

FINANCIAL  
STATEMENTS  
AND  
CORPORATE  
GOVERNANCE  
2006

Book



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#### FINANCIAL STATEMENTS AND CORPORATE GOVERNANCE 2006

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

Book

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#### 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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# FINANCIAL STATEMENTS AND CORPORATE GOVERNANCE

# EADS



Dear shareholders,

2006 was a difficult and disappointing year for all of us. The company was delivering commercial success, making strides on its expansion path, and our divisions were performing well. But a shockwave of events at Airbus hit us unexpectedly, most visibly with the A380 program, and forced us to re-examine operations: we realised that, besides long-term issues of competitive pressure on prices and the persistent weakening of the US dollar, many factors of past accomplishments need to be either changed or reinforced.

The transformation of EADS requires substantial efforts across the group. Airbus in particular, requires an overhaul of the original industrial set-up, a behavioural evolution and more modesty. Given the nature of our business, we are locked into certain elements until 2010, such as our backlog or the hedge portfolio. Reorganisation programs, mostly Power8, are the only levers that EADS can, and must employ to emerge stronger.

There are many factors that support us in accomplishing this indispensable task. Orders still hover at historic heights. The demand is robust – particularly visible in the Single Aisle segment. A continuation of this upcycle is expected as US airlines need to rejuvenate their fleets.

Meanwhile, our other businesses display increasingly better performance, because past restructuring efforts, such as those of the space business, are bearing fruits. Opportunities for defence sales in the US are more tangible than ever, after the winning of the Light Utility Helicopter contract. Our hedge book is valuable, though not a cure to the threat of an unrelenting weak euro-dollar exchange rate, and our customer financing exposure has been reduced yet further.

In organisational terms the integration of the EADS Group significantly progressed with the acquisition of the 20% BAE Systems stake in Airbus in October 2006. Shortly afterwards, Louis Gallois and myself respectively became CEO and CFO of Airbus. This dissolves an important structural impediment and furthers transparency in the Group. This assimilation should translate in a better allocation and flow of resources, infrastructure and capabilities between Airbus and the other EADS Business Units and Divisions.

Impacts of the A380 industrialization delays will still be visible in 2010, as margin contributions and cash flows from full production are now pushed back by two years. But following the ramp-up, working capital will return to a normal level and free up financial resources that can then be allocated elsewhere.

The development of the A350XWB programme, launched in 2006, is one such area of future investment, and ultimately, a new short range aircraft may also lead to a rush of R&D spending through the first half of the next decade.


In the face of these needs, management needs to push forward for a leaner, less complex and less capital intensive model for EADS. Proactive portfolio management, implying divestments of non-core or non-strategic assets as well as selective acquisitions, will ensure the flexibility and necessary adaptive skills.

Furthermore, EADS needs to be better equipped to surmount a potential erosion of the business environment, whether a deterioration of the currency environment or a reversal of the cycle, and to maintain a prudent balance sheet structure and an acceptable credit rating. Debt instruments in the most optimal form then available will be our preferred course for realising financial and strategic flexibility.

Finally, we retain the option of a capital increase. As we have a strong cash position, and are sensitive to concerns of dilution of our shareholders, there is no urgency, so this is only envisaged as a contingent measure. Successful implementation of initial steps of Power8, success of the A350XWB in its market, deliveries of A380, and continued momentum of the helicopter, defence and space businesses are an absolute prerequisite to such a move, unlikely before 2008.

EADS' longer term guidance, to 2010, does not satisfy management, but it reflects our acknowledgment of substantial challenges that still need to be overcome. As the business regains its equilibrium, and achievements inspire new ambition, management will seek to raise its sight to higher targets of growth.

Yours truly,



**Hans Peter Ring**  
Chief Operating Officer for Finance

# EADS REGISTRATION DOCUMENT

## PART 1

### FINANCIAL STATEMENTS AND CORPORATE GOVERNANCE

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 25<sup>th</sup> 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 Financial Statements and Corporate Governance – (Registration Document Part 1) and (ii) the document entitled Business, Legal and Corporate Responsibility – (Registration Document Part 2). 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.

# FINANCIAL STATEMENTS AND CORPORATE GOVERNANCE

## RISKS FACTORS

- 1 NET ASSETS -  
FINANCIAL POSITION -  
RESULTS
- 2 CORPORATE GOVERNANCE
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# EADS

# FINANCIAL STATEMENTS AND CORPORATE GOVERNANCE

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*EADS is subject to many risks and uncertainties that may affect its financial performance. The business, financial condition or results of operations of EADS could be materially adversely affected by the risks described below. These risks are not the only ones facing EADS. Additional risks not presently known to EADS or that it currently deems immaterial may also impair its business operations.*

## 1. Financial Market Risks

### Exposure to Foreign Currencies

A significant portion of EADS' revenues is denominated in U.S. Dollars, while a substantial portion of its costs is incurred in Euro, and to a lesser extent, in Pounds Sterling. Consequently, to the extent that EADS does not use financial instruments to cover its exposure resulting from this foreign currency mismatch, its profits will be affected by market changes in the exchange rate of the U.S. Dollar against these currencies. EADS has therefore implemented an exchange rate strategy in order to manage and minimize such exposure. In order to secure the rates at which U.S. Dollar revenues (arising primarily at Airbus and in the commercial satellite business) are converted into Euro or Pounds Sterling, EADS manages a long-term hedging portfolio. There are complexities inherent in determining whether and when foreign exchange rate exposure of EADS will materialize, in particular given the possibility of unpredictable revenue variations arising from order cancellations and postponements. Furthermore, as a significant portion of EADS' foreign currency exposure is hedged through contractual arrangements with third parties, EADS is exposed to the risk of non-performance by its hedging counterparties. No assurances may be given that EADS' exchange rate hedging strategy will protect it fully from significant changes in the exchange rate of the U.S. Dollar to the Euro and the Pound Sterling and that such changes will not affect its results of operation and financial condition.

EADS' consolidated revenues, costs, assets and liabilities denominated in currencies other than the Euro are translated into the Euro for the purposes of compiling its financial statements. EADS' exchange rate hedging strategy aims to cover its cash flows, and, to a large extent, earnings before interest and taxes, pre-goodwill impairment and exceptionals ("EBIT\*"). Changes in the value of these currencies relative to the Euro will have an effect on the Euro value of EADS' reported revenues, costs, assets and liabilities and, to a lesser extent, EBIT\*.

Currency exchange rate fluctuations in those currencies other than the U.S. Dollar in which EADS incurs its principal manufacturing expenses (mainly the Euro) may have the effect

of distorting competition between EADS and competitors whose costs are incurred in other currencies. This is particularly true with respect to fluctuations relative to the U.S. Dollar, as many of EADS' products and those of its competitors (e.g., in the defence export market) are priced in U.S. Dollars. EADS' ability to compete with competitors may be eroded to the extent that any of EADS' principal currencies appreciates in value against the principal currencies of such competitors.

See "1.1.4.3 EBIT\* Performance by Division — Hedging Impact on EBIT\*" for a discussion of EADS' foreign currency hedging policy. See "1.1.3.7 Accounting for Hedged Foreign Exchange Transactions in the Financial Statements" for a summary of EADS' accounting treatment of foreign currency hedging transactions.

### Exposure to Sales Financing Risk

In support of sales, EADS (primarily through Airbus and ATR with respect to commercial aircraft) may agree to participate in the financing of customers. As a result, EADS has a significant portfolio of leases and other financing arrangements with airlines. The risks arising from EADS' sales financing activities may be classified into two categories: (i) credit risk, which concerns the customer's ability to perform its obligations under a financing arrangement, and (ii) aircraft value risk, which primarily relates to unexpected decreases in the future value of aircraft. Measures taken by EADS to mitigate these risks include optimised financing and legal structures, diversification over a number of aircraft and customers, credit analysis of financing counterparties, provisioning for the credit and asset value exposure, and transfers of exposure to third parties. No assurances may be given that these measures will protect EADS fully from defaults by its customers or significant decreases in the value of the financed aircraft in the resale market.

EADS' sales financing arrangements expose it to aircraft value risk, because it retains collateral interests in aircraft for the purpose of securing customers' performance of their financial obligations to EADS, and because it guarantees part of the market value of certain aircraft during limited periods after



their delivery to customers. Under adverse market conditions, the market for used aircraft could become illiquid and the market value of used aircraft could significantly decrease below projected amounts. In the event of a financing customer default at a time when the market value for a used aircraft has unexpectedly decreased, EADS would be exposed to the difference between the outstanding loan amount and the market value of the aircraft, net of ancillary costs (such as maintenance and remarketing costs, etc.). Similarly, if an unexpected decrease in the market value of a given aircraft coincided with the exercise window of an asset value guarantee (“AVG”) with respect to that aircraft, EADS would be exposed to losing as much as the difference between the market value of such aircraft and the AVG amount. No assurances may be given that the provisions taken by EADS will be sufficient to cover these potential shortfalls.

Through the Airbus Asset Management Division or as a result of past financing transactions, EADS is the owner of used aircraft, exposing it directly to fluctuations in the market value of these used aircraft.

### Counterparty Credit Risk

EADS is exposed to credit risk to the extent of non-performance by its financial instrument counterparties. However, the Group has policies in place to avoid concentrations of credit risk and to ensure that credit risk is limited.

Cash transactions and derivative counterparties are limited to high credit quality financial institutions. EADS has set up a credit limit system to actively manage and limit its credit risk exposure. This limit system assigns maximum exposure lines to counterparties of financial transactions, based at a minimum on their credit ratings as published by Standard & Poor’s, Moody’s

and Fitch Ratings. The respective limits are regularly monitored and updated.

As counterparty credit risk also arises in the context of sales financing transactions, EADS’ general policy is to provide financing to customers and through structures with an appropriate credit standing. See “1.1.7.4 Sales Financing”.

### Exposure on Equity Investment Portfolio

EADS holds several equity investments for industrial or strategic reasons, the business rationale for which may vary over the life of the investment. Equity investments are either accounted for using the equity method (associated companies), if EADS has the ability to exercise significant influence, or at fair value. If fair value is not readily determinable, the investment is measured at cost.

EADS’ principal investment in associates is Dassault Aviation. The net asset value of this investment was €2.0 billion at 31st December 2006. EADS believes that its exposure to the risk of unexpected material adverse changes in the value of Dassault Aviation and that of other associated companies is limited. For equity investments other than associates, which make up only a fraction of EADS’ total assets, EADS regards the risk of negative changes in fair value or impairments on these investments as non-significant.

Treasury shares held by EADS are not considered to be equity investments. Additionally, treasury shares are not regarded as being exposed to risk, as any change in value of treasury shares is recognised directly in equity only when sold to the market and never affects net income. Treasury shares are held to hedge the dilution risk arising from employee stock ownership plans and the exercise by employees of stock options.

## 2. Business-Related Risks

### Aircraft Market Cyclicity

In 2006, the combined revenues generated from Airbus and ATR represented approximately two-thirds of EADS' consolidated revenues. Historically, the commercial passenger aircraft market has shown cyclical trends, due in part to the sensitivity of passenger demand in the air travel market to growth in gross domestic product (“GDP”). Other factors, however, play an important role, such as (i) the average age and technical obsolescence of the fleet relative to new aircraft, (ii) the number and characteristics of aircraft taken out of service and parked pending potential return into service, (iii) passenger load factors, (iv) airline pricing policies, (v) airline financial health and (vi) deregulation. EADS expects that the market for commercial passenger aircraft will continue to be cyclical, and that future downturns in broad economic trends may have a negative effect on its future results of operation and financial condition.

### Impact of Terrorism, Epidemics and Catastrophic Events On Aircraft Market

As the terrorist attacks in New York and Madrid and the spread of the Severe Acute Respiratory Syndrome (“SARS”) virus and avian flu have demonstrated, terrorism and epidemics may negatively affect public perception of air travel safety and comfort, which may in turn reduce demand for air travel and commercial aircraft. The outbreak of war in a given region may also affect the willingness of the public to travel by air. Furthermore, major airplane crashes may have a negative effect on the public's or regulators' perceptions of the safety of a given class of aircraft, form of design, or airline. As a consequence of terrorism, epidemics and other catastrophic events, an airline may be confronted with sudden reduced demand for air travel and be compelled to take costly security and safety measures. In response to such events, and the resulting negative impact on the airline industry or particular airlines, EADS may suffer from a decline in demand for all or certain types of its aircraft, and EADS' customers may postpone delivery of new aircraft or cancel orders.

### Dependence on Defence Spending and on Certain Markets

In 2006, approximately 25% of EADS' consolidated revenues was derived from defence spending. In any single market, defence spending depends on a complex mix of geopolitical considerations, budgetary constraints and the ability of the

armed forces to meet specific threats and perform certain missions. Defence spending may be subject to significant fluctuations from year to year and country to country. Adverse economic and political conditions as well as downturns in broad economic trends in EADS' defence or may have a negative effect on EADS' future results of operations and financial condition.

In the case where several countries undertake to enter together into defence procurement contracts, economic, political or budgetary constraints in any one of these countries may have a negative effect on the ability of EADS to enter into or perform such contracts.

Further, a significant portion of EADS (including Airbus) backlog is concentrated in certain regions or countries, including the United States of America, China, India and the United Arab Emirates. Adverse economic and political conditions as well as downturns in broad economic trends in these countries or regions may have a negative effect on EADS' and Airbus future results of operations and financial condition.

### Dependence

A significant portion of EADS (including Airbus) backlog is made in certain regions. In 2006, approximately 25% of EADS' consolidated revenues were derived from certain regions as derived from defence spending. In any single market, defence spending depends on a complex mix of geopolitical considerations, budgetary constraints and the ability of the armed forces to meet specific threats and perform certain missions. Defence spending may be subject to significant fluctuations from year to year and country to country. Adverse economic and political conditions as well as downturns in broad economic trends in EADS' defence markets may have a negative effect on EADS' future results of operations and financial condition.

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

Defence customers, particularly in the U.K., increasingly request proposals and grant contracts under schemes known as public-private partnerships (“PPPs”) or private finance initiatives (“PFIs”). PPPs and PFIs differ substantially from





traditional defence equipment sales, as they often incorporate elements such as:

- the provision of extensive operational services over the life of the equipment;
- continued ownership and financing of the equipment by a party other than the customer, such as the equipment provider;
- mandatory compliance with specific customer requirements pertaining to public accounting or government procurement regulations; and
- provisions allowing for the service provider to seek out additional customers for unused capacity.

EADS is party to PPP and PFI contracts, for example through Paradigm with Skynet 5 and related telecommunications services, and involved in additional PFI proposals, such as the Airtanker (FSTA) project. One of the complexities presented by PFIs lies in the allocation of risks and the timing thereof among different parties over the lifetime of the project.

There can be no assurances of the extent to which EADS will efficiently and effectively (i) compete for future PFI or PPP programmes, (ii) administer the services contemplated under the contracts, (iii) finance the acquisition of the equipment and the ongoing provision of services related thereto, or (iv) access the markets for the commercialisation of excess capacity. EADS may also encounter unexpected political, budgetary, regulatory or competitive risks over the long duration of PPP and PFI programmes.

### Competition and Market Access

Most of EADS' businesses are subject to significant competition, and Airbus has been affected by downward price pressure resulting from such competition. EADS believes that some of the underlying causes of such price competition have been mitigated by restructuring in the aerospace and defence industry. Nevertheless, certain customers have had greater leverage to encourage competition in respect of a variety of issues, including price and payment terms. No assurance can be given that competition may not intensify, particularly in the context of a prolonged economic downturn in the future.

In addition, the contracts for many aerospace and defence products are awarded, implicitly or explicitly, on the basis of home country preference. Although EADS constitutes a multinational combination which helps to broaden its domestic market, it may remain at a competitive disadvantage in certain countries, especially outside of Europe, relative to local contractors for certain products. The strategic importance and political sensitivity attached to the aerospace and defence

industries means that political considerations will play a role in the choice of many products for the foreseeable future.

### Availability of Government Financing

Since 1992, the E.U. and the U.S. have operated under an agreement that sets the terms and conditions of financial support that governments may provide to civil aircraft manufacturers. In late 2004, however, the U.S. sought to unilaterally withdraw from this agreement, which eventually led to the U.S. and the E.U. making formal claims against each other before the World Trade Organisation ("WTO"). While both sides have expressed a preference for a negotiated settlement that provides for a level playing field when funding future aircraft developments, they have thus far failed to reach agreement on key issues. The terms and conditions of any new agreement, or the outcome of the formal WTO proceedings, may limit access by EADS to risk-sharing-funds for large projects, or may establish an unfavourable balance of access to government funds by EADS as compared to its U.S. competitors.

In prior years, EADS and its principal competitors have each received different types of government financing of product research and development. For example, EADS received repayable financing from certain governments in relation to the A380 commercial aircraft programme, and is in discussions with certain E.U. countries regarding financing for the development of the A350XWB commercial aircraft programme. However, no assurances can be given that government financing will continue to be made available in the future for these and other projects, in part as a result of the proceedings mentioned above.

### Technologically Advanced Products and Services

EADS offers its customers products and services that are often technologically advanced, the design and manufacturing of which can be complex and require substantial integration and coordination along the supply chain. In addition, most of EADS' products must function under demanding operating conditions. Even though EADS believes it employs sophisticated design, manufacturing and testing practices, there can be no assurance that EADS' products or services will be successfully developed, manufactured or operated or that they will be developed or will perform as intended.

Certain of EADS' contracts require it to forfeit part of its expected profit, to receive reduced payments, to provide a replacement launch or other product or service, or to reduce the price of subsequent sales to the same customer if its products fail to be delivered on time or to perform adequately. No

assurances can be given that performance penalties or contract cancellations will not be imposed should EADS fail to meet delivery schedules or other measures of contract performance.

For example, following the production difficulties that EADS encountered in 2006 in connection with its A380 programme — which led it to twice revise its delivery schedule for the aircraft — certain customers decided to cancel their A380 orders. In addition, EBIT<sup>®</sup> at Airbus was also negatively affected by €2.5 billion in 2006, in part due to the contractual penalties to be paid to customers as a result of the delivery delays. See “1.1 Management’s Discussion and Analysis of Financial Condition and Results of Operations — Overview — Significant Programme and Restructuring Developments in 2006” for further detail.

There can be no assurances that problems similar to the ones encountered in connection with development of the A380 will not occur in the future. In addition to any costs resulting from product warranties, contract performance or required remedial action, such problems may result in increased costs or loss of revenues — in particular as a result of contract cancellations — which could have a negative effect on EADS’ future results of operation and financial condition. Any future problems may also have a significant adverse effect on the competitive reputation of EADS’ products. See “3. Legal Risks — Product Liability and Warranty Claims”.

### Major Research and Development Programmes

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

EADS expects that its consolidated research and development expenses may increase significantly in future years in connection with the ramp-up of new programmes, in particular development on the A350XWB.

### “Power8” Restructuring Programme

EADS has announced the implementation of a significant cost reduction and restructuring programme at Airbus, referred to as “Power 8”. This programme looks at all aspects of the company

to make it leaner, more integrated, more efficient and more productive. As part of Power8, Airbus management will implement cost reduction and cash generating efforts with the goal of achieving EBIT<sup>®</sup> 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 by 10,000 employees (with temporary and on-site subcontractors accounting for approximately 50% of such reduction).

These anticipated cost savings are based on preliminary estimates, however, and actual savings may vary significantly. In particular, EADS’ cost reduction measures are based on current conditions and do not take into account any future cost increases that could result from changes in its industry or operations, including new business developments, wage and price increases or other factors. EADS’ failure to successfully implement these planned cost reduction measures, or the possibility that these efforts may not generate the level of cost savings it expects going forward, could negatively affect its future results of operation and financial condition.

In addition to the risk of not achieving the anticipated level of cost savings from Power 8, EADS may also incur higher than expected costs in seeking to implement Power 8, depending on the outcome of its current negotiations with labour and other representatives. Restructuring, closures, site sales and job reductions may also harm EADS’ labour relations and public relations, and have led and could lead to work stoppages and/or demonstrations. In the event that EADS is unable to negotiate effectively with labour representatives and these work stoppages and/or demonstrations become prolonged, or the costs of implementing Power 8 are otherwise higher than anticipated following such negotiations, EADS’ future results of operation and financial condition may be negatively affected.

### Industrial Ramp-up

As a result of the large number of new orders for aircraft recorded in recent years, EADS has accelerated its production rate in order to meet the agreed upon delivery schedules for such new aircraft, in particular at Airbus and Eurocopter. As it nears full capacity, EADS’ ability to further increase its production rate will be dependent upon a variety of factors, including execution of internal performance plans, availability of raw materials and parts (such as aluminum, titanium, and composites), conversion of raw materials into parts and assemblies, and performance by suppliers and subcontractors. The failure of any or all of these factors could lead to missed delivery commitments, and depending on the length of delay in meeting delivery commitments, could lead to additional costs and customers’ rescheduling or terminating their orders.



## Programme-Specific Risks

In addition to the risk factors mentioned above, EADS also faces the following programme-specific risks in the future (while this list does not purport to be comprehensive, it highlights the current risks believed to be material by management). The first three items relate to the primary risks faced at Airbus in particular:

- *A380 programme*. In connection with the A380 programme and following the delivery delays announced in 2006, EADS faces the following main challenges: (i) management of stress in the supply chain as a result of the steep ramp-up in production in coming years, (ii) avoidance of production disruptions as a result of the implementation of Power8, in particular with respect to its effect on labour relations, and (iii) introduction of a new digital mock-up for future A380 production. EADS' ability to successfully meet these challenges will be critical in ensuring the smooth production of "wave 2" aircraft, *i.e.*, those beyond the initial 25 aircraft produced;
- *A350XWB programme*. In connection with the A350XWB programme, EADS faces the following main challenges: (i) ensuring — through training or otherwise — the availability of key personnel and other resources, particularly with respect to the industrialisation of certain composites, (ii) conversion on favourable terms of orders for the previous version of the A350 aircraft into orders for the new XWB version, and (iii) engagement of risk-sharing partners for the programme at the level of involvement expected by Airbus;
- *A400M programme*. In connection with the A400M programme, EADS faces the following main challenges: (i) management of technical challenges new to Airbus, particularly the modelling of aircraft behaviour based on use of an extremely powerful turboprop engine mounted on a high wing, and on flight in a tactical operations environment, and (ii) ensuring that the aircraft is both commercially

certified and meets the range of military qualifications required by programme customers in each jurisdiction;

- *NH90 programme*. In connection with the NH90 programme, EADS faces the following main challenges: (i) meeting the development schedule and cost objectives of ongoing development programmes on the various versions, and (ii) managing the steep industrial ramp-up on the programme and the associated strain on the supply chain;
- *Paradigm programme*. In connection with the Paradigm programme, EADS faces the following main challenges: (i) ensuring the on-time completion of Skynet 5 infrastructure development, (ii) build-up of third party revenues, and (iii) completing, launching and ensuring the successful functioning of the Skynet 5A, 5B and 5C satellites, the loss of any of which would result in operational, commercial and accounting consequences.

## Pension Commitments

EADS participates in several pension plans for both executive as well as non-executive employees, some of which are underfunded. For further information related to these plans, see "1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Notes to Consolidated Financial Statements (IFRS) — Note 21b: Provisions for retirement plans". Although EADS has recorded a provision in its balance sheet for its share of the underfunding based on current estimates, there can be no assurance that these estimates will not be revised upward in the future, leading EADS to record additional provisions in respect of such plans. These additional provisions would in turn have a negative effect on EADS' total equity (net of deferred taxes), which could have a negative effect on its future financial condition.

## 3. Legal Risks

### Dependence On Joint Ventures and Minority Holdings

EADS generates a substantial proportion of its revenues through various consortia, joint ventures and equity holdings and believes that its alliances and partnerships are a source of competitive advantage. These arrangements include primarily:

- the Eurofighter and AirTanker consortia;
- three principal joint ventures: MBDA, ATR and Atlas Elektronik;
- majority interest: Dornier GmbH; and
- investment in associates: Dassault Aviation.

The formation of partnerships and alliances with other market players is an integral strategy of EADS and the proportion of sales generated from consortia, joint ventures and equity holdings may rise in future years. This strategy may from time to time lead to changes in the organisational structure, or realignment in the control, of EADS' existing joint ventures.

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

In addition, in those holdings in which EADS is a minority partner or shareholder, EADS' access to the entity's books and records, and as a consequence, EADS' knowledge of the entity's operations and results, is generally limited as compared to entities in which EADS is a majority holder or is involved in the day-to-day management.

### Product Liability and Warranty Claims

EADS designs, develops and produces a number of high profile products of large individual value, particularly civil and military aircraft and space equipment. EADS is subject to the risk of product liability and warranty claims in the event that any of its products fail to perform as designed. While EADS believes that its insurance programs are adequate to protect it from such liabilities and that no material claims have been made against it, no assurances can be given that claims will not

arise in the future or that such insurance cover will be adequate.

### Intellectual Property

EADS relies upon patent, copyright, trademark and trade secret laws, and agreements with its employees, customers, suppliers and other parties, to establish and maintain its intellectual property rights in technology and products used in its operations. Despite these efforts to protect its intellectual property rights, any of EADS' direct or indirect intellectual property rights could be challenged, invalidated or circumvented. Further, the laws of certain countries do not protect EADS' proprietary rights to the same extent as the laws in Europe and the United States. Therefore, in certain jurisdictions EADS may be unable to protect its proprietary technology adequately against unauthorized third-party copying or use, which could adversely affect its competitive position.

### Export Controls and Other Regulations

The export market is a significant market for EADS. In addition, many of the products EADS designs and manufactures for military use are considered to be of national strategic interest. Consequently, the export of such products outside of EADS' domestic markets may be restricted or subject to licensing and export controls, notably by the U.K., France, Germany and Spain, where EADS carries out its principal military activities as well as by other countries where suppliers come from, notably, the U.S. There can be no assurance (i) that the export controls to which EADS is subject will not become more restrictive, (ii) that new generations of EADS products will not also be subject to similar or more stringent controls or (iii) that geopolitical factors will not make it impossible to obtain export licenses for one or more clients or constrain EADS' ability to perform under previously signed contracts. Reduced access to military export markets may have a material adverse effect on EADS' business, financial condition and results of operations.

EADS is also subject to a variety of other governmental regulations that may adversely affect its business and financial condition, including among others, regulations relating to the protection of the environment, the use of its products, labour practices and dealings with foreign officials. In addition, EADS' ability to market new products and enter new markets may be dependent on obtaining government certifications and approvals in a timely manner.



## 4. Industrial and Environmental Risks

Together with other companies in the principal industries in which it operates, EADS is subject to numerous E.U., national, regional and local environmental laws and regulations concerning emissions into the environment, discharges to surface and subsurface water and the disposal and treatment of waste materials. EADS believes that it is currently capable of satisfying the stricter environmental standards for the future contemplated by current laws or regulations, including increasingly stringent environmental product quality standards

that will be implemented over the next few years, without incurring significant capital expenditure. However, there can be no assurance that increased capital expenditure and operating costs resulting from future environmental regulations will not adversely affect the results of EADS' operations and its financial condition.

For more information, please see "Part 2/2.3 Environmental Care".



## 1

# NET ASSETS - FINANCIAL POSITION - RESULTS

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## 1.1 Management's Discussion and Analysis of Financial Condition and Results of Operations

### 1.1.1 Certain Information

*In addition to historical information, this document includes forward-looking statements. The forward-looking statements are generally identified by the use of forward-looking words, such as "anticipate", "expect", "estimate", "intend", "plan", "predict", "project", "will", "believe", "should", "may" or other variations of such terms, or by discussion of strategy. These statements relate to EADS' future prospects, developments and business strategies and are based on analyses or forecasts of future results and estimates of amounts not yet determinable. These forward-looking statements represent the view of EADS only as of the dates they are made, and EADS disclaims any obligation to update forward-looking statements, except as may be otherwise required by law. The forward-looking statements in this document involve known and unknown risks, uncertainties and other factors that could cause*

*EADS' actual future results, performance and achievements to differ materially from those forecasted or suggested herein. These include changes in general economic and business conditions, as well as the factors described in "Risk Factors" above.*

The following discussion is based on the audited consolidated financial statements of EADS as of and for the years ended 31<sup>st</sup> December 2006, 2005 and 2004 (together, the "**Financial Statements**") included herein. The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") adopted by the International Accounting Standards Board as endorsed by the European Union. The following discussion should be read together with the Financial Statements.

#### Exchange Rate Information

The financial information presented in this document is expressed in Euro, U.S. Dollars or Pounds Sterling. The following table sets out, for the periods indicated, certain information concerning the exchange rate between the Euro and the U.S. Dollar and Pound Sterling, calculated using the official European Central Bank fixing rate:

Year ended	Average		Period End	
	€-U.S. \$	€-£	€-U.S. \$	€-£
31 <sup>st</sup> December 2004	1.2438	0.6787	1.3621	0.7051
31 <sup>st</sup> December 2005	1.2441	0.6838	1.1797	0.6853
31 <sup>st</sup> December 2006	1.2556	0.6817	1.3170	0.6715

#### Ratings

EADS is currently rated A1 with a stable outlook by Moody's Investors Service, A- with a negative outlook by Standard and Poor's and A- with a negative outlook by Fitch Ratings.



## 1.1.2 Overview

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, 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 (compared to 77% in 2005) and 25% in the defence sector (compared to 23% in 2005). As of 31<sup>st</sup> December 2006, EADS' active headcount was 116,805.

EADS organises its businesses into the following five operating divisions:

- **Airbus:** Development, manufacturing, marketing and sale of commercial jet aircraft of more than 100 seats and the development and manufacturing of aircraft for military use;
- **Military Transport Aircraft:** Development, manufacturing, marketing and sale of military transport aircraft and special mission aircraft;
- **Eurocopter:** Development, manufacturing, marketing and sale of civil and military helicopters, and provision of maintenance services;
- **Defence & Security:** Development, manufacturing, marketing and sale of missile systems, military combat aircraft and training aircraft; provision of defence electronics and defence-related telecommunications solutions and logistics, training, testing, engineering and other related services; and
- **Astrium:** Development, manufacturing, marketing and sale of satellites, orbital infrastructures and launchers, and provision of space-based services.

In addition, EADS has four business units ("BUs") — ATR, EFW (*Elbe Flugzeugwerke GmbH*), EADS Socata and EADS Sogerma — which are allocated to "Other Businesses" for purposes of segment reporting. Their activities comprise the development, manufacturing, marketing and sale of regional turboprop aircraft, light commercial aircraft and aircraft components, as well as civil and military aircraft conversion and maintenance services.

### 1.1.2.1 Significant Programme and Restructuring Developments in 2006

**A380 programme.** During 2006, Airbus twice revised its delivery schedule for the A380 after having encountered

difficulties in the industrialisation of the programme, in particular in the area of electrical engineering. Currently, the first Airbus A380 series aircraft is scheduled to be delivered in the fourth quarter of 2007. In 2008, Airbus plans to deliver 13 A380 series aircraft, followed by 25 in 2009 and 45 in 2010.

A380-related delivery delays and other items have affected earnings before interest and taxes, pre-goodwill impairment and exceptionals ("EBIT\*") at Airbus by a negative €2.5 billion in 2006. These net charges relate to the following items:

- excess costs above the initially expected learning curve, as difficulties in the production process have caused Airbus to fall short of the expected improvements in production efficiency over time;
- the recording of onerous contract provisions, related to contractual penalties to be paid to customers as a result of the delivery delays;
- impairment of inventory, where necessary to align book value with net realisable value;
- all other settlement obligations as a result of the delivery delays and accrued for in 2006. Together with the three preceding charges, this accounts for approximately €2.0 billion of the €2.5 billion decrease in EBIT\*;
- impairment of assets and provision charges recorded following the freezing of development on the freighter version of the A380 (€0.3 billion); and
- ongoing production support for the programme, representing recurring expenses unallocated to unit production costs (€0.2 billion).

On 2<sup>nd</sup> 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.

Despite the A380-related delivery delays and resulting aircraft cancellations, EADS believes that its competitive position in the very large aircraft market remains sound. While the delivery delays are expected to result in lower cash flows in 2007 and up to 2010 than would otherwise have been recorded, EADS will invest substantially in seeking to ensure that the initial wave of A380 aircraft delivered to customers are of the highest maturity possible, and strive to reinstate the highest level of customer confidence.

**A400M programme.** At the end of 2006, EADS conducted an internal technical assessment of the A400M programme in order to verify programme status. This review indicated that the programme was contractually on schedule with respect to past and current industrial milestones. However, the review also indicated that the programme might lag behind plan by up to three months as aircraft enter the final assembly line, with significant challenges lying ahead prior to the first delivery.

In connection with the technical assessment above, Airbus also performed a financial review of the A400M programme. Based on the programme's risks and complexities, Airbus decided to record a loss-at-completion provision of €352 million in 2006 for its workshare on the programme, with a corresponding negative impact on its EBIT\* for the year.

However, as the other divisions of EADS foresee a positive contribution from the A400M programme, the provision at Airbus has been reversed at the EADS group level in 2006. Due to the overall cost increase for the programme, a negative catch-up of €(66) million has been recorded at the EADS group level in 2006 in order to adjust EBIT\* recognised on the programme for the years 2003 to 2006.

**Discontinuation of the A350 programme and launch of the A350XWB (Xtra Wide Body) programme.** In October 2005, the EADS Board of Directors authorised Airbus to launch the industrial programme for a new medium-sized long-range aircraft, the A350 aircraft family. Airbus commenced marketing of the A350 aircraft family at this time.

In July 2006, in response to customers' recommendations, Airbus presented technical specifications for a revised aircraft family, the A350XWB, and placed the original A350 programme on hold. In December 2006, Airbus formally launched the A350XWB series and discontinued the original A350 programme.

The launch of the A350XWB triggered the accrual of a provision related to the anticipated buy-out of delivery commitments under firm orders for the original A350 aircraft, which can no longer be fulfilled. This provision has been recorded in 2006 for an amount of €505 million.

At the end of 2006, Airbus had 100 firm orders and 82 commitments for the original A350 aircraft remaining to be bought out, as well as 2 firm orders and 40 commitments for the new A350XWB.

**EADS Sogerma sale.** On 10<sup>th</sup> January 2007, EADS Sogerma completed the sale of three of its subsidiaries dedicated to global support and maintenance — Sogerma Services, Sogerma Tunisia and Barfield — to the TAT Group. Prior to their sale, EADS recorded an asset impairment totalling €117 million — including €33 million relating to its retained subsidiaries, Seca

and Revima — as well as restructuring provisions of €42 million. Combined with an underlying operational loss of €(96) million, EADS Sogerma recorded EBIT\* of €(351) million in 2006, a deterioration of €(114) million compared to 2005.

**Power8 programme.** 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 has announced the implementation of the Power 8 programme. 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 significant portion of the cost savings is expected to be realised through the reduction of Airbus' headcount by 10,000 employees (with temporary and on-site subcontractors accounting for approximately 50% of such reduction).

Power8 consists of several measures for enhancing profitability: Reduction of Airbus Overhead Costs, Faster Development, Lean Manufacturing, Smart Buying, Maximising Cash, Focusing on the Core Business/Restructuring the Industrial Set-Up, Streamlining the Final Assembly Lines and Putting the Customer First. Together, these measures seek to transform Airbus' business model into one that allows it to devote its resources to core activities, while eliminating inefficiencies within its current structure. The transformation will occur progressively over several years and will be accompanied by the further expansion of Airbus' global footprint. Integration with the rest of EADS will also be facilitated through the purchase of BAE Systems' 20% share in Airbus in October 2006, as described below.

For further information related to the Power8 programme, see "Recent Developments".

### 1.1.2.2 Outlook

In connection with the planned measures to reduce overhead costs, and specifically headcount, as part of the implementation of Power 8, EADS expects to record a provision of approximately €680 million in the first quarter of 2007, along with charges to be incurred in 2007 for A350XWB onerous contracts and other A380 charges, though it has not yet finalised its accounts. In addition, while the prices of delivered aircraft remained stable at Airbus during 2006, EADS expects — based on its experience in the first quarter of 2007 and until the date of this document — that some deterioration in the price of delivered aircraft will occur in the future as a result of strong past competition, particularly on long-range aircraft. Its experience in the first quarter of 2007 and until the date of this document also leads it to expect that its consolidated research and development expenses will increase in connection with the ramp-up of new programmes, in particular development on the A350XWB.

## 1.1.3 Critical Accounting Considerations, Policies and Estimates

### 1.1.3.1 Scope of and Changes in Consolidation Perimeter

Disposals and acquisitions of interests in various businesses can account, in part, for differences in EADS' results of operations for one year as compared to another year.

**Airbus:** Airbus has been fully consolidated by EADS since 1<sup>st</sup> January 2001, in light of the control EADS has exercised over the assets, liabilities and operations of Airbus since that date. BAE Systems held a 20% share in Airbus until October 2006, at which time the share was purchased by EADS.

BAE Systems held a put option with respect to its share in Airbus that was granted to it by EADS as part of the Airbus business combination in 2001. BAE Systems' put option was exercisable at fair value and payable in cash or an equivalent amount of EADS shares. In light of these characteristics, revised IAS 32 (which EADS retrospectively applied as of 1<sup>st</sup> January 2005) required EADS to account for the put option as a liability ("liability for puttable instruments") in the consolidated balance sheet, stated at fair value. (Before this change in accounting policy, EADS recorded BAE Systems' stake in Airbus as minority interests within equity.)

Pursuant to revised IAS 32, dividend payments to BAE Systems were treated as partial repayments of the liability, thus reducing the liability for puttable instruments, without affecting minority interests. Other changes to the liability's fair value were recorded as changes to the liability for puttable instruments and adjustments of goodwill, without any direct impact on the consolidated income statement. A corresponding restatement was made in 2005 to EADS' 2004 consolidated net income and earnings per share to account for this change in accounting policy. At 31<sup>st</sup> December 2005, the fair value of the liability for puttable instruments was assessed at €3.5 billion.

In June 2006, BAE Systems exercised its put option. An independent investment bank then determined the fair value of its 20% share in Airbus at €2.75 billion, a decrease of €750 million from the assessed value at 31<sup>st</sup> December 2005. Dividend payments to BAE Systems in 2006 accounted for €129 million of the decrease, while most of the remaining portion of €621 million led to a corresponding reduction in Airbus' goodwill (€613 million). Following payment of the €2.75 billion purchase price in cash by EADS in October 2006, the liability for puttable instruments was derecognised from the balance sheet.

**MBDA:** EADS and BAE Systems each hold a 37.5% stake in MBDA, with Finmeccanica holding the remaining 25%.

Pursuant to the shareholder agreements relating to the MBDA group, EADS and BAE Systems together exercise certain controlling rights over MBDA through MBDA Holdings, including the right of MBDA Holdings to appoint MBDA's Chief Executive Officer ("CEO"), Chief Operational Officer ("COO") and Chief Financial Officer ("CFO").

EADS proportionally consolidates 50% of MBDA within the DS Division, consistent with its ability to jointly control operations with BAE Systems, with Finmeccanica's holding reflected as a 12.5% minority interest.

### Acquisitions and Disposals

On 13<sup>th</sup> October 2006, EADS acquired BAE Systems' 20% minority share in Airbus after BAE Systems had exercised the put option it held on its Airbus stake in June 2006, as described above. Before the transaction, EADS already controlled Airbus and therefore fully consolidated this subsidiary.

On 3<sup>rd</sup> August 2006, EADS acquired 40% of the shares of the Atlas Elektronik group, specialised in equipment and systems for naval forces, which is consolidated proportionally. The difference between the purchase price and the acquired net assets (not finally determined) led to the recording of €41 million of goodwill.

On 28<sup>th</sup> February 2006, 81% of LFK GmbH and TDW GmbH, which had been fully consolidated by EADS, were sold to the European missile group MBDA, which EADS consolidates at 50%.

On 30<sup>th</sup> November 2005, EADS sold TDA — Armements S.A.S. to Thales. TDA — Armements S.A.S. was proportionally consolidated at 50% through the end of November 2005.

On 2<sup>nd</sup> September 2005, EADS acquired Nokia's Professional Mobile Radio (PMR) activities (now known as EADS Secure Networks Oy) from Nokia.

On 28<sup>th</sup> February 2005, EADS sold its enterprise telephony business, which comprised its civil telecommunication activities, to Astra Technologies Limited.

On 4<sup>th</sup> October 2004, EADS acquired 100% of the share capital of RIG Holdings, Inc., the holding company of Racal Instruments U.S. and Racal Instruments Group Ltd., from RIG Holdings L.P.

See “Notes to Consolidated Financial Statements (IFRS) — Note 4: Acquisitions and disposals”.

### 1.1.3.2 Employee Benefits — IAS 19

Prior to 2006, EADS recognised in its consolidated financial statements actuarial gains and losses on its pension plans qualifying as defined benefit plans by applying the “corridor approach” of IAS 19. Under this approach, any amount of accumulated unrecognised actuarial net gains and losses that exceeded the greater of 10% of the present value of the defined benefit obligation and 10% of the fair value of plan assets was amortised through the consolidated income statement on a straight line basis over the expected average remaining working lives of the employees participating in the respective plan, i.e. 15 years for EADS, thereby affecting EBIT\*. In 2006, EADS

opted to apply the “equity approach” under revised IAS 19, pursuant to which actuarial gains and losses are recognised in full within retained earnings (net of deferred taxes) during the period in which they occur, without affecting the consolidated income statement. The provision for retirement plans recorded on the balance sheet in turn covers the full amount of the defined benefit obligation, including accumulated actuarial net gains and losses. As a result of the retrospective application of revised IAS 19, the provision for retirement plans in 2005 and 2004 has been restated by €1,118 million and €659 million, respectively, implying a restatement of €(695) million and €(407) million in total equity (net of deferred taxes), as set forth in the following table (the 2006 figure also includes EADS’ share of the BAE Systems pension underfunding in the U.K. for the first time, as described in “1.1.3.3 U.K. Pension Commitments” below):

(in €m)	At 31 <sup>st</sup> December 2006	At 31 <sup>st</sup> December 2005	At 31 <sup>st</sup> December 2004
Provision for retirement plans and similar obligations (old rule)	-	4,120	3,947
Unrecognised actuarial losses (old rule)	-	1,118	659
<b>Provision for retirement plans and similar obligations (new rule)</b>	<b>5,883</b>	<b>5,238</b>	<b>4,606</b>
<b>Total equity movement (net of deferred taxes)</b>	<b>(1,409)</b>	<b>(695)</b>	<b>(407)</b>

The 2006 change in accounting policy for the recognition of actuarial gains and losses from the corridor to the equity approach resulted in lower net periodic pension costs in 2006, leading to comparably higher EBIT\* of €45 million and higher net income of €25 million (EBIT\* impact: Airbus: €12 million; Eurocopter €7 million; Astrium €5 million; Defence €16 million; HQ €5 million).

For further information relating to the effect of the change in accounting policy, see “Notes to Consolidated Financial Statements (IFRS) — Note 21b: Provisions for retirement plans”.

### 1.1.3.3 U.K. Pension Commitments

In the U.K., EADS participates in several funded trustee-administered pension plans for both executive as well as non-executive employees, with BAE Systems being the principal employer. These plans qualify as multi-employer defined benefit plans under IAS 19. EADS’ most significant investments in terms of employees participating in these BAE Systems U.K. pension plans are Airbus U.K. and MBDA U.K. For Airbus, this remains the case even after the acquisition of BAE Systems’ 20% stake in Airbus on 13<sup>th</sup> October 2006. Participating Airbus U.K. employees have continued to remain members in the BAE

Systems U.K. pension plans as a result of the U.K. pension agreement between EADS and BAE Systems dated 11 July 2001, as well as a change in U.K. pension legislation enacted in April 2006 that removes previous restrictions on unassociated employers participating in a single pension plan.

Generally, based on the funding situation of the respective pension plans, the pension plan trustees determine the contribution rates to be paid by the participating employers to adequately fund the plans. The different U.K. pension plans in which EADS investments participate are currently underfunded. BAE Systems has agreed with the trustees to undertake various measures in order to remedy such underfunding. These include: (i) making regular contribution payments for active employees at levels well above those that would prevail in the case of adequately funded plans and (ii) making extra contributions totalling GBP 446 million (€664 million) over the next ten years, i.e., up to 2016.

Due to contractual arrangements between EADS and BAE Systems, the contributions that EADS must make in respect of its participation in the two largest pension plans are capped for a defined period of time (i.e., until July 2011 for Airbus U.K. and until December 2007 for MBDA U.K.). Contributions exceeding the respective capped amounts are paid by BAE Systems. EADS is therefore neither exposed to increased

regular contribution payments resulting from the pension plans' underfunding, nor to a participation in extra contribution payments during the period of the contribution caps. Even after the expiry of the contribution caps, the unique funding arrangements between BAE Systems and EADS create a situation for EADS different from common U.K. multi-employer plans, with special regulations limiting the regular contributions that must be paid by EADS U.K. companies to rates applicable to all participating employers.

Since 1<sup>st</sup> January 2005, BAE Systems has prepared its consolidated financial statements under IFRS. Before that date, BAE Systems' consolidated financial statements were prepared under U.K. GAAP, and as such did not include information required under IAS 19 to apply defined benefit accounting. Consequently, EADS accounted for its participation in BAE Systems U.K. defined benefit schemes as if they were defined contribution schemes in accordance with IAS 19. In 2005, EADS requested detailed information from BAE Systems about the different multi-employer pension plans in order to appropriately and reliably estimate the share of its participation in the plans' assets, defined benefit obligations and pension costs. For accounting purposes, the information provided by BAE Systems in 2005 was judged insufficient for purposes of identifying EADS' share in the U.K. pension plans. Consequently, EADS continued in 2005 to expense the contributions made to the pension schemes as if the plans were defined contribution plans. Information related to these plans appeared in the contingent liabilities section of the notes to the financial statements.

Upon further request in 2006, BAE Systems began to provide more detailed information regarding these pension plans. The new information has enabled EADS to estimate its share of the pensions plans' assets, defined benefit obligations and related underfunding, which takes into account the impacts of the contribution caps' mechanism described above as well as those of future extra contributions agreed by BAE Systems with plan trustees. Accordingly, EADS has recorded a provision of €897 million as of 31<sup>st</sup> December 2006 for its current share of the net pension underfunding in the U.K. A related amount of €(853) million has been recorded in total equity (net of deferred taxes) as at 31<sup>st</sup> December 2006, consistent with the application of revised IAS 19 (equity approach) described above.

For further information related to EADS' participation in multi-employer pension plans in the U.K., see "Notes to Consolidated Financial Statements (IFRS) — Note 21b: Provisions for retirement plans".

### 1.1.3.4 Fair Value Adjustments

The merger of the operations of Aerospatiale-Matra ("**ASM**"), DaimlerChrysler Aerospace ("**Dasa**") and Construcciones Aeronáuticas S.A. ("**CASA**"), leading to the creation of EADS in 2000, was recorded using the purchase method of accounting with ASM as the acquirer. Accordingly, the book value of certain assets and liabilities, mainly property, plant and equipment and inventories, was adjusted by an aggregate amount of €1.8 billion, net of income taxes, to allocate a portion of the respective fair market values of Dasa and CASA at the time of the merger (the "**fair value adjustments**"). These aggregate additions in value are generally being depreciated over four to fifteen years for fixed assets and amortised over approximately 24 months for inventories. In addition, in 2001 in connection with the formation of Airbus S. A.S., EADS adjusted the book value of Airbus fixed assets and inventories by an aggregate amount of €0.3 billion, net of income taxes, to reflect their fair market values. The fair value adjustments lead to a depreciation expense in the consolidated statements of income classified within cost of sales. For management reporting purposes, EADS treats these depreciation charges as non-recurring items in EBIT pre-goodwill impairment and exceptionals. See "1.1.4 Measurement of Management's Performance — Use of EBIT\*".

In 2006, a tax audit of Dasa for the years 1994 until 1999 was finalised. Pursuant to the EADS shareholders' agreement, the related tax expense has been reimbursed by DaimlerChrysler AG. As a result of this audit, goodwill and deferred tax assets have been adjusted with respective impacts in the DS division and at the Headquarters/Consolidation level of €52 million and €12 million, leading to both an other expense and a tax benefit of €64 million in the consolidated statement of income for 2006. EADS has treated the charge as a non-recurring item in EBIT\*. See "1.1.4 Measurement of Management's Performance — Use of EBIT\*".

### 1.1.3.5 Impairment of Assets

When a triggering event, such as an adverse material market event or a significant change in forecasts or assumptions, occurs, EADS performs an impairment test on the assets, group of assets, subsidiaries, joint ventures or associates likely to be affected. In addition, EADS tests goodwill for impairment in the fourth quarter of each financial year, whether or not there is any indication of impairment. An impairment loss is recognised in the amount by which the asset's carrying amount exceeds its recoverable amount.

Generally, the discounted cash flow method is used to determine the value of the assets. The discounted cash flow method is sensitive to the selected discount rate and estimates of future cash flows by EADS' management ("**Management**").

Consequently, slight changes to these elements can materially affect the resulting asset valuation and therefore the amount of the potential impairment charge.

The discount rate used by EADS is derived from the Group's weighted average cost of capital, adjusted to reflect the riskiness of the business concerned. See "Notes to Consolidated Financial Statements (IFRS) — Note 2: Significant accounting policies — Impairment of non-financial assets" and "Note 12: Intangible assets".

The impairment of goodwill has an effect on profitability, as it is recorded in the line item "Other expenses" on EADS' consolidated statement of income. No goodwill was impaired in 2006, 2005 or 2004. However, in 2006, non-goodwill asset impairment charges were recorded at EADS Sogerma (€84) million in respect of its subsidiaries Sogerma Services, Sogerma Tunisia and Barfield, which were sold to the TAT Group on 10 January 2007, and €33 million relating to the remaining Sogerma subsidiaries, Seca and Revima), and at Airbus (€250 million) related primarily to impairment of inventory and fixed assets on the A380 programme. These charges in turn had a negative effect on EBIT\* for 2006. See "Notes to Consolidated Financial Statements (IFRS) — Note 12: Intangible assets" and "Note 13: Property, plant and equipment".

### 1.1.3.6 Research and Development Expenses

Since 2003, with the application of IAS 38 "Intangible Assets", EADS has assessed whether product-related development costs qualify for capitalisation as internally generated intangible assets. Criteria for capitalisation recognition are strictly applied. Consequently, all research and development costs not meeting the IAS 38 criteria are expensed as incurred in the consolidated statement of income.

For 2004, €169 million of product-related development costs were capitalised in accordance with IAS 38 (including €152 million relating to the Airbus A380 programme), with an additional €293 million and €411 million capitalised in 2005 and 2006, respectively (including an additional €259 million and €335 million relating to the Airbus A380 programme, respectively).

Capitalised development costs are generally amortised over the estimated number of units produced if no other procedure reflects the consumption pattern more appropriately, such as for development costs that have been capitalised during the development phase of a new aircraft. These are generally amortised over the estimated useful life of the internally generated intangible asset commencing once type certification has been achieved. Amortisation of capitalised development

costs is recognised in cost of sales. Internally generated intangible assets are reviewed for impairment annually when the asset is not yet in use and subsequently whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

### 1.1.3.7 Accounting for Hedged Foreign Exchange Transactions in the Financial Statements

Approximately two-thirds of EADS' revenues are denominated in U.S. Dollars, whereas a substantial portion of its costs is incurred in Euro and, to a significantly lesser extent, Pounds Sterling. EADS uses hedging strategies to manage and minimise the impact of exchange rate fluctuations on its profits. See "1.1.8 Hedging Activities — Foreign Exchange Rates" and "1. Financial Market Risks — Exposure to Foreign Currencies".

**Cash flow hedges.** The Group applies cash flow hedge accounting generally to foreign currency derivative contracts on future deliveries as well as to certain interest rate swaps hedging the variability of cash flows attributable to recognised assets and liabilities. Changes in fair value of the hedging instruments related to the effective part of the hedge are reported in accumulated other comprehensive income ("AOCI"), a separate component of total equity, net of applicable income taxes and recognised in the consolidated income statement in conjunction with the result of the underlying hedged transaction, when realised. See "1.1.6 Changes in Consolidated Total Equity (including Minority Interests)". The ineffective portion is immediately recorded in "Profit for the period". Amounts accumulated in equity are recognised in profit or loss in the periods when the hedged transaction affects the income statement, such as when the forecast sale occurs or when the finance income or finance expense is recognised in the income statement. If hedged transactions are cancelled, gains and losses on the hedging instrument that were previously recorded in equity are generally recognised in "Profit for the period". For products such as aircraft, EADS typically hedges the first forecasted highly probable future cash inflows for a given month based upon final payments at delivery. See "1.1.8 Hedging Activities — Foreign Exchange Rates".

Cash flow hedges associated with transactions that are cancelled are generally deemed terminated for accounting purposes. The sum of (i) changes in the fair value of these hedges since 1<sup>st</sup> January and (ii) a reversal of the portion of AOCI corresponding to these hedges prior to 1<sup>st</sup> January, are then generally recorded in revenues and deferred tax benefit (expense) in the consolidated statement of income.

Revenues in currencies other than the Euro that are not hedged through financial instruments are translated into Euro at the spot exchange rate at the date the underlying transaction occurs.

### 1.1.3.8 Foreign Currency Translation

EADS' consolidated financial statements are presented in Euro. The assets and liabilities of foreign entities whose reporting currency is other than Euro are translated using period-end exchange rates, while the corresponding income statements are translated using average exchange rates during the period. All resulting translation differences are included as a component of AOCI.

Transactions in foreign currencies are translated into Euro at the exchange rate prevailing on the transaction date. Additionally, certain unhedged assets and liabilities denominated in foreign currencies are translated into Euro at the period-end exchange rate, with all resulting translation differences recorded in the consolidated income statement.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity that was acquired after 31<sup>st</sup> December 2004 are treated as assets and liabilities of the acquired company and are translated into Euro at the period-end rate. Regarding transactions prior to that date, goodwill, assets and liabilities acquired are treated as those of the acquirer.

### Currency Translation Adjustment Related to Airbus

Following the signing of an Advance Pricing Agreement with tax authorities in April 2004, the Airbus GIE (a U.S. Dollar-denominated entity) was merged into Airbus SAS (a Euro-denominated entity) with retrospective effect as of 1<sup>st</sup> January 2004. Consequently, as from such date, operations of the former Airbus GIE are treated as "foreign currency operations" and accounted for in accordance with EADS' consistently applied accounting principles.

Prior to the merger, Airbus GIE operations, with the exception of those hedged with financial instruments, were recorded at the exchange rate prevailing at the time of aircraft delivery, with outstanding operations being re-valued in the balance sheet at each period end using the closing exchange rate of such period. From 1<sup>st</sup> January 2004, all non-hedged U.S. Dollar-denominated operations, including outstanding operations of the former Airbus GIE, are recorded on the basis of exchange rates prevailing at the date of receipt or payment of US. Dollars.

In particular, customer advances (and the corresponding revenues recorded when sales recognition occurs) are now translated at the exchange rate prevailing on the date they are received. U.S. Dollar-denominated costs are converted at the

exchange rate prevailing on the date they are incurred. To the extent that U.S. Dollar-denominated customer advances differ, in terms of timing of receipt or amount, from corresponding U.S. Dollar-denominated costs, there will be a foreign currency exchange impact on EBIT\*. Additionally, the magnitude of any such difference, and the corresponding impact on EBIT\*, will be sensitive to variations in the number of deliveries.

### 1.1.3.9 Accounting for Sales Financing Transactions in the Financial Statements

In order to support product sales, primarily at Airbus and ATR, EADS may agree to participate in the financing of customers, on a case-by-case basis, directly or through guarantees provided to third parties. Certain sales contracts may include the provision of an asset value guarantee ("AVGs"), whereby EADS guarantees a portion of the market value of an aircraft during a limited period, starting at a specific date after its delivery (in most cases, 10 years post-delivery). See "1.1.7 Liquidity and Capital Resources — Sales Financing" and "Notes to Consolidated Financial Statements (IFRS) — Note 29: Commitments and contingencies". The accounting treatment of sales financing transactions varies based on the nature of the financing transaction and the resulting exposure.

**On Balance Sheet.** When, pursuant to a financing transaction, the risks and rewards of ownership of the financed aircraft reside with the customer, the transaction is characterised as either a loan or a finance lease. In such instances, revenues from the sale of the aircraft are recorded upon delivery, while financial interest is recorded over time as financial income. The outstanding balance of principal is recorded on the balance sheet in long-term financial assets, net of any accumulated impairments. See "Notes to Consolidated Financial Statements (IFRS) — Note 14: Investments in associates accounted for under the equity method, other investments and long-term financial assets".

By contrast, when the risks and rewards of ownership remain with Airbus or ATR, the transaction is characterised as an operating lease. EADS' general policy is to avoid, whenever possible, operating leases for new aircraft to be delivered to customers. Therefore, new operating leases primarily arise in connection with the re-marketing of repurchased or repossessed aircraft. Rather than recording 100% of the revenues from the "sale" of the aircraft at the time of delivery, rental income from such operating leases is recorded in revenues over the term of the respective leases. The leased aircraft are recorded at production cost on the balance sheet as property, plant and equipment, and the corresponding depreciation and potential impairment charges are recorded in cost of sales. See "Notes to Consolidated Financial Statements (IFRS) — Note 13: Property, plant and equipment".

If the present value of an AVG exceeds 10% of the sales price of the aircraft, the sale of the underlying aircraft is accounted for as an operating lease in the consolidated financial statements. In this case, upon aircraft delivery, the cash payment received from the customer is recognised on the consolidated balance sheet as deferred income and amortised straight-line up to the amount, and up to the last exercise date, of the AVG. The production cost of the aircraft is recorded on the balance sheet as property, plant and equipment. Depreciation expenses are recorded in cost of sales in the consolidated statement of income. See “Notes to Consolidated Financial Statements (IFRS) — Note 13: Property, plant and equipment” and “Note 26: Deferred income”.

**Off Balance Sheet — Contingent Commitments.** Certain sales financing commitments, such as lease in/lease out structures and AVGs the present value of which is below the 10% threshold, are not recorded on the balance sheet.

As a result, transactions relating to such AVGs are accounted for as sales, with the related exposure deemed to be a contingent commitment. To reduce exposure under AVGs and to minimise the likelihood of their occurrence, Airbus and ATR extend them with prudent guaranteed asset values and restrictive exercise conditions, including limited exercise window periods.

Under lease in/lease out structures, which Airbus and ATR applied in the past to allow customers with weaker credit to take advantage of certain jurisdictions’ leasing-related tax

benefits, the risks and rewards of ownership of the aircraft are typically borne by a third party, usually referred to as the head lessor. The head lessor leases the aircraft to Airbus or ATR, which in turn sub-leases it to the customer. To the extent possible, the terms of the head lease and sub-lease match payment streams and other financial conditions. Such commitments by Airbus or ATR are reported as off-balance sheet contingent liabilities. See “Notes to Consolidated Financial Statements (IFRS) — Note 29: Commitments and contingencies”.

**Provisions and Allowances.** Under its provisioning policy for sales financing risk, EADS records provisions to fully cover its estimated financing and asset value net exposure. Provisions pertaining to sales financing exposure, whether on-balance sheet or off-balance sheet, are recorded as impairments of the related assets or in provisions. Provisions recorded as liabilities relate primarily to off-balance sheet commitments. See “Notes to Consolidated Financial Statements (IFRS) — Note 21(d): Other provisions”. Provisions are recorded as impairments of the related assets when they can be directly related to the corresponding asset. See “Notes to Consolidated Financial Statements (IFRS) — Note 13: Property, plant and equipment” and “Note 14: Investments in associates accounted for under the equity method, other investments and long-term financial assets”. While Management views its estimates of valuations of collateral as conservative, changes in provisions reflecting revised estimates may have a material impact on net income in future periods.

## 1.1.4 Measurement of Management's Performance

### 1.1.4.1 Order Backlog

Year-end order backlog (valued at catalogue prices for commercial aircraft activities) consists of contracts signed up to that date. EADS uses order backlog as a measure of commercial performance, and growth of EADS’ order backlog is an ongoing goal of Management to the extent consistent with profitability criterion. Only firm orders are included in calculating order backlog — for commercial aircraft, a firm order is defined as one for which EADS receives a non-refundable down payment on a definitive contract not containing a “walk-away” provision. Defence-related orders are included in the backlog upon signature of the related procurement contract (and the receipt, in most cases, of an advance payment). Commitments under

defence “umbrella” or “framework” agreements by governmental customers are not included in backlog until they are officially notified to EADS.

For civil market contracts, amounts of order backlog reflected in the table below are derived from catalogue prices, escalated to the expected delivery date and, to the extent applicable, converted into Euro (at the corresponding hedge rate for the hedged portion of expected cash flows, and at the period-end spot rate for the non-hedged portion of expected cash flows). The amount of defence-related order backlog is equal to the contract values of the corresponding programs.




**CONSOLIDATED BACKLOG<sup>(1)</sup> FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2006, 2005 AND 2004**

	Year ended 31 <sup>st</sup> December 2006		Year ended 31 <sup>st</sup> December 2005		Year ended 31 <sup>st</sup> December 2004	
	Amount in € bn	In percentage <sup>(3)</sup>	Amount in € bn	In percentage <sup>(3)</sup>	Amount in € bn	In percentage <sup>(3)</sup>
Airbus <sup>(2)</sup>	210.1	78%	202.0	77%	136.0	70%
Military Transport Aircraft	20.3	8%	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%
<b>Total Divisional Backlog</b>	<b>271.3</b>	<b>100%</b>	<b>262.4</b>	<b>100%</b>	<b>193.6</b>	<b>100%</b>
Other Businesses	2.3		2.1		1.1	
Headquarters/Consolidation	(10.8)		(11.3)		(10.4)	
<b>Total</b>	<b>262.8</b>		<b>253.2</b>		<b>184.3</b>	

(1) Without options.

(2) Based on catalogue prices for commercial aircraft activities.

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

The €9.6 billion increase in the 31<sup>st</sup> December 2006 order backlog, to €262.8 billion, reflects an order intake at EADS in 2006 (€69.0 billion) that was well in excess of revenues accounted for in the same year (€39.4 billion). However, this favourable book-to-bill ratio was partially offset by the effect of the weaker U.S. Dollar spot rate used for conversion of the non-hedged portion of the backlog into Euro, which had a negative impact of €17.3 billion at year end.

The Airbus Division's backlog increased by €8.1 billion from 2005, to €210.1 billion, reflecting a book-to-bill ratio of more than two with net order intake of 790 aircraft in 2006 (€53.4 billion). Total order backlog amounted to 2,533 aircraft at the end of 2006 (as compared to 2,177 aircraft at the end of 2005). However, the positive book-to-bill ratio was largely offset by negative net foreign currency adjustments to the backlog, reflecting the year-end valuation of the non-hedged portion of Airbus' order backlog.

The MTA Division's backlog decreased by €0.7 billion from 2005, to €20.3 billion, reflecting a book-to-bill ratio of less than one. Revenues were driven by the attainment of five contractual milestones in respect of the A400M programme during 2006 (including one milestone that was shifted from the last quarter of 2005 to the first quarter of 2006), compared to only one in 2005. Revenues recognised in the MTA Division (€2.2 billion) were partially offset by a strong order intake in 2006 (€1.6 billion) driven by the Malaysian order of four A400M aircraft as well as orders for seventeen C-295s, two CN-235s and one C-212.

The Eurocopter Division's backlog posted a solid €1.0 billion increase from 2005, to €11.0 billion, reflecting a book-to-bill ratio of more than one with new orders of €4.9 billion. This strong order intake consisted of 615 total new orders in 2006 (as compared to 401 in 2005), bringing its order backlog to 1,074 helicopters at the end of 2006 (as compared to 840 helicopters at the end of 2005).

The DS Division's backlog decreased by €0.9 billion from 2005, to €17.6 billion, primarily reflecting the sale of LFK GmbH to MBDA during 2006. Nevertheless, new order intake amounted to €5.2 billion and was driven by orders for military air systems, missile systems and secured communication networks.

Astrium's backlog posted a solid €1.3 billion increase from 2005, reflecting a book-to-bill ratio of more than one with new orders of €4.4 billion, especially in satellites (with 8 new telecom satellite orders, including 2 satellites for the Satcom BW military communication system) and M51 missile systems.

The amounts recorded under "Headquarters/Consolidation" primarily reflect the elimination of Airbus' work share in the A400M program. The MTA Division's order backlog includes 100% of the value of the A400M order to reflect the Division's prime-contractor responsibility over the program. The effect of internal subcontracting (corresponding to the work share of other EADS divisions in the A400M) is therefore eliminated in EADS' consolidated order backlog.

The table below illustrates the proportion of commercial and defence backlog at the end of each of the past three years.

	Year ended 31 <sup>st</sup> December 2006		Year ended 31 <sup>st</sup> December 2005		Year ended 31 <sup>st</sup> December 2004	
	Amount in € bn <sup>(1)</sup>	Percentage	Amount in € bn <sup>(1)</sup>	Percentage	Amount in € bn <sup>(1)</sup>	Percentage
<b>Backlog:</b>						
Commercial Sector	210	80%	201	79%	135	73%
Defence Sector	53	20%	52	21%	49	27%
<b>Total</b>	<b>263</b>	<b>100%</b>	<b>253</b>	<b>100%</b>	<b>184</b>	<b>100%</b>

(1) Including "Other Businesses" and "Headquarters/Consolidation".

In 2006, Management achieved its target of €10 billion in defence-related revenues (which it had initially set for 2007), after taking into account the positive €0.5 billion impact of the shift of revenue recognition for one A400M milestone from 2005 to the first quarter of 2006.

"exceptionals" refers to such items as depreciation expenses of fair value adjustments relating to the EADS merger, the Airbus Combination and the formation of MBDA, as well as impairment charges thereon.

Set forth below is a table reconciling EADS' profit before finance costs and income tax (as reflected in EADS' IFRS consolidated income statement) with EADS' EBIT\*.

#### 1.1.4.2 Use of EBIT\*

EADS uses EBIT pre-goodwill impairment and exceptionals as a key indicator of its economic performance. The term

(in €m)	Year ended 31 <sup>st</sup> December 2006	Year ended 31 <sup>st</sup> December 2005	Year ended 31 <sup>st</sup> December 2004
Profit before finance costs and income tax	278	2,712	2,215
Subsequent adjustment of goodwill <sup>(1)</sup>	64	0	0
Exceptional depreciation (fixed assets)	57	136	212
Exceptional depreciation (others)	0	4	5
<b>EBIT*</b>	<b>399</b>	<b>2,852</b>	<b>2,432</b>

(1) Relates to the finalisation of a tax audit for Dasa for the years 1994 until 1999. See "1.1.3 Critical Accounting Considerations, Policies and Estimates — Fair Value Adjustments".

#### 1.1.4.3 EBIT\* Performance by Division

Set forth below is a breakdown of EADS' consolidated EBIT\* by division for the past three years.

(in €m)	Year ended 31 <sup>st</sup> December 2006	Year ended 31 <sup>st</sup> December 2005	Year ended 31 <sup>st</sup> December 2004
Airbus	(572)	2,307	1,919
Military Transport Aircraft	75	48	26
Eurocopter	257	212	201
Defence and Security Systems	348	201	226
Astrium	130	58	9
<b>Total Divisional EBIT*</b>	<b>238</b>	<b>2,826</b>	<b>2,381</b>
Other Businesses	(288)	(171)	2
HQ/Consolidation <sup>(1)</sup>	449	197	49
<b>EADS</b>	<b>399</b>	<b>2,852</b>	<b>2,432</b>

(1) HQ/Consolidation primarily reflects the reversal of the loss at completion provision related to the A400M programme recorded at Airbus and also includes results from headquarters, which mainly consists of the "share of profit from associates" from EADS' investment in Dassault Aviation.



**2006 compared to 2005.** EADS' consolidated EBIT\* decreased to €0.4 billion in 2006 from €2.9 billion in 2005, primarily reflecting the loss at Airbus and the impairment and restructuring charges recorded at EADS Sogerma. This decrease was slightly offset by an increase in EBIT\* at EADS' four other operating divisions.

Airbus' EBIT\* decreased to €(0.6) billion in 2006 from €2.3 billion in 2005, primarily reflecting (i) cost overruns, provisions and impairment charges recorded in connection with the A380 programme, (ii) a loss at completion provision recorded in respect of the A400M programme, and (iii) a provision recorded for the buy-out of delivery commitments under firm orders for the former A350 aircraft. See "1.1.2 Overview — Significant Programme and Restructuring Developments in 2006". Also contributing to the decrease from 2005 to 2006 was (i) an approximate €720 million negative impact of exchange rate effects relating to (x) generally less favourable rates of hedges that matured in 2006 as compared to 2005 (based on Airbus' 2006 compounded conversion rate of €-U.S.\$1.10, as compared to €-U.S.\$1.04 in 2005) which had a negative effect of €820 million, and (y) some positive impact of the revaluation of certain assets and liabilities and other currency translation adjustments explained above under "1.1.3 Critical Accounting Considerations, Policies and Estimates — Foreign Currency Translation", as well as (ii) a €376 million increase in research and development expenses in 2006. The decrease in EBIT\* was partially offset by an increase in the number of aircraft delivered (434 in 2006, as compared to 378 in 2005), as well as operational efficiency gains resulting mainly from the "Route 06" cost savings programme totalling approximately €500 million.

The MTA Division's EBIT\* increased to €75 million for 2006 from €48 million for 2005, primarily reflecting the margin impact on revenue recognition for the completion of five milestones under the A400M programme in 2006 (including the positive €17 million EBIT impact from the shift of revenue recognition for one milestone to the first quarter of 2006), compared to only one milestone in 2005.

The Eurocopter Division's EBIT\* increased to €257 million for 2006 from €212 million for 2005, primarily reflecting (i) a record level of deliveries (381 in 2006, as compared to 334 in 2005) with a favourable mix effect, (ii) progress made on military programs and (iii) increased customer support activities. This volume impact was partially offset by (i) a negative effect from the U.S. Dollar, (ii) higher selling and administrative expenses following activity ramp-up and (iii) increased production contract costs related to the NH 90.

The DS Division's EBIT\* increased to €348 million for 2006 from €201 million for 2005, due primarily to (i) improved operating performance, (ii) capital gains in 2006 totalling

€127 million (mainly on the sale of LFK GmbH to MBDA), and (iii) €58 million in lower costs in 2006 relating to unmanned aerial vehicles ("UAV") projects, which in 2005 had a €100 million negative impact on EBIT\*. The EBIT\* increase was partially offset by restructuring costs that were €73 million higher than in 2005 and by perimeter effects.

Astrium's EBIT\* increased to €130 million for 2006 from €58 million for 2005, primarily reflecting (i) a volume increase relating to progress made on Ariane 5 production, ballistic missile deliveries and Paradigm services and (ii) the positive impact of operational efficiencies derived from prior years' restructuring efforts.

The EBIT\* of Other Businesses decreased by €117 million compared to 2005, to €(288) million. The decrease was primarily due to asset impairment charges and restructuring provisions recorded at EADS Sogerma prior to the sale of its remaining 60% share in Sogerma Services as well as the shares of the subsidiaries Barfield and Sogerma Tunisia to the TAT Group in January 2007. EADS Sogerma recorded EBIT\* of €(351) million in 2006 (compared to €(237) million in 2005), with an underlying operation loss of €(96) million in addition to these impairment charges and restructuring provisions. The loss at EADS Sogerma was partially offset by positive EBIT\* at ATR, EFW and Socata.

Headquarters/Consolidation EBIT\* increased to €449 million for 2006 from €197 million for 2005, primarily reflecting the consolidation reversal of the provision related to the A400M programme recorded at Airbus. See "1.1.2 Overview — Significant Programme and Restructuring Developments in 2006". Partially offsetting this increase was a decrease in "share of profit from associates accounted for under the equity method" from EADS' investment in Dassault Aviation, reflecting the absence of a catch-up in 2006 of Dassault Aviation's 2005 income (as compared to a €64 million catch-up in 2005 for 2004 results).

**2005 compared to 2004.** EADS' consolidated EBIT\* increased to €2.9 billion for 2005 from €2.4 billion for 2004, primarily reflecting stronger performance at Airbus.

Airbus' EBIT\* increased to €2.3 billion for 2005 from €1.9 billion for 2004, reflecting (i) an increase in the number of aircraft delivered (378 in 2005, as compared to 320 in 2004) and (ii) operational efficiency gains resulting from the "Route 06" cost savings programme implemented in 2002 (totalling €400 million through year-end 2005). Partially offsetting these positive factors was a negative €(670) million exchange rate effect of generally less favourable rates of hedges maturing in 2005 as compared to 2004 (based on Airbus' 2005 compounded conversion rate of €-U.S.\$1.04, as compared to €-U.S.\$0.98 in 2004).

The MTA Division's EBIT\* increased to €48 million for 2005 from €26 million for 2004, reflecting a reduction in research and development expense and the non-recurrence in 2005 of early retirement costs recorded in 2004.

EBIT\* at the Eurocopter Division increased to €212 million for 2005 from €201 million for 2004, reflecting a 20% increase in deliveries (334 in 2005, as compared to 279 in 2004) and the effects of the first-time consolidation of Australian Aerospace. This volume impact was partially offset by a (i) negative effect from the U.S. Dollar, (ii) a negative mix effect, (iii) higher selling and administrative expenses and (iv) increased R&D expenses for the EC 175.

The DS Division's EBIT\* decreased to €201 million for 2005 from €226 million for 2004 (which included the release of a €106 million provision relating to a concluded litigation with Thales). Despite improved operational performance at the division in 2005, ongoing unmanned aerial vehicles ("UAV") projects had a €100 million negative impact on 2005 EBIT\*. Restructuring expenses were €53 million lower than in 2004, while research and development expenses were €22 million higher.

Astrium's EBIT\* increased to €58 million for 2005 from €9 million for 2004, primarily reflecting (i) the positive impact of operational efficiencies derived from prior years' restructuring efforts and (ii) the release of an allowance for receivables recorded in 2004 relating to Starsem.

Operational and impairment losses, as well as restructuring charges, at Sogerma in 2005 led to a €173 million decrease in EBIT\* of Other Businesses as compared to 2004. The losses at Sogerma widened by €198 million and were partially offset by improved positive EBIT\* at ATR, Socata and EFW.

Headquarters/Consolidation EBIT\* increased to €197 million for 2005 from €49 million for 2004, primarily reflecting the increase in "share of profit from associates accounted for under the equity method" from EADS' investment in Dassault Aviation, including a positive €64 million catch-up of Dassault Aviation's 2004 IFRS results (as compared to a negative

€(33) million catch-up in 2004), as well as gains from real estate disposals totalling €31 million.

**Hedging Impact on EBIT\*.** Nearly two-thirds of EADS' consolidated revenues in 2006 were denominated in currencies other than the Euro. Given the long-term nature of its business cycles (evidenced by its multi-year backlog), EADS hedges a significant portion of its net foreign exchange exposure to mitigate the impact of exchange rate fluctuations on its EBIT\*. See "1.1.8 Hedging Activities — Foreign Exchange Rates" and "1. Financial Market Risks — Exposure to Foreign Currencies". In addition to the impact that hedging activities have on EADS' EBIT\*, the latter is also affected to a much smaller extent by the impact of revaluation of certain trade assets and liabilities at the closing rate and currency translation adjustments related to Airbus.

During 2006, cash flow hedges covering approximately U.S.\$14.7 billion of EADS' U.S. Dollar-denominated revenues matured. In 2006, the compounded exchange rate at which hedged U.S. Dollar-denominated revenues were accounted for was €-U.S.\$1.12, as compared to €-U.S.\$1.06 in 2005. This difference resulted in an approximate €900 million decrease in EBIT\* from 2005 to 2006, of which approximately €820 million was at Airbus. This decrease was partially offset by the €100 million positive impact of the revaluation of certain assets and liabilities and other currency translation adjustments at Airbus.

During 2005, cash flow hedges covering approximately U.S.\$12.7 billion of EADS' U.S. Dollar-denominated revenues matured. In 2005, the compounded exchange rate at which hedged U.S. Dollar-denominated revenues were accounted for was €-U.S.\$1.06, as compared to €-U.S.\$0.99 in 2004. This difference resulted in a €720 million decrease in EBIT\* from 2004 to 2005, of which approximately €648 million was at Airbus.

The tables below set forth the notional amount of foreign exchange hedges in place as of 31<sup>st</sup> December 2006, and the average U.S. Dollar rates applicable to corresponding EBIT\*.

	2007	2008	2009	2010	2011	Total
<b>Total Hedges (in U.S.\$ bn)</b>	<b>15.7</b>	<b>13.9</b>	<b>9.3</b>	<b>5.1</b>	<b>1.1</b>	<b>45.1</b>
Of which €-U.S.\$	13.9	12.3	7.9	4.2	0.8	39.1
Of which £-U.S.\$	1.8	1.6	1.4	0.9	0.3	6.0
<b>Forward Rates (in U.S.\$)</b>						
€-U.S.\$	1.15	1.13	1.17	1.23	1.23	
£-U.S.\$	1.58	1.57	1.63	1.71	1.74	

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**Restructuring.** Total restructuring charges of €168 million were recorded in 2006, compared to €62 million in 2005. For 2006, this included new provisions and current year charges primarily related to (i) the DS Division (€108 million), (ii)

restructuring at Sogerma (€42 million), and (iii) Headquarters (€18 million). The related, yet to be implemented, restructuring burden is mainly accounted for at year-end both as a provision and as other liabilities.

## 1.1.5 EADS Results of Operations

The following table sets forth a summary of the IFRS consolidated statements of income of EADS for the years indicated.

### IFRS CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED 31<sup>ST</sup> DECEMBER 2006, 2005 AND 2004

(in €m, except for EPS)	Year ended 31 <sup>st</sup> December 2006	Year ended 31 <sup>st</sup> December 2005	Year ended 31 <sup>st</sup> December 2004
Revenues	39,434	34,206	31,761
Cost of sales	(34,722)	(27,530)	(25,522)
<b>Gross margin</b>	<b>4,712</b>	<b>6,676</b>	<b>6,239</b>
Selling and administrative expenses	(2,274)	(2,183)	(2,119)
Research and development expenses	(2,458)	(2,075)	(2,126)
Other income	297	222	314
Other expenses	(188)	(153)	(177)
Share of profit from associates accounted for under the equity method and other income (expense) from investments	189	225	84
<b>Profit before finance costs and income taxes</b>	<b>278</b>	<b>2,712</b>	<b>2,215</b>
Interest result	(121)	(155)	(275)
Other financial result	(123)	(22)	(55)
Income taxes	81	(825)	(664)
<b>Profit for the period</b>	<b>115</b>	<b>1,710</b>	<b>1,221</b>
Attributable to:			
Equity holders of the parent ( <b>Net Income</b> )	99	1,676	1,203
Minority interests	16	34	18
<b>Earnings per share (basic) (in €)</b>	<b>0.12</b>	<b>2.11</b>	<b>1.50</b>
<b>Earnings per share (diluted) (in €)</b>	<b>0.12</b>	<b>2.09</b>	<b>1.50</b>

Set out below are year-to-year comparisons of results of operations, based upon EADS' consolidated statements of income.

### Consolidated Revenues

Consolidated revenues increased by 15.3% in 2006 to €39.4 billion, as compared to €34.2 billion for 2005. Revenues increased across all divisions as compared to 2005.

Set forth below is a breakdown of EADS' consolidated revenues by division for the past three years.

(in €m)	Year ended 31 <sup>st</sup> December 2006	Year ended 31 <sup>st</sup> December 2005	Year ended 31 <sup>st</sup> December 2004
Airbus	25,190	22,179	20,224
Military Transport Aircraft	2,200	763	1,304
Eurocopter	3,803	3,211	2,786
Defence and Security	5,864	5,636	5,385
Astrium	3,212	2,698	2,592
<b>Total Divisional Revenues</b>	<b>40,269</b>	<b>34,487</b>	<b>32,291</b>
Other Businesses	1,257	1,155	1,123
HQ/Consolidation <sup>(1)</sup>	(2,092)	(1,436)	(1,653)
<b>EADS</b>	<b>39,434</b>	<b>34,206</b>	<b>31,761</b>

(1) HQ/Consolidation includes, in particular, adjustments and eliminations for intercompany transactions.

## Airbus

Set forth below is a breakdown of Airbus' deliveries by aircraft type for the past three years.

Number of aircraft	Year ended 31 <sup>st</sup> December 2006	Year ended 31 <sup>st</sup> December 2005	Year ended 31 <sup>st</sup> December 2004
Single Aisle	339	289	233
Widebody	9	9	12
Long-Range	86 <sup>(1)</sup>	80	75
<b>Total</b>	<b>434</b>	<b>378</b>	<b>320<sup>(2)</sup></b>

(1) Includes internal delivery of green a/c (MRTT for Australia) from Airbus to MTA Division.

(2) In 2004, revenues were recognized in the IFRS consolidated statement of income for only 316 of the 320 planes delivered.

**2006 compared to 2005.** Airbus' consolidated revenues increased by 13.6%, from €22.2 billion for 2005 to €25.2 billion for 2006, reflecting primarily the increase in aircraft deliveries recognized in revenues (434 in 2006 as compared to 378 in 2005). As in 2005, most of the deliveries in 2006 were for single-aisle A319/A320/A321 aircraft. Airbus delivered 50 more aircraft of this type in 2006 (339 aircraft) than in the previous year. Deliveries of long-range aircraft increased from 80 in 2005 to 86 in 2006.

Offsetting these positive factors was an approximate €720 million negative impact resulting primarily from the continued decline of the hedge rates used to convert payments upon deliveries for the portion of such payments which was hedged, which amounted to negative €820 million, and was itself partially offset by the €100 million positive impact of the revaluation of certain assets and liabilities and other currency translation adjustments. For a discussion of the impact of exchange rate variations on EADS' results of operations, see "1.1.3 Critical Accounting Considerations, Policies and Estimates — Accounting for Hedged Foreign Exchange

Transactions in the Financial Statements", "1.1.3 Critical Accounting Considerations, Policies and Estimates — Foreign Currency Translation", "1.1.8 Hedging Activities — Foreign Exchange Rates" and "1. Financial Market Risks — Exposure to Foreign Currencies".

**2005 compared to 2004.** Airbus' consolidated revenues increased by 9.7%, from €20.2 billion for 2004 to €22.2 billion for 2005, reflecting primarily the increase in aircraft deliveries recognized in revenues (378 in 2005 as compared to 316 in 2004). As in 2004, most of the deliveries in 2005 were for single-aisle A319/A320/A321 aircraft. Airbus delivered 56 more aircraft of this type in 2005 (289 aircraft) than in the previous year. Deliveries of long-range aircraft increased from 75 in 2004 to 80 in 2005.

Offsetting these positive factors was an approximate €(1.65) billion negative impact resulting primarily from the continued decline of the hedge rates used to convert payments upon deliveries for the portion of such payments which was hedged.



## Military Transport Aircraft

Set forth below is a breakdown of the MTA Division's new aircraft deliveries by aircraft type for the past three years.

Number of aircraft	Year ended 31 <sup>st</sup> December 2006	Year ended 31 <sup>st</sup> December 2005	Year ended 31 <sup>st</sup> December 2004
C-212	0	2	2
CN-235	1	1	4
C-295	7	10	6
<b>Total</b>	<b>8</b>	<b>13</b>	<b>12</b>

For 2006, consolidated revenues of the MTA Division increased by 188%, from €0.8 billion for 2005 to €2.2 billion for 2006. The strong increase is primarily related to revenue recognition for the completion of five milestones under the A400M programme in 2006 (including the €0.5 billion impact of the shift of revenue recognition for one milestone to the first quarter of 2006), compared to only one in 2006. Revenues also increased due to the ramp-up of the Multi Role Tanker Transport (MRTT) programme.

For 2005, consolidated revenues of the MTA Division decreased by 41%, from €1.3 billion for 2004 to €0.8 billion for 2005. The decrease primarily reflects the negative €(0.5) billion impact of the shift of revenue recognition for one milestone under the A400M programme until the first quarter of 2006, with no anticipated impact on the overall programme schedule.

## Eurocopter

Set forth below is a breakdown of the Eurocopter Division's deliveries by product type for the past three years.

Number of aircraft	Year ended 31 <sup>st</sup> December 2006	Year ended 31 <sup>st</sup> December 2005	Year ended 31 <sup>st</sup> December 2004
Tiger	9	12	2
Light	217	183	157
Medium	134	121	102
Heavy	21	18	18
<i>Of which NH 90</i>	3	0	0
<b>Total</b>	<b>381</b>	<b>334</b>	<b>279</b>

For 2006, consolidated revenues of the Eurocopter Division increased by 18.4%, from €3.2 billion for 2005 to €3.8 billion for 2006, primarily reflecting ramp-up of military programs, growth in customer services and an overall increase in helicopter deliveries from 334 in 2005 to 381 in 2006.

For 2005, consolidated revenues of the Eurocopter Division increased by 15%, from €2.8 billion for 2004 to €3.2 billion for 2005, primarily reflecting shipsets for the Tiger and NH90 helicopters, and the increase in serial helicopter deliveries. The first-time consolidation of the Australian subsidiary also had a net positive effect on the Eurocopter Division's 2005 revenues.

## Defence & Security

Set forth below is a table showing the number of Eurofighter deliveries to Germany and Spain by EADS for the past three years.

Number of aircraft	Year ended 31 <sup>st</sup> December 2006	Year ended 31 <sup>st</sup> December 2005	Year ended 31 <sup>st</sup> December 2004
Eurofighter <sup>(1)</sup>	17	18	9

(1) Revenues are recognised using the percentage-of-completion (POC) method and not according to deliveries.

For 2006, consolidated revenues of the DS Division increased by 4.0%, from €5.6 billion for 2005 to €5.9 billion for 2006, primarily reflecting the ramp-up in Eurofighter production and growth in the digital professional mobile radio (PMR) business, acquired from Nokia in 2005. Partially offsetting this increase was the partial lack of contribution to 2006 consolidated revenues from LFK GmbH, following its sale to MBDA in early 2006.

For 2005, the DS Division generated consolidated revenues of €5.6 billion, as compared to €5.4 billion for 2004. The slight increase is mainly attributable to continued Eurofighter ramp-up by the Military Air Systems BU, as well as the ramp-up of the MBDA missile business.

## Astrium

Set forth below is a breakdown of Astrium's deliveries of commercial telecommunications satellites for the past three years.

Commercial Telecommunications Satellites	Year ended 31 <sup>st</sup> December 2006	Year ended 31 <sup>st</sup> December 2005	Year ended 31 <sup>st</sup> December 2004
	4	4	3

3 science satellites were delivered in 2006.

For 2006, consolidated revenues of Astrium increased by 19.1%, from €2.7 billion for 2005 to €3.2 billion for 2006. The increase was primarily due to the continued ramp-up of Ariane 5 production, increased M51 ballistic missile activity, an increase in revenues from the Paradigm business at Astrium Services and the first revenues recorded in connection with the Satcom BW military communication system.

For 2005, Astrium generated consolidated revenues of €2.7 billion, as compared to €2.6 billion for 2004. The slight increase reflects increased telecommunications satellite deliveries and the further ramp-up of Ariane 5 production, as well as a modest increase in revenues from the Paradigm business at Astrium Services.

## Consolidated Cost of Sales

For 2006, consolidated cost of sales increased by 26.1%, from €27.5 billion for 2005 to €34.7 billion for 2006. Besides the higher sales activity that occurred in 2006, the increase was primarily due to cost overruns relating to the A380 programme and transition costs related to the A350 programme, as described above. Asset impairment charges and restructuring

provisions recorded at EADS Sogerma also had a negative effect. Mainly as a result of the above stated items and negative dollar effect at Airbus in respect of revenues, the gross margin decreased from 19.5% in 2005 to 11.9% in 2006.

For 2005, consolidated cost of sales increased to €27.5 billion from €25.5 billion for 2004. Gross margin remained relatively unchanged as compared to 2004 at 19.5%.

## Consolidated Selling and Administrative Expenses

For 2006, consolidated selling and administrative expenses increased slightly, from €2.2 billion for 2005 to €2.3 billion for 2006, primarily reflecting higher expenses at the DS division (perimeter effect, higher restructuring expenses and Eurofighter marketing campaign costs), Eurocopter division (higher marketing expenses) and Airbus (tanker campaign costs at EADS North America and expanding Airbus subsidiaries in Japan and the Middle East).

For 2005, consolidated selling and administrative expenses increased slightly, from €2.1 billion for 2004 to €2.2 billion for 2005, primarily reflecting an overall increase in selling activities across most of EADS' businesses.





## Consolidated Research and Development Expenses

For 2006, consolidated research and development (“R&D”) expenses increased by 18.5%, from €2.1 billion for 2005 to €2.5 billion for 2006. Most of the increase was attributable to higher expenses at Airbus, due to development on the former A350, and later in the year on the new A350XWB. A380-related R&D expenses continued to decrease from their peak of €1,082 million in 2003 to €771 million in 2006 (as compared to €813 million in 2005), excluding continuing development costs. The MTA and DS Divisions recorded slightly lower R&D expenses in 2006, whereas Eurocopter and Astrium spent slightly more than in 2005. These changes also reflect the continued application of IAS 38 at EADS, which resulted in the capitalisation of an additional €411 million of R&D in 2006, of which €335 million related to Airbus for the A380. See “1.1.3 Critical Accounting Considerations, Policies and Estimates — Research and Development Expenses”.

For 2005, EADS' consolidated R&D expenses remained stable as compared to 2004, at €2.1 billion. Airbus R&D expense decreased by €75 million from 2004 levels. Other consolidated R&D expenses outside Airbus totalled €416 million — an increase of €24 million from 2004 — related primarily to the development of (i) Eurocopter's EC 175 programme in China and (ii) Military Air Systems' ISR business. These changes reflect in part the application of IAS 38 at EADS, which resulted in the capitalisation of an additional €293 million of R&D in 2005, of which €259 million related to Airbus for the A380.

## Consolidated Other Income and Other Expenses

Consolidated other income and other expenses represent gains and losses on disposals of investments in fixed assets, income from rental properties and certain provisions.

For 2006, the net of other income and other expenses was positive €109 million as compared to positive €69 million for 2005. The increase was mainly attributable to capital gains of €127 million recorded in the DS division primarily relating to the sale of LFK GmbH and TDW GmbH to MBDA during 2006.

For 2005, the net of other income and other expense was positive €69 million as compared to positive €137 million for 2004, primarily reflecting the non-recurrence of the €106 million release of a provision in the DS Division relating to the Thales Euromissiles litigation reported in consolidated other income for 2004.

## Consolidated Share of Profit from Associates Accounted for under the Equity Method and Other Income (Expense) from Investments

Consolidated share of profit from associates accounted for under the equity method and other income (expense) from investments principally includes results from companies accounted for under the equity method and the results attributable to non-consolidated investments.

For 2006, EADS recorded €189 million in consolidated share of profit from associates accounted for under the equity method and other income (expense) from investments as compared to €225 million for 2005. The €36 million decrease primarily relates to the results of EADS' equity investment in Dassault Aviation, including the non-recurrence of a positive catch-up in income of €64 million recorded in 2005 relating to Dassault Aviation's income of 2004. See “Notes to Consolidated Financial Statements (IFRS) — Note 9: Share of profit from associates accounted for under the equity method and other income (expense) from investments”.

For 2005, EADS recorded €225 million in consolidated share of profit from associates accounted for under the equity method and other income (expense) from investments as compared to €84 million for 2004. The €141 million increase primarily reflects the results of EADS' equity investment in Dassault Aviation, including a €64 million positive catch-up in 2005 of 2004 income related to EADS' investment in Dassault Aviation, versus a negative €(33) million catch-up in 2004.

## Consolidated Interest Result

Consolidated interest result reflects the net of interest income and expenses arising from financial assets and liabilities, including interest expense on refundable advances provided by European governments to finance research and development activities.

For 2006, EADS reported a consolidated net interest expense of €121 million, as compared to €155 million of consolidated net interest expense for 2005. The improvement is primarily due to more favourable interest rates. See “1.1.7 Liquidity and Capital Resources — Consolidated Financial Liabilities”.

For 2005, EADS reported a consolidated net interest expense of €155 million, as compared to €275 million of consolidated net interest expense for 2004. The improvement in consolidated net interest result primarily reflects the improving net cash position of EADS as well as the increased interest income from sales financing.

## Consolidated Other Financial Result

For 2006, consolidated other financial result deteriorated to negative €(123) million from negative €(22) million for 2005. This negative €101 million change primarily results from the €136 million negative effect in 2006 from valuation changes of U.S. Dollar-denominated cash balances on the Euro-denominated balance sheets of Group companies, which had generated a positive €147 million in other financial results in 2005. See “1.1.3 Critical Accounting Considerations, Policies and Estimates — Foreign Currency Translation”. This negative factor was partially offset by a positive €46 million effect from the mark-to-market valuation of “embedded derivatives”. “Embedded derivatives” are financial instruments that, for accounting purposes, are deemed to be embedded in U.S. Dollar-denominated purchase orders of equipment, where the U.S. Dollar is not conclusively the currency in which the price of the related equipment is routinely denominated in international commerce and is not the functional currency of the parties to the transaction.

For 2005, consolidated other financial result increased to negative €(22) million from negative €(55) million for 2004. This positive €33 million change primarily results from the €147 million positive effect in 2005 from valuation changes of U.S. Dollar-denominated cash balances on the Euro- or British Pound-denominated balance sheets of Group companies, which had generated negative other financial results in 2004. This positive factor was partially offset by a negative €(108) million effect from the mark-to-market valuation of “embedded derivatives”.

## Consolidated Income Taxes

In 2006, income taxes yielded a positive €81 million, compared to an expense of €(825) million in 2005. The change was due primarily to a significant reduction in tax expense during 2006, reflecting the group's reduced profit before income taxes, as well as a tax-free gain on the sale of LFK GmbH and TDW GmbH to MBDA in 2006. This decrease was partially offset by higher valuation allowances on deferred tax assets at Airbus. See “Notes to the Consolidated Financial Statements (IFRS) — Note 11: Income taxes”.

## Consolidated Minority Interests

For 2006, consolidated minority interests were €16 million, as compared to €34 million for 2005, reflecting primarily the

interests of Finmeccanica (€25 million) and DaimlerChrysler Luft — und Raumfahrt Holding AG (“**DCLRH**”) (€15 million) in the results of MBDA and EADS Germany GmbH, respectively. The decrease in total minority interests for 2006 relates to a consolidation impact from the sale of LFK GmbH and TDW GmbH to MBDA, which amounted to €(27) million in 2006.

For 2005, consolidated minority interests were €34 million, as compared to €18 million for 2004, reflecting primarily the interests of Finmeccanica (€24 million) and DCLRH (€11 million) in the results of MBDA and EADS Germany GmbH, respectively. The 20% share of BAE Systems in Airbus' net income was restated in accordance with the application of IAS 32 “Financial Instruments: Disclosure and Presentation”, resulting in a €185 million adjustment to minority interests in 2004. As from 1<sup>st</sup> January 2005, consolidated minority interests no longer includes BAE Systems' 20% ownership in Airbus. See “1.1.3 Critical Accounting Considerations, Policies and Estimates — Scope of and Changes in Consolidation Perimeter” and “Notes to Consolidated Financial Statements (IFRS) — Note 2: Significant accounting policies — Liability for puttable instruments”.

## Consolidated Net Income (Profit for the Period Attributable to Equity Holders of the Parent)

As a result of the factors discussed above, EADS recorded consolidated net income of €99 million for 2006 as compared to €1,676 million for 2005 and €1,203 million for 2004. It should also be noted that if EADS had not changed its accounting policy in relation to revised IAS 19, its consolidated net income would have been lower by €25 million in 2006. See “1.1.3 Critical Accounting Considerations, Policies and Estimates — Employee Benefits — IAS 19”.

In 2005, net income for 2004 was restated to reflect the retrospective application of IAS 32 “Financial Instruments: Disclosure and Presentation” in respect of BAE Systems' put option for its 20% stake in Airbus. In addition, net income for 2004 was restated to reflect the retrospective application of IFRS 2 “Share-based Payments”, which required the recognition of an expense in respect of employee stock option plans.

The table below illustrates the adjustments made in 2005 to 2004 net income as a result of the application of the accounting principles described in the preceding paragraph.



(in €m)	Year ended 31 <sup>st</sup> December 2005	Year ended 31 <sup>st</sup> December 2004
Reported Consolidated Net Income (Loss)	1,676	1,030
IFRS 2 Restatement	-	(12)
IAS 32 Restatement	-	185
Restated Consolidated Net Income <sup>(1)</sup>	1,676	1,203

(1) 2005 consolidated net income reflects a positive €289 million impact from the application of revised IAS 32 "Financial Instruments: Disclosure and Presentation" and a negative €(33) million impact from the application of IFRS 2.

### Earnings per Share (EPS)

Basic earnings per share decreased by €1.99 per share, from €2.11 per share in 2005 to €0.12 per share in 2006. If EADS had not changed its accounting policy in relation to revised IAS 19, its basic earnings per share in 2006 would have been lower by €0.03. See "1.1.3 Critical Accounting Considerations, Policies and Estimates — Employee Benefits — IAS 19". The number of outstanding shares at 31<sup>st</sup> December 2006 was 802,130,993. The denominator used to calculate EPS was 800,185,164 shares, reflecting the weighted average number of shares outstanding during the year. In 2004, EADS reported basic earnings per share of €1.50 (after the restatement of net income described above).

Diluted earnings per share decreased by €1.97 per share, from €2.09 per share in 2005 to €0.12 per share in 2006. If EADS had not changed its accounting policy in relation to revised IAS 19, its diluted earnings per share in 2006 would have been lower by €0.03. The denominator used to calculate diluted EPS was 804,315,663, reflecting the weighted average number of shares outstanding during the year, adjusted to assume the conversion of all potential ordinary shares. In 2004, EADS reported diluted earnings per share of €1.50 (after the restatement of net income described above). See "Notes to Consolidated Financial Statements (IFRS) — Note 20: Total equity" and "Note 35: Earnings per share".

### 1.1.6 Changes in Consolidated Total Equity (including Minority Interests)

The following table sets forth a summary of the changes in consolidated total equity for the period 1<sup>st</sup> January 2006 through 31<sup>st</sup> December 2006.

(in €m)	
<b>Balance at 31<sup>st</sup> December 2005</b>	<b>13,207<sup>(1)</sup></b>
Change in actuarial gains and losses	(714)
Accumulated other comprehensive income	975
<i>thereof currency translation adjustments</i>	(324)
Profit for the period	115
Cash distribution to EADS N.V. shareholders / dividends paid to minorities	(536)
Capital increase	94
Purchase of treasury shares	(35)
Share-based payments (IFRS 2)	40
Others	6
<b>Balance at 31<sup>st</sup> December 2006</b>	<b>13,152</b>

(1) The balance of consolidated total equity at 31<sup>st</sup> December 2005 reflects the application of revised IAS 19 "Employee Benefits". See "Notes to Consolidated Financial Statements (IFRS) — Note 2: Significant accounting policies" and "Note 21b: Provisions for retirement plans".

The decrease in consolidated total equity in 2006 primarily reflects the effects of (i) changes in actuarial gains and losses, which in turn primarily relate to the first time inclusion of a provision with respect to the net deficit of BAE Systems pension plans in the U.K., and (ii) the cash distribution to shareholders and dividends paid to minorities during 2006. These were partially offset by changes in accumulated other comprehensive income (“AOCI”) and net profit for the period. Set forth below is a discussion of AOCI and its impact on consolidated total equity. For a discussion of the other line items affecting consolidated total equity, see “Notes to Consolidated Financial Statement (IFRS) — Note 20: Total equity”.

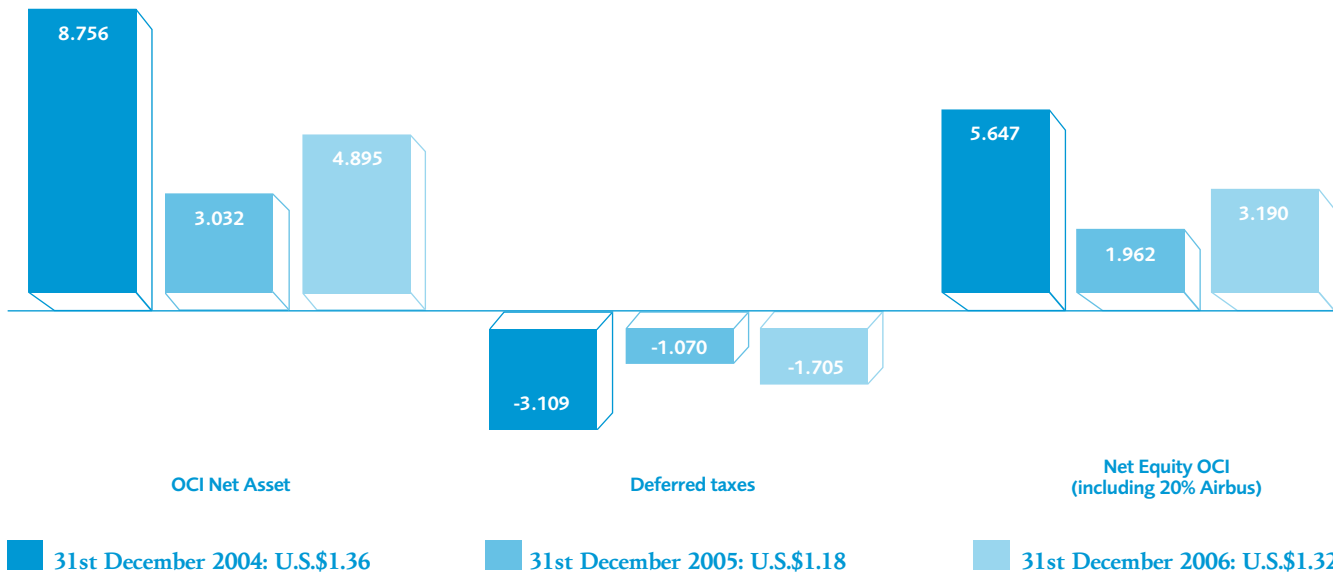
In 2006, AOCI increased by €975 million. The change in AOCI was due to the positive variation (after accounting for deferred taxes) of the year-end mark-to-market valuation of that portion of EADS’ hedge portfolio qualifying for hedge accounting under IAS 39.

### IAS 39 Related Impact on AOCI

At 31<sup>st</sup> December 2006, the notional amount of the outstanding portfolio of hedges qualifying for IAS 39 hedge accounting treatment (“cash flow hedges”) amounted to approximately U.S.\$45.1 billion hedged against the Euro and the Pound Sterling. The year-end mark-to-market valuation of EADS’ portfolio of cash flow hedges resulted in a positive AOCI valuation change of €1.2 billion from 31<sup>st</sup> December 2005, based on a closing rate of €-U.S.\$1.32, as compared to a negative AOCI valuation change of €3.7 billion at 31<sup>st</sup> December 2005 from 31<sup>st</sup> December 2004, based on a closing rate of €-U.S.\$1.18.

Positive pre-tax mark-to-market values of cash flow hedges are included in other assets, while negative pre-tax mark-to-market values of cash flow hedges are included in provisions for financial instruments. Year-to-year changes in the mark-to-market value of cash flow hedges are recognised as adjustments to AOCI. These adjustments to AOCI are net of corresponding changes to deferred tax assets (for cash flow hedges with negative mark-to-market valuations) and deferred tax liabilities (for cash flow hedges with positive mark-to-market valuations). Set out below is a graphic presentation of cash flow hedge related movements in AOCI over the past three years (in €m).

Related movements in AOCI in €m



As a result of the positive change in the fair market valuation of the cash flow hedge portfolio in 2006, AOCI-related net assets increased to €5.0 billion for 2006 from €3.0 billion for

2005. The corresponding €0.6 billion tax effect increased the AOCI-related deferred tax liability to €1.7 billion at 31<sup>st</sup> December 2006.



### Currency Translation Adjustment Impact on AOCI

The negative €(324) million currency translation adjustment (CTA) related impact on AOCI in 2006 reflects the consequences (negative €(78) million) of the merger of Airbus *Groupement d'intérêt économique* ("Airbus GIE") (a U.S. Dollar-denominated entity) into Airbus SAS (a Euro-denominated entity) as well as the negative effects of the weakening U. S. Dollar. Before the merger, Airbus GIE operations were recorded at the current exchange rate of the period except for those hedged with financial instruments. As from 1<sup>st</sup> January

2004, former Airbus GIE operations are recorded on the basis of historical exchange rates. As a result, no additional CTA is generated by former Airbus GIE operations. The portion of outstanding CTA as at 31<sup>st</sup> December 2003, booked in respect of non-monetary balance sheet items relating to transactions realised as from 1<sup>st</sup> January 2004 (i.e., mainly aircraft deliveries), is gradually released to the consolidated statement of income, in line with such deliveries. See "1.1.3 Critical Accounting Considerations, Policies and Estimates — Foreign Currency Translation".

## 1.1.7 Liquidity and Capital Resources

The Group's objective is to maintain sufficient cash and cash equivalents at all times to meet its present and future cash requirements and maintain a favourable credit rating. It attempts to achieve this policy objective by:

- implementing measures designed to generate cash;
- developing and maintaining access to the capital markets; and
- containing its exposure to customer financing.

EADS benefits from a strong positive cash position, with €10.0 billion of consolidated gross cash (including securities of €1.8 billion) at 31<sup>st</sup> December 2006. This cash position is further supported by a €3.0 billion syndicated back-up facility. Overall, financial liabilities (short and long-term) amounted to €5.8 billion at 31<sup>st</sup> December 2006.

EADS defines its consolidated net cash position as the difference between (i) cash, cash equivalents and securities and (ii) financial liabilities (as recorded in the consolidated balance sheet). The net cash position at 31<sup>st</sup> December 2006 was €4.2 billion. The factors affecting EADS' cash position, and consequently its liquidity risk, are discussed below.

Pursuant to IAS 7, the definition of "cash and cash equivalents" now includes only cash items with an original maturity of 3 months. The previous cash definition was based on short-term maturity of 1 year having insignificant risk of changes in value. Due to this new interpretation, figures for 2005 below have been restated accordingly. €4,160 million of cash and cash equivalents for the year 2005 have been reclassified as "Current securities".

### 1.1.7.1 Cash Flows

EADS generally finances its manufacturing activities and product development programs, and in particular the development of new commercial aircraft, through a combination of flows generated by operating activities, customers' advance payments, risk-sharing partnerships with sub-contractors and European government refundable advances. In addition, EADS' military activities benefit from government-financed research and development contracts. If necessary, EADS may raise funds in the capital markets.

The following table sets forth the variation of EADS' consolidated net cash position over the periods indicated.

(in €m)	Year ended 31 <sup>st</sup> December 2006	Year ended 31 <sup>st</sup> December 2005	Year ended 31 <sup>st</sup> December 2004
<b>Consolidated net cash position at 1<sup>st</sup> January</b>	<b>5,489</b>	<b>3,961</b>	<b>3,008</b>
Gross cash flows from operations <sup>(1)</sup>	3,541	3,868	2,858
Changes in other operating assets and liabilities (working capital)	(143)	1,239	2,155
Cash used for investing activities <sup>(2)</sup>	(1,369)	(2,694)	(3,399)
<i>Thereof industrial capital expenditures</i>	<i>(2,708)</i>	<i>(2,818)</i>	<i>(3,017)</i>
<i>Thereof customer financing</i>	<i>1,160</i>	<i>174</i>	<i>(188)</i>
<i>Thereof others</i>	<i>179</i>	<i>(50)</i>	<i>(194)</i>
Treasury share buy-back	(35)	(288)	(81)
Cash distribution to shareholders/dividends paid to minorities	(536)	(396)	(320)
Payments related to liability for puttable instruments <sup>(3)</sup>	(2,879)	(93)	(64)
Capital increase	94	187	43
Other changes in financial position	67	(295)	(239)
<i>Thereof financial liabilities non-recourse to EADS</i>	<i>(61)</i>	<i>(121)</i>	<i>(369)</i>
<b>Consolidated net cash position at 31<sup>st</sup> December</b>	<b>4,229</b>	<b>5,489</b>	<b>3,961</b>
<b>Free Cash Flows<sup>(4)</sup></b>	<b>2,029</b>	<b>2,413</b>	<b>1,614</b>
<i>Thereof Free Cash Flows before customer financing</i>	<i>869</i>	<i>2,239</i>	<i>1,802</i>

(1) Represents cash flow from operations, excluding variations in working capital.

(2) Does not reflect (i) investments in, or disposals of, available-for-sale securities (addition of €(964) million for 2004; disposal of €1,008 million for 2005; disposal of €3,357 million for 2006), which are classified as cash and not as investments solely for the purposes of this net cash presentation; (ii) changes in cash from change in consolidation (€9 million for 2004; €12 million for 2005; €0 million for 2006); or (iii) increase in customer financing when it is non-recourse to EADS (€(369) million for 2004; €(121) million for 2005).

(3) Payments include the acquisition price of €2,750 million for the 20% stake in Airbus as well as a dividend payment from Airbus to BAE Systems amounting to €129 million in 2006.

The consolidated net cash position at 31<sup>st</sup> December 2006 was €4.2 billion, a 23.0% decrease from 31<sup>st</sup> December 2005. The decrease primarily reflects: (i) the payment related to the liability for puttable instruments, following BAE Systems' exercise of its put option of €2.75 billion in relation thereto, (ii) investing activities that consumed €1.4 billion and (iii) the dividend payment amounting to €536 million. This decrease was partially offset by a solid €3.5 billion gross cash flow from operations.

### Gross Cash Flows from Operations

Gross cash flow from operations was less impacted than EBIT\* in 2006 by one time effects, and amounted to €3,541 million in 2006, compared to €3,868 million in 2005 and €2,858 million in 2004.

### Changes in Other Operating Assets and Liabilities (Working Capital)

Working capital is comprised of trade receivables, inventory, other assets and prepaid expenses netted against trade liabilities, other liabilities (including customer advances) and deferred income.

Changes in working capital resulted in a negative impact on the net cash position for 2006 (€(0.1) billion) and a positive impact on the net cash position for 2005 (€1.2 billion). In 2006, the main net contributor to the negative working capital variation was the change in gross inventory (€(1.9) billion), primarily reflecting the ramp-up of Airbus production of the A380, partially offset by the inflow of overall pre-delivery payments from customers (€1.6 billion). In 2005, the main net contributor to the positive working capital variation was the further inflow of overall pre-delivery payments from customers (approximately €4.2 billion), partially offset by the change in gross inventory (approximately €(3.3) billion), primarily reflecting the ramp-up of Airbus production of the A380.

**European Government Refundable Advances.** As of 31<sup>st</sup> December 2006, total European government refundable advances received, recorded on the balance sheet in the line items "non-current other liabilities" and "current other liabilities", amounted to €5.4 billion, including accrued interest.

For 2006, new receipts of European government refundable advances totalled €0.3 billion and reimbursements totalled



€0.4 billion. Related accrued interest for 2006 of €0.3 billion was recorded on the balance sheet in the line items “non-current other liabilities” and “current other liabilities”.

Set out below is a breakdown of total amounts of European government refundable advances outstanding, by product/project.

(in € bn)	2006	2005	2004
Long Range & Wide Body	1.5	1.8	2.0
A380	3.3	2.8	2.5
Eurocopter	0.2	0.2	0.2
Others	0.4	0.5	0.4
<b>Total</b>	<b>5.4</b>	<b>5.3</b>	<b>5.1</b>

### Cash Used for Investing Activities

Management categorises cash used for investing activities into three components: (i) industrial capital expenditures, (ii) customer financing and (iii) others.

**Industrial Capital Expenditures.** Industrial capital expenditures (investments in property, plant and equipment and intangible assets) amounted to €2.7 billion for 2006 as compared to €2.8 billion for 2005. A380-related capital expenditure totalled €0.7 billion for 2006, as compared to €0.8 billion for 2005 (including capitalised research and development costs). See “Part 2/1.1.2 Airbus — Products and Services”. To date, total A380-related capital expenditures is €5.2 billion.

The remaining portion of capital expenditures in 2006 related to other programmes at Airbus of €0.9 billion (including €0.2 billion for the A400M programme) and additional programmes in the other divisions of €1.1 billion, including the build-up of Skynet 5 satellites at Paradigm Secure Communications Ltd. Excluding Airbus and Paradigm-related expenditures, EADS’ other divisions incur approximately €0.5 billion annually in capital expenditures related to ongoing businesses. Investments in aircraft leases are included in customer financing, and not in industrial capital expenditures, even though the underlying assets are eventually recorded in property, plant and equipment.

For the period 2007 to 2008, it is estimated that the majority of EADS’ capital expenditures will occur in connection with Airbus activities — in particular, for the A380, the A350XWB and the A400M programmes, as well as for construction of an A320 final assembly line in China. See “Part 2/1.1.2 Airbus — Products and Services”.

**Customer Financing.** Consolidated cash flows generated by customer financing amounted to an exceptionally high level of €1,160 million for 2006. EADS aims to structure financing so as to facilitate the future sell-down or reduction of its exposure.

The cash inflow of €1,160 million primarily results from the payments received on sell-downs and repayments of outstanding finance leases and loans over the course of the year more than offsetting additions to customer sales financing. See “— Sales Financing”.

**Others.** For 2006, the positive €179 million figure primarily reflects the sale of LFK GmbH to MBDA and other asset sales.

### Free Cash Flows

As a result of the factors discussed above, positive free cash flows amounted to €2.0 billion for 2006, as compared to €2.4 billion for 2005 and €1.6 billion for 2004. Positive free cash flow before customer financing was €0.9 billion for 2006, as compared to €2.2 billion for 2005 and €1.8 billion for 2004.

### Other Changes in Financial Position

In 2004 and 2005, the cash outflows of €(239) million and €(295) million in 2005, respectively, primarily reflects the impact of non-recourse customer financing. The cash inflow of €67 million in 2006 generally mirrors the currency effects on financial liabilities.

#### 1.1.7.2 Consolidated Cash and Cash Equivalents

Pursuant to IAS 7, the definition of “cash and cash equivalents” now includes only cash items with an original maturity of 3 months. The previous cash definition was based on short-term maturity of 1 year having insignificant risk of changes in value. Due to this new interpretation, €4,160 million of cash and cash equivalents at year-end 2005 have now been reclassified as “Current securities”.

The cash and cash equivalents and securities portfolio of the Group is invested mainly in non-speculative financial instruments, mostly highly liquid, such as certificates of

deposits, overnight deposits, commercial paper and other money market instruments which, for cash and cash equivalents, have an original maturity of less than three months. Therefore, EADS assesses its exposure towards price risk due to changes in interest rates and spreads as minimal. See “1.1.8 Hedging Activities — Interest Rates” and “Notes to Consolidated Financial Statements (IFRS) — Note 30a: Information about Financial Instruments — Financial risk management”.

In 2003, the fully automated cross-border cash pooling system (covering France, Germany, Spain, the Netherlands and the

U.K.) became operational. The cash pooling system enhances Management's ability to assess reliably and instantaneously the cash position of each subsidiary within the Group and enables Management to allocate cash optimally within the Group depending upon shifting short-term needs.

Total cash and cash equivalents (including available-for-sale securities) includes €0.6 billion from the 50% consolidation of MBDA. However, EADS' economic stake in MBDA is only 37.5%, representing only 75% of this consolidated amount.

### 1.1.7.3 Consolidated Financial Liabilities

The following table sets forth the composition of EADS' consolidated financial liabilities, including both short-and long-term debt, as of 31<sup>st</sup> December 2006:

31 <sup>st</sup> December 2006				
(in €m)	Not Exceeding 1 year	Over 1 year up to 5 years	More Than 5 years	Total
Finance Leases <sup>(1)</sup>	97	104	74	275
Bonds/Commercial paper	1,157	1,116	453	2,726
Liabilities to financial institutions	140	324	817	1,281
Liabilities to affiliated companies	118	0	0	118
Loans	172	326	347	845
Other	512	0	0	512
<b>Total</b>	<b>2,196</b>	<b>1,870</b>	<b>1,691</b>	<b>5,757<sup>(2)</sup></b>

(1) This figure reflects the €927 million effect of the netting of defeased bank deposits against sales financing liabilities.

(2) Financial liabilities include non-recourse Airbus debt for €1,058 million.

The outstanding balance of financial liabilities increased from €5.1 billion at 31<sup>st</sup> December 2005 to €5.8 billion at 31<sup>st</sup> December 2006. Financial liabilities include liabilities connected with sales financing transactions, which totalled €1,702 million at 31<sup>st</sup> December 2006. See “— Sales Financing”. Of this total, €480 million bore interest at a fixed rate of 9.88% while the remainder bore interest primarily at variable rates.

**EMTN Programme.** In 2003, EADS launched a €3 billion Euro Medium Term Note (“EMTN”) Programme. It conducted an initial €1.0 billion issue of notes maturing in 2010 and bearing interest at 4.625% (effective interest rate: 4.686%), which was later swapped into a variable rate of three-month EURIBOR plus 1.02%. It then issued an additional €0.5 billion of notes maturing in 2018 and bearing interest at 5.5% (effective interest rate: 5.6%), which was swapped during 2005 into a variable rate of three-month EURIBOR plus 1.81%.

**European Investment Bank Loan.** In 2004, the European Investment Bank granted a long-term loan to EADS in the

amount of U.S.\$421 million at an interest rate of 5.1% (effective interest rate: 5.1%).

**Commercial Paper Programme.** EADS regularly issues commercial paper on a rolling basis, under a so-called “billet de trésorerie” programme. This commercial paper bears interest at fixed or floating rates with individual maturities ranging from 1 day to 12 months. As of 31 December 2006, the average interest rate on these borrowings was 3.3%. The issued volume at 31 December 2006 amounted to €1,137 million. The programme has been in place since 2003 and has a maximum authorised volume limit of €2 billion.

### 1.1.7.4 Sales Financing

EADS favours cash sales, and encourages independent financing by customers, in order to avoid retaining credit or asset risk in relation to delivered products.





However, in order to support product sales, primarily at Airbus and ATR, EADS may agree to participate in the financing of customers, on a case-by-case basis, directly or through guarantees provided to third parties. Dedicated and experienced teams at headquarters and at Airbus and ATR, respectively structure such financing transactions and closely monitor total EADS finance and asset value exposure and its evolution in terms of quality, volume and cash requirements intensity. EADS aims to structure all financing it provides to customers in line with market-standard contractual terms so as to facilitate any subsequent sale or reduction of such exposure.

In determining the amount and terms of a financing transaction, Airbus and ATR take into account the airline's credit rating as well as risk factors specific to the intended operating

environment of the aircraft and its expected future value. Market yields and current banking practices also serve to benchmark the financing terms offered to customers.

Approximately 30% of the €5.8 billion of total consolidated financial liabilities as at 31<sup>st</sup> December 2006 are derived from the funding of EADS' sales financing assets, which are of a long-term nature and have predictable payment schedules. The decrease from 40% of total financial liabilities in 2005 reflects the effects of the weakening U.S. Dollar on these U.S. Dollar-denominated liabilities. The following table presents a breakdown of consolidated financial liabilities related to sales financing:

(in €m)	Principal Amount Outstanding 2006	Principal Amount Outstanding 2005	Principal Amount Outstanding 2005
Finance Leases <sup>(1)</sup>	72	118	270
Liabilities to financial institutions	905	1,074	844
Loans	725	882	780
<b>Total Sales Financing Liabilities</b>	<b>1,702</b>	<b>2,074</b>	<b>1,894</b>

(1) These figures reflect the effect (€927 million in 2006; €1,102 million in 2005; €1,089 million in 2004) of the netting of defeased bank deposits against sales financing liabilities.

The amounts of total sales financing liabilities at 31<sup>st</sup> December 2006, 2005 and 2004 reflect the offsetting of sales financing liabilities by €0.9 billion (for 2006), €1.1 billion (for 2005) and €1.1 billion (for 2004) of defeased bank deposits securing such liabilities. Of the remaining €1.7 billion total sales financing liabilities at 31<sup>st</sup> December 2006, €1.1 billion is in the form of non-recourse debt, where EADS' repayment obligations are limited to its receipts from transaction counterparties. A significant portion of financial assets representing non-cancellable customer commitments have terms closely matching those of the related financial liabilities. See "Notes to Consolidated Financial Statements (IFRS) — Note 22: Financial liabilities". See also "— 1.1.3 Critical Accounting Considerations, Policies and Estimates — Accounting for Sales Financing Transactions in the Financial Statements".

Sales financing transactions are generally collateralised by the underlying aircraft. Additionally, Airbus and ATR benefit from protective covenants and from security packages tailored according to the perceived risk and the legal environment of each transaction.

EADS classifies the exposure arising from its sales financing activities into two categories: (i) Financing Exposure, where the customer's credit — its ability to perform its obligations under a financing agreement — constitutes the risk; and (ii) Asset Value Exposure, where the risk relates to decreases in the

future value of the financed aircraft. See also "1. Financial Market Risks — Exposure to Sales Financing Risk".

**Customer Financing Exposure.** Airbus Customer Financing Exposure as of 31<sup>st</sup> December 2006 is spread over 85 aircraft, operated at any time by approximately 25 airlines. In addition, other aircraft related assets, such as spare parts, may also serve as collateral security. 63% of Airbus Financing Gross Exposure is distributed over 5 airlines in 5 countries, not taking backstop commitments into account.

ATR Customer Financing Gross Exposure as of 31<sup>st</sup> December 2006 is distributed over 187 aircraft. EADS proportionally consolidates only 50% of ATR and shares the risk with its partner, Alenia.

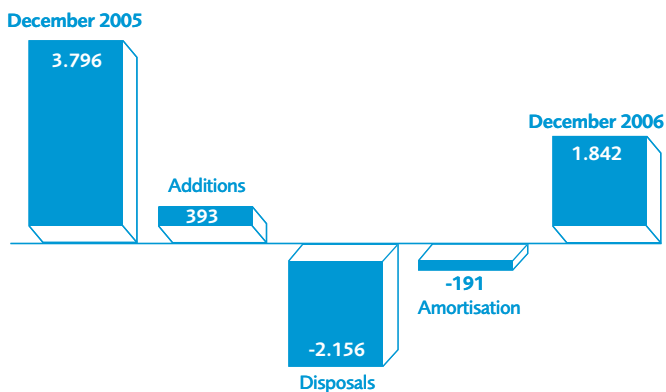
*Gross Customer Financing Exposure:* Customer Financing Gross Exposure is computed as the sum of (i) the net book value of aircraft under operating leases; (ii) the outstanding principal amount of finance leases or loans; and (iii) the net present value of the maximum commitment amounts under financial guarantees.

Gross Financing Exposure from operating leases, finance leases and loans differs from the value of related assets on EADS' balance sheet and related off-balance sheet contingent commitments for the following reasons: (i) assets are recorded

in compliance with IFRS, but may relate to transactions where there is limited recourse to Airbus or ATR; (ii) the value of the assets is impaired or depreciated on the consolidated balance sheet; (iii) off-balance sheet gross exposure is calculated as the net present value of future payments, whereas the Financial Statements present the total future payments in nominal terms; and (iv) exposure related to AVGs recorded as operating leases in the Financial Statements is categorised under Asset Value Exposure, not Financing Exposure.

Airbus has reduced Gross Financing Exposure by 70% from its 1998 peak of U.S.\$6.1 billion, to U.S.\$1.8 billion (€1.4 billion) as of 31<sup>st</sup> December 2006, while the Airbus fleet in operation has increased from 1,838 aircraft to 4,305 aircraft over roughly the same period. Management believes the current level of Gross Financing Exposure enhances Airbus' ability to assist its customers in the context of a tight aircraft financing market. The chart below illustrates the evolution of Airbus' Gross Financing Exposure during 2006 (in U.S. \$ millions).

#### Evolution of Airbus Gross Exposure during 2006



ATR as a whole has reduced gross exposure by approximately 56% from a peak of U.S.\$1.8 billion in 1997 to U.S.\$0.8 billion (€0.6 billion) as of 31<sup>st</sup> December 2006.

In response to the continued demand by its customers for financing, EADS expects to undertake additional outlays in connection with customer financing of commercial aircraft, mostly through finance leases and loans. Nevertheless, it intends to keep the amount as low as possible, and expects the net increase of sales financing gross exposure to be very low in 2007.

*Net Exposure.* Net exposure is the difference between gross exposure and the estimated value of the collateral security. Collateral value is assessed using a dynamic model based on the net present value of expected future rentals from the aircraft in the leasing market and potential cost of default. This valuation model yields results that are typically lower than residual value estimates by independent sources in order to allow for what Management believes is its conservative assessment of market conditions, as well as for repossession and transformation costs. See "1.1.3 Critical Accounting Considerations, Policies and Estimates — Accounting for Sales Financing Transactions in the Financial Statements".



The table below shows the transition from gross to net financing exposure (which does not include AVGs) as at 31st December 2006, 2005 and 2004. It includes 100% of Airbus' customer financing exposure and 50% of ATR's exposure, reflecting EADS' stake in ATR.

(in €m)	Note*	Airbus 100%			ATR 50%			Total EADS		
		12/31/2006	12/31/2005	12/31/2004	12/31/2006	12/31/2005	12/31/2004	12/31/2006	12/31/2005	12/31/2004
Operating Lease	13	1,080	1,308	1,835	136	185	146	1,216	1,493	1,981
Finance leases and loans	14	957	1,616	2,044	29	25	22	986	1,641	2,066
Others		0	1,019	0	87	96	119	87	1,115	119
On Balance sheet customer financing		2,037	3,943	3,879	252	306	287	2,289	4,249	4,166
Off Balance sheet customer financing	29	834	846	732	43	42	46	877	888	778
Non-recourse transactions on balance sheet		(1,121)	(1,327)	(1,135)	0	0	0	(1,121)	(1,327)	(1,135)
Off balance sheet adjustments		(351)	(244)	(128)	0	0	0	(351)	(244)	(128)
<b>Gross customer financing exposure</b>	<b>29</b>	<b>1,399</b>	<b>3,218</b>	<b>3,348</b>	<b>295</b>	<b>348</b>	<b>333</b>	<b>1,694</b>	<b>3,566</b>	<b>3,681</b>
Collateral Values	29	(521)	(1,819)	(1,916)	(270)	(314)	(300)	(791)	(2,133)	(2,216)
<b>Net exposure</b>		<b>878</b>	<b>1,399</b>	<b>1,432</b>	<b>25</b>	<b>34</b>	<b>33</b>	<b>903</b>	<b>1,433</b>	<b>1,465</b>
<b>Asset impairments and provisions on:</b>										
Operating Lease	29	(272)	(319)	(532)	0	0	0	(272)	(319)	(532)
Finance Lease & loans	29	(199)	(396)	(466)	0	0	0	(199)	(396)	(466)
Inventories	29	0	0	(1)	0	0	0	0	0	(1)
Assets held for sale	29	0	(196)	0	0	0	0	0	(196)	0
Off balance sheet commitments	29	(407)	(488)	(433)	0	0	0	(407)	(488)	(433)
On balance sheet commitments	29	0	0	0	(25)	(34)	(33)	(25)	(34)	(33)
<b>Asset impairments and provisions</b>		<b>(878)</b>	<b>(1,399)</b>	<b>(1,432)</b>	<b>(25)</b>	<b>(34)</b>	<b>(33)</b>	<b>(903)</b>	<b>(1,433)</b>	<b>(1,465)</b>
Residual exposure		-	-	-	-	-	-	-	-	-

(\*) The indicated numbers refer to the number of the Notes to Consolidated Financial Statements (IFRS).

The gross value of consolidated operating leases shown in the table above (€1,216 million in 2006, €1,493 million in 2005 and €1,981 million in 2004) is accounted for in «Property, Plant and Equipment» at net book value of operating leases before impairment. Corresponding accumulated asset impairments (€272 million in 2006, €319 million in 2005 and €532 million in 2004) are charged against this net book value. See “Notes to Consolidated Financial Statements (IFRS) — Note 13: Property, Plant and Equipment” and “Note 29: Commitments and contingencies”.

Also shown in the table above is the gross value for consolidated finance leases and loans (€986 million in 2006, €1,641 million in 2005 and €2,066 million in 2004). Consolidated finance leases (€739 million in 2006, €924 million in 2005 and €1,120 million in 2004) are accounted for as long-term financial assets, recorded at their book value before impairment. Loans (€247 million in 2006, €717 million in 2005 and €946 million in 2004) are also accounted for as long-term financial assets, recorded at their outstanding gross amount. Corresponding overall accumulated impairments (€199 million in 2006, €396 million in 2005 and €466 million in 2004) are charged against the book values. See “Notes to Consolidated

Financial Statements (IFRS) — Note 14: Investments in associates accounted for under the equity method, other investments and long-term financial assets”.

Off-balance sheet customer financing exposure at Airbus and ATR (accounted for at 50% by EADS) was €877 million in 2006, €888 million in 2005 and €778 million in 2004. These amounts reflect the total nominal value of future payments under lease in/lease out structures. The corresponding net present value of future payments (discounted and net of mitigating factors) is included in total Gross Financing Exposure for an amount of €526 million in 2006, €644 million in 2005 and €650 million in 2004. A provision of €407 million has been accrued for in EADS' balance sheet as of 31st December 2006 to cover the full amount of the corresponding net exposure. See “Notes to Consolidated Financial Statements (IFRS) — Note 29: Commitments and contingencies”.

**Asset Value Exposure.** A significant portion of EADS' asset value exposure arises from outstanding AVGs, primarily at Airbus. Management considers the financial risks associated with such guarantees to be manageable. Three factors contribute to this assessment: (i) the guarantee only covers a tranche of the estimated future value of the aircraft, and its level is considered prudent in comparison to the estimated future value of each aircraft; (ii) the AVG-related exposure is diversified over a large number of aircraft and customers; and (iii) the exercise periods of outstanding AVGs are distributed through 2019, resulting in low levels of exposure maturing in any year. Because exercise dates for AVGs are on average in the 10<sup>th</sup> year following aircraft delivery, AVGs issued in 2006 will generally not be exercisable prior to 2016, and, therefore, an increase in near-term exposure is not expected.

*Gross Exposure.* Gross Asset Value Exposure is defined as the sum of the maximum guaranteed tranche amounts (as opposed to the sum of the maximum guaranteed asset value amounts) under outstanding AVGs. At 31<sup>st</sup> December 2006, Airbus Gross Asset Value Exposure (discounted present value of future guaranteed tranches) was U.S.\$3.0 billion (€2.3 billion). The off-balance sheet portion of Airbus Gross Asset Value, representing AVGs with net present values of less than 10% of the sales price of the corresponding aircraft, was €1,093 million, excluding €461 million where the risk is considered to be remote. In many cases, the risk is limited to a specific portion of the residual value of the aircraft. The remaining Airbus Gross Asset Value Exposure is recorded on-balance sheet.

*Net Exposure.* The present value of the risk inherent to the given asset value guarantees, where a settlement is considered to be probable, is fully provided for and included in the total amount of provisions for asset value risks of €633 million. This provision covers a potential expected shortfall between the estimated value of the aircraft of the date upon which the guarantee can be exercised and the value guaranteed on a

transaction basis taking counter guarantees into account. See “Notes to Consolidated Financial Statements (IFRS) — Note 21(d): Other provisions”.

**Backstop Commitments.** While commitments to provide financing related to orders on Airbus' and ATR's backlog are also given, such commitments are not considered to be part of gross exposure until the financing is in place, which occurs when the aircraft is delivered. This is due to the fact that (i) past experience suggests it is unlikely that all such proposed financings actually will be implemented (although it is possible that customers not benefiting from such commitments may nevertheless request financing assistance ahead of aircraft delivery), (ii) until the aircraft is delivered, Airbus or ATR retain the asset and do not incur an unusual risk in relation thereto (other than the corresponding work-in-progress), and (iii) third parties may participate in the financing.

See “Notes to Consolidated Financial Statements (IFRS) — Note 29: Commitments and contingencies” for further discussion of EADS' sales financing policies and accounting procedures.

## 1.1.8 Hedging Activities

### 1.1.8.1 Foreign Exchange Rates

A significant portion of EADS' revenues are denominated in U.S. Dollars (approximately U.S.\$27.6 billion at Airbus in 2006), with approximately half of such currency exposure ‘naturally hedged’ by U.S. Dollar- denominated costs. The remainder of costs is incurred primarily in Euro, and to a lesser extent, in Pounds Sterling. Consequently, to the extent that EADS does not use financial instruments to hedge its net current and future exchange rate exposure from the time of a customer order to the time of delivery, its profits will be affected by market changes in the exchange rate of the U.S. Dollar against these currencies. As EADS intends to generate profits only from its operations and not through speculation on foreign currency exchange rate movements, EADS uses hedging strategies solely to manage and minimise the impact on its EBIT\* from the volatility of the U. S. Dollar. See “1.1.4 Measurement of Management's Performance — EBIT\* Performance by Division — Hedging Impact on EBIT\*”. See also “1. Financial Market Risks — Exposure to Foreign Currencies”.

As EADS uses financial instruments to hedge its net foreign currency exposure, the portion of its U.S. Dollar-denominated revenues not hedged by financial instruments (approximately 30% of total consolidated revenues) is exposed to changes in exchange rates. Of this non-hedged portion of revenues, a certain percentage (relating to customer pre-delivery payments) is converted into Euro at the spot rate effective at the time the



payment was received by EADS. The remainder of non-hedged U.S. Dollar-denominated revenues (corresponding to payments upon delivery) are subject to changes in the spot rate at the time of delivery. See “1.1.3 Critical Accounting Considerations, Policies and Estimates — Foreign Currency Translation”.

**Exposure on aircraft sales.** For products such as aircraft, EADS typically hedges forecasted sales in U.S. Dollars related to firm commitments and forecasted transactions. The hedged items are defined as the first forecasted highly probable future cash inflows for a given month based upon final payments at delivery. The amount of the first flows to be hedged can cover up to 100% of the equivalent of the net U.S. Dollar exposure at inception. For EADS, a forecasted transaction is regarded as highly probable if the future delivery is included in the firm order book or is very likely to materialise in view of contractual evidence (e.g., a letter of intent). The coverage ratio is adjusted to take into account macroeconomic movements affecting the spot and interest rates, as applicable.

**Exposure on non-aircraft business.** For the non-aircraft business, EADS typically hedges inflows and outflows of foreign currencies from sales and purchase contracts in low volumes.

**Exposure on treasury operations.** In connection with its treasury operations, EADS enters into foreign exchange swaps (notional amount of €3.8 billion at year-end 2006) to adjust for short-term fluctuations of non-Euro cash balances at the BU level. year-to- year changes in the fair market value of these swaps are recorded on the consolidated statement of income in the line item “other financial result”. These changes may have a material impact on EADS’ net income.

**Embedded derivatives.** EADS also has foreign currency derivative instruments which are embedded in certain purchase

and lease contracts denominated in a currency other than the functional currency of the significant parties to the contract, principally USD and GBP. Gains or losses relating to such embedded foreign currency derivatives are reported in the line item “other financial result”. These changes may have a material impact on EADS’ net income. In addition, EADS hedges currency risk arising from financial transactions in other currencies than EUR, such as funding transactions or securities.

**Hedge Portfolio.** EADS manages a long-term hedge portfolio with a maturity of several years covering its net exposure to U.S. Dollar sales, mainly from the activities of Airbus (and to a lesser extent, of the Eurocopter Division, ATR, the DS Division and the MTA Division). The net exposure is defined as the total currency exposure (U.S. Dollar-denominated revenues), net of the part that is “naturally hedged” by U.S. Dollar-denominated costs. The hedge portfolio covers the vast majority of the Group’s hedging transactions.

For financial reporting purposes, EADS mostly designates a portion of the total firm future cash flows as the hedged position to cover its expected net foreign currency exposure. Therefore, as long as the actual gross foreign exchange-cash inflows (per month) exceed the portion designated as being hedged, a postponement or cancellation of sales transactions and corresponding cash inflows have no impact on the hedging relationship. As hedging instruments, EADS primarily uses foreign currency forwards.

The contract or notional amounts of EADS’ foreign exchange derivative financial instruments shown below do not necessarily represent amounts exchanged by the parties and, thus, are not necessarily a measure for the exposure of the Group through its use of derivatives.

The notional amounts of such foreign exchange derivative financial instruments are as follows, specified by year of expected maturity:

Year ended 31 <sup>st</sup> December 2006 (in €m)	Remaining period			Total
	Not exceeding 1 year	1 year up to 5 years	More than 5 years	
<b>Foreign Exchange Contracts:</b>				
Net forward sales (purchase) contracts	10,970	22,120	(4)	33,086
Structured USD forward:				
Purchased USD call options	333	295	0	628
Purchased USD put options	885	295	0	1,180
Written USD call options	885	295	0	1,180
FX swap contracts	3,564	38	211	3,813

### 1.1.8.2 Interest Rates

EADS uses an asset and liability management approach with the objective of limiting its interest rate risk. EADS attempts to match the risk profile of its assets with a corresponding liability structure. The remaining net interest rate exposure is managed through several types of instruments in order to minimise risks and financial impacts. Therefore, EADS may use interest rate derivatives for hedging purposes.

Hedging instruments that are specifically related to debt instruments (such as the notes issued under the EMTN programme and those relating to the financing of Paradigm) have at most the same nominal amounts, as well as the same maturity dates, as the corresponding hedged item.

Regarding the management of its cash balance, EADS invests mainly in short-term instruments and/or floating rate instruments in order to further minimise any interest risk in its cash and securities portfolio.

The contract or notional amounts of EADS' interest rate derivative financial instruments shown below do not necessarily represent amounts exchanged by the parties and, thus, are not necessarily a measure for the exposure of the Group through its use of derivatives.

The notional amounts of such interest rate derivative financial instruments are as follows, specified by expected maturity.

Year ended 31 <sup>st</sup> December 2006 (in €m)	Remaining period			Total
	Not exceeding 1 year	1 year up to 5 years	More than 5 years	
Interest rate swaps and caps	1,184	1,412	3,116	5,712

Since its creation, EADS has been in a positive net cash position. As interest rate sensitivity analysis is mostly relevant to large borrowers, EADS considers that the added value of such analysis to an understanding of the Company's interest rate exposure is minimal. Such analysis has therefore not been

included herein, and the above table of interest rate derivatives has not been correlated with the preceding table of financial debt. As circumstances warrant, EADS will consider including such an analysis in future Registration Documents.

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## 1.2 Financial Statements

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

- The consolidated financial statements (IFRS) and the financial statements (Dutch GAAP) of EADS for the year ended 31<sup>st</sup> December 2004 as included in “Part 1/1.2 Financial Statements” of the *Document de Référence* filed in French with the *Autorité des marchés financiers* on 19<sup>th</sup> April 2005 and filed in English with the Chamber of Commerce of Amsterdam; and
- The consolidated financial statements (IFRS) and the Company financial statements of EADS for the year ended 31<sup>st</sup> December 2005 as included in “Part 1/1.2 Financial Statements” of the Registration Document filed in English with, and approved by, the AFM on 26<sup>th</sup> April 2006 and

filed in English with the Chamber of Commerce of Amsterdam.

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](http://www.eads.com). Copies of the financial statements referred to above are also available in English on [www.eads.com](http://www.eads.com) and for inspection at the Chamber of Commerce of Amsterdam.

EADS confirms that the reports of the auditors set forth in sections 1.2.1 and 1.2.2 below (as well as those incorporated by reference herein) have been accurately reproduced and that as far as EADS is aware and is able to ascertain from the information provided by the auditors, no facts have been omitted which would render such reports inaccurate or misleading.

## 1.2.1 EADS N.V. Consolidated Financial Statements (IFRS)

### EADS N.V. Consolidated Income Statements (IFRS) for the years ended December 31<sup>st</sup>, 2006, 2005 and 2004

(in €m)	Note	2006	2005	2004
<b>Revenues</b>	5,6	<b>39,434</b>	<b>34,206</b>	<b>31,761</b>
Cost of sales	7	(34,722)	(27,530)	(25,522)
<b>Gross margin</b>		<b>4,712</b>	<b>6,676</b>	<b>6,239</b>
Selling expenses		(914)	(832)	(798)
Administrative expenses		(1,360)	(1,351)	(1,321)
Research and development expenses		(2,458)	(2,075)	(2,126)
Other income	8	297	222	314
Other expenses		(188)	(153)	(177)
Share of profit from associates accounted for under the equity method	9	152	210	88
Other income (expense) from investments	9	37	15	(4)
<b>Profit before finance costs and income taxes</b>	5	<b>278</b>	<b>2,712</b>	<b>2,215</b>
Interest income		454	423	302
Interest expenses		(575)	(578)	(577)
Other financial result		(123)	(22)	(55)
Total finance costs	10	(244)	(177)	(330)
Income taxes	11	81	(825)	(664)
<b>Profit for the period</b>		<b>115</b>	<b>1,710</b>	<b>1,221</b>
<b>Attributable to:</b>				
Equity holders of the parent ( <b>Net income</b> )		99	1,676	1,203
Minority interests		16	34	18
		<b>115</b>	<b>1,710</b>	<b>1,221</b>
<b>Earnings per share</b>		<b>€</b>	<b>€</b>	<b>€</b>
Basic	35	0.12	2.11	1.50
Diluted	35	0.12	2.09	1.50
<b>Cash distribution per share (2006: proposal)</b>	20	<b>open</b>	<b>0.65</b>	<b>0.50</b>

The accompanying notes are an integral part of these Consolidated Financial Statements (IFRS).





## EADS N.V. Consolidated Balance Sheets (IFRS) at December 31<sup>st</sup>, 2006 and 2005

(in €m)	Note	2006	2005
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	12	10,855	11,052
Property, plant and equipment	13	14,178	13,817
Investment property	33	137	134
Investments in associates accounted for under the equity method	14	2,095	1,908
Other investments and long-term financial assets	14	1,666	1,938
Non-current other assets	17	4,231	3,610
Deferred tax assets	11	2,624	2,980 <sup>(1)</sup>
Non-current securities	18	1,294	1,011
		<b>37,080</b>	<b>36,450</b>
<b>Current assets</b>			
Inventories	15	16,892	15,425
Trade receivables	16	4,852	4,802
Current portion of long-term financial assets	14	103	237
Current other assets	17	4,014	3,201
Current tax assets		428	237
Current securities	18	549	4,189 <sup>(2)</sup>
Cash and cash equivalents		8,143	5,386 <sup>(2)</sup>
		<b>34,981</b>	<b>33,477</b>
<b>Non-current assets / disposal groups classified as held for sale</b>	19	<b>76</b>	<b>881</b>
<b>Total assets</b>		<b>72,137</b>	<b>70,808</b>
<b>Equity and liabilities</b>			
Equity attributable to equity holders of the parent			
Capital stock		816	818
Reserves		7,593	8,699 <sup>(1)</sup>
Accumulated other comprehensive income		4,955	3,982
Treasury shares		(349)	(445)
		<b>13,015</b>	<b>13,054</b>
Minority interests		137	153 <sup>(1)</sup>
<b>Total equity</b>	20	<b>13,152</b>	<b>13,207</b>
<b>Non-current liabilities</b>			
Non-current provisions	21	9,063	7,997 <sup>(1)</sup>
Long-term financial liabilities	22	3,561	4,189
Non-current other liabilities	24	11,570	9,971
Deferred tax liabilities	11	2,465	2,376
Non-current deferred income	26	1,110	1,324
		<b>27,769</b>	<b>25,857</b>
<b>Current liabilities</b>			
Current provisions	21	3,631	2,727
Short-term financial liabilities	22	2,196	908
Liability for puttable instruments	23	0	3,500
Trade liabilities	25	7,461	6,634
Current other liabilities	24	17,160	17,166
Current tax liabilities		218	174
Current deferred income	26	486	573
		<b>31,152</b>	<b>31,682</b>
<b>Liabilities directly associated with non-current assets classified as held for sale</b>	19	<b>64</b>	<b>62</b>
<b>Total liabilities</b>		<b>58,985</b>	<b>57,601</b>
<b>Total equity and liabilities</b>		<b>72,137</b>	<b>70,808</b>

(1) For the retrospective application of the revised IAS 19 "Employee Benefits" please refer to "Changes in Accounting Policies" in Note 2 "Summary of significant accounting policies".

(2) Regarding the retrospective change in presentation of "Cash and cash equivalents" please refer to "Changes in Accounting Policies" in Note 2 "Summary of significant accounting policies".

The accompanying notes are an integral part of these Consolidated Financial Statements (IFRS).

## EADS N.V. Consolidated Statements of Cash Flows (IFRS) for the years ended December 31<sup>st</sup>, 2006, 2005 and 2004

(in €m)	Note	2006	2005	2004
<b>Profit for the period attributable to equity holders of the parent (Net income)</b>		<b>99</b>	<b>1,676</b>	<b>1,203</b>
Profit for the period attributable to minority interests		16	34	18
<i>Adjustments to reconcile net income to cash provided by operating activities:</i>				
Depreciation and amortisation		1,691	1,653	1,621
Valuation adjustments and CTA release		426	261	(188)
Deferred tax expenses (income)		(193)	386	537
Change in tax assets, tax liabilities and provisions for actual income tax		(160)	63	(202)
Results on disposal of non-current assets		(336)	(170)	(8)
Results of companies accounted for by the equity method		(152)	(210)	(88)
Change in current and non-current provisions		2,150	175	(35)
<b>Change in other operating assets and liabilities:</b>		<b>(143)</b>	<b>1,239</b>	<b>2,155</b>
- Inventories		(1,942)	(3,264)	366
- Trade receivables		(7)	(388)	(403)
- Trade liabilities		686	666	756
- Advance payments received		1,564	4,237	1,823
- Other assets and liabilities		(444)	(12)	(387)
<b>Cash provided by operating activities</b>		<b>3,398</b>	<b>5,107</b>	<b>5,013</b>
<b>Investments:</b>				
- Purchase of intangible assets, Property, plant and equipment		(2,708)	(2,818)	(3,017)
- Proceeds from disposals of intangible assets, Property, plant and equipment		76	101	36
- Acquisitions of subsidiaries and joint ventures (net of cash)	27	(82)	(131)	(100)
- Proceeds from disposals of subsidiaries (net of cash)		86	89	0
- Payments for investments in associates and other investments and long-term financial assets		(421)	(659)	(482)
- Proceeds from disposals of associates and other investments and long-term financial assets		813	485	492
- Dividends paid by companies valued at equity		46	36	36
- Increase in equipment of leased assets		(147)	(40)	(656)
- Proceeds from disposals of leased assets		215	256	74
- Increase in finance lease receivables		(16)	(219)	(261)
- Decrease in finance lease receivables		79	85	110
Disposals of non-current assets / disposal groups classified as held for sale and liabilities directly associated with non-current assets classified as held for sale		690	0	0
Change of securities		3,357	1,008 <sup>(1)</sup>	(964) <sup>(1)</sup>
Change in cash from changes in consolidation		0	12	9
<b>Cash provided by (used for) investing activities</b>		<b>1,988</b>	<b>(1,795)</b>	<b>(4,723)</b>
Increase in borrowings		1,252	456	1,302
Repayment of borrowings		(468)	(800)	(828)
Cash distribution to EADS N.V. shareholders		(520)	(396)	(320)
Dividends paid to minorities		(16)	0	0
Payments related to liability for puttable instruments	23	(2,879) <sup>(3)</sup>	(93)	(64)
Capital increase		94	187	43
Purchase of treasury shares		(35)	(288)	(81)
<b>Cash (used for) provided by financing activities</b>		<b>(2,572)</b>	<b>(934)</b>	<b>52</b>
Effect of foreign exchange rate changes and other valuation adjustments on cash and cash equivalents		(57)	17	(2)
<b>Net increase in cash and cash equivalents</b>		<b>2,757</b>	<b>2,395<sup>(1)</sup></b>	<b>340<sup>(1)</sup></b>
<b>Cash and cash equivalents at beginning of period</b>		<b>5,386<sup>(1)(2)</sup></b>	<b>2,991<sup>(1)(2)</sup></b>	<b>2,651<sup>(1)(2)</sup></b>
<b>Cash and cash equivalents at end of period</b>		<b>8,143</b>	<b>5,386<sup>(1)</sup></b>	<b>2,991<sup>(1)</sup></b>



The following represents supplemental information with respect to cash flows:

(in €m)	2006	2005	2004
Interest paid	(271)	(242)	(367)
Income taxes paid, net	(239)	(265)	(302)
Interest received	380	313	329
Dividends received	64	55	57

(1) Regarding the retrospective change in presentation of "Cash and cash equivalents" please refer to "Changes in Accounting Policies" in Note 2 "Summary of significant accounting policies".

(2) The previous figures for "Cash and cash equivalents" have been reduced in 2005 by 4,160 M € and in 2004 by 5,727 M €.

(3) Payments include the acquisition price of 2,750 M € for the 20% stake in Airbus and in addition a dividend payment from Airbus to BAE Systems amounting to 129 M €.

The accompanying notes are an integral part of these Consolidated Financial Statements (IFRS).

For details, see Note 27, "Consolidated Statement of Cash Flows (IFRS)".

### EADS N.V. Consolidated Statements of Recognised Income and Expenses (IFRS) for the years ended December 31<sup>st</sup>, 2006, 2005 and 2004

(in €m)	2006	2005	2004
Foreign currency translation differences for foreign operations	(324)	(58)	(439)
Effective portion of changes in fair value of cash flow hedges	3,326	(3,849)	3,045
Net change in fair value of cash flow hedges transferred to profit or loss	(1,463)	(1,875)	(2,136)
Net change in fair value of available-for-sale financial assets	76	52	34
Actuarial losses on defined benefit plans <sup>(1)(2)</sup>	(690)	(459)	(275)
Tax on income and expense recognised directly in equity	(662)	2,203	(191)
<b>Income and expenses recognised directly in equity</b>	<b>263</b>	<b>(3,986)</b>	<b>38</b>
<b>Profit for the period</b>	<b>115</b>	<b>1,710</b>	<b>1,221</b>
<b>Total recognised income and expense of the period</b>	<b>378</b>	<b>(2,276)</b>	<b>1,259</b>
<b>Attributable to:</b>			
Equity holders of the parent	382	(2,295)	1,245
Minority interests	(4)	19	14
<b>Total recognised income and expense of the period</b>	<b>378</b>	<b>(2,276)</b>	<b>1,259</b>

(in €m)	2005	2004
<b>Impact of change in accounting policy on other reserves for the year<sup>(1)</sup></b>		
<b>Attributable to:</b>		
Equity holders of the parent	(275)	(163)
Minority interests	(13)	(3)
<b>Total recognised income and expense of the period</b>	<b>(288)</b>	<b>(166)</b>

(in €m)	2004
<b>Impact of change in accounting policy on other reserves at January 1<sup>(1)</sup></b>	
Actuarial losses on defined benefit plans <sup>(1)</sup>	(384)
Tax thereon	143
<b>Total actuarial losses recognised in equity</b>	<b>(241)</b>
<b>Attributable to:</b>	
Equity holders of the parent	(235)
Minority interests	(6)
<b>Total impact</b>	<b>(241)</b>

(1) For the retrospective application of the revised IAS 19 "Employee Benefits" please refer to "Changes in Accounting Policies" in Note 2 "Summary of significant accounting policies" and to Note 21 b.) "Provisions for retirement plans".

(2) Regarding the "Pension UK" please refer to Note 21 b.) "Provisions for retirement plans".

The accompanying notes are an integral part of these Consolidated Financial Statements (IFRS).

**Additional Information:**  
**EADS N.V. Reconciliation of Movement in Capital and Reserves (IFRS)**  
**for the years ended December 31<sup>st</sup>, 2006, 2005 and 2004**

(in €m)	Note	Equity attributable to equity holders of the parent					Minority interests	Total equity	
		Capital stock	Share premium	Other reserves	Accumulated other comprehensive income	Treasury shares			Total
<b>Balance at December 31, 2003</b>		<b>813</b>	<b>9,317</b>	<b>(2,268)</b>	<b>7,474</b>	<b>(187)</b>	<b>15,149</b>	<b>126</b>	<b>15,275</b>
Retrospective adjustments <sup>(1)</sup>				(235)			(235)	(6)	(241)
<b>Balance at December 31, 2003, adjusted</b>		<b>813</b>	<b>9,317</b>	<b>(2,503)</b>	<b>7,474</b>	<b>(187)</b>	<b>14,914</b>	<b>120</b>	<b>15,034</b>
Total recognised income and expenses				1,041	204		1,245	14	1,259
Capital increase		2	41				43		43
Share-based Payment (IFRS 2)	31			12			12		12
Cash distribution to EADS N.V. shareholders			(320)				(320)		(320)
Purchase of treasury shares						(81)	(81)		(81)
Cancellation of treasury shares		(5)	(86)			91	0		0
<b>Balance at December 31, 2004</b>		<b>810</b>	<b>8,952</b>	<b>(1,450)</b>	<b>7,678</b>	<b>(177)</b>	<b>15,813</b>	<b>134</b>	<b>15,947</b>
Total recognised income and expenses				1,401	(3,696)		(2,295)	19	(2,276)
Capital increase	20	9	178				187		187
Share-based Payment (IFRS 2)	31			33			33		33
Cash distribution to EADS N.V. shareholders			(396)				(396)		(396)
Purchase of treasury shares	20					(288)	(288)		(288)
Cancellation of treasury shares	20	(1)	(19)			20	0		0
<b>Balance at December 31, 2005</b>		<b>818</b>	<b>8,715</b>	<b>(16)</b>	<b>3,982</b>	<b>(445)</b>	<b>13,054</b>	<b>153</b>	<b>13,207</b>
Total recognised income and expenses				(591)	973		382	(4)	378
Capital increase	20	5	89				94		94
Share-based Payment (IFRS 2)	31			40			40		40
Cash distribution to EADS N.V. shareholders / dividends paid to minorities			(520)				(520)	(16)	(536)
Change in minorities							0	4	4
Purchase of treasury shares	20					(35)	(35)		(35)
Cancellation of treasury shares	20	(7)	(124)			131	0		0
<b>Balance at December 31, 2006</b>		<b>816</b>	<b>8,160</b>	<b>(567)</b>	<b>4,955</b>	<b>(349)</b>	<b>13,015</b>	<b>137</b>	<b>13,152</b>

(1) For the retrospective application of the revised IAS 19 "Employee Benefits" please refer to "Changes in Accounting Policies" in Note 2 and to the "Consolidated Statements of Recognised Income and Expenses".

The accompanying notes are an integral part of these Consolidated Financial Statements (IFRS).



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# Basis of Presentation

## 1. The company

The accompanying Consolidated Financial Statements present the financial position and the result of the operations of **European Aeronautic Defence and Space Company EADS N.V.** and its subsidiaries (“EADS” or the “Group”), a Dutch public limited liability company (Naamloze Vennootschap) legally seated in Amsterdam (Le Carré, Beechavenue 130-132, 1119 PR, Schiphol-Rijk, The Netherlands). EADS’ core business is the manufacturing of commercial aircraft, civil helicopters,

commercial space launch vehicles, missiles, military aircraft, satellites, defence systems and defence electronics and rendering of services related to these activities. EADS has its listings at the European Stock Exchanges in Paris, Frankfurt and Madrid. The Consolidated Financial Statements were authorised for issue by EADS’ Board of Directors on March 8<sup>th</sup>, 2007, are prepared and reported in Euro (“€”), and all values are rounded to the nearest million appropriately, unless otherwise stated.

## 2. Summary of significant accounting policies

**Basis of Preparation** — EADS’ Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), adopted by the International Accounting Standards Board (“IASB”), as endorsed by the European Union (EU). They comprise (i) IFRS, (ii) International Accounting Standards (“IAS”) and (iii) Interpretations originated by the International Financial Reporting Interpretations Committee (“IFRIC”) or former Standing Interpretations Committee (“SIC”). The Consolidated Financial Statements generally have been prepared on a historical cost basis, except for the following items that have been measured at fair value: (i) derivative financial instruments, (ii) available-for-sale financial assets, (iii) accumulating Money Market Funds that have been designated as financial assets at fair value through profit or loss (“Fair Value Option”, see below) and (iv) assets and liabilities being hedged items in fair value hedges that are otherwise carried at cost and whose carrying values are adjusted to changes in the fair values attributable to the risks that are being hedged.

**Use of Accounting Estimates** — The preparation of the Group Financial Statements in accordance with IFRS requires management to use certain critical accounting estimates about the future as well as to make assumptions and perform judgements in the process of applying accounting policies. These consequently affect the amounts of assets, liabilities, income and expenses reported by EADS. Actual results in subsequent periods could differ from those accounting estimates.

Subjects that involve critical assumptions and estimates and that have a significant influence on the amounts recognised in EADS Consolidated Financial Statements are further described and disclosed in the respective Notes (see in particular below “Significant Accounting Policies” as well as, regarding deferred

tax assets Note 11 “Income Taxes”; regarding goodwill impairment Note 12 “Intangible Assets”; for impairment of tangible assets Note 13 “Property, Plant and Equipment”; Note 15 “Inventories”; regarding loss making contracts as well as constructive obligations for settlement charges Note 21 “Provisions”; Note 29 “Commitments and Contingencies” and Note 30 “Information about Financial Instruments”).

### New Standards, Amendments to existing Standards and new Interpretations

The IFRS rules applied by EADS for preparing 2006 year end Consolidated Financial Statements are the same as for previous financial year except for those following the application of new or amended Standards or Interpretations respectively and changes in accounting policies as detailed below.

#### a) New Standards

**IFRS 6** Exploration for and Evaluation of Mineral Resources (issued 2004)

IFRS 6 became effective beginning of 2006 but is not relevant to the Group’s operations.

#### b) Amended Standards

The application of the following amended Standards is mandatory for EADS as of January 1<sup>st</sup>, 2006.

**IAS 19** Employee Benefits (issued 2004)

**IAS 21** The Effects of Changes in Foreign Exchange Rates: “Net Investment in a Foreign Operation” (issued 2005)



### IAS 39 Financial Instruments: Recognition and Measurement:

“The Fair Value Option” (issued 2005)

“Financial Guarantee Contracts” (issued 2005)

The latter amendment also includes amendments to

### IFRS 4 Insurance Contracts

The April 2005 amendment (“Cash Flow Hedge Accounting of Forecast Intragroup Transactions”) to IAS 39, had been early adopted by EADS and therefore already applied for 2005 year end Consolidated Financial Statements.

### c) New Interpretations

The following two Interpretations have become effective as of January 1<sup>st</sup>, 2006:

**IFRIC 5** Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (issued 2004)

**IFRIC 6** Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment (issued 2005)

The two Interpretations are not relevant or material to the Group’s operations.

IFRIC 4 “Determining whether an Arrangement contains a lease” was issued in 2004 and had been early adopted by EADS for annual periods beginning on January 1st, 2005.

### Changes in Accounting Policies

**IAS 19 Employee Benefits** — Before 2006, EADS has recognised actuarial gains and losses by applying the corridor approach. The amendment to IAS 19 introduces the recognition of actuarial gains and losses outside the income statement within retained earnings as a third option (“Equity Option”). It further adds new disclosure requirements. EADS has decided to apply the newly introduced alternative for the recognition of actuarial gains and losses arising from defined benefits plans in equity. Prior periods presented have been adjusted accordingly. The application of this new option also involves the presentation of the actuarial gains and losses in a Consolidated Statement of Recognised Income and Expense (“SORIE”) in EADS Consolidated Financial Statements. Transactions with owners in their capacity as such are excluded from the SORIE and are presented in the Notes. (For the effect of the change in accounting policy see Note 21b “Provisions for retirement plans”).

### IAS 21 The Effects of Changes in the Foreign Exchange

**Rate** — The amendment to IAS 21 results in the recognition of all exchange differences arising from a monetary item that is part of the Group’s net investment in a foreign operation in a separate component of equity regardless of the currency in which the monetary item is denominated. This change has had no significant impact on EADS Consolidated Financial Statements.

### IAS 39 Financial Instrument: Recognition and

**Measurement** — The IAS 39 amendment regarding the fair value option has restricted the latter’s use for financial assets and liabilities. Within EADS, the fair value option has previously only been exercised for designated accumulating Money Market Funds as financial assets through profit or loss which remains in line with the amended Standard. Hence, the amendment did not have an effect on EADS Consolidated Financial Statements.

The IAS 39 amendment regarding financial guarantee contracts amended the scope of IAS 39 to require financial guarantee contracts that are not considered insurance contracts under IFRS 4 to be recognised initially at fair value. Subsequent measurement should equal the higher of the amount determined under IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” and the initial amount recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 “Revenue”. This change did not yet affect EADS Consolidated Financial Statements.

The associated amendment to **IFRS 4 Insurance Contracts** did not affect EADS Consolidated Financial Statements.

**Cash and Cash Equivalents** — For 2006 year-end Consolidated Financial Statements EADS restricted its interpretation of the cash equivalents’ definition as provided in IAS 7 “Cash Flow Statements” to better reflect its short term investment strategy. IAS 7 states that “cash equivalents are held for short-term cash commitments [...], must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short-term maturity of, say, three months or less from the date of acquisition.” EADS now strictly limits its cash equivalents to such investments having a maturity of three months or less from acquisition date. Prior periods have been adjusted accordingly as required under IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. For the effects of the revised accounting policy on EADS Consolidated Balance Sheet and Statement of Cash Flows refer to Note 18 “Securities”, Note 27 “Consolidated Statement of Cash Flows” and Note 30c “Fair value of financial instruments”.

## New or amended IFRS Standards and Interpretations issued but not yet applied

**IFRS 7** “Financial Instruments: Disclosures” was issued in 2005 and becomes mandatory for EADS as of January 1<sup>st</sup>, 2007.

**IFRS 8** “Operating Segments” (not yet endorsed) will replace IAS 14 “Segment Reporting” for accounting periods beginning on or after January 1<sup>st</sup>, 2009.

EADS has decided not to opt for early adoption of these two Standards.

The application of IFRS 7 will lead to additional disclosures regarding the significance of EADS’ different financial instruments as well as to the disclosure of sensitivity analyses of market risks arising from those financial instruments.

IFRS 8 requires the presentation of information regarding operating segments and follows a pure management approach. The impact, if any, of its application for the preparation of EADS Consolidated Financial Statements has not yet been finally assessed.

**Amendment to IAS 1** “Presentation of Financial Statements” that introduces new qualitative and quantitative disclosure requirements regarding managing capital has been released in August 2005 and becomes mandatory to EADS as of January 1<sup>st</sup>, 2007.

**IFRIC 7** “Applying the Restatement Approach under IAS 29” (issued 2005), **IFRIC 8** “Scope of IFRS 2” (issued 2006), **IFRIC 9** “Reassessment of Embedded Derivatives” (issued 2006) and **IFRIC 10** “Interim Financial Reporting and Impairment” (issued 2006 – not yet endorsed) will become mandatory for EADS for annual periods beginning on January 1<sup>st</sup>, 2007, and are not expected to have an impact on the Group’s accounts.

**IFRIC 11** “IFRS 2 – Group and Treasury Share Transactions” (issued 2006, not yet endorsed) and **IFRIC 12** “Service Concession Arrangements” (issued 2006, not yet endorsed) will become mandatory for EADS for annual periods beginning on January 1<sup>st</sup>, 2008. The impact of their application on EADS Consolidated Financial Statements has not been definitively assessed.

## Significant Accounting Policies

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

**Consolidation** — The Consolidated Financial Statements include the subsidiaries of EADS. Subsidiaries are all entities controlled by the Group, *i.e.* over which it has the power to govern financial and operating policies. An entity is presumed to be controlled by EADS when EADS owns more than 50% of the voting power of the entity which is generally accompanied with a respective shareholding. Potential voting rights currently exercisable or convertible are also considered when assessing control over an entity.

Special purpose entities (“SPEs”) are consolidated as any subsidiary, when the relationship between the Group and the SPE indicates that the SPE is in substance controlled by the Group. SPEs are entities which are created to accomplish a narrow and well-defined objective. Subsidiaries are fully consolidated from the date control has been transferred to EADS and de-consolidated from the date control ceases.

Acquisitions of subsidiaries with an agreement date on or before December 31<sup>st</sup>, 2003 have been accounted for by using the purchase accounting method in accordance with IAS 22 “Business combinations”.

Since January 1<sup>st</sup>, 2004, business combinations are accounted for under the purchase accounting method as required by IFRS 3 “Business combinations”; all identifiable assets acquired, liabilities and contingent liabilities incurred or assumed are recorded at fair value at the date control is transferred to EADS (acquisition date), irrespective of the existence of any minority interest. The cost of a business combination is measured at the fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Any excess of the cost of the business combination over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised is capitalised as goodwill and tested for impairment in the fourth quarter of each financial year and whenever there is an indication for impairment. After initial recognition goodwill is measured at cost less accumulated impairment losses. For impairment testing goodwill is allocated to those Cash Generating Units (“CGUs”) or group of CGUs - within EADS on Business Unit (“BU”) level - that are expected to benefit from the synergies arising from the business combination. If the cost of an acquisition is less than the fair value of the net assets of the subsidiary acquired, the identification and measurement of the identifiable assets, liabilities and contingent liabilities is reassessed as well as the measurement of the cost of the combination. Any remaining difference is immediately recognised in the Consolidated Income Statement.

For investments EADS jointly controls (“joint ventures”) with one or more other parties (“venturers”), EADS recognises its interest by using the proportionate method of consolidation.





Joint control is contractually established and requires unanimous decisions regarding the financial and operating strategy of an entity.

Investments in which EADS has significant influence (“investments in associates”) are accounted for using the equity method and are initially recognised at cost. Significant influence in an entity is presumed to exist when EADS owns 20% to 50% of the entity’s voting rights. EADS’ share of the recognised income and expenses of investments in associates is included in the Consolidated Financial Statements from the date significant influence has been achieved until the date it ceases to exist.

The effects of intercompany transactions are eliminated.

Acquisitions (disposals) of interest in entities that are controlled by EADS without gaining (ceasing) control, irrespective of whether sole or joint control, are treated as transactions with parties external to the Group in accordance with the Parent Company Approach. Consequently, gains or losses on purchases (disposals) from (to) minority shareholders or other venturers respectively are recorded in goodwill (within the income statement).

**Foreign Currency Translation** — The Consolidated Financial Statements are presented in Euro, EADS’ functional and presentation currency. The assets and liabilities of foreign entities, where the reporting currency is other than Euro, are translated using period-end exchange rates, whilst the statements of income are translated using average exchange rates during the period, approximating the foreign exchange rate at the dates of the transactions. All resulting translation differences are included as a separate component of total equity (“Accumulated other comprehensive income” or “AOCI”).

Transactions in foreign currencies are translated into Euro at the foreign exchange rate prevailing at transaction date. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Euro at the exchange rate in effect at that date. These foreign exchange gains and losses arising from translation are recognised in the Consolidated Income Statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Euro at the foreign exchange rate in effect at the date of the transaction.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity occurring after December 31<sup>st</sup>, 2004 are treated as assets and liabilities of the acquired company and are translated at the closing rate. Regarding transactions prior to that date, goodwill, assets and liabilities acquired are treated as those of the acquirer.

**Revenue Recognition** — Revenue is recognised to the extent that it is probable that the economic benefit arising from the ordinary activities of the Group will flow to EADS, revenue can be measured reliably and recognition criteria as stated below have been met. Revenue is measured at the fair value of the consideration received or receivable after deducting any discounts, rebates and value added tax. For the preparation of the Consolidated Income Statement intragroup sales are eliminated.

Revenues from the sale of goods are recognised upon the transfer of risks and rewards of ownership to the buyer which is generally on delivery of the goods.

Revenues from services rendered are recognised in proportion to the stage of completion of the transaction at the balance sheet date. For construction contracts, when the outcome can be estimated reliably, revenues are recognised by reference to the stage (percentage) of completion (“PoC”) of the contract activity. The stage of completion of a contract may be determined by a variety of ways. Depending on the nature of the contract, revenue is recognised as contractually agreed milestones are reached, as units are delivered or as the work progresses. Whenever the outcome of a construction contract cannot be estimated reliably, revenue is only recognised to the extent of the expenses incurred that are recoverable. Changes in profit rates are reflected in current earnings as identified. Contracts are reviewed regularly and in case of probable losses, provisions are recorded.

Sales of aircraft that include asset value guarantee commitments are accounted for as operating leases when these commitments are considered substantial compared to the fair value of the related aircraft. Revenues then comprise lease income from such operating leases.

Interest income is recognised as interest accrues, using the effective interest rate method.

Dividend income is recognised when the right to receive payment is established.

**Leasing** — The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether (i) the fulfilment of the arrangement is dependent on the use of a specific asset or assets, and (ii) the arrangement conveys a right to use the asset.

The Group is a lessor and a lessee of assets, primarily in connection with commercial aircraft sales financing. Lease transactions where substantially all risks and rewards incident to ownership are transferred from the lessor to the lessee are accounted for as finance leases. All other leases are accounted for as operating leases.

Assets held for leasing out under operating leases are included in property, plant and equipment at cost less accumulated depreciation (see Note 13 “Property, plant and equipment”). Rental income from operating leases (*e.g.* aircraft) is recorded as revenue on a straight-line basis over the term of the lease. Assets leased out under finance leases cease to be recognised in the Consolidated Balance Sheet after the inception of the lease. Instead, a finance lease receivable representing the discounted future lease payments to be received from the lessee plus any discounted unguaranteed residual value is recorded as long-term financial assets (see Note 14 “Investments in associates accounted for under the equity method, other investments and long-term financial assets”). Unearned finance income is recorded over time in “Interest result”. Revenues and the related cost of sales are recognised at the inception of the finance lease.

Assets obtained under finance leases are included in property, plant and equipment at cost less accumulated depreciation and impairment if any (see Note 13 “Property, Plant and Equipment”), unless such assets have been further leased out to customers. In such a case, the respective asset is either qualified as an operating lease or as a finance lease with EADS being the lessor (headlease-sublease-transactions) and is recorded accordingly. For the relating liability from finance leases see Note 22 “Financial liabilities”. When EADS is the lessee under an operating lease contract, rental payments are recorded when they fall due (see Note 29 “Commitments and Contingencies” for future operating lease commitments). Such leases often form part of commercial aircraft customer financing transactions with the related sublease being an operating lease (headlease-sublease-transactions).

EADS considers headlease-sublease-transactions which are set up for the predominant purpose of tax advantages and which are secured by bank deposits (defeased deposits) that correspond with the contractual headlease liability to be linked and accounts for such arrangements as one transaction in accordance with SIC 27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”. To reflect the substance of the transaction, the Group consequently offsets (head) finance lease obligations with the matching amount of defeased deposits.

**Product-Related Expenses** — Expenses for advertising and sales promotion and other sales-related expenses are charged to expense as incurred. Provisions for estimated warranty costs are recorded at the time the related sale is recorded.

**Research and Development Expenses** — Research and development activities can be (i) contracted or (ii) self-initiated.

i) Costs for contracted research and development activities, carried out in the scope of externally financed research and

development contracts, are expensed when the related revenues are recorded.

ii) Costs for self-initiated research and development activities are assessed whether they qualify for recognition as internally generated intangible assets. Apart from complying with the general requirements for and initial measurement of an intangible asset, qualification criteria are met only when technical as well as commercial feasibility can be demonstrated and cost can be measured reliably. It must also be probable that the intangible asset will generate future economic benefits and that it is clearly identifiable and allocable to a specific product.

Further to meeting these criteria, only such costs that relate solely to the development phase of a self-initiated project are capitalised. Any costs that are classified as part of the research phase of a self-initiated project are expensed as incurred. If the research phase cannot be clearly distinguished from the development phase, the respective project related costs are treated as if they were incurred in the research phase only.

Capitalised development costs are generally amortised over the estimated number of units produced if no other procedure reflects the consumption pattern more appropriately, such as for development costs that have been capitalised during the development phase of a new aircraft. These are generally amortised over the estimated useful life of the internally generated intangible asset commencing once type certification has been achieved. Amortisation of capitalised development costs is recognised in cost of sales. Internally generated intangible assets are reviewed for impairment annually when the asset is not yet in use and further on whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Income tax credits granted for research and development activities are deducted from corresponding expenses or from capitalised amounts when earned.

**Intangible Assets** — Intangible assets comprise (i) internally generated intangible assets, *i.e.* internally developed software and other internally generated intangible assets (see above: “Research and Development Expenses”), (ii) acquired intangible assets, and (iii) goodwill (see above: “Consolidation”).

Separately acquired intangible assets are initially recognised at cost. Intangible assets acquired in a business combination are recognised at their fair value at acquisition date. Acquired intangible assets are generally amortised over their respective estimated useful lives (3 to 10 years) on a straight-line basis. Intangible assets having an indefinite useful life are not amortised but tested for impairment at the end of each financial year as well as whenever there is an indication that the carrying amount exceeds the recoverable amount of the respective asset

(see below “Impairment of non-financial assets”). For such intangible assets the assessment for the indefinite useful life is reviewed annually on whether it remains supportable. A change from indefinite to finite life assessment is accounted for as change in estimate.

**Property, Plant and Equipment** — Property, plant and equipment is valued at acquisition or manufacturing costs less any accumulated depreciation and any accumulated impairment losses. Such costs include the estimated cost of replacing, servicing and restoring part of such property, plant and equipment. Items of property, plant and equipment are generally depreciated on a straight-line basis. The costs of internally produced equipment and facilities include direct material and labour costs and applicable manufacturing overheads, including depreciation charges. Borrowing costs are not capitalised. The following useful lives are assumed: buildings 6 to 50 years; site improvements 6 to 20 years; technical equipment and machinery 3 to 20 years; and other equipment, factory and office equipment 2 to 10 years. The useful lives and depreciation methods applying to property, plant and equipment are reviewed periodically and in case they change significantly, depreciation charges for current and future periods are adjusted accordingly. If the carrying amount of an asset exceeds its recoverable amount an impairment loss is recognised immediately in profit or loss. At each reporting date, it is assessed whether there is any indication that an item of property, plant and equipment may be impaired (see also below “Impairment of non-financial assets”).

When a major inspection is performed, its cost is recognised in the carrying amount of the plant and/or equipment as a replacement if the recognition criteria are satisfied. The carrying amount of the replaced part is derecognised.

Costs of an item of property, plant and equipment initially recognised comprise the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located at the end of the useful life of the item on a present value basis. A provision presenting the asset retirement obligation is recognised in the same amount at the same date in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”.

Property, plant and equipment also includes capitalised development costs for tangible developments of specialised tooling for production such as jigs and tools, design, construction and testing of prototypes and models. In case recognition criteria are met, these costs are capitalised and generally depreciated using the straight-line method over 5 years or, if more appropriate, using the number of production or similar units expected to be obtained from the tools (sum-of-the-units method). Especially for aircraft production programs such as the Airbus A380 with an estimated number of aircraft

to be produced using such tools, the sum-of-the-units method effectively allocates the diminution of value of specialised tools to the units produced.

**Investment Property** — Investment property is property, *i.e.* land or buildings, held to earn rentals or for capital appreciation or both. The Group accounts for investment property using the cost model. Investment property is initially recognised at cost and subsequently measured at cost less any accumulated depreciation and any accumulated impairment losses. Buildings held as investment property are depreciated on a straight-line basis over their useful lives. The fair value of investment property is reviewed annually by using cash-flow models or by determinations of open market prices.

**Inventories** — Inventories are measured at the lower of acquisition cost (generally the average cost) or manufacturing cost and net realisable value. Manufacturing costs comprise all costs that are directly attributable to the manufacturing process, such as direct material and labour, and production related overheads (based on normal operating capacity and normal consumption of material, labour and other production costs), including depreciation charges. Borrowing costs are not capitalised. Net realisable value is the estimated selling price in the ordinary course of the business less applicable variable selling expenses.

**Impairment of Non-Financial Assets** — The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. In addition, intangible assets with an indefinite useful life, intangible assets not yet available for use and goodwill are tested for impairment in the fourth quarter of each financial year irrespective of whether there is any indication for impairment. An impairment loss is recognised in the amount by which the asset’s carrying amount exceeds its recoverable amount.

The recoverable amount of an asset or a Cash Generating Unit (CGU) is the higher of its fair value less costs to sell and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. In such a case the recoverable amount is determined for the CGU the asset belongs to. Where the recoverable amount of a CGU to which goodwill has been allocated is lower than the CGU’s carrying amount, the related goodwill is impaired accordingly.

The value in use is assessed by the present value of the future cash flows expected to be derived from an asset or a CGU. Cash flows are projected based on a detailed forecast approved by management over a period reflecting the operating cycle of the specific business. The discount rate used for determining an asset’s value in use is the pre-tax rate reflecting current market

assessment of (i) the time value of money and (ii) the risk specific to the asset for which the future cash flow estimates have not been adjusted.

An asset's fair value less costs to sell reflects the amount an entity could obtain at balance sheet date from the asset's disposal in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. If there is no binding sales agreement or active market for the asset its fair value is assessed by the use of appropriate valuation models dependent on the nature of the asset, such as by the use of discounted cash flow models.

Impairment losses recognised for goodwill are not reversed in future periods. For any other non-financial asset an impairment loss recognised in prior periods is reversed through profit or loss up to its recoverable amount provided that there has been a change in estimates used to determine the asset's recoverable amount since the last impairment loss has been recognised. The respective asset's carrying amount is increased to its recoverable amount, taking into account any amortisation or depreciation that would have been chargeable on the asset's carrying amount since the last impairment loss.

**Investments and Other Financial Assets** — EADS' investments comprise investments in associates accounted for under the equity method, other investments and long-term financial assets as well as current and non current securities and cash equivalents. The Group classifies its financial assets in the following three categories: i) at fair value through profit or loss, ii) loans and receivables and iii) available-for-sale financial assets. Their classification is determined by management when first recognised and depends on the purpose for their acquisition. Financial assets are initially recognised at fair value plus, in the case of an investment not at fair value through profit or loss, directly attributable transaction costs. Financial assets at fair value through profit or loss are initially recognised at fair value, transaction costs are recognised in the Consolidated Income Statement.

Within EADS, all investments in unconsolidated entities are classified as non-current available-for-sale financial assets. They are included in the line **other investments and long-term financial assets** in the Consolidated Balance Sheet.

The majority of the Group's **securities** are debt securities and classified as available-for-sale financial assets.

Financial assets classified as available-for-sale are accounted for at fair value. Unrealised gains and losses on available-for-sale financial assets are recognised directly within AOCI, a separate component of total equity, net of applicable deferred income taxes. As soon as such financial assets are sold or otherwise disposed of, or are determined to be impaired, the cumulative

gain or loss previously recognised in equity is recorded as part of "other income (expense) from investments" in the Consolidated Income Statement for the period. Interest earned on the investment is presented as interest income in the Consolidated Income Statement using the effective interest method. Dividends earned on investment are recognised as "Other income (expense) from investments" in the Consolidated Income Statement when the right to the payment has been established.

Financial assets may be designated at initial recognition at fair value through profit or loss if any of the following criteria is met: (i) the financial asset contains one or more embedded derivatives that otherwise had to be accounted for separately; or (ii) the designation eliminated or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the assets or recognising the gains and losses on them on a different basis (sometimes referred to as "natural hedge"); or (iii) the financial assets are part of a group of financial assets that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy. Within EADS, investments in accumulating Money Market Funds are designated at "fair value through profit or loss" in accordance with above criterion (iii).

The fair value of quoted investments is based on current market prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using generally accepted valuation techniques on the basis of market information available at the reporting date. Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably estimated by alternative valuation methods, such as discounted cash flow model, are measured at cost, less any accumulated impairment losses. All purchases and sales of securities are recognised on settlement date according to market conventions. The settlement date is the date an asset is delivered to or by an entity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are classified as **trade receivables and other investments and long-term financial assets**.

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets may be impaired. Equity investments classified as available-for-sale are considered for impairment in case of a significant or prolonged decline of their fair value below their cost. Any impairment loss recognised in the Consolidated

Income Statement on equity instruments is not reversed through the Consolidated Income Statement.

**Trade Receivables** — Trade receivables include claims arising from revenue recognition that are not yet settled by the debtor as well as receivables relating to construction contracts. Trade receivables are initially recognised at fair value and, provided they are not expected to be realised within one year, are subsequently measured at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in the Consolidated Income Statement when the receivables are derecognised or impaired as well as through the amortisation process. If it is probable that the Group is not able to collect all amounts due according to the original terms of receivables, an impairment charge has to be recognised. The amount of the impairment loss is equal to the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate, *i.e.* the rate that exactly discounts the expected stream of future cash payments through maturity or the next market-based repricing date to the current net carrying amount of the financial asset. The carrying amount of the trade receivable is reduced through use of an allowance account. The loss is recognised in the Consolidated Income Statement. If, in a subsequent period, the amount of impairment decreases and the decrease is objectively related to an event occurring after the impairment was recognised, the recognised impairment loss is reversed through profit or loss.

**Cash and Cash Equivalents** — Cash and cash equivalents consist of cash on hand, cash in bank, checks, fixed deposits and securities having maturities of three months or less from the date of acquisition, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**Non-current Assets held for sale** — Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use. Liabilities directly associated with non-current assets held for sale in a disposal group are presented separately on the face of the Consolidated Balance Sheet.

**Derivative Financial Instruments** — Within EADS derivative financial instruments are (a) used for hedging purposes in micro-hedging strategies to offset the Group's exposure to identifiable transactions and are (b) a component of hybrid financial instruments that include both the derivative and host contract ("Embedded Derivatives").

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement", derivative financial instruments are

recognised and subsequently measured at fair value. The method of recognising resulting gains or losses depends on whether the derivative financial instrument has been designated as hedging instrument, and if so, on the nature of the item being hedged. While derivative financial instruments with positive fair values are recorded in current and non-current "other assets", such derivative financial instruments with negative fair values are recorded as current and non-current "Provisions for financial instruments".

**a) Hedging:** The Group seeks to apply hedge accounting to all its hedging activities. Hedge accounting recognises symmetrically the offsetting effects on net profit or loss of changes in the fair values of the hedging instrument and the related hedged item. The conditions for such a hedging relationship to qualify for hedge accounting include: The hedge transaction is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, the effectiveness of the hedge can be reliably measured and there is formal designation and documentation of the hedging relationships and EADS' risk management objective and strategy for undertaking the hedge at the inception of the hedge. The Group further documents prospectively at the inception of the hedge as well as at each closing retrospectively and prospectively its assessment of whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items with regard to the hedged risk.

Depending on the nature of the item being hedged, EADS classifies hedging relationships that qualify for hedge accounting as either (i) hedges of the fair value of recognised assets or liabilities ("Fair Value Hedges"), (ii) hedges of the variability of cash flows attributable to recognised assets or liabilities, highly probable forecast transactions or unrecognised firm commitments ("Cash Flow Hedges") or (iii) hedges of a net investment in a foreign entity.

- i) **Fair Value Hedge:** Fair value hedge accounting is mainly applied to certain interest rate swaps hedging the exposure to changes in the fair value of recognised assets and liabilities. For derivative financial instruments designated as fair value hedges, changes in fair value of both the hedging instrument and the hedged asset or liability attributable to the hedged risk are simultaneously recognised in the Consolidated Income Statement.
- ii) **Cash Flow Hedge:** The Group applies cash flow hedge accounting generally to foreign currency derivative contracts on future sales as well as to certain interest rate swaps hedging the variability of cash flows attributable to recognised assets and liabilities. Changes in fair value of the hedging instruments related to the effective part of the hedge are reported in AOCI, a separate component of total equity, net of applicable income taxes and recognised in the

Consolidated Income Statement in conjunction with the result of the underlying hedged transaction, when realised. The ineffective portion is immediately recorded in “Profit for the period”. Amounts accumulated in equity are recognised in profit or loss in the periods when the hedged transaction affects the income statement, such as when the forecast sale occurs or when the finance income or finance expense is recognised in the income statement. If hedged transactions are cancelled, gains and losses on the hedging instrument that were previously recorded in equity are generally recognised in “Profit for the period”.

- iii) **Net investment Hedge:** Hedges of net investments in foreign entities are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in AOCI; the gain or loss relating to the ineffective portion is recognised immediately in the Consolidated Income Statement. Gains and losses accumulated in AOCI are included in the Consolidated Income Statement when the foreign entity is disposed of.

In case certain derivative transactions, while providing effective economic hedges under the Group’s risk management policies, do not qualify for hedge accounting under the specific rules of IAS 39 “Financial Instruments: Recognition and Measurement“, changes in fair value of such derivative financial instruments are recognised immediately in “Profit for the period”.

**b) Embedded derivatives:** Derivative components embedded in a non-derivative-host contract are separately recognised and measured at fair value if they meet the definition of a derivative and their economic risks and characteristics are not clearly and closely related to those of the host contract. Changes in the fair value of the derivative component of these instruments are recorded in “Other financial result”.

See Note 30 “Information about financial instruments” for a description of the Group’s financial risk management strategies, the fair values of the Group’s derivative financial instruments as well as the methods used to determine such fair values.

**Income Taxes** — Tax expense (tax income) is the aggregate amount included in the determination of net profit or loss for the period in respect of (i) Current tax and (ii) Deferred tax.

- i) Current tax is the amount of income taxes payable or recoverable in a period. Current income taxes are calculated applying respective tax rates on the periodic taxable profit or tax loss that is determined in accordance with rules established by the competent taxation authorities. Current tax liabilities are recognised for current tax to the extent unpaid for current and prior periods. A current tax asset is recognised in case the tax amount paid exceeds the amount

due to current and prior periods. The benefit of a tax loss that can be carried back to recover current tax of a previous period is recognised as an asset provided that the related benefit is probable and can be measured reliably.

- ii) Deferred tax assets and liabilities reflect lower or higher future tax consequences that result from temporary valuation differences on certain assets and liabilities between their financial statements’ carrying amounts and their respective tax bases, as well as from net operating losses and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognised in the period the new rates are enacted or substantially enacted. As deferred tax assets anticipate potential future tax benefits, they are recorded in the Consolidated Financial Statements of EADS only to the extent that it is probable that future taxable profits will be available against which deferred tax assets will be utilised. The carrying amount of deferred tax assets is reviewed at each financial year end.

**Provisions** — Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation’s amount can be made.

When the effect of the time value of money is material, provisions are measured at the present value of the expenditure expected to be required to settle the Group’s present obligation. As discount factor, a pre-tax rate is used that reflects current market assessments of the time value of money and the risks specific to the obligation. The provision’s increase in each period reflecting the passage of time is recognised as finance cost.

Provisions are reviewed at each closing and adjusted as appropriate to reflect the respective current best estimate. The change in the measurement of a provision for an asset retirement obligation (see above “Property, Plant and Equipment”) is added or deducted from the cost of the respective asset that has to be dismantled and removed at the end of its useful life and the site on which it is located restored.

Provisions for **financial guarantees** corresponding to aircraft sales are recorded to reflect the underlying risk to the Group in respect of guarantees given when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimates can be made of the amount of the obligation. The amount of these provisions is calculated to cover the difference between the Group’s exposure and the estimated value of the collateral.

**Outstanding costs** are provided for at the best estimate of future cash outflows. Provision for **other risks and charges** relate to identifiable risks representing amounts expected to be realised.

Provisions for **contract losses** are recorded when it becomes probable that estimated contract costs based on a total cost approach will exceed total contract revenues. Contractual penalties are included in the contractual margin calculation. Provisions for loss making contracts are recorded as write-downs of work-in-process for that portion of the work which has already been completed, and as provisions for the remainder. Losses are determined on the basis of estimated results on completion of contracts and are updated regularly.

Provisions for i) **constructive obligations** and liquidated damages caused by delays in delivery and for ii) **terminating** existing customer orders are based on best estimates of future cash outflows for anticipated payments to customers. Provisions for **litigation and claims** are set in case legal actions, governmental investigations, proceedings and other claims are pending or may be instituted or asserted in the future against the Group which are a result of past events, where it is probable that an outflow of resources embodying economic benefits will be required for the settlement and a reliable estimate of the obligation's amount can be made.

**Restructuring** provisions are recognised when a detailed formal plan for the restructuring has been developed and the plan's main features have already been announced to those affected by it.

**Employee Benefits** — The valuation of **pension and post-retirement benefits** classified as defined benefit plans is based upon the projected unit credit method in accordance with IAS 19 "Employee Benefits".

EADS now recognises actuarial gains and losses in accordance with the equity approach of IAS 19.93A that has been newly introduced with the 2004 amendment of IAS 19. Consequently, the Group recognises periodical actuarial gains and losses in full for all its defined benefit plans immediately in retained earnings and presents them in its SORIE.

Past Service Costs are recognised as an expense in EADS Consolidated Income Statements on a straight-line basis over the average period until the benefits become vested. Past service costs relating to benefits already vested are expensed immediately.

When sufficient information is available to apply defined benefit accounting in conjunction with a defined benefit multi-employer plan, the Group proportionally accounts for the plan according to its share in the related defined benefit plan.

Contributions to defined contribution plans are recognised as expenses in profit or loss when they are due.

Several German Group companies provide life time working account models, being employee benefit plans with a promised return on contributions or notional contributions that qualify as **other long-term employee benefits** under IAS 19. The employees' periodical contributions into their life time working accounts lead to according personnel expense in that period in the income statement but to no recognition of plan assets or provision in the balance sheet.

**Termination benefits** are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

**Stock options** are accounted for in accordance with IFRS 2 "Share-based Payment" and qualify as **equity settled share-based payments**. Associated services received are measured at fair value and are calculated by multiplying the number of options expected to vest with the fair value of one option as of grant date. The fair value of the option is determined by applying the Black Scholes Option Pricing Model.

The fair value of the services is recognised as personnel expense and a corresponding increase in consolidated retained earnings over the vesting period of the respective plan.

Part of the grant is conditional upon the achievement of non-market performance objectives and will only vest provided that the performance conditions are met. If it becomes obvious during the vesting period that some of the performance objectives will not be met and, hence, the number of equity instruments expected to vest differs from that originally expected, the expense is adjusted accordingly.

EADS offers to its employees to buy under the employee stock ownership plan (ESOP) EADS shares at a certain discount. The difference between the exercise price and the corresponding share price is recognised as personnel expense in EADS Consolidated Income Statements at grant date.

**Emission Rights and Provisions for in-excess-emission** — Under the EU Emission Allowance Trading Scheme (EATS) national authorities have issued on January 1<sup>st</sup>, 2005 permits (emission rights), free of charge, that entitle participating companies to emit a certain amount of greenhouse gas over the compliance period.

The participating companies are permitted to trade those emission rights. To avoid a penalty a participant is required to deliver emission rights at the end of the compliance period equal to its emission incurred.

EADS recognises a provision for emission in case it has caused emissions in excess of emission rights granted. The provision is measured at the fair value (market price) of emission rights necessary to compensate for that shortfall at each balance sheet date.

In absence of any specific authoritative guidance under IFRS, emission rights held by EADS are generally accounted for as intangible assets, whereby

- i) Emission rights allocated for free by national authorities are accounted for as a non-monetary government grant at its nominal value of nil.
- ii) Emission rights purchased from other participants are accounted for at cost or the lower recoverable amount; if they are dedicated to offset a provision for in excess emission, they are deemed to be a reimbursement right and are accounted for at fair value.

**Trade Liabilities** — Trade liabilities are initially recorded at fair value. Trade liabilities having a maturity of more than twelve months are subsequently measured at amortised cost using the effective interest method.

**Financial Liabilities** — Financial liabilities are recorded initially at the fair value of the proceeds received, net of transaction costs incurred. Subsequently, financial liabilities are measured at amortised cost using the effective interest-method with any difference between proceeds (net of transaction costs) and redemption amount being recognised in “Other financial result” over the period of the financial liability.

**Liability for Puttable Instruments** — Since January 1<sup>st</sup>, 2005, EADS applies revised IAS 32 “Financial Instruments: Disclosure and Presentation”. Amongst others, revised IAS 32 provides modified guidance whether a share in an entity should be classified as equity or as financial liability. Accordingly, under certain circumstances, an entity shall record a financial liability rather than an equity instrument for the exercise price of a written put option on the entity’s equity.

**Refundable Advances** — Refundable advances from European Governments are provided to the Group to finance research and development activities for certain projects on a risk-sharing basis, *i.e.* they have to be repaid to the European Governments according to the success of the project. Because of their risk-sharing basis, such refundable advances are recorded as “Other Liabilities”.

**Litigation and Claims** — Various legal actions, governmental investigations, proceedings and other claims are pending or may be instituted or asserted in the future against the Group. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. EADS believes that it has made adequate provisions to cover current or contemplated litigation risks. It is reasonably possible that the final resolution of some of these matters may require the Group to make expenditures, in excess of established reserves, over an extended period of time and in a range of amounts that cannot be reasonably estimated. The term “reasonably possible” is used herein to mean that the chance of a future transaction or event occurring is more than remote but less than likely. Although the final resolution of any such matters could have an effect on the Group’s profit for the period for the particular reporting period in which an adjustment of the estimated reserve would be recorded, the Group believes that any such potential adjustment should not materially affect its Consolidated Financial Statements. For further details please refer to Note 28 “Litigation and claims”.

### 3. Scope of consolidation

**Perimeter of consolidation (December 31<sup>st</sup>, 2006)** – The Consolidated Financial Statements include, in addition to EADS N.V.:

- 212 (2005: 228) companies which are fully consolidated;
- 31 (2005: 21) companies which are proportionately consolidated;

- 26 (2005: 21) companies which are investments in associates and are accounted for using the equity method.

Significant subsidiaries, associates, and joint ventures are listed in the appendix entitled “Information on principal investments”.



## 4. Acquisitions and disposals

### a) Acquisitions

EADS acquired on August 3<sup>rd</sup>, 2006 40% of the shares of the Atlas Elektronik group, specialised in equipment and systems for naval forces, which is consolidated proportionally. The difference between the purchase price and the acquired net assets (not finally determined) led to the recognition of a goodwill of 41 M €.

On October 13<sup>th</sup>, 2006, EADS acquired BAE Systems' 20% minority share in Airbus after BAE Systems had exercised the put option it held on its Airbus stake in June 2006. Before the transaction, EADS was already controlling Airbus and consequently fully consolidated this subsidiary.

In 2005, the Group acquired Nokia's Professional Mobile Radio- PMR activities (EADS Secure Networks Oy) from Nokia.

Apart from those mentioned, other acquisitions by the Group were not significant.

### b) Disposals

On February 28<sup>th</sup>, 2006, 81% of LFK GmbH and TDW GmbH, which had been fully consolidated by EADS, were sold to the European Missile Group MBDA. MBDA is jointly owned by

BAE Systems (37.5%), EADS (37.5%) and Finmeccanica (25%). In EADS consolidated financial statements, MBDA Group is proportionately consolidated with 50%.

In 2005 EADS sold its 50% participation in TDA – Armements S.A.S to Thales. Furthermore, EADS sold its Enterprise Telephony Business, which comprises its civil telecommunication activities to Aastra Technologies Limited, Concord / Canada.

Apart from those mentioned, other disposals by the Group were not significant.

### c) Subsequent changes in value of assets and liabilities acquired and cost of acquisition

For details regarding BAE Systems' exercise of its put option please refer to Note 23 "Liability for puttable instruments".

In the current year, a tax audit of DASA for the years 1994 until 1999 was finalised. According to the EADS shareholders agreement, the related tax expense was reimbursed by DaimlerChrysler AG. Thus deferred tax assets and goodwill have been adjusted as of December 31<sup>st</sup>, 2006 in Defence & Security by 52 M € and in Headquarters by 12 M €.

## Notes to the Consolidated Statements of Income (IFRS)

### 5. Segment Reporting

The Group operates in five divisions (segments) which reflect the internal organisational and management structure according to the nature of the products and services provided.

- **Airbus** — Development, manufacturing, marketing and sale of commercial jet aircraft of more than 100 seats and the development and manufacturing of aircraft for military use.
- **Military Transport Aircraft** — Development, manufacturing, marketing and sale of military transport aircraft and special mission aircraft.
- **Eurocopter** — Development, manufacturing, marketing and sale of civil and military helicopters and maintenance services.
- **Defence & Security** — Development, manufacturing, marketing and sale of missiles systems; military combat and

training aircraft; provision of defence electronics, defence-related telecommunications solutions; and logistics, training, testing, engineering and other related services.

- **Astrium** — Development, manufacturing, marketing and sale of satellites, orbital infrastructures and launchers; and provision of space services.

The following tables present information with respect to the Group's business segments. Consolidation effects, the holding function of EADS Headquarters and other activities not allocable to the divisions are disclosed in the column "HQ / Conso.". "Other Businesses" comprises the development, manufacturing, marketing and sale of regional turboprop aircraft and light commercial aircraft, aircraft components as well as civil and military aircraft conversion and maintenance services.

### a) Business Segment Information for the year ended December 31<sup>st</sup>, 2006

(in €m)	Airbus	Military Transport Aircraft	Eurocopter	Defence & Security	Astrium	Other Businesses	HQ/Conso.	Consolidated
Total revenues	25,190	2,200	3,803	5,864	3,212	1,257	30	41,556
Internal revenues	(820)	(226)	(155)	(557)	(10)	(336)	(18)	(2,122)
<b>Revenues</b>	<b>24,370</b>	<b>1,974</b>	<b>3,648</b>	<b>5,307</b>	<b>3,202</b>	<b>921</b>	<b>12</b>	<b>39,434</b>
Income from associates	0	0	0	17	5	0	130	152
EBIT pre-goodwill impairment and exceptionals (see definition in Note 5c)	(572)	75	257	348	130	(288)	449	399
thereof impairment charge for intangible assets and property, plant and equipment	(148) <sup>(4)</sup>	0	0	0	0	(45) <sup>(2)</sup>	0	(193)
thereof additions to other provisions (see Note 21d)	(2,479)	(2)	(267)	(549)	(83)	(178)	227	(3,331)
Exceptionals								(121)
Total finance costs								(244)
Income tax benefit								81
Profit for the period								115
<u>Attributable to:</u>								99
Equity holders of the parent (Net income)								
Minority interest								16
<b>Other information</b>								
Identifiable segment assets (incl. goodwill) <sup>(1)</sup>	33,958	1,716	4,595	9,679	5,498	1,178	2,475	59,099
<i>thereof goodwill</i>	6,374	12	111	2,476	575	0	17	9,565
Investments in associates	0	0	2	88	10	10	1,985	2,095
Segment liabilities <sup>(3)</sup>	24,096	1,515	3,847	10,398	4,563	1,095	91	45,605
<i>thereof provisions (see Note 21)</i>	6,272	13	1,070	3,224	936	300	879	12,694
Capital expenditures (incl. leased assets)	1,750	121	110	214	462	68	130	2,855
Depreciation, amortisation	1,140	30	74	131	126	88	102	1,691
Research and development expenses	2,035	13	78	195	71	6	60	2,458

(1) Segment assets exclude current and deferred tax assets as well as cash and cash equivalents and securities.

(2) Impairment charges relate to Sogerma.

(3) Segment liabilities exclude current and deferred tax liabilities and interest bearing liabilities.

(4) Impairment charge relates mainly to the A380 program.

The “EBIT pre-goodwill impairment and exceptionals” includes on HQ/Conso. level the elimination of an addition to the provision for loss making contracts (352 M €) recognised in the Airbus division in order to account for the positive margin of

the A 400M contract on EADS group level. Due to the cost increase of the contract, a negative catch-up in the amount of (66) M € had to be recognised on group level to adjust previously accounted for EBIT for the years 2003 to 2006.



## b) Business Segment Information for the year ended December 31<sup>st</sup>, 2005

(in €m)	Airbus	Military Transport Aircraft	Eurocopter	Defence & Security	Astrium	Other Businesses	HQ/Conso.	Consolidated
Total revenues	22,179	763	3,211	5,636	2,698	1,155	33	35,675
Internal revenues	(238)	(234)	(134)	(509)	(10)	(329)	(15)	(1,469)
<b>Revenues</b>	<b>21,941</b>	<b>529</b>	<b>3,077</b>	<b>5,127</b>	<b>2,688</b>	<b>826</b>	<b>18</b>	<b>34,206</b>
Income from associates	0	0	0	4	0	0	206	210
EBIT pre-goodwill impairment and exceptionals (see definition below)	2,307	48	212	201	58	(171)	197	2,852
Exceptionals								(140)
Total finance costs								(177)
Income tax charge								(825)
Profit for the period								1,710
<u>Attributable to:</u>								
Equity holders of the parent (Net income)								1,676
Minority interest								34
<b>Other information</b>								
Identifiable segment assets (incl. goodwill) <sup>(1)</sup>	33,226	1,642	4,076	9,287	4,911	1,320	2,543	57,005
<i>thereof goodwill</i>	6,987	12	111	2,469	559	0	29	10,167
Investments in associates	0	0	0	31	0	10	1,867	1,908
Segment liabilities <sup>(2)(3)</sup>	20,553	1,581	3,209	10,218	4,512	989	4,094	45,156
<i>thereof provisions and employee benefit liabilities<sup>(3)</sup></i>	4,205	14	927	3,031	1,006	247	1,294	10,724
Capital expenditures (incl. leased assets)	1,864	93	79	205	467	64	86	2,858
Depreciation, amortisation	1,131	41	68	146	117	55	95	1,653
Research and development expenses	1,659	18	70	207	58	6	57	2,075

(1) Segment assets exclude current and deferred tax assets as well as cash and cash equivalents and securities.

(2) Segment liabilities exclude current and deferred tax liabilities and interest bearing liabilities.

(3) For the retrospective application in the amount of 1,118 M € due to the revised IAS 19 "Employee Benefits" please refer to Note 2 "Changes in accounting policies".

As a rule, inter-segment transfers are carried out on an arm's length basis. Inter-segment sales predominantly take place between Eurocopter, Defence & Security and Airbus; as the Eurocopter and Defence & Security divisions act as suppliers for Airbus aircraft. Moreover, Airbus acts as a main supplier for the A400M program which is led by the Military Transport Aircraft division.

Capital expenditures represent the additions to property, plant and equipment and to intangible assets (excluding additions to goodwill of 64 M € in 2006 and 168 M € in 2005; for further details see Note 5e) "Capital expenditures").

## c) EBIT pre-goodwill impairment and exceptionals

EADS uses EBIT pre-goodwill impairment and exceptionals as a key indicator of its economic performance. The term "exceptionals" refers to such items as depreciation expenses of fair value adjustments relating to the EADS merger, the Airbus Combination and the formation of MBDA, as well as impairment charges thereon. EBIT pre-goodwill impairment and exceptionals is treated by management as a key indicator to measure the segments' economic performances.

(in €m)	2006	2005	2004
<b>Profit before finance costs and income tax</b>	<b>278</b>	<b>2,712</b>	<b>2,215</b>
Subsequent adjustment of goodwill (see Note 4 c.)	64	0	0
Exceptional depreciation (fixed assets)	57	136	212
Exceptional depreciation (others)	0	4	5
<b>EBIT pre-goodwill impairment and exceptionals</b>	<b>399</b>	<b>2,852</b>	<b>2,432</b>

#### d) Revenues by destination

(in €m)	2006	2005	2004
France	4,271	3,511	3,326
Germany	4,126	3,235	4,322
United Kingdom	2,953	2,682	2,653
Spain	1,361	1,017	1,253
Other European Countries	4,465	3,126	2,974
North America	9,425	9,026	8,715
Asia/Pacific	7,857	7,734	4,938
Middle East	3,334	1,860	2,286
Latin America	1,213	645	505
Other Countries	429	1,370	789
<b>Consolidated</b>	<b>39,434</b>	<b>34,206</b>	<b>31,761</b>

Revenues are allocated to geographical areas based on the location of the customer.

#### e) Capital expenditures

(in €m)	2006	2005
France	968	946
Germany	789	962
United Kingdom	715	707
Spain	187	150
Other Countries	49	53
<b>Capital expenditures excluding leased assets</b>	<b>2,708</b>	<b>2,818</b>
<b>Leased assets</b>	<b>147</b>	<b>40</b>
<b>Capital expenditures</b>	<b>2,855</b>	<b>2,858</b>

#### f) Property, plant and equipment by geographical area

(in €m)	2006	2005
Germany	3,909	3,852
France	3,548	3,140
United Kingdom	3,177	2,682
Spain	937	901
Other Countries	615	857
<b>Property, plant and equipment by geographical area</b>	<b>12,186</b>	<b>11,432</b>

Property, plant and equipment split by geographical area excludes leased assets (2006: 1,992 M € and 2005: 2,385 M €).

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## 6. Revenues

Revenues in 2006 reached 39,434 M € compared to 34,206 M € in 2005 and 31,761 M € in 2004. Revenues in 2006 increased in comparison to 2005 in all divisions. Despite less favourable hedges compared to 2005, revenues increased mainly at Airbus, Military Transport Aircraft, Eurocopter and Astrium.

Revenues are mainly comprised of sales of goods and services, as well as of revenues associated with construction contracts accounted for under the percentage-of-completion method, contracted research and development and customer financing revenues. For a breakdown of revenues by business segment and geographical region, refer to Note 5 “Segment Reporting”.

### Detail of Revenues:

(in €m)	2006	2005	2004
Total revenues	39,434	34,206	31,761
Thereof revenues from the delivery of goods & services	31,487	28,649	26,208
Thereof revenues from construction contracts	7,001	4,706	4,816

The revenues from construction contracts increase in 2006 mainly in the Military Transport Aircraft division resulting from the A400M as well as in Defence & Security, Eurocopter and Astrium.

## 7. Functional costs

Included in cost of sales and other functional costs are **Cost of materials** (including changes in inventories) of 26,267 M € (2005: 20,800 M €; 2004: 19,734 M €).

**Cost of sales** include the amortisation expenses of fair value adjustments of fixed assets and inventories in the amount of 57 M € (2005: 136 M €; 2004: 217 M €); these are relating to the EADS merger, the Airbus Combination and the formation of MBDA.

### Personnel expenses are:

(in €m)	2006	2005	2004
Wages, salaries and social contributions	8,397	8,108	7,617
Net periodic pension cost (see Note 21 b)	334	377	327
<b>Total</b>	<b>8,731</b>	<b>8,485</b>	<b>7,944</b>

The decrease in the EADS **gross margin** from 6,676 M € to 4,712 M € reflects among others charges for A380 / A350 programs.

## 8. Other income

(in €m)	2006	2005	2004
Other income	297	222	314
Thereof rental income	47	48	42
Thereof income from sales of fixed assets	23	39	20
Thereof release of allowances	3	9	34

**Other income** in 2006 includes the gain from the sale of LFK GmbH and TDW GmbH in the amount of 111 M €, whereas in 2004 the release of the provision for the VT 1 claim in the amount of 106 M € was included.

## 9. Share of profit from associates accounted for under the equity method and other income (expense) from investments

(in €m)	2006	2005	2004
Share of profit from associates	152	210	88
Other income (expense) from investments	37	15	(4)
<b>Total</b>	<b>189</b>	<b>225</b>	<b>84</b>

The **share of profit from associates accounted for under the equity method** in 2006 is mainly derived from the result of the equity investment in Dassault Aviation of 130 M € (2005: 205 M €; 2004: 78 M €). The Dassault Aviation Group reported in 2006 a net income of 281 M € of which EADS recognised an amount of 130 M € according to its share of 46.3%. In 2005 the equity investment income from Dassault

Aviation also included a positive catch up of 64 M € relating to prior year financial performance in accordance with IFRS.

In 2006, other income from investments includes the capital gain of 17 M € from the sale of the 13% stake in Diehl BGT Defence GmbH & Co. KG.

## 10. Total finance costs

**Interest result** in 2006 comprises interest income of 454 M € (2005: 423 M €; 2004: 302 M €) and interest expense of (575) M € (2005: (578) M €; 2004: (577) M €). Included in interest income is the return on cash and cash equivalents, securities and financial assets such as loans and finance leases. The previous years' interest income and interest expense have been netted by 53 M € in 2005 and 50 M € in 2004 to be comparable with the current presentation for interest rate swaps. Interest expense includes interest on European

Government refundable advances of 266 M € (2005: 236 M €; 2004: 245 M €) and on financial liabilities.

**Other financial result** in 2006 includes among others negative exchange effects of Airbus (136) M € (positive impact in 2005: 147 M €) which was only partly compensated by a positive impact from the fair value measurement of embedded derivatives not used in hedging relationships in the amount of 46 M € (2005: (108) M €; 2004: (10) M €).

## 11. Income taxes

The benefit from (expense for) income taxes is comprised of the following:

(in €m)	2006	2005	2004
Current tax expense	(112)	(439)	(127)
Deferred tax benefit / (expense)	193	(386)	(537)
<b>Total</b>	<b>81</b>	<b>(825)</b>	<b>(664)</b>

The Group's parent company, EADS N.V., legally seated in Amsterdam, The Netherlands, applies Dutch tax law using an income tax rate of 29.6% for December 31<sup>st</sup>, 2006 (for 2005: 31.5% and for 2004: 34.5%). In 2006, a new tax law was enacted reducing the income tax rates from 2007 onwards to 25.5%. Accordingly, deferred tax assets and liabilities for the Group's Dutch entities were calculated using the respective enacted rates. All foreign subsidiaries however apply their national tax rates, among others Great Britain 30%.

In France, the corporate tax rate in effect for 2004 was 33 1/3% plus surcharges of 3% ("contribution additionnelle") and 3.3% ("contribution sociale"). In 2004, the French Finance Law (FFL) for 2005 was enacted resulting in a reduction of the "contribution additionnelle" to 1.5% in 2005 and nil for 2006 onwards. Accordingly, the applied tax rate for 2006 in France is 34.43% (2005: 34.93%; in 2004: 35.43%). Deferred tax assets and liabilities for the Group's French subsidiaries were



calculated at December 31<sup>st</sup>, 2006 and 2005 using the enacted tax rate of 34.43% for temporary differences.

For the Group's German subsidiaries, income taxes are calculated using a federal corporate tax rate of 25.0% for December 31<sup>st</sup>, 2006, plus (i) an annual solidarity surcharge of 5.5% on the amount of federal corporate taxes payable and (ii) the after federal tax benefit rate for trade tax of 12.125% for 2006. In aggregate, the tax rate applied to German income taxes amounts to 38.5% in 2006, 2005 and 2004.

With respect to the Spanish subsidiaries, the Spanish government enacted on November 28<sup>th</sup>, 2006 a change in the corporate income tax rate for the years 2007 and 2008. As of January 1<sup>st</sup>, 2007 the corporate income tax rate in Spain will decrease from 35% to 32.5% and from 2008 onwards to 30%.

Accordingly, deferred tax assets and liabilities of the Group's Spanish entities were calculated using the enacted tax rate of 32.5% for temporary differences that reverse in 2007 and 30.0% for temporary differences with a reversal scheduled in 2008 or later.

The following table shows a reconciliation from the theoretical income tax expense - using the Dutch corporate tax rate of 29.6% as at December 31<sup>st</sup>, 2006, 31.5% at December 31<sup>st</sup>, 2005 and 34.5% at December 31<sup>st</sup>, 2004 - to the reported tax expense. The reconciling items represent, besides the impact of tax rate differentials and changes, non-taxable benefits or non-deductible expenses arising from permanent differences between the local tax base and the reported financial statements according to IFRS rules.

(in €m)	2006	2005	2004
Profit before income taxes	34	2,535	1,885
* Corporate income tax rate	29.6%	31.5%	34.5%
Expected (expense) for income taxes	(10)	(799)	(650)
Change in valuation allowances	(198)	(14)	(11)
Change of tax rate	85	(1)	(21)
Effects from tax rate differentials	65	(54)	(15)
Income from investments	103	62	26
Tax credit for R&D expenses	34	35	80
Other	2	(54)	(73)
<b>Reported tax income (expense)</b>	<b>81</b>	<b>(825)</b>	<b>(664)</b>

The change in valuation allowances reflects the updated assessment regarding the recoverability of the deferred tax assets for a tax paying entity in the foreseeable future. In 2006, valuation allowances have increased for Airbus while some were partly released in Astrium.

Deferred income taxes are the result of temporary differences between the carrying amounts of certain assets and liabilities in the financial statements and their tax bases. Future tax impacts from net operating losses and tax credit carry forwards are also considered in the deferred income tax calculation.

Deferred income taxes are related to the following assets and liabilities:

(in €m)	Deferred tax assets		Deferred tax liabilities		Net, December 31,	
	2006	2005	2006	2005	2006	2005
Intangible assets	14	14	(209)	(157)	(195)	(143)
Property, plant and equipment	106	114	(1,224)	(1,270)	(1,118)	(1,156)
Investments and long-term financial assets	51	56	(97)	(234)	(46)	(178)
Inventories	669	470	(227)	(445)	442	25
Receivables and other assets	87	54	(2,445)	(1,733)	(2,358)	(1,679)
Prepaid expenses	1	2	(23)	(30)	(22)	(28)
Provision for retirement plans <sup>(1)</sup>	1,043	1,101	0	0	1,043	1,101
Other provisions	944	974	(71)	(70)	873	904
Liabilities	782	977	(508)	(288)	274	689
Deferred income	529	504	(24)	(24)	505	480
Net operating loss and tax credit carry forwards	1,425	1,122	0	0	1,425	1,122
<b>Deferred tax assets / (liabilities) before netting<sup>(1)</sup></b>	<b>5,651</b>	<b>5,388</b>	<b>(4,828)</b>	<b>(4,251)</b>	<b>823</b>	<b>1,137</b>
Valuation allowances on deferred tax assets	(664)	(533)	0	0	(664)	(533)
Set-off	(2,363)	(1,875)	2,363	1,875	0	0
<b>Net Deferred tax assets / (liabilities)<sup>(1)</sup></b>	<b>2,624</b>	<b>2,980</b>	<b>(2,465)</b>	<b>(2,376)</b>	<b>159</b>	<b>604</b>
Thereof less than one year	416	864	(616)	(432)	(200)	432
Thereof more than one year <sup>(1)</sup>	2,208	2,116	(1,849)	(1,944)	359	172

(1) In the course of the retrospective application of the revised IAS 19 "Employee Benefits" (see Note 2 "Summary of significant accounting policies") deferred tax assets of the prior year have been adjusted in the amount of 423 M €.

In 2006 no deferred tax asset has been recognised for the Airbus part with regard to the BAE Systems UK pension plans.

The amount of the Group's deferred tax assets' allowances is based upon management's estimate of the level of deferred tax assets that will be realised in the foreseeable future. In future periods, depending upon the Group's financial results, management's estimate of the amount of the deferred tax assets considered realisable may change, and hence the write-down of deferred tax assets may increase or decrease. Companies in deficit situations in two or more subsequent years recorded a

total deferred tax asset balance of 102 M € (in 2005: 83 M €). Assessments show that these deferred tax assets will be recovered in future through either (i) own projected profits, or (ii) profits of other companies integrated in the same fiscal group ("regime integration fiscal" in France, "steuerliche Organschaft" in Germany) or (iii) via the "loss surrender-agreement" in Great Britain.

Deferred taxes on Net Operating Losses and Tax Credit carry forwards:

(in €m)	France	Germany	Spain	UK	Other countries	December 31, 2006	December 31, 2005
Net Operating Losses (NOL)	1,160	920	4	1,292	138	3,514	2,780
Trade tax loss carry forwards	-	880	-	-	-	880	612
Tax credit carry forwards	-	-	249	-	-	249	217
<b>Tax effect</b>	<b>399</b>	<b>350</b>	<b>250</b>	<b>388</b>	<b>38</b>	<b>1,425</b>	<b>1,122</b>
Valuation allowances	(46)	(128)	-	(333)	(6)	(513)	(307)
<b>Deferred tax assets on NOL's and tax credit carry forwards</b>	<b>353</b>	<b>222</b>	<b>250</b>	<b>55</b>	<b>32</b>	<b>912</b>	<b>815</b>

NOLs, capital losses and trade tax loss carry forwards are indefinitely usable in France, Germany and in Great Britain. In Spain, NOLs and tax credit carry forwards expire after 15 years. The first tranche of tax credit carry forwards (2 M €) will expire in 2014.





### Roll forward of deferred taxes:

(in €m)	2006	2005
<b>Net deferred tax asset / (liability) beginning of the year</b>	<b>604</b>	<b>(1,586)</b>
Retrospective change in accounting policy regarding IAS 19 (for further details please see in Note 2 "Changes in accounting policies")	-	252
Restated net deferred tax asset / (liability) beginning of the year	604	(1,334)
Deferred tax income (expense) in income statement	193	(386)
Deferred tax recognised directly in AOCI (IAS 39)	(638)	2,032
Variation of Defined benefit plan actuarial losses	(68)	171
Change in accounting estimate regarding IAS 19 BAES pension plan (MBDA UK)	44	-
Others	24	121
<b>Net deferred tax asset at year end</b>	<b>159</b>	<b>604</b>

### The deferred tax recognised directly in equity is as follows:

(in €m)	2006	2005
Available-for-sale investments	(6)	(3)
Cash flow hedges	(1,705)	(1,070)
Defined benefit plan actuarial losses <sup>(1)(2)</sup>	399	423
<b>Total</b>	<b>(1,312)</b>	<b>(650)</b>

(1) For the retrospective application of the revised IAS 19 "Employee Benefits" please refer to "Changes in accounting policies" in Note 2 "Summary of significant accounting policies" and to Note 21 b) "Provisions for retirement plans".

(2) Regarding the "Pension UK" please refer to Note 21 b) "Provisions for retirement plans".

## Notes to the Consolidated Balance Sheets (IFRS)

### 12. Intangible assets

A schedule detailing gross values, accumulated depreciation and net values of intangible assets as of December 31<sup>st</sup>, 2006 is as follows:

#### Cost

(in €m)	Balance at January 1, 2006	Exchange differences	Additions	Changes in consolidation scope	Reclassification	Disposals	Balance at December 31, 2006
Goodwill	11,306	2	64	15	0	(677) <sup>(1)</sup>	10,710
Capitalised development costs	466	3	411	0	5	0	885
Other intangible assets	1,023	0	161	23	(8)	(59)	1,140
<b>Total</b>	<b>12,795</b>	<b>5</b>	<b>636</b>	<b>38</b>	<b>(3)</b>	<b>(736)</b>	<b>12,735</b>

#### Amortisation/Impairment

(in €m)	Balance at January 1, 2006	Exchange differences	Amortisation charge	Changes in consolidation scope	Reclassification	Disposals	Balance at December 31, 2006
Goodwill	(1,139)	0	0	(6)	0	0	(1,145)
Capitalised development costs	(4)	0	(7)	0	(1)	0	(12)
Other intangible assets	(600)	0	(196)	10	8	55	(723)
<b>Total</b>	<b>(1,743)</b>	<b>0</b>	<b>(203)</b>	<b>4</b>	<b>7</b>	<b>55</b>	<b>(1,880)</b>

#### Net book value

(in €m)	Balance at January 1, 2006	Exchange differences	Additions	Changes in consolidation scope	Reclassification	Disposals	Balance at December 31, 2006
Goodwill	10,167	2	64	9	0	(677) <sup>(1)</sup>	9,565
Capitalised development costs	462	3	404	0	4	0	873
Other intangible assets	423	0	(35)	33	0	(4)	417
<b>Total</b>	<b>11,052</b>	<b>5</b>	<b>433</b>	<b>42</b>	<b>4</b>	<b>(681)</b>	<b>10,855</b>

(1) Subsequent adjustment of cost of Airbus business combination in the amount of (613) M € and finalisation of tax audit of (64) M € (see below for further details).

Additions to goodwill in 2006 mainly concern the acquisition of 40% of the shares of the Atlas Elektronik group. The difference between the purchase price and the preliminary estimated value of the acquired net assets led to the recognition of a goodwill of 41 M €.

On June 7<sup>th</sup>, 2006 BAE Systems exercised a put option to sell its 20% stake in Airbus at a fair value of 2,750 M € to EADS (accounted at December 31<sup>st</sup>, 2005 with 3,500 M €). The transaction became effective as of October 13<sup>th</sup>, 2006. In accordance with the Airbus shareholders' agreement, an



independent investment bank has determined the purchase price. Compared to 2005's contingent consideration of the Airbus business combination, the acquisition cost of the 20% stake in Airbus was reduced, leading to a decrease in goodwill by 613 M € after taking into consideration a dividend payment to BAE Systems of 129 M € in 2006 and transaction costs.

In the current year, a tax audit of DASA for the years 1994 until 1999 was finalised. According to the EADS shareholders agreement the related tax expense was reimbursed by DaimlerChrysler AG. Thus deferred tax assets and goodwill have been adjusted as of December 31<sup>st</sup>, 2006 in Defence & Security by 52 M € and Headquarters by 12 M €.

A schedule detailing gross values, accumulated depreciation and net values of intangible assets as of December 31<sup>st</sup>, 2005 is as follows:

### Cost

(in €m)	Balance at December 31, 2004 (as reported)	Change in accounting policies <sup>(1)</sup>	Balance at January 1, 2005 (restated)	Exchange differences	Additions	Changes in consolidation scope	Reclassification	Disposals	Balance at December 31, 2005
Goodwill	10,607	541	11,148	1	168	(9)	0	(2)	11,306
Capitalised development costs	172	0	172	1	292	0	2	(1)	466
Other intangible assets	837	0	837	4	212	(3)	35	(62)	1,023
<b>Total</b>	<b>11,616</b>	<b>541</b>	<b>12,157</b>	<b>6</b>	<b>672</b>	<b>(12)</b>	<b>37</b>	<b>(65)</b>	<b>12,795</b>

### Amortisation/Impairment

(in €m)	Balance at December 31, 2004 (as reported)	Change in accounting policies <sup>(1)</sup>	Balance at January 1, 2005 (restated)	Exchange differences	Amortisation charge	Changes in consolidation scope	Reclassification	Disposals	Balance at December 31, 2005
Goodwill	(1,147)	0	(1,147)	(3)	0	9	0	2	(1,139)
Capitalised development costs	(3)	0	(3)	0	(2)	0	0	1	(4)
Other intangible assets	(458)	0	(458)	(2)	(185)	2	(14)	57	(600)
<b>Total</b>	<b>(1,608)</b>	<b>0</b>	<b>(1,608)</b>	<b>(5)</b>	<b>(187)</b>	<b>11</b>	<b>(14)</b>	<b>60</b>	<b>(1,743)</b>

### Net book value

(in €m)	Balance at December 31, 2004 (as reported)	Change in accounting policies <sup>(1)</sup>	Balance at January 1, 2005 (restated)	Exchange differences	Additions	Changes in consolidation scope	Reclassification	Disposals	Balance at December 31, 2005
Goodwill	9,460	541	10,001	(2)	168	0	0	0	10,167
Capitalised development costs	169	0	169	1	290	0	2	0	462
Other intangible assets	379	0	379	2	27	(1)	21	(5)	423
<b>Total</b>	<b>10,008</b>	<b>541</b>	<b>10,549</b>	<b>1</b>	<b>485</b>	<b>(1)</b>	<b>23</b>	<b>(5)</b>	<b>11,052</b>

(1) The change in accounting policy relates to the "Liability for puttable instruments", please refer to "Changes in accounting policy" in Note 23 "Liability for puttable instruments".

Additions to goodwill in 2005 mainly concern the contingent consideration with regard to the Airbus business combination in the amount of 93 M € resulting from the application of IAS 32 "Financial Instruments: Disclosure and Presentation"

(revised 2004) regarding the "Liability for puttable instruments". Furthermore the acquisition of Nokia's Professional Mobile Radio - PMR activities (EADS Secure Networks Oy) contributed an addition to goodwill of 44 M €.

## Goodwill impairment tests

EADS performed impairment tests on Cash Generating Unit (CGU) level (on segment level or one level below) in the fourth quarter of the financial year.

As of December 31<sup>st</sup>, 2006 and 2005, goodwill was allocated to Cash Generating Units, which is summarised in the following schedule on segment level:

(in €m)	Airbus	Military Transport Aircraft	Eurocopter	Defence & Security	Astrium	Other Businesses	HQ/ Conso.	Consolidated
Goodwill as of December 31, 2006	6,374	12	111	2,476	575	0	17	9,565
Goodwill as of December 31, 2005	6,987	12	111	2,469	559	0	29	10,167

The discounted cash flow method has been applied as a primary valuation approach to determine the value in use of the CGUs. Generally, cash flow projections used for EADS impairment testing are based on current operative planning.

The current operative planning takes into account general economic data derived from external macroeconomic and financial studies. The operative planning assumptions reflect for the periods under review specific inflation rates and future labour expenses in the European Countries where the major production facilities are located. Regarding the expected future labour expenses, an increase on average of 3% was implied. In addition, future interest rates are also projected per geographical market, for the European Monetary Union, Great Britain and the USA.

EADS follows an active policy of foreign exchange risk hedging. As of December 31<sup>st</sup>, 2006 the total hedge portfolio with maturities up to 2011 amounts to 45 billion US\$ and covers a major portion of the foreign exchange exposure expected over the period of the operative planning (2007 to 2011). The average US\$/€ hedge rate of the total hedge portfolio until 2011 amounts to 1.16 US\$/€. For the determination of the operative planning in the Cash Generating Units other than Airbus (for Airbus, see below), management assumed future exchange rates of 1.30 US\$/€ for 2007 and 1.35 US\$/€ from 2008 onwards and 0.69 GBP/€ for 2007 and 0.70 GBP/€ from 2008 to convert in € the portion of future US\$ and GBP denominated revenues which are not hedged. Foreign exchange exposure arises mostly from Airbus and to a lesser extent from the other EADS divisions.

The assumption for the perpetuity growth rate used to calculate the terminal values in general amounts to 2% and has remained unchanged from prior years. These current forecasts are based on past experience as well as on future expected market developments.

### Airbus segment

For the purpose of impairment testing, Airbus segment is considered as a single CGU. The goodwill allocated to Airbus

relates to the contribution of Airbus UK, Airbus Germany and Airbus Spain into Airbus as of 2001.

The impairment test for Airbus has been conducted based on a fair value less cost to sell methodology. The main assumptions and the recoverable amount obtained have been compared for reasonableness to market data.

The assessment was based on the following key specific assumptions, which represent EADS management current best assessment as of the date of these consolidated financial statements:

- To reflect the Airbus long-term operating cycle, the detailed planning period for Airbus' projected cash flows has been extended from the current 2007 operative planning to 14 years using Airbus long term product policy. The terminal value has been based on a normative view extrapolated from this internal current long term plan. Eventually, the market is assumed to be equally shared between Airbus and Boeing over the long term plan period.
- Cash flow projections include all of the estimated costs savings of the Power 8 program.
- The US\$ denominated cash flows were discounted using a weighted average cost of capital after-tax (WACC) of 9.2%, while the Euro denominated cash flows' after-tax WACC was 8.5%. US\$ discounted flows were then converted into € using the Euro/US Dollar market spot rate (for the terminal value, the forward rate applied is 1.50 US\$/€).

With regard to the assessment of the fair value less cost to sell for the Cash Generating Unit Airbus, EADS management believes that no reasonably possible change in the above key assumptions would cause the carrying value of Airbus to exceed its then-determined recoverable amount. However, the recoverable amount is highly dependent on the achievement of the Power 8 cost savings' program and the terminal value.

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### Other EADS segments

The impairment test for all other Cash Generating Units was based on the value in use calculation computed by applying a pre-tax discount rate of 11.2%. Cash flow projections are based on current operative planning covering a five-year planning period.

For the Defence & Security division, an increase in revenues is assumed in the operative planning. This is fuelled by today's order book, as for example Eurofighter deliveries backed by Tranche two contract and by expected awards of future contracts. Operating margin of the division is expected to increase over the operative planning period thanks to the expected volume growth and benefits from initiated restructuring measures.

The order book of the Astrium division as of December 31<sup>st</sup>, 2006 (including satellites, launchers, ballistic missiles and military telecom services) supports the strong revenue increase

which is assumed for this division over the operative planning period. The current development and production of the Skynet V satellites and ground infrastructure is weighing on EADS Astrium Division's cash flows until these spacecraft are launched and operated to generate a ramped up level of revenues from the UK Ministry of Defence (MoD).

The recoverable amounts based on value in use have exceeded the carrying amounts of the Cash Generating Units under review, indicating no goodwill impairment for 2006 and 2005.

### Development Costs

EADS has capitalised development costs in the amount of 873 M € as of December 31<sup>st</sup>, 2006 (462 M € as of December 31<sup>st</sup>, 2005) as internally generated intangible assets mainly for the Airbus A380 program.

## 13. Property, plant and equipment

Schedules detailing gross values, accumulated depreciation and net values of property, plant and equipment show the following as of December 31<sup>st</sup>, 2006:

### Cost

(in €m)	Balance at January 1, 2006	Exchange differences	Additions	Change in consolidation scope	Reclassification	Disposals	Balance at December 31, 2006
Land, leasehold improvements and buildings including buildings on land owned by others	5,739	(2)	175	1	314	(85)	6,142
Technical equipment and machinery	8,178	(28)	385	17	1,653 <sup>(1)</sup>	(142)	10,063
Other equipment, factory and office equipment	6,238	(233)	315	(30)	(767) <sup>(1)</sup>	(456)	5,067
Advance payments relating to plant and equipment as well as construction in progress	3,474	27	1,404	(8)	(1,259)	(20)	3,618
<b>Total</b>	<b>23,629</b>	<b>(236)</b>	<b>2,279</b>	<b>(20)</b>	<b>(59)</b>	<b>(703)</b>	<b>24,890</b>

### Depreciation

(in €m)	Balance at January 1, 2006	Exchange differences	Additions	Change in consolidation scope	Reclassification	Disposals	Balance at December 31, 2006
Land, leasehold improvements and buildings including buildings on land owned by others	(2,096)	2	(285)	0	(8)	68	(2,319)
Technical equipment and machinery	(4,568)	3	(869)	(11)	(576) <sup>(2)</sup>	135	(5,886)
Other equipment, factory and office equipment	(3,104)	103	(289)	30	619 <sup>(2)</sup>	179	(2,462)
Advance payments relating to plant and equipment as well as construction in progress	(44)	0	0	0	(1)	0	(45)
<b>Total</b>	<b>(9,812)</b>	<b>108</b>	<b>(1,443)</b>	<b>19</b>	<b>34</b>	<b>382</b>	<b>(10,712)</b>

### Net book value

(in €m)	Balance at January 1, 2006	Exchange differences	Additions	Change in consolidation scope	Reclassification	Disposals	Balance at December 31, 2006
Land, leasehold improvements and buildings including buildings on land owned by others	3,643	0	(110)	1	306	(17)	3,823
Technical equipment and machinery	3,610	(25)	(484)	6	1,077 <sup>(3)</sup>	(7)	4,177
Other equipment, factory and office equipment	3,134	(130)	26	0	(148) <sup>(3)</sup>	(277)	2,605
Advance payments relating to plant and equipment as well as construction in progress	3,430	27	1,404	(8)	(1,260)	(20)	3,573
<b>Total</b>	<b>13,817</b>	<b>(128)</b>	<b>836</b>	<b>(1)</b>	<b>(25)</b>	<b>(321)</b>	<b>14,178</b>

(1) Reclassification of the at cost value from "other equipment, factory and office equipment" to "technical equipment and machinery" to harmonise presentations in the amount of 848 M €.

(2) Reclassification of the cumulative depreciation from "other equipment, factory and office equipment" to "technical equipment and machinery" to harmonise presentations in the amount of 587 M €.

(3) Reclassification of the net book value from "other equipment, factory and office equipment" to "technical equipment and machinery" to harmonise presentations in the amount of 261 M €.

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Schedules detailing gross values, accumulated depreciation and net values of property, plant and equipment show the following as of December 31<sup>st</sup>, 2005:

### Cost

(in €m)	Balance at December 31, 2004 (as reported)	Change in accounting policies <sup>(1)</sup> / Presentation	Balance at January 1, 2005 (restated)	Exchange differences	Additions	Change in consolidation scope	Reclassification	Disposals	Balance at December 31, 2005
Land, leasehold improvements and buildings including buildings on land owned by others	5,496	(172)	5,324	21	185	(5)	252	(38)	5,739
Technical equipment and machinery	6,682	44	6,726	199	632	(4)	666	(41)	8,178
Other equipment, factory and office equipment	6,321	9	6,330	390	214	(8)	(205)	(483)	6,238
Advance payments relating to plant and equipment as well as construction in progress	3,236	0	3,236	24	1,323	0	(1,103)	(6)	3,474
<b>Total</b>	<b>21,735</b>	<b>(119)</b>	<b>21,616</b>	<b>634</b>	<b>2,354</b>	<b>(17)</b>	<b>(390)</b>	<b>(568)</b>	<b>23,629</b>

### Depreciation

(in €m)	Balance at December 31, 2004 (as reported)	Change in accounting policies <sup>(1)</sup> / Presentation	Balance at January 1, 2005 (restated)	Exchange differences	Additions	Change in consolidation scope	Reclassification	Disposals	Balance at December 31, 2005
Land, leasehold improvements and buildings including buildings on land owned by others	(1,973)	87	(1,886)	0	(243)	5	18	10	(2,096)
Technical equipment and machinery	(3,934)	0	(3,934)	(82)	(583)	4	3	24	(4,568)
Other equipment, factory and office equipment	(2,879)	(76)	(2,955)	(169)	(411)	17	143	271	(3,104)
Advance payments relating to plant and equipment as well as construction in progress	(44)	0	(44)	0	0	0	0	0	(44)
<b>Total</b>	<b>(8,830)</b>	<b>11</b>	<b>(8,819)</b>	<b>(251)</b>	<b>(1,237)</b>	<b>26</b>	<b>164</b>	<b>305</b>	<b>(9,812)</b>

### Net book value

(in €m)	Balance at December 31, 2004 (as reported)	Change in accounting policies <sup>(1)</sup> / Presentation	Balance at January 1, 2005 (restated)	Exchange differences	Additions	Change in consolidation scope	Reclassification	Disposals	Balance at December 31, 2005
Land, leasehold improvements and buildings including buildings on land owned by others	3,523	(85)	3,438	21	(58)	0	270	(28)	3,643
Technical equipment and machinery	2,748	44	2,792	117	49	0	669	(17)	3,610
Other equipment, factory and office equipment	3,442	(67)	3,375	221	(197)	9	(62)	(212)	3,134
Advance payments relating to plant and equipment as well as construction in progress	3,192	0	3,192	24	1,323	0	(1,103)	(6)	3,430
<b>Total</b>	<b>12,905</b>	<b>(108)</b>	<b>12,797</b>	<b>383</b>	<b>1,117</b>	<b>9</b>	<b>(226)</b>	<b>(263)</b>	<b>13,817</b>

(1) Through the application of the revised IAS 16 "Property, Plant and Equipment" (component approach and asset retirement obligation) the opening balance as of December 31<sup>st</sup>, 2004 was adjusted retrospectively by an amount of (46) M €.

Due to the adoption of IFRIC 4 "Determining whether an Arrangement contains a Lease" (released 2004), Property, plant and equipment includes a restatement at December 31<sup>st</sup>, 2004, in the net amount of 97 M €.

The 2006 depreciation of **Property, plant and equipment** includes impairment charges of 189 M € mainly related to Airbus (A380) and Sogerma.

**Property, plant and equipment** include at December 31<sup>st</sup>, 2006 and 2005, buildings, technical equipment and other equipment accounted for in fixed assets under finance lease agreements for net amounts of 140 M € and 170 M €, net of accumulated depreciation of 399 M € and 367 M €. The related depreciation expense for 2006 was 35 M € (2005: 31 M €; 2004: 19 M €). For investment property please refer to Note 33 “Investment property”.

**Other equipment, factory and office equipment** include the net book value of “aircraft under operating lease” for 1,992 M € and 2,381 M € as of December 31<sup>st</sup>, 2006 and 2005,

The corresponding non-cancellable future operating lease payments (not discounted) due from customers to be included in revenues, at December 31<sup>st</sup>, 2006 are as follows:

(in €m)	
not later than 2007	148
later than 2007 and not later than 2011	342
later than 2011	155
<b>Total</b>	<b>645</b>

ii) Aircraft which have been accounted as “operating lease” because they were sold under terms that include asset value guarantee commitments with the present value of the guarantee being more than 10% of the aircraft’s sales price (assumed to be the fair value). Upon the initial sale of these aircraft to the customer, their total cost previously

recognised in inventory is transferred to “Other equipment, factory and office equipment” and depreciated over its estimated useful economic life, with the proceeds received from the customer being recorded as deferred income (see Note 26 “Deferred income”).

The total net book values of aircraft under operating lease are as follows:

(in €m)	December 31, 2006	December 31, 2005
(i) Net book value of aircraft under operating lease before impairment charge	1,216	1,493
Accumulated impairment	(272)	(319)
Net book value of aircraft under operating lease	944	1,174
(ii) Aircraft under operating lease with the present value of the guarantee being more than 10%	1,048	1,207
<b>Total net book value of aircraft under operating lease</b>	<b>1,992</b>	<b>2,381</b>

For details please refer to Note 29 “Commitments and contingencies”.



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## 14. Investments in associates accounted for under the equity method, other investments and long-term financial assets

The following table sets forth the composition of investments in associates accounted for under the equity method, other investments and long-term financial assets:

(in €m)	December 31, 2006	December 31, 2005
<b>Investments in associates accounted for under the equity method</b>	<b>2,095</b>	<b>1,908</b>
<b>Non-current other investments and long-term financial assets</b>		
Other investments	545	541
Long-term financial assets	1,121	1,397
<b>Total</b>	<b>1,666</b>	<b>1,938</b>
<b>Current portion of long-term financial assets</b>	<b>103</b>	<b>237</b>

Investments in associates accounted for under the equity method as of December 31<sup>st</sup>, 2006 and 2005, mainly contain EADS' interest in Dassault Aviation Group (46.30% at December 31<sup>st</sup>, 2006 and at December 31<sup>st</sup>, 2005) of 1,985 M € and 1,867 M €. The Dassault Aviation Group reported in 2006 a net income of 281 M € of which EADS recognised an amount of 130 M € according to its share of interest.

The 2005 equity investment income from Dassault Aviation also included a positive catch up of the prior year financial performance in accordance with IFRS, which amounted to 64 M €. In addition as at December 31<sup>st</sup>, 2006, 34 M € (in 2005: (18) M €) were recognised in AOCI in relation with the Dassault Aviation equity investment.

The following table illustrates summarised financial information of the EADS investment of 46.3% in Dassault Aviation as of December 31<sup>st</sup>, 2006 and 2005:

(in €m)	December 31, 2006	December 31, 2005
<b>Share of the associate's balance sheet:</b>		
Non-current assets	1,549	1,231
Current assets	2,353	2,395
Non-current liabilities	175	165
Current liabilities	2,126	1,978
Total equity	1,601	1,483
<b>Share of the associate's revenues and profit:</b>		
Revenues	1,529	1,587
Net Income	130	141
<b>Carrying amount of the investment</b>	<b>1,985</b>	<b>1,867</b>

A list of major investments in associates and the proportion of ownership is included in Appendix "Information on principal investments".

**Other investments** comprise EADS' investment in various non-consolidated entities, the most significant being at December 31<sup>st</sup>, 2006, the investment in Embraer of 123 M € (2005: 106 M €) and a participation of 10% in Irkut amounting to 77 M € (2005: 54 M €). Regarding the investment in Embraer, please refer to Note 37 "Events after the balance sheet date".

**Long-term financial assets** of 1,121 M € (in 2005: 1,397 M €) and the **current portion of long-term financial assets** of 103 M € (in 2005: 237 M €) encompass mainly the Group's sales finance activities in the form of finance lease receivables and loans from aircraft financing. They are reported net of accumulated impairments. These sales financing transactions are generally secured by the underlying aircraft used as collateral (see Note 29 "Commitments and contingencies" for details on sales financing transactions).

Loans from aircraft financing are provided to customers to finance the sale of aircraft. These loans are long-term and normally have a maturity which is linked to the use of the aircraft by the customer. The calculation of the net book value is:

(in €m)	December 31, 2006	December 31, 2005
Outstanding gross amount of loans to customers	247	717
Accumulated impairment	(90)	(274)
<b>Total net book value of loans</b>	<b>157</b>	<b>443</b>

Finance lease receivables from aircraft financing are as follows:

(in €m)	December 31, 2006	December 31, 2005
Minimum lease payments receivables	901	1,245
Unearned finance income	(162)	(321)
Accumulated impairment	(109)	(122)
<b>Total net book value of finance lease receivables</b>	<b>630</b>	<b>802</b>

Future minimum lease payments from investments in finance leases to be received are as follows (not discounted):

(in €m)		
not later than 2007		95
later than 2007 and not later than 2011		310
later than 2011		496
<b>Total</b>		<b>901</b>

Additionally included are 437 M € and 389 M € of other loans as of December 31<sup>st</sup>, 2006 and 2005, e.g. loans to employees.

Defeased bank deposits of 927 M € and 1,102 M € as of December 31<sup>st</sup>, 2006 and 2005, respectively have been offset against financial liabilities.

## 15. Inventories

Inventories at December 31<sup>st</sup>, 2006 and 2005 consist of the following:

(in €m)	December 31, 2006	December 31, 2005
Raw materials and manufacturing supplies	1,283	1,159
Work in progress	11,260	10,655
Finished goods and parts accounted for at lower of cost and net realisable value	1,224	1,161
Advance payments to suppliers	3,125	2,450
<b>Total</b>	<b>16,892</b>	<b>15,425</b>

Raw materials and manufacturing supplies at Airbus increased by 121 M €. The increase in work in progress of 605 M € was mainly driven by Airbus' A380 program and the ramp up of the Eurocopter NH 90 program. The increase of advance payments provided to suppliers mainly reflects activities in the Eurofighter program and in Astrium Transportation.

The at cost value of finished goods and parts for resale amounts to 1,559 M € in 2006 (2005: 1,505 M €) and for work in progress amounts to 12,186 M € (2005: 11,192 M €). Write downs for finished goods and services are recorded when it becomes probable that total estimated contract costs will exceed total contract revenues. The impairment charge in 2006 for work in progress mainly relates to the A380 program.



## 16. Trade receivables

Trade receivables at December 31<sup>st</sup>, 2006 and 2005 consist of the following:

(in €m)	December 31, 2006	December 31, 2005
Receivables from sales of goods and services	5,227	5,209
Allowance for doubtful accounts	(375)	(407)
<b>Total</b>	<b>4,852</b>	<b>4,802</b>

Trade receivables are classified as current assets. As of December 31<sup>st</sup>, 2006 and 2005, respectively, 132 M € and 237 M € of trade receivables are not expected to be collected within one year.

In application of the percentage of completion method, as of December 31<sup>st</sup>, 2006 an amount of 1,477 M € (in 2005: 1,489 M €) for construction contracts is included in the trade receivables net of related advance payments received.

## 17. Other assets

Other assets at December 31<sup>st</sup>, 2006 and 2005 consist of the following:

(in €m)	December 31, 2006	December 31, 2005
<b>Non current other assets</b>		
Positive fair values of derivative financial instruments	3,235	2,762
Prepaid expenses	683	526
Capitalised settlement payments to German Government	198	231
Others	115	91
<b>Total</b>	<b>4,231</b>	<b>3,610</b>
<b>Current other assets</b>		
Positive fair values of derivative financial instruments	2,032	1,191
Value Added Tax claims	595	585
Prepaid expenses	384	332
Receivables from related companies	289	267
Receivables from affiliated companies	125	165
Loans	37	32
Others	552	629
<b>Total</b>	<b>4,014</b>	<b>3,201</b>

The capitalised settlement payments to the German Government are attributable to refundable advances which are amortised through the income statement (in cost of sales) at the delivery pace of the corresponding aircraft.

## 18. Securities

The Group's security portfolio amounts to 1,843 M € and 5,200 M € as of December 31<sup>st</sup>, 2006 and 2005, respectively. The security portfolio contains a **non-current portion** of available-for-sale-securities of 1,294 M € (in 2005: 1,011 M €) and a **current portion** of 549 M € (in 2005: 4,189 M €). In order to align the presentation of "Cash and cash equivalents", having maturities of three months or less from the date of acquisition, the previous year's figure has been reclassified by an amount of 4,160 M € (for further details please refer to the

Consolidated Statements of Cash Flows and Note 2 "Summary of significant accounting policies").

Included in the securities portfolio at the end of 2006 are corporate bonds bearing either fixed rate coupons (489 M € nominal value) or floating rate coupons (993 M € nominal value) as well as credit instruments bearing floating rate coupons (294 M € nominal value) and equity instruments (51 M € nominal value).

## 19. Non-current assets / disposal groups classified as held for sale

**Non-current assets / disposal groups classified as held for sale** in the amount of 76 M € (in 2005: 881 M €) concern assets and disposal groups mainly related to Sogerma. The previous year's figure relates mainly to sales financing activities in Airbus which have been disposed in current year. The disposal group includes **liabilities directly associated with non-current assets classified as held for sale** amounting to 64 M € (in 2005: 62 M €).

At December 31<sup>st</sup>, 2006, EADS held three subsidiaries for sale in the Group's financial statements. The net assets were written down to the lower of their carrying amount or fair value less costs to sell resulting in an impairment loss of (84) M €.

As of December 1<sup>st</sup>, 2006, EADS carried out a spin-off of the MRO business located in Bordeaux into a separate legal entity "Sogerma Services" and sold 40% of the shares for no consideration. The remaining 60% shares of Sogerma Services as well as the shares of the subsidiaries Barfield and Sogerma

Tunisia were sold beginning of January 2007. The corresponding assets and liabilities of these companies are thus presented as held for sale as of December 31<sup>st</sup>, 2006.

The non-current assets and disposal groups classified as held for sale comprise as of December 31<sup>st</sup>, 2006 trade receivables of 34 M €, inventories of 15 M € and other assets in the amount of 10 M € for the Sogerma business. Included are also Airbus assets of 17 M € (in 2005: 881 M €) concerning mainly sales financing activities.

The corresponding liabilities for the Sogerma business, accounted for as **Liabilities directly associated with non-current assets classified as held for sale** amount to 64 M € and comprise current other liabilities (27 M €), provisions (14 M €), short term financial liabilities (12 M €) and other liabilities (11 M €). As at December 31<sup>st</sup>, 2005 the disposal group included liabilities of 62 M € for Airbus.

## 20. Total equity

With regard to the movement in equity, please refer to the table "Reconciliation of Movement in Capital and Reserves (IFRS)" at the beginning of the Notes to the Consolidated Financial Statements.

The following table shows the development of the number of shares outstanding:

Number of shares	2006	2005
<b>Issued as at January 1,</b>	<b>817,743,130</b>	<b>809,579,069</b>
Issued for ESOP	0	1,938,309
Issued for exercised options	4,845,364	7,562,110
Cancelled	(6,656,970)	(1,336,358)
<b>Issued as at December 31,</b>	<b>815,931,524</b>	<b>817,743,130</b>
Treasury shares as at December 31,	(13,800,531)	(20,602,704)
<b>Outstanding as at December 31,</b>	<b>802,130,993</b>	<b>797,140,426</b>



EADS' shares are exclusively ordinary shares with a par value of 1.00 €. The authorised share capital consists of 3,000,000,000 shares.

The Shareholders' General Meeting of EADS held on May 11<sup>th</sup>, 2005 renewed the authorisation given to the Board of Directors to repurchase shares of the Company, by any means, including derivative products, on any stock exchange or otherwise, as long as, upon such repurchase, the Company will not hold more than 5% of the Company's issued share capital. The Group's Board of Directors decided on June 3<sup>rd</sup>, 2005, to set up and implement plans for the repurchase of up to 1,012,500 shares related to ESOP 2005. On December 12<sup>th</sup>, 2005 the Group's Board of Directors decided to set up and implement plans for the repurchase of up to 3,990,880 shares related to the 2005 Stock Option Plan (7<sup>th</sup> tranche).

Furthermore, the Shareholders' General Meeting authorised both the Board of Directors and the Chief Executive Officers, with powers of substitution, to cancel up to a maximum of 1,336,358 shares. On July 25<sup>th</sup>, 2005, the Chief Executive Officers decided to cancel 1,336,358 treasury shares.

The Shareholders' General Meeting also decided to pay a cash distribution related to the fiscal year 2004 for a gross amount of 0.50 € per share, which was paid on June 8<sup>th</sup>, 2005.

On May 4<sup>th</sup>, 2006, the Shareholders' General Meeting of EADS renewed the authorisation given to the Board of Directors to issue shares of the Company, representing up to 1% of the Company's authorised share capital for a period expiring at the Shareholders' General Meeting to be held in 2007.

The Shareholders' General Meeting on May 4<sup>th</sup>, 2006 also renewed the authorisation given to the Board of Directors for a new period of 18 months from the date of the Annual General Meeting, to repurchase shares of the Company, by any means, including derivative products, on any stock exchange or otherwise, as long as, upon such repurchase, the Company will not hold more than 10% of the Company's issued share capital and at a price not less than the nominal value and not more than the higher of the price of the last independent trade and the highest current independent bid on the trading venues of the regulated market of the country in which the purchase is carried out. This authorisation supersedes and replaces the authorisation given by the Annual General Meeting of May 11<sup>th</sup>, 2005.

Furthermore, the Shareholders' General Meeting authorised both the Board of Directors and the Chief Executive Officers,

with power of substitution, to cancel up to a maximum of 6,656,970 shares. On July 20<sup>th</sup>, 2006, the Chief Executive Officers decided to cancel 6,656,970 treasury shares.

On May 4<sup>th</sup>, 2006 the Shareholders' General Meeting also decided to pay a cash distribution related to the fiscal year 2005 for a gross amount of 0.65 € per share, which was paid on June 1<sup>st</sup>, 2006.

The 2006 Employee Stock Ownership Plan was cancelled (see Note 31 "Share-based Payment"), consequently EADS did not issue new shares (in 2005: 1,938,309 representing a nominal value of 1,938,309 €).

In total EADS sold in 2006 145,203 treasury shares (in 2005: purchase of 11,910,287 treasury shares) and cancelled 6,656,970 shares (in 2005: 1,336,358 shares), resulting in an amount of 13,800,531 treasury shares at December 31<sup>st</sup>, 2006 (in 2005: 20,602,704 treasury shares).

Capital stock comprises the nominal amount of shares outstanding. The addition to capital stock represents the contribution for exercised options of 4,845,364 € (in 2005: 7,562,110 €) in compliance with the implemented stock option plans and in 2005 1,938,309 € by employees under the 2005 Employee Stock Ownership Plan.

Share premium mainly results from contributions in kind in the course of the creation of EADS, cash contributions from the Initial Public Offering, capital increases and reductions due to the issuance and cancellation of shares as well as cash distributions to EADS N.V. shareholders. Other reserves include among others retained earnings, reduced by the recognition of actuarial gains and losses of pension obligations, net of deferred taxes. Accumulated other comprehensive income consists of all amounts recognised directly in equity resulting from changes in fair value of financial instruments that are classified as available-for-sale or that form part of hedging relationships in effective cash-flow hedges as well as from currency translation adjustments of foreign entities. Treasury shares represent the amount paid for own shares held in treasury.

Equity attributable to the equity holders of the parent as of December 31<sup>st</sup>, 2003 was adjusted due to the application of revised IAS 19 "Employee benefits" in the amount of (235) M € (please refer to Note 2 "Summary of significant accounting policies" and Note 21 b) "Provisions for retirement plans").

## 21. Provisions

Provisions are comprised of the following:

(in €m)	December 31, 2006	December 31, 2005
Provision for retirement plans (see Note 21 b)	5,747	5,124
Provision for deferred compensation (see Note 21 a)	136	114
<b>Retirement plans and similar obligations</b>	<b>5,883</b>	<b>5,238</b>
Financial instruments (see Note 21 c)	231	921
Other provisions (see Note 21 d)	6,580	4,565
<b>Total</b>	<b>12,694</b>	<b>10,724</b>
Thereof non-current portion	9,063	7,997
Thereof current portion	3,631	2,727

As of December 31<sup>st</sup>, 2006 and 2005, respectively, 5,602 M € and 5,018 M € of retirement plans and similar obligations, 152 M € and 472 M € of financial instruments as well as 3,309 M € and 2,507 M € of other provisions mature after more than one year.

Due to the retrospective application of the equity approach in the revised IAS 19 “Employee Benefits” previous year’s figures have been adjusted in an amount of 1,118 M € (for further details please refer to “Changes in accounting policies” in Note 2).

### a) Provisions for deferred compensation

This amount represents obligations that arise if employees elect to convert part of their remuneration or bonus into an equivalent commitment for deferred compensation.

### b) Provisions for retirement plans

When Group employees retire, they receive indemnities as stipulated in retirement agreements, in accordance with regulations and practices of the countries in which the Group operates.

French law stipulates that employees are paid retirement indemnities on the basis of the length of service.

In Germany, EADS introduced a new pension plan (P3) for non-executive employees in 2004. Under the new plan, the employer makes contributions during the service period, which are dependent on salary in the years of contribution and years of service. These contributions are converted into components which become part of the accrued pension liability at the end of the year. Accrued benefits under the old plan are considered

through an initial component. Total benefits are calculated as a career average over the entire period of service.

Certain employees that are not covered by the new plan receive retirement indemnities based on salary earned in the last year or on an average of the last three years of employment. For executive employees, benefits are depending on final salary at the date of retirement and the time period as executive.

In the UK, EADS participates in several funded trustee-administered pension plans for both executive and non-executive employees with BAE Systems being the principal employer. These plans qualify as multi-employer defined benefit plans under IAS 19 “Employee Benefits”. EADS’ most significant investments in terms of employees participating in these BAE Systems UK pension plans are Airbus UK and MBDA UK. For Airbus, this remains the case even subsequent to the acquisition of BAE Systems’ 20% minority interests on October 13<sup>th</sup>, 2006. Participating Airbus UK employees have continued to remain members in the BAE Systems UK pension plans due to the UK pension agreement between EADS and BAE Systems and a change in UK pensions legislation enacted in April 2006.

Generally, based on the funding situation of the respective pension schemes, the pension plan trustees determine the contribution rates to be paid by the participating employers to adequately fund the schemes. The different UK pension plans in which EADS investments participate are currently underfunded. BAE Systems has agreed with the trustees various measures designed to make good the underfunding. These includes i) regular contribution payments for active employees well above such which would prevail for funded plans and ii) extra employers’ contributions amounting to a total of GBP 446 M (664 M€) over the next ten years until 2016.



Due to the contractual arrangements between EADS and BAE Systems, EADS' contributions in respect of its investments for the most significant pension scheme (Main Scheme) are capped for a defined period of time (until July 2011 for Airbus UK and until December 2007 for MBDA UK). Contributions exceeding the respective capped amounts are paid by BAE Systems. EADS is therefore neither exposed to increased regular contribution payments resulting from the pension plans' underfunding nor to a participation in extra contribution payments during the period of the contribution caps. Even after the expiry of the contribution caps the unique funding arrangements between BAE Systems and EADS create a situation for EADS different from common UK multi-employer plans with special regulations limiting regular contributions that have to be paid by EADS UK companies to rates applicable to all participating employers.

Since January 1<sup>st</sup>, 2005, BAE Systems prepared its Consolidated Financial Statements under IFRS. Before that date, BAE Systems Consolidated Financial Statements were prepared under UK GAAP and as such did not include information required under IAS 19 to apply defined benefit accounting. Consequently, EADS accounted for its participation in BAE Systems UK defined benefit schemes as if they were defined contribution schemes in accordance with IAS 19. In 2005, EADS requested detailed information from BAE Systems about the different multi-employer pension schemes in order to appropriately and reliably estimate the share of its participation

in the schemes' plan assets, defined benefit obligations ("DBO") and pension costs. For accounting purposes, the information provided by BAE Systems in 2005 was judged not to be sufficient to identify EADS' share in the UK pension schemes. Consequently, EADS continued in 2005 to expense the contributions made to the pension schemes as if the plans were defined contribution plans. Adequate information was provided until 2005 in the contingent liabilities section of the notes.

As a result of further requests in 2006, BAE Systems started to share more detailed information for each individual plan in which EADS investments participate. This new information now results in a change in accounting estimates from 2006 year-end closing and is accounted for accordingly under IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The new information now enables EADS to derive keys per plan to allocate for accounting purposes an appropriate proportion in plan assets, DBO and pension costs to its UK investments as of December 31<sup>st</sup>, 2006, taking into account the impact of the capped contributions as well as future extra contributions agreed by BAE Systems with the Trustees.

Actuarial assessments are regularly made to determine the amount of the Group's commitments with regard to retirement indemnities. These assessments include an assumption concerning changes in salaries, retirement ages and long-term interest rates. It comprises all the expenses the Group will be required to pay to meet these commitments.

The weighted-average assumptions used in calculating the actuarial values of the retirement plans are as follows:

Assumptions in %	Euro-countries			EADS UK			BAE Systems UK
	December 31,			December 31,			December 31,
	2006	2005	2004	2006	2005	2004	2006
Discount rate	4.5	4.0	4.75 - 5.0	5.1	4.7	5.2	5.2
Rate of compensation increase	3.0	3.0	3.0	3.8	3.7	4.2	4.0
Inflation rate	1.9-2.0	1.75 - 2.0	1.5-2.0	2.8	2.7	2.7	3.0
Expected return on plan assets	6.5	6.5	6.5	5.8	5.8	5.8	7.0

Before 2006, EADS applied the corridor approach for the recognition of actuarial gains and losses. With the application of amended IAS 19 in 2006, EADS opted for the newly introduced equity approach and retrospectively changed EADS accounting policy for the recognition of actuarial gains and losses. Under the equity approach, actuarial gains and losses are - net of deferred taxes - in full recognised in retained earnings

in the period in which they occur and accordingly reflected in the retirement provision recognised in the balance sheet. Actuarial gains and losses are not recognised in profit or loss in subsequent periods. Prior periods have been adjusted accordingly leading to a higher provision for year-end 2002, 2003, 2004 and 2005 respectively (see table "Recognised Provision" below).

The amount recorded as provision on the balance sheet can be derived as follows:

Change in defined benefit obligations (in €m)	2006	2005	2004
Defined benefit obligations at beginning of year	5,927	5,198	4,735
Service cost	162	153	125
Interest cost	230	252	243
Plan amendments	2	8	0
Plan curtailments and settlements	0	0	(4)
Actuarial losses	(185)	517	281
Acquisitions and other	(20)	7	3
Benefits paid	(228)	(208)	(185)
Additions <sup>(1)</sup>	3,696	0	0
<b>Defined benefit obligations at end of year</b>	<b>9,584</b>	<b>5,927</b>	<b>5,198</b>

(1) Additions reflect EADS' share in BAE Systems' pension schemes.

Change in plan assets (in €m)	2006	2005	2004
Fair value of plan assets at beginning of year	799	658	619
Actual return on plan assets	84	82	52
Contributions	212	111	45
Acquisitions and other	11	8	0
Benefits paid	(72)	(60)	(58)
Additions <sup>(1)</sup>	2,799	0	0
<b>Fair value of plan assets at end of year</b>	<b>3,833</b>	<b>799</b>	<b>658</b>

(1) Additions reflect EADS' share in BAE Systems' pension schemes.

Based on past experience, EADS expects a rate of return for plan assets of 6.5%.

The fair value of plan assets of EADS plans at end of the year mainly comprises assets held by long-term employee benefit funds that exist solely to pay or fund employee benefits. About 46% (2005: 44%) of plan assets are invested in equity securities.

Recognised Provision (in €m)	2006	2005	2004	2003	2002
Funded status <sup>(1)</sup>	5,751	5,128	4,540	4,116	3,755
Unrecognised past service cost	(4)	(4)	(5)	(14)	0
<b>Provision recognised in Balance Sheet<sup>(2)</sup></b>	<b>5,747</b>	<b>5,124</b>	<b>4,535</b>	<b>4,102</b>	<b>3,755</b>

(1) Difference between the defined benefit obligations and the fair value of plan assets at the end of the year.

(2) Due to the application of IAS 19.93A the provision as of 2005, 2004, 2003 and 2002 was adjusted retrospectively by an amount of 1,118 M €, 659 M €, 384 M € and 398 M € respectively.

The defined benefit obligation at the end of the year is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods. The provision contains the funded status less any unrecognised past service cost.





The components of the net periodic pension cost, included in “Profit before finance costs and income taxes”, are as follows:

(in €m)	2006	2005	2004
Service cost	162	153	125
Interest cost	230	252	243
Expected return on plan assets	(58)	(42)	(41)
Net actuarial loss	0	14	0
<b>Net periodic pension cost</b>	<b>334</b>	<b>377</b>	<b>327</b>

The 2006 change in the accounting policy for the recognition of actuarial gains and losses from the corridor to the equity approach resulted in lower net periodic pension cost in 2006, leading to a comparably higher EBIT of 45 M € and a 25 M € higher Net Income than from prior periods’ accounting principle.

Payments to the multi-employer plans with BAE Systems that have been treated as defined contribution plans until end of 2006 amounted to 67 M € (in 2005: 56 M €).

Actuarial gains and losses, net of deferred taxes recognised in equity amount to (1,409) M € and developed as follows:

Actuarial gains and losses recognised directly in equity (in €m)	2006	2005	2004
Cumulative amount at January 1	(1,118)	(659)	(384)
Recognised during the period <sup>(1)</sup>	(690)	(459)	(275)
<b>Cumulative value at December 31</b>	<b>(1,808)</b>	<b>(1,118)</b>	<b>(659)</b>
Deferred Tax Asset at December 31	399	423	252
<b>Actuarial gains and losses recognised directly in equity, net</b>	<b>(1,409)</b>	<b>(695)</b>	<b>(407)</b>

(1) Included in 2006 is the allocated pension deficit from UK pension schemes with BAE Systems as of December 31st, 2006 amounting to 897 M €.

### c) Financial instruments

The provision for financial instruments amounts to 231 M € as of December 31<sup>st</sup>, 2006 (921 M € as of December 31<sup>st</sup>, 2005) and includes in 2006 mainly the negative fair market value of foreign currency forwards (see Note 30 c) “Fair value of financial instruments”).

## d) Other provisions

Movements in provisions during the year were as follows:

(in €m)	Balance at January 1, 2006	Exchange differences	Additions	Reclassification/ Change in consolidated group	Used	Released	Balance at December 31, 2006
Outstanding costs	826		539	8	(243)	(26)	1,104
Aircraft financing risks	1,169	(129)	69	0	(39)	(6)	1,064
Contract losses	397	0	181	2	(137)	(22)	421
Personnel charges	436	(2)	179	(32)	(161)	(10)	410
Restructuring measures/pre-retirement part-time work	232	0	195	(15)	(65)	(21)	326
Litigations and claims	230	0	14	8	(7)	(7)	238
Obligation from services and maintenance agreements	254	(1)	87	(3)	(126)	0	211
Warranties	176	0	87	(5)	(50)	(21)	187
Asset retirement	62	0	18	0	0	0	80
Other risks and charges	783	(5)	1,962	(28)	(122)	(51)	2,539
<b>Total</b>	<b>4,565</b>	<b>(137)</b>	<b>3,331</b>	<b>(65)</b>	<b>(950)</b>	<b>(164)</b>	<b>6,580</b>

The addition to outstanding costs mainly relates to Defence & Security and Eurocopter.

The provision for aircraft financing risks fully covers, in line with the Group's policy for sales financing risk, the net exposure to aircraft financing of 432 M € (522 M € at December 31<sup>st</sup>, 2005) and asset value risks of 633 M € (647 M € at December 31<sup>st</sup>, 2005) related to Airbus and ATR (see Note 29 "Commitments and contingencies").

The use of the provision for restructuring measures / pre-retirement part-time work mainly relates to the divisions Defence & Security and Airbus.

The provision for litigations and claims covers various legal actions, governmental investigations, proceedings and other claims, which are pending or may be instituted or asserted in the future against the Group.

The additions to provisions for other risks and charges mainly comprises constructive obligations for settlement charges in conjunction with the A380 and A350 programs.

## 22. Financial liabilities

In 2004, the EIB (European Investment Bank) granted a long-term loan to EADS in the amount of 421 M US\$, bearing a fixed interest rate of 5.1% (effective interest rate 5.1%). In 2003, EADS issued two Euro denominated bonds under its EMTN Programme (Euro Medium Term Note Programme). The first issue of 1 billion € with expected final maturity in 2010 carries a coupon of 4.625% (effective interest rate 4.686%) which was swapped into variable rate of 3M-Euribor +1.02%. The second issue of 0.5 billion € maturing in 2018 carries a coupon of 5.5% (effective interest rate 5.6%) which was swapped during 2005 into variable rate of 3M-Euribor +1.81%.

On a rolling basis EADS issues regularly commercial paper under the so called "billet de trésorerie" program at floating or fixed interest rates corresponding to the individual maturities ranging from 1 day to 12 months bearing as of December 31<sup>st</sup>, 2006 an average interest rate of 3.3%. The issued volume at December 31<sup>st</sup>, 2006 amounted to 1,137 M €. The programme has been set up in 2003 with a maximum volume of 2 bn €. EADS has decided to manage more pro-actively its money market investor base. EADS has therefore decided to have an outstanding debt in line with this objective and to issue these commercial papers on a regular basis.



Financial liabilities include liabilities connected with sales financing transactions amounting to 1,702 M €, thereof 480 M € at a fixed interest rate of 9.88% and the remaining amount mainly at variable interest rates.

Non recourse Airbus financial liabilities (risk is supported by external parties) amount to 1,058 M € (in 2005: 1,247 M €).

Defeased bank deposits for aircraft financing of 927 M € and 1,102 M € as of December 31<sup>st</sup>, 2006 and 2005 respectively have been offset against financial liabilities.

(in €m)	December 31, 2006	December 31, 2005
Bonds	1,569	1,659
thereof due in more than five years: 453 (December 31, 2005: 519)		
Liabilities to financial institutions	1,141	1,352
thereof due in more than five years: 817 (December 31, 2005: 972)		
Loans	673	937
thereof due in more than five years: 347 (December 31, 2005: 528)		
Liabilities from finance leases	178	241
thereof due in more than five years: 74 (December 31, 2005: 78)		
<b>Long-term financial liabilities</b>	<b>3,561</b>	<b>4,189</b>
Commercial Papers / Bonds	1,157	0
Liabilities to financial institutions	140	146
Liabilities to affiliated companies	118	112
Loans	172	207
Liabilities from finance leases	97	87
Others	512	356
<b>Short-term financial liabilities (due within one year)</b>	<b>2,196</b>	<b>908</b>
<b>Total</b>	<b>5,757</b>	<b>5,097</b>

Included in "Others" are financial liabilities against joint ventures.

The aggregate amounts of financial liabilities maturing during the next five years and thereafter are as follows:

(in €m)	Financial liabilities
2007	2,196
2008	257
2009	306
2010	1,159
2011	148
Thereafter	1,691
<b>Total</b>	<b>5,757</b>

## 23. Liability for puttable instruments

As of January 1<sup>st</sup>, 2005 EADS adopted retrospectively IAS 32 “Financial Instruments: Disclosure and Presentation” (revised 2004) and accounted for the option granted to BAE Systems in the 2001 Airbus business combination to put its 20% minority stake in Airbus as a liability presented in a separate line of the EADS Consolidated Balance Sheet as liability for puttable instruments.

The option has been exercisable at fair value during annual window periods. Whilst dividend payments to BAE Systems have been considered as partial repayments of the liability any changes to its fair value have been treated as adjustments to the cost of the Airbus business combination leading to according changes in goodwill in line with IFRS 3 “Business Combinations”. Airbus’ 20% stake has been measured by

applying a choice of different valuation techniques, based on best estimates available at measurement date. For EADS 2005 year end Financial Statements, the fair value of the written put has been determined at €3.5 billion. In June 2006, BAE Systems exercised its put option. An independent investment bank then determined the fair value of the 20% of Airbus at €2.75 billion. The liability for puttable instruments was derecognised from EADS Consolidated Balance Sheet after the transaction has been approved by BAE Systems’ shareholders in October 2006. While dividend payments to BAE Systems in 2006 amounting to 129 M € have been accounted for as a reduction of the liability, the additional 621 M € of the decrease in the option’s fair value led to a corresponding reduction in Airbus’ goodwill.

## 24. Other liabilities

(in €m)	December 31, 2006	December 31, 2005
<b>Non-current other liabilities</b>		
Thereof customer advance payments	6,308	4,911
Thereof European Governments refundable advances	5,029	4,950
Others	233	110
<b>Total</b>	<b>11,570</b>	<b>9,971</b>
<b>Current other liabilities</b>		
Thereof customer advance payments	14,172	14,078
Thereof European Governments refundable advances	389	343
Thereof tax liabilities (excluding income tax)	600	690
Thereof liabilities to affiliated companies	44	93
Thereof liabilities to related companies	14	31
Others	1,941	1,931
<b>Total</b>	<b>17,160</b>	<b>17,166</b>

The increase in European Governments refundable advances relates mostly to accrued interest. Regarding the interest expense on European Governments refundable advances see Note 10 “Total finance costs”. Due to their specific nature, namely their risk-sharing features and the fact that such advances are generally granted to EADS on the basis of significant development projects, European Governments refundable advances are accounted for by EADS within “Other Liabilities” on the balance sheet including accrued interest.

Included in “Other liabilities” are 15,573 M € (15,986 M € as of December 31<sup>st</sup>, 2005) due within one year and 6,330 M € (5,621 M € as of December 31<sup>st</sup>, 2005) maturing after more than five years. Included in the “Current other liabilities” are liabilities relating to construction contracts having a maturity of more than one year.

Advance payments received relating to construction contracts amount to 2,198 M € (2,363 M € as of December 31<sup>st</sup>, 2005).



## 25. Trade liabilities

As of December 31<sup>st</sup>, 2006, trade liabilities amounting to 184 M € (54 M € as of December 31<sup>st</sup>, 2005) mature after more than one year.

## 26. Deferred income

(in €m)	December 31, 2006	December 31, 2005
Non-current deferred income	1,110	1,324
Current deferred income	486	573
<b>Total</b>	<b>1,596</b>	<b>1,897</b>

The main part of deferred income is related to sales of Airbus and ATR aircraft that include asset value guarantee commitments and that are accounted for as operating leases (1,248 M € and 1,467 M € as of December 31<sup>st</sup>, 2006 and 2005, respectively).

# Notes to the Consolidated Statements of Cash-Flows (IFRS)

## 27. Consolidated Statement of Cash Flows

As of December 31<sup>st</sup>, 2006, EADS' cash position (stated as cash and cash equivalents in the Consolidated Statement of Cash-Flows) includes 597 M € (579 M € and 602 M € as of December 31<sup>st</sup>, 2005 and 2004, respectively) which represent EADS' share in MBDA's cash and cash equivalents, deposited at

BAE Systems and Finmeccanica and which are available upon demand. Additionally included were 1,202 M € as of December 31<sup>st</sup>, 2005 and 687 M € as of December 31<sup>st</sup>, 2004 representing the amount Airbus had deposited at BAE Systems.

The following charts provide details on **acquisitions** (resulting in additional assets and liabilities acquired) of subsidiaries and joint ventures:

(in €m)	December 31, 2006	December 31, 2005
Total purchase price	(108)	(131)
thereof paid in cash and cash equivalents	(108)	(131)
Cash and cash equivalents included in the acquired subsidiaries and joint ventures	26	0
<b>Cash Flow for acquisitions, net of cash</b>	<b>(82)</b>	<b>(131)</b>

In 2006 the aggregate cash flow for acquisitions, net of cash of (82) M € includes mainly the acquisition of Atlas Elektronik Group (43) M €, Sofrelog (12) M €, IFR France (8) M € and Dynamic Process Solutions Inc. (8) M €.

Professional Mobile Radio – PMR activities (EADS Secure Networks Oy). In addition, there have been cash investments mainly in Dornier GmbH which had been already fully consolidated.

Included in the aggregate cash flow for acquisitions, net of cash in 2005 of (131) M € is mainly the acquisition of Nokia's

(in €m)	December 31, 2006	December 31, 2005
Intangible assets; property, plant and equipment	59	21
Financial assets	4	0
Inventories	44	4
Trade receivables	60	11
Other assets	4	27
Cash and cash equivalents	26	0
<b>Assets</b>	<b>197</b>	<b>63</b>
Provisions	(91)	(4)
Trade liabilities	(46)	0
Financial liabilities	(3)	0
Other liabilities	(13)	(1)
<b>Liabilities</b>	<b>(153)</b>	<b>(5)</b>
<b>Fair value of net assets</b>	<b>44</b>	<b>58</b>
Goodwill arising on acquisitions	64	73
Less own cash and cash equivalents of acquired subsidiaries and joint ventures	(26)	0
<b>Cash Flow for acquisitions, net of cash</b>	<b>82</b>	<b>131</b>

The following charts provide details on **disposals** (resulting in assets and liabilities disposed) of subsidiaries:

(in €m)	December 31, 2006	December 31, 2005
Total selling price	87	110
thereof received by cash and cash equivalents	87	110
Cash and cash equivalents included in the (disposed) subsidiaries	(1)	(21)
<b>Cash Flow from disposals, net of cash</b>	<b>86</b>	<b>89</b>

The aggregate cash flow from disposals, net of cash, in 2006 of 86 M € includes the sale of LFK GmbH and TDW GmbH amounting to 81 M € and Seawolf of 2 M €. After the disposal of LFK the cash of LFK was reallocated to the shareholders of MBDA in proportion to their interest.

Included in the aggregate net selling price in 2005 of 89 M € are the sale of the 50% participation in TDA – Armements S.A.S. to Thales and the sale of the Enterprise Telephony Business to Astra.



(in €m)	December 31, 2006	December 31, 2005
Intangible assets; property, plant and equipment	(18)	(12)
Financial assets	(4)	0
Inventories	(89)	(34)
Trade receivables	(17)	(64)
Other assets	(22)	(34)
Cash and cash equivalents	(1)	(21)
<b>Assets</b>	<b>(151)</b>	<b>(165)</b>
Provisions	132	16
Trade liabilities	18	18
Financial liabilities	1	13
Other liabilities	52	45
<b>Liabilities</b>	<b>203</b>	<b>92</b>
<b>Book value of net assets</b>	<b>52</b>	<b>(73)</b>
Goodwill arising from disposals	0	(6)
Result from disposal of subsidiaries	(139)	(31)
Less own cash and cash equivalents of disposed subsidiaries	1	21
<b>Cash Flow from disposals, net of cash</b>	<b>(86)</b>	<b>(89)</b>

## Other Notes to the Consolidated Financial Statements (IFRS)

### 28. Litigation and claims

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 EU-U.S. Agreement on Trade in Large Civil Aircraft, the U.S. lodged a request on October 6<sup>th</sup>, 2004 to initiate settlement proceedings before the World Trade Organisation (“WTO”). On the same day, the EU launched a parallel WTO case against the U.S. in relation to its subsidisation of Boeing. Despite several negotiation attempts, the parties have not been able to reach a satisfactory agreement. On May 31<sup>st</sup>, 2005, the U.S. and the EU each requested the establishment of a panel. At its meeting on July 20<sup>th</sup>, 2005, the Dispute Settlement Body established the panels. Numerous procedural steps, including new filings by the EU and the U.S. in 2006 have delayed commencement of the litigation. However, on November 15<sup>th</sup>, 2006, the U.S. filed its first written submission, to which the EU responded on February 9<sup>th</sup>, 2007. The EU 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 EU. 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 the A380 delays in 2005 and 2006. 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 grounds. In Germany, several individual shareholders have filed civil actions against the Company to recover their alleged losses in connection with the disclosure of A380 program delays. On October 3<sup>rd</sup>, 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 scrutinising

potential responsibilities at the management level. The Company reserves all its rights in the circumstances. As of March 8<sup>th</sup>, 2007, all such assessments are still ongoing.

EADS is not aware of any exceptional items or pending or threatened legal or arbitration proceedings that may have, or may have had in a recent period, a material adverse effect on the financial position, the activities or the results of its group taken as a whole, 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”.

## 29. Commitments and contingencies

### Commitments and contingent liabilities

**Sales financing** – In relation to its Airbus and ATR activities, EADS is committing itself in sales financing transactions with selected customers. Sales financing transactions are generally collateralised by the underlying aircraft. Additionally, Airbus and ATR benefit from protective covenants and from security packages tailored according to the perceived risk and the legal environment. EADS believes that the estimated fair value of the aircraft securing such commitments will substantially offset any potential losses from the commitments. Any remaining difference between the amount of financing commitments given and the collateral value of the aircraft financed is provided for as an impairment to the relating asset, if assignable, or as a provision for aircraft financing risk. The basis for this write-down is a risk-pricing-model, which is applied at every closing to closely monitor the remaining value of the aircraft.

Depending on which party assumes the risks and rewards of ownership of a financed aircraft, the assets relating to sales

financing are accounted for **on the balance sheet** either as (i) an operating lease (see Note 13 “Property, plant and equipment”) or (ii) a loan from aircraft financing or (iii) a finance lease receivable (see Note 14 “Investments in associates accounted for under the equity method, other investments and long-term financial assets”) or (iv) non-current assets classified as held for sale. As of December 31<sup>st</sup>, 2006, related accumulated impairment amounts to 272 M € (2005: 319 M €) for operating lease, 199 M € (2005: 396 M €) for loans and finance lease receivables and 0 M € (2005: 196 M €) for non-current assets classified as held for sale. As part of provisions for aircraft financing risks 25 M € (2005: 34 M €) are recorded (see Note 21 d.) “Other provisions”).

Certain sales financing transactions include the sale and lease back of the aircraft with a third party lessor under operating lease. Unless the Group has sold down the relating operating lease commitments to third parties, which assume liability for the payments, it is exposed to future lease payments.

Future nominal **operating lease payments** that result from aircraft sales financing transactions are recorded **off balance sheet** and are scheduled to be paid as follows:

(in €m)	
not later than 2007	181
later than 2007 and not later than 2011	702
later than 2011	645
<b>Total</b>	<b>1,528</b>
Of which commitments where the transaction has been sold to third parties	(882)
<b>Total aircraft lease commitments where EADS bears the risk (not discounted)</b>	<b>646</b>

Total aircraft lease commitments of 1,528 M € as of December 31<sup>st</sup>, 2006, arise from aircraft head-leases and are typically backed by corresponding sublease income from customers with an amount of 1,096 M €. A large part of these lease commitments (882 M € as of December 31<sup>st</sup>, 2006) arises from transactions that were sold down to third parties, which assume liability for the payments. EADS determines its gross exposure

to such operating leases as the present value of the related payment streams. The difference between gross exposure and the estimated value of underlying aircraft used as collateral, the net exposure, is provided for in full with an amount of 407 M € as of December 31<sup>st</sup>, 2006, as part of the provision for aircraft financing risk (see Note 21 d.) “Other provisions”).





As of December 31<sup>st</sup>, 2006 and 2005, the total consolidated – **on and off balance sheet** – Commercial Aviation Sales Financing Exposure is as follows (Airbus 100% and ATR 50%):

(in €m)	December 31, 2006	December 31, 2005
Total gross exposure	1,694	3,566
Estimated fair value of collateral (aircraft)	(791)	(2,133)
<b>Net exposure (fully provided for)</b>	<b>903</b>	<b>1,433</b>

Details of provisions / accumulated impairments are as follows:

(in €m)	December 31, 2006	December 31, 2005
Accumulated impairment on operating leases (see Note 13 "Property, plant and equipment")	272	319
Accumulated impairment on loans from aircraft financing and finance leases (see Note 14 "Investments in associates accounted for under the equity method, other investments and long-term financial assets")	199	396
Non-current assets classified as held for sale	0	196
Provisions for aircraft financing risk (on balance sheet) (see Note 21 d.) "Other provisions")	25	34
Provisions for aircraft financing risk (commitment off balance sheet) (see Note 21 d.) "Other provisions")	407	488
<b>Total provisions / accumulated impairments for sales financing exposure</b>	<b>903</b>	<b>1,433</b>

**Asset value guarantees** – Certain sales contracts may include the obligation of an asset value guarantee whereby Airbus or ATR guarantee a portion of the value of an aircraft at a specific date after its delivery. Management considers the financial risks associated with such guarantees to be manageable. Three factors contribute to this assessment: (i) the guarantee only covers a tranche of the estimated future value of the aircraft, and its level is considered prudent in comparison to the estimated future value of each aircraft; (ii) the asset value guarantee related exposure is diversified over a large number of aircraft and customers; and (iii) the exercise dates of outstanding asset value guarantees are distributed through 2019. If the present value of the guarantee given exceeds 10% of the sales price of the aircraft, the sale of the underlying aircraft is accounted for as an operating lease (see Note 13 "Property, plant and equipment" and Note 26 "Deferred income"). In addition, EADS is contingently liable in case asset value guarantees with less than 10% are provided to customers as part of aircraft sales. Counter guarantees are negotiated with third parties and reduce the risk to which the group is exposed. As of December 31<sup>st</sup>, 2006 the nominal value of asset value guarantees provided to airlines, that do not exceed the 10% criteria, amount to 1,093 M €, excluding 461 M € where the risk is considered to be remote. In many cases the risk is limited to a specific portion of the residual value of the aircraft. The present value of the risk inherent to the given asset value guarantees where a settlement is being considered as probable is fully provided for and included in the total amount of provisions for asset value risks of 633 M € (see Note 21 d.) "Other provisions"). This provision covers a potential expected shortfall between the estimated

value of the aircraft of the date upon which the guarantee can be exercised and the value guaranteed on a transaction basis taking counter guarantees into account.

Because exercise dates for asset value guarantees are on average in the 10th year following aircraft delivery, asset value guarantees issued in 2006 will generally not be exercisable prior to 2016, and, therefore, an increase in near-term exposure is not expected.

With respect to ATR, EADS and Finmeccanica are jointly and severally liable to third parties without limitation. Amongst the shareholders, the liability is limited to each partner's proportionate share.

While **backstop commitments** to provide financing related to orders on Airbus' and ATR's backlog are also given, such commitments are not considered to be part of gross exposure until the financing is in place, which occurs when the aircraft is delivered. This is due to the fact that (i) past experience suggests it is unlikely that all such proposed financings actually will be implemented (although it is possible that customers not benefiting from such commitments may nevertheless request financing assistance ahead of aircraft delivery), (ii) until the aircraft is delivered, Airbus or ATR retain the asset and do not incur an unusual risk in relation thereto, and (iii) third parties may participate in the financing. In order to mitigate Airbus and ATR credit risks, such commitments typically contain financial conditions which guaranteed parties must satisfy in order to benefit therefrom.

**Other commitments** – Other commitments comprise contractual guarantees and performance bonds to certain customers as well as commitments for future capital expenditures.

Future nominal **operating lease payments** (for EADS as a lessee) for rental and lease agreements (not relating to aircraft sales financing) amount to 1,025 M € as of December 31<sup>st</sup>, 2006, and relate mainly to procurement operations (*e.g.*, facility leases, car rentals). Maturities are as follows:

(in €m)	
Not later than 2007	126
Later than 2007 and not later than 2011	342
Later than 2011	557
<b>Total</b>	<b>1,025</b>

## 30. Information about financial instruments

### a) Financial risk management

By the nature of the activities carried out, EADS is exposed to a variety of financial risks, especially foreign currency exchange rate risks and interest rate risks, as explained below. The management and limitation of the foreign exchange currency risks at EADS is generally carried out by a central treasury department at EADS Headquarters under policies approved by the Board of Directors. The identification, evaluation and hedging of the financial risks is in the responsibility of established treasury committees and the Group's Divisions and Business Units.

#### Market risk

**Currency risk** – EADS manages a long-term hedge portfolio with a maturity of several years covering its net exposure to US Dollar sales, mainly from the activities of Airbus. This hedge portfolio covers the majority of the Group's highly probable transactions.

Significant parts of EADS' revenues are denominated in US Dollars, whereas a major portion of its costs is incurred in Euros and to a smaller extent in GBP. Consequently, to the extent that EADS does not use financial instruments to cover its current and future foreign currency exchange rate exposure, its profits are affected by changes in the Euro-US Dollar exchange rate. As the Group intends to generate profits only from its operations and not through speculation on foreign currency exchange rate movements, EADS uses hedging strategies to manage and minimise the impact of exchange rate fluctuations on these profits.

For financial reporting purposes, EADS mostly designates a portion of the total firm future cash flows as the hedged position to cover its expected foreign currency exposure.

Therefore, as long as the actual gross foreign currency cash inflows (per month) exceed the portion designated as being hedged, a postponement or cancellation of sales transactions and corresponding cash inflows have no impact on the hedging relationship. As hedging instruments, EADS primarily uses foreign currency forwards.

EADS endeavours to hedge the majority of its exposure based on firm commitments and forecasted transactions. For products such as aircraft, EADS typically hedges forecasted sales in US Dollar. The hedged items are defined as first forecasted highly probable future cash inflows for a given month based upon final payments at delivery. The amount of the flows to be hedged can cover up to 100% of the equivalent of the net US Dollar exposure at inception. For EADS, a forecasted transaction is regarded as highly probable if the future delivery is included in the internally audited order book or is very likely to materialise in view of contractual evidence. The coverage ratio is adjusted to take into account macroeconomic movements affecting the spot rates and interest rates, as applicable. For the non-aircraft business EADS hedges in- and outflows in foreign currencies from sales and purchase contracts typically in low volumes.

The company also has foreign currency derivative instruments which are embedded in certain purchase and lease contracts denominated in a currency other than the functional currency of the significant parties to the contract, principally USD and GBP. Gains or losses relating to such embedded foreign currency derivatives are reported in other financial result. In addition EADS hedges currency risk arising from financial transactions in other currencies than EUR, such as funding transactions or securities.

**Interest rate risk** – The Group uses an asset-liability management approach with the objective to limit its interest



rate risk. The Group undertakes to match the risk profile of its assets with a corresponding liability structure. The remaining net interest rate exposure is managed through several types of interest rate derivatives in order to minimise risks and financial impacts.

Hedging instruments that are specifically designated to debt instruments have at the maximum the same nominal amounts as well as the same maturity dates compared to the hedged item. Regarding cash, EADS is mainly investing in short-term instruments and/or instruments that are related to a floating interest index in order to further minimise any interest risk in its cash and securities portfolio.

**Price Risk** – The cash and cash equivalents and securities portfolio of the Group is invested mainly in non-speculative financial instruments, mostly highly liquid, such as certificates of deposits, overnight deposits, commercial papers and other money market instruments which generally are short term and subject to only an insignificant price risk. Therefore, the Group assesses its exposure towards price risk as minor.

#### Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents at any time to meet its present and future commitments. This is safeguarded by the reported total amount of the Group's cash and cash equivalents, which is further supported by a substantial amount of unused committed credit facility (3.0 billion € as of December 31<sup>st</sup>, 2006). On a daily basis, EADS invests any surplus cash mainly in non-speculative highly liquid financial instruments, such as certificates of

deposits, overnight deposits, commercial papers and other money market instruments which are generally short term.

#### Credit risk

EADS is exposed to credit risk to the extent of non-performance by either its customers (e.g. airlines) or its counterparts with regard to financial instruments. However, the Group has policies in place to avoid concentrations of credit risk and to ensure that credit risk is limited.

Cash transactions and derivative counterparts are limited to high credit quality financial institutions. For such financial transactions EADS has set up a credit limit system to actively manage and limit its credit risk exposure. This limit system assigns maximum exposure lines to counterparts of financial transactions, based at a minimum on their credit ratings as published by Standard & Poors, Moody's and Fitch IBCA. The respective limits are regularly monitored and updated.

Sales of products and services are made to customers after having conducted an appropriate internal credit risk assessment. In order to support product sales, primarily at Airbus and ATR, EADS may agree to participate in the financing of customers, on a case-by-case basis, directly or through guarantees provided to third parties. In determining the amount and terms of the financing transaction, Airbus and ATR take into account the airline's credit rating as well as risk factors specific to the intended operating environment of the aircraft and its expected future value. Market yields and current banking practices also serve to benchmark the financing terms offered to customers, including price.

## b) Notional amounts

The contract or notional amounts of derivative financial instruments shown below do not necessarily represent amounts exchanged by the parties and, thus, are not necessarily a measure for the exposure of the Group through its use of derivatives.

The notional amounts of foreign exchange derivative financial instruments are as follows, specified by year of expected maturity:

Year ended December 31, 2006 (in €m)	Remaining period								Total
	2007	2008	2009	2010	2011	2012	2013	2014	
<b>Foreign Exchange Contracts:</b>									
Net forward sales (purchase) contracts	10,970	10,358	7,000	3,907	855	0	(1)	(3)	<b>33,086</b>
<b>Structured USD forward:</b>									
Purchased USD call options	333	181	114	0	0	0	0	0	<b>628</b>
Purchased USD put options	885	181	114	0	0	0	0	0	<b>1,180</b>
Written USD call options	885	181	114	0	0	0	0	0	<b>1,180</b>
FX swap contracts	3,564	23	15	0	0	0	0	211	<b>3,813</b>

Year ended December 31, 2005 (in €m)	Remaining period			Total
	not exceeding 1 year	1 year up to 5 years	more than 5 years	
<b>Foreign Exchange Contracts:</b>				
Net forward sales contracts	9,653	27,076	365	<b>37,094</b>
<b>Structured USD forward:</b>				
Purchased USD call options	119	573	0	<b>692</b>
Purchased USD put options	1,495	1,190	0	<b>2,685</b>
Written USD call options	1,495	1,190	0	<b>2,685</b>
FX swap contracts	625	0	117	<b>742</b>

The notional amounts of interest rate contracts are as follows, specified by year of expected maturity:

Year ended December 31, 2006 (in €m)	Remaining period								Total
	2007	2008	2009	2010	2011	2012 -17	2018	2019	
Interest Rate Contracts	184	257	140	1,000	15	0	1,542	1,574	<b>4,712</b>
Caps	1,000	0	0	0	0	0	0	0	<b>1,000</b>

Year ended December 31, 2005 (in €m)	Remaining period			Total
	not exceeding 1 year	1 year up to 5 years	more than 5 years	
Interest Rate Contracts	105	1,504	2,921	<b>4,530</b>
Caps	0	1,000	0	<b>1,000</b>

### c) Fair value of financial instruments

The fair value of a financial instrument is the price at which one party would assume the rights and/or duties of another party. Fair values of financial instruments have been determined with reference to available market information at the balance

sheet date and the valuation methodologies discussed below. Considering the variability of their value-determining factors and the volume of financial instruments, the fair values presented herein may not be indicative of the amounts that the Group could realise in a current market environment.

The following interest rate curves are used in the determination of the fair value in respect of the financial instruments as of December 31<sup>st</sup>, 2006 and 2005:

December 31, 2006 Interest rate in %	EUR	USD	GBP
6 months	3.85	5.33	5.45
1 year	4.00	5.29	5.62
5 years	4.13	5.10	5.45
10 years	4.20	5.18	5.18

December 31, 2005 Interest rate in %	EUR	USD	GBP
6 months	2.61	4.68	4.54
1 year	2.84	4.83	4.53
5 years	3.21	4.87	4.53
10 years	3.45	4.96	4.46



The carrying amounts and fair values of the Group's major financial instruments are as follows:

(in €m)	December 31,			
	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Non-derivative Financial Instruments</b>				
Assets:				
Non-current securities	1,294	1,294	1,011	1,011
Current portion of long-term financial assets	103	103	237	237
Current securities <sup>(1)</sup>	549	549	4,189	4,189
Cash and cash equivalents <sup>(1)</sup>	8,143	8,143	5,386	5,386
Liabilities:				
Financial liabilities (long-term and short-term)	5,757	5,909	5,097	5,381
<b>Derivative Financial Instruments</b>				
Currency contracts with positive fair values	5,190	5,190	3,913	3,913
Currency contracts with negative fair values	(67)	(67)	(749)	(749)
Interest rate contracts with positive fair values	52	52	40	40
Interest rate contracts with negative fair values	(164)	(164)	(151)	(151)
Embedded foreign currency derivatives with (negative) positive fair values	25	25	(21)	(21)

(1) Regarding the retrospective accounting change of "Current securities" and "Cash and cash equivalents" please refer to Note 2 "Summary of significant accounting policies" and to Note 18 "Securities".

The fair value of financial liabilities as of December 31<sup>st</sup>, 2006 has been estimated including all future interest payments and also reflects the interest rate as stated in the tables above. The fair value of the EMTN bonds has been assessed using public price quotations.

The European Governments refundable advances of 5,418 M € (in 2005: 5,293 M €) are measured at amortised cost; a fair value can not be measured reliably due to their risk sharing nature and uncertainty about the repayment dates.

Derivative financial instruments regarding currency contracts with a positive fair value of 5,190 M € are designated as cash

flow hedges in the amount of 5,067 M €; the currency contracts with a negative fair value of (67) M € are designated as cash flow hedges in the amount of (66) M €. Interest rate derivative financial instruments with a positive fair value of 52 M € include derivatives not designated in a hedging relationship in the amount of 37 M € and derivatives designated as fair value hedges in the amount of 15 M €. Interest rate derivative financial instruments with a negative fair value of (164) M € are designated as cash flow hedges in the amount of (86) M € and 44 M € as fair value hedges. Embedded foreign currency derivatives are not designated in a hedge relationship.

The development of the foreign exchange rate hedging instruments recognised in AOCI is as of December 31<sup>st</sup>, 2006 and 2005 as follows (for previous year figures adjustments please refer to Note 2 “Summary of significant accounting policies” chapter “Derivative Financial Instruments”):

(in €m)	Equity attributable to equity holders of the parent	Minority interests	Total
<b>January 1, 2005</b>	<b>5,647</b>	<b>0</b>	<b>5,647</b>
Unrealised gains and losses from valuations, net of tax	(2,476)	0	(2,476)
Transferred to profit or loss for the period, net of tax	(1,209)	0	(1,209)
Changes in fair values of hedging instruments recorded in AOCI, net of tax	(3,685)	0	(3,685)
<b>December 31, 2005 / January 1, 2006</b>	<b>1,962</b>	<b>0</b>	<b>1,962</b>
Unrealised gains and losses from valuations, net of tax	2,170	1	2,171
Transferred to profit or loss for the period, net of tax	(943)	0	(943)
Changes in fair values of hedging instruments recorded in AOCI, net of tax	1,227	1	1,228
<b>December 31, 2006</b>	<b>3,189</b>	<b>1</b>	<b>3,190</b>

**Financial Assets and Liabilities** – Generally, fair values are determined by observable market quotations or valuation techniques supported by observable market quotations.

By applying a valuation technique, such as present value of future cash flows, fair values are based on estimates. However, methods and assumptions followed to disclose data presented herein are inherently judgmental and involve various limitations like estimates as of December 31<sup>st</sup>, 2006 and 2005, which are not necessarily indicative of the amounts that the Company would record upon further disposal/ termination of the financial instruments.

The methodologies used are as follows:

**Short-term investments, cash, short-term loans, suppliers** – The carrying amounts reflected in the annual accounts are reasonable estimates of fair value because of the

relatively short period of time between the origination of the instruments and its expected realisation.

**Long-term debt; short-term debt** – Neither long term nor short term debt is classified as liabilities held for trading and as such accounted for at amortised cost.

**Securities** – The fair value of securities included in available-for-sale investments is estimated by reference to their quoted market price at the balance sheet date. If a quoted market price is not available, fair value is determined on the basis of generally accepted valuation methods on the basis of market information available at the reporting date.

**Currency and Interest Rate Contracts** – The fair value of these instruments is the estimated amount that the Company would receive or pay to settle the related agreements as of December 31<sup>st</sup>, 2006 and 2005.

The following types of **financial assets** held at December 31<sup>st</sup>, 2006 are recognised at fair value through profit or loss:

(in €m)	Nominal amount at initial recognition	Fair value as of December 31 <sup>st</sup> , 2006
Money Market Funds (accumulating)	3,418	3,459
Bond Funds	18	17
<b>Total</b>	<b>3,436</b>	<b>3,476</b>

The cumulative unrealised gain recognised in finance income amounts to 37 M €.

In addition EADS invests in Money Market Funds paying interest on a monthly basis. The fair value of those funds corresponds to their nominal amount at initial recognition date amounting to 1,598 M €.

All types of Money Market Funds are presented in Cash and cash equivalent.

## 31. Share-based Payment

### a) Long Term Incentive Plans

Based on the authorisation given to it by the shareholders' meetings (see dates below), the Group's Board of Directors approved (see dates below) stock option plans in 2006, 2005, 2004, 2003, 2002, 2001 and 2000. These plans provide to the members of the Executive Committee as well as to the Group's senior management the grant of options for the purchase of EADS shares. At its 18<sup>th</sup>, December 2006 meeting, the Board of Directors of the Company, using the authorisation given to it by the shareholders' meeting of 4<sup>th</sup>, May 2006 approved the granting of performance shares and restricted shares to eligible employees of the Company.

For the 2006 Stock Option Plan, analogous to all of EADS' previous existing stock option plans, the granted exercise price was exceeding the share price at grant date.

In 2006, compensation expense for Stock Option Plans was recognised for an amount of 40 M € (2005: 24 M €).

The fair value of one option granted under the 8<sup>th</sup> tranche amounts to €8.37, the fair value of one performance and restricted shares amounts to €24.26 as of grant date, respectively.

The following major input parameters were used in order to calculate the fair value of the stock options granted:

#### Input parameters for the Black Scholes Option Pricing Model

	SOP 2006	SOP 2005	SOP 2004
Share price (€)	25.34	32.79	22.83
Exercise price (€) <sup>(1)</sup>	25.65	33.91	24.32
Risk-free interest rate (%) <sup>(2)</sup>	4.13	3.24	3.35
Expected volatility (%)	30.7	24.8	27.0
Estimated option life (years)	5.5	5.5	5.5

(1) The exercise price for the performance and restricted shares are 0 €.

(2) The risk-free interest rate is based on a 5 years zero coupon yield curve.

EADS uses the historical volatilities of its share price as an indicator to estimate the volatility of its stock options granted. To test whether those historical volatilities sufficiently approximate expected future volatilities, they are compared to the implied volatilities of EADS options, which are traded at the market as of grant date. Such options typically have a shorter life of up to two years. In case of only minor differences between the historical volatilities and the implied volatilities,

EADS uses historical volatilities as input parameters to the Black Scholes Option Pricing Model (please refer to Note 2 "Summary of significant accounting policies"). For valuation purposes performance criteria are considered to be met.

The estimated option life of 5.5 years is based on historical experience and incorporates the effect of expected early exercises.

The principal characteristics of these options, performance and restricted shares as at 31<sup>st</sup>, December 2006 are summarised in the tables below:

	First Tranche	Second Tranche	Third Tranche
Date of shareholders' meeting	May 24 <sup>th</sup> , 2000	May 24 <sup>th</sup> , 2000	May 10 <sup>th</sup> , 2001
Date of Board of Directors meeting (grant date)	May 26 <sup>th</sup> , 2000	October 26 <sup>th</sup> , 2000	July 12 <sup>th</sup> , 2001
Number of options granted	5,324,884	240,000	8,524,250
Number of options outstanding	1,743,489	32,000	3,856,519
Total number of eligible employees	850	34	1,650
Exercise date	50% of options may be exercised after a period of two years and four weeks from the date of grant of the options; 50% of options may be exercised as of the third anniversary of the date of grant of the options (subject to specific provisions contained in the Insider Trading Rules - see "Part 2/3.1.3 Governing Law - Dutch Regulations").		
Expiry date	July 8 <sup>th</sup> , 2010	July 8 <sup>th</sup> , 2010	July 12 <sup>th</sup> , 2011
Conversion right	One option for one share		
Vested	100%	100%	100%
Exercise price	Euro 20.90	Euro 20.90	Euro 24.66
Exercise price conditions	110% of fair market value of the shares at the date of grant	110% of fair market value of the shares at the date of grant	110% of fair market value of the shares at the date of grant
Number of exercised options	2,856,911	188,000	3,490,831
	Fourth Tranche	Fifth Tranche	Sixth Tranche
Date of shareholders' meeting	May 10 <sup>th</sup> , 2001	May 6 <sup>th</sup> , 2003	May 6 <sup>th</sup> , 2003
Date of Board of Directors meeting (grant date)	August 9 <sup>th</sup> , 2002	October 10 <sup>th</sup> , 2003	October 8 <sup>th</sup> , 2004
Number of options granted	7,276,700	7,563,980	7,777,280
Number of options outstanding	2,911,916	5,229,965	7,599,700
Total number of eligible employees	1,562	1,491	1,495
Exercise date	50% of options may be exercised after a period of two years and four weeks from the date of grant of the options; 50% of options may be exercised as of the third anniversary of the date of grant of the options (subject to specific provisions contained in the Insider Trading Rules - see "Part 2/3.1.3 Governing Law - Dutch Regulations"). As regards to the sixth tranche, part of the options granted to the top EADS Executives are performance related.		
Expiry date	August 8 <sup>th</sup> , 2012	October 9 <sup>th</sup> , 2013	October 7 <sup>th</sup> , 2014
Conversion right	One option for one share		
Vested	100%	100%	50%
Exercise price	Euro 16.96	Euro 15.65	Euro 24.32
Exercise price conditions	110% of fair market value of the shares at the date of grant	110% of fair market value of the shares at the date of grant	110% of fair market value of the shares at the date of grant
Number of exercised options	4,115,534	2,116,545	2,400





	Seventh Tranche	Eighth Tranche
Date of shareholders' meeting	May 11 <sup>th</sup> , 2005	May 4 <sup>th</sup> , 2006
Date of Board of Directors meeting (grant date)	December 9 <sup>th</sup> , 2005	December 18 <sup>th</sup> , 2006 <sup>(1)</sup>
Number of options granted	7,981,760	1,747,500
Number of options outstanding	7,907,600	1,747,500
Total number of eligible employees	1,608	221
Exercise date	50% of options may be exercised after a period of two years from the date of grant of the options; 50% of options may be exercised as of the third anniversary of the date of grant of the options (subject to specific provisions contained in the Insider Trading Rules - see "Part 2/3.1.3 Governing Law - Dutch Regulations"). As regards to the seventh tranche, part of the options granted to the top EADS Executives are performance related.	
Expiry date	December 8 <sup>th</sup> , 2015	December 16 <sup>th</sup> , 2016
Conversion right	One option for one share	
Vested	0%	0%
Exercise price	Euro 33.91	Euro 25.65
Exercise price conditions	110% of fair market value of the shares at the date of grant	110% of fair market value of the shares at the date of grant
Number of exercised options	0	0

	Eighth Tranche	
	Performance share plan	Restricted share plan
Number of shares granted	1,344,625	391,300
Date of Board of Directors meeting (grant date)	December 18 <sup>th</sup> , 2006 <sup>(1)</sup>	December 18 <sup>th</sup> , 2006 <sup>(1)</sup>
Total number of eligible employees	1,637	
Vesting date	The performance and restricted shares will vest if the participant is still employed by an EADS company and, in the case of performance shares, upon achievement of mid-term business performance. The vesting period will end at the date of publication of the 2009 annual results, expected in March 2010.	

(1) The eighth tranche was published to the employees up to January 8<sup>th</sup>, 2007.

The following table summarises the development of the number of stock options:

First & Second Tranche	Number of Options				
	Options granted	Balance at January 1	Exercised	Forfeited	Balance at December 31
2000	5,564,884	-	-	(189,484)	5,375,400
2001	-	5,375,400	-	-	5,375,400
2002	-	5,375,400	-	-	5,375,400
2003	-	5,375,400	-	(75,000)	5,300,400
2004	-	5,300,400	(90,500)	(336,000)	4,873,900
2005	-	4,873,900	(2,208,169)	(121,000)	2,544,731
2006	-	2,544,731	(746,242)	(23,000)	1,775,489

Third Tranche	Number of Options				
	Options granted	Balance at January 1	Exercised	Forfeited	Balance at December 31
2001	8,524,250	-	-	(597,825)	7,926,425
2002	-	7,926,425	-	-	7,926,425
2003	-	7,926,425	-	(107,700)	7,818,725
2004	-	7,818,725	-	(328,500)	7,490,225
2005	-	7,490,225	(2,069,027)	(132,475)	5,288,723
2006	-	5,288,723	(1,421,804)	(10,400)	3,856,519

Fourth Tranche	Number of Options				
	Options granted	Balance at January 1	Exercised	Forfeited	Balance at December 31
2002	7,276,700	-	-	(600)	7,276,100
2003	-	7,276,100	-	(70,125)	7,205,975
2004	-	7,205,975	(262,647)	(165,500)	6,777,828
2005	-	6,777,828	(2,409,389)	(9,250)	4,359,189
2006	-	4,359,189	(1,443,498)	(3,775)	2,911,916

Fifth Tranche	Number of Options				
	Options granted	Balance at January 1	Exercised	Forfeited	Balance at December 31
2003	7,563,980	-	-	-	7,563,980
2004	-	7,563,980	(9,600)	(97,940)	7,456,440
2005	-	7,456,440	(875,525)	(87,910)	6,493,005
2006	-	6,493,005	(1,231,420)	(31,620)	5,229,965

Sixth Tranche	Number of Options				
	Options granted	Balance at January 1	Exercised	Forfeited	Balance at December 31
2004	7,777,280	-	-	-	7,777,280
2005	-	7,777,280	-	(78,220)	7,699,060
2006	-	7,699,060	(2,400)	(96,960)	7,599,700

Seventh Tranche	Number of Options				
	Options granted	Balance at January 1	Exercised	Forfeited	Balance at December 31
2005	7,981,760	-	-	-	7,981,760
2006	-	7,981,760	-	(74,160)	7,907,600

Eighth Tranche	Number of Options				
	Options granted	Balance at January 1	Exercised	Forfeited	Balance at December 31
2006	1,747,500	-	-	-	1,747,500

<b>Total options for all Tranches</b>	<b>46,436,354</b>	<b>-</b>	<b>(12,770,221)</b>	<b>(2,637,444)</b>	<b>31,028,689</b>
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Performance/restricted shares plan	Number of Shares					Balance at December 31
	Shares granted	Balance at January 1	Vested	Forfeited		
Performance shares in 2006	1,344,625	-	-	-		1,344,625
Restricted shares in 2006	391,300	-	-	-		391,300
<b>Total shares</b>	<b>1,735,925</b>	<b>-</b>	<b>-</b>	<b>-</b>		<b>1,735,925</b>

## b) Employee Stock Ownership Plan (ESOP)

In 2006, no ESOP was issued by the company. Therefore, no compensation expense was recognised in 2006 (2005: 9 M €) in connection with the ESOPs.

## 32. Related party transactions

**Related parties** – The Group has entered into various transactions with related companies in 2006, 2005 and 2004 that have all been carried out in the normal course of business. As is the Group's policy, all related party transactions have to be carried out at arm's length. Transactions with related parties include the French State, DaimlerChrysler, Lagardère and SEPI (Spanish State). Except for the transactions with the French State and SEPI, the transactions are not considered material to the Group either individually or in the aggregate. The transactions with the French State include mainly sales from the Eurocopter, Astrium and Defence & Security divisions for programs like Tiger, M51 / M45 ballistic missiles and SCALP naval cruise missiles. The transactions with Spanish State include mainly sales from the MTA division for programs like the A400M.

**Remuneration** – Remuneration and related compensation costs of all of the members of the Board of Directors in office as at December 31<sup>st</sup>, 2006 amounted to 6 M € for the period ended December 31<sup>st</sup>, 2006 (in 2005: 8 M €). These amounts do not comprise the amounts of the estimated cost of stock-based compensation of Directors.

The 2006 amount does not comprise either the amounts granted in 2006 to the former Director Noël Forgeard in remuneration for his membership with the Board of Directors and under the terms of his employment contract as termination package. For more information in respect of remuneration of former Director, see "Notes to the Company Financial Statements - Note 11: Remuneration".

EADS has not provided any loans to/advances to/guarantees on behalf of Directors or former Directors.

In 2006, total remuneration of EADS Executive Committee members in office as at December 31<sup>st</sup>, 2006 (therefore excluding former Executive Committee members, but including those Executive Board Directors who are also Executive Committee members) amounted to 11 M € (2005: 13 M €). Additionally, stock-options granted in 2006 for this group of managers represented 475,000 options and performance shares granted in 2006 represented 133,750 shares.

The Executive Committee members have pension promises as part of their employment agreements. The general policy is to give them annual pension of 50% of their annual base salary after five years in the Executive Committee of EADS at the age of 60 to 65. In case of the CEOs, the retirement age is 60. This obligation increases to 60% after ten years of service in the EADS Executive Committee.

For those Executive Committee members in office as at December 31<sup>st</sup>, 2006, the amount of the pension net defined benefit obligation amounted to 18 M € while the cumulative amount of current service cost and interest cost related to their benefit obligation accounted for during fiscal year 2006 represented an expense of 2 M €.

The Executive Committee members are furthermore entitled to a termination package when they leave the Company as a result of a decision of the Company. The employment contracts for the Executive Committee members are concluded for an indefinite term with an indemnity of up to a maximum of 24 months of their target income. The maximum 24 months indemnity can be reduced prorata depending on the age of departure.

Executive Committee members are also entitled to a company car.

### 33. Investment property

The Group owns investment property, that is leased to third parties. For the purposes of IAS 40 “Investment property” the fair values have been determined by using market based

multipliers for estimated rental income or using available market prices.

Buildings held as investment property are depreciated on a linear basis over their useful life up to 20 years. The values assigned to investment property are as follows:

(in €m)	Historical cost	Accumulated depreciation December 31, 2005	Book value December 31, 2005	Transfer Historical cost	Depreciation Amortisation	Transfer Accumulated depreciation	Accumulated depreciation December 31, 2006	Net at December 31, 2006
Book value of Investment Property	253	(119)	134	18	(12)	(3)	(134)	137

As of December 31<sup>st</sup>, 2006, the fair value of the Group’s investment property amounts to 154 M € (in 2005: 134 M €). Related rental income in 2006 is 15 M € (in 2005: 15 M €) with direct operating expenses amounting to 7 M € (in 2005: 8 M €).

### 34. Interest in Joint Ventures

The Group’s principal investments in joint ventures and the proportion of ownership are included in Appendix “Information on principal investments”. Joint ventures are consolidated using the proportionate method.

The following amounts represent the Group’s aggregate share of the assets and liabilities and income and expenses of the significant joint ventures (MBDA, Atlas and ATR):

(in €m)	2006	2005
Non current assets	830	680
Current assets	3,503	3,379
Non current liabilities	612	362
Current liabilities	3,245	3,162
Revenues	2,006	1,828
Profit for the period	170	121

### 35. Earnings per Share

The profit for the period attributable to equity holders of the parent (Net income) for 2004 was adjusted due to retrospective application of IFRS 2 “Share-based Payment” amounting to (12) M € and due to IAS 32 “Financial Instruments: Disclosure and Presentation” (revised 2004) in 2004 with an amount of 185 M €.

**Basic earnings per share** – Basic earnings per share are calculated by dividing profit for the period attributable to equity holders of the parent (Net income) by the weighted average number of issued ordinary shares during the year, excluding ordinary shares purchased by the Group and held as treasury shares.



	2006	2005	2004
Profit for the period attributable to equity holders of the parent (Net income)	99 M €	1,676 M €	1,203 M €
Weighted average number of ordinary shares	800,185,164	794,734,220	801,035,035
Basic earnings per share	0.12 €	2.11 €	1.50 €

The effect from applying in 2006 the IAS 19 equity approach instead of the corridor approach contributes 0.03 € to basic earnings per share. For further details please refer to Note 2 “Summary of significant accounting policies” and Note 21 b) “Provisions for retirement plans”.

**Diluted earnings per share** - For the calculation of the diluted earnings per share, the weighted average number of ordinary shares is adjusted to assume conversion of all potential

ordinary shares. The Group’s only category of dilutive potential ordinary shares is stock options. In 2006, the average share price of EADS exceeded the exercise price of the stock options under the 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup> and 6<sup>th</sup> stock option plan (in 2005: 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup>, and 6<sup>th</sup> stock option plan; in 2004: 4<sup>th</sup> and 5<sup>th</sup> stock option plan). Hence, 4,130,499 shares (2005: 5,482,133 shares; 2004: 3,047,837 shares) were considered in the calculation of diluted earnings per share.

	2006	2005	2004
Profit for the period attributable to equity holders of the parent (Net income)	99 M €	1,676 M €	1,203 M €
Weighted average number of ordinary shares	804,315,663	800,216,353	804,082,872
Diluted earnings per share	0.12 €	2.09 €	1.50 €

The effect from applying in 2006 the IAS 19 equity approach instead of the corridor approach contributes 0.03 € to diluted earnings per share. For further details please refer to Note 2 “Summary of significant accounting policies” and Note 21 b) “Provisions for retirement plans”.

## 36. Number of Employees

The number of employees at December 31<sup>st</sup>, 2006 is 116,805 as compared to 113,210 at December 31<sup>st</sup>, 2005.

## 37. Events after the balance sheet date

Following an agreement dated January 10<sup>th</sup>, 2007, EADS sold its remaining 60% shares of Sogerma Services as well as the shares of the subsidiaries Barfield and Sogerma Tunisia (please also refer to Note 19 “Non-current assets / disposal groups classified as held for sale”).

EADS sold on February 12<sup>th</sup>, 2007 its 2.1% share in EMBRAER Empresa Brasileira de Aeronáutica S.A. for a total proceed (before taxes and bank fees) of 124 M €.

On February 28<sup>th</sup>, 2007, the Airbus management disclosed the restructuring portion of its program called “Power 8” to the public and to the Airbus European Works Council. The Airbus management will implement strong cost reductions and cash generating efforts leading to expected EBIT contributions of

2.1 billion € from 2010 onwards and additional 5 billion € of cumulative cash flow from 2007 to 2010. The restructuring program includes a progressive headcount reduction of 10,000 overhead positions over four years of which 5,000 are temporary or on-site subcontractors. Furthermore, Airbus will focus on its core activities in the future, therefore is seeking partners for sites like for Nordenham, Filton and Méaulte to invest into composite technology. The sites of Varel, Laupheim and St. Nazaire-Ville will be offered for sale or gathered with nearby sites. In addition, Airbus will streamline for future and existing programs its final assembly lines in the different countries. This includes a third A320 family final assembly line in Hamburg in order to manage the steep ramp-up of this program. The A350XWB will be assembled in Toulouse and the future New Short Range in Hamburg. Also, Airbus will

introduce a fully integrated and transnational organisation. Therefore, Airbus will replace the current organisation of eight nationally structured Centres of Excellence by four transnational centres of excellence. Finally, Airbus will make use of shared services within EADS. Regarding the expected restructuring costs related to the Power 8 program, Airbus will set up restructuring provisions in its first quarter of 2007 accounts.

EADS published on March 2<sup>nd</sup>, 2007 that the A380F program has been re-scheduled but remains an active part of the A380 aircraft family. Therefore, activities for the A380F program have been interrupted, including activities of the suppliers. The U.S. logistics company UPS subsequently cancelled its order of ten A380F aircraft.

These consolidated financial statements have been authorised for issuance by the Board of Directors on March 8<sup>th</sup>, 2007.



## Appendix: Information on principal investments - Consolidation Scope

	2006	%	2005	%	Company	Head office
<b>Airbus</b>						
			F	80.00	128829 Canada Inc.	Canada
	F	100.00			AD Grundstückgesellschaft GmbH	Pöcking (Germany)
			F	80.00	AFS (Cayman) Ltd	Ireland
	F	100.00	F	80.00	AFS Cayman 11 Limited	Cayman Isle
	F	100.00	F	80.00	AFS Cayman Aerospace Limited	Ireland
			F	80.00	AFS USA 1 inc	U.S.A.
	F	100.00	F	80.00	AI leasing Inc.	U.S.A.
	F	100.00	F	80.00	AI Participations S.A.R.L.	Blagnac (France)
			F	80.00	AIFI LLC	Isle Of Man
	F	100.00	F	80.00	AIFS (Cayman) ltd.	Cayman Isle
	F	100.00	F	80.00	AIFS Cayman Liquidity Ltd.	Cayman Isle
	F	100.00	F	80.00	AIFS Leasing Company Limited	Ireland
	F	100.00	F	80.00	Airbus North American Holdings Inc. (AINA Inc.)	U.S.A.
	F	100.00	F	80.00	Airbus A320 Financing limited	Ireland
	F	100.00	F	80.00	Airbus China limited	Hong-Kong
	F	100.00	F	80.00	Airbus Deutschland GmbH	Hamburg (Germany)
	F	100.00	F	80.00	Airbus Espana SL	Madrid (Spain)
	F	100.00	F	80.00	Airbus Finance Company Ltd	Dublin (Ireland)
	F	100.00	F	80.00	Airbus Financial Service Holdings B.V.	Netherlands
			F	80.00	Airbus Financial Service Holdings Ltd.	Ireland
	F	100.00	F	80.00	Airbus Financial Service Unlimited	Ireland
	F	100.00	F	80.00	Airbus France S.A.S	Toulouse (France)
	F	100.00	F	80.00	Airbus Holding SA	France
	F	100.00	F	80.00	Airbus Invest	Toulouse (France)
	F	100.00	F	80.00	Airbus North America Engineering	U.S.A.
	F	100.00	F	80.00	Airbus North American Holdings Inc. (AINA)	U.S.A.
	F	100.00	F	80.00	Airbus S.A.S	Toulouse (France)
	F	100.00	F	80.00	Airbus North America Customer Service, Inc. (ASCO)	U.S.A.
	F	100.00	F	80.00	Airbus Transport International S.N.C. (ATI)	Blagnac (France)
			F	80.00	Airbus Treasury Company	Ireland
	F	100.00	F	80.00	Airbus UK Limited	UK
			E	16.00	Alexandra Bail G.I.E	France
			F	80.00	Avaio Aerospace Limited	Ireland
			F	80.00	Avaio Aviation Limited	Ireland
			F	80.00	Avaio International Limited	Ireland
			F	80.00	Avaio Leasing Limited	Ireland
	F	100.00	F	80.00	Avaio Limited	Isle Of Man
	F	100.00	F	80.00	Aviateur Aerospace Limited	Ireland
	F	100.00	F	80.00	Aviateur Eastern Limited	Ireland
	F	100.00	F	80.00	Aviateur Finance Limited	Ireland

F: Fully consolidated. P: Proportionate. E: Equity method.

The stated percentage of ownership is related to the respective parent company.

	2006	%	2005	%	Company	Head office
	F	100.00	F	80.00	Aviateur International Limited	Ireland
	F	100.00	F	80.00	Aviateur Leasing Limited	Ireland
			F	80.00	Aviateur Limited	Ireland
	E	26.40	E	26.40	Avion Capital Limited	Ireland
			F	80.00	Avion Finance Limited	Ireland
	F	100.00	F	80.00	AVSA Canada Inc.	Canada
			F	80.00	AVSA SARL	Blagnac (France)
	F	100.00	F	80.00	Norbus	U.S.A.
	F	100.00	F	80.00	Star Real Estate SAS	Boulogne (France)
	F	100.00	F	80.00	Total Airline Service Company	United Arab Emirates

Additionally consolidated are 41 SPEs.

#### Military Transport Aircraft

	F	90.00	F	76.12	Airbus Military S.L.	Madrid (Spain)
	F	100.00	F	100.00	EADS CASA North America, Inc	Chantilly / Virginia (USA)
	F	100.00	F	100.00	EADS CASA S.A. (Unit: EADS CASA Military Transport Aircraft)	Madrid (Spain)
	F	77.21	F	76.41	EADS PZL "WARSZAWA-OKECIE" S.A.	Warsaw (Poland)

#### Eurocopter

	F	100.00	F	100.00	AA military maintenance Pty. Ltd.	Brisbane (Australia)
	F	100.00	F	100.00	AA New Zealand Pty. Ltd.	Bankstown (Australia)
	F	100.00	F	100.00	American Eurocopter Corp.	Dallas, Texas (USA)
	F	60.00	F	60.00	American Eurocopter LLC	Dallas, Texas (USA)
	F	100.00	F	100.00	Australian Aerospace Ltd.	Bankstown (Australia)
	F	100.00	F	100.00	EIP Holding Pty. Ltd.	Bankstown (Australia)
	F	75.00	F	75.00	Eurocopter South East Asia Pte. Ltd.	Singapore (Singapore)
	F	100.00	F	100.00	Eurocopter Canada Ltd.	Ontario (Canada)
	F	100.00	F	100.00	Eurocopter Deutschland GmbH	Donauwörth (Germany)
	F	100.00	F	100.00	Eurocopter España S.A.	Madrid (Spain)
	F	100.00	F	100.00	Eurocopter Holding S.A.	Paris (France)
	F	100.00	F	100.00	Eurocopter S.A.S.	Marignane (France)
	F	100.00			Eurocopter Training Services SAS	Marignane (France)
	F	76.52	F	76.52	Helibras - Helicopteros do Brasil S.A.	Itajuba (Brazil)
	E	25.00			HFTS Helicopter Flight Training Services GmbH	Hallbergmoos (Germany)

#### Defence & Security

	F	100.00	F	100.00	Aircraft Services Lemwerder GmbH	Lemwerder (Germany)
	P	37.50	P	37.50	ALKAN	Valenton (France)
	F	100.00	F	100.00	Apsys	Suresnes (France)
	E	13.20			Arbeitsgemeinschaft Marinelogistik	Bremen (Germany)
	E	12.00			Atlas Defence Technology SDN.BHD	Kuala Lumpur (Malaysia)
	P	40.00			Atlas Elektronik PTY Limited	St. Leonards (Australia)
	P	40.00			Atlas Elektronik GmbH	Bremen (Germany)
	P	40.00			Atlas Hydrographic Holdings PTY Limited	St. Leonards (Australia)
	P	40.00			Atlas Hydrographic GmbH	Bremen (Germany)
	P	40.00			Atlas Maridan ApS	Horsholm (Denmark)
	P	40.00			Atlas Naval Systems Malaysia SDN.BHD.	Kuala Lumpur (Malaysia)

F: Fully consolidated. P: Proportionate. E: Equity method.

The stated percentage of ownership is related to the respective parent company.





2006	%	2005	%	Company	Head office
F	55.00	F	55.00	Aviation Defense Service S.A.	Saint-Gilles (France)
P	50.00	P	50.00	Bayern-Chemie Gesellschaft für flugchemische Antriebe mbH	Aschau/Inn (Germany)
E	16.00			CybiCOM Atlas Defence (Proprietary) Limited	Umhlanga Rocks, South Africa
F	100.00	F	100.00	Defense Security Systems Solutions Inc.	San Antonio, Texas (USA)
F	100.00	F	100.00	Dornier Consulting GmbH	Friedrichshafen (Germany)
F	100.00	F	100.00	Dornier Flugzeugwerft GmbH	Friedrichshafen (Germany)
F	100.00	F	100.00	EADS CASA S.A. (Unit: Military Aircraft)	Madrid (Spain)
F	100.00	F	100.00	EADS CASA S.A. (Unit: Operations Service)	Madrid (Spain)
F	100.00	F	100.00	EADS Defence & Security Systems Limited	Newport, Wales (UK)
F	100.00	F	100.00	EADS Defence & Security Systems Limited - Holding	Newport, Wales (UK)
F	100.00	F	100.00	EADS Defence & Security Systems SA	Velizy (France)
F	100.00	F	100.00	EADS Deutschland GmbH – Defence Headquarter [before: VA Restaktivitäten]	Unterschleißheim (Germany)
		F	100.00	EADS Deutschland GmbH - Dornier Services	Friedrichshafen (Germany)
F	100.00	F	100.00	EADS Deutschland GmbH - Dornier Verteidigung und Zivile Systeme	Friedrichshafen (Germany)
F	100.00	F	100.00	EADS Deutschland GmbH - Military Aircraft TB 51	Munich (Germany)
F	100.00	F	100.00	EADS Deutschland GmbH – Verteidigung und Zivile Systeme	Ulm (Germany)
F	100.00	F	100.00	EADS Deutschland GmbH (Unit: Operations Services)	Unterschleißheim (Germany)
F	100.00	F	100.00	EADS North America Defense Company	Wilmington, Delaware (USA)
F	100.00	F	100.00	EADS Operations & Services UK	Yeovil, Somerset (UK)
F	100.00	F	100.00	EADS Secure Networks Oy	Helsinki (Finland)
F	100.00	F	100.00	EADS Secure Networks SAS	Bois d'Arcy (France)
F	100.00	F	100.00	EADS Services	Boulogne (France)
F	100.00	F	100.00	EADS System & Defence Electronics Belgium	Oostkamp (Belgium)
F	100.00	F	100.00	EADS Telecom Deutschland GmbH	Ulm (Germany)
F	100.00	F	100.00	EADS Telecom Deutschland GmbH	Unterschleißheim (Germany)
F	100.00	F	100.00	EADS Telecom Espana	Madrid (Spain)
F	100.00	F	100.00	EADS Telecom Mexico SA de CV	Mexico DF (Mexico)
F	100.00			ECATS	Paris (France)
E	30.00	E	30.00	ESG Elektroniksystem- und Logistikgesellschaft	Munich (Germany)
		F	100.00	EUROBRIDGE Mobile Brücken GmbH	Friedrichshafen (Germany)
		F	100.00	Ewation GmbH	Ulm (Germany)
F	100.00	F	100.00	Fairchild Controls Corporation	Frederick Maryland (USA)
F	100.00	F	100.00	FmElo Elektronik- und Luftfahrtgeräte GmbH	Ulm (Germany)
F	100.00	F	100.00	Germantown Holding Company	Frederick Maryland (USA)
F	100.00	F	100.00	Gesellschaft für Flugzielandstellung mbH	Hohn, Germany
F	100.00			Get Electronique S.A.	Castres (France)
F	100.00	F	100.00	Hagenuk Marinekommunikation GmbH	Flintbek (Germany)
F	100.00			IFR France S.A.	Blagnac (France)
F	100.00	F	100.00	Integrated Defense Systems NA	Wilmington, Delaware (USA)
P	37.50	F	81.25	LFK – Lenkflugkörpersysteme GmbH	Unterschleißheim (Germany)
F	100.00	F	100.00	M.P. 13	Paris (France)
P	50.00	P	50.00	Maîtrise d'Oeuvre SyStème	Issy les Moulineaux (France)
F	100.00	F	100.00	Manhattan Beach Holdings Co.	Frederick Maryland (USA)

F: Fully consolidated. P: Proportionate. E: Equity method.

The stated percentage of ownership is related to the respective parent company.

	2006	%	2005	%	Company	Head office
	P	37.50	P	37.50	Marconi Oversight Ltd.	Chelmsford (UK)
	F	100.00	F	100.00	Matra Aerospace Inc.	Frederick Maryland (USA)
	F	100.00	F	100.00	Matra Défense	Velizy (France)
	P	37.50	P	37.50	Matra Electronique	La Croix Saint-Ouen (France)
	F	100.00	F	100.00	Matra Holding GmbH	Frankfurt (Germany)
	P	37.50	P	37.50	MBDA France	Velizy (France)
	P	37.50	P	37.50	MBDA Holding	Velizy (France)
	P	37.50	P	37.50	MBDA Inc	Westlack, CA (USA)
	P	37.50	P	37.50	MBDA Italy SpA	Roma (Italy)
	P	37.50	P	37.50	MBDA M S.A.	Chatillon sur Bagneux (France)
	P	37.50	P	37.50	MBDA SAS	Velizy (France)
	P	37.50	P	37.50	MBDA Services	Velizy (France)
	P	37.50	P	37.50	MBDA Treasury	Jersey (UK)
	P	37.50	P	37.50	MBDA UK Ltd.	Stevenage, Herts (UK)
	E	26.80			Patria Industries Oyj	Finland
	F	80.00	F	80.00	Pentastar Holding	Paris (France)
	F	100.00	F	100.00	Proj2	Paris (France)
	P	50.00	P	50.00	Propulsion Tactique S.A.	La Ferte Saint Aubin (France)
	F	100.00	F	100.00	Racal Instruments US	San Antonio, Texas (USA)
	F	100.00	F	100.00	Racal Instruments UK	Wimborne, Dorset (UK)
	E	33.00	E	33.00	Reutech Radar Systems (Pty) Ltd.	Stellenbosch (South Africa)
	E	18.75	E	18.75	Roxel	Saint-Médard-en-Jalles (France)
	F	100.00			Sofrelog S.A.	Bozons (France)
	P	40.00			Sonartech Atlas Pty Ltd.	St. Leonards (Australia)
	F	100.00	F	100.00	Sycomore S.A.	Boulogne-Billancourt (France)
	F	100.00	F	100.00	Talon Instruments	San Dimas, CA (USA)
	P	25.13	F	67.00	TAURUS Systems GmbH	Schrobenhausen (Germany)
	P	37.50	F	100.00	TDW- Ges. für verteidigungstechnische Wirksysteme GmbH	Schrobenhausen (Germany)
			E	25.00	Telefunken Radio Communication Systems GmbH & Co. KG	Ulm (Germany)
	F	100.00	F	100.00	Test & Services France	Velizy (France)
	F	99.99	F	99.99	Test & Services North America	Wilmington, Delaware (USA)
	F	100.00	F	100.00	TYX Corp.	Reston, VA (USA)
	E	50.00	E	50.00	United Monolithic Semiconductors France SAS	Orsay (France)
	E	50.00	E	50.00	United Monolithic Semiconductors Holding	Orsay (France)
	E	50.00	E	50.00	United Monolithics Semiconductor GmbH	Ulm (Germany)
	F	90.00	F	90.00	UTE CASA A.I.S.A.	Madrid (Spain)
<b>Astrium</b>						
	F	100.00	F	100.00	Astrium GmbH - Satellites (in 2005: EADS Astrium GmbH)	Munich (Germany)
	F	100.00	F	100.00	Astrium GmbH - Space Transportation (in 2005: EADS Space Transportation GmbH)	Munich (Germany)
	F	100.00	F	100.00	Astrium Holding SAS (in 2005: EADS Space Transportation (Holding) SAS)	Paris (France)
	F	100.00	F	100.00	Astrium Ltd. - Satellites (in 2005: EADS Astrium Ltd.)	Stevenage (UK)

F: Fully consolidated. P: Proportionate. E: Equity method.

The stated percentage of ownership is related to the respective parent company.



2006	%	2005	%	Company	Head office
F	100.00	F	100.00	Astrium SAS - Satellites (in 2005: EADS Astrium SAS)	Toulouse (France)
F	100.00	F	100.00	Astrium SAS - Services (in 2005: EADS Space Management & Services SAS)	Paris (France)
F	100.00	F	100.00	Astrium SAS - Space Transportation (in 2005: EADS Space Transportation SAS)	Les Muraux (France)
F	100.00			Astrium Services GmbH	Ottobrunn (Germany)
F	100.00	F	100.00	Computadoras, Redes e Ingenieria SA (CRISA)	Madrid (Spain)
F	100.00			Dutch Space B.V.	Leiden (Netherlands)
F	100.00	F	100.00	EADS Astrium Jersey Ltd.	Jersey (UK)
F	100.00	F	100.00	EADS Astrium N.V.	The Hague (Netherlands)
F	100.00			EADS Astrium SL	Madrid (Spain)
F	100.00	F	100.00	EADS CASA Espacio S.L.	Madrid (Spain)
F	100.00	F	100.00	EADS Deutschland GmbH – Space Services	Munich (Germany)
		F	100.00	EADS Space B.V.	Amsterdam (Netherlands)
		F	100.00	EADS Space Transportation N.V.	Amsterdam (Netherlands)
F	100.00	F	100.00	Infoterra GmbH	Friedrichshafen (Germany)
F	100.00	F	100.00	Infoterra Ltd	Southwood (UK)
F	100.00			Infoterra SAS	Toulouse (France)
F	100.00	F	100.00	Matra Marconi Space UK Ltd.	Stevenage (UK)
F	75.00			MilSat Services GmbH	Bremen (Germany)
F	100.00	F	100.00	MMS Systems Ltd	Stevenage (UK)
E	47.40	E	47.40	Nahuelsat S.A.	Buenos Aires (Argentina)
F	100.00	F	100.00	Paradigm Secure Communications (Holding) Ltd.	Stevenage (UK)
F	100.00	F	100.00	Paradigm Secure Communications Ltd	Stevenage (UK)
F	100.00	F	100.00	Paradigm Services Ltd	Stevenage (UK)
F	89.98			Sodern S.A.	Limeil Brevannes (France)
E	40.03			Spot Image	Toulouse (France)
F	100.00	F	100.00	TESAT-Spacecom Geschäftsführung GmbH	Backnang (Germany)
F	100.00	F	100.00	TESAT-Spacecom GmbH & Co. KG	Backnang (Germany)
<b>Other Businesses</b>					
F	80.00	F	80.00	Aerobail GIE	Paris (France)
P	50.00	P	50.00	ATR Eastern Support	Singapore (Singapore)
P	50.00	P	50.00	ATR GIE	Toulouse (France)
P	50.00	P	50.00	ATR International SARL	Toulouse (France)
P	50.00	P	50.00	ATR North America Inc.	Washington D.C. (USA)
P	50.00	P	50.00	ATR Training Center SARL	Toulouse (France)
P	50.00	P	50.00	ATRIam Capital Ltd.	Dublin (Ireland)
F	50.10	F	50.10	Composites Aquitaine S.A.	Salaunes (France)
F	50.00	F	50.00	Composites Atlantic Ltd.	Halifax (Canada)
		F	88.00	EADS Aeroframe services LLC	Lake Charles, Louisiana (USA)
F	100.00	F	100.00	EADS ATR S.A.	Toulouse (France)
E	49.99	E	49.99	EADS Revima APU S.A.	Caudebec en Caux (France)
F	100.00	F	100.00	EADS Revima S.A.	Tremblay en France (France)
F	100.00	F	100.00	EADS Seca S.A.	Le Bourget (France)
F	100.00	F	100.00	EADS Socata S.A.	Le Bourget (France)

F: Fully consolidated. P: Proportionate. E: Equity method.

The stated percentage of ownership is related to the respective parent company.

	2006	%	2005	%	Company	Head office
	F	100.00	F	100.00	EADS Sogerma S.A.	Mérignac (France)
	F	50.10	F	50.10	EADS Sogerma Tunisie	Monastir (Tunisia)
	F	100.00	F	100.00	Elbe Flugzeugwerke GmbH	Dresden (Germany)
	F	100.00	F	100.00	Maroc Aviation S.A.	Casablanca (Morocco)
	F	100.00	F	100.00	Noise Reduction Engineering B.C.	Washington D.C. (USA)
	F	100.00	F	100.00	Socata Aircraft Inc.	Miami, Florida (USA)
	F	100.00	F	100.00	Sogerma America Barfield B.C.	Miami, Florida (USA)
			F	100.00	Sogerma Drawings S.A.	Mérignac (France)
	F	60.00			Sogerma Services S.A.	Mérignac (France)

Additionally consolidated are 23 SPCs.

#### Headquarters

	E	23.15			Aero Precision	(USA)
			F	100.00	Airbus Financial Company Holding B.V.	Dublin (Ireland)
	F	75.00	F	75.00	DADC Luft- und Raumfahrt Beteiligungs AG	Munich (Germany)
			E	46.30	Dassault Aero Service	(France)
	E	46.30			Dassault Aircraft Services	(USA)
			E	46.30	Dassault Assurances Courtage	(France)
	E	46.30	E	46.30	Dassault Aviation	Paris (France)
	E	46.30	E	46.30	Dassault Falcon Jet	Teterboro N.J. (USA)
	E	46.30	E	46.30	Dassault Falcon Jet	Wilmington (USA)
	E	46.30	E	46.30	Dassault Falcon Service	Bonneuil en France
	E	46.30	E	46.30	Dassault International (USA) Inc	Paramus N.J. (USA)
	E	46.30	E	46.30	Dassault Procurement Services Inc	Paramus N.J. (USA)
			E	46.30	Dassault Sagem Tactical U A V	(France)
			E	46.30	Dassault-Reassurance	(France)
	F	97.11	F	97.11	Dornier Zentrale	Friedrichshafen (Germany)
	F	88.00			EADS Aeroframe Services LLC	Lake Charles, Louisiana (USA)
	F	100.00			EADS Airbus Holding SAS	Paris (France)
	F	100.00	F	100.00	EADS CASA France	Paris (France)
	F	100.00	F	100.00	EADS CASA S.A. (Headquarters)	Madrid (Spain)
	F	100.00	F	100.00	EADS Deutschland GmbH – Zentrale	Munich (Germany)
	F	100.00	F	100.00	EADS Deutschland GmbH, FO - Forschung	Munich (Germany)
	F	100.00	F	100.00	EADS Deutschland GmbH, LO - Liegenschaften OTN	Munich (Germany)
	F	100.00	F	100.00	EADS Dornier Raumfahrt Holding GmbH	Ottobrunn (Germany)
	F	100.00	F	100.00	EADS Finance B.V.	Amsterdam (Netherlands)
	F	100.00	F	100.00	EADS France	Paris (France)
	F	100.00	F	100.00	EADS North America Inc.	Washington D.C. (USA)
	F	97.11	F	97.11	EADS Real Estate Dornier Grundstücke GmbH & Co. KG	Taufkirchen (Germany)
	F	100.00	F	100.00	EADS Real Estate Objekt Nabern GmbH & Co. KG	Taufkirchen (Germany)
	F	100.00			EADS Sogerma Participant	Lake Charles, Louisiana (USA)
	E	23.15			Falcon Training Center	France
	E	46.30			Midway	USA
	E	46.30	E	46.30	Sogitec Industries	Suresnes (France)

F: Fully consolidated. P: Proportionate. E: Equity method.

The stated percentage of ownership is related to the respective parent company.

# Auditors' Report on the Consolidated Financial Statements (IFRS)

To: The European Aeronautic Defence and Space Company EADS N.V. shareholders.

## Report on the Consolidated Financial Statements

We have audited the accompanying 2006 consolidated financial statements which are part of the financial statements of European Aeronautic Defence and Space Company EADS N.V., Amsterdam, authorised for issue on March 8, 2007, which comprise the consolidated balance sheets as at December 31<sup>st</sup>, 2006, the income statements, the statements of changes in equity and the statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's responsibility

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the report of the Board of Directors in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of European Aeronautic Defence and Space Company EADS N.V. as at December 31<sup>st</sup>, 2006, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of book 2 of the Netherlands Civil Code.

## Report on other legal and regulatory requirements

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Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the report of the Board of Directors is consistent with the company financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Rotterdam, March 19, 2007

Amsterdam, March 19, 2007

KPMG Accountants N.V  
L.A. Blok

Ernst & Young Accountants  
F.A.L. van der Bruggen



## 1.2.2 Company Financial Statements

### BALANCE SHEET OF THE COMPANY FINANCIAL STATEMENTS

(in €m)		December 31,	December 31,
<b>Assets</b>	Note	<b>2006</b>	<b>2005</b>
<b>Fixed assets</b>			
Goodwill	2	4,354	4,354
Financial fixed assets	2	12,298	12,706
		<b>16,652</b>	<b>17,060</b>
<b>Non-fixed assets</b>			
Receivables and other assets	3	4,387	3,959
Securities	4	1,660	5,005
Cash and cash equivalents	4	6,862	3,093
		<b>12,909</b>	<b>12,057</b>
<b>Total assets</b>		<b>29,561</b>	<b>29,117</b>
<b>Liabilities and stockholders' equity</b>			
<b>Stockholders' equity <sup>(1)</sup></b>			
	5		
Issued and paid up capital		816	818
Share premium		8,160	8,715
Revaluation reserves		3,657	2,359
Other legal reserves		1,472	1,993
Treasury shares		(349)	(445)
Retained earnings		(741)	(386)
		<b>13,015</b>	<b>13,054</b>
<b>Non-current liabilities</b>			
Financial liabilities	6	320	357
Non current other liabilities	6	1,518	1,523
		<b>1,838</b>	<b>1,880</b>
<b>Current liabilities</b>			
Liability for puttable instruments	7	-	3,500
Current other liabilities	8	14,708	10,683
		<b>14,708</b>	<b>14,183</b>
<b>Total liabilities and stockholders' equity</b>		<b>29,561</b>	<b>29,117</b>

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

### INCOME STATEMENT OF THE COMPANY FINANCIAL STATEMENTS

(in €m)	2006	2005
Income from investments	95	1,692
Other results	4	(16)
<b>Net result</b>	<b>99</b>	<b>1,676</b>

# Notes to the Company Financial Statements

## 1.1 General

EADS N.V., having its legal seat in Amsterdam, the Netherlands, is engaged in the holding, coordinating and managing of 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 the aeronautic, defence, space and/or communication industry or activities that are complementary, supportive or ancillary thereto.

The company financial statements are part of the 2006 financial statements of EADS N.V.

The description of the company's activities and the group structure, as included in the notes to the consolidated financial statements, also apply to the company financial statements. In accordance with article 402 Book 2 of the Dutch Civil Code the statement of income is presented in abbreviated form.

## 1.2 Principles for the measurement of assets and liabilities and the determination of the result

For setting the principles for the recognition and measurement of assets and liabilities and determination of the result for its company financial statements, EADS N.V. makes use of the option provided in section 2:362 (8) of the Netherlands Civil Code. As from 2005, the Netherlands Civil Code allows that the principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as principles for recognition and measurement) of the company financial statements of EADS N.V. are the same as those applied for the consolidated EU-IFRS financial statements. These consolidated EU-IFRS financial statements are prepared according to the standards laid down by the International Accounting Standards Board and adopted by the

European Union (hereinafter referred to as EU-IFRS). Please see note 2 of the consolidated financial statements for a description of these principles. Participating interests, over which significant influence is exercised, are stated on the basis of the equity method.

The share in the result of participating interests consists of the share of EADS N.V. in the result of these participating interests. Results on transactions, where the transfer of assets and liabilities between EADS N.V. and its participating interests and mutually between participating interests themselves, are not incorporated insofar as they can be deemed to be unrealised.

Undistributed results from investments are included in the other legal reserves.

## 1.3 Changes in accounting principles

The amendment to IAS 19 introduces the accounting for actuarial gains and losses in connection with pension plans outside the income statement within retained earnings as a third option. EADS has decided to apply the newly introduced alternative for the accounting for actuarial gains and losses arising from defined benefit plans. Consequently, EADS now recognises changes in actuarial gains and losses in full for all its defined benefit plans immediately in retained earnings. The change in accounting principles relates to subsidiaries. EADS NV itself does not have defined benefit pension arrangements.

Prior periods had been presented using the corridor approach. For purpose of comparison, the comparative figures have been adjusted on the basis of modified accounting principles.

For further information, please see note 2 of the consolidated IFRS financial statements.





## 1.4 Summary of the effect of changes in accounting principle

The effect of the modified accounting principle in the company balance sheets is presented in the summary below:

(in €m)	1 <sup>st</sup> January 2005		31 <sup>st</sup> December 2005	
	Financial Fixed Assets	Stockholders' Equity	Financial Fixed Assets	Stockholders' Equity
Reported in prior year	14,639	16,210	13,378	13,726
Effect change in accounting principle	(397)	(397)	(672)	(672)
Prior year adjusted	14,242	15,813	12,706	13,054

In 2006, the change contributes € 25 million to net income. Actuarial gains and losses in the shareholders' equity at year-end 2006 amount to € -1,363 million.

The prior years' company income statements were not affected by the change in accounting principle.

## 2. Fixed assets

The goodwill acquisition costs end of 2006 amount to € 5,676 million (2005: € 5,676 million) and the cumulative amortisation and impairments to € 1,322 million (2005: € 1,322 million).

The movements in financial fixed assets are detailed as follows:

(in €m)	Affiliated Companies	Participations	Loans	Total
<b>Balance at December 31, 2005</b>	<b>10,889</b>	<b>77</b>	<b>1,740</b>	<b>12,706</b>
Acquisitions/additions		5	548	553
Reductions/redemptions	(737)		(96)	(833)
SOP/ESOP	40			40
Net income from investments	92	3		95
Actuarial gains/losses IAS 19	(691)			(691)
Dividends received	(529)	(2)		(531)
Translation differences/other changes	993	(7)	(27)	959
<b>Balance at December 31, 2006</b>	<b>10,057</b>	<b>76</b>	<b>2,165</b>	<b>12,298</b>

The translation differences/other changes reflect mainly the impact in the other comprehensive income related to the application of IAS 39.

The reductions in affiliated companies relates mainly to a decrease of the determined fair value of the 20% Airbus share in connection with the put option BAE Systems exercised in June 2006. Further information is provided in note 4 of the consolidated financial statements.

Significant subsidiaries, associates and joint ventures are listed in the appendix "Information on principal investments" to the consolidated financial statements.

The loans are provided to affiliated companies.

### 3. Receivables and other assets

(in €m)	2006	2005
Receivables from affiliated companies	4,253	3,841
Receivables from related companies	22	26
Other assets	112	92
<b>Total receivables and other assets</b>	<b>4,387</b>	<b>3,959</b>

The receivables from affiliated companies include mainly receivables in connection with the cash pooling in EADS N.V.

All receivables and other assets mature within one year.

### 4. Securities, Cash and cash equivalents

The securities comprise mainly available-for-sale Securities.

For 2006 year-end financial statements, EADS restricted its interpretation of cash equivalents definition. EADS now strictly limits its cash equivalents to such investments having a

maturity of three months or less from acquisition date. The previous year figures have been reclassified in an amount of € 4,159 million to Securities. For further information, please see note 2 of the consolidated financial statements.

### 5. Stockholders' equity

(in €m)	Capital stock	Share premium from contributions	Share premium from cash	Revaluation reserves	Other legal reserves	Treasury shares	Retained earnings	Total equity
<b>Balance at December 31, 2004</b>	<b>810</b>	<b>8,459</b>	<b>493</b>	<b>5,999</b>	<b>1,836</b>	<b>(177)</b>	<b>(1,607)</b>	<b>15,813</b>
Capital increase	9		178					187
Net income							1,676	1,676
ESOP/SOP IFRS 2							33	33
Cash distribution			(396)					(396)
Transfer to other legal reserves					488		(488)	
Purchase of treasury shares						(288)		(288)
Cancellation of shares	(1)		(19)			20		
Others				(3,640)	(331)			(3,971)
<b>Balance at December 31, 2005</b>	<b>818</b>	<b>8,459</b>	<b>256</b>	<b>2,359</b>	<b>1,993</b>	<b>(445)</b>	<b>(386)</b>	<b>13,054</b>
Capital increase	5		89					94
Net income							99	99
ESOP/SOP IFRS 2							40	40
Cash distribution		(299)	(221)					(520)
Transfer to other legal reserves					494		(494)	
Purchase of treasury shares						(35)		(35)
Cancellation of shares	(7)		(124)			131		
Others				1,298	(1,015)			283
<b>Balance at December 31, 2006</b>	<b>816</b>	<b>8,160</b>	<b>-</b>	<b>3,657</b>	<b>1,472</b>	<b>(349)</b>	<b>(741)</b>	<b>13,015</b>

For further information to the Stockholders' equity, please see note 20 of the consolidated financial statements.

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The revaluation reserves result from positive reserves of € 3,188 million (2005: € 1,962 million) resulting from changes in the fair values of financial instruments, recognised directly in equity and € 469 million (2005: € 397 million) resulting from the fair value of Securities classified as available for sale. An amount of € 15 million belongs to revaluation reserves related to EADS N.V. activities.

The other legal reserves are related to EADS' share in the undistributed results from investments for € 664 million (2005: € 580 million) internally generated capitalised development costs of € 873 million (2005: € 462 million), € 1,298 million (2005: € 1,623 million) resulting from currency translation effects of affiliated companies, compensated by the recognition of actuarial losses arising from defined benefit plans in equity of € 1,363 million (2005: € 672 million).

## 6. Non current liabilities

The financial liabilities include a long term loan, granted by the European Investment Bank to EADS in the amount of US\$ 421 million. The decrease in 2006 reflects the currency translation impact. For further details, please see note 22 of the consolidated financial statements.

The non current other liabilities are mainly liabilities to affiliated companies and included in the cash pooling.

## 7. Liability for puttable instruments

The liability for puttable instruments in 2005 was related to the written put option granted to BAE System to put its 20% stake in Airbus. In June 2006, BAE Systems exercised its put

option and the related liability was settled in October 2006 for an amount of € 2,750 million. For further information please see note 23 of the consolidated financial statements.

## 8. Current other liabilities

(in €m)	2006	2005
Liabilities to affiliated companies	13,726	9,904
Liabilities to related companies	874	703
Other liabilities	108	76
<b>Total</b>	<b>14,708</b>	<b>10,683</b>

The liabilities to affiliated companies include mainly liabilities in connection with the cash pooling in EADS N.V.

## 9. Financial instruments

By the nature of the activities carried out, EADS is exposed to a variety of financial risks, especially foreign currency exchange rate risks and interest risks. EADS uses financial instruments in order to limit these financial risks. Information to the terms and

conditions of the financial instruments and the respective fair values is provided in note 30 of the consolidated financial statements.

## 10. Commitments and contingent liabilities

EADS N.V. issues guarantees on behalf of consolidated companies. The commitments of these companies to third parties mainly relate to their operating business as described in note 29 to the consolidated financial statements. The company is heading a fiscal unity, which also includes EADS Finance B.V.

## 11. Remuneration

The total **cash remuneration** and related compensation costs of the members of the Board of Directors and former directors in 2006 and 2005 can be specified as follows:

	2006	2005
	(in €)	(in €)
Fixum	4,564,086	4,908,190
Bonus (related to reporting period)	2,361,451	4,850,449
Fees	395,000	260,000
	<b>7,320,537</b>	<b>10,018,639</b>

The cash remuneration of the members of the Board of Directors was as follows:

2006	Fixum	Bonus related to 2006	Fees	Total
	(in €)	(in €)	(in €)	(in €)
<b>Directors</b>				
Manfred Bischoff	60,000	43,750	100,000	203,750
Arnaud Lagardère	60,000	43,750	100,000	203,750
Thomas Enders	1,195,225	542,468	-	1.737,693
Louis Gallois (since July 06)	450,000	257,612	-	707,612
Louis Gallois (until end of June)	-	-	-	-
Jean-Paul Gut	943,693	456,527	-	1,400,220
Hans Peter Ring	951,193	456,527	-	1,407,720
Francois David	30,000	21,875	40,000	91,875
Rüdiger Grube	30,000	21,875	75,000*	126,875
Michael Rogowski	30,000	21,875	30,000	81,875
Juan Manuel Eguiagaray Ucelay	18,750	21,875	50,000	90,625
<b>Former director**</b>				
Noël Forgeard	795,225	473,317	-	1,268,542
<b>Total</b>	<b>4,564,086</b>	<b>2,361,451</b>	<b>395,000</b>	<b>7,320,537</b>

(\*) Including regularisation of € 30,000 relating to the 2005 attendance fees paid in 2006.

(\*\*) Prorata in accordance with his membership with the Board of Directors.



2005	Fixum	Bonus related to 2005	Fees	Total
	(in €)	(in €)	(in €)	(in €)
<b>Directors</b>				
Manfred Bischoff	60,000	184,250	90,000	334,250
Arnaud Lagardère	60,000	184,250	80,000	324,250
Thomas Enders(**)	737,560	820,556	-	1,558,116
Noël Forgeard	1,136,928	1,201,408	-	2,338,336
Jean-Paul Gut(**)	777,568	769,583	-	1,547,151
Hans Peter Ring	780,062	789,762	-	1,569,824
Francois David	20,000	92,125	30,000	142,125
Louis Gallois	-	-	-	-
Rüdiger Grube	20,000	92,125	(***)	112,125
Michael Rogowski	30,000	92,125	35,000	157,125
Juan Manuel Eguigaray Ucelay	-	57,578	25,000	82,578
<b>Former directors(*)</b>				
Philippe Camus	624,911	227,685	-	852,596
Rainer Hertrich	624,911	227,685	-	852,596
Eckhard Cordes	10,000	30,708	-	40,708
Pedro Ferreras	16,250	49,901	-	66,151
Jean-René Fourtou	10,000	30,708	-	40,708
<b>Total</b>	<b>4,908,190</b>	<b>4,850,449</b>	<b>260,000</b>	<b>10,018,639</b>

(\*) Prorata in accordance with their membership with the Board of Directors.

(\*\*) Full Year remuneration.

(\*\*\*) Regularised in 2006.

The table below gives an overview of the interests of the members of the Board of Directors under the various **long term incentive plans** of EADS:

### Stock option plans

Number of options							
Year of plan	Initially granted	As at Jan. 1 2006	Granted in 2006	Exercised during 2006	As at Dec. 31 2006	Exercise price (in €)	Expiry date
<b>Thomas Enders</b>							
2000	50,000	50,000	-	-	50,000	20.90	July 8, 2010
2001	50,000	50,000	-	-	50,000	24.66	July 12, 2011
2002	50,000	-	-	-	-	16.96	August 8, 2012
2003	50,000	25,000	-	-	25,000	15.65	October 9, 2013
2004	50,000	50,000	-	-	50,000	24.32	October 7, 2014(*)
2005	135,000	135,000	-	-	135,000	33.91	Dec. 8, 2015(*)
2006	-	-	67,500	-	67,500	25.65	Dec. 16, 2016
<b>Louis Gallois</b>							
2006	-	-	67,500	-	67,500	25.65	Dec. 16, 2016
<b>Jean-Paul Gut</b>							
2000	50,000	-	-	-	-	20.90	July 8, 2010
2001	50,000	-	-	-	-	24.66	July 12, 2011
2002	50,000	50,000	-	50,000	-	16.96	August 8, 2012
2003	50,000	50,000	-	25,000	25,000	15.65	October 9, 2013
2004	50,000	50,000	-	-	50,000	24.32	October 7, 2014(*)
2005	100,000	100,000	-	-	100,000	33.91	Dec. 8, 2015(*)
2006	-	-	50,000	-	50,000	26.65	Dec. 16, 2016
<b>Hans Peter Ring</b>							
2000	10,000	10,000	-	-	10,000	20.90	July 8, 2010
2001	28,000	28,000	-	-	28,000	24.66	July 12, 2011
2002	37,000	37,000	-	-	37,000	16.96	August 8, 2012
2003	50,000	50,000	-	-	50,000	15.65	October 9, 2013
2004	50,000	50,000	-	-	50,000	24.32	October 7, 2014(*)
2005	100,000	100,000	-	-	100,000	33.91	Dec. 8, 2015(*)
2006	-	-	50,000	-	50,000	25.65	Dec. 16, 2016
<b>Total</b>	<b>1,010,000</b>	<b>835,000</b>	<b>235,000</b>	<b>75,000</b>	<b>995,000</b>		
<b>Former Director:</b>							
<b>Noël Forgeard</b>							
2000	110,000	43,000	-	43,000	-	20.90	July 8, 2010
2001	88,000	88,000	-	88,000	-	24.66	July 12, 2011
2002	108,000	108,000	-	108,000	-	16.96	August 8, 2012
2003	108,000	108,000	-	54,000	54,000	15.65	Oct. 9, 2013
2004	108,000	108,000	-	-	108,000	24.32	Oct. 7, 2014(*)
2005	135,000	135,000	-	-	135,000	33.91	Dec. 8, 2015(*)
<b>Total</b>	<b>657,000</b>	<b>590,000</b>	<b>-</b>	<b>293,000</b>	<b>297,000</b>		

(\*) As regards to the 2004 and 2005 stock options plans, vesting of half of the options granted to Directors is subject to performance conditions.



## Performance shares plan

Number of performance shares(**):	Granted in 2006	Vesting date
Thomas Enders	16,875	Publication of the 2009 annual results, expected in March 2010
Louis Gallois	16,875	Publication of the 2009 annual results, expected in March 2010
Jean-Paul Gut	12,500	Publication of the 2009 annual results, expected in March 2010
Hans Peter Ring	12,500	Publication of the 2009 annual results, expected in March 2010
<b>Total</b>	<b>58,750</b>	

(\*\*) Vesting of all performance shares granted to Directors is subject to performance conditions.

As detailed above, the number of outstanding stock options granted to the Executive Board Directors was 995,000 as at 31<sup>st</sup> December 2006. To the other members of the Executive Committee, to the Group's senior management and to former members of the Board of Directors, the number of the outstanding stock options amounted to 30,033,689 at the same date.

The number of outstanding performance shares granted to the Executive Board Directors, subject to achievement of performance results, was 58,750 as at 31<sup>st</sup> December 2006. To the other members of the Executive Committee and to the Group's senior management, the number of the outstanding performance and restricted shares amounted to 1,677,175 at the same date.

For further information, please see note 31 of the consolidated IFRS financial statements.

### Former Director

In 2006, Noël Forgeard was no longer eligible to grants of stock options, nor to grants of performance shares.

Under the term of his employment contract, Noël Forgeard was entitled to:

- a 6 months notice period, which represents an amount of € 1,223,317 (salary and bonus);
- a termination package of € 4,893,268 (*i.e.* 24 months of total annual income);
- a 2-year non competition indemnity, which represents a monthly gross amount of € 101,917 (from 2007 onwards).

The **pension benefit** obligation for the Executive Board Directors is as follows:

The Executive Board Directors have pension promises as part of their employment agreements. The general policy is to give them

annual pension of 50% of their annual base salary after five years in the Executive Committee of EADS at the age of 60 to 65. In case of the CEOs, the retirement age is 60. This obligation increases to 60% after ten years of service in the EADS Executive Committee.

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

For the Executive Board Directors, the amount of the pension defined benefit obligation, amounted to 23 million as of 31<sup>st</sup> December 2006. This obligation has been partly funded and accrued for in the consolidated financial statements for its unfunded portion.

### Other benefits

The amounts reported above for the Executive Board Directors are free of benefits in kind they are entitled to, as well as all national social and income tax impacts.

Such executives are entitled to a company car. The value of the company cars of appointed Executive Board Directors is as follows:

For Thomas Enders € 81,772, for Louis Gallois € 23,752, for Jean-Paul Gut € 69,483 and for Hans Peter Ring € 96,400.

Mr. Thomas Enders benefits also from a free accommodation in France. The monthly lease amounts to € 3,878 on average.

EADS has not provided any loans to / advances to / guarantees on behalf of directors.

For further information to the remuneration, please see note 32 of the consolidated financial statements.

## 12. Employees

The number of persons employed by the company at year-end 2006 was 3 (2005: 2)

# Supplementary Information

## Auditors' Report

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To: The European Aeronautic Defence and Space Company EADS N.V. shareholders

### Report on the company financial statements

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We have audited the accompanying 2006 company financial statements which are part of the financial statements of European Aeronautic Defence and Space Company EADS N.V., Amsterdam, authorised for issue on March 8, 2007, which comprise the balance sheet as at December 31, 2006, the income statement for the year then ended, and the notes.

#### Management's responsibility

Management is responsible for the preparation and fair presentation of the company financial statements and for the preparation of the report of the Board of Directors, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the company financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditors' responsibility

Our responsibility is to express an opinion on the company financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the company financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the company financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the company financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the company financial statements give a true and fair view of the financial position of European Aeronautic Defence and Space Company EADS N.V. as at December 31, 2006, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.





## Report on other legal and regulatory requirements

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Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the report of the Board of Directors is consistent with the company financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Rotterdam, March 19, 2007

Amsterdam, March 19, 2007

KPMG Accountants N.V.

Ernst & Young Accountants

L.A. Blok

F.A.L. van der Bruggen

## Other Supplementary Information

### Appropriation of result

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Articles 30 and 31 of the Articles of Association provide that the board of directors shall determine which part of the result shall be attributed to the reserves. The general meeting of shareholders may dispose of a reserve only upon a proposal of the Board of Directors and to the extent it is permitted by law and the Articles of Association. Dividends may only be paid after adoption of the annual accounts from which it appears that the shareholders' equity of the company is more than the amount of the issued and paid-in part of the capital increased by the reserves that must be maintained by law.

It will be proposed at the Annual General Meeting of Shareholders that the net profit of € 99 million as shown in the income statements for the financial year 2006 is to be added to retained earnings.

### Subsequent events

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For further information please see note 37 of the consolidated financial statements.

## 1.3 Statutory Auditors' Fees

Services of Statutory Auditors and Members of their Network rendered to the Group for the financial years 2006, 2005 and 2004.

	KPMG Accountants N.V.						Ernst & Young Accountants					
	2006		2005		2004		2006		2005		2004	
	Amount in €K	%	Amount in €K	%	Amount in €K	%	Amount in €K	%	Amount in €K	%	Amount in €K	%
<b>Audit</b>												
Audit process, certification, examination of individual and consolidated accounts	6,181	75.2	5,533	68.3	5,073	57.3	4,843	82.5	4,923	77.3	4,795	70.0
Additional tasks	630	7.7	1,416	17.5	3,048	34.5	646	11.0	1,163	18.3	1,747	25.5
<b>Sub-total</b>	<b>6,811</b>	<b>82.9</b>	<b>6,949</b>	<b>85.8</b>	<b>8,121</b>	<b>91.8</b>	<b>5,489</b>	<b>93.5</b>	<b>6,086</b>	<b>95,6</b>	<b>6,542</b>	<b>95.5</b>
<b>Other services as relevant</b>												
Legal, tax, employment	1,051	12.8	958	11.8	729	8.2	271	4.6	281	4.4	294	4.3
Information Technology	50	0.6	-	-	-	-	30	0.5	-	-	-	-
Other (to be specified if >10% of the fees for the audit)	301	3.7	194	2.4	-	-	83	1.4	-	-	13	0.2
<b>Sub-total</b>	<b>1,402</b>	<b>17.1</b>	<b>1,152</b>	<b>14.2</b>	<b>729</b>	<b>8.2</b>	<b>384</b>	<b>6.5</b>	<b>281</b>	<b>4.4</b>	<b>307</b>	<b>4.5</b>
<b>Total</b>	<b>8,213</b>	<b>100.0</b>	<b>8,101</b>	<b>100.0</b>	<b>8,850</b>	<b>100.0</b>	<b>5,873</b>	<b>100.0</b>	<b>6,367</b>	<b>100.0</b>	<b>6,849</b>	<b>100.0</b>



## 1.4 Information Regarding the Statutory Auditors

	Date of First Appointment	Term of Current Office
KPMG Accountants N.V. Van der Mandelelaan 41-433062 MB Rotterdam — The Netherlands Represented by L.A. Blok	10 <sup>th</sup> May 2000	4 <sup>th</sup> May 2007*
Ernst & Young Accountants Drentestraat 20, 1083 HK Amsterdam — The Netherlands Represented by F.A.L. van der Bruggen	24 <sup>th</sup> July 2002	4 <sup>th</sup> May 2007*

(\*) A resolution will be submitted to the shareholders' General Meeting of EADS called for 4<sup>th</sup> May 2007, in order to resolve that the Company's auditors for the accounting period being the financial year 2007 shall be Ernst & Young Accountants and KPMG Accountants N.V.

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



# 2

## CORPORATE GOVERNANCE

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EADS is a company registered in the Netherlands and listed in France, Germany and Spain. Given the myriad of Corporate Governance regimes applicable to it, EADS applies a set of common Corporate Governance principles and recommendations in order to be in line with the Corporate Governance best practices applicable in these jurisdictions.

In particular and in accordance with Dutch law, the Company applies the provisions of the Dutch Corporate Governance Code (the “**Dutch Code**”), or, if applicable, explains in its annual Board of Directors Report the reasons for non-application of such provisions in accordance with the “apply or explain” principle. EADS has provided the relevant explanations in paragraph 4.2 “Dutch Corporate Governance Code” of its Board Report for the 2004 financial year which was approved by the Annual General Meeting held on 11<sup>th</sup> May 2005. These explanations give the detailed reasons for non-application of provisions III.2.1, III.3.6, III.4.1(f), III.5.1, III.5.6, III.5.11, III.5.12, III.8.3, III.5.13(a), III.5.13(d) (essentially as a result of EADS being a controlled company and, therefore, most of the members of the Board of Directors, Audit Committee and Remuneration and Nomination Committee could be designated and possibly be removed by its controlling shareholders), II.2.6, III.7.3, III.7.2, II.1.1, III.3.5, IV.3, IV.2 and IV.1.7 (essentially as a result of EADS being listed on the Frankfurt, Paris and Spanish stock exchanges and endeavouring to strictly comply with the relevant regulations and following the general practices on these markets protecting all its stakeholders) and remain valid. In addition, EADS modified its statements in its Board Report for the 2005 financial year which was approved by the Annual General Meeting held on 4<sup>th</sup> May 2006.

These explanations give the detailed reasons for non application of provisions II.1.4, II.1.6, II.2.1, II.2.2 and II.2.7. The two last years’ statements (available on EADS web-site ([www.eads.com](http://www.eads.com))) in the section on “Corporate Governance”) are modified as follows:

### 1. As for remuneration of Members of the Board of Directors

EADS applies different rules for the remuneration of Executive and Non-Executive Members of the Board.

a) EADS is compliant with the general principles applicable in the markets where it is listed. Regarding future Long-Term Incentive Plan to Executive Members of the Board, it is planned that for Stock options a 10% premium will be taken into account when determining the granting price. In addition, Executive Members of the Board will have to hold a specified number of shares resulting from the exercise of their stock options until the end of their mandate (whereas provision II.2.1 of the Dutch Code recommends that options to acquire shares be a conditional remuneration component, and become

unconditional only when the Members of the Board have fulfilled predetermined performance criteria after a period of at least three years from the grant date and provision II.2.2 recommends that if the company, notwithstanding provision II.2.1, grants unconditional options to Executive Members of the Board, it shall apply performance criteria when doing so and the options should, in any event, not be exercised in the first three years after they have been granted). It is planned that Performance Shares would be based on mid-term performance criteria. It is also planned that Executive Members of the Board will have to hold a specified number of the vested shares until the end of their mandate or for a minimum period of 2 years whichever is appropriate. Vesting should take place 3 years after grant (whereas provision II.2.3 of the Dutch Corporate Governance Code recommends that shares granted to management board members without financial consideration shall be retained for a period of at least five years or until at least the end of the employment, if this period is shorter; the number of shares to be granted shall be dependent on the achievement of clearly quantifiable and challenging targets specified beforehand);

b) In case of dismissal from the Company of Executive Members of the Board, a termination package equal to twice the annual total target salary would be paid. However this termination package would be reduced prorata depending on the age of retirement (whereas provision II.2.7 of the Dutch Corporate Governance Code recommends that the maximum remuneration in the event of dismissal be one year’s salary (the ‘fixed’ remuneration component), and that if the maximum of one year’s salary would be manifestly unreasonable for an Executive Board Member who is dismissed during his first term of office, such board member be eligible for severance pay not exceeding twice the annual salary).

### 2. EADS maintains an integrated Group-wide Internal Control and Risk Management System with the purpose of providing reasonable assurance that risks are effectively managed

One of management’s fundamental missions is to foster a positive Internal Control (“**IC**”) and Risk Management (“**RM**”) environment at EADS, in line with corporate governance requirements and best practices in the Netherlands, France, Germany and Spain. Having recognised that continuing changes in the multi-jurisdictional legal and regulatory provisions applicable to EADS required a strategic approach to IC and RM, EADS began to implement a group-wide IC and RM system at the beginning of 2004. This system is based on the Internal Control and Enterprise Risk Management Frameworks of the Committee of Sponsoring Organisations of the Treadway Commission (“**COSO**”).

The IC and RM system provides the management with a framework for attempting to manage the uncertainty and associated risks inherent in EADS' business. It serves as the basis for all sub-IC and sub-RM procedures present throughout EADS at the divisional and Business Unit ("BU") levels. By employing a uniform approach to IC and RM, EADS seeks to gain reasonable assurance about:

- the reliability of its financial reporting;
- efficiency and effectiveness of operations; and
- compliance with applicable laws and regulations.

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

### 3. Ethics Alert System

EADS is in the process of putting in place a procedure for receiving, in full confidentiality, concerns regarding e.g. financial reporting, internal risk management and control systems, as well as regarding general operational matters. The EADS Ethics Alert System architecture will be part of a global

EADS compliance organisational structure which is currently being formalised.

Some consultations with the works councils have started regarding the implementation of such procedure. After decision of the Board on the organisational structure for compliance and the completion of the various proceedings with respective Works Council regarding the introduction of an Ethics Alert System, will be implemented, thus allowing the Company to comply with provision II.1.6 of the Dutch Code which recommends that a company ensures that its employees have the possibility of reporting alleged irregularities of a general, operational and financial nature in the company or concerning the functioning of the Executive Members of the Board to the Chairmen of the Board or to an official designated by them and that such arrangements for whistleblowers be posted on the Company's website.

EADS consequently complies with the Dutch Code since the Company's annual shareholders' meeting approved the section relating to Corporate Governance included in the Board of Directors Report since 2003.

## 2.1 Management and Control

### 2.1.1 Board of Directors, Chairmen and Chief Executive Officers

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

The Board of Directors consists of a maximum of eleven members appointed and removed by the shareholders' meeting. The Board of Directors adopted rules governing its internal affairs (the "Rules") at a Board of Directors' meeting held on 7<sup>th</sup> July 2000. The Rules were amended at a Board of Directors' meeting held on 5<sup>th</sup> December 2003 to take into account recommendations for changes to Corporate Governance. The Rules specify the composition, the role and the key responsibilities of the Board of Directors, and also determine the manner of appointment and the responsibilities of the Chairmen and the Chief Executive Officers. The Rules also

specify the creation of two committees (the Audit and the Remuneration and Nomination Committees) and specify their composition, role and operating rules.

The Board of Directors has also adopted specific Insider Trading Rules, which restrict its members from trading in EADS shares in certain circumstances (for more information, please see "Part 2/3.1.3 Governing Laws").

The parties to the Participation Agreement (as defined in the opening paragraph of "Part 2, section 3.3.2 Relationships with Principal Shareholders") have agreed that the voting rights attached to the Indirect EADS Shares shall be exercised by EADS Participations B.V. to ensure that the Board of Directors of EADS comprises the Directors of EADS Participations B.V.

and two additional independent Directors who are not officers, directors, employees or agents of or otherwise have no significant commercial or professional connection either with the DaimlerChrysler, *Société de Gestion de Participations Aéronautiques* (“**SOGEPA**”) or Lagardère Groups or the French State. Pursuant to the Participation Agreement, the Board of Directors comprises ten members of whom:

- Four nominated by DaimlerChrysler;
- Four nominated by Société de Gestion de l’Aéronautique, de la Défense et de l’Espace (“**SOGEADE**”); and
- Two independent Directors, one nominated by DaimlerChrysler and one nominated by SOGEADE.

In addition, although from 8<sup>th</sup> July 2003, *Sociedad Estatal de Participaciones Industriales* (“**SEPI**”) no longer has a right to nominate a Director, based upon the proposal of DaimlerChrysler and SOGEADE, the shareholders’ meeting of EADS held on 11<sup>th</sup> May 2005 appointed an additional Spanish Director bringing the total number of Directors to eleven.

Pursuant to the Articles of Association, each member of the Board of Directors held office for a term expiring at the Annual General Meeting of the Company held on 11<sup>th</sup> May 2005. Such Annual General Meeting reconstituted the Board of Directors for a term of five years ending at the close of the Annual General Meeting which will be held in the year 2010. Members of the Board of Directors will be elected at each fifth Annual General Meeting thereafter.

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

The Board of Directors appointed two Chairmen, one chosen from the DaimlerChrysler-nominated Directors and one chosen from the SOGEADE-nominated Directors.

The Chairmen ensure the smooth functioning of the Board of Directors in particular with respect to its relations with the Chief Executive Officers whose efforts they support with regard to top level strategic discussions with outside partners.

The Board of Directors also appointed two Chief Executive Officers to be responsible for the day-to-day management of the Company, one chosen from the DaimlerChrysler-nominated Directors and one chosen from the SOGEADE-nominated Directors.

The Company is represented by the Board of Directors or by the Chief Executive Officers acting jointly. Furthermore, the Company has granted general powers to each of the Chief

Executive Officers, authorizing them to each individually represent the Company.

In the event of a deadlock between the two Chief Executive Officers, the matter shall be referred to the two Chairmen.

The Chief Executive Officers shall not enter into transactions which form part of the key responsibilities of the Board of Directors unless these transactions have been approved by the Board of Directors.

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

- Approving any change in the nature and scope of the activities of the Group;
- Approving the overall strategy and the strategic plan of the Group;
- Approving the business plan and the yearly budget of the Group;
- Setting the major performance targets of the Group;
- Appointing the members of the Executive Committee (see below) and the Corporate Secretary;
- Approving proposals for appointments of members of Airbus Shareholders’ Committee and Executive Committee and chairmen of the Supervisory Board (or similar bodies) and the chief executive officers (or equivalent position) of important Group companies and BUs;
- Approving material changes to the organisational structure of the Group;
- Approving major investments, projects or product decisions or divestments of the Group contemplated in the business plan with a value exceeding €200 million;
- Approving major strategic alliances and cooperations of the Group;
- Approving any material decision affecting the ballistic missiles activity of the Group;
- Approving matters of shareholder policy, major actions or major announcements to the capital markets; and
- Approving other measures and business of fundamental significance for the Group or which involve an abnormal level of risk.

The Board of Directors met ten times during 2006 and was regularly informed of developments through business reports from the Chief Executive Officers, including rolling forecasts as well as strategic and operational plans. The average attendance rate at such meetings was 95%.



Following a detailed review of the A380 production and delivery program, Airbus informed the Board of Directors on 13<sup>th</sup> June that the A380 delivery schedule for the period 2006 to 2009 was revised. According to this, the Board of Directors decided immediately to release this new schedule and its financial impact, and subsequently on 3<sup>rd</sup> October 2006 (EADS statement and more detailed information about the ongoing regulatory and judicial proceedings can be found on “Note to the Financial Statements — Note 28: Litigation and claims”). On 2<sup>nd</sup> July 2006, the Board of Directors appointed a new Co-Chief Executive Officer, Louis Gallois, replacing Noël Forgeard in his functions, as well as Christian Streiff as new President and Chief Executive Officer of Airbus, Members of the Executive Committee. After the resignation of the President and Chief Executive Officer of Airbus, Christian Streiff, three months later, the Board of Directors changed significantly the management structure of EADS by appointing on the 9<sup>th</sup> October 2006, EADS Co-Chief Executive Officer Louis Gallois additionally as Airbus President and Chief Executive Officer, the non-Airbus Divisions reporting to EADS Co-Chief Executive Officer Thomas Enders. Subsequently, on the 31<sup>st</sup> October 2006, the Board of Directors appointed EADS Chief Operating Officer Finance, Hans-Peter Ring, additionally as Airbus Chief Financial Officer. The Board of Directors also appointed on that date a new Chief Operating Officer of Airbus, Fabrice Brégier, and a new head of Eurocopter Division, Lutz Bertling, as Members of the Executive Committee. Overall, in 2006, nine Board of Directors meetings covered Airbus related matters. On 5<sup>th</sup> April 2007, Manfred Bischoff presented his resignation as chairman of the EADS Board of Directors and the Board of Directors decided to designate Rüdiger Grube as his successor in this position. Manfred Bischoff also presented his resignation as member of the Board of Directors.

Topics intensively discussed, and operations authorised at the meetings included: EADS’ strategy (comprising, in M&A matters, European industry consolidation and the buy-back of BAE Systems’ stake in Airbus), major business issues such as the A380 recovery efforts and the Power8 program, the A350 industrial launch decision and Airbus future product strategy, the reviews of the EADS UAV programs and of the A400M program, the review of Sogerma future strategy, the approval or postponement of operational plans, reorganisation topics, budgets, the Group’s financial results and forecasts, as well as financial optimisations and the discussions regarding the implementation of an ethics alert system. The Board of Directors also dealt with topics regarding personnel and human resources, such as management qualification, remuneration (including a long-term incentive plan and an employee share ownership plan) as well as attracting, retaining and developing individuals with high potential in order to ensure the future quality of EADS’ management and the multinational leadership structure.

Each Director shall have one vote, provided that if there is a vacancy on the Board of Directors’ in respect of a DaimlerChrysler-nominated Director or a SOGEADE-nominated Director, the DaimlerChrysler-nominated Directors being present or represented at the meeting can jointly exercise the same number of votes that the SOGEADE-nominated Directors who are present or represented at the meeting can exercise and vice versa. All decisions of the Board of Directors require a vote in favor by at least seven Directors voting in person or by proxy.

The quorum for the transaction of business at meetings of the Board of Directors requires the presence of at least one of the SOGEADE-nominated Directors and one of the DaimlerChrysler-nominated Directors.

In the event of a deadlock in the Board of Directors, other than a deadlock giving DaimlerChrysler the right to exercise the put option granted to it by SOGEADE (see “Part 2/3.3.2 Relationships with Principal Shareholders — Put Option”), the matter shall be referred to Arnaud Lagardère (or such person as shall be nominated by Lagardère) as representative of SOGEADE and to the chief executive officer of DaimlerChrysler. In the event that the matter in question, including a deadlock giving DaimlerChrysler the right to exercise the put option (but in this case with the agreement of SOGEPA and DaimlerChrysler) is a matter within the competence of the General Meeting of EADS, a resolution on the issue shall be put to the General Meeting, with the voting rights of SOGEADE, DaimlerChrysler and SEPI being negated.

Pursuant to the Rules, the Board of Directors is empowered to form committees from its members. In addition to the Audit Committee and the Remuneration and Nomination Committee, the Board of Directors may form other committees to which it may transfer certain minor or ancillary decision-making functions although such assignment does not negate the joint responsibility of all Directors. The quorum for the transaction of business at any meeting of a committee shall be at least one Director appointed by SOGEADE and at least one Director appointed by DaimlerChrysler. All decisions of a committee require the simple majority of the members.

In addition to the Rules, the work of the Board of Directors is governed by internal directors’ guidelines (the “**Directors’ Guidelines**”) adopted, in a meeting dated 10<sup>th</sup> December 2004, in light of Corporate Governance best practices. The Directors Guidelines are composed of a Directors’ charter (the “**Directors’ Charter**”) detailing the rights and duties of the members of the Board of Directors, an Audit Committee charter (the “**Audit Committee Charter**”) and a Remuneration and Nomination Committee charter (the “**Remuneration and Nomination Charter**”) each such charter setting forth the respective committees’ enhanced roles.

The Directors' Charter sets out core principles, which bind each and every Director, such as acting in the best interest of the Company and its stakeholders, devoting necessary time and attention to the carrying out of their duties and avoiding any and all conflicts of interest.

#### COMPOSITION OF THE BOARD OF DIRECTORS

Name	Age	Term started (as member of the Board of Directors)	Term expires	Principal function in the Group
Rüdiger Grube	55	2005	2010	Chairman of EADS
Arnaud Lagardère	46	2005	2010	Chairman of EADS
Thomas Enders	48	2005	2010	Chief Executive Officer of EADS
Louis Gallois	63	2005	2010	Chief Executive Officer of EADS and Head of Airbus
Jean-Paul Gut	45	2005	2010	Chief Operating Officer for Marketing, Strategy and Global Development of EADS
Hans Peter Ring	56	2005	2010	Chief Operating Officer for Finance of EADS and Chief Financial Officer of Airbus
Juan Manuel Eguiagaray Ucelay	61	2005	2010	Member of the Board of Directors of EADS
François David	65	2005	2010	Member of the Board of Directors of EADS
Michael Rogowski	68	2005	2010	Member of the Board of Directors of EADS

Nota: The professional address of all members of the Executive Committee for any matter relating to EADS is Le Carré, Beechavenue 130-132, 1119 PR, Schiphol-Rijk, The Netherlands.

Two additional members of the Board of Directors, Michel Pebereau and Bodo Uebber will be proposed for appointment during the Annual General Meeting of Shareholders to be held on 4th May 2007, with immediate effect as from the end of such meeting.

#### Curriculum Vitae and other Mandates and Duties Performed in any Company by the Members of the Board of Directors

##### Rüdiger Grube

Dr. Rüdiger Grube is a member of the Board of Management of DaimlerChrysler AG since October 1, 2001, responsible for Corporate Development. He is also responsible for all North East Asia activities of DaimlerChrysler AG including China. Dr. Grube holds an engineers' degree in aircraft construction and engineering from the University of Hamburg and a doctorate in industrial science.

He started his career in 1989 at MBB in Munich. In 1995, he became Director of Corporate Planning and Technology of Deutsche Aerospace AG. In 1996, he was appointed Senior Vice President and Head of Corporate Strategy at Daimler-Benz AG and subsequently of DaimlerChrysler AG. In 2000, he became Senior Vice President for Corporate Development.

*Current mandates in addition to the one listed in the chart above are set forth below:*

- Chairman of the Board of Directors of EADS Participations B.V.;
- Member of the Board of Management of DaimlerChrysler;
- Chairman of the Supervisory Board of MTU Friedrichshafen GmbH and DaimlerChrysler Off-highway GmbH;
- Chairman of the Board of Directors of DaimlerChrysler China limited, Beijing;
- Vice Chairman of the Board of Directors of Beijing Benz DaimlerChrysler Automotive (BBDC-A);
- Member of the Board of Directors of McLaren Group Ltd;
- Member of the Supervisory Board of DaimlerChrysler Financial Services AG;
- Member of the Advisory Board of DaimlerChrysler Fleetboard;
- Member of the Advisory Board of DaimlerChrysler Aviation; and
- Member of the Supervisory Board of "Hamburg Port Authority" ("HPA GmbH").

*Former mandates for the last five years:*

- Member of the Board of Directors of the Hyundai Motor Company (resigned 13<sup>th</sup> May 2004); and

- Member of the Board of Directors of the Mitsubishi Motors Company (resigned 24th November 2005).

### Arnaud Lagardère

Mr. Arnaud Lagardère has been General Partner and Chief Executive Officer of Lagardère since 2003. He began his career in 1986 as General Manager of MMB, the holding company of Hachette and Europe 1. In 1987, he was appointed Vice President of the Supervisory Board of Arjil bank followed by his appointment as Head of emerging activities and electronic media for Matra. In 1994 he became Chief Executive Officer of Grolier Inc. in the U.S. He has been Managing Partner of Lagardère since 1998. In 1999, he was appointed Chief Executive Officer of both Lagardère Media and Lagardère Active. Arnaud Lagardère graduated in Economics from the University of Paris Dauphine.

*Current mandates in addition to the one listed in the chart above are set forth below:*

#### *Current executive mandates:*

- General Partner and Chief Executive Officer of Lagardère;
- Chairman and Chief Executive Officer of Lagardère Media (corporate name: Hachette S.A.);
- Chairman of the Supervisory Board of Lagardère Active (S.A.S.);
- President (Chief Executive Officer) of Lagardère Active Broadband (S.A.S.);
- Chairman and Chief Executive Officer of Lagardère (S.A.S.);
- Chairman and Chief Executive Officer of Lagardère Capital & Management (S.A.S.);
- Chairman and Chief Executive Officer of Arjil Commanditée — ARCO (S.A.);
- Chairman of Fondation Jean-Luc Lagardère;
- President of the “Association des Amis de Paris Jean-Bouin C.A.S.G.”;
- President of the “Association Nouvel Elan Croix Catelan”; and
- President of the “Association Lagardère Paris Racing”.

#### *Current non-executive mandates:*

- Chairman of the Board of Directors of EADS Participations B.V.;
- Member of the Supervisory Board of Virgin Stores (S.A.);
- Member of the Supervisory Board of DaimlerChrysler;
- Member of the Supervisory Board of Le Monde (S.A.);

- Director of Hachette Livre (S.A.);
- Director of Hachette Distribution Services (S.A.);
- Chairman of the Supervisory Board of Hachette Filipacchi MedIAS (S.A.S.);
- Permanent Representative of Lagardère Active Publicité to the Board of Directors of Lagardère Active Radio International (S.A.);
- Director of Lagardère Ressources (S.A.S.);
- Director of France Télécom (S.A.);
- Director of LVHM Moët Hennessy Louis Vuitton (S.A.);
- Member of the Supervisory Board of Lagardère Sports (S.A.S.);
- Director of Lagardère Management, Inc; and
- Chairman of the Board of Directors of Lagardère Active North America, Inc.

#### *Former mandates for the last five years:*

- Member of the Supervisory Board of T. Online International AG;
- Member of the Board of Directors of LCM Expression S.A. (resigned June 2002);
- Member of the Board of Directors of Multithématiques S.A. (resigned December 2002);
- Co-Manager of I.S.-9 (resigned May 2003);
- Manager of Lagardère Active Publicité (SNC) (resigned May 2003);
- Member of the Board of Directors of the Society d’Agences et de Diffusion S.A. (resigned June 2003);
- Manager of the Nouvelles Messagerie de la Presse Parisienne — N.M.P.P. SARL (resigned July 2003);
- Member of the Board of Directors of Canalsatellite S.A. (resigned December 2003);
- Member of the Board of Directors of Lagardère-Sociétés S.A.S (resigned December 2003);
- Member of the Board of Directors of the Editions P. Amaury S.A. (resigned December 2003);
- Chairman and Chief Executive Officer of Lagardère Images S.A.S (resigned October 2004);
- Chairman and Chief Executive Officer of Lagardère Thematiques S.A. (resigned November 2004);
- Manager of Lagardère Elevage (resigned March 2005);
- Deputy-Chairman of the Supervisory Board of Banque Arjil & Cie (resigned April 2005);

- President of the “*Club des entreprises Paris 2012*” (resigned January 2006);
- Member of the Board of Directors of Fimalac (resigned January 2006);
- President (Chief Executive Officer) of Lagardère Active S.A.S. (resigned October 2006);
- Director of Hachette Filipacchi MedIAS S.A. (resigned October 2006);
- Permanent Representative of Hachette S.A. to the Management Committee of SEDI TV-TEVA (S.N.C.) (resigned December 2006); and
- Chairman and Chief Executive Officer of Lagardère Active Broadcast (S.A.) (resigned March 2007).

### Thomas Enders

Mr. Enders joined MBB (“**Messerschmitt-Boelkow-Blohm**”)/Dasa AG in 1991, after various posts in international research institutes, the German Parliament and the Planning Staff of the German Minister of Defense. After several years in the company’s marketing sector, he became Corporate Secretary of Dasa AG in 1995. From 1996 he was in charge of Corporate Strategy & Technology and in 2000 with the creation of EADS, he became the Head of Defence & Security Division. In June 2005 he was appointed Chief Executive Officer of EADS. Mr. Enders holds degrees from the University of Bonn and UCLA, California.

*Current mandates in addition to the one listed in the chart above are set forth below:*

- Member of the Board of Directors of EADS Participations B.V. and Chief Executive Officer of EADS Participations B.V.;
- President of the German Association of the Aerospace Industries-BDLI;
- Chairman of the Supervisory Board of EADS Deutschland GmbH;
- Chairman of the Shareholders Committee of Airbus S.A.S.;
- Chairman of the Supervisory Committee of Eurocopter S.A.S.;
- Member of the Board of Directors of EADS North America Inc.;
- Member of the Board of Directors of Bundesverband der Deutschen Industrie (“**BDI**”);
- Member of the Supervisory Board of Deutsche BP; and
- President of Atlantikbrücke.

*Former mandates for the last five years:*

- Chairman of the Supervisory Board of DADC Luft und Raumfahrt Beteiligungs AG (“**DADC**”) (resigned October 2005);
- Member of the Supervisory Board of Industrieanlagen-Betriebsgesellschaft mbH (“**IABG**”) (resigned December 2005);
- Chairman of the Supervisory Board of Dornier GmbH (resigned March 2006); and
- President of AeroSpace and Defence Industries Association of Europe (“**ASD**”) (resigned October 2006).

### Louis Gallois

Mr. Louis Gallois was Chairman of SNCF since 1996. From 1972 he worked in various posts for the Ministry of Economy and Finance, the Ministry of Research and Industry and the Ministry of Defense. In 1989 he was nominated Chairman and Chief Executive Officer of SNECMA and subsequently, in 1992 Chairman and Chief Executive Officer of Aerospatiale. In 2006 he was subsequently appointed Chief Executive Officer of EADS and of Airbus. He graduated from the Ecole des Hautes Etudes Commerciales (HEC) in Economic sciences and is an alumnus of the Ecole Nationale d’Administration (ENA).

*Current mandates in addition to the one listed in the chart above are set forth below:*

- Member of the Board of Directors of EADS Participations B.V. and Chief Executive Officer of EADS Participations B.V.;
- Member of the Board of Directors of Stichting Administratiekantoor EADS (the “**Foundation**”);
- Member of the Board of Directors of *École Centrale des Arts et Manufactures*; and
- President of the Fondation Vilette-Entreprises.

*Former mandates for the last five years:*

- Member of the Board of Directors of Thales (resigned 30<sup>th</sup> June 2005); and
- President of SNCF (resigned 2<sup>nd</sup> July 2006).

### Jean-Paul Gut

Since 1983, Mr. Gut has held various executive positions in the field of export and international operations for Matra Defense, Matra Defense Espace and the Lagardère Group. In 1998, Mr. Gut integrated the Lagardère Group Management Board as responsible for International Operations and the High Technology sector. At the creation of EADS, in 2000, he was appointed Head of EADS International and in 2005 Chief Operating Officer for Marketing, Strategy and International.

He graduated from the *Institut d'Études Politiques de Paris* with a Master's degree in Economics.

*Current mandates in addition to the one listed in the chart above are set forth below:*

- Member of the Board of Directors of Arjil Commanditée-Arco S.A.;
- Member of the Shareholders Committee of Airbus S.A.S.;
- Member of the Board of Directors of Dassault Aviation S.A.;
- Member of the Board of Directors of EADS CASA;
- Member of the Board of Directors of EADS North America Inc (USA);
- Director of GIE AMLI;
- Permanent representative of MBDA France in the Board of Directors of Eurotradia International (S.A.); and
- Member of the Supervisory Board of Eurocopter (S.A.S).

*Former mandates for the last five years:*

- None.

### Hans Peter Ring

Mr. Hans Peter Ring began his career at MBB in 1977. In 1987 he was appointed Head of Controlling of the company's Missiles business and subsequently of the Aviation and Defense Division of Dasa AG. From 1992-1995, he was Chief Financial Officer and member of the board of Dornier Luftfahrt. In 1996, he was appointed Senior Vice President of Controlling of Dasa and subsequently of EADS. Hans Peter Ring was appointed Chief Financial Officer of EADS in 2002 and Chief Operating Officer for Finance in 2005. In addition, in 2007 he became Airbus CFO. Mr. Hans Peter Ring has a degree in business administration.

*Current mandates in addition to the one listed in the chart above are set forth below:*

- Member of the Supervisory Board (*Aufsichtsrat*) and Shareholder Committee of M+W Zander — D.I.B Facility Management GmbH;
- Member of the Shareholders Committee of Airbus S.A.S.;
- Member of the Board of Directors of EADS Space B.V.;
- Member of the Supervisory Committee of Eurocopter S.A.S.;
- Member of the Board of Directors of EADS CASA;
- Member of the Board of Directors of EADS North America Inc.;
- EADS' Representative at the ATR assembly of members;

- Member of the Advisory Board of Deutsche Bank (Region Munich);
- Member of the "Wirtschaftsbeirat" of the BayernLB;
- Member of the Supervisory Board of ESMT; and
- Member of the "Außenwirtschaftsbeirat (AWB)" of the "Bundesministerium für Wirtschaft und Technologie".

*Former mandates for the last five years:*

- Member of the Advisory Board of Travel-Management GmbH (resigned 31<sup>st</sup> March 2003); and
- Member of the Supervisory Board of ATR GIE (resigned 31<sup>st</sup> December 2003).

### Juan Manuel Eguiagaray Ucelay

Mr. Juan Manuel Eguiagaray Ucelay is Director of Studies at the think tank *Fundación Alternativas*. Between 1970 and 1982 he taught economics at Deusto University in Bilbao. Since the 1970's he held various political mandates in Spain; amongst others he was Minister for Public Administration (1991-1993) and Minister for Industry and Energy (1993-1996). He resigned from Parliament in 2001. Mr. Eguiagaray Ucelay holds a degree in Economics as well as in Law by Deusto University and a Ph.D. degree by the same University.

*Current mandates in addition to the one listed in the chart above are set forth below:*

- Director of the Service of Studies of the *Fundación Alternativas*;
- President of *Solidaridad Internacional* (NGO);
- Economic Adviser of *Arco Valoraciones S.A.*;
- Member of the Council Adviser of Creation, Advising and Development (*Creade*), S.L.; and
- Member of the Council Adviser of the Foundation Group EP.

*Former mandates for the last five years:*

- Member of the Advisory Board of *Futurspace S.A.* (resigned 5<sup>th</sup> July 2004); and
- Associate Professor of Macroeconomics at the University of Carlos III in Madrid (resigned 30<sup>th</sup> September 2006).

### François David

Mr. François David is Chairman and Chief Executive Officer of *Coface*, an international credit insurance and credit management service provider since 1994. He started his career in 1969 in the French Ministry of Finance as Civil Administrator at the foreign economic relations department in which he held various

responsibilities. In 1986, he was named Director of the Cabinet of the Minister of Foreign Trade. In 1987, he was appointed Director of external economic relations within the Ministry of Economy, Finance and Budget. In 1990, he was named International Managing Director of the Aérospatiale company. Mr. David is an alumnus of the *École Nationale d'Administration*, a graduate of the *Institut d'Études Politiques de Paris*, and he holds a degree in sociology.

*Current mandates in addition to the one listed in the chart above are set forth below:*

- Chairman and Chief Executive Officer of Coface;
- Member of the Board of Directors of *Stichting Administratiekantoor EADS* (the “**Foundation**”);
- Chairman and Chief Executive Officer of Coface Scrl;
- Chairman of the Board of Directors of Viscontea Coface (Italy);
- Chairman of the Board of Directors of Coface Services;
- Chairman of the Supervisory Board of AK Coface (*Allgemeine Kreditversicherung Aktiengesellschaft Coface*) (Germany);
- Member of the Board of Directors of Vinci;
- Member of the Board of Directors of the association Coface Trade Aid;
- Chairman of Coface ORT;
- Chairman of La Librairie Electronique (LLE);
- Chairman of Centre d'études financières;
- Chairman of Or Informatique; and
- Censor in Rexel.

*Former mandates for the last five years:*

- Member of the Board of Directors of Rexel (resigned in 2005).

### Michael Rogowski

Dr. Michael Rogowski has been Chairman of the Supervisory Board of Voith AG since 2000 and was also the President of the Association of German Industry from 2000 to 2004. Dr. Michael Rogowski joined Voith GmbH in 1974, where he was responsible for human resources as well as materials management. In 1982 he took over responsibility for the power transmission engineering Division and was named Chairman of the Management Board of Voith GmbH in 1986 and then Voith AG in 1997. He studied economical engineering and earned a doctorate at the University of Karlsruhe in 1969.

*Current mandates in addition to the one listed in the chart above are set forth below:*

- Chairman of the Supervisory Board of Voith AG;
- Member of the Board of Directors of *Stichting Administratiekantoor EADS* (the “**Foundation**”);
- Member of the Supervisory Board of Talanx AG/HDI Versicherung;
- Member of the Supervisory Board of IKB Deutsche Industrie-Bank AG;
- Member of Shareholder's Committee of Freudenberg & Co.;
- Member of the Supervisory Board of Carl Zeiss AG; and
- Member of the Supervisory Board of Kloeckner & Co. AG

*Former mandates for the last five years:*

- President of the Federation of German Industries, BDI (resigned 31<sup>st</sup> December 2004);
- Member of the Supervisory Board of KSB AG (resigned 30th April 2005);
- Member of the Supervisory Board of KfW Kreditanstalt für Wiederaufbau (resigned 31<sup>st</sup> May 2005);
- Member of the Supervisory Board of Deutsche Messe AG (resigned 30<sup>th</sup> June 2005); and
- Vice President of the Federation of German Industries, BDI (resigned 31<sup>st</sup> December 2005).

The Company has not appointed observers to the Board of Directors. Pursuant to applicable Dutch law, the employees are not entitled to elect a Director. There is no minimum number of shares that must be held by a Director.

### Independent Directors

The two independent directors appointed pursuant to the criteria of independence set out above are François David and Michael Rogowski.

### Prior Offences and Family Ties

To the Company's knowledge, none of the Directors (in either their individual capacity or as director or senior manager of any of the entities listed above) has been convicted in relation to fraudulent offences, been the subject of any bankruptcy, receivership or liquidation, nor been the subject of any official public incrimination and/or sanction by a statutory or regulatory authority, nor been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any issuer or conduct of affairs of any company, during at least the last five years. As of the date of this document, there are no family ties among any of the Directors.

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

At the meeting dated 5<sup>th</sup> December 2003, the Board of Directors decided to carry out a self-assessment of its performance on an annual basis and a more thorough assessment every three years, possibly with the assistance of external consultants.

Pursuant to this decision, in late 2006 the Board of Directors has commissioned an independent and internationally reputable consulting firm (SpencerStuart) to assist the Directors in evaluating the functioning of the Board of Directors within the specific framework of the shareholders agreement. In the course of the evaluation, the outside consultant held individual meetings with all EADS Directors (Executive and non-Executive).

The results of the self-assessment were reported to and discussed by the Board of Directors with the clear objective to further improve the Board of Directors' effectiveness and efficiency. The main outcomes of the self-assessment read as follows.

It appeared that the Board of Directors has been working as a cohesive entity, in an open, constructive and interactive atmosphere. The frequency of Board of Directors' meetings and the set-up of the Committees (Audit Committee, Remuneration and Nomination Committee) have been judged as adequate by the members of the Board of Directors. The duration of meetings as well as the attendance rate was assessed as satisfactory.

Members of the Board of Directors almost unanimously indicated that the efficiency of the meetings was overall satisfactory and that the Board of Directors deals with the right issues, even if from time to time, urgent operational matters took too much time, compared to the discussions of long-term, strategic matters.

The members of the Board of Directors acknowledged the specific shareholding structure with strong shareholding blocks. Nevertheless they emphasized that decisions are always taken to the best interest of the company.

The review identified a number of possible areas of improvement for the future, such as the skill set and experience in the Board of Directors' room (where specific financial expertise could bring added value), more regular reviews of the strategy and performance of the major divisions and the implementation of a more structured succession planning process for key executives, thanks to a stronger involvement of the Remuneration and Nomination Committee.

It has also been underlined that in order to streamline the decision making process, the documentation and information supplied beforehand to Board members should be reshaped.

## 2.1.2 Audit Committee

Pursuant to the Rules, the Audit Committee makes recommendations to the Board of Directors on the appointment of auditors and the determination of their remuneration, the approval of the annual financial statements and the interim accounts, discusses with the auditors their audit program and the results of their audit of the accounts and monitors the adequacy of the Group's internal controls, accounting policies and financial reporting. The Audit Committee has responsibility for ensuring that the internal and external audit activities are correctly directed and that the audit matters are given due

importance at meetings of the Board of Directors. The rules and responsibilities of the Audit Committee have been set out in more detail in the Audit Committee Charter.

The Audit Committee reviews the quarterly, half and full year accounts on the basis of the documents distributed in advance and discussions with the auditors. The Head of accounting and the Chief Operating Officer Finance are invited to meetings of the Audit Committee to answer any question.

In 2006, the Audit Committee was chaired by Manfred Bischoff and Arnaud Lagardère and also included Rüdiger Grube.

The Audit Committee meets twice a year, or more frequently according to requirements. It met five times during 2006, with a

100% attendance rate, to review the 2005 results as well as the first half-year results for 2006 of the Company, together with the quarterly financial reviews. As decided by the Board of Directors on 5th December 2003, the role of the Audit Committee was increased with new tasks such as, in particular, the review of the quarterly financial reports.

### 2.1.3 Remuneration and Nomination Committee

Pursuant to the Rules, the Remuneration and Nomination Committee makes recommendations to the Board of Directors regarding appointments of the Executive Committee members, the chairmen of the Supervisory Board (or similar bodies), the Chief Executive Officers (or equivalent positions) of main Group companies and BUs and the Corporate Secretary, human resources and remuneration related strategy and long-term remuneration plans (including playing a central role in determining and reviewing the variable portion of the remuneration of the members of the Board of Directors and the Executive Committee) and decides the service contracts and other contractual matters in relation to the Board of Directors and Executive Committee members. The rules and responsibilities of the Remuneration and Nomination Committee have been set out in more detail in the Remuneration and Nomination Charter. In 2006, the Remuneration and Nomination Committee was chaired by

Manfred Bischoff and Arnaud Lagardère and also included Thomas Enders, Louis Gallois and Rüdiger Grube.

The Remuneration and Nomination Committee meets twice a year, or more frequently according to requirements. It met five times during 2006, with a 95% average attendance rate. On top of making recommendations to the Board of Directors for major appointments within the Group, the Remuneration and Nomination Committee reviewed the compensation policy (including pension schemes), the new Executive Committee members remunerations, the bonus payments for 2005, the long-term incentive plan and the employee share ownership plan for 2006/07 (originally scheduled for June 2006 but postponed to March 2007, see “2.3.2.7 Employee Share Ownership Plan 2007”), as well as the remuneration review of the members of the Executive Committee for 2006.

### 2.1.4 Executive Committee

The Chief Executive Officers, supported by an Executive Committee (the “**Executive Committee**”), are responsible for managing the day-to-day operations of the Company. The Executive Committee, chaired by the Chief Executive Officers, also comprises the Heads of the major Functions and Divisions of the Group. The Executive Committee met ten times during 2006.

The following matters are discussed, amongst others, at the Executive Committee meetings:

- Setting up and control of the implementation of the strategy for EADS businesses;
- Management, organisational and legal structure of the Group;

- Performance level of the Group’s businesses and support functions; and
- All business issues, including the operational plan of the Group and its Divisions and BUs.

The internal organisation of the Executive Committee is defined by the business allocation among the members under the supervision of the Chief Executive Officers. Notwithstanding the joint responsibilities as defined above, each member of the Executive Committee is individually responsible for the management of his portfolio and must abide by decisions taken by the Chief Executive Officers and the Executive Committee, as the case may be.



The Chief Executive Officers endeavour to reach consensus among the members of the Executive Committee on the matters discussed at the Executive Committee meetings. In the event of consensus not being reached, the Chief Executive Officers are entitled to decide the matter. If there is a fundamental or significant disagreement with respect to any undecided matter, the dissenting Executive Committee member may request that

the Chief Executive Officers submit such matter to the Chairmen for their opinion.

The term of office for the Executive Committee members is five years.

The Executive Committee members are appointed by the Board of Directors.

#### COMPOSITION OF THE EXECUTIVE COMMITTEE

Name	Age	Term started	Term expires	Principal Occupation
Thomas Enders	48	2005	2010	Chief Executive Officer EADS
Louis Gallois	63	2006	2010	Chief Executive Officer EADS and Head of Airbus
Jean-Paul Gut	45	2005	2010	Chief Operating Officer Marketing, Strategy and Global Development
Hans Peter Ring	56	2002	2007	Chief Operating Officer Finance EADS and Chief Financial Officer Airbus
François Auque	50	2005	2010	Head of Astrium
Lutz Bertling	44	2006	2011	Head of Eurocopter
Jean J. Botti	50	2006	2011	Chief Technical Officer
Fabrice Brégier	45	2005	2010	Chief Operating Officer Airbus
Ralph D Crosby Jr.	59	2002	2007	Head of EADS North America
Francisco Fernández Sáinz	61	2002	2007	Head of Military Transport Aircraft
Jussi Itävouri	51	2002	2007	Head of Human Resources
Stefan Zoller	49	2005	2010	Head of Defence & Security

Note: The professional address of all members of the Executive Committee for any matter relating to EADS is Le Carré, Beechavenue 130-132, 1119 PR, Schiphol-Rijk, The Netherlands.

#### Thomas Enders, Chief Executive Officer EADS

See “2.1.1 Board of Directors, Chairmen and Chief Executive Officers — Curriculum Vitae and other Mandates and Duties Performed in any Company by the Members of the Board of Directors”.

#### Louis Gallois, Chief Executive Officer EADS and Head of Airbus

See “2.1.1 Board of Directors, Chairmen and Chief Executive Officers — Curriculum Vitae and other Mandates and Duties Performed in any Company by the Members of the Board of Directors”.

#### Jean-Paul Gut, Chief Operating Officer Marketing, Strategy and Global Development

See “2.1.1 Board of Directors, Chairmen and Chief Executive Officers — Curriculum Vitae and other Mandates and Duties Performed in any Company by the Members of the Board of Directors”.

#### Hans Peter Ring, Chief Operating Officer Finance EADS and Chief Financial Officer Airbus

See “2.1.1 Board of Directors, Chairmen and Chief Executive Officers — Curriculum Vitae and other Mandates and Duties Performed in any Company by the Members of the Board of Directors”.

#### François Auque, Head of Astrium

Mr. Auque joined Aerospatiale as Chief Financial Officer in 1991, after a career with the Suez Group and the French Cour des Comptes. He held various top management functions within Aerospatiale and Matra until becoming Chief Financial Officer of Aerospatiale Matra together with Managing Director for satellites. Since 2000, he is Chief Executive Officer of the EADS Space Division. Mr. Auque graduated from HEC, from the IEP of Paris, and from the ENA.

### Lutz Bertling, Head of Eurocopter

Since 1988, Mr. Bertling has held various positions at Braunschweig University and DaimlerChrysler Rail Systems. In 1999, he joined the Military Aircraft Business of Dasa as Vice President Augsburg Plant and Aerostructure Programs. Since 2003 he works in Eurocopter, became Chief Executive Officer of Eurocopter Deutschland in April 2006 and Head of Eurocopter Division in October. Mr. Bertling studied Engineering at the Braunschweig University and holds a PhD.

### Jean J. Botti, Chief Technical Officer

Mr. Botti started his career in 1978 as product engineer for Renault France. From 1989 on, he worked in the USA for General Motors, before becoming Chief Technologist and subsequently Business Line Executive of the Powertrain Business at Delphi. In May 2006, he was appointed Chief Technical Officer of EADS. Mr. Botti holds degrees from INSA Toulouse, an MBA from Central Michigan University and a PhD from the Conservatoire des Arts et Métiers.

### Fabrice Brégier, Chief Operating Officer Airbus

Mr. Brégier joined Matra Défense in 1993 as Chairman of the Apache MAW and Eurodrone GIEs. In 1996, he was appointed Director for the Stand-Off activities of Matra BAe Dynamics before becoming Chief Executive Officer of MBD in 1998 and Chief Executive Officer of MBDA in 2001. Since April 2003, he was President and Chief Executive Officer of Eurocopter and Member of the EADS Executive Committee, before being appointed Airbus Chief Operating Officer in October 2006.

### Ralph D. Crosby Jr., Head of EADS North America

Mr. Crosby has been Chairman and Chief Executive Officer of EADS North America since 2002. He is EADS' senior executive in the U.S. and Chief Executive of the company operating all U.S. subsidiaries of the group. Previously,

Mr. Crosby was President of the Integrated Systems Sector at Northrop Grumman Corporation. Mr. Crosby holds degrees from the U.S. Military Academy, the Graduate Institute of International Studies in Geneva and Harvard University.

### Francisco Fernández Sáinz, Head of Military Transport Aircraft

Mr. Fernández Sáinz joined CASA in 1971 as a Stress Engineer. Between 1975 and 2002 he held various positions such as Engineering Development Director, Vice President of Engineering, Executive Vice President Programs and finally as Airbus España General Manager. Since 2002, he has been Head of the Military Transport Aircraft Division. Mr. Fernández Sáinz holds an MBA from ICADE and is a Senior Aeronautical Engineer.

### Jussi Itävuori, Head of Human Resources

Mr. Itävuori joined EADS in September 2001. Previously, he worked for KONE Corporation since 1982 and was appointed in 1989 as Head of Human Resources and member of the Executive Committee of KONE Elevators. In 1995, he was appointed member of the Executive Committee and Head of Human Resources of KONE Corporation. Mr. Itävuori graduated from the Vaasa School of Economics, Finland and served in the Airforce as pilot.

### Stefan Zoller, Head of Defence & Security

Mr. Zoller joined Dasa in 1996 as Chief of Staff of the President and Chief Executive Officer of the company. Previously, he held various management positions within DaimlerChrysler, Dornier and Senstar/Canada. Since 2000, he has held top management positions within EADS' defence business and was appointed Head of the Defence & Security Division in 2005. Mr. Zoller graduated from the University Tübingen and holds a PhD in company law.

## 2.1.5 Internal Control and Risk Management Systems

### 2.1.5.1 Overview

One of Management's fundamental missions is to foster a positive Internal Control ("IC") and Risk Management ("RM") environment at EADS, in line with corporate governance requirements and best practices in the Netherlands, France, Germany and Spain. Having recognised that continuing changes in the multi-jurisdictional legal and regulatory provisions

applicable to EADS required a strategic approach to IC and RM, EADS began to implement a group-wide IC and RM system at the beginning of 2004. This system is based on the Internal Control and Enterprise Risk Management Frameworks of the Committee of Sponsoring Organisations of the Treadway Commission ("COSO").

The IC and RM system provides Management with a framework for attempting to manage the uncertainty and associated risks inherent in EADS' business. It serves as the basis for all sub-IC and sub-RM procedures present throughout EADS at the divisional and Business Unit ("BU") levels.

### Limitations

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

### Developments in 2006 and outlook

During 2006, EADS' main objective with respect to its IC and RM system was to increase awareness of IC and RM principles at the divisional, BU and Headquarters ("HQ") level. This included the rollout across several Divisions and BUs of standardised IC and RM training covering basic and refresher concepts. In addition, process coordinators benefited from individual coaching sessions and workshops relating to the performance of yearly IC procedures. Working groups were also established throughout 2006 in order to enhance cross-departmental and cross-organisational knowledge exchange.

During the second half of 2006, most Divisions, BUs and HQ departments conducted a self-assessment of their IC systems to evaluate the design and operational effectiveness of internal controls. The results are currently in the process of being analysed. The independent review process launched in 2005 to substantiate the self-assessments and to assess the effectiveness of the IC and RM systems also continued during 2006.

Finally, following the purchase of BAE Systems' 20% minority stake in Airbus in October 2006, the appointment of common chief executive officer ("CEO") and chief financial officer ("CFO") at EADS and Airbus and the production difficulties encountered with the A380 in 2006, EADS is currently reviewing the IC and RM system in place at Airbus in order to further align it with that of the group as a whole. Prior to BAE Systems' divestment of its stake, Airbus operated an IC and RM system, customised to their specific business. As a wholly owned subsidiary, Airbus' IC and RM system will be further integrated with that of the group over the long-term.

Building on the comprehensive IC and RM review and evaluation procedures carried out in 2006, EADS will assess the results over the course of 2007. As a result of the ongoing monitoring activities of the IC and RM systems' effectiveness,

further modifications to the IC and RM systems are expected throughout 2007.

### Responsibility for the IC and RM System — Interaction with EADS Management

Overall responsibility for the IC and RM system and the related reporting to stakeholders lies with the EADS Board of Directors ("BoD"). EADS' CEOs and CFO are responsible for ensuring that the IC and RM system and related procedures are implemented throughout the Group. In addition, the Audit Committee oversees the group-wide functioning of the IC and RM system.

A general management principle at EADS is the delegation of entrepreneurial responsibility and powers to the operational units. This principle of subsidiarity entails a clear separation of responsibilities between EADS Headquarters and the Divisions or BUs. EADS Headquarters sets the overall strategic and operational targets for EADS and assumes the ultimate responsibility. The Divisions and BUs retain responsibility for all operational matters and activities within their scope, subject to audit.

Consequently, the responsibility for operating and monitoring the IC and RM system and for risk and IC reporting lies with the respective management of the Divisions, BUs and HQ departments. They must seek to ensure transparency and effectiveness of their local sub-IC and RM systems and the adherence to the objectives defined by the EADS BoD. The management of Divisions, BUs and HQ departments is responsible for the implementation of appropriate mitigation activities to reduce the probability and impact of risk exposures and for the communication of risks which affect others within EADS.

In principle, risk and IC management as well as ensuring overall effectiveness of the IC and RM system is the responsibility of all members of the staff. The Group seeks to integrate risk and IC management into all activities when conducting business transactions.

### Sources and Standards for IC and RM System and Procedures

The core policies, procedures and thresholds that define EADS' IC and RM environment are communicated throughout the Group through:

- Codes of conduct (e.g., EADS Code of Ethics, Corporate Social Responsibility policies (see "Part 2/Chapter 2 Corporate Social Responsibility"));

- Handbooks (e.g., “EADS Corporate Management Principles and Responsibilities”, the “Financial Control Handbook”);
- Manuals (e.g., Treasury Procedures, “Accounting Manual”, “Reporting Manual”); and
- Guidelines (e.g., Risk Management Guidelines, “Funding Policy”).

External standards influencing the EADS IC and RM system include the IC and Enterprise Risk Management (ERM) Frameworks of COSO, as well as industry-specific standards as defined by the International Standards Organisation (ISO).

### 2.1.5.2 RM System

RM at EADS covers all types of risk such as operational, financial, strategic and compliance risks, quantifiable and unquantifiable risks, short-, middle- and long-term risks, and risks with financial, health and safety, and reputational implications. The RM system requires that all risks be identified and that their likelihood of occurrence and the possible extent of damage be assessed, usually in terms of their effect on operating profit. Early identification and professional management of these risks is fundamental to business success. See “Risk Factors” for information on certain risks to which the Group is exposed.

The management of the Divisions, BUs and HQ departments is responsible for developing and initiating appropriate measures to avoid, reduce, or hedge the probability and/or impact of the identified risks. Information on risks is gathered and updated regularly to provide Division, BU and HQ management with an analysis of the significant risks within the Group, as well as with information on the activities initiated to mitigate or avoid such risks. This information is used for decision making throughout the relevant EADS management processes. In addition, the evolution of major risks and the development of the countermeasures taken in response are monitored on a regular basis by Division and BU management, who in turn report to the CEOs and CFO.

The RM system attempts to cover all risks to which EADS is exposed, including risks inherent in the day-to-day business processes of the Group. EADS’ IC system as described below seeks to provide reasonable assurance that process-inherent risks arising from the Group’s activities are managed effectively. The relevant risks are subject to a management discussion process at the Group level.

### 2.1.5.3 IC System

The IC system is based on a variety of IC policies and procedures within EADS. It is designed to provide reasonable

assurance to the BoD, the CEOs and the CFO regarding the achievement of the following objectives:

- The quality of financial reporting, including design and implementation of processes to generate a flow of timely, relevant and reliable financial information;
- Compliance with laws and regulations applicable to the Group, as well as with internal Group policies; and
- Identification and response to significant operational, financial and compliance risks throughout EADS.

The IC system covers all three objectives with the main focus on the reliability of financial reporting to reasonably assure that it does not contain any material inaccuracies.

The management of the Divisions, BUs and HQ departments is responsible for the operating and monitoring of the IC system within their area of duty. They seek to ensure that the appropriate controls to achieve the control objectives defined by EADS HQ and listed in IC templates are in place and operate effectively on an ongoing basis.

EADS has established formalized internal control self-assessment mechanisms, to be applied by each identified process/control owner on a regular basis, who must assess the operating and design effectiveness of the internal controls in place for his process. Identified control deficiencies are evaluated and prioritised into “deficiencies”, “significant deficiencies” and “material weaknesses”. For each deficiency, a remediation action is defined and implemented. The progress is monitored by the respective Division, BU and HQ department management and reported to EADS HQ. To verify the successful implementation of the remediation actions, the remedied controls are periodically re-assessed. Each year, corporate audit provides an independent review of the status of the IC systems in selected Divisions, BU and HQ department. Generally, relevant personnel (e.g., IC coordinators, process owners) receive training in order to be informed of new/changed laws and regulations regarding IC and to be updated on relevant process steps and activities regarding the IC system.

Based on the self-assessments, management of each Division, BU and HQ department prepares formal statements as to the adequacy and effectiveness of the IC systems within their scope of responsibility.

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

### Monitoring of Internal Controls — Management discussions

In addition to regular monitoring activities at the Divisional, BU and HQ levels, their assessments about the adequacy and effectiveness of the IC systems are discussed in depth between EADS CEOs and CFO and the respective Division/BU CEOs and CFOs or the HQ-functions heads. These discussions serve to prioritise potential issues at EADS level, define and commit appropriate actions if needed, and draw conclusions for the overall EADS IC and RM report.

### Management Sign-Off Process — Sub-representation

Once every year, identified significant deficiencies and material weaknesses are reported in sub-representation letters, providing assurance in the form of management assessment of the quality of the IC systems and of the IC risk exposure. Since the 2004 reporting cycle, a formalised sign-off process is in place whereby EADS' CEOs and CFO confirm to the BoD, to the best of their knowledge, whether:

- the IC system is adequately structured to ensure the reliability of financial reporting within EADS;
- the control activities in place are completely and accurately described in the IC templates and/or other relevant process documentation and guidelines;
- the owner of each control activity is clearly identified; and
- the controls in place are appropriate for EADS' business and meet the defined control objectives.

The CEOs' and the CFO's IC statement is mainly based on the self-assessments, independent reviews and management discussions described above, and is substantiated by sub-representation letters provided to the CEOs and CFO by all Divisional and BU management.

#### 2.1.5.4 Business Processes Covered by the IC System

Based on EADS' activities, seventeen high-level business processes have been identified within EADS. They are categorized into core processes (research and development, production, sales, after sales and program management), support processes (procurement, human resources, accounting, fixed assets, treasury, information technology, mergers & acquisitions, legal and insurance) and management processes (internal audit, controlling and management controls). Set out below is a description of certain of these business processes in place during 2006, and the correlating IC procedures, covering risks that have a significant potential of affecting the Group's financial condition and results of operations.

### Accounting

At the core of EADS' IC system are accounting processes and controls designed to ensure the reliability of the financial statements and other financial information used by management and disclosed to EADS' investors and other stakeholders. These processes and controls are part of an overall financial control model integrating strategic planning, operative planning, measurement and reporting, decisions/actions and financial market communication. This integrated approach to planning and reporting aims to improve internal communication and transparency across departments and organisational units within EADS, which are essential to the preparation of accurate and reliable financial statements.

### Consolidation Procedures — External Financial Reporting

The EADS financial control model defines the planning and reporting procedures that apply to all operational units of the Group, as well as the responsibilities of the CFO, who is charged with developing, implementing and monitoring these procedures. Among the CFO's primary tasks is overseeing the preparation of consolidated financial statements for EADS, which are prepared under the direct supervision of the Chief Accounting Officer ("CAO"). The CAO is responsible for the operation of the Group's consolidation systems and rules and for the definition of Group-wide accounting policies, reporting rules and financial guidelines that ensure the consistency and quality of financial information reported by the BUs and Divisions. EADS' accounting policies are set out in a written accounting manual, which is agreed with the Company's external auditors. Changes to the EADS accounting manual require approval by the CAO, and, where significant changes are involved, the CFO or the Board of Directors (based upon the advice of the Audit Committee).

Control of the financial reporting process is effected not only through the elaboration of Group-wide accounting systems and policies, but also through an organized process for extracting quality information from the reporting units on a timely basis. The EADS reporting process is briefly summarized below:

BU accounting departments record information using the EADS accounting consolidation software, following centrally defined EADS accounting policies which comply with IFRS, the Group-wide applied accounting principle. Accountants at EADS headquarters, who are responsible for each Division, monitor and verify the work of the relevant BU accounting departments. The Division accountants also provide direct support to the BUs to ensure the correct application of the EADS accounting policies.

During the course of each reporting cycle, BU CFOs frequently meet with the EADS CAO to discuss the financial information generated by the BUs.

Prior to being disclosed to the public and subsequently submitted for approval to the shareholders, the consolidated year-end financial statements are audited by the Company's external auditors, reviewed by the Audit Committee and submitted for approval by the Board of Directors. Similar procedure is used for the quarterly closing. Group auditors are involved before EADS financial statements are submitted to the Board of Directors.

### Controlling

The controlling function has developed a value-driven economic and financial corporate measurement system and methodology on an industry benchmark level. Supported by the CFOs from Divisions, the core planning, tracking and reporting tasks of the controlling department provides management with a global overview of the Group. The controlling department is also called on to interact with other headquarters functions to ensure that corporate activities, such as mergers and acquisitions ("M&A") and sourcing, are carried out in accordance with the Group-level policies and strategies. This global overview also makes controlling an integral element of the risk assessment process.

The EADS financial reporting policies and procedures, described above, are also designed to provide Management with updated (at least monthly) decision-oriented management information to control the operational performance of the Group. This information includes regular cash and treasury reports, as well as other financial information used for future strategic and operative planning and control and supervision of economic risks arising from the Group's operations.

### Treasury

Treasury management procedures, defined by EADS' central treasury department at Group headquarters, enhance management's ability to identify and assess risks relating to liquidity, foreign exchange rates and interest rates. Controlled subsidiaries fall within the scope of the centralized treasury management procedures, with similar monitoring procedures existing for jointly controlled affiliates, such as MBDA.

### Cash Management

Management of liquidity to support operations is one of the primary missions of the EADS central treasury department. Monthly cash planning and reporting by the central treasury department, in conjunction with the controlling department,

provides management with the information required to oversee the Group's cash profile and to initiate necessary corrective action in order to ensure overall liquidity.

To maintain targeted liquidity levels, and to safeguard cash, EADS has implemented a cash pooling system with daily cash sweeps from the controlled subsidiaries to centrally managed accounts. Payment fraud prevention procedures have been standardized throughout the Group.

### Hedge Management

Commercial operations generate material foreign exchange and interest rate exposures. A Group hedging policy is defined and updated regularly by the Board of Directors. In order to ensure that all hedging activity is undertaken in line with the Group hedging policy, the central treasury department executes all hedging transactions. The central treasury department conducts ongoing risk analysis and proposes appropriate measures to the Divisions and BUs with respect to foreign exchange and interest rate risk. Subsidiaries are required to calculate, update and monitor their foreign exchange and interest rate exposure with the EADS central treasury department on a monthly basis, in accordance with defined treasury procedures. See "1.1.8 Hedging Activities".

### Sales Financing

In connection with certain commercial contracts, EADS may agree to enter into sales financing arrangements. In respect of sales financing at Airbus, an annual sales financing budget is defined as part of the EADS operative planning process. Sales financing transactions are approved on a case-by-case basis, in line with certain risk assessment guidelines.

### Procedures for Monitoring Off-Balance Sheet Liabilities

Within EADS, off-balance sheet liabilities mainly arise in connection with lease arrangements, extensions of guarantees and pending or threatened litigation. Divisions and BUs are required to record, or to provide information on, all financial guarantees in a tracking system. Guarantees for amounts in excess of a certain threshold must be approved by the CFO, the CEOs or the Board of Directors, as the case may be.

Management has instituted procedures to monitor the level of certain off-balance sheet liabilities throughout the Group. In particular, a specialized guarantee tracking system has been rolled out to monitor exposure arising from guarantees throughout the Group.

For jointly controlled affiliates, such as MBDA, summary information on guarantee-related off-balance sheet exposure is

captured by EADS Headquarters based on regular reports of this exposure and discussed in the MBDA treasury committee.

### Sales

Commercial contracts entered into by EADS' operating subsidiaries have the potential to expose the Group to significant financial, operational and legal risks. To control these risks, Management has implemented contract proposal review procedures to ensure that EADS does not enter into material commercial contracts that expose it to unacceptable risk or are not in line with the Group's overall objectives. These procedures include (i) Board of Directors-approved thresholds and criteria for determining the risk and profitability profile of proposed contracts and (ii) a mandated pre-approval process for contracts defined as "high-risk".

Contracts falling within the defined threshold categories require approval by the CFO. Contracts that are deemed "high-risk" must be submitted to a standing Commercial Committee (with the COO for Finance and the COO of Marketing, Strategy and Global Development serving as permanent members). This committee is responsible for reviewing the proposal and submitting a decision-leading recommendation to the CEOs. Its specific role and responsibilities are defined in a set of internal rules adopted by the EADS Executive Committee.

In the case of Airbus, contracts are approved in accordance with Airbus' own Corporate Governance policy, based on EADS guidelines. In general, where EADS shares control of a subsidiary with a third party, the Commercial Committee is responsible for forming the EADS position on proposed commercial contracts.

### Mergers and Acquisitions

With respect to merger, acquisition and divestiture activities of the Group, Management has implemented transaction review and approval procedures centralized at EADS headquarters. The IC procedures require all M&A transactions to be reviewed by an M&A Committee. The M&A Committee is chaired by the head of Strategic Coordination, and includes the CFO and the directors of Group headquarters level M&A and controlling departments. Legal Affairs is permanently represented on the M&A Committee, and representatives of other departments are also invited to attend meetings.

Projects that are considered non-strategic and fall under a defined value threshold are reviewed and approved by the M&A Committee. Strategic and high-value projects require additional approval by the CEOs or the Board of Directors. This review and approval procedure is carried out at four critical stages of the M&A process, beginning with an analysis of the strategic fit

and definition of the legal framework and concluding with a final review of the overall transaction.

### Legal

EADS is subject to myriad legal requirements in each jurisdiction in which it conducts business. The EADS Legal Affairs directorate, in coordination with the Division and BU legal departments, is responsible for implementing and overseeing the procedures designed to ensure that EADS' activities comply with all applicable laws, regulations and requirements. It 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.

Legal Affairs, together with the Corporate Secretary, also plays an essential role in the design and administration of (i) the EADS Corporate Governance procedures and (ii) the legal documentation underlying the delegation of powers and responsibilities and defining the EADS management and IC environment.

### Internal Audit

The EADS Internal Audit department, under the direction of the Corporate Secretary, provides Management with a risk-based evaluation of the effectiveness of the Group's IC procedures. Based upon an approved annual audit plan and a global risk assessment of the Group's activities, the Internal Audit department (i) reviews operational processes for risk management and operating efficiency improvement opportunities and (ii) monitors compliance with legal requirements and internal policies, process guidelines and procedures. Internal Audit also involves ad hoc reviews, performed at the request of management, focusing on current (e.g., suspected fraudulent activities) and future (e.g., contract management) risks.

### Procurement

A group with the size and complexity of EADS requires a common sourcing policy to maximize market effort and minimize inefficiencies in the procurement process. To ensure that corporate sourcing is carried out in an efficient and ethical manner, a set of common purchasing processes, in line with a common sourcing strategy, is defined and implemented by the head of Corporate Sourcing and the Chief Procurement Officers Council.

## 2.2 Interests of Directors and Principal Executive Officers

### 2.2.1 Compensation Granted to Directors and Principal Executive Officers

#### 2.2.1.1 General Principles

EADS' remuneration policy aims at attracting and retaining talents that will contribute to the Group's business success. Shareholders expect a strong commitment from members of the Board of Directors; the compensation policy is therefore designed to focus efforts on what the Group wants to value and reward. To meet these objectives, a significant portion of the compensation is variable and linked to key performance measures and individual objectives. The remuneration is benchmarked regularly against the practice of other global

companies based in Europe and the USA to ensure fairness and competitiveness.

The Board of Directors is composed of Non-Executive Directors and Executive Directors (who are also members of the Executive Committee).

The compensation of the Executive Directors and of the members of the Executive Committee combines short-term and long-term reward and is summarized as follows:

	Compensation element	Main drivers	Performance measures	Variation of payment as % of Total target income / % of vesting
Short-term	Base salary	Position/job value	Individual performance/ Market practice	-
	Variable pay	Achievement of Group business and financial yearly objectives and reward of individual performance	- Collective part (50% of Target variable pay): EBIT* (75%) and cash (25%) achievement - Individual bonus (50% of Target variable pay): achievement of annual individual objectives	Chief Executive Officers: 55% of Total target income (range from 0% to 175%) Other members of the Executive Committee: 50% of Total target income (range from 0% to 175%)
Mid- and Long-term	Stock option plan	Alignment with shareholders' interest for value creation	Variation of the value of EADS share compared to a grant price set at 110% of the Fair Market Value at grant date	
	Performance share plan	Achievement of long-term operational profit, measured through cumulative EBIT* achievement	The number of Performance shares which will vest is based on 2 <sup>nd</sup> and 3 <sup>rd</sup> year cumulative EBIT* achievement	Vested Performance shares will range from 0% to 100% of initial grant

#### 2.2.1.2 Compensation of the Members of the Board of Directors

- **The Non-Executive Directors** are entitled to receive an accumulated total target compensation as a group of Non-Executive Directors on a full year basis of €900,000. This target compensation includes (i) a fixed part of €30,000 per director and €60,000 per chairman, (ii) a fee for participation in Board of Directors' meetings and Committee meetings (if such Committee meetings take place on a different date than the Board of Directors' meetings) of €5,000 per director and €10,000 per chairman, per meeting and (iii) a variable part composed of a collective part (bonus) calculated, on the basis of EBIT\* (75%) and cash (25%) results of the Group, of €50,000 per director and €100,000 per chairman at 100% target achievement. The rules for the collective part calculation on the basis of

EBIT\* (75%) and cash (25%) results of the Group for the Non-Executive Directors are the same as for the members of the Executive Committee (see below "2.2.1.3 Compensation of the Members of the Executive Committee"). The Non-Executive Directors do not have termination packages.

- **The Executive Directors** receive neither fees for participation in Board of Directors' meetings nor any dedicated compensation as members of the Board of Directors in addition to their compensation as members of the Executive Committee (see below "2.2.1.3 Compensation of the Members of the Executive Committee"). The Executive Directors are eligible for benefits under Long Term Incentive Plans including stock option plans and performance share plans (see "2.3.3 Long Term Incentives Plans") and under employee share ownership plans in their capacity as qualifying employees (see also "2.3.2 Employee





Share Ownership Plans”). Additionally, the Executive Directors are entitled to pension benefits.

The amounts of the various components constituting the compensation granted to Executive Directors and Non-Executive Directors during 2006 together with additional

information such as the number of stock options and performance shares (see “2.3.3 Long Term Incentives Plans”) and details of the pension benefits entitlements of the Executive Directors are set out in “Notes to the Company Financial Statements — Note 11: Remuneration” page 126.

They are summarized below:

- Total remuneration and related compensation costs:

The total remuneration and related compensation costs of the members of the Board of Directors and former directors in 2006 can be specified as follows:

	2006 in €	2005 in €
Fixum	4,564,086	4,908,190
Bonus (related to reporting period)	2,361,451	4,850,449
Fees	395,000	260,000
	7,320,537	10,018,639

The cash remuneration of the members of the Board of Directors was as follows:

2006	Fixum in €	Bonus in € related to 2006	Fees in €	Total in €
Directors				
Manfred Bischoff	60,000	43,750	100,000	203,750
Arnaud Lagardère	60,000	43,750	100,000	203,750
Thomas Enders	1,195,225	542,468	-	1,737,693
Louis Gallois (until end of June 06)	-	-	-	-
Louis Gallois (since July 06)	450,000	257,612	-	707,612
Jean-Paul Gut	943,693	456,527	-	1,400,220
Hans-Peter Ring	951,193	456,527	-	1,407,720
Francois David	30,000	21,875	40,000	91,875
Rüdiger Grube	30,000	21,875	75,000 <sup>(*)</sup>	126,875
Michael Rogowski	30,000	21,875	30,000	81,875
Juan Manuel Eguiagaray Ucelay	18,750	21,875	50,000	90,625
Former director <sup>(**)</sup>				
Noël Forgeard	795,225	473,317	-	1,268,542
<b>Total</b>	<b>4,564,086</b>	<b>2,361,451</b>	<b>395,000</b>	<b>7,320,537</b>

(\*) Including €30,000 relating to the 2005 Meeting fees paid in 2006.

(\*\*) Prorata in accordance with his membership with the Board of Directors.

- Long term incentives

The table below gives an overview of the Long term Incentive Plans (stock-options and performance shares) granted by EADS to the Executive Members of the Board of Directors in 2006:

	Stock option plan: number of stock-options			Shares plan: number of performance shares(*)	
	granted in 2006	exercise price in €	expiry date	granted in 2006	vesting date
Thomas Enders	67,500	25,65	16 <sup>th</sup> Dec. 2016	16,875	Publication of the 2009 annual results, expected in March 2010
Louis Gallois	67,500	25,65	16 <sup>th</sup> Dec. 2016	16,875	Publication of the 2009 annual results, expected in March 2010
Jean-Paul Gut	50,000	25,65	16 <sup>th</sup> Dec. 2016	12,500	Publication of the 2009 annual results, expected in March 2010
Hans Peter Ring	50,000	25,65	16 <sup>th</sup> Dec. 2016	12,500	Publication of the 2009 annual results, expected in March 2010
<b>Total</b>	<b>235,000</b>			<b>58,750</b>	

(\*) Vesting of all performance shares granted to Directors is subject to performance conditions.

In 2006, former Director Mr. Noël Forgeard was no longer eligible to grants of stock-options, nor to grants of performance shares.

- Pension benefits:

The pension benefit obligation for the Executive Directors is as follows:

The Executive Directors have pension promises as part of their employment agreements. The general policy is to give them annual pension of 50% of their annual base salary after five years in the Executive Committee of EADS at the age of 60 to 65. In case of the Chief Executive Officers, the retirement age is 60. This obligation increases to 60% after ten years of service in the EADS Executive Committee.

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

For the Executive Directors, the amount of the pension defined benefit obligation amounted to €23 million as of 31<sup>st</sup> December 2006. This obligation has been partly funded and accrued for in the consolidated financial statements for its unfunded portion.

- Termination package:

The Executive Directors are also entitled to a termination package when they leave the Company as a result of a decision of the Company. The employment contracts for Executive Directors are concluded for an indefinite term with an indemnity of up to a maximum of 24 months of their target income. The maximum 24 months indemnity can be reduced *pro rata* depending on the age of retirement.

- Non competition clause:

A non-competition clause is included in the contracts of the Executive Directors. This clause is applicable for a 2-year period, starting at the end of the employment contract. If the company does not revoke the application of the said clause, the Executive Directors will receive a compensation based on his monthly salary (including variable pay) in return for his obligation not to compete.

- Other benefits:

Executive Directors are entitled to a company car. The value of the company cars of appointed Executive Directors is as follows: For Thomas Enders €81,772, for Louis Gallois €23,752, for Jean-Paul Gut €69,483 and for Hans-Peter Ring €96,400.

Mr. Thomas Enders benefits also from a free accommodation in France. The monthly lease amounts to €3,878 on average.

### 2.2.1.3 Compensation of the Members of the Executive Committee

The members of the Executive Committee, including Executive Directors but also members of the Executive Committee who are not members of the Board of Directors, are entitled to receive for the year 2006 an accumulated total target compensation on a full year basis of €11,373,997. This target compensation is calculated *pro rata* for the Executive Directors present in the Company on 31 December 2006. This compensation is divided for the Chief Executive Officers into a 45% fixed part and a 55% variable part and for the other members of the Executive Committee into a 50% fixed part and a 50% variable part (in practice, the variable part can exceed 55% and 50% respectively of the total compensation in case of overachievement of the targets). The variable part is calculated on the basis of two equal components: (i) a collective part calculated on the basis of EBIT<sup>\*</sup> (75%) and cash (25%) results of the Group and (ii) a bonus corresponding to individual achievements.

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

- Collective part (50% of the variable part) to reward business performance at Group level or division level (if applicable). Cash and EBIT<sup>\*</sup> are the financial indicators chosen to measure collective performance (EBIT<sup>\*</sup> represents 75% of the collective part and cash represents 25% of the collective part);
- Individual bonus (50% of the variable part) to reward individual performance measured against the achievement of individual objectives.

The Group is committed to setting individual and financial targets, the achievement of which would reflect the real performance of EADS. The choice of EBIT<sup>\*</sup> and cash financial indicators ensures the alignment of Directors and top Executive with EADS priorities.

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

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

The Remuneration and Nomination Committee reviews and makes recommendations to the Board of Directors on bonus payments to the members of the Board of Directors and to the members of the Executive Committee; the Board of Directors makes the final decision.

The total compensation paid by EADS and all its Group companies to Mr. Thomas Enders, Chief Executive Officer, during the year 2006, was €2,015,781 (this sum includes the payments of his January to December 2006 fixum and the 2005 variable pay paid in May 2006, which is calculated *pro rata* for the periods as Head of Defence & Security Division and Chief Executive Officer of EADS).

The total compensation paid by EADS and all its Group companies to the new Chief Executive Officer, Mr. Louis Gallois, appointed in July 2006, during the year 2006, was €450,000 (this sum includes the payments of his July to December 2006 fixum).

- Former Chief Executive Officer:

The total compensation paid by EADS and all its Group companies to Mr. Noël Forgeard, in his role as Chief Executive Officer of the Company, during the year 2006 was €2,469,950 (this sum includes the payments of his January to June 2006 fixum, the 2005 variable pay paid in May 2006, which is calculated *pro rata* for the periods as Chief Executive Officer of Airbus and Chief Executive Officer of EADS, the 2006 variable pay paid in 2006, which is calculated *pro rata* for the period as Chief Executive Officer of EADS).

Under the terms of his employment contract, Noël Forgeard was entitled to:

- A 6 month notice period, which represents an amount of €1,223,317 (gross salary and bonus);
- A termination package of €4,893,268 (i.e. 24 months of total gross annual income);
- A 2-year non-compete indemnity, which represents a monthly gross amount of €101,917 gross (from 2007 onwards).

## 2.2.2 Long Term Incentives Granted to the Two Chief Executive Officers

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See “2.3.3 Long Term Incentive Plans”.

## 2.2.3 Related Party Transactions

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Article 2:146 of the Dutch Civil Code provides as follows:

“Unless the articles of association provide otherwise, a company (*naamloze vennootschap*) shall be represented by its board of supervisory directors in all matters in which it has a conflict of interest with one or more of the members of its Board of Directors. The shareholders’ meeting shall at all times have powers to designate one or more persons for this purpose”. In the case of EADS, the Articles of Association do provide otherwise since they enable the Board of Directors to have power to represent the Company in matters where the Company has a conflict of interest with one or more members of the Board of Directors.

During the year 2006, no agreement was entered into by the Company with one of its directors or principal officers or a shareholder holding more than 5% of the voting rights of the Company outside the ordinary course of business and in conditions other than arm’s length conditions.

For a description of the relationships between the Company and its principal shareholders, see “Part 2/3.3.2 Relationships with Principal Shareholders”. Other than the relationships between the Company and its principal shareholders described in Part 2/3.3.2, 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.

As indicated in “Part 2/3.1.3.1 Periodic Disclosure Obligations”, according to Article 35 of the Spanish Securities Market Act 24/1988, of 28<sup>th</sup> July 1988, as amended (the “**Spanish Securities Act**”) and Order EHA/3050/2004 of 15<sup>th</sup> September 2004, 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 *Comisión Nacional del Mercado de Valores* (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 26<sup>th</sup> 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 which are material due to their amount or for an adequate understanding of the public economic information.

## 2.2.4 Loans and Guarantees Granted to Directors

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EADS has not granted any loans to its Directors or members of the Executive Committee.

## 2.3 Employee Profit Sharing and Incentive Plans

### 2.3.1 Employee Profit Sharing and Incentive Agreements

EADS' remuneration policy is strongly linked to the achievement of individual and Company objectives, both for each Division and for the overall Group. A stock option plan and a performance and restricted shares plan have been established for the senior management of the Group (see "2.3.3 Long Term Incentives Plans") and employees were offered shares at favourable conditions at the time of the public offering and listing of EADS (see "2.3.2 Employee Share Ownership Plans").

EADS France has profit sharing plans (*accords de participation*), in accordance with French law, and specific incentive plans (*accords d'intéressement*), which provide bonuses to employees

based on the achievement of productivity, technical or administrative milestones.

EADS Deutschland GmbH's remuneration policy is, to a large extent, flexible and strongly linked to the EBIT<sup>1</sup> of the company, the increase in value of the company and the achievement of individual objectives.

EADS CASA, which does not have a profit sharing policy, allows technicians and management to receive profit-related pay, subject to the achievement of the general company objectives and individual performance.

### 2.3.2 Employee Share Ownership Plans

#### 2.3.2.1 ESOP 2000

As part of its initial public offering, EADS offered to qualifying employees approximately 1.5% of its total share capital after the global offering. This employee offering of up to 12,222,385 shares included an option allowing qualifying employees to leverage their investment in the shares they purchased. Under this option, the investment consisted of the amount paid plus an amount resulting from a swap agreement of the investment management company for this option, that equalled nine times such amount paid. Qualifying employees were offered shares at a price of €15.30, being the price for the retail offering, less a discount of 15%.

The employee offering was open only to employees who:

- had at least three months' seniority;
- had French, German or Spanish employment contracts; and
- were employed by companies incorporated under French, German or Spanish law in which EADS held (i) the majority of the share capital or (ii) at least 10% of the share capital, provided such minority-owned companies were designated as eligible by EADS.

Depending on whether the employee purchased shares through a French, German or Spanish plan, directly or via a mutual

fund, the employee is restricted from selling the shares for one of the following lock-up periods: 18 months, three years, five years or six years.

A total number of 11,769,259 shares were subscribed for in the employee offering. Shares were delivered on 21st September 2000.

#### 2.3.2.2 ESOP 2001

In October 2001, EADS offered to qualifying employees a maximum of 0.25% of its total issued share capital before the offering. This employee offering was for up to 2,017,894 shares of a nominal value of €1 each.

The employee offering (*note d'opération préliminaire* approved by the COB (former name of the *Autorité des marchés financiers* (the "AMF")) on 8th October 2001 under number 01-1200 and *note d'opération définitive* approved by the COB on 13<sup>th</sup> October 2001 under number 01-1209) was open only to employees who:

- had at least three months' seniority;
- were employed by (i) EADS or (ii) one of its subsidiaries or (iii) a company in which EADS holds at least 10% of the

share capital and over whose management it has a determining influence and whose registered office is located in South Africa, Germany, Brazil, Canada, Spain, the United States, the United Kingdom, France, Italy, Morocco, Mexico and Singapore.

The employee offering was divided into two tranches:

- shares subscribed for by qualifying employees in Group employee savings plan were offered for a price of €10.70 per share;
- shares subscribed for by qualifying employees directly were offered for a price of €10.70 per share.

The employees are generally restricted from selling the shares offered in this employee offering for one year and sometimes more in certain countries.

A total number of 2,017,894 shares were subscribed for in the employee offering. Shares were delivered on 5th December 2001.

### 2.3.2.3 ESOP 2002

In October 2002, EADS offered to qualifying employees a maximum of 0.25% of its total issued share capital before the offering. This employee offering was for up to 2,022,939 shares of a nominal value of €1 each.

The employee offering (*note d'opération préliminaire* approved by the COB on 30<sup>th</sup> September 2002 under number 02-1062 and *note d'opération définitive* approved by the COB on 11th October 2002 under number 02-1081) was open only to employees who:

- had at least three months' seniority;
- were employed by (i) EADS or (ii) one of its subsidiaries or (iii) a company in which EADS holds at least 10% of the share capital and over whose management it has a determining influence and whose registered office is located in Germany, Brazil, Canada, Spain, the United States, the United Kingdom, France, Italy, Mexico and Singapore.

The employee offering was divided into two tranches:

- shares subscribed for by qualifying employees in Group employee savings plan were offered for a price of €8.86 per share;
- shares subscribed for by qualifying employees directly were offered for a price of €7.93 per share.

The employees are generally restricted from selling the shares offered in this employee offering for one year and sometimes more in certain countries.

A total number of 2,022,939 shares were subscribed for in the employee offering. Shares were delivered on 4th December 2002.

### 2.3.2.4 ESOP 2003

In October 2003, EADS offered to qualifying employees a maximum of 0.25% of its total issued share capital before the offering. This employee offering was for up to 2,027,996 shares of a nominal value of €1 each.

The employee offering (*note d'opération* approved by the COB on 25<sup>th</sup> September 2003 under number 03-836) was given only to employees who:

- had at least three months' seniority;
- were employed by (i) EADS or (ii) one of its subsidiaries or (iii) a company in which EADS holds at least 10% of the share capital and over whose management it has a determining influence and whose registered office is located in Germany, Belgium, Canada, Spain, the United States, the United Kingdom, France, Ireland, Mexico, the Netherlands and Singapore.

The employee offering was divided into two tranches:

- shares subscribed for by qualifying employees in Group employee savings plan were offered for a price of €12.48 per share;
- shares subscribed for by qualifying employees directly were offered for a price of €12.48 per share.

The employees are generally restricted from selling the shares offered in this employee offering for one year and sometimes more in certain countries.

A total number of 1,686,682 shares were subscribed for in the employee offering. Shares were delivered on 5th December 2003.

### 2.3.2.5 ESOP 2004

In October 2004, EADS offered to qualifying employees a maximum of 0.25% of its total issued share capital before the offering. This employee offering was for up to 2,018,000 shares of a nominal value of €1 each.

The employee offering (*note d'opération* approved by the AMF on 10<sup>th</sup> September 2004 under number 04-755) was given only to employees who:

- had at least three months' seniority;



- were employed by (i) EADS or (ii) one of its subsidiaries or (iii) a company in which EADS holds at least 10% of the share capital and over whose management it has a determining influence and whose registered office is located in Germany, Belgium, Canada, Spain, the United States, the United Kingdom, France, Ireland, Mexico, the Netherlands, Singapore, Australia and Finland.

The employee offering was divided into two tranches:

- shares subscribed for by qualifying employees in Group employee savings plan were offered for a price of €18 per share;
- shares subscribed for by qualifying employees directly were offered for a price of €18 per share.

The employees are generally restricted from selling the shares offered in this employee offering for one year and sometimes more in certain countries.

A total number of 2,017,822 shares were subscribed for in the employee offering. Shares were delivered on 3<sup>rd</sup> December 2004.

### 2.3.2.6 ESOP 2005

In June 2005, EADS offered to qualifying employees a maximum of 0.25% of its total issued share capital before the offering. This employee offering was for up to 2,025,000 shares of a nominal value of €1 each.

The employee offering (*note d'opération* approved by the AMF on 4<sup>th</sup> May 2005 under number 05-353) was given only to employees who:

- had at least three months' seniority;
- were employed by (i) EADS or (ii) one of its subsidiaries or (iii) companies in which EADS holds at least 10% of the share capital and over whose management it has a determining influence and whose registered offices are located in Germany, Australia, Belgium, Canada, Spain, the United States, Finland, France, the United Kingdom, Ireland, Mexico, the Netherlands, Poland and Singapore.

The employee offering was divided into two tranches:

- shares subscribed for by qualifying employees in Group employee savings plan were offered for a price of €18.86 per share;

- shares subscribed for by qualifying employees directly were offered for a price of €18.86 per share.

The employees are generally restricted from selling the shares offered in this employee offering for one year and sometimes more in certain countries.

A total number of 1,938,309 shares were subscribed for in the employee offering. Shares were delivered on 29<sup>th</sup> July 2005.

### 2.3.2.7 ESOP 2007

In 2006 no employee offering took place. The employee offering originally scheduled for June 2006 was postponed to March 2007.

In March 2007, EADS offered to qualifying employees a maximum of 0.25% of its total issued share capital before the offering. This employee offering was for up to 2,040,000 shares of a nominal value of €1 each.

The employee offering was given only to employees who:

- had at least three months' seniority;
- were employed by (i) EADS or (ii) one of its subsidiaries or (iii) companies in which EADS holds at least 10% of the share capital and over whose management it has a determining influence and whose registered offices are located in Germany, Australia, Belgium, Canada, Spain, the United States, Finland, France, the United Kingdom, Ireland, Mexico, the Netherlands, Poland and Singapore.

The employee offering was divided into two tranches:

- shares subscribed for by qualifying employees in Group employee savings plan were offered for a price of €19.62 per share;
- shares subscribed for by qualifying employees directly were offered for a price of €17.16 per share.

The employees are generally restricted from selling the shares offered in this employee offering for one year and sometimes more in certain countries.

A total number of 2,037,835 shares were subscribed for in the employee offering. Shares will be delivered on 9<sup>th</sup> May 2007.

### 2.3.3 Long Term Incentive Plans

At its 26<sup>th</sup> May 2000, 20<sup>th</sup> October 2000, 12<sup>th</sup> July 2001, 9<sup>th</sup> August 2002, 10<sup>th</sup> October 2003, 8<sup>th</sup> October 2004, 9<sup>th</sup> December 2005 and 18<sup>th</sup> December 2006 meetings, the Board of Directors of the Company, using the authorisation given to it by the shareholders' meetings of 24<sup>th</sup> May 2000, 10<sup>th</sup> May 2001, 6<sup>th</sup> May 2003, 11<sup>th</sup> May 2005 and 4<sup>th</sup> May 2006 approved the granting of stock options for subscription of shares in the Company.

At its 18<sup>th</sup> December 2006 meeting, the Board of Directors of the Company, using the authorisation given to it by the shareholders' meeting of 4<sup>th</sup> May 2006 approved the granting of performance shares and restricted shares in the Company.

The principal characteristics of these options and performance and restricted shares as at 31<sup>st</sup> December 2006 are set out in the "Notes to the Consolidated Financial Statements (IFRS) — Note 31: Share-based Payment" page 105. They are also set out in the table below:

	First tranche	Second tranche
Date of shareholders' Meeting	24 <sup>th</sup> May 2000	24 <sup>th</sup> May 2000
Date of Board of Directors Meeting (grant date)	26 <sup>th</sup> May 2000	20 <sup>th</sup> October 2000
Number of options granted	5,324,884	240,000
Number of options outstanding	1,743,489	32,000
Options granted to directors and officers	720,000	60,000
Total number of eligible employees	850	34
Exercise date	50% of options may be exercised after a period of two years and four weeks from the date of grant of the options; 50% of options may be exercised as of the third anniversary of the date of grant of the options (subject to specific provisions contained in the Insider Trading Rules — see "Part 2/3.1.3 Governing Laws").	
Expiry date	8 <sup>th</sup> July 2010	8 <sup>th</sup> July 2010
Conversion right	One option for one share	One option for one share
Vested	100%	100%
Exercise price	€20.90	€20.90
Exercise price conditions	110% of fair market value of the shares at the date of grant	110% of fair market value of the shares at the date of grant
Number of exercised options	2,856,911	188,000





	<b>Seventh tranche</b>
Date of shareholders' Meeting	11 <sup>th</sup> May 2005
Date of Board of Directors Meeting	9 <sup>th</sup> December 2005
Number of options granted	7,981,760
Number of options outstanding	7,907,600
Options granted to:	
• Mr. Thomas Enders	135,000
• Mr. Noël Forgeard	135,000
• the 10 employees having being granted the highest number of options during the year 2005 (seventh tranche)	940,000
Total number of eligible beneficiaries	1,608
Exercise date	50% of options may be exercised after a period of two years from the date of grant of the options; 50% of options may be exercised as of the third anniversary of the date of grant of the options (subject to specific provisions contained in the Insider Trading Rules — see "Part 2/3.1.3 Governing Law — Dutch Regulations"). As regards to the seventh tranche, part of the options granted to the top EADS Executives are performance related.
Expiry date	8 <sup>th</sup> December 2015
Conversion right	One option for one share
Vested	0%
Exercise price	€33.91
Exercise price conditions	110% of fair market value of the shares at the date of grant
Number of exercised options	0



		Eighth tranche
Date of shareholders' Meeting		4 <sup>th</sup> May 2006
Date of Board of Directors Meeting		18 <sup>th</sup> December 2006**
		Stock option plan
Number of options granted		1,747,500
Number of options outstanding		1,747,500
Options granted to:		
• Mr. Thomas Enders*		67,500
• Mr. Louis Gallois*		67,500
• the 10 employees having being granted the highest number of options during the year 2006 (eighth tranche)		425,000
Total number of eligible beneficiaries		221
Date from which the options may be exercised	50% of options may be exercised after a period of two years from the date of grant of the options; 50% of options may be exercised as of the third anniversary of the date of grant of the options (subject to specific provisions contained in the Insider Trading Rules — see "Part 2/3.1.3 Governing Laws")	
Date of expiration		16 <sup>th</sup> December 2016
Conversion right		One option for one share
Vested		0%
Exercise price		€25.65
Exercise price conditions	110% of fair market value of the shares at the date of grant	
Number of exercised options		0
<b>Performance and restricted shares plan</b>		
	<b>Performance shares</b>	<b>Restricted shares</b>
Number of shares granted	1,344,625	391,300
Shares granted to		
• Mr. Thomas Enders*	16,875	-
• Mr. Louis Gallois*	16,875	-
• the 10 employees having being granted the highest number of shares during the year 2006 (eighth tranche)	137,500	28,200
Total number of eligible beneficiaries		1,637
Vesting date	The performance and restricted shares will vest if the participant is still employed by an EADS company and, in the case of performance shares, upon achievement of mid-term business performance. The vesting period will end at the date of publication of the 2009 annual results, expected in March 2010.	

(\*) For more information in respect of options and shares granted to the Executive Directors, see "Notes to the Company Financial Statements — Note 11: Remuneration", page 126.

(\*\*) The eighth tranche was published to the employees up to 8<sup>th</sup> January 2007.

The information in respect of stock options and performance and restricted shares cancelled and exercised during the year are set out in "Notes to the Consolidated Financial Statements (IFRS) — Note 31: Share-based Payment", page 105.

For information on the transactions carried out by the members of the Board of Directors and the Executive Committee see EADS's website and/or the relevant stock exchange authorities' website.



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## 2007 Calendar of Financial Communication

2006 Annual Results Release: 9<sup>th</sup> March 2007

Annual General Meeting: 4<sup>th</sup> May 2007

First Quarter 2007 Results Release: 10<sup>th</sup> May 2007

First Half 2007 Results Release: 26<sup>th</sup> July 2007

Third Quarter 2007 Results Release: 8<sup>th</sup> November 2007



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