

BUSINESS,
LEGAL
AND
CORPORATE
RESPONSIBILITY
2006

Book



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Registration Document Part 1:
Risk Factors
Net Assets Financial Position Results
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3



BUSINESS, LEGAL AND CORPORATE RESPONSIBILITY 2006

Registration Document Part 2:
(available on request)
Information on EADS Activities
Corporate Social Responsibility
General Description of the Company
and its Share Capital
Entity Responsible for the Registration Document

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BUSINESS, LEGAL AND CORPORATE RESPONSIBILITY

EADS

EADS REGISTRATION DOCUMENT

PART 2

BUSINESS, LEGAL AND CORPORATE RESPONSIBILITY

European Aeronautic Defence and Space Company EADS N.V. (the “**Company**” or “**EADS**”) is a Dutch company, which is listed in France, Germany and Spain. Given this fact, the applicable regulations with respect to public information and protection of investors, as well as the commitments made by the Company to securities and market authorities, are described in this registration document (the “**Registration Document**”).

This Registration Document was prepared in accordance with Annexe 1 of the EC Regulation 809/2004, filed in English with, and approved by, the Autoriteit Financiële Markten (the “AFM”) on 25th April 2007 in its capacity as competent authority under the *Wet op het financieel toezicht* (as amended) pursuant to the Directive 2003/71/EC. The Registration Document is composed of two parts which must be read together: (i) this document entitled Business, Legal and Corporate Responsibility – (Registration Document Part 2) and (ii) the document entitled Financial Statements and Corporate Governance – (Registration Document Part 1). This Registration Document may be used in support of a financial transaction as a document forming part of a prospectus in accordance with Directive 2003/71/EC only if it is supplemented by a securities note and a summary approved by the AFM.

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EADS

FINANCIAL STATEMENTS AND CORPORATE GOVERNANCE

REGISTRATION DOCUMENT - PART 1

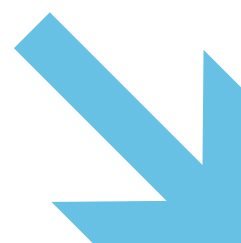
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1.1 Presentation of the EADS Group

1.1.1 Overview

Due to the nature of the markets in which EADS operates and the confidential nature of its businesses, any statements with respect to EADS' competitive position set out in paragraphs 1.1 through 1.1.8 below have been based on EADS' internal information sources, unless another source has been specified below.

With consolidated revenues of €39.4 billion in 2006, EADS is Europe's premier 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, civil helicopters, commercial space launch vehicles and missiles systems, and a leading supplier of military aircraft, satellites and defence electronics. In 2006, it generated approximately 75% of its total revenues in the civil sector and 25% in the military sector.

2006 Highlights

In spite of some impressive successes, 2006 was a very challenging year for the Group. In particular, production difficulties for the A380 led to delays in its projected delivery schedule, with the first A380 currently scheduled for delivery in October 2007. The resulting costs and charges associated with these delays will impose a significant burden on EADS' future financial performance. This has increased the need for cost savings in light of continued U.S. dollar weakness and additional development costs for future programmes. In response, the management of EADS (the "**Management**") has announced the implementation of the Power8 programme at Airbus, which is designed to reduce costs, save cash and develop new products faster. The programme aims to achieve annual cost savings of at least €2 billion from 2010 onwards and deliver approximately €5.0 billion in cumulative cash savings by 2010.

Despite these setbacks, the A380 successfully completed its flight test campaign during 2006 and received type certification by the European Aviation Safety Agency (EASA) and Federal Aviation Administration (FAA), demonstrating the technical soundness of the all-new double-decker. EADS' Board of Directors also gave Airbus the go-ahead for the industrial launch of the A350XWB (Xtra Wide Body), a new medium capacity long-range extra wide-body family. The A350XWB will be available in three basic passenger versions that accommodate between 270 to 350 passengers, with the first

entry into service planned for 2013. The A350XWB replaces the former A350 programme at Airbus, launched in 2005.

In addition, EADS' financial position remains sound despite the A380-related charges, due to the strong commercial performance of Airbus delivery programmes and the helicopter, defence and space businesses. The record order book of €262.8 billion at the end of 2006 (consisting of €209.9 billion in commercial business and €52.9 billion in defence) constitutes a considerable asset for EADS' future.

EADS' business environment in 2006 was characterised by another very strong year for the aviation industry. In 2006, the two leading aircraft manufacturers combined secured more than 1,874 new orders for aircraft of 100 seats or more, second only to the record set in 2005, when 2,140 new aircraft were ordered. As recently as 2003, orders touched a cyclical low of 524. According to the International Civil Aviation Organisation, air traffic grew at an annual rate of approximately 5% in 2006, with a growth rate of 4.8% expected in future years. Despite these favourable market conditions, the overall business environment remains volatile. The recent appreciation of the euro against the U.S. dollar places European companies at a competitive disadvantage, while high oil prices put pressure on EADS' customers. Instability in the Middle East as well as global terror threats add elements of uncertainty, while in defence, procurement budgets remain under pressure. At the same time, new governmental initiatives to strengthen defence and homeland security capabilities in order to counter increasing threats may create new opportunities for the long-term.

2006 was Airbus' second best year ever in terms of orders, with 824 gross orders (compared to the industry record of 1,111 gross orders set by Airbus in 2005). As a result of this strong sales performance, Airbus has increased its backlog by 17%, to 2,533 aircraft at the end of 2006. A large part of the year's sales tally was for Airbus's highly popular single aisle family, with a total of 673 orders taken from 47 customers, including a record order for 150 aircraft from China Aviation Supplies Import and Export Group Corporation (CASGC). Airbus also delivered 434 aircraft in 2006 (378 in 2005), its highest level ever. Total deliveries now stand at 4,564 aircraft. Finally, EADS became the sole owner of Airbus in October 2006, when it acquired BAE Systems' 20% stake in Airbus for €2.75 billion.

In 2006, Eurocopter secured its position as the world's leading helicopter manufacturer with a total of 381 new helicopter deliveries for military and civil helicopters. With a record order intake of 615 new helicopters, Eurocopter's backlog reached a historical high of €11 billion at the end of 2006. Eurocopter made a decisive breakthrough in the U.S. military market in particular, with the U.S. Army selecting the UH-145 (a version of the commercial EC 145) as its next-generation light utility helicopter.

Military Transport Aircraft focused primarily on managing the industrial processes of its two new aircraft programmes during 2006, each of which are at important stages of development. The first A330 Multi-Role Tanker Transport (MRTT) air-to-air refuelling aircraft is scheduled to be delivered in 2008, while the first delivery of the A400M is scheduled for 2009. The A400M programme completed four industrial milestones during the year, including the completion of the first whole wing. The medium and light aircraft business won orders for 19 aircraft during 2006, including 12 C-295 medium-weight transport and maritime patrol aircraft for the Portuguese air force.

Defence & Security continued to improve its profitability in 2006 and moved major programmes and projects—including Eurofighter and MBDA's Storm Shadow, Brinstone, Taurus, MICA and Aster—into the production phase. It also succeeded in enhancing its position in the area of coastal and maritime surveillance, and strengthened more generally its position in the maritime sector. Further, the acquisition of professional mobile radio capabilities made a positive contribution to revenues in 2006 and offset the integration of EADS' German missile house into MBDA.

Finally, Astrium ("**Astrium**") had a strong year in 2006 as it built on the full effect of five years of industrial restructuring. The main drivers of this success were the ramp-up of Ariane 5 production and further development progress on military satellite communication systems, such as Skynet 5 and Satcom BW. Astrium also won orders for seven new telecom satellites. Milestones included delivery of the Columbus space laboratory to the European Space Agency (ESA) and the first fully successful test flight of the M51 ballistic missile.

Strategy

In order to maximise value for its shareholders and to balance its portfolio, Management intends to reinforce EADS' position as a leader in major global aerospace and defence markets. Beyond implementing solutions for current operational challenges, EADS will continue to focus on providing superior value to its customers through innovative product and service solutions. The Group has defined four long-term strategic goals

aimed at achieving sustainable value creation for its shareholders:

- *Target a long-term leading position in commercial aircraft:* Despite the difficulties encountered in 2006, EADS will continue to strive for leadership in the commercial aircraft market in terms of product innovation and customer satisfaction. In particular, it will seek to offer a complete product portfolio to its customers, while at the same time further developing its international partnerships. The full control of Airbus enables further integration within EADS and additional long-term efficiency potential.
- *Develop strong growth drivers to improve the portfolio balance:* Faced with governmental procurement budget constraints and the scarcity of new development programmes in Europe, EADS intends to pursue its growth strategy by taking a global approach, and will accelerate efforts to offer new solutions by leveraging its broad base of existing capabilities and products. The Group will consider all options for further growth, including targeted acquisitions that strengthen long-term organic potential, enhance its overall competitive position and add capabilities to its portfolio. Management is particularly focused on increasing EADS' presence in services markets. EADS currently has a young and rapidly developing commercial and defence fleet that has entered into service, which it will seek to support throughout its life cycle.
- *Become a truly global industrial group:* To ensure continued access to the growth potential of markets where the traditional commercial approach has reached its limits, EADS is designing a long-term industrial strategy that incorporates an industrial footprint in key markets around the world. This approach is also intended to reduce the Group's exposure to U.S. dollar weakness through enhanced global sourcing and offshoring of production.
- *Restore adequate profitability and preserve long-term financial soundness:* By acting to reduce costs and streamline its industrial organisation through programmes such as Power8, EADS will strive to rise above its immediate industrial challenges and ultimately re-establish a level of profitability attractive to its shareholders. EADS will also seek to tailor its funding policy to meet the long-term resource demands associated with development of new products in a way that ensures an optimal balance sheet structure and takes into account a potential downturn in commercial aircraft demand. The non-Airbus businesses have continued their overall positive trends, with a record EBIT* of €810 million in 2006. The target is to further improve this, both in relative and absolute terms.

To achieve the strategic objectives above, further integration of Group operations will be paramount. Accordingly, the Group will seek to develop a common approach to marketing and

emphasise technology and process sharing in order to stimulate growth and generate cost savings. EADS management has also identified three main growth and profitability drivers for the future. These are defined as the Triple I's of EADS: Innovation, Internationalisation and Improvement.

Innovation – Focus on all aspects of technology and offer new solutions

Innovation in product, technology, manufacturing and customer offerings will define EADS' future. With development cycles shortening and new competitors emerging in all fields, EADS must maintain its technological edge and cover a broad spectrum of capabilities in order to remain a market leader.

Compared to its peers, EADS has consistently devoted more resources to research and development, both in absolute numbers and as a percentage of sales. In 2006, EADS spent approximately €2.5 billion in self-financed research and development, equivalent to over 6% of its revenues. It also strengthened its technology department through the appointment of a new Chief Technical Officer, who will report directly to the CEOs and members of the Executive Committee.

To maintain its innovative edge, EADS has set challenging targets for future technology innovation. It will seek to systematically employ the latest digital design and engineering tools in order to complete major platform developments more quickly, and will seek to accelerate the pace at which it reviews its core technologies so as to close gaps against the competition. The Group will also increase the number of technological programmes developed in cooperation with academic and industrial partners worldwide.

In the commercial arena, the growth of businesses such as Eurocopter and Airbus will depend on their ability to face such challenges as environmental issues, shortage of oil supply or increasing expectations in security and safety. Future key technologies such as composite materials, advanced aeronautic research and advanced PLM (Product Lifecycle Management) tools build the backbone of tomorrow's market leadership. Indeed, in order to leverage on these technologies, those divisions need to build on the combination of know-how and resources available Group-wide.

In the defence and space sectors, customer demand has been influenced by the ongoing transformation of U.S. and European defence forces and public safety agencies, as well as the need for more efficient defence spending. As a result, EADS must offer the latest solutions in lead system capability for defence and homeland security programmes (such as C4ISR), border security, extended air defence, unmanned aerial vehicles and space applications, while simultaneously building on existing

successful platforms and military derivatives of civilian products.

In addition to offering the latest systems solutions, EADS will also focus on offering the most innovative services solutions in order to broaden its programme leadership. In particular, EADS intends to expand its outsourced service offering based on the recent experience it has gained through long-term contract management.

Internationalisation – Becoming a Global Industrial Group

In order to gain a foothold in certain countries, having a true industrial presence is often decisive. Such development must be orchestrated at the Group level in order to anticipate needs more quickly, generate synergies and ensure that business units are employing a cohesive strategy.

Consistent with this approach, EADS is seeking to establish itself as a strong local player in key markets such as the U.S., China, Russia, South Korea and India. EADS' implementation of a long-term vision and industrial footprint in these markets is aimed at establishing long-term market access, while benefiting from high market growth potential, technology potential and natural hedging, risk-sharing opportunities and structural cost advantages whenever possible. In 2006, EADS pursued efforts to strengthen its industrial presence in key markets by making targeted investments and entering into strategic partnerships.

In the U.S., the goal is to establish a firm presence as a valued corporate citizen in the world's largest defence and homeland security market. EADS is in the midst of pursuing a four-pillar strategic approach: creating a U.S. industrial presence, developing transatlantic co-operations, acquiring small/mid-sized defence companies and cooperating with U.S. prime contractors. EADS has partnered with key players in the market: the Military Transport Aircraft division with Raytheon for the Future Cargo Aircraft campaign, Northrop Grumman for the KC-30 Tanker and Eurocopter with Sikorsky for the Light Utility Helicopter (LUH) programme. The year 2006 marked a key milestone, as the U.S. Army selected Eurocopter to act as prime contractor for its LUH programme, with a potential total life-cycle value of over \$2 billion.

China has been the pioneer country for the implementation of EADS' long-term industrial approach, with industrial cooperation progressively increasing over the past several years. Besides signing an agreement with a Chinese consortium to establish an A320 final assembly line in China during 2006, EADS worked on implementing the key strategic agreements it had signed with Chinese partners in prior years. For example, Eurocopter and AVIC II began joint development of the EC 175, a new multipurpose helicopter. The Group is

committed to its long-term strategic partnerships in China in order to sustain its leadership in the commercial aircraft market.

In South Korea, Eurocopter and KAI are in the development phase of a brand-new, 8 ton, helicopter for military transport. This project is expected to serve as a strong foundation for further expansion of EADS' position in the country.

India has already proven to be a strong growth market for commercial opportunities (accounting for approximately 7% of total EADS backlog), and in September 2006 the Group decided to develop a technology centre in the country. This will allow EADS to expand its local presence and at the same provide support to its customers. The current challenge is to build on these efforts in order to gain a foothold in defence, which represents the largest share of India's market potential.

The development of Russia's economy is promising, and the Russian aerospace and defence industry has grown stronger as it restructures and consolidates. EADS has a 10% stake in Irkut, which is a key player in the future industrial landscape of Russia. EADS has also formed a joint venture for a freighter conversion in Russia. Finally, EADS and leading Russian aerospace industry executives have formed a strategic committee in order to coordinate their mutual interests going forward.

Improvement – Delivering EADS' backlog on-time and at optimal cost levels, with a focus on quality and customer satisfaction

Transforming the Group's record backlog of €262.8 billion into benchmark profitability will depend on the Group's ability to improve operational performance, measured in terms of time, cost and quality, both within EADS and at its key suppliers.

Management has prioritised the successful implementation and execution of improvement plans and projects throughout the Group. Improvements in operational performance will require real-time visibility of the status of all operational parts and data flows with EADS and its key suppliers. These efforts will be supported by the integrated planning and execution of closed-loop collaborative processes and tools designed to support effective decision-making and to enable the launch of early recovery actions.

Development of the A380 has indicated the need for change and improvement. Accordingly, Airbus will seek to integrate its own internal processes and, at the same time, make itself a more integrated part of the EADS Group. Airbus is currently implementing a new competitiveness programme: Power8. This programme looks at all aspects of the company to make it leaner, more integrated, more efficient and more productive. The need to improve is all the more imperative due to a marked weakening of the U.S. dollar against the euro. Power8 is the

prerequisite for helping to ensure success and profitability in the future.

Successful implementation and execution of improvement plans and projects throughout all divisions and corporate departments will therefore be given the highest priority in the years to come.

Organisation of EADS Businesses

EADS' principal businesses fall under five Divisions: (1) Airbus, (2) Military Transport Aircraft, (3) Eurocopter, (4) Defence & Security and (5) Astrium (formerly EADS Space). The chart set out in “— 3.3.6 Simplified Group Structure Chart” illustrates the allocation of activities among these five Divisions.

Airbus

Airbus is one of the world's two leading suppliers of commercial aircraft of more than 100 seats. Since it was founded in 1970 up to the end of 2006, Airbus has received orders for 7,097 aircraft from approximately 250 customers around the world. Its market share of annual deliveries worldwide has grown from 15% in 1990 to 52% in 2006, surpassing its rival Boeing for the fourth time. At 31st December 2006, its backlog of orders (2,533 aircraft) stood at 79.9% of total EADS worldwide backlog. Gross order intake was 824 aircraft and after accounting for cancellations, net order intake for 2006 was 790 aircraft. In 2006, the Airbus Division earned revenues of €25.2 billion, representing 63.9% of EADS' total consolidated revenues. See “— 1.1.2 Airbus”.

Military Transport Aircraft

The Military Transport Aircraft (MTA) Division manufactures and sells light and medium military transport aircraft and is responsible for the development of the European heavy military transport A400M project. In addition, the MTA Division produces and sells mission aircraft, which are derived from existing platforms and dedicated to specialised military tasks such as maritime surveillance, antisubmarine warfare and in-flight refuelling capabilities. The MTA Division also designs and manufactures aerostructure elements. In 2006, the MTA Division earned revenues of €2.2 billion, representing 5.6% of EADS' total consolidated revenues. See “— 1.1.3 Military Transport Aircraft”.

Eurocopter

Eurocopter is one of the world's leading producers of helicopters and the leader in the European civil and military helicopter market. Management expects Eurocopter sales in the military market to increase substantially due to the

commencement of delivery of the NH90 military transport helicopter and the Tiger attack helicopter, the strong backlog in military orders with a number of European governments and the increasing demand in military and para-military export markets. In 2006, Eurocopter captured 50% of the worldwide market for civil helicopters. In 2006, the Eurocopter Division earned revenues of €3.8 billion, representing 9.6% of EADS' total consolidated revenues. See “— 1.1.4 Eurocopter”.

Defence & Security

The Defence & Security Division (the “**DS Division**”) is active in the field of integrated defence and security solutions including missile systems, combat aircraft, defence electronics, military communications and “homeland security”. Its customers are military forces and law enforcement agencies worldwide. The Military Air Systems unit is a leading partner in the Eurofighter consortium and is also active in the UAV field. The DS Division is also a leading supplier of defence electronics in Europe and plays a significant role in the secure and encrypted military communications market. In 2006, the DS Division earned revenues of €5.9 billion, representing 14.9% of EADS' total consolidated revenues. See “— 1.1.5 Defence & Security”.

Astrium

Astrium is the third-largest space systems manufacturing company in the world after Boeing and Lockheed Martin, and the leading European supplier of satellites, orbital infrastructures, launchers and associated services. Astrium is composed of three main business units: Astrium Satellites, Astrium Space Transportation and Astrium Services, through which it designs, develops and manufactures satellites, orbital infrastructures and launcher systems and provides space services. Astrium also provides launch services through its shareholdings in Arianespace, Starsem and Eurocot, as well as services related to telecommunications and earth observation. In 2006, Astrium earned revenues of €3.2 billion, representing 8.1% of EADS' total consolidated revenues. See “— 1.1.6 Space”.

Investment

Among its significant investments, EADS holds a 46.3% stake in Dassault Aviation, a major participant in the world market for military jet aircraft and business jets. See “— 1.1.8 Investments”.

Summary Financial and Operating Data

The following tables provide summary financial and operating data for EADS for the years ended 31st December 2006, 31st December 2005 and 31st December 2004.

CONSOLIDATED REVENUES FOR THE YEARS ENDED 31ST DECEMBER 2006, 2005 AND 2004 BY DIVISION

	Year ended 31 st December 2006		Year ended 31 st December 2005		Year ended 31 st December 2004	
	Amount in €bn	In percentage*	Amount in €bn	In percentage*	Amount in €bn	In percentage*
Airbus	25.2	62.6%	22.2	64.3%	20.2	62.7%
Military Transport Aircraft	2.2	5.5%	0.8	2.2%	1.3	4.0%
Eurocopter	3.8	9.4%	3.2	9.3%	2.8	8.6%
Defence & Security	5.9	14.6%	5.6	16.4%	5.4	16.7%
Astrium	3.2	8.0%	2.7	7.8%	2.6	8.0%
Total Divisional Revenues	40.3	100%	34.5	100%	32.3	100%
Other Businesses	1.3		1.1		1.1	
Headquarters/Eliminations**	(2.1)		(1.4)		(1.6)	
TOTAL CONSOLIDATED REVENUES	39.4		34.2		31.8	

(*) Percentage of total divisional revenues before headquarters/eliminations.

(**) Includes inter-company eliminations and headquarters sales.


CONSOLIDATED REVENUES BY GEOGRAPHICAL AREA FOR THE YEARS ENDED 31ST DECEMBER 2006, 2005 AND 2004

	Year ended 31 st December 2006		Year ended 31 st December 2005		Year ended 31 st December 2004	
	Amount in €bn	In percentage*	Amount in €bn	In percentage*	Amount in €bn	In percentage*
Europe	17.1	43.6%	13.6	39.7%	14.6	45.7%
North America	9.4	23.9%	9.0	26.4%	8.7	27.4%
Asia/Pacific	7.9	19.9%	7.7	22.6%	4.9	15.6%
Rest of the World**	5	12.6%	3.9	11.3%	3.6	11.3%
Total	39.4	100.0%	34.2	100.0%	31.8	100.0%

(*) Percentage of total revenues after eliminations.

(**) Including the Middle East.

CONSOLIDATED ORDERS BOOKED FOR THE YEARS ENDED 31ST DECEMBER 2006, 2005 AND 2004

	Year ended 31 st December 2006		Year ended 31 st December 2005		Year ended 31 st December 2004	
	Amount in €bn	In percentage***	Amount in €bn	In percentage***	Amount in €bn	In percentage***
Orders booked*						
Airbus**	53.4	76.8%	78.3	84.5%	25.8	58.2%
Military Transport Aircraft	1.6	2.3%	1.8	2.0%	1.2	2.6%
Eurocopter	4.9	7.1%	3.5	3.8%	3.2	7.3%
Defence & Security	5.2	7.5%	6.7	7.2%	8.5	19.1%
Astrium	4.4	6.3%	2.3	2.5%	5.7	12.8%
TOTAL DIVISIONAL ORDERS	69.5	100.0%	92.6	100.0%	44.4	100.0%
Other Businesses	1.5		1.9		1.1	
Headquarters/Eliminations**	(1.9)		(2)		(1.4)	
TOTAL	69.1		92.6		44.1	

(*) Without options.

(**) Based on catalogue prices.

(***) Before headquarters/eliminations.

CONSOLIDATED BACKLOG FOR THE YEARS ENDED 31ST DECEMBER 2006, 2005 AND 2004****

	Year ended 31 st December 2006		Year ended 31 st December 2005		Year ended 31 st December 2004	
	Amount in €bn	In percentage***	Amount in €bn	In percentage***	Amount in €bn	In percentage***
Backlog*						
Airbus**	210.1	77%	202.0	77%	136.0	70%
Military Transport Aircraft	20.3	7%	21.0	8%	19.9	10%
Eurocopter	11.0	4%	10.0	4%	9.1	5%
Defence & Security***	17.6	6%	18.5	7%	17.3	9%
Astrium	12.3	5%	10.9	4%	11.3	6%
TOTAL DIVISIONAL BACKLOG***	271.3	100%	262.4	100%	193.6	100%
Other Businesses	2.2		2.1		1.1	
Headquarters/Consolidation	(10.8)		(11.3)		(10.4)	
TOTAL	262.8		253.2		184.3	

(*) Without options.

(**) Based on catalogue prices or commercial aircraft activities.

(***) Before "Other Businesses" and "Headquarters/Consolidation".

(****) For a discussion on the calculation of backlog, see "Part 1/1.1.4.1 Order Backlog".

Relationship Between EADS N.V. and the Group

EADS N.V. itself does not engage in the core aerospace, defence or space business of its Group but coordinates related businesses, sets and controls objectives and approves major decisions for its Group. As the parent company, EADS N.V. conducts activities which are essential to the Group activities and which are an integral part of the overall management of the Group. In particular, finance activities pursued by EADS N.V. are in support of the business activities and strategy of the Group. In connection therewith, EADS N.V. provides or procures the provision of services to the subsidiaries of the Group. General management service agreements have been put

in place with the subsidiaries and services are invoiced on a cost plus basis.

For management purposes, EADS N.V. acts through its Board of Directors, Executive Committee, and Chief Executive Officers in accordance with its corporate rules and procedures detailed in “Part 1/Chapter 2 — Corporate Governance”.

Within the framework defined by EADS, each Division, business unit (“BU”), and subsidiary is vested with full entrepreneurial responsibility.

1.1.2 Airbus

Introduction and Overview

Airbus is one of the world’s two leading suppliers of commercial aircraft of more than 100 seats. Since it was founded in 1970 up to the end of 2006, Airbus has received orders for 7,097 aircraft from approximately 250 customers around the world. Its market share of annual deliveries worldwide has grown from 15% in 1990 to 52% in 2006. In 2006, the Airbus Division of EADS generated revenues of €25.2 billion, representing 63.9% of EADS’ total revenues.

With 434 aircraft deliveries in 2006 (378 in 2005), Airbus was once again the largest supplier of commercial aircraft in the world, surpassing its main rival for the fourth consecutive year. Airbus received 824 gross orders in 2006 (compared to the industry record of 1,111 gross orders set by Airbus in 2005). After accounting for cancellations, net order intake for 2006 was 790 aircraft (compared to 1,055 aircraft in 2005). At 31st December 2006, Airbus’ backlog of orders (2,533 aircraft) stood at 79.9% of total EADS worldwide backlog.

Nonetheless, 2006 proved a challenging year for Airbus, due primarily to the difficulties it encountered in the installation of electrical harnesses for the A380. These difficulties led it to twice revise its delivery schedule for the A380 during 2006, to the disappointment of its customers. In particular, FedEx cancelled its order for the freighter version of the A380, the A380F, as a result of the delivery delays. More recently, UPS announced that it too would cancel its order for the A380F following Airbus’ announcement that development of the A380F had been rescheduled. See “Recent Developments”. From a financial perspective, the delay in A380 production had a negative effect on Airbus’ earnings before interest and taxes, pre-goodwill impairment and exceptionals (“**EBIT***”) of €2.5 billion in 2006. See “Part 1/1.1 Management’s Discussion

and Analysis of Financial Condition and Results of Operations”.

In response to customer recommendations, Airbus also redesigned its originally proposed A350 aircraft during 2006. In July 2006, it presented technical specifications for a revised aircraft family, the A350XWB (Xtra Wide Body). In December 2006, Airbus formally launched the A350XWB series and discontinued the original A350 programme. The A350XWB series will accommodate between 270 to 350 passengers and is expected to enter service in 2013.

In order to meet its future investment needs related to development of the A350XWB and to address other challenges, Airbus announced the implementation of the Power8 programme on 28 February 2007, as discussed below.

Airbus S.A.S. has been a wholly-owned subsidiary of EADS since the purchase of BAE Systems’ 20% stake in October 2006. See “—Organisation of Airbus”.

Strategy

Airbus’ primary goal is to deliver strong results in a sustained manner, while commanding at least half of the world commercial aircraft market over the long-term. To achieve this goal, Airbus is actively:

Developing the most comprehensive line of products in response to customer needs

Specifically, this currently consists of (i) introducing the A380 into service, the world’s largest passenger aircraft and Airbus’ response to increasing demand for mobility in the world’s

densely populated growth regions, (ii) the development of the new A350XWB Family of highly advanced medium capacity long-range aircraft, (iii) the gradual expansion of relevant freighter applications across the range of Airbus aircraft, through the launch of the A330-200F and the A320 Passenger-to-Freighter in particular, (iv) the continuous improvement of existing models' competitive edge in their respective markets, and (v) the entry into the military business through new aircraft such as the A400M or the development of military derivatives products such as the Multi Role Tanker Aircraft based on the A330 airframe.

Focusing on key geographic markets

Airbus is seeking to expand its global presence and to increase its market share in key emerging markets such as China, Russia and India, and to consolidate its position in the difficult U.S. airline market, where most carriers are just emerging from a severe financial crisis. As part of this strategy, Airbus has developed a number of international industrial partnerships. For example, Airbus signed a framework agreement with a Chinese consortium in October 2006 for the establishment of an A320 Family final assembly line in Tianjin. In May 2006, Elbe Flugzeugwerke GmbH (EFW), the EADS freighter conversion centre based in Dresden (Germany), signed a preliminary agreement with MiG and Irkut, two leading Russian aircraft manufacturers, to develop a conversion business of Airbus single aisle passenger aircraft into freighter aircraft.

Expanding its customer services offering

Airbus seeks to remain at the forefront of its industry by expanding its customer services offering to meet customers' evolving needs. As a result, Airbus has designed a comprehensive portfolio of services named Air+ by Airbus. See "—Products and Services—Customer Service". It is through this interface that Airbus aims to satisfy all of its customers' pre-delivery and in-service support requirements through individually tailored packages.

Attempting to restore its competitive edge by focusing on flexibility and efficiency

In order to address the challenges posed by U.S. dollar weakness, increased competitive pressure and the financial burden related to the A380 delays, and to meet its other future investment needs, Airbus announced the implementation of the Power8 programme on 28 February 2007.

Power8 consists of nine measures for enhancing profitability: Reduction of Airbus Overhead Costs, Faster Development, Lean Manufacturing, Smart Buying, Maximising Cash, Putting the Customer First, Focusing on the Core Business/

Restructuring the Industrial Set-Up and Streamlining the Final Assembly Lines. Collectively, these measures are aimed at transforming Airbus' business model and developing a global network of partners. The programme aims at the full industrial integration of Airbus by establishing a new industrial organisation with transnational centres of excellence replacing the existing national structures. This transformation will happen progressively over several years and includes the further expansion of Airbus' global footprint.

As part of Power8, Airbus management will implement strong cost reduction and cash generating efforts with the goal of achieving contributions to EBIT* of €2.1 billion from 2010 onwards and an additional €5 billion of cumulative cash flow from 2007 to 2010. A large part of the cost savings will be achieved through the reduction of Airbus' current workforce by 10,000 employees (including temporary and on-site supplier employees). The planned measures to reduce overhead costs, and specifically headcount, require a provision of €680 million to be recorded in the first quarter of 2007. For further information related to the Power8 programme, see "Recent Developments".

Market

Cyclicality and Market Drivers

The main factors affecting the aircraft market include passenger demand for air travel, national and international regulation (and deregulation), and the rate of replacement and obsolescence of existing fleets. The performance, competitive posture and strategy of aircraft manufacturers, airlines, cargo operators and leasing companies as well as wars, political unrest and extraordinary events may also precipitate changes in demand and lead to short-term market imbalances.

In recent years, China and India have emerged as significant new aircraft markets, and in the next twenty years are expected to constitute the second and fifth most important markets, respectively, for aircraft deliveries. As a result, Airbus has sought to strengthen its commercial and industrial ties in these countries. In October 2006, for example, Airbus signed an agreement with the China Aviation Supplies Import and Export Group Corporation (CASGC) for 150 A320 Family aircraft, as well as a letter of intent for 20 A350XWBs.

The no-frills/low-cost carriers also continue to emerge as a significant sector, and are expected to continue growing around the world, particularly in Asia. Airbus single aisle aircraft continue to be a popular choice for these carriers, which ordered a total of 221 single aisle aircraft during 2006. As some of these carriers begin testing the market with new long-haul operations, demand for Airbus' range of twin aisle aircraft may also increase.

Overall Growth. The long-term market for passenger aircraft depends primarily on passenger demand for air travel, which is itself primarily driven by economic or gross domestic product (“GDP”) growth, fare levels and demographic growth. Measured in revenue passenger kilometres, air travel increased every year from 1967 to 2000, except for 1991 due to the Gulf War, resulting in an average annual growth rate of 7.9% for the period. Demand for air transportation also proved resilient in the years following 2001, when successive shocks, including 9/11 and SARS in Asia, dampened demand. Nevertheless, the market quickly recovered, with more than 28% traffic growth recorded over the past five years.

In 2006, Airbus projected that air travel would grow at 4.8% per annum during the period 2006-2025. Airbus therefore expects passenger traffic, as measured in revenue passenger kilometres, to more than double in the next twenty years.

Cyclical. Although those in the industry believe that long-term growth in air travel is secure, the market for aircraft has proven to be cyclical, due to the volatility of airline profitability and cycles of the world economy. When cyclical downturns have occurred in the past, aircraft manufacturers have typically experienced decreases in aircraft orders and have made fewer deliveries; this has generally been followed by a period of sustained order and delivery activity. Accordingly, while total worldwide orders for aircraft of 100 seats or more reached a cyclical low of 524 in 2003, the number of new orders rebounded to a record 2,140 in 2005, followed by more than 1,800 in 2006.

Regulation/Deregulation. National and international regulation (and deregulation) of international air services and major domestic air travel markets affect demand for passenger aircraft as well. In 1978, the United States deregulated its domestic air transportation system, followed by Europe in 1985. Today, other regions and countries are progressively deregulating, particularly in Asia. This is expected to continue, facilitating and in some cases driving demand. In addition to providing greater market access (which may have formerly been limited), deregulation may allow for the creation and growth of new airlines or new airline models, as has been the case with the no-frills/low-cost airline model, which has increased in importance throughout major domestic and intra regional markets since deregulation (e.g., in the U.S. and Europe).

Airline Network Development: “Hub” and “Point-to-Point” Networks. Following deregulation, major airlines have sought to tailor their route networks and fleets to continuing changes in customer demand. Accordingly, where origin and destination demand prove sufficiently strong, airlines often employ direct, or “point-to-point” route services. However, where demand between two destinations proves insufficient, airlines have developed highly efficient “hub and spoke” systems, which

provide passengers with access to a far greater number of air travel destinations through one or more flight connections.

The chosen system of route networks in turn affects aircraft demand, as hubs permit fleet standardisation around both smaller aircraft types for the short, high frequency and lower density routes that feed the hubs (between hubs and spokes) and larger aircraft types for the longer and higher density routes between hubs (hub-to-hub). As deregulation has led airlines to diversify their route network strategies, it has at the same time therefore encouraged the development of a wider range of aircraft in order to implement such strategies.

Airbus, like others in the industry, believes that route networks will continue to grow through expansion of capacity on existing routes and through the introduction of new routes, which will largely be typified by having a major hub city at least at one end of the route. These new route markets are expected to be well served by Airbus’ latest product offering, the A350XWB, which has been designed with them in mind. Airbus believes that it is currently well-positioned to meet current and future market requirements given its complete family of products, from the 107-seat A318 to the 555-seat A380.

Alliances. The development of world airline alliances has reinforced the pattern of airline network development described above. According to data from Airclaims, a U.K.-based aviation industry consultancy, half of the world’s jetliner fleet of over 100 seats was operated by just 31 airlines as of February 2006. In the 1990s, the major airlines began to enter into alliances that gave each alliance member access to the other alliance members’ hubs and routings, allowing airlines to concentrate their hub investments while extending their product offering and market access. Airlines have also begun to explore different merger possibilities in recent years. Examples include the merger of Air France and KLM and US Airways and America West, with talks between other airlines currently ongoing.

Governmental Funding. A 1992 bilateral agreement between the E.U. and the U.S. provided for ceilings on reimbursable launch investments (typically used by European governments) of 33% of the total development costs of new large civil aircraft programmes. It also set a ceiling at 3% of industry revenues for indirect support in relation to the development or production of large civil aircraft (typically the Department of Defence and National Aeronautics and Space Administration (“NASA”) mechanisms used in the U.S.). This bilateral agreement provided a level playing field for government support, reflecting the needs of both Europe and the U.S.

However, the unilateral withdrawal from the 1992 agreement by the U.S. government in late 2004 eventually led to formal claims and counterclaims being made by the U.S. and the E.U., respectively, with the World Trade Organisation (WTO). The



E.U. and the U.S. have entered into negotiations to seek a formal settlement of the issues pending before the WTO, with the goal of agreeing upon a new system for funding future aircraft development.

Market Structure and Competition

Market Segments. According to a study conducted by Airbus, a total of 12,676 aircraft with more than 100 seats were in service worldwide at the end of December 2006 (as compared to 11,850 aircraft at the end of 2005). Currently, Airbus competes in each of the three principal market segments for aircraft with more than 100 seats. “Single aisle” aircraft, such as the A320 Family, have 100-210 seats, typically configured with two triple seats per row divided by one aisle, and are used principally for short-range and medium-range routes. “Twin aisle” or “wide body” aircraft, such as the A300/A310 and A330/A340/A350XWB Families, have a wider fuselage with more than 210 seats, typically configured with eight seats per row and with two aisles. While the A300/A310 are used on short-range and medium-range routes, the A330/A340/A350XWB Families are capable of serving all short to long-range markets. The A340-500/600 is designed for ultra-long-range operations in particular. “Very large aircraft”, such as the A380 Family, are designed to carry more than 400 passengers, non-stop, over very long-range routes with superior comfort standards and with significant cost-per-seat benefits to airlines. Freight aircraft, which form a fourth, related segment, are often converted ex-passenger aircraft. See “— 1.1.7 Other Businesses — Aircraft Conversion and Floor Panels”.

Despite the popularity of the A300-600F freight aircraft, Airbus announced in March 2006 that the last A300-600 would be delivered in July 2007, after 35 years of production. In its place, Airbus launched a freighter derivative of the successful A330-200 in July 2006, with industrial development expected to begin in early 2007. It has also announced the launch of freighter versions of its new A350XWB family. Finally, Airbus intends to be present in the large freighter market (>80 tonnes payload) with the A380 freighter and at the bottom end of the freighter market with a passenger to freighter conversion of the A320, in conjunction with partners including Russian manufacturers MiG and Irkut.

Airbus also competes in the corporate, VIP business jet market with the ACJ, an A319-based Corporate Jetliner, and the A318 Elite. It has also recently sold the A320, the A340-500 and the A340-300 to serve the business jet market as a corporate shuttle and in government/VIP roles.

Geographic differences. The high proportion of single aisle aircraft in use in both North America and Europe reflects the predominance of domestic short-range and medium-range flights, particularly in North America due to the development of hubs

following deregulation. In comparison with North America and Europe, the Asia-Pacific region uses a greater proportion of twin aisle aircraft, as populations tend to be more concentrated in fewer large urban centres. The tendency towards use of twin aisle aircraft is also reinforced by the fact that many of the region’s major airports limit the number of flights, due either to environmental concerns or to infrastructure constraints that limit the ability to increase flight frequency. These constraints necessitate higher average aircraft seating capacity per flight. However, Airbus believes that demand for single aisle aircraft in Asia will grow over the next 20 years, particularly as domestic markets in China and India continue to develop. This is expected to occur at the same time that Asian demand for larger/long-range aircraft continues to increase.

Competition. Airbus has been operating in a duopoly since Lockheed’s withdrawal from the market in 1986 and Boeing’s acquisition of McDonnell Douglas in 1997. As a result, the market for passenger aircraft of more than 100 seats is now effectively divided between Airbus and Boeing. According to manufacturers’ published figures, in 2006 Airbus and Boeing, respectively, accounted for 52% and 48% of total deliveries, 44% and 56% of total gross orders, and 51% and 49% of the total year-end backlog.

The significant barriers to entry into the market for passenger aircraft of more than 100 seats make it unlikely that a newcomer will be able to compete effectively with either of the established suppliers in the foreseeable future.

Customers

As of 31st December 2006, Airbus had 250 customers, 4,564 Airbus aircraft had been delivered to operators worldwide since the creation of Airbus, and 2,533 aircraft were on order. The table below shows Airbus’ most significant gross firm orders, by number of aircraft, for the year 2006.

Customer	Firm Orders*
CASC (China)	150
Skybus	65
EasyJet	52
Indian Airlines	43
Lufthansa	42
Air Asia	40
TAM	37
CIT	34
Singapore Airlines	28
AerCap	20

(*) Options are not included in orders booked or year-end backlog.

Organisation of Airbus

Management and Integration of Airbus Activities

On 13th October 2006, EADS acquired BAE Systems' 20% stake in Airbus for €2.75 billion, following the put option process launched by BAE Systems in June 2006. EADS thereby became the sole owner of Airbus S.A.S, with full management control over its operations.

Louis Gallois was appointed President and Chief Executive Officer of Airbus by the EADS Board of Directors in October 2006, while continuing as Co-CEO of EADS. Fabrice Brégier was appointed Chief Operating Officer (COO) of Airbus at the same time, and remains a member of the EADS Executive Committee. Together with Airbus CEO Louis Gallois, the two form the "Airbus President's Office" and are responsible for the operational management of the Airbus business, together with the Executive Committee. The latter consists of eleven members (in addition to the CEO and COO) all of whom are agreed upon by the President and Chief Executive Officer of Airbus S.A.S. and appointed by the EADS Board of Directors. EADS has consolidated 100% of the Airbus group in its financial statements since 2001.

Products and Services

Airbus Aircraft Family Overview

Technological innovation has been at the core of Airbus' strategy since its creation. Each product in the Airbus family is intended to set new standards in areas crucial to airlines' success, such as cabin comfort, cargo capacity performance, economic performance, environmental impact and operational commonality. Airbus innovations often provide distinct competitive advantages, with many becoming standard in the aircraft industry. Key examples include fly-by-wire controls, aircraft commonality and the introduction of widebody twin-engine aircraft.

A300/A310 Family

The A300 was the original aircraft launched by Airbus in 1969, and was the world's first twin-engine twin aisle commercial aircraft at the time. From the 250-300 seat A300 the family expanded to include the 200-250 seat A310, new build and converted freighters, combi/mixed configuration aircraft, air tankers and military transport versions.

Currently, the A300-600 Freighter (A300-600F) is the only member of the A300/A310 Family still in production. Despite its popularity with major express courier providers and airlines, such as FedEx, UPS and Air Hong Kong, Airbus announced

in March 2006 that the last A300-600F would be delivered in July 2007.

In 2006, 9 A300-600Fs were delivered.

A320 Family

With more than 5,000 aircraft sold and 3,000 currently in service, the A320 Family has proven extremely popular with customers, offering high standards of cabin comfort, technology and economic performance. Its success with low-cost airlines in particular demonstrates the economic appeal of the A320 Family.

Within this family, four identical aircraft of different lengths, the A318, A319, A320 and A321, share the same systems, cockpit, operating procedures and cross-section. The A320 Family covers the market from 100 to 220 seats, flying routes up to 3000 nm/5700 km.

In 2006, Airbus received 673 firm orders for the A320 Family of aircraft, and delivered 339 to customers.

A330/A340 Family

With more than 1,000 aircraft sold and 793 currently in service, the A330/A340 Family is Airbus' solution for regional, long-range and ultra long-range travel, designed to carry between 250 to 350 passengers. The A330/A340 Family concept is unique: one airframe is powered by either two or four engines. The twin-engine A330 offers attractive economic performance for regional and long-range routes, while the four-engine A340 can perform on the most demanding long-range and ultra long-range routes.

The A330/A340 Family is composed of six passenger versions. Each shares the same 222-inch fuselage cross-section, cockpit and other advanced features, delivering the commonality that encourages airlines to adopt the most efficient mix of aircraft for their networks. The A330/A340 Family offers high levels of passenger comfort as well as large underfloor cargo areas.

Launched in January 2007, the A330-200F will be a new mid-size, long-haul freighter and the latest addition to the A330/A340 Family. Capable of carrying 64 tonnes over 4,000nm/7,400 km, or 69 tonnes up to 3200 nm/5930 km, the A330-200F is aimed at replacing the ageing 50 to 70 tonne aircraft in the market (such as ageing DC8Fs and DC10Fs). The range of the A330-200F will offer airlines the opportunity to increase services in low frequency long-haul markets currently served with much larger aircraft, develop new routes and respond to market growth. Entry into service is planned for the second half of 2009.

In 2006, Airbus received 119 firm orders for the A330/A340 Family of aircraft, and delivered 86 to customers.



A350XWB

At the end of 2006, Airbus launched its new offering in the medium capacity long-range aircraft market, the A350XWB series, which will accommodate between 270 to 350 passengers and is expected to enter service in 2013.

The A350XWB builds on the A380 cockpit and systems. It is designed for a high cruise speed, with the latest generation engines and a robust structure. The A350XWB is designed to deliver superior levels of fuel and economic efficiency, with low environmental impact.

The A350XWB received 2 firm orders and 40 commitments in 2006, with 100 firm orders and 82 commitments remaining for the former A350 aircraft at the end of the year.

A380

The A380 is the most spacious aircraft ever conceived, and represents Airbus’ entry into the very large aircraft market. Its new cross-section provides a flexible and innovative cabin space, allowing passengers to benefit from wider seats, wider aisles and more floor space, tailored to the needs of each airline. Seating 555 passengers in three classes and with a range of 8000 nm/19,400 km, the A380 offers superior economic performance, lower fuel consumption, less noise and reduced emissions.

In addition to the passenger version, Airbus has started development on a freighter version of the A380, the A380F. With three cargo decks, the A380F will be able to offer more payload (up to 158 tonnes), greater range (5,600 nautical miles) and the lowest unit cost of any large freighter currently in the market. Recently, Airbus announced that development of the A380F had been rescheduled. See “Recent Developments”.

During 2006, Airbus twice revised its delivery schedule for the A380 after having encountered difficulties in the installation of the aircraft’s electrical harnesses. Nevertheless, repeat firm orders for the A380 were placed by Singapore Airlines and Qantas for nine and eight aircraft, respectively. However, FedEx cancelled its order for ten A380F freighters as a result of the delivery delays. Accordingly, the total number of orders and

commitments received for the A380 at the end of 2006 stood at 166 from 15 customers, with the first A380 due to be delivered to the first operator, Singapore Airlines, in October 2007.

The Family Concept – Commonality across the Fleet

Airbus’ aircraft families promote fleet commonality. This philosophy takes a central aircraft and tailors it to create derivatives to meet the needs of specific market segments. This approach means that all new-generation Airbus aircraft (i.e., excluding the A300/310) share the same cockpit design, fly-by-wire controls and handling characteristics. Pilots can transfer among any aircraft within the Airbus family with minimal additional training. Cross-crew qualification (CCQ) across families of aircraft provides airlines with significant operational flexibility. In addition, the emphasis on fleet commonality permits aircraft operators to realise significant cost savings in crew training, spare parts, maintenance and aircraft scheduling.

The extent of cockpit commonality within and across families of aircraft is a unique feature of Airbus that, in Management’s opinion, constitutes a sustainable competitive advantage.

Technical Product Overviews

Short- and medium-range single aisle aircraft: the A320 Family. Airbus’ family of single aisle aircraft, based on the A320 (which entered service in 1988 following a development programme launched in 1984), includes the A318, A319 and A321 derivatives, as well as the A319 based Airbus Corporate Jetliner and A318 Elite business jet, which Airbus launched in 1997 and 2005, respectively.

At 3.96 metres diameter, the A320 Family has the widest fuselage cross-section of any competing single aisle aircraft. This provides a roomy passenger cabin, a high comfort level and a more spacious underfloor cargo volume than its competitors. The A320 Family incorporates digital fly-by-wire controls, an ergonomic cockpit and a lightweight carbon fibre composite horizontal stabiliser. The use of composite material has also been extended to the vertical stabiliser. The A320 Family’s competitor is the Boeing 737 series.

SINGLE AISLE TECHNICAL FEATURES

Model	Entry into service	Passenger capacity*	Maximum range (km)	Length (meters)	Wingspan (meters)
A318	2003	107	6,000	31.4	34.1
A319	1996	124	6,800	33.8	34.1
A320	1988	150	5,700	37.6	34.1
A321	1994	185	5,600	44.5	34.1

(*) Two-class layout.

Medium-range, midsize freighter: the A300/A310 Family. The A300/A310 Family has spanned over 30 years of production, with over 800 aircraft delivered. The A300-600 Freighter is the only member of the A300/A310 Family currently in production. The final delivery from this line is due in July 2007.

The A300/A310 programme has undergone continuous development. The current A300-600 Freighter was launched in 1991 based on the A300-600R passenger variant, which incorporated the lightweight carbon fibre composite horizontal stabilizer initially developed for the A310.

The A300-600F's main competitor is the Boeing 767 Freighter.

A300-600F TECHNICAL FEATURES

Model	Entry into service	Typical Capacity	Maximum range (km)	Length (meters)	Wingspan (meters)
A300-600F	1994	54.6 tonnes	4,850	54.1	44.8

Medium- to ultra-long-range twin aisle aircraft: the A330/A340/A350XWB Families. Airbus developed the twin-engine A330 and the four-engine A340 with the same all-new wing design for both aircraft and retained the fuselage cross section of the A300/A310. In 1997, Airbus began development of the ultra-long-range A340-500 and the high capacity A340-600 derivative version. The A340-500 flies over extremely long ranges, including nonstop flights such as Los Angeles — Singapore or Chicago — Auckland. The A340-600 made its first flight in 2001 and deliveries began in 2002.

In 2006, Airbus announced the commercial launch of the A350XWB Family, a new extra-wide body medium capacity long-range family. Dimensioned for the 21st century, the A350XWB features A380 technology, a wider fuselage and a greater use of composite material.

The competitors of the A330, A340 and A350XWB are the Boeing 767, 777 and 787 aircraft series.

A330/A340/A350XWB TECHNICAL FEATURES

Model*	Entry into service	Passenger capacity*	Maximum range (km)	Length (meters)	Wingspan (meters)
A330-200	1998	253	12,500	59.0	60.3
A330-300	1994	295	10,500	63.7	60.3
A340-300	1992	295	13,700	63.7	60.3
A340-500	2002	313	16,700	67.8	63.6
A340-600	2002	380	14,600	75.3	63.6
A350-800	2014	270	15,750	60.5	64.0
A350-900	2013	314	15,600	66.8	64.0
A350-1000	2015	350	15,400	73.8	64.0

(*) Three-class layout.

Very large aircraft: the A380 Family. A significant milestone in the history of Airbus and the aviation industry was met when the A380 received joint European Aviation Safety Agency (EASA) and Federal Aviation Administration (FAA) Type Certification on 12th December 2006.

New standards for systems, structure, powerplant and cabin facilities will enable Airbus to deliver the most economic aircraft ever and one that exceeds the challenging performance and environmental targets initially set for it.

The A380's main competitor is the 400 seat Boeing 747-8.

A380 TECHNICAL FEATURES

Model*	Entry into service	Typical capacity*	Maximum range (km)	Length (meters)	Wingspan (meters)
A380-800	2007	555	15,000	73.0	79.8
A380-800F	2010	157.4 tonnes (typical volumetric)	10,500	73.0	79.8

(*) Three-class layout.

New Product Development: A400M

Airbus' Military Programme Directorate performs research and development related to the A400M project as an outsource provider to Airbus Military S.L. The Military Transport Aircraft A400M is described in “— 1.1.3 Military Transport Aircraft — Products — Military Transport Aircraft/Special Mission Aircraft on Transport Aircraft Platforms — Airbus A400M”.

Asset Management

The Airbus Asset Management Division was established in 1994 to manage and re-market used aircraft acquired by Airbus, originally as a result of customer bankruptcies, and subsequently in the context of certain buy-back commitments. The Division operates with a dedicated staff and manages a fleet comprised of Airbus aircraft across the range of models. Through its activities, the Asset Management Division helps Airbus respond more efficiently to the medium and long-term fleet requirements of its customers.

Its key roles comprise the commercial and risk management of the Airbus portfolio of used aircraft. Most of the aircraft are available to customers for cash sale, while some can only be offered on operating lease, depending on the financing attached to such aircraft. At the end of 2006, the Airbus Asset Management portfolio contained 22 aircraft, a net reduction of 8 aircraft compared to the end of 2005. The Asset Management Division also provides a full range of support services, including assistance with entry into service, interior reconfiguration and maintenance checks.

Sales Finance

Airbus favours cash sales, and does not envisage sales financing as an area of business development. However, Airbus recognizes the commercial need for manufacturers to assist customers in arranging financing of new aircraft purchases, and in certain cases to participate in such financing itself. An extension of credit or assumption of exposure is subject to corporate oversight and monitoring, and follows stringent standards of discipline and caution. Airbus' dedicated Sales Finance team has accumulated decades of expertise in aircraft finance. When Airbus finances a customer, the financed aircraft generally serve as collateral, with the engine manufacturer participating in the financing. These elements assist in reducing the risk borne by Airbus. Airbus' sales financing transactions are designed to facilitate subsequent sell-down of the exposure to the financial markets, third party lenders or lessors. Airbus' financing exposure is counter-cyclical and currently Airbus is able to conclude significant sell-down of its exposure. Management believes, in light of its experience, that the level of provisioning protecting Airbus from default costs is adequate and consistent with standards and practice in the aircraft financing industry. See “Part 1/1.1.7.4 Sales Financing”.

Customer Service

Airbus works to assist customers in operating their Airbus fleets as efficiently as possible. Whatever an operator's size, Airbus offers technical help and advice in keeping its aircraft operational. With respect to aircraft operation, the Airbus Customer Services directorate heads an engineering and technical support group, a technical documentation organisation, a network of training centres, spare parts support centres, customer support teams and field services teams that are based at customer airlines. Through this single interface, Airbus aims to satisfy all of its customers' pre-delivery and in-service support requirements, including (1) engineering and technical support, (2) training and flight operations support and (3) material and logistics support.

Engineering and technical support provides Airbus operators with technical assistance on a 24-hour basis to ensure safe and reliable operations of their Airbus fleet. Customised cost reduction programmes are designed to reduce customers' maintenance costs to optimised levels.

The training and flight operations support service includes a permanent staff of over 200 instructors around the world to provide accessible and up-to-date training for Airbus flight and ground crews. Airbus has four training centres, one in Toulouse, France, one in Hamburg, Germany, one in Miami, U.S. and one in Beijing, China. A co-operation agreement with Canadian Aviation Electronics Ltd (“CAE”) has enlarged this network by 13 additional training locations worldwide. As part of its training services, Airbus offers Cross Crew Qualification programmes enabling pilots to take advantage of the high degree of commonality between Airbus aircraft families, representing considerable savings to airlines.

Airbus' spare parts support centres stock over 3,300,000 items out of a range of 250,000 different part numbers, as part of a worldwide distribution network that includes Hamburg, Frankfurt, Washington, D.C., Singapore, Beijing and Shanghai. The 24-hour/365-day order desk is able to dispatch in-stock items within a customized lead-time, down to two hours for grounded aircraft. Airbus' Modular Spares Services provides customers with a comprehensive range of services to support operation of Airbus aircraft worldwide, which can be tailored to specific requirements of the operators. It contains Spares Planning and Access, Inventory Management, supply chain solutions and material management related consulting.

In 2006, Airbus brought together its full range of services into one comprehensive portfolio named Air+ by Airbus, from which operators can pick and choose as per their individual needs. Airbus recognizes the diversity of airline models and organisations and in response, Air+ by Airbus is designed so that each customer can tailor its Air+ by Airbus solution in accordance with its own outsourcing policy. Air+ by Airbus

covers all aspects of an airline's technical operations when combined with Airbus' powerful Network of Maintenance and Repair Organisations (“**MRO**”) partners and suppliers and aims to bring value to customers' technical operations through increased aircraft availability, reduced operating costs and the enhanced quality of operations.

Production

Industrial Organisation

Each task in the building of Airbus aircraft (from design, definition and production to product or operational support) is allocated to industrial sites according to their specialised expertise. The nurturing and development of centres of excellence constitutes an essential feature of Airbus manufacturing.

Engineering

Airbus engineers work on specific and non-specific aircraft designs to create solutions that meet customer needs, using a working practice known as Airbus Concurrent Engineering (“**ACE**”).

Engineering innovation at Airbus is driven by five Centres of Competence (“**CoCs**”), which develop general aircraft technologies and provide functional design leadership for specific aircraft components. The CoCs operate transnationally with engineers from each CoC present at all Airbus sites.

Airbus engineers have also developed “Colleges of Experts” — teams of the most experienced specialists in each discipline that provide guidance and advice at senior levels. This approach not only delivers design solutions to meet the highest standards of technical quality and performance, but also ensures that both individual and collective knowledge is nurtured throughout the CoCs.

The engineering teams are supported by system tests and integration laboratories, structural test centres and the Airbus flight test centre.

This approach has enabled Airbus to open engineering centres in Wichita (Kansas), U.S., in Moscow, Russia, and in Beijing, China, through which it has gained access to a large pool of

experienced aerospace engineers. The Wichita engineering centre began operations in early 2001 and has already made a significant contribution to Airbus wing design. The engineering centre in Russia, organised as a joint venture with Kaskol, was inaugurated at the end of 2002 and the engineering centre in China was inaugurated in late 2005. A fourth engineering centre opened in Mobile (Alabama), U.S. in 2006. The fifth engineering centre is in the process of being opened in first quarter 2007 in Bangalore, India. This centre's focus will be on non-specific design work.

Manufacturing Facilities and Production Flow

Airbus has established highly specialised centres of excellence (“**CoEs**”) based on the core competencies of each site within its field of expertise, each with its own responsibilities and chain of decision-making. The CoEs are responsible for the design, procurement and manufacturing of fully equipped and tested deliverables, ranging from specific parts to major aircraft components.

Aircraft components are transferred between the network of CoE sites and the final assembly lines using Airbus' five custom built A300-600 “Beluga” Super Transporters. To support the A380 production flow, Airbus has integrated road, river and sea transport, including the specially commissioned “Ville de Bordeaux” ship. Typical production lead times for single aisle aircraft are 8-9 months, and 12-15 months for long-range twin aisle aircraft.

Adaptability to Changes in Demand

Airbus delivered 434 aircraft in 2006 (compared to 378 in 2005) and expects to deliver more than 440 aircraft in 2007. Any major market disruption or economic downturn could lead to revision of these figures.

To meet its 2007 delivery target, Airbus has set various elements of its adaptable manufacturing process in motion; these include enhanced integrated intelligence of customer and market situations to provide early anticipation, repatriation of an array of outsourced tasks and adaptation of make or buy criteria. Additionally, Airbus is exploiting flexibility features of its labour structure by applying flexible time and overtime contractual provisions, and by optimising temporary and time-defined workforce.

1.1.3 Military Transport Aircraft

Introduction and Overview

The Military Transport Aircraft Division (the “**MTA Division**”) develops, manufactures and sells light and medium military transport aircraft and is responsible for the A400M, the European heavy military transport aircraft project. In addition, the MTA Division produces and sells special mission aircraft, which are derived from existing aircraft platforms and are dedicated to specialised military and security tasks such as maritime surveillance, antisubmarine warfare and in-flight refuelling capabilities. The MTA Division also designs and manufactures aerostructure elements.

In 2006, the MTA Division generated revenues of €2.2 billion, representing 5.6% of EADS’ total revenues.

Strategy

The MTA Division’s strategic goals are to develop its core businesses, leverage the EADS pool of technologies to gain market share and enhance profitability. To achieve these goals, the MTA Division has implemented a focused, two-pronged strategy to:

Consolidate its leadership position and address the growing demand for modern tactical military transport aircraft

EADS is the global leader in the market segments for light and medium-sized military transport aircraft. Through the addition of the A400M heavy transport aircraft, EADS is seeking to broaden its range of tactical military transport aircraft and to capture a market with high replacement potential that Lockheed Martin has historically dominated.

Optimise EADS’ capabilities to become a major supplier of military derivatives

The MTA Division relies on its own specialised technologies as well as those of the DS Division and on EADS’ wide range of platforms to promote aircraft satisfying customers’ mission-specific requirements.

Market

Military Transport Aircraft

Governments and multinational organisations constitute the MTA Division’s principal customers in the market for tactical military transport aircraft. This market consists of three segments: (1) light transport aircraft, with a payload of one to four tons, (2) medium transport aircraft, with a payload of five

to fourteen tons, and (3) heavy transport aircraft, with a payload of fifteen tons or more. According to a study by the Teal Group⁽¹⁾, an independent aerospace and defence industry consulting firm, the global market for military transport aircraft for the next ten years is expected to amount to approximately US\$50 billion.

Light Military Transport. This is a mature market that has diminished in size as countries develop economically and are able to afford medium military transport aircraft. The CASA C-212 has historically led this market segment, with an average market share of 15% over the last ten years. The C-212’s main competitors are manufactured by Polskie Zakłady Lotnicze, Mielec and HAL.

Medium Military Transport. Management believes that this market will continue to experience moderate growth. EADS models are leading in this market segment, with the CN-235 and C-295 models having an average market share of 45% over the last ten years, followed by their competitors, the C-27J produced by Lockheed Martin Alenia Tactical Transport System (“**LMATTS**”), a joint venture of Alenia and Lockheed, and the An-32 produced by Antonov.

Heavy Military Transport. This market segment has historically been driven by U.S. policy and budget decisions and therefore has been dominated by U.S. manufacturers, in particular Lockheed Martin’s C-130 Hercules. As the U.S. reduces and upgrades its existing fleet, European transport fleet replacement and growth needs represent an opportunity for the new A400M aircraft to effectively compete in this market.

EADS has chosen not to compete in the separate market segment for super-heavy, strategic airlift aircraft, to which the Boeing C-17 belongs.

Special Mission Aircraft

Special mission aircraft are derived from existing platforms and adapted to particular missions, generally for military and security customers. It is a market of advanced technology and high added value solutions where customers are increasingly demanding comprehensive systems tailored to their specific operational requirements. Modern defence and warfare increasingly require independent access to complex forms of information in various theatres of operations. This development and Europe’s unsatisfied defence and security needs are expected to boost demand for European-produced special mission aircraft in the near term. The MTA Division is well-positioned in this market, as it has access, through Airbus, to efficient platforms that are already well-established in the civil market. However, U.S. companies currently dominate this market.

(1) Source: Teal Group. EADS confirms that this information has been accurately reproduced and that as far as EADS is aware and is able to ascertain from the information published by Teal Group, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Because of the limited size of any single European market and the significant associated development costs, mission aircraft programmes in Europe tend to be funded and developed on a multinational basis, with an emphasis on proven technologies. EADS believes its strong position in Europe will allow it to exploit opportunities on a worldwide basis.

Products

Military Transport Aircraft/Special Mission Aircraft on Transport Aircraft Platforms

C-212 – Light Military Transport. The C-212 was designed as a simple and reliable unpressurised aircraft able to operate from makeshift airstrips in order to carry out both civilian and military tasks. The first model in the series, the S-100, entered into service in 1974. With a payload of 2,950 kg, the new version of the C-212, the Series 400, entered into service in 1997. It incorporates improvements such as new avionics and engines for enhanced performance in hot climates and high altitudes, as well as improved short take-off and landing (“STOL”) performance. The C-212’s rear cargo door provides direct access for vehicles, cargo and troops. Its configuration can be changed quickly and easily, reducing turnaround times. The aircraft can perform airdrops and other aerial delivery missions.

CN-235 – Medium Military Transport. The first model in the CN-235 family, the S-10, entered into service in 1987. The latest model in the CN-235 family, the Series 300, entered into service in 1998 and is a new-generation, twin turboprop, pressurised aircraft. The CN-235-300 is capable of transporting a payload of up to 6,000 kg, representing (1) 48 paratroopers; (2) 21 stretchers plus four medical attendants; (3) four of the most widely used type of freight pallets; or (4) oversized loads such as aircraft engines or helicopter blades. Paratroop operations can be performed through the two lateral doors in the rear of the aircraft or over the rear ramp. Variants of the CN-235-300 are used for other missions, including maritime patrol, electronic warfare and photogrammetric (mapping) operations. During 2006, the U.S. company L3 ordered two CN-235s.

C-295 – Medium Military Transport. Certified in 1999, the C-295 has a basic configuration similar to that of the CN-235, with a stretched cabin to airlift a 50% heavier payload at greater speed over similar distances. The C-295 is equipped with integrated avionics incorporating digital cockpit displays and a flight management system, enabling tactical navigation, planning and the integration of signals from several sensors. Both the CN-235 and C-295 have been designed as complements to or replacements for the ageing C-130 Hercules, accomplishing most of their missions at a lower operating cost.

In 2006, MTA signed a contract with Portugal for the delivery of twelve C-295 aircraft, seven in the transport version and five in the maritime patrol version. This is EADS-CASA’s first contract for maritime patrol on the C-295 platform; deliveries are expected to commence in 2007. Poland and Finland each ordered two C-295 aircraft, both in the transport version, while the Spanish MoD ordered an additional C-295. In terms of deliveries in 2006, MTA delivered the first four of twelve C-295 aircraft to Brazil to replace its existing C-115 Buffalo aircraft, pursuant to a contract signed in 2005. It also delivered the C-295s ordered by the Spanish MoD and Finland during 2006.

Joint Cargo Aircraft (JCA, renamed from FCA). During 2005, EADS CASA North America and Raytheon established a partnership to bid for the U.S. Army’s JCA programme. Under the JCA programme, the U.S. Army plans to procure more than 100 JCA, with an initial phase of 55 aircraft. During 2006, MTA submitted a bid to supply the U.S. Army with C-295 aircraft. The U.S. Army is expected to select the winner of the contract in 2007.

Maritime Patrol Aircraft. The MTA Division provides different solutions ranging from Maritime Surveillance to Anti-Submarine Warfare through aircraft based on the C-212, CN-235, C-295 or P-3 Orion platforms, for which EADS-CASA has already developed a new-generation, open architecture mission system called FITS (Fully Integrated Tactical System), a proven, reliable and cost efficient solution. Integration of FITS on an A-319 platform is ongoing.

In 2006, MTA signed a contract with South Korea for the delivery of a C-212 aircraft. It also signed a contract with the Irish MoD to modernize two CN-235s with FITS mission systems. The Spanish MoD ordered the conversion of six CN-235 military transport aircraft into maritime patrol aircraft with FITS mission control, while four C-212 aircraft with FITS maritime patrol mission systems were delivered to Mexico.

Airbus A400M. In May 2003, the *Organisation Conjointe en Matière d’Armement (“OCCAR”)* signed a contract with Airbus Military to develop the A400M aircraft. The A400M is designed to meet the future large aircraft requirements of seven European nations seeking to replace their ageing C-130 Hercules and C-160 Transall fleets. In addition to fast and flexible intercontinental force projection, the new aircraft is intended to respond to changing geopolitical requirements (including increased humanitarian and peacekeeping missions).

The A400M will integrate a number of features from existing Airbus aircraft, including a two-person cockpit, fly-by-wire controls and advanced avionics. Additionally, the A400M will benefit from Airbus’ maintenance procedures and worldwide customer support network.

Management believes that the A400M programme will allow EADS to leverage its state-of-the-art commercial aircraft technology to access a new and attractive market, while mitigating the impact of civil aircraft market commercial cycles.

Airbus Military, a Spanish *sociedad limitada*, is a specially formed entity dedicated to the development, manufacturing, sale and delivery of the A400M aircraft. Shares in Airbus Military are currently held by Airbus S.A.S (69.44%), EADS CASA (20.56%), Tusas Aerospace Industries Incorporated of Turkey (5.56%) and Flabel Corporation NVSA of Belgium (4.44%). The Executive Vice President in charge of the MTA Division also acts as Chief Executive Officer of Airbus Military, bringing the MTA Division's experience in the management of military transport aircraft programmes and its extensive client network to the A400M programme.

Airbus Military has subcontracted to Airbus the overall management of the A400M development, to be exercised through a central programme management office ("CPMO") headquartered in Toulouse with additional offices in Madrid. For the production phase of the A400M programme, to be managed by the MTA Division, the CPMO will be headquartered in Spain.

The initial contract with OCCAR calls for the delivery of 180 A400M aircraft on behalf of seven nations: Germany (60), France (50), Spain (27), U.K. (25), Turkey (10) and Belgium (8, including one on behalf of Luxembourg). In addition to the initial 180 aircraft, export orders bring the total order book for the A400M aircraft to 192 at the end of 2006. The first contracts for Integrated Logistic Support were also signed with OCCAR in December 2006.

Special Mission Aircraft on Airbus Platforms

The MTA Division offers special mission aircraft derived from existing Airbus platforms and adapted to particular missions, generally for military customers. Adaptations to the platform require thorough knowledge of the basic airframe, which generally only the aircraft manufacturer possesses. The skills necessary for overall systems integration into such aircraft are extensive and the number of participants in the world market is very limited.

Strategic Tanker Aircraft. EADS seeks to provide a competitive alternative to the near-monopoly enjoyed so far by Boeing products in the market for strategic tanker aircraft. In light of the estimated worldwide market of approximately 600 tanker aircraft, Management believes that strategic tanker aircraft offer an attractive opportunity for EADS.

In this regard, the MTA Division is leading a technological programme aimed at developing a new "air-to-air" refuelling boom system ("ARBS"). The new ARBS is designed to provide

a refuelling performance that is substantially faster than that of the competition—a considerable advantage given the vulnerability of aircraft during the refuelling procedure. At the end of 2005, the roll-out of an A310 demo boom occurred at MTA's Getafe facilities. Initial flight tests with this A310 demo boom were conducted during 2006.

A330 MRTT (Royal Australian Air Force). The contract signed in December 2004 with the Royal Australian Air Force for the delivery of five A330 multi-role tanker transports ("MRTT") equipped with underwing pods and ARBS to replace its existing Boeing 707 fleet remains on schedule. The first A330 MRTT—based on the A330 derivative, a low-risk and cost-effective platform that offers a greater supply capacity than other competing solutions—is scheduled to enter into service in 2009. In June 2006, MTA received the first A-330 to be converted. The remaining four A330 MRTT will be converted in Australia by Qantas Airways acting as EADS-CASA's subcontractor. One A-330 MRTT full-mission simulator has also been ordered by the Royal Australian Air Force.

A330 Future Strategic Tanker Aircraft (FSTA) (United Kingdom Royal Air Force). EADS, Rolls Royce, Cobham, VT and Thales are cooperating through the AirTanker consortium as a single bidder for the U.K. MoD's Future Strategic Tanker Aircraft ("FSTA") programme. Structured as a private finance initiative, this programme would replace ageing VC10 and Tristar tankers, currently operated by the Royal Air Force, with a system based on A330-200 Airbus aircraft. The programme will call for the delivery of 14 aircraft to provide air refuelling service for 27 years. The contract is expected to be awarded in 2007.

KC-30 Tanker Programme (U.S. Air Force). The U.S. Air Force has been conducting a programme to replace its ageing fleet of air-to-air refuelling aircraft. In this regard, EADS NA Tankers (an ad hoc company) has joined with Northrop Grumman (as prime contractor) on preparing a proposal to satisfy the U.S. Air Force's requirements. The team will propose a KC-30 tanker, which is based on an A-330 MRTT with cargo door and boom. EADS would supply the aircraft to be outfitted in the United States. The U.S. Air Force is expected to review the competing proposals during 2007.

A310 MRTT (German Air Force/Canadian Air Force). This ongoing programme involves the supply of four aircraft to the German Air Force and two aircraft to the Canadian Air Force. In 2006, work began on the upgrade of avionics and other modifications.

Alliance Ground Surveillance ("AGS"). Within the framework of NATO, several countries have expressed interest in the development of an Airborne Surveillance System. MTA's role in this programme is to perform the "militarization" of the A-321 platform with the DS Division acting as the prime contractor.

Aerostructures

EADS-CASA has significant expertise in the utilisation of composite materials for aerostructure manufacturing and advanced automation processes. Based on this expertise, the MTA Division is actively involved in the design, manufacture and certification of complex aeronautical structures. In 2006, MTA delivered fan cowl for the A340 as well as for the FX7 programme.

Production

The C-212, CN-235 and C-295 are manufactured at a facility located at the San Pablo airport in Seville. Aerostructures are produced in Puerto de Santa María in Cádiz as well as at the Tablada and San Pablo facilities, both in Seville.

The A400M will be assembled at a new plant, near the San Pablo airport in Seville.

1.1.4 Eurocopter

Introduction and Overview

Through Eurocopter, EADS is one of the global leaders in the worldwide civil and military helicopter market. Management expects Eurocopter sales in the military market to increase substantially due to the start of delivery of the NH90 military transport helicopter and the Tiger attack helicopter, and more generally the strong backlog in military orders with a number of European governments and the increasing demand in international military and para-military export markets. In 2006, Eurocopter maintained its leadership by capturing more than 50% of the civil market in terms of deliveries and by achieving strong growth in its military order book.

For 2006, the Eurocopter Division generated revenues of €3.8 billion, representing 9.6% of EADS' total revenues.

Strategy

The Eurocopter Division aims at further developing businesses and markets identified by Management as having the potential for lasting profitable growth. To this end, Eurocopter is actively:

Fostering internal growth and international expansion

Management intends to further develop Eurocopter's presence in current and future growth markets such as China, India and Eastern Europe and to bolster its position in the markets where it has traditionally held a strong position, such as the U.S. civil and para-military market. This strategy seeks to foster the opening of new market segments, such as Eurocopter's first successful sale of important quantities of helicopter systems to the U.S. Army.

To do so, Eurocopter will continue to capitalize on its proven experience of cooperation with local industries for programme development and joint production projects. This approach has

enabled Eurocopter to build solid foundations in promising growth markets, in particular in Asia.

Eurocopter will also continue to pursue its industrial deployment strategy in the United States, where it already has two major industrial and services facilities. Eurocopter is becoming a truly international industrial company, as nearly 20% of its employees work outside of the Division's home countries of France, Germany and Spain.

Implementing an ambitious product and services policy designed to maintain its market leadership and technological superiority

The continuous renewal of Eurocopter's comprehensive product line of civil and military helicopters is essential in maintaining the Division's market leadership and technological superiority. Management intends to continue this process by (i) strengthening the market position of certain key products such as the Écureuil family, the Dauphin, the EC 135, the EC 145 and the EC 225/725, (ii) emphasizing Eurocopter's most recent products (e.g., entry into service and customisation for export of the Tiger and NH90) and (iii) enhancing its product line (e.g., co-development of the medium lift EC 175 with China; partnership with Korean industry to develop the military utility Korean Helicopter Programme ("KHP")). Eurocopter's comprehensive product line allows it to leverage core technological solutions with its high-value customisation capabilities, in order to respond to the mission needs and budget requirements of a wide array of civil and military customers throughout the segmented helicopter market.

One of Eurocopter's key competitive advantages is its technological excellence. To maintain its position as a technological leader, Eurocopter engages in several technology development programmes, such as the Heavy Transport Helicopter and Vertical Take Off and Landing Tactical Unmanned Aerial Vehicle (VTUAV), and research programmes

emphasizing technologies that enhance the operational scope, mission effectiveness and economic performance of its aircraft. Eurocopter is currently focused on innovation in fields such as environmental-friendliness, all-weather flying ability and economic affordability throughout an aircraft's lifecycle.

Because customer service is an important component of customer satisfaction and source of revenue for the Division, Eurocopter remains committed to strengthening and expanding its network of marketing, distribution and support systems, through its "global offer" proposal. The network currently serves close to 10,000 Eurocopter aircraft with more than 2,500 operators located in 142 countries.

Market

In 2006, the value of helicopters delivered worldwide was estimated at over €8.6 billion; a figure Management believes may grow to €14.6 billion by 2009. According to market forecasts by The Teal Group, Honeywell and Rolls Royce, between 5,200 to 5,800 civil helicopters and 5,500 to 6,000 military helicopters are expected to be built globally from 2006 to 2015. This forecast, particularly with respect to the military segment, depends to a large extent on the large U.S. development programmes.

Military demand for new helicopters is principally driven by budgetary and strategic considerations, and the need to replace ageing fleets. Management believes that the advanced age of current fleets, the emergence of a new generation of helicopters equipped with integrated systems and the ongoing introduction of combat helicopters into many national armed forces will contribute to increased military helicopter procurement over the next several years. Recent large-scale military programmes, such as those conducted by Australia, Brazil, Spain, U.K. and the Nordics Standard Helicopter Project, have confirmed this trend. Demand from the military segment has historically been subject to large year-to-year variations, due to evolving strategic considerations.

Military helicopters, which are usually larger and have more sophisticated systems than commercial helicopters, accounted for 52% of the total value of Eurocopter deliveries in 2006.

The military segment is highly competitive and is characterized by competitive restrictions on foreign manufacturers' access to

the domestic defence bidding process, sometimes to the virtual exclusion of imports. Nevertheless, with the introduction of the Tiger, NH90 and EC 725 and with a more aggressive approach to international industrial cooperation, Eurocopter's share of the global market for military helicopters has increased, and the market in 2006 was more balanced between competitors.

In the military segment, Eurocopter's main competitors are Agusta-Westland in Europe, and Bell Helicopter (a division of Textron Inc.), Boeing and Sikorsky in the United States. Additionally, the Russian manufacturers have returned after a complete reorganisation on commercial and industrial fronts. They are very aggressive in the Asian and Latin American markets in particular.

The helicopters sold in the civil/parapublic sector provide transport for corporate executives, offshore oil operations, diverse commercial applications and state agencies, including coast guard, police, medical and fire-fighting services. Management expects that the value of global civil deliveries will continue to grow at an average rate of 10% in the next three years and after will stabilize at the level of 2005/6. Market data indicates that in 2006, worldwide deliveries of civil turbine helicopters stood at approximately 680 units.

Eurocopter's main worldwide civil competitors are Bell Helicopter, Agusta-Westland and Sikorsky. The civil helicopter market has grown more competitive compared to previous years, with Sikorsky and Agusta-Westland having increased their market share in heavy and medium classes.

Products and Services

Existing Products. Management believes that Eurocopter currently offers the most complete and modern range of helicopters, covering almost the entire civil and military market spectrum. Eurocopter's product range includes light single-engine, light twin-engine, medium and medium-heavy helicopters, and is based on a series of new-generation platforms designed to be adaptable to both military and civil applications. The product line is continuously updated with leading-edge technologies, assuring its modernity.

The following table illustrates Eurocopter's existing product line, which offers optimised products for different mission types that may be adapted to other uses as well.

Helicopter Type	Primary Missions
Light Single Engine	
EC 120	Corporate/Private, Training
Single Engine	
AS 350	Military Utility, Utility, Law Enforcement, Corporate/Private
EC 130	Tourism, Offshore, Corporate/Private
Light Twin Engine	
AS 355N	Civil/Parapublic*, Utility, Corporate/Private
EC 135/EC 635	Emergency Medical, Parapublic*, Offshore, Corporate/Private
EC 145	Military Utility, Emergency Medical, Parapublic*, Shuttle
Medium	
Dauphin	Coast Guard, SAR, Offshore, Parapublic*
EC 155	Corporate/Private, Offshore, Parapublic*, Shuttle
Medium Heavy	
Super Puma/Cougar	Military Transport, Offshore, Shuttle
EC 225/EC 725	Combat-SAR, Military Transport, Offshore, VIP

(*) Parapublic includes law enforcement, fire fighting, border patrol, coast guard and public agency emergency medical services.

Civil range. In recent years, Eurocopter has invested in the renewal of its civil product line to enhance its competitive position in the civil segment, with the result that its share of the world market currently stands at approximately 50%. Eurocopter has successfully introduced into the international market such new products as the light single-engine EC 120 and the light twin-engine EC 135, and such major product upgrades as the EC 155, the latest evolution of the medium-class Dauphin, and the EC 145, a derivative of the BK117. Deliveries of the EC 130, the latest single-engine member of the Écureuil family, started in 2001. The latest addition to the heavy-class family is the EC 225. It is designed for passenger transport, in particular offshore and VIP, but also for public service missions, such as search and rescue (SAR).

LUH program. In 2006, the U.S. Army selected the UH-145 (a military derivative of the commercial EC 145) as its next-generation Light Utility Helicopter (LUH). At the end of 2006, the U.S. Army had ordered 42 aircraft within the framework of a contract to order up to a total of 352 aircraft. The first aircraft were delivered in December 2006, only six weeks after contract signature.

Products in Development. Current product development projects in the military segment include (1) the NH90, a military transport helicopter with different versions for tactical, naval and combat-search and rescue applications, and (2) the HAD version of the Tiger helicopter. Moreover, new product development programmes, the EC 175 and KHP, were launched

in 2006 in cooperation with Chinese and South Korean partners, respectively.

NH90. The NH90 was developed as a multi-role helicopter for both tactical transport (TTH) and naval (NFH) applications. The project, principally financed by the governments of France, Germany, Italy and the Netherlands, was jointly developed by Eurocopter, Agusta-Westland of Italy and Fokker Services of the Netherlands as joint partners in Nato Helicopter Industries ("NHI") in direct proportion to their countries' expressed procurement commitments. Eurocopter's share of NHI is 62.5%. Production of the first lot of 243 helicopters and 55 optional helicopters to be delivered to the four partner countries started in 2000, with the first deliveries in 2006 (3 TTH to the German Army). However, ongoing development activities on mission equipment have led to an additional shift of planned delivery dates for future aircraft.

Designed for modern multi-mission capabilities and cost effectiveness throughout its lifecycle, the NH90 has rapidly become the reference military tactical helicopter for armed forces worldwide. The NH90 has been selected by 12 countries and its backlog totals 400 firm orders and 100 options. 43 aircraft were ordered in 2006 (34 for Australia and 9 for New Zealand) and the Spanish Council of Ministers authorized the signing of a contract for 45 NH90 that became effective in mid-January 2007.

The Tiger. The Tiger combat attack helicopter programme development is nearing completion. It includes four variants based on the same airframe: the 40 HAP (turreted gun, rockets and air-to-air missile) for France; the 80 UHT (antitank missile, air-to-air missile, axial gun and rockets) for Germany; the 22 ARH (antitank missile, turreted gun and rockets) for Australia; and the 24 HAD for Spain and 40 HAD for France (antitank missile, air-to-air missile, turreted gun, rockets and upgraded avionics and engines). The manufacturing ramp-up of the programme is reflected by the delivery of 24 Tigers as of December 2006 (12 HAP to the French and Spanish Army, 6 UHT to the German Army and 6 ARH to Australia).

Tiger HAD (Hélicoptère Appui Destruction). The HAD version of the Tiger is a multi-role combat helicopter. It is based on the Tiger HAP and incorporates a more powerful engine, an IFF interrogation function, a new ballistic protection and an air-to-ground missile (AGM) capability. The HAD is expected to be qualified in 2010, with deliveries between 2010 and 2014.

EC 175. Eurocopter and Chinese AVIC II Corporation launched the joint development and production of the EC 175, a civil helicopter in the 6-ton category, which will broaden both partner's product ranges. The 5-year development phase started in 2006. The new civil helicopter is due to make its first flight in 2009, with European and Chinese certification set for 2011, the year in which production is due to begin. Production will be shared on a 50/50 basis and each country will have its own assembly line. Sales forecasts for this latest-generation helicopter call for 800 units to be sold worldwide over the next 20 years.

KHP. The Korean government chose Eurocopter as the primary partner of Korea Aerospace Industries ("KAI") in the new KHP programme for the development of Korea's first military transport helicopter in the 8 metric ton class. The 6-year KHP development phase will run from 2006 to 2011. In the following 10-year production phase, 245 helicopters are to be manufactured. As the primary partner of KAI, Eurocopter has a stake of 30% in the development phase and 20% in the production phase. This programme is groundbreaking for Eurocopter in a previously U.S.-dominated Korean market. Eurocopter and KAI have agreed to establish a 50/50 subsidiary to market the export version of the KHP, which has a forecasted worldwide demand of 250 helicopters over 20 years.

Customer Support

As of 31st December 2006, Eurocopter products constituted the world's second largest manufacturer fleet, with 9,710 helicopters in service worldwide. As a result, customer support activities to service this large fleet generated 31% of Eurocopter's revenues for 2006. Eurocopter's customer support activities consist primarily of training, maintenance, repairs and spare parts supply. To provide efficient worldwide service,

Eurocopter has established an international network of subsidiaries, authorized distributors and service centres. Furthermore, in order to meet global customer demand, Eurocopter is dynamically extending the range of services it provides to its customers.

After the creation of a helicopter-training centre with Thales in 2002 (HELISIM), and the establishment of Helicopter Flight Training Services (HFTS) in 2004 (a consortium consisting of Eurocopter, CAE, Rheinmetall, EADS Defence Electronics and Thales to manage the contract for the first Private Finance Initiative (PFI) to design, build and operate three NH90 training centres in Germany), Eurocopter created Eurocopter Training Services (ETS) in 2006, a 100% owned subsidiary dedicated to the training of pilots and technicians.

Customers and Marketing

Eurocopter's principal military clients are European MoDs, as well as MoDs in Asia and the U.S. Eurocopter's penetration of the civil and parapublic market is globally well-distributed, placing it first among manufacturers in the markets of Europe, the U.S. and Canada.

Eurocopter's global strategy is reflected in the scale of its large international network. Eurocopter's network currently encompasses 17 foreign subsidiaries, complemented by a network of authorized distributors and service centres aimed at a large number of existing and potential clients. Eurocopter's worldwide footprint was strengthened in 2006 through the creation of wholly-owned subsidiaries Eurocopter Vostok and Eurocopter China, located in Moscow and Shanghai, respectively.

In addition, Eurocopter has developed expertise in production licensing, joint production and subcontracting agreements, and has been developing links with industrial partners and suppliers in more than 35 countries.

Approximately 2,612 operators worldwide currently operate Eurocopter helicopters, forming a broad base for Eurocopter's customer support activities. Eighty-five percent of Eurocopter's customers have fleets of between one and four helicopters.

The versatility and reliability of Eurocopter products have made them the preferred choice of the most prominent customers. The U.S. Coast Guard operates 95 Dolphin (Dauphin) helicopters and the world's largest offshore operators (Bristow, CHC, Era, PHI, etc.) use Eurocopter helicopters for passenger transport and offshore oil industry support. In the Emergency Medical Service market segment, Eurocopter helicopters dominate the fleets of large operators such as Air Methods in the U.S. and ADAC in Germany. Agencies with high serviceability requirements, including police and armed forces, also rely on Eurocopter products.

Production

Eurocopter's manufacturing and development activities are carried out primarily in four locations, two in France and two in Germany. The French sites are Marignane, in southern France, and La Courneuve, near Paris. The German sites are located in Donauwörth and Ottobrunn, near Munich.

With the ramping up of the Spanish HAD helicopter assembly line as well as NH90 assembly line in Eurocopter's new Albacete plant, Spain is becoming the third industrial pillar of the Eurocopter Group.

The new plant in Albacete will play a major industrial role for the group. It will ensure manufacturing of the rear fuselages for the EC 135 and Tiger as well as the front fuselage for the NH90. Manufacturing of the Tiger, NH90 and EC 135 purchased by the Spanish MoI will also be carried out at the Albacete plant.

The Columbus, Mississippi, factory of American Eurocopter is undergoing a major expansion to support the LUH production, assembly and delivery. Industrial activity is starting with the LUH's build-up and acceptance for delivery and will subsequently transition to full-scale production. In addition, activity at the Columbus factory includes production/assembly of AS 350 and EC 120 for U.S. Customs and Border Protection and other government/law enforcement agencies in North America as well as support for the U.S. Coast Guard's modernization of its Dolphin helicopter fleet.

The final assembly line for Tiger, NH90 and EC 120 in Australia is also an indication of Eurocopter's truly global presence and strategy of being close to its customers.

1.1.5 Defence & Security

Introduction and Overview

The Defence & Security Division ("DS" or the "DS Division") was created in 2003 to serve as the main pillar of EADS' defence and security activities. By combining EADS' Defence and Communications Systems (DCS), Defence Electronics (DE), Military Air Systems (MAS) and Missile Systems (consisting of EADS' 37.5% stake in MBDA) within one division, EADS has streamlined its defence and security business to better meet the needs of customers that require integrated defence and security solutions.

In 2006, the DS Division generated consolidated revenues of €5.9 billion, representing 14.9% of EADS' total revenues.

System Design Centre (SDC)

Within DS, the System Design Centre (with branches in France, Germany and the U.K.) supports defence and security customers in designing, developing and testing their products and system architectures through use of advanced Modelling and Simulation (M&S) techniques. The SDC thereby provides a framework for systems design and related skills on behalf of the DS business units and EADS as a whole. Thanks to its use of standardized methods (such as the architecture frameworks used by the U.S. Department of Defense and the U.K. Ministry of Defence) and other system development tools, the SDC

helps to reinforce the DS Division's strategy of improving capabilities in Large Systems Integration (LSI) more generally. One tool at the SDC's disposal in this regard is a transnational networked experimentation and test environment, referred to as Network Centric Operations Simulations Centres (NetCOS).

2006 Highlights for the DS Division

In 2006, the DS Division met all of its streamlining goals and has now moved major programmes and projects—including Eurofighter and MBDA's Storm Shadow, Brimstone, Taurus, Aster and MICA missiles—into the production phase. In addition, MBDA received orders from the French and German defence ministries respectively for 250 SCALP naval cruise missiles and 680 PARS 3 Long Range precision fire-and-forget weapon systems. DS also succeeded in enhancing its position in the area of coastal and maritime surveillance through the acquisition of Atlas Elektronik (jointly with ThyssenKrupp) and of SOFRELOG, and strengthened more generally its position in the maritime sector. Furthermore, the acquisition of professional mobile radio capabilities made a positive contribution to revenues in 2006 – construction of a nationwide TETRA digital voice and data transmission radio system to be used by German public safety authorities being the highlight – and offset the integration of EADS' German missile house into MBDA.

Strategy

With its integrated structure, the DS Division is able to offer a harmonised approach to its customers consistent with the trend towards capabilities-based procurement, while at the same time generating internal synergies and savings. In moving beyond defence to security, the DS Division has also recognised that its customers increasingly require full-service packages and integrated solutions to support their own transformation process from defence to broader security needs. In the future, the DS Division will seek to sustain its growth by focusing on further cooperation with its home market customers, while at the same time fostering and developing its global reach in developing markets including Central and Eastern Europe, the Middle East, India, Asia and the South Pacific, and South Africa. New technologies being developed by the DS Division (such as unmanned aerial vehicles) aim to generate future business and address new markets.

Streamlining and enhancing the DS Division

The organisational structures of Defence and Communications Systems and Defence Electronics have been streamlined successfully, including completion of the transfer of DS headquarters to Unterschleißheim, Germany in 2006. In 2007, the relocation of DS activities conducted in France is also expected to be completed. Military Air Systems consolidated its product portfolio in 2006 and announced the relocation of its Munich activities to Manching (the site of EADS' Military Air Systems Centre) over the next two years, thereby centralising the military air systems support centres as well as the development centre for advanced UAVs. Finally, successful centralisation of the System Design Centre as well as its marketing and sales activities and staff functions has improved DS' ability to focus on customer needs. These initiatives, together with a focus on employee development and improvement of project risk management, enabled the new organisation to perform better and more profitably in 2006.

Supporting the transformation process of customers

Through already existing programmes with NATO, the French Defence Ministry, the U.K. MoD and also Germany's test bed, DS is actively promoting European and NATO transformation. DS is supporting its customers in assessing and satisfying their security needs by proposing simulation systems such as NetCOS in three out of its four home countries, with plans to expand to the U.S. and possibly Spain. DS also participates in the Network Centric Operations Industry Consortium (NCOIC), an industry-based collaborative forum formed to recommend an architectural approach for system and platform developers within a global network environment. The focus for the future will be to continue to work closely with industry and customer working groups to help define and, most

importantly, deliver system solutions geared towards customers' capacity requirements and respective transformation process.

Moving beyond defence into security

Employed already on behalf of organisations countering asymmetrical threats, DS' Large Systems Integration approach—which seeks to maximise efficiencies through the optimised use of data and information together and across different security organisations—is a model for the construction of global security solutions. DS has been adapting its expertise in defence to the fast-growing markets of global security (estimated at €35 billion globally per year) and will continue to do so.

Strengthening the DS Division's position in home markets and the U.S.

DS is continuing to focus on its customer orientation in the U.K., France, Spain, and Germany. Within these respective markets, further efforts in the core platform and missiles businesses will remain a strategic goal towards profitable growth in defence. In particular, EADS seeks to raise its visibility in the U.K. and capitalise on the opportunities that the U.K. market provides. The DS Division aims to become a market leader through projects emphasising LSI solutions such as the U.K.'s defence information infrastructure (DII) programme. DS recently established a NetCOS centre in the U.K. with others already existing in France and Germany. In France, further inroads have also been made in the area of UAV technology partnerships and command and control systems. As an important partner in the Eurofighter consortium through EADS CASA, Spain continues to be a significant market for profitable growth, which DS is focused on developing. Involvement in the NEURON demonstrator is also coordinated through MAS Spain.

Penetration of the U.S. defence market remains a key objective for the DS Division, which seeks to expand its current U.S. industrial presence in defence electronics and test and services. EADS North America Defense Company (NA DefCo) is part of the overall strategy to increase business with the U.S. Department of Defense and the U.S. industrial primes. NA DefCo is, however, an independent entity and remains outside of the DS organisation. Methods for expanding into the United States include:

- Pursuing specific market segments where the DS Division can offer superior products and technologies, such as the Hellas obstacle avoidance system for helicopters and the TRS-3D radar for the U.S. Coast Guard. DS successfully tested its target drone systems for the U.S. Army in 2006

and has now been selected to provide a limited quantity of systems;

- Building strong transatlantic industrial partnerships with U.S. prime contractors, including Northrop Grumman (U.S. Tanker programme, NATO AGS, Ballistic Missile Defence, EuroHawk®), Lockheed Martin (MEADS, Deepwater, Littoral Combat Ship, COBRA, Ballistic Missile Defence) and Raytheon (Ballistic Missile Defence) to explore new opportunities driven by military transformation; and
- Seeking acquisitions and new partnerships to enhance the DS Division's U.S. operational footprint across several market sectors, including platform systems, operational support and defence electronics.

Defence and Communications Systems (DCS)

Defence and Communications Systems (DCS) is the EADS "Systems House". The mission of DCS is to create complete communication and information system solutions (including platforms) and provide the means to implement them. DCS offers its customers comprehensive and tailored solutions, combining the know-how to design, develop and implement LSI (Large System Integration), and link the widest possible range of individual platforms and subsystems into a single effective network.

Information and secured communication system solutions in global security as well as systems enabling effective border control and coastal surveillance constitute another major focus for DCS. System integration is becoming increasingly important in these areas.

In 2006, EADS and ThyssenKrupp Technologies completed the joint acquisition of Atlas Elektronik (49% EADS, 51% ThyssenKrupp Technologies). Both companies will pool their skills in platform, electronic and system activities in the naval field to create a strong naval electronics and systems company based in Bremen, Germany. In addition, EADS acquired the French company SOFRELOG in 2006, a world leader in the provision of Vessel Traffic Systems. These two acquisitions have significantly strengthened EADS' presence in the maritime sector.

In 2006, DCS generated 21% of DS's total revenues.

Markets

DCS faces competition from large U.S. and European companies that also specialise in its markets. Major competitors are Lockheed Martin, Thales, Motorola and SAIC. Key customers for DCS' business primarily include governmental customers, such as MoDs and Ministries of Interior in its home markets of

France, Germany and the U.K., with an increasing focus on other European countries, the Middle East, South Africa and Asia.

Products

DCS offers comprehensive mission systems and solutions in the area of air dominance, battlespace systems, intelligence solutions and naval systems as well as overall systems support. It is a leading provider for full systems design architecture and systems integration responsibility for military land-, sea-, air- and space-based systems. DCS delivers airspace dominance systems for defensive, offensive and support operations in a combined, joint environment, thus realizing flexible, network enabled capabilities. DCS is also a major designer and supplier of C3I systems to the armed forces in France and Germany, and the Joint Staffs in France, Germany and NATO.

Major contracts signed in 2006 include the provision of an integrated air defence system (FGBAD) for the Dutch MoD and the complete restructuring of the information and communication systems of the French MoD High Command (PSP - Pôle Stratégique Parisien). DCS, the centre of the soldier modernization programme (SMP) within EADS and home of "Soldier Systems", will also play a key role in the development of the Spanish SMP (COMFUT), a contract awarded in September 2006.

DCS designs, integrates and implements Secure Fixed, Tactical, Theatre and Mobile information infrastructure solutions, including all of the services needed to support integrated mission systems and solutions.

The business unit is focused on customers' need for information infrastructure solutions. Its expertise includes a detailed understanding of the technology necessary to achieve this, including interfaces, gateways and the use of Open System architectures.

DCS provides fully integrated global security solutions and services in order to mitigate risk exposure in the areas of: border and maritime security, crisis management, large event protection and critical infrastructure. Due to the increased connections between different areas of threat and in view of the growing interdependence of internal and external security in particular, the seamless collaboration of different security organisations has become increasingly important. EADS seeks to maximise efficiencies through the optimised use of data and information together and across these different security organisations.

In 2005, EADS won a border security contract with Romania that provides for the delivery of an integrated system for surveillance and securing of the Romanian border. The first

important milestone of this project was successfully completed in 2006 with the installation of the 'Backup IT subsystem' by EADS, the basic IT infrastructure of the entire border security system.

DCS is also a leading provider of Professional Mobile Radio (PMR) and secure networks. EADS solutions for PMR enable professional organisations, such as public safety, civil defence, transport and industries, to communicate effectively, reliably, and securely. EADS can offer specialised PMR solutions based on TETRAPOL, TETRA and P25 technologies, based on customer requirements. Despite a highly competitive market, EADS acquired 15 new customers in 2006.

Major contracts awarded in 2006 include the construction of BOSNet, a nationwide TETRA digital voice and data transmission radio system to be used by German public safety authorities, as well as contracts to build national public safety networks in Hungary and Estonia. DCS has also successfully completed the rollout of one of its very large systems, "ACROPOL", the secure TETRAPOL radio communication network for French police. Finally, EADS has entered the U.S. market through SN, which will deliver a new radio system to be used by safety officials in Cumberland County, Tennessee.

System Engineering and Consulting Services

In 2006, Apsys continued to build on its position as the French leader in risk management on advanced technology projects. This operating unit offers different types of services (e.g., consulting; studies; training; software; and audit) along all phases of a project life-cycle and utilises various technical approaches (e.g., reliability, availability, maintainability and safety studies; human factor analysis; industrial, environmental and nuclear risk assessment; and software and system quality). Major markets include aeronautics, defence, the petroleum industry and transportation systems. Apsys plans to continue its long-term partnerships with EADS customers (Airbus, Eurocopter, DS and Space Launchers), representing the majority of its revenues, while also diversifying and enhancing its business with other customers.

Dornier Consulting GmbH

Dornier Consulting continued its direction of profitable growth in 2006 as a company for future-oriented transportation and technology consulting with a focus on traffic, transportation and logistic concepts, system specification and integration, modern technologies for the management of natural resources as well as professional full-service project management. It is an independent consulting and engineering company with clients in the public and private sector in Germany, Central and Eastern Europe, Central Asia and the Near and Middle East.

Major clients include national and international institutions (World Bank, UNDP, EU, KfW, GTZ), governments, authorities, the German Railways (Deutsche Bundesbahn), DaimlerChrysler and EADS as well as a spectrum of private companies. As part of its future strategy, Dornier Consulting will seek to develop additional opportunities for other EADS units while also focusing on international growth.

Defence Electronics (DE)

As the Electronic Warfare, Avionics and Sensors House of EADS, DE provides mission-critical elements for data gathering, data processing and distribution, and self-defence. Its business is based on sensors and subsystems as a second-tier supplier and addresses the market for surveillance and reconnaissance, military mission management, platform self-protection, network-enabled capabilities and military forces support.

In 2006, the DE business generated 14% of DS's total revenues.

Markets

EADS' main competitors in defence electronics are large and medium-sized U.S. and European companies (i.e., Raytheon, Northrop-Grumman, Thales, BAE Systems, Galileo Avionica, Indra and Saab) as well as competitors from Israel. Following the integration of ewation GmbH into DE, growth in Electronic Warfare (EW) systems is a key strategic goal for DE. DE's key customers include MoDs, interior ministries, military services, security forces, the in-house EADS systems suppliers and other LSI's worldwide. Through various joint ventures, participations and cooperations, DE has access to the MoDs of all NATO countries, particularly in Germany, France, the U.K., Spain and Italy. Export markets, especially in the NATO- and EU countries and the Asia-Pacific region, also offer growth opportunities.

Products

Electronic Warfare and Self Defence. DE supplies electronic self-protection systems for aircraft, ships and armoured vehicles, such as laser warning, missile warning and active electronic countermeasure units, including directed infrared countermeasures, self-protection jammers and towed decoys. In this field DE delivers core components to the "EuroDASS" defensive aids subsystem on Germany's Eurofighters and supplies additional avionics components to the wider Eurofighter programme. It has subsystem responsibility for the A400M's self-protection system, also supplying core EW equipment such as the Infrared missile warning system MIRAS contracted in 2005. For military mission aircraft, helicopters (NH90, Tiger) and VIP aircraft, DE is developing solutions to

counter threats posed by infrared-guided missiles in particular. To date, DE has sold approximately 5,000 units of its missile warning sensor (MILDS), which is deployed on a variety of helicopters and transport aircraft. In 2006, DE signed a contract with the Indian government covering the integration of MILDS into the self-protection system of the Indian forces as well as further joint development.

Avionics. As a major partner in the field of military mission avionics for the A400M, DE assumes subsystem responsibility for mission management and defensive aids. The DE portfolio also comprises avionics equipment, such as digital map units (EuroGrid), flight data recording units and obstacle warning systems for helicopters. Additionally, DE is developing multi-sensor integration and data fusion technology, which is a key future technology for network-enabled capabilities. For example, DE is in charge of sensor fusion software on the NATO AWACS E3A and the similar Australian “Wedgetail” and the Turkish “Peace Eagle” programmes. Additional products offered by DE in the field of communication and identification include wide-band modular data links.

Sensors. DE is a principal partner in the development of airborne multi-mode radars such as the Captor radar in the Eurofighter programme, and also provides integrated logistics support, maintenance and upgrades. DE is also heavily involved in the technological development and application of next-generation active electronically scanning (AESA) radars for air, naval and ground applications. In 2006, an AESA radar demonstrator for Eurofighter demonstrated its capabilities in flight for the first time. In addition, DE was awarded a contract to deliver two system demonstrators of the new Tactical Radar for Ground Surveillance (TRGS) of the German forces, 80 of which are expected to be delivered by 2012. At the end of 2006, DE was awarded a €120 million contract to develop and produce more than 40,000 transmit/receive modules of the MEADS fire control radar, which due to the new technology employed will be the most powerful radar worldwide.

In the area of air defence, EADS produces mid-range radars for ship (TRS-3D) and land (TRML-3D) applications. As subcontractor for the K-130 corvettes of the German navy and the Finnish Squadron-2000 programme, EADS is responsible for major shipboard sensor subsystems. A success in the U.S. market was a bilateral agreement signed in October 2004 for a long-term partnership with Lockheed Martin relating to the U.S. Coast Guard “Deepwater” programme and the U.S. Navy Littoral Combat Ship —with respect to which deliveries are progressing.

DE also takes a lead role in developing and manufacturing synthetic aperture radars (SAR), which are considered essential for future reconnaissance and surveillance operations. In this field, EADS has developed the European stand-off SAR sensor

for wide-area surveillance (SOSTAR-X) as well as for use in the TCAR Radar for the NATO AGS programme.

Test & Services

In 2006, Test & Services sustained its level of orders from airlines worldwide. This is consistent with Test & Services’ strategy to develop a scalable technical standard that provides airlines with continuous solutions. The acquisition of Racal Instruments Group in 2005 and IFR and GET Electronique in 2006 resulted in the group’s Test & Services unit becoming the leader in the market for testing equipment, solutions and services in Europe. Future plans include implementing and developing synergies between the Business Units and generating new customers in different countries through partnerships or establishment of an industrial presence. One of the key strengths of Test & Services is its relationships with the world’s prime avionic system suppliers and the development of partnerships for the supply of complete turnkey solutions. The commercial aerospace market is expanding and growth is being achieved from all of the prime platform providers. There is increased spending in the military sector and demands for through life support, contracts for availability and integrated support strategies. As the world leader in avionics test systems and provider of general purpose test systems to the military, test & services is ideally placed to address this growing market.

Military Air Systems

The DS Division’s Military Air Systems unit focuses on the development, production and delivery of the Eurofighter combat aircraft (46% owned by EADS), maintenance, repair and overhaul (MRO), logistics support, upgrade of existing combat air systems, provision of publicly or privately financed training services and construction and manufacturing of Airbus and A400M aerostructures. In addition, Military Air Systems designs light combat/training aircraft and unmanned aerial vehicles (UAV/UCAV). In 2006, Military Air Systems decided to centralize its military systems activities at its Manching site in Germany over the next two years in order to increase its competitiveness and establish a military air systems centre.

In 2006, the Military Air Systems business generated 35% of DS’s total revenues.

Products and Services

Eurofighter. Eurofighter, known as “Typhoon” for export outside of Europe, is a network-enabled, extremely agile, high-performance multi-role combat aircraft optimised for swing-role operations in complex air-to-air and air-to-surface combat scenarios. It is fully compatible with state-of-the-art NATO

weapons systems. Regarded as Europe's largest collaborative programme currently, Eurofighter is designed to enhance fleet efficiency through a single flying weapon system capable of fulfilling supersonic, beyond-visual-range combat, subsonic close-in air combat, air interdiction, air defence suppression and maritime and littoral attack roles. The tactical requirements of the aircraft include all-weather capability, short take-off and landing capability, high survivability and operational readiness. The Eurofighter was designed to be adapted and improved over the long-term, as new avionics and weapons evolve, to provide for an extended service life.

The Eurofighter programme is organised through the NATO Eurofighter and TORNADO Management Agency (NETMA) via participating nations. NETMA contracts with Eurofighter GmbH, the programme management company for the Eurofighter programme. The Eurofighter GmbH shareholders and subcontractors are EADS (46% share), BAE Systems (33% share) and Alenia Aerospazio, a division of Finmeccanica (21% share). With regard to series production, the respective production workshares of the participating partners within the Eurofighter consortium stand at 43% for EADS, 37.5% for BAE Systems and 19.5% for Alenia, reflecting the relative number of aircraft ordered by each country's programme participant. EADS is responsible for the centre fuselage, the flight control systems, the manufacturing of the right wing and leading edge slats, as well as the final assembly of the 180 aircraft ordered by the German Air Force and 87 aircraft ordered by the Spanish Air Force. The final assembly of the Eurofighter takes place in the relevant contracting country: Manching in Germany, Getafe in Spain, Warton in the U.K. and Torino in Italy.

In January 1998, NETMA signed an umbrella Eurofighter contract for 620 aircraft: U.K. 232 (with 65 options); Germany 180; Italy 121 (with 9 options); and Spain 87 (with 16 options). The umbrella contract, while fixing a maximum price for the overall programme, also stipulates that production agreements are to be awarded in three tranches. The programme includes the development, production investment and series production of the aircraft. Currently, 402 aircraft are firmly on order.

Eurofighter's first tranche of 148 aircraft is being delivered between 2003 and 2007, with further production expected to continue until 2015. 114 Tranche 1 aircraft (including 5 instrumented production aircraft) had been delivered as of the end of 2006, and the rest are in final assembly or advanced production. Final assembly of the first Tranche 2 aircraft has already begun. Eurofighter has already sold 18 aircraft to Austria, with the first deliveries scheduled for 2007, and further export opportunities are believed to exist in Europe, the Middle East and the Far East. A government-to-government agreement has been reached between the U.K. and the Kingdom of Saudi Arabia on the purchase of Eurofighter aircraft, marking the first export success of the aircraft outside Europe.

Unmanned Aerial Vehicles (UAV), Advanced UAV Systems. Military Air Systems is working on a technology demonstrator project to develop new technology for future Unmanned Aerial Vehicles (UAVs). EADS is also working on a research and technology programme for the analysis and refinement of enabling technologies and concepts of unmanned aerial reconnaissance vehicles (URAV). The primary objective is the development of a new system-of-systems approach within a network-centric operations context.

To respond to the German air force's need for wide-area surveillance and stand-off reconnaissance, Military Air Systems and its U.S. partner Northrop Grumman are, through their joint venture EuroHawk GmbH, supplying the HALE-UAV System "Euro Hawk". Euro Hawk is a high-altitude unmanned aerial system for signal intelligence (SIGINT) that has been specially equipped to meet national requirements. It is based on the Global Hawk RQ4-B platform developed by Northrop Grumman. Military Air Systems is responsible for the overall mission system including situation analysis and report, as well as sensor-payload and modifications. Procurement of the first Global Hawk platform to be converted into a full-scale demonstrator (FSD) of the Euro Hawk HALE for signal intelligence purposes of the German Armed Forces was approved by the German Parliament in January 2007. The Euro Hawk project calls for the integration of national sensors developed by Defence Electronics into a total of five systems. The German air force plans to start operational flying with the Euro Hawk FSD by 2010.

Nato Alliance Ground Surveillance (AGS). NATO intends to close a significant capability gap by creating its own autonomous resources for airborne ground surveillance. The TIPS (Transatlantic Industrial Proposed Solution) consortium – comprising EADS, Galileo Avionica, General Dynamics of Canada, Indra Sistemas, Northrop Grumman and Thales – was invited to submit a proposal for battlefield planning using a "mixed" fleet. This proposal consisted of a "system of individual systems" composed of Airbus A321 manned mission aircraft and Global Hawk UAVs together with mobile and stationary ground stations for data evaluation and distribution. In October 2006, AGS Industries GmbH submitted its proposal for the AGS programme in response to a request for a proposal received from NATO in May 2006. Military Air Systems is responsible for the central programme management for EADS' part in AGS.

Pilot Training and Training Aircraft and Services. The training and light combat aircraft market is competitive, with offerings from BAE Systems (Hawk 128), KAI/Lockheed Martin (T-50), AerMacchi (AM-346) and others. EADS' entry in this field is through the proposed High Energy Aircraft Trainer (HEAT). The HEAT is intended to close the growing gap between the demands made on pilots by modern fighter aircraft and the training opportunities provided by aging in-service trainers.

While EADS will not launch a full-scale design phase for the time being, efforts to win customers and industrial partners will continue.

However, EADS has already contributed to the development of a pilot training programme for European fighter jets: in January 2007, it launched the new European Advanced Training Jet Pilot School at Talavera together with the Spanish air force. The school will provide comprehensive jet pilot training using an upgraded F-5 with near latest-generation combat aircraft performance characteristics and sophisticated ground equipment.

Finally, in April 2006 the French MoD awarded EADS the management and support of the “ab-initio” training for future military aircrews of the French air force’s flying school at Cognac. The ten-year, multi-services contract includes the procurement of new aircraft, line and base aircraft maintenance as well as ground-based training devices and will be performed by EADS Socata as primary subcontractor. The project constitutes the first comprehensive outsourced service solution initiated by the French armed forces.

Military Air Systems Support Services and Upgrades. In addition to providing after-sales services to existing customers, EADS also offers its clients the possibility of upgrading their military air systems. Upgrading of military air systems is a particularly attractive alternative for countries with limited national defence budgets, such as those in Central and Eastern Europe, Latin America, North Africa and some Asian regions. For these nations, the purchase of new multi-role aircraft is either politically or economically unfeasible, making upgrading of existing airframes the most cost-effective solution. EADS has developed expertise in the field of military air systems upgrades through programmes for such aircraft as the Tornado, F-4 Phantom, F-18, F-5, MiG-29, Mirage F-1, C101 Aviojet, Harrier AV-8B, E-3A AWACS, P-3A Orion, C-160 Transall and Breguet Atlantic I.

In the area of support services, MAS is strengthening its cooperation with the German air force by establishing additional joint weapon system support centres (for the Tornado, Transall, and other systems to be operational in the near future, such as the A400M and Euro Hawk) that will operate in coordination with the Eurofighter national support centre already established in 2005.

Missile Systems

MBDA (a joint venture among EADS, BAE Systems and Finmeccanica with stakes of 37.5%, 37.5% and 25%, respectively) is the missile systems group within the DS Division (which consolidates 50% of MBDA’s sales). MBDA offers superior

capabilities in missile systems and covers the whole range of solutions for air superiority, land control and sea power missions, while also providing the most advanced technological solutions in strike weapons and missile defence for all three services. The further integration of the four home markets (France, Germany, Italy and the U.K.), the consolidation of the business and increased efforts in the export market remain the principal goals for 2007. Enhancing the group’s missile technology and product portfolio to provide customers with a broader range of cost-effective missile and missile systems solutions should enable MBDA to continue to offer an unrivalled range of capabilities and services. The integration of EADS/LFK into MBDA as MBDA Deutschland is under way and processing towards completion. This development adds Germany to the list of MBDA’s home markets and increases MBDA Deutschland’s access to new markets and technologies, while at the same time strengthening the group’s overall skills and capabilities in land systems.

In 2006, MBDA generated 29% of DS’s total revenues.

Markets

MBDA has a geographically diverse customer portfolio. Beyond its four national home markets, the group has direct access to the other important European markets, Spain and Sweden. It also has a stable foothold in growing export markets such as Asia, the Gulf region and Latin America, and benefits from transatlantic cooperation on programmes such as MEADS.

Four principal defence contractors are active in the worldwide market for tactical missiles and missile systems. In terms of revenue in U.S. dollars relating to missile activities, MBDA ranked second in 2006 sales figures, behind Raytheon and ahead of Lockheed Martin and Boeing for the second year in a row. The current worldwide market for missile systems is estimated to exceed €12 billion, with a downward trend forecast until 2010/2011. Thereafter, the worldwide market is nevertheless expected to strengthen due to:

- the need to replace older generation missile systems and to develop new capabilities (such as ground-based air defence systems, precision and deep strike weapons and naval superiority integrated combat systems),
- the entry into service of new missile carrying platforms (Rafale, Eurofighter/Typhoon, Gripen, Tiger helicopter, new frigates and aircraft carriers and in due course other new platforms such as F-35 Joint Strike Fighter and UCAVs),
- the appearance of new requirements for future weapon systems based on new operational tasks and lessons learned from past conflicts, in particular Network Centric Warfare related systems as well as indirect line of sight or beyond visual range target acquisition systems.

Products

The broad range of MBDA products covers all six principal missile system categories: air-to-air, air-to-surface, ground-to-air, surface-to-air, anti-ship and surface-to-surface. The table below

lists the programmes in which MBDA participates as prime or major contractor either directly or through joint ventures:

Type of Missile	Purposes	Key Products or Projects
Air-to-Air	Short -range	ASRAAM
	Short-range and Beyond visual range	MICA
	Long Beyond visual range	Meteor
Air-to-Ground	Stand-off guided	Storm Shadow/SCALP, Taurus KEPD 350, AFDS, DWS (for fighter aircraft)
	Long-range	PARS 3 LR (for TIGER helicopter)
	Short-range	Diamond Back – Bang
	Pre-strategic stand-off	ASMP A
	Anti-radar	ALARM
Ground-to-Air	Tactical air defence	Stinger, LFK NG, Gepard
Ground-to-Air/ATBM	Very short-range	Mistral (Atlas and Albi systems) – Stinger (under license)
	Medium-range	VL Mica – Roland – Rapier – Spada
	Long-range	Aster SAMP/T – MEADS – Patriot/PAC 3
Subsystems		Warheads (TDW)
		Propulsion Systems (Bayern Chemie) (e.g., Meteor/ramjet)
Surface-to-Air/Naval	Very short-range	Mistral (Simbad and Tetral Systems)
	Short-range	VL Mica – VL Seawolf
	Short-range	Albatros – RAM
	Medium-range	Aster/PAAMS – Aster/SAAM – ESSM
Anti-ship	Light	Sea Skua – AS 15 TT – NSM – Marte
	Heavy	Exocet family – TESEO
	Anti-submarine	Milas
Anti-tank	Short-range	Eryx
	Medium-range	Milan ADT- ER
	Long-range	HOT, Pars 3 LR, Brimstone
Surface-to-Surface, Deep Attack	Ground-to-ground	GMLRS
	Sea-to-land	Scalp Naval

The most significant programmes currently under development are the PARS 3, Aster PAAMS and SAMP/T air defence systems and the METEOR air superiority missile system, while those in production include Storm Shadow/SCALP missile systems, Taurus stand-off missiles.

PARS 3 LR. A long-range precision fire-and-forget weapon system PARS 3 LR is the main armament for the Tiger helicopter ordered by the German Army. The contract for industrialisation and series production of the PARS 3 LR missiles will be managed by PARSYS, a joint venture between MBDA (LFK GmbH 50%), and Diehl BGT Defence (50%). The contract, valued at €380 million, covers industrialisation and

delivery of 680 missiles for the German Army by the year 2014.

Aster Family. The FSAF Phase 3 contract signed with OCCAR (*Organisation Conjointe de Coopération en matière d'Armement*) in November 2003 is worth €3 billion (€2.3 billion thereof to be allocated to MBDA). This contract covers the series production of approximately 1400 Aster missiles and associated missile systems and represents Europe's first advanced naval and ground-based air defence missile system with Anti-Tactical Ballistic Missiles (ATBM).

Storm Shadow/SCALP. Already in service in the U.K., France and Italy, the Storm Shadow/SCALP was also selected by

Greece in January 2004. The Hellenic Air Force has ordered 34 Storm Shadow/Scalp missile systems. Reaching full production in 2004, over 1000 missiles have now been built in the U.K. For the UAE, where the missile is known as “Black Shaheen”, deliveries are underway to the country’s air force.

Taurus KEPD 350. MBDA Deutschland and SAAB Bofors are working together through Taurus Systems GmbH to create and deliver the Taurus KEPD 350, a precision stand-off guided missile system for Tornado, Gripen and Eurofighter aircraft. Taurus KEPD 350 is in series production for the German Air Force with which the weapon is now in service. In 2005, Spain also announced its intention to procure 43 Taurus KEPD 350 missiles for its F/A-18 and Eurofighter aircraft.

METEOR. In 2006, the first air-launched demonstration firings of METEOR were carried out from a Gripen combat aircraft at the Vidsel range in Sweden. These test flights, using missiles equipped with full telemetry capability (not with a warhead or a seeker), successfully confirmed METEOR’s release properties, manoeuvrability and the effectiveness of the motor technology as it goes through its boost and sustain phases.

MEADS. The MEADS Medium Extended Air Defense System, a ground-based tactical air defence system, is a good example of dynamic and successful cooperation on a transatlantic level. MEADS will protect troops during out-of-area missions within

the scope of homeland defence. The financial share of the programme is 58% U.S., 42% European (German and Italian). The technical workshare of the companies involved – MBDA Deutschland, MBDA Italia and Lockheed Martin (United States) – corresponds to the respective cost contribution percentages. MBDA’s activities are coordinated through the joint venture company euroMeads GmbH, which, like Lockheed Martin, has a 50% share in MEADS International Inc. (MI). On 1st June 2005, MI formally signed a contract to design and develop MEADS. The contract value is approximately \$2 billion plus €1.4 billion for the programme’s design and development (D&D) phase. The D&D contract extends the period of performance of a previous letter contract that was awarded to MI by the NATO MEADS Management Agency (NAMEADSMA) in September 2004. Award of the contract followed the German government’s approval on 20th April 2005 of entry into the MEADS D&D phase, a step taken earlier by the governments of Italy and the United States.

Ballistic Missile Defence. EADS is the only company in Europe with the full range of skills and technologies needed to develop, deploy and support Ballistic Missile Defence (BMD) systems, whether for the protection of armed forces or entire countries and their populations. Recognising this capability, NATO has selected EADS as a member of a transatlantic consortium to conduct a Theatre Missile Defence feasibility study.

1.1.6 Astrium

Introduction and Overview

Astrium is the third-largest space systems manufacturing company in the world after Boeing and Lockheed Martin, and the leading European supplier of satellites, orbital infrastructures, launchers and associated services. In 2006, Astrium generated revenues of €3.2 billion, representing 8.1% of EADS’ total revenues.

Astrium is composed of three main business units: Astrium Satellites (Astrium Satellites), Astrium Space Transportation (Astrium ST) and Astrium Services (Astrium Services), through which it designs, develops and manufactures satellites, orbital infrastructures and launcher systems and provides space services. Astrium also provides launch services through its shareholdings in Arianespace (Ariane 5 launcher), Starssem (Soyuz launcher) and Eurokot (Rockot launcher), as well as services related to telecommunications and earth observation satellites, through wholly-owned subsidiaries such as Paradigm Secure Communications and Paradigm Services (“**Paradigm**”) and Infoterra, and joint ventures such as Spot Image.

Astrium confirmed the success of its business model in 2006, with EBIT* more than doubling from the prior year to €130 million (4% of revenues), compared to €58 million in 2005.

Strategy

With an established presence in five European countries with active space programmes (France, Germany, the Netherlands, Spain and the United Kingdom), Astrium is the only European company to offer comprehensive expertise in all areas of the space industry (satellites, launchers, orbital infrastructure and services). Astrium’s strategy is to build on these key strategic attributes and to strengthen its position in the market.

Generate profitable growth in a flat market

Institutional and military spending on space activities is currently flat in Europe, due to existing budget constraints. There is also intense competition in commercial markets for launchers and telecommunication satellites. Within this difficult context, Astrium has undertaken the following efforts:

- with respect to development of the Ariane launcher and M51 missile systems, Astrium ST decided in 2004 to become a prime contractor (as opposed to a main supplier and industrial architect only). This has strengthened its position vis à vis suppliers and customers, allowing it to rationalise and streamline its activities and thereby generate cost savings. In addition, Astrium is currently the second largest shareholder of Arianespace with a 31% stake, allowing it to influence the development of the Ariane family of launchers going forward. Astrium ST will build on these efforts in the future, just as production of the M51 in particular gains speed;
- with respect to satellites, Astrium, through its wholly-owned subsidiary, Paradigm, has moved from being a sole hardware supplier to a provider of secured satellite communication services, in particular for the U.K. Ministry of Defence. This strategy yielded increased revenue and profit during 2006, and was recently reinforced by the German government's decision in July 2006 to award a contract for the development of a Satcom BW military satellite communication system to a consortium led by Astrium.

Attain European benchmark profitability

After the extensive restructuring measures that were implemented in 2003 and 2004 (rationalisation and specialisation of sites, reduction of workforce by 30%, reorientation towards institutional customers), management believes that Astrium will increasingly benefit from these actions going forward. The encouraging evolution in Ariane development, the successful turn-around of the telecommunication satellites business, the progress made towards deployment of the Skynet 5 secured communication system in the U.K. and the award of the Satcom BW contract by Germany collectively support this view. In order to further improve its margins, Astrium has launched additional improvement plans across its business units (Innovex'08 for Astrium satellites, Boost'08 for Astrium ST and Impact'08 for the support sectors).

Extend Astrium's footprint in communications and observation

Management believes that the strategic decision it made in 2003 to enter the services area while retaining Astrium's

technical capabilities in the launchers and satellites area was the right one. The positive development of the Skynet 5 secured communication system contract in the U.K. was an important first step. Astrium later proceeded to offer similar services to third party customers and signed contracts with NATO, Portugal, the Netherlands and other governments for their own secure satellite communications needs. This culminated with the German government's decision to award a consortium led by Astrium the Satcom BW contract, as described above.

Astrium is also well-positioned in military reconnaissance systems (Helios II and Pleiades) and other military-specific capabilities. In the satellite navigation area, management believes that the Galileo satellite-based navigation system offers numerous development opportunities to EADS in the civilian (e.g., air traffic control) and security (e.g., precise positioning during time of crisis) markets. To solidify its positioning, Astrium is one of the leaders of Galileo Industries, the hardware provider for the Galileo project, and of the consortium which is currently in final contract negotiations with the GNSS Supervisory Authority (GSA) for the concession to deploy the more than 30 satellites needed to operate the Galileo constellation over a 20-year period.

Satellites – Astrium Satellites

Overview

Astrium Satellites is the leading European company for the design and manufacturing of satellite systems, spanning all major segments of the satellite market (including platforms, payloads and equipment). It provides (1) telecommunications satellites to leading telecommunications service providers, (2) earth observation, navigation and science satellites systems to major national and international agencies, and (3) military applications satellite systems to European MoDs. Astrium Satellites also designs and manufactures payload equipment and subsystems for the global space industry market.

Astrium Satellites' business covers the four categories of satellite systems described below:

Telecommunications satellites have multiple applications, such as long-distance and mobile telephone links, television and radio broadcasting, data transmission, multimedia and Internet trunking. They may be used for civil or military applications.

Observation satellites allow the collection of information for various fields, such as cartography, weather forecasting, climate monitoring, agricultural and forestry management, mineral, energy and water resource management and military surveillance applications.

Scientific satellites are tailor-made products adapted to the specific requirements of the mission assigned to them. They have applications such as astronomical observation of radiation sources within the universe, planetary exploration and earth sciences.

Navigation satellite systems deliver signals that enable users to determine their geographic position with high accuracy, and are increasingly significant in many sectors of commercial activity, such as airlines, transport operators on land, sea and air, emergency services, agriculture and fisheries, tourism and telecommunications networks.

Market

The commercial telecommunications satellite manufacturing market is highly competitive, with customer decisions based principally on price, technical expertise and track record. Astrium Satellites has a worldwide market share of approximately 20%, and its main competitors are Boeing, Lockheed Martin and Loral of the United States and Alcatel-AleniaSpace of France and Italy. Management views the telecommunications satellite segment as one of slow but sustained growth, supported by factors such as: (1) increased telecommunications demand, including Internet, multimedia and military needs, and (2) greater demand to replace aging fleets. However, the segment remains a highly competitive market, mostly due to the increasing concentration of satellite operators. EADS will seek to strengthen its position in this market going forward.

In the market for observation, scientific and navigation satellites, competition in Europe is organised either on a national or multinational (European Space Agency, Eumetsat) level. In the latter instance, a fair return policy—pursuant to which contracts are awarded to domestic suppliers in proportion to the respective financial contribution made by their governments—is often employed.

There is also sizable export demand for earth observation systems, for which EADS is currently the sole significant European provider. Furthermore, civil state agencies, including the European Space Agency (ESA), are displaying increased needs for earth observation satellites in the framework of European environmental programmes, following the Space Ministerial Conference held in December 2005. EADS expects the scientific satellite market to remain stable over the medium term.

The agreements reached in 2003 at the EU level and among ESA member states regarding the development and implementation of Galileo, the new European global satellite navigation system, led to the establishment of the Galileo Joint Undertaking (the legal entity that will have the task of coordinating ESA and EU involvement in Galileo). The Galileo

programme comprises 30 navigation satellites and a potential equipment contract valued at more than €3 billion. Full deployment of the system is expected around 2011. For the space industry and its customers, the Galileo programme's economic, industrial and strategic importance is paramount. This programme will be a driver of innovative user- and customer-oriented solutions, creating new markets for navigation-related services.

Finally, in the market for military satellites, there has been increased demand for telecommunications and observation satellites. In recent conflicts, the shortcomings of European military capabilities in this field have become increasingly visible, while the need for preparedness in the face of elusive threats has grown. The Skynet 5 contract in the United Kingdom, the Helios 2 and other development contracts in France and the Satcom BW contract in Germany illustrate the growth potential in this market.

Products

Astrium Satellites manufactures satellite systems, platforms, payloads, major subsystems and a wide range of equipment, offering turnkey satellite systems to its customers. Astrium has several wholly-owned subsidiaries that specialize in different areas, including:

- Astrium Spain, which supplies platforms, space-borne antennas, deployment mechanisms and harness subsystems for telecommunication satellites;
- Tesat in Germany, which is in charge of telecommunication electronic equipment and subsystems;
- EADS Sodern in France, which provides satellites sensors; and
- Dutch Space in the Netherlands, which provides solar arrays and other specialized items.

Telecommunications Satellites: Astrium Satellites produces telecommunication satellites for fixed and mobile applications and direct-to-home broadcast services. EADS' geostationary telecommunications satellites are based on the EUROSTAR family platforms (45 ordered to date), the latest version of which is EUROSTAR 3000. Three commercial service satellites were launched in 2006: Hotbird 8, Arabsat 4A (which failed to reach its planned orbit due to a faulty Proton launcher) and Arabsat 4B.

The year 2006 was a strong one for Astrium Satellites in term of orders, with seven satellites booked, five of which are based on the Eurostar platform (Nimiq 4 for Telesat, Badr 6 for Arabsat, Hotbird 9 and Hotbird 10 for Eutelsat and Astra 3B for SES) and two of which are based on the smaller Indian Antrix platform, for which Astrium Satellites has an exclusive agreement (W2M for Eutelsat and Hylas for Avanti).

In the field of military telecommunications satellites, the German MoD awarded a consortium led by Astrium the Satcom BW contract in July 2006, thereby reinforcing the position of Astrium as a provider of secured telecommunication capacity to the European military. As regards the United Kingdom, Astrium has completed the first Skynet 5 satellite, which is now ready for launch.

Observation Satellites: Astrium Satellites is the leading European supplier of earth observation satellite systems, for both civil and military applications. In this field, Astrium Satellites derives significant benefits from the common elements of its civil and military programmes.

Astrium Satellites designs and manufactures a wide range of highly versatile platforms, optical and radar instruments and ground segment equipment for the complete scope of remote-sensing applications, operations and services. Astrium Satellites is one of the global market leaders in the field of earth observation satellites, and the prime contractor for many of ESA's and CNES' principal observation programmes. Specifically, it is the prime contractor for: (1) the Spot multi-mission platform series, in use in 15 European earth observation satellites and recognised as an industry standard; (2) Envisat, a European environmental monitoring satellite launched in March 2002; (3) Metop, a next-generation polar-orbiting meteorological satellite, with the first one out of three launched in 2006; (4) Pleiades, two small and highly agile earth observation satellites for civil and military applications, expected to be launched in 2008 and 2009; (5) Swarm, a climatology satellite monitoring the evolution of the earth's magnetic fields; (6) Cryosat 2, a radar satellite designed to monitor the thickness of polar ice caps; and (7) Tandem X, an imagery satellite.

In the export market, Astrium Satellites signed a contract in 2006 with Algeria to provide two observation micro-satellites. It also successfully launched an observation satellite for South Korea in July 2006 (Kompsat 2), as well as a meteorological satellite for Eumetsat (Metop) in October 2006.

Science Satellites: In 2006, Astrium Satellites won the two major programmes awarded by the ESA: GAIA and Bepi Colombo. GAIA is an ESA scientific mission designed to establish a galactic cartography; it is expected to be launched in 2012 as the successor to Hipparcos, launched in the 1980s. Bepi Colombo is also an ESA scientific mission, the purpose of which is to study and analyse the environment of the planet Mercury.

Navigation Satellites: Astrium Satellites together with others has established a dedicated company to build and implement the European navigation system Galileo. Astrium holds a 38% stake in Galileo Industries S.A. ("**Galileo Industries**"), which was awarded a contract for the first of two test satellites for the

European navigation system in July 2003. As regards the four satellites needed for the validation phase, Astrium Satellites is prime contractor for the space segment and, through Astrium Germany, supplies the avionics and part of the solar arrays, while Astrium U.K. is responsible for payload development and ground segment lead.

Military Satellites: In addition to military earth observation activity, Astrium Satellites is active in the market for various other advanced applications. These systems demonstrate Astrium's leading role in complex systems offers, reflecting the efficient use of synergies between Astrium's space and defence activities.

Orbital Infrastructure/Launchers and Launch Services – Astrium ST

Astrium ST is the European space infrastructure and space transportation specialist. It designs, develops and produces Ariane 5 launchers, the Columbus laboratory and the ATV cargo carrier for the International Space Station (ISS), ballistic missiles for France's deterrence forces, propulsion systems and space equipment.

Orbital Infrastructure

The orbital infrastructure segment in which Astrium ST operates comprises manned and unmanned space systems. Work on the ISS, together with related vehicle and equipment development programmes and services, constitutes the predominant field of activity in this segment. Astrium ST is the prime contractor under an ESA contract relating to two key elements of the ISS: the Columbus Orbital Facility laboratory (COF) and the Automated Transfer Vehicle (ATV).

Market

Demand for orbital infrastructure systems originates solely from publicly funded space agencies, in particular ESA, NASA, Roscosmos (Russia) and NASDA (Japan). These systems are generally constructed in cooperation with international partners. In addition to the COF and ATV projects, ESA is responsible for developing other components relating to the ISS' construction and operational phases, for which Astrium ST has already been awarded contracts. National space agencies, such as DLR and CNES, are also involved in the development of laboratory facilities to be used on the ISS, representing additional contract opportunities for Astrium ST.

Products

Astrium ST is the prime contractor for the development and integration of the COF. The COF is a pressurised module with an independent life-support system. It will provide a full-scale research environment under microgravity conditions (material science, medicine, human physiology, biology, earth observation, fluid physics and astronomy) and will serve as a test-bed for new technologies. The COF is expected to be transferred to the ISS by shuttle at the end of 2007.

Astrium ST is also the prime contractor for the development and construction of the ATV, which will carry fuel and supplies to the ISS, as well as provide reboost capability and a waste disposal solution. The ATV will be the first European vehicle to carry out a rendezvous in space and dock automatically with an orbital station. The first ATV (Jules Verne) is scheduled to be launched by the Ariane 5 rocket in mid-2007, with additional ATV missions planned through 2013.

In addition to its work on the COF and the ATV, Astrium ST, through Dutch Space, is the prime contractor for development of the European Robotic Arm of the ISS, which will be used by astronauts for the assembly and maintenance of exterior station elements.

Finally, Astrium ST supplies laboratory facilities to be used in various station modules for research under microgravity conditions (MSL laboratory, MCS system, RFR refrigerator, CFR rack, MSG glove box, PCDF and Cardiolab laboratories). It also supplies CNES with a Declic experiment facility for experiments in the field of fluid physics.

Launchers & Launch Services

Space systems (including satellites, orbital infrastructure elements and interplanetary probes) depend on rocket propelled multi-stage launchers, which are consumed during the launch process, to place them into orbit. Astrium ST is active in two distinct businesses: (1) designing and manufacturing launchers for both civil and military purposes; and (2) providing launch services through its interests in Arianespace, Starsem and Eurockot.

Astrium ST is the sole prime contractor for the Ariane 5 system, with responsibility for the delivery to Arianespace of a complete and fully tested vehicle. Astrium ST also supplies all Ariane 5 stages, the equipment bay, the flight software, as well as numerous sub-assemblies. Additionally, Astrium ST is the prime contractor for ballistic missile systems to the French State. It is responsible for the development, manufacturing and maintenance of the M45 and M51 submarine-launched missiles and related operating systems.

Market

Management estimates that the average open commercial market for launch services will likely remain at 20/25 payloads per year, relating primarily to the launch of geostationary telecommunications satellites. However, due to various factors (e.g., technology advances and consolidation of customers), this figure is highly volatile. This market does not include institutional launch services for the U.S., Russian and Chinese military and governmental agencies.

In 2006, the market for launch services changed significantly. Russian companies and state agencies significantly increased the price of their launchers, thereby making western launchers more competitive in the market. This has changed the economics of various Russian/Western joint ventures in particular (e.g., International Launch Services, Sea-Launch, Starsem and Eurockot), as the competitive advantage they enjoyed from being able to obtain low-cost rockets from the former Soviet Union has eroded.

In the area of national defence, Astrium ST has been the exclusive supplier of ballistic missiles to the French State since the early 1960s. In addition to conducting development and production activities, Astrium ST performs substantial maintenance work on the ballistic missile arsenal to ensure system readiness over the life span of the equipment, which may be several decades. In 2006, Astrium ST built on this experience by winning a contract with NATO for the first time as part of an international partnership.

Products and Services

Launch Services. Astrium ST is active in the field of launch services through its shareholdings in Arianespace (for heavy-lift launchers), Starsem (for medium-lift launchers) and Eurockot (for small-lift launchers).

Arianespace. Astrium ST is Arianespace's second largest shareholder (after CNES) with a 31% stake (direct and indirect), and its largest industrial shareholder. Arianespace is the world's largest commercial launch service provider in terms of total order book. At the end of 2006, Ariane had launched a total of 242 satellites. Arianespace markets and sells the Ariane launcher worldwide and carries out launches from the Kourou space centre in French Guyana.

In 2006, Arianespace won nine new commercial contracts, representing 45% of the accessible market. It also won two governmental launch contracts in 2006. Five Ariane 5 launches were carried out in 2006, placing into orbit ten satellites (eight commercial and two institutional).

Two versions of Ariane 5 are currently in service: (1) Ariane 5 GS, which is able to launch one or more payloads with a total mass of up to 6.9 tons into geostationary transfer orbit, and (2) Ariane 5 ECA, which is the workhorse of Arianespace with an increased launch capacity of 10 tons in geostationary transfer orbit. Since 1999, when the first Ariane 5 commercial launch occurred, twenty-five Ariane 5 rockets have been successfully launched.

Europe's commitment to support Ariane as the European launcher has been demonstrated by the signing of an agreement between ESA and Arianespace in March 2004 entitled "European Guaranteed Access to Space" (EGAS), and by the issuance of a "buy European" recommendation for institutional satellites made by the Space Ministerial Conference held in Berlin in December 2005.

Starsem. Astrium ST directly owns 35% of Starsem, a French corporation, along with Arianespace (15%), the Russian space agency (25%) and the Russian state-owned Central Specialised Design Bureau "Progress" (25%). Through Arianespace, Starsem markets launch services by Soyuz launchers for medium-weight spacecrafts into low or sun-synchronous orbits as well as for interplanetary missions. Although no new contracts were signed in 2006, there were two institutional launches from Baikonur. Work is also progressing on a new launch pad at Kourou, with the first launch (to be operated by Arianespace) scheduled for the end of 2008 or early 2009.

Eurockot. Astrium ST (51%) and Khrunichev (49%) jointly control Eurockot Launch Services, which procures launch services for small, low-earth orbit satellites with Rockot launchers derived from the SS-19 ballistic missiles. In 2006, Eurockot did not sign any new contracts, although one launch occurred (Kompasat 2) on behalf of the South Korean government.

Commercial Launchers. Astrium ST manufactures launchers and performs research and development for the Ariane programmes. Member states, through ESA, fund the development cost for Ariane launchers and associated technology. Since 2004—when it was awarded a €3 billion contract to provide thirty Ariane 5 launchers—Astrium ST has been working on supplying such launchers to Arianespace. As the industrial prime contractor, Astrium ST has worked to streamline and simplify the Ariane organisation and thereby improve its competitiveness. While efforts in 2005 focused on the qualification of the 10-ton version of Ariane and the organisation of Ariane production under a single prime contract, the year 2006 was devoted to supplying a standardised launcher while increasing cost savings.

Ballistic Missiles. Astrium ST is the only company in Europe which designs, manufactures, tests and maintains ballistic missiles. Under its contracts with the French State, Astrium ST

has produced the submarine launched MSBS family (M1, M2, M20, M4 and M45) and launch facilities at the Brest naval base. The M45 is deployed onboard France's new-generation nuclear-powered ballistic missile submarine. Astrium ST manages the operational maintenance of the M45 missile system, assisting the French armed forces until the end of its operational service. Astrium ST is under contract to develop the M51, a new submarine-based strategic missile system with increased technical and operational capabilities. The first test flight of this new missile was conducted successfully in November 2006. At the end of 2004, the French MoD awarded Astrium ST a contract for the M51 production phase and test range facilities with a frame-contract in excess of €3 billion. At the end of 2006 a contract for an enhanced upper-stage was awarded by the French MoD for an amount of more than €200 million, helping to secure Astrium ST's technical capabilities in this field for the long-term.

Management believes that the development and production of the M51 will provide Astrium ST with high quality work over the long term. In addition, the relative predictability of demand provides some stability to the otherwise volatile launcher market.

Space Services – Astrium Services

Overview

Astrium Services, which includes Paradigm, is a dedicated entity of Astrium for the development and operation of satellite services, with a focus on secured telecommunication and navigation services. After having been awarded a contract from the U.K. MoD in 2003, Paradigm has become the first commercial provider of secure military communications services. Paradigm currently owns and operates the Skynet 4 system and is preparing the Skynet 5 system for entry into service. Paradigm has enlarged its customer base through contracts with NATO, Portugal, the Netherlands and several other governments.

Within the framework of the Sactcom BW contract awarded in July 2006, Astrium Services, through a joint venture with ND Satcom in which it is the majority shareholder (Astrium Services: 75%; ND Satcom: 25%), will operate the system procured by the German MoD on a long-term basis and provide additional capacity from commercial operators.

In the navigation sector, Astrium Services is one of the leading partners in the consortium (which includes Inmarsat, Thales, Alcatel-Alenia Space, Finmeccanica, Hispasat, AENA and TeleOp) currently negotiating with the GNSS Supervisory Authority (GNA) for the concession phase of the Galileo system.

Astrium Services also manages holdings in satellite telecommunication service and operation companies: Nahuelsat in Argentina, and Hispasat and Hisdesat in Spain.

Products and Services

Military Communications. The U.K. MoD selected Paradigm in 2003 to deliver global secure satellite communications service over a 15-year period for its next-generation Skynet 5 programme under a Private Finance Initiative contract. In addition, Paradigm took over the U.K.'s existing Skynet 4 fleet. This groundbreaking contract, under which Paradigm now owns and operates the U.K. military communication satellite infrastructure, allows the U.K. MoD to place orders and to pay for services as required. Offering a catalogue of services, Paradigm delivers tailored in-theatre and back-to-base communication solutions for voice, data and video services, ranging from a single voice channel to a complete turnkey system incorporating terminals and network management. Paradigm also provides welfare services, ensuring that deployed troops can call home and can use the Internet. Following discussions in 2005, the concession period has been extended to 20 years and the number of new satellites has been increased to 3 instead of 2. The first Skynet 5 satellite was launched at the beginning of 2007, with full operational service scheduled for the end of 2008 or early 2009.

In 2004, the German Bundeswehr issued a proposal request for secure satellite communication capacity, comprising a complete military satellite communication infrastructure, including a fleet of satellites, a number of tactical and strategic ground

stations and a network control in the system, to be operated on its behalf for a 10-year period. The system is expected to be fully operational at the beginning of 2009. In response to this proposal request, Astrium Services, together with ND SatCom and Astrium Satellites, was awarded the contract in July 2006.

Navigation. Discussions are ongoing between the Merged Consortium (Astrium Services, Inmarsat, Thales, Alcatel-Alenia Space, Hispasat, AENA and TeleOp) and the GNSS Supervisory Authority in order to find a satisfactory solution for the concession phase of the Galileo system. The Galileo Joint Undertaking is expected to award the concession contract in 2007. Under this concession contract, a newly formed operating company will deploy and operate the more than 30 satellites needed to operate the Galileo constellation over a 20-year period. The Galileo project is a major step forward for Europe, representing the first major European-level infrastructure procurement programme with a global dimension that will bring numerous benefits to the continent and the rest of the world. The market potential is promising, as global demand for satellite navigation services and derivative products is growing at approximately 25% per year.

Production

Astrium currently operates production facilities located in France (Vélizy, Les Mureaux, Bordeaux, Toulouse), Germany (Backnang, Bremen, Friedrichshafen, Lampoldshausen, Ottobrunn, Rostock, Trauen), Spain (Madrid), the United Kingdom (Portsmouth, Stevenage), the Netherlands (Leiden) and French Guyana (Kourou).

1.1.7 Other Businesses

Regional Aircraft – ATR

ATR (Avions de Transport Régional) is a world leader in the market for regional turboprop aircraft of 40 to 70 seats. ATR Integrated is a consortium composed of EADS and Alenia, in which each hold a 50% stake. The EADS ATR business unit, which represents EADS' 50% share of ATR Integrated, is under the responsibility of Airbus.

Market and Outlook

The regional aircraft industry has experienced growing concentration in recent years. During the 1990s, a number of manufacturers merged, closed or ceased production of regional aircraft, leading to the withdrawal from the market of BAE Jetstream, Beechcraft, Fokker, Saab and Shorts. As of

31st December 2006, the worldwide market for turboprop aircraft of 40-70 seats in production was dominated by two manufacturers: ATR and Bombardier.

After a number of years of relatively low activity, the regional turboprop market has grown dramatically since 2005, due in large part to the advantages of turboprop aircraft over jet aircraft in terms of fuel efficiency and CO₂ emissions. In 2006, ATR delivered 24 new aircraft (compared to 15 in 2005) and recorded orders for 63 new aircraft (compared to 90 in 2005). ATR had a backlog of 124 aircraft at 31st December 2006, an increase of approximately 40% over 2005. ATR's market share in 2006 was approximately 60%. The relative fuel efficiency and reduced CO₂ emissions of turboprop engines are expected to lead to sustained market activity over the coming years.

The market for second-hand aircraft also remained strong in 2006, which led to an increase in the residual value of used ATR aircraft. ATR conducted 31 transactions in the used aircraft market in 2006 (for 24 ATR 42s and 7 ATR 72s), including 12 cash sales of reconditioned aircraft. ATR delivered 29 second-hand aircraft in 2006.

Products and Services

ATR 42 and ATR 72 Series Aircraft. Commencing with the ATR 42, which entered service in 1985, ATR has developed a family of high-wing, twin turboprop aircraft in the 40-70 passenger market that are designed for optimal efficiency, operational flexibility and comfort. In 1996, in order to respond to operators' increasing demands for comfort and performance, ATR launched a new generation of aircraft, the ATR 72-500 and ATR 42-500. Like Airbus, the ATR range is based on the family concept, which provides for savings in training, maintenance operations, spare parts supply and CCQ.

Customer Service. ATR has established a worldwide customer support organisation committed to supporting the aircraft over its service life. Service centres and spare parts stocks are located at Toulouse, in the vicinity of Washington D.C. and in Singapore. An e-market place designed to enhance support services developed with Embraer is also available to customers.

ATR Asset Management. Consistent with industry practice, a significant portion of orders received by ATR is conditional on its assistance in financing these orders either through leasing or loan guarantee arrangements. ATR Asset Management manages the resulting risk and employs a strategy of consistent reduction of sales financing exposure.

ATR Asset Management also responds to the growing market for second-hand aircraft by assisting in the placement and financing of used and end-of-lease aircraft. By providing quality reconditioned aircraft at attractive prices, ATR Asset Management has helped both to broaden ATR's customer base, in particular in emerging markets, and to maintain the residual values of used aircraft. In the past, clients for such used aircraft have subsequently purchased new aircraft as they have gained experience in the operation of ATR turboprops. Returned aircraft generally remain out of service for approximately five months as they await reconditioning and resale or leasing, subject to market conditions.

Production

The ATR production facilities are located near Naples, Italy and at Merignac and Saint-Martin near the Toulouse airport in France. Final assembly, flight-testing, certification and delivery occurs at the Toulouse site. ATR outsources certain areas of

responsibility to the Airbus Division, including wing design and manufacture, flight-testing and information technology.

General Aviation

EADS Socata

EADS Socata manufactures a range of light aircraft for both the private civil aircraft market and government fleets, and is also engaged in aerostructure subcontracting, pursuant to which it produces materials and subassemblies for major international aviation programmes, including, but not limited to, EADS programmes.

In the general aviation field, EADS Socata has developed over the past 20 years a range of piston engine aircraft, the TB family, and the monotorboprop pressurised TBM 700. Continuous development and use of innovative technologies keep these products well-positioned on the market. These new-generation aircraft compete with products based on models that date back to the 1950s. To strengthen its market position in business and private aviation, EADS Socata has also launched the newest member of its TBM family – the six-seat TBM 850 pressurised single-engined turboprop. The TBM 850 offers owners and pilots a maximum cruise speed of 320 KTAS at FL260 in ISA conditions. This will give TBM 850 operators the advantage of the cruising speeds typical of light jets, with the economical direct operating costs of a single-engined turboprop.

Since launching its aerostructures activity in the early 1960s, EADS Socata has positioned itself as a first-line global subcontractor for complete assemblies. Its engineering department carries out development and design for key components for major aviation programmes, including Airbus (A400M, A380, etc.), Dassault (F7X), Eurocopter and Embraer. EADS Socata is experienced in the use of sheet metal forming and stretching, composite materials and semi-manual structural assembly for aeronautic programmes. EADS Socata is also experienced in the use of composite materials for aircraft structural elements, in particular for the Airbus A330/A340, as well as in metal-composite combination technology and forming of large-dimension metal panels. EADS Socata carries out design work for a number of European aviation programmes, including Airbus, Eurocopter, Mirage and Falcon aircraft.

Aircraft Conversion and Floor Panels

EADS Sogerma

On 10th January 2007, EADS Sogerma sold two of its subsidiaries dedicated to global support and maintenance—Sogerma Services and Barfield—to the TAT Group. Accordingly,

while EADS Sogerma will continue to conduct some maintenance activities through its subsidiaries Seca and Revima, its main business currently consists of aircraft and cabin customisation and aerostructures, primarily on behalf of Airbus.

EADS Sogerma is an approved outfitter for Airbus' corporate jets, with services currently performed in Toulouse. EADS Sogerma designs and manufactures high-end cabin interior components and first and business class passenger seats. Aircraft customisation also includes military transport and mission aircraft (e.g., C-130 life extension).

In the aerostructures field, EADS Sogerma is involved in the design and manufacture of fuselage panels and sections for Airbus aircraft and in composites activities for aeronautical and general industrial applications. Metal work is conducted in Rochefort, France, while composites activities are conducted in France and Canada.

Commercial Aircraft Conversion — EFW

Conversion of passenger aircraft into freighter aircraft (“P to F”) is the most common modification undertaken on behalf of commercial aircraft owners. Conversion kits comprise original parts, known as Original Equipment Manufacturer or “OEM” parts, from the corresponding Airbus serial freighter versions, and result in a converted aircraft that is very similar to a freighter from the series production.

Market. The market for civil aircraft freighter conversion encompasses freight service airlines such as UPS or FedEx, airlines with small aircraft fleets and finance groups. Two considerations drive the decision of aircraft operators to convert existing passenger aircraft to freighters: first, conversion is the most efficient way to obtain a relatively modern freighter; second, it maintains residual values of the aircraft at relatively high levels by extending revenue-generating service life.

According to Airbus estimates, airfreight is expected to grow faster than passenger traffic in the next 20 years. Given the retirement of older aircraft, an estimated 3,100 dedicated cargo aircraft should meet this demand, of which roughly 75% would come from the conversion of passenger aircraft.

EADS' main competitor in the freighter conversion business is Boeing, which now offers P to F conversions for its complete range of aircraft except B777 and ex-MD aircraft. With BAE Services' discontinuation of its A300 B4 and A300-600 conversion programmes, EFW has a strong market position for Airbus P to F conversions.

Products. In the field of P to F conversions, EADS specialises in the conversion of Airbus A300 and A310 passenger aircraft to cargo usage. EADS is building on this specialisation by adding versions such as, in 2001, the A310-300, and in 2002, the A300-600, to position itself for future upcoming conversion programmes. In addition to Airbus freighter conversions, EFW is also the supplier of Airbus passenger cabin floor panels for all Airbus models.

1.1.8 Investments

Dassault Aviation

EADS holds a 46.3% stake in Dassault Aviation (listed on the Eurolist of Euronext Paris), with Groupe Industriel Marcel Dassault holding a 50.55% stake and a free float of 3.15%.

Dassault Aviation is a major player in the world market for military jet aircraft and business jets. Founded in 1945, Dassault Aviation has delivered more than 7,500 military and civil aircraft to purchasers in more than 75 countries. On the basis of its experience as designer and industrial architect of complex systems, Dassault Aviation designs, develops and produces a wide range of military aircraft and business jets. In order to avoid any potential conflict between the military products of Dassault Aviation and EADS (Rafale and Eurofighter) and to facilitate a “Chinese wall” approach, EADS' Dassault Aviation shareholding is managed by EADS

Corporate, whereas the Eurofighter programme is managed by EADS' Defence & Security Division.

Military Jet Aircraft

Dassault Aviation offers wide expertise in the design and manufacture of the latest generation military combat aircraft.

Rafale. The Rafale is a twin-engine, omni-role combat aircraft developed for both Air Force and Navy applications. According to government budgetary documents, France is considering the acquisition of 294 Rafale, 234 for the Air Force and 60 for the Navy, for a total programme cost of €32.3 billion. 120 aircraft have already been ordered; of these, 82 are destined to the Air Force, and 38 to the Navy.

Mirage 2000. The Mirage 2000 family reached the end of its production phase in 2006. Today, approximately 600 Mirage 2000 aircraft are in service worldwide.

nEUROn. Dassault Aviation is the prime contractor for the development of the UCAV (Unmanned Combat Air Vehicle) demonstrator, nEUROn. The programme was open to European cooperation and five countries have decided to join in and share the skills of their aerospace industries: EADS CASA (Spain), SAAB (Sweden), HAI (Greece), RUAG (Switzerland) and Alenia Aeronautica (Italy).

The nEUROn demonstrator is scheduled to fly in 2011.

Business Jets

Dassault Aviation offers a wide range of products at the top end of the business jet sector. Over 1,700 Falcon business jets have been delivered since the first Falcon 20 delivery in 1965. In-service Falcons currently operate in over 65 countries worldwide, filling corporate, VIP and government

transportation roles. The family of Falcon jets currently includes four tri-jets: the Falcon 50EX, 900C, 900EX and 7X; the twin-engine Falcon 2000 and the Falcon 2000EX EASy.

2006 was another record year for Falcon business jets, with a total of 158 firm orders received worldwide. This includes a \$1.1 billion U.S. order from Net Jets Europe for 24 Falcon 7X tri-jets, the largest order ever for business jets in Europe. At the end of 2006, Dassault had a total backlog of more than 300 aircraft. Over 80 aircraft are expected to be delivered in 2007 compared to 61 in 2006. Delivery rates are expected to continue to increase in 2008.

Dasa-Dornier Luftfahrt

DADC, which is 75% held by EADS, holds a 93.6% stake in Dornier GmbH, which in turn holds a 1.58% stake in the capital of Fairchild Dornier Luftfahrt Beteiligungs GmbH, which is the sole shareholder of Dornier Luftfahrt GmbH. Through this minority interest, EADS is not involved in any business decision regarding Dornier Luftfahrt.

1.1.9 Insurance

EADS Insurance Risk Management (“IRM”), centralised at EADS headquarters, is responsible for all corporate insurance activities and related protection for the Group. It includes continuously and consistently identification, evaluation, prevention and protection of insurable risks. Insurance techniques are used to manage these risks professional and to protect the assets and liabilities of EADS against financial consequences due to unexpected events. Harmonised insurance policies and standards are in place for all insurable risks underwritten by the Group.

An integrated reporting and information system is in place to enable IRM, in close relationship with insurance managers named by the EADS Business Divisions and Business Units to respond to insurance related risks of the Group. EADS pursues an insurance risk management strategy that includes operating procedures as well as policies regarding procurement and sales agreements.

A systematic review and monitoring procedure is in place to assess the exposure and protections systems applicable to all EADS sites, (i) ensuring comprehensive and timely identification and evaluation of risks, (ii) initiating of appropriate mitigation and risk avoidance measurements (iii) and/or related adjustments of insurance coverage.

EADS’ insurance programmes cover high risk (Core) and low risk (Non-Core) exposures.

Core Insurance Policies underwritten by IRM for the Group cover risks such as:

- Property Damage and Business Interruption;
- Aviation Third Party Liabilities including Product Liabilities;
- Manufacturer’s Aviation Hull Insurance up to the replacement value of each aircraft;
- Space Third Party Liabilities including Product Liabilities;
- Commercial General Liabilities including non-aviation and non-space Product Liabilities and risks related to environmental accidents; and
- Directors & Officers Liability.

Claims related to Property Damage are covered up to a limit of €2 billion per loss and €2 billion as an annual aggregate. Aviation Liability Coverage is provided up to a limit of €2 billion per loss, with an annual aggregate cap of €2 billion for product liability claims. Certain sub limits are applicable for Core Insurance Policies as outlined above.

Non Core Insurance Policies cover risks such as:

- Personal Accidents;
- Company Automobiles;
- Personal and property exposures during business trips; and
- Life insurance.

Insurance amounts for Non Core Insurance Lines are covered up to respective sums and replacement values.

EADS follows a policy of obtaining external insurance coverage for all main and individual risks that can be insured at reasonable rates, on sufficient terms and limits provided by the international insurance markets. All insurance policies are required to satisfy EADS' mandatory standards of insurance protection.

However, to be more independent from volatilities of the insurance markets, EADS uses the capabilities of a corporate-owned reinsurance captive as a strategic tool with respect to the Property Damage, Business Interruption Programme and Aviation Insurance Programme. The captive is sufficiently capitalised and protected so as to ensure its ability to reimburse claims without limiting the scope of coverage of the original insurance policies and not additionally exposing financial assets of EADS.

The insurance industry is still undertaking efforts to reduce its overall exposure. These efforts include increasing premiums, raising deductible amounts and limiting the scope of coverage. Furthermore, the number of insurers underwriting industrial risks is still shrinking. No assurance can be given that EADS will be able to maintain its current levels of coverage on similar financial terms in the future.

1.1.10 Legal and Arbitration Proceedings

EADS is involved in a number of claims and arbitrations that have arisen in the ordinary course of business. EADS believes that it has made adequate provisions to cover current or contemplated general and specific litigation risks.

Following its unilateral withdrawal from the 1992 E.U.-U.S. Agreement on Trade in Large Civil Aircraft, the U.S. lodged a request on 16th October 2004 to initiate settlement proceedings before the World Trade Organisation (“WTO”). On the same day, the E.U. launched a parallel WTO case against the U.S. in relation to its subsidization of Boeing. Despite several negotiation attempts, the parties have not been able to reach a satisfactory agreement. On 31st May 2005, the U.S. and the E.U. each requested the establishment of a panel. At its meeting on 20th July 2005, the Dispute Settlement Body established the panels. Numerous procedural steps, including new filings by the E.U. and the U.S. in 2006 have delayed commencement of the litigation. However, on 15th November 2006, the U.S. filed its first written submission, to which the E.U. responded on 9th February 2007. The E.U. is scheduled to file its first written submission challenging Boeing subsidies in March 2007, to which the U.S. is scheduled to respond in May 2007. Exact timing of further steps in the WTO litigation process is subject to ruling of the Panels and to negotiations between the U.S. and the E.U. Unless a settlement, which is currently not under discussion, is reached between the parties, the WTO Panels will render decisions on the merits of the cases sometime in the future.

The French *Autorité des marchés financiers* (the “AMF”) and the German Federal Financial Supervisory Authority (the “BaFin”) have started in 2006 investigations for alleged breaches of market regulations and insider trading rules with respect to, in particular, the A380 delays in 2005 and 2006. However, the BaFin formally notified EADS on 3rd March 2007 that it had discontinued its investigations for suspected breaches of market regulations but the BaFin's insider investigations are still ongoing. Following criminal complaints filed by a shareholders' association and by an individual shareholder (also including a civil claim for damages), French investigating judges are also carrying out investigations on the same facts. In Germany, several individual shareholders have filed civil actions against the Company to recover their alleged losses in connection with the disclosure of A380 programme delays. On 3rd October 2006, the EADS Board of Directors also decided to conduct an independent assessment of individual discharge of duties in the situation that led to the A380 delays. This investigation will extend to scrutinizing potential responsibilities at the management level. The Company reserves all its rights in the circumstances. As of the date of this document, this assessment is still ongoing.

EADS is not aware of any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which EADS is aware), during a period covering at least the previous twelve months which may have, or have had in the recent past significant effects on EADS and/or the Group's financial position or profitability, except as stated above.



EADS recognises provisions for litigation and claims when (i) it has a present obligation from legal actions, governmental investigations, proceedings and other claims resulting from past events that are pending or may be instituted or asserted in the future against the Group, (ii) it is probable that an outflow of

resources embodying economic benefits will be required to settle such obligation and (iii) a reliable estimate of the amount of such obligation can be made. For the amount provided for risk due to litigations and claims, see Note 21 d.) “Other provisions”.

1.1.11 Incorporation by Reference

The English versions of the following documents shall be deemed to be incorporated in and form part of this Registration Document:

- “Part 2/1.1 Presentation of the Group” of the *Document de Référence* filed in French with the *Autorité des marchés financiers* on 19th April 2005 and filed in English with the Chamber of Commerce of Amsterdam; and
- “Part 2/1.1 Presentation of the EADS Group” of the Registration Document filed in English with, and approved by, the AFM on 26th April 2006.

Copies of the above-mentioned *Document de Référence* and Registration Document are available free of charge upon request in English, French, Spanish and German languages at the registered office of the Company and on www.eads.com. Copies of the financial statements referred to above are also available in English on www.eads.com and for inspection at the Chamber of Commerce of Amsterdam.

1.2 Recent Developments

DaimlerChrysler sells part of its stake in EADS to investor consortium⁽²⁾

On 9th February 2007, DaimlerChrysler reached an agreement with a consortium of private and public-sector investors pursuant to which it will effectively reduce its shareholding in EADS from 22.5% to 15%, while maintaining the balance of voting rights between German and French controlling shareholders.

DaimlerChrysler has placed its entire 22.5% equity interest in EADS into a new company, in which the consortium of investors will acquire a one-third interest through a special-purpose entity. This effectively represents a 7.5% stake in EADS. The transaction will be executed in the first quarter of 2007. As compensation for the indirect ownership of EADS shares, the investors will receive from DaimlerChrysler a preference dividend on the 7.5% indirect investment of 175% of the normal EADS dividend.

DaimlerChrysler has the option of dissolving the new structure on 1st July 2010 at the earliest. If the structure is dissolved, DaimlerChrysler has the right either to provide the investors

with EADS shares or to pay cash compensation. If EADS shares are provided, the German State, the French State and Lagardère through SOGEADE, will be entitled to pre-empt such EADS shares to retain the balance between the German and the French side.

DaimlerChrysler will continue to control the voting rights of the entire 22.5% package of EADS shares.

This transaction constitutes a specific exception to the agreements described in section 3.3.2 Relationships with Principal Shareholders.

Airbus strengthens its competitiveness through Power8

In order to address the challenges posed by US dollar weakness, increased competitive pressure and the financial burden related to the A380 delays, and to meet its other future investment needs, Airbus has announced the implementation of the Power8 programme. Power8 provides for strong cost-cutting

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measures and aims at transformation of the Airbus business model and the development of a global network of partners. It is intended to allow Airbus to devote its resources to core activities and eliminate inefficiencies within its current structure. The programme aims at the full industrial integration of Airbus by establishing a new industrial organisation with transnational centres of excellence replacing the existing national structures. This transformation will occur progressively over several years and includes the further expansion of Airbus' global footprint.

As part of Power8, Airbus management will implement cost reduction and cash generating efforts with the goal of achieving EBIT* contributions of €2.1 billion from 2010 onwards and an additional €5 billion of cumulative cash flow from 2007 to 2010. A large part of the cost savings is expected to be realised through the reduction of Airbus' headcount (including temporary and on-site subcontractors) by 10,000 employees. The planned measures to reduce overhead costs, and specifically headcount, will require a provision of €680 million to be recorded in the first quarter of 2007.

In addition to headcount reduction, Airbus will also attempt to focus more on its core business activities in the future. These activities include overall aircraft and cabin architecture, systems integration, as well as the design, assembly, installation, equipping, customization and testing of major and complex components or manufacturing of new technology parts. Accordingly, Airbus is considering industrial partnerships at its plants in Filton, Meaulte and Nordenham, in order to facilitate their transition from metallic to composite design and manufacturing technology. With respect to its sites in Laupheim, St. Nazaire-Ville and Varel, Airbus will consider several options, including their sale to key suppliers, management buy-outs or combinations with nearby sites.

A number of measures are also being implemented to further increase the efficiency of the final assembly lines (FALs) pursuant to Power8. The A350XWB will be assembled and receive its interior furnishing in Toulouse, in the same facilities as the current A330/A340, enabling a capacity enhancement of this FAL. A third A320 Family FAL will be set up in Hamburg immediately to cope with the steep production ramp-up currently under way. This FAL will be established in already existing facilities and will have full type flexibility when demand for A320s exceeds rate 14 per month. The A320 will continue to be assembled in Toulouse up to rate 14. Hamburg will also perform final assembly of the future New Single Aisle family. Furthermore, in order to allow parts to be fitted in the most logical place to optimize the overall cycle time, some upstream preparatory A320 and A380 cabin installation work will be transferred from Hamburg to Toulouse. Cabin installation will remain in Hamburg. A380 deliveries will still be made from both Hamburg and Toulouse.

Finally, Airbus will introduce a fully integrated and transnational organisation to support the implementation of Power8 and the establishment of the new business model. The new industrial organisation will seek to streamline processes through the establishment of four truly transnational "centres of excellence" led by the Head of Operations: Fuselage & Cabin, Wing & Pylon, Rear, and Aerostructure, the latter being in charge of fuselage subassembly and interior furnishing activities. This will replace the current organisation of eight nationally structured centres of excellence. Further organisational changes include completing the integration of support functions such as Finance and HR as well as reinforcing the authority of core functions such as Engineering, Procurement and Programmes.

Finnair, First Airline To Sign Firm Contract For the A350XWB

On 8th March 2007, Finnair signed a firm contract for eleven A350XWBs, as well as seven additional long-range aircraft (a mix of A340-300s and A330s). It is the first airline to convert its order for nine of the initial A350 aircraft, placed in December 2005, into the new A350XWB, and to simultaneously increase the number of aircraft ordered.

Eurocopter wins 112 orders at Heli-Expo 2007

Eurocopter won a record 112 orders at Heli-Expo 2007, including 88 firm orders and 24 options. Heli-Expo 2007 is an exhibition dedicated to helicopters which took place in Orlando from 1 - 3 March 2007. The majority of the new orders came from North American clients.

A380F development frozen

On 2nd March 2007, UPS announced its intent to cancel its order for 10 A380 freighters. In connection with this announcement, Airbus decided to reschedule development of the freighter version of the A380 and redeploy existing resources towards production of the passenger version of the aircraft.

UAE selects EADS for its Air Tanker programme

On 21st February 2007, the UAE (United Arab Emirates) Armed Forces signed a Memorandum of Understanding with EADS for the procurement of the A330 MRTT as the new air-to-air refuelling aircraft for its UAE Air Force & Air Defense. The expected order will be for three A330 MRTT aircraft which are scheduled to be delivered from 2011 onwards.

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Arianespace and Astrium Space Transportation have decided to increase the Ariane 5 production rate

On 15th February 2007, Arianespace and Astrium Space Transportation signed an agreement to undertake the investments needed to supply seven Ariane 5 ECA launchers per year beginning in February 2008. By increasing the production rate, Arianespace will attempt to keep pace with growing demand in the launch services market, in which Arianespace plays a leading role with a market share of more than 50%.

EADS sells stake in Embraer

On 14th February 2007, EADS sold its 2.12 percent stake in Embraer. Before taxes and bank fees, EADS received total proceeds of €124 million. Following changes in the shareholder structure of Embraer, EADS' stake had become a purely financial investment. The sale of its stake in Embraer will not prevent EADS from further exploring areas of industrial cooperation with Embraer in the future.

EADS and Russian UAC further develop cooperation

On 22nd March 2007, EADS and Russia's United Aircraft Corporation (UAC) announced that they had signed four

agreements which further specify cooperation programmes under discussion between the partners. The agreements are based on the findings of a top-level working group which has been set up end of last year.

The first agreement covers the partnership in the Airbus A350XWB programme. Airbus is offering a five percent airframe participation to the Russian industry. The discussions about which components of the aircraft will be designed and built in Russia are still ongoing.

The second agreement provides for the establishment of a joint venture located in Dresden, which will have the task of setting up freighter conversion centres for the Airbus A320 Family at Lkhovitsy near Moscow in Russia and the German site.

The third agreement foresees a joint study of the transport aircraft market and possible cooperation between EADS and the Russian industry in this field.

The fourth agreement defines a shareholder change in the Engineering Centre Airbus Russia (ECAR): UAC will purchase the Kaskol Group shareholding.

2

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EADS was built around shared values of integrity and social and ethical responsibility. Although 2006 has not been an easy year for EADS, events within the Company having caused stakeholders to ask critical questions about the management and the organisational structure, the Group's strengths and achievements are not to be underestimated. EADS is determined to fulfilling its commitment to a sustainable and balanced relationship with stakeholders. Ensuring customer satisfaction, as well as ensuring development of employee and supplier relationships remains a foundation of EADS' success, operations and culture. The entire Group remains committed to the principles and values that are laid down in its Code of Ethics as well as to the Corporate Social Responsibility ("CSR") policies which were formalised in 2004.

The EADS approach to CSR takes into account the Group specificities:

- It provides a framework setting out guidelines for the BUs that are responsible for the day to day business and that ensures dialogue with their direct stakeholders.
- It addresses the EADS CSR key challenges such as export control compliance: As a defence company, EADS Group specifically acknowledges its responsibility in selling defence products and providing services to nations that contribute to their security during peace time. EADS delivers products and integrated solutions pursuant to customer specification. These products have to comply with the applicable laws put in place by the responsible government (arms export laws, embargo rules, Ottawa agreement, and anticorruption policy).
- It incorporates the specific nature of the Group products, such as the average lifecycle of over 30 years which requires a continuous long-term approach.

The present chapter aims at demonstrating that the EADS CSR policies are increasingly incorporated into the daily business, by describing best practices identified throughout the Group and reporting performance indicators. A number of quantitative and qualitative Key Performance Indicators ("KPI"), based upon the Global Reporting Initiative, the Global Compact principles and the French Nouvelles Régulations Économiques and tailored to EADS' business were indeed defined starting with the 2004 report and reflect some of EADS CSR achievements.

EADS Code of Ethics

At the time of the creation of EADS, the Code of Ethics was established and communicated to the employees of the Group. This Code of Ethics aimed at emphasizing values that were key success factors for achieving an efficient integration of different companies into one group. In 2005, more than four years after the creation of EADS, in light of its establishment as a market leader in many of its businesses, and considering the evolving

legal environment relating to business ethics, EADS updated the Code of Ethics in order to reflect practices recommended by various codes and laws and to align with best practice.

The enhanced EADS Code of Ethics sets out in one single comprehensive document the EADS Group business guidelines related to the ethical standards that the Group adheres to.

The Code of Ethics serves as a core EADS business guideline in an architecture of documents in which the code also refers to pre-existing, detailed policies as laid out in the EADS Corporate Handbook as well as Division or BU specific policies and processes. It is based on EADS' underlying values and fully in line with international recognised standards as laid out in charters, declarations or guidelines, such as the Universal Declaration of Human Rights, International Labour Organisation's Declaration and OECD Convention. EADS, as a signatory of the United Nations Global Compact, is committed to promoting, within its sphere of influence, the application of fundamental values regarding Human Rights, Labour, Environment and Anticorruption. EADS is willing to report on the Group's success in implementing its sustainable development strategy.

Since April 2006, it is available in the four EADS languages on the Group intranet and can be downloaded from the EADS web site www.eads.com.

The Code of Ethics covers the full scope of EADS' CSR policies, addressing in its five chapters the principal lines of ethical behaviour:

- "Creating a positive working climate" describes EADS' principles in terms of, e.g. dialogue and representation, equal opportunities policy, and management of HR development;
- "Doing business ethically" discusses issues such as conflicts of interest, export control and contracting with governments, as well as the hiring of government officials;
- "Fostering sustainable growth" deals with proper use of information and intellectual property rights, as well as relationships with suppliers;
- "Respecting the environment" covers developing environmentally sound processes and products;
- "Living in our communities" describes the ways in which EADS contributes to the life and development of communities where it operates.

The Code of Ethics, therefore, gives guidance to all employees about appropriate conduct in their professional environment.

EADS is committed to implementing the principles described in this Code, in particular through entrusting an EADS Ethics Committee with compliance responsibility in ethics matters.

The Code of Ethics describes the missions of the Ethics Committee set up by the EADS Board of Directors. In particular, the Ethics Committee will offer guidance to the EADS Chairmen, the Board of Directors and its Committees, the CEOs, COOs and Executive Committee, as well as management at large regarding all ethical questions. The Committee will submit at least annually a report to the EADS Board of Directors with respect to each year's activities. It will also implement appropriate coordination with the compliance functions of EADS and its Divisions.

In 2006, EADS initiated a review of its compliance activities and processes; its findings were that EADS had a reasonably solid base of compliance practices, compliance processes existing for each of the CSR domains relevant for the business. Within the aerospace and defence industry, the overall level of compliance in the CSR domains is globally rated average or above average by rating agencies. The level of achievement by EADS of these agencies' expectations varies among the covered topics, depending upon the compliance levels that the Group has already completed e.g. the international compliance programme (see *infra* 2.1.1) is well perceived by EADS' stakeholders for it provides clear compliance rules, a structured

compliance organisation and the implementation of compliance processes is substantiated by KPIs. Notwithstanding, the Group is considering to further develop its compliance approach and thus, is studying the possible implementation of a comprehensive group-wide compliance organisation to address overall compliance in a structured way. This organisation would also aim at further developing the awareness of the principles laid down in the Code of Ethics as well as at ensuring that individual behaviours are in line with the Group's commitments and policies. The contemplated organisation shall incorporate an ethics alert system.

EADS CSR policies

EADS policies have been designed to support and implement EADS' long-term vision and strategy in terms of CSR and are supported by an internal control system in areas such as compliance with OECD rules, export restrictions, IP protection, research and development etc. (See "Part 1/2.1.5 Internal Control and Risk Management Systems"). They give guidance for day-to-day business and are in accordance with EADS' underlying values.

CSR POLICIES ON DOMAINS IDENTIFIED AS MOST RELEVANT FOR EADS

CSR Domains	Specific Policy Items
Business Ethics	Proper business practices Export Control Compliance Compliance with the laws regarding all EADS' activities Corporate Governance standards
Sustainable Growth	Product quality and customer satisfaction Sustaining and protecting innovation Fostering a mutually beneficial relationship with EADS' suppliers
Environmental Care	Minimizing environmental impacts of EADS' activities Taking into account environmental impacts of EADS' products throughout their lifecycle
Employer-Employee Relationship	Providing a safe workplace for EADS' employees and subcontractors Caring for EADS employees and know-how Ensuring equal opportunity for all EADS employees Ensuring efficient management of skills and know-how Promoting a proactive dialogue with EADS' employees
Corporate Citizenship	Maintaining an open dialogue with EADS' stakeholders Encompassing community interests in EADS' global strategy

The policies and related practices are set out in more detail below.

2.1 Business Ethics

2.1.1 Proper Business Practices

Doing international business requires being especially vigilant so as to ensure that all companies belonging to the EADS Group always comply with all applicable laws and regulations relating to international sales, as well as with very high business ethics and integrity standards. EADS aims at setting standards to govern its business ethics and integrity policies which often go beyond applicable laws and regulations.

To achieve this aim, EADS International has been implementing a comprehensive set of rules and processes since 2000 aiming at ensuring compliance with such laws, regulations and business ethics and integrity standards.

2.1.1.1 Policy

- *“EADS is active in sectors which are strictly ruled by national and international regulations. EADS is committed to absolute compliance with applicable regulations wherever its entities operate.*
- *Fighting against corruption and economic crime in foreign trade has become a major challenge for all international companies. In order to meet this challenge, EADS is fully committed to complying with applicable national and international legislation, including the OECD Convention of November 1997, as incorporated into the legislation of 35 countries. EADS’ International Compliance Programme (also known as the “Foreign Trade Rules”) is a corporate policy, applicable to all international operations of EADS and its affiliated companies, intended to detect and prevent bribery and unfair dealing.*
- *EADS is often involved in proposals, bid preparations or contract negotiations with governmental authorities because of the nature of its products and services. The Group’s policy is to compete fairly and legally for all business opportunities as well as to conduct negotiations and perform contracts when awarded in compliance with all applicable requirements, specifications and contractual obligations.”*

2.1.1.2 Organisation

The Foreign Trade Rules

EADS has implemented a detailed corporate policy, the *Foreign Trade Rules*, which applies to all international operations of the Group entities, and which is intended to detect and prevent

bribery and unfair dealing in international sales. This policy has been published in EADS’ Corporate Handbook, which is available to all employees through the company intranet.

The policy entails effective control of international operations, through the conduct of appropriate due diligence of business partners, regular audit and reporting mechanisms and enhanced training sessions within all BUs. It also sets out appropriate guidelines regarding the acceptance of gifts and hospitality.

The main pillars of the Foreign Trade Rules are the following:

- Transparency in the selection of all business partners. All business partners engaged by an EADS company have undergone a strict engagement procedure, based on (i) a due diligence aimed at confirming that the prospective business partner is reputable and qualified to work for EADS, (ii) internationally recognized standards (location, credentials, ethical track record, etc.) and (iii) a commitment to abide by the Group policies prohibiting corruption and payment of bribes;
- “Appropriate remuneration for legitimate services”. EADS is very keen to ensure that all payments due and payable to any business partner are justified by legitimate services rendered and do not exceed sound market practices; and
- Monitoring of the contractual relationships with such business partners (and the related payments) until satisfaction of all contractual duties.

Those policies and procedures normally apply to all operations directly or indirectly relating to foreign trade.

The Group’s business partners must respect these policies and procedures, and any failure to do so may lead to early termination of the contract in place.

Furthermore, EADS conducts regular audits of implementation of all related agreements entered into by BUs to verify that Group policies and procedures are properly implemented and the BUs are instructed to report on a yearly basis on the implementation of such policies and procedures. This is especially the case concerning the payments made to the business partners, which must at all times be fully justifiable.

Since October 2002, EADS has set up a network of 42 International Compliance Officers (“**ICOs**”) representing each BU. ICOs are responsible for ensuring the correct application of the policies and procedures within the Group. They are also in charge of nominating appropriate “ICO correspondents” in foreign subsidiaries with a view to properly cascading the compliance duties in all operating countries.

Partnerships and initiatives

EADS has also developed regular contacts with international bodies such as the OECD, the International Chamber of Commerce (“**ICC**”) and the European Union (“**GRECO**”) and peer companies with a view to setting and promoting integrity standards in the aerospace and defence sector. In this respect, EADS is pursuing a business dialogue with the European Aerospace & Defence Industries Association of Europe (“**ASD**”) and its members (such as CIDEF and GIFAS in France, BDLI in Germany, AFARMADE in Spain or SBAC in the U.K.), and also with major European aerospace and defence companies, in order to launch a platform of principles aiming at setting high standards, exchanging best practices, promoting training and compliance programmes, and more generally generating common European industry positions on ethics and anti-corruption issues.

This platform would be open to all international aerospace and defence companies and associations, especially those belonging to OECD countries (e.g., U.S.), but also non-OECD countries at a later stage. As a matter of fact, EADS views such an international initiative as a perfect opportunity to enhance the level playing field which the OECD convention, and thereafter the UN Convention signed in Merida in December 2003, have started to establish.

EADS is also maintaining a relationship with the ICC anti-corruption Commission and the French Corruption Monitoring Council (*Service central de prévention de la corruption*), which signed a convention with EADS in 2003.

According to a survey conducted by Novethic and the SCPC (*Service Central de Prévention de la Corruption*) in 2006, only seven companies amongst those belonging to the French CAC 40 are reported being transparent and meeting international standards. EADS is one of these companies.

2.1.1.3 Performance and Best Practices

In December 2005, EADS amended the **Foreign Trade Rules**, as a result in particular of advice received from reputable international experts in business ethics and anticorruption laws and practices. The main objective of these amendments was to adapt the Foreign Trade Rules to the evolution of the Group,

and to disseminate the identified best practices across the Group as a whole.

EADS conducts regular **assessments and audits** to detect and spread Group best practices in international business ethics.

In addition, the Group has developed a comprehensive **training policy** so as to disseminate an awareness culture within all BUs. All employees dealing with international business attend such training sessions. In order to communicate and explain the Group’s corporate values and policies to all concerned, around 76 training sessions took place in 2006 across EADS, sometimes with the attendance of third parties (prosecutors, representatives of international bodies, lawyers, etc.). This represents again a very significant increase compared to 2005, which tends to demonstrate that the dissemination of a compliance culture is a key element of EADS’ management system.

The Group issued a leaflet “*EADS International Business Ethics Policy For Consultant Agreements: Transparency & Substantiation*” in January 2004, which is given to all prospective international marketing consultants. This leaflet summarises Group policies and procedures regarding selection of international business partners. Such international business partners are also invited to attend specific training sessions when deemed appropriate.

The Group’s ICOs meet periodically to share concerns and best practices. An annual ICO Conference has been organised since 2003 involving more than 100 people involved in foreign trade business and operations. The last “International Compliance Officers Workshop” held on June 2006 in Paris was focused on:

- The update of the EADS Rules, published in December 2005, which enlarge the scope of implementation to any international operation directly or indirectly connected to any commercial campaign;
- The achievements made regarding the implementation of the Rules Relating to Foreign Trade within the BUs, including the EADS Guideline “Gifts & Hospitality”.

Information on criminal law and its consequences for companies and employees.

EADS also releases Group-wide internal bulletins on a regular basis, the so-called **ICO information letters**. These focus on the evolution of the regulatory environment for foreign trade and highlight information reported by international media regarding the fight against corruption and economic crime worldwide. These bulletins are intended to complete and update the information given to EADS employees during the training sessions.

In relation with its international businesses, EADS uses third parties, such as consultants and international business partners in order to provide appropriate assistance and expertise to BUs on current or potential business for EADS and/or promote EADS products or services in various countries. The contractual arrangements for such services are governed by internal rules and policies that describe the entire contractual process, from the selection of the partner to the implementation and

execution of the agreed service. In order to ensure that the rules are understood and strictly applied, consultant and service providers agreements are audited. The purpose of these audits is to check the substantiation of the contractual duties delivered by the third party in exchange of its remuneration. The table below presents information concerning the percentage of consultant files audited in each of the past three years. None of the audits have revealed any material deficiencies.

	2006	2005	2004
Consultant & some other business partners files audited*	91.9%	92.3%	89.50%
Number of ICO information letters issued	3	3	3
Number of training sessions held by ICOs	76	52	20

Scope: EADS.

(* Total audited files/Total active files of consultants and other international business partners (2005 and 2004 figures have been re-calculated accordingly).

Improvement of the Rules' implementation process within existing, and new EADS controlled entities, has increased the number of Consultant and other Business Partners files received by EADS IO.

2.1.2 Export Control Compliance

2.1.2.1 Policy

- "EADS is committed to complying with all import and export control regulations that govern the exports and imports of commodities, technical data and technical support.
- EADS always obtains export licenses and other government approvals prior to exporting products and technology controlled by governments or the EU."

According to the particular nature of the industries that it is active in, EADS has put a special focus on the overall compliance with export control regulations and laws. Especially in the area of defence and dual use goods, the governments are important customers, EADS has established a cascading system of export control procedures and policies, also taking into account that export policy is an important element of foreign policy of the governments of EADS home countries.

2.1.2.2 Organisation

In the Western world, export legislation has a high degree of commonality and export control rules are harmonised by various international export control regimes by the governments. Therefore, the ultimate decision for exports is always in the hand of relevant governments and EADS does not export any product without a respective export licence.

Within EADS, there are **national export control organisations** in each country, assuring compliance with the respective national laws and regulations. They give approval or advice for all export activities (prospecting, negotiation, offers, proposals, licensing, shipment...) at the earliest possible point in time. These organisations are also responsible for adequate education and training of all export control officers in the Divisions and communication of actual laws and regulations. They also ensure harmonised licensing procedures according to the respective national regulations. Meetings between the national export control organisations are held on a regular basis.

In addition, in each of the **Divisions** there is a **cross country export control organisation** in place handling both the business specific issues and the day to day business and controlling compliance with licenses at the final stage of the delivery of the goods, technologies or services.

In each of its home countries, EADS is known as a reliable exporter. It works closely together with the government in the ultimate goal of preventing proliferation of sensitive goods and technologies to non reliable countries or persons. For any delivery, EADS checks the reliability of the end use and the end users according to various criteria.

In recognition of EADS seriousness and reliability, the Group is a privileged partner to the governments of its home countries

and e.g. holds Global Project Licences and simplified approval and exporting procedures.

Although the responsibility and liability for exports is in the hand of its business units, the CEOs reserve personally the ultimate decision for any **export in sensitive countries** by a special directive and special procedures. This procedure is based on a case by case review in which EADS International provides EADS' top management with legal elements and geo-politics inputs for the final decision.

If a planned export may be of concern for one of EADS home countries, the situation is checked in the political environment in close connection with the governmental authorities.

2.1.2.3 Performance and Best Practices

Export Control Committee

The national Heads of Export Control form the Export Control Committee and hold quarterly meetings for the exchange of information, establishing specific cross country recommendations tailored to the operative business (space, defence, aeronautics).

The Export Control Committee has prepared an EADS Compliance Directive in export matters and maintains the information about sensitive countries up to date. The national Heads of Export Control are also responsible to issue national export control compliance manuals on the basis of EADS common principles and rules.

2.1.3 Compliance with Law Regarding all EADS' Activities

Compliance and verification of compliance with all the laws and regulations of the countries where the Group does business is a must at EADS. Rapid changes in the industry and the overall global environment constantly present new legal or regulatory requirements which call for robust internal controls in the field of legal compliance. It has also resulted in the adoption in 2000 of EADS Insider Trading Rules.

Training and Education

The export control professionals hold training and education sessions for employees and managers of all operative organisations involved in export control (e.g. procurement, sales, and project management). Export control education is also part of EADS management development programmes.

Procurement Directive

Due to the extraterritorial application of export and re-export regulations in some countries (e.g. U.S.), EADS is forced and committed to complying with these laws and regulations. In order to ensure compliance and to manage economic risks, EADS has issued a procurement directive. This directive asks for export classification of foreign products already in the phase of procurement in order to be able to be compliant during the whole supply chain and to minimize economic risks of compliance cost for further phases.

Audits

The EADS export compliance system is regularly audited and approved by governmental authorities. Also external ex post controls of compliance with laws and regulations are performed.

In 2005, a comprehensive internal audit took place for the export control systems in each country and in each Division. There were no major findings neither by external audits nor by the internal audits concerning legal compliance. However, the internal corporate audit team requested and recommended improvements concerning commercial and business risks.

During 2006, all of the requested actions and the majority of the recommended actions were implemented.

2.1.3.1 Policy

- *“EADS is committed to complying with antitrust and competition as well as humanitarian law, when applicable, in all of its activities and throughout the Group.*
- *EADS screens new customers and suppliers to ensure that they do not do banned business.”*

The overall compliance with the law programme: Amongst the various areas of the law which require constant monitoring, it is worth mentioning a few examples that are of particular importance to EADS although the list is only indicative. Examples of this permanent monitoring process are: compliance

with the laws and regulations governing competition, protection of the environment, public sector procurement and accounting and financial reporting.

Compliance with Corporate Governance standards is another area of focus. Governance practices are developed and monitored to fulfil the Board's responsibility towards customers, shareholders and employees, to oversee the work of the management in the conduct of the Company's business, and to serve the long-term interest of stakeholders.

Insider Trading Rules: The Dutch AFM, as well as other stock exchange authorities (the French AMF, the German BaFin, and the Spanish CNMV), which regulate the markets on which EADS securities are listed, impose certain rules upon EADS and require it to enforce these rules internally. Hence, EADS adopted in 2000, its Insider Trading Rules. EADS Insider Trading Rules belong to the best practise processes and apply to all EADS employees and even for some time after people retire or left the company. The guiding principle is that employees should freely perform any EADS securities transactions provided that they act in accordance with the EADS group's policies which are set out in the EADS Insider Trading Rules. According to the rules, more than 2,500 managers are strictly subject to no-trading periods over the year. People in higher and top management functions have only very limited trading windows after each of the quarterly results publication. On top of this, those concerned also have to inform the ITR Compliance Officer in order to proceed with the transactions. All No-Trading Periods are widely communicated amongst the respective communities and people are personally informed by mail when they are subject to such trading restrictions.

2.1.3.2 Organisation

From an organisational standpoint, EADS **Legal Affairs**, in coordination with the Divisions' and BUs' legal departments, is responsible for designing, implementing and overseeing the policies and processes aimed at ensuring that EADS' activities abide by all applicable laws and regulations. Teamwork amongst all the legal players is aimed at ensuring consistent and comprehensive legal processes in compliance with national requirements. Corporate Legal Affairs is also responsible for overseeing all litigation affecting the Group, as well as for the legal safeguarding of the Group's assets, including intellectual property.

Extended networks of professionals (e.g. intellectual property...) located close to operational players drive legal compliance activities. These professionals are capable of handling the requirements of the many jurisdictions that are relevant to EADS, not only in its "home countries" but abroad as well.

The COO Finance is the **Insider Trading Rules Compliance Officer**.

The **Corporate Secretary** with the support of Legal Affairs departments also plays an essential role in the setting up and administration of EADS Corporate Governance procedures as well as legal documentation underlying delegation of powers and responsibilities.

Finally, all those activities are audited by the **Corporate Audit department** which consists of a team of dedicated professionals who are familiar with the requirements and challenges of the Company's international business.

2.1.3.3 Performance and Best Practices

Whatever the legal environment they are subject to, BUs are extremely vigilant in monitoring legal risks. They constantly ensure that regulations are applied and track any infringement risks so as to prevent them. This is based on basic processes:

- **Training and awareness:** a preventive approach is based on the combination of Company policies and cultural values supported by solid infrastructure for legal compliance, training initiatives and general employee awareness actions as well.
- **Identifying and mitigating legal risks:** Whatever the source of the legal compliance risk may be, EADS takes responsibility for finding the facts and analyzing the applicable laws; measures are then taken to deal with the situation in a proactive manner.

Sharing of information, especially within the CSR network and the community of legal professionals is designed to help the Company learn from mistakes, if any, thus using its experience to continue raising the bar in its processes.

The **EADS Insider Trading Rules** are regularly updated in order to take into consideration recent changes in European regulations as well as to ensure EADS adherence to best-in-class corporate governance standards. The EADS Insider Trading Rules are provided to the relevant Market Authorities for verification and confirmation.



	2006	2005	2004
Court decisions regarding cases pertaining to antitrust and monopoly regulations	None	None	None
Descriptions of policy, procedures/management systems, and compliance mechanisms for preventing anticompetitive behaviour	i) EADS Code of Ethics including but not limited to all relevant provisions of Code of Ethics relating to compliance with competition law; and ii) Regular legal risk analysis as issues come up.	i) EADS Code of Ethics including but not limited to all relevant provisions of Code of Ethics relating to compliance with competition law; and ii) Regular legal risk analysis as issues come up.	i) EADS Code of Ethics including but not limited to all relevant provisions of Code of Ethics relating to compliance with competition law; and ii) Regular legal risk analysis as issues come up.

Scope: EADS.

2.1.4 Corporate Governance Standards

Compliance with Corporate Governance standards is an area of specific focus at EADS.

In addition to being a Dutch registered company, EADS is listed in multiple countries. This implies the necessity for EADS to comply with different regulations.

As a consequence, the Group is permanently monitoring the laws and regulations, as well as the current market practices in the countries it is based in, in order to ensure its conformity with the evolution of Corporate Governance in general. Governance practices are developed and monitored to fulfil the Board responsibility towards shareholders, to oversee the work of management in the conduct of the Company's business and to seek to serve the long-term interest of shareholders.

EADS, in its continuous efforts to adhere to the highest standards, applies the provisions of the Dutch Corporate Governance Code ("**Dutch Code**"), which includes a number of non-mandatory recommendations and, if the case arises, the reason for non-application of such provisions are explained, in accordance with the Dutch Code's "Apply or Explain" principle. The few non-compliance matters with regards to recommendations of the Dutch Code mostly result from EADS being aligned with general market practices in the countries it is listed in and its particular governance structure, as laid down in its Articles of Association.

In 2006, the EADS Board of Directors continued to uphold the driving principle of conformity with applicable law and the Corporate Governance principles in the countries relevant for the Company, while also enhancing its focus on Corporate Governance best practices.

2.1.4.1 Policy

- "EADS is determined to set the standard of excellence in the field of Corporate Governance. EADS is committed to meet and even exceed social, legal and statutory requirements to ensure transparent management and recording.
- EADS commits to providing the most accurate and reliable information and records in all decision-making processes and business relations, both inside and outside EADS. To achieve the highest standard of reliability, EADS continuously improves its Internal Control and Risk Management procedures."

2.1.4.2 Organisation

See "Part 1/Chapter 2 Corporate Governance".

2.2 Sustainable Growth

EADS supplies some of today’s most advanced technology in the field of aerospace and defence. EADS strives to meet the customers’ requirements for competitive, cost effective and innovative technology. The Group’s development relies on its

ability to deliver products and services that meet customers’ requirements. Sustaining this development requires focus on the product quality, continuous innovation and the best supplier management.

2.2.1 Product Quality and Customer Satisfaction

As an industry leader in aerospace and defence, EADS is constantly striving to build upon its solid reputation for excellence in its products, processes and people. With a focus on continual improvement and on building customer confidence by improving On-Time and On-Quality Delivery (“**OTOQD**”), EADS demands that every area of its operational business challenges and improves its levels of Quality and Operational Excellence, internally and throughout the supply chain.

He also represents EADS in relevant Quality, Standards and Regulatory bodies at both National and International level commensurate with the status of EADS as a global aerospace and defence company.

2.2.1.1 Policy

- *“EADS is fully committed to achieving the highest levels of customer satisfaction, driving continuous improvements in the quality of its products, processes and people and deploying the most demanding Quality Management Systems.”*
- *EADS actively seeks key customer feedback through a structured Group-wide process of Customer Reviews.”*

2.2.1.3 Performance and Best Practices

A major initiative was launched to deliver enhanced Customer confidence and satisfaction through driving operational improvements in those industrial processes which contribute to achieving OTOQD of products and services to end customers. In 2006, the EADS Improvement Programme was deployed throughout all EADS BUs.

This EIP programme acts on four key areas for improvement:

Customer Confidence

A common methodology was defined in early 2005, with a view to deploying it consistently throughout the Group. This Customer review process (“**CRp**”) methodology is based on a structured series of interviews targeting the key decision makers at EADS’ strategic customers. These interviews are performed by the BUs’ top management.

2.2.1.2 Organisation

The Chief Quality Officer (“**CQO**”) is in charge of stimulating, coaching and supporting the BUs to implement continual improvements in operational level OTOQD performance and to maintain and improve customer confidence in EADS.

The goal is to measure the level of customer confidence, which is more important than satisfaction in determining its loyalty. EADS aims to assess and to continuously improve the relationships between the Group and each of its customers. Improvement plans result from these interviews, and the interviewer is responsible for reporting the progress of these plans to the interviewee.

In particular, he chairs an EADS Quality Council with senior level representatives from each BU to agree actions and priorities and to drive OTOQD deployment in all BUs.

CQO animates, supports and drives a network of BU operational level experts to ensure that the EADS Improvement Programme (“**EIP**”) is tuned directly to the needs, priorities and maturity of each BU.

In 2006, a total of thirteen CRps had been launched from the beginning of the programme. Three had totally completed the last “action plan” phase and are planning to start a second

round in 2007. Six have their reporting and analysis phase completed and have entered into the “action plan” phase.

More complex CRps take place for Defence customers. They are conducted at national level rather than at BU level, governments’ procurement activities being by nature cross BUs. A Defence CRp was launched in each of the four EADS home nations.

Programme & Risk Management

In order to tackle and improve OTOQ delivery, EADS launched a group wide project in 2006 to improve Programme & Risk Management (“P&RM”) performance.

A common P&RM framework is being developed by a cross-functional & cross-Divisional team to standardise and modernise the key processes and tools for managing complex projects and programmes, to provide a common EADS P&RM language and terminology, to provide streamlined KPIs, reports and programme reviews, and to upgrade the approach to identification, training & development of programme managers in EADS.

Some of the key processes being addressed are:

- Risk & Opportunity Management to facilitate proactive identification, tracking and mitigation of risks, and extending this to identifying and capitalising on opportunities to improve programme performance.
- Independent phase reviews to carefully check the maturity of a programme at each of a series of defined phases before passing to the next phase.
- Integrated real-time multi-programme planning & execution to plan and optimise efficiency of the resources (people, parts, materials, etc.) across all programmes.
- Technical and Technology Readiness Level Assessments to take an independent expert ‘deep-dive’ look at selected programmes to assess the health of the programme and fidelity of the planning based on the technical maturity of the product or technology.
- Simplification of the audits, assessments and reviews that programmes are subjected to, looking at re-use of data to avoid asking the same questions over and over again for different reviews.
- Career development and succession planning strategies for programme management to deliver people with the right mix of multi-discipline, multi-functional and trans-national experience, training and skills.

- Forums for sharing and spreading Lessons Learned and Best Practices and fostering continuous improvement of P&RM practice & processes.

Lean Operation

Lean Operation in EADS is driving continual improvement in:

- The elimination of non value-adding activity
- Forging closer links throughout the supply chain
- Ensuring processes are robust in all operational workflows

All Divisions in EADS have been actively working in Lean based performance improvements in the manufacturing areas for several years. EADS is now focused on leveraging these individual improvement actions to accelerate deployment across the Group by actively spreading best practices and on extending the scope to develop Lean Supply Chain improvements.

In order to effectively drive this, EADS has created a Lean Operations council comprising senior executives from each Division having both the expertise and authority to drive lean based improvements within their respective Division.

DRIVER and EADS Black Belt

EADS now equips managers with an “Improvement Methodology and Toolkit”. This is the purpose of the “DRIVER” methodology defined in 2005, along with the complete training syllabus (more than 10 training modules and 30 tools). DRIVER is the EADS specific Improvement methodology. The corresponding training can be delivered in the format of “EADS Silver Belt” (2.5 days), “EADS Green Belt” (one week) or “EADS Black Belt” (four weeks). To be recognised as Qualified Improvers, EADS Black Belts must complete, on top of their training, an improvement project that can deliver measured benefits in terms of On Time on Quality Performance, costs savings, Customer Confidence or a mixture of the three elements.

A learning management system (“LMS”) supports and monitors the programme deployment, enabling also candidates to share best practices and use trans-BU networks for mutual support.

At the end of 2006, more than 200 people has been trained as EADS Black Belts in the sessions held around EADS Divisions and BUs. More than 50 EADS Black Belts have achieved their accreditation.

2.2.2 Sustaining and Protecting Innovation

2.2.2.1 Innovation Strategy

Innovation is one of the key areas EADS is focusing on as growth driver for the future. With the appointment of a Chief Technical Officer (“CTO”), who is also a Member of the EADS Executive Committee, the company has invigorated the innovation process.

The CTO is implementing a new technology strategy with the development of a technology portfolio, which is fully aligned with the business strategy of the company.

EADS continues to establish programmes of cooperation with universities and scientific organisations in its home countries and abroad to develop cooperation and to take advantage of competencies wherever they exist.

Policy

“EADS’ innovation strategy aims at increasing competitiveness through continuously improving quality of services and products as well as efficiency of processes.”

Organisation

Following the appointment of the EADS CTO in April 2006, innovation, and particularly technology innovation, has been strengthened, with greater focus being put on aligning the Group’s Research & Technology (“R&T”) activities with the company’s business strategy.

The new CTO position has been attributed authority through a new seat on the EADS Executive Committee and now has responsibility for the entire R&T budget across all Divisions. This budget will increasingly be aimed at supporting the Group’s strategic growth priorities.

The CTO has a wide role. In addition to R&T, he is responsible for Group transversal technical processes, such as Systems Engineering and common tools for Product Lifecycle Management. He also carries out specific technical assessments on behalf of the CEOs and the Executive Committee. The responsibility for corporate Information Management (IM) has been passed from Finance to the CTO’s organisation (from February 2007, the CQO is also reporting to the CTO).

The CTO intends to foster a culture of innovation among EADS employees. Consequently, the CTO and Human Resources are building the ‘EADS Expert Initiative’ to identify technical experts and to offer them career

opportunities similar to those of managers whilst remaining on a technical career path. In further initiatives, an EADS Innovation Hall of Fame is being created. This will acknowledge and honour those responsible for generating the highest number of patents (‘The Great Inventors’), those who are most effective in bringing inventions to the business (‘The Great Innovators’) and workers with unique skills (‘The Great Craftsmen’).

The EADS **Executive Technical Council** (“ETC”) made up of the technical directors of the Divisions and chaired by the CTO, is responsible for ensuring alignment with the Group’s technology strategy and implementation through the Group R&T road map. The ETC ensures that a balance is maintained between the top-down strategic guidance and bottom-up expertise, creativity and responsibility. It meets regularly to discuss and decide forward strategies and it identifies synergies.

The **EADS Innovation Works** (formerly called Corporate Research Centre) are in charge of the corporate research laboratories that guarantee the Group’s technical innovation potential with a focus on the long-term horizon. Driven by the EADS R&T strategy, they identify new technologies that will create value and competitive advantages. The EADS Innovation Works have two main sites in Paris and Munich and employ approximately 600 people including doctorates and university interns.

EADS – represented by EADS CASA, the Spanish Minister of Industry, Tourism and Commerce and the President of the Regional Government of Madrid have signed a co-operation agreement in Madrid in March 2006 to create the *Fundación para la Investigación, Desarrollo y Aplicación de Materiales Compuestos* (Foundation for Research, Development and Application of Composite Materials – “FIDAMC”). Its objective is to be a centre of excellence in research, development and application of composites, especially of carbon fibre materials. The FIDAMC will be a centre with a multi-sector orientation, with headquarters to be located near the EADS-CASA site in Getafe near Madrid. The Foundation is expected to provide employment for about 40 engineers, scientists and laboratory personnel, with the possibility to reach the number of 75 positions for highly qualified technicians in the mid-term. This will contribute significantly to the reinforcement of the aerospace sector in Madrid. The centre will develop projects with a highly technological content in which, according to an “open perimeter” philosophy, companies from several sectors may take advantage, such as the aerospace, automotive and robotics industries.



Proximity centres are maintained in Toulouse, Nantes (opened in 2005) and Hamburg to support the knowledge transfer to BUs in these locations. A liaison office is operating in Moscow, which facilitates relations with Russian scientific institutes. EADS opened a R&T centre in Singapore and also launched a centre in Spain.

The **R&T Network** coordinates the shared research and technology activities, which involve several BUs and the EADS Innovation Works. The Network is structured around a total of 18 technology domains called Research and Technology Groups (RTG's), which are of common interest, such as Materials and Structures, Electronics, Navigation and Control as well as Image Processing. The Network sets up a common R&T programme and facilitates the circulation of information and research results.

The existing EADS R&T Network operates as a cluster of five **Global Innovation Networks** ("GIN"). The RTGs of the Network are operated through relevant GIN (for example, the RTG's Metallic Materials, Composite Non-Metallic Materials, Structures and Advanced Manufacturing are operated by the GIN "Optimized Platform Structures").

All Corporate and Divisional R&T activities are merged into a single, comprehensive EADS R&T Group Plan. The portfolio of the EADS Group R&T plan is aligned with the EADS R&T Strategy, which is in turn oriented by the Strategy of the Group.

GIN's executives, under the responsibility of the CTO's Deputy and Chief Operating Officer Innovation, are going to play a key role by reinforcing the ties between corporate R&T and the Divisions. The GINs are establishing an R&T plan in their particular technology fields together with the R&T Groups of the EADS R&T Network and aligned with the EADS technology strategy. GIN's will be in charge of the deliverables and will focus on the assurance of the deliveries of selected key-projects.

Demonstrators which integrate single technologies into solutions will play an important role in the future R&T Group Plan. These will aim to reduce the time required to introduce new technologies within a product or process.

Members in the support and R&T enabler groups of the CTO's organisation ensure that R&T is an integral part of the business, by maintaining strong links with the business development organisation, human resources, finance, intellectual property, standardisation and communication.

The corporate EADS Innovation Works and the EADS R&T community in the BUs maintain and expand established

academic research partnerships with leading universities and high-tech engineering schools by employing thesis students, post-graduate interns and doctorate candidates as well as by contracting specific research projects.

See also "Part 1/1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations".

Performance and Best Practices

Continuous innovation will be even more important in the future. Innovation cycles are shortening and new competitors are emerging in all fields of EADS business. To be leading the markets in the future, EADS will always need to be ahead with innovative solutions.

Technological innovation programmes are managed in conjunction with the EADS R&T Network and the EADS Innovation Works as well as through a strong network of top experts in the BUs. EADS aims to make better use of available resources by interacting even more with external scientific and applied research organisations. Such cooperation allows EADS to leverage the resources available in these organisations, which in turn benefit from EADS' systems knowledge.

(See also "Part 1/1.1.3.6 Research and Development Expenses").

Advanced Technology Initiative

Activities of the Advanced Technology Initiative ("ATI"), launched in 2004, continued throughout 2006 as a cross-company drive to increase efficiency in innovation and R&T. ATI involves benchmarking and forecasting of technologies and gives answers to the questions: What is the scope of technologies inside EADS? How good is EADS at these technologies compared to the competition? What will be key technologies in the future? External expertise is included to provide perspective and vision. Based on the findings, action plans are developed to improve the global technology strategy by correcting any deficiencies and by optimising the allocation of resources. ATI has already led to recommendations and implementations for managing the technological risks and for ensuring technological leadership.

EADS Corporate Foundation for Research

The Corporate Foundation for Research (Fondation d'entreprise EADS) was created in France in September 2004 to promote multidisciplinary research in air and space technologies and foster exchanges between researchers in government, private industry and higher education research institutes.

With a total endowment of €24 million over 5 years, the Foundation is now in its third year and firmly established. It has provided grants for 37 doctoral and 19 post-doctoral fellowships, and 18 research projects were financed.

One of the Foundation's goals is to build up ties between the public research community and the worlds of industry and education. To this end, it is awarding each year three awards in the field of Industrial Research Cooperation, which is promoting exemplary men and women scientists who demonstrate high standards of excellence in their research work in collaboration with the industrial sector. Every year, it is also awarding six Best Thesis awards in different domains of mathematics, physics and computer science. To maximize interdisciplinary studies, representatives from all of the EADS Divisions sit on the administrative board and a third of the members are representatives from the outside research community in France, such as the national aerospace research centre ONERA, the research agency CNRS, the Atomic Energy Commission CEA and major universities.

The EADS Corporate Research Foundation also supports other organisations with which it shares common objectives, namely the Institute for Higher Scientific Studies (IHES), which is dedicated to advanced research in mathematics and theoretical physics, the French Aeronautics and Space Research Foundation, and the C. Génial Foundation, which helps to propagate scientific and technical culture, particularly amongst young people. In this context, the Foundation also supports the "Science in Schools" initiative aimed at creating a new image for science teaching in middle schools, grammar schools and foundation courses.

The Foundation also works to promote gender equality as a partner in the Irène Joliot-Curie prize programme. This prize is bestowed on women in recognition of outstanding achievements in public or private research, and is intended to encourage more young women to study science and technology and to boost the standing of women within the French research community. The Foundation also supports public health projects, which frequently use technologies that have originated in the aerospace sector. December 2006 saw the third edition of "Envol Recherche" day, when the various protagonists of the Foundation gathered for round-table debates on the scientific challenges in the aerospace, defence and space industries and for the prize-giving ceremonies.

Other initiatives, including foundations, are contemplated in Germany, Spain, the U.K. and the U.S. to improve links with public research institutes and universities.

Bauhaus Luftfahrt (an Aviation Research Think Tank)

EADS and the government of the German state of Bavaria joined forces with three German aerospace companies to fund Bauhaus Luftfahrt, a think tank for creative and interdisciplinary research activities in the field of aeronautics. Bauhaus Luftfahrt will enable EADS to consider new, groundbreaking courses of action in the field of aeronautics by adopting an innovative approach to future-oriented, visionary solutions. A total of 20 engineers and scientists had joined the Bauhaus Luftfahrt team in time for its one-year anniversary in November 2006.

Academic Partnerships

EADS regards its relationship with the academic world as a priority and is developing this with vigour by reinforcing its cooperation with academic laboratories through deep and targeted relationships through establishing a common structure with several top-level academic partners.

INNO'CAMPUS is operated together with the renowned École Normale Supérieure ("ENS") de Cachan, near Paris, by co-locating some EADS researchers at laboratories of the ENS, by students using EADS Innovation Works facilities and by jointly conducting seminars and workshops in the structures simulation and structures behaviour domains. In addition, a professorship in "Advanced Computational Structural Mechanics" was established at the ENS, with financing supplied by the EADS Corporate Foundation for Research.

TECHNO'CAMPUS was established together with Airbus and four high-tech engineering schools in Nantes: the École Centrale, École des Mines, Polytech & ICAM. The location was selected because of the high scientific level of public research close to two Airbus production plants. TECHNO'CAMPUS is actively supported by the French state, the region of "Pays de la Loire" and the city of Nantes. It gathers students, researchers and engineers from the schools, the Innovation Works and Airbus in joint projects to research thermoplastic composites technologies and to develop specific non-destructive testing methods.

The EADS Innovation Works and the Ecole Polytechnique, a state-supported institution of higher education and research and the most prestigious engineering Grande Ecole in France, together with the French National Centre for Scientific Research (Centre National de la Recherche Scientifique, CNRS) engaged in a new partnership in November 2006 by signing a framework agreement for scientific research in the fields of aeronautics, space and defence. This agreement bears the name of "AIRIX" in reference to these fields and increases the scientific and technical interactions between the researchers of the publicly-owned establishments and those of the industrial

group in the areas of modelling, physics and associated mathematical analysis. This agreement is acting as an accelerator of the transfer of knowledge and results between the academic and the industrial worlds.

2.2.2.2 Protecting Innovation: Intellectual Property

Intellectual Property (“IP”), such as patents, trademarks and know-how, plays an important role in the production and protection of EADS technologies and products. The use of IP rights enables EADS to remain competitive in the market and to manufacture and sell its products freely.

Policy

- *“One of EADS’ most valuable assets is its intellectual property which includes patents, trade secrets, trademarks, copyrights and other proprietary information. It is EADS’ policy to establish, protect, maintain and defend its rights in all commercially significant IP and to use those rights in responsible ways.*
- *EADS also respects the valid intellectual property rights of others and will not reproduce or use software or other technology licensed from other suppliers except as permitted by the applicable license agreement or by law.”*

Organisation

The general management of IP in EADS is conducted through an IP council led by the EADS Group IP Head reporting to the COO Innovation, with a dotted line to Corporate Legal Affairs. Executives responsible for IP at the main subsidiaries sit at this council.

Every year, a meeting of the network of those responsible for IP at the entities of the Group is held to explain the EADS’ IP strategy and policy. The IP policy and the rules are defined, in accordance with the Innovation global strategy, by this Council which meets approximately every two months.

EADS also promotes training about IP matters. For example, a one-day training about IP is included in the Corporate Business Academy (“CBA”) training programme for the experts.

Each of the subsidiary companies of the Group owns the IP which is specific to its particular business and has been generated by this subsidiary. Where IP is of common interest throughout the Group, the subsidiary that generated it may issue a license allowing its use elsewhere (respecting the interests of the other shareholders when appropriate). EADS also owns IP directly or under license agreements with its subsidiaries. EADS centralises and coordinates the Group’s IP portfolio, participates with the subsidiaries in its management and promotes licensing of common IP between the subsidiaries. EADS controls the protection of its IP made in the strategic countries.

EADS also ensures that procedures are in place to protect the confidentiality of the Group’s IP and to ensure contractually that third party rights are protected (in the case of joint ventures). In this respect, suppliers’ contract terms and conditions are currently being strengthened and adapted when dealing with countries with weaker IP laws. The sourcing strategy is also to integrate a segmentation of the contract in order to minimize the risk of industrial espionage and counterfeiting.

Performance and Best Practices

To increase the added value of the Group, the team of the EADS CTO promotes the sharing within the Group of all the knowledge of the BUs and the sharing of resources, skills and research means and budget to develop new knowledge, while respecting existing contractual and legal frameworks.

For example, all the contracts between BUs of the Group concerning shared R&T must have provisions allowing for the flow of knowledge (EADS R&T Network rules).

In 2006, the EADS IP portfolio comprised approximately 5,400 inventions (approximately 4,900 in 2005), which are covered by nearly 18,400 patents throughout the world.

	2006	2005	2004
New inventions filed (some of which covered by several patents)	792	586	521
EADS patents portfolio (year end)	18,366	15,036	13,515

Scope: EADS.

2.2.3 Supplier Management: Fostering a Mutually Beneficial Relationship with EADS' Suppliers

The EADS Sourcing Vision is to deliver competitive advantage by winning, integrating and developing relationships with the world's best suppliers. Its Sourcing Strategy is designed to support this vision.

2.2.3.1 Policy

The EADS BUs Procurement Policies reflect the following statements:

- *“Suppliers represent a high proportion of the value of EADS’ products, and play an important part in customer satisfaction. As such, EADS endeavours to integrate them fully in an ethical way of doing business.*
- *Fostering a mutually beneficial relationship with suppliers, EADS’ sourcing principles require all suppliers to be responsible and to implement its standards and requirements across all levels of the supply chain.*
- *EADS is committed to long term relationships and partnerships with its suppliers, in particular in the engagement in the development of technological know-how”.*

2.2.3.2 Organisation

Sourcing Strategy

EADS Corporate Sourcing is the strategic architect of sourcing functions and provides overall orientation for sourcing activities across the Group, in particular regarding the key elements of the Sourcing Strategy, which are Procurement Marketing and Global Sourcing, Joint Sourcing, Supplier Evaluation and Risk and Opportunity Sharing:

- **Procurement Marketing and Global Sourcing** aim to identify the best potential suppliers worldwide and to evaluate them with regard to their capabilities and their certifications. Procurement marketing is becoming increasingly important as EADS targets new global supply markets to support EADS’ Global Industrial Development;
- **Joint Sourcing activities** allow purchasing power to be leveraged across EADS. A group of Lead buyers bundles procurement volumes of selected material groups for common negotiation. The Joint Sourcing also allows all EADS BUs to use a common EADS contract per supplier. In order to better integrate the internal customers into the procurement process and to increase EADS group leverage in Sourcing, the group of Lead buyers has been strengthened in

2006: the set of procurement commodities has been reorganised and “Enhanced Lead buyers” have been nominated;

- The EADS **Supplier Evaluation and Development** process guarantees that suppliers’ performances are regularly evaluated. Suppliers can expect that the same process and the same criteria are applied by all BUs: Commercial, Logistics, Quality, Technical and Customer Support. Evaluations are shared with suppliers as a basis to discuss further improvement and development needs and plans. With regard to the high proportion of sourcing required for products and the complexity of the procured systems, equipment and structures, EADS favours long-term, mutually beneficial, reliable and stable relationships with key suppliers. Consideration for partnerships is limited to suppliers who continuously show excellence in their performance, who can demonstrate a credible long term interest and who are able to support their business interest with their own developments and investments. It is a principle for such partnerships that suppliers are involved and integrated at the early stages of product development;
- Both **business risks and opportunities** should be adequately shared with suppliers. Procurement Policies of EADS BUs address all typical business risks, including risks attached to CSR, and suggest how they should be dealt with in EADS’ contractual agreements. Procurement Policies also set out the principles and guidelines for conducting business with current and prospective suppliers. These guidelines describe how partnership relations should be handled in an equitable manner in the interest of all parties concerned and how disputes should be dealt with professionally and as quickly as possible in accordance with the agreed partnership arrangements.

Sourcing network

Each EADS Division and BU has its own sourcing function.

The five EADS Divisions’ Chief Procurement Officers compose the **Chief Procurement Officers Council (“CPOC”)** which is chaired by the EADS Chief Procurement Officer. This Council is responsible for implementing the EADS Sourcing Strategy within each Division of EADS.

The Chief Procurement Officers have organised Sourcing networks in order to coordinate strategic topics across EADS Divisions. Listed amongst these strategic topics, CSR is managed by a dedicated Sourcing CSR Network.

The Sourcing CSR network, pursues the objective of formalising the EADS CSR Sourcing management processes and associated documentation, in compliance with the EADS Code of Ethics, values and policies. This Network is composed of focal points in each Divisions' Procurement organisations and is coordinated by EADS Corporate Sourcing.

2.2.3.3 Performances and Best Practices

Sourcing context in 2006

With three fourth of its revenues sourced from external suppliers, efficient and effective supplier relationship management is a key factor for EADS' success. For this, EADS concentrates on its major suppliers. EADS' top 50 suppliers already account for 43% of the sourcing volume and the top 250 suppliers account for 74%.

Complex systems and equipment account for 39% of EADS procurement. Structures, material and product-related services also account for 38%, while non product related material accounts for 23%.

While EADS likes to see itself as an important customer for its key suppliers, EADS wants them to be independent and at the edge of technological development. On average, EADS suppliers make no more than 10% of their revenues from EADS.

Most of EADS' sourcing volume is provided by large companies. The remaining Sourcing volume (15%) is spread across a large number of small and medium sized enterprises, as per the European Commission definition, i.e. with less than 250 employees or less than €50 million turnover.

Sourcing activities focus on the EADS home countries France, Germany, U.K. and Spain, and on the U.S.. Sourcing outside the E.U. and North America is still limited. However, EADS sees its global sourcing activities increasing to better exploit opportunities and to support sales.

Most of EADS' suppliers are currently located in the E.U. (77%) and North America (21%), regions in which social, economical and environmental practices are well regulated by applicable norms and laws. EADS Sourcing contractual terms request that these suppliers shall comply at any time with laws and regulations on economical, environmental and social standards and anticipate or at least make their best endeavour to anticipate forthcoming changes in these standards.

To reinforce supply chain compliance to EADS CSR related requirements, EADS tier 1 suppliers are contractually bound to flow-down these requirements to tier 2 suppliers.

Procurement policies also reflect the principles of the UN Global Compact. As a member of the UN Global Compact, EADS has accepted responsibility to apply these principles in its supply chain and to require its suppliers adhere to common standards in the areas of human rights, the environment and employment.

Influence of the Global Sourcing

As EADS targets to increase global sourcing volumes in countries where existing laws and regulations may not fully cover EADS CSR requirements, procurement contractual terms for these domains need to be written in a more extensive way. Therefore, EADS is on one side engaged in a process for embodying additional CSR requirements into procurement contracts and on the other side EADS is organising supplier CSR performance measurement.

CSR activities

2006 CSR project

In 2006, the Sourcing CSR Network has flowed-down the EADS code of Ethics into different tools such as a CSR Supplier Code, a CSR Supplier evaluation Questionnaire, a CSR contractual clause and various metrics adapted to measure the compliance of Suppliers to EADS CSR policies. This tool set has been validated by the Chief Procurement Officers, and its implementation will be launched once approved and adapted by each Division to fit into its own Sourcing processes.

Due to the decisions made in the frame of EADS cost saving projects, the number of EADS Tier 1 suppliers is due to be strongly reduced in the next years. The reorganisation of the supply base around a reduced number of Tier 1 Suppliers will go together with a renewed content of the procurement contracts. When starting, this revision of contractual clauses should give EADS a good opportunity to deploy the CSR Sourcing tool set in the same time frame.

Sourcing Contractual terms related to CSR

The decision to further develop CSR requirements is clearly taken and EADS has already well addressed some key elements of CSR in the sourcing contracts.

The various CSR aspects are already considered through EADS Sourcing Risk and Opportunities Management ("ROM") which recommends contractual guidelines for the key contractual chapters. These guidelines are published in the EADS Sourcing Information Tool which explains the principles for drafting contracts, disclaims the typical contractual clauses and gives practical comments for the use by the buyer. For each domain,

the requirements are contractually cascaded on to sub-tier suppliers.

For example, regarding environmental responsibility, principles for drafting contracts state that: “The purchase contract should provide that the supplier shall comply with all applicable laws, regulations, etc. as well as all commitment to which EADS has subscribed (e.g., Global Compact initiative) and end-customer requirements, in particular: (1) Suppliers are asked to support a precautionary approach to environmental challenges; (2) Undertake initiatives to promote greater environmental responsibility; and (3) Encourage the development and diffusion of environmentally friendly technology.” The recommendation to the buyer also states that EADS encourages suppliers to implement an environmental management system complying with international standards such as ISO 14000 or EMAS.

Moreover, in terms of Compliance with EADS Ethical commitments, it is recommended that the contract includes EADS key engagements such as the support, respect and protection of international human rights within the supplier’s sphere of influence; the respect of the freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced and compulsory labour; the quality of working conditions such as but not limited to, appropriate level of remuneration, and protection of health and safety of the employees.

BU’s best practices

In addition to the top-down approach described above, CSR in Sourcing has been well progressing in 2006 as shown through the following examples:

Airbus

Airbus now addresses the product’s environmental performance throughout its entire life cycle. In 2006, the sites and the products of Airbus have been certified against environmental standard ISO 14001. The supply chain plays a strategic role in fulfilling that objective, hence, the Airbus environmental project received a full support from Airbus Procurement. The following main milestones took place in 2006:

- a) The head of Airbus Procurement sent to all Procurement personnel a Statement of Intent about Procurement environmental Policy in February 2006.
- b) An area in the intranet pages of Airbus has been dedicated to the Environmental policies of Airbus Procurement. Airbus Procurement staff was also invited last year to go through e-learning modules in order to learn how to introduce Airbus environmental requirements into contractual agreements.
- c) Later in 2006, the “Airbus Environmental pocket-guide” was distributed to all Procurement employees in Airbus. In this Guide, the CEO of Airbus presents the Airbus environmental challenges and the head of Procurement explains the Environmental Commitment and Objectives for Procurement, the Golden rules for environmental contribution. This Guide shows also the organisation in charge of Environmental Management within Procurement.
- d) The Suppliers have been given online access to the Airbus environmental requirements in a specific chapter of the “Airbus Supplier Portal” in internet.
- e) Various external communication events have been organised, in order to raise awareness about environmental issues within the Supply Chain.

EADS Astrium

The CSR requirements are now considered in the Supplier pre-selection process as part of the basic Supplier requirements which are prepared in order to ensure in particular:

- Compliance to EADS code of Ethics and CSR policies
- Awareness and demonstration of compliance with applicable statutory and regulatory requirements: WEEE, RoHS, CE Marking (which is a mandatory European marking for certain products to indicate conformity with European applicable standards) etc.

The Environmental Health and Safety requirements of EADS Astrium are presented in a dedicated Intranet page for the attention of EADS Astrium procurement teams.



Key Performance Indicators

All figures below have been calculated using new euro-dollar exchange rates. Figures for previous years have been recalculated accordingly (2006: 1.2556; 2005: 1.2441; and 2004: 1.2438).

Importance of sourcing outside of EADS In percentage of revenues	2006	2005	2004
	74%	70%	63%

The increase in value of Sourcing is mainly influenced by A380 production ramp up which started ahead of A380 deliveries, temporarily increasing sourcing volume vs. sales volumes.

Sourcing volume: breakdown by country for top 10 countries In percentage of total sourcing volume	2006	2005	2004
France	32%	31%	31%
Germany	21%	22%	23%
U.S.	20%	22%	21%
U.K.	14%	12%	12%
Spain	4%	4%	4%
Italy	2%	1%	2%
Netherlands	1%	1%	1%
Belgium	1%	1%	1%
Canada	1%	1%	1%
Switzerland	1%	1%	1%

The geographic Sourcing breakdown is stable and centred on Western countries.

Purchasing breakdown by Geography In percentage of total purchase	2006	2005	2004
Europe	77%	75%	77%
North America	21%	23%	21%
Rest of the World*	2%	2%	2%

Scope: EADS.

(*) Including < 1% in non-OECD countries.

2.3 Environmental Care

EADS' environmental policy embraces all phases of the product life cycle, from design, manufacturing, including environmental impact of its sites, operations and maintenance to the end of life. It seeks to ensure that each of its BUs complies with the laws and regulations of each country in which it operates. EADS is subject to numerous international, European, national,

and local environmental laws and regulations which concerns emissions into the environment, in particular discharges to surface and sub-surface water, elimination and treatment of waste, consumption of natural resources, soils, noise and other nuisances, landscape, etc. as well as those related to permits to operate.

2.3.1 Policy

“Minimizing environmental impacts of EADS” activities

- EADS is fully conscious of its operations’ impact on the environment and therefore considers that monitoring and reducing those impacts is fundamental for its approach to CSR.
- EADS is committed to continuous improvement of its environmental impact, beyond the simple fulfilment of legal obligations. It is EADS’ subsidiaries and sites’ role to ensure compliance with the laws and regulations of the countries in which they operate. The Group encourages environmental certification of its manufacturing processes.

Taking into account environmental impacts of products along their life cycle

- Improving environmental performance of products throughout their lifecycle is of significant importance for EADS and its customers.
- EADS encourages the active consideration of environmental criteria, through implementation of Eco-Design approaches, in all phases of its products’ life cycles in order to improve the environmental performance of its products.”

2.3.2 Organisation

Limiting environmental impacts of operations is strongly driven by the business. The management of environmental aspects of Group operations is, as result the responsibility of the BUs and sites. Moreover, each of EADS’ businesses is strictly controlled and audited by relevant authorities, in respect of manufacturing processes and product certification. Customers, both civil and governments increasingly include environmental criteria in their specifications.

Many EADS Divisions and BUs have successfully implemented environmental management systems and work towards a continuous improvement of their respective products’ environmental performances.

In addition, some coordination at corporate level is organised in order to implement a periodic follow up on the Group’s environment performance, to promote a cross-fertilisation of best practices and consistently anticipate any new relevant regulatory framework that may apply to the Group.

Currently the environmental reporting at Group level is provided by CQO. It is based on networks that already exist from the founding companies of EADS. In order to enhance effectiveness of the environmental policy, to define guidelines and relevant action plans, as well as to provide visibility, EADS decided to further develop an environmental network

coordinated by the Group leading companies in managing environmental matters. Particularly, most of EADS’ European sites are now ISO 14001 certified, which provide a solid basis for developing an enhanced Group environmental approach.

Within the industry; EADS is already participating in environmental working groups of industry organisations such as the GIFAS in France, BDLI in Germany and the SBAC in the U.K. For example, the Environment Committee of GIFAS is chaired by an Airbus representative. EADS and Eurocopter also participate to this committee. In 2005, the committee defined and implemented a legal and regulatory tracking system to the whole benefit of the sector in France. With the view to improve the sector communication, the committee initiated in 2006 an inventory of the industry best practices in order to promote such practices.

At European level, the Environmental Committee of ASD is chaired by Airbus.

On a worldwide basis, the ASD is the European member ICCAIA (International Coordination Council for Aerospace Industries Association). The vice-chairman of the environmental committee (Aircraft Noise & Engine Emissions) of ICCAIA is an Airbus representative, as per the ICCAIA by-laws, he will automatically become Chairman in 2010.

2.3.3 Performance and Best Practices

Environmental Management ISO 14001/EMAS

EADS encourages environmental certification of its industrial sites. As of 31st December 2006, 52 sites (29 as of 31st December 2005) were either ISO 14001 certified or EMAS registered, representing more than 70% of the total workforce of EADS. New certification processes were completed at Airbus but also within EADS Military Aircraft Systems as well as within the Astrium Division. This important increase in the number of certified sites will allow the EADS Group to strengthen its approach to environmental management.

In 2006, Astrium Space Transportation achieved its ISO 14001 certification objectives. The initial certification of the French sites was approved in November 2006 and followed the successful re-certification of the German sites a couple of months earlier. It marks the start of a continuous improvement process to which the Astrium ST management has committed.

After the certification of Hamburg and Toulouse plants in April 2006, Airbus has become the first and only aerospace company world-wide to receive the ISO 14001 environmental certification covering the 16 Airbus production sites, including the Airbus headquarters as well as all products throughout their lifecycle. The ISO14001 corporate certification recognizes that Airbus uses a robust Environmental Management System to continually monitor and minimize the environmental impacts of Airbus production processes and products throughout their life cycle. Environmental innovations in the production process include the pioneering use of a greener, chemical-free milling process for fuselage panels; more environmental friendly painting processes; and steps to minimise energy and water consumption during the production phase. The Airbus Environmental Management System is helping in a new approach to reduce the environmental impact of products and processes throughout the aircraft life cycle. The life cycle covers design, procurement, manufacturing, transport, in service operations including maintenance, aircraft end of life and recycling.

While classical ISO 14001 addresses only SITE-related certification, Airbus has joined forces with several other organisations (Chamber of Commerce, National Trade Associations, EADS Germany...) to set the rules for an approach to an innovative environmental certification covering both SITES and PRODUCTS along their lifecycle (production sites being only one aspect of this lifecycle). This integrated approach called **SPOEMS** (Site and Product Oriented Environmental

Management System) will help Airbus, among other organisations, to systematically assess the environmental impact of its products along their entire life, and to target appropriate improvements, in particular from the earliest design stage. SPOEMS was selected by the European Union under its "LIFE" Programme.

Recycling of waste

Powered by the ISO 14001 certifications, many local initiatives on waste recycling are taken by the BUs, going beyond the regulatory requirements (identification, separation, management of disposal). One example is with Astrium UK: introduction of two recycling waste streams: one for glass and one for paper.

Climate Change

EADS BUs were part of the first Emission Trading Scheme set up by the E.U., however EADS operations have a very low impact in terms of greenhouse gas emissions. In the main, EADS' energy use results from heating and lighting requirements (offices, administration buildings, production facilities etc), as well as from processes.

A potential risk from climate change to EADS operations comes from the ever-increasing pressure on energy costs. However, both from a cost and an operational efficiency viewpoint the Group recognises that it has a responsibility to reduce energy usage where possible and so EADS views this as an opportunity to make continuous improvements in this area, particularly within environmental management systems that are currently being set up throughout the Group.

In July 2006, Airbus and Eurocopter, together with five other major European aerospace manufacturers signed a letter of intent in a Joint Technology Initiative ("JTI") that works on the preparation of an innovative "Clean Sky" policy. The Clean Sky JTI will be the largest research project ever set up jointly with the European Commission and would run over a seven year period with a total budget estimated at around 1,7 billion euros. The "Clean Sky" JTI is an innovative, large technological research programme that will radically improve the impact of air transport on the environment and will deliver innovative technologies and solutions enabling step changes in the reduction of noise, emissions and consumption for the next generation of aircraft and associated components and operations.

Its purpose is to demonstrate and validate the technological breakthroughs that are necessary to reach the environmental goals set by the Advisory Council for Aeronautics Research in Europe (“**ACARE**”). ACARE goals to be met by 2020 include a 50% reduction of CO₂ emissions through drastic reduction of fuel consumption, an 80% reduction of NO_x emissions and a 50% reduction of perceived noise. It also aims for green product life cycle design including manufacturing, maintenance and disposal.

Restriction of Hazardous Substances (RoHS) directive

The European RoHS directive restricts the use of six hazardous substances (lead, hexavalent chromium, mercury, cadmium, PBB and PBDE) in electric and electronic applications. The European Commission has confirmed that “equipment containing such targeted substances specifically designed to be installed in airplanes, boats or other means of transport are out of the scope of the RoHS Directive”. The defence products are also out of the scope of the RoHS directive. However, it is expected that the industry will progressively move towards new environmentally friendly alternatives in electric and electronic applications. These substitutions remain highly difficult for aerospace activities due to the length of the aerospace products life cycle and stringent safety requirements: the introduction of substitute alternatives requiring testing and certification before replacement.

In 2004, EADS installed a specific network on the RoHS/Waste Electrical and Electronic Equipment (“**WEEE**”) issue, managed by CQO. A prior focus of EADS was on the replacement of lead. A position paper was issued in July 2005 and flowed down to the supply chain and to the engineering community. Standards are under preparation to set the rules for the global aerospace industry’s transition to safety/reliability proven solutions.

EADS and many of its BUs (Airbus, MBDA, Defence Electronics, Space Transportation) participate to the LEAP (Lead-free Electronics in Aerospace Project) Consortium which is preparing these standards. Furthermore, EADS and Boeing have decided to team up to address this difficult transition, by jointly defining the technical solutions, the validation tests protocols and the configuration management rules that will be enforced throughout the aerospace Industry and its supply chain in the coming years.

Dedicated IT tools are starting to be deployed to trace and manage hazardous substances, such as lead, from supply to disposal.

In addition, a project partnership has been formed between Airbus, EADS DCS, the EADS Innovation Works, TechCI, a printed circuit board manufacturer and ACTIA, a board assembling firm. These partners won a funding from the EU (through the LIFE programme) to develop technologies for lead substitution under the name Green Electronics in Aeronautical and Military Communication Systems (GEAMCOS). This project aims at allowing EADS BUs to reliably perform 100% lead-free soldering and to obtain 100% lead-free electronics boards in the medium term.

Aircraft dismantling and recycling

The life span of an aircraft is about thirty years; as a consequence, the first Airbus aircraft models are about to reach their end of life. Approximately 200 planes are expected to be withdrawn from the worldwide market each year for the next 20 years.

So far, old planes were stored in hangars or dismantled in a non-environmentally friendly way. Airbus has created a consortium to improve management of the end of aircraft life, with EADS Innovation Works (former CRC), Sogerma, Sita (a waste management company) and the Préfecture des Hautes-Pyrénées. This €2.4 million project, called **PAMELA** (Process for Advanced Management of End of Life of Aircraft), was approved in 2005. A special experimental centre has been set up at Tarbes Airport, where procedures for the decommissioning and recycling of aircraft in safe and environmentally responsible conditions are being tested. The aim of this project is to demonstrate that 85 – 95% of aircraft components can be recycled, reused and recovered. It will also position EADS to anticipate further environmental European Regulations on waste recycling. The first aircraft which is currently being dismantled (since March 2006) is an Airbus A300. The experience gained from this project and further dismantling will feed back into new aircraft design to help make future aircraft even easier to recycle.

Further reporting: Airbus publishes an environmental report every two years which is available on its website at www.airbus.com. Airbus’s fourth environmental report was published in 2006.



	2006
ISO 14001 certification/EMAS registration - Number of sites covered by a certificate	52
Number of sites covered by EU-ETS	12
Total CO ₂ emissions (in ton)	330,000
Total CO ₂ emissions declared under EU ETS (in ton)	170,000
Direct Energy use segmented by primary source (in MWh)	2,910,000
Volatile Organic Compound Emissions (in ton)	3,900
Total water use (in m ³)	5,520,000
Total water discharge volumes (in m ³)	3,050,000
Total hazardous waste production (in ton)	41,300
Total Non-hazardous waste production (in ton)	83,000

Scope: covering approximately 90% of EADS staff, 2006 figures generated on available material, definitions need harmonisation between the various countries in which EADS operates. Except for the number of sites, all figures are rounded.

2.4 Human Resources: Employer – Employee Relationship

The HR function ensures that the EADS Group attracts, develops and retains a world-class workforce.

In addition, to this on-going role of business partner, the HR function also supports the business challenges in facilitating the continuous integration and internationalisation of the Group and the building up of a common spirit across the Group's organisational and operational structures.

In the field of industrial relations, the Group HR function coordinates the social dialogue at the Group and Divisional level.

Maintaining high standards of health and safety in the workplace is also a major priority of the EADS Group.

In 2006, several initiatives have been taken to give life to these missions such as re-shaping the HR organisation for better integration of the function facing the group integration goal. With the development of the e-HR project, real change process has been introduced.

In the context of the preparation of the Airbus restructuring and the evolution of EADS organisation, the social dialogue has been intensified and additional information and consultation procedure has been defined with the staff representatives.

2.4.1 Workforce Information and Organisation of Work

As of 31st December 2006, the EADS workforce was composed of 116,805 employees. It has globally increased by 3.2% compared to 2005, with higher rates of increase registered at Airbus, Astrium and Eurocopter.

In 2006, 98.1% of the workforce was permanent employees. Depending on country and hierarchy level, the average working time is between 35 and 40 hours a week.

In 2006, 8,283 employees worldwide entered employment with EADS (7,843 in 2005), of which 3,929 were employed by Airbus. At the same time, 6,261 employees left EADS (5,471 in 2005).

In total, 97.5% of EADS' active workforce is located in Europe on more than 80 sites.

Workforce by Division and by Geography

The tables below set out the number of EADS employees by business sector and by geographic region. Employees of companies accounted for by the proportionate method (such as ATR, MBDA, LFK) are included in the tables on the same proportionate basis.

The figures for 2004 have been adjusted in order to reflect the new organisational structure which occurred in 2005; “Other businesses” includes ATR, Elbflugzeugwerke GmbH, EADS Sogerma, EADS Socata.

EADS Employees by Division	31 st December 2006	31 st December 2005	31 st December 2004
Airbus	56,966	54,721	51,959
Defence and Security	23,268	23,237	24,268
Eurocopter	13,422	12,755	11,850
Military Transport Aircraft	4,212	3,976	3,856
Astrium	11,927	10,985	11,053
HQ, Innovation Works and other businesses	7,010	7,536	7,676
TOTAL EADS	116,805	113,210	110,662

EADS employees by geographic region	31 st December 2006		31 st December 2005		31 st December 2004	
	Amount	In percentage	Amount	In percentage	Amount	In percentage
France	44,536	38.1	43,286	38.2	42,807	38.7
Germany	42,920	36.7	41,438	36.6	40,325	36.4
Spain	8,991	7.7	8,710	7.7	8,435	7.6
U.K.	14,309	12.3	14,297	12.6	14,045	12.7
Italy	701	0.6	729	0.7	734	0.7
U.S.	1,932	1.7	1,877**	1.7	2,166	2.0
Other Countries*	3,416	2.9	2,873	2.5	2,150	1.9
TOTAL EADS	116,805	100.0	113,210	100.0	110,662	100.0

(*) The “Other countries” figure includes employees from 13 other countries.

(**) This decrease is mostly due to the disposal of EADS Telecom and EADS Aeroframe services.

Part Time Contracts	2006 In percentage	2005 In percentage	2004 In percentage
France	4.1	4	3.7
Germany	3.3	3.2	3.2
Spain	0.0	0.0	0.02
U.K.	1.6	1.4	0.82
U.S.	n/a	0.1	0.0
Other countries	n/a	n/a	1.3
TOTAL EADS	3.2	3.2	2.87

2.4.2 Human Resources Organisation

In 2006, the HR organisation has been redesigned in a way of greater integration of the function, in line with the Group business requirements. A new HR board and functional reporting lines from the Divisions to the Group HR head were designed to foster a coordinated Group policy.

The Corporate HR team operates worldwide as the strategic leader in HR matters and works in close cooperation with the Divisions and BUs which have the operational HR responsibility for most of the employees, except for the top Management of each BU which is under the Corporate HR operational responsibility.

The HR communities work closely together and coordinate and share best practises at functional level. Regular meetings of HR heads are organised at both European and national levels. A global HR database is now available and is being continuously developed in order to fulfil the needs of EADS integration.

At corporate level, six support departments make up the global EADS HR management: HR Improvement and Operations; Social Policy and Industrial Relations ; Compensation and Benefits, Leadership Development and Learning ; Talent and Executive Management ; as well as Security.

Among other, they are responsible for e.g.:

- Managing HR Development for the top 200 key positions;
- Designing policies, guidelines and tools for all group wide HR processes, such as appointments, job rotation, international mobility, compensation and benefits, e-HR projects, data and information systems security policies etc.;
- Organising and delivering executive education for all executives and potential future executives through the CBA and coordinating the training activities within the Group for all employees; and
- Improving the sharing of best practises within the EADS HR community.

2.4.3 Human Resources Policies and Performance

2.4.3.1 Health and Safety: Providing a Safe Workplace for EADS Employees and Subcontractors

Policy

- *“EADS considers that protection of the health and safety of employees in the work-place is key and a top priority for the Group.*
- *EADS is committed to maintaining safe and healthy working conditions for its employees. It is EADS BUs’ and subsidiaries’ role to implement Health and Safety policies based on evaluation, anticipation and risk management and taking into account all specificities as well as people’s needs.”*

Organisation and Performances

The management of Health and Safety is essentially dealt with at site level and it accordingly allows that prevention and protection measures for employees, contractors and partners can be defined and implemented to meet specific requirements of each work place.

Reporting on health and safety obeys national regulations according to the sites’ locations.

However some health and safety indicators have started to be drawn up at the Division or BU level which mainly address work related accidents.

As an example of the Group performances, the incidence and severity rates of reportable accidents (work related accidents causing an absence of more than 3 days) recorded at Airbus, noticeably decreased from 2004 to 2006, while in the same period aircraft deliveries increased.

Airbus	2006	2005	2004
Incidence rate (%)	10.6	12.61	13.18
Severity rate ⁽¹⁾	0.133	0.184	0.236

(1) Lost days caused by reportable accidents/employees.

2.4.3.2 Caring for EADS Employees and EADS Know-How

Policy

“Given the specific nature of the facilities of the EADS Group which are used for many activities relating to national defence and sensitive civil markets, the conditions governing access to and movements inside the plants and facilities are specified in ministerial orders and are based on two main principles:

- *access to a plant is subject to prior authorisation by the company; and*
- *entry into restricted and sensitive areas is regulated in accordance with national and company regulations.”*

Organisation and Performance

EADS has set up a security policy to improve the security of its employees and to protect EADS expertise. A Security Committee has been set up as a combination of Security leaders from each country and each Division who supervise their local security officers at BU and plant level, and who deal with national security authorities and European security organisations.

The network of security managers is there to ensure information exchange and sharing of best practices. Working groups are created to facilitate constant adaptation of security measures to actual threats. Access to EADS facilities is subject to prior authorisation, and entry into restricted and sensitive areas is regulated in accordance with national and company regulations. The awareness of the EADS employees is addressed as a main success factor.

The increasing development of EADS business outside Europe implies to reinforce the safety of EADS employees in risky countries and to improve the security of EADS offices abroad.

In terms of IT security, appropriate steps were taken to audit processes and improve the level of awareness of EADS employees to the security of the information systems. Given the sensitive nature of the Group’s business, employees must be able, in order to meet the business needs, to always work in compliance with group security policies ; hence, the Group implements, for instance, secured nomad IT solutions facilitating mobility and business reactivity with confidence.

In 2006, a particular focus was developed on risk management, addressing and challenging all the security matters and business security needs. Particularly, new procedures have been defines and implementation to specific applications has begun (e.g.e-HR).

2.4.3.3 Diversity: Commitment to Ensure Equal Opportunity for all EADS Employees

Policy

- *“EADS commits to offering equal opportunities for all its employees and to refraining from any discrimination against its employees based on gender, race, religion, nationality, political opinion, sexual orientation, social origins, age and handicap with regard to its personnel.*
- *EADS commits to developing access for women to all of its activities and shall ensure fair professional development as well as equal remuneration for men and women employees for skill and work of equivalent value.”*

Performance and Best Practices

EADS has always promoted diversity through its existing culture of cross-border collaboration.

EADS principles regarding respecting and promoting diversity are listed in the Group Code of Ethics as well as in the “International Framework Agreement” signed with the European Works Council.

The following examples illustrate the implementation of these principles:

Nationalities

EADS welcomes 40 different nationalities among its employees worldwide (each of the nationalities represented by 10 employees at least).

Gender Diversity

The percentage of women employed in 2006 in the Group is about 15.2%. It has steadily increased since 2004, when the Group started to reinforce its policy in this field; the increase in the percentage of women was registered across all Divisions.

As of 31st December 2006, according to a Group-wide internal grading system, around 5% of executive positions (highest EADS management levels) were held by women, as well as 8% of senior manager positions.



Women at EADS	31 st December 2006 In percentage	31 st December 2005 In percentage	31 st December 2004 In percentage
Airbus	13.2	12.7	12.4
Defence and Security	18.9	18.7	18.9
Eurocopter	13.1	12.6	12.3
Military Transport Aircraft	13	12.6	12.1
Astrium	19.6	19.2	19.4
HQ, Innovation Works and other businesses	17.6	15.7	15.4
TOTAL EADS	15.2	15	14.8

EADS has committed to a long-term plan for the promotion of women in aerospace and has set two priorities: at least 20% of its annual recruitment will be women, and it will have active communication within universities and schools in order to convince female students through lively role models and concrete examples that the aerospace industry, and more specifically EADS, is an attractive employer for women.

From 1st January 2004, BUs have been asked every quarter to report on their success in recruiting women.

The EADS CBA promotes diversity in all development programmes. In 2006, the percentage of women has increased in these programmes to be consistent with the Group recruitment target.

In 2006, the recruitment of women was 22.6% of total recruitment (20.5% in 2005), and so exceeded the Group's target. The Divisions Defence & Security and Astrium as well as the EADS Innovation Works are leading the way in this field.

Since 2004, EADS has been involved in a partnership with the **FEMTEC** university career center for women Berlin GmbH in Germany.

Working in cooperation with well-known companies, the aim of this cooperation between FEMTEC and industrial companies is to promote engineering studies among young girls and women, and to help high potential and specialized female students enter the aerospace industry. EADS takes an active part in career advice workshops designed for FEMTEC students as well as in conference days.

In France, EADS sponsored the **Irène Joliot-Curie award** for the third time in 2006 (See "2.2.2 Sustaining and Protecting Innovation – Innovation Chapter").

Furthermore, EADS is an active member of the **WIST** (Women Initiative in Science and Technology), a programme funded by the European Commission and aiming at exploring the partnerships between private and public research, as well as the links between diversity and business performance.

Airbus also agreed on a partnership with the Academy of Toulouse to facilitate contacts between female professionals and students, to provide information to students, teachers and career advisors on technological advances and new skills, and to participate in relevant events.

Other initiatives include:

- in Germany, the organisation of a "**girls' day**" which is an open day for girls at the EADS German sites to allow them to find out more about the engineering profession;
- in France, participation in the "*Elles bougent* ("*they move*") initiative. Led by major French engineering universities (ENSAM, ESTACA) together with key players from the transportation industry (EADS, PSA, Dassault, SNCF...), this project aims at raising young women's awareness of technical studies, as well as interesting them in complex technologies through plant visits, conferences, as well as regular contacts with female engineers currently working in the member companies, plant visits, conferences...

Finally, in keeping with this overall strategy, a meeting with participants of the **IIWE** (International Institute for Women in Engineering) took place in July 2006 at EADS Paris headquarters, the Astrium ST plant in les Mureaux and at Eurocopter in la Courneuve. 80 young women took part in workshops on diversity and scientific vocations.

EADS was also a business partner to the second "**Women's forum for the economy and society**". This forum, which took place in October 2006, was created to promote the vision, influence and impact of women on all the major economic and social issues. It gives women an opportunity to express their views, ideas and solutions. It aims at defining directions for progress in the world of tomorrow.

In France, the implementation of the agreement signed in 2004 with trade unions ("*Accord sur l'égalité et la mixité professionnelle*"), is monitored by each EADS company, and also at Group level, using a defined set of common indicators to evaluate results and track progress with an action plan covering the 2004-2006 period. This action plan is to be re-negotiated every three years.

Age diversity

A group agreement covering EADS entities in France signed with trade union organisations in 2005 aims at banning all career development based on age criteria.

Being concerned with the lengthening of working life, the other European entities of the EADS Group are also working on this issue of second half of career development.

Number of employees per age group	31 st December 2006	31 st December 2005	31 st December 2004
18-25	7,578	7,179	6,812
26-35	29,621	27,303	26,081
36-45	37,026	37,127	37,544
46-55	36,545	35,358	34,565
56-65	12,227	11,229	10,984
TOTAL EADS	122,997	118,196	115,986

Consolidated companies are counted 100%.

Average age of employees	31 st December 2006	31 st December 2005	31 st December 2004
France	41.3	41.4	41.6
Germany	42.0	42.2	42.1
Spain	42.8	42.4	42.9
U.K.	42.3	41.9	41.7
U.S.	44.2	43.9	42.4
Other countries	n/a	40.8	39.5
TOTAL EADS	41.8	41.9	41.9

Average length of service	2006 In years	2005 In years	2004 In years
Airbus	13.4	13.4	13.6
Military Transport Aircraft	20.1	20.8	21.5
Eurocopter	13.4	14.2	15.1
Defence and Security	16.3	16.7	16.5
Astrium	15	15	14.9
HQ, Innovation Works and other businesses	12.5	13.3	13
TOTAL EADS	14.3	14.6	14.7

2.4.3.4 Career Development: Efficient Management of Skills and Know-How

Policy

- “EADS ensures that working time, including overtime, is regulated so as to support a healthy balance between employees’ work and their private life.
- EADS strives to develop the skills and know-how of its employees, for their individual benefit as well as for its collective success. The EADS personnel development policy aims at:

- supporting training to enhance performance and quality of work;
- encouraging cross-border and cross functional teamwork, in the frame of intra-Group mobility;
- assessing and recognising individual technical expertise via a global scheme developed throughout the Group; and
- associating personnel to the performances of the Group and its subsidiaries through a success sharing scheme.”

Performance and Best Practices

Recruitment and retaining of talent

EADS strongly believes that developing close contacts with target universities and their students will contribute to the students' growth and will efficiently brand the group among potential future recruits.

EADS demonstrates its commitment in many different ways: by sitting on boards, advising on classroom content, preparing case studies, giving technical lectures or on-campus conferences, arranging plant visits, maintaining a presence at career fairs, or by enhancing cooperation in common research areas.

For instance: EADS attends more than **40 recruitment events** per year such as the Bonding student fairs in Germany, the Polytechnique, Centrale and Supaero career fairs in France, as well as the MIT or Berkeley fairs in the U.S. to name but a few. Dedicated branding and recruitment meetings are also held during major air shows such as ILA or Paris Air Show, thus promoting EADS' employer brand among real aerospace fans and attracting talented candidates.

In the framework of the EADS Global Industrial Development policy and following HR presence at Asian Aerospace in Singapore in February 2006, HR Marketing decided to go one step deeper in the Asian market. With the aim of developing EADS employer brand on a group wide level in China, the HR team was part of the EADS staff at Zhuhai Airshow 2006.

The EADS Group started its own Road Shows around Europe at key Universities within the Pegasus Network (Partnership of a European Group of Aeronautics and Space Universities). EADS, together with all EADS Divisions are present on campus in order to forge new contacts to the leading "aeronautics and space" universities in Europe as well as to build a powerful image of EADS as a desirable employer. In addition, discussions with faculty members, professors and EADS engineers helped to develop first steps into future education and skills of the students to be prepared for a successful career within the aerospace industry.

Such partnerships also demonstrate EADS' long-term commitment to building and maintaining a lasting relationship with key universities or networks.

In addition to increasing on-site presence among students directly at universities, EADS also organises more than **60 factory tours** at most of its Divisions and BUs.

After more than one year of intensive project work, EADS was able to announce the official roll out of the new EADS-wide eRecruiting@EADS platform. This new platform will respond to the company's future workforce requirements and will bring transparency to the Group-wide job market.

Launched in November 2006, this new recruitment platform will ensure that EADS has the right people in the right place at the right time. The new eRecruiting@EADS platform has an important role to play in shaping the future of EADS.

With more than 5,000 **internships** offered each year in Europe, EADS provides students with valuable technical and personal experience as well as with the unique opportunity to have a closer look at the industrial world. Most of EADS' internships target students in the fields of aviation and space technology, electronics, information technology, finance, or management.

In order to enhance the personal skills and abilities of its former trainees, EADS developed the **Juniors programme** to follow-up all EADS interns, and thus retain and recruit highly motivated interns.

A variety of other opportunities (depending on national regulations and policies), including vocational training and scholarships programmes, are also offered to students.

In order to increase the efforts of integration, new specific recruitment and development programmes have been created internally to contribute to the ongoing development of EADS' workforce. A programme called PROGRESS which consists in first stretching assignments for talented recruits in addition to mobility within the EADS Group, has been designed and will be deployed in 2007. Moreover, EADS Development Programmes (Financial Management Development Programme and Advanced Marketing and Sales Programme) offered to professionals interested to join EADS in key fields such as sales and finance have now proven their efficiency.

Breakdown of employees per qualification	2006 In percentage	2005 In percentage	2004 In percentage
University (4 years and more)	24.4	24	23.9
University (up to 3 years)	19.3	18.9	19.1
Higher vocational school	9.9	11.3	9.5
Vocational school	40.9	41.5	41.4
General school	5.5	4.3	6.1

Development and training

Development is a priority for EADS employees. Indeed recognising the development of **technical expertise** as a major asset, EADS has developed a specific policy for engineering experts, who are key to EADS for maintaining its competitive advantage through R&T developments.

Aiming at creating attractive career paths for engineering experts, the policy also includes development programmes customised for the specific requirements of technical experts.

Personal development also includes **training**. EADS' expenses amount to approximately 4% of its payroll (over €150 million) in training per year. EADS trains more than 70,000 employees every year for a total of 2.5 million hours.

To improve the effectiveness of that significant investment, EADS has set up a Learning Directorate with the ambition to deliver better training programmes, to share internal resources, to be more proactive in that domain and to create more value for the business. The Learning Directorate is managed by the EADS head of Leadership Development and Learning.

- One of the decisions of that directorate has been to create a "Shared College" which will be the place where all the Divisions will share common training programmes and common resources, including internal trainers. Created in 2006, the Shared College will deliver its first programmes in 2007 and should ramp up very quickly to face the needs of EADS. The first programmes targeted within the Shared College will be on Quality, on System engineering and on Programme management.
- In the same trend of integration, EADS has decided to create a Leadership Model based on 6 principles which illustrate the successful way of leading and managing within EADS. This Model is used in development with tools such as specific EADS 360° feedback processes, or Development Centers.
- The CBA, created in 2000 as a EADS Corporate University to develop the current executives and prepare the next generation of executives, has focused some of its programmes to prepare actively EADS leaders on internationalisation, improvement and innovation.

In 2006, the Centre for Executive Education of EADS (Domaine de Villepreux) close to Bordeaux has hosted more than 1,000 guests for its second year. This centre has been designed to provide facilities to the whole Group for top management meetings, training sessions and executive seminars.

Mobility

EADS employees are also offered a wide range of mobility opportunities. Mobility at EADS means mobility across functions, BUs and Divisions in its four home countries, France, Germany, Spain and the U.K., as well as appointments to regions such as America or Asia.

As of 31st December 2006, 2,000 EADS employees were recorded as expatriates⁽¹⁾, 75% of them working in one of the European countries.

Remuneration

The total wage bill amounted to €8.73 billion in 2006 (See "Part 1 – 1.2 Financial Statements" – note 7).

Success Sharing Practices

EADS' reward schemes policy is strongly linked to the achievement of individual and Company objectives, both for each Division and for the overall Group. In 2006, a stock option plan and a performance and restricted shares plan have been established for the senior management of the group (See "Part 1 – 2.3.3 Long Term Incentives Plans"). In 2006, no employee offering took place. The employee offering originally scheduled for June 2006 was postponed to March 2007. (See "Part 1 – 2.3.2 Employee Share Ownership Plans").

Since 2005, the success sharing schemes which are implemented in EADS in France, Germany, Spain, and the U.K. follow one set of common rules of the Group, ensuring a consistent application in these four countries.

2.4.3.5 Employee Relations: A Proactive Dialogue

Policy

- *"EADS emphasises its belief that a continuous and high quality social dialogue is key to the Group. In particular, the European Works Council ("EWC") facilitates a pro-active and fluid dialogue with employee representatives.*
- *EADS ensures that the representation of personnel is conducted throughout all its BUs in a constructive atmosphere. This maintains a proper balance between the interests of employees and the economic interests of the Group."*

(2) Scope : approximately 90% EADS.

Performance and Best Practices

European Works Council

On 23rd October 2000, at an early stage of the formation of EADS, the management and employee representatives from the unions and works council operating within EADS in France, Germany, Spain and U.K. signed an agreement for the establishment of the EWC.

- The EWC meets twice a year for information and consultation on evolution of the business and the prospects of the Group.
- The EWC also comprises an economic committee which meets four times a year and focuses on economic matters.
- European sub-committees have also been set up in various BUs such as Airbus, Eurocopter, EADS Astrium and EADS DS and replicate the EADS EWC model.

National committees in France, Germany, and Spain enable dialogue on national matters, under the subsidiarity principle.

In the context of the preparation of the Airbus restructuring programme and the evolution of EADS organisation, and in addition to the legal procedure, informal dialogue process has been agreed with personnel and unions representatives. It thus results in increasing the number of meetings initially planned and in developing cross-divisional coordination and information cascading down for both the preparation and implementation phases.

International Framework Agreement

Placed in the context of globalisation of EADS activities and as an illustration of the continuous dialogue principle the EADS Group and the Group's European Works Council concluded in June 2005 an International Framework Agreement. By this agreement, the signatories expressed their commitment to common principles and social standards which they recognise as fundamental, and which they intend to promote worldwide, in the countries where EADS activities are implemented. EADS and the Group's European Works Council expressed their strong belief that CSR is a key to long-term success.

The European Metalworkers' Federation (EMF) and the International Metalworkers' Federation (IMF) associate themselves with these principles and are, accordingly, co-signatories of the agreement.

The principles contained in the International Framework Agreement are aligned with the general rules of ILO

conventions, the OECD Guidelines for Multinational Enterprises and the principles laid down by the UN Global Compact, which EADS signed in October 2003, and they are in compliance with the Code of Ethics.

They cover the fields of equal opportunities and non-discrimination in respect of employment, of working conditions and environmental protection, condemn recourse to child labour, recognise the principles of freedom of association and the protection of trade unions' rights.

EADS expects all its suppliers to recognise and apply the principles of this framework agreement.

Overview of collective agreements/works agreements signed with Unions/Works Councils since 2000

EADS Group Agreements were concluded on the following matters:

- establishment of a European Works Council⁽²⁾;
- linking personnel to the business performance of the Group⁽³⁾;
- International Framework Agreement.
- In Germany, Tariff Agreements were concluded in relation to such matters as holiday pay, Christmas bonus, sick pay, and early retirement, as well as agreements with the works council on success sharing, insurance package, company pension, early retirement deferred compensation, suggestion scheme, family and work life balance, disabled people, and time saving system.
- In France, Group Agreements were concluded in relation to such matters as employment issues, union's rights and social dialogue, pre-retirement, management of second half of career, health cost coverage, French national committee and unions coordinators, professional equality and diversity, working time, career-long training, new frame for health insurance.
- In Spain, a collective bargaining agreement covering various subjects regarding working time and organisation of work, includes also social benefits such as aid to children of employees, collective transport, retirement, life insurance, loans, prize at retirement, canteens, aids to worker association.

It has to be noted that collective agreements can be signed at the BU level on matters directly related to their specific social perimeters.

(3) Agreement for the establishment of a European Works Council and its sub Committees for information and consultation of the workforce between EADS NV and its Employees Representatives dated 23rd October 2000.

(4) Group Agreement on implementation of a success sharing scheme within EADS- NV Group between Head of EADS NV HR and the EADS NV European Worker Council dated 29th June 2004.

2.5 Corporate Citizenship

2.5.1 Maintaining an Open Dialogue with EADS' Stakeholders

2.5.1.1 Policy

“As one of the largest European companies, EADS is aware of its duties and is willing to develop its contribution to the cultural, educational and social background in the countries where EADS operates. In particular, EADS aims at reinforcing project partnerships with universities and research centres, through, for example, the EADS Research Foundation.

EADS shall do its best to maintain an open dialogue with its stakeholders and to provide clear answers to requests for clarifications within the limits of its obligations.”

2.5.1.2 Organisation

EADS' contributions come in different forms; they include sponsorships, donations, or partnerships. Wherever located, EADS contributes to a range of activities, conferences or institutions, which address social, educational, cultural or sport subjects. In most cases, such activities are initiated by EADS local entities which are also in daily contact with relevant stakeholders.

However, EADS has implemented donation guidelines (under the responsibility of EADS Corporate Secretary) as well as sponsoring guidelines (under the responsibility of EADS Corporate Communications) which set out criteria for granting contributions to projects.

The guidelines also provide certain thresholds above which such activity has to be reported to the Corporate Secretary or Corporate Communications respectively and approved at the level of the CEOs.

2.5.1.3 Performance and Best Practices

Sponsorships and Donations

In 2006, EADS contributed more than €2 million to social, cultural, sport or educational projects. A special focus is made on industry-related initiatives and science oriented projects. However, this figure does not include contributions to the EADS Corporate Foundation for Research in France or the FIDAMC in Spain.

EADS contributes to humanitarian activities by donating and giving material or providing air transportation capacities when necessary. Among others, EADS has a long-term partnership with “*Aviation sans Frontières*” (“**ASF**”) non-profit organisation in France, Germany and Spain, a humanitarian organisation which provides air transport for, in particular, seriously ill children. In 2006, ASF France escorted the 10,000th child to a medical operation in France.

EADS also encourages its employees who individually participate actively and responsibly to local initiatives which contribute to the overall development of the local communities.

Dialogue with Stakeholders

EADS is always ready to listen to critical voices and welcomes constructive contribution. The Group strives to maintain an open dialogue with any stakeholder who genuinely seeks additional information on EADS businesses, operations or CSR activities.

Particularly, in order to provide the most accurate information to our stakeholders and stockholders, the Group proactively interacts with the main sustainability rating agencies. EADS aims at continuously improving the ways of integrating CSR into its day-to-day business. In keeping with this objective, the agencies' analysis contribute to the EADS efforts in assessing the Group strengths and weaknesses and point out possible gaps in the CSR reporting. They also provide with indication of the benchmark positioning of EADS within the aerospace and defence industry which is currently behind the other industries in terms of CSR reporting.

2.5.2 Encompassing Community Interests in EADS' Global Strategy

2.5.2.1 Policy

- *“EADS is proud of selling its products and providing its services to an increasing number of countries, thanks to the trust placed by international customers in its global reputation.*
- *EADS is conscious of its responsibility as a global company in the spreading of sound international business practices that foster the expansion of a balanced and fair globalisation benefiting all countries.*
- *EADS encourages industrial cooperation with local industries whenever possible in order to support the development of skills and competencies.*
- *EADS supports local initiatives dedicated to the promotion of corporate social responsibility-oriented projects.”*

2.5.2.2 Organisation

A function, named Global Industrial Development (“GID”), is in charge to design and implement the EADS Group Global Industrial strategy. This function, which was created at the end of 2005, includes a corporate team and a Division network.

Overall EADS organisation tends to implement globalisation in full line with EADS policy. The main driver is to establish, whenever possible, long-term industrial partnerships with balanced benefits between EADS and the local partner.

2.5.2.3 Performance and Best Practices

In 2006, EADS made significant breakthroughs for globalisation. Among others, EADS prepared the ground to significantly enhance industrial footprints in India and China.

The EADS Technology Centre India is expected to open in 2008 in Bangalore. It will host both EADS subsidiaries and suppliers performing engineering, software development and technical publication activities. This will represent in total up to 2,000 jobs creation in the next 10 years.

Eurocopter has started with a Chinese partner the joint development of EC 175, a new multipurpose helicopter. At the same time, Airbus is preparing the establishment of an A320 Final Assembly Line in Tianjin province, which should start operations in 2008.

These milestones in India and China confirm the commitment of the EADS Group to globalize its industrial footprint in strategic countries, through win-win association with the local partners. While EADS expects to benefit from sustainable market access and high skilled resources in specific activities, the country benefits from the development of its local aerospace industry, with the creation of hundreds of jobs in core activities such as engineering and final aircraft assembly.

3

GENERAL DESCRIPTION OF THE COMPANY AND ITS SHARE CAPITAL

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3.1 General Description of the Company

3.1.1 Commercial and Corporate Names, Seat and Registered Office

Commercial Name: EADS

Seat (*statutaire zetel*): Amsterdam

Corporate Name: European Aeronautic Defence and Space Company EADS N.V.

Tel: +31.20.655.48.00

Registered Office: Le Carré, Beechavenue 130-132, 1119 PR, Schiphol-Rijk, the Netherlands

Fax: +31.20.655.48.01

3.1.2 Legal Form

The Company is a public limited liability company (*naamloze vennootschap*) organised under the laws of the Netherlands.

As a company operating worldwide, EADS is subject to, and operates under, the laws of each country in which it conducts business.

3.1.3 Governing Laws

The Company is governed by the laws of the Netherlands, in particular by Book 2 of the Dutch Civil Code and by its Articles of Association (the “**Articles of Association**”). The shares of the Company have been admitted for trading at the Traded but Not Listed Segment of Euronext Amsterdam.

The Company is subject to various legal provisions of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*) (the “**WFT**”). These are summarised below.

Pursuant to section 5:60 of the WFT, certain persons discharging managerial responsibilities within the Company and, where applicable, persons closely associated with them (together “**Insiders**”, as defined below) must notify the Netherlands Authority for the Financial Markets (*Autoriteit Financiële Markten* (the “**AFM**”)) of all transactions conducted on their own account relating to shares of the Company, or to derivatives or other financial instruments linked to them. In principle, failure to comply with the requirements of the WFT is a criminal offence punishable by criminal and administrative penalties in the Netherlands.

In particular, “**Insiders**” include (i) members of the Board of Directors and the Executive Committee of the Company, (ii) certain senior executives, (iii) persons closely associated with any person mentioned under categories (i) and (ii) (including their spouses, dependent children and other relatives who have shared the same household), and (iv) legal entities, trusts or partnerships whose managerial responsibilities are discharged by any person referred to in point (i), (ii) or (iii) or which are directly or indirectly controlled by such a person, or that have been set up for the benefit of such a person, or whose economic interests are substantially equivalent to those of such a person.

Pursuant to Dutch law, EADS has adopted specific internal insider trading rules (the “**Insider Trading Rules**”), in order to ensure the confidentiality of sensitive company information, the transparency of EADS share trading and the compliance of EADS share trading rules with share trading regulations applicable in the Netherlands, France, Germany and Spain (for examples of Dutch, German, Spanish and French disclosure requirements applicable to members of the Board of Directors and the Executive Committee, see “3.1.11 Disclosure of Holdings – Disclosure Requirements for Members of the Board of

Directors and of the Executive Committee”). 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 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 1st January 2007 is available on the Company’s website.

Hans Peter Ring, Chief Operating Officer for Finance of EADS, was appointed Compliance Officer by the Board of Directors of EADS. The Compliance Officer is essentially responsible for the implementation of the Insider Trading Rules and for reporting to the AFM.

Pursuant to section 5:59 paragraph 7 of the WFT, the Company has to maintain a list with all persons working for it by virtue of a labour relationship or otherwise, who may have access to inside information. Equivalent requirements exist under French, German and Spanish law.

In addition, given the fact that its shares are admitted for trading on a regulated market in France, Germany and Spain, the Company is subject to certain laws and regulations in these three jurisdictions. A summary of the main regulations applicable to the Company in relation to information to be made public in these three jurisdictions is set out below.

3.1.3.1 Periodic Disclosure Obligations

Pursuant to the Directive 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market (the “**Transparency Directive**”), EADS is required to disclose certain periodic and ongoing information (the “**Regulated Information**”). The expiry date for the implementation of the Transparency Directive by the Member States of the European Community was 20th January 2007.

Pursuant to the Transparency Directive, EADS must disseminate Regulated Information throughout the European Community in a manner ensuring fast access to such information on a non-discriminatory basis. For this purpose, EADS may use a professional service provider (wire). In addition, Regulated Information must be filed at the same time with the relevant competent market authority. EADS shall then ensure that Regulated Information remains publicly available for at least five years.

Finally, Regulated Information must be made available for central storage by a mechanism that is to be officially designated by the issuer’s home member state.

Dutch Regulations

For the purpose of the Transparency Directive, supervision of EADS is effected by the member state in which it maintains its registered office, which is the Netherlands. In addition, the competent market authority that shall assume final responsibility for supervising compliance by EADS shall be the competent market authority designated in the Netherlands, the AFM.

As of the date of this document, the Netherlands has implemented provisions in respect of the requirements on notification of the acquisition of disposal on major holdings and major proportions of voting rights held by shareholders (See “3.1.11 Disclosure of Holdings”), but not in relation to other disclosure requirements.

Once the Transparency Directive is fully implemented in the Netherlands, EADS will be subject to a number of periodic disclosure requirements, such as:

- publishing a financial report, together with an audit report drawn up by an external accountant, ultimately four months after the end of each financial year;
- publishing a semi-annual financial report covering the first six months of the financial year ultimately two months after the end of the first six months of the financial year; and
- publishing quarterly financial information.

In addition to the requirements of the Transparency Directive, pursuant to section 5:15 of the WFT, resulting from the implementation of the EC Directive 2003/71 dated 4th November 2003, the Company may prepare a registration document, the purpose of which is to provide legal and financial information on the Company (shareholding, activities, management, recent events, possible evolution and other financial information). In practice, the registration document of the Company may be used as a prospectus provided it is supplemented with a securities note and a summary approved by the AFM. Such registration document is filed for approval with the AFM and, once approved, is made available to the public.

Additionally, and pursuant to section 5:24 of the WFT also resulting from the implementation of the EC Directive 2003/71, the Company is required to provide at least annually a list of certain corporate and financial documents or other information that it has published or made available to the public over the last 12 months and details of where these documents can be obtained (see “3.5 Annual Securities Disclosure Report”).

French Regulations

Since the Transparency Directive has been implemented in France on 20th January 2007, EADS is no longer obliged to comply with certain disclosure obligations pursuant to the general regulations of the *Autorité des marchés financiers* (the “AMF”).

In line with the requirement set forth in the Transparency Directive to disseminate Regulated Information throughout the European Community, EADS is required to provide simultaneously in France the same information as that provided abroad.

German Regulations

Since the Transparency Directive has been implemented in Germany on 20th January 2007, EADS is no longer obliged to comply with certain German law disclosure obligations according to the German Stock Exchange Act (*Börsengesetz*) and the German Stock Exchange Admissions Regulation (*Börsenzulassungs-Verordnung*).

Due to the listing of the Company's shares in the *amtlicher Markt* (specifically, in the sub-segment of the *amtlicher Markt, the Prime Standard*) on the Frankfurt Stock Exchange, the Company is subject to the post-listing obligations described below. In addition, the Company is included in the selection index MDAX, the MidCap index of *Deutsche Börse AG*.

According to sections 62 and 63 of the Exchange Rules (*Börsenordnung*) of the Frankfurt Stock Exchange, the listing in the *Prime Standard* of the *amtlicher Markt* results in the obligation of the Company to publish consolidated annual accounts as well as quarterly reports.

In addition, the Company is required as a result of its listing in the *amtlicher Markt (Prime Standard)* to prepare a continuous update of a corporate action timetable at the beginning of each fiscal year. The Company is also required to hold a meeting of analysts at least once a year in addition to the press conference regarding the balance sheet.

Save for certain exemptions, the Company has to apply for admission of shares issued at a later date to the *amtlicher Markt* of the Frankfurt Stock Exchange, see section 69 of the German Stock Exchange Admissions Regulation.

Spanish Regulations

As of the date of this document, the Transparency Directive has not been implemented in Spain yet. Therefore, pending the implementation of the Transparency Directive in Spain, EADS remains subject to the following regulations as set out below.

Pursuant to the Ministerial Order of 18th January 1991, the Company is required to file with the *Comisión Nacional del Mercado de Valores* (the “CNMV”) and with the relevant Spanish stock exchange authorities (who will disclose it to the market), relevant information regarding its financial situation for each half year and which is communicated, for each 30th June and 31st December, no later than the following 1st September and 1st March respectively. If after this communication the annual accounts are produced by the Board of Directors and they do not conform with the half-yearly information for 31st December, the Board of Directors must disclose this inconsistency in the following ten trading days. An exemption from the obligation to publish quarterly information of a financial or economic nature was obtained from the CNMV.

According to Article 35 of the Spanish Securities Market Act 24/1988, of 28th July 1988, as amended (the “**Spanish Securities Act**”) and Order EHA/3050/2004 of 15th September, the Company must provide detailed information, including, without limitation, the number and amount of the transactions, in relation to every transaction carried out with any related party in the half-yearly information which the Company is required to file with the CNMV and the Spanish Stock Exchanges, without prejudice to information to be included in the annual corporate governance report to be filed with the CNMV on an annual basis (the “**Annual Corporate Governance report**”) pursuant to the Ministry of Economy Order 3722/2003 dated 26th December 2003 (the “**Ministerial Order**”).

Pursuant to the Spanish Securities Act, the Company has to provide detailed information about transactions carried out with (i) directors which are outside the ordinary activity of the Company or which are not in market conditions; and (ii) any related party transaction which are material due to their amount or for an adequate understanding of the public economic information.

EADS discloses such information in its Registration Document.

3.1.3.2 Ongoing Disclosure Obligations

Pursuant to the Transparency Directive, Regulated Information includes in particular inside information as defined pursuant to article 6 of Directive EC/2003/6 on insider dealing and market manipulation (the “**Market Abuse Directive**”). Such information must be disseminated throughout the European Community (see introduction to section “3.1.3.1 Periodic Disclosure Obligations”)

Inside information shall mean information of a precise nature which has not been made public, relating, directly or indirectly, to one or more issuers of financial instruments or to one or

more financial instruments and which, if it were made public, would be likely to have a significant effect on the prices of those financial instruments or on the price of related derivative financial instruments.

Inside information must be disclosed to the markets as soon as possible. However, an issuer may under his own responsibility delay the public disclosure of inside information such as not to prejudice his legitimate interests provided that such omission would not be likely to mislead the public and provided that the issuer is able to ensure the confidentiality of that information.

Dutch Regulations

Upon implementation of the Transparency Directive into Dutch law, EADS will disclose and disseminate throughout the European Community any inside information pursuant to the requirements that shall be set out under such law, which has not been yet defined in the Netherlands.

French Regulations

Upon implementation of the Transparency Directive into the general regulations of the AMF (the “**AMF General Regulations**”) on 20th January 2007, the French requirements to publish inside information in France according to Article 223-1 and following of the AMF General Regulations no longer apply to EADS.

However, any inside information as defined above will be disclosed in France beyond the means of dissemination throughout the European Community, as it will be organised under Dutch law implementing the Transparency Directive so as to provide simultaneously in France equivalent information as that provided abroad.

German Regulations

Upon implementation of the Transparency Directive into German law on 20th January 2007, the German requirements to publish inside information according to Section 15 of the Securities Trading Act (*Wertpapierhandelsgesetz*) no longer apply to EADS.

However, any inside information as defined above will be disclosed in Germany beyond the means of dissemination throughout the European Community, as it will be organised under Dutch law implementing the Transparency Directive so as to provide simultaneously in Germany equivalent information as that provided abroad.

Spanish Regulations

The following provisions apply to the Company but may be affected once the Transparency Directive is fully implemented in Spain.

Pursuant to Article 82 of the Spanish Securities Act, the Company is required to make public, as soon as possible, any fact or decision that may substantially affect the quotation of its shares. Any such relevant event must be notified to the CNMV as quickly and as efficiently as possible, always prior to its communication to third parties or other means of publication and, in any event, as soon as the relevant fact is known, the relevant decision has been made or, the relevant agreement has been executed, as the case may be. Wherever possible, the relevant event should be notified to the CNMV after the close of the markets on the day of notification so as to avoid impacting on the quotation of the Company’s shares in the corresponding trading session. Furthermore, pursuant to Article 117 of the Spanish Securities Act, the Company must post details of any relevant event on its website. Under certain circumstances, the CNMV may authorize the issuer not to make public relevant information, which may affect its legitimate interests.

Pursuant to the Royal Decree 1333/2005 of 11th November 2005 (the “**MAD Royal Decree**”) the Company must try to ensure that the relevant information is disclosed simultaneously to all type of investors in the member states of the European Union where it is listed.

Pursuant to the Spanish Securities Act and the “Ministerial Order” and Circular 1/2004 of 17th March 2004 of the CNMV (the “**Circular**”), the Company is required:

- (i) to have rules of the Board of Directors which must be filed with the CNMV and published on the Company’s website;
- (ii) to file with the CNMV a description of the relevant Dutch law provisions and provisions in the Articles of Association governing the conduct of shareholders’ meetings and post such description on its website;
- (iii) to have a website which must contain as a minimum the information specified in the Ministerial Order and the Circular;
- (iv) to file a corporate governance report with the CNMV on an annual basis (the “**Annual Corporate Governance Report**”) which must contain the information specified in the Ministerial Order and the Circular; and
- (v) in respect of the provisions of any shareholders’ agreement which relate to the exercise of voting rights at shareholders’ meetings or restrictions or conditions on the free transferability of shares or convertible bonds, to (a) provided the Company is a party to the shareholders’

agreement, file such provisions with the CNMV who will then publish the provisions as a relevant event, (b) post the provisions on the Company's website, unless the CNMV

exempts the Company from doing so, and (c) set out details of the provisions in the Annual Corporate Governance Report.

3.1.4 Date of Incorporation and Duration of the Company

The Company was incorporated on 29th December 1998 for an unlimited duration.

3.1.5 Objects of the Company

Pursuant to Article 2 of the Articles of Association, the objects of the Company are to hold, co-ordinate and manage participations or other interests in and to finance and assume liabilities, provide for security and/or guarantee debts of legal

entities, partnerships, business associations and undertakings that are involved in:

- (a) the aeronautic, defence, space and/or communication industry; or
- (b) activities that are complementary, supportive or ancillary thereto.

3.1.6 Commercial and Companies Registry

The Company is registered with the Registry of the Chamber of Commerce of Amsterdam (*Handelsregister van de Kamer van Koophandel en Fabrieken voor Amsterdam*) under number 24288945.

3.1.7 Inspection of Corporate Documents

The Articles of Association are available for inspection in Dutch at the Chamber of Commerce of Amsterdam.

Pursuant to Article 57 of the French Decree n° 84-406 of 30th May 1984, a certified copy of a translation in French of the Articles of Association has been filed with the *Grefte* of the *Tribunal de commerce* of Paris. It is also available at the Head office of EADS in France (37, boulevard de Montmorency, 75016 Paris, France, Tel.: 00 33 1 42 24 24 24). In the event of amendments being made to the Articles of Association, an updated certified copy of the translation in French thereof will

be filed with the *Grefte* of the *Tribunal de commerce* of Paris and made available at the Head office of EADS in France.

In Germany, the Articles of Association are available at the Head office of EADS in Germany (81663 Munich, Germany, Tel.: 00 49 89 60 70).

In Spain, the Articles of Association are available at the CNMV and at the Head office of EADS in Spain (Avda. Aragón 404, 28022 Madrid, Spain, Tel.: 00 34 91 585 70 00).

3.1.8 Financial Year

The financial year of the Company starts on 1st January and ends on 31st December of each year.

3.1.9 Allocation and Distribution of Income

3.1.9.1 Dividends

The Board of Directors shall determine which part of the profits of the Company shall be attributed to reserves. The remaining distributable profit shall be at the disposal of the shareholders' meeting.

The shareholders' meeting may resolve (if so proposed by the Board of Directors) that all or part of a dividend shall be paid in shares of the Company as opposed to cash.

The declaration of a dividend, an interim dividend or another distribution to the shareholders shall be made known to them within seven days after such declaration. Declared dividends shall be payable within four weeks of such declaration unless

another date for payment is proposed by the Board of Directors and approved by the shareholders' meeting.

Dividends, interim dividends and other distributions on shares shall be paid by bank transfer to the bank or giro accounts designated in writing to the Company by, or on behalf of, shareholders at the latest 14 days after their announcement.

3.1.9.2 Liquidation

In the event of the dissolution and liquidation of the Company, the assets remaining after payment of all debts and liquidation expenses shall be distributed amongst the holders of the shares in proportion to their shareholdings.

3.1.10 General Meetings

3.1.10.1 Calling of Meetings

Shareholders' meetings are held as often as the Board of Directors deems necessary or upon the request of shareholders holding, individually or together, at least 10% of the total issued share capital of the Company.

The Board of Directors must give notice of general meetings in at least one of the Netherlands' national daily newspapers, at least one international daily newspaper and at least one daily newspaper in each of the countries in which the Company's shares are listed. Such publication must be made at least 15 days before the day of the meeting, not counting the day on which notice was given, and shall state either the matters to be considered at such meeting or that the agenda is open to inspection by the shareholders at the offices of the Company and at such other locations as may be specified in the notice.

The annual shareholders' meeting of the Company is held within six months of the end of the financial year.

Shareholders' meetings are held in Amsterdam, Den Haag, Rotterdam or *Haarlemmermeer* (Schiphol Airport). The Board of Directors may decide that shareholders' meetings may be attended by means of electronic or video communication devices from the locations mentioned in the convening notice.

The Board of Directors must announce the date of the annual shareholders' meeting at least two months before the meeting. Requests made by one or more shareholders collectively representing at least 1% of the issued share capital (or shares having an aggregate market value of €50 million), to put items on the agenda for the annual shareholders' meeting, must be effected by the Board of Directors, if such requests to the Board of Directors have been made at least six (6) weeks prior to the date scheduled for the meeting except if, in the opinion of the Board of Directors, important interests of the Company prevail over the insertion of such items into the agenda.

3.1.10.2 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. See "— 3.1.10.4 Conditions of Exercise of Right to Vote".

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 (see "— 3.1.10.1 Calling of Meetings") in such manner that the person(s) acting as chairman/chairmen of the meeting is/are convinced that such 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 which 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.

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 the 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.

In light of recent changes of Dutch law, the Board of Directors will propose to the Annual General Meeting of Shareholders to be held on 4th May 2007, to amend the Articles of Association of the Company to the effect that they include the possibility for EADS to (i) 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, and (ii) 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.

3.1.10.3 Majority and Quorum

All resolutions are adopted by means of a simple majority of the votes cast except when a qualified majority is prescribed by the Articles of Association or by Dutch law. No quorum is required for any shareholders' meeting to be held. Dutch law requires a special majority for the passing of certain resolutions: inter alia, capital reduction, exclusion of pre-emption rights in connection with share issues, statutory mergers or statutory demergers; the passing of such resolutions requires a majority of two-thirds of the votes cast if 50% of the share capital with voting rights is not present at the meeting (or otherwise a simple majority). In addition, resolutions to amend the Articles of Association or to dissolve the Company shall only be capable of being adopted with a majority of at least two-thirds of the valid votes cast at a shareholders' meeting, whatever the quorum present at such meeting.

Pledges of shares and beneficiaries of a usufruct, which do not have voting rights, do not have the right to attend and to speak at shareholders' meetings. The owners of shares which are subject to a pledge or a usufruct, which do not have voting rights, are entitled to attend and to speak at shareholders' meetings.

3.1.10.4 Conditions of Exercise of Right to Vote

In all shareholders' meetings, each shareholder has one vote in respect of each share it holds.

A shareholder whose shares are subject to a pledge or usufruct shall have the voting rights attaching to such shares unless otherwise provided by law or by the Articles of Association or if, in the case of a usufruct, the shareholder has granted voting

rights to the usufructuary. Pursuant to the Articles of Association and subject to the prior consent of the Board of Directors, a pledgee of shares in the Company may be granted the right to vote in respect of such pledged shares.

Article 25 (paragraph 2 and 3) of EADS Articles of Association provides that "The right to vote can be granted to an usufructuary. The right to vote can be granted to a pledgee, but only with the prior consent of the Board of Directors. No vote may be cast at the general meeting of shareholders on a share that is held by the Company or a subsidiary; nor for a share in respect of which one of them holds the depository receipts. Usufructuaries and pledges of shares that are held by the Company or its subsidiaries are, however, not excluded from their voting rights, in case the right of usufruct or pledge was vested before the share was held by the Company or its subsidiary."

3.1.11 Disclosure of Holdings

Pursuant to the WFT, any person who, directly or indirectly, acquires or disposes of an interest in the capital or voting rights of the Company must immediately give written notice to the AFM by means of a standard form, if, as a result of such acquisition or disposal, the percentage of capital interest or voting rights held by such person meets, exceeds or falls below the following thresholds: 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%. Once in every calendar year, every holder of an interest in the share capital or voting rights of 5% or more in the Company must renew its notification to reflect changes in the percentage held in the share capital or voting rights of the Company, including changes as a consequence of changes in the total issued share capital. The disclosures are published by the AFM on its website (www.afm.nl).

In order to comply with these disclosure rules under the WFT, the Board of Directors will propose to the Annual General Meeting of Shareholders to be held on 4th May 2007, to amend the Articles of Association of the Company to the effect that they reflect the obligation for shareholders to notify the competent authorities when crossing thresholds in the share capital and/or voting rights of EADS set at: 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%. Such notification shall also be made to EADS pursuant to a requirement set out in the Articles of Association. Previously, such thresholds were set at 5%, 10%, 25%, 33 1/3%, 50%, 66 2/3% and over.

Upon implementation of the Transparency Directive into German law on 20th January 2007, EADS is no longer required

to publish changes of voting rights pursuant to the German Securities Trading Act (*Wertpapierhandelsgesetz*).

Until the Transparency Directive is implemented in Spain, the Company has to inform the CNMV and the Spanish Stock Exchanges of any disclosure of holdings exceeding the above-mentioned thresholds that it receives.

The Articles of Association also require that any person acquiring directly or indirectly or with others with whom it is acting in concert more than one tenth of the issued share capital or voting rights of the Company must notify the Company of its intentions (i) to buy or sell shares of the Company in the following 12 months; (ii) to continue or to stop acquiring shares or voting rights of the Company; (iii) to acquire control of the Company; or (iv) to seek to designate a member of the Board of Directors of the Company. The Company will provide the AMF with the information received in this context.

The AMF has indicated that it will publish a notice concerning any communication so transmitted. The CNMV and the Spanish Stock Exchanges will publish all such notifications received⁽⁵⁾.

Failure to comply with the legal obligation to notify a change in range of thresholds under the WFT is a criminal offence punishable by criminal and administrative penalties as well as civil law penalties, including the suspension of voting rights.

(5) These provisions may be affected once the Transparency Directive is implemented in Spain.

Disclosure Requirements for Members of the Board of Directors and the Executive Committee

Disclosure of holdings

In addition to the WFT requirements regarding disclosure of holdings, members of the Board of Directors must report to the AFM the number of shares in EADS and attached voting rights⁽⁶⁾ held by him or an entity controlled by him, within two weeks following their appointment as director, whether or not such shareholdings reach specified thresholds. Subsequently, any member of the Board of Directors is required to notify to the AFM any changes in such number of shares in EADS and attached voting rights.

The Company has to inform the AMF, the German Federal Financial Supervisory Authority, the CNMV and the Spanish Stock Exchanges of any disclosure of holdings by the Directors involving shares of the Company that it receives. The CNMV and the Spanish Stock Exchanges will publish such received notifications. In addition, the Company must update the information contained in its website related to holding of shares by Directors⁽⁷⁾.

Disclosure of transactions carried out on any securities issued by the Company

Pursuant to section 5:60 of the WFT, certain persons discharging managerial responsibilities within the Company (*i.e.*, for EADS, the members of the Board of Directors and of the Executive Committee) and, where applicable, persons closely associated with them must in principle notify the AFM of all transactions conducted for their own account relating to shares of the Company, or to derivatives or other financial instruments linked to them. These persons have to notify the AFM of the transactions within five trading days unless the aggregate amount of such transactions does not exceed €5,000 in respect of all transactions in a calendar year.

According to paragraph 15a of the German Securities Trading Act, persons with significant managerial responsibility with respect to the Company (*i.e.*, for EADS, the members of the

Board of Directors and the members of the Executive Committee), or the persons closely associated with them, must disclose transactions conducted for their own account involving shares of the Company or financial instruments that relate to those shares, especially derivatives. These persons have to notify the Company and the German Federal Financial Supervisory Authority of the transactions within five trading days unless the aggregate amount of such transactions does not exceed €5,000 in respect of all transactions in a calendar year. Upon implementation of the Transparency Directive into German law on 20 January 2007, EADS is no longer required to publish such notifications on its website or in a German supra-regional mandatory stock exchange newspaper.

Pursuant to Spanish law, EADS must report to the CNMV and the Spanish Stock Exchanges any disclosures of transactions it receives and which are carried out by the members of the Board of Directors on both EADS shares and derivative instruments linked to them made under the law applicable to the Company (*i.e.*, Dutch law). However, these requirements may be affected once the Transparency Directive is fully implemented in Spain.

Pursuant to Articles 223-22 to 223-25 of the AMF General Regulations, directors, persons with significant managerial responsibility with respect to the Company and having access on a regular basis to inside information about the Company (members of the Board of Directors and members of the Executive Committee), and, where applicable, any person closely associated with them, must report by e-mail to the AMF, within a period of five trading days following completion, any transactions in securities of the Company carried out by these persons, unless the aggregate amount of such transactions does not exceed €5,000 in respect of all transactions carried out in a calendar year. The AMF makes such disclosure information publicly available on its website. In addition, the Company must establish, update and provide the AMF with a list detailing the persons with significant managerial responsibility with respect to the Company and having access on a regular basis to inside information about the Company.

3.1.12 Mandatory Tender Offers

3.1.12.1 Takeover Directive

The Directive 2004/25/EC on takeover bids (the “**Takeover Directive**”) sets forth the principles governing the allocation of laws applicable to EADS. The applicable laws refer to the rules

of the Netherlands and the rules of the European Union Member State of the competent authority that must be chosen by EADS from among the various market authorities supervising the markets where its shares are listed.

(6) In this context, the term «shares» also includes for example depository receipts for shares and rights resulting from an agreement to acquire shares or depository receipts for shares, specifically call options, warrants, and convertible bonds. Equally, the term ‘voting rights’ also includes actual or contingent rights to voting rights (*e.g.*, embedded in call options, warrants or convertible bonds).

(7) These provisions may be affected once the Transparency Directive is implemented in Spain.

For EADS, matters relating to the consideration offered in the case of a bid, in particular the price, and matters relating to the bid procedure, in particular the information on the offeror's decision to make a bid, the contents of the offer document and the disclosure of the bid, shall be determined by the laws of the European Union Member State having the competent authority, which will be selected by EADS at a future date.

For EADS, matters relating to the information to be provided to the employees of EADS and matters relating to company law, in particular the percentage of voting rights which confers control and any derogation from the obligation to launch a bid, the conditions under which the Board of Directors of EADS may undertake any action which might result in the frustration of the bid, and the applicable rules and the competent authority shall be dealt with in accordance with Dutch law.

It is expected that the Takeover Directive will be implemented soon into Dutch law, which may affect the requirements set out below.

3.1.12.2 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 (as defined in the WMZ) 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 depository 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 depository receipts still has not done so, then the Company is irrevocably authorised to exchange such shares for depository 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 Directors of the Foundation (comprising the two independent Directors and one of the two Chief Executive Officers of EADS), 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:

- (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 in the WMZ to define "concert parties" where the agreement is entered into before 31st 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 "3.3.2 Relationships 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.

It is expected that the Takeover Directive will be implemented soon into Dutch law, which may affect the requirements set out above.

3.1.12.3 Spanish Law

Until the Takeover Directive is implemented in Spain, the following provisions apply to the Company:

Spanish securities legislation sets forth specific provisions which are applicable in the event an investor acquires, directly or indirectly, certain percentages of the share capital of a company listed on a Spanish Stock Exchange, because they are deemed to be significant. These provisions, set forth in Article 1 of the Royal Decree 1197/1991, of 26th July, regarding Takeover Bids, amended by Royal Decree 432/2003, of 11th April, provide that said investor will have to offer to acquire the following percentages: the offer must be (a) for at least 10% if the investor acquires 25% of the shares, or other securities (such as subscription rights, convertible debentures, warrants, or any other similar securities that may directly or indirectly entitle such investor to subscribe or acquire shares) or a threshold that, without reaching such percentage, enables the appointment of a number of directors who, together with those already appointed, if any, represent more than 1/3 and less than 1/2 plus one of the total directors of the target company, or, if the investor already holds between 25% and 50%, and intends to purchase an additional 6% within the following 12 months, and (b) for 100% in the event that the investor reaches or exceeds the threshold of 50% or a threshold that, without reaching such

percentage, enables the appointment of a number of directors who, together with those already appointed, if any, represent more than 1/2 of the total directors of the target company. Given the different thresholds set forth in Article 1 of the Royal Decree 1197/1991 and in Article 15 of the Articles of Association of EADS (which in short requires, in principle, that a tender offer for 100% of the share capital be launched in the event a shareholder controls (alone, or in concert with shareholders) directly or indirectly a number of shares or voting rights exceeding 33 1/3% of the share capital of EADS, as described above), *Sociedad Estatal de Participaciones Industriales* (“SEPI”), a minority shareholder of EADS, taking the stand that the Royal Decree 1197/1991 is not applicable to EADS, as a Dutch company listed in three different countries (Spain, France and Germany), the Articles of Association of which duly provide that a tender offer must be launched whenever control of 33 1/3% of the share capital is taken, consulted on this issue, on behalf of EADS, with the CNMV, which confirmed in writing that ‘the event posed does not fall within those contemplated in the aforementioned Royal Decree 1197/1991’ and, therefore, said Royal Decree 1197/1991 is not applicable to EADS.

In addition, the CNMV, responding to a request from certain shareholders of EADS, stated in a letter dated 19th June 2000 that the Royal Decree 1197/1991 dated 26th July 1991 relating to takeover bids does not apply to transfers of shares between parties in the EADS shareholders agreements, provided such transfers are made within the framework of the shareholders agreements and that such agreements remain in force.

3.2 General Description of the Share Capital

3.2.1 Modification of Share Capital or Rights Attaching to the 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 “3.3.2 Relationships with Principal Shareholders”.

The shareholders’ meeting has the power to issue shares. The shareholders’ meeting may also authorize 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 authorize the Board of Directors for a period of no more than five years, to limit or to exclude preemption 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.



A resolution will be submitted to the annual shareholders' meeting of EADS to be held on 4th May 2007 in order to authorize the Board of Directors to issue shares representing up to 1% of the Company's authorised share capital from time to time, to grant rights to subscribe for shares for a period up to and including the date of the annual shareholders' meeting to be held in 2009 and also in the case where the subscription rights may be exercised thereafter, and to determine the terms and conditions of the shares issuances. Further resolutions will be submitted to such shareholders' meeting to authorize the Board of Directors to limit or exclude the preferential

subscription rights for the period up to and including the date of the annual shareholders' meeting to be held in 2009.

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, the latter requiring the approval of at least two-thirds of the votes cast at the general meeting. In the annual general of shareholders to be held on 4th May 2007, it will be proposed to cancel up to a maximum of 4,568,405 shares.

3.2.2 Issued Share Capital

As at 31st December 2006, the Company's issued share capital is €815,931,524 comprising 815,931,524 shares of a nominal value of €1.0 each.

3.2.3 Authorised Share Capital

As at 31st December 2006 the authorised share capital of the Company is €3 billion comprising 3,000,000,000 shares of €1.0 each.

3.2.4 Securities Granting Access to the Company's Capital

Except for stock options granted for the subscription for EADS shares (See "Part 1 – 2.3.3 Long Term Incentive Plans"), there are no securities that give access, immediately or over time, to the share capital of EADS.

The table below shows the total potential dilution that would occur if all the stock options issued as at 31st December 2006 were exercised:

EADS' potential share capital	Number of shares	Dilution percentage in capital	Number of voting rights	Dilution percentage in voting rights*
Total number of EADS shares issued as of 31 st December 2006	815,931,524	96.34%	807,427,380	96.30%
Total number of EADS shares which may be issued following exercise of stock options	31,028,689	3.66%	31,028,689	3.70%
Total potential EADS share capital	846,960,213	100%	838,456,069	100%

(*) 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. See "3.3.7.1 Dutch Law and information on share buyback programmes".

3.2.5 Changes in the Issued Share Capital Since Incorporation of the Company

Date	Nature of Transaction	Nominal value per share	Number of shares issued/cancelled	Premium*	Total number of issued shares after transaction	Total issued capital after transaction
29 th December 1998	Incorporation	NLG 1,000	100	-	100	NLG 100,000
3 rd April 2000	Conversion into €	€1	50,000	-	50,000	€50,000
8 th July 2000	Issue of shares in exchange for contributions by Aerospatiale Matra, Dasa AG and SEPI	€1	715,003,828	€1,511,477,044	715,053,828	€715,053,828
13 th July 2000	Issue of shares for the purpose of the initial public offering and listing of the Company	€1	80,334,580	€1,365,687,860	795,388,408	€795,388,408
21 st September 2000	Issue of shares for the purpose of the employee offering carried out in the context of the initial public offering and listing of the Company	€1	11,769,259	€168,300,403	807,157,667	€807,157,667
5 th December 2001	Issue of shares for the purpose of an employee offering (<i>note d'opération</i> approved by the COB** on 13 th October 2001 under number 01-1209)	€1	2,017,894	€19,573,571.80	809,175,561	€809,175,561
4 th December 2002	Issue of shares for the purpose of an employee offering (<i>note d'opération</i> approved by the COB on 11 th October 2002 under number 02-1081)	€1	2,022,939	€14,470,149.33	811,198,500	€811,198,500
5 th December 2003	Issue of shares for the purpose of an employee offering (<i>note d'opération</i> approved by the COB on 25 th September 2003 under number 03-836)	€1	1,686,682	€19,363,109.36	812,885,182	€812,885,182
20 th July 2004	Cancellation of shares upon authorisation granted by the annual shareholders' meeting held on 6 th May 2004	€1	5,686,682	-	807,198,500	€807,198,500
3 rd December 2004	Issue of shares for the purpose of an employee offering (<i>note d'opération</i> approved by the AMF on 10 th September 2004 under number 04-755)	€1	2,017,822	€34,302,974	809,216,322	€809,216,322
In 2004	Issue of shares following exercise of options granted to employees***	€1	362,747	€6,133,436	809,579,069	€809,579,069
25 th July 2005	Cancellation of shares upon authorisation granted by the annual shareholders' meeting held on 11 th May 2005	€1	1,336,358	-	808,242,711	€808,242,711
29 th July 2005	Issue of shares for the purpose of an employee offering (<i>note d'opération</i> approved by the AMF on 4 th May 2005 under number 05-353)	€1	1,938,309	€34,618,198.74	810,181,020	€810,181,020
In 2005	Issue of shares following exercise of options granted to employees***	€1	7,562,110	€144,176,031.61	817,743,130	€817,743,130
20 th July 2006	Cancellation of shares upon authorisation granted by the annual shareholders' meeting held on 4 th May 2006	€1	6,656,970	-	811,086,160	€811,086,160
In 2006	Issue of shares following exercise of options granted to employees***	€1	4,845,364	€89,624,589	815,931,524	€815,931,524

(*) The costs (net of taxes) related to the initial public offering of the shares of the Company in July 2000 have been offset against share premium for an amount of €55,849,772.

(**) Former name of the *Autorité des marchés financiers* (the "AMF").

(***) For information on stock option plans under which these options were granted to EADS employees, see "Part 1 – 2.3.3 Long Term Incentive Plans".

3.3 Shareholdings and Voting Rights

3.3.1 Shareholding Structure

EADS combined the activities of Aerospatiale Matra (“**Aerospatiale Matra**” or “**ASM**”), DaimlerChrysler Aerospace AG (“**Dasa AG**”) (with the exception of certain assets and liabilities) (“**Dasa**”) 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 Aerospatiale Matra, Dasa AG and SEPI to EADS to combine such activities into EADS.

The term ‘Indirect EADS Shares’ relates to EADS shares held by DaimlerChrysler AG (“**DaimlerChrysler**”), SEPI and *Société de Gestion de l’Aéronautique, de la Défense et de l’Espace* (“**SOGEADE**”), for which EADS Participations B.V. exercises all the attached voting rights as well as 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 SOGEADE, reflecting by transparency, their respective interest in SOGEADE.

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

As at 31st December 2006, 22.47% of the EADS shares were held by Dasa AG, which is a subsidiary of DaimlerChrysler Luft- und Raumfahrt Holding AG (“**DCLRH**”), a 93.85% subsidiary of DaimlerChrysler. SOGEADE, a French partnership limited by shares (*société en commandite par actions*) whose share capital is held 50% by SOGEPA (a French state holding company) and 50% by Désirade (a French *société par actions simplifiée* wholly owned by Lagardère), held 29.96% of the EADS shares. Thus, 52.43% of the share capital of EADS

was held in equal proportions by DaimlerChrysler and SOGEADE who jointly control EADS through a Dutch law contractual partnership (the “**Contractual Partnership**”). SEPI (a Spanish state holding company), being 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, 40.99% and 1.04% of the share capital of EADS. The *République française* (the “**French State**”) held directly 0.06% of such share capital, such shareholding being subject to certain specific provisions.

On 8th July 2004, DaimlerChrysler announced that it had placed on the market (in the context of a hedging transaction) all of its EADS shares (22,227,478 EADS shares), representing 2.73% of the capital and 2.78% of the EADS voting rights at that date, except for its Indirect EADS Shares. Thus, DaimlerChrysler does not hold directly any EADS shares at the date of this document.

On 11th November 2005, Dasa AG transferred its entire interest in EADS to its wholly owned subsidiary DaimlerChrysler Luft- und Raumfahrt Beteiligungs GmbH & Co. KG (“**DC KG**”). However, in November 2006, DC KG then transferred its entire interest in EADS back to Dasa AG.

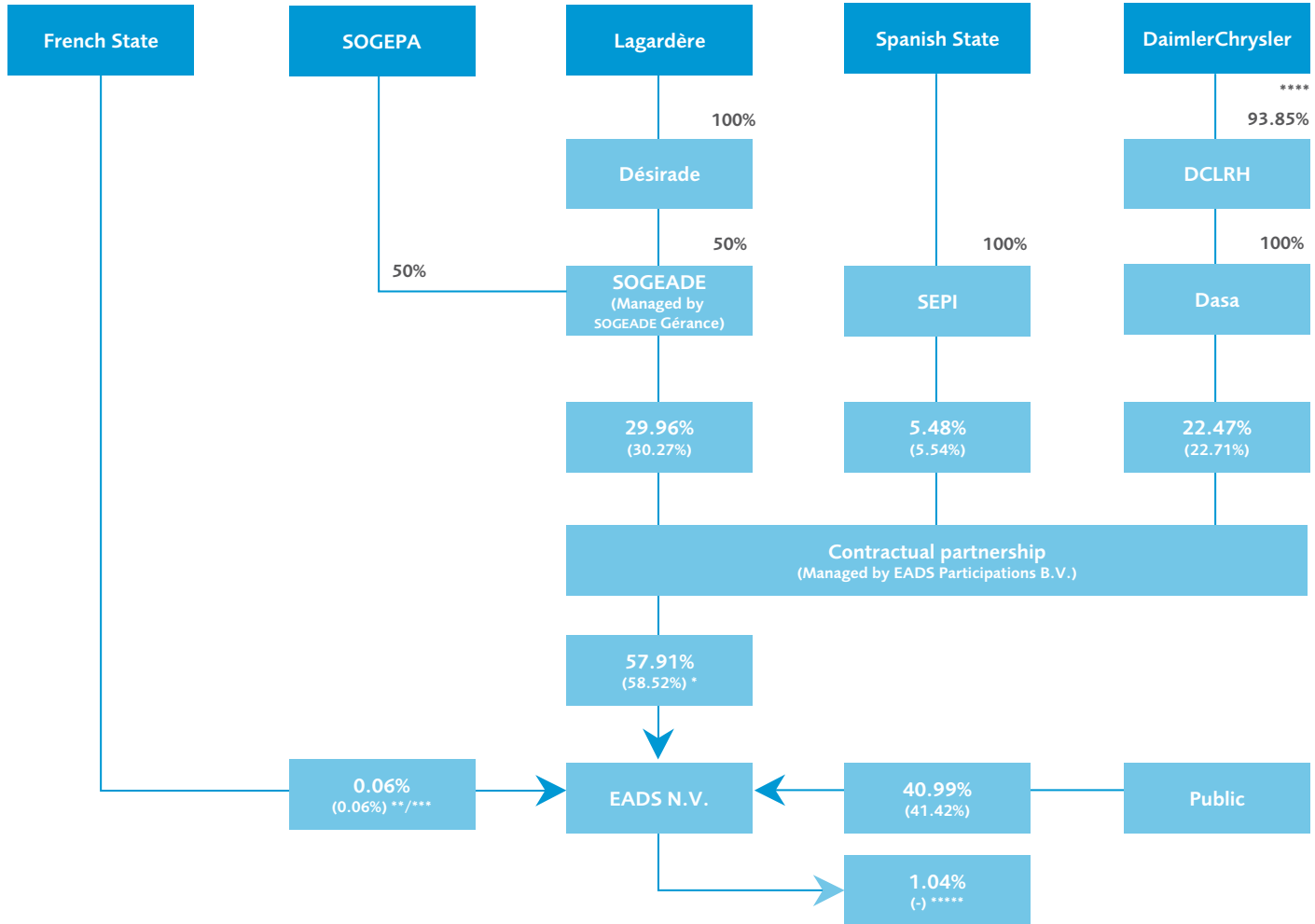
On 4th April 2006, DaimlerChrysler and Lagardère reduced by 7.5 percent each their respective stakes in EADS in coordinated steps.

On 8th September 2006, the Company was notified that Russian bank for Foreign Trade (“**JSC Vneshtorgbank**”) acquired 41,050,705 shares of EADS, representing 5.02% of the share capital of EADS at that time.

On 9th February 2007, DaimlerChrysler reached an agreement with a consortium of private and public-sector investors by which it will reduce its shareholding in EADS by 7.5%. For more information on this transaction, see “1.2 Recent Developments”.

The diagram below shows the ownership structure of EADS as at 31st December 2006 (% of capital (voting rights) before exercise of outstanding stock options granted for the subscription of EADS shares. See “Part 1 – 2.3.3 Long Terms Incentive Plans”.

OWNERSHIP STRUCTURE OF EADS AS AT 31ST DECEMBER 2006



(*) EADS Participations B.V. exercises the voting rights attaching to these EADS shares pledged by SOGEADE, DaimlerChrysler and SEPI who retain title to their respective shares.
 (**) The French State exercises the voting rights attaching to these EADS shares (such shares being placed with the Caisse des dépôts et consignations) in the same way that EADS Participations B.V. exercises the voting rights pooled in the Contractual Partnership.
 (***) Shares held by the French State following the distribution without payment of consideration to certain former shareholders of Aerospatiale Matra as a result of its privatisation in June 1999. All the shares currently held by the French State will have to be sold on the market.
 (****) DCLRHRH is 93.85% held by DaimlerChrysler; almost all the balance is held by the City of Hamburg.
 (*****) As at 31st December 2006, the Company holds, directly or indirectly through another company in which the Company holds directly or indirectly more than 50% of the share capital, 8,504,144 of its own shares. The EADS shares owned by the Company itself do not carry voting rights.

For the number of shares and voting rights held by members of the Board of Directors and Executive Committee, “see Part 1 – 2.2.1 Compensation Granted to Directors and Principal Executive Officers”.

Approximately 1.72% of the capital and 1.74% of the voting rights are held by EADS employees.

For further information on changes to shareholdings since 31st December 2006, see also “1.2 Recent Developments”.

3.3.2 Relationships with Principal Shareholders

The principal agreements governing the relationships between the founders of EADS are an agreement (the “**Participation Agreement**”) entered into on Completion between DaimlerChrysler, Dasa AG, Lagardère, SOGEPA, SOGEADE and SEPI, and a Dutch law Contractual Partnership agreement entered into on Completion between SOGEADE, 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 “**SOGEADE Shareholders’ Agreement**”) entered into on Completion between SOGEPA and Lagardère and an agreement between the French State, DaimlerChrysler and DCLRH). EADS Participations B.V. is a Dutch private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) and is the managing partner of the Contractual Partnership. The Indirect EADS Shares held by DaimlerChrysler, SOGEADE and SEPI have been pledged to EADS Participations B.V., which has been granted the exclusive power to exercise the voting rights attaching 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 SOGEADE Gérance (*gérant commandité* of SOGEADE);
- restrictions on the transfer of EADS shares and SOGEADE shares;
- pre-emptive and tag-along rights of DaimlerChrysler, SOGEADE, SOGEPA and Lagardère;
- defences against hostile third parties;
- consequences of a change of control of DaimlerChrysler, SOGEADE, Lagardère, SOGEPA or SEPI;
- a put option granted by SOGEADE to DaimlerChrysler 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 DaimlerChrysler and by SOGEADE, respectively (taking into account proposals made by Lagardère in respect of the SOGEADE-nominated directors). DaimlerChrysler and SOGEADE each nominate four directors, unless otherwise agreed, and each nominates from among its nominated directors a chairman and a chief executive officer. In addition, although from 8th July 2003, SEPI no longer has a right to nominate a director, based upon the proposal of DaimlerChrysler and SOGEADE, the board of directors of EADS Participations B.V. decided to propose to the shareholders’ meeting of EADS Participations B.V. held on 11th May 2005 the appointment of an additional Spanish director bringing the total number of directors to nine.

This structure gives DaimlerChrysler and SOGEADE 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 six directors, except for certain specified matters which require the prior unanimous approval of DaimlerChrysler and SOGEADE.

Transfer of EADS Shares

During the period commencing at Completion and ending on 1st July 2003 (the “**Standstill Period**”), there were restrictions on DaimlerChrysler’s, SOGEADE’s, SEPI’s, Lagardère’s, SOGEPA’s and the French State’s ability to transfer EADS shares.

Following the expiration of the Standstill Period, as of 1st July 2003, each of DaimlerChrysler, SOGEADE, SEPI, Lagardère and SOGEPA has 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, DaimlerChrysler (in the case of a sale by SOGEADE), SOGEADE (in the case of a sale by DaimlerChrysler) or SOGEADE and DaimlerChrysler (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 DaimlerChrysler's consent and (b) if such consent is not obtained, the Indirect EADS Shares may be sold on the market, subject to DaimlerChrysler's pre-emption right referred to above;
- each of Lagardère and SOGEPA shall 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 DaimlerChrysler or SOGEADE 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 DaimlerChrysler and SOGEADE 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.

Following the expiration of the Standstill Period, as of 1st July 2003, 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 DaimlerChrysler or SOGEADE (a "**Hostile Offer**"), subject to provisions requiring, inter alia, the party wishing to accept, to first offer its EADS shares to DaimlerChrysler and/or SOGEADE, in which case DaimlerChrysler and/or SOGEADE may exercise their pre-emption rights in respect of all or some only 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 DaimlerChrysler, SOGEADE 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 SOGEADE, DaimlerChrysler and SOGEPA respectively. In the case of a sale by Lagardère, if SOGEPA does not exercise its right of pre-emption, DaimlerChrysler has in turn a pre-emption right.

Dissolution of Contractual Partnership and EADS Participations B.V.

The Contractual Partnership and EADS Participations B.V. will be dissolved and wound up upon the occurrence of certain events (each, a "**Termination Event**") including:

- if the proportion which the Indirect EADS Shares of either DaimlerChrysler or SOGEADE bears to the total number of EADS shares is less than 10%, unless the difference between the holdings of DaimlerChrysler and SOGEADE (calculated as a percentage by reference to the number of Indirect EADS Shares held by each of them as against the total number of EADS shares) is 5% or less, in which case the dissolution and winding up shall only occur if the proportion which the Indirect EADS Shares of DaimlerChrysler or SOGEADE bears to the total number of EADS shares is 5% or less; or
- if, on a change of control of either Lagardère, SOGEPA, SOGEADE or DaimlerChrysler, no notice of an offer by a third party to purchase the SOGEADE shares or the Indirect EADS Shares held by the party undergoing the change of control (the "**Changed Party**") (which offer the Changed Party wishes to accept) has been served in accordance with the Participation Agreement (see below "**Change of Control**") within 12 months of the date of the change of control occurring (the absence of notice of an offer by a third party to purchase the Indirect EADS Shares held by SEPI upon a change of control of SEPI does not trigger a dissolution of the Contractual Partnership or EADS Participations B.V. but shall cause SEPI to lose its main rights or liabilities under the Participation Agreement or the Contractual Partnership Agreement).

On the occurrence of a Termination Event, EADS Participations B.V. is prohibited from conducting further business except as is necessary to its liquidation or the liquidation of the Contractual Partnership.

Change of Control

The Participation Agreement provides, inter alia, that if (a) Lagardère or SOGEPA undergoes a change of control and DaimlerChrysler so elects (b) SOGEADE undergoes a change of control and DaimlerChrysler so elects (c) DaimlerChrysler undergoes a change of control and SOGEADE so elects (d) SEPI undergoes a change of control and SOGEADE or DaimlerChrysler so elects then:

- (i) the party undergoing the change of control shall use its reasonable efforts to procure the sale of its SOGEADE interest (if the party undergoing the change of control is Lagardère or SOGEPA) or of its Indirect EADS Shares (if the party undergoing the change of control is DaimlerChrysler, SOGEADE or SEPI) to a third party purchaser on bona fide arm's length terms. When the party subject to the change of control is Lagardère or SOGEPA, the third party purchaser shall be nominated with DaimlerChrysler's consent, not to be unreasonably withheld; and
- (ii) in the event that a third party offers to purchase the SOGEADE interest held by Lagardère or SOGEPA or the Indirect EADS Shares held by DaimlerChrysler, SOGEADE or SEPI as the case may be, is received and the party undergoing the change of control wishes to accept that offer, such offer shall immediately be notified to (a) DaimlerChrysler in the case of a change of control occurring to Lagardère or SOGEPA, (b) SOGEADE in the case of the change of control occurring to DaimlerChrysler, (c) DaimlerChrysler in the case of the change of control occurring to SOGEADE, or (d) DaimlerChrysler or SOGEADE in the case of the change of control occurring to SEPI (the party notified under (a), (b), (c) or (d) being the **"Non-Changed Party"**). The Non-Changed Party shall have a first right to purchase the SOGEADE interest or the Indirect EADS shares being offered for sale at the price being offered by the third party. In relation to (d), if DaimlerChrysler and SOGEADE have both elected that SEPI procure a third party purchaser, then they shall each have the right to acquire SEPI's Indirect EADS Shares in the respective proportions which the number of their EADS shares bear to one another at that time. In the event that the Non-Changed Party does not give notice of its intention to purchase the SOGEADE interest or the Indirect EADS Shares within 30 days of the offer being made, then the Changed Party is obliged to sell such SOGEADE interest or Indirect EADS Shares to the third party on the terms of the third party's original offer.

The third party purchaser may not be a competitor of EADS, SOGEADE or DaimlerChrysler (as the case may be) nor a member of the Group which has taken control of the Changed Party.

Events of Default Other Than Change of Control

The Participation Agreement provides for certain actions following events of default (other than a change of control) (i.e., insolvency-related or a material breach of the Participation Agreement). In particular, if such an event of default occurs in relation to DaimlerChrysler, SOGEADE or SEPI, the non-defaulting party (respectively SOGEADE, DaimlerChrysler and SOGEADE and DaimlerChrysler acting together) has a call option over the defaulting party's EADS shares and interest in EADS Participations B.V. If such an event of default occurs in relation to Lagardère or SOGEPA, such party is obliged to use its best efforts to sell its interest in the capital of SOGEADE on bona fide arm's length terms to a third party purchaser (who must not be a competitor of EADS or DaimlerChrysler). In the case of a sale by Lagardère, the third party purchaser must be nominated by SOGEPA with DaimlerChrysler's consent (which may not be unreasonably withheld). In the case of such a sale by SOGEPA, DaimlerChrysler must consent to the sale (again, such consent may not be unreasonably withheld).

Specific Rights and Undertakings of the French State

The French State, not being a party to the Participation Agreement, entered into a separate agreement, governed by French law, with DaimlerChrysler and DCLRH on 14th October 1999 (as amended) pursuant to which:

- the French State undertakes to hold an interest of no more than 15% of the entire issued share capital of EADS through SOGEPA, SOGEADE and EADS Participations B.V.;
- the French State undertakes that neither it nor any of its undertakings will hold any EADS shares directly;
- in each case disregarding (i) those EADS shares held by the French State following the distribution without payment of consideration to certain former shareholders of Aerospatiale Matra as a result of its privatisation in June 1999 and which will have to be sold on the market; (ii) those shares held by SOGEPA or the French State which may be sold or acquired pursuant to the Participation Agreement or the SOGEADE Shareholders' Agreement (see below); and (iii) those shares held for exclusively investment purposes.

Moreover, pursuant to an agreement entered into between EADS and the French State (the **"Ballistic Missiles Agreement"**), EADS has granted to the French State (a) a veto right and subsequently a call option on the ballistic missiles activity exercisable in the event that (i) a third party which is not affiliated to the DaimlerChrysler and/or Lagardère Groups acquires, directly or indirectly, either alone or in concert, more than 10% or any multiple thereof of the share capital or voting rights of EADS or (ii) the sale of the ballistic missiles assets or of the shares of such companies carrying out such activity is

considered after the termination of the SOGEADE Shareholders' Agreement and (b) a right to oppose the transfer of any such assets or shares during the duration of the SOGEADE Shareholders' Agreement.

SOGEADE

SOGEADE is a French partnership limited by shares (*société en commandite par actions*) the share capital of which is split between SOGEPA (50%) and Désirade, a French *société par actions simplifiée* (50%). The share capital of Désirade is itself wholly owned by Lagardère. Lagardère hence owns indirectly 50% of SOGEADE.

The general partner (*associé commandité*) of SOGEADE, SOGEADE Gérance, is a French *société par actions simplifiée* which is the manager of SOGEADE.

SOGEADE Gérance's board of directors consists of eight directors, four of them nominated by Lagardère and four by SOGEPA. Decisions of SOGEADE Gérance's board shall be approved by a simple majority of directors except for the following matters which require the approval of a qualified majority of six of the eight directors: (a) acquisitions or divestments of shares or assets the individual value of which exceeds €500 million; (b) agreements establishing strategic alliances, or industrial or financial co-operation; (c) a capital increase of EADS of more than €500 million to which no preferential right to subscribe for the shares is attached; (d) any decision to divest or create a security interest over the assets relating to prime contractor status, design, development and integration of ballistic missiles or the majority shareholdings in the companies Cilas, Sodern, Nuclétudes and the GIE Cosyde. The decisions contemplated under (d) above are also governed by the Ballistic Missiles Agreement (see above "— Specific Rights and Undertakings of the French State").

When a vote of SOGEADE Gérance's board on such matters does not reach the qualified majority of six directors by reason of any of the SOGEPA-nominated directors casting a negative vote, the SOGEADE-nominated directors on the board of EADS Participations B.V. are obliged to vote against the proposal. This means that the French State as the owner of SOGEPA can veto any decisions on these matters within EADS Participations B.V. and in turn within EADS as long as the SOGEADE Shareholders' Agreement remains in existence.

The shareholding structure of SOGEADE shall reflect at all times the indirect interests of all the shareholders of SOGEADE in EADS.

In certain circumstances, in particular in the event of a change of control of Lagardère, Lagardère shall grant a call option over its SOGEADE shares to any non-public third party designated by

SOGEPA and approved by DaimlerChrysler. This option may be exercised during the term of the SOGEADE Shareholders' Agreement on the basis of the market price for the EADS shares.

The SOGEADE Shareholders' Agreement shall terminate if Lagardère or SOGEPA ceases to hold at least 20% of the capital of SOGEADE, except that: (a) the provisions relating to the call option granted by Lagardère described above shall remain in force as long as the Participation Agreement is in force, (b) as long as SOGEPA holds at least one SOGEADE share, it will remain entitled to nominate a SOGEADE Gérance Director whose approval will be required in respect of any decision to divest or create a security interest over the assets relating to prime contractor status, design, development and integration of ballistic missiles activity or the majority shareholdings in the companies Cilas, Sodern, Nuclétudes and the GIE Cosyde; and (c) the SOGEADE Shareholders' Agreement will be terminated in the event of a dissolution of EADS Participations B.V. caused by DaimlerChrysler. In the latter case, the parties have undertaken to negotiate a new shareholders' agreement in the spirit of the shareholders' agreement between them dated 14th April 1999 relating to Aerospatiale Matra and having regard to their respective shareholdings in SOGEADE at the time of the dissolution of EADS Participations B.V.

Put Option

Under the Participation Agreement, SOGEADE grants a put option to DaimlerChrysler over its EADS shares which shall be exercisable by DaimlerChrysler, (i) in the event of a deadlock arising from the exercise by SOGEPA of its rights relating to certain strategic decisions (listed above under the description of SOGEADE) other than those relating to the ballistic missiles activity or (ii) during certain periods provided that in both cases the French State still holds any direct or indirect interest in EADS shares. The put option may only be exercised in respect of all and not some only of DaimlerChrysler's EADS shares.

The exercise price of the option will be calculated on the basis of an average market price for EADS shares.

In the event that DaimlerChrysler exercises the put option granted to it by SOGEADE, SOGEADE will acquire the EADS shares from DaimlerChrysler. However, Lagardère has the right to require SOGEPA to substitute itself for SOGEADE in relation to the acquisition of DaimlerChrysler's EADS shares following the exercise by DaimlerChrysler of the put option. Such substitution right has been accepted by DaimlerChrysler. In the event that Lagardère does not exercise such substitution right, Lagardère would have to provide its pro rata part of the financing necessary for such acquisition. SOGEPA undertakes to provide its pro rata part of the financing corresponding to its rights in SOGEADE. Should Lagardère decide not to take part in the financing, (a) SOGEPA undertakes to substitute itself for



SOGEADE to buy the shares sold by DaimlerChrysler as a result of the exercise of its put option and SOGEPA or Lagardère may request the liquidation of SOGEADE and EADS Participations B.V. and the termination of the SOGEADE Shareholders' Agreement (notwithstanding the termination provisions of the SOGEADE Shareholders' Agreement described under the paragraph "SOGEADE" above). In that case, Lagardère could freely sell its EADS shares on the market or in a block sale to a third party.

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, SOGEADE, DaimlerChrysler 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.

Contributions to EADS — Specific Undertakings of EADS

EADS has agreed not to dispose of the shares contributed to it by Aerospatiale Matra, Dasa AG and SEPI for a period of seven years. The contribution agreements entered into between EADS on the one hand and Aerospatiale Matra, Dasa AG and SEPI on the other hand, provide that EADS may, if it determines that this is desirable, dispose of such shares provided that EADS shall, on demand, indemnify Lagardère and SOGEPA (in the case of a sale of shares contributed by Aerospatiale Matra), Dasa AG or SEPI, as the case may be, for all tax disadvantages (tax actually paid or borne by them as well as any consumption of loss-carry-forward potential) they suffer as a result of the loss of the tax benefit triggered by the disposal of the shares by EADS. Such obligation to indemnify shall cease after seven years from the date of contribution. In the event that the indemnification would be made to all three of Lagardère, SOGEPA and Dasa AG, the Board of Directors would decide on the amount of the indemnity on the basis of a report made and presented by the two independent Directors of EADS. The amount and the conditions of this indemnification will be reported to the shareholders' meeting.

DADC

EADS holds 75% of the shares in DADC Luft- und Raumfahrt Beteiligungs AG ("**DADC**") (the other 25% being held by DCLRH). The share capital of Dornier GmbH is held as to 97.1% by DADC and as to 2.9% by the Dornier family. In shareholders' meetings, DADC is entitled to more than 95.2%

and the Dornier family to less than 4.8% of the voting rights in Dornier GmbH. DADC and Dornier GmbH have entered into a control and profit and loss transfer agreement.

A considerable number of shareholders' resolutions in Dornier GmbH require a majority of 100% of the votes cast in the shareholders' meeting notably resolutions to dissolve the company, alterations of the Articles of Association if they terminate, limit or have an impact on the rights of the minority shareholders, reduction of share capital, mergers (unless Dornier GmbH is the surviving entity), the transfer of holdings in other enterprises or the transfer of whole areas of enterprise activities with the exception of transfers of assets in return for shares or as a contribution in kind or to a company associated with DaimlerChrysler, which is assumed to be the case if DaimlerChrysler controls at least 20% of its share capital. The same requirement applies with regard to all transfers of shares of Dornier GmbH held by the DaimlerChrysler Group (including associated enterprises) subject to certain exceptions including the transfer to other DaimlerChrysler Group companies (including associated enterprises). Furthermore, the Dornier family receives a guaranteed dividend from Dornier GmbH (depending on the nature of the shares) of 8.7% or 15% of the nominal amount of their shares plus any corporation tax credits. The guaranteed dividend is indexed. DaimlerChrysler has guaranteed the payment of the minimum dividend to the Dornier family shareholders. In the case of the profit and loss transfer agreement, which presently exists between DADC and Dornier GmbH, the Dornier family shareholders are entitled to receive payments corresponding at least to the amount which they would be entitled to in the absence of such profit and loss transfer agreement. Internally DADC has assumed this obligation.

On 30th November 1988 DaimlerChrysler and the Dornier family entered into a separate agreement to strengthen the rights of DaimlerChrysler and, simultaneously, to protect the economic interests of the minority shareholders. The latter can, in particular, demand that their shares in Dornier GmbH be bought (i) for cash consideration or (ii) in exchange for DaimlerChrysler shares or (iii) in exchange for shares in a company in which, or under which, DaimlerChrysler concentrates its aerospace activities by DaimlerChrysler or another company associated with DaimlerChrysler and nominated by DaimlerChrysler. On 29th March 2000 DaimlerChrysler, DCLRH, DADC, EADS Deutschland GmbH and Dasa AG entered into an agreement according to which DaimlerChrysler has the right to demand from DADC to buy the shares so offered by the Dornier family shareholders. DaimlerChrysler shall reimburse DADC for any amount to be paid being above the fair market value of the shares. Moreover, DADC will assume certain other rights and obligations relating to the protection of the interests of the Dornier family.

On 29th December 2004, Silvius Dornier and DaimlerChrysler entered into an agreement to transfer all of the remaining shares of Silvius Dornier in Dornier GmbH (3.58%) to DaimlerChrysler or another company of the DaimlerChrysler Group nominated by DaimlerChrysler and to settle all of the rights and potential claims of Silvius Dornier resulting from or in connection with his shareholding in Dornier GmbH. None of the other family shareholders exercised their three months' right of first refusal to acquire these shares so that the legal transfer became effective on 17th April 2005. According to the above mentioned agreement between DaimlerChrysler, DCLRH, DADC, EADS Deutschland GmbH and Dasa AG ("*Handhabungsvereinbarung*"), DADC had irrevocably offered to DaimlerChrysler to buy these shares at market value upon effectiveness of their sale to DaimlerChrysler, which offer was accepted by DaimlerChrysler and the deal being brought to closure on 3rd May 2005.

Under the terms of the business combination agreements entered into in the context of the creation of EADS, DCLRH has undertaken to indemnify Lagardère (for itself and on behalf of each member of the Lagardère Group) and SEPI and shall keep them indemnified, against (save in respect of any

consequential loss not foreseeable by DCLRH (or any member of the DaimlerChrysler Group) all or any costs, claims, demands, expenses, losses or liabilities that they (or any of them) may suffer or incur from the date of the business combination agreements entered into in the context of the creation of EADS as a result of all or any of the shareholders of Dornier GmbH other than a member of the Dasa Group obtaining or seeking to obtain any rights or remedies against Lagardère (or any member of the Lagardère Group), SEPI, the Contractual Partnership, EADS Participation B.V., Dasa AG, EADS or any entity contributed by or on behalf of DaimlerChrysler which is to become a member of the Group or any member of the Dasa AG Group. This indemnity shall also extend to EADS to the extent such protection is not provided for in the transfer of the Dasa business to EADS.

Other than the relationships between the Company and its principal shareholders described above in this Section 3.3.2, to the Company's knowledge, there are no potential conflicts of interest relative to the Company between the duties of the Directors and their respective private interests or other duties.

3.3.3 Form of Shares

The shares of EADS are in registered form. The Board of Directors may decide in respect of all or certain shares, on shares in bearer form.

Shares shall be registered in the shareholders' register without the issue of a share certificate or, should the Board of Directors

so decide, in respect of all or certain shares, with the issue of a certificate. Share certificates shall be issued in such form as the Board of Directors may determine. Registered shares shall be numbered in the manner to be determined by the Board of Directors.

3.3.4 Changes in the Shareholding of the Company Since its Incorporation

The Company was founded with an authorised share capital of 500,000 Netherlands Guilders ("**NLG**") divided into 500 shares each having a nominal value of 1,000 NLG, of which 100 were issued to Aerospatiale Matra on 29th December 1998. These shares were transferred to Dasa AG by way of notarised transfer certificate on 28th December 1999.

The changes in the shareholding of the Company since its initial public offering and listing are set forth below (for a description of the changes in the issued share capital of the Company since its incorporation, see "3.2.5 Changes in the Issued Share Capital Since Incorporation of the Company").

Since July 2000, 4,293,746 EADS shares have been distributed without payment of consideration by the French State to certain former shareholders of Aerospatiale Matra as a result of its privatisation in June 1999. The last distribution took place in July 2002.

In addition, in January 2001, the French State and Lagardère sold on the market all of their EADS shares (respectively 7,500,000 and 16,709,333 EADS shares) other than their Indirect EADS Shares (and, in the case of the French State, other than the EADS shares to be distributed to former shareholders of Aerospatiale Matra, see "— 3.3.2 Relationships



with Principal Shareholders — Specific Rights and Undertakings of the French State”) that they held as a result of the non-exercise of the over-allotment option granted to the underwriters in the context of the initial public offering carried out by the Company for the purpose of its listing in July 2000 (including, in the case of Lagardère, those shares other than its Indirect EADS Shares purchased from the French Financial Institutions at the end of the exercise period of the over-allotment option).

On 8th July 2004, DaimlerChrysler announced that it had placed on the market (in the context of a hedging transaction) all of its EADS shares (22,227,478 EADS shares), representing 2.73% of the capital and 2.78% of the EADS voting rights at that date, except for its Indirect EADS Shares.

On 4th April 2006, DaimlerChrysler and Lagardère announced the entry into simultaneous transactions aimed at reducing by 7.5% each their respective shareholdings in EADS. DaimlerChrysler entered into a forward sale agreement of approximately 61 million EADS shares with a group of investment banks. DaimlerChrysler indicated that it lent these shares to the banks in anticipation of the settlement of the forward sale. Lagardère issued mandatory exchangeable bonds. The EADS shares deliverable at the maturity of the bonds will represent a maximum of 7.5% of the share capital of EADS, or approximately 61 million EADS shares.

On 9th February 2007, DaimlerChrysler reached an agreement with a consortium of private and public-sector investors by which it will effectively reduce its shareholding in EADS from 22.5% to 15%. DaimlerChrysler has placed its entire 22.5% equity interest in EADS into a new company, in which the consortium of investors will acquire a one-third interest through a special-purpose entity. This effectively represents a 7.5% stake in EADS. DaimlerChrysler has the option of dissolving the new structure on 1st July 2010 at the earliest. If the structure is dissolved, DaimlerChrysler 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 SOGEADE, will be entitled to pre-empt such EADS shares to retain the balance between the German and the French side. DaimlerChrysler will continue to control the voting rights of the entire 22.5% package of EADS shares.

As from the date of filing with the AFM of the Registration Document of the Company for the financial year 2005 (26th April 2006), the Company received a threshold notification stating that, as of 8th September 2006, JSC Vneshtorgbank held 41,050,705 EADS shares. As of 31st December 2006, JSC Vneshtorgbank held 5.03% of the share capital of the Company.

The Division of the issued shares and voting rights of the Company before exercise of outstanding stock options granted for the subscription of EADS shares (see “Part 1 – 2.3.3 Long Terms Incentive Plans”) in respect of the past three years is indicated in the table below:

Shareholders	Position as at 31 st Dec. 2006			Position as at 31 st Dec. 2005			Position as at 31 st Dec. 2004		
	% of capital	% of voting rights	Number of shares	% of capital	% of voting rights	Number of shares	% of capital	% of voting rights	Number of shares
Dasa AG	22.47%	22.71%	183,337,704	29.89%	30.29%	244,447,704	30.20%	30.43%	244,447,704
SOGEADE	29.96%	30.27%	244,447,704	29.89%	30.29%	244,447,704	30.20%	30.43%	244,447,704
SEPI	5.48%	5.54%	44,690,871	5.47%	5.53%	44,690,871	5.52%	5.56%	44,690,871
Sub-total Contractual Partnership	57.91%	58.52%	472,476,279	65.25%	66.11%	533,586,279	65.92%	66.42%	533,586,279
French State	0.06%	0.06%	502,746	0.06%	0.06%	502,746*	0.06%	0.06%	502,746
Public	40.99%	41.42%	334,448,355	33.39%	33.83%	273,061,396**	33.25%	33.52%	269,248,792
Own share buy-back***	1.04%	—	8,504,144	1.30%	-	10,592,709	0.77%	-	6,241,252
Total	100.00%	100.00%	815,931,524	100.00%	100.00%	817,743,130	100.00%	100.00%	809,579,069

(*) Shares held by the French State following the distribution without payment of consideration of 4,293,746 shares to certain former shareholders of Aerospatiale Matra as a result of its privatisation in June 1999. All the shares currently held by the French State will have to be sold on the market.

(**) Including EADS employees. As at 31st December 2006, EADS employees hold approximately 1.72% of the share capital and 1.74% of the voting rights.

(***) The EADS shares owned by the Company itself do not carry voting rights.

To the knowledge of the Company, except as disclosed previously in “3.3.2 Relationships with Principal Shareholders”, there are no pledges over the shares of the Company.

The Company requested a disclosure of the identity of the beneficial holders of its shares held by identifiable holders (“*Titres au porteur identifiable*”) holding more than 2,000 shares each. The study, which was completed on 29th December 2006, resulted in the identification of 1,590 shareholders holding a total of 296,788,586 EADS shares (including 9,566,454 shares

held by Iberclear on behalf of the Spanish markets and 36,606,433 shares held by Clearstream on behalf of the German market).

The shareholding structure of the Company is as shown in the diagram in “3.3.1 Shareholding Structure”.

For further information on changes to shareholdings since 31st December 2006, see also “1.2 Recent Developments”.

3.3.5 Persons Exercising Control over the Company

See “3.3.1 Shareholding Structure” and “3.3.2 Relationships with Principal Shareholders”.

3.3.6 Simplified Group Structure Chart

The following chart illustrates the simplified organisational structure of EADS, comprising five Divisions and the main BUs. For ease of presentation, intermediate holding companies have been omitted. The shaded boxes represent Divisions (with respect to the MTA Division) or BUs (with respect to Military Air Systems) that are part of the legal entities referred to in parentheses. The coloured boxes denote entities forming part of

one of EADS’ five Divisions. The non-coloured boxes denote entities that are holding companies or participations not within one of EADS’ five Divisions and do not directly form part of the management responsibility of a specified director. Socata, EADS ATR, ATR GIE, EFW and Sogerma are ‘Other Businesses’ and do not form part of EADS’ five Divisions. See “1.1.1 Overview – Organisation of EADS Businesses”.

3.3.7 Purchase by the Company of its Own Shares

3.3.7.1 Dutch Law and Information on Share Buy-Back Programmes

Pursuant to Commission Regulation (EC) No. 2273/2003, the Company is subject to conditions for share buy-back programmes and disclosure relating thereto, as described below.

Under Dutch Civil law, the Company may acquire its own shares, subject to certain provisions of the law of the Netherlands and the Articles of Association, if (i) the shareholders' equity less the payment required to make the acquisition does not fall below the sum of paid-up and called portion of the share capital and any reserves required by the law of the Netherlands and (ii) the Company and its subsidiaries would not thereafter hold or hold in pledge shares with an aggregate nominal value exceeding one-tenth of the Company's issued share capital. Share acquisitions may be effected by the Board of Directors only if the shareholders in general meeting have authorised the Board of Directors to effect such repurchases. Such authorisation may apply for a maximum period of 18 months.

Shares held by the Company do not carry voting rights. Usufructuaries and pledgees of shares that are held by the Company are, however, not excluded from their voting rights in such cases where the right of usufruct or pledge was vested before the share was held by the Company.

The annual shareholders' meeting of EADS held on 4th May 2006 authorised the Board of Directors, in a resolution that renewed the previous authorisation given by the annual shareholders' meeting of EADS held on 11th May 2005, for a period of 18 months from the date of such meeting, to repurchase shares of the Company, by any means, including by derivative products, on any stock exchange or otherwise, as long as, upon such repurchase, the Company shall 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 where the purchase is carried out.

As of July 2006, the Company had purchased in aggregate 15,161,114 of its own shares, 6,656,970 of which were cancelled on 20th July 2006.

As of the date of this document, the Company had purchased in aggregate 8,680,253 of its own shares.

A resolution will be submitted to the annual shareholders' meeting of EADS called for 4th May 2007 in order to supersede and replace the authorisation given by the annual shareholders' meeting held on 4th May 2006 and authorize the Board of Directors, for a new period of 18 months as from the date of such meeting, to repurchase shares of the Company, by any means, including by derivative products, on any stock exchange or otherwise, as long as, upon such repurchase, the Company shall 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 where the purchase is carried out.

3.3.7.2 French Regulations

As a result of its listing for trading on a regulated market in France, the Company is subject to the regulations summarised below.

Pursuant to Articles 241-1 to 241-6 of the AMF General Regulations, the purchase by a company of its own shares, in principle, requires the publication of the description of the share-buy programme. Such description must be published prior to the implementation of the share buy-back programme.

Under Articles 631-1 to 631-4 of the AMF General Regulations, a company may not trade in its own shares for the purpose of manipulating the market. Articles 631-5 and 631-6 of the AMF General Regulations also define the conditions for a company's trading in its own shares to be valid.

After purchasing its own shares, the Company is required to disclose on its website specified information regarding such purchases within at least seven trading days and publish on a monthly basis a release gathering all the specified information regarding such purchases previously published on its website.

Additionally, the Company must notably report to the AMF, on at least a monthly basis, information concerning the cancellation of such repurchased shares.

3.3.7.3 German Regulations

As a foreign issuer, the Company is not subject to German rules on repurchase its own shares, which only apply to German issuers.

3.3.7.4 Spanish Regulations

As a foreign issuer, the Company does not have to comply with the Spanish rules on trading in its own shares, which only apply to Spanish issuers.

However, according to the Conduct Rules under the Spanish Securities Act 24/1988 of 28th July 1988, the Company may not trade in its own shares for the purpose of manipulating the market.

3.3.7.5 Description of the Share Buy-Back Programme to be Authorised by the Annual General Shareholders' Meeting to be held on 4th May 2007

Pursuant to Articles 241-2-I and 241-3-III of the AMF General Regulations, below is a description of the share buy-back programme ("*descriptif du programme*") to be implemented by the Company:

- **date of the general shareholders' meeting to authorise the share buy-back programme to be held:** 4th May 2007;
- **number of EADS shares and corresponding percentage of share capital held directly and indirectly by the Company:** 8,680,253 shares representing 1.06% of the share capital as at the date of this document;
- **intended use of the EADS shares held by the Company as at the date of this document:** the reduction of share capital by cancellation of all or part of the repurchased shares, in particular to avoid the dilution effect related to certain share capital increases for cash (i) reserved or to be reserved for employees of the EADS Group and/or (ii) carried out or to be carried out in the context of the exercise of stock options granted or to be granted to certain EADS Group employees: 8,680,253 shares.

For information on shares held by EADS at the date of the entry into force of EC Regulation n° 2273/2003 of 22nd December 2003 on 13th October 2004 and still held by EADS at the date of this document, see below:

- **Purposes of the share buy-back programme to be implemented by the Company (by order of decreasing priority, without any effect on the actual order of use of the buy-back authorisation, which shall be determined according to needs and possibilities):**
 - the reduction of share capital by cancellation of all or part of the repurchased shares, in particular to avoid the dilution effect related to certain share capital increases for cash (i) reserved or to be reserved for employees of the

EADS Group and/or (ii) carried out or to be carried out in the context of the exercise of stock options granted or to be granted to certain EADS Group employees, it being understood that the repurchased shares shall not carry any voting or dividend rights,

- the owning of shares for the performance of obligations related to:

- (i) debt financial instruments convertible into EADS' shares,
- (ii) employee share option programmes or other allocations of shares to the EADS Group employees,

- the purchase of shares for retention and subsequent use for exchange or payment in the framework of potential external growth transactions, and

- the liquidity or dynamism of the secondary market of the EADS shares carried out pursuant to a liquidity agreement to be entered into with an independent investment services provider in compliance with the decision of the AMF dated 22nd March 2005 related to approval of liquidity agreements recognised as market practices by the AMF;

- **Procedure:**

- maximum portion of the issued share capital to be repurchased by the Company: 10%;
- maximum number of shares to be repurchased by the Company upon authorisation by the general shareholders' meeting: the portion of 10% would represent 81,602,573 shares of the Company issued share capital representing 816,025,734 shares as of the date of this document. This maximum portion of 10% would represent 84,680,356 shares based on the 846,803,563 shares which would make up the entire fully-diluted share capital of the Company after the issue of 30,777,829 shares as a result of the exercise of stock options, which can still be exercised as of the date of this document, which the board of directors decided to grant to certain EADS Group employees in 2000, 2001, 2002, 2003, 2004, 2005 and 2006,
- furthermore, the amounts to be paid in consideration for the purchase of the treasury shares must not, in accordance with applicable Dutch law, exceed the equity components which are, per se, repayable or distributable to the shareholders. "Equity components repayable or distributable to the shareholders" means the contribution premiums (in relation to contributions in kind), the issue premiums (in relation to cash contributions) and the other reserves as set out in the financial statements of EADS, from which the repurchase price for the treasury shares must be deducted.

As at 31st December 2006, the respective values of each of these EADS' equity components which are by nature

repayable or distributable to the shareholders were: €8,160,000,000 (contribution premiums), €(742,000,000) (other reserves) and €(349,000,000) (treasury shares), i.e., an aggregate amount of €7,069,000,000.

EADS reserves the right to implement the share purchase programme to its full extent and undertakes not to exceed, directly or indirectly, the threshold of 10% of the issued share capital as well as the amount of €7,069,000,000 throughout the term of the programme.

Finally, EADS undertakes to maintain at any time a sufficient number of shares in public hands to meet the thresholds of Euronext Paris S.A.

- Shares may be bought or sold at any time (including during a public offering) to the extent authorised by the stock exchange regulations and by any means, including, without limitation, that the part of the programme which may be carried out by means of sale or purchase of block trades and including the use of options, combinations of derivative financial instruments or the issue of securities giving rights in any way to EADS shares within the limits set out in this prospectus. Moreover, EADS will use call options and swap that have been acquired pursuant to the agreements it had entered into during the previous share repurchase programme (see below) and does not exclude the possibility of using a structure of transaction similar to the one that had been used in the previous share repurchase programme in order to repurchase its own shares.

The portion of shares repurchased by means of the use of block trades may amount to all the shares to be repurchased in the context of this programme.

In addition, in the event that derivative financial instruments are used, EADS shall ensure that it does not use mechanisms which would significantly increase the volatility of the shares in particular in the context of call options.

- characteristics of the shares to be repurchased by the Company upon authorisation by the general shareholders' meeting: shares of EADS, a company listed on the *marché Eurolist* of Euronext Paris S.A., on the Amtlicher Handel market of the Frankfurt Securities Exchange ("*Frankfurter Wertpapierbörse*") and on the Madrid, Bilbao, Barcelona and Valencia Stock Exchanges,
- DaimlerChrysler, Dasa AG, the French State, Lagardère, SEPI, SOGEADE and SOGEPa will retain all of their rights, depending on the circumstances, to sell their available EADS shares to EADS as part of this share buy-back programme,
- maximum purchase price per share: €70.

- **Term of the share buy-back programme:** this share repurchase programme shall be valid until 4th November 2008 inclusive, i.e., the date of expiry of the authorisation requested from the Annual General Meeting of 4th May 2007. One of the main aims of this EADS share repurchase programme is linked to the possible exercise by EADS Group employees of stock options granted to them in 2000, 2001 and 2002, it is currently intended (i) that such a programme be continued and renewed so that it expires on 9th August 2012 (8th August 2012 being the latest date upon which an employee of the EADS Group may exercise all or part of his/her stock options granted in 2002) and (ii) that the EADS annual general meeting be asked to renew the authorisations until such date.

- **Declaration by the Company of transactions carried out in relation to its own shares from 4th May 2006 to the date of this document:**

Percentage of share capital held directly and indirectly	1.06%
Number of shares cancelled during the last 24 months	7,993,328
Number of shares held in portfolio	8,680,253
Book value of portfolio	€m 158,45
Market value of portfolio	€m 189,33

The 1,843,814 EADS shares held by EADS at the date of the entry into force of EC Regulation n° 2273/2003 of 22nd December 2003 on 13th October 2004 and still held by EADS at the date of this document shall be, in order of decreasing priority, either (i) cancelled pursuant to a decision to be made, according to Dutch law, by an EADS annual general meeting, to avoid the dilution effect related to certain share capital increases for cash carried out, during the fiscal year preceding such annual general meeting, in the context of an EADS employee share ownership programme and/or upon the exercise of stock options granted to certain EADS Group employees, or (ii) kept in order to allow the performance of certain obligations described within the aims of the share repurchase programme referred to in this document, or (iii) used for exchange or payment in the framework of a potential external growth transaction, or (iv) sold in the context of a liquidity agreement in compliance with the provisions of Instruction AMF No. 2005-07.

In addition, it is envisaged that the EADS Annual General Meeting to be held on 4th May 2007 be requested to decide upon the cancellation of 4,568,405 repurchased shares to avoid the dilution effect related to the share capital increases for cash carried out upon the exercise in 2006 of stock options granted to certain EADS Group employees in 2000, 2001 and 2002 (in an amount of 100% of the shares issued in such context).



As of the date of this document, EADS has not entered into any liquidity agreement with an independent investment services provider in the context of this share repurchase programme.

In the context of this share repurchase programme, EADS used derivative financial instruments (see below). These derivative financial instruments (call options) have the characteristics set out in the table below.

	Gross cumulative flows		Opening positions as of the date of this document			
	Purchases	Sales/Transfers (Exercise of Option)	Opening Position on the Purchase		Opening Position on the Sale	
Number of Shares	650,953	-	Call purchased 8,804,774	Forward sale	Call purchased	Sale
Average Maximum Maturity Date*			9 th August 2012	-	-	-
Average Price of the Transaction*		-				
Average Exercise Price*		-	-	-	-	-
Total	€12,424,336	-				

(* See "Part 1 – 2.3.3 Long Term Incentive Plans".

A share repurchase programme is being implemented since 2004 in order to avoid the dilution effect related to the share capital increases in cash which would result from the exercise of the stock options granted to certain employees of the EADS Group in 2000, 2001 and 2002. This share repurchase programme is implemented according to the neutral delta method as a means of repurchase in order to compensate for the dilution effect of such stock option plans as approved by the Board of Directors on 5th December 2002 and 10th October 2003.

In relation to this repurchase programme, EADS entered into the following agreements: (i) call options agreements allowing EADS to acquire from a top ranking French bank a number of EADS' shares equal to the number of shares to be created as a result of the exercise of stock options granted to certain employees of the EADS Group in 2000, 2001 and 2002, and (ii) swap agreements for the periodical adjustment of an amount in cash equal to the premiums paid by EADS to a top ranking French bank pursuant to the call options agreements, in accordance with the neutral delta method.

Pursuant to these agreements, the call options which EADS acquired from a top ranking French bank, have the same terms (as to exercise prices, exercise dates, quantities and expiry dates) as the stock options granted pursuant to the 2000, 2001 and 2002 stock option plans. If the EADS share price increases, the top ranking French bank must buy the number of EADS shares which then derived from the increase in price according to the delta neutral method formula. The total amount paid for these shares by the top ranking French bank corresponds to the financial charge borne by EADS, as determined from the variable amounts in the swap agreement. On the other hand, in the case of a reduction in the EADS share price, the top ranking French bank must sell a number of EADS shares which derived from the reduction in the share price according to the

neutral delta method formula. The total amount received by the top ranking French bank for the sale of these shares corresponds to the financial revenues received by EADS as determined from the variable amounts in the swap contract. Under these conditions, the final amount due as a result of the purchases of the call options is only known at the time of the payment as determined from the last variable amount of the swap contract.

The structure of the transaction aims at covering off the dilution effect and the price risk for EADS linked to the exercise of stock options granted to certain EADS Group employees in 2000, 2001 and 2002.

Within this context, EADS uses the internal control procedures put in place by the Company in order to ensure the reliability of the management of the risks linked to these call options and swap. The procedures and tools for reporting have been set up, the responsibility and powers have been delegated to the Finance and Treasury department of EADS which has responsibility for all operational decisions and all activities within its competence. The relevant competent bodies within the organisation must be made aware of all substantial transactions, activities and risks.

From an accounting standpoint, the call options qualify as equity instruments, provided that they are physically settled in EADS' own stock (IAS 32.16). The initial accounting led to a reduction in cash balances for the premiums paid and in stockholder's equity for the same corresponding amount. With each variable payment made in application of the delta neutral method formula, there is a corresponding impact on cash and on equity to reflect the cumulative premiums paid on the call options. Upon exercise of the call options, EADS decreases cash by the amount paid (strike price times number of options) and deducts treasury shares from shareholder's equity. Variations in

the market value of the call options are not recognised in the financial statements. All such transactions are therefore neutral on the income statement.

The top ranking French bank has contractually undertaken to comply with the regulations in force in relation to repurchase procedures applicable to EADS and in particular the provisions of Articles 241-1 to 241-6 and 631-1 *et seq.* of the General Regulations of the AMF.

3.4 Dividends

3.4.1 Dividends and Cash Distributions Paid Since the Incorporation of the Company

Cash distributions, paid to the shareholders since the incorporation of the Company, are summarized in the table below:

Financial Year	Date of the cash distribution payment	Gross amount per share
2000	27 th June 2001	€0.50
2001	28 th June 2002	€0.50
2002	12 th June 2003	€0.30
2003	4 th June 2004	€0.40
2004	8 th June 2005	€0.50
2005	1 st June 2006	€0.65

3.4.2 Dividend Policy of EADS

Given the extraordinary circumstances and the important challenges that came to light during the year 2006, and which are not tied to the commercial air transportation economic cycle, the Board of Directors unanimously agreed that the amount of the proposed cash distribution should be substantially reduced.

While this opinion constitutes a departure from the policy adopted last year, the Board of Directors does not recommend to rescind such policy, but endorses a temporary suspension. Looking forward, EADS' Board of Directors still believes that continuity and growth of dividends is a desirable shareholder objective, which must however remain subject to factors such as EADS' distribution capacity arising from performance, its priorities for cash utilisation and future prospects.

To determine whether to effect a cash distribution or not, and if so, at what level, the Board of Directors considered dividend

distribution in relation to the liquidity and capital structure of EADS, and to the opportunity of accessing capital market. It also considered Management's account of investor concerns and interpretation of a dividend payment, in the light of stock performance through the past year. Following this debate, directors could not finally agree on a dividend proposal.

In the absence of a proposal by the Board of Directors, and in accordance with Dutch law and the Company's Articles of Association, shareholders present at the Annual General Meeting of Shareholders to be held on 4th May 2007 may propose that the result of the financial year 2006, i.e. €99 million, is either added to retained earnings or distributed entirely or partially as a dividend. A total distribution of the result of the financial year 2006 would represent a gross amount of €0.12 per share. The proposals made by the shareholders will be submitted to the vote at the Annual General Meeting of Shareholders to be held on 4th May 2007.

3.4.3 Unclaimed Dividends

Pursuant to Article 31 of the Articles of Association, the claim for payment of a dividend or other distribution approved by the general meeting shall lapse five years after the day on which such claim becomes due and payable. The claim for payment of

interim dividends shall lapse five years after the day on which the claim for payment of the dividend against which the dividend could be distributed becomes due and payable.

3.4.4 Taxation

The statements below represent a broad analysis of the present Netherlands tax laws. The description is limited to the material tax implications for a holder of the Company's shares (the "Shares") who is not, or is not treated as, a resident of the Netherlands for Netherlands tax purposes (a "Non-Resident Holder"). Certain categories of holders of the Company's shares may be subject to special rules which are not addressed below and which may be substantially different from the general rules described below. Investors who are in doubt as to their tax position in the Netherlands and in their state of residence should consult their professional advisors.

Withholding Tax on Dividends

In general, a dividend distributed by the Company in respect of Shares will be subject to a withholding tax imposed by the Netherlands at a statutory rate of 15%. Dividends include dividends in cash or in kind, deemed and constructive dividends, repayment of paid-in capital not recognised as capital for Netherlands dividend withholding tax purposes, and liquidation proceeds in excess of the average paid-in capital recognised as capital for Netherlands dividend withholding tax purposes. Stock dividends paid out of the Company's paid-in-share premium, recognised as capital for Netherlands dividend withholding tax purposes, will not be subject to this withholding tax.

A Non-Resident Holder of Shares can be eligible for a partial or complete exemption or refund of all or a portion of the above withholding tax under a tax convention that is in effect between the Netherlands and the Non-Resident Holder's country of residence. The Netherlands has concluded such conventions with the U.S., Canada, Switzerland, Japan, almost all European Union member states and other countries.

Withholding Tax on Sale or Other Dispositions of Shares

Payments on the sale or other dispositions of Shares will not be subject to Netherlands withholding tax, unless the sale or other disposition is, or is deemed to be, made to the Company or a direct or indirect subsidiary of the Company. A redemption or sale to the Company or a direct or indirect subsidiary of the Company will be treated as a dividend and will in principle be subject to the rules set forth in "Withholding Tax on Dividends" above.

Taxes on Income and Capital Gains

A Non-Resident Holder who receives dividends distributed by the Company on Shares or who realizes a gain from the sale or disposition of Shares, will not be subject to Netherlands taxation on income or capital gains unless:

- such income or gain is attributable to an enterprise or part thereof which is either effectively managed in the Netherlands or carried on through a permanent establishment ("*vaste inrichting*") or permanent representative ("*vaste vertegenwoordiger*") in the Netherlands; or
- the Non-Resident Holder is not an individual and the Non-Resident Holder has, directly or indirectly, a substantial interest ("*aanmerkelijk belang*") or a deemed substantial interest in the Company and such interest does not form part of the assets of an enterprise, or
- the Non-Resident Holder is an individual and (i) the Non-Resident Holder has, directly or indirectly, a substantial interest ("*aanmerkelijk belang*") or a deemed substantial interest in the Company and such interest does not form part of the assets of an enterprise, or (ii) such income or gain qualifies as income from miscellaneous activities ("*belastbaar resultaat uit verage werkzaamheden*") in the Netherlands as defined in the Dutch Income Tax Act 2001 ("*Wet inkomstenbelasting 2001*").

Generally, a Non-Resident Holder of Shares will not have a substantial interest in the Company's share capital, unless the Non-Resident Holder, alone or together with certain related persons holds, jointly or severally and directly or indirectly, Shares in the Company, or a right to acquire Shares in the Company representing 5% or more of the Company's total issued and outstanding share capital or any class thereof. A deemed substantial interest exists if all or part of a substantial interest has been or is deemed to have been disposed of with application of a roll-over relief.

Gift or Inheritance Taxes

Netherlands gift or inheritance taxes will not be levied on the transfer of Shares by way of gift, or upon the death of a Non-Resident Holder, unless:

- the transfer is made by or on behalf of a person who, at the time of the gift or death, is or is deemed to be resident in the Netherlands; or
- the Shares are attributable to an enterprise or part thereof that is either effectively managed in the Netherlands or carried on through a permanent establishment or a permanent representative in the Netherlands.

Value-Added Tax

No Netherlands value-added tax is imposed on dividends on the Shares or on the transfer of the Shares.

Other Taxes and Duties

There is no Dutch registration tax, transfer tax, capital tax, stamp duty or any other similar tax or duty other than court fees payable in the Netherlands in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including any foreign judgment in the courts of the Netherlands) with respect to the dividends relating to the Shares or on the transfer of the Shares.

Residence

A Non-Resident Holder will not become resident, or be deemed to be resident, in the Netherlands solely as a result of holding a Share or of the execution, performance, delivery and/or enforcement of rights in respect of the Shares.

3.5 Annual Securities Disclosure Report

The list of the following announcements comprises the regulatory disclosures relating to price sensitive information which can be accessed through the Company's website at www.eads.com:

Press release First Quarter 2006 Results	16 th May 2006
Press release – Revised A380 delivery schedule expected not to impact EADS' EBIT 2006	13 th June 2006
Press release – EADS Board of Directors appointed Louis Gallois to join Tom Enders as Chief Executive Officer	2 nd July 2006
Press release – EADS confirms price determination for BAE Systems' stake in Airbus	2 nd July 2006
Press release First Half 2006 Results	27 th July 2006
Press release – EADS and Airbus finalise A380 review	3 rd October 2006
Press release – EADS Board of Directors changes significantly the management structure of EADS	9 th October 2006
Press release Third Quarter 2006 Results	8 th November 2006
Press release – A350XWB launch EADS gives go ahead for Airbus to launch the A350XWB	1 st December 2006
Press release – Airbus 2006 Results	17 th January 2007
Press release – 2006 Annual Results	9 th March 2007

In addition, EADS publishes announcements made in the ordinary course of business which are also available through its website at www.eads.com.

This section constitutes the annual securities disclosure report in application Article 10 of the EC Directive 2003/71.

4

ENTITY RESPONSIBLE FOR THE REGISTRATION DOCUMENT

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4.1 Entity Responsible for the Registration Document

EADS

4.2 Statement of the Entity Responsible for the Registration Document

The Company declares that, having taken all reasonable care to ensure that such is the case, the information contained in the Registration Document is, to the best of the Company's knowledge, in accordance with the facts and contains no omission likely to affect its import.

EADS represented by:

Thomas Enders
Chief Executive Officer

Louis Gallois
Chief Executive Officer

4.3 Information Policy

Details of the person responsible for information:

Mr. Pierre de Bausset
Senior Vice-President Investor Relations
and Financial Communication

EADS
81663 Munich
Germany
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E-mail: ir@eads.com

A website, www.eads.com, provides a wide range of information on the Company, including the Board of Directors Report. Additionally, for the life of this Registration Document, copies of EADS's Articles of Association, the *Document de Référence*

filed in French with the *Autorité des marchés financiers* on 19th April 2005, the Registration Document filed in English with, and approved by, the AFM on 26th April 2006, the consolidated financial statements (IFRS) and the Company financial statements of EADS for the year ended 31st December 2004, the consolidated financial statements (IFRS) and the Company financial statements of EADS for the year ended 31st December 2005 together with reports of the auditors for the years ended 31st December 2004 and 31st December 2005 may be inspected at EADS' registered office at: European Aeronautic Defence and Space Company EADS N.V., Le Carré, Beechavenue 130-132, 1119 PR, Schiphol-Rijk, the Netherlands, Seat (statutaire zetel): Amsterdam, Tel: +31 20 655 48 00.

Special toll-free hotlines are available to shareholders in France (0 800 01 2001), Germany (00 800 00 02 2002) and Spain (00 800 00 02 2002). An e-mail box is dedicated to shareholders' messages: ir@eads.com.

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4.4 Undertakings of the Company regarding Information

Given the fact that the shares of the Company are listed on the *Marché Eurolist* of Euronext Paris SA (the “**Paris Stock Exchange**”), in *amtlicher Markt* (in the sub-segment *Prime Standard*) on the *Frankfurter Wertpapierbörse* (the “**Frankfurt Stock Exchange**”) and on the Madrid, Bilbao, Barcelona and

Valencia Stock Exchanges (the “**Spanish Stock Exchanges**”), the Company is subject to certain laws and regulations applicable in France, Germany and Spain in relation to information, the main ones of which are summarised in “3.1.3 Governing Laws”.

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