

# **Year 2006 Report**

## **Unaudited Condensed Consolidated Financial Information of EADS N.V. for the year 2006**

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**Unaudited Condensed IFRS Consolidated Income Statements**

	January 1 - December 31, 2006		January 1 - December 31, 2005		Deviation	
	M €	%	M €	%	M €	%
<b>Revenues</b>	39,434	100	34,206	100	5,228	15
Cost of sales	-34,722	-88	-27,530	-80	-7,192	26
<b>Gross margin</b>	<b>4,712</b>	<b>12</b>	<b>6,676</b>	<b>20</b>	<b>-1,964</b>	<b>-29</b>
Selling, administrative & other expenses	-2,462	-6	-2,336	-7	-126	5
Research and development expenses	-2,458	-6	-2,075	-6	-383	18
Other income	297	1	222	0	75	34
Share of profit from associates under the equity method and other income from investments	189	0	225	1	-36	-16
<b>Profit before finance costs and income taxes</b>	<b>278</b>	<b>1</b>	<b>2,712</b>	<b>8</b>	<b>-2,434</b>	<b>-90</b>
Finance costs	-244	-1	-177	-1	-67	38
Income taxes	81	0	-825	-2	906	-110
<b>Profit for the period</b>	<b>115</b>	<b>0</b>	<b>1,710</b>	<b>5</b>	<b>-1,595</b>	<b>-93</b>
<b>Attributable to:</b>						
Equity holders of the parent ( <b>Net income</b> )	<b>99</b>	<b>0</b>	<b>1,676</b>	<b>5</b>	<b>-1,577</b>	<b>-94</b>
Minority interests	16	0	34	0	-18	-53
<b>Earnings per share</b>	€		€		€	
Basic	0.12		2.11		-1.99	
Diluted	0.12		2.09		-1.97	

**Unaudited Condensed IFRS Consolidated Balance Sheets**

	December 31, 2006		December 31, 2005		Deviation	
	M €	%	M €	%	M €	%
<b>Non-current assets</b>						
Intangible assets	10,855	15	11,052	16	-197	-2
Property, Plant and Equipment	14,315	20	13,951	19	364	3
Investments in associates under the equity method	2,095	3	1,908	3	187	10
Other investments and long-term financial assets	1,666	2	1,938	3	-272	-14
Non-current other assets	4,231	6	3,610	5	621	17
Deferred tax assets 1)	2,624	4	2,980	4	-356	-12
Non-current securities	1,294	2	1,011	1	283	28
	<b>37,080</b>	<b>52</b>	<b>36,450</b>	<b>51</b>	<b>630</b>	<b>2</b>
<b>Current assets</b>						
Inventories	16,892	23	15,425	22	1,467	10
Trade receivables	4,852	7	4,802	7	50	1
Other current assets	4,545	6	3,675	5	870	24
Current securities 2)	549	1	4,189	6	-3,640	-87
Cash and cash equivalents 2)	8,143	11	5,386	8	2,757	51
	<b>34,981</b>	<b>48</b>	<b>33,477</b>	<b>48</b>	<b>1,504</b>	<b>4</b>
<b>Non-current assets / disposal groups classified as held for sale</b>	<b>76</b>	<b>0</b>	<b>881</b>	<b>1</b>	<b>-805</b>	<b>-91</b>
<b>Total assets</b>	<b>72,137</b>	<b>100</b>	<b>70,808</b>	<b>100</b>	<b>1,329</b>	<b>2</b>
<b>Total equity</b>						
Equity attributable to equity holders of the parent						
Capital Stock	816	1	818	1	-2	0
Reserves 1)	7,593	11	8,699	12	-1,106	-13
Accumulated other comprehensive income	4,955	7	3,982	6	973	24
Treasury shares	-349	0	-445	0	96	-22
	<b>13,015</b>	<b>19</b>	<b>13,054</b>	<b>19</b>	<b>-39</b>	<b>0</b>
Minority interests 1)	137	0	153	0	-16	-10
	<b>13,152</b>	<b>19</b>	<b>13,207</b>	<b>19</b>	<b>-55</b>	<b>0</b>
<b>Non-current liabilities</b>						
Non-current provisions 1)	9,063	13	7,997	11	1,066	13
Long-term financial liabilities	3,561	5	4,189	6	-628	-15
Deferred tax liabilities	2,465	3	2,376	3	89	4
Other non-current liabilities	12,680	17	11,295	16	1,385	12
	<b>27,769</b>	<b>38</b>	<b>25,857</b>	<b>36</b>	<b>1,912</b>	<b>7</b>
<b>Current liabilities</b>						
Current provisions	3,631	5	2,727	4	904	33
Short-term financial liabilities	2,196	3	908	1	1,288	142
Liability for puttable instruments	0	0	3,500	5	-3,500	-100
Trade liabilities	7,461	10	6,634	10	827	12
Current tax liabilities	218	0	174	0	44	25
Other current liabilities	17,646	25	17,739	25	-93	-1
	<b>31,152</b>	<b>43</b>	<b>31,682</b>	<b>45</b>	<b>-530</b>	<b>-2</b>
<b>Liabilities directly associated with non-current assets classified as held for sale</b>	<b>64</b>	<b>0</b>	<b>62</b>	<b>0</b>	<b>2</b>	<b>3</b>
<b>Total equity and liabilities</b>	<b>72,137</b>	<b>100</b>	<b>70,808</b>	<b>100</b>	<b>1,329</b>	<b>2</b>

1) For retrospective application as of December 31, 2005 of the revised IAS 19 "Employee Benefits" please refer to Note 2 "Accounting policies".

2) Regarding the retrospective change as of December 31, 2005 in presentation of "Cash and cash equivalents" please refer to Note 2 "Accounting policies".

**Unaudited Condensed IFRS Consolidated Cash Flow Statements**

	January 1 - December	January 1 - December
	31, 2006	31, 2005
	M €	M €
Profit for the period attributable to equity holders of the parent <b>(Net income)</b>	<b>99</b>	<b>1,676</b>
Profit attributable to minority interests	16	34
<i>Adjustments to reconcile profit for the period (net income) to cash provided by operating activities</i>		
Depreciation and amortization	1,691	1,653
Valuation adjustments and CTA release	426	261
Deferred tax (income) / expense	-193	386
Change in tax assets, tax liabilities and provisions for actual income tax	-160	63
Results of disposal of non-current assets	-336	-170
Results of companies accounted for by the equity method	-152	-210
Change in current and non-current provisions	2,150	175
Change in other operating assets and liabilities	-143	1,239
<b>Cash provided by operating activities</b>	<b>3,398</b>	<b>5,107</b>
- Purchase of intangible assets, PPE	-2,708	-2,818
- Proceeds from disposals of intangible assets, PPE	76	101
- Acquisitions of subsidiaries and joint ventures (net of cash)	-82	-131
- Proceeds from disposals of subsidiaries (net of cash)	86	89
- Payments for investments in associates and other investments and long-term financial assets	-421	-659
- Proceeds from disposals of associates and other investments and long-term financial assets	813	485
- Dividends paid by companies valued at equity	46	36
- Increase in equipment of leased assets	-147	-40
- Proceeds from disposals of leased assets	215	256
- Increase in finance lease receivables	-16	-219
- Decrease in finance lease receivables	79	85
Disposals of non-current assets / disposal groups classified as held for sale and liabilities directly associated with non-current assets classified as held for sale	690	0
Change of securities *)	3,357	1,008
Change in cash from changes in consolidation	0	12
<b>Cash provided by (used for) investing activities</b>	<b>1,988</b>	<b>-1,795</b>
Change in long-term and short-term financial liabilities	784	-344
Cash distribution to EADS N.V. shareholders	-520	-396
Dividends paid to minorities	-16	0
Payments related to liability for puttable instruments	-2,879	-93
Capital increase	94	187
Purchase of treasury shares	-35	-288
<b>Cash (used for) financing activities</b>	<b>-2,572</b>	<b>-934</b>
Effect of foreign exchange rate changes and other valuation adjustments on cash and cash equivalents	-57	17
<b>Net increase in cash and cash equivalents</b>	<b>2,757</b>	<b>2,395</b>
<b>Cash and cash equivalents at beginning of period *)</b>	<b>5,386</b>	<b>2,991</b>
<b>Cash and cash equivalents at end of period *)</b>	<b>8,143</b>	<b>5,386</b>

\*) Regarding the retrospective change in 2005 in presentation of "Cash and cash equivalents" please refer to Note 2 "Accounting policies".

As of December 31, 2006, EADS' cash position (stated as cash and cash equivalents in the unaudited consolidated cash flow statements) includes 597 M € (579 M € as of December 31, 2005), which represent EADS' share in MBDA's cash and cash equivalents, deposited at BAE Systems and

Finmeccanica. These funds are available for EADS upon demand. After the acquisition in October 2006 of the BAE Systems stake in Airbus, no cash and cash equivalents from Airbus are any longer deposited at BAE Systems (1,202 M € as of December 31, 2005).

### Unaudited Condensed IFRS Consolidated Reconciliation of Movement in Equity attributable to equity holders of the parent and Minority interests

in M €	Equity attributable to equity holders of the parent	Minority interests	total
<b>Balance at January 1, 2005</b>	<b>16,210</b>	<b>144</b>	<b>16,354</b>
Retrospective adjustments *)	-397	-10	-407
<b>Balance at January 1, 2005, adjusted</b>	<b>15,813</b>	<b>134</b>	<b>15,947</b>
Change in actuarial gains and losses *)	-275	-13	-288
OCI	-3,696	-2	-3,698
Profit for the period	1,676	34	1,710
Cash distribution to shareholders	-396		-396
Capital Increase	187		187
Purchases of treasury shares	-288		-288
Others	33		33
<b>Balance at December 31, 2005</b>	<b>13,054</b>	<b>153</b>	<b>13,207</b>
Change in actuarial gains and losses	-692	-22	-714
OCI	973	2	975
Profit for the period	99	16	115
Cash distribution to shareholders / dividends paid to minorities	-520	-16	-536
Capital Increase	94		94
Purchases of treasury shares	-35		-35
Others	42	4	46
<b>Balance at December 31, 2006</b>	<b>13,015</b>	<b>137</b>	<b>13,152</b>

For the purposes of the Unaudited Condensed Consolidated Financial Information for the year 2006, a Statement of Recognised Income and Expenses is not included.

\*) For retrospective adjustments as of January 1, 2005 and in the year 2005 please refer to Note 2 "Accounting policies".

### Explanations to the Unaudited Condensed IFRS Consolidated Financial Statements as at December 31, 2006

#### 1. The Company

The accompanying Condensed Consolidated Financial Statements (unaudited) present the operations of European Aeronautic Defence and Space Company EADS N.V. and its subsidiaries ("EADS" or the "Group"), a Dutch public limited liability company (Naamloze Vennootschap) legally seated in Amsterdam (Le Carré, Beechavenue 130-132, 1119 PR, Schiphol-Rijk, The Netherlands), and are prepared and reported in Euros ("€"). EADS' core business is the manufacturing of commercial aircraft, civil and military helicopters, commercial space launch vehicles, missiles, military aircraft, satellites, defence systems and defence electronics and rendering of services related to these activities.

## 2. Accounting policies

EADS' Condensed Unaudited Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), adopted by the International Accounting Standards Board ("IASB") as endorsed by the European Union (EU). They comprise (i) IFRS, (ii) International Accounting Standards ("IAS") and (iii) Interpretations originated by the International Financial Reporting Interpretations Committee ("IFRIC") or former Standards Interpretation Committee ("SIC").

As of January 1<sup>st</sup>, 2006, EADS adopted the following amendments to existing Standards, new Standards and new Interpretations as required by the following announcements released by the IASB in December 2004 and throughout 2005:

EADS applies new IFRS 6 "Exploration for and Evaluation of Mineral Resources", amendments to IAS 19 "Employee Benefits" (December 2004) and to IAS 21 "The Effects of Changes in Foreign Exchange Rates" (December 2005) respectively and two amendments to IAS 39 "Financial Instruments: Recognition and Measurement": "Fair Value Option" (June 2005) and "Financial Guarantee Contracts" (August 2005) with the latter also amending IFRS 4. Furthermore, EADS applies new Interpretations IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds" and IFRIC 6 "Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment".

Apart from the policy change regarding the recognition of actuarial gains and losses the application of the amendments to existing Standards, new Standards and new Interpretations mentioned above had no major impact on the Condensed Consolidated Financial Statements.

### **Amendment to IAS 19 Employee Benefits**

The amendment to IAS 19 introduces the recognition of actuarial gains and losses outside the income statement within retained earnings as a third option ("Equity Option"). It further adds new disclosure requirements. EADS has decided to apply the newly introduced alternative and to change its accounting policy regarding the recognition of actuarial gains and losses arising from defined benefit plans for its 2006 Consolidated Financial Statements. Actuarial gains and losses are now directly recognised in equity in the period in which they occur. Prior period figures presented have been adjusted accordingly as required under IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (please refer to Note 7 "Significant balance sheet items").

Compared to the corridor approach, the inclusion of actuarial gains and losses leads to an increase in pension provision of 866 M € (prior year: 1,118 M €).

The 2006 change in the accounting policy for the recognition of actuarial gains and losses from the corridor to the equity approach results in the reversal of expensed actuarial gains and losses under the corridor approach. In 2006, the continuation of the corridor approach would have led to negative impacts of 45 M € to EBIT and 25 M € to Net Income.

### **Amendment to IAS 21 The Effects of Changes in the Foreign Exchange Rate**

The IAS 21 amendment results in the recognition of all exchange differences arising from a monetary item that is part of the Group's net investment in a foreign operation in a separate component of equity regardless of the currency in which the monetary item is denominated.

**Amendments to IAS 39 Financial Instruments: Recognition and Measurement**

- (i) Fair Value Option: The amendment limits the use of the fair value option to those financial instruments that meet one of the following conditions: a) fair value option designation eliminates or significantly reduces an accounting mismatch (i.e. natural hedging relationship); **or** b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy. Furthermore, the fair value option can generally be elected to be applied in case of embedded derivatives to an entire hybrid contract. EADS currently applies the fair value option for securities / accumulated funds only (Money Market Funds).
- (ii) Financial Guarantee Contracts: The scope of IAS 39 has been widened to include financial guarantee contracts issued. In case an issuer of such contracts has previously asserted that it regards financial guarantee contracts as insurance contracts and accounted for them accordingly, the issuer may elect to apply either IFRS 4 or IAS 39 to financial guarantee contracts. The issuer can perform the election contract by contract but the election for each contract remains irrevocable.

For the year ended December 31, 2006, EADS **restricted its interpretation of the cash equivalents' definition** as provided by IAS 7 "Cash Flow Statements" to better reflect its short-term investment strategy. IAS 7 states that "cash equivalents are held for short-term cash commitments [...], must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short-term maturity of, say, three months or less from the date of acquisition." EADS now strictly limits its cash equivalents to investments having a maturity of three months and less from acquisition date. Prior period figures have been adjusted accordingly as required under IAS 8 (please refer to Note 8 "Significant balance sheet items").

Besides consequential changes as mentioned above, the accounting policies used in the preparation of the Condensed Consolidated Financial Statements are consistent with those used for the annual Consolidated Financial Statements for the year ended December 31, 2005 which are disclosed as an integral part of the Group's Annual Report 2005. The annual Consolidated Financial Statements 2006 were authorised for issue by EADS' Board of Directors on March 8, 2007.

**3. BAE Systems UK pension plans**

In the UK, EADS participates in several funded trustee administered pension plans for both executive as well as non-executive employees with BAE Systems being the principal employer. These plans qualify as multi-employer defined benefit plans under IAS 19 "Employee Benefits". EADS' most significant investments in terms of employees participating in these BAE Systems UK pension plans are Airbus and MBDA. For Airbus, this remains the case even subsequent to the acquisition of BAE Systems' 20% minority interest on October 13, 2006.

Due to contractual arrangements between EADS and BAE Systems, company contributions in respect of EADS' investments for the most significant pension scheme (Main Scheme) are capped for a defined period of time (until July 2011 for Airbus and until December 2007 for MBDA). Contributions exceeding the respective capped amounts are paid by BAE Systems.

Since January 1, 2005, BAE Systems prepares its Consolidated Financial Statements under IFRS. Before that date, BAE Systems accounted under UK GAAP and as such did not prepare information required under IAS 19 to apply defined benefit accounting. Consequently, EADS accounted for its participation in BAE Systems UK defined benefit schemes as if they were defined

contribution schemes in accordance with IAS 19. In 2005, EADS requested detailed information from BAE Systems about the different multi-employer pension schemes in order to appropriately and reliably estimate the share of its investments in the schemes' plan assets, defined benefit obligations ("DBO") and pension costs. For accounting purposes, the information provided by BAE Systems in 2005 was judged not to be sufficient to identify EADS' share in the UK pension schemes. Consequently, EADS continued in 2005 to expense the contributions made to the pension schemes as if the plans were defined contribution plans. Additional information was provided until 2005 in the contingent liabilities section of the notes.

Upon further request in 2006, BAE Systems shared more detailed information for each individual plan in which EADS investments participate. This new information results in a change in accounting estimates for 2006 year-end closing and is accounted for accordingly under IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The new information now enables EADS to derive keys per plan to allocate for accounting purposes an appropriate proportion in plan assets, DBO and pension costs to its investments as of December 31st, 2006.

The inclusion of EADS' share in BAE System pension schemes leads to an increase of **pension provision** of 897 M € as of December 31, 2006.

#### 4. Changes in the consolidation perimeter of EADS

On February 28, 2006, LFK GmbH and TDW GmbH, which had been fully consolidated by EADS, were sold to the European Missile Group MBDA. MBDA is jointly owned by BAE Systems (37.5 %), EADS (37.5 %) and Finmeccanica (25 %). In EADS consolidated financial statements, MBDA Group is proportionately consolidated with 50 %.

EADS acquired on August 3, 2006 40% of the shares of the Atlas Elektronik group, specialised in equipment and systems for naval forces, which is consolidated proportionally. The difference between the purchase price and the acquired net assets led to a goodwill of 41 M €.

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

Apart from these transactions, other acquisitions or disposals by the Group are not material.

#### 5. Segment information

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

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



Unaudited Condensed Consolidated Financial Information for the year ended December 31, 2006

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

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

in M €	Airbus	Military Transport Aircraft	Eurocopter	Defence & Security	Astrium	Other Businesses	HQ/ Conso.	Consoli- dated
<b>Year ended December 31, 2006</b>								
Revenues	25,190	2,200	3,803	5,864	3,212	1,257	-2,092	<b>39,434</b>
Research and development expenses	-2,035	-13	-78	-195	-71	-6	-60	<b>-2,458</b>
EBIT pre goodwill imp. and exceptionals (see definition below)	-572	75	257	348	130	-288	449	<b>399</b>
<b>Year ended December 31, 2005</b>								
Revenues	22,179	763	3,211	5,636	2,698	1,155	-1,436	<b>34,206</b>
Research and development expenses	-1,659	-18	-70	-207	-58	-6	-57	<b>-2,075</b>
EBIT pre goodwill imp. and exceptionals (see definition below)	2,307	48	212	201	58	-171	197	<b>2,852</b>

The "EBIT pre-goodwill impairment and exceptionals" includes on HQ/Conso. level the elimination of an addition to the provision for loss making contracts -352 M € recognised in the Airbus Division in order to account for the positive margin of the A 400M contract on EADS group level. Due to the cost increase of the contract, a negative catch-up in 2006 in the amount of -66 M € had to be recognized on group level to adjust EBIT for the years 2003 to 2006.

## 6. EBIT pre goodwill impairment and exceptionals

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

A reconciliation from Profit before finance costs and income taxes to EBIT pre goodwill impairment and exceptionals is set forth in the following table (in M €):

in M €	January 1- Dec. 31, 2006	January 1- Dec. 31, 2005
<b>Profit before finance costs and income taxes</b>	<b>278</b>	<b>2,712</b>
Subsequent adjustments of Goodwill	64	0
Fair value adjustments	57	140
<b>EBIT pre goodwill impairment and exceptionals</b>	<b>399</b>	<b>2,852</b>

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

## 7. Significant income statement items

**Revenues** of 39,434 M € (2005: 34,206 M €) increase by 15 % contributed by all divisions, mostly by Airbus, MTA and Eurocopter.

The **Gross Margin** decreases by -1,964 M € to 4,712 M € compared to 6,676 M € in 2005. The decrease mainly results from Airbus (in particular due to the negative impact resulting from charges for the A 380 and A 350 programs) whereas Defence & Security, Eurocopter, Astrium and MTA record increasing gross margins.

**Research and development expenses** of 2,458 M € (2005: 2,075 M €) mainly increase because of aircraft programs and more research & technology efforts. Additionally, EADS capitalized 335 M € of development costs for A380 in 2006 (in 2005: 259 M €) in accordance with IAS 38.

**Other income** increases by +75 M € to 297 M €, mainly due to the gain of 111 M € as a result of the sale of LFK GmbH and TDW GmbH to MBDA Group.

**Share of profit from associates and other income from investments** of 189 M € (2005: 225 M €) is mainly influenced by the result of Dassault Aviation of 130 M € (2005: 205 M €). The Dassault Aviation Group reported for the year 2006 a net income of 281 M € of which EADS recognised an amount of 130 M € according to its share of 46.3 %. The result in 2005 of Dassault Aviation included positive catch up adjustments amounting to +64 M €.

**Finance costs** deteriorate to -244 M € (2005: -177 M €) mainly due to negative effects in the amount of -136 M € (2005: +147 M €) from foreign exchange rate revaluations on US dollar-cash balance. These effects are partly offset by a lower net interest charge of -121 M € (2005: -155 M €), mainly due to more favourable interest rates.

**Income taxes** of +81 M € (2005: -825 M €) are impacted - among others - by a tax-free gain from the sale of LFK GmbH and TDW GmbH to MBDA Group and DASSAULT result.

**Profit for the period attributable to minority interests** of +16 M € (2005: +34 M €) mainly relates to interests of Finmeccanica in MBDA Group and DCLRH in EADS Deutschland GmbH, partly offset by a consolidation impact from the sale of LFK GmbH and TDW GmbH to the MBDA Group.

## 8. Significant balance sheet items

### Non-current assets

**Intangible assets** of 10,855 M € (prior year: 11,052 M €) include 9,565 M € (prior year: 10,167 M €) of Goodwill. It mainly stems from Airbus (6,374 M €), Defence & Security (2,476 M €), Astrium (575 M €) and Eurocopter (111 M €). The annual impairment tests, which were performed at the end of the year, did not lead to any impairment. On June 7, 2006 BAE Systems exercised a put option to sell its 20% stake in Airbus at a fair value of 2,750 M € to EADS (prior year: 3,500 M €). The transaction became effective as of October 13, 2006. In accordance with the Airbus shareholders' agreement, an independent bank has determined the purchase price. Compared to 2005's amount recognised as liability for puttable instruments, the acquisition cost of the 20% stake in Airbus was reduced, leading to a decrease in goodwill by 613 M € taking into consideration a dividend payment to BAE Systems of 129 M € in 2006 and transaction costs.

Eliminating foreign exchange-rate effects of -127 M €, **property, plant and equipment** increase by +491 M € to 14,315 M € (prior year: 13,951 M €), including leased assets of 1,992 M €. The main increase comes from Astrium for Skynet V (+375 M €). Property, plant and equipment comprises "Investment property" amounting to 137 M € (prior year: 134 M €).

**Investments in associates under the equity method** of 2,095 M € (prior year: 1,908 M €) mainly increase due to the change in the equity investment in Dassault Aviation, amounting to 1,985 M € (prior year: 1,867 M €).

**Other investments and long-term financial assets** of 1,666 M € (prior year: 1,938 M €) are allocated to Airbus in the amount of 1,012 M € (prior year: 1,242 M €), mainly concerning the non-current portion of aircraft financing activities with a foreign exchange-rate effect of -102 M €.

**Non-current other assets** mainly comprise "Non-current derivative financial instruments" and "Non-current prepaid expenses". The increase by +621 M € to 4,231 M € (prior year: 3,610 M €) is mainly caused by the variation of the non-current portion of fair values of financial instruments (+473 M €).

**Deferred tax assets** of 2,624 M € (prior year: 2,980 M €) are presented as non-current assets as required by IAS 1.

The fair values of **derivative financial instruments** are included in non-current other assets with an amount of 3,235 M € (prior year: 2,762 M €), in current other assets (2,007 M €, prior year: 1,191 M €), in non-current provisions (152 M €, prior year: 472 M €) and in current provisions (79 M €, prior year: 449 M €) which corresponds to a net fair value of 5,011 M € (prior year: 3,032 M €). The volume of hedged US dollar-contracts decreased from 47.1 bn US dollar to 45.1 bn US dollar. The US dollar exchange rate became less favourable (USD / € spot rate of 1.32 at December 31, 2006 vs. 1.18 at December 31, 2005). The average US dollar hedge rate for the hedge portfolio of the Group as at December 31, 2006 moved from 1.12 as at December 31, 2005 to 1.16 as at December 31, 2006 (US dollar / € rate respectively).

### Current assets

**Inventories** of 16,892 M € (prior year: 15,425 M €) increase by 1,467 M € in all divisions except for Military Transport. This is mainly driven by a higher level of unfinished goods and services (mainly Airbus for A380 (+987 M €)), the progress of several serial production programs in Eurocopter (+368 M €) and higher advance payments made especially in Astrium (+231 M €).

**Other current assets** include "Current portion of long-term financial assets", "Current other assets", "Current tax assets" and "Current prepaid expenses". The increase of +870 M € to 4,545 M € (prior year: 3,675 M €) comprises a +816 M € variation of the current portion of fair values of derivative financial instruments (see "Derivative financial instruments" under "Non-current assets").

In order to align the presentation of cash and cash equivalents (maturities of three months or less from the date of acquisition), a reclassification of 4,160 M € in the prior year's figure from **cash and cash equivalents** (prior year: from 9,546 M € to 5,386 M €) **to current securities** (prior year: from 29 M € to 4,189 M €) has been made (please refer to Note 2 "Accounting policies").

### Total equity

**Equity** attributable to equity holders of the parent (including treasury shares) amounts to 13,015 M € (prior year: 13,054 M €). The variation is mainly resulting from the first time inclusion of the proportionate share of the UK pension liability for EADS' investments in Airbus UK and MBDA and changes in net actuarial gains and losses (-692 M €) and a cash distribution to shareholders (-520 M €). These reductions were partly compensated by an increase in other comprehensive income (OCI) of +973 M €, primarily resulting from changes in fair values as well as consumption of derivative financial instruments and the profit for the period attributable to equity holders of the parent (Net Income) of +99 M €. Prior year's figure was adjusted retrospectively by -672 M € because of the application of the Equity option of IAS 19 as amended in 2006 (please refer to Note 2 "Accounting policies").

**Minority interests** of 137 M € (prior year: 153 M €) mainly represent shares of Finmeccanica in MBDA. Due to the application of the equity approach (IAS 19 amended in 2006), the prior year's figure was adjusted retrospectively by -23 M € (please refer to Note 2 "Accounting policies").

### Non-current liabilities

**Non-current provisions** of 9,063 M € (prior year: 7,997 M €) comprise the non-current portion of pension provisions of 5,602 M € (prior year: 5,018 M €). Due to the retrospective application of amended IAS 19, prior year figure of the non-current portion of pension provisions was adjusted by +1,118 M €. As of December 31, 2006, EADS included its share (non-current portion) in the BAE Systems UK pension schemes of 869 M €.

Moreover, other provisions are included in non-current provisions, which increase by +482 M € to 3,461 M €. Other provisions include among others aircraft financing activities with a decrease of -132 M € to 1,021 M € (thereof foreign exchange rate effects of -125 M €) and constructive obligations for settlement charges for the A380 and A350 programs. Provisions for derivative financial instruments according to IAS 39 decreased by -320 M € to 152 M €.

**Long-term financial liabilities** of 3,561 M € (prior year: 4,189 M €), excluding foreign exchange-rate effects of -169 M €, decrease by -459 M € in particular due to lower Airbus loans.

**Other non-current liabilities** comprise "Non-current other liabilities" and "Non-current deferred income" and increase in total by +1,385 M € to 12,680 M € (prior year: 11,295 M €). They mainly include non-current customer advance payments received of 6,308 M € (prior year: 4,911 M €) and the non-current portion of European Government refundable advances amounting to 5,029 M € (prior year: 4,950 M €). Advance payments received mainly increased at Airbus (+1.378 M €). The main part of non-current deferred income of 1,110 M € (prior year: 1,324 M €) is linked to deferred revenues of Airbus and ATR according to Residual Value Guarantee clauses. The remaining portfolio, which is included in non-current deferred income, is depreciated over the guaranteed period.

### Current liabilities

**Current provisions** increase by +904 M € to 3,631 M € (prior year: 2,727 M €) and comprise the current portions of pensions (281 M €) and other provisions (3,350 M €). The increase mainly reflects constructive obligations for settlement charges for the A380 program.

**Short-term financial liabilities** of 2,196 M € (prior year: 908 M €), excluding foreign exchange-rate effects of -29 M €, increase by +1,317 M €, mainly due to the issue of commercial papers with an amount of 1,157 M €.

EADS has adopted in 2005 revised IAS 32 and accounted for a **liability for puttable instruments** for the 20% interest of BAE Systems in Airbus SAS. This liability was stated at fair value of 3,500 M € as at December 31, 2005. In the course of the exercised put option by BAE Systems, a third party investment bank has determined on July 2, 2006, that the price to be paid by EADS was 2,750 M €. The liability was derecognized from EADS Consolidated Balance Sheet after the transaction had been verified and approved by BAE Systems' shareholders in October 2006.

**Trade liabilities** increase by +827 M € to 7,461 M € (prior year: 6,634 M €), mainly coming from Airbus (+422 M €), Astrium (+207 M €) and Military Transport Aircraft (+115 M €).

**Other current liabilities** include "Current other liabilities" and "Current deferred income". They decrease by -93 M € to 17,646 M € (prior year: 17,739 M €). Other current liabilities mainly comprise current customer advance payments of 14,172 M € (prior year: 14,078 M €).

## 9. Significant cash flow items

**Cash provided by operating activities** decreases by -1,709 M € to 3,398 M € (2005: 5,107 M €). Gross cash flow from operations (excluding working capital change) with 3,541 M € nearly remains on prior year's level (2005: 3,868 M €), while changes in other operating assets and liabilities (working capital change) amounts to -143 M € (2005: 1,239 M €).

**Cash provided by (used for) investing activities** increases by +3,783 M € to 1,988 M € (2005: -1,795 M €). This is mainly caused by positive effects from customer financing activities of Airbus. Changes of securities mainly reflect preparation for the payment of EADS for 20% stake in Airbus.

**Cash (used for) financing activities** increases by -1,638 M € to -2,572 M € (2005: -934 M €). The outflow mainly contains the repayment of the liability for puttable instruments to BAE Systems and a cash distribution paid to shareholders, which are partly offset by a net increase of financial liabilities.

## 10. Number of shares

The total number of shares outstanding is 802,130,993 and 797,140,426 as of December 31, 2006 and 2005, respectively. EADS' shares are exclusively ordinary shares with a par value of 1.00 €.

During 2006, the number of treasury shares held by EADS decreased from 20,602,704 as of December 31, 2005 to 13,800,531 as of December 31, 2006.

4,845,364 new shares (in 2005: 7,562,110 shares) were issued as a result of the exercise of stock options in compliance with the implemented stock option plans.

## 11. Earnings per share

**Basic earnings per share** are calculated by dividing profit for the period attributable to equity holders of the parent (Net income) by the weighted average number of issued ordinary shares during the period, excluding ordinary shares purchased by the Group and held as treasury shares:

	January 1 to December 31, 2006	January 1 to December 31, 2005
Net income attributable to equity holders of the parent	99 M €	1,676 M €
Weighted average number of ordinary shares outstanding	800,185,164	794,734,220
Basic earnings per share	0.12 €	2.11 €

The effect from applying in 2006 the IAS 19 equity approach instead of the corridor approach contributes 0.03 € to basic earnings per share. For further details please refer to Note 2 "Accounting policies".

For calculation of the **diluted earnings per share**, the weighted average number of ordinary shares is adjusted to assume conversion of all potential ordinary shares. The Group's only category of dilutive potential ordinary shares is stock options. Since the average price of EADS shares during 2006 exceeded the exercise price of the stock options under the 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup> and 6<sup>th</sup> stock option plans (in 2005: the 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup> and 6<sup>th</sup> stock option plan) initiated by the Group, the inclusion of the related potential ordinary shares increases the weighted average number of shares. 4,130,499 shares (2005: 5,482,133 shares) are considered dilutive according to IAS 33.

	January 1 to December 31, 2006	January 1 to December 31, 2005
Net income attributable to equity holders of the parent	99 M €	1,676 M €
Weighted average number of ordinary shares outstanding (diluted)	804,315,663	800,216,353
Diluted earnings per share	0.12 €	2.09 €

The effect from applying in 2006 the IAS 19 equity approach instead of the corridor approach contributes 0.03 € to diluted earnings per share. For further details please refer to Note 2 "Accounting policies".

## 12. Related party transactions

The Group has entered into various transactions with related companies in 2006 and 2005 that have all been carried out in the normal course of business. As is the Group's policy, all related party transactions have to be carried out at arm's length. Transactions with related parties include the French State, DaimlerChrysler, Lagardère, and SEPI (Spanish State). Except for the transactions with the French State, such transactions are not considered material to the Group either individually or in the aggregate. The transactions with the French State include mainly sales from the Eurocopter, Defence & Security Systems and Astrium divisions.

## 13. Number of employees

The number of employees at December 31, 2006 is 116,805 as compared to 113,210 at December 31, 2005.

**14. Subsequent events**

Following an agreement dated January 10, 2007, EADS sold the remaining 60% shares of Sogerma Services as well as the shares of the subsidiaries Barfield and Sogerma Tunisia.

EADS sold on February 12, 2007 its 2.1% share in EMBRAER Empresa Brasileira de Aeronáutica S.A. for a total proceed (before taxes and bank fees) of 124 M €.

On February 28, 2007 the Airbus management disclosed the restructuring program called "Power 8" to the public and to the Airbus European Works Council. The Airbus management will implement strong cost reduction and cash generating efforts leading to expected EBIT contributions of 2.1 bn € from 2010 onwards and additional 5 bn € of cumulative cash flow from 2007 to 2010. The restructuring program includes a progressive headcount reduction of 10,000 overhead positions over four years of which 5,000 are temporary or on-site subcontractors. Regarding the expected restructuring expenses for the Power 8 program, Airbus will set up provisions in the first quarter of 2007.

EADS published on March 2, 2007 that the A380F program has been re-scheduled but remains an active part of the A380 aircraft family. Therefore, activities for the A380F program have been interrupted, including activities of the suppliers. The US logistics company UPS subsequently cancelled the remaining order of ten A380F aircraft.