuneration and Nomination Committee reviewed the compensation policy (including pension schemes), variable pay for 2008, the long-term incentive plan and the employee share ownership plan for 2009/2010, the salaries of Executive Committee members for 2009 and general succession planning. Early 2010, a thorough benchmark study of EADS' Board of Directors and Executive compensation was conducted, in order to analyse its appropriateness in terms of structure and amounts. The results showed that the overall remuneration is adequate and compliant with governance recommendations and with industry practice. As an outcome, the Remuneration and Nomination Committee has recommended an enhancement of the overall compensation structure of the EADS Executives during 2010, so that it better supports company objectives of sustainability and profitability.

#### 4.1.5 THE STRATEGIC COMMITTEE

The Strategic Committee was created in October 2007. It is not a decision making body but a resource available to the Board of Directors for the preparation of decisions on strategic matters. Pursuant to the Rules, the Strategic Committee makes recommendations to the Board of Directors regarding strategic developments, corporate strategies, major merger and acquisition projects, major investments, projects or product decisions or divestments, as well as major research and development projects.

The rules and responsibilities of the Strategic Committee have been set out in the Strategic Committee Charter.

In 2009, the Strategic Committee:

- was chaired by Rüdiger Grube, and also included Louis Gallois, Arnaud Lagardère, Michel Pébereau and Bodo Uebber as members until 14 April 2009;
- since this date, the Committee is chaired by Bodo Uebber and also includes Louis Gallois, Arnaud Lagardère and Michel Pébereau as members. In addition, with effect from the AGM held on 27 May 2009, Wilfried Porth is also a member of the Strategic Committee.

The Strategic Committee must meet twice a year, or more frequently depending on need. It met twice during 2009, with a 80% average attendance rate. In addition to monitoring major strategic initiatives of the Group, it made recommendations to the Board of Directors on merger and acquisition projects and reviewed EADS' Research & Technology (R&T) policy.

#### 4.1.6 INSIDER TRADING RULES

The Board of Directors has also adopted specific Insider Trading Rules (ITR), which restrict its members from trading in EADS shares in certain circumstances. Pursuant to the Insider Trading Rules, (i) all employees and Directors are prohibited from conducting transactions in EADS shares or stock options if they have inside information, and (ii) certain persons are only allowed to trade in EADS shares or stock options within very limited periods and have specific information obligations to the ITR compliance officer of the Company and the competent financial market authorities with respect to certain transactions. The updated version of the Insider Trading Rules effective from 1 January 2007 is available on the Company's website.

#### Conflicts of interest

EADS has a conflict of interest policy which sets out that any conflict of interest or apparent conflicts of interest between EADS and members of the Board of Directors shall be avoided (please refer to the Directors' Charter available on EADS website [www.eads.com](http://www.eads.com) in the section Corporate Governance).



## 4.2 Dutch Corporate Governance Code

In accordance with Dutch law and with the provisions of the Dutch Corporate Governance Code as amended at the end of 2008 (the “**Dutch Code**”), which includes a number of non-mandatory recommendations, the Company either applies the provisions of the Dutch Code or, if applicable, explains and gives sound reasons for their non-application. While EADS, in its continuous efforts to adhere to the highest standards, applies most of the current recommendations of the Dutch Code, it must, in accordance with the “apply or explain” principle, provide the explanations below.

For the full text of the Dutch Code, please refer to [www.commissiecorporategovernance.nl](http://www.commissiecorporategovernance.nl).

For the financial year 2009, EADS states the following:

**1. EADS is a controlled Company and, therefore, a number of the members of the Board of Directors, Audit Committee, Remuneration and Nomination Committee and Strategic Committee are designated and can be removed by its controlling shareholders.**

Nevertheless it should be noted that a self-assessment of the Board of Directors confirmed that the members of the Board of Directors designated by the controlling shareholders hold opinions and defend positions that are in all relevant aspects aligned with the economic interests of individual shareholders. Given the absence of material conflicting business interests between EADS and its controlling shareholders, and the independence of the controlling shareholders from one another, the members of the Board of Directors designated by the controlling shareholders are deemed to fairly represent the interest of all shareholders in acting critically and independently of one another and of any particular interests. Furthermore, the Board of Directors’ composition, as reshaped in October 2007 to increase in particular number of independent Board of Directors members, with a wide range of different experiences represented in the Board of Directors and the running of meetings is conducive to the expression of autonomous and complementary views.

Accordingly:

- (a) four members of the Board of Directors out of 11 are independent (whereas provision III.2.1 of the Dutch Code recommends that there be not more than one non-independent Board of Directors member);
- (b) members of the Board of Directors retire simultaneously on a five-yearly basis (whereas provision III.3.6 of the Dutch Code recommends that there be a retirement schedule

to avoid, as far as possible, a situation in which many Non-Executive members of the Board of Directors retire at the same time);

- (c) the Board of Directors is headed by the Chairman of the Board of Directors. In case of dismissal or resignation of the Chairman, the Board of Directors shall immediately designate a new Chairman. There is therefore no need for a vice-Chairman to deal with the situation when vacancies occur (whereas provision III.4.1(f) of the Dutch Code recommends that there is a vice-Chairman);
- (d) EADS’ Audit Committee does not meet without the Chief Executive Officer being present (whereas provision III.5.9 of the Dutch Code recommend this);
- (e) EADS’ Audit Committee includes two members of the Board of Directors designated by the controlling shareholders (whereas provision III.5.1 of the Dutch code recommends that there be not more than one non-independent Audit Committee member);
- (f) EADS’ Remuneration and Nomination Committee includes two members of the Board of Directors designated by the controlling shareholders (whereas provision III.5.1 of the Dutch code recommends that there be not more than one non-independent Committee member);
- (g) EADS’ Remuneration and Nomination Committee is not the relevant body responsible for the selection procedure and nomination proposals for members of the Board of Directors (whereas provision III.5.14 (a) of the Dutch Code recommends that such Committee shall focus on drawing up selection criteria and the appointment procedures for members of the Board of Directors; and provision III.5.14 (d) recommends that such Committee shall focus on making proposals for appointments and reappointments).

**2. As for remuneration of member of the Board of Directors**

EADS applies different rules for the remuneration of Executive (the CEO) and Non-Executive members of the Board of Directors, as explained in “4.3 Compensation Policy and Remuneration of the members of the Board of Directors”.

In case of dismissal from the Company of the Chief Executive Officer, a termination indemnity equal to one and a half time the annual total target salary would be paid subject to the following conditions (whereas provision II.2.8 of the Dutch Corporate Governance Code recommends that the maximum remuneration in the event of dismissal be one year’s salary (the “fixed”





remuneration component), and that if the maximum of one year's salary would be manifestly unreasonable for an Executive Board member who is dismissed during his first term of office, such Board of Directors member be eligible for severance pay not exceeding twice the annual salary): the Board of Directors has concluded that the Chief Executive Officer can no longer fulfil his position as a result of change of EADS' strategy or policies or as a result of a change in control of EADS. The termination indemnity would be paid only provided that the performance conditions assessed by the Board of Directors have been fulfilled by the Chief Executive Officer.

However this termination indemnity is no longer applicable, since the Chief Executive Officer has reached the age of 65.

### 3. EADS is listed on the Frankfurt, Paris and Spanish stock exchanges and endeavours to strictly comply with the relevant regulations and takes into account the general principles on these markets protecting all its stakeholders.

- (a) Moreover, EADS has adopted Insider Trading Rules providing for specific internal rules, *inter alia*, governing members' of the Board of Directors holding and trading of shares in EADS and other companies. Therefore, in line with these rules and these regulations and common practices in the jurisdictions in which the Company is listed:
- (b) EADS does not require members of the Board of Directors to hold their securities in the Company as a long-term investment (whereas provision III.7.2 of the Dutch Code recommends such a treatment);
- (c) The term of the office of members of the Board of Directors is five years without limitation on renewal (whereas provisions II.1.1 and III.3.5 of the Dutch Code recommend that there be no more than three four-year terms for Non-Executive members of the Board of Directors and that there be four-year terms (without limitation on renewal) for Executive members of the Board of Directors);

- (d) EADS does not follow various recommendations for dealings with analysts, including allowing shareholders to follow meetings with analysts in real time and publishing presentations to analysts on the website as set out in provision IV.3.1 of the Dutch Code;
- (e) In accordance with the Articles of Association, if the Board of Directors does not set a "registration date", the shareholders must be shareholders at the date of the meeting to exercise their voting rights and other rights at the meeting (whereas provision IV.1.7 of the Dutch Code recommends that the Company set a "registration date" prior to the shareholder's meeting and that the shareholders must be shareholders on the date of such "registration date" to exercise their voting rights at the shareholders' meetings even if those persons are no longer shareholders on the date of such meeting).

### 4. Ethics Alert System

EADS is finalising the implementation of an alert system procedure for employees to raise, in strict confidentiality, concerns relating to business ethics, compliance and financial reporting. The Board of Directors and the Audit Committee have decided to implement such an alert system procedure as part of the EADS Ethics and Compliance Programme, which falls under the authority of the EADS Group Chief Compliance Officer ("CCO").

Accordingly, EADS intends to comply by the end of 2010 with provision II.1.7 of the Dutch Code, which recommends that a company ensure that its employees have the possibility of reporting alleged irregularities of a general, operational and financial nature in the company or concerning the functioning of the Executive member of the Board of Directors to the Chairman of the Board of Directors or to an official designated by him, and that such arrangements for whistleblowers be posted on the Company's website.

For information on the operation of the shareholders' meeting and its key powers and on shareholders' rights and how they can be exercised, please refer to section 3.1 (Shareholding and voting rights – right to attend meetings).

For information on the composition and operation of the Board of Directors and its respective Committees, please refer to section 4.1.1 "Composition, power and rules, section, 4.1.2 "Operation of the Board of Directors in 2009", section 4.1.4 "The Remuneration and Nomination Committee" and section 4.1.5 "The Strategic Committee".

For information on (i) significant direct and indirect shareholdings, (ii) holders of shares with special control rights, (iii) rules governing appointment and dismissal of Directors, (iv) amendments to the Articles of Association, and (v) the delegation to the Board of Directors of the power to issue or buy back shares, please refer to section 3.1 "Shareholding and voting rights – Shareholding structure and development in 2009", section 3.4 "Shareholding and voting rights – Relationship with principal shareholders", section 4.1.1 "Composition, powers and rules", section 3.1 "Shareholding and voting rights – Amendments to the Articles of Association" and section 3.1 "Shareholding and voting rights – Modifications of Share Capital or Rights attached to Shares".



## 4.3 Enterprise Risk Management System

One of management's fundamental goals is to foster an effective Internal Control ("IC") and Risk Management ("RM") environment at EADS. In 2008, EADS began implementation of a new group-wide Enterprise Risk Management ("ERM") system which seeks to address these two subjects in parallel, while further developing and building upon the achievements of the previous IC and RM system in place. The resulting ERM system seeks to provide management with an enhanced tool for effectively managing the uncertainty and associated risks and opportunities inherent in EADS' business. In addition, the ERM system seeks to satisfy compliance requirements for an effective IC and RM system. EADS' ERM system is based on the Internal Control and Enterprise Risk Management Frameworks of the Committee of Sponsoring Organisations of the Treadway Commission (COSO II).

The ERM system serves as the basis for all sub-ERM, sub-IC and sub-RM procedures present throughout EADS at the various organisational levels such as the Divisions, Business Units and headquarters departments. It encompasses a hierarchical bottom-up and top-down reporting procedure to help ensure greater transparency of the risks and opportunities faced by the Group. At the top, the Board of Directors and the Audit Committee discuss all major issues, significant changes and planned improvements in relation to the ERM system.

For a discussion of the main risks to which the Group is exposed and which the ERM system is designed to control, as described below, see "5.4 Risk Factors".

### Developments in 2009 and Outlook

During 2009, EADS sought to foster the Group-wide ERM system integration. Regular "top management discussions" took place on the major risks and opportunities that could affect the Group in reaching its objectives. The discussions were based on the self-assessment results of Divisions, Business Units and headquarters departments.

In addition, reviews of the ERM systems of selected departments were performed by corporate audit during 2009 to substantiate these departments' self-assessments. As a result of the ongoing monitoring activities of the ERM system's effectiveness—including by the Board and Audit Committee over the course of 2009—further modifications to the ERM system and integration efforts are expected throughout 2010. Among other things, the ERM effectiveness measurement criteria and means for testing will be further developed and common ERM procedures will be further embedded in big programmes like A380 and A400M to increase the robustness and reliability of the ERM system.

### Board declaration – Limitations

The Board of Directors believes to the best of its knowledge that the internal risk management and control system over financial reporting has worked properly in 2009 and provides reasonable assurance that the financial reporting does not contain any errors of material importance.

No matter how well designed, all ERM systems have inherent limitations, such as vulnerability to circumvention or management overrides of the controls in place. Consequently, no assurance can be given that EADS' ERM system and procedures are or will be, despite all care and effort, entirely effective.

### EADS ERM Policy

The core policy, objectives and procedures that define EADS' ERM system are communicated throughout the Group in a manual referred to as the "EADS ERM Policy", which sets forth:

- the ERM policy and objectives;
- the ERM procedures adopted by EADS including a standardised ERM monitoring system:
  - to ensure a uniform understanding of a comprehensive enterprise-wide risk and opportunity management and IC system,
  - to comprehensively cover risk and opportunity management in programmes/projects, functions and processes, with both internal and external sources,
  - to satisfy compliance requirements for an effective IC and RM system.

The EADS ERM Policy constitutes the framework for all existing IC and RM guidance and practice throughout EADS. The EADS ERM Policy is applicable throughout EADS to all Divisions, Business Units and headquarters departments. Joint ventures may also operate separate ERM systems, though the fundamental principles of the EADS ERM Policy generally apply.

The "EADS ERM Policy" is supplemented by:

- codes of conduct (e.g. EADS Code of Ethics, Corporate Social Responsibility);
- handbooks (e.g. "EADS Corporate Management Principles and Responsibilities", the "Financial Control Handbook");
- manuals (e.g. Treasury Procedures, "Accounting Manual", "Reporting Manual"); and
- guidelines (e.g. "Funding Policy", "quality handbooks").





External standards influencing the EADS ERM System include the IC and ERM frameworks of COSO, as well as industry-specific standards as defined by the International Standards Organisation (ISO).

### Responsibility for the ERM System

Responsibility for the ERM system is as follows:

- › the Board of Directors assumes overall responsibility for the ERM system and defines the level of risk that EADS wishes to accept on a corporate level;
- › the Divisions, Business Units and headquarters departments assume responsibility for the operation and monitoring of the ERM system. They seek to ensure transparency and effectiveness of the ERM system and adherence to its objectives. They take responsibility for the implementation of appropriate response activities to reduce probability and impact of risk exposures, and conversely for the implementation of appropriate response activities to increase probability and impact of opportunity exposures. They are responsible for the communication of risks and opportunities which affect others within EADS;
- › corporate objectives are defined and cascaded throughout the whole organisation along the chain of management. Each level within the business adopts business objectives that link into and support EADS' corporate objectives;
- › EADS uses its employees' knowledge of the business to identify and assess key risks that might prevent EADS from achieving its objectives and to identify and assess new opportunities. EADS strives to do this on a regular basis through normal business processes to ensure it focuses on identifying and managing risks that might undermine its performance.

### Objectives of ERM

The ERM system is designed to provide reasonable assurance to the Board of Directors, the Chief Executive Officer and the Chief Financial Officer regarding the achievement of the following objectives:

- › the delivery of products on time and in accordance with cost and quality objectives;
- › the reliability of financial reporting and the achievement of financial targets;
- › the adequate identification, assessment, response, control action and monitoring of risks and opportunities on a timely basis throughout the Group, consistent with EADS objectives;
- › the compliance with applicable external laws and regulations and with internal policies and guidelines;
- › the effectiveness and efficiency of operations;
- › the transparency and quality of risk and opportunity monitoring and reporting (e.g. internal management reporting, financial statements, etc.).

### ERM system design

To enhance its effectiveness and operational reliability as well as to satisfy compliance requirements, the ERM system comprises certain mandatory ERM procedures:

- › risk and Opportunity Management procedures, to enhance operational risk and opportunity management throughout EADS by using ERM methodology;
- › financial risk measurement procedures, for consistent risk and opportunity quantification;
- › ERM reporting procedures, for the status reporting of the ERM system and the risk and opportunity situation;
- › ERM compliance and monitoring procedures, to substantiate to the Chief Executive Officer and Chief Financial Officer assessment of the effectiveness of the EADS ERM system;
- › ERM support procedures, covering important topics like ERM training, knowledge transfer, change management and the role of corporate audit.

ERM at EADS seeks to cover all types of risk such as operational, functional (e.g. strategic, compliance, reputational risks) and process risks, both quantifiable and unquantifiable, potentially affecting EADS short-, middle- and long-term as well as opportunities.

### Risk and Opportunity Management procedures

The recurring Risk and Opportunity Management procedures comprise several components:

- › setting of objectives and definition of risk tolerances;
- › identification and assessment of risks and opportunities;
- › determination of risk and opportunity responses and control activities (i.e. policies, procedures and other activities);
- › monitoring and reporting of risks and opportunities.

The detailed processes and associated procedures will vary according to the size and nature of the programme/project or function, but the principles apply in any case. Local tailoring may be performed according to the internal business constraints and/or customer specific requirements.



### ERM compliance and monitoring procedures

EADS has established formal ERM self-assessment mechanisms, to be applied by each identified process/control owner on a regular basis, who must assess his operational and functional risks as well as the operating and design effectiveness of the internal controls in place for his process. The progress is monitored by the respective Division, Business Unit and headquarters department and reported to EADS headquarters. To verify the successful implementation of the remediation actions, the remedied controls are periodically re-assessed. The relevant risks are subject to a management discussion process at the group level. Each year, corporate audit provides an independent review of the status of the ERM systems in selected Divisions, Business Units and headquarters departments (headquarters functions).

Based on the ERM self-assessments, management of each Division, Business Unit and headquarters department prepares every year a formal representation letter as to the adequacy and effectiveness of the ERM systems within their scope of responsibility (including any identified significant deficiencies and material weaknesses) which is provided to the Chief Executive Officer and Chief Financial Officer.

In addition to regular monitoring activities and ad hoc reporting at the Divisional, Business Unit and headquarters levels, assessments about the adequacy and effectiveness of the ERM system are systematically discussed between the Chief Executive Officer and Chief Financial Officer and the respective Division, Business Unit or headquarters department heads. These “top management discussions” serve to prioritise potential issues at the EADS level, define and implement appropriate actions, if needed, and derive conclusions for the overall EADS ERM report.

## 4.4 Compliance Programme

In 2008, the Board of Directors decided to create a Group-integrated Compliance Organisation and to appoint an EADS Group Chief Compliance Officer (CCO).

The EADS Group CCO is in charge of the design and implementation of the EADS Ethics and Compliance Programme, which supports the Group’s commitment to adhering to the highest ethical and compliance standards in order to sustain the Group’s global competitiveness. The EADS Ethics and Compliance Programme seeks to ensure that Group business practices conform to applicable laws and regulations as well as to ethical business principles endorsed by the Group. It also seeks to promote a culture of integrity internally.

Joint ventures, such as MBDA, operate separate IC and RM systems. Alignment with the EADS ERM system is facilitated, *inter alia*, through EADS’ presence on such affiliates’ supervisory and management bodies (e.g. Board of Directors, Audit Committees).

The yearly ERM sign-off process requires the Chief Executive Officer and Chief Financial Officer to provide an assessment to the Board of Directors, to the best of their knowledge that they are reasonably assured about the effectiveness of the ERM system including a confirmation of whether:

- the IC system is adequate to provide reasonable assurance regarding the reliability of financial reporting as well as compliance with applicable laws and regulations;
- the control objectives are being achieved by controls that are documented, adequately designed for their business and are operating effectively, in all material respects;
- the owner of each control activity is clearly identified; and
- the RM system is designed and operated to identify, assess, respond to, design controls and monitor/report on risks on a timely basis.

The Chief Executive Officer’s and Chief Financial Officer’s ERM statement is mainly substantiated by the self-assessments and confirmation letters, ERM reviews (including internal audits) and the “top management discussions”, as described above.

The Compliance Organisation consists of compliance resources appointed across the Group, in a set-up that balances proximity to day-to-day business activities with the necessary independence. To achieve this dual objective, compliance officers throughout the Group report to both compliance and to executive management. This is reflected at the very top of the organisation, with the EADS Group CCO reporting to both the Chief Executive Officer and to the Audit Committee.

The compliance officers appointed at each of the four Divisions are charged with helping Divisional management to perform business activities in accordance with the EADS Ethics and Compliance Programme. Divisional compliance officers must



ensure that they have sufficient resources within the Divisions to carry out their roles effectively. They report to both the EADS Group CCO and to the Divisional heads.

At Group level, permanent compliance officers are appointed to departments where the main compliance risks exist, duly empowered to issue compliance directives applicable throughout the Group. For example, the Group International Compliance Officer is in charge of developing and implementing EADS' Business Ethics Policy and Rules to prevent corruption. The Group Export Compliance Officer seeks to ensure that the marketing activities of the Group comply with all relevant export control rules, and with the internal "sensitive countries" policy. In 2009, a new compliance officer was appointed to supervise compliance in the supply chain.

In order to achieve the objectives set by the Chief Executive Officer and discussed with the Audit Committee, the EADS Group CCO has established a roadmap based on international standards. As part of its ongoing objectives, the Compliance Organisation has also developed a new assessment of the main compliance risks which was integrated into the EADS ERM system and reviewed by the Audit Committee and the Board of Directors in 2009.

The compliance roadmap also provides an overview of compliance activities such as:

- the monitoring of ethics and compliance policies, starting with the update of the EADS Code of Ethics;
- communication and training activities across the Group;
- implementation of an alert system for employees to be able to raise ethical and compliance concerns in strict confidentiality, targeted for the end of 2010.

EADS is leading efforts to establish consistent global standards for compliance in the aerospace and defence industry, in particular business ethics, which helped lead to the adoption in 2009 of "Global Principles of Business Ethics" by the European and US industry associations. As business ethics standards become more consistent globally with a more level playing field for all, EADS will seek to turn its commitment to ethics and integrity into a sustainable competitive advantage.

In 2009, compliance programme progress reports were presented twice to the Board of Directors and Audit Committee.

EADS Ethics & Compliance Organisation is not aware of any material ongoing compliance risks undisclosed to the Chairman of the Audit Committee.

## 4.5 Compensation Policy and Remuneration of the members of the Board of Directors

Shareholders expect a strong commitment from members of the Board of Directors; the compensation policy is therefore designed to focus efforts on what the Group wants to value and reward. Following an extensive benchmark against the practice of other global companies based in Europe and the United States, the compensation of the Non-Executive members of the Board of Directors was reviewed with effect 1 January 2008. The compensation policy reflects European best practice: the remuneration does not contain a variable portion; and is based on fees for attendance to the Board and Committee meetings and compensation for governance responsibilities.

For a report on the remuneration of the members of the Board of Directors during the year 2009 together with additional information such as volumes of Performance units, see:

- Note 11 and other Notes to the Company Financial Statements attached to the Board report 2009;
- Note 36 Notes to Consolidated Financial Statements (IFRS) attached to the Board report 2009; and

- Note 37 Notes to Consolidated Financial Statements (IFRS) attached to the Board report 2009.

### 4.5.1 COMPENSATION OF THE BOARD OF DIRECTORS

The respective elements of EADS compensation policy for Non-Executive members of the Board of Directors on the one hand and the Chief Executive Officer on the other hand are summarised in the following paragraphs.

#### 4.5.1.1 Compensation of Non-Executive members of the Board of Directors

Each Non-Executive member of the Board of Directors is entitled to an annual fixed fee of €80,000 and a fee for participation in Board of Directors meetings of €5,000 per meeting attended.

The Chairman of the Board of Directors is entitled to an annual fixed fee of €180,000 for carrying out this role and a fee for participation in Board of Directors meetings of €10,000 per meeting attended.



The Chairman of each of the Board of Directors Committees is entitled to an additional annual fixed fee of €30,000. The members of each of the Board of Directors Committees are entitled to an additional annual fixed fee of €20,000 for each Committee membership.

Committee Chairmanship and Committee membership annual fees are cumulative if the concerned Non-Executive members of the Board of Directors belong to two different Committees.

#### 4.5.1.2 Compensation of the Chief Executive Officer

The compensation policy for the Chief Executive Officer follows the same principles as the compensation policy for EADS Executive Committee members. EADS' compensation policy aims at attracting and retaining talents that will contribute to the Group's business success. In determining the remuneration of the Chief Executive Officer the Board of Directors has taken into account the results and non-financial indicators relevant to the long-term objectives of the Group. The Board of Directors has taken due regard to business risks in setting targets conditioning the variable remuneration of the Chief Executive Officer and EADS Executive Committee members.

The Remuneration and Nomination Committee sets out that such Committee, in making recommendations to the Board of Directors, ensures that the rules for determining the variable component are consistent with the annual performance and long-term strategy and that the variable part shall be linked to previously determined, measurable targets which must be achieved partly in the short-term and partly in the long-term.

The Remuneration and Nomination Committee reviews and makes recommendations to the Board of Directors on the remuneration of the Chief Executive Officer, analysing the possible outcomes of the variable remuneration components and how they may affect the remuneration of the Chief Executive Officer; the Board of Directors makes the final decision on the remuneration upon this analysis.

In making its final decision on the compensation policy, the Board of Directors has considered that the policy should promote the Company's interests in the medium and long-term and does not encourage the Chief Executive Officer (or other Executive Committee members) to act in their own interest or take risks that do not fit with the Company strategy.

The members of the Executive Committee including the Chief Executive Officer receive the majority of their compensation from their relevant national Group entity (under the terms of their employment or mandate contract) and the remaining part from EADS N.V. ("NV compensation", under the terms of the N.V. letter of agreement).

The Chief Executive Officer is entitled to receive a total target compensation divided into a fixed part and a variable part: 45% fixed and 55% variable on target. The variable compensation is linked to key performance measures, individual objectives and pre-determined accessible and influenceable targets, which are predominantly of a long-term nature.

The variable part is calculated on the basis of two equal components:

- › Collective part (50% of the variable part) to reward business performance at EADS level. EBIT\*, cash, and capital employed objectives are chosen early in the year to measure collective performance (EBIT\* represents 50%, cash represents 25% and capital employed represents 25% of the collective part in 2009).
- › Individual bonus (50% of the variable part) to reward individual performance measured against the achievement of individual objectives, which are also set on the basis of financial and non-financial indicators that are relevant to the Company's long-term value creation, and behaviours.

The Group is committed to setting individual and financial targets, the achievement of which would reflect the real performance of EADS. The choice of EBIT\*, cash and capital employed as financial indicators ensures the alignment of the Chief Executive Officer with EADS priorities and long-term objectives.

Based on the level of performance, the collective as well as the individual payout can vary from 0% to 175% of the target payment.

On target payment at 100% for both individual and financial targets would indicate strong personal and Company performance.

In respect of the 2009 financial year, the Chief Executive Officer has been awarded variable pay of €1,141,250, reflecting his individual performance and the group financial results of 2009.

The Chief Executive Officer is also eligible to long-term incentive reward through the EADS long-term incentive plans (see below). He receives neither Board of Directors attendance fees nor any dedicated compensation as member of the Board of Directors.

Benchmark studies basically confirm that EADS' compensation structure is generally in line with European market practices.

\* EBIT: earnings before interest and taxes, pre-goodwill impairment and exceptionals.





In summary, the Chief Executive Officer compensation is as follows:

	Compensation element	Main drivers	Performance measures	Variation of payment as % of total target income/% of vesting
Short-term	Base salary	Position/job value	Individual performance/ Market practice	45% of total target income
	Variable pay	Achievement of Group business and financial yearly objectives and reward of individual performance	<ul style="list-style-type: none"> <li>➤ Collective part (50% of target variable pay): EBIT* (50%), cash (25%) and capital employed (25%) achievement</li> <li>➤ Individual bonus (50% of target variable pay): achievement of annual individual objectives.</li> </ul>	55% of total target income (range from 0% to 175%)
Mid- and Long-term	Performance unit plan	Achievement of long-term operational profit, measured through cumulative EBIT* achievement	The number of Performance units which will vest is based on cumulative EBIT* achievement at EADS level, deriving from the Operative Planning (OP).	Vested Performance units will range from 50% to 150% of initial grant <sup>(1)</sup>

(1) In case of negative cumulative EBIT\* during the performance period, the Board of Directors can decide to review the vesting of the Performance units including the 50% portion which is not subject to performance conditions (additional vesting condition).

#### 4.5.2 LONG-TERM INCENTIVE PLAN (LTIP)

Since 2007 the Board of Directors grants Performance units instead of options. Upon vesting, the so called “units” are not physically settled in shares, but in cash, based on stock price.

The EADS LTIP is a general tool for talent retention and promotion of Company value growth.

The Chief Executive Officer is eligible for the EADS LTIP. On 13 November 2009, the Board of Directors granted 46,000 Performance units to the Chief Executive Officer.

As for all other 2009 Unit Plan participants, his Performance units will start vesting after a period of 3.5 years (at 4 vesting dates, between 3.5 and 5 years). Average vesting period is 4.25 years.

In addition, the following additional rules apply to the Chief Executive Officer:

- the Chief Executive Officer, as well as all Executive Committee members, will have to own EADS shares equal to a minimum of 20% of the number of vested units.
- the Chief Executive Officer, as well as all EADS Executive Committee members will have to hold the above number of EADS shares until the end of their mandate as an EADS Executive Committee member.

If, as planned, a LTIP is implemented in 2010, the grant value of the Performance units granted to the Chief Executive Officer will not represent more than 50% of his total target compensation as explained above.

\* EBIT: earnings before interest and taxes, pre-goodwill impairment and exceptionals.

The Remuneration and Nomination Committee makes recommendations to the Board of Directors, which then makes the final decision on the individual grant allocation.

Non-Executive members and the Chairman of the Board of Directors are not eligible for LTIP.

#### 4.5.3 EMPLOYEE SHARE OWNERSHIP PLAN (ESOP)

The Chief Executive Officer is eligible to the ESOP under the same conditions as any of EADS' employees, being individuals under contract with EADS or with its subsidiaries (more than 50% directly or indirectly held by EADS and companies in which EADS holds more than a 10% stake and where it exercises a material influence on the management).

If, as planned, an ESOP is implemented in 2010, the Chief Executive Officer would be entitled to subscribe, during the subscription period, up to a maximum of 500 shares with a discount to the market price. Those shares cannot be sold during a period of one year in case of a direct ownership or a period of five years in case of ownership through a mutual fund.

Non-Executive members and Chairman of the Board of Directors are not eligible to participate in ESOP.

#### 4.5.4 PENSION BENEFITS

The members of the Executive Committee have pension promises as part of their employment agreements. The general policy is to give them annual pensions of 50% of their annual base salary upon reaching 5 years of service in the Executive Committee of EADS at the age of 60 to 65. In case the Chief Executive Officer



has reached the age of 65, then the policy allows payment of the pension with effect from his retirement date.

These rights will gradually increase to 60% after a second term, usually after ten years of service in the EADS Executive Committee.

These pension schemes have been implemented through collective executive pension plans in France and Germany and through individual arrangements in other countries. These pension promises also have separate rules *e.g.* for minimum length of service and other conditions to comply with national regulations.

Non-Executive members and Chairman of the Board of Directors have no pension benefits.

#### 4.5.5 POLICY FOR TERMINATION PACKAGE

In order to comply with recent corporate governance recommendations in France adopted at the end of 2008, the Chief Executive Officer has terminated his formal employment contract with the Company; nevertheless, his current mandate remains in force.

The Chief Executive Officer is entitled to a termination package when the parting results from a decision by the Company in case of change in control or the Company's strategy. Payment of the termination package is also subject to performance conditions

as fixed and assessed by the Board of Directors. The termination indemnity if applicable will be of a maximum of 18 months of annual total target salary.

However this termination indemnity is not applicable, since the Chief Executive Officer has reached the age of 65.

Non-Executive members and Chairman of the Board of Directors have no termination package.

#### 4.5.6 POLICY FOR LOANS AND GUARANTEES GRANTED TO MEMBERS OF THE BOARD OF DIRECTORS

General EADS policy is not to grant any loan to the members of the Board of Directors.

#### 4.5.7 OTHER

The Chief Executive Officer is subject to a non-competition clause applicable for a one-year-period, starting at the end of the mandate; this clause is renewable for another year at the Company's initiative.

The Chief Executive Officer will receive a compensation based on 50% of the last target annual monthly salary in return of the application of the non-competition clause. The monthly salary is defined as base salary and 1/12 of the annual performance bonus recently paid.

## 5. FINANCIAL AND OTHER HIGHLIGHTS

EADS' Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

#### ACCOUNTING FOR THE A400M PROGRAMME

In September 2008, the Airbus A400M airlifter programme was affected by an undefined delay of the first flight of the A400M, mainly due to the unavailability of the propulsion system and beyond that – but not first flight critical – due to the fact that other major suppliers of mission critical systems and of system integration were severely struggling with the challenging technical requirements of this aircraft. Consequently, from September 2008 onwards EADS could neither finally agree with OCCAR on an updated contract scheme for the A400M

programme nor reliably assess the related financial implications of this delay and applied the early-stage method of accounting until the end of December 2009 (see the corresponding notes disclosures in Note 3 "Accounting for the A400M programme" in EADS' Consolidated Financial Statements 2008 and the unaudited Quarterly Condensed Consolidated Financial Information 2009 for further details of the A400M programme and its related accounting issues). Under the early stage method of accounting applied until the end of December 2009, all A400M related work-in-progress, which would have been expensed upon the completion of technical milestones according to the common percentage at completion method of accounting only, have been expensed as incurred, with related revenues recognised up to the recoverable part of these costs as per the initial A400M Launch Contract.





During its ongoing discussions in 2009 with OCCAR and the Launch Nations, EADS successfully reinforced the Nations' confidence in the A400M programme and prepared a common basis for all parties involved to realign and rebase the A400M programme on future realistic general and specific conditions acceptable to all parties. These discussions addressed various aspects of the future progress of the programme such as the date for the first flight, certification procedures and the expected first entry into service as well as technical details of the aircraft and commercial issues of an updated contract scheme.

Even though these ongoing discussions did not lead to an updated A400M contract scheme until the date of issuance of these IFRS Consolidated Financial Statements, the increasing level of details agreed between EADS, OCCAR and the Launch Nations in their constructive negotiations during the 4<sup>th</sup> quarter 2009 and the first weeks of 2010 provides a reasonable basis for reassessing contract revenues from an EADS perspective. An important step on the commercial side was achieved with the signing of the joint principle agreement "Understanding on the Continuation of the A400M Programme" reached between the seven Launch Nations and EADS/Airbus/AMSL on the 5 March 2010. This step was accompanied by a further technical progress of the programme – mainly reflected in the successful first flight of the A400M on the 11 December 2009 – and a considerable reduction of sources of uncertainty regarding the total expected costs. All three items, the ongoing progress on the commercial side including the level of details agreed between EADS and the Launch Nations since the 4<sup>th</sup> quarter 2009, the successful first flight of the A400M (and its implications for linked programme milestones such as the delivery of the first aircraft) together with a significant higher visibility on total expected costs enabled EADS to leave the early-stage accounting of the A400M programme at the end of December 2009 and to reassess the A400M loss provision within the A400M related year end closing procedures.

This reassessment also considered as an adjusting event for the EADS' 2009 Consolidated Financial Statements the details agreed upon with the Launch Nations during February and March 2010. In particular, the assessment of the need and amount of additional provisions for the continuation and completion of the A400M programme is based on the "Understanding on the Continuation of the A400M Programme" reached between the seven Launch Nations ("Nations") and EADS/Airbus/AMSL jointly signed by them (together the "Parties") on the 5 March 2010 ("A400M Understanding"). This A400M Understanding has been reached "without prejudice and subject to contract". It is based on an exchange of letters from the State Secretary of the German Ministry of Defence, Rüdiger Wolf, on behalf of the seven Launch Nations and from the EADS CEO, Louis Gallois, during February 2010. The A400M Understanding – referring

to the latest draft no. 14 of the Heads of Terms exchanged between the Parties until the 5 March 2010 ("Heads of Terms") – and these letters are the result of negotiations over several months and constitute the basis on which management expects that a final agreement between the Parties on an amendment of the contract between AMSL and OCCAR ("Contract") will be reached as soon as practically possible.

The A400M Understanding, the Heads of Terms and the exchanged letters summarize the status of the negotiations and propose a number of changes to the initial contract which will only become binding upon Contract amendment and further requiring the implementation of an Export Levy Scheme or similar schemes. Assuming that the Nations will not derogate from what is agreed in the A400M Understanding and was offered in Mr Wolf's letters previously, management has made further assumptions.

Whilst management has made these assumptions in good faith and believing them to be probable, there is no certainty that a final Contract amendment can be achieved. In particular, it is critical to the management's assessment that the agreed Export Levy Scheme or a similar scheme providing for €1.5 billion will finally be concluded in a way which allows EADS/Airbus a revenue recognition as agreed in the A400M Understanding or can be included otherwise in the loss making contract ("LMC") computation. This will require a specific agreement with the Nations on an Export Levy Scheme or on a similar scheme mechanism and will be subject to national approval processes and the availability of funds (for this specific scheme).

The following elements of the ongoing negotiations between EADS, OCCAR and the Launch Nations – as currently expressed in the A400M Understanding, the Heads of Terms and the exchanged letters – were *inter alia* considered within the reassessment of A400M loss provision as of 31 December 2009:

- a price increase of €2 billion at economic conditions as of January 2009;
- a waiver on liquidated damages arising from the former A400M delivery scheme being realigned to the new delivery plan proposed to the Launch Nations;
- an Export Levy Scheme providing for €1.5 billion; and
- accelerated pre-delivery payments in the period of 2010 to 2014 according to the new delivery plan.

The main characteristics of the Export Levy Scheme as currently negotiated is that a fixed pre-defined levy would be paid by EADS for each new export aircraft delivered without further guarantees by EADS.



The reassessment of the A400M loss provision considered also the updated expected total costs as of December 2009 in accordance with the current status of the negotiations. In addition, the impacts arisen from the cancellation of the South African A400M order in November 2009 were taken into account as well. Finally, EADS' management best estimate comprised an assessment of the fiscal consequences of the update of the A400M loss provision.

The A400M loss provision as at 31 December 2009 (amounting to €2,464 million (€1,349 million as at 31 December 2008)) has been determined based on the best estimate of EADS' management, reflecting in particular the status of the elements of the ongoing negotiations between EADS and the Launch Nations as of 31 December 2009, and adjusted to actual values as explained above as well as the expected total costs of the A400M programme updated in December 2009. Due to the fact that the envisaged contract amendments agreed upon in the A400M Understanding and the Heads of Terms have not been concluded yet, the financial consequences of the upcoming contractual amendments of the A400M contract scheme on

EADS' Consolidated Financial Statements have been assessed on a best estimate basis and may be subject to changes depending on final contracts to be implemented. There is no certainty that such contractual amendments will be accomplished including any necessary parliamentary approval processes and availability of funds of the Launch Nations. Consequently and in particular with regard to the export levy scheme, there might arise a need that EADS' management has to reassess its assumptions regarding the consideration of the elements described above in the computation of the A400M loss provision as soon as the negotiations are finished. In case of such a reassessment EADS future financial performance could be significantly impacted.

The assessment of the statutory and fiscal consequences of the flow down of the above mentioned ongoing negotiations to the local and national entities of EADS is in process.

EADS will continue to apply the common percentage at completion method for the A400M programme in 2010.

## 5.1 Consolidated Financial Statements (IFRS)

### 5.1.1 CONSOLIDATED INCOME STATEMENT (IFRS)

TABLE 1 – CONSOLIDATED INCOME STATEMENT (IFRS)

(in €m)	2009	2008
<b>Revenues</b>	<b>42,822</b>	<b>43,265</b>
Cost of sales	(38,383)	(35,907)
<b>Gross margin</b>	<b>4,439</b>	<b>7,358</b>
Selling expenses	(924)	(933)
Administrative expenses	(1,272)	(1,253)
Research and development expenses	(2,825)	(2,669)
Other income	170	189
Other expenses	(102)	(131)
Share of profit from associates under the equity method	115	188
Other income from investments	19	23
<b>Profit (loss) before finance costs and income taxes</b>	<b>(380)</b>	<b>2,772</b>
Total finance costs	(592)	(472)
Income taxes	220	(703)
<b>Profit (loss) for the period</b>	<b>(752)</b>	<b>1,597</b>
Attributable to:		
Equity owners of the parent ( <b>Net income (loss)</b> )	(763)	1,572
Non-controlling interests	11	25



### 5.1.2 REVENUES

**Revenues** of EADS stood at €42.8 billion (FY 2008: €43.3 billion), supported by record commercial aircraft deliveries at Airbus (498 units compared to 483 in 2008) but offset by lower revenue recognition in the A400M programme, price deterioration on commercial aircraft deliveries and negative foreign exchange impacts. In addition, revenues at Astrium grew by 12%.

### 5.1.3 EBIT PRE-GOODWILL IMPAIRMENT AND EXCEPTIONALS

EADS uses **EBIT pre-goodwill impairment and exceptionals** as a key indicator of its economic performance. The term “exceptionals” refers to such items as depreciation expenses of fair value adjustments relating to the EADS merger, the Airbus combination and the formation of MBDA, as well as impairment charges thereon. In the following, EBIT pre-goodwill impairment and exceptionals is earmarked as EBIT\*.

TABLE 2 – RECONCILIATION PROFIT (LOSS) BEFORE FINANCE COSTS AND INCOME TAXES TO EBIT\* (IFRS)

(in €m)	2009	2008
<b>Profit (loss) before finance costs and income taxes</b>	<b>(380)</b>	<b>2,772</b>
Disposal of goodwill	0	0
Exceptional depreciation and disposal	58	58
<b>EBIT pre-goodwill impairment and exceptionals</b>	<b>(322)</b>	<b>2,830</b>

The EBIT\* of €-322 million (FY 2008: €2,830 million) was burdened by A400M and A380 provisions and exceptional negative foreign exchange impacts. In total, exchange rate impacts weighed down 2009 EBIT\* by €2.5 billion compared to 2008. Compared to 2008, higher volumes at Airbus and Power8 savings were more than offset by a degradation of hedge rates, the deterioration of pricing on Airbus commercial deliveries and cost increases. A380 continued to weigh significantly on the underlying performance. The performance of single-aisle and long-range programmes in Airbus as well as in other Divisions remains robust.

**EBIT\* before one-off** – an indicator capturing the underlying business margin by excluding non-recurring charges or profits caused by movements in provisions or foreign exchange impacts – stood at €2.2 billion (FY 2008: €3.3 billion).

One-off impacts are (in billion of €):

➤ A400M (including foreign exchange impact)	-1.82
➤ A380 Loss Making Contract Provision	-0.24
➤ other one-off	-0.41

EADS' **Net Income** amounted to €-763 million (FY 2008: €1,572 million), or earnings per share of €-0.94 (earnings per share FY 2008: €1.95). The Net Income was weighed down by the deterioration of EBIT\*. **Self-financed R&D expenses** slightly increased to €2,825 million (FY 2008: €2,669 million), assigned to spur new technologies and future business.

\* EBIT: earnings before interest and taxes, pre-goodwill impairment and exceptionals.



TABLE 3 – EBIT\* AND REVENUES BY DIVISION

By Division (in €m)	EBIT*			REVENUES		
	FY 2009	FY 2008	Change	FY 2009	FY 2008	Change
Airbus Division <sup>(1)</sup>	<b>(1,371)</b>	1,815	-	<b>28,067</b>	28,991	-3%
Airbus Commercial	386	2,306	-83%	26,370	26,524	-1%
Airbus Military	(1,754)	(493)	-	2,235	2,759	-19%
Eurocopter	<b>263</b>	293	-10%	<b>4,570</b>	4,486	+2%
Astrium	<b>261</b>	234	+12%	<b>4,799</b>	4,289	+12%
Defence & Security	<b>449</b>	408	+10%	<b>5,363</b>	5,668 <sup>(3)</sup>	-5%
Headquarters/Consolidation	<b>55</b>	37	-	<b>(1,073)</b>	(1,507)	-
Other Businesses <sup>(2)</sup>	<b>21</b>	43	-51%	<b>1,096</b>	1,338	-18%
<b>Total</b>	<b>(322)</b>	<b>2,830</b>	-	<b>42,822</b>	<b>43,265</b>	-1%

\* Earnings before interest and taxes, pre-goodwill impairment and exceptionals.

- (1) Following integration of former Military Transport Aircraft Division into Airbus Division, Airbus is now reporting in two segments: Airbus Commercial and Airbus Military. The Airbus Commercial perimeter includes EFW and the completed aerostructures reorganisation but now excludes the A400M activity. Airbus Military includes the former Military Transport Aircraft Division as well as all A400M activity. Eliminations are treated at the Division level. 2008 figures have been adjusted to reflect the changes, except for Augsburg transferred from Defence & Security.
- (2) As of 2009, the composition of Other Businesses differs compared to 2008. Since EADS is holding only a minority stake in DAHER-SOCATA, this unit is consolidated at equity within EADS accounts. Also as of 2009, EADS EFW is consolidated within Airbus accounts. Therefore, Other Businesses now contains ATR, EADS Sogerma and EADS North America and 30% of DAHER-SOCATA at equity. Other Businesses is not a stand-alone EADS Division. Other Businesses 2008 accounts have been adjusted by the transfer of EADS EFW to Airbus segment.
- (3) Augsburg site's revenues included in FY 2008 Defence & Security with €438 million. As of 2009, the Augsburg plant is integrated in Premium AEROTEC in Airbus Commercial.



## 5.1.4 CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (IFRS)

TABLE 4 – CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in €m)	31 December 2009	31 December 2008	Change
Intangible Assets	11,060	11,171	(111)
Property, Plant and Equipment	12,586	12,243	343
Investments in associates under the equity method	2,514	2,356	158
Other investments and other long-term financial assets	2,210	1,712	498
Other non-current assets	2,783	2,646	137
Deferred tax assets	2,656	2,756	(100)
Non-current securities	3,983	3,040	943
<b>Non-current assets</b>	<b>37,792</b>	<b>35,924</b>	<b>1,868</b>
Inventories	21,577	19,452	2,125
Trade receivables	5,587	5,267	320
Other current assets	4,238	4,590	(352)
Current securities	4,072	3,912	160
Cash and cash equivalents	7,038	6,745	293
Non-current assets/disposal groups classified as held for sale	0	263	(263)
<b>Current assets</b>	<b>42,512</b>	<b>40,229</b>	<b>2,283</b>
<b>Total assets</b>	<b>80,304</b>	<b>76,153</b>	<b>4,151</b>
Equity attributable to equity owners of the parent	10,535	11,022	(487)
Non-controlling interests	106	104	2
<b>Total equity</b>	<b>10,641</b>	<b>11,126</b>	<b>(485)</b>
Non-current provisions	8,137	7,479	658
Long-term financing liabilities	2,867	3,046	(179)
Deferred tax liabilities	751	953	(202)
Other non-current liabilities	15,532	16,824	(1,292)
<b>Non-current liabilities</b>	<b>27,287</b>	<b>28,302</b>	<b>(1,015)</b>
Current provisions	5,883	4,583	1,300
Short-term financing liabilities	2,429	1,458	971
Trade liabilities	8,217	7,824	393
Current tax liabilities	220	201	19
Other current liabilities	25,627	22,504	3,123
Liabilities directly associated with non-current assets classified as held for sale	0	155	(155)
<b>Current liabilities</b>	<b>42,376</b>	<b>36,725</b>	<b>5,651</b>
<b>Total equity and liabilities</b>	<b>80,304</b>	<b>76,153</b>	<b>4,151</b>

## Non-current assets

**Intangible assets** of €11,060 million (prior year-end: €11,171 million) include €9,741 million (prior year-end: €9,760 million) of goodwill. This mainly relates to Airbus Commercial (€6,425 million), Defence & Security (€2,503 million), Astrium (€604 million) and Eurocopter (€111 million). The related annual impairment tests, which were performed at the end of the year, did not lead to any impairment charges.

Eliminating foreign exchange-rate effects of €+160 million, **property, plant and equipment** increase by €+183 million to €12,586 million (prior year-end: €12,243 million), including leased assets of €703 million (prior year-end: €878 million). Property, plant and equipment also comprise “Investment property” amounting to €78 million (prior year-end: €87 million).

**Investments in associates under the equity method** of €2,514 million (prior year-end: €2,356 million) mainly reflect the increase in the equity investment in Dassault Aviation, amounting to €2,380 million (prior year-end: €2,243 million).





**Other investments and other long-term financial assets** of €2,210 million (prior year-end: €1,712 million) are related to Airbus for an amount of €1,691 million (prior year-end: €1,290 million), mainly concerning the non-current portion of aircraft financing activities including a foreign exchange rate effect of €-35 million.

**Other non-current assets** mainly comprise non-current derivative financial instruments and non-current prepaid expenses. The increase by €+137 million to €2,783 million (prior year-end: €2,646 million) is mainly caused by the positive variation of the non-current portion of fair values of derivative financial instruments (€+206 million).

**Deferred tax assets** of €2,656 million (prior year-end: €2,756 million) are presented as non-current assets as required by IAS 1.

The fair values of **derivative financial instruments** are included in other non-current assets (€1,307 million, prior year-end: €1,101 million), in other current assets (€937 million, prior year-end: €1,482 million), in other non-current liabilities (€732 million, prior year-end: €2,208 million) and in other current liabilities (€220 million, prior year-end: €657 million) which corresponds to a total net fair value of €1,292 million (prior year-end: €-282 million). The volume of hedged US dollar-contracts decreases from US\$68.1 billion as at 31 December 2008 to a net of US\$60.8 billion as at 31 December 2009, including 2 billion of US dollar vanilla options (prior year-end: US\$9 billion). The US dollar exchange rate became less favourable (US\$/€ spot rate of 1.44 at 31 December 2009 vs. 1.39 at 31 December 2008). The average US dollar hedge rate for the hedge portfolio of the Group deteriorates from US\$/€1.36 as at 31 December 2008 to US\$/€1.39 as at 31 December 2009 (excluding US dollar plain vanilla options which are out of the money).

### Current assets

**Inventories** of €21,577 million (prior year-end: €19,452 million) increase by €+2,125 million. This is mainly driven by an increase in unfinished goods and services in Airbus Commercial's A380, single-aisle and long-range programmes (€+1,351 million), at Eurocopter (€+169 million) due to lower deliveries in commercial programmes (mainly Dauphin and Ecureuil) and governmental programmes (NH 90 and Tiger) and at Defence & Security (€+64 million). Boosted by its launcher business, Astrium records a higher level of advance payments made to suppliers (€+406 million).

**Trade receivables** increase by €+320 million to €5,587 million (prior year-end: €5,267 million), mainly caused by Airbus (€+188 million), predominantly for Tanker, and by Astrium (€+106 million), mostly from *Direction Générale de l'Armement*.

**Other current assets** include "Current portion of other long-term financial assets", "Current other financial assets", "Current other assets" and "Current tax assets". The decrease of €-352 million to €4,238 million (prior year-end: €4,590 million) comprises among others a decrease of €-545 million in positive fair values of derivative financial instruments. This is partly compensated by increased receivables from related companies (€+189 million, mainly Eurofighter Jagdflugzeug GmbH).

**Cash and cash equivalents** increase from €6,745 million to €7,038 million.

### Total equity

**Equity** attributable to equity owners of the parent (including purchased treasury shares) amounts to €10,535 million (prior year-end: €11,022 million). The decrease in equity is mainly due to a comprehensive income for the period of €-354 million, primarily resulting from the loss of the period and changes in actuarial losses on defined benefit plans, partly compensated by a positive net change in fair value of cash flow hedges. Additionally, equity is reduced by the cash distribution to the shareholders.

**Non-controlling interests** slightly increase to €106 million (prior year-end: €104 million).

### Non-current liabilities

**Non-current provisions** of €8,137 million (prior year-end: €7,479 million) comprise the non-current portion of pension provisions with an increase of €+745 million to €5,080 million (prior year-end: €4,335 million), mainly reflecting lower discount rates used for the calculation of pension obligations.

Moreover, other provisions are included in non-current provisions, which decrease by €-87 million to €3,057 million. The decrease mainly reflects restructuring provisions for the reduction of overhead costs (Power8 programme, €-130 million) and provisions for outstanding costs (€-44 million), partly compensated for by provisions for loss making contracts (€+120 million).

Other provisions include among others the provision for aircraft financing activities.

**Long-term financing liabilities** of €2,867 million (prior year-end: €3,046 million) decrease by €-179 million. Due to the maturity date of the first tranche of the EMTN bond in March 2010, an amount of €1 billion is classified to short-term financing liabilities. In August 2009, this decrease was balanced by issuing the third tranche of the EMTN bond amounting to €1 billion.



**Other non-current liabilities** comprise “Non-current other financial liabilities”, “Non-current other liabilities” and “Non-current deferred income” and decrease in total by €-1,292 million to €15,532 million (prior year-end: €16,824 million). They mainly include non-current customer advance payments received of €8,579 million (prior year-end: €8,843 million) and the non-current portion of European Government refundable advances amounting to €4,882 million (prior year-end: €4,563 million). The decrease is mainly affected by the reduction of fair values of derivative financial instruments (please refer to “derivative financial instruments”). The main part of non-current deferred income of €266 million (prior year-end: €418 million) is linked to deferred revenues of Airbus and ATR relating to Residual Value Guarantee clauses. These are reversed over the guaranteed period.

### Current liabilities

**Current provisions** increase by €+1,300 million to €5,883 million (prior year-end: €4,583 million) and comprise the current portions of pensions (€226 million) and other provisions (€5,657 million). The increase mainly reflects provisions for loss making contracts (€+1,161 million), primarily from A400M charges, provisions for litigation (€+69 million) and provisions for outstanding costs (€+64 million).

**Short-term financing liabilities** of €2,429 million (prior year-end: €1,458 million) increase by €+971 million, mainly due to the first tranche of the EMTN bond with an amount of €1 billion, maturing in March 2010.

**Other current liabilities** include “Current other financial liabilities”, “Current other liabilities” and “Current deferred income”. They increase by €+3,123 million to €25,627 million (prior year-end: €22,504 million). Other current liabilities mainly comprise current customer advance payments of €21,271 million (prior year-end: €17,802 million).

### 5.1.5 NET CASH

**Free Cash Flow** before customer financing of €991 million (FY 2008: €2,886 million) exceeded guidance due to successful Cash Flow management. It also benefited from payments of public customers at year-end which were expected in 2010. Net customer financing outflow was lower than expected during 2009 at around €400 million. Free Cash Flow after customer financing amounted to €585 million (FY 2008: €2,559 million). Investing activities consumed €1.9 billion, reflecting an increase in capital expenditure as investment ramps up in the A350 programme. In August 2009, EADS refinanced its €1 billion Eurobond, which is due for repayment in March 2010 with the issuance of the third tranche of the EMTN bond of €1 billion. The Group’s **Net Cash position** reached €9.8 billion (year-end 2008: €9.2 billion).

Gross Cash comprises “Non-current securities”, “Current securities” and “Cash and cash equivalents”. For the Net Cash calculation “Long-term financing liabilities” and “Short-term financing liabilities” are deducted from the gross cash.

### 5.1.6 ORDER INTAKE AND ORDER BOOK

The Group’s **order intake** decreased to €45.8 billion (FY 2008: €98.6 billion). The target order intake for commercial aircraft was achieved but as expected falls short of the 2008 level. On 31 December 2009, the **order book** of EADS stood at a robust €389.1 billion (year-end 2008: €400.2 billion) despite the revaluation impact at the closing rate of US\$/€1.44 at the end of December versus US\$/€1.39 at the end of December 2008. This revaluation has led to a reduction of around €11 billion. The defence order book increased to €57.3 billion (year-end 2008: €54.9 billion). This growth was driven by important military contracts in 2009 including Eurofighter Tranche 3a.



TABLE 5 – ORDER INTAKE AND ORDER BOOK BY DIVISION

By Division (in €m)	Order intake <sup>(3)</sup>			Order book <sup>(3)</sup>		
	FY 2009	FY 2008	Change	31 Dec. 2009	31 Dec. 2008	Change
Airbus Division <sup>(1)</sup>	<b>23,904</b>	85,493	-72%	<b>339,722</b>	357,824	-5%
Airbus Commercial	23,461	82,108	-71%	320,321	337,193	-5%
Airbus Military	637	5,083	-87%	20,686	22,269	-7%
Eurocopter	<b>5,810</b>	4,855	+20%	<b>15,064</b>	13,824	+9%
Astrium	<b>8,285</b>	3,294	+152%	<b>14,653</b>	11,035	+33%
Defence & Security	<b>7,959</b>	5,287	+51%	<b>18,796</b>	17,032	+10%
Headquarters/Consolidation	<b>(1,080)</b>	(1,993)	-	<b>(1,120)</b>	(2,636)	-
Other Businesses <sup>(2)</sup>	<b>969</b>	1,712	-43%	<b>1,952</b>	3,169	-38%
<b>Total</b>	<b>45,847</b>	<b>98,648</b>	<b>-54%</b>	<b>389,067</b>	<b>400,248</b>	<b>-3%</b>

(1) Following integration of former Military Transport Aircraft Division into Airbus Division, Airbus is now reporting in two segments: Airbus Commercial and Airbus Military. The Airbus Commercial perimeter includes EFW and the completed aerostructures reorganisation but now excludes the A400M activity. Airbus Military includes the former Military Transport Aircraft Division as well as all A400M activity. Eliminations are treated at the Division level. 2008 figures have been adjusted to reflect the changes, except for Augsburg site transferred from Defence & Security.

(2) As of 2009, the composition of Other Businesses differs compared to 2008. Since EADS is holding only a minority stake in DAHER-SOCATA, this unit is consolidated at equity within EADS accounts. Also as of 2009, EADS EFW is consolidated within Airbus accounts. Therefore, Other Businesses now contains ATR, EADS Sogerma and EADS North America and 30% of DAHER-SOCATA at equity. Other Businesses is not a stand-alone EADS Division. Other Businesses 2008 accounts have been adjusted for the transfer of EADS EFW to Airbus segment.

(3) Contributions from commercial aircraft activities to EADS Order Intake and Order book are based on list prices.

### 5.1.7 EADS DIVISION DETAILS

Following the integration of former Military Transport Aircraft Division into Airbus Division, Airbus is now reporting in two segments: Airbus Commercial and Airbus Military. The Airbus Commercial perimeter includes Elbe Flugzeugwerke (EFW) and the completed aerostructures reorganisation, but now excludes the A400M activity. Airbus Military includes the former Military Transport Aircraft Division as well as all A400M activity. Eliminations are treated at the Division level. 2008 figures have been adjusted to reflect the changes, except for the Augsburg site transferred from the Defence & Security Division.

**Airbus** consolidated revenues of €28,067 million were in line with the previous year (FY 2008 adjusted: €28,991 million). Airbus' consolidated EBIT\* amounted to €-1,371 million (FY 2008 adjusted: €1,815 million).

Out of the consolidated Airbus results, Airbus Commercial revenues amounted to €26,370 million (FY 2008: €26,524 million). Commercial aircraft deliveries reached a record level of 498 (FY 2008: 483). The positive impact from a higher number of deliveries was offset by price deterioration notably from A330 deliveries resulting from older contract conditions and negative foreign exchange impacts. Airbus Commercial EBIT\* decreased significantly to €386 million compared to €2,306 million in 2008. EBIT\* was weighed down by the A380 provision (€240 million) and exceptional exchange rates impacts. Before these exceptionals, the consolidated EBIT\* before one-off stood at €1.1 billion (FY 2008 adjusted: €2.1 billion). It benefited from higher volumes, lower programme charges and

Power8 savings which were more than offset by negative foreign exchange effects, price deterioration on aircraft delivered and cost increases. As expected, R&D costs increased due to a ramp-up in the A350 programme.

A380 continued to weigh significantly on the underlying performance. Beyond the adjustment of the provision, inefficiencies had a negative impact on performance and an adjustment of excess capacity due to the low level of deliveries, weighed on the fourth quarter. These effects weigh on the good underlying performance of the long-range and single-aisle families.

Airbus Military revenues amounted to €2,235 million (FY 2008: €2,759 million). These revenues benefited from an increase in tanker activity and the Medium and Light segment. However, they were more than offset by lower revenue recognition on the A400M programme, where 2008 figures included the initial application of the early stage accounting method<sup>(1)</sup>. The ongoing progress of constructive negotiations including the level of details agreed between EADS and the Launch Customer Nations since the fourth quarter 2009 and the successful first flight of the A400M (and its implications for linked programme milestones such as the delivery of the first aircraft) together with a significant higher visibility on total expected production cost enabled EADS to leave the early stage accounting of the A400M programme at the end of December 2009 and to reassess the A400M loss provision within the year-end closing procedures. This reassessment of the A400M loss provision has been determined based on the best estimate of EADS' management,

\* EBIT: earnings before interest and taxes, pre-goodwill impairment and exceptionals.

(1) This accounting method was used by EADS from September 2008 until the end of December 2009 (see "Notes to Consolidated Financial Statements (IFRS) — Note 3: Accounting for the A400M programme").



as the envisaged contract amendments have not been finalised with the Launch Customer Nations. If substantial changes in the reassessment were to occur, EADS' performance could be significantly impacted.

Airbus Military EBIT\* amounted to €-1,754 million (FY 2008: €-493 million), which was mainly weighed down by the impacts of the A400M programme (€-1.8 billion).

In 2009, Airbus booked 310 new commercial gross orders (271 net orders) despite market uncertainties. Cancellations were limited with only 39 recorded in 2009. Due to proactive order book management, production rates remained stable and are currently at rate 34 per month for the single-aisle and around rate 8 per month for the long-range aircraft. Airbus achieved a record level in 2009 with 140 aircraft delivered in the last quarter alone. Ten A380 were delivered in 2009, including two Wave 2 aircraft. Financing requests were strongly supported by the Export Credit Agencies who provided guarantees for around one third of deliveries. In 2009, Airbus Military booked 18 new gross orders (10 net orders).

The A350 development continued to progress. Airbus has used up some of the previous buffers in the development of the A350 programme. Airbus keeps the date of the entry into service unchanged.

The first A320 in China rolled off the assembly line in Tianjin in June 2009 with 11 aircraft delivered at the end of 2009. This underlines Airbus' strategic approach to internationalise its industrial footprint and to create global partnerships outside the Euro-perimeter. In 2009, Airbus' A330 freighter conducted its maiden flight, adding another member to the A330 Family besides the Multi-Role Tanker Transport (MRTT). This all-new, mid-size freighter will play an important role in the recovering freighter market with a global demand of more than 1,600 aircraft in the foreseeable future. Airbus Military secured a significant milestone with the first flight of the A400M transport aircraft. Moreover, it confirmed its leading position in the global tanker aircraft business with additional orders from Saudi Arabia, as well as successful conversion work and test flights for the first A330 MRTT aircraft to be delivered to Australia.

As of 31 December 2009, Airbus' consolidated order book was valued at €339.7 billion (year-end 2008 adjusted: €357.8 billion) after the negative foreign exchange revaluation of around €11 billion based on list prices.

Out of this consolidated Airbus order book, Airbus Commercial accounted for €320.3 billion (year-end 2008: €337.2 billion),

which equals 3,488 units (year-end 2008: 3,715 aircraft). The Airbus Military order book stood at €20.7 billion (year-end 2008: €22.3 billion).

In 2009, revenues for the **Eurocopter** Division grew by 2% to €4,570 million (FY 2008: €4,486 million). Deliveries reached 558 helicopters compared to 588 in 2008. A favourable mix in serial activities and an increasing contribution from customer services were counterbalanced by lower governmental and development revenues. The Division's EBIT\* decreased to €263 million (FY 2008: €293 million). Positive contributions from services and cost savings initiatives were offset by higher R&D expenses due to strong efforts on innovation and product investments, margin pressure on the NH 90 programme and a negative foreign exchange impact. In the challenging economic environment, Eurocopter benefited from its comprehensive civil and military product portfolio and its worldwide presence. In December 2009, Eurocopter performed the maiden flight of the EC-175 civil helicopter on schedule. This helicopter has been developed in cooperation with Chinese partners. The French order of 22 new NH 90 Tactical Transport Helicopters and the Brazilian order of 50 EC725 exemplified the strong military business. Furthermore, Eurocopter strengthened its services business by creating new Service Centres in Hong Kong and in Dallas. It also signed significant services contracts with the German Army and the UK Royal Air Force.

Eurocopter's broad base of customers, markets and services has so far delivered a level of protection against the civil market downturn. However, due to the current financial and economic crisis the trend of bookings over the year showed a significant slowdown with 344 net orders registered versus 715 in 2008. This mainly comes from the small and medium-sized helicopter segments. Cancellations in 2009 amounted to 105 helicopters, mainly in the Private and Corporate segments. However, 2009 was a record year for military helicopters, resulting in an order book value well above the 2008 level. Eurocopter's order book increased to €15.1 billion (year-end 2008: €13.8 billion) for 1,303 helicopters (year-end 2008: 1,515 helicopters). In 2009, Eurocopter launched an internal restructuring programme, called SHAPE, to better face the economic crisis in the civil helicopter market.

**Astrium** recorded a strong revenue growth (up 12%) across all businesses in 2009. Revenues amounted to €4,799 million (FY 2008: €4,289 million). The revenues include a positive one-time effect due to a revenue catch-up for in-orbit incentive schemes on commercial telecom satellites. EBIT\* improved by 12% to €261 million (FY 2008: €234 million) which was driven by a ramp-up in productivity in Earth observation satellites and Ariane 5 manufacturing and profitable growth in telecom

\* EBIT: earnings before interest and taxes, pre-goodwill impairment and exceptionals.





services. However, this was partially offset by an unfavourable translation effect from the declining British pound against the euro for Paradigm services.

For Astrium, 2009 was a record year in all sectors. In telecommunication satellites, the Division gained one quarter of the worldwide market including an order worth more than €500 million from SES Astra. Astrium Services Business Unit expanded and evolved; Skynet 5 passed its full operational service milestone, with the UK Ministry of Defence recognising Astrium as its most reliable supplier. Over the course of the year, Astrium delivered seven Ariane 5 launchers and started development of the Ariane 5 ME (Midlife Evolution). At the end of December 2009, the order book for Astrium stood at €14.7 billion (year-end 2008: €11.0 billion).

The **Defence & Security** (DS) Division's 2009 revenues decreased to €5,363 million (FY 2008: €5,668 million) due to the carve out of the Augsburg aerostructures activity into the Airbus segment. 2008 figures have not been restated. Like for like, revenues reflect growth from higher volume of Tranche 2 and export deliveries for Eurofighter as well as Integrated Logistics Support.

EBIT\* grew by 10% to €449 million (FY 2008: €408 million). A combination of growth and margin improvements on core and export for Military Air Systems and Missile programmes combined with operational improvements offset a ramp-up in R&D investments in areas such as radar and Unmanned Aerial Vehicles (UAV) as well as the aerostructures carve out.

In 2009, DS delivered growth in core programmes and secured significant milestones in future high growth areas: The Eurofighter partner nations awarded the Tranche 3a contract for the production of 112 aircraft. DS further maintained its leading position in nationwide security systems by winning the contract to secure the full borders of Saudi Arabia. It advanced its UAV activities by supporting the French Army deployment of the Harfang UAV System in Afghanistan, by completing the Risk Reduction Study for the European Talarion UAV and by

successfully testing the Barracuda UAV demonstrator. Further contributions were made through enhancing the Division's radar portfolio and securing several new contracts in the Professional Mobile Radio (PMR) business. At the end of 2009, the Division's order book stood at €18.8 billion (year-end 2008: €17.0 billion).

### Headquarters and Other Businesses (not belonging to any Division)

As of 2009, the composition of Other Businesses differed compared to 2008. Since EADS now holds only a 30% minority stake in DAHER-SOCATA, this unit is consolidated at equity within Other Businesses. Also, as of 2009, EADS EFW is consolidated within Airbus accounts. Therefore, Other Businesses now comprise ATR, EADS Sogerma, EADS North America and 30% of DAHER-SOCATA at equity.

Revenues of Other Businesses decreased to €1,096 million (FY 2008 adjusted: €1,338 million) mainly reflecting changes in the consolidation perimeter. The EBIT\* of Other Businesses fell to €21 million (FY 2008 adjusted: €43 million). Productivity gains from further progress on Sogerma's turnaround were offset by negative foreign exchange effects at ATR and a lower EBIT\* at EADS North America.

In a context of weak customer financing, ATR's proactive order book management led to 53 aircraft deliveries in 2009. Net orders reached 26 units for 2009, up from 20 in 2008 as cancellations were lower at 10 for the year. The 2010 production rates have been adjusted downwards by around 10% to reflect the current environment. At the end of 2009, ATR's order book stood at 133 aircraft. In December 2009, the US Army awarded the fifth annual contract for the Light Utility Helicopter to EADS North America. This contract increases the total contract order to 178 aircraft. On 31 December 2009, the order book of Other Businesses stood at €2.0 billion (year-end 2008 adjusted: €3.2 billion). This decrease is mainly due to the change of consolidation of DAHER-SOCATA.

\* EBIT: earnings before interest and taxes, pre-goodwill impairment and exceptionals.





## 5.2 EADS N.V. Company Financial Statements

TABLE 6 – BALANCE SHEET EADS NV

(in €m)	31 December 2009	31 December 2008
Goodwill	4,354	4,354
Financial fixed assets	9,578	9,575
Non-current securities	3,809	3,035
<b>Fixed assets</b>	<b>17,741</b>	<b>16,964</b>
Receivables and other assets	4,383	5,398
Securities	4,045	3,909
Cash and cash equivalents	5,377	5,321
<b>Non-fixed assets</b>	<b>13,805</b>	<b>14,628</b>
<b>Total assets</b>	<b>31,546</b>	<b>31,592</b>
<b>Stockholders' equity</b> <sup>(1)</sup>	<b>10,535</b>	<b>11,022</b>
Financing liabilities	322	332
Other non-current liabilities	1,619	1,501
<b>Non-current liabilities</b>	<b>1,941</b>	<b>1,833</b>
Other current liabilities	19,070	18,737
<b>Current liabilities</b>	<b>19,070</b>	<b>18,737</b>
<b>Total liabilities and stockholders' equity</b>	<b>31,546</b>	<b>31,592</b>

(1) The balance sheet is prepared before appropriation of the net result.

TABLE 7 – INCOME STATEMENT EADS NV

(in €m)	2009	2008
Income from investments	(953)	1,763
Other results	190	(191)
<b>Net result</b>	<b>(763)</b>	<b>1,572</b>

## 5.3 Information on Statutory Accountants

	Date of First Appointment	Expiration of Current Term of Office*
KPMG Accountants N.V. Fascinatioboulevard 200 – 3065 WB Rotterdam – The Netherlands Represented by L.A. Blok	10 May 2000	1 June 2010
Ernst & Young Accountants L.L.P. Antonio Vivaldistraat 150, 1083 HP Amsterdam – The Netherlands Represented by F.A.L. van der Bruggen	24 July 2002	1 June 2010

\* A resolution will be submitted to the General Meeting of Shareholders called for 1 June 2010, in order to appoint Ernst & Young Accountants L.L.P. and KPMG Accountants N.V. as the Company's auditors for the 2010 financial year.

KPMG Accountants N.V., Ernst & Young Accountants L.L.P. and their respective representatives are registered with the Royal NIVRA (*Nederlands Instituut van Register Accountants*).



## 5.4 Risk factors

*EADS is subject to many risks and uncertainties that may affect its financial performance. The business, financial condition or results of operations of EADS could be materially adversely affected by the risks described below. These are not the only risks EADS faces. Additional risks and uncertainties not presently known to EADS or that it currently deems immaterial may also impair its business and operations. For further information on these risks, you should refer to EADS' "Registration Document" available on its website ([www.eads.com](http://www.eads.com)).*

### 5.4.1 FINANCIAL MARKET RISKS

#### Impact of Recent Financial Crisis

During the second half of 2009, the global economy started a fragile recovery at a slow pace following massive liquidity injections by central banks and substantial support packages provided by governments worldwide. Although the risk of a further downward spiral of the financial sector appears to have been halted, the potential effects of future changes to the regulatory environment and the reduced availability of credit for investments cannot yet be quantified. Government interventions to mitigate the impacts from the economic downturn have also resulted in a significant deterioration of the fiscal position and increased public debt levels of the main industrialised countries. Accordingly, the tenuous economic recovery still faces several headwinds which may affect the financial markets and subsequently EADS' business, including but not limited to:

- numerous requests by customers to postpone or cancel orders for aircraft due to, among other things, lack of adequate credit supply from the market to finance aircraft purchases or weak levels of passenger demand for air travel and cargo activity more generally;
- an increase in the amount of sales financing that EADS must provide to its customers to support aircraft purchases, thereby increasing its exposure to the risk of customer defaults despite any collateral interests in the underlying aircraft;
- strict monitoring of public spending for defence, homeland security and space due to budget constraints;
- economic distress or insolvency of key suppliers, resulting in product delays;
- the default of investment or derivative counterparties and other financial institutions, which could negatively impact EADS' treasury operations;

- continued de-leveraging as well as mergers and bankruptcies of banks or other financial institutions, resulting in a smaller universe of counterparties and lower availability of credit, which may in turn reduce the availability of bank guarantees needed by EADS for its businesses or restrict its ability to implement desired foreign currency hedges;
- changes in long-term interest rates, credit spreads or inflation, which may affect the discount rate applicable to the Group's pension liabilities, or poor financial performance of certain asset classes, thereby requiring an increase in the Group's provisions for retirement plans;
- changes in short-term interest rates, the potential illiquidity of certain asset classes or increases in the prices of raw materials, which may affect the financial performance of the Group;
- reduced access to capital markets and other sources of financing, which may limit EADS' future ability to make capital expenditures, fully carry out its research and development efforts and fund operations.

The not yet self-sustained economic recovery may lead to a longer period with marginal growth rates or even a return to recession, which could have a negative effect on EADS' future results of operation and financial condition. Economic weakness and uncertainty also make it more difficult for EADS to make accurate forecasts of revenue, earnings before interest and taxes, pre-goodwill impairment and exceptionals ("EBIT") and cash flow, and may increase the volatility of EADS' stock price.

#### Exposure to Foreign Currencies

A significant portion of EADS' revenues is denominated in US dollars, while a substantial portion of its costs is incurred in euro, and to a lesser extent, in pounds sterling. Consequently, to the extent that EADS does not use financial instruments to hedge its exposure resulting from this foreign currency mismatch, its profits will be affected by market changes in the exchange rate of the US dollar against these currencies, and to a lesser extent, by market changes in the exchange rate of pound sterling against the euro. EADS' foreign currency hedging strategy may not protect it from significant changes in the exchange rate of the US dollar to the euro and the pound sterling, in particular over the longer-term, which could have a negative effect on its results of operation and financial condition.



### Exposure to Sales Financing Risk

In support of sales, EADS may agree to participate in the financing of customers or guarantee part of the market value of certain aircraft during limited periods after their delivery to customers. As a result, EADS has a significant portfolio of leases and other financing arrangements with airlines and other customers. No assurances may be given that the measures taken by EADS to protect itself from defaults by its customers or significant decreases in the value of the financed aircraft in the resale market will be effective.

### Counterparty Credit Risk

EADS is exposed to credit risk to the extent of (i) non-performance by its counterparties for financial instruments, such as hedging instruments and cash investments, and (ii) price risks arising from the credit spreads embedded in cash investments.

### Exposure on Equity Investment Portfolio

EADS holds several equity investments for industrial or strategic reasons, the business rationale for which may vary over the life of the investment. EADS is exposed to the risk of unexpected material adverse changes in the fair value of Dassault Aviation and that of other associated companies.

### Pension Commitments

EADS participates in several pension plans for both executive as well as non-executive employees, some of which are under funded. Although EADS has recorded a provision in its balance sheet for its share of the under funding based on current estimates, there can be no assurance that these estimates will not be revised upward in the future, leading EADS to record additional provisions in respect of such plans.

For further information relating to financial market risks and the ways in which EADS attempts to manage these risks, see “Notes to Consolidated Financial Statements (IFRS) — Note 35A: Information about Financial Instruments – Financial risk management”.

## 5.4.2 BUSINESS-RELATED RISKS

### Commercial Aircraft Market Cyclicity

Historically, the market for commercial aircraft has shown cyclical trends, due in part to changes in passenger demand for air travel and cargo activity, which are in turn primarily influenced by economic or gross domestic product (“GDP”) growth. EADS expects that the market for commercial aircraft, including the market for civil helicopters, will continue to be cyclical, and that downturns in broad economic trends may have a negative effect on its future results of operation and financial condition.

Moreover, EADS may be required to adopt significant changes to its business plan in response to market conditions, including production rate changes or the re-configuration of aircraft originally intended for customers whose orders have been postponed or cancelled. Failure to successfully implement such changes or the incurrence of higher than expected costs in doing so could have a negative effect on EADS’ future results of operation and financial condition.

### Impact of Terrorism, Epidemics and Catastrophic Events on Commercial Aircraft Market

As the terrorist attacks in New York and Madrid and the spread of H1N1 flu have demonstrated, terrorism and epidemics may negatively affect public perception of air travel safety and comfort, which may in turn reduce demand for air travel and commercial aircraft. The outbreak of war in a given region may also affect the willingness of the public to travel by air. Furthermore, major airplane crashes may have a negative effect on the public’s or regulators’ perceptions of the safety of a given class of aircraft, form of design, or airline. In response to such events, and the resulting negative impact on the airline industry or particular airlines, EADS may suffer from a decline in demand for all or certain types of its aircraft, and EADS’ customers may postpone delivery of new aircraft or cancel orders.

### Dependence on Public Spending and on Certain Markets

In any single market, public spending (including defence spending) depends on a complex mix of geopolitical considerations and budgetary constraints. Public spending may be subject to significant fluctuations from year to year and country to country. Adverse economic and political conditions as well as downturns in broad economic trends in EADS’ markets such as those experienced recently may reduce the amount of public spending and have a negative effect on EADS’ future results of operations and financial condition. Further, a significant portion of EADS (including Airbus) order book is concentrated in certain regions or countries, including the United States of America, China, India and the United Arab Emirates. Adverse economic and political conditions as well as downturns in broad economic trends in these countries or regions may have a negative effect on EADS’ and Airbus’ future results of operations and financial condition.

### Availability of Government and Other Sources of Financing

Since 1992, the EU and the US have operated under an agreement that sets the terms and conditions of financial support that governments may provide to civil aircraft manufacturers. In late 2004, however, the US sought to unilaterally withdraw from this agreement, which eventually led to the US and the EU making formal claims against each other before the World



Trade Organization (“WTO”). While both sides have expressed a preference for a negotiated settlement that provides for a level playing field when funding future aircraft developments, they have thus far failed to reach agreement on key issues. The terms and conditions of any new agreement, or the outcome of the formal WTO proceedings, may limit access by EADS to risk-sharing-funds for large projects, may establish an unfavourable balance of access to government funds by EADS as compared to its US competitors or may theoretically cause the European Commission and the involved governments to analyse possibilities for a change in the commercial terms of funds already advanced to EADS.

In prior years, EADS and its principal competitors have each received different types of government financing of product research and development. However, no assurances can be given that government financing will continue to be made available in the future, in part as a result of the proceedings mentioned above.

### Emergence of Public-Private Partnerships and Private Finance Initiatives

Defence customers, particularly in the UK, increasingly request proposals and grant contracts under schemes known as public-private partnerships (“PPPs”) or private finance initiatives (“PFIs”). There can be no assurances of the extent to which EADS will efficiently and effectively (i) compete for future PFI or PPP programmes, (ii) administer the services contemplated under the contracts, (iii) finance the acquisition of the equipment and the ongoing provision of services related thereto, or (iv) access the markets for the commercialisation of excess capacity. EADS may also encounter unexpected political, budgetary, regulatory or competitive risks over the long duration of PPP and PFI programmes.

### Competition and Market Access

Most of EADS’ businesses are subject to significant competition, and Airbus in particular has been affected by downward price pressure resulting from such competition. Competition may intensify in the future, particularly in the context of a prolonged economic downturn. There can be no assurance that EADS will be able to compete successfully against its current or future competitors or that the competitive pressures it faces in all business areas will not result in reduced revenues or market share.

### Technologically Advanced Products and Services

EADS offers its customers products and services that are often technologically advanced, the design and manufacturing of which can be complex and require substantial integration and coordination along the supply chain. In addition, most of EADS’ products must function under demanding operating conditions. Even though EADS believes it employs sophisticated design,

manufacturing and testing practices, there can be no assurance that EADS’ products or services will be successfully developed, manufactured or operated or that they will be developed or will perform as intended.

Certain of EADS’ contracts require it to forfeit part of its expected profit, to receive reduced payments, to provide a replacement launch or other products or services, or to reduce the price of subsequent sales to the same customer if its products fail to be delivered on time or to perform adequately. No assurances can be given that performance penalties or contract cancellations will not be imposed should EADS fail to meet delivery schedules or other measures of contract performance. For example, certain customers decided to cancel their A380 freighter orders following the production difficulties that EADS encountered in 2006, while in 2009, South Africa announced that it would cancel its A400M order following the announcement of significant delivery delays on the programme.

In addition to any costs resulting from product warranties, contract performance or required remedial action, such problems may result in increased costs or loss of revenues – in particular as a result of contract cancellations – which could have a negative effect on EADS’ future results of operation and financial condition. Any problems in this respect may also have a significant adverse effect on the competitive reputation of EADS’ products.

### Major Research and Development Programmes

The business environment in many of EADS’ principal operating business segments is characterised by extensive research and development costs requiring significant up-front investments with a high level of complexity. The business plans underlying such investments often contemplate a long payback period before these investments are recouped, and assume a certain level of return over the course of this period in order to justify the initial investment. There can be no assurances that the commercial, technical and market assumptions underlying such business plans will be met, and consequently, the payback period or returns contemplated therein achieved.

### Power8, Power8 Plus and “Future EADS” Restructuring and Cost Saving Programmes

In 2007, EADS announced the implementation of a significant cost reduction and restructuring programme at Airbus, referred to as Power8. In addition, in 2008, EADS launched a Group-wide cost savings programme referred to as Power8 Plus, as well as a further integration and cost savings programme referred to as “Future EADS”. Anticipated cost savings, in particular those related to Power8 Plus and “Future EADS”, are based on preliminary estimates, however, and actual savings under these programmes may vary significantly. EADS’ failure to successfully implement these planned cost reduction measures,





or the possibility that these efforts may not generate the level of cost savings it expects going forward, could negatively affect its future results of operation and financial condition. In addition to the risk of not achieving the anticipated level of cost savings from the programmes above, EADS may also incur higher than expected implementation costs, depending on the outcome of its current negotiations with labour and other stakeholders. In many instances, there may be internal resistance to the various organisational restructuring and cost reduction measures contemplated, including site divestitures by Airbus and the integration of the Military Transport Aircraft Division into Airbus.

### Dependence on Certain Suppliers and Subcontractors

EADS is dependent on numerous key suppliers and subcontractors to provide it with the raw materials, parts and assemblies that it needs to manufacture its products. Certain of these suppliers have experienced severe financial difficulties in light of the recent financial crisis. If these difficulties were to intensify, some suppliers could be forced to reduce their output, shut down their operations or file for bankruptcy protection, which could disrupt the delivery of supplies to EADS. It may be difficult for EADS to find a replacement for certain suppliers without significant delay, which could negatively affect EADS' future results of operation and financial condition. EADS may decide in the future to provide financial or other assistance to certain suppliers to ensure an uninterrupted supply of materials and parts, which could expose it to credit risk on the part of such suppliers.

EADS' suppliers or subcontractors may also make claims or assertions against it for higher prices or other contractual compensation, in particular in the event of significant changes to development or production schedules, which could negatively affect EADS' future profitability.

Finally, if the macro-economic environment leads to higher than historic average inflation, the labour and procurement costs of EADS may increase significantly in the future. This may lead to higher component and production costs which could in turn negatively impact EADS' future profitability and cash flows, to the extent EADS is unable to pass these costs on to its customers or require its suppliers to absorb such costs.

### Programme-Specific Risks

In addition to the risk factors mentioned above, EADS also faces the following programme-specific risks (while this list does not purport to be comprehensive, it highlights the current risks believed to be material by management):

➤ *A400M programme.* For a description of recent developments related to the A400M programme, including certain management assumptions made in connection with the preparation of the 2009 EADS Consolidated Financial

Statements, see the section "5 Financial and other Highlights" of this report and the note "3 Accounting for the A400M Programme" of the 2009 EADS Consolidated Financial Statements. In addition to the financial and negotiation risks described therein, the Company also faces the following challenges: (i) managing a flight test programme that differs significantly from that of commercial Airbus aircraft, (ii) integrating the civil systems (flight management, navigation, etc.) with the complex military systems, (iii) ensuring that the aircraft is both commercially certified and meets the range of military qualifications required by programme customers, (iv) managing the anticipated difficulties on the ramp-up, and (v) meeting the new negotiated time schedule;

➤ *A380 programme.* In connection with the A380 programme, EADS faces the following main challenges: (i) management of stress in the supply chain as a result of the steep ramp-up in production in coming years, (ii) successful implementation of a digital mock-up for future A380 production, (iii) managing maturity in service and (iv) avoidance of production disruptions and related costs, in particular in connection with the implementation of Power8. EADS' ability to successfully meet these challenges will be critical in ensuring the smooth production of "Wave 2" aircraft, *i.e.* those beyond the initial 25 aircraft produced;

➤ *A350 XWB programme.* In connection with the A350 XWB programme, EADS faces the following main challenges: (i) ensuring the maturity of the technology (ii) meeting the technical performance targets for the aircraft and respecting the development schedule (iii) ensuring the ramp-up of key skilled personnel, *e.g.* for composite stress and design, (iv) securing the achievement of recurring cost targets, (v) ensuring that the new industrial organisation resulting from Power8 supports effective development, and (vi) ensuring the performance of the risk sharing partners, including those selected for sites divested by Airbus;

➤ *NH 90 programme.* In connection with the NH 90 programme, EADS faces the following main challenges: (i) meeting the development schedule, the cost objectives and the technical content (full operational configuration of the TTH (Tactical Transport Helicopter) version and final configuration of the NFH (Nato Frigate Helicopter) version) of ongoing development programmes on the numerous versions, (ii) managing the industrial ramp-up on the programme, and (iii) assuring support readiness in connection with multiple fleets entering into service;

➤ *Saudi border surveillance.* In connection with the Saudi border surveillance programme, EADS faces the following main challenges: (i) meeting the schedule and cost objectives with a high number of sites to deliver and the integration of COTS products (radars, cameras, sensors) with their





interfaces into the system, (ii) assuring an efficient project and staffing ramp-up, and (iii) managing the rollout including subcontractors as well as training and organisational adaptation of the customer.

### 5.4.3 LEGAL RISKS

#### Dependence on Joint Ventures and Minority Holdings

EADS generates a substantial proportion of its revenues through various consortia, joint ventures and equity holdings. While EADS seeks to participate only in ventures in which its interests are aligned with those of its partners, the risk of disagreement or deadlock is inherent in a jointly controlled entity, particularly in those entities that require the unanimous consent of all members with regard to major decisions and specify limited exit rights. The other parties in these entities may also be competitors of EADS, and thus may have interests that differ from those of EADS.

#### Product Liability and Warranty Claims

EADS designs, develops and produces a number of high profile products of large individual value, particularly civil and military aircraft and space equipment. EADS is subject to the risk of product liability and warranty claims in the event that any of its products fails to perform as designed.

#### Intellectual Property

EADS relies upon patent, copyright, trademark and trade secret laws, and agreements with its employees, customers, suppliers and other parties, to establish and maintain its intellectual property rights in technology and products used in its operations. Despite these efforts to protect its intellectual property rights, any of EADS' direct or indirect intellectual property rights could be challenged, invalidated or circumvented. In addition, although EADS believes that it lawfully complies with the intellectual property rights granted to others, it could have claims asserted against it for infringement of the intellectual property rights of third parties. Any claims or litigation in this area, whether EADS ultimately wins or loses, could be time-consuming and costly, injure EADS' reputation or require it to enter into licensing arrangements.

#### Export Controls and Other Regulations

The export market is a significant market for EADS. There can be no assurance (i) that the export controls to which EADS is subject will not become more restrictive, (ii) that new generations

of EADS products will not also be subject to similar or more stringent controls or (iii) that geopolitical factors will not make it impossible to obtain export licenses for one or more clients or constrain EADS' ability to perform under previously signed contracts. EADS is also subject to a variety of other governmental regulations that may adversely affect its business and financial condition, including among others, regulations relating to commercial relationships, the use of its products and dealings with foreign officials.

#### Litigation

EADS is currently engaged in a number of legal proceedings, particularly with respect to securities litigation arising out of the A380 programme delays announced in 2006. See "Notes to the Consolidated Financial Statements (IFRS) — Note 33: Litigation and claims". Although EADS is unable at this point to predict the outcome of these proceedings, it is possible that they will result in the imposition of damages, fines or other remedies, which could have a negative effect on EADS' business, financial condition and results of operations. An unfavourable ruling could also negatively impact EADS' stock price and reputation. In addition, EADS expects to continue to incur time and expenses associated with its defence, regardless of the outcome, and this may divert the efforts and attention of management from normal business operations.

### 5.4.4 INDUSTRIAL AND ENVIRONMENTAL RISKS

Given the scope of its activities and the industries in which it operates, EADS is subject to stringent environmental, health and safety laws and regulations in numerous jurisdictions around the world. EADS therefore incurs, and expects to continue to incur, significant capital expenditure and other operating costs to comply with increasingly complex laws and regulations covering the protection of the natural environment as well as occupational health and safety. In addition, the various products manufactured and sold by EADS must comply with relevant environmental, health and safety and substances/preparations related laws and regulations in the jurisdictions in which they operate. In the event of an accident or other serious incident involving a product, EADS may be required to conduct investigations and undertake remedial activities. Employees, customers and other third parties may also file claims for personal injury, property damage or damage to the environment (including natural resources). Any problems in this respect may also have a significant adverse effect on the competitive reputation of EADS' products.



## 5.5 Human Resources

### 5.5.1 WORKFORCE INFORMATION

As of 31 December 2009, the EADS workforce was composed of 119,506 employees. The number of employees compared to 2008 decreased in the Division Defence & Security, as well as Headquarters & Others. The important increase of headcount at the Airbus Division is explained by 3 major changes in 2009: the former Military Transport Aircraft Division (“MTAD”) is now part of the Airbus Division and is thus no longer a stand-alone Division at the end of 2009. The creation of Premium AEROTECH from within Defence & Security and Airbus contributed as well to the increasing workforce in the Airbus Division and furthermore explained the decrease at Defence & Security. Finally, the inclusion of Elbe Flugzeugwerke (EFW) within the Airbus Division not only explains the decrease in headcount at Headquarters & Others, which is also reinforced by the deconsolidation of Socata, but also explains the higher number of employees at the Airbus Division.

In 2009, the workforce consisted of 96.7% full time employees. Depending on country and hierarchy level, the average contractual working time is between 35 and 40 hours a week.

In 2009, 5,663 employees worldwide entered employment with EADS (7,081 in 2008). At the same time, 3,308 employees left EADS (5,078 in 2008).

In total, 94.9% of EADS’ active workforce is located in Europe on more than 100 sites.

### 5.5.2 ORGANISATION OF HUMAN RESOURCES MANAGEMENT

The key mission of the Group HR function is to ensure that EADS, as an integrated Group, attracts, develops, motivates

and retains a world-class workforce. It acts as a business partner by supporting the business challenges and by facilitating continuous integration and internationalisation of the Group. In particular, it helps at building a common spirit across the Group’s organisational and operational structures.

Since 2006, the HR organisation has been further integrated, in line with the Group business requirements. The role of HR Board and functional reporting lines from the Divisions to the Group HR head were re-enforced to foster a coordinated Group HR policy. HR function has implemented global shared services for HR administration, payroll and recruitment, using a common global HR information system. HR processes have been harmonised through common e-HR project. Implementation of global shared services for learning administration have started.

Corporate HR team operates as strategic leader in HR matters and works in close cooperation with the Divisions and BUs HR functions which have the operational responsibility to manage employees. Regular meetings of the HR managers and specialists from different businesses are organised on both group and national levels.

In 2009, a EADS Group-wide Engagement Survey highlighted areas of satisfaction and of frustration amongst the employees. As a consequence, the company has launched a series of actions across the management chain. The main targets are improved recognition of employees, reinforcement of the leadership behaviours, better communication and improved personal proximity of managers and HR support with the employees.

## 5.6 Environmental matters

EADS considers that safeguarding our environment requires commitment from all stakeholders, whether citizens, politicians or industrial partners; in the fulfilment of EADS’ mission to provide individual mobility, communication and security that are tenets of our modern society, as part of its overall corporate responsibility.

EADS’ aspiration to become an Eco-Efficient enterprise is a major goal of the Company’s vision 2020 strategic roadmap. A consistent implementation of the Group Environmental

Policy towards Eco-Efficiency is made through a corporate Environmental roadmap which defines, beyond regulatory compliance and continuous improvement in Environmental management, ambitious goals towards more eco-efficient Operations, Products and Services.

Eco-efficiency aims at reconciling protection of the Environment with Economy by adding value to the business while reducing environmental impact. This is achieved through pro-actively positioning the Company as a key player of the expected green



growth by (i) seizing green business opportunities, (ii) addressing the environmental impacts of Company's activities and products throughout their life cycle and (iii) developing breakthrough technologies, products and services:

### **(i) Seizing green business opportunities**

EADS offers a large panel of technologies, products and services, in particular in systems and space, to serve environmental protection. Continuous surveillance and anticipation of environmental damages from space are more than ever recognised as essential. EADS Astrium acts either as partner or architect of prestigious European programmes for Environmental protection such as "Living Planet", GMES (Global Monitoring for Environment and Security), SPOT, ENVISAT, METOP, GOCE or SMOS etc.; its instruments and satellites provide data the scientific community needs to develop models, explore complex planetary mechanisms or eco-systems, and also contribute to mitigate environmental impacts such as deforestation. Harvesting solar energy from satellites and easing its restitution on earth also constitute some avenues worth exploring.

Some initiatives such as end of life management of aircraft and reverse supply chain from optimised waste recovery, remote sensing of pollutants, and development of alternatives to fossil fuels may rapidly offer promising applications.

### **(ii) Addressing the Environmental impact of the Company's activities and products throughout their life cycle**

Currently, 90% of the EADS employees operate under a certified Environmental Management System (EMS) pursuant to either ISO 14001 or registered EMAS. EADS strives towards the establishment of advanced life cycle oriented EMS, with the aim to cover 100% of the Company's activities and products related aspects, throughout their life cycle. Airbus was the first aerospace company to have certified its environmental management system against ISO 14001 with a wide coverage including both sites and product-related aspects all along their life cycle. Particular attention is paid to transparent and reliable environmental reporting, to managing and eliminating the most hazardous chemicals throughout the operations as per the provisions of the REACH regulation, to proposing environmentally friendly end of life processes (opening of the TARMAC Aerosave) and to control greenhouse gas emissions and other air pollutants.

In this context, recognizing the need to pro-actively engage the Company to manage the transition towards low-carbon economy and address the growing challenge of climate change, major efforts are being devoted to achieve the reduction by 30% of used Energy by 2020 (50% CO<sub>2</sub> - reference 2006). Carbon footprint inventory performed according to international guidelines such as the GHG protocol allow estimating our direct and indirect emissions throughout the value chain and identifying where the priority efforts lie. Plans are underway to build new energy efficient infrastructures, to install photovoltaic panels on the roof of new assembly lines or to expand the use of renewable sources of energy.

Airbus, partnering with the UNEP Convention for Bio-Diversity (CBD), has launched the "Green Wave" information programme to raise awareness among youth worldwide about the urgency of preserving biodiversity, recognising the need to actively and concretely tackle this issue as the next "big thing" to come.

### **(iii) Mobilise our expertise towards the development of breakthrough green technologies, products and services**

As part of the United Nations Climate Change Conference 2009 (COP15) framework, the aviation sector has committed to reaching CO<sub>2</sub> neutral growth from 2020, and will also work towards halving net CO<sub>2</sub> emissions by 2050 (referenced to 2005).

To meet these targets, technology and innovation are more than ever at the heart of the EADS business (80% of R&T benefits to Environment at Airbus and Eurocopter). Mobilisation of expertise towards the research, the design and the development of breakthrough green technologies performed through major R&D programmes as Clean Sky is crucial. Sustainable drop-in biofuels appear to be a major opportunity for the whole aviation sector (by "drop-in", we mean a fuel that requires neither change of the aircraft systems nor modification of the distribution channels or any specific infrastructures). Further major initiatives are being targeted in 2010 to promote the use of bio fuels for commercial flights, as was recently tested by some airlines.

EADS plays a leading role on several other initiatives such as Air Traffic Management (ATM) to install together with peers a global system to optimize Air transport as a whole and further reduce CO<sub>2</sub> emissions. Significant improvement are also made effective on current EADS products such as Airbus A320, which, can achieve 3,5% CO<sub>2</sub> saving on long routes with new sharklet wingtips. Eurocopter has launched the Bluecopter technology programme, designed to trigger and accelerate the development of technologies that offer significant environmental benefits.



## 5.7 Research and Technology Management

Today's rapidly changing business environment demands new aerospace innovation that answers society's requirements concerning the environment, security and mobility. EADS' research and technology management (R&T) must be tightly linked to improve the Group's competitiveness and differentiation to answer these needs. Research & Technology plays a central role in helping EADS remain competitive by driving forward the spirit of innovation. The EADS Corporate Technical Office (CTO) organization ensures that business strategy and technology strategy are closely aligned.

The CTO delivers shareholder value through a deliberate, leading-edge R&T portfolio that enables the introduction of new technologies, with an emphasis on strong return-on-investment for customers. CTO also fosters long-term customer relationships by developing high-value solutions which meet the technological, performance, safety, and cost-competitive pressures that the Company faces. The EADS R&T strategy is also driven by the need for successful on-time, on-quality, on-price introduction of new products and processes. The scope of R&T within EADS covers a wide spectrum of technological domains. R&T activities are targeted at various levels in the value chain and the R&T strategy is structured according to the timelines of short-term/committed programmes, medium term/optional programmes and long-term/advanced concepts.

The R&T activities for advanced concepts include Integrated Demonstrators and Technological/Operational Studies. Today, all EADS Divisions work to generate new product concepts in line with the Company's vision and to maximise its future business potential. These concepts explore and generate completely new ideas, while pushing the limits of what is technically possible. The portfolio is currently focused around four growth axes: mobility (*e.g.* air traffic management), environmental protection (*e.g.* new energy solutions, new optimised platforms), safety and security (asymmetric warfare, communications and localisation in buildings under ground, illicit materials detection and aircraft communications protection) and services (*e.g.* in-service health monitoring, mid-life upgrades, MRO).

EADS also dedicates resources to assess emerging concepts. EADS R&T management endeavours to develop Key Product Technologies, which means, for example, constantly scouting for new ideas, materials and equipment and experimenting with them on prototypes before they are deployed on a large scale. In doing so, the Company develops privileged relationships and partnerships with key suppliers. EADS R&T activities in these areas are aimed to identify emerging concepts and to further develop these technologies. EADS has identified emerging technologies that will drive future performance for seven key product technology categories: Composites Technologies, Metallic Technologies & Surface Engineering, Structures Engineering, Production & Aeromechanics, Sensors, Electronics & Systems Integration, Engineering, Physics, IT and Energy & Propulsion.

R&T management also includes the "architect's toolbox" which develops and masters the state-of-the-art tools, and enables EADS to be an efficient industrial architect. The toolbox encompasses virtual product engineering as well as safe and mature on-Board software development.

EADS CTO has developed a plan to leverage and further mature its participation in venture capital funds in order to identify and source emerging technologies. It is of key importance for EADS to detect disruptive technologies that could contribute to the Company's portfolio of products. Through EADS Innovation Works, the research arm of the CTO and partnerships with external laboratories, EADS monitors and evaluates closely different technologies such as fuel cells, secure communications, photonics, nanotechnologies and hybrid materials – among many others.

In keeping with its ambition to grow its business in the products-related services, EADS is developing technologies for services such as training, advanced product support, full communication services as well as special mission capability: *e.g.* provision, maintenance and operation on behalf of a customer including qualified staff to conduct the mission.



## 6. FINANCIAL TARGETS FOR 2010

As EADS enters into 2010, the Group remains fundamentally solid to cope with the improving but still volatile economic environment.

This is based on a resilient, actively managed order book of 3,488 aircraft in Airbus, 1,303 in Eurocopter and strong order book in the Space and Defence businesses.

Progressive recovery in traffic and yield especially in emerging markets should first stabilise airline financials before it leads to additional ordering activity.

Based on a number of active campaigns, which should lead to 250-300 new gross orders in 2010 and a stable overbooked order book on single-aisle aircraft, Airbus decided to increase production rate from 34 to 36 aircraft per month on single-aisles starting in December 2010 while keeping the long-range programme production rates roughly stable at around 8 aircraft per month.

In 2010, Airbus expects to deliver up to the same level of aircraft as in 2009 and new gross orders should range between 250 and 300 aircraft. Eurocopter should deliver around 6% less helicopters in 2010 compared to 2009.

Therefore, using €1 = US\$1.40 as the average spot rate, EADS revenues should be roughly stable in 2010.

EADS' EBIT\* in 2010 will be around €1 billion. The deterioration of the hedge rates will weigh by about € -1 billion compared to 2009. A380, while slightly improving, will continue to weigh substantially on the EBIT\* before one-off, as in 2009. Cost savings and some improvement in aircraft pricing should contribute positively while weaker helicopter deliveries, some increase in Research & Development (R&D) and cost inflation will weigh on profitability.

Going forward, the EBIT\* performance of EADS will be dependent on the Group's ability to execute on the A400M, A380 and A350 programmes in line with the commitments made to its customers.

As the envisaged contract amendments currently reflected in the A400M Understanding and its related documents have not been finalised yet with the Launch Nations, the reassessment of the A400M loss provision has been determined based on the best estimate of EADS' management and may be subject to changes depending on final contracts to be implemented. If substantial changes on this assessment were to occur, EADS' performance could be significantly impacted.

Provided a sustainable year-end cash inflow of institutional and government business and subject to Pre-Delivery Payment advances for the A400M programme, the Free Cash Flow before customer financing should be break-even. Free Cash Flow after customer financing should be negative due to customer financing cash-outflows of around €1 billion.

\* EBIT: earnings before interest and taxes, pre-goodwill impairment and exceptionals.





## 7. EADS STRATEGIC CHALLENGES

The following strategic challenges of EADS have been published in the Group's Vision 2020 which outlines EADS' long-term objectives and has been discussed throughout various management levels, as well as the Board. All such objectives

must be understood to be long-term management ambitions, the achievement of which is subject to risks as outlined in section 5.2 "Risks and uncertainties".

### 7.1 Group Strategic Challenges

EADS has one of the broadest aerospace platform portfolios and has the world's largest order book in 2009, making the Group a global leader in its sector. With its Vision 2020, EADS strives to become the **worldwide leader in air and space platforms and systems** (mainly platform-related systems architecture and integration) with a complete portfolio of products, both commercial and governmental. Globally, this implies **that EADS aims to reach a revenue balance between Airbus commercial aircraft manufacturing and other businesses by 2020**. The continued difficult and challenging economic environment in 2009 has validated EADS' vision objectives more than ever. What is necessary is to adapt the way to achieve them. The weakening of the financial markets represents a challenge for customer financing, and requires flexible management of the order book. Parts of government budgets are increasingly under pressure from public debts which have increased significantly. Consequently, EADS has to ensure close cooperation with all its customers and careful cash-management in order to protect the group and weather the current environment.

To support the business and long-term positioning of EADS, organic growth needs to be fostered and supported by investments areas securing future core competencies and improving access to markets and customers. In this respect, external growth through acquisitions or partnerships may be pursued, especially in Asia, the Middle-East and the Americas.

EADS has defined its option for a strategic vision, where **priority is given to platforms and systems and services**. This option provides a new growth engine fuelled by the expansion of the in-service fleet and a transfer of responsibilities and outsourcing from defence/governmental bodies and armed forces to the private sector. Therefore, EADS targets a **25% services share of business by 2020**, focusing on high-value services initially related to platforms, requiring and developing both customer intimacy and product intimacy. EADS will **increasingly focus on core**, which means going towards this new business model approach and reallocate resources which are currently locked in non-core legacy activities.

**Demand for outsourced services** is rising in the market, either driven by cost/revenue constraints or driven by operational efficiency requirements. Training, Advanced In-Service Support and air traffic management systems are segments with a positive outlook in the coming years. Also in Defence procurement, demand patterns evolve and there is an increasing trend towards outsourcing and services. The operating environment changes in the defence sector with an increase in coalition-led engagements, mutualisation of funds to compensate for declining/flat budgets.

Also, EADS will continue to **develop/secure core competencies/technologies for platforms and systems**. The intelligence of complex platform-related systems (such as surveillance or air defence systems) will be increasingly distributed on Board (cockpit) and on the ground (control stations). Therefore the core competencies required to secure prime contractorship in the future will certainly include the ground segment, the data link, C4I and network centric operations (as currently the case for UAVs, satellites and air defence missile systems). EADS also has to take benefit from the convergence between Defence & Security, especially on secure networks.

EADS will also continue to drive necessary improvements to achieve a best-in-class operational and financial efficiency to **reach 10% EBIT\*** within the decade 2010-2020, depending on the average value of the Euro-Dollar exchange rate and the development of the commercial cycle. The improvements have to come through internal costs control, optimal resource allocation, enhanced programme execution and risk management, ability to cope with the US\$ volatility as well as stronger development of more profitable segments.

EADS will continue to pursue its **industrial globalisation**, EADS must continue to reduce vulnerability to Euro versus US dollar exchange rate with a business model based on core/non-core analysis and the development of a network of partnerships as well as true globalisation in emerging countries such as China and India, as well as in the dollar zone.

\* EBIT: earnings before interest and taxes, pre-goodwill impairment and exceptionals.



A significant part of EADS sourcing volumes and employees are in Europe (although a majority of the revenues come from outside Europe). Access to markets and technology resources, cost optimization and protection against dollar volatility mean that EADS needs to **reinforce the industrial footprint and partnership-building outside Europe whilst protecting core technologies and optimising our industrial base in Europe**. In this context, EADS will aim for an ambitious target of **40% of EADS sourcing** and **20% of EADS employees outside of Europe** in 2020. To enhance EADS US industrial base, the long-term goal will also be **to achieve US\$ 10 billion revenues in North America** mainly addressing a defence, security and space related customer base and gain a prime position with US Government. **In general, reasonable acquisitions will be required as a mean to achieve Vision 2020 goals and in particular to expand EADS global reach.**

European defence budgets have been relatively stable but are facing increasing pressure from public debts, hence they are unlikely to grow significantly in the next 10 years; this may drive a further consolidation/restructuring of the defence industry. Consequently, EADS must remain vigilant to continued **European defence consolidation**. For several years, scale has been becoming more important in the Aerospace and Defence (“A&D”) industry and companies have sought opportunities to build and infill their portfolios. Yet, the end-game has not been achieved and the major players are preparing for the next steps. In this context, EADS must constantly monitor the development of potential opportunities, including strategic acquisitions since the Company cannot afford to ignore possible consolidation moves in areas of key strategic interest of aerospace platforms and related activities in service support and defence systems and electronics.

EADS is consistently moving towards **becoming an eco-efficient Company** and is acting to sustain future development. With a clear objective to reconcile environmental protection and economic sustainability, EADS intends to meet increasing demand for aeronautic/space/defence products while minimising environmental impacts in the most economical and

efficient way. As an example, at Airbus, concrete commitments up to 2020 have been agreed and communicated. Clear policy, measurable objectives including the complete EADS portfolio need to be considered in the frame of consistent Environmental Management Systems (ISO 14001) to be set up.

The world in which EADS operates, evolves and will continue to evolve significantly in the coming years. This will require new products based on emerging technologies and efficient processes. Technology and innovation are key drivers to achieve Vision 2020. Products and processes will be tightly linked to improve competitiveness and differentiation. At the same time, EADS will keep the innovation pipeline constantly full in order to replace ageing technologies and processes.

In 1999, EADS was not created as a financial holding but with the ambition to become an integrated industrial group with worldwide leadership in A&D. EADS’s organisation and Human Resources should be the key means of achieving this goal. At all levels, a leaner, more integrated, fully transparent and more efficient structure is needed to strengthen the coherence of actions and exploitation of synergies, taking advantage of integration. At Group level, the integration programme “Future EADS” is underway and will continue to reinforce efficiencies and synergies. These initiatives should, however, not distort the operational capabilities of the Divisions, as financial objectives have to be met and industrial programmes executed at this level.

Finally, EADS needs motivated and competent employees. To this end, it is the duty of EADS and its management to provide them with the opportunities to meet their professional expectations, develop their professional skills and realise their personal potential. This requires an active management development based on a new leadership model. EADS will also encourage stronger mobility and greater internal diversity in the teams. These two criteria will be taken into account for career management and performance assessment. Recruitment of managers from nations outside our home countries will also be encouraged.

## 7.2 Divisions Outlook

### 7.2.1 AIRBUS

As the aviation sector tends to lag the economic cycle, demand for aircraft remains fragile. Airbus expects the level of new aircraft orders to fall slightly in 2010.

Airbus will continue to proactively manage its order book, with the aim of maintaining deliveries at approximately the level of 2008/2009.

The deteriorating dollar-euro exchange rate in its hedge book will continue to pressure on Airbus margins. To save on costs, Airbus will pursue the Power8 programme to its completion in 2010 and advance the Power8 Plus savings programme.

Management will focus on fixing the difficulties with series production of the A380. Close attention will also be paid to keeping the A400M and A350 XWB development on track.



As the envisaged contract amendments currently reflected in the A400M Understanding and its related documents have not been finalised yet with the Launch Nations, the reassessment of the A400M loss provision has been determined based on the best estimate of EADS' management and may be subject to changes depending on final contracts to be implemented. If substantial changes on this assessment were to occur, EADS' performance could be significantly impacted.

In the longer term, the product development of recent years through the A380, A350 XWB and A400M will strengthen Airbus' competitive position in a growing aviation market, where eco-efficiency is becoming increasingly important for airlines and manufacturers alike.

### 7.2.2 EUROCOPTER

Orders for civil helicopters are expected to remain low in 2010, and the high number of used aircraft available for sale at the end of 2009 is likely to delay recovery. On the military market, the outlook is encouraging but remains subject to economic recovery, as well as to governments' budget policies.

Reduced orders for smaller civil helicopters in 2009 will cause a slight drop in revenues and deliveries in 2010.

The SHAPE reorganisation programme will help to counter a weak civil market and increased competition. It aims at generating savings of €200 million a year by 2011, including contributions to Future EADS, delivering productivity improvements and enabling Eurocopter to increase further investment in research and development. This will allow the company to get through the crisis while ensuring its future by securing the development of innovative products and services.

### 7.2.3 ASTRIUM

In a tough commercial and public sector environment, Astrium's order book secures more than three years' activity.

Six Ariane 5 launch vehicles will be delivered for 2010. Margin pressure on key programmes will increase due to greater competition, weak US dollar and public sector budget reviews.

The Future EADS and Power8 Plus improvement programmes will play their part in raising profitability across all three Business Units during 2010, despite this more difficult environment.

The Services, secure communications and earth observation businesses in particular are expected to deliver longer term growth.

### 7.2.4 DEFENCE & SECURITY ("DS")

During 2010, profitable growth will be based on large programmes delivery and with increasing contributions from new growth areas particularly in security.

While securing its position in the home markets, DS will continue to increase its presence in strategic global markets with large or growing budgets.

DS will continue to invest significantly in its future key technologies and products such as UAV and the next generation of radar systems. DS will further enhance its offering of comprehensive packages of mission-critical services.

Evolution of defence budget, and international expansion will need to be carefully monitored in the mid-term.



The information contained in this Board report will enable you to form an opinion on the situation of the Company and the operations, which are submitted to you for approval.

For further information and detail regarding EADS' activities, finances, financing, risk factors and corporate governance, the reader should refer to the EADS website at [www.eads.com](http://www.eads.com) (Investor Relations) and to the documents posted thereon.

➤ The Board of Directors hereby declares that, to the best of its knowledge:

- (i) the financial statements for the year ended 31 December 2009 give a true and fair view of the assets, liabilities, financial position and profits or losses of EADS and undertakings included in the consolidation taken as a whole; and
- (ii) this Board report gives a true and fair view of the position as per the balance sheet date, and of the development and performance during the 2009 financial year of EADS and undertakings included in the consolidation taken as a whole, and the principal risks facing EADS have been described herein.

**Leiden, 8 March 2010**

#### **The Board of Directors**

Bodo Uebber, Chairman

Louis Gallois, Chief Executive Officer

Rolf Bartke, Director

Dominique D'Hinnin, Director

Juan Manuel Eguiagaray Ucelay, Director

Arnaud Lagardère, Director

Hermann-Josef Lamberti, Director

Lakshmi N. Mittal, Director

Sir John Parker, Director

Michel Pébureau, Director

Wilfried Porth, Director



# Financial Statements 2009

(included in a separate booklet)

The financial information for 2009, as set forth below, forms part of the Documentation for the Annual General Meeting as well as the Registration Document 2009, and is incorporated by reference herein:

- EADS N.V. Consolidated Financial Statements (IFRS)
- Notes to the Consolidated Financial Statements (IFRS)
- Auditors' report on the Consolidated Financial Statements (IFRS)
- Company Financial Statements
- Notes to the Company Financial Statements

Copies of the financial information for 2009 are available at the headquarters of the Company and at the head offices:

**in France:** 37, boulevard de Montmorency, 75016 Paris

**in Germany:** Willy-Messerschmitt-Str. – Tor 1, 85521 Ottobrunn

**in Spain:** Avenida de Aragón 404, 28022 Madrid

Copies are also available at **EADS Securities Department**, ARLIS - BNP PARIBAS Securities Services, 9 rue du débarcadère, 93761 Pantin Cedex and on our website [www.eads.com](http://www.eads.com) (Investor Relations).





# Useful Information

## HOW TO ATTEND THE MEETING

**Hotel Okura Amsterdam,  
Ferdinand Bolstraat 333,  
1072 LH Amsterdam, The Netherlands  
Tel.: +31 (0)20 678 71 11**

### By car

Hotel Okura is located at about 30 minutes from Amsterdam-Schiphol international airport, right next to the RAI Congress Center.

From all directions, follow Ring Amsterdam (A10). Exit RAI (S109) and turn right at the traffic lights, direction RAI/

Centrum (S109). Follow direction Zuid (S109). After passing the roundabout, take the second street on your right (Scheldestraat). After 500 metres, Hotel Okura appears on your right hand side.

Parking at the Hotel Okura Amsterdam.

### By public transport

#### From Schiphol Airport

- **First itinerary:** Take the train (direct rail link of 15 minutes) to Centraal Station – in the main arrival plaza – and then see the hereafter indications.
- **Second itinerary:** Take a stop train, direction Lelystad Centrum, Hilversum or Utrecht Centraal to the first stop (Zuid Station), and then, follow the hereafter indications.
- **Third itinerary:** Take a stop train, direction Hilversum or Almere Oostvaarders to the RAI station, and then, follow the hereafter indications.

#### From Centraal Station – CS

Take the tram number 25, direction President Kennedylaan, to the eleventh stop (Cornelis Troostplein, see the map ▲). Go down the street. After 200 metres, Hotel Okura appears on your left hand side. Walking time: 3 minutes.

#### From RAI Station

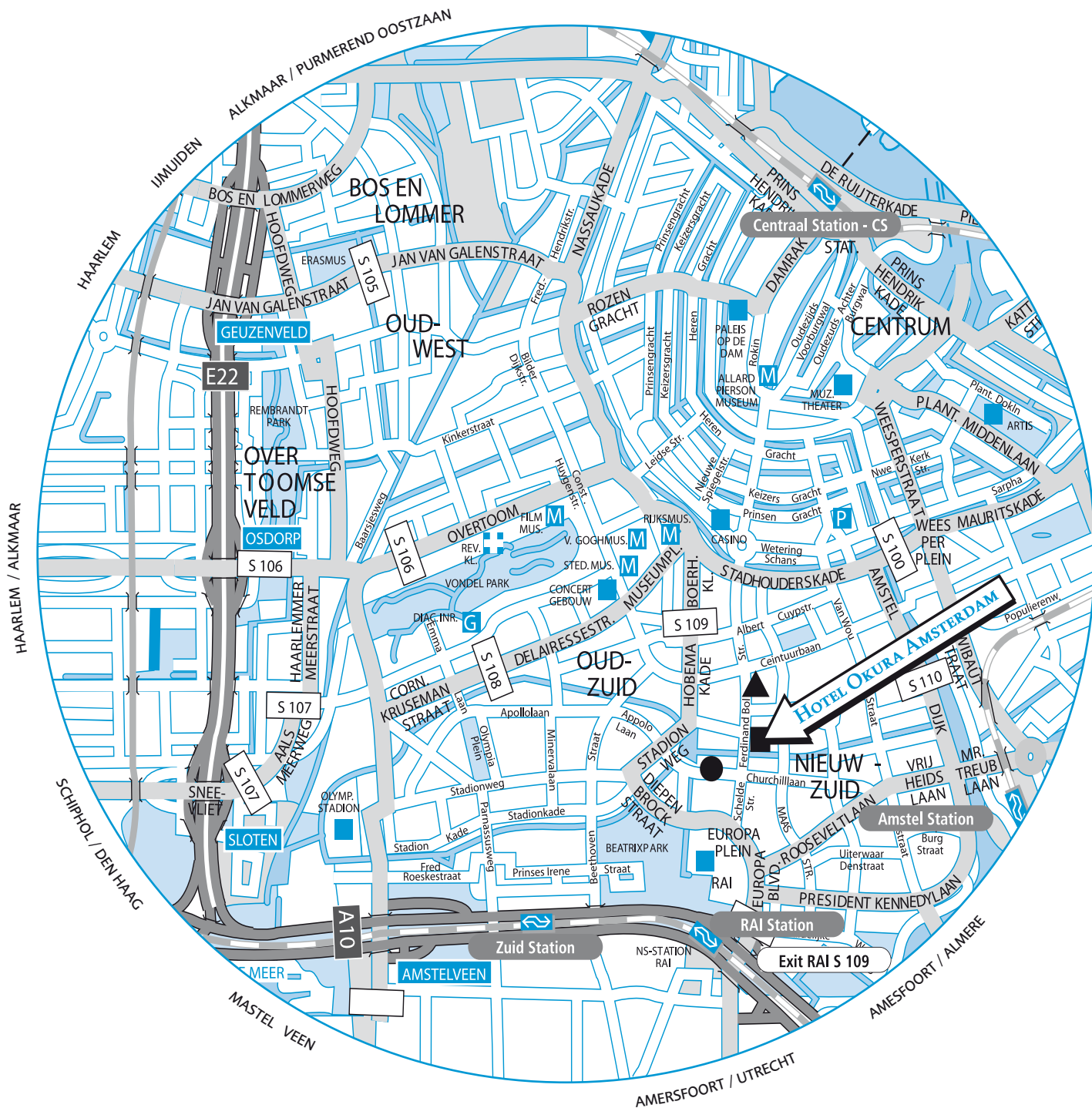
Walk in the direction of Europa Boulevard. Go straight away to Europaplein and then to Scheldestraat. After 500 metres, Hotel Okura appears on your right hand side, just after the bridge. Walking time: 10 minutes.

#### From Amstel Station

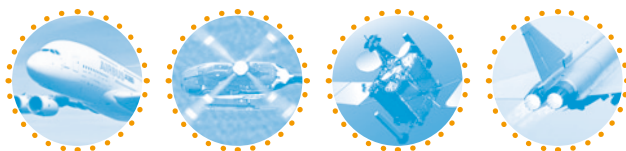
Take the tram number 12, direction Station Sloterdijk, to the fifth stop (Scheldestraat, see the map ●), or bus number 65, direction Station Zuid, to the seventh stop (Scheldestraat, see the map ●). Walk in Churchillaan for 100 metres, and then turn left in Ferdinand Bolstraat. After 100 metres, Hotel Okura appears on your right hand side, just after the bridge. Walking time: 3 minutes.

#### From Zuid Station

Take the bus number 65, direction KNSM Eiland, to the fourth stop (Scheldestraat, see the map ●). Walk in Churchillaan for 100 metres, and then turn left in Ferdinand Bolstraat. After 100 metres, Hotel Okura appears on your right hand side, just after the bridge. Walking time: 3 minutes.



[WWW.EADS.COM](http://WWW.EADS.COM)



### Shareholders Information

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Spain: 00 800 00 02 2002

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**E-mail box:** [ir@eads.com](mailto:ir@eads.com)

### European Aeronautic Defence and Space Company EADS N.V.

Limited liability company (naamloze vennootschap)

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