

# TAKE

EADS  
Annual Review  
2006

# A



# LOOK



The step beyond

... AT  
THE  
FULL  
PICTURE

AND SEE A COMPANY  
IN TRANSFORMATION



# EADS 2006 AT A GLANCE

- EADS GROUP
- THE YEAR 2006 IN REVIEW
- THE DIVISIONS
- KEY FIGURES
- EADS SHARES
- EADS GLOBAL FOOTPRINT

CONTENTS

EADS is a global leader in aerospace, defence and related services. The Group includes the aircraft manufacturer Airbus, the world's largest helicopter supplier, Eurocopter, and Astrium, the European leader in space programmes, from Ariane to Galileo.

# CUTTING EDGE TECHNOLOGY.

EADS is the major partner in the Eurofighter consortium, develops the A400M military transport aircraft and holds a stake in the joint venture MBDA, the international leader in missile systems.

## EADS GROUP

		2006	2005	2004
Revenues	€m	39,434	34,206	31,761
EBIT <sup>1)</sup> (Earnings before interest and taxes)	€m	399 <sup>3)</sup>	2,852	2,432
Net Income <sup>2)</sup>	€m	99 <sup>3)</sup>	1,676	1,203
Earnings per share <sup>2)</sup>	€	0.12 <sup>3)</sup>	2.11	1.50
Dividend per share	€	• <sup>4)</sup>	0.65	0.50
Net cash position	€m	4,229	5,489	3,961
Order intake <sup>5)</sup>	€m	69,018	92,551	44,117
Order book <sup>5)</sup>	€m	262,810	253,235	184,288
Employees		116,805	113,210	110,662

## EADS SEGMENTS

		2006	2005	2004
<b>Airbus</b>				
Revenues	€m	25,190	22,179	20,224
Order book <sup>5)</sup>	€m	210,115	201,963	136,022
<b>Military Transport Aircraft</b>				
Revenues	€m	2,200	763	1,304
Order book <sup>5)</sup>	€m	20,337	20,961	19,897
<b>Eurocopter</b>				
Revenues	€m	3,803	3,211	2,786
Order book <sup>5)</sup>	€m	11,042	9,960	9,117
<b>Defence &amp; Security</b>				
Revenues	€m	5,864	5,636	5,385
Order book <sup>5)</sup>	€m	17,570	18,509	17,276
<b>Astrium</b>				
Revenues	€m	3,212	2,698	2,592
Order book <sup>5)</sup>	€m	12,263	10,931	11,311
<b>Other Businesses <sup>6)</sup></b>				
Revenues	€m	1,257	1,155	1,123
Order book <sup>5)</sup>	€m	2,292	2,128	1,079

<sup>1)</sup> Unless otherwise indicated, EBIT figures presented in this report are pre-goodwill impairment and exceptionals

<sup>2)</sup> EADS continues to use the term Net Income. It is identical with Profit for the period attributable to equity holders of the parent as defined by IFRS Rules

<sup>3)</sup> For 2006, EADS changed its accounting policy from the corridor approach to the equity approach, i.e. all actuarial gains and losses are recognised in Balance Sheet as pension provision thereby reducing equity. Therefore, those changes in actuarial gains and losses, which are recognised as expenses under the corridor method, have to be reversed. In 2006, this change contributes €45 million to EBIT, €25 million to Net Income and €0.03 to Earnings per share.

<sup>4)</sup> To be decided by the AGM on 4th May 2007

<sup>5)</sup> Contributions from commercial aircraft activities to EADS' Order intake and Order book based on list prices

<sup>6)</sup> ATR, EADS EFW, EADS Socata and EADS Sogerma are allocated to Other Businesses, which is not a stand-alone EADS Division

### FEBRUARY

EADS inaugurated its Singapore Research & Technology Centre to extend the Group's research organisation. It will manage and broker projects for the Business Units in close cooperation with Singaporean scientific institutions and, additionally, run research projects in its own facilities. A further enlargement of the global R&T footprint is expected for mid-2007, when EADS will establish a training and research and development centre in Qatar.



Columbus space laboratory

### JUNE

Eurocopter received a further boost for its NH90 in the form of an order for 43 latest-generation transport helicopters. Then, at the end of the year, Spain confirmed a contract for 45 of their tactical transport (TTH) version of the NH90. The first three completed NH90s were handed over to the German Army at Eurocopter's Donauwörth facility in December 2006.

### JULY

Airbus presents the A350XWB, its new Extra Wide Body Family. The new family will consist of four passenger versions and one freighter, completing the Airbus long-range product for the 21st century with the most modern and technologically advanced products. Increased range and speed, enhanced passenger comfort and the best economics will make the A350XWB a reference for the future. Despite industrial problems, Airbus received strong backing for the A380 at the Farnborough Airshow.

### OCTOBER

Airbus reached an agreement with the Chinese customer CASGC for the purchase of 150 A320 Family aircraft and a Letter of Intent for 20 A350XWB. This represents the largest single transaction ever achieved by Airbus. Under a Framework Agreement with a Chinese industry consortium, Airbus will set up a Final Assembly Line for the A320 Family in Tianjin.

EADS and its freighter conversion centre EFW (Elbe Flugzeugwerke) signed an agreement with the leading Russian aircraft manufacturer Irkut, preparing the foundation of a Joint Venture responsible for the conversion of Airbus A320 Family aircraft into freighters.



A380 and "Red Arrows" from the Royal Air Force

## APRIL

The new EADS Air Refuelling Boom System successfully completed the first phase of its flight test programme. In only three years, EADS has developed this fly-by-wire boom technology to supply the world's most advanced tanker aircraft. During 2006, the system was installed in the first out of five A330 MRTTs (Multi-Role Tanker Transport) to be delivered to the Royal Australian Air Force.

## MAY

At EADS Astrium in Bremen, the Columbus space laboratory was made ready for its first flight and shipped to the United States. Engineers have spent approximately ten years developing and building the multi-functional Columbus for the International Space Station (ISS). It is scheduled for launch in autumn 2007 on board of a US Space Shuttle.

## AUGUST

EADS received the contract to construct the digital radio system for the German security authorities and organisations (BOSNet). Within the scope of this contract, EADS will act as a prime contractor and construct a nationwide TETRA digital radio network by 2010. Earlier in 2007, the German Ministry of Defence gave its go-ahead for the development, testing and support of the unmanned signals intelligence surveillance and reconnaissance system EuroHawk.



EuroHawk



UH-72A Lakota

## DECEMBER

EADS North America delivered the US Army's first UH-72A Light Utility Helicopter in Columbus, Mississippi. This marks the beginning of a major defence programme, with a requirement for up to 352 rotary-wing aircraft. The first delivery came three months ahead of schedule and six months after the selection of EADS North America as the prime contractor for the LUH programme.

For the A380, a turbulent year 2006 ended with the type certification by the European and US aviation authorities. This came after the successful completion of a stringent trial programme to ensure the aircraft meets or even exceeds all airworthiness criteria.



A350XWB

## AIRBUS

Airbus is a leading commercial aircraft manufacturer. Its customer focus, commercial know-how, technological leadership and manufacturing efficiency consistently win it half of all orders for aircraft of 100 seats or more.

(€m)	2006	2005	Variation
Revenues	25,190	22,179	14%
EBIT	-572	2,307	-
Order intake	53,367	78,254	-32%
Order book	210,115	201,963	4%
<b>In number of aircraft</b>			
Deliveries	434	378	15%
Order book	2,533	2,177	16%



A400M

## MILITARY TRANSPORT AIRCRAFT

Military Transport Aircraft designs, manufactures and sells some of the world's most advanced transport aircraft. Products include heavy, medium and light transports, as well as Airbus military derivatives, which leverage all the efficiencies of Airbus commercial aircraft.

(€m)	2006	2005	Variation
Revenues	2,200	763	188%
EBIT	75	48	56%
Order intake	1,594	1,840	-13%
Order book	20,337	20,961	-3%



AS350 Ecureuil

## EUROCOPTER

Eurocopter is the world's leading helicopter manufacturer. It captures more than 50% of sales for civil and parapublic helicopters and has a strongly growing military business.

(€m)	2006	2005	Variation
Revenues	3,803	3,211	18%
EBIT	257	212	21%
Order intake	4,885	3,522	39%
Order book	11,042	9,960	11%





Eurofighter

## DEFENCE & SECURITY

Defence & Security is the main pole for EADS' military and global security activities. It has a wide range of platforms, including EADS' role in Eurofighter, missile systems, defence communication systems, defence electronics and services.

(€m)	2006	2005	Variation
Revenues	5,864	5,636	4%
EBIT	348	201	73%
Order intake	5,191	6,673	-22%
Order book	17,570	18,509	-5%



Goce satellite

## ASTRIUM

Astrium is Europe's preeminent space group and the third largest worldwide. It is the lead European supplier of satellites, launchers and space services. It is playing a key role in Europe's institutional space programmes.

(€m)	2006	2005	Variation
Revenues	3,212	2,698	19%
EBIT	130	58	124%
Order intake	4,354	2,322	88%
Order book	12,263	10,931	12%



Socata TBM 850

## OTHER BUSINESSES (not belonging to any Division)

EADS bundles its activities in turboprop aircraft, general aviation and freighter conversion, its aerostructure and aircraft seats business. Therefore, the Business Units ATR, EADS EFW, EADS Socata and EADS Sogerma are allocated to Other Businesses, which is not a stand-alone EADS Division.

(€m)	2006	2005	Variation
Revenues	1,257	1,155	9%
EBIT	-288	-171	-
Order intake	1,469	1,871	-21%
Order book	2,292	2,128	8%

## KEY FIGURES

### REVENUES (€m)



Revenues grew by 15% to €39.4 billion in 2006 (2005: €34.2 billion). This strong increase was supported by all Divisions, in particular by Airbus along with Eurocopter and Astrium.

### EBIT (€m)



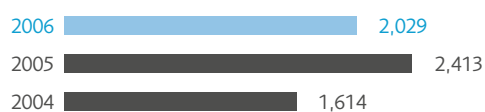
In 2006, EBIT was €399 million (2005: €2,852 million). EBIT was substantially burdened by the impact of A380 delays, A350 related charges, exchange rate impacts, high research and development expenses and by losses at EADS Sogerma.

### NET INCOME (€m)



Net income of €99 million (2005: €1,676 million), or €0.12 per share (2005: €2.11) mainly mirrors the Group's EBIT development.

### FREE CASH FLOW (€m)



Free cash flow including customer financing remained high at €2.0 billion (2005: €2.4 billion). The increased sell-down of customer financing assets offset an unfavourable working capital development.

### NET CASH POSITION (€m)



EADS' net cash position stayed high at €4.2 billion at year-end 2006 (2005: €5.5 billion). This was impacted by the acquisition of BAE Systems' 20% stake in Airbus (€2.75 billion) and dividend payments. Adjusted for the one-off payment for the Airbus stake it has again improved.

DEFENCE REVENUES (€m)



For the first time, the combined revenues from EADS defence businesses hit €10.0 billion (2005: €7.7 billion), driven by higher revenues in the Military Transport Aircraft and Defence & Security Divisions, at Eurocopter and at Astrium.

ORDER BOOK (€m)



The EADS order book stood at €262.8 billion at the end of 2006 (year-end 2005: €253.2 billion). This order book increase was achieved despite a €17 billion impact due to revaluation at a less favourable €/USD exchange rate.

DEFENCE ORDER BOOK (€m)



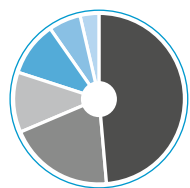
Defence activities continued to grow. The order book stood at €52.9 billion at year-end (compared with €52.4 billion at year-end 2005). Significant breakthroughs were made, with a helicopter order from the US Army and a more diversified product portfolio.

SELF-FINANCED RESEARCH AND DEVELOPMENT (€m)



In 2006, EADS continued to spend more than its peers on research and development, dedicating over 6% of revenues to investment in innovation. EADS management is convinced this is key to maintaining technological leadership and a competitive position.

EMPLOYEES BY BUSINESS SECTOR AT YEAR-END 2006 (%)



- 48.8 Airbus
- 19.9 Defence & Security
- 11.5 Eurocopter
- 10.2 Astrium
- 6.0 HQ, Research and Other Businesses
- 3.6 Military Transport Aircraft

During 2006, EADS increased its workforce by 3% to a total of 116,805 employees. The main drivers for this further increase were Astrium and Eurocopter.

The year was marked by strong volatility due mainly to hedge fund activity, especially in the second quarter. Speculative trading led to average volumes of more than twice those in 2005. After three years of appreciation, EADS was the worst performer in both the CAC 40 and the MDAX during 2006, with an 18% share price slide.

On the back of 2005's strong momentum, the share price surged to an all-time peak of €35.42 at the end of March, lifted by Airbus's record commercial year, the excellent 2005 performance and the apparently positive outlook at the time.

### Under question

At the beginning of April, Lagardère and DaimlerChrysler announced their decision to reduce their shareholding in the Group by 7.5%, causing a temporary imbalance in supply and demand and an increase in the free float. Almost simultaneously, BAE Systems announced its intention to sell its 20% stake in Airbus, provoking market uncertainty.

Then, confusion in the financial community mounted following the Thales-Alcatel Space partnership and negative customer feedback about the A350 and the A340's cost of operations. Over the two months of April and May, the share price lost approximately 20%, and not even the good first quarter earnings could alleviate these concerns.

On 13th June, delivery delays were suddenly announced for the A380. The following day, the EADS share price dropped by more than 30% with a huge trading volume of 68.5 million of shares – 8% of the capital was exchanged during the day.

### Stabilisation

By July, after changes in top management that included the appointments of Louis Gallois and Christian Streiff, as well as the announcement of the new A350XWB, the situation began to stabilise. This did not, however, diminish distrust among investors over the uncertainty regarding EADS' financial outlook, with a share price stuck at around €22–23.

The unexpected purchase of 5.4% of the share capital by the Russian state-owned bank Vneshtorgbank through the summer fuelled further speculative share trading.

Then, against the backdrop of a further A380 delay announcement and, following a thorough review, the unveiling of the Power8 plan in early October, the situation began to improve. Further clarification of the management and, in early December, the results of the A400M programme review and the launch of the A350XWB slowly lifted some of the financial community's doubts.

Comforted by the continuous stream of orders for Airbus, new investors focused on the Company's value and on its long-term prospects. They acquired stakes in the capital, stabilising the share price and filling the void left by investors focused on short-term growth and performance. In December, the share price rose by more than 15% to €26.

## PROFILE

ISIN Code NL0000235190

Number of issued shares as of 31st December 2006: 815,931,524

Offer price on 10th July 2000: €19 for institutional investors, €18 for retail investors

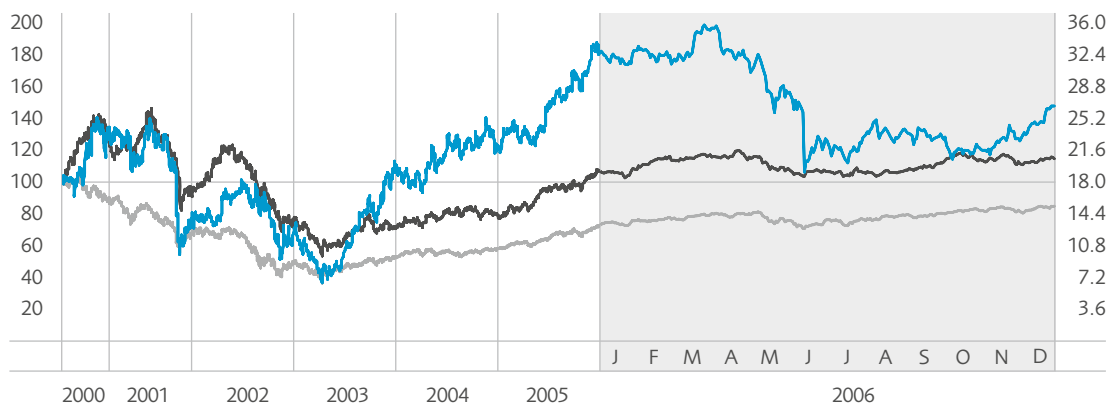
High in 2006 on Paris Stock Market: €35.42 on 27th March

Low in 2006 on Paris Stock Market: €16.75 on 14th June

## SHARE PRICE EVOLUTION AS OF 31st DECEMBER 2006 (CLOSE PRICE)

Base 100: 10th July 2000

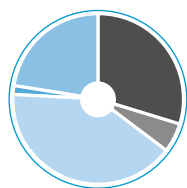
EADS share price in €



- EADS
- CAC 40
- MSCI World Aero/Defence (in €, adjusted daily USD/€ rate)

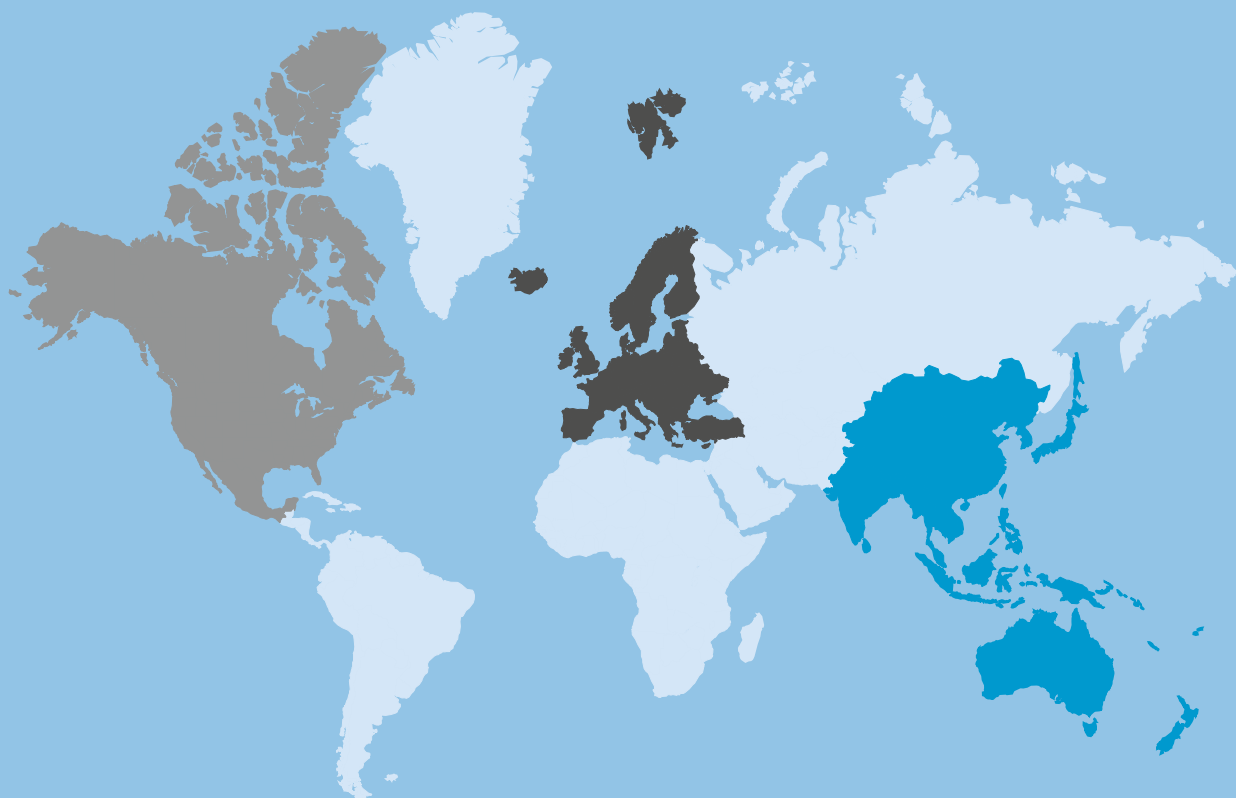
For more detailed information please refer to:  
[www.finance.eads.com](http://www.finance.eads.com)  
 or write us:  
[ir@eads.com](mailto:ir@eads.com)

## SHAREHOLDER STRUCTURE AS OF 31st MARCH 2007



- 22.46% **DaimlerChrysler**<sup>1) 3)</sup>
- 29.95% **SOGEADE**<sup>1) 2)</sup>: Lagardère and French state holding company SOGEPA
- 5.48% **SEPI** (Spanish state holding company)
- 41.05% **Institutional, retail and employee ownership**  
plus shares held out of the contractual partnership by French state
- 1.06% **Treasury shares** (without economic or voting rights)

- 1) On 4th April 2006, DaimlerChrysler AG and Lagardère SCA announced the entry into simultaneous transactions aiming at reducing their respective stakes in EADS by 7.5% each in coordinated steps.
- 2) On 6th April 2006, Lagardère issued mandatory exchangeable bonds. The EADS shares deliverable at the maturity of the bonds will represent a maximum of 7.5% of the share capital of EADS. At the last maturity date of the bonds – in 2009 – the SOGEADE stake will be in line with DaimlerChrysler AG's stake.
- 3) Independently of the 2006 movements, on 9th February 2007, DaimlerChrysler reached an agreement with a consortium of private and public-sector investors by which it will reduce its shareholding in EADS by 7.5% indirectly. This movement will not affect the voting rights of DaimlerChrysler.



## EUROPE

43 % OF GROUP REVENUES

Revenue: Change compared to previous year:

€ m 17,176 +27%

EADS leverages Europe's capabilities and competitiveness. The transformation of Airbus will lead to a renewal of the European spirit in our industry. On the defence side, EADS' future growth will be strongly supported by the ongoing ramp-up of truly European programmes such as the A400M transport aircraft, NH90 and Tiger helicopters or the Eurofighter combat aircraft. All internationalisation efforts are designed to open up the most attractive markets while the Group continues to develop its industrial base in Europe.

## NORTH AMERICA

24 % OF GROUP REVENUES

Revenue: Change compared to previous year:

€ m 9,425 +4%

The pace and breadth of EADS North America's business activities has increased. The Group achieved an important step in its US growth strategy when it was selected as prime contractor for the LUH military helicopter programme. The company is also actively competing for two major military programmes. Together with strong US partners, EADS North America is offering the world's most advanced tanker aircraft to the US forces and competing for the Joint Cargo Aircraft programme.

## ASIA-PACIFIC

20 % OF GROUP REVENUES

Revenue: Change compared to previous year:

€ m 7,857 +2%

Within Asia-Pacific, the region with the highest growth potential, countries like China, India and South Korea are of high priority for EADS' global development. In joint projects such as the EC 175 the KHP helicopter development or the set-up of an A320 Family Final Assembly Line in China, EADS has teamed with high-quality local partners combining industrial capabilities with market know-how. To become a committed citizen in these key markets is a prerequisite for participating in their growth.

## REST OF THE WORLD

13 % OF GROUP REVENUES

Revenue: Change compared to previous year:

€ m 4,976 +28%

Widespread business successes in other growth regions provide the basis for EADS' further internationalisation. In the military transport aircraft business, the Group has a strong position in the Latin American market. South Africa is a partner in the A400M programme, and EADS continuously broadens its cooperation with the very capable Russian aerospace industry, both in the freighter conversion business and in research and development.

**EADS**

**2006**

**AT A GLANCE**



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The complete  
EADS Annual Report Suite 2006  
consists of two more books:

Book

# 2



FINANCIAL STATEMENTS AND  
CORPORATE GOVERNANCE 2006

Registration Document Part 1:

Risk Factors

Net Assets Financial Position Results

Corporate Governance

Book

# 3



BUSINESS, LEGAL AND  
CORPORATE RESPONSIBILITY 2006

Registration Document Part 2:  
(available on request)

Information on EADS Activities

Corporate Social Responsibility

General Description of the  
Company and its Share Capital

Entity Responsible for  
the Registration Document

The online version of the  
Annual Report Suite 2006 is available at  
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## Letter from the Chairmen of the Board



Dear shareholders,

Looking back, there can be no doubt that 2006 was a critical year for EADS.

Events within the Company during the past year have given cause to reflect on the quality of the supervision over its main subsidiary Airbus and to ask critical questions about its management or, more deeply, about its organisational structure. Shareholders have asked critical questions, stakeholders have done so too, as have observers from different areas of society.

The symptoms have become apparent: vital data regarding our key subsidiary Airbus and our critically important A380 programme were not appropriately assessed by Airbus and thus not reported with the necessary accuracy and timeliness, nor was the Company prepared in due time for the competitive challenges.

This failure has hampered the ability of Corporate Management and the Board to steer the Company in the right direction and led to deplorable consequences.

### Change needed to pave the way for continuity

EADS' corporate governance has been in place since the foundation of the Company in 2000. For many years, EADS exceeded its targets and outperformed its competitors and created jobs and it created value. The Company's governance supported this, while safeguarding sovereignty issues that are a distinctive feature of our industry – an industry central to our national economies through its positive contributions to technology, exports and of course employment. EADS' governance successfully fostered the combined interests of the Company's shareholders and its stakeholders.

Despite these achievements, the Board had to address the root causes of the deficiencies that surfaced in 2006. The Board took wide-ranging decisions to improve the governance model.

Of prime importance were the decisions taken by the Board concerning the management of the Company.

Based on a recommendation from the strategic shareholders, the Board appointed Louis Gallois, a long-standing member of the Board of EADS and an experienced manager also in the field of aerospace, as one of the two Chief Executive Officers. Together with the other Chief Executive Officer Thomas Enders, he is tasked to lead the company into a better future.

No doubt the two CEOs have a lot of challenges ahead of them, and the entire Board is supporting their efforts to succeed in every possible way.

To increase integration and reduce complexity, the Board appointed Louis Gallois to act concurrently as Airbus CEO. To support Mr. Gallois in his dual function, Hans Peter Ring, the EADS Chief Financial Officer, was also appointed CFO of Airbus, and Fabrice Brégier, the former CEO of Eurocopter, was appointed Chief Operating Officer of Airbus.

In parallel, the Board charged a working group composed of experts, including the Chief Technical Officer, and outsiders familiar with our industry, to study the root causes of the A380 delay. These included an extremely challenging timeline for the development, type certification and production ramp-up plans and an insufficient Airbus integration which revealed that the previous system of four national companies and clear accountabilities had not been adequately replaced within an

integrated model to ensure the same level of control. Furthermore, there had been a lack of integration with regard to processes and tools (e.g. digital design tools) at different Airbus locations, and the high level of customisation to accommodate customer requirements had resulted in immense complexity and a slow learning curve.

As a consequence, with the full support of EADS' top management and the entire Board, the Airbus management initiated the Power8 programme to cope with the challenges in the market place, above all the negative impact of the USD-Euro exchange rate development, declining market prices, and the lower costs in other countries along with the high costs at Airbus facilities.

The restructuring became even more pressing as a result of expected losses in income and cash caused by the A380 delay and the urgent need to develop the A350 Family programme.

On top of all of this, a series of measures that add momentum to the integration effort is being cascaded down the entire organisation in EADS and Airbus.

### Core shareholders' commitment

The Board discussed in detail the effects which a reduced dividend might have on the capital market and on the ongoing Power8 programme. Due to the diverging positions, the Board could not come to a common proposal, which leaves the decision on the cash distribution and its amount to the proposal by shareholders from the free float at the Annual General Meeting.

In a move that had been indicated by the core shareholders and therefore long expected by the markets, the EADS industrial co-shareholders sold a part of their equity stakes in 2006 and early 2007. This increased the free float and thus also the weight of EADS in various stock indices.

The core shareholders of EADS demonstrated their commitment to the Company's long-term perspectives by supporting the launch of the A350XWB programme, which promotes EADS' long-term market and technology leadership.

We know that EADS is facing tough challenges; the Board has launched strong actions to allow the Group to overcome them. We will strongly support the management to put EADS back on track.



Manfred Bischoff  
Chairman



Arnaud Lagardère  
Chairman

## Chief Executive Officers' Statement



Dear shareholders, customers, suppliers and employees,

Challenges spark off change and renewal. Accordingly, you see EADS engaged in a far-reaching transformation process.

This Annual Report gives you the full picture. It shows you the great progress EADS has achieved at Eurocopter, in the space and the defence and security businesses. But it also depicts the challenges Airbus is facing – challenges that already strongly impacted last year's overall performance.

For the first time, EADS did not deliver what it had promised. The Company's 2006 financial results are disappointing. Revenues grew as expected, to €39.4 billion, but EBIT dropped to €399 million. The disappointment is also apparent in the stock price, which underwent a year of sharp swings and has suffered from the degraded outlook and the risks brought about by the crisis.

### A focus on integration

Analysing the root causes of the A380 programme delays, we came to the conclusion that the degree of integration achieved to date – both within Airbus and across the Group – is by no means sufficient. With the Board of Directors, we undertook an unprecedented revision of our operations and organisation.

Concretely, EADS and Airbus now share the same Chief Executive and the same Chief Financial Officer. The Company Headquarters is being further streamlined. And innovation efforts now are organised into a network, lead by an entity which we call "EADS Innovation Works".

### Power8 – a must

Goal number one is to restore confidence. This certainly will not happen overnight, and will require considerable efforts, but it will put EADS back on the path to industry leadership.

Power8 – the comprehensive business re-engineering and competitiveness programme launched at Airbus – clearly lies at the very heart of this venture. We know the plan entails tough measures, yet there is no room for hesitation, nor is there another option. The task is concurrently to:

- Improve Airbus's industrial set-up;
- Master the development and delivery of three key programmes – the A380, the A350XWB and the A400M; and
- Decrease our exposure to the Dollar exchange rate.

### Strong fundamentals ...

We can nonetheless rely on strong fundamentals. First, we can draw on the extraordinary commitment and ambition of our employees and management. Then, in 2006, EADS achieved again a book-to-bill ratio considerably over one – Airbus booked 824 new orders, roughly two years' worth of production. And with over 600 units, Eurocopter registered a record order intake. Now, turning the huge order book into sustained profits and customer satisfaction is the top priority. Once again, delivery is the challenge.

Profitability doubled at our Space business and satellite orders increased. Divisions such as Eurocopter, Astrium and Defence have done their homework over the past years, and can now make a larger contribution to EADS' financial stability.

### ... underscore the Company's overall momentum

We will continue our profound internationalisation drive. In 2006, this produced major steps like the agreement to establish a final assembly line for the A320 in China and the strengthened helicopter cooperation with both South Korea and China. On the US defence market, we have witnessed a true breakthrough, being awarded for the first time ever a prime contractor role, with the UH-72A Lakota helicopter programme.

These successes demonstrate that even while we concentrate on getting the Company back on track, we are successfully pursuing growth opportunities. Once the necessary operational adjustments are completed, we will redouble the energy and resources that we focus on dynamic and profitable strategic business areas.

We are here to tell our customers, shareholders, and employees that they can count on a more integrated, more efficient and more effective EADS. We will make it your company of choice.



Thomas Enders  
Chief Executive Officer



Louis Gallois  
Chief Executive Officer

## In Dialogue

Ever since the true scale of Power8 became visible, stakeholders have voiced their concerns – be it politicians, unions, employees. How did you deal with this?

**Louis Gallois** I had a very clear understanding of my mission right from the outset. To put it bluntly, as CEO of EADS and Head of Airbus, my mission is to restore the competitiveness of Airbus and safeguard Group profitability. In a duopoly, the two players have to be on equal footing, or the duopoly will not endure. Of course, there are always ups and downs on one side or the other, but the overall parity has to be assured. Given the challenges the company



is facing, there is no alternative to a tough restructuring and integration programme. By making it absolutely clear to everyone that Power8 is necessary for us to succeed, I am sure people will understand and commit to its goals.

**What about the employees' role in all this?**

**Thomas Enders** In fact, they play a pivotal role – and they have a great responsibility when it comes to making all the integration efforts work. For sure, we are demanding a lot of them in these challenging times.

**Louis Gallois** I have placed a particular emphasis on keeping Work Councils and employees' representatives informed about where we are going. I think that is only fair when the Company is facing tough times.

**Are you able to impose what is needed from an entrepreneurial point of view?**

**Thomas Enders** No company can act without taking its environment into account. And of course we do take our stakeholders' concerns seriously. That is why Louis and I have always insisted on fair and equal burden sharing. Yet, EADS is a company run on entrepreneurial principles. We want people to invest in EADS. In other words, financial markets can expect us to run the Company in a way that is appealing for investors – investors that look for long-term value.

## During EADS' recent turbulences, the question of whether the Company's particular structure is part of the solution or part of the problem has been raised again and again.

**Thomas Enders** I will not pretend that our structure is ideal. But, given the constraints we're operating under, it's working quite well and it is evolving. Just look at the structural side of the EADS/Airbus integration. That's definitely progress. And there will be more in the future, we are adaptive. Neither our management structure nor our corporate governance is carved in stone.

**Louis Gallois** Indeed, being responsible for the management of this Company we have to act within the rules set by the shareholders. Paradoxically enough, these rules have proved useful recently, as they provided a close link to all the public and political stakeholders in order to push forward with the integration and re-engineering efforts. However, as the Company's needs evolve it will be logical to revert over time to a more classical structure.

## What are your strategic objectives?

**Thomas Enders** Firstly, to push ahead with our internationalisation strategy and to strengthen our partnership in various parts of the world. But our operational improvement programmes, as well as our newly defined innovation plans, are also truly strategic for me.

**Louis Gallois** Apart from that, I am convinced that we have to boost our position in the services businesses. As we are such a successful player in the platforms business, we should also strive to service our own products, accompanying them through their entire life cycle. There is a huge business potential to be tapped, I am sure. So we will evaluate our options very closely.

## Many people fear that the internationalisation of EADS will entail a weakening of industrial assets here in Europe.

**Louis Gallois** There is no reason to doubt our strong European roots. To become more international doesn't mean to transfer activity or know-how but to leverage on local footprints to capture

local growth and to access new financial or technological resources. It is true that our internationalisation does expose us to more intense competition but it also means more markets and more customers. We have to think of globalisation not as a risk but as an opportunity.

**Thomas Enders** I fully agree. Competition will intensify – because “the world is flat,” to quote T. Friedman's famous book – and hence we'll also have to intensify our innovation efforts. This is exactly what we're doing, throughout the entire Group. The creation of our corporate “Innovation Works” last year testifies to that. Our industrial base in Europe will remain strong as long as Europe remains an important market, and as long as our European technology and innovation base remains world class.

## Against this background – can you give us an outlook on your recruitment policy?

**Louis Gallois** We will always need excellent engineers. To build up our capacity for new business needs, we need people ready for a changing world. People with a transversal approach capable of managing a programme, capable of monitoring the financials, and who enjoy working with colleagues from other nations.

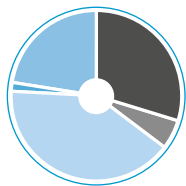
**Thomas Enders** As a more and more global company, we are looking for top talents everywhere. We have expanded our recruiting efforts to markets like Russia, India and China, in line with establishing new engineering centres around the globe. Personally, I think for young people there is hardly a more exciting place to work than EADS.



## Corporate Governance

2006 has been a critical year for EADS. The Board has taken action to address the root causes of the deficiencies that have surfaced and made wide-ranging decisions to improve the governance model.

### SHAREHOLDER STRUCTURE AS OF 31st MARCH 2007



- 22.46% **DaimlerChrysler<sup>1) 3)</sup>**
- 29.95% **SOGEADE<sup>1) 2)</sup>**: Lagardère and French state holding company SOGEP
- 5.48% **SEPI** (Spanish state holding company)
- 42.11% **Institutional, retail and employee ownership** plus shares held out of the contractual partnership by French state
- 1.06% **Treasury shares** (without economic or voting rights)

<sup>1)</sup> On 4th April 2006, DaimlerChrysler AG and Lagardère SCA announced the entry into simultaneous transactions aiming at reducing their respective stakes in EADS by 7.5% each in coordinated steps.

<sup>2)</sup> On 6th April 2006, Lagardère issued mandatory exchangeable bonds. The EADS shares deliverable at the maturity of the bonds will represent a maximum of 7.5% of the share capital of EADS. At the last maturity date of the bonds – in 2009 – the SOGEADE stake will be in line with DaimlerChrysler AG's stake.

<sup>3)</sup> Independently of the 2006 movements, on 9th February 2007, DaimlerChrysler reached an agreement with a consortium of private and public-sector investors by which it will reduce its shareholding in EADS by 7.5% indirectly. This movement will not affect the voting rights of DaimlerChrysler.

The Board of Directors met ten times during 2006 and was regularly informed of developments through reports from the Chief Executive Officers (CEOs), including rolling forecasts and strategic and operational plans. The average attendance rate at meetings was 95%.

Following a detailed review of the A380 production and delivery programme, Airbus informed the Board on 13th June that the aircraft's delivery schedule for 2006 to 2009 had been revised. The Board immediately disclosed the new schedule and its financial impact, making a further disclosure on 3rd October 2006.

Management was strengthened and streamlined. On 2nd July 2006, the Board appointed Louis Gallois as Co-CEO of EADS, replacing Noël Forgeard, and appointed Christian Streiff as new President and CEO of Airbus. Both became Members of the Executive Committee. In a further change to the management structure, Louis Gallois was additionally appointed Airbus President and CEO on 9th October, following Christian Streiff's resignation. EADS' non-Airbus Divisions report to Co-CEO Thomas Enders. On 31st October, the Board appointed EADS Chief Operating Officer (COO) Finance, Hans Peter Ring, additionally as Airbus Chief Financial Officer. Also on that date, Fabrice Brégier was appointed COO of Airbus and Lutz Bertling CEO of Eurocopter. Both are Members of the Executive Committee.

Topics discussed at the Board meetings included: strategy (including merger & acquisition strategy relating to acquiring BAE Systems' stake in Airbus); major business issues such as the A380 recovery plan and the Power8 programme; the A350 industrial launch decision and Airbus future product strategy; reviews of the EADS Unmanned Aerial Vehicle and A400M programmes; the review of EADS Sogerma's future strategy; approval or postponement of operational plans; reorganisation topics; budgets; the Group's financial results and forecasts; financial optimisation; and implementation of an ethics alert system. The Board also discussed personnel and human resources issues.



The Audit Committee met five times during 2006, reviewing the 2005 results, 2006 half-year results and quarterly financial reviews. The Remuneration and Nomination Committee met five times to make recommendations to the Board regarding major appointments. Additionally, it reviewed the following topics: compensation policy, the new Executive Committee Members' salaries, 2005 bonus payments, the long-term incentive plan and the 2006/07 employee share ownership plan. It also reviewed Executive Committee Members' salaries for 2006.

In line with the Board's policy of more thoroughly assessing its performance every three years, an independent and internationally reputable consulting firm was commissioned in late 2006. In the course of the evaluation, the external consultant held individual meetings with all EADS Directors (Executive and non-Executive).

While recognising the unique shareholding structure, the review concluded that the Board has been working as a cohesive entity, in an open, constructive and interactive atmosphere. Board members emphasised that decisions are always taken in EADS' best interests.

For more detailed information please refer to Corporate Governance section at: [www.eads.com](http://www.eads.com)



or to Book

2



FINANCIAL STATEMENTS AND  
CORPORATE GOVERNANCE 2006  
Registration Document Part 1

## Members of the Board of Directors as of 5th April 2007

### Manfred Bischoff\*

Chairman of EADS (until 5th April 2007)

### Rüdiger Grube\*

Chairman of EADS (from 5th April 2007)  
Member of the Management Board of DaimlerChrysler

### Arnaud Lagardère

Chairman of EADS  
General Partner and Chief Executive Officer of Lagardère

### Thomas Enders

Chief Executive Officer of EADS  
President of the German Association of the  
Aerospace Industries – BDLI

### Louis Gallois

Chief Executive Officer of EADS  
President and Chief Executive Officer of Airbus

### Jean-Paul Gut

Chief Operating Officer for Marketing, Strategy  
and Global Development of EADS  
Member of the Board of Directors of Arjil Commandité-Arco

### Hans Peter Ring

Chief Operating Officer for Finance of EADS  
Chief Financial Officer of Airbus  
Member of the Supervisory Board and Shareholder Committee  
of M+W Zander – D.I.B Facility Management GmbH

### François David

Chairman and Chief Executive Officer of Coface

### Juan Manuel Eguiagaray Ucelay

Director of the Service of Studies of the Fundación Alternativas

### Michael Rogowski

Chairman of the Supervisory Board of J.M. Voith AG

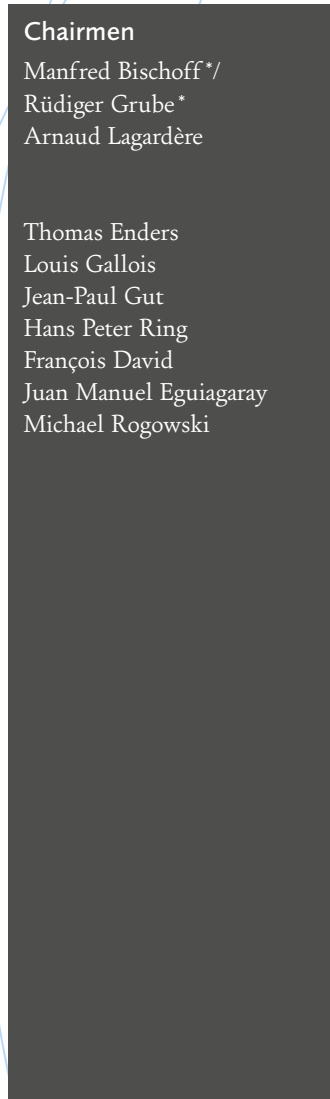
\* On 5th April 2007, the EADS Board of Directors appointed Rüdiger Grube to join Arnaud Lagardère as Chairman of the Board of Directors to succeed Manfred Bischoff with immediate effect. Dr. Bischoff resigned after having taken over a new responsibility as Chairman of the Supervisory Board of DaimlerChrysler AG.

Two additional Members of the Board of Directors, Michel Pébereau and Bodo Uebber, will be proposed for appointment during the Annual General Meeting, to be held on 4th May 2007, with immediate effect as from the end of such meeting.

# Organisational Structure

as of 5th April 2007

## Board of Directors



## Chief Executive Officers

## Chief Operating Officers

## Group Functions

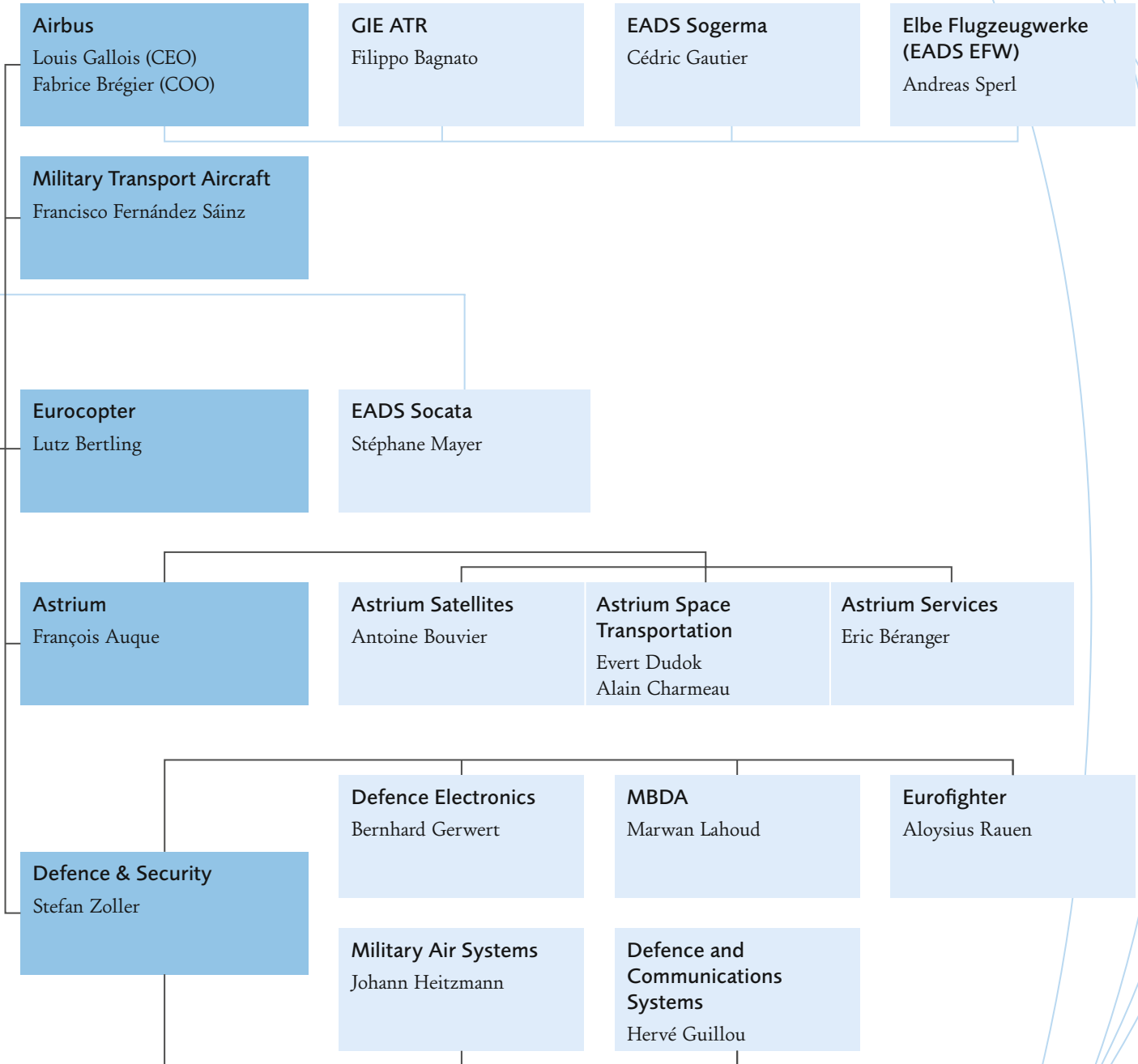
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**The Board** actively shapes the Group's mission and strategic priorities, which are implemented under the leadership of the **Chief Executive Officers** (CEOs), who provide the impetus for major operational initiatives. Group Functions and the Divisions operate under the leadership of the CEOs.

**Divisions**

**Operating Companies**



**The five Divisions** – Airbus, Military Transport Aircraft, Eurocopter, Defence & Security and Astrium – serve the specific needs of their respective customers, while the Group Functions enhance the Company offering through information exchange, technology sharing and working practice synergies. This allows for maximum generation of value.

## Executive Committee

**THOMAS ENDERS****CHIEF EXECUTIVE OFFICER OF EADS**

Mr. Enders joined MBB/DASA AG in 1991. 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.

**JEAN-PAUL GUT****CHIEF OPERATING OFFICER FOR MARKETING,  
STRATEGY AND GLOBAL DEVELOPMENT OF EADS**

Since 1983, Mr. Gut has held various executive positions in the field of export and international operations for Matra Défense and the Lagardère Group. In 1998, Mr. Gut integrated the Lagardère Group Management Board and was responsible for International Operations and the High Technology sector. In 2000, he was appointed Head of EADS International and, in 2005, EADS Chief Operating Officer. He graduated from the IEP of Paris.

**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 has been Chief Executive Officer of the EADS Space Division. Mr. Auque graduated from HEC, from the IEP of Paris, and is an alumnus of 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 has worked in Eurocopter, becoming Chief Executive Officer of Eurocopter Deutschland in April 2006 and Head of Eurocopter Division in October 2006. Mr. Bertling studied Engineering at Braunschweig University and holds a PhD.

**JEAN BOTTI  
CHIEF TECHNICAL OFFICER**

Mr. Botti started his career in 1978 as product engineer for Renault France. From 1989 on, he worked in the United States 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 a degree from INSA Toulouse, an MBA from Central Michigan University and a PhD from the Conservatoire des Arts et Métiers.

**FABRICE BRÉGIER  
CHIEF OPERATING OFFICER OF 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 (CEO) of MBD in 1998 and of MBDA in 2001. Since April 2003, he has been President and CEO of Eurocopter and a Member of the EADS Executive Committee. In October 2006, he was appointed Chief Operating Officer of Airbus.

**LOUIS GALLOIS****CHIEF EXECUTIVE OFFICER OF EADS AND HEAD OF AIRBUS**

From 1972, Mr. Gallois worked in various posts for different French ministries, before becoming Chairman and Chief Executive Officer of SNECMA and subsequently, in 1992, Chairman and Chief Executive Officer of Aerospatiale. Since 1996, he has been Chairman of SNCF. In 2006, he was appointed Chief Executive Officer of EADS and also of Airbus. Mr. Gallois graduated from HEC in Economic Sciences and is an alumnus of the ENA.

**HANS PETER RING****CHIEF OPERATING OFFICER FOR FINANCE OF EADS  
AND CHIEF FINANCIAL OFFICER OF AIRBUS**

Mr. Ring began his career at MBB in 1977 and was appointed Head of Controlling at its missiles business in 1987. From 1992, he was Chief Financial Officer (CFO) and Board member of Dornier Luftfahrt. In 1996, he was appointed Senior Vice President of Controlling of DASA and, subsequently, of EADS. Within EADS, he was appointed CFO in 2002 and COO in 2005. In 2007, he additionally became Airbus CFO. Mr. Ring holds a degree in business administration.

**STEFAN ZOLLER****HEAD OF DEFENCE & SECURITY**

Mr. Zoller joined DASA in 1996 as the President's Chief of Staff 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 of Tübingen and holds a PhD in company law.

**JUSSI ITÄVUORI****HEAD OF HUMAN RESOURCES**

Mr. Itävuori joined EADS in September 2001. Previously, he worked for KONE Corporation from 1982, where he was appointed Head of Human Resources and member of the Executive Committee of KONE Elevators in 1989. 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 as a pilot in the air force.

**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.

**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 US executive and Chief Executive of the company operating all the Group's US subsidiaries. Previously, Mr Crosby was President of the Integrated Systems sector at Northrop Grumman Corporation. Mr. Crosby holds degrees from the US Military Academy, the Graduate Institute of International Studies in Geneva and Harvard University.

# TRANSFORMATION.

# IT'S ABOUT MOVING

We are working hard to renew our industrial processes and to capitalise on the excellence of our products, technology, workforce and suppliers. These are the foundations that will propel EADS back to a path of profitable growth.

# ON.

# WE ARE CURRENTLY FACING NEW CHALLENGES. THROUGH OUR UNITED EFFORTS WE WILL OVERCOME THEM.

Fundamental changes are being made. We are accelerating the integration of our Divisions; improving our industrial processes; sharpening the focus of our technology innovation; and continuing to build our international presence.

**INTEGRATION** will reach far deeper than before, creating a **common purpose across the Group**. We have taken concrete and radical steps. Airbus is now wholly owned by EADS. Functions such as Finance, Human Resources, Research & Technology and Sourcing are being integrated, enabling new efficiencies and faster reactions. Last year's shocks have prompted a renewed focus on how integration can make the Group stronger.



**IMPROVEMENT of our industrial model is a matter of urgency.** Every Division has initiatives to reduce costs, improve industrial efficiency and ensure delivery on-quality, on-specification, on-cost and on-time. The most important and visible is the Airbus Power8 reorganisation programme that will speed up development times, maximise cash and cut costs.

**INNOVATION enables us to set the technology standard that others must follow.** We have a record of doing this, as we did through "fly-by-wire" aircraft controls or "all-weather" helicopters, to name a few examples. By centralising responsibility for the entire EADS Research & Technology budget, we are putting greater resources behind developing new technologies aligned with the Group's strategic growth areas, aiming for higher returns on investment at the end of the innovation pipeline.

**INTERNATIONALISATION remains important to our long-term growth.** Through our Global Industrial Development function, EADS is actively seeking to become an integral part of the leading aerospace and defence growth markets worldwide. Being active in these markets will also give EADS access to the best technology and specialist know-how available.



# HARD



WORK



# CLEAR



# FOCUS



EADS is more than just Airbus and Airbus is more than just the A380. At year-end 2006, every Division was a market leader in its sector, with a strong product portfolio. The commercial appeal and technical excellence of the A380 is undisputed, as recent repeat orders from the major long-haul airlines have shown. They have no doubt of this plane's importance to their future profitability. In defence, Eurofighter is one of the most technically advanced fighter planes. In helicopters, Eurocopter consistently captures the greatest market share worldwide.

## LOOK AT ALL SIDES OF THE STORY.

And Astrium is one of the leading space organisations globally. Behind all of this is the EADS workforce. Employees across Europe and elsewhere represent a unique and invaluable complementary collection of aerospace and defence industry skills. They are committed and dependable, the heart and soul of the Group. And our customers are loyal. Increasingly, they view EADS as a partner for success. They tell us what products and services they will need in the future, and together we develop them. Finally, EADS is financially strong, planning ahead to maintain its conservative balance sheet structure.

CONTINUE  
TO ASK  
QUES-  
TIONS...



# WHERE DO OUR STRENGTHS LIE?



"Our customers benefit from the quality of our helicopters, the unmatched mission capabilities we offer to them, our international presence and our determination to lead the field for innovation. That's why we are the market leader."

*Lutz Bertling, Head of Eurocopter*

# WHERE CAN WE IMPROVE?

"We have to make our research and technical culture highly disciplined and focused to become the pace-setter in innovative customer solutions."



*Jean Botti,  
Chief Technical Officer*

After the difficulties of 2006, EADS has a clear set of objectives. Firstly, to resolve the challenges that crystallised during the year. Secondly, we aim to achieve renewed growth. The issues are clear. Difficulties surrounding industrialisation of the A380 double-decker weighed heavily on EBIT for 2006, and created a weighty financial burden that is likely to affect the Group for many years to come. Added to this, a large proportion of our revenues – almost 90% in the case of Airbus – are booked in US dollar, a currency which has lost 40% of its value since the launch of the A380 programme. This gives us a distinct competitive disadvantage, both now and in the future. Finally, it became clear that we would have to speed up aircraft development times in order to bring the new A350XWB next-generation, medium-capacity aircraft into production sufficiently swiftly. While these issues centre on Airbus, all five Divisions are taking action to solve them.

# Action

We have moved swiftly to restructure and integrate Airbus. The Power8 restructuring has been designed and launched. Between now and 2010, it aims to save €5 billion in cash, and from 2010 onwards, to achieve annual cost savings of €2 billion. This will restore Airbus's competitiveness. It will do so by maximising cash, speeding up new aircraft development, sustaining technological progress at the rate and level that is now necessary, cutting costs and improving our efficiency. In particular, Power8 will help to finance the A350XWB product development programme. But improvement measures are not limited to Airbus. Across the wider Group, we are redoubling our efforts to increase integration. The functions of Finance, Research & Technology, Sourcing and Human Resources are being centralised, creating greater control, coordination and economies of scale. We have frozen all management salaries and will cut staffing levels at Group headquarters by 10% by the end of 2007. These economies will not be popular, but they are essential. Above all, EADS now has a singular purpose that reaches across all of its Divisions. From now on, our motto will be "no surprises, no hiding, no dreaming". We need to break down outdated thinking habits, streamline the organisation, and combat the national issues that once were taboo. We are going to shape EADS into a truly integrated enterprise. With the help of Power8 and integration, we will strengthen EADS' leading role in international markets. Stated more succinctly, we are steering the right course.



...AND  
ANTICIPATE  
TOMORROW'S  
NEEDS.

# THE BUSINESS YEAR

# 2006

Two contrasting observations emerge from the review of 2006. The first is the overall vitality of the Group as measured by significant market accomplishments in all Divisions. The second is an urgent need to implement Power8 and overhaul the Airbus business.

# Markets and Perspectives

A strong global economy lifted commercial aerospace activity. Defence and security procurement continued to rise as governments replaced ageing equipment and countered new threats.

The airline industry is making **environmental** performance of paramount importance. Both leading aircraft manufacturers are investing heavily in research and development to improve their technologies.

Interoperable and **networked** systems enable close to real-time decisions. Only large defence and security companies have the range of capabilities to act as prime contractors for these complex systems.

Across the space industry, **consolidation,** through both mergers and alliances, is continuing. Commercial space companies are becoming increasingly high profile.

A319



## Commercial aviation

For commercial aviation, 2006 was another strong year, second only to 2005. Airlines ordered 1,882<sup>1)</sup> aircraft, more than most analysts forecasted, and the global order backlog has now reached its highest level ever, with 4,988 units. Consequently, both Airbus and Boeing are ramping up production.

Traffic growth was robust, with world scheduled traffic growing by about 5%<sup>2)</sup>, slightly above the annual average. Over the six years since 2000, traffic has expanded by approximately 30%, supported by buoyant economic growth (approximately 3.9% in 2006), the emergence of Low Cost Carriers (LCCs) and increased liberalisation.

Developing countries, in particular, are transforming their airline industries, expanding both aircraft numbers and related services. China (~10% GDP – Gross Domestic Product – growth in 2006) and India (~8% in 2006) are experiencing huge aviation growth, and large economies such as Russia and Brazil have tremendous potential.

### Improving financial performance

Globally, the airline industry was at its most profitable for several years. Net losses fell to an estimated USD 500 million<sup>3)</sup> (2005: USD 3.2 billion loss). This was due to lower-than-expected jet fuel prices, fare increases and better airline productivity combined with record load factors of almost 76% and lower non-fuel costs.

Airlines, especially those in the United States, have adapted to high jet fuel prices by increasing fuel efficiency per seat. They have reduced weight by introducing paperless cockpits and lighter flight carts, and cutting back on in-flight phones and magazines. Fuel economy has been improved by, for example, lowering cruise speeds, using just one engine to taxi at airports and careful cargo distribution.

LCCs are continuing to play a major part in air transport's recovery. Their low fares have stimulated traffic, and their lean operating models have provided a catalyst for transforming the way airlines operate. LCCs' new aircraft portfolios give them a competitive edge over legacy/network airlines, in terms of both fuel and maintenance costs. Network airlines have reacted by cutting maintenance costs, but LCCs have made greater cuts. LCC traffic market share in Europe and the United States respectively was 26% and 29% in 2006. In Asia it was about 10%.

### Environmentally friendly aircraft

In order to meet airlines' demands for more efficient and environmentally friendly planes, Airbus and Boeing launched new and upgraded models during 2006. Wishing to participate in the Kyoto Protocol's initiative to reduce emissions, the airline industry is making environmental performance of paramount importance. Both leading aircraft manufacturers are investing heavily in research and development to improve their technologies.

Looking forward from 2006 to 2025, world passenger traffic is expected to grow by 4.8% per annum and freight traffic by 6%<sup>4)</sup>. World airlines will require the delivery of 22,663 new passenger aircraft (with a capacity over 100 seats) and freighters, worth approximately USD 2.6 trillion (current list prices). This represents over 1,100 new aircraft deliveries on average per year. The world fleet (passenger and freight) will almost double, growing from over 17,000 aircraft to nearly 33,500.

<sup>1)</sup> Data for Airbus and Boeing; does not include Bombardier and Embraer

<sup>2)</sup> According to the International Civil Aviation Organisation's initial estimate

<sup>3)</sup> According to the International Air Transport Association

<sup>4)</sup> Airbus Global Market Forecast, November 2006



Infantry man of the future

## Defence and Security

Globally, defence expenditure is estimated to have continued to grow by more than 2% in 2006, to approximately USD 1,200 billion<sup>5)</sup>. US defence spending continued to grow at the fastest rate, and there were pockets of expansion in Asia and the Middle East. Spending in Europe was flat.

The US President's request for a 2008 total defence budget of USD 647 billion, the largest in history, demonstrates the huge size of the United States military commitment. While the majority of this increase pays for troops on the ground in Iraq and Afghanistan, there is a sizeable commitment for modernising military equipment.

By contrast, Europe's total defence budget remains less than €200 billion<sup>6)</sup>, and the continent spends far less than the United States on equipment procurement and on research and development. Asian countries such as India are modernising ageing defence forces, and high oil prices are supporting high levels of spending in the Middle East.

Homeland security is a growing market, although it remains smaller than defence. In the five years since 9/11 this sector has expanded rapidly, with both technology and services in demand from government and private sectors alike. EADS estimates that global homeland security procurement reached USD 55 billion<sup>7)</sup> in 2006, a sizeable increase on our 2005 estimate.

### Growth for solutions to modern threats

The main driver of new procurement in defence and security remains the necessary replacement of ageing platforms – especially with the types of equipment suited to countering threats from rogue states and terrorists. This is spurring long-term growth for support aircraft (tankers and transport), mission aircraft including Unmanned Aerial Vehicles (UAVs), helicopters, combat ships and light armoured vehicles (incorporating complex electronic mission equipment).

Military and civil customers want complete integrated and interoperable systems. This is because multinational forces work together abroad, while homeland security is increasingly undertaken by both military and civil organisations. Interoperable and networked systems enable close to real-time decisions and actions, based on a common operational picture. Only large defence and security companies have the range of capabilities to act as prime contractors for these complex systems.

Procurement methods are becoming increasingly innovative. Governments are beginning to demand more complex service solutions from defence and security contractors in areas ranging from airborne refuelling to secure satellite communications. To be competitive, contractors have to provide high-performance equipment and services, as well as innovative contract schemes and life cycle solutions.

### Expect more consolidation

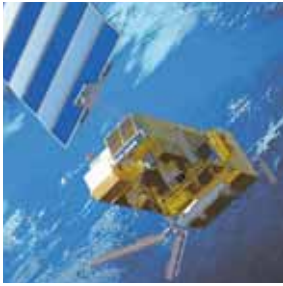
Both the move towards integrated systems and new procurement methods are encouraging consolidation. For several years, scale has been becoming more important, and defence companies have sought opportunities to build and fill their portfolios. They have also looked at buying into new regional markets in order to gain market access. In particular, acquisition activity is expected in the United Kingdom, Europe's largest defence market, following a shift towards stronger focus on development and retention of national capabilities.

<sup>5)</sup> Teal Group

<sup>6)</sup> European Defence Agency, December 2006

<sup>7)</sup> Civitas, November 2006





Metop satellite

## Space

Commercial satellite activity continued to recover in 2006. As telecommunications companies' profits have started to grow following several years of flat revenues, they are increasing their investments in satellite capacity. Twenty-three commercial satellites were launched during the year, and 27 contracts were awarded. This compares with 22 launches in 2005 and just 14 in 2004.

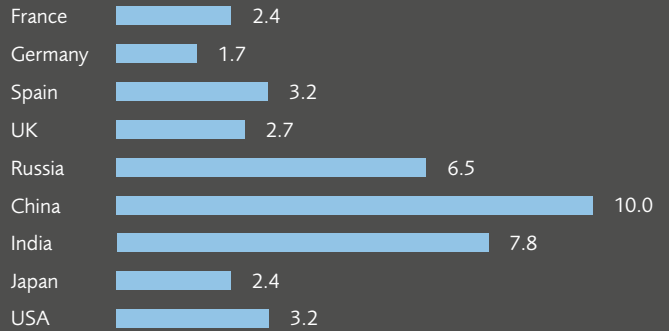
For commercial launcher companies, price pressures eased significantly. Russian launcher companies, which previously had extremely competitive pricing, announced rapid price inflation and component delays. This was due to apparent increases in raw material costs and restructuring within the Russian industry.

### Consolidation

Across the space industry, consolidation, through both mergers and alliances, is continuing. The world's largest remote-sensing company, GeoEye, has been formed following the merger of Orbimage and Space Imaging; Astrium Satellites and Indian Space Research Organisation have formed an alliance to build small commercial telecommunications satellites; Thales Group has agreed to acquire Alcatel's 67% stake in satellite manufacturer Alcatel Alenia Space and 33% stake in satellite ground services provider Telespazio; and United Launch Alliance has been created through the merger of Boeing and Lockheed Martin's government launch services operations.

Commercial space companies are becoming increasingly high profile. Bigelow Aerospace launched its first inflatable space module as a demonstrator for future space structures. Space Adventures, the space tourism company, sent its fourth paying customer into space, and offered future customers "space walks".

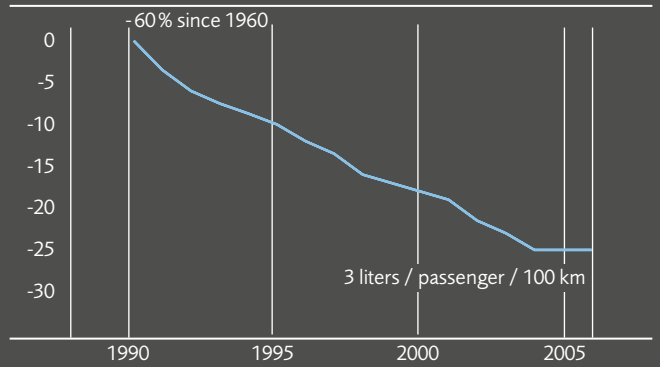
### GDP GROWTH BY COUNTRY (CAGR\* 2005 – 2007 IN %)



\* CAGR: Compound Average Growth Rate – a measure of average growth rate over a number of years

Source: IMF

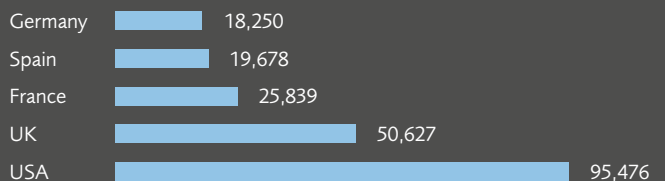
### FUEL BURNT PER PASSENGER / PER 100 KILOMETERS (FUEL/RTK\* IN %)



\* RTK – Revenue Tonne Kilometres: RTK is a measure of overall airline volume. It is calculated by multiplying the number of tonnes of revenue load (passengers, baggage, freight and mail) by the flight stage distance

Source: Airbus

### INVESTMENT PER SOLDIER – EQUIPMENT PROCUREMENT AND R&D (€)



Source: EDA (November 2006)

(€m)	2006	2005	Variation
Revenues	25,190	22,179	14%
EBIT	-572	2,307	-
Order intake	53,367	78,254	-32%
Order book	210,115	201,963	4%
<b>In number of aircraft</b>			
Deliveries	434	378	15%
Order book	2,533	2,177	16%

# Airbus

Airbus had its best year ever for deliveries. Following the A380 delays, and to improve competitiveness, it launched the Power8 reorganisation plan.



A320



In spite of commercial successes, 2006 was a disappointing year for Airbus. The complexity and the risks in some programmes, and in particular, production difficulties encountered for the A380 led to delays in its projected delivery schedule, with the first A380 currently scheduled for delivery in October 2007. The resulting costs and charges associated with these delays will impose a significant burden on future financial performance. This increases the pressure for cost savings due to the weak dollar rate and additional development costs for future programmes.

Despite these setbacks, the A380 double-decker achieved certification, confirming its technical soundness. And Airbus launched the A350XWB (Extra Wide Body) series, its new medium capacity long-range aircraft that will enter service in 2013. The aircraft is a response to market demand, and will be extremely efficient and environmentally advanced. The A350XWB will be the first programme to benefit strongly from the very beginning from the turnaround plan Power8. Airbus will assign large work packages to tier-one suppliers in return for a better distribution of future investment, risks and opportunities. Fifty percent of aerostructure work will be outsourced to risk-sharing partners (€1.8 billion non-recurring cost and €600 million associated capital expenditures). This is about twice as much as in earlier programmes.

In response to challenges ahead, Airbus launched the Power8 plan. This turnaround plan will enable Airbus to face the substantial challenges of US dollar weakness, increased competitive pressure and the financial burden related to the A380 delays, and also to meet its other future investment needs. This programme aims to

transform the Airbus business model and to develop a global network of partners. It will allow Airbus to devote its resources to core activities and to eliminate inefficiencies within its current structure. The programme aims to achieve full industrial integration of Airbus by establishing a new industrial organisation, with transnational Centres of Excellence replacing the existing national structures. This transformation will happen progressively over several years, accompanying the further extension of Airbus's global footprint.

Airbus management will implement cost reduction and cash generating measures leading to EBIT contributions of €2.1 billion from 2010 onwards and an additional €5 billion of cumulative cash flow from 2007 to 2010.

### Commercial results

Airlines continued to order large numbers of aircraft to meet future demand for air travel and to replace ageing fleets with more efficient aircraft. 2006 was Airbus's second best year ever in terms of orders and its best ever for deliveries. Airbus has a record backlog, improving visibility for the next five years at very high production rates. Airbus has now delivered more than 4,500 aircraft.

Airbus delivered a record 434 aircraft (378 in 2005). This led to revenues of €25.2 billion, representing a 14% increase compared to 2005 (€22.2 billion). The Division's EBIT was supported by strong sales volumes, a favourable aircraft mix and a higher contribution from the sell-down of customer financing assets. But after allowing for the financial impact of the A380 issues, A350 related charges, increased research and development costs and less attractive dollar hedges, Airbus finally reported an EBIT loss of €-572 million (2005: €2,307 million). The EBIT also includes a €352 million provision for A400M contingencies to deal with risk and technical challenges in the Airbus work share.

A380 and A318  
in flight



A300-600

With 824 new gross orders (790 net orders), Airbus achieved 44% market share. Airbus's backlog stands at 2,533 aircraft, the highest volume ever reached by a manufacturer. With an increase of 16% over last year, Airbus now has 51% of all outstanding orders.

China and India's fast growing aviation industries ordered large numbers of wide body and single aisle aircraft. Airbus and the China Aviation Supplies Import and Export Group Corporation (CASGC) signed their second contract, the aircraft industry's largest ever single transaction, for 150 A320 Family aircraft and a Letter of Intent for 20 A350XWBs. Sales to India included both single-aisle and wide body aircraft, with orders for 43 single-aisle aircraft from Indian Airlines, ten A320s from GoAir and five ultra long-range A340-500s from Kingfisher.

A large part of the year's sales tally was for Airbus's highly popular Single-Aisle Family, with a total of 673 orders taken from 47 customers, including 20 new ones. Low cost carriers ordered 212 A320 Family aircraft. Leasing companies also showed their confidence, with eight leading lessors ordering 64 single-aisle and 50 wide body aircraft.

Airbus's A330/A340 Family also had a good year, with 134 firm orders from 17 customers, including seven new ones – a 5% increase over 2005. The A330 Family has now received more than 600 firm orders, a strong endorsement of this environmentally friendly, long-range twin engine aircraft, which is the recurrent leader in the medium to extended range category. However, the A340 suffered from its lack of fuel efficiency as a four engine aircraft.

The A350XWB, Airbus's latest aircraft and the most modern medium-capacity long-range aircraft, received a good initial response. Launched in October 2006, the A350XWB received two firm orders and 40 commitments in 2006, and also had 100 firm orders and 82 commitments remaining for the former A350 aircraft.

In spite of its industrial difficulties, major airlines gave their backing to the A380, demonstrating their confidence in the double-decker and its importance to their business models. Singapore Airlines and Qantas placed new orders for nine and eight aircraft, respectively. However, FedEx cancelled its order for ten A380 freighters. At year-end, the A380 had 166 orders and commitments from 15 customers. The first plane is scheduled for delivery to Singapore Airlines in October 2007.

The corporate jetliner market was robust. A 59% market share made the Airbus Corporate Jetliner family market leader for the third year running. 15 customers, including 13 new ones, ordered 21 aircraft, comprising 20 single-aisle aircraft and one A330.

Including the A350XWB Family, Airbus now has a total of 16 models, and has sold 7,097 aircraft to 250 customers.

### Programme milestones

While the A380 remained in the limelight throughout the year, concluding with type certification in December, the year was also marked by a continuous and steady production ramp-up of the other Airbus aircraft families and the industrial launch of the A350XWB.

A380 cockpit



### A380

Both Airbus and the aviation industry passed a significant historical milestone when the A380 received joint European Aviation Safety Agency (EASA) and Federal Aviation Administration (FAA) Type Certification on 12th December 2006. This confirmed the A380's technical excellence.

The certification covered the Rolls-Royce Trent 900 powered version of the A380 – certification of the Engine Alliance powered variant is expected by the end of 2007.

A comprehensive industrial recovery plan was introduced to prepare for the second half 2007 ramp-up of deliveries, drawing on the best tools and methodologies from across Airbus.

### A320

In response to strong demand for A320 Family aircraft, Airbus plans a steady production ramp-up programme from its rate of 30 aircraft per month achieved in 2006, to 32 in early 2007, rising to 34 in early 2008 and to 36 at the end of 2008 – the highest production rate for any commercial airliner.

### A330/A340 Family

The programme maintained a high output of 7.5 aircraft per month, which will increase to eight per month by early 2008. The A330-200F freighter, the only modern solution for the mid-size freighter market, received authorisation to offer during the year.

### International alliances

Airbus is forming industrial and research partnerships with international leaders in specialist fields. In 2006, Airbus signed agreements with organisations in China, Russia, Poland, Japan, South Africa and Turkey.

Airbus signed an important framework agreement in China, outlining establishment of an A320 Family final assembly line. Aircraft assembly is planned to start in 2009, with the aim of producing four aircraft a month by 2011.

In Russia, Airbus is progressively implementing a long-term co-operation programme in the areas of research and technology, engineering, aircraft component manufacturing and material purchase.

### Environment

Through innovation, Airbus is taking steps to minimise the environmental impact of its products and activities. Airbus has a leading role in the “Clean Sky” joint technology initiative, which aims to reduce CO<sub>2</sub> emissions by 50%, NO<sub>x</sub> emissions by 80% and perceived external noise levels by 50% by the year 2020.

Airbus has also now achieved ISO 14001 certification at all of its European plants, preparing the way for corporate certification in 2007.

## OUTLOOK

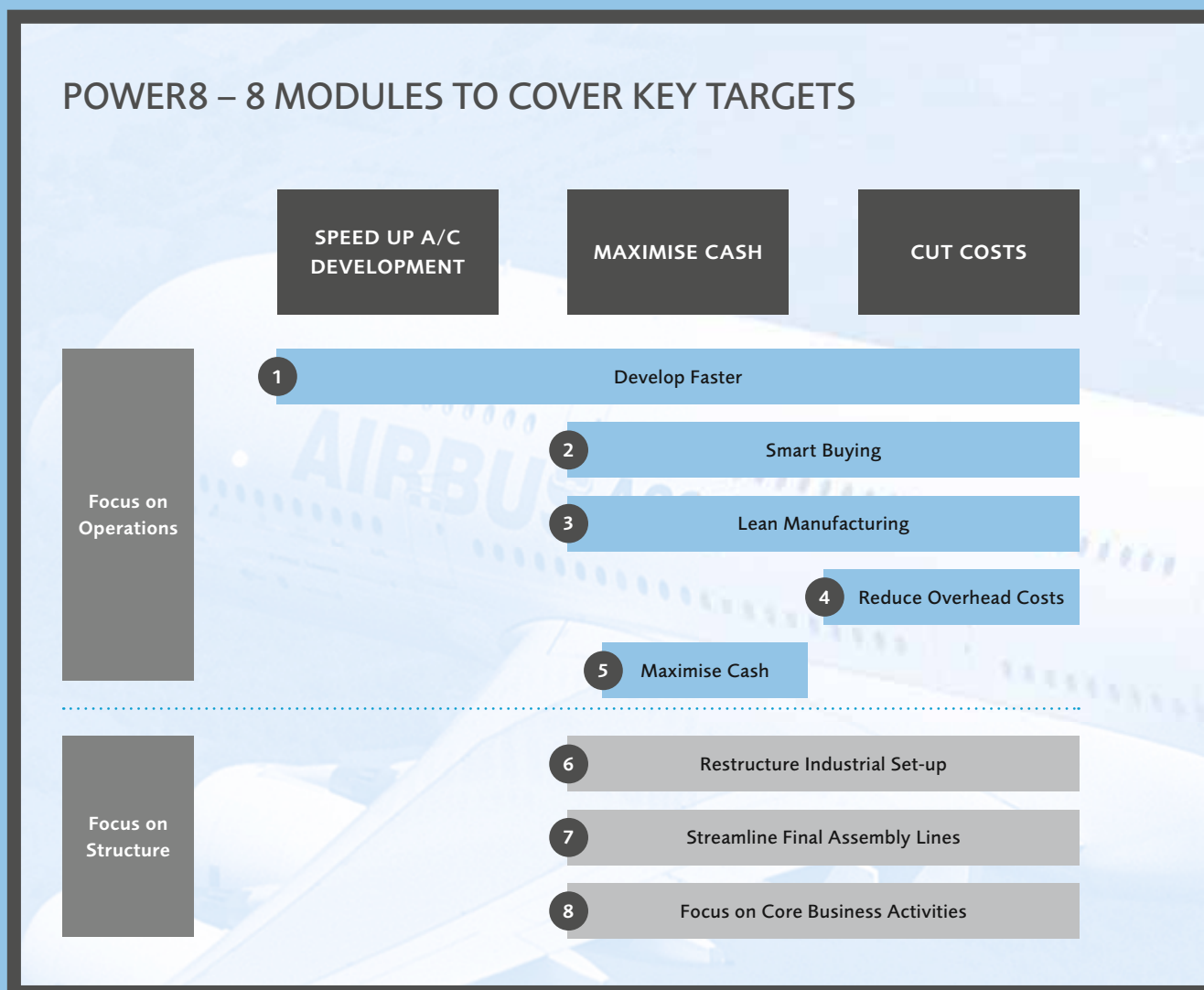
In 2007, Airbus will steadily ramp up its single-aisle and wide body long-range production lines, and is expected to deliver between 440 and 450 aircraft.

The first A380 will be delivered to Singapore Airlines, and the recovery plan fully implemented to prepare for 2008 deliveries. Development and industrialisation of the A350XWB Family will also be a top priority, as new customer orders are placed for this aircraft type. 2007 is a crucial year for Airbus. Successful implementation of Power8 is essential to regain competitiveness and will lead to the company's complete reorganisation.

Overall, Airbus will strive to restore confidence among its customers and other stakeholders.

# Power8

The Power8 turnaround programme will restore Airbus's competitiveness. Its eight modules will reduce costs and streamline the industrial organisation.



## Customer First

There will be a renewed emphasis on customers' interests. Airbus aims to serve its clients with higher levels of reliability and quality, as well as better customer service.

### 1 Develop Faster

Development time for new aircraft will be reduced from seven and a half years to six. Robust development processes will be established with risk-sharing partners to secure these cycle time reductions, as well as the required aircraft maturity at entry into service. The module also aims to improve engineering productivity by 15%.

### 2 Smart Buying

Through smart buying, Airbus will reduce the supply cost base. It will reshape and consolidate the supply base by building a network of risk-sharing partners and streamlining its logistics organisation.

### 3 Lean Manufacturing

Airbus will further integrate manufacturing and associated engineering and will ensure the deployment of consistent, lean production principles across all plants. Management targets a 16% productivity increase by 2010.

### 4 Reduce Overhead Costs

The Airbus management proposes a progressive headcount reduction of 10,000 positions over four years, comprising 3,200 in France, 3,700 in Germany, 400 in Spain, 1,600 in the United Kingdom and 1,100 in the Airbus central entity in Toulouse. Approximately 5,000 of these positions are temporary or on-site sub-contractors, where reductions have already begun. The

remaining 5,000 are Airbus employees, where reductions will be achieved through both natural attrition and negotiated voluntary severance and schemes in each country concerned. At this stage, no forced redundancies are considered.

### 5 Maximise Cash

This module targets the reduction of financial working capital and the tight control of cash in all operations.

### 6 Restructure Industrial Set-up

In line with the goal of focusing on its core business, Airbus will reorganise its industrial structure. Airbus is considering industrial partnerships at its plants in Filton, Meaulte and Nordenham, in order to facilitate their transition from metallic to composite design and manufacturing technology. With respect to its sites in Laupheim, St. Nazaire-Ville and Varel, Airbus will consider several options, including their sale to key suppliers, management buy-outs or combinations with nearby sites.

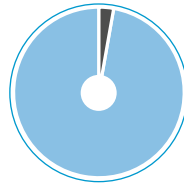
### 7 Streamline Final Assembly Lines

A number of measures are being implemented to further increase the efficiency of the Final Assembly Lines (FAL). Toulouse will see a further capacity enhancement of the long-range FAL, as the A350XWB will be assembled and will receive its interior furnishing in Toulouse. In Hamburg, a third A320 Family FAL is being set up with immediate effect. It will have full "type" flexibility, and be able to cope with additional demand for A320s when production exceeds 14 per month. Hamburg will also perform final assembly of the New Single-Aisle Family. Furthermore, in order to allow parts to be fitted in the most logical place to optimise the overall cycle time, some upstream preparatory cabin installation work for the A380 and the A320 assembled in Toulouse will be transferred from Hamburg to Toulouse. Nevertheless, cabin installation remains in Hamburg and A380 deliveries will be performed both from Hamburg and Toulouse.

### 8 Focus on Core Business Activities

On the engineering and manufacturing side, Airbus will focus on business activities that are either critical for the integrity and safety of the aircraft or vital for technological and commercial differentiation. These activities include overall aircraft and cabin architecture, systems integration, as well as the design, assembly, installation, equipping, customisation and testing of major and complex components, or manufacturing of new technology parts.

(€m)	2006	2005	Variation
Revenues	2,200	763	188%
EBIT	75	48	56%
Order intake	1,594	1,840	-13%
Order book	20,337	20,961	-3%



REVENUES BY MARKETS  
(in % of external revenues)

- 3% Civil
- 97% Defence

# Military Transport Aircraft

Passing several important milestones for the new A400M heavy transport aircraft boosted revenues. Medium and light aircraft retained their market leadership.





The Division focused mainly on managing the industrial processes of its two new aircraft programmes, both of which are at important stages. The A330 Multi-Role Tanker Transport (MRTT) with the new refuelling system and boom is scheduled to enter into service in 2009. The A400M's first delivery is also foreseen for 2009. Orders for medium and light aircraft confirmed EADS CASA's worldwide leadership in this market segment.

Revenues expanded substantially to €2.2 billion (€763 million in 2005) and EBIT grew to €75 million (€48 million in 2005), primarily reflecting the achievement of all contractual and internal A400M milestones planned for 2006, as well as the effect of a shift in 2006 of revenue recognition associated with a 2005 A400M internal industrial milestone.

The order book was stable, finishing the year slightly lower at €20.3 billion (€21.0 billion in 2005). The Malaysian contract for four A400Ms was booked during the year. The medium and light aircraft business won orders for 20 new aircraft, including twelve C-295 medium-weight transport and maritime patrol aircraft for the Portuguese air force. This was the first contract for a maritime patrol aircraft based on the C-295 platform. Finland, Poland and Spain also ordered C-295s, and a contract with the US Company L-3 was signed for two CN-235s. Korea ordered one C-212 maritime patrol aircraft.

The Spanish Ministry of Defence (MoD) ordered the conversion of six CN-235 military transports into maritime patrol aircraft with FITS mission control. Additionally, two CN-235s with FITS are being modernised for the Irish MoD.

#### A400M passes industrial milestones

The A400M passed five industrial contractual milestones, including the one shifted from 2005. Airbus produced the first A400M wing ever made almost entirely from composite materials, and the first horizontal tail plane was delivered by EADS CASA to the Final Assembly Lines (FAL).

EADS has conducted an internal technical assessment to validate the current programme status and ensure transparency to the customer. This concluded that the programme was on schedule but highlighted a number of significant challenges. There are currently a total of 192 A400M orders, with 180 from the European launch countries, eight from South Africa and four from Malaysia.

CN-235 Coast Guard



The first of the five A330s for modification into MRTT advanced tanker aircraft with booms, for the Royal Australian Air Force, were received by EADS CASA in Madrid during June 2006. Work started on conversion of the first tanker. The first flight tests of the new refuelling boom were successfully completed. Boom configuration includes fly-by-wire controls and an automatic load alleviation system, offering the boom a larger refuelling envelope and better control. EADS will be at the forefront of flight refuelling technology.

The first CN-235 multi-mission aircraft for the US Coast Guard's Deepwater programme was delivered. A Lockheed Martin and EADS CASA partnership was awarded a contract for up to 36 aircraft, with the first three aircraft ordered from EADS CASA for medium-range surveillance maritime patrol.

#### OUTLOOK

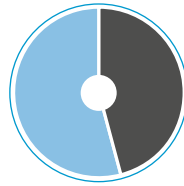
The balance of the Division's revenues will change over the next few years as the new A400M and A330 MRTT aircraft start to be delivered and future orders are won. While medium and light aircraft will continue to account for a significant percentage of revenues, economic performance will be driven by new aircraft programmes.

There are currently a number of export campaigns underway. Negotiations are being carried out with Saudi Arabia for an order of three MRTT tanker aircraft. The Division expects 2007 will see the AirTanker consortium, of which it is a member, receive an order from the UK government for the Future Strategic Aircraft programme covering 14 A330 MRTTs.

MTA has been selected to supply 50 C-212s for Brazil's Air Force in an industrial collaboration that will include the establishment of a FAL in Brazil. Contract negotiations could be finalised in 2007.

Teaming with Northrop Grumman, EADS is bidding to supply the US Air Force's new-generation KC-30 refuelling tanker based on an A330 MRTT with boom. Also in the United States, in partnership with Raytheon, it is proposing the C-295 aircraft for the Joint Cargo Aircraft contract, which is expected to be awarded in 2007.

(€m)	2006	2005	Variation
Revenues	3,803	3,211	18%
EBIT	257	212	21%
Order intake	4,885	3,522	39%
Order book	11,042	9,960	11%



REVENUES BY MARKETS  
(in % of external revenues)

- 46% Civil
- 54% Defence

# Eurocopter

Delivery of a record 381 helicopters fuelled strong revenue growth. At the same time, Eurocopter's large, state-of-the-art product range lifted its order book to a new high.



EC 145



Eurocopter achieved a record order-increase, yet again capturing the largest share of the global civil and parapublic helicopter market. This was due to the product range's performance and the Division's presence in all the major international helicopter markets. Recognising that Eurocopter's orders and deliveries are now 50% bigger than they were three years ago, management expanded the workforce and reorganised the company.

Revenues rose by 18% to €3.8 billion (2005: €3.2 billion), as the industrial ramp-up progressed on schedule and 381 helicopters were delivered (334 in 2005). EBIT expanded by 21% to €257 million (2005: €212 million).

Some 615 helicopters were ordered, worth an aggregate of €4.9 billion (compared with a total order value of €3.5 billion in 2005). At the end of December 2006, the order book reached a new high of €11 billion (€10 billion in 2005). Notably, 79% of orders were exports or from outside the home countries of Germany, France and Spain. Military helicopters accounted for 53% of orders. Customer services also attracted a large number of orders.

In the civil and parapublic market, Eurocopter confirmed its position as market leader with 52% market share. High oil and gas prices, growth of the global economy and a strong demand from emergency medical services (EMS) all contributed to the year's record orders.

### Progress in defence

Importantly, Eurocopter broke into the US defence market. The US Army selected Eurocopter to provide its next-generation Light Utility Helicopter (LUH). A total of 42 UH-72As, a customised version of the EC 145 medium-weight, multi-mission helicopter, were ordered during 2006. The US Army requires up to 352 aircraft, with a potential value of USD 2 billion.

The first three NH90 helicopters were delivered to Germany. The NH90 is a new medium-weight, multi-role military helicopter that offers high performance and low operating and maintenance costs. New Zealand ordered nine and Australia ordered 34 of the MRH90 variant. Four hundred NH90s have now been ordered. The ongoing development activities on mission equipment have led to an additional shift of planned delivery dates.

### Extensive international presence

Eurocopter has an extensive and growing international footprint. In December 2006 it created Eurocopter China in Shanghai in order to strengthen the commercial footprint and to better serve customers. According to the previous year's agreement, the co-development programme of a new seven-ton helicopter, the EC 175, jointly with AVIC II, the state-owned aviation company, achieved its first milestone in December 2006. Eurocopter has 45% of China's rapidly growing civil/parapublic market.

In South Korea, the development contract for production of the country's first military utility helicopter was signed, and work began during the summer, both in France and Korea. In Russia, Eurocopter Vostok was inaugurated to market products and services.

Following huge growth, Eurocopter recruited more than 1,200 people and introduced the "Vital" improvement programme. With customer satisfaction the top priority, specific measures were introduced to enhance industrial efficiency, promote internationalisation and increase research and development.

### OUTLOOK

In 2007, Eurocopter's main challenge will be to build on its commercial success by managing the industrial ramp-up. Additionally, it will seek to strengthen its position in key markets.

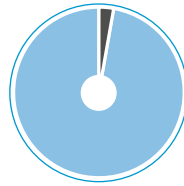
Management plans to hire another 500 people in 2007, to continue developing its industrial facilities in France and Germany, and to set up brand new industrial bases in Albacete, Spain and Columbus, Mississippi, US.

Recognising that much of the helicopter market's future growth potential comes from outside Europe, and that its global supply chain must continue to be optimised, Eurocopter will seek to expand its industrial footprints in major international markets while continuing to strengthen international helicopter development programmes.

In order to enhance the performance of its global offer, Eurocopter will continue to modernise and improve its existing range of products and associated services. In parallel, it will build the foundations for a strategic breakthrough in Helicopter technology.

Continuing the momentum of 2006, further growth in revenues is expected in 2007.

(€m)	2006	2005	Variation
Revenues	5,864	5,636	4%
EBIT	348	201	73%
Order intake	5,191	6,673	-22%
Order book	17,570	18,509	-5%



REVENUES BY MARKETS  
(in % of external revenues)

- 3% Civil
- 97% Defence

# Defence & Security

Balanced progress across the Division vindicated its strategy. Streamlining initiatives improved programme performance and generated an increased EBIT.



### Professional Mobile Radio systems (PMR)



The recently acquired digital radio network business compensated for most of the deconsolidation incurred by the sale of the German missile business LFK. Return on Sales improved to 5.9% compared to 3.6% the year before. Furthermore, the year's streamlining initiatives and goals were met, contributing to the efficiency gains. The Division also moved major programmes and projects into the production phase.

Revenues increased to €5.9 billion (€5.6 billion in 2005) due chiefly to increased Eurofighter ramp-up production and new digital radio network contracts. Since inception the Eurofighter GmbH consortium has delivered 114 of these high-performance, multi-role combat aircraft as of the end of 2006. Completion of the sale of the German missile business LFK to MBDA impacted the Division's revenues (€-132 million), as LFK was 100% consolidated (MBDA consolidated 50%). EBIT has increased to €348 million (€201 million in 2005) due to operational improvement and an LFK capital gain (€111 million). Additionally, restructuring costs (€-74 million) and change of perimeter effects compensated the lower costs related to UAV (Unmanned Aerial Vehicle) development.

After acquiring LFK, MBDA has secured its position as the world's largest missile company. MBDA received orders from the French and German defence ministries respectively for 250 SCALP naval cruise missiles and 680 PARS 3 Long-Range precision fire-and-forget weapon systems. Substantial revenue contributions came from Storm Shadow, Brimstone, Taurus, Aster and MICA moving into production phases. MEADS development is progressing.

The previous year's restructuring initiatives improved programme performance across all Business Units – Military Air Systems (MAS), Defence and Communications Systems (DCS), Defence Electronics (DE) and MBDA. In 2006, management began concentrating the MAS activities in Manching, near Munich, and consolidating the Division's Munich headquarters. Additionally, the Division's French activities began concentrating in Elancourt, and MBDA has centralised its location in the Paris region.

#### Building capabilities in growth markets

From a strategic perspective this was a significant year, as management continued to build capabilities in future growth areas for both defence and security.

DCS's Professional Mobile Radio digital radio business received more than 20 orders for secure communications networks. Among these, the German public safety authorities' BOSNet contract was the most significant.

The Division strengthened its position in coastal and maritime surveillance, in particular through the joint acquisition of Atlas Elektronik with ThyssenKrupp, and the acquisition of SOFRELOG.

Progress was made in the development of a European Advanced Unmanned Aerial Vehicles (UAV) programme. First flights were completed for the Medium Altitude Long Endurance UAV for the French government and a next-generation UAV technology demonstrator in Spain. Additionally, Germany agreed to acquire a High Altitude Long Endurance UAV.

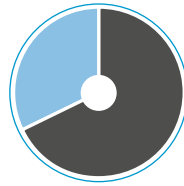
#### OUTLOOK

Growth in promising business areas – including UAVs, electronics, secure communications, large system integration, command & control systems and maritime solutions – offers the prospect of a more balanced revenue portfolio in the future, while platforms and missiles will continue to be the main pillars of Defence & Security revenues. Built through both internal development and recent acquisitions, the Division's businesses are becoming yet more competitive and well placed.

In particular, the Division is experiencing growing demand for integrated global security systems, which is allowing it to expand beyond its traditional home markets. Additionally, there are Eurofighter export campaigns in a number of countries within Europe and abroad.

The strong order backlog, coupled with improvement programmes and better business performance, should lead to steady increases in EBIT despite the expected flattening in home-market defence budgets.

(€m)	2006	2005	Variation
Revenues	3,212	2,698	19%
EBIT	130	58	124%
Order intake	4,354	2,322	88%
Order book	12,263	10,931	12%



REVENUES BY MARKETS  
(in % of external revenues)

- 68% Civil
- 32% Defence

# Astrium

Astrium achieved solid profitable growth in a more favourable business environment. A higher order book level ensures further revenue increase in the years ahead.



Ariane 5



2006 was a good year for Astrium's three lines of products: launchers, satellites and services. The military communications satellite services business line grew revenues and won new contracts. Margins expanded due to both substantial cost reduction and the Division's strong position as prime contractor for much of Europe's space industry.

Revenues increased to €3.2 billion (€2.7 billion in 2005), with all three Business Units contributing. EBIT more than doubled to €130 million from €58 million in 2005, as cost improvements and firm pricing boosted margins.

Both launchers and satellites captured substantial slices of their respective markets. Consequently, the order book increased to €12.3 billion at year-end, compared with €10.9 billion at the end of 2005.

In order to present its main customers in Europe and elsewhere with a united and more visible brand, the Division changed its name from EADS SPACE to EADS Astrium. This branding initiative was not accompanied by any operational management changes.

Building on the success of recent cost and process improvement measures, further programmes were introduced. Specific initiatives were started to pool resources, trigger better services to customers and reduce costs. A further initiative aims to increase Research and Development spending in order to pave the way to further growth. Beyond this, there are additional on-going efficiency programmes with milestones and targets to be achieved.

### Ariane 5 reliability

The Astrium Space Transportation Business Unit holds a 30.5% stake in Arianespace, which confirmed its position as the number one satellite launch services provider worldwide. The Ariane 5 launcher's record for reliability, at a time when competing launchers have experienced accidents, led it to win 12 orders, representing approximately 45% of the open market.

Other highlights within Astrium Space Transportation included delivery of the Columbus space laboratory to the European Space Agency (ESA). This is the European research module for the International Space Station, a combined US and European governmental project due for launch in late 2007. Additionally, the M51 ballistic missile ordered by the Délégation Générale pour l'Armement, France's defence procurement agency, had its first fully successful flight.

### Satellite upsurge

The Astrium Satellites Business Unit won a creditable share of new satellite orders in a year when there was a modest upsurge in orders globally. There were 27 commercial orders worldwide, compared with 24 in 2005. Astrium won seven of these campaigns, as well as the two main ESA orders.

The newest of the three Business Units, Services, continued to expand its operations of secure military communications satellites. Germany's Ministry of Defence formally ordered the Satcom BW system, and the first Skynet 5 satellite, for the UK Ministry of Defence, is ready for launch.

### OUTLOOK

Astrium entered 2007 with its largest ever order book and the benefits of both technical and commercial innovation over the past five years beginning to be experienced, along with the full effect of five years of industrial restructuring. Both the Ariane 5 ECA ten-ton satellite launcher and Eurostar 3000 modular satellite have recently entered production and have proved their reliability in the market place. Astrium Services has also proved the validity of its business model of building and operating military communications satellites.

The Division is maintaining its capacity for innovation by increasing Research and Development spending. Technical support contracts will sustain technical capabilities in the launcher and missiles areas.

Meanwhile, improvement initiatives to reduce costs and improve technical processes will bring further progress.

The positive trend in revenues and EBIT is expected to continue with further increases in profitability.

# INSIDE



# EADS

Our shared functions are leading a renewed push for integration across the Group. They are acting as agents of change throughout our Divisions, turning strategy into reality and delivering the sense of common purpose that is driving us forward.

# Research & Technology

The appointment of a Chief Technical Officer has invigorated the innovation process, and technology development is becoming more closely aligned with Group strategy.



Research on  
Virtual Reality



Following the appointment of a Chief Technical Officer (CTO) in April 2006, innovation, and particularly technological innovation, has been strengthened with greater focus being put on aligning the Group's Research & Technology (R&T) with the company's business strategy.

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

The CTO is also introducing measures to ensure that each Division benefits fully from technologies developed in the others. For example, the greatest expertise in composite aircraft structures resides within Airbus, whereas the best sensor technology resides in Defence & Security.

The refined R&T strategy builds upon the Group's growing pace of innovation. EADS filed almost 800 new patents in 2006, up from more than 300 in 2001. Additionally, the number of patented inventions owned grew to more than 5,000 in 2006, up from more than 4,000 in 2001.

### Aligning R&T with Group strategy

The CTO has started to better align the EADS technology portfolio with the Group's business strategy by re-balancing the R&T budget in favour of the growth areas in the business. He aims to deliver more shareholder value through a stringent, leading-edge R&T portfolio that enables flawless introduction of new technologies on future products, with strong returns on investment at the end of the innovation pipeline.

Key growth technologies have been identified and allocated "protected" budgets. These technologies include fully composite fuselages, secure communications and software, enhanced vision for all-weather helicopters and synthetic-world modelling, to name but a few.

Behind these new goals there is a new management structure for R&T. The EADS Executive Technical Council (ETC) is responsible for ensuring that top-down technology strategy is implemented through the Divisions and Business Units. Headed by the CTO and made up of the technical directors of the Divisions, the ETC meets regularly to formulate future strategies and to identify synergies. The ETC ensures that a balance is maintained between the top-down strategic guidance and the bottom-up expertise, creativity and responsibility.

The Corporate Technical Capabilities function (reporting to the CTO) is in charge of the corporate R&T production facilities that guarantee the Group's technical innovation potential with a focus on the long-term horizon.

Global Innovation Networks (GINs) have been established for each of the five major research fields in order to advance technology fields of major importance to the Group and to ensure that relevant information is shared across the Divisions. An experienced executive will manage each GIN.

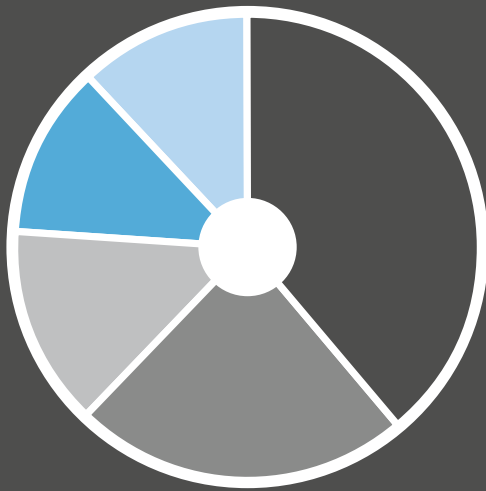
### New roles

The CTO has a wide role. In addition to R&T, he is responsible for Group transversal technical processes, such as Systems Engineering and common tools for Product Lifecycle Management. He also carries out specific technical assessments on behalf of the Chief Executives and the Executive Committee. The responsibility for corporate Information Management (IM) has been passed from Finance to the CTO's organisation. He plans to harmonise design and engineering tools such as computer-aided design software across the Group and its suppliers in order to improve Group integration.

He also intends to foster a culture of innovation. Consequently, R&T and Human Resources are building the "EADS Expert Initiative" to identify technical experts and to offer them career opportunities similar to those of managers. In further initiatives an EADS Innovation Hall of Fame is being created. This will acknowledge and honour those responsible for generating the highest number of patents ("The Great Inventors"), those who are most effective in bringing inventions to the business ("The Great Innovators") and workers with unique skills ("The Great Craftsmen").

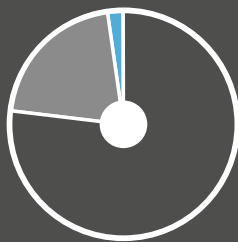
# Sourcing

EADS is creating closer relationships with major suppliers, increasing global sourcing and integrating procurement across Divisions to enhance efficiency and its market positions.



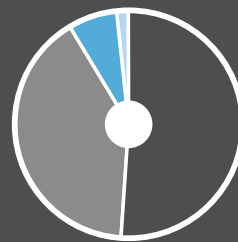
SOURCING PORTFOLIO

- 39% Systems & Equipment
- 23% Indirect Material
- 14% Structure and Airframe
- 12% Production Material
- 12% Product-related Services



SOURCING BY REGION

- 77% Europe
- 21% North America
- 2% Rest of World



SOURCING BY CURRENCIES

- 51% EUR
- 41% USD
- 7% GBP
- 1% Other Currencies

TOTAL SOURCING VOLUME IN 2006: €34 BILLION

A380 engines



Sourcing is playing an important role in improving EADS' business model, refining its activities as part of the drive to increase Group efficiency and integration while reducing cost and risk. It is taking action to secure supplies, manage costs and supplier performance, reduce exposure to the dollar and expand its presence in strategic countries.

There are three broad initiatives. The Group is beginning a process of developing its supply base towards forging closer relationships with key suppliers. It is increasing sourcing from strategically important countries outside Europe. And further measures are being taken to foster stronger and more efficient coordination of activities across the Divisions.

Specific steps were taken towards these goals in the 2006 financial year, and efforts will intensify in 2007.

### Closer relationships

During 2006, EADS began to review its supply base in terms of what it buys, where and how. It intends to form closer relationships with a limited number of tier-one suppliers, giving them more responsibility for managing larger contributions, including suppliers lower in the chain. This allows EADS to focus on its core activities and to form stronger relationships with a smaller number of key suppliers.

These suppliers will be selected for their expertise and proven performance, as well as their ability and commitment to EADS' business interests. This includes sharing risks arising from the end customer market. They will, for example, be expected to invest in developing tomorrow's technology, products and systems, to help reduce dollar exposure and to support EADS in accessing new markets.

As a step towards strengthening collaboration with key suppliers, Supplier Councils and the EADS Procurement Network were started in 2006 and are systematically enhancing cooperation and networking with suppliers. They aim to improve the efficiency of the supply chain, to secure consistency for selected key elements of EADS' procurement strategy, and to optimise processes through sharing best practices.

### Internationalisation

The Group intends to increase sourcing from outside Europe. Currently, approximately one fourth of the value of all sourcing is from outside Europe, but this is expected to grow to 35% within a decade. As well as increasing access to essential technologies and commodities, this will expand sourcing volumes from Asian

countries and support EADS in seeking new revenues from growing economies. This will also mitigate exposure to dollar weakness and help to reduce costs associated with labour intensive production.

Country sourcing offices are being installed in China and India, with further locations under consideration. A substantial number of sourcing missions to priority countries have improved awareness and knowledge of sourcing opportunities.

### Sourcing integration

Coordination of procurement activities across the Divisions has increased in a number of ways.

To better integrate sourcing within EADS, the Chief Procurement Officers Council was established. This is a forum for Chief Procurement Officers from all five Divisions and the Headquarter to discuss all topics of interest with more than one Division.

By leveraging purchasing power across EADS, the Lead Buyers again made considerable cost reductions, in line with their targets. EADS is now preparing to increase their powers through Joint Procurement by going beyond aggregation of demand towards demand management and harmonisation. Shared Services in Procurement are being investigated in order to increase efficiency.

Reflecting the greater integration of sourcing, EADS started to roll out a common e-sourcing platform across the Group. The common platform, which hosted more than 4,500 electronic calls for tender in 2006, will support joint procurement activities and leverage synergies regarding infrastructure, supplier databases, templates and transparency.

Looking forward to 2007, EADS will begin to reduce the number of tier-one suppliers. It will also continue to seek sourcing opportunities outside its home markets and to leverage Group purchasing power. At the same time, the procurement functions will further develop capabilities, processes and tools.

# Human Resources

Human Resources (HR) is improving integration through the further development of common policies, processes, programmes and shared services.



Helicopter manufacturing



## HR integration

The common EADS HR Board, consisting of the Divisional HR directors and Group Head of HR, has been driving further integration of HR activities in EADS by introducing common IS platforms, common programmes, tools, processes and shared services. Common HR objective-setting and project review processes have been established with the Divisions, and formal double-reporting lines direct from the Divisions to the Group HR Head have been formalised during the year. The HR Community has organised common events to foster functional integration and sharing best business practices between Divisions.

## Social process

Both EADS and its Divisions have active European Works Council structures in place. These different forums allow the possibility for proactive social dialogue between employee representatives and management. An important challenge of the year was the preparation of the communication process and start of dialogue with the European Works Council and with the Trade Union representatives about the Airbus Power8 programme, wider restructuring across the Group and implementation of shared services. These discussions are conducted in a proactive and coordinated manner on EADS' Divisional and National level.

## e-HR and shared services

HR Shared Services has undergone further development and deployment, providing services such as payroll and time management in all four main EADS countries and for all Divisions. In January 2007, HR Shared Services provided payslips with a single IS platform for 110,000 employees. Shared Service development is an important part of HR re-engineering and transformation processes. A common e-recruiting platform was deployed in order to provide a single source and harmonised recruitment tool for the Group. Further e-HR developments have been launched to be fully deployed in 2008, e.g. performance & development cycle, competency-management and learning-management systems.

## Competency management & development

To secure the availability, right-time recruitment, training and retaining of people for future business needs, several initiatives have been launched. The "EADS Expert Policy" has been implemented across the whole Company. This initiative improves the identification and recognition of technical experts, and offers them career opportunities similar to those of managers. EADS Divisions have piloted several initiatives, such as the mapping of individual skills, professional certification processes, identification of long-term competency needs and systems of classification of competencies to be able to ensure that EADS Divisions are better able to anticipate the availability and need for technical competencies in the long term.

The EADS "Shared College" has been created to share common training programmes across the EADS Divisions and to pool resources, ensuring that the best technical expertise is shared across the Group.

## Leadership development, talent & executive management

The Corporate Business Academy (CBA) programmes for development of management and leadership skills have been performed for an even wider number of participants. The EADS Executive Education Centre of Villepreux is fully operational. In addition to basic management and leadership training, CBA also provides strategic platforms for management to study topics such as internationalisation through Action Learning Expeditions to China and India.

A new "Group Leadership Model" has been introduced for all EADS to be the basis for common leadership training programmes and common tools, such as 360° assessment. Additionally, an annual round of potential and development discussions, followed by development conferences, were carried on to promote executives' and senior managers' career development. A new mentoring programme has been piloted successfully. Internal mobility of managers and executives has also been promoted.

## Employer image

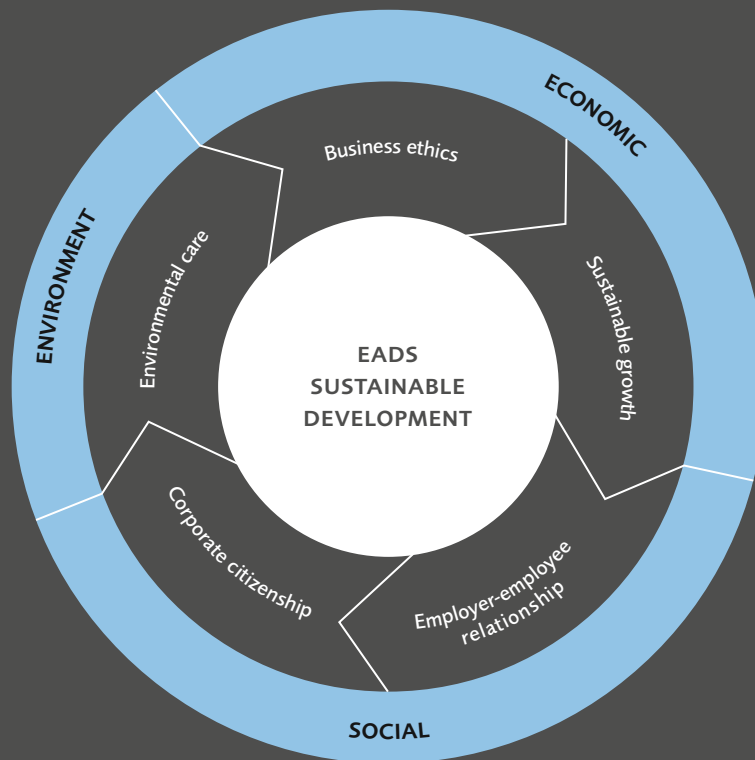
In early 2006, EADS was ranked one of Europe's most admired employers among engineering students, being ranked number 1 in France, number 8 in Germany and number 4 for overall Europe (Trendence & Universum surveys). HR participated in 40 national and international recruitment fairs and exhibitions in 2006 across Europe as well as in China and Singapore, and was also involved in various initiatives to support women choosing technical careers.

## Looking to 2007

Looking forward, HR will deploy the EADS "Leadership" principles across the Group to ensure development of a common management culture. And the development of key competencies will be furthered. More job rotations will be encouraged. The dialogue with the Works Councils and Trade Unions around potential Airbus and EADS reorganisations will be active. Overall, HR will continue to progress towards the goals identified in 2006 and to improve the quality of its delivery and support.

# Corporate Social Responsibility

EADS continued to strengthen its CSR framework in 2006, introducing initiatives to build on and reinforce those of previous years. The Group is strongly committed to meeting its social and ethical responsibilities. This is more important than ever in challenging times.





For more detailed information on EADS CSR policies and related practises, please refer to:

Book **3**



**BUSINESS, LEGAL AND CORPORATE RESPONSIBILITY 2006**  
Registration Document Part 2

### Regaining confidence in sustainability

While the events of 2006 raised questions, EADS remains committed to a sustainable and balanced relationship with stakeholders. The entire Group is committed to the principles and values in its Code of Ethics, as well as to its Corporate Social Responsibility (CSR) policies.

### Creating the foundations for further CSR challenges

In 2006, EADS started new initiatives to strengthen the foundations of its CSR framework.

The Group strengthened its export control policies and procedures. To support the reshaped corporate technology office, EADS continued to establish programmes of cooperation with universities and scientific organisations to draw on competencies wherever they exist. Furthermore, a sourcing network was created to define tools aimed at cascading down and monitoring CSR requirements in

the supply chain. From a strategic perspective, EADS reviewed its compliance activities and processes. In addition to its well established internal compliance processes, EADS is considering further developing its compliance approach by creating a comprehensive Group-wide compliance organisation. Given the specific context of Airbus restructuring and of the evolution of the EADS organisation, the already well established social dialogue procedures have been reinforced.

### Incorporating CSR policies into daily business

Some evidence showed that CSR policies are increasingly embedded in the way EADS conducts its business. From an environmental perspective, the number of ISO 14001/EMAS certified sites grew from 29 to 52. And a survey conducted by Novethic and Service Central de Prévention de la Corruption named EADS as one of only seven companies in the French CAC 40 Index meeting international ethical standards.



Julia Kempe, researcher at the University of Paris, won in 2006 a scientists' prize co-sponsored by the EADS Corporate Foundation

## Social Responsibility by encouraging female scientists

### Julia Kempe: Winner of the 2006 Irène Joliot-Curie Prize

For Julia Kempe, prizes are no rarity. Over time, this former student of one of East Germany's special schools for gifted children has collected many well-deserved distinctions for her research in computer science. These have been awarded by well-known academic institutions and government bodies from across the world.

But the Irène Joliot-Curie Prize, which she won last November as the best young female researcher of 2006, is one of the most prestigious. It is dedicated to encouraging young women in science – a cause that is close to her heart.

“I think the Irène Joliot-Curie Prize is one of several things that would help a woman overcome her own doubts,” says Kempe. She adds: “Seeing other women being successful helps. There should be more outreach activities and events for women. I think women still need a lot more encouragement.”

The prize, which is co-sponsored by the EADS Corporate Foundation and the French Ministry of Higher Education and Research is intended to reward female scientists for exceptional achievements. Its purpose is also to encourage young women to embark on scientific careers. While the reward is a cash sum of € 10,000, its real value is the associated prestige.

### Successful career as a scientist

Aged 33, Kempe has worked or studied at many of the world's leading faculties in the field of computer science. She is currently a researcher at the University of Paris in Orsay, but has previously attended leading universities in Australia, Austria, France, Israel and the United States.

Kempe's studies began when she was selected at the age of 11 to study mathematics and physics in East Germany. She remarks that being female was no disadvantage; her potential was regarded as exactly the same as that of her male classmates. At the age of 17, however, one year after the Berlin Wall fell, she moved with her parents to Austria. There, women were not expected to study mathematics or sciences. France, she observes, is far more egalitarian.

### Mixity to work better

Yet there are still relatively few women in the classes she teaches at the university. “I do not know why this is the case,” she says. “Maybe it is the lack of role models. When I see young women I always try to show them that they have their place in research and that mixity creates better working environment.”

Kempe's work focuses on the emerging field of quantum computing. She develops quantum algorithms which should ultimately lead to the first quantum computer. If this is achieved, it will lead to far more powerful computers than those of today.

Meanwhile, this most recent prize may help her career to progress in practical ways. “One of the previous winners told me at the awards ceremony that all of her colleagues were aware of this prize,” she says. “I do not think it helped in the sense that she got promoted but it made her life a little easier. She said the real hurdle in a woman's career was when it came to getting a leadership position.”

## PAMELA: new dimension in environmental care

### Pioneering integrated life cycle management of aircraft

More than 6,000 aircraft are due to reach end of life over the next 20 years and the question of how to deal with these old aircraft in a way that keeps our environmental footprint minimal cannot be avoided.

Airbus tackles this major environmental issue with an innovative project to experiment state-of-the-art procedures in deconstructing and recycling the vast majority of valuable materials and components, eliminating any potential hazards that could adversely affect environment or public safety.

The project is called PAMELA (standing for Process for Advanced Management of End-of-Life Aircraft) and is located at Tarbes airport, in southwestern France. The purpose is to establish a benchmark for environmental best practices for recycling and re-using 85 to 95% of an aircraft.

All the practicalities of dismantling, recycling and re-using are being tested on an old A300 that started to be taken apart in February 2006. Completion of the whole process is scheduled by year end.

PAMELA is also about learning how to design aircraft that will be easy to dismantle. As such, it will contribute to setting new standards in sustainable management of aircraft, paving the way for other initiatives to follow. "We want to create a centre of excellence from which knowledge can be further disseminated," explains Bruno Costes, Airbus Director Environmental Affairs, Industrial Coordination.

PAMELA is part of the European Commission's LIFE programme. Under Airbus's leadership, the project brings together SITA France, EADS Sogerma Services, EADS Innovation Works and the Préfecture des Hautes Pyrénées. Aircraft knowledge is thus combined with the long-standing expertise of SITA France in sorting and processing waste.

"The engineers in our design offices already do take into account the environmental parameters right from the early stages of the design process, thanks to an effective Environment Management System," says Costes.

The lessons learned will be used in the early design of the next generation of aircraft to facilitate end-of-life management. "Working with experts in recycling enables us to incorporate even more eco-friendly parts in the design of our aircraft, thereby improving the whole environmental performance over the entire aircraft lifecycle," concludes Costes.



Dismantling and deconstruction of the A300 is well underway. Initially, the preliminary decommissioning phase involves draining the aircraft of dangerous fluids and decontamination. This is important for making the process safe and environmentally friendly. Disassembling and dismantling the various parts (engines, pylons, landing gear, avionic boxes, flight controls, batteries and hydraulic pumps) can then be performed.

All of these parts are transferred to a dedicated building for material separation. Aluminium alloys, steel, copper, titanium and other metals are sorted into separate containers for processing through appropriate dedicated circuits. Plastics are handled similarly. While there are few composites in this type of aircraft, research is currently being conducted to further develop treatments for these materials and to promote innovative ways of recycling them.



# USEFUL

# INFORMATION



## Glossary

### BOSNet

Digital radio network for security authorities and organisations (BOS) in Germany

### CAGR

Compound Average Growth Rate – a measure of average growth rate over a number of years

### CBA

The EADS Corporate Business Academy

### CAISR

Command, Control, Communication, Computers, Surveillance and Intelligence Systems for defence forces

### Clean Sky

Research programme plan for greener generation of European Air Transport. Its purpose is to demonstrate and validate the technological breakthroughs that are necessary to reach the environmental goals set by the Advisory Council for Aeronautics Research in Europe.

### Corporate Governance

The control and monitoring of a company to ensure that management acts in the interests of stakeholders, no undue risks are taken and relevant legislation is complied with

### CRC

EADS Corporate Research Centre

### CSR

Corporate Social Responsibility – the responsibility of a company towards its employees, the environment, its customers and the wider community

### Deepwater

A comprehensive US Coast Guard modernisation programme for acquiring new aircraft and surveillance systems

### EBIT

Earnings Before Interest and Taxes – EADS uses EBIT pre-goodwill impairment and exceptionals as a key indicator of its economic performance

### EASA

The European Aviation Safety Agency – responsible for the advancement, safety and regulation of civil aviation

### ESA

European Space Agency

### ESOP

Employee Share Ownership Programme

### ETC

EADS Executive Technical Council, responsible for top-down implementation of technology strategy through Divisions and Business Units

### Expert Initiative

Joint initiative of R&T (Research and Technology) and HR (Human Resources) to identify technical experts and offer them career opportunities similar to those of managers

### FAA

The US Federal Aviation Authority – responsible for the advancement, safety and regulation of civil aviation

### FAL

Final Assembly Line

### FITS

Fully Integrated Technical System – core of a complex weapon system that ranges from maritime surveillance to the most complete configurations of antisubmarine warfare

### Fly-by-wire

An aircraft control system relying on electronics rather than mechanical linkages

### GDP

Gross Domestic Product – a measure of an economy's output

### Global security

State security designed for border security, crisis management and large event protection

### Hedge

A way of insuring against adverse foreign exchange rate fluctuations

### Innovation Works

EADS innovation efforts are now organised into a network, led by an entity called “EADS Innovation Works”

**ISO**

International Organization for Standardization – a global network that identifies what International Standards are required by business, government and society, develops them in partnership with the sectors that will put them to use, adopts them by transparent procedures based on national input and delivers them to be implemented worldwide

**Kyoto Protocol**

The United Nations agreement under which countries can commit to reduce their emissions of carbon dioxide and five other greenhouse gases

**LIFE**

Financial Instrument For the Environment – a European financial programme for supporting the development and implementation of European policy on the environment and sustainable development.

**LCC**

Low Cost Carrier

**LUH**

US Army programme for Light Utility Helicopters

**MEADS**

Medium Extended Air Defence System – a ground-based air defence system

**MoD**

Current abbreviation for Ministry of Defence

**MRTT**

Multi-Role Tanker Transport aircraft

**NASA**

National Aeronautics and Space Administration – the US space agency

**NATO**

North Atlantic Treaty Organisation

**PAMELA**

Process for Advanced Management of End of Life Aircraft – led by Airbus, the project associates SITA France, EADS Sogerma, EADS Innovation Works and the Préfecture des Hautes Pyrénées and aims to establish a benchmark for the environmentally friendly recycling and re-use of 85% to 95% of an aircraft

**Power8**

Turnaround programme to restore Airbus's competitiveness

**PPP**

Public Private Partnership

**PRM**

Programme Risk Management

**R&D**

Research and Development – all activities related to the evolution of new products and services

**RTK**

Revenue Tonne Kilometres – a measure of overall airline volume. It is calculated by multiplying the number of tonnes of revenue load (passengers, baggage, freight and mail) by the flight stage distance.

**R&T**

Research & Technology – all activities in the field of research and generic technologies not directly attributable to products, and designed to maintain or expand knowledge or the technological base

**Single-aisle aircraft**

Aircraft with one aisle, such as the Airbus A320 Family

**SIP**

Stock Incentive Plan

**SOP**

Stock Option Plan

**UAV**

Unmanned Aerial Vehicle

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## Financial Calendar

**Full Year 2006 results release:**

9th March 2007

**Annual General Meeting:**

4th May 2007, Amsterdam, The Netherlands

**First Quarter 2007 results release:**

10th May 2007

**Shareholders' Information meeting:**

24th May 2007, Paris, France

**First Half 2007 results release:**

26th July 2007

**Third Quarter 2007 results release:**

8th November 2007

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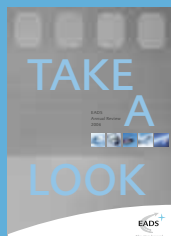
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#### ANNUAL REVIEW 2006

Management & Responsibility  
The Full Picture: Transformation  
The Business Year 2006  
Inside EADS  
Useful Information

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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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