DOCUMENTATION FOR THE ANNUAL GENERAL MEETING

on Friday, May 4, 2007 at 10:30 a.m.
at Hotel Okura Amsterdam
Ferdinand Bolstraat 333,
1072 LH Amsterdam, The Netherlands

EADS

The step beyond

AGENDA

1 Adoption of the Report of the Board of Directors including the:
  - chapter on corporate governance,
  - policy on dividends,
  - proposed remuneration policy including arrangements for the grant of stock options and performance shares, and rights to subscribe for shares for the Members of the Board of Directors;

2 Adoption of the audited accounts for the financial year 2006;

3 Approval of the result allocation for the financial year 2006;

4 Release from liability of the Members of the Board of Directors;

5 Appointment of the auditors for the financial year 2007;

6 Appointment of Mr. Michel Pébereau as a Member of the Board of Directors;

7 Appointment of Mr. Bodo Uebber as a Member of the Board of Directors;

8 Amendment of Articles 14, 23 and 24 of the Company's Articles of Association;

9 Delegation to the Board of Directors of powers to issue shares and to set aside preferential subscription rights of existing shareholders;

10 Cancellation of shares repurchased by the Company;

11 Renewal of the authorisation for the Board of Directors to repurchase shares of the Company.

EADS

TEXT OF THE RESOLUTIONS PROPOSED BY THE BOARD OF DIRECTORS

FIRST RESOLUTION

Adoption of the Report of the Board of Directors

RESOLVED THAT the Report of the Board of Directors, as submitted to the Annual General Meeting, including the chapter on corporate governance, the policy on dividends and proposed remuneration policy including arrangements for the grant of stock options and performance shares and rights to subscribe for shares for the Members of the Board of Directors be and hereby is accepted and approved.

SECOND RESOLUTION

Adoption of the audited accounts for the financial year 2006

RESOLVED THAT the audited accounts for the accounting period from 1st January 2006 to 31st December 2006, as submitted to the Annual General Meeting by the Board of Directors, be and hereby are adopted.

THIRD RESOLUTION

Approval of the result allocation for the financial year 2006

No proposed text - *for further explanations, please refer to the «presentation of the resolutions presented by the Board»* *- see page 34 of this document.*

FOURTH RESOLUTION

Release from liability of the Members of the Board of Directors

RESOLVED THAT the Members of the Board of Directors be and hereby are granted a release from liability for the performance of their duties during and with respect to the financial year 2006, to the extent that their activity has been reflected in the audited annual accounts for the financial year 2006 or in the Report of the Board of Directors.

FIFTH RESOLUTION

Appointment of the auditors for the financial year 2007

RESOLVED THAT the Company's auditors for the accounting period being the financial year 2007 shall be Ernst & Young Accountants whose registered office is at Drentestraat 20, 1083 HK Amsterdam, The Netherlands, and KPMG Accountants N.V., whose registered office is at K.P. van der Mandelelaan 41-43, 3062 MB Rotterdam, The Netherlands.

SIXTH RESOLUTION

Appointment of Mr Michel Pébereau as a Member of the Board of Directors

RESOLVED THAT effective at the end of this Annual General Meeting, Mr. Michel Pébereau be appointed as a Member of the Board of Directors.

SEVENTH RESOLUTION

Appointment of Mr Bodo Uebber as a Member of the Board of Directors

RESOLVED THAT effective at the end of this Annual General Meeting, Mr. Bodo Uebber be appointed as a Member of the Board of Directors.

EIGHTH RESOLUTION

Amendment of Articles 14, 23 and 24 of the Company's Articles of Association

RESOLVED THAT the following articles of the Company's Articles of Association shall be amended to reflect changes of Dutch law to read in translation as follows and that both the Board of Directors and the Chief Executive Officers be and hereby are authorised, with powers of substitution, to implement this resolution and that the Board of Directors is authorised for a period of 5 years, starting from the day the Company's Articles of Association are amended, to set the Registration Date as referred to in the new Article 24 paragraph 6, all this in accordance with Dutch law:

"RIGHTS AND OBLIGATIONS OF THE SHAREHOLDERS

Article 14

*Each of the persons who, on basis of the provisions of the Act on Financial Supervision (Wet op het financieel toezicht), hereinafter referred to as "**WFT**", are required to notify the competent authorities of the changes in the control over shares and votes in the capital of the Company by which the thresholds as specified hereafter are transgressed upwards or downwards, shall in addition to this statutory obligation, also notify the Company of these changes. The obligations mentioned in the preceding sentences apply every time the thresholds as referred to in the WFT - five percent (5%), ten percent (10%), fifteen percent (15%), twenty percent (20%), twenty-five percent (25%), thirty percent (30%), forty percent (40%), fifty percent (50%), sixty percent (60%), seventy-five percent (75%) and ninety-five percent (95%) - are transgressed upwards or downwards.*

*Any person, acting alone or by attribution of shares and votes, acquiring directly or indirectly the control over shares in the capital of the Company or the votes that can be exercised on the issued capital of the Company, which represents more than a tenth of the total number of shares outstanding, or of voting rights, must inform the Company of its intentions by **registered letter with an acknowledgement:***

(i) *to buy or to sell shares in the coming twelve (12) months;*

(ii) *to continue or to stop acquiring shares or votes;*

(iii) *to acquire control;*

(iv) *to seek to designate a member of the Board of Directors.*

GENERAL MEETINGS OF SHAREHOLDERS

Article 23

4. *A request as referred to in the preceding paragraph of this article, may only be made in writing. The Board of Directors can decide that in "writing" is understood to include a request that is recorded electronically.*

Article 24

1. *Each holder of one or more shares and all other persons who are entitled to do so by law shall have the power, either in person or by means of a written proxy, to attend the general meeting of shareholders, to speak and to exercise the right to vote in accordance with Article 25 hereof.*

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

If the Board of Directors so decides, each shareholder is entitled, in person or by means of a written proxy, to attend the general meetings of shareholders, to speak and to exercise the right to vote by electronic means of communication, all this in accordance with Section II: 117a of the Civil Code.

5. *The Board of Directors can decide that in "writing" as referred to in the preceding paragraph of this article, the last but one sentence, is understood to include a request that is recorded electronically.*

6. *The general meeting of shareholders may, for a period not exceeding five (5) years authorise the Board of Directors to determine when convening a general meeting of shareholders, for the purposes of the provisions of this article, those persons who shall be deemed to be entitled to attend and to vote at meetings who, at the time then to be set (the "**Registration Date**"), have such rights and are so on record in a register kept by the Board of Directors, irrespective of who may be entitled to the shares at the time of that meeting. The Registration Date may be set by the Board of Directors for a date up to the thirtieth day prior to the day before the day of the meeting.*

7. *In respect of each general meeting of shareholders of the Company, the Board of Directors of the Company can decide, in accordance with section II:117 b of the Civil Code, that votes cast by electronic means of communication prior to a relevant general meeting of shareholders, are considered equivalent to votes that are cast during a meeting. These votes may not be cast prior to the Registration Date set by the Board of Directors"*.*

** In the original Dutch language:*

"RECHTEN EN VERPLICHTINGEN VAN DE AANDEELHOUDERS

Artikel 14

Een ieder die, op grond van de bepalingen van de Wet op het financieel toezicht, hierna genoemd «WFT», verplicht is om de daartoe bevoegde instanties op de hoogte te stellen van de wijzigingen in de zeggenschap over aandelen en stemrecht op aandelen in het kapitaal van de Vennootschap, waardoor de hierna genoemde drempelwaarden worden overschreden dan wel onderschreden, zal in aanvulling op deze wettelijke verplichting, ook verplicht zijn om de Vennootschap van deze wijzigingen op de hoogte te stellen. De in de voorgaande zinnen genoemde verplichtingen zijn van toepassing in elk geval waarin de drempelwaarden, zoals genoemd in de WFT - vijf procent (5%), tien procent (10%), vijftien procent (15%), twintig procent (20%), vijfentwintig procent (25%), dertig procent (30%), veertig procent (40%), vijfig procent (50%), zestig procent (60%), vijfenzeventig procent (75%) en vijfennegentig procent (95%) - worden overschreden dan wel onderschreden.

Een ieder die alleen of krachtens toerekening van aandelen en stemrecht op aandelen direct of indirect de zeggenschap krijgt over aandelen of stemrecht op aandelen in het kapitaal van de Vennootschap, vertegenwoordigende meer dan een/tiende gedeelte van het totale aantal geplaatste aandelen of het totale aantal uit te brengen stemmen, moet de Vennootschap bij aangetekende brief met bericht van ontvangst op de hoogte stellen van zijn voornemens:

(i) *om in de eerstvolgende twaalf (12) maanden aandelen te kopen of te verkopen;*

(ii) *om door te gaan of op te houden aandelen of stemrecht op aandelen te verwerven;*

(iii) *om zeggenschap te verkrijgen;*

(iv) *om te streven naar het benoemen van een lid van de Raad van Bestuur.*

ALGEMENE VERGADERINGEN VAN AANDEELHOUDERS

Artikel 23

4. *Een verzoek als bedoeld in dit artikel, kan alleen schriftelijk worden ingediend. De Raad van Bestuur kan bepalen dat onder «schriftelijk» wordt verstaan een verzoek dat op elektronische wijze wordt ingediend.*

Artikel 24

1. *Iedere houder van een of meer aandelen is, alsmede alle andere personen die krachtens de wet het recht hebben om de algemene vergadering bij te wonen, daarin het woord te voeren en het stemrecht uit te oefenen, zijn bevoegd om, hetzij in persoon, hetzij bij een schriftelijk gevolmachtigde, zodanige rechten uit te oefenen in overeenstemming met artikel 25 van deze statuten. Een aandeelhouder of een vergadergerechtigde kan zich doen vertegenwoordigen door meer dan één gevolmachtigde, met dien verstande dat voor ieder aandeel slechts één volmacht kan worden verleend. Indien de Raad van Bestuur dit bepaalt, is iedere aandeelhouder bevoegd om, in persoon of bij een schriftelijk gevolmachtigde door middel van een electronisch communicatiemiddel aan de algemene vergadering van aandeelhouders deel te nemen, daarin het woord te voeren en het stemrecht uit te oefenen via elektronische communicatiemiddelen, een en ander in overeenstemming met artikel 2:117a van het Burgerlijk Wetboek.*

5. *De Raad van Bestuur kan bepalen dat «schriftelijk» als bedoeld in de het vorige lid van dit artikel, de op één na laatste zin, mede omvat een verzoek dat op elektronische wijze is ingediend.*

6. *De algemene vergadering van aandeelhouders kan de Raad van Bestuur, voor een periode van ten hoogste vijf (5) jaren machtigen om bij het bijeenroepen van een algemene vergadering van aandeelhouders, te bepalen dat voor de toepassing van dit artikel als stem- en vergadergerechtigde hebben te gelden zij die op een daarbij te bepalen tijdstip («de Registratiedatum») die rechten hebben en als zodanig zijn ingeschreven in een door de Raad van Bestuur gehouden register, ongeacht wie ten tijde van die vergadering de rechthebbenden op die aandelen zijn. De Registratiedatum kan door de Raad van Bestuur niet worden vastgesteld op een tijdstip vroeger dan de dertigste dag voorafgaand aan de dag van de vergadering.*

7. *De Raad van Bestuur van de Vennootschap kan, voor elke algemene vergadering van aandeelhouders afzonderlijk, in overeenstemming met artikel 2:117b van het Burgerlijk Wetboek bepalen, dat stemmen die voorafgaand aan de betreffende algemene vergadering van aandeelhouders door middel van electronische communicatiemiddelen zijn uitgebracht, worden geacht te zijn uitgebracht tijdens de vergadering. Deze stemmen mogen niet eerder worden uitgebracht dan de door de Raad van Bestuur vastgestelde Registratiedatum".*

NINTH RESOLUTION

Delegation to the Board of Directors of powers to issue shares and to set aside preferential subscription rights of existing shareholders

RESOLVED THAT in accordance with the Articles of Association, the Board of Directors be and hereby is designated, subject to revocation by the General Meeting, to have powers to issue shares and to grant rights to subscribe for shares which are part of the Company's authorised share capital, provided that such powers shall be limited to 1% of the Company's authorised capital from time to time and to have powers to limit or exclude preferential subscription rights, in both cases for a period expiring at the Annual General Meeting to be held in 2009.

Such powers include without limitation the approval of share-related long term incentive plans (such as stock option, performance and restricted share plans) and employee share ownership plans. Such powers may also include the granting of rights to subscribe for shares which can be exercised at such time as may be specified in or pursuant to such plans and the issue of shares to be paid up from freely distributable reserves.

TENTH RESOLUTION

Cancellation of shares repurchased by the Company

RESOLVED THAT the number of shares in the Company held by the Company, up to a maximum of 4,568,405 shares, be cancelled and both the Board of Directors and the Chief Executive Officers be and hereby are authorised, with powers of substitution, to implement this resolution in accordance with Dutch law.

ELEVENTH RESOLUTION

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

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

REPORT OF THE BOARD OF DIRECTORS

Dear Shareholders,

We have great pleasure in convening this Annual General Meeting of the Shareholders (the "**AGM**") of **European Aeronautic Defence and Space Company EADS N.V.** (hereinafter referred to as "**EADS**" or the "**Company**"). The objective of this meeting is primarily:

- first, to adopt the Report of the Board of Directors (the "Board") (the "Board Report") on EADS' activities during the 2006 financial year;
- second, to present the financial statements of EADS for the 12 months ended 31st December 2006, to submit for your approval the accounts, the profit allocation and the cash distribution for this period and to appoint the auditors for the financial year 2007;
- third, (i) to release the Members of the Board from their liability for their activities during the financial year 2006, and (ii) to appoint new Member(s) of the Board;
- fourth, to amend the Articles of Association of the Company; and
- finally, to approve the renewal of financial authorisations to the Board in respect of the (i) delegation to the Board of powers to issue shares and set aside preferential subscription rights, and (ii) cancellation of shares repurchased by the Company.

The "Documentation for the Annual General Meeting" contains:

- the agenda for this AGM;
- the proposed resolutions which will be submitted for your approval at the end of this AGM;
- this Board Report;
- the consolidated and company financial statements for 2006, and the same information for 2005 for comparison purposes; and
- the Auditors' Reports from Ernst & Young Accountants and KPMG Accountants N.V.

This Board Report gives only an overview of the main facts and issues. For further information and detail, inter alia, activities, finances, financing, risk factors and corporate governance, the reader should refer to the EADS web-site at www.eads.com (Investor Relations) and to the documents posted thereon.

1. General Overview

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

With a workforce of 116,805 employees (at year-end 2006) and revenues of €39,4 billion in 2006, EADS is Europe's number one aerospace and defence company, and the second largest aerospace and defence company in the world.

In terms of market share, EADS is among the top two manufacturers of commercial aircraft and civil helicopters, commercial space launch vehicles and missiles systems, and a leading supplier of military aircraft, satellites, defence electronics and related services. EADS has organised its businesses in five divisions: (i) Airbus, (ii) Military Transport Aircraft, (iii) Eurocopter, (iv) Defence and Security and (v) Astrium.

In 2006, EADS generated 75% of its revenues in the civil sector and 25% in the defence sector.

2. Main Events for 2006

For the very first time – EADS did not deliver on its targets. In spite of some impressive successes, 2006 was a disappointing year for the Group. 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 EADS' future financial performance. This increases the pressure for cost savings due to dollar rate weakness and additional development costs for future programmes. In response, the management of EADS has announced the implementation of the Power8 programme at Airbus, which is designed to reduce costs, save cash and develop new products faster. The programme aims to achieve annual cost savings of more than €2 billion from 2010 onwards and deliver approximately €5.0 billion in cumulative cash savings by 2010.

Despite these setbacks, the A380 successfully completed its flight test campaign during 2006 and received type certification by the European Aviation Safety Agency (EASA) and Federal Aviation Administration (FAA), demonstrating the technical soundness of the all-new double-decker. EADS Board of Directors gave to Airbus the go-ahead for the industrial launch of the A350XWB family, a totally new medium capacity long-range extra wide-body family. The decision is based on strong market demand and customer backing. Conceived from the outset to become a comprehensive airliner family, the A350XWB will be available in three basic passenger versions, which will accommodate between 270 to 350 passengers. Entry into service of the first A350XWB is planned for 2013.

In addition, EADS' financial position remains sound despite the sharp decrease of profitability and the A380 -related charges, due to the strong commercial performance of Airbus delivery programmes and the helicopter, defence and space businesses. The record order book of €262.8 billion at the end of 2006 (consisting of €209.833 billion in commercial business and €52,929 billion in defence) constitutes a considerable asset for EADS' future. EADS continues to position itself for sustained growth and profitability, in line with its strategy of being a leading company in the major global aerospace and its defence markets.

EADS' business environment in 2006 was characterised by another very strong year for the aviation industry. In 2006, the two aircraft manufacturers combined secured more than 1,800 new orders for aircraft of 100 seats or more, second only to the record set in 2005, when 2,140 new aircraft were ordered. As recently as 2003, orders touched a cyclical low of 524. According to the International Civil Aviation Organisation, air traffic grew at an annual rate of approximately 5% in 2006, with a growth rate of 4.8% expected in future years. Despite these favourable market conditions, the overall business environment remains volatile. The recent appreciation of the Euro against the U.S. dollar places European companies at a competitive disadvantage, while high oil prices put pressure on EADS' customers. Instability in the Middle East as well as global terror threats add elements of uncertainty, while in defence, procurement budgets remain under pressure. At the same time, new governmental initiatives, especially in the services field, to strengthen defence and homeland security capabilities in order to counter increasing threats may create new opportunities for the long-term. For space, a stable and predictable yearly growth of 2.5% until 2010 in European institutional business is secured whereas commercial activities remain under high price pressure. Increased focus on military programmes and services represent an upside potential in the market.

2006 was Airbus' second best year ever in terms of orders in its 35 year history, with 824 gross orders (compared to a record of 1,111 gross orders set by Airbus in 2005). This represents a 44% market share which is in line with the company target of remaining in the 40 to 60% band, after having a share of above 50% for the past five consecutive years. Taking into account 34 cancellations, the net 2006 order book stands at 790 orders which represent 43% market share and 38% of the total market revenues. As a result of this strong sales performance, Airbus has increased its record backlog by 17% to 2,533 aircraft, at the end of 2006, giving Airbus 51% of all outstanding orders. A large part of the year's sales tally was for Airbus's highly popular single aisle family, with a total of 673 orders taken from 47 customers, including a record order for 150 aircraft from China Aviation Supplies Import and Export Group Corporation (CASGC). Airbus also delivered 434 aircraft in 2006 (378 in 2005), its highest level ever. Total deliveries now stand at 4,564 aircraft. Finally, EADS became the sole owner of Airbus in October 2006, when it acquired BAE Systems' 20% stake in Airbus for €2.75 billion.

In terms of its international development, Airbus has been laying further foundations. The final assembly line in China for A320 family aircraft has been given the go-ahead. Airbus has also agreed to set up a joint venture with the Russian industrial partners (RSK MiG and Irkut) for freighter conversion.

In 2006, Eurocopter secured its position as the world's leading helicopter manufacturer in the civil and parapublic market with a record of 381 new helicopter deliveries for military and civil helicopters, with 49% of the revenues derived from civil and parapublic sales and 51% related to Eurocopter's military products.

With a record order intake of 615 new helicopters, the company's backlog reached a historical high of €11 billion at the end of 2006. Eurocopter made a decisive breakthrough in the U.S. military market, with the U.S Army selecting the UH-145 / UH-72 Lakota (a version of the commercial EC145) as its next-generation light utility helicopter. 2006 was also the year of the first NH90 deliveries to customers. The German army received their first three aircraft in December. The ongoing development activities on mission equipment have led to additional shift of planned deliveries dates. This is what we added at the last minute after the press articles on the naval version delays. The NH90 has been selected by 12 countries and its backlog totals 400 firm orders and 100 options. 43 aircraft were ordered in 2006 (34 for Australia and nine for New Zealand) and the Spanish Council of Ministers has been given its authorisation for the signature of a contract for 45 NH90 signed mid-January 2007. With the ramping up of the Spanish HAD helicopter assembly line as well as the NH90 assembly line in Eurocopter's new Albacete plant, Spain is becoming the third industrial pillar of the Eurocopter Group.

In 2006, Eurocopter pursued its global deployment strategy through the creation of wholly-owned subsidiaries Eurocopter Vostok and Eurocopter China, located in Moscow and Shanghai, respectively. In the United States, the Columbus, Mississippi factory is undergoing a major expansion to support the production, assembly and delivery of the UH-72A Lakota.

In 2006, MTA focused primarily on managing the industrial processes of its two new aircraft programmes, each of which are at important stages of development. The A330 Multi-Role Tanker Transport (MRTT) with the new refuelling system and boom is scheduled to enter into service in 2009, while the first delivery of the A400M is also scheduled for 2009. The A400M programme completed four industrial milestones during the year, including the completion of the first whole wing in accordance with the contractual schedule, although it may lag plan by 3 months when it enters the FAL. To validate the current programme status and ensure transparency to the customer, EADS has conducted an internal technical assessment. As to the findings, the review validated that the A400M programme is currently progressing according to the contractually agreed schedule. However, the programme challenges ahead until first delivery in 2009 are assessed as significant and the review has clearly identified several critical risk areas: systems design (in particular electrical harnesses), maturity of military mission systems, engine modifications, and remaining work to be done on the Final Assembly Line.

The order book was stable, finishing the year slightly lower at €20.3 billion (€21.0 billion in 2005). The Malaysian contract for four A400M was booked during the year. The medium and light aircraft business won orders for 20 new aircraft, including 12 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.

EADS has teamed with Northrop Grumman to bid to supply the U.S. Air Force's new generation KC-30 refuelling tanker based on an A-330 MRTT with boom. Also in the United States, in partnership with Raytheon, it has proposed the C-295 aircraft for the Joint Cargo Aircraft contract, which is expected to be awarded in 2007.

The Defence & Security Division continued to increase its profitability in 2006 benefiting from an LFK capital gain and operational improvement. However, restructuring costs and change of perimeter effects largely offset the lower than last year UAV-related costs.

The 114th Eurofighter entered into service with the four partner nations. Following the LFK merger, MBDA secured its position of world's largest missile company by revenues, with a strong technological base. Integration of LFK is underway and is expected to lead to efficiency benefits. The first Meteor next-generation air-to-air missile was fired during the year, demonstrating its high speed, long range properties. MBDA also received notification from the French Délégation Générale pour l'Armement (DGA) for development and production contract for 250 SCALP naval cruise missiles. Substantial revenue contributions came from Storm Shadow, Brimstone, Taurus, Aster and MICA moving into production phase as well as the launch of PARS 3 for the German customer.

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.

Following the closing of the joint acquisition of Atlas Elektronik by EADS (40%) and ThyssenKrupp Technologies (60%) on 3rd August 2006, EADS contributed its naval electronics activities into Atlas in February 2007 in order to pool skills in platform, electronic and system activities in the naval field to create a strong naval electronics and systems company. EADS now holds 49% in Atlas and ThyssenKrupp Technologies holds 51%. In addition, EADS acquired the French company SOFRELOG. These two acquisitions have strengthened EADS' presence in the maritime sector.

Finally, EADS ASTRIUM had a strong year in 2006 as it built on the full effect of five years of industrial restructuring. The main drivers of this success were the ramp-up of Ariane 5 production and further development progress on military satellite communication systems such as Skynet 5 and SatcomBW. EADS ASTRIUM won orders for seven new telecom satellites. Astrium Transportation delivered the Columbus space laboratory to the European Space Agency (ESA) and achieved the fully successful first test flight of the M51 ballistic missile for the Délégation Générale pour l'Armement, France's defence procurement agency.

Margins expanded due to both substantial cost reduction and the Division's strong position as prime contractor for much of Europe's space industry.

3. Change in the Shareholding and Stock Price Evolution

In 2006, the following changes in the shareholding of the Company and in stock price took place.

3.1 Shareholding and voting rights

Issued share capital

As of 31st December 2006, EADS' issued share capital amounted to €815,931,524 divided into 815,931,524 shares of a nominal value of €1 each. The issued share capital of EADS as of such date represents 27.20% of the authorised share capital of €3,000,000,000 comprising 3,000,000,000 shares. The holder of one issued share has one vote and is entitled to the profit in proportion to his participation in the issued share capital.

Pursuant to the shareholders' resolutions adopted at the AGM held on 4th May 2006, the powers to issue shares of EADS and to set aside preferential subscription rights of existing shareholders have been granted to the Board provided that such powers shall be limited to 1% of EADS' authorised share capital. Such powers are granted for a period expiring at this AGM.

At the same AGM, the Board has been authorised, for a period of 18 months from the date of such AGM, to repurchase shares of EADS, by any means, including derivative products, on any stock exchange or otherwise, as long as, upon such repurchase, EADS will not hold more than 10% of EADS' issued share capital.

Evolution in 2006

On 18th December 2006, the Board approved the following measures in accordance with the authorisations granted by the shareholders' meeting dated 4th May 2006:

- the granting of stock options and performance and restricted shares to selected EADS employees for the subscription of 3,483,425 shares in the Company, within the framework of a Long-Term Incentive Plan ("LTIP");
- the delegation given to the Chief Executive Officers ("CEOs") to set up and implement a share buy-back programme whereby up to 1,735,925 shares could be purchased by the Company for the purpose of funding the performance and restricted shares resulting from the LTIP described above. During 2006, EADS repurchased 4,568,405 shares pursuant to contracts entered into with a bank to purchase EADS shares on EADS' behalf through derivative products in order to compensate the dilution effect resulting from previous SOPs. Further, 6,656,970 treasury shares were cancelled on 20th July 2006 in accordance with the decision of the shareholders' meeting dated 4th May 2006.

In addition, in 2006, EADS employees exercised 4,845,364 stock options granted to them through stock option plans launched by the company in the years 2000, 2001, 2002, 2003 and 2004. As a result 4,845,364 new shares were issued in the course of 2006.

Then, on 4th April 2006, DaimlerChrysler AG and Lagardère SCA announced the entry into simultaneous transactions aiming at reducing their respective stakes in EADS (for details see Chapter 3.4 – "Relationship with principal shareholders p.11"). Also the Company was notified that as of 8th September 2006, the Russian Bank for Foreign Trade (JSC Vneshtorgbank) held 41,050,705 EADS shares.

In accordance with the authorisation granted by the shareholders' meeting dated 4th May 2006, the Board approved, on 14th March 2007, the implementation of an employee share ownership plan ("**ESOP**"), which had been initially planned in 2006 and postponed to March 2007. The plan offered up to 2,040,000 shares to eligible employees of EADS. As a result, on 9th May 2007, the subscribed shares will be issued.

Shareholding structure

As a result of the above, EADS' issued share capital was owned on 31st December 2006 as follows:

- 1.04% by the Company itself, and consisting of shares deprived from economic and voting rights, while owned by the Company (not including the EADS shares legally owned by the bank with which EADS entered into agreements to purchase EADS shares but whose economic ownership lies with EADS);
- 29.96% (i.e.: 30.27% of the voting rights)[(1)(2)] by Société de Gestion de l'Aéronautique, de la Défense et de l'Espace ("SOGEADE"), a French partnership limited by shares and whose share capital is held 50% by the Société de Gestion de Participations Aéronautiques ("SOGEPA") (a French State holding company) and 50% indirectly by Lagardère SCA;
- 22.47% i.e.: 22.71% of the voting rights)[(1)(3)] indirectly by DaimlerChrysler AG ("DaimlerChrysler") via its indirect subsidiary DaimlerChrysler Aerospace AG ("Dasa AG");

  Thus, 52.43% (i.e.: 52.98% of the voting rights) of the Company's issued share capital is held by DaimlerChrysler AG and SOGEADE, who jointly control EADS through a contractual partnership governed by Dutch law.
- 5.48% (i.e.: 5.54% of the voting rights) by Sociedad Estatal de Participaciones Industriales ("SEPI") (a Spanish State holding company), also party to the contractual partnership mentioned above;
- 40.99% (i.e.: 41.42% of the voting rights) by the public (including EADS employees 1.72% (i.e.: 1.74% of the voting rights)); and
- 0.06% (i.e.: 0.06% of the voting rights) directly by the French State.

Other

As requested by Dutch law, it is reminded that resolutions to amend EADS' articles of association require a two-thirds majority of the votes validly cast at a general meeting of shareholders. The proposal containing the literal text of the proposed amendment must be available for inspections by shareholders at EADS' headquarters in Amsterdam, from the day the meeting is convened until after the end of the meeting.

3.2 Stock price evolution 2006

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. 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.

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' record commercial year, the excellent 2005 performance and the apparently positive outlook at the time.

Confidence crisis

At the beginning of April, Lagardère and DaimlerChrysler announced their decision to reduce their shareholding in the Group by 7.5% each, 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

(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, at 22.47%.
(3) Independently from 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 AG.

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 shares – 8% of the capital was exchanged during the day.

Stabilisation

By July, after changes in top management including 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 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 structure and, in early December, the results of the A400M programme review and the launching 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.

3.3 Dividend policy

Please refer to the document "Presentation of the resolutions proposed by the Board" as part of the AGM Documentation.

3.4 Relationship with principal shareholders

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

The principal agreements governing the relationships between the founders of EADS are the Participation Agreement entered into in July 2000 between DaimlerChrysler, Dasa AG, Lagardère, SOGEPA, SOGEADE and SEPI, a Dutch law Contractual Partnership agreement entered into between SOGEADE, Dasa AG, SEPI and EADS Participations B.V. and the SOGEADE Shareholders' Agreement entered into between SOGEPA and Lagardère.

EADS Participations B.V. is a Dutch private company with limited liability and is the managing partner of the Contractual Partnership. The EADS shares held by Dasa AG, SOGEADE and SEPI have been pledged to EADS Participations B.V. which has been granted the exclusive power to exercise the voting rights attaching to these shares (including the right to attend and speak at shareholders' meetings).

Each of Dasa AG, SOGEADE, SEPI, Lagardère and SOGEPA has the right to sell its EADS shares on the market, subject to pre-emption and tag-along rights among each other.

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

Developments 2006/2007

On 4th April 2006, DaimlerChrysler and Lagardère announced the entry into simultaneous transactions aimed at reducing by 7.5% each their respective shareholdings in EADS.

DaimlerChrysler entered into a forward sale agreement of approximately 61 million EADS shares with a group of investment banks. The DaimlerChrysler Group indicated that it lent these shares to the banks in anticipation of the settlement of the forward sale.

Lagardère issued mandatory exchangeable bonds subscribed by IXIS Corporate & Investment Bank and nexgen capital limited. In turn, IXIS Corporate & Investment Bank and nexgen capital limited sold forward a large majority of the underlying shares to a group of French institutional investors. The EADS shares deliverable at the maturity of the bonds will represent a maximum of 7.5% of the share capital of EADS, or approximately 61 million EADS shares. Lagardère SCA will redeem the bonds via three equal instalments of EADS shares in June 2007, June 2008 and June 2009.

These transactions have not impacted the balance of control between the core shareholders in EADS' corporate governance as set forth in the shareholders agreements.

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

DaimlerChrysler has placed its entire 22.5% equity interest in EADS into a new company controlled by DaimlerChrysler, in which the consortium of investors will acquire a one-third interest through a special-purpose entity. This effectively represents a 7.5% stake in EADS.

DaimlerChrysler has the option of dissolving the new structure on 1st July 2010 at the earliest. If the structure is dissolved, DaimlerChrysler has the right either to provide the investors with EADS shares or to pay cash compensation. If EADS shares are provided, the German State, and the French State and Lagardère through Sogeade, will be entitled to preempt such EADS shares to retain the balance between the German and the French side.

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

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

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

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

Under ESOP and LTIP, the Board shall have the discretionary authority to offer shares and grant stock options and performance and/or restricted shares to employees who, in the sole judgment of the Board, are eligible thereto and to subject such grant, as the case may be, to performance conditions.

3.5.1 Future ESOP

The Company intends to implement an ESOP in 2008. The plan's implementation would have to be formally approved by the Board. The 2008 plan would have the following main characteristics: offer of up to approximately 2 million shares of the Company, i.e. up to 0.25% of its issued share capital, to certain eligible employees.

3.5.2 Future LTIP

The Group is keen to maintain a Long-Term Incentive Plan (LTIP) in line with external benchmark practice. The market trend is moving away from Stock options towards more focus on ordinary shares (based on Company performance). As for 2006, the proposed 2007 LTIP would be based on a mix of Stock options and shares.

Stock options would be granted to Group Executives based on their hierarchical level with a 10% premium when determining the grant price. Stock options would vest after 2 years (50% of the grant) and 3 years (remaining 50% of the grant).

Shares grants would be made up of Performance and Restricted shares. Performance shares are ordinary shares which would be granted to Group executives based on their hierarchical level. Vesting of these shares would be conditional upon mid-term business performance after 3 years. In addition, Restricted shares which are also ordinary shares would be granted to selected individuals to reward personal performance and potential. Vesting of these shares after 3 years would be subject to presence in the Group.

The implementation of this plan would again have to be formally approved by the Board. The plan would offer rights to subscribe and/or acquire approximately 3.1 million shares of the Company, i.e. approximately 0.4% of its issued share capital, given to specific beneficiaries, on the basis of the use of existing repurchased shares and/or capital increase subject to the approval of this AGM.

As requested by Dutch law, it is reminded that, pursuant to LTIP rules and regulations, in case of a merger, splitting off of EADS shares or a public offer should be made, requiring the exchange of EADS shares with another company in return for the receipt of other shares, the Board shall be entitled to amend the rules and regulations with respect to the LTIP in its sole discretion, representing the best interest of EADS.

4. Corporate Governance

4.1 Management and control

Pursuant to the Articles of Association and Internal Rules of the Board, the Board consists of a maximum of 11 Members appointed and removed by the shareholders' meeting. Among the Directors, four are nominated by DaimlerChrysler, four by SOGEADE, two are independent Directors and one Director is Spanish.

The Board shall appoint two Chairmen, one of whom shall be a DaimlerChrysler nominated Director and one of whom shall be a SOGEADE nominated Director. A Chairman can submit his resignation as Chairman to the Board or can be dismissed as Chairman by the Board. The appointment shall further terminate if the relevant Chairman is dismissed or resigns as a Director. Following the dismissal or resignation of a Chairman, the Board shall immediately appoint a successor. The Board shall also appoint two CEOs. The same rules apply for the CEOs as for the Chairmen.

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

Following a detailed review of the A380 production and delivery programme, Airbus informed the Board of Directors on 13th June that the A380 delivery schedule for the period 2006 to 2009 was revised. According to this, the Board of Directors decided immediately to release this new schedule and its financial impact, and subsequently on 3rd October 2006 (EADS statement and more detailed information about the ongoing regulatory and judicial proceedings can be found on "Note to the Financial Statements - Note 28: Litigation and claims.") On 2nd July 2006, the Board of Directors appointed a new Co-Chief Executive Officer, Louis Gallois, replacing Noël Forgeard in his functions, as well as Christian Streiff as new President and CEO of Airbus, Members of the Executive Committee. After the resignation of the President and CEO of Airbus, Christian Streiff, three months later, the Board of Directors changed significantly the management structure of EADS by appointing on 9th October, EADS Co-Chief Executive Officer Louis Gallois additionally as Airbus President and CEO, the non-Airbus Divisions reporting to EADS Co-Chief Executive Officer Thomas Enders. Subsequently, on 31st October, the Board of Directors appointed EADS Chief Operating Officer Finance, Hans Peter Ring, additionally as Airbus Chief Financial Officer. The Board of Directors also appointed on that date a new Chief Operating Officer of Airbus, Fabrice Brégier, and a new head of Eurocopter Division, Lutz Bertling, as Members of the Executive Committee. Overall, in 2006, nine Board of Directors meetings covered Airbus related matters.

Topics intensively discussed, and operations authorised at the meetings included: EADS' strategy (comprising, in M&A matters, European industry consolidation and the buy-back of BAE Systems' stake in Airbus), major business issues such as the A380 recovery efforts and the Power8 programme, the A350 industrial launch decision and Airbus future product strategy, the reviews of the EADS UAV programmes and of the A400M programme, the review of Sogerma future strategy, the approval or postponement of operational plans, reorganisation topics, budgets, the Group's financial results and forecasts, as well as financial optimisations and the discussions regarding the implementation of an ethics alert system. The Board of Directors also dealt with topics regarding personnel and human resources, such as management qualification, remuneration (including a long-term incentive plan and an employee share ownership plan) as well as attracting, retaining and developing individuals with high potential in order to ensure the future quality of EADS' management and the multinational leadership structure.

The Audit Committee met five times during 2006, with a 100% attendance rate, to review the 2005 results as well as the first half-year results for 2006 of the Company, together with the quarterly financial reviews. The Remuneration and Nomination Committee met five times during 2006, with a 95% average attendance rate. On top of making recommendations to the Board of Directors for major appointments within the Group, the Remuneration and Nomination Committee reviewed the compensation policy (including pension schemes), the new Executive Committee Members salaries, the bonus payments for 2005, the long-term incentive plan and the employee share ownership plan for 2006/07, as well as the salary review of the Executive Committee Members for 2006.

At the 5th December, 2003 meeting, the Board of Directors decided to carry out a self-assessment of its performance on an annual basis and a more thorough assessment every three years, possibly with the assistance of external consultants.

Pursuant to this decision, in late 2006 the Board of Directors has commissioned an independent and internationally reputable consulting firm (SpencerStuart) to assist the Directors in evaluating the functioning of the Board within the specific framework of the shareholders agreement. In the course of the evaluation, the outside consultant held individual meetings with all EADS Directors (Executive and non-Executive).

The results of the self-assessment were reported to and discussed by the Board of Directors with the clear objective to further improve the Board´s effectiveness and efficiency. The main outcomes of the self-assessment read as follows.

It appeared that the Board has been working as a cohesive entity, in an open, constructive and interactive atmosphere.

The frequency of Board meetings and the set-up of the Committees (Audit Committee, Remuneration and Nomination Committee) have been judged as adequate by the Board Members. The duration of meetings as well as the attendance rate was assessed as satisfactory.

Board Members almost unanimously indicated that the efficiency of the meetings was overall satisfactory and that the Board deals with the right issues, even if from time to time, urgent operational matters took too much time, compared to the discussion of long-term, strategic matters.

The Board Members acknowledged the specific shareholding structure with strong shareholding blocks. Nevertheless they emphasised that decisions are always taken to the best interest of the company.

The review identified a number of possible areas of improvement for the future, such as the skill set and experience in the Board room (where specific financial expertise could bring added value), more regular reviews of the strategy and performance of the major divisions and the implementation of a more structured succession planning process for key executives, thanks to a stronger involvement of the Remuneration and Nomination Committee.

It has also been underlined that in order to streamline the decision making process, the documentation and information supplied beforehand to Board members should be reshaped.

4.2 Dutch Corporate Governance Code

In accordance with Dutch law and with the provisions of the Dutch Corporate Governance Code (the “Dutch Code”), which includes a number of non-mandatory recommendations, the Company applies the provisions of the Dutch Code or, if applicable, explains the reasons for non-application of such provisions.

While EADS, in its continuous efforts to adhere to the highest standards, applies most of the recommendations, it has, in accordance with the Dutch Code’s “Apply or Explain” principle, provided the relevant explanations in paragraph 4.2 “Dutch Corporate Governance Code” of its Board Report for the 2004 financial year which was approved by the Annual General Meeting held on 11th May, 2005.

These explanations give the detailed reasons for non-application of provisions III.2.1, III.3.6, III.4.1(f), III.5.1, III.5.6, III.5.11, III.5.12, III.8.3, III.5.13(a), III.5.13(d) (essentially as a result of EADS being a controlled Company and, therefore, most of the Members of the Board, Audit Committee and Remuneration and Nomination Committee could be designated and possibly be removed by its controlling shareholders), II.2.6, III.7.3, III.7.2, II.1.1, III.3.5, IV.3, IV.2 and IV.1.7 (essentially as a result of EADS being listed on the Frankfurt, Paris and Spanish stock exchanges and endeavouring to strictly comply with the relevant regulations and following the general practices on these markets protecting all its stakeholders) and remain valid. In addition, EADS modified its statements in its Board Report for the 2005 financial year, which was approved by the AGM held on 4th May

2006. These explanations give the detailed reasons for non application of provisions II.1.4, II.1.6, II.2.1, II.2.2 and II.2.7. The two last years' statements (available on EADS web-site (www.eads.com) in the section on "Corporate Governance") are modified as follows:

1. As for remuneration of Members of the Board

EADS applies different rules for the remuneration of Executive and Non-Executive Members of the Board, as explained in "4.3 Remuneration policy of the Members of the Board of Directors".

a) EADS is compliant with the general principles applicable in the markets where it is listed. Regarding future Long-Term Incentive Plan to Executive Members of the Board, it is planned that for Stock options a 10% premium will be taken into account when determining the granting price. In addition, Executive Members of the Board will have to hold a specified number of shares resulting from the exercise of their stock options until the end of their mandate, the volume of grant is detailed in "4.3.2 LTIP" (whereas provision II.2.1 of the Dutch Code recommends that options to acquire shares be a conditional remuneration component, and become unconditional only when the Members of the Board have fulfilled predetermined performance criteria after a period of at least three years from the grant date and provision II.2.2 recommends that if the company, notwithstanding provision II.2.1, grants unconditional options to Executive Members of the Board, it shall apply performance criteria when doing so and the options should, in any event, not be exercised in the first three years after they have been granted). It is planned that Performance Shares would be based on mid-term performance criteria; the volume of grant is detailed in "4.3.2 LTIP". It is also planned that Executive Members of the Board will have to hold a specified number of the vested shares until the end of their mandate or for a minimum period of 2 years whichever is appropriate. Vesting should take place 3 years after grant (whereas provision II.2.3 of the Dutch Corporate Governance Code recommends that shares granted to management board members without financial consideration shall be retained for a period of at least five years or until at least the end of the employment, if this period is shorter; the number of shares to be granted shall be dependent on the achievement of clearly quantifiable and challenging targets specified beforehand);

b) In case of dismissal from the Company of Executive Members of the Board, a termination package equal to twice the annual total target salary would be paid. However this termination package would be reduced prorata depending on the age of retirement (whereas provision II.2.7 of the Dutch Corporate Governance Code recommends that the maximum remuneration in the event of dismissal be one year's salary (the 'fixed' remuneration component), and that if the maximum of one year's salary would be manifestly unreasonable for an Executive Board Member who is dismissed during his first term of office, such board member be eligible for severance pay not exceeding twice the annual salary).

2. EADS maintains an integrated Group-wide Internal Control and Risk Management System with the purpose of providing reasonable assurance that risks are effectively managed

One of management's fundamental missions is to foster a positive Internal Control ("IC") and Risk Management ("RM") environment at EADS, in line with corporate governance requirements and best practices in the Netherlands, France, Germany and Spain. Having recognised that continuing changes in the multi-jurisdictional legal and regulatory provisions applicable to EADS required a strategic approach to IC and RM, EADS began to implement a group-wide IC and RM system at the beginning of 2004. This system is based on the Internal Control and Enterprise Risk Management Frameworks of the Committee of Sponsoring Organisations of the Treadway Commission ("COSO").

The IC and RM system provides the management with a framework for attempting to manage the uncertainty and associated risks inherent in EADS' business. It serves as the basis for all sub-IC and sub-RM procedures present throughout EADS at the divisional and Business Unit ("BU") levels. By employing a uniform approach to IC and RM, EADS seeks to gain reasonable assurance about:

- the reliability of its financial reporting;
- efficiency and effectiveness of operations; and
- compliance with applicable laws and regulations.

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

3. Ethics Alert System

EADS is in the process of putting in place a procedure for receiving, in full confidentiality, concerns regarding e.g. financial reporting, internal risk management and control systems, as well as regarding general operational matters. The EADS Ethics Alert System architecture will be part of a global EADS compliance organisational structure which is currently being formalised.

Some consultations with the works councils have started regarding the implementation of such procedure. After decision of the Board on the organisational structure for compliance and the completion of the various proceedings with respective Works Council regarding the introduction of an Ethics Alert System, will be implemented, thus allowing the Company to comply with provision II.1.6 of the Dutch Code which recommends that a company ensures that its employees have the possibility of reporting alleged irregularities of a general, operational and financial nature in the company or concerning the functioning of the Executive Members of the Board to the Chairmen of the Board or to an official designated by them and that such arrangements for whistleblowers be posted on the Company's website.

4.3 Remuneration policy of the Members of the Board of Directors

EADS' compensation policy aims at attracting and retaining talents that will contribute to the Group's business success. Shareholders expect a strong commitment from Members of the Board; the compensation policy is therefore designed to focus efforts on what the Group wants to value and reward. To meet these objectives, a significant portion of the compensation is variable and linked to key performance measures and individual objectives. The remuneration is benchmarked regularly against the practice of other global companies based in Europe and the United States to ensure fairness and competitiveness.

The compensation of the Executive Members of the Board combines short-term and long-term reward and is summarised below (see §4.3.1.2).

For a thorough report on the remuneration of the members of the Board during the year 2006 together with additional information such as volumes of Stock options and Performance shares, see "Notes to the Company Financial Statements - Note 11: Remuneration".

4.3.1 Compensation of the Board

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

4.3.1.1 Compensation of Non-Executive Members of the Board

The target compensation of Non-Executive Members of the Board is composed of: (i) a fixed part of €30,000 per Member of the Board and €60,000 per Chairman, (ii) a fee for participation in Board meetings as well as Committee meetings (if such Committee meetings take place on a different date than the Board meetings) of €5,000 per Member of the Board and €10,000 for each Chairman, per meeting and (iii) a variable part consisting of a collective part (bonus) calculated according to EBIT* and cash results of the EADS Group, of €50,000 per Member of the Board and €100,000 per Chairman at 100% target achievement.

The collective part calculation rules for Non-Executive Members of the Board are the same as for the Executive Members of the Board (see below).

4.3.1.2 Compensation of Executive Members of the Board

The remuneration policy for Executive Members of the Board follows the same principles as the remuneration policy for EADS Executive Committee Members.

The Executive Members of the Board are entitled to receive a total target compensation divided into a fixed part and a variable part; total compensation is for the Chief Executive Officers 45% fixed and 55% variable and for the other Executive Directors 50% fixed and 50% variable (in case of over achievement of the targets, the variable part can exceed 55% and 50%, respectively, of total compensation).

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

- Collective part (50% of the variable part) to reward business performance at Group level or division level (if applicable). Cash and EBIT* are the financial indicators chosen to measure collective performance (EBIT* represents 75% of the collective part and cash represents 25% of the collective part).
- Individual bonus (50% of the variable part) to reward individual performance measured against the achievement of individual objectives.

The Group is committed to setting individual and financial targets, the achievement of which would reflect the real performance of EADS. The choice of EBIT and cash financial indicators ensures the alignment of Directors and top Executives with EADS priorities.

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

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

The Remuneration and Nomination Committee reviews and makes recommendations to the Board of Directors on bonus payments; the Board of Directors makes the final decision.

Executive Members of the Board are also eligible to long-term incentive reward through the EADS long-term incentive plans (see below). They receive neither Board attendance fees nor any dedicated compensation as Members of the Board.

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

In summary, the Executive Board compensation is as follows:

	Compensation element	Main drivers	Performance measures	Variation of payment as % of Total target income / % of vesting
Short-term	Base salary	Position/job value	Individual performance / Market practice	-
	Variable pay	Achievement of Group business and financial yearly objectives and reward of individual performance	Collective part (50% of Target variable pay): EBIT (75%) and cash (25%) achievement	Chief Executive Officers: 55% of Total target income (range from 0% to 175%)
			Individual bonus (50% of Target variable pay): achievement of annual individual objectives	Other Executive BoD Members: 50% of Total target income (range from 0% to 175%)
Mid- and Long-term	Stock option plan	Alignment with shareholders' interest for value creation	Variation of the value of EADS share compared to a grant price set at 110% of the Fair Market Value at grant date	-
	Performance share plan	Achievement of long-term operational profit, measured through cumulative EBIT achievement	The number of Performance shares which will vest is based on 2nd and 3rd year cumulative EBIT achievement	Vested Performance shares will range from 0% to 100% of initial grant

4.3.2 LTIP

Executive Members of the Board are eligible for the EADS LTIP, which are a general tool for talent retention and promotion of Company value growth.

If, as planned, a LTIP as described under 3.5.2 "Future LTIP" is implemented in 2007, the maximum volume of Stock options and Performance shares to be granted to Executive Members of the Board should be 200,000 for Stock options and 100,000 for Performance shares in total.

As for all other Stock option plan participants, stock options would vest after 2 years (50% of the grant) and 3 years (remaining 50% of the grant). As for all other Shares plan participants, Performance shares will vest after a period of 3 years.

As special rules for Executive Members of the Board as well as for Executive Committee members:

- Executive Members of the Board as well as Executive Committee Members will have to hold 20% of shares resulting from the exercise of their stock options until the end of their mandate;
- Executive Members of the Board as well as Executive Committee Members will have to hold 20% of the vested shares until the end of their mandate or for a minimum period of 2 years, whichever is appropriate.

The Remuneration and Nomination Committee makes recommendations to the Board, which then makes the final decision on the individual grant allocation and the number of shares that the Executive Members of the Board as well as Executive Committee members will have to hold.

4.3.3 ESOP

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

If, as planned, an ESOP as described under 3.5.1 "Future ESOP" is implemented in 2008, Executive Members of the Board would be entitled to subscribe, during the subscription period, up to a maximum of 500 shares each (2,000 in total) with a discount to the market price. Those shares cannot be sold during a period of one year in case of a direct ownership or a period of five years in case of ownership through a mutual fund.

4.3.4 Pension benefits

The Executive Members of the Board have pension promises as part of their employment agreements. The general policy is to give them annual pensions of 50% of their annual base salary after five years in the Executive Committee of EADS at the age of 60 to 65. In case of the CEOs, the policy allows retirement starting at the age of 60. These rights will gradually increase to 60% after a second term, usually after ten years of service in the EADS Executive Committee.

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

4.3.5 Policy for termination package

Non-Executive Members of the Board have no termination package.

Under the terms of their employment contracts, Executive Members of the Board have an indefinite term contract (whereas, in accordance with the Articles of Association of the Company, the length of the mandate is limited). The employment contracts can be terminated at any time with six months notice. As part of their employment contracts, Executive Members of the Board are entitled to a termination package when the parting results from a decision by the Company. Termination package is a maximum indemnity of 24 months of target income, and could be reduced pro rata depending on retirement age.

4.3.6 Policy for loans and guarantees granted to Members of the Board

General EADS policy is not to grant any loans to its Members of the Board or Members of the Executive Committee.

4.3.7 Other

A non competition clause is included in the contracts of the Executive Members of the Board. This clause is applicable for a 2-year period, starting at the end of the employment contract. If the company does not revoke the application of the said clause, the Executive Member of the Board will receive a compensation based on his monthly salary (including variable pay) in return for his obligation not to compete.

5. Financial and other Highlights

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

As of 1st January 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".

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

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 million to EBIT and €25 million 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 31st December 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.

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 13th October 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 1st January 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 31st December 2006.

The inclusion of EADS' share in BAE Systems pension schemes leads to an increase of **pension provision** of €897 million as of 31st December 2006.

5.1 EADS N.V. Consolidated Financial Statements (IFRS)

5.1.1 EADS N.V. Consolidated Income Statements (IFRS)

TABLE 1 - EADS N.V. CONSOLIDATED INCOME STATEMENTS (IFRS)

(in €m)	2006	2005
Revenues	**39,434**	**34,206**
Cost of sales	(34,722)	(27,530)
Gross margin	**4,712**	**6,676**
Selling expenses	(914)	(832)
Administrative expenses	(1,360)	(1,351)
Research and development expenses	(2,458)	(2,075)
Other income	297	222
Other expenses	(188)	(153)
Share of profit from associates	152	210
Other income (expense) from investments	37	15
Profit before finance costs and income taxes	**278**	**2,712**
Total finance costs	(244)	(177)
Income taxes	81	(825)
Profit for the period	**115**	**1,710**
Attributable to:		
Equity holders of the parent **(Net income)**	**99**	1,676
Minority interests	16	34

5.1.2 Revenues

The strong increase in **revenues** to €39.4 billion was supported by all Divisions, in particular by the higher deliveries at Airbus and Eurocopter. The contribution from the EADS Astrium Division came mainly from the ramp-up of Ariane 5 production, Paradigm and ballistic missile development. At EADS Defence & Security, revenues grew due to Eurofighter, the missile business and to contributions from the Professional Mobile Radio business. Passing all A400M milestones (including the one shifted from 2005) led to higher revenues in the Military Transport Aircraft Division.

5.1.3 EBIT* pre-goodwill impairment and exceptionals

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

* Pre-goodwill impairment and exceptionals.

TABLE 2 - RECONCILIATION PROFIT BEFORE FINANCE COST AND INCOME TAX TO EBIT* (IFRS)

(in €m)	2006	2005
Profit before finance cost and income tax	**278**	**2,712**
Subsequent adjustment of goodwill	64	0
Exceptional depreciation (Fixed assets)	57	136
Exceptional depreciation (Others)	0	4
EBIT pre-goodwill impairment and exceptionals	**399**	**2,852**

EADS' total **EBIT*** in 2006 was €399 million (FY 2005: €2,852 million). **EBIT*** was substantially burdened by the impact of A380 delays, A350 related charges, higher Research & Development (R&D) expenses and by losses at EADS Sogerma. Additionally, hedges for EADS Group matured at a less favourable average rate of €1 = US$ 1.12 (FY 2005: €1 = US$ 1.06). These negative factors were partly compensated by significantly improved contributions from Airbus' series production and the Group's helicopter, defence and space businesses, and a minor contribution from a pension accounting change.

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

Focused on the future, EADS invested over 6% of its revenues in R&D. In 2006, the Group's **self-financed R&D** expenses increased to €2,458 million (FY 2005: €2,075 million), caused mostly by Airbus continuing aircraft development programmes and higher Research & Technology (R&T) effort across the Group.

TABLE 3 – EBIT* AND REVENUES BY DIVISION

by Division	EBIT*			Revenues		
(in €m)	FY 2006	FY 2005	Change	FY 2006	FY 2005	Change
Airbus	**(572)**	2,307	-	**25,190**	22,179	+14%
Military Transport Aircraft	**75**	48	+56%	**2,200**	763	+188%
Eurocopter	**257**	212	+21%	**3,803**	3,211	+18%
Astrium	**130**	58	+124%	**3,212**	2,698	+19%
Defence & Security	**348**	201	+73%	**5,864**	5,636	+4%
Headquarters / Consolidation	**449** (1)	197	-	**(2,092)**	(1,436)	-
Other Businesses (2)	**(288)**	(171)	-	**1,257**	1,155	+9%
Total	**399**	**2,852**	**-86%**	**39,434**	**34,206**	**+15%**

(1) Includes EBIT* adjustments at Group level for the A400M provision at Airbus.
(2) ATR, EADS EFW, EADS Socata and EADS Sogerma Services are allocated to Other Businesses which is not a stand-alone EADS Division.

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

5.1.4 EADS N.V. Consolidated Balance Sheets (IFRS)

TABLE 4 - EADS N.V. CONSOLIDATED BALANCE SHEETS (IFRS)

	December 31,		
(in €m)	2006	2005	Change
Intangible Assets	10,855	11,052	-197
Property, Plant and Equipment	14,315	13,951	364
Investments in associates accounted for under the equity method	2,095	1,908	187
Other investments and long-term financial assets	1,666	1,938	-272
Non-current other assets	4,231	3,610	621
Deferred tax assets(1)	2,624	2,980	-356
Non-current securities	1,294	1,011	283
Non-current assets	**37,080**	**36,450**	**630**
Inventories	16,892	15,425	1,467
Trade receivables	4,852	4,802	50
Other current assets	4,545	3,675	870
Current securities(2)	549	4,189	-3,640
Cash and cash equivalents(2)	8,143	5,386	2,757
Current assets	**34,981**	**33,477**	**1,504**
Non-current assets/ disposal groups classified as held for sale	76	881	-805
Total assets	**72,137**	**70,808**	**1,329**
Equity attributable to equity holders of the parent(1)	13,015	13,054	-39
Minority interests(1)	137	153	-16
Total equity	**13,152**	**13,207**	**-55**
Non-current provisions(1)	9,063	7,997	1,066
Long-term financial liabilities	3,561	4,189	-628
Deferred tax liabilities	2,465	2,376	89
Other non-current liabilities	12,680	11,295	1,385
Non-current liabilities	**27,769**	**25,857**	**1,912**
Current provisions	3,631	2,727	904
Short-term financial liabilities	2,196	908	1,288
Liability for puttable instruments	0	3,500	-3,500
Trade liabilities	7,461	6,634	827
Current tax liabilities	218	174	44
Other current liabilities	17,646	17,739	-93
Current liabilities	**31,152**	**31,682**	**-530**
Liabilities directly associated with non-current assets classified as held for sale	**64**	**62**	**2**
Total equity and liabilities	**72,137**	**70,808**	**1,329**

(1) Retrospective application of the equity option of the amended IAS 19 "Employee Benefits" .
(2) Retrospective accounting change to align the presentation of "Cash and cash equivalents" (maturities of three months or less from the date of acquisition).

5.1.5 Net Cash

The **Net Cash Position** of €4.2 billion (year-end 2005: €5.5 billion) 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, highlighting the strength of the underlying recurring business.

Free Cash Flow including customer financing stayed high at €2,029 million (FY 2005: €2,413 million), as an unfavourable working capital development was offset by the increased sell-down of customer financing assets. Free Cash Flow before customer financing amounted to €869 million (FY 2005: €2,239 million).

5.1.6 Order Intake and Order Book

EADS' O**rder Intake** amounted to €69.0 billion (FY 2005: €92.6 billion). In terms of new orders, Eurocopter set a new record in 2006 (up 39% compared to the previous record in 2005), Airbus had its second-best year ever and EADS Astrium another outstanding year.

At the end of December, EADS' O**rder Book** stood at €262.8 billion (year-end 2005: €253.2 billion). Contributions from commercial aircraft activities are based on list prices. The order book increase versus year-end 2005 was achieved despite a €17 billion impact due to revaluation at less favourable €/US$ exchange rate. The Group's defence order book further increased and stood at €52.9 billion as of 31st December 2006 (year-end 2005: €52.4 billion).

TABLE 5 – ORDER INTAKE AND ORDER BOOK BY DIVISION

by Division	Order Intake (2)			Order Book (2)		
(in €m)	FY 2006	FY 2005	Change	31 Dec 2006	31 Dec 2005	Change
Airbus	**53,367**	78,254	-32%	**210,115**	201,963	+4%
Military Transport Aircraft	**1,594**	1,840	-13%	**20,337**	20,961	-3%
Eurocopter	**4,885**	3,522	+39%	**11,042**	9,960	+11%
Astrium	**4,354**	2,322	+88%	**12,263**	10,931	+12%
Defence & Security	**5,191**	6,673	-22%	**17,570**	18,509	-5%
Headquarters / Consolidation	**(1,842)**	(1,931)	-	**(10,809)**	(11,217)	-
Other Businesses (1)	**1,469**	1,871	-21%	**2,292**	2,128	+8%
Total	**69,018**	**92,551**	**-25%**	**262,810**	**253,235**	**+4%**

(1) ATR, EADS EFW, EADS Socata and EADS Sogerma Services are allocated to Other Businesses which is not a stand-alone EADS Division.
(2) Contributions from commercial aircraft activities to EADS Order Intake and Order Book based on list prices.

5.1.7 EADS Division Details

The **Airbus** Division delivered a record number of aircraft in 2006 (434 versus 378 in 2005). This led to revenues of €25,190 million, representing a 14% increase compared to the previous year (FY 2005: €22,179 million).
Airbus accounted for an EBIT* of -€572 million (FY 2005: €2,307 million). The financial impact of the A380 issues is -€2.5 billion, of which -€2.0 billion relate to extra costs, loss making contracts and settlement payments and -€0.5 billion to charges related largely to the impairment of A380 Freighter assets and to non-series cost. A350 related charges -€0.5 billion, increased R&D and less attractive Dollar hedges are other important contributors to the loss. The EBIT* further includes a €352 million provision for A400M contingencies to deal with risk and technical challenges in the Airbus work share. However, the other Divisions foresee a positive contribution from the A400M, leading to a reversal of the provision at Group level. The Division's EBIT* was supported by a positive volume effect, the impact of a favourable aircraft mix and higher contribution from the sell-down of customer financing assets. With 824 gross orders (790 net orders), Airbus achieved its second best year in terms of sales, including 673 Single Aisles, 134 A330s, A340s and A350s as well as 17 A380s. To date, two customers have cancelled their orders for a total of 20 A380s (freighter version). The momentum of the Asia-Pacific market was demonstrated by large order numbers across the entire Airbus portfolio. Among them Airbus received from China an order for 150 A320 Family aircraft and a Letter of Intent for 20 A350XWBs. The Airbus order book stands at an all-time high. At the end of 2006, it amounted to €210.1 billion (year-end 2005: €202.0 billion) based on list prices or a total of 2,533 aircraft (year-end 2005: 2,177 aircraft).

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

Additionally, Airbus prepared the ground for future product portfolio development, when the EADS Board of Directors gave it the go-ahead to launch the A350XWB. The aircraft is a response to market demand and will be extremely efficient and environmentally advanced. Airbus' portfolio was further extended by the launch of the A330-200 freighter aircraft. The technical integrity of the A380 was proven by the successful type certification in December 2006. The first aircraft will be delivered in October 2007.
The announcement of the Power8 programme lays the ground for strengthening Airbus' competitiveness through sustainable annual cost savings of at least €2.1 billion from 2010 onwards and around €5 billion in cumulative cash savings from 2007 to 2010. Additionally, Power8 will optimise Airbus' industrial set-up and drive forward integration to create a "New Airbus".

The **Military Transport Aircraft** Division's revenues surged to €2,200 million (FY 2005: €763 million) and EBIT* grew to €75 million compared to €48 million in 2005. This growth primarily reflects the achievement of four A400M milestones planned for 2006, as well as the revenue recognition related to a milestone shifted from 2005 to 2006. Further support came from the revenue ramp-up of the Australian tanker programme. The first A330 Multi-Role Tanker Transport (MRTT) aircraft with the new refuelling boom system is scheduled for entry into service in 2009.
For the US tanker replacement EADS and Northrop Grumman will jointly offer the world's most modern refuelling aircraft. EADS is well positioned in the competition for the JCA (Joint Cargo Aircraft) programme and the Group proved its reliability by delivering the first CN-235 for the US Coast Guard's Deepwater programme last year. The order book of the A400M rose by four to 192 aircraft following an order from Malaysia. The medium and light transport aircraft business was further strengthened with orders for 20 new aircraft including twelve C-295 for Portugal for both transport and maritime patrol purposes. The Division's order book stood at €20.3 billion (year-end 2005: €21.0 billion).

Eurocopter successfully entered the US defence market and once again confirmed its position as the global leader in the civil and parapublic helicopter market. Delivery of a record 381 helicopters (FY 2005: 334) fuelled the 18% revenues growth to €3,803 million (FY 2005: €3,211 million). The Division's EBIT* expanded by 21% to €257 million compared to €212 million in 2005. The EBIT* increase was supported by positive volume effects though constrained by the US Dollar impact, higher selling expenses and costs related to NH90.

In December 2006, Eurocopter started deliveries on two of its major defence helicopter programmes: the first three NH90s were handed over to the German Army and the US Army received the first of up to 322 light utility helicopters (UH-72A Lakota) three months ahead of schedule.
With new orders for 615 helicopters (FY 2005: 401) Eurocopter reached a record level, up 39% in value terms compared to the previous year. Receiving 71% of these new orders from outside France, Germany and Spain demonstrates Eurocopter's commercial success across the global market. Defence helicopters account for 53% of the Division's order intake, among them 43 NH90s purchased by Australia and New Zealand. The order book further increased to €11.0 billion at 31st December 2006 (year-end 2005: €10.0 billion) representing a total of 1,074 helicopters (year-end 2005: 840 helicopters).

In 2006, **EADS Astrium** – the renamed Space Division – achieved solid profitable growth in a more favourable business environment. While revenues increased 19% to €3,212 million (FY 2005: €2,698 million), EBIT* more than doubled to €130 million (FY 2005: €58 million). This reflects progress in Ariane 5 production, ballistic missiles, an exceptional year for satellites and the ramp-up of Paradigm services as well as the Division's continued cost improvements and successful restructuring efforts. The Division's highlights include the first test flight of the M51 ballistic missile and the delivery of the Columbus space laboratory which is scheduled for ISS installation at the end of 2007. Both satellites and launchers captured substantial slices of their respective markets. EADS Astrium was awarded orders for eight telecom satellites, two of which were for military purposes, together with five earth observation and science satellite orders. The Ariane 5 ECA performed five successful launches in 2006 while the market demand for launch capabilities is accelerating. The largest ever order book of €12.3 billion (year-end 2005: €10.9 billion) confirms the Division's strong position as prime contractor for many of Europe's space activities.

The **Defence & Security** Division improved its operational performance and moved programmes into production. Revenues rose by 4% to €5,864 million (FY 2005: €5,636 million) mainly due to Eurofighter ramp-up, solid missile business and new digital radio network business. EBIT* increased to €348 million (FY 2005: €201 million) due to operational improvement and a capital gain on the sale of LFK to MBDA which compensated additional restructuring costs mainly at Defence and Communication Systems and Military Air Systems and change of perimeter effects.
In addition to the contract for the digital radio network for German public safety authorities (BOSNet) the Division received substantial orders for secure networks. For the Romanian Integrated Border Security System, a first milestone was successfully achieved. A total of 114 Eurofighter aircraft were also delivered as of year-end. The first Unmanned Aerial Vehicle

(UAV) technology demonstrator was in flight and Germany acquired the High Altitude Long Endurance UAV EuroHawk system. The defence electronics business streamlined its product portfolio and experienced growth in its platform-related equipment.
In the missiles business, MBDA has reinforced its position as a world leading missile systems company. In 2006, MBDA received orders from the French and German defence ministries respectively for 250 SCALP naval cruise missiles and 680 PARS 3 LR weapon systems.
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.
As of 31st December 2006, the Division's order book amounted to €17.6 billion (year-end 2005: €18.5 billion).

Headquarters and Other Businesses (not belonging to any Division)

Revenues of Other Businesses (ATR, EADS EFW, EADS Socata and EADS Sogerma Services) strongly improved by 9% to €1,257 million (FY 2005: €1,155 million) driven by all four Business Units. EBIT* accounted for -€288 million (FY 2005: -€171 million). Positive contributions from ATR, EADS EFW and Socata were again more than offset by extended EBIT* losses at EADS Sogerma (-€351 million). The sale of EADS Sogerma Services' MRO activities to TAT Group was completed on 10th January 2007. The activity remaining at EADS Sogerma consists of seats and aerostructure businesses and two subsidiaries (small engine and landing gear maintenance) for total sales of around €350 million in 2006.
The year 2006 confirmed the revival of the turboprop market. The regional aircraft manufacturer ATR received 63 new orders in 2006. Based on its order book of 116 aircraft, ATR will ramp-up deliveries in coming years. EADS EFW delivered 14 converted freighters and further strengthened its aerostructure business driven by Airbus production rates. A cooperation agreement with Irkut on the future A320 freighter conversion complements EADS' globalisation strategy in Russia. Order book for 40 aircraft also confirmed the positive customer response to EADS Socata's TBM 850. At the end of 2006, the order book of Other Businesses totalled €2.3 billion (year-end 2005: €2.1 billion).

5.2 EADS N.V. Company Financial Statements

TABLE 6 - BALANCE SHEET EADS N.V.

	December 31,	
(in €m)	**2006**	**2005**
Goodwill	4,354	4,354
Financial fixed assets	12,298	12,706
Fixed assets	**16,652**	**17,060**
Receivables and other assets	4,387	3,959
Securities	1,660	5,005
Cash and cash equivalents	6,862	3,093
Non-fixed assets	**12,909**	**12,057**
Total assets	**29,561**	**29,117**
Stockholders' equity (1)	**13,015**	**13,054**
Financial liabilities	320	357
Non-current other liabilities	1,518	1,523
Non-current liabilities	**1,838**	**1,880**
Liability for puttable instruments	-	3,500
Current other liabilities	14,708	10,683
Current liabilities	**14,708**	**14,183**
Total liabilities and stockholders' equity	**29,561**	**29,117**

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

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

TABLE 7 - INCOME STATEMENT EADS N.V.

(in €m)	2006	2005
Income from investments	95	1,692
Other results	4	(16)
Net result	**99**	**1,676**

5.3 Human resources

5.3.1 Workforce Information

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

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

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

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

5.3.2 Organisation of Human Resources management

The key mission of the Group HR function is to ensure that EADS, as an integrated Group, attracts, develops and retains a world-class workforce. It also facilitates continuous integration and internationalisation of the Group and the building of a common spirit across the Group's organisational and operational structures. Continuous improvement of health and safety in the workplace is also a major priority of the EADS Group.

A set of policies have been defined addressing key challenges such as Security, Health and Safety, equal opportunity, training and development as well as the promotion of a proactive dialogue with employees.

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

5.4 Environmental issues

EADS is fully conscious that its business interacts with the environment and therefore considers that protecting the environment by monitoring and reducing environmental impacts, is fundamental to its approach of citizenship. EADS' environmental policy embraces all phases of a product life cycle, from conception and design, manufacturing and product support, including environmental impact of its sites. It seeks to ensure that each of its BUs complies with the laws and regulations of each country in which it operates, EADS being subject to numerous E.U., national, regional and local environmental laws and regulations concerning emissions into the environment, discharges to surface and sub-surface water and the disposal and treatment of waste materials.

In terms of processes, EADS entities and sites must ensure compliance with the environmental laws and regulations of the countries in which they operate. The Group encourages its subsidiaries and sites which must ensure compliance with the laws and regulations of the countries in which they operate, to go beyond the sole fulfilment of legal obligations by entering into manufacturing processes certifications, such as certification of management systems for the environment. For instance, EADS continued in 2006 to increase the number of site ISO14001 certified or EMAS registered.

Furthermore, improving environmental performance of products throughout their lifecycle is of significant importance for EADS and its customers.

EADS takes into account environmental criteria of its activities in all phases of products' life cycles, from conception and design, to operation, manufacturing, maintenance and end of life.

The management of environmental aspects of Group operations is traditionally the responsibility of the BUs and sites. Each of EADS' businesses is strictly controlled and audited by authorities, in respect of manufacturing processes and product certification. Many best practices are recorded in each of the businesses. Furthermore, customers include environmental criteria in their specifications. However, EADS seeks to progress in defining common guidelines throughout the entire Group and in consolidating performances.

6. Financial Targets for 2007

Under its 2007 internal budget, EADS plans its revenues will experience a single-digit decrease (mainly due to the assumed €/US$ rate of 1.30), and its EBIT* will remain roughly stable in 2007.

Adjusted for a stable US Dollar, Airbus revenues would remain level, based on 440 to 450 deliveries through the year, and despite lower contributions from the A400M. Airbus will display another substantial loss in 2007, attributable to charges for the Power8 restructuring, further costs to support the A380 programme, potential A350XWB launch charges, higher R&D expenses, as well as the impact of the worsening US Dollar parity to the Euro.

Meanwhile, helicopters, defence and space businesses should display stable revenues, and should collectively increase their contribution to a combined EBIT* expected to be close to €1 billion as soon as 2007.

The Free Cash Flow contribution from Airbus in 2007 will lead to a negative Group-wide Free Cash Flow as low as -€1 billion. However, volatility of working capital components can provoke substantial swings in this figure.

Over the medium term, the following factors will drive EADS' outlook:

Deliveries of aircraft are currently expected to continue to grow, albeit at a much reduced rate. Airbus revenues will most likely be affected by a deterioration of mix and of pricing for recent orders, partly due to competitive pressure.

Research and Development expenses are planned to grow gradually, driven by the A350XWB development and increased R&T spending.

In the context of management change at Airbus, and the cost volatility resulting from the recent industrial problems on programmes, the management is working to establish a satisfactory long-term Airbus plan, and it is currently concentrating on the rebaselining of its cost base, to target mid-single-digit EBIT* margins.

All other businesses are expected to collectively grow their revenues and EBIT* contribution over the coming years.

EADS management is committed to restoring Group wide EBIT* margins, although at levels lower than the margin achieved in 2005.

7. EADS Strategic Challenges

7.1 Risks and uncertainties

EADS and its subsidiaries are subject to many risks and uncertainties that may affect its financial performance. The business, financial condition or results of operations of EADS could be materially adversely affected by risks such as financial market risks, business-related risks, legal risks and industrial and environmental risks. These risks are not the only ones facing EADS. Additional risks not presently known to EADS or that EADS currently deems immaterial may also impair its business operations.

The risks relating to currency exchange fluctuations as well as changes in interest rates are mitigated by using financial instruments. For details on EADS' policies and position with respect to financial instruments we refer to Note 30 of the consolidated financial statements.

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

7.2 Group strategic challenges

EADS Group long-term Goals and Priorities

To maximise value for its shareholders and to balance its portfolio, the management of EADS intends to position EADS as a leading company in major global aerospace and defence markets. In addition to implementing solutions for current operational challenges, EADS will continue to focus on delivering superior value to its customer through innovative product and service solutions. In doing so, the Group is following four defined long-term strategic goals:

1. Target long-term leading position in commercial aircraft: Despite the difficulties in 2006, EADS will continue to strive for leadership in the commercial aircraft market. Product innovation, customer satisfaction and further development of its international partnerships are key elements of the Group's strategy. A complete product portfolio is seen as a necessity to serve the customer base and to maintain overall competitiveness. The full control of Airbus enables further integration within EADS and ensures that additional efficiency gains can be achieved.

2. Develop strong growth drivers to improve the portfolio balance: Faced with governmental procurement budget constraints and a scarcity of new programmes in Europe, EADS intends to pursue its growth strategy through two avenues: firstly through a global approach and, secondly, through enhanced efforts to offer new solutions capitalising on EADS' broad base of capabilities and products. All options for growth are kept open, including strategic and tactical acquisitions that can enhance the overall competitive position and/or add capabilities to the portfolio, with the goal to develop long-term Group potential.

EADS management sees an increased presence in the services markets as one privileged path for growth. Today, EADS has a young and fast-growing commercial and defence in-service fleet, and a key target will be to support the product portfolio through its life cycles. Additionally, the Group will continue to prepare the future through continuous evaluation of adjacent opportunities for organic and external growth.

3. Become a truly global industrial group: To ensure sustainable access to the growth potential of markets where the traditional commercial approach has reached its limits, EADS is designing a long-term industrial strategy and implementing an industrial footprint in key markets around the world. This approach will also reduce the Group's exposure to the US$ through enhanced global sourcing and offshoring of production.

4. Restore adequate profitability and preserve long-term financial soundness: Through adequate and vigorous action on costs, industrial organisation and growth of revenues (such as Power8), EADS will strive to rise above its immediate industrial challenges, shape its business to resist the weakness of the US$, and ultimately to reestablish a level of profitability attractive to its shareholders. EADS will fine tune its funding policy in anticipation of the long-term resource demands from developments of new products, and the impact from a prospective reversal of commercial aircraft demand, to ensure an optimal balance sheet structure.

The non-Airbus businesses have continued their overall positive trends. The target is to further improve this, both in relative and absolute terms.

To achieve the strategic objectives above, further integration of the Group will be instrumental in realising efficiencies. A joint approach to markets, sharing technologies and processes, building synergies to enable growth as well as cost savings will be rigorously targeted. Therefore, EADS management has identified and will continue to pursue three main growth and profitability drivers. These are defined as the Triple I's of EADS: Innovation, Internationalisation and Improvement.

Innovation - Focus on all aspects of Technology and offer ground breaking Solutions

Innovation in product, technology, manufacturing and customer offering will define what EADS will become in the future. Innovation cycles are shortening and new competitors are emerging in all fields of EADS' business. To be a market leader in the future, the Group will always need to be ahead in technology and to cover a broad spectrum of capabilities.

Compared to its peers, EADS has always devoted more resources to research and development, and it still does, both in absolute numbers and as a percentage of sales. In 2006, EADS has spent approximately €2.4 billion in self-financed research and development, equivalent to over 6% of 2006 revenues. EADS management is of the firm opinion that this is paying off in terms of competitive position and is resulting in return on investment. EADS judges this long-term view as important for growth in shareholder value.

To maintain its innovative edge, EADS has set challenging targets for technology innovation. Systematic use of the latest digital design and engineering tools will result in the capability to complete major platform developments in shorter time-spans. EADS will become faster at reviewing its core technologies and in creating or compensating for gaps against the competition.

EADS will focus on developing and processing a pipeline of advanced technologies with the objective to produce key demonstrators for strategic programmes. Additionally, the Group will increase the technological programmes developed in cooperation with academic and industrial partners on an international basis.

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

In the defence and space sectors, the transformation processes of U.S. and European defence forces and public safety agencies, as well as the need for a more efficient use of defence budgets, have caused customers' demands to evolve. Therefore, EADS needs to offer new solutions as system/capability supplier for defence and homeland security programmes such as C4ISR, border security, extended air defence, unmanned aerial vehicles and space applications, while simultaneously building on existing successful platform and military derivatives of civilian products.

Next to systems, innovative services solutions are an important area to broaden programme leadership. EADS intends to develop its outsourced service offering further based on the experiences gained through recent long-term contracts.

To mirror the challenging targets above, the Technology function was reinforced in 2006 by the appointment of a Chief Technical Officer (CTO), directly reporting to the CEOs and Member of the Executive Committee.

Internationalisation - Becoming a Global Industrial Group

In order to ensure Group development in some countries, industrial presence is decisive and conclusive. This needs to be orchestrated at the Group level to allow for anticipation, cohesiveness and synergies between Business Units.

Therefore, EADS' target is to be a strong local player in key markets such as the United States, China, Russia, India and South Korea. A long-term vision and an industrial footprint in these countries aim at gaining sustainable market access, while benefiting from high market growth and technology potential. This also allows EADS to benefit from natural hedging, risk-sharing opportunities and structural cost advantage whenever possible.

In 2006, the efforts to strengthen the footprint through investments and partnerships in key countries continued. As a result, EADS won key campaigns, confirming that EADS globalisation strategy is winning support among the local governments.

In the United States, the goal is firmly to establish a presence as a valued corporate citizen in the world's largest Defence and Homeland Security market. EADS is in the midst of pursuing a four-pillar strategic approach: creating a US industrial presence, developing transatlantic co-operations, acquiring small/mid-sized Defence companies and cooperating with US primes. EADS is joining efforts with key partners in the market: with Raytheon for the Future Cargo Aircraft, Northrop Grumman for KC-30 Tanker and Sikorsky, Westwind and CAE (Canada) for the Light Utility Helicopter programme.

In 2006 an important milestone was reached as the U.S. Army decided to select EADS North America as prime for the LUH programme with a potential total life-cycle value of over US$2 billion.

China has been one of the pioneer countries for setting up a long-term industrial approach. Industrial cooperation has been progressively expanded over the past years and 2006 was another year of progress built on key strategic agreements with Chinese partners. Eurocopter has started with AVIC II the joint development of EC 175, a new multipurpose helicopter. Airbus has signed in October 2006 a framework agreement with a Chinese consortium (comprising the Free Trade Zone of Tianjin city, as well as AVIC1 and AVIC2 industrial groups) on the establishment of an A320 Final Assembly Line in China and the corresponding Joint Venture to be set up. The Group is committed to long-term strategic partnerships in China, in order to sustain leadership in commercial aircraft.

In South Korea, Eurocopter is partnering with KAI in the development phase of a brand-new helicopter (8 tons) for military transport. This is an excellent basis on which to expand EADS' position in the country.

India has already proven a booming market for commercial aircraft opportunities both in 2005 and 2006 (€7 billion), and EADS took the decision to create a Technology Centre for the Group in September 2006. This will be a key asset to gain increased local market position and eventually to serve our customers locally in the best possible way. An upcoming challenge will be to gain a strong foothold in the defence market that represents the largest share of India's potential for EADS.

The development of Russia's economy is promising, and the Russian aerospace and defence industry is gaining new strength through restructuring and consolidation. EADS 10% stake in Irkut, a key player in the future industrial landscape, enables the Group to strategically develop EADS' interests in Russia. A strategic committee with leading EADS and Russian aerospace industry executives has also been created to better coordinate growing mutual cooperation.

Improvement – Delivering EADS' backlog on-time – on-quality – on-cost and satisfying the customers in the process

Transforming the Group's record backlog of more than €262 billion into benchmark profitability will depend on the Group's ability to improve operational performance, measured in terms of time, cost and quality, both within EADS and its key suppliers.

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

The experience in the A380 industrialisation has shown the need for change and improvement. Airbus will integrate its own internal processes and, at the same time, make itself a more integrated part of the EADS Group. Airbus has set up a new competitiveness programme: Power8. This programme looks at all aspects of the company to make it leaner, more integrated, more efficient and more productive. The need to improve is all the more pressing due to a marked weakening of the US dollar against the euro. Power8 is the prerequisite for ensuring success and profitability in the future.

Successful implementation and execution of Improvement plans and projects through all the Divisions and corporate functions will therefore be given the highest priority in the years to come.

7.3 Divisions Outlook

7.3.1 Airbus

In 2007, Airbus will steadily ramp up its single aisle and widebody 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 orders are placed with customers for this aircraft type.

2007 is a crucial year for Airbus. Successful implementation of Power8 is essential to regain its competitiveness and will lead to the company's complete reorganisation. Power8 will enable Airbus to face the very substantial challenge of the US dollar weakness, increased competitive pressure, the financial burden related to the A380 delays as well as meet its other future investment needs. Power8 provides for strong cost-cutting measures, aims at transforming the Airbus business model and the development of a global network of partners. It will allow Airbus to devote its resources to core activities and eliminate inefficiencies within its current structure. The programme aims at the full industrial integration of Airbus by establishing a new industrial organisation with transnational Centres of Excellence replacing the existing national structures. This transformation will happen progressively over several years and includes the further extension of Airbus' global footprint.

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

7.3.2 Military Transport Aircraft

The balance of the Division's revenues will change over the next few years as the new A400M and A330MRTT 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 Air Tanker consortium, of which it is a member, receive an order from the U.K. government for the Future Strategic Aircraft programme covering 14 A330MRTTs.

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 U.S. Air Force's new generation KC-30 refuelling tanker based on an A-330MRTT 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.

7.3.3 Eurocopter

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 Colombus Mississippi, in the United States.

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.

7.3.4 Defence & Security ("DS")

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 DS 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.

7.3.5 Astrium

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 as well as 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. And Services has 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 expansion in profitability.

The information contained in this Board Report and its annex as well as in the Auditors' Report will enable you to form an opinion on the situation of the Company and the operations, which are submitted to you for approval.

The resolutions submitted to your vote strictly conform to the terms of this Board Report and are in our opinion in the interests of the Company and the development of its activities.

Consequently, we invite you to adopt the resolutions and thank you for the trust you have repeatedly shown us at the key stages since the creation of EADS.

The Board of Directors

PRESENTATION OF THE RESOLUTIONS PROPOSED BY THE BOARD OF DIRECTORS

1. First resolution

Adoption of the Report of the Board of Directors

We propose that this AGM adopts this Board Report including, in order to comply with Dutch law and the recommendations of the Dutch Code, the chapter on Corporate Governance, the policy on dividends and the proposed policy for the remuneration for the Members of the Board as described in this Board Report.

Dividend policy

Given the extraordinary circumstances and the important challenges that came to light during the year 2006, and which are not tied to the commercial air transportation economic cycle, the Board unanimously agreed that the amount of the proposed cash distribution should be substantially reduced.

While this opinion constitutes a departure from the policy adopted last year, the Board does not recommend to rescind such policy, but endorses a temporary suspension. Looking forward, EADS' Board still believes that continuity and growth of dividends is a desirable shareholder objective, which must however remain subject to factors such as EADS' distribution capacity arising from performance, its priorities for cash utilisation and future prospects.

To determine whether to effect a cash distribution or not, and if so, at what level, the Board considered dividend distribution in relation to the liquidity and capital structure of EADS, and to the opportunity of accessing capital market. It also considered Management's account of investor concerns and interpretation of a dividend payment, in the light of stock performance through the past year. Following this debate, directors could not finally agree on dividend proposal.

2. Second resolution

Adoption of the audited accounts for the financial year 2006

We propose that this AGM approves the audited accounts for 2006.

3. Third resolution

Approval of the result allocation for the financial year 2006

In the absence of a proposal by the Board (see Dividend policy), and in accordance with Dutch law and the Company's Articles of Association, shareholders present at the AGM may propose that the result of the financial year 2006, i.e. €99 million, is either added to retained earnings or distributed entirely or partially as a dividend. A total distribution of the result of the financial year 2006 would represent a gross amount of €0.12 per share. The proposals made by the shareholders will be submitted to the vote at the AGM.

4. Fourth resolution

Release from liability of the Members of the Board of Directors

We recommend that this AGM discharges the Members of the Board from their responsibility for the conduct of the Company's business with respect to the financial year 2006.

5. Fifth resolution

Appointment of the auditors for the financial year 2007

We recommend that the Company's auditors for the financial year 2007 should be Ernst & Young Accountants whose registered office is at Drentestraat 20, 1083 HK Amsterdam, The Netherlands, and KPMG Accountants N.V. whose registered office is at K.P. van der Mandelelaan 41-43, 3062 MB Rotterdam, The Netherlands. Our proposal is thus to renew the same auditors as for the past financial year; those auditors having given assurance to the EADS Audit Committee on their respective qualifications, performance and independence.

6. Sixth and seventh resolutions

Appointment of Messrs. Michel Pébereau and Bodo Uebber as Members of the Board of Directors

During the EADS Board meeting held on March 8th, 2007, the Board decided to propose to this AGM to appoint Mr. Michel Pébereau as new Member of the Board.

In addition, on April 5th, 2007, Mr. Manfred Bischoff presented his resignation as Chairman of the EADS Board and the Board decided to designate Mr. Rüdiger Grube as his successor in this position. Mr. Manfred Bischoff also presented his resignation as Member of the Board and the Board decided to propose to this AGM Mr. Bodo Uebber as his replacement.

As a consequence, we recommend that this AGM appoints Messrs. Michel Pébereau and Bodo Uebber as Members of the Board, effective as of the end of this AGM.

Mr. Michel Pébereau

Mr. Michel Pébereau who created BNP Paribas as chairman and CEO in 2000, is Chairman of the Board of BNP Paribas since 2003. He started his career in 1967 at the Inspection Générale des Finances. In 1970 he joined the French Treasury where he held various high ranking posts. From 1982 on, he became Managing Director of the Crédit Commercial de France, and after its privatisation in 1987, its Chairman and Chief Executive Officer. In 1993, he was appointed Chairman and Chief Executive Officer of the Banque Nationale de Paris. Mr. Pébereau is an alumnus of the Ecole Nationale d'Administration and graduated from Ecole Polytechnique.

Mr. Bodo Uebber

Mr. Bodo Uebber has been a Member of the Board of Management of DaimlerChrysler AG and is responsible for Finance, Controlling & Financial Services since December 16, 2004. He started his career at MBB in 1985. From 1989 on, he held various positions in the financial sector within DASA AG, Dornier Luftfahrt and MTU Aero Engines GmbH. In 2001, he was appointed Member of the Board of Management and Chief Financial Officer of DaimlerChrysler Services AG and subsequently in 2003 Chairman of the Board of Management of DaimlerChrysler Services AG as well as Deputy Member of the Board of Management of DaimlerChrysler AG. Mr Uebber studied and graduated in engineering and economics at the Technical University of Karlsruhe.

7. Eighth resolution

Amendment of Articles 14, 23 and 24 of the Company's Articles of Association

We recommend that this AGM approve the amendment of the Company's Articles of Association in order to comply with recent changes of Dutch law.

Firstly, to reflect the obligation for shareholders to notify the competent authorities when crossing thresholds in the share capital and/or voting rights of the Company set at: 5, 10, 15, 20, 25, 30, 40, 50, 60, 75 and 95%. Such notification shall also be made to the Company pursuant to a requirement sets out in the Company's Articles of Association. Previously, such thresholds were set at 5, 10, 25, 33 1/3, 50, 66 2/3% and over.

Secondly, to introduce the possibility for the Company to (i) set a "registration date" at which the persons entitled to attend and vote at the shareholders meetings are recorded in this purpose irrespective of who is shareholder at the time of the meeting, and (ii) provide for electronic means of convocation, attendance and voting at the shareholders meetings. The introduction of such procedure and electronic means will depend on the availability of the necessary technical means and the market practice.

8. Ninth resolution

Delegation to the Board of Directors of powers to issue shares and to set aside preferential subscription rights of existing shareholders

We propose that this AGM approves the renewal of the authorisation given to the Board, at the 4th May 2006 AGM, to issue shares representing up to 1% of the Company's authorised capital (i.e.: 30 million shares) as well as to exclude or limit preferential subscription rights for a period expiring at the AGM to be held in 2009, including specific powers to approve LTIP as well as ESOP plans, since the previous authorisation expires at the end of this AGM. The proposal does not include any further increase of the cap of 1% for financing purposes.

The Company anticipates a possible implementation of a LTIP in 2007. Such a plan would have to be formally approved by the Board.

Finally, the Company also anticipates implementing an ESOP in 2008. It would again have to be formally approved by the Board.

9. Tenth resolution

Cancellation of shares repurchased by the Company

We propose that this AGM approves the cancellation of the shares repurchased by the Company up to a maximum amount of 4,568,405 shares, to compensate the dilution effect resulting from the issuance of shares for the purpose of the exercise of stock options from the SOPs 2000, 2001 and 2002 in 2006.

10. Eleventh resolution

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

We propose that this AGM approves the renewal of the authorisation to the Board to repurchase shares of the Company, for a new 18-month period by any means, including derivative products, on any stock exchange or otherwise. The above authorisation will supersede and replace the authorisation granted by the AGM on 4th May 2006. The purposes of the share buy-back programmes to be implemented by EADS will be determined on a case-by-case basis by the Board according to needs and possibilities. For additional information on EADS' share buy-back programmes including their purposes, characteristics and status the reader should refer to the EADS web-site at www.eads.com (Investor Relations) and to the documents filed with and/or approved by the relevant stock exchange authorities posted thereon.

EADS N.V. CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

1. EADS N.V. Consolidated Income Statements (IFRS) for the years ended December 31st, 2006, 2005 and 2004

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

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

2. EADS N.V. Consolidated Balance Sheets (IFRS) at December 31st, 2006 and 2005

(in €m)

Assets	Note	2006	2005
Non-current assets			
Intangible assets	12	10,855	11,052
Property, plant and equipment	13	14,178	13,817
Investment property	33	137	134
Investments in associates accounted for under the equity method	14	2,095	1,908
Other investments and long-term financial assets	14	1,666	1,938
Non-current other assets	17	4,231	3,610
Deferred tax assets	11	2,624	2,980(1)
Non-current securities	18	1,294	1,011
		37,080	**36,450**
Current assets			
Inventories	15	16,892	15,425
Trade receivables	16	4,852	4,802
Current portion of long-term financial assets	14	103	237
Current other assets	17	4,014	3,201
Current tax assets		428	237
Current securities	18	549	4,189(2)
Cash and cash equivalents		8,143	5,386(2)
		34,981	**33,477**
Non-current assets / disposal groups classified as held for sale	**19**	**76**	**881**
Total assets		**72,137**	**70,808**

(in €m)

Equity and liabilities	Note	**2006**	2005
Equity attributable to equity holders of the parent			
Capital stock		816	818
Reserves		7,593	8,699[1]
Accumulated other comprehensive income		4,955	3,982
Treasury shares		(349)	(445)
		13,015	**13,054**
Minority interests		137	153[1]
Total equity	20	**13,152**	**13,207**
Non-current liabilities			
Non-current provisions	21	9,063	7,997[1]
Long-term financial liabilities	22	3,561	4,189
Non-current other liabilities	24	11,570	9,971
Deferred tax liabilities	11	2,465	2,376
Non-current deferred income	26	1,110	1,324
		27,769	**25,857**
Current liabilities			
Current provisions	21	3,631	2,727
Short-term financial liabilities	22	2,196	908
Liability for puttable instruments	23	0	3,500
Trade liabilities	25	7,461	6,634
Current other liabilities	24	17,160	17,166
Current tax liabilities		218	174
Current deferred income	26	486	573
		31,152	**31,682**
Liabilities directly associated with non-current assets classified as held for sale	19	**64**	**62**
Total liabilities		**58,985**	**57,601**
Total equity and liabilities		**72,137**	**70,808**

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

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

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

(in €m)	Note	2006	2005	2004
Profit for the period attributable to equity holders of the parent (Net income)		**99**	**1,676**	**1,203**
Profit for the period attributable to minority interests		16	34	18
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation and amortisation		1,691	1,653	1,621
Valuation adjustments and CTA release		426	261	(188)
Deferred tax expenses (income)		(193)	386	537
Change in tax assets, tax liabilities and provisions for actual income tax		(160)	63	(202)
Results on disposal of non-current assets		(336)	(170)	(8)
Results of companies accounted for by the equity method		(152)	(210)	(88)
Change in current and non-current provisions		2,150	175	(35)
Change in other operating assets and liabilities:		**(143)**	**1,239**	**2,155**
- Inventories		(1,942)	(3,264)	366
- Trade receivables		(7)	(388)	(403)
- Trade liabilities		686	666	756
- Advance payments received		1,564	4,237	1,823
- Other assets and liabilities		(444)	(12)	(387)
Cash provided by operating activities		**3,398**	**5,107**	**5,013**
Investments:				
- Purchase of intangible assets, Property, plant and equipment		(2,708)	(2,818)	(3,017)
- Proceeds from disposals of intangible assets, Property, plant and equipment		76	101	36
- Acquisitions of subsidiaries and joint ventures (net of cash)	27	(82)	(131)	(100)
- Proceeds from disposals of subsidiaries (net of cash)		86	89	0
- Payments for investments in associates and other investments and long-term financial assets		(421)	(659)	(482)
- Proceeds from disposals of associates and other investments and long-term financial assets		813	485	492
- Dividends paid by companies valued at equity		46	36	36
- Increase in equipment of leased assets		(147)	(40)	(656)
- Proceeds from disposals of leased assets		215	256	74
- Increase in finance lease receivables		(16)	(219)	(261)
- Decrease in finance lease receivables		79	85	110

(in €m)	Note	2006	2005	2004
Disposals of non-current assets / disposal groups classified as held for sale and liabilities directly associated with non-current assets classified as held for sale		690	0	0
Change of securities		3,357	1,008[1]	(964)[1]
Change in cash from changes in consolidation		0	12	9
Cash provided by (used for) investing activities		**1,988**	**(1,795)**	**(4,723)**
Increase in borrowings		1,252	456	1,302
Repayment of borrowings		(468)	(800)	(828)
Cash distribution to EADS N.V. shareholders		(520)	(396)	(320)
Dividends paid to minorities		(16)	0	0
Payments related to liability for puttable instruments	23	(2,879)[3]	(93)	(64)
Capital increase		94	187	43
Purchase of treasury shares		(35)	(288)	(81)
Cash (used for) provided by financing activities		**(2,572)**	**(934)**	**52**
Effect of foreign exchange rate changes and other valuation adjustments on cash and cash equivalents		(57)	17	(2)
Net increase in cash and cash equivalents		**2,757**	**2,395**[1]	**340**[1]
Cash and cash equivalents at beginning of period		**5,386**[1][2]	**2,991**[1][2]	**2,651**[1][2]
Cash and cash equivalents at end of period		**8,143**	**5,386**[1]	**2,991**[1]

The following represents supplemental information with respect to cash flows:

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

(1) Regarding the retrospective change in presentation of "Cash and cash equivalents" please refer to "Changes in Accounting Policies" in Note 2 "Summary of significant accounting policies".
(2) The previous figures for "Cash and cash equivalents" have been reduced in 2005 by 4,160 M € and in 2004 by 5,727 M €.
(3) Payments include the acquisition price of 2,750 M € for the 20% stake in Airbus and in addition a dividend payment from Airbus to BAE Systems amounting to 129 M €.

The accompanying notes are an integral part of these Consolidated Financial Statements (IFRS).
For details, see Note 27, "Consolidated Statement of Cash Flows (IFRS)".

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

Basis of Presentation

1. The company

The accompanying Consolidated Financial Statements present the financial position and the result of the operations of **European Aeronautic Defence and Space Company EADS N.V.** and its subsidiaries ("EADS" or the "Group"), a Dutch public limited liability company (Naamloze Vennootschap) legally seated in Amsterdam (Le Carré, Beechavenue 130-132, 1119 PR, Schiphol-Rijk, The Netherlands). EADS' core business is the manufacturing of commercial aircraft, civil helicopters, commercial space launch vehicles, missiles, military aircraft, satellites, defence systems and defence electronics and rendering of services related to these activities. EADS has its listings at the European Stock Exchanges in Paris, Frankfurt and Madrid. The Consolidated Financial Statements were authorised for issue by EADS' Board of Directors on March 8th, 2007, are prepared and reported in Euro ("€"), and all values are rounded to the nearest million appropriately, unless otherwise stated.

2. Summary of significant accounting policies

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

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

Subjects that involve critical assumptions and estimates and that have a significant influence on the amounts recognised in EADS Consolidated Financial Statements are further described and disclosed in the respective Notes (see in particular below "significant accounting policies" as well as, regarding deferred tax assets Note 11 "Income Taxes"; regarding goodwill impairment Note 12 "Intangible Assets"; for impairment of tangible assets Note 13 "Property, Plant and Equipment"; Note 15 "Inventories"; regarding loss making contracts as well as constructive obligations for settlement charges Note 21 "Provisions"; Note 29 "Commitments and Contingencies" and Note 30 "Information about financial instruments").

New Standards, Amendments to existing Standards and new Interpretations

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

a) New Standards

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

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

b) Amended Standards

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

IAS 19 Employee Benefits (issued 2004)

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

IAS 39 Financial Instruments: Recognition and Measurement:

"The Fair Value Option" (issued 2005)

"Financial Guarantee Contracts" (issued 2005)

This amendment also includes amendments to

IFRS 4 Insurance Contracts

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

c) New Interpretations

The following two Interpretations have become effective as of January 1st, 2006:

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

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

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

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

Changes in accounting policies

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

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

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

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

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

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

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

IFRS 7 "Financial Instruments: Disclosures" was issued in 2005 and becomes mandatory for EADS as of January 1st, 2007.

IFRS 8 "Operating Segments" (not yet endorsed) will replace IAS 14 "Segment Reporting" for accounting periods beginning on or after January 1st, 2009.

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

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

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

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

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

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

Significant accounting policies

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

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

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

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

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

For investments EADS jointly controls ("joint ventures") with one or more other parties ("venturers"), EADS recognises its interest by using the proportionate method of consolidation. Joint control is contractually established and requires unanimous decisions regarding the financial and operating strategy of an entity.

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

The effects of intercompany transactions are eliminated.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

i) Costs for contracted research and development activities, carried out in the scope of externally financed research and development contracts, are expensed when the related revenues are recorded.

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

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

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

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

Intangible Assets — Intangible assets comprise (i) internally generated intangible assets, i.e. internally developed software and other internally generated intangible assets (see above: "Research and development expenses"), (ii) acquired intangible assets, and (iii) goodwill (see above: "Consolidation").

Separately acquired intangible assets are initially recognised at cost. Intangible assets acquired in a business combination are recognised at their fair value at acquisition date. Acquired intangible assets are generally amortised over their respective estimated useful lives (3 to 10 years) on a straight line basis. Intangible assets having an indefinite useful life are not amortised but tested for impairment at the end of each financial year as well as whenever there is an indication that the carrying amount exceeds the recoverable amount of the respective asset (see below "Impairment of non-financial assets"). For such intangible assets the assessment for the indefinite useful life is reviewed annually on whether it remains supportable. A change from indefinite to finite life assessment is accounted for as change in estimate.

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

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

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

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

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

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

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

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

The value in use is assessed by the present value of the future cash flows expected to be derived from an asset or a CGU. Cash flows are projected based on a detailed forecast approved by management over a period reflecting the operating cycle of the specific business. The discount rate used for determining an asset's value in use is the pre-tax rate reflecting current market assessment of (i) the time value of money and (ii) the risk specific to the asset for which the future cash flow estimates have not been adjusted.

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

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

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

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

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

Financial assets classified as available-for-sale are accounted for at fair value. Unrealised gains and losses on available-for-sale financial assets are recognised directly within AOCI, a separate component of total equity, net of applicable deferred income taxes. As soon as such financial assets are sold or otherwise disposed of, or are determined to be impaired, the cumulative gain or loss previously recognised in equity is recorded as part of "other income (expense) from investments" in the Consolidated Income Statement for the period. Interest earned on the investment is presented as interest income in the Consolidated Income Statement using the effective interest method. Dividends earned on investment are recognised as "Other income (expense) from investments" in the Consolidated Income Statement when the right to the payment has been established.

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

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

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

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets may be impaired. Equity investments classified as available-for-sale are considered for impairment in case of a significant or prolonged decline of their fair value below their cost. Any impairment loss recognised in the Consolidated Income Statement on equity instruments is not reversed through the Consolidated Income Statement.

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

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

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

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

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement", derivative financial instruments are recognised and subsequently measured at fair value. The method of recognising resulting gains or losses depends on whether the derivative financial instrument has been designated as hedging instrument, and if so, on the nature of the item being hedged. While derivative financial instruments with positive fair values are recorded in current and non-current "other assets", such derivative financial instruments with negative fair values are recorded as current and non-current "Provisions for financial instruments".

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

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

i) **Fair Value Hedge**: Fair value hedge accounting is mainly applied to certain interest rate swaps hedging the exposure to changes in the fair value of recognised assets and liabilities. For derivative financial instruments designated as fair value hedges, changes in fair value of both the hedging instrument and the hedged asset or liability attributable to the hedged risk are simultaneously recognised in the Consolidated Income Statement.

ii) **Cash Flow Hedge**: The Group applies cash flow hedge accounting generally to foreign currency derivative contracts on future sales as well as to certain interest rate swaps hedging the variability of cash flows attributable to recognised assets and liabilities. Changes in fair value of the hedging instruments related to the effective part of the hedge are reported in AOCI, a separate component of total equity, net of applicable income taxes and recognised in the Consolidated Income Statement in conjunction with the result of the underlying hedged transaction, when realised. The ineffective portion is immediately recorded in "Profit for the period". Amounts accumulated in equity are recognised in profit or loss in the periods when the hedged transaction affects the income statement, such as when the forecast sale occurs or when the finance income or finance expense is recognised in the income statement. If hedged transactions are cancelled, gains and losses on the hedging instrument that were previously recorded in equity are generally recognised in "Profit for the period".

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

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

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

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

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

i) Current tax is the amount of income taxes payable or recoverable in a period. Current income taxes are calculated applying respective tax rates on the periodic taxable profit or tax loss that is determined in accordance with rules established by the competent taxation authorities. Current tax liabilities are recognised for current tax to the extent unpaid for current and prior periods. A current tax asset is recognised in case the tax amount paid exceeds the amount due to current and prior periods. The benefit of a tax loss that can be carried back to recover current tax of a previous period is recognised as an asset provided that the related benefit is probable and can be measured reliably.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

i) Emission rights allocated for free by national authorities are accounted for as a non-monetary government grant at its nominal value of nil.

ii) Emission rights purchased from other participants are accounted for at cost or the lower recoverable amount; if they are dedicated to offset a provision for in excess emission, they are deemed to be a reimbursement right and are accounted for at fair value.

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

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

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

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

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

3. Scope of consolidation

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

- 212 (2005: 228) companies which are fully consolidated;
- 31 (2005: 21) companies which are proportionately consolidated;
- 26 (2005: 21) companies which are investments in associates and are accounted for using the equity method.

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

4. Acquisitions and disposals

a) Acquisitions

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

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

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

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

b) Disposals

On February 28th, 2006, 81% of LFK GmbH and TDW GmbH, which had been fully consolidated by EADS, were sold to the European Missile Group MBDA. MBDA is jointly owned by BAE Systems (37.5 %), EADS (37.5 %) and Finmeccanica (25 %).

In EADS consolidated financial statements, MBDA Group is proportionately consolidated with 50 %.

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

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

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

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

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

Notes to the Consolidated Statements of Income (IFRS)

5. Segment Reporting

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

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

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

a) Business Segment Information for the year ended December 31st, 2006

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

(1) Segment assets exclude current and deferred tax assets as well as cash and cash equivalents and securities.
(2) Impairment charges relate to Sogerma.
(3) Segment liabilities exclude current and deferred tax liabilities and interest bearing liabilities.
(4) Impairment charge relates mainly to the A380 program.

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

b) Business Segment Information for the year ended December 31st, 2005

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

(1) Segment assets exclude current and deferred tax assets as well as cash and cash equivalents and securities.
(2) Segment liabilities exclude current and deferred tax liabilities and interest bearing liabilities.
(3) For the retrospective application in the amount of 1,118 M € due to the revised IAS 19 "Employee Benefits" please refer to Note 2 "Changes in accounting policies".

As a rule, inter-segment transfers are carried out on an arm´s length basis. Inter-segment sales predominantly take place between Eurocopter, Defence & Security and Airbus; as the Eurocopter and Defence & Security divisions act as suppliers for Airbus aircraft. Moreover, Airbus acts as a main supplier for the A400M program which is led by the Military Transport Aircraft division.
Capital expenditures represent the additions to property, plant and equipment and to intangible assets (excluding additions to goodwill of 64 M € in 2006 and 168 M € in 2005; for further details see Note 5e) "Capital expenditures").

c) EBIT pre-goodwill impairment and exceptionals

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

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

d) Revenues by destination

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

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

e) Capital expenditures

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

f) Property, plant and equipment by geographical area

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

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

6. Revenues

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

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

Detail of **Revenues**:

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

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

7. Functional costs

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

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

Personnel expenses are:

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

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

8. Other income

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

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

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

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

The **share of profit from associates accounted for under the equity method** in 2006 is mainly derived from the result of the equity investment in Dassault Aviation of 130 M € (2005: 205 M €; 2004: 78 M €). The Dassault Aviation Group reported in 2006 a net income of 281 M € of which EADS recognised an amount of 130 M € according to its share of 46.3%. In 2005 the equity investment income from Dassault Aviation also included a positive catch up of 64 M € relating to prior year financial performance in accordance with IFRS.

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

10. Total finance costs

Interest result in 2006 comprises interest income of 454 M € (2005: 423 M €; 2004: 302 M €) and interest expense of (575) M € (2005: (578) M €; 2004: (577) M €). Included in interest income is the return on cash and cash equivalents, securities and financial assets such as loans and finance leases. The previous years' interest income and interest expense have been netted by 53 M € in 2005 and 50 M € in 2004 to be comparable with the current presentation for interest rate swaps. Interest expense includes interest on European Government refundable advances of 266 M € (2005: 236 M €; 2004: 245 M €) and on financial liabilities.

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

11. Income taxes

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

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

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

In France, the corporate tax rate in effect for 2004 was 33 1/3% plus surcharges of 3% ("contribution additionelle") and 3.3% ("contribution sociale"). In 2004, the French Finance Law (FFL) for 2005 was enacted resulting in a reduction of the "contribution additionelle" to 1.5% in 2005 and nil for 2006 onwards. Accordingly, the applied tax rate for 2006 in France is 34.43% (2005: 34.93%; in 2004: 35.43%). Deferred tax assets and liabilities for the Group's French subsidiaries were calculated at December 31st, 2006 and 2005 using the enacted tax rate of 34.43% for temporary differences.

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

With respect to the Spanish subsidiaries, the Spanish government enacted on November 28th, 2006 a change in the corporate income tax rate for the years 2007 and 2008. As of January 1st, 2007 the corporate income tax rate in Spain will decrease from 35% to 32.5% and from 2008 onwards to 30%. Accordingly, deferred tax assets and liabilities of the Group's Spanish entities were calculated using the enacted tax rate of 32.5% for temporary differences that reverse in 2007 and 30.0% for temporary differences with a reversal scheduled in 2008 or later.

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

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

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

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

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

(1) In the course of the retrospective application of the revised IAS 19 "Employee Benefits" (see Note 2 "Summary of significant accounting policies") deferred tax assets of the prior year have been adjusted in the amount of 423 M €.
In 2006 no deferred tax asset has been recognised for the Airbus part with regard to the BAE Systems UK pension plans.

The amount of the Group's deferred tax assets' allowances is based upon management's estimate of the level of deferred tax assets that will be realised in the foreseeable future. In future periods, depending upon the Group's financial results, management's estimate of the amount of the deferred tax assets considered realisable may change, and hence the write-down of deferred tax assets may increase or decrease. Companies in deficit situations in two or more subsequent years recorded a total deferred tax asset balance of 102 M € (in 2005: 83 M €). Assessments show that these deferred tax assets will be recovered in future through either (i) own projected profits, or (ii) profits of other companies integrated in the same fiscal group ("regime integration fiscal" in France, "steuerliche Organschaft" in Germany) or (iii) via the "loss surrender-agreement" in Great Britain.

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

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

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

Roll forward of deferred taxes:

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

The deferred tax recognised directly in equity is as follows:

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

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

Notes to the Consolidated Balance Sheets (IFRS)

12. Intangible assets

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

Cost

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

Amortisation/Impairment

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

Net book value

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

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

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

On June 7th, 2006 BAE Systems exercised a put option to sell its 20% stake in Airbus at a fair value of 2,750 M € to EADS (accounted at December 31st, 2005 with 3,500 M €).

The transaction became effective as of October 13th, 2006. In accordance with the Airbus shareholders' agreement, an independent investment bank has determined the purchase price. Compared to 2005's contingent consideration of the Airbus business combination, the acquisition cost of the 20% stake in Airbus was reduced, leading to a decrease in goodwill by 613 M € after taking into consideration a dividend payment to BAE Systems of 129 M € in 2006 and transaction costs.

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

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

Cost

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

Amortisation/Impairment

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

Net book value

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

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

Additions to goodwill in 2005 mainly concern the contingent consideration with regard to the Airbus business combination in the amount of 93 M € resulting from the application of IAS 32 "Financial Instruments: Disclosure and Presentation" (revised 2004) regarding the "Liability for puttable instruments". Furthermore the acquisition of Nokia's Professional Mobile Radio – PMR activities (EADS Secure Networks Oy) contributed an addition to goodwill of 44 M €.

Goodwill impairment tests

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

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

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

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

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

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

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

Airbus segment

For the purpose of impairment testing, Airbus segment is considered as a single CGU. The goodwill allocated to Airbus relates to the contribution of Airbus UK, Airbus Germany and Airbus Spain into Airbus as of 2001.

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

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

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

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

Other EADS segments

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

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

The order book of the Astrium division as of December 31st, 2006 (including satellites, launchers, ballistic missiles and military telecom services) supports the strong revenue increase which is assumed for this division over the operative planning period. The current development and production of the Skynet V satellites and ground infrastructure is weighing on EADS Astrium Division's cash flows until these spacecraft are launched and operated to generate a ramped up level of revenues from the UK Ministry of Defence (MoD).

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

Development Costs

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

13. Property, plant and equipment

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

Cost

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

Depreciation

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

Net book value

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

(1) Reclassification of the at cost value from "other equipment, factory and office equipment" to "technical equipment and machinery" to harmonise presentations in the amount of 848 M €.
(2) Reclassification of the cumulative depreciation from "other equipment, factory and office equipment" to "technical equipment and machinery" to harmonise presentations in the amount of 587 M €.
(3) Reclassification of the net book value from "other equipment, factory and office equipment" to "technical equipment and machinery" to harmonise presentations in the amount of 261 M €.

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

Cost

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

Depreciation

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

Net book value

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

(1) Through the application of the revised IAS 16 "Property, Plant and Equipment" (component approach and asset retirement obligation) the opening balance as of December 31st, 2004 was adjusted retrospectively by an amount of (46) M €.
Due to the adoption of IFRIC 4 "Determining whether an Arrangement contains a Lease" (released 2004), Property, plant and equipment includes a restatement at December 31st, 2004, in the net amount of 97 M €.

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

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

Other equipment, factory and office equipment include the net book value of "aircraft under operating lease" for 1,992 M € and 2,381 M € as of December 31st, 2006 and 2005, respectively; related accumulated depreciation is 1,509 M € and 1,653 M €. Depreciation expense for 2006 amounts to 137 M € (2005: 231 M €; 2004: 327 M €).

The "aircraft under operating lease" include:

i) Group's sales finance activity in the form of aircraft which have been leased out to customers and are classified as operating leases: They are reported net of the accumulated impairments. These sales financing transactions are generally secured by the underlying aircraft used as collateral (see Note 29 "Commitments and contingencies" for details on sales financing transactions).

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

(in €m)	
not later than 2007	148
later than 2007 and not later than 2011	342
later than 2011	155
Total	**645**

ii) Aircraft which have been accounted as "operating lease" because they were sold under terms that include asset value guarantee commitments with the present value of the guarantee being more than 10% of the aircraft's sales price (assumed to be the fair value). Upon the initial sale of these aircraft to the customer, their total cost previously recognised in inventory is transferred to "Other equipment, factory and office equipment" and depreciated over its estimated useful economic life, with the proceeds received from the customer being recorded as deferred income (see Note 26 "Deferred income").

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

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

For details please refer to Note 29 "Commitments and contingencies".

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

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

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

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

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

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

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

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

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

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

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

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

Finance lease receivables from aircraft financing are as follows:

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

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

(in €m)	
not later than 2007	95
later than 2007 and not later than 2011	310
later than 2011	496
Total	**901**

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

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

15. Inventories

Inventories at December 31st, 2006 and 2005 consist of the following:

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

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

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

16. Trade receivables

Trade receivables at December 31st, 2006 and 2005 consist of the following:

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

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

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

17. Other assets

Other assets at December 31st, 2006 and 2005 consist of the following:

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

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

18. Securities

The Group's security portfolio amounts to 1,843 M € and 5,200 M € as of December 31st, 2006 and 2005, respectively. The security portfolio contains a **non-current portion** of available-for-sale-securities of 1,294 M € (in 2005: 1,011 M €) and a **current portion** of 549 M € (in 2005: 4,189 M €). In order to align the presentation of "Cash and cash equivalents", having maturities of three months or less from the date of acquisition, the previous year's figure has been reclassified by an amount of 4,160 M € (for further details please refer to the Consolidated Statements of Cash Flows and Note 2 "Summary of significant accounting policies").

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

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

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

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

As of December 1st, 2006, EADS carried out a spin-off of the MRO business located in Bordeaux into a separate legal entity "Sogerma Services" and sold 40% of the shares for no consideration. The remaining 60% shares of Sogerma Services as well as the shares of the subsidiaries Barfield and Sogerma Tunisia were sold beginning of January 2007. The corresponding assets and liabilities of these companies are thus presented as held for sale as of December 31st, 2006.

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

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

20. Total equity

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

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

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

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

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

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

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

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

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

Furthermore, the Shareholders' General Meeting authorised both the Board of Directors and the Chief Executive Officers, with power of substitution, to cancel up to a maximum of 6,656,970 shares. On July 20th, 2006, the Chief Executive Officers decided to cancel 6,656,970 treasury shares.

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

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

In total EADS sold in 2006 145,203 treasury shares (in 2005: purchase of 11,910,287 treasury shares) and cancelled

6,656,970 shares (in 2005: 1,336,358 shares), resulting in an amount of 13,800,531 treasury shares at December 31st, 2006 (in 2005: 20,602,704 treasury shares).

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

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

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

21. Provisions

Provisions are comprised of the following:

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

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

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

a) Provisions for deferred compensation

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

b) Provisions for retirement plans

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

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

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

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

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

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

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

Since January 1st, 2005, BAE Systems prepared its Consolidated Financial Statements under IFRS. Before that date, BAE Systems Consolidated Financial Statements were prepared under UK GAAP and as such did not include information required under IAS 19 to apply defined benefit accounting. Consequently, EADS accounted for its participation in BAE Systems UK defined benefit schemes as if they were defined contribution schemes in accordance with IAS 19. In 2005, EADS requested detailed information from BAE Systems about the different multi-employer pension schemes in order to appropriately and reliably estimate the share of its participation in the schemes' plan assets, defined benefit obligations ("DBO") and pension costs. For accounting purposes, the information provided by BAE Systems in 2005 was judged not to be sufficient to identify EADS' share in the UK pension schemes. Consequently, EADS continued in 2005 to expense the contributions made to the pension schemes as if the plans were defined contribution plans. Adequate information was provided until 2005 in the contingent liabilities section of the notes.

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

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

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

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

Before 2006, EADS applied the corridor approach for the recognition of actuarial gains and losses. With the application of amended IAS 19 in 2006, EADS opted for the newly introduced equity approach and retrospectively changed EADS accounting policy for the recognition of actuarial gains and losses. Under the equity approach, actuarial gains and losses are – net of deferred taxes - in full recognised in retained earnings in the period in which they occur and accordingly reflected in the retirement provision recognised in the balance sheet. Actuarial gains and losses are not recognised in profit or loss in subsequent periods. Prior periods have been adjusted accordingly leading to a higher provision for year-end 2002, 2003, 2004 and 2005 respectively (see table "Recognised Provision" below).

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

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

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

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

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

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

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

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

(1) Difference between the defined benefit obligations and the fair value of plan assets at the end of the year.
(2) Due to the application of IAS 19.93A the provision as of 2005, 2004, 2003 and 2002 was adjusted retrospectively by an amount of 1,118 M €, 659 M €, 384 M € and 398 M € respectively.

The defined benefit obligation at the end of the year is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods. The provision contains the funded status less any unrecognised past service cost.

The components of the net periodic pension cost, included in "Profit before finance costs and income taxes", are as follows:

(in €m)	2006	2005	2004
Service cost	162	153	125
Interest cost	230	252	243
Expected return on plan assets	(58)	(42)	(41)
Net actuarial loss	0	14	0
Net periodic pension cost	**334**	**377**	**327**

The 2006 change in the accounting policy for the recognition of actuarial gains and losses from the corridor to the equity approach resulted in lower net periodic pension cost in 2006, leading to a comparably higher EBIT of 45 M € and a 25 M € higher Net Income than from prior periods' accounting principle.

Payments to the multi-employer plans with BAE Systems that have been treated as defined contribution plans until end of 2006 amounted to 67 M € (in 2005: 56 M €).

Actuarial gains and losses, net of deferred taxes recognised in equity amount to (1,409) M € and developed as follows:

Actuarial gains and losses recognised directly in equity (in €m)	2006	2005	2004
Cumulative amount at January 1	(1,118)	(659)	(384)
Recognised during the period[1]	(690)	(459)	(275)
Cumulative value at December 31	**(1,808)**	**(1,118)**	**(659)**
Deferred Tax Asset at December 31	399	423	252
Actuarial gains and losses recognised directly in equity, net	**(1,409)**	**(695)**	**(407)**

(1) Included in 2006 is the allocated pension deficit from UK pension schemes with BAE Systems as of December 31st, 2006 amounting to 897 M €.

c) Financial instruments

The provision for financial instruments amounts to 231 M € as of December 31st, 2006 (921 M € as of December 31st, 2005) and includes in 2006 mainly the negative fair market value of foreign currency forwards (see Note 30 c) "Fair value of financial instruments").

d) Other provisions

Movements in provisions during the year were as follows:

(in €m)	Balance at January 1, 2006	Exchange differences	Additions	Reclassification/ Change in consolidated group	Used	Released	Balance at December 31, 2006
Outstanding costs	826		539	8	(243)	(26)	1,104
Aircraft financing risks	1,169	(129)	69	0	(39)	(6)	1,064
Contract losses	397	0	181	2	(137)	(22)	421
Personnel charges	436	(2)	179	(32)	(161)	(10)	410
Restructuring measures/pre-retirement part-time work	232	0	195	(15)	(65)	(21)	326
Litigations and claims	230	0	14	8	(7)	(7)	238
Obligation from services and maintenance agreements	254	(1)	87	(3)	(126)	0	211
Warranties	176	0	87	(5)	(50)	(21)	187
Asset retirement	62	0	18	0	0	0	80
Other risks and charges	783	(5)	1,962	(28)	(122)	(51)	2,539
Total	**4,565**	**(137)**	**3,331**	**(65)**	**(950)**	**(164)**	**6,580**

The addition to outstanding costs mainly relates to Defence & Security and Eurocopter.

The provision for aircraft financing risks fully covers, in line with the Group's policy for sales financing risk, the net exposure to aircraft financing of 432 M € (522 M € at December 31st, 2005) and asset value risks of 633 M € (647 M € at December 31st, 2005) related to Airbus and ATR (see Note 29 "Commitments and contingencies").

The use of the provision for restructuring measures / pre-retirement part-time work mainly relates to the divisions Defence & Security and Airbus.

The provision for litigations and claims covers various legal actions, governmental investigations, proceedings and other claims, which are pending or may be instituted or asserted in the future against the Group.

The additions to provisions for other risks and charges mainly comprises constructive obligations for settlement charges in conjunction with the A380 and A350 programs.

22. Financial liabilities

In 2004, the EIB (European Investment Bank) granted a long-term loan to EADS in the amount of 421 M US$, bearing a fixed interest rate of 5.1% (effective interest rate 5.1%). In 2003, EADS issued two Euro denominated bonds under its EMTN Programme (Euro Medium Term Note Programme). The first issue of 1 billion € with expected final maturity in 2010 carries a coupon of 4.625% (effective interest rate 4.686%) which was swapped into variable rate of 3M-Euribor +1.02%. The second issue of 0.5 billion € maturing in 2018 carries a coupon of 5.5% (effective interest rate 5.6%) which was swapped during 2005 into variable rate of 3M-Euribor +1.81%.

On a rolling basis EADS issues regularly commercial paper under the so called "billet de trésorerie" program at floating or fixed interest rates corresponding to the individual maturities ranging from 1 day to 12 months bearing as of December 31st, 2006 an average interest rate of 3.3%. The issued volume at December 31st, 2006 amounted to 1,137 M €. The programme has been set up in 2003 with a maximum volume of 2 bn €.

EADS has decided to manage more pro-actively its money market investor base. EADS has therefore decided to have an outstanding debt in line with this objective and to issue these commercial papers on a regular basis.

Financial liabilities include liabilities connected with sales financing transactions amounting to 1,702 M €, thereof 480 M € at a fixed interest rate of 9.88% and the remaining amount mainly at variable interest rates.

Non recourse Airbus financial liabilities (risk is supported by external parties) amount to 1,058 M € (in 2005: 1,247 M €).

Defeased bank deposits for aircraft financing of 927 M € and 1,102 M € as of December 31st, 2006 and 2005 respectively have been offset against financial liabilities.

	December 31,	
(in €m)	2006	2005
Bonds	1,569	1,659
thereof due in more than five years: 453 (December 31, 2005: 519)		
Liabilities to financial institutions	1,141	1,352
thereof due in more than five years: 817 (December 31, 2005: 972)		
Loans	673	937
thereof due in more than five years: 347 (December 31, 2005: 528)		
Liabilities from finance leases	178	241
thereof due in more than five years: 74 (December 31, 2005: 78)		
Long-term financial liabilities	**3,561**	**4,189**
Commercial Papers / Bonds	1,157	0
Liabilities to financial institutions	140	146
Liabilities to affiliated companies	118	112
Loans	172	207
Liabilities from finance leases	97	87
Others	512	356
Short-term financial liabilities (due within one year)	**2,196**	**908**
Total	**5,757**	**5,097**

Included in “Others” are financial liabilities against joint ventures.

The aggregate amounts of financial liabilities maturing during the next five years and thereafter are as follows:

(in €m)	Financial liabilities
2007	2,196
2008	257
2009	306
2010	1,159
2011	148
Thereafter	1,691
Total	**5,757**

23. Liability for puttable instruments

As of January 1st, 2005 EADS adopted retrospectively IAS 32 "Financial Instruments: Disclosure and Presentation" (revised 2004) and accounted for the option granted to BAE Systems in the 2001 Airbus business combination to put its 20% minority stake in Airbus as a liability presented in a separate line of the EADS Consolidated Balance Sheet as liability for puttable instruments.

The option has been exercisable at fair value during annual window periods. Whilst dividend payments to BAE Systems have been considered as partial repayments of the liability any changes to its fair value have been treated as adjustments to the cost of the Airbus business combination leading to according changes in goodwill in line with IFRS 3 "Business Combinations". Airbus' 20% stake has been measured by applying a choice of different valuation techniques, based on best estimates available at measurement date. For EADS 2005 year end Financial Statements, the fair value of the written put has been determined at €3.5 billion. In June 2006, BAE Systems exercised its put option. An independent investment bank then determined the fair value of the 20% of Airbus at €2.75 billion. The liability for puttable instruments was derecognised from EADS Consolidated Balance Sheet after the transaction has been approved by BAE Systems' shareholders in October 2006. While dividend payments to BAE Systems in 2006 amounting to 129 M € have been accounted for as a reduction of the liability, the additional 621 M € of the decrease in the option's fair value led to a corresponding reduction in Airbus' goodwill.

24. Other liabilities

	December 31,	
(in €m)	**2006**	2005
Non-current other liabilities		
Thereof customer advance payments	6,308	4,911
Thereof European Governments refundable advances	5,029	4,950
Others	233	110
Total	**11,570**	**9,971**
Current other liabilities		
Thereof customer advance payments	14,172	14,078
Thereof European Governments refundable advances	389	343
Thereof tax liabilities (excluding income tax)	600	690
Thereof liabilities to affiliated companies	44	93
Thereof liabilities to related companies	14	31
Others	1,941	1,931
Total	**17,160**	**17,166**

The increase in European Governments refundable advances relates mostly to accrued interest. Regarding the interest expense on European Governments refundable advances see Note 10 "Total finance costs". Due to their specific nature, namely their risk-sharing features and the fact that such advances are generally granted to EADS on the basis of significant development projects, European Governments refundable advances are accounted for by EADS within "Other Liabilities" on the balance sheet including accrued interest.

Included in "Other liabilities" are 15,573 M € (15,986 M € as of December 31st, 2005) due within one year and 6,330 M € (5,621 M € as of December 31st, 2005) maturing after more than five years. Included in the "Current other liabilities" are liabilities relating to construction contracts having a maturity of more than one year.

Advance payments received relating to construction contracts amount to 2,198 M € (2,363 M € as of December 31st, 2005).

25. Trade liabilities

As of December 31st, 2006, trade liabilities amounting to 184 M € (54 M € as of December 31st, 2005) mature after more than one year.

26. Deferred income

	December 31,	
(in €m)	**2006**	2005
Non-current deferred income	1,110	1,324
Current deferred income	486	573
Total	**1,596**	**1,897**

The main part of deferred income is related to sales of Airbus and ATR aircraft that include asset value guarantee commitments and that are accounted for as operating leases (1,248 M € and 1,467 M € as of December 31st, 2006 and 2005, respectively).

Notes to the Consolidated Statements of Cash-Flows (IFRS)

27. Consolidated Statement of Cash Flows

As of December 31st, 2006, EADS' cash position (stated as cash and cash equivalents in the Consolidated Statement of Cash-Flows) includes 597 M € (579 M € and 602 M € as of December 31st, 2005 and 2004, respectively) which represent EADS' share in MBDA's cash and cash equivalents, deposited at BAE Systems and Finmeccanica and which are available upon demand. Additionally included were 1,202 M € as of December 31st, 2005 and 687 M € as of December 31st, 2004 representing the amount Airbus had deposited at BAE Systems.

The following charts provide details on **acquisitions** (resulting in additional assets and liabilities acquired) of subsidiaries and joint ventures:

	December 31,	
(in €m)	2006	2005
Total purchase price	(108)	(131)
thereof paid in cash and cash equivalents	(108)	(131)
Cash and cash equivalents included in the acquired subsidiaries and joint ventures	26	0
Cash Flow for acquisitions, net of cash	**(82)**	**(131)**

In 2006 the aggregate cash flow for acquisitions, net of cash of (82) M € includes mainly the acquisition of Atlas Elektronik Group (43) M €, Sofrelog (12) M €, IFR France (8) M € and Dynamic Process Solutions Inc. (8) M €.

Included in the aggregate cash flow for acquisitions, net of cash in 2005 of (131) M € is mainly the acquisition of Nokia's Professional Mobile Radio – PMR activities (EADS Secure Networks Oy). In addition, there have been cash investments mainly in Dornier GmbH which had been already fully consolidated.

	December 31,	
(in €m)	2006	2005
Intangible assets; property, plant and equipment	59	21
Financial assets	4	0
Inventories	44	4
Trade receivables	60	11
Other assets	4	27
Cash and cash equivalents	26	0
Assets	**197**	**63**
Provisions	(91)	(4)
Trade liabilities	(46)	0
Financial liabilities	(3)	0
Other liabilities	(13)	(1)
Liabilities	**(153)**	**(5)**
Fair value of net assets	**44**	**58**
Goodwill arising on acquisitions	64	73
Less own cash and cash equivalents of acquired subsidiaries and joint ventures	(26)	0
Cash Flow for acquisitions, net of cash	**82**	**131**

The following charts provide details on **disposals** (resulting in assets and liabilities disposed) of subsidiaries:

	December 31,	
(in €m)	2006	2005
Total selling price	87	110
thereof received by cash and cash equivalents	87	110
Cash and cash equivalents included in the (disposed) subsidiaries	(1)	(21)
Cash Flow from disposals, net of cash	**86**	**89**

The aggregate cash flow from disposals, net of cash, in 2006 of 86 M € includes the sale of LFK GmbH and TDW GmbH amounting to 81 M € and Seawolf of 2 M €. After the disposal of LFK the cash of LFK was reallocated to the shareholders of MBDA in proportion to their interest.

Included in the aggregate net selling price in 2005 of 89 M € are the sale of the 50% participation in TDA – Armements S.A.S. to Thales and the sale of the Enterprise Telephony Business to Aastra.

	December 31,	
(in €m)	2006	2005
Intangible assets; property, plant and equipment	(18)	(12)
Financial assets	(4)	0
Inventories	(89)	(34)
Trade receivables	(17)	(64)
Other assets	(22)	(34)
Cash and cash equivalents	(1)	(21)
Assets	**(151)**	**(165)**
Provisions	132	16
Trade liabilities	18	18
Financial liabilities	1	13
Other liabilities	52	45
Liabilities	**203**	**92**
Book value of net assets	**52**	**(73)**
Goodwill arising from disposals	0	(6)
Result from disposal of subsidiaries	(139)	(31)
Less own cash and cash equivalents of disposed subsidiaries	1	21
Cash Flow from disposals, net of cash	**(86)**	**(89)**

Other Notes to the Consolidated Financial Statements (IFRS)

28. Litigation and claims

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

Following its unilateral withdrawal from the 1992 EU-U.S. Agreement on Trade in Large Civil Aircraft, the U.S. lodged a request on October 6th, 2004 to initiate settlement proceedings before the World Trade Organisation ("WTO"). On the same day, the EU launched a parallel WTO case against the U.S. in relation to its subsidisation of Boeing. Despite several negotiation attempts, the parties have not been able to reach a satisfactory agreement. On May 31st, 2005, the U.S. and the EU each requested the establishment of a panel. At its meeting on July 20th, 2005, the Dispute Settlement Body established the panels. Numerous procedural steps, including new filings by the EU and the U.S. in 2006 have delayed commencement of the litigation. However, on November 15th, 2006, the U.S. filed its first written submission, to which the EU responded on February 9th, 2007. The EU is scheduled to file its first written submission challenging Boeing subsidies in March 2007, to which the U.S. is scheduled to respond in May 2007. Exact timing of further steps in the WTO litigation process is subject to ruling of the panels and to negotiations between the U.S. and the EU. Unless a settlement, which is currently not under discussion, is reached between the parties, the WTO panels will render decisions on the merits of the cases sometime in the future.

The French Autorité des Marchés Financiers (the "AMF") and the German Federal Financial Supervisory Authority (the "BaFin") have started in 2006 investigations for alleged breaches of market regulations and insider trading rules with respect to the A380 delays in 2005 and 2006. Following criminal complaints filed by a shareholders' association and by an individual shareholder (also including a civil claim for damages), French investigating judges are also carrying out investigations on the same grounds. In Germany, several individual shareholders have filed civil actions against the Company to recover their alleged losses in connection with the disclosure of A380 program delays. On October 3rd, 2006, the EADS Board of Directors also decided to conduct an independent assessment of individual discharge of duties in the situation that led to the A380 delays. This investigation will extend to scrutinising potential responsibilities at the management level. The Company reserves all its rights in the circumstances. As of March 8th, 2007, all such assessments are still ongoing.

EADS is not aware of any exceptional items or pending or threatened legal or arbitration proceedings that may have, or may have had in a recent period, a material adverse effect on the financial position, the activities or the results of its group taken as a whole, except as stated above.

EADS recognises provisions for litigation and claims when (i) it has a present obligation from legal actions, governmental investigations, proceedings and other claims resulting from past events that are pending or may be instituted or asserted in the future against the Group, (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle such obligation and (iii) a reliable estimate of the amount of such obligation can be made. For the amount provided for risk due to litigations and claims, see Note 21 d.) "Other provisions".

29. Commitments and contingencies

Commitments and contingent liabilities

Sales financing – In relation to its Airbus and ATR activities, EADS is committing itself in sales financing transactions with selected customers. Sales financing transactions are generally collateralised by the underlying aircraft. Additionally, Airbus and ATR benefit from protective covenants and from security packages tailored according to the perceived risk and the legal environment. EADS believes that the estimated fair value of the aircraft securing such commitments will substantially offset any potential losses from the commitments. Any remaining difference between the amount of financing commitments given and the collateral value of the aircraft financed is provided for as an impairment to the relating asset, if assignable, or as a provision for aircraft financing risk. The basis for this write-down is a risk-pricing-model, which is applied at every closing to closely monitor the remaining value of the aircraft.

Depending on which party assumes the risks and rewards of ownership of a financed aircraft, the assets relating to sales financing are accounted for **on the balance sheet** either as (i) an operating lease (see Note 13 "Property, plant and equipment") or (ii) a loan from aircraft financing or (iii) a finance lease receivable (see Note 14 "Investments in associates accounted for under the equity method, other investments and long-term financial assets") or (iv) non-current assets classified as held for sale. As of December 31st, 2006, related accumulated impairment amounts to 272 M € (2005: 319 M €) for operating lease, 199 M € (2005: 396 M €) for loans and finance lease receivables and 0 M € (2005: 196 M €) for non-current assets classified as held for sale. As part of provisions for aircraft financing risks 25 M € (2005: 34 M €) are recorded (see Note 21 d.) "Other provisions").

Certain sales financing transactions include the sale and lease back of the aircraft with a third party lessor under operating lease. Unless the Group has sold down the relating operating lease commitments to third parties, which assume liability for the payments, it is exposed to future lease payments. Future nominal **operating lease payments** that result from aircraft sales financing transactions are recorded **off balance sheet** and are scheduled to be paid as follows:

(in €m)	
not later than 2007	181
later than 2007 and not later than 2011	702
later than 2011	645
Total	**1,528**
Of which commitments where the transaction has been sold to third parties	(882)
Total aircraft lease commitments where EADS bears the risk (not discounted)	**646**

Total aircraft lease commitments of 1,528 M € as of December 31st, 2006, arise from aircraft head-leases and are typically backed by corresponding sublease income from customers with an amount of 1,096 M €. A large part of these lease commitments (882 M € as of December 31st, 2006) arises from transactions that were sold down to third parties, which assume liability for the payments. EADS determines its gross exposure to such operating leases as the present value of the related payment streams. The difference between gross exposure and the estimated value of underlying aircraft used as collateral, the net exposure, is provided for in full with an amount of 407 M € as of December 31st, 2006, as part of the provision for aircraft financing risk (see Note 21 d.) "Other provisions").

As of December 31st, 2006 and 2005, the total consolidated – **on and off balance sheet** – Commercial Aviation Sales Financing Exposure is as follows (Airbus 100% and ATR 50%):

	December 31,	
(in €m)	**2006**	2005
Total gross exposure	1,694	3,566
Estimated fair value of collateral (aircraft)	(791)	(2,133)
Net exposure (fully provided for)	**903**	**1,433**

Details of provisions / accumulated impairments are as follows:

	December 31,	
(in €m)	2006	2005
Accumulated impairment on operating leases (see Note 13 "Property, plant and equipment")	272	319
Accumulated impairment on loans from aircraft financing and finance leases (see Note 14 "Investments in associates accounted for under the equity method, other investments and long-term financial assets")	199	396
Non-current assets classified as held for sale	0	196
Provisions for aircraft financing risk (on balance sheet) (see Note 21 d.) "Other provisions")	25	34
Provisions for aircraft financing risk (commitment off balance sheet) (see Note 21 d.) "Other provisions")	407	488
Total provisions / accumulated impairments for sales financing exposure	**903**	**1,433**

Asset value guarantees – Certain sales contracts may include the obligation of an asset value guarantee whereby Airbus or ATR guarantee a portion of the value of an aircraft at a specific date after its delivery. Management considers the financial risks associated with such guarantees to be manageable. Three factors contribute to this assessment: (i) the guarantee only covers a tranche of the estimated future value of the aircraft, and its level is considered prudent in comparison to the estimated future value of each aircraft; (ii) the asset value guarantee related exposure is diversified over a large number of aircraft and customers; and (iii) the exercise dates of outstanding asset value guarantees are distributed through 2019. If the present value of the guarantee given exceeds 10% of the sales price of the aircraft, the sale of the underlying aircraft is accounted for as an operating lease (see Note 13 "Property, plant and equipment" and Note 26 "Deferred income"). In addition, EADS is contingently liable in case asset value guarantees with less than 10% are provided to customers as part of aircraft sales. Counter guarantees are negotiated with third parties and reduce the risk to which the group is exposed. As of December 31st, 2006 the nominal value of asset value guarantees provided to airlines, that do not exceed the 10% criteria, amount to 1,093 M €, excluding 461 M € where the risk is considered to be remote. In many cases the risk is limited to a specific portion of the residual value of the aircraft. The present value of the risk inherent to the given asset value guarantees where a settlement is being considered as probable is fully provided for and included in the total amount of provisions for asset value risks of 633 M € (see Note 21 d.) "Other provisions"). This provision covers a potential expected shortfall between the estimated value of the aircraft of the date upon which the guarantee can be exercised and the value guaranteed on a transaction basis taking counter guarantees into account.

Because exercise dates for asset value guarantees are on average in the 10th year following aircraft delivery, asset value guarantees issued in 2006 will generally not be exercisable prior to 2016, and, therefore, an increase in near-term exposure is not expected.

With respect to ATR, EADS and Finmeccanica are jointly and severally liable to third parties without limitation. Amongst the shareholders, the liability is limited to each partner's proportionate share.

While ***backstop commitments*** to provide financing related to orders on Airbus' and ATR's backlog are also given, such commitments are not considered to be part of gross exposure until the financing is in place, which occurs when the aircraft is delivered. This is due to the fact that (i) past experience suggests it is unlikely that all such proposed financings actually will be implemented (although it is possible that customers not benefiting from such commitments may nevertheless request financing assistance ahead of aircraft delivery), (ii) until the aircraft is delivered, Airbus or ATR retain the asset and do not incur an unusual risk in relation thereto, and (iii) third parties may participate in the financing. In order to mitigate Airbus and ATR credit risks, such commitments typically contain financial conditions which guaranteed parties must satisfy in order to benefit therefrom.

Other commitments – Other commitments comprise contractual guarantees and performance bonds to certain customers as well as commitments for future capital expenditures.

Future nominal **operating lease payments** (for EADS as a lessee) for rental and lease agreements (not relating to aircraft sales financing) amount to 1,025 M € as of December 31st, 2006, and relate mainly to procurement operations (e.g., facility leases, car rentals). Maturities are as follows:

(in €m)	
Not later than 2007	126
Later than 2007 and not later than 2011	342
Later than 2011	557
Total	**1,025**

30. Information about financial instruments

a) Financial risk management

By the nature of the activities carried out, EADS is exposed to a variety of financial risks, especially foreign currency exchange rate risks and interest rate risks, as explained below. The management and limitation of the foreign exchange currency risks at EADS is generally carried out by a central treasury department at EADS Headquarters under policies approved by the Board of Directors. The identification, evaluation and hedging of the financial risks is in the responsibility of established treasury committees and the Group's Divisions and Business Units.

Market risk

Currency risk – EADS manages a long-term hedge portfolio with a maturity of several years covering its net exposure to US Dollar sales, mainly from the activities of Airbus. This hedge portfolio covers the majority of the Group's highly probable transactions.

Significant parts of EADS' revenues are denominated in US Dollars, whereas a major portion of its costs is incurred in Euros and to a smaller extent in GBP. Consequently, to the extent that EADS does not use financial instruments to cover its current and future foreign currency exchange rate exposure, its profits are affected by changes in the Euro-US Dollar exchange rate. As the Group intends to generate profits only from its operations and not through speculation on foreign currency exchange rate movements, EADS uses hedging strategies to manage and minimise the impact of exchange rate fluctuations on these profits.

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

EADS endeavours to hedge the majority of its exposure based on firm commitments and forecasted transactions. For products such as aircraft, EADS typically hedges forecasted sales in US Dollar. The hedged items are defined as first forecasted highly probable future cash inflows for a given month based upon final payments at delivery. The amount of the flows to be hedged can cover up to 100% of the equivalent of the net US Dollar exposure at inception. For EADS, a forecasted transaction is regarded as highly probable if the future delivery is included in the internally audited order book or is very likely to materialise in view of contractual evidence. The coverage ratio is adjusted to take into account macroeconomic movements affecting the spot rates and interest rates, as applicable. For the non-aircraft business EADS hedges in- and outflows in foreign currencies from sales and purchase contracts typically in low volumes.

The company also has foreign currency derivative instruments which are embedded in certain purchase and lease contracts denominated in a currency other than the functional currency of the significant parties to the contract, principally USD and GBP. Gains or losses relating to such embedded foreign currency derivatives are reported in other financial result. In addition EADS hedges currency risk arising from financial transactions in other currencies than EUR, such as funding transactions or securities.

Interest rate risk – The Group uses an asset-liability management approach with the objective to limit its interest rate risk. The Group undertakes to match the risk profile of its assets with a corresponding liability structure. The remaining net interest rate exposure is managed through several types of interest rate derivatives in order to minimise risks and financial impacts.

Hedging instruments that are specifically designated to debt instruments have at the maximum the same nominal amounts as well as the same maturity dates compared to the hedged item. Regarding cash, EADS is mainly investing in short-term instruments and/or instruments that are related to a floating interest index in order to further minimise any interest risk in its cash and securities portfolio.

Price Risk – The cash and cash equivalents and securities portfolio of the Group is invested mainly in non-speculative financial instruments, mostly highly liquid, such as certificates of deposits, overnight deposits, commercial papers and other money market instruments which generally are short term and subject to only an insignificant price risk. Therefore, the Group assesses its exposure towards price risk as minor.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents at any time to meet its present and future commitments. This is safeguarded by the reported total amount of the Group's cash and cash equivalents, which is further supported by a substantial amount of unused committed credit facility (3.0 billion € as of December 31st, 2006). On a daily basis, EADS invests any surplus cash mainly in non-speculative highly liquid financial instruments, such as certificates of deposits, overnight deposits, commercial papers and other money market instruments which are generally short term.

Credit risk

EADS is exposed to credit risk to the extent of non-performance by either its customers (e.g. airlines) or its counterparts with regard to financial instruments. However, the Group has policies in place to avoid concentrations of credit risk and to ensure that credit risk is limited.

Cash transactions and derivative counterparts are limited to high credit quality financial institutions. For such financial transactions EADS has set up a credit limit system to actively manage and limit its credit risk exposure. This limit system assigns maximum exposure lines to counterparts of financial transactions, based at a minimum on their credit ratings as published by Standard & Poors, Moody's and Fitch IBCA. The respective limits are regularly monitored and updated.

Sales of products and services are made to customers after having conducted an appropriate internal credit risk assessment. In order to support product sales, primarily at Airbus and ATR, EADS may agree to participate in the financing of customers, on a case-by-case basis, directly or through guarantees provided to third parties. In determining the amount and terms of the financing transaction, Airbus and ATR take into account the airline's credit rating as well as risk factors specific to the intended operating environment of the aircraft and its expected future value. Market yields and current banking practices also serve to benchmark the financing terms offered to customers, including price.

b) Notional amounts

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

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

Year ended December 31, 2006	Remaining period								Total
(in €m)	2007	2008	2009	2010	2011	2012	2013	2014	
Foreign Exchange Contracts:									
Net forward sales (purchase) contracts	10,970	10,358	7,000	3,907	855	0	(1)	(3)	**33,086**
Structured USD forward:									
Purchased USD call options	333	181	114	0	0	0	0	0	**628**
Purchased USD put options	885	181	114	0	0	0	0	0	**1,180**
Written USD call options	885	181	114	0	0	0	0	0	**1,180**
FX swap contracts	3,564	23	15	0	0	0	0	211	**3,813**

Year ended December 31, 2005	Remaining period			Total
(in €m)	not exceeding 1 year	1 year up to 5 years	more than 5 years	
Foreign Exchange Contracts:				
Net forward sales contracts	9,653	27,076	365	**37,094**
Structured USD forward:				
Purchased USD call options	*119*	*573*	*0*	**692**
Purchased USD put options	*1,495*	*1,190*	*0*	**2,685**
Written USD call options	*1,495*	*1,190*	*0*	**2,685**
FX swap contracts	625	0	117	**742**

The notional amounts of interest rate contracts are as follows, specified by year of expected maturity:

Year ended December 31, 2006	Remaining period								Total
(in €m)	2007	2008	2009	2010	2011	2012 -17	2018	2019	
Interest Rate Contracts	184	257	140	1,000	15	0	1,542	1,574	**4,712**
Caps	1,000	0	0	0	0	0	0	0	**1,000**

Year ended December 31, 2005	Remaining period			Total
(in €m)	not exceeding 1 year	1 year up to 5 years	more than 5 years	
Interest Rate Contracts	105	1,504	2,921	**4,530**
Caps	0	1,000	0	**1,000**

c) Fair value of financial instruments

The fair value of a financial instrument is the price at which one party would assume the rights and/or duties of another party. Fair values of financial instruments have been determined with reference to available market information at the balance sheet date and the valuation methodologies discussed below. Considering the variability of their value-determining factors and the volume of financial instruments, the fair values presented herein may not be indicative of the amounts that the Group could realise in a current market environment.

The following interest rate curves are used in the determination of the fair value in respect of the financial instruments as of December 31st, 2006 and 2005:

December 31, 2006 Interest rate in %	EUR	USD	GBP
6 months	3.85	5.33	5.45
1 year	4.00	5.29	5.62
5 years	4.13	5.10	5.45
10 years	4.20	5.18	5.18

December 31, 2005 Interest rate in %	EUR	USD	GBP
6 months	2.61	4.68	4.54
1 year	2.84	4.83	4.53
5 years	3.21	4.87	4.53
10 years	3.45	4.96	4.46

The carrying amounts and fair values of the Group's major financial instruments are as follows:

	December 31,			
	2006		2005	
(in €m)	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative Financial Instruments				
Assets:				
Non-current securities	1,294	1,294	1,011	1,011
Current portion of long-term financial assets	103	103	237	237
Current securities(1)	549	549	4,189	4,189
Cash and cash equivalents(1)	8,143	8,143	5,386	5,386
Liabilities:				
Financial liabilities (long-term and short-term)	5,757	5,909	5,097	5,381
Derivative Financial Instruments				
Currency contracts with positive fair values	5,190	5,190	3,913	3,913
Currency contracts with negative fair values	(67)	(67)	(749)	(749)
Interest rate contracts with positive fair values	52	52	40	40
Interest rate contracts with negative fair values	(164)	(164)	(151)	(151)
Embedded foreign currency derivatives with (negative) positive fair values	25	25	(21)	(21)

(1) Regarding the retrospective accounting change of "Current securities" and "Cash and cash equivalents" please refer to Note 2 "Summary of significant accounting policies" and to Note 18 "Securities".

The fair value of financial liabilities as of December 31st, 2006 has been estimated including all future interest payments and also reflects the interest rate as stated in the tables above. The fair value of the EMTN bonds has been assessed using public price quotations.

The European Governments refundable advances of 5,418 M € (in 2005: 5,293 M €) are measured at amortised cost; a fair value can not be measured reliably due to their risk sharing nature and uncertainty about the repayment dates.

Derivative financial instruments regarding currency contracts with a positive fair value of 5,190 M € are designated as cash flow hedges in the amount of 5,067 M €; the currency contracts with a negative fair value of (67) M € are designated as cash flow hedges in the amount of (66) M €. Interest rate derivative financial instruments with a positive fair value of 52 M € include derivatives not designated in a hedging relationship in the amount of 37 M € and derivatives designated as fair value hedges in the amount of 15 M €. Interest rate derivative financial instruments with a negative fair value of (164) M € are designated as cash flow hedges in the amount of (86) M € and 44 M € as fair value hedges. Embedded foreign currency derivatives are not designated in a hedge relationship.

The development of the foreign exchange rate hedging instruments recognised in AOCI is as of December 31st, 2006 and 2005 as follows (for previous year figures adjustments please refer to Note 2 "Summary of significant accounting policies" chapter "Derivative Financial Instruments"):

(in €m)	Equity attributable to equity holders of the parent	Minority interests	Total
January 1, 2005	**5,647**	**0**	**5,647**
Unrealised gains and losses from valuations, net of tax	(2,476)	0	(2,476)
Transferred to profit or loss for the period, net of tax	(1,209)	0	(1,209)
Changes in fair values of hedging instruments recorded in AOCI, net of tax	(3,685)	0	(3,685)
December 31, 2005 / January 1, 2006	**1,962**	**0**	**1,962**
Unrealised gains and losses from valuations, net of tax	2,170	1	2,171
Transferred to profit or loss for the period, net of tax	(943)	0	(943)
Changes in fair values of hedging instruments recorded in AOCI, net of tax	1,227	1	1,228
December 31, 2006	**3,189**	**1**	**3,190**

Financial Assets and Liabilities – Generally, fair values are determined by observable market quotations or valuation techniques supported by observable market quotations.

By applying a valuation technique, such as present value of future cash flows, fair values are based on estimates. However, methods and assumptions followed to disclose data presented herein are inherently judgmental and involve various limitations like estimates as of December 31st, 2006 and 2005, which are not necessarily indicative of the amounts that the Company would record upon further disposal/ termination of the financial instruments.

The methodologies used are as follows:

Short-term investments, cash, short-term loans, suppliers – The carrying amounts reflected in the annual accounts are reasonable estimates of fair value because of the relatively short period of time between the origination of the instruments and its expected realisation.

Long-term debt; short-term debt – Neither long term nor short term debt is classified as liabilities held for trading and as such accounted for at amortised cost.

Securities – The fair value of securities included in available-for-sale investments is estimated by reference to their quoted market price at the balance sheet date. If a quoted market price is not available, fair value is determined on the basis of generally accepted valuation methods on the basis of market information available at the reporting date.

Currency and Interest Rate Contracts – The fair value of these instruments is the estimated amount that the Company would receive or pay to settle the related agreements as of December 31st, 2006 and 2005.

The following types of **financial assets** held at December 31st, 2006 are recognised at fair value through profit or loss:

(in €m)	Nominal amount at initial recognition	Fair value as of December 31st, 2006
Money Market Funds (accumulating)	3,418	3,459
Bond Funds	18	17
Total	**3,436**	**3,476**

The cumulative unrealised gain recognised in finance income amounts to 37 M €.

In addition EADS invests in Money Market Funds paying interest on a monthly basis. The fair value of those funds corresponds to their nominal amount at initial recognition date amounting to 1,598 M €.

All types of Money Market Funds are presented in Cash and cash equivalent.

31. Share-based Payment

a) Long Term Incentive Plans

Based on the authorisation given to it by the shareholders' meetings (see dates below), the Group's Board of Directors approved (see dates below) stock option plans in 2006, 2005, 2004, 2003, 2002, 2001 and 2000. These plans provide to the members of the Executive Committee as well as to the Group's senior management the grant of options for the purchase of EADS shares. At its 18th, December 2006 meeting, the Board of Directors of the Company, using the authorisation given to it by the shareholders' meeting of 4th, May 2006 approved the granting of performance shares and restricted shares to eligible employees of the Company.

For the 2006 Stock Option Plan, analogous to all of EADS' previous existing stock option plans, the granted exercise price was exceeding the share price at grant date.

In 2006, compensation expense for Stock Option Plans was recognised for an amount of 40 M € (2005: 24 M €).

The fair value of one option granted under the 8th tranche amounts to €8.37, the fair value of one performance and restricted shares amounts to €24.26 as of grant date, respectively.

The following major input parameters where used in order to calculate the fair value of the stock options granted:

Input parameters for the Black Scholes Option Pricing Model

	SOP 2006	SOP 2005	SOP 2004
Share price (€)	25.34	32.79	22.83
Exercise price (€)(1)	25.65	33.91	24.32
Risk-free interest rate (%)(2)	4.13	3.24	3.35
Expected volatility (%)	30.7	24.8	27.0
Estimated option life (years)	5.5	5.5	5.5

(1) The exercise price for the performance and restricted shares are 0 €.
(2) The risk-free interest rate is based on a 5 years zero coupon yield curve.

EADS uses the historical volatilities of its share price as an indicator to estimate the volatility of its stock options granted. To test whether those historical volatilities sufficiently approximate expected future volatilities, they are compared to the implied volatilities of EADS options, which are traded at the market as of grant date. Such options typically have a shorter life of up to two years. In case of only minor differences between the historical volatilities and the implied volatilities, EADS uses historical volatilities as input parameters to the Black Scholes Option Pricing Model (please refer to Note 2 "Summary of significant accounting policies"). For valuation purposes performance criteria are considered to be met.

The estimated option life of 5.5 years is based on historical experience and incorporates the effect of expected early exercises.

The principal characteristics of these options, performance and restricted shares as at 31st, December 2006 are summarised in the tables below:

	First Tranche	Second Tranche	Third Tranche
Date of shareholders' meeting	May 24th, 2000	May 24th, 2000	May 10th, 2001
Date of Board of Directors meeting (grant date)	May 26th, 2000	October 26th, 2000	July 12th, 2001
Number of options granted	5,324,884	240,000	8,524,250
Number of options outstanding	1,743,489	32,000	3,856,519
Total number of eligible employees	850	34	1,650
Exercise date	50% of options may be exercised after a period of two years and four weeks from the date of grant of the options; 50% of options may be exercised as of the third anniversary of the date of grant of the options (subject to specific provisions contained in the Insider Trading Rules - see "Part 2/3.1.3 Governing Law - Dutch Regulations".		
Expiry date	July 8th, 2010	July 8th, 2010	July 12th, 2011
Conversion right	One option for one share		
Vested	100%	100%	100%
Exercise price	Euro 20.90	Euro 20.90	Euro 24.66
Exercise price conditions	110% of fair market value of the shares at the date of grant	110% of fair market value of the shares at the date of grant	110% of fair market value of the shares at the date of grant
Number of exercised options	2,856,911	188,000	3,490,831

	Fourth Tranche	Fifth Tranche	Sixth Tranche
Date of shareholders' meeting	May 10th, 2001	May 6th, 2003	May 6th, 2003
Date of Board of Directors meeting (grant date)	August 9th, 2002	October 10th, 2003	October 8th, 2004
Number of options granted	7,276,700	7,563,980	7,777,280
Number of options outstanding	2,911,916	5,229,965	7,599,700
Total number of eligible employees	1,562	1,491	1,495
Exercise date	50% of options may be exercised after a period of two years and four weeks from the date of grant of the options; 50% of options may be exercised as of the third anniversary of the date of grant of the options (subject to specific provisions contained in the Insider Trading Rules - see "Part 2/3.1.3 Governing Law - Dutch Regulations"). As regards to the sixth tranche, part of the options granted to the top EADS Executives are performance related.		
Expiry date	August 8th, 2012	October 9th, 2013	October 7th, 2014
Conversion right	One option for one share		
Vested	100%	100%	50%
Exercise price	Euro 16.96	Euro 15.65	Euro 24.32
Exercise price conditions	110% of fair market value of the shares at the date of grant	110% of fair market value of the shares at the date of grant	110% of fair market value of the shares at the date of grant
Number of exercised options	4,115,534	2,116,545	2,400

	Seventh Tranche	Eighth Tranche
Date of shareholders' meeting	May 11th, 2005	May 4th, 2006
Date of Board of Directors meeting (grant date)	December 9th, 2005	December 18th, 2006 (1)
Number of options granted	7,981,760	1,747,500
Number of options outstanding	7,907,600	1,747,500
Total number of eligible employees	1,608	221
Exercise date	50% of options may be exercised after a period of two years from the date of grant of the options; 50% of options may be exercised as of the third anniversary of the date of grant of the options (subject to specific provisions contained in the Insider Trading Rules - see "Part 2/3.1.3 Governing Law - Dutch Regulations"). As regards to the seventh tranche, part of the options granted to the top EADS Executives are performance related.	
Expiry date	December 8th, 2015	December 16th, 2016
Conversion right	One option for one share	
Vested	0%	0%
Exercise price	Euro 33.91	Euro 25.65
Exercise price conditions	110% of fair market value of the shares at the date of grant	110% of fair market value of the shares at the date of grant
Number of exercised options	0	0

	Eighth Tranche	
	Performance share plan	Restricted share plan
Number of shares granted	1,344,625	391,300
Date of Board of Directors meeting (grant date)	December 18th, 2006 (1)	December 18th, 2006 (1)
Total number of eligible employees	1,637	
Vesting date	The performance and restricted shares will vest if the participant is still employed by an EADS company and, in the case of performance shares, upon achievement of mid-term business performance. The vesting period will end at the date of publication of the 2009 annual results, expected in March 2010.	

(1) The eighth tranche was published to the employees up to January 8th, 2007.

The following table summarises the development of the number of stock options:

First & Second Tranche	Number of Options				
	Options granted	Balance at January 1	Exercised	Forfeited	Balance at December 31
2000	5,564,884	-	-	(189,484)	5,375,400
2001	-	5,375,400	-	-	5,375,400
2002	-	5,375,400	-	-	5,375,400
2003	-	5,375,400	-	(75,000)	5,300,400
2004	-	5,300,400	(90,500)	(336,000)	4,873,900
2005	-	4,873,900	(2,208,169)	(121,000)	2,544,731
2006		2,544,731	(746,242)	(23,000)	1,775,489

Third Tranche	Number of Options				
	Options granted	Balance at January 1	Exercised	Forfeited	Balance at December 31
2001	8,524,250	-	-	(597,825)	7,926,425
2002	-	7,926,425	-	-	7,926,425
2003	-	7,926,425	-	(107,700)	7,818,725
2004	-	7,818,725	-	(328,500)	7,490,225
2005	-	7,490,225	(2,069,027)	(132,475)	5,288,723
2006		5,288,723	(1,421,804)	(10,400)	3,856,519

Fourth Tranche	Number of Options				
	Options granted	Balance at January 1	Exercised	Forfeited	Balance at December 31
2002	7,276,700	-	-	(600)	7,276,100
2003	-	7,276,100	-	(70,125)	7,205,975
2004	-	7,205,975	(262,647)	(165,500)	6,777,828
2005	-	6,777,828	(2,409,389)	(9,250)	4,359,189
2006		4,359,189	(1,443,498)	(3,775)	2,911,916

Fifth Tranche	Number of Options				
	Options granted	Balance at January 1	Exercised	Forfeited	Balance at December 31
2003	7,563,980	-	-	-	7,563,980
2004	-	7,563,980	(9,600)	(97,940)	7,456,440
2005	-	7,456,440	(875,525)	(87,910)	6,493,005
2006		6,493,005	(1,231,420)	(31,620)	5,229,965

Sixth Tranche	Number of Options				
	Options granted	Balance at January 1	Exercised	Forfeited	Balance at December 31
2004	7,777,280	-	-	-	7,777,280
2005	-	7,777,280	-	(78,220)	7,699,060
2006		7,699,060	(2,400)	(96,960)	7,599,700

SeventhTranche	Number of Options				
	Options granted	Balance at January 1	Exercised	Forfeited	Balance at December 31
2005	7,981,760	-	-	-	7,981,760
2006		7,981,760	-	(74,160)	7,907,600

EighthTranche	Number of Options				
	Options granted	Balance at January 1	Exercised	Forfeited	Balance at December 31
2006	1,747,500	-	-	-	1,747,500
Total options for all Tranches	**46,436,354**	**-**	**(12,770,221)**	**(2,637,444)**	**31,028,689**

Performance/restricted shares plan	Number of Shares				
	Shares granted	Balance at January 1	Vested	Forfeited	Balance at December 31
Performance shares in 2006	1,344,625	-	-	-	1,344,625
Restricted shares in 2006	391,300	-	-	-	391,300
Total shares	**1,735,925**	**-**	**-**	**-**	**1,735,925**

b) Employee Stock Ownership Plan (ESOP)

In 2006, no ESOP was issued by the company. Therefore, no compensation expense was recognised in 2006 (2005: 9 M €) in connection with the ESOPs.

32. Related party transactions

Related parties – The Group has entered into various transactions with related companies in 2006, 2005 and 2004 that have all been carried out in the normal course of business. As is the Group's policy, all related party transactions have to be carried out at arm's length. Transactions with related parties include the French State, DaimlerChrysler, Lagardère and SEPI (Spanish State). Except for the transactions with the French State and SEPI, the transactions are not considered material to the Group either individually or in the aggregate. The transactions with the French State include mainly sales from the Eurocopter, Astrium and Defence & Security divisions for programs like Tiger, M51 / M45 ballistic missiles and SCALP naval cruise missiles. The transactions with Spanish State include mainly sales from the MTA division for programs like the A400M.

Remuneration – Remuneration and related compensation costs of all of the members of the Board of Directors in office as at December 31st, 2006 amounted to 6 M € for the period ended December 31st, 2006 (in 2005: 8 M €). These amounts do not comprise the amounts of the estimated cost of stock-based compensation of Directors.

The 2006 amount does not comprise either the amounts granted in 2006 to the former Director Noël Forgeard in remuneration for his membership with the Board of Directors and under the terms of his employment contract as termination package. For more information in respect of remuneration of former Director, see "Notes to the Company Financial Statements - Note 11: Remuneration".

EADS has not provided any loans to/advances to/guarantees on behalf of Directors or former Directors.

In 2006, total remuneration of EADS Executive Committee members in office as at December 31st, 2006 (therefore excluding former Executive Committee members, but including those Executive Board Directors who are also Executive Committee members) amounted to 11 M € (2005: 13 M €). Additionally, stock-options granted in 2006 for this group of managers represented 475,000 options and performance shares granted in 2006 represented 133,750 shares.

The Executive Committee members have pension promises as part of their employment agreements. The general policy is to give them annual pension of 50% of their annual base salary after five years in the Executive Committee of EADS at the age of 60 to 65. In case of the CEOs, the retirement age is 60. This obligation increases to 60% after ten years of service in the EADS Executive Committee.

For those Executive Committee members in office as at December 31st, 2006, the amount of the pension net defined benefit obligation amounted to 18 M € while the cumulative amount of current service cost and interest cost related to their benefit obligation accounted for during fiscal year 2006 represented an expense of 2 M €.

The Executive Committee members are furthermore entitled to a termination package when they leave the Company as a result of a decision of the Company. The employment contracts for the Executive Committee members are concluded for an indefinite term with an indemnity of up to a maximum of 24 months of their target income. The maximum 24 months indemnity can be reduced prorata depending on the age of departure.

Executive Committee members are also entitled to a company car.

33. Investment property

The Group owns investment property, that is leased to third parties. For the purposes of IAS 40 "Investment property" the fair values have been determined by using market based multipliers for estimated rental income or using available market prices.

Buildings held as investment property are depreciated on a linear basis over their useful life up to 20 years. The values assigned to investment property are as follows:

(in €m)	Historical cost	Accumulated depreciation December 31, 2005	Book value December 31, 2005	Transfer Historical cost	Depreciation Amortisation	Transfer Accumulated depreciation	Accumulated depreciation December 31, 2006	**Net at December 31, 2006**
Book value of Investment Property	253	(119)	134	18	(12)	(3)	(134)	**137**

As of December 31st, 2006, the fair value of the Group's investment property amounts to 154 M € (in 2005: 134 M €). Related rental income in 2006 is 15 M € (in 2005: 15 M €) with direct operating expenses amounting to 7 M € (in 2005: 8 M €).

34. Interest in Joint Ventures

The Group's principal investments in joint ventures and the proportion of ownership are included in Appendix "Information on principal investments". Joint ventures are consolidated using the proportionate method.

The following amounts represent the Group's aggregate share of the assets and liabilities and income and expenses of the significant joint ventures (MBDA, Atlas and ATR):

(in €m)	**2006**	2005
Non current assets	830	680
Current assets	3,503	3,379
Non current liabilities	612	362
Current liabilities	3,245	3,162
Revenues	2,006	1,828
Profit for the period	170	121

35. Earnings per Share

The profit for the period attributable to equity holders of the parent (Net income) for 2004 was adjusted due to retrospective application of IFRS 2 "Share-based Payment" amounting to (12) M € and due to IAS 32 "Financial Instruments: Disclosure and Presentation" (revised 2004) in 2004 with an amount of 185 M €.

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

	2006	2005	2004
Profit for the period attributable to equity holders of the parent (Net income)	99 M €	1,676 M €	1,203 M €
Weighted average number of ordinary shares	800,185,164	794,734,220	801,035,035
Basic earnings per share	0.12 €	2.11 €	1.50 €

The effect from applying in 2006 the IAS 19 equity approach instead of the corridor approach contributes 0.03 € to basic earnings per share. For further details please refer to Note 2 "Summary of significant accounting policies" and Note 21 b) "Provisions for retirement plans".

Diluted earnings per share – For the calculation of the diluted earnings per share, the weighted average number of ordinary shares is adjusted to assume conversion of all potential ordinary shares. The Group's only category of dilutive potential ordinary shares is stock options. In 2006, the average share price of EADS exceeded the exercise price of the stock options under the 1st, 2nd, 3rd, 4th, 5th and 6th stock option plan (in 2005: 1st, 2nd, 3rd, 4th, 5th, and 6th stock option plan; in 2004: 4th and 5th stock option plan). Hence, 4,130,499 shares (2005: 5,482,133 shares; 2004: 3,047,837 shares) were considered in the calculation of diluted earnings per share.

	2006	2005	2004
Profit for the period attributable to equity holders of the parent (Net income)	99 M €	1,676 M €	1,203 M €
Weighted average number of ordinary shares	804,315,663	800,216,353	804,082,872
Diluted earnings per share	0.12 €	2.09 €	1.50 €

The effect from applying in 2006 the IAS 19 equity approach instead of the corridor approach contributes 0.03 € to diluted earnings per share. For further details please refer to Note 2 "Summary of significant accounting policies" and Note 21 b) "Provisions for retirement plans".

36. Number of Employees

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

37. Events after the balance sheet date

Following an agreement dated January 10th, 2007, EADS sold its remaining 60% shares of Sogerma Services as well as the shares of the subsidiaries Barfield and Sogerma Tunisia (please also refer to Note 19 “Non-current assets / disposal groups classified as held for sale”).

EADS sold on February 12th, 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 28th, 2007, the Airbus management disclosed the restructuring portion of its program called ”Power 8“ to the public and to the Airbus European Works Council. The Airbus management will implement strong cost reductions and cash generating efforts leading to expected EBIT contributions of 2.1 billion € from 2010 onwards and additional 5 billion € of cumulative cash flow from 2007 to 2010. The restructuring program includes a progressive headcount reduction of 10,000 overhead positions over four years of which 5,000 are temporary or on-site subcontractors. Furthermore, Airbus will focus on its core activities in the future, therefore is seeking partners for sites like for Nordenham, Filton and Méaulte to invest into composite technology. The sites of Varel, Laupheim and St. Nazaire-Ville will be offered for sale or gathered with nearby sites. In addition, Airbus will streamline for future and existing programs its final assembly lines in the different countries. This includes a third A320 family final assembly line in Hamburg in order to manage the steep ramp-up of this program. The A350XWB will be assembled in Toulouse and the future New Short Range in Hamburg. Also, Airbus will introduce a fully integrated and trans-national organisation. Therefore, Airbus will replace the current organisation of eight nationally structured Centres of Excellence by four transnational centres of excellence. Finally, Airbus will make use of shared services within EADS. Regarding the expected restructuring costs related to the Power 8 program, Airbus will set up restructuring provisions in its first quarter of 2007 accounts.

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

These consolidated financial statements have been authorised for issuance by the Board of Directors on March 8th, 2007.

Appendix: Information on principal investments - Consolidation Scope

	2006	%	2005	%	Company	Head office
Airbus						
			F	80.00	128829 Canada Inc.	Canada
	F	100.00			AD Grundstückgesellschaft GmbH	Pöcking (Germany)
			F	80.00	AFS (Cayman) Ltd	Ireland
	F	100.00	F	80.00	AFS Cayman 11 Limited	Cayman Isle
	F	100.00	F	80.00	AFS Cayman Aerospace Limited	Ireland
			F	80.00	AFS USA 1 inc	U.S.A.
	F	100.00	F	80.00	AI leasing Inc.	U.S.A.
	F	100.00	F	80.00	AI Participations S.A.R.L.	Blagnac (France)
			F	80.00	AIFI LLC	Isle Of Man
	F	100.00	F	80.00	AIFS (Cayman) ltd.	Cayman Isle
	F	100.00	F	80.00	AIFS Cayman Liquidity ltd.	Cayman Isle
	F	100.00	F	80.00	AIFS Leasing Company Limited	Ireland
	F	100.00	F	80.00	Airbus North American Holdings Inc. (AINA Inc.)	U.S.A.
	F	100.00	F	80.00	Airbus A320 Financing limited	Ireland
	F	100.00	F	80.00	Airbus China limited	Hong-Kong
	F	100.00	F	80.00	Airbus Deutschland GmbH	Hamburg (Germany)
	F	100.00	F	80.00	Airbus Espana SL	Madrid (Spain)
	F	100.00	F	80.00	Airbus Finance Company Ltd	Dublin (Ireland)
	F	100.00	F	80.00	Airbus Financial Service Holdings B.V.	Netherlands
			F	80.00	Airbus Financial Service Holdings ltd.	Ireland
	F	100.00	F	80.00	Airbus Financial Service Unlimited	Ireland
	F	100.00	F	80.00	Airbus France S.A.S	Toulouse (France)
	F	100.00	F	80.00	Airbus Holding SA	France
	F	100.00	F	80.00	Airbus Invest	Toulouse (France)
	F	100.00	F	80.00	Airbus North America Engineering	U.S.A.
	F	100.00	F	80.00	Airbus North American Holdings Inc. (AINA)	U.S.A.
	F	100.00	F	80.00	Airbus S.A.S	Toulouse (France)
	F	100.00	F	80.00	Airbus North America Customer Service, Inc. (ASCO)	U.S.A.
	F	100.00	F	80.00	Airbus Transport International S.N.C. (ATI)	Blagnac (France)
			F	80.00	Airbus Treasury Company	Ireland
	F	100.00	F	80.00	Airbus UK Limited	UK
			E	16.00	Alexandra Bail G.I.E	France
			F	80.00	Avaio Aerospace Limited	Ireland
			F	80.00	Avaio Aviation Limited	Ireland
			F	80.00	Avaio International Limited	Ireland
			F	80.00	Avaio Leasing Limited	Ireland
	F	100.00	F	80.00	Avaio Limited	Isle Of Man
	F	100.00	F	80.00	Aviateur Aerospace Limited	Ireland
	F	100.00	F	80.00	Aviateur Eastern Limited	Ireland
	F	100.00	F	80.00	Aviateur Finance Limited	Ireland
	F	100.00	F	80.00	Aviateur International Limited	Ireland

F: Fully consolidated. P: Proportionate. E: Equity method.
The stated percentage of ownership is related to the respective parent company.

	2006	%	2005	%	Company	Head office
	F	100.00	F	80.00	Aviateur Leasing Limited	Ireland
			F	80.00	Aviateur Limited	Ireland
	E	26.40	E	26.40	Avion Capital Limited	Ireland
			F	80.00	Avion Finance Limited	Ireland
	F	100.00	F	80.00	AVSA Canada Inc.	Canada
			F	80.00	AVSA SARL	Blagnac (France)
	F	100.00	F	80.00	Norbus	U.S.A.
	F	100.00	F	80.00	Star Real Estate SAS	Boulogne (France)
	F	100.00	F	80.00	Total Airline Service Company	United Arab Emirates
	Additionally consolidated are 41 SPEs.					
Military Transport Aircraft						
	F	90.00	F	76.12	Airbus Military S.L.	Madrid (Spain)
	F	100.00	F	100.00	EADS CASA North America, Inc	Chantilly / Virginia (USA)
	F	100.00	F	100.00	EADS CASA S.A. (Unit: EADS CASA Military Transport Aircraft)	Madrid (Spain)
	F	77.21	F	76.41	EADS PZL "WARSZAWA-OKECIE" S.A.	Warsaw (Poland)
Eurocopter						
	F	100.00	F	100.00	AA military maintenance Pty. Ltd.	Brisbane (Australia)
	F	100.00	F	100.00	AA New Zealand Pty. Ltd.	Bankstown (Australia)
	F	100.00	F	100.00	American Eurocopter Corp.	Dallas, Texas (USA)
	F	60.00	F	60.00	American Eurocopter LLC	Dallas, Texas (USA)
	F	100.00	F	100.00	Australian Aerospace Ltd.	Bankstown (Australia)
	F	100.00	F	100.00	EIP Holding Pty. Ltd.	Bankstown (Australia)
	F	75.00	F	75.00	Eurocopter South East Asia Pte. Ltd.	Singapore (Singapore)
	F	100.00	F	100.00	Eurocopter Canada Ltd.	Ontario (Canada)
	F	100.00	F	100.00	Eurocopter Deutschland GmbH	Donauwörth (Germany)
	F	100.00	F	100.00	Eurocopter España S.A.	Madrid (Spain)
	F	100.00	F	100.00	Eurocopter Holding S.A.	Paris (France)
	F	100.00	F	100.00	Eurocopter S.A.S.	Marignane (France)
	F	100.00			Eurocopter Training Services SAS	Marignane (France)
	F	76.52	F	76.52	Helibras - Helicopteros do Brasil S.A.	Itajuba (Brazil)
	E	25.00			HFTS Helicopter Flight Training Services GmbH	Hallbergmoos (Germany)
Defence & Security						
	F	100.00	F	100.00	Aircraft Services Lemwerder GmbH	Lemwerder (Germany)
	P	37.50	P	37.50	ALKAN	Valenton (France)
	F	100.00	F	100.00	Apsys	Suresnes (France)
	E	13.20			Arbeitsgemeinschaft Marinelogistik	Bremen (Germany)
	E	12.00			Atlas Defence Technology SDN.BHD	Kuala Lumpur (Malaysia)
	P	40.00			Atlas Elektronik PTY Limited	St. Leonards (Australia)
	P	40.00			Atlas Elektronik GmbH	Bremen (Germany)
	P	40.00			Atlas Hydrographic Holdings PTY Limited	St. Leonards (Australia)
	P	40.00			Atlas Hydrographic GmbH	Bremen (Germany)
	P	40.00			Atlas Maridan ApS	Horsholm (Denmark)
	P	40.00			Atlas Naval Systems Malaysia SDN.BHD.	Kuala Lumpur (Malaysia)
	F	55.00	F	55.00	Aviation Defense Service S.A.	Saint-Gilles (France)
	P	50.00	P	50.00	Bayern-Chemie Gesellschaft für flugchemische Antriebe mbH	Aschau/Inn (Germany)

F: Fully consolidated. P: Proportionate. E: Equity method.

The stated percentage of ownership is related to the respective parent company.

2006	%	2005	%	Company	Head office
E	16.00			CybiCOM Atlas Defence (Proprietary) Limited	Umhlanga Rocks, South Africa
F	100.00	F	100.00	Defense Security Systems Solutions Inc.	San Antonio, Texas (USA)
F	100.00	F	100.00	Dornier Consulting GmbH	Friedrichshafen (Germany)
F	100.00	F	100.00	Dornier Flugzeugwerft GmbH	Friedrichshafen (Germany)
F	100.00	F	100.00	EADS CASA S.A. (Unit: Military Aircraft)	Madrid (Spain)
F	100.00	F	100.00	EADS CASA S.A. (Unit: Operations Service)	Madrid (Spain)
F	100.00	F	100.00	EADS Defence & Security Systems Limited	Newport, Wales (UK)
F	100.00	F	100.00	EADS Defence & Security Systems Limited - Holding	Newport, Wales (UK)
F	100.00	F	100.00	EADS Defence & Security Systems SA	Velizy (France)
F	100.00	F	100.00	EADS Deutschland GmbH – Defence Headquarter [before: VA Restaktivitäten]	Unterschleißheim (Germany)
		F	100.00	EADS Deutschland GmbH - Dornier Services	Friedrichshafen (Germany)
F	100.00	F	100.00	EADS Deutschland GmbH - Dornier Verteidigung und Zivile Systeme	Friedrichshafen (Germany)
F	100.00	F	100.00	EADS Deutschland GmbH - Military Aircraft TB 51	Munich (Germany)
F	100.00	F	100.00	EADS Deutschland GmbH – Verteidigung und Zivile Systeme	Ulm (Germany)
F	100.00	F	100.00	EADS Deutschland GmbH (Unit: Operations Services)	Unterschleißheim (Germany)
F	100.00	F	100.00	EADS North America Defense Company	Wilmington, Delaware (USA)
F	100.00	F	100.00	EADS Operations & Services UK	Yeovil, Somerset (UK)
F	100.00	F	100.00	EADS Secure Networks Oy	Helsinki (Finland)
F	100.00	F	100.00	EADS Secure Networks SAS	Bois d'Arcy (France)
F	100.00	F	100.00	EADS Services	Boulogne (France)
F	100.00	F	100.00	EADS System & Defence Electronics Belgium	Oostkamp (Belgium)
F	100.00	F	100.00	EADS Telecom Deutschland GmbH	Ulm (Germany)
F	100.00	F	100.00	EADS Telecom Deutschland GmbH	Unterschleißheim (Germany)
F	100.00	F	100.00	EADS Telecom Espana	Madrid (Spain)
F	100.00	F	100.00	EADS Telecom Mexico SA de CV	Mexico DF (Mexico)
F	100.00			ECATS	Paris (France)
E	30.00	E	30.00	ESG Elektroniksystem- und Logistikgesellschaft	Munich (Germany)
		F	100.00	EUROBRIDGE Mobile Brücken GmbH	Friedrichshafen (Germany)
		F	100.00	Ewation GmbH	Ulm (Germany)
F	100.00	F	100.00	Fairchild Controls Corporation	Frederick Maryland (USA)
F	100.00	F	100.00	FmElo Elektronik- und Luftfahrtgeräte GmbH	Ulm (Germany)
F	100.00	F	100.00	Germantown Holding Company	Frederick Maryland (USA)
F	100.00	F	100.00	Gesellschaft für Flugzieldarstellung mbH	Hohn, Germany
F	100.00			Get Electronique S.A.	Castres (France)
F	100.00	F	100.00	Hagenuk Marinekommunikation GmbH	Flintbek (Germany)
F	100.00			IFR France S.A.	Blagnac (France)
F	100.00	F	100.00	Integrated Defense Systems NA	Wilmington, Delaware (USA)
P	37.50	F	81.25	LFK – Lenkflugkörpersysteme GmbH	Unterschleißheim (Germany)
F	100.00	F	100.00	M.P. 13	Paris (France)
P	50.00	P	50.00	Maîtrise d'Oeuvre SyStème	Issy les Moulineaux (France)
F	100.00	F	100.00	Manhattan Beach Holdings Co.	Frederick Maryland (USA)
P	37.50	P	37.50	Marconi Overside Ldt.	Chelmsford (UK)
F	100.00	F	100.00	Matra Aerospace Inc.	Frederick Maryland (USA)
F	100.00	F	100.00	Matra Défense	Velizy (France)

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The stated percentage of ownership is related to the respective parent company.

	2006	%	2005	%	Company	Head office
	P	37.50	P	37.50	Matra Electronique	La Croix Saint-Ouen (France)
	F	100.00	F	100.00	Matra Holding GmbH	Frankfurt (Germany)
	P	37.50	P	37.50	MBDA France	Velizy (France)
	P	37.50	P	37.50	MBDA Holding	Velizy (France)
	P	37.50	P	37.50	MBDA Inc	Westlack, CA (USA)
	P	37.50	P	37.50	MBDA Italy SpA	Roma (Italy)
	P	37.50	P	37.50	MBDA M S.A.	Chatillon sur Bagneux (France)
	P	37.50	P	37.50	MBDA SAS	Velizy (France)
	P	37.50	P	37.50	MBDA Services	Velizy (France)
	P	37.50	P	37.50	MBDA Treasury	Jersey (UK)
	P	37.50	P	37.50	MBDA UK Ltd.	Stevenage, Herts (UK)
	E	26.80			Patria Industries Oyj	Finland
	F	80.00	F	80.00	Pentastar Holding	Paris (France)
	F	100.00	F	100.00	Proj2	Paris (France)
	P	50.00	P	50.00	Propulsion Tactique S.A.	La Ferte Saint Aubin (France)
	F	100.00	F	100.00	Racal Instruments US	San Antonio, Texas (USA)
	F	100.00	F	100.00	Racal Instruments UK	Wimborne, Dorset (UK)
	E	33.00	E	33.00	Reutech Radar Systems (Pty) Ltd.	Stellenbosch (South Africa)
	E	18.75	E	18.75	Roxel	Saint-Médard-en-Jalles (France)
	F	100.00			Sofrelog S.A.	Bozons (France)
	P	40.00			Sonartech Atlas Pty Ltd.	St. Leonards (Australia)
	F	100.00	F	100.00	Sycomore S.A.	Boulogne-Billancourt (France)
	F	100.00	F	100.00	Talon Instruments	San Dimas, CA (USA)
	P	25.13	F	67.00	TAURUS Systems GmbH	Schrobenhausen (Germany)
	P	37.50	F	100.00	TDW- Ges. für verteidigungstechnische Wirksysteme GmbH	Schrobenhausen (Germany)
			E	25.00	Telefunken Radio Communication Systems GmbH & Co. KG	Ulm (Germany)
	F	100.00	F	100.00	Test & Services France	Velizy (France)
	F	99.99	F	99.99	Test & Services North America	Wilmington, Delaware (USA)
	F	100.00	F	100.00	TYX Corp.	Reston, VA (USA)
	E	50.00	E	50.00	United Monolithic Semiconductors France SAS	Orsay (France)
	E	50.00	E	50.00	United Monolithic Semiconductors Holding	Orsay (France)
	E	50.00	E	50.00	United Monolithics Semiconductor GmbH	Ulm (Germany)
	F	90.00	F	90.00	UTE CASA A.I.S.A.	Madrid (Spain)
Astrium						
	F	100.00	F	100.00	Astrium GmbH - Satellites (in 2005: EADS Astrium GmbH)	Munich (Germany)
	F	100.00	F	100.00	Astrium GmbH - Space Transportation (in 2005: EADS Space Transportation GmbH)	Munich (Germany)
	F	100.00	F	100.00	Astrium Holding SAS (in 2005: EADS Space Transportation (Holding) SAS)	Paris (France)
	F	100.00	F	100.00	Astrium Ltd. - Satellites (in 2005: EADS Astrium Ltd.)	Stevenage (UK)
	F	100.00	F	100.00	Astrium SAS - Satellites (in 2005: EADS Astrium SAS)	Toulouse (France)
	F	100.00	F	100.00	Astrium SAS - Services (in 2005: EADS Space Management & Services SAS)	Paris (France)
	F	100.00	F	100.00	Astrium SAS - Space Transportation (in 2005: EADS Space Transportation SAS)	Les Muraux (France)
	F	100.00			Astrium Services GmbH	Ottobrunn (Germany)

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The stated percentage of ownership is related to the respective parent company.

	2006	%	2005	%	Company	Head office
	F	100.00	F	100.00	Computadoras, Redes e Ingenieria SA (CRISA)	Madrid (Spain)
	F	100.00			Dutch Space B.V.	Leiden (Netherlands)
	F	100.00	F	100.00	EADS Astrium Jersey Ltd.	Jersey (UK)
	F	100.00	F	100.00	EADS Astrium N.V.	The Hague (Netherlands)
	F	100.00			EADS Astrium SL	Madrid (Spain)
	F	100.00	F	100.00	EADS CASA Espacio S.L.	Madrid (Spain)
	F	100.00	F	100.00	EADS Deutschland GmbH – Space Services	Munich (Germany)
			F	100.00	EADS Space B.V.	Amsterdam (Netherlands)
			F	100.00	EADS Space Transportation N.V.	Amsterdam (Netherlands)
	F	100.00	F	100.00	Infoterra GmbH	Friedrichshafen (Germany)
	F	100.00	F	100.00	Infoterra Ltd	Southwood (UK)
	F	100.00			Infoterra SAS	Toulouse (France)
	F	100.00	F	100.00	Matra Marconi Space UK Ltd.	Stevenage (UK)
	F	75.00			MilSat Services GmbH	Bremen (Germany)
	F	100.00	F	100.00	MMS Systems Ltd	Stevenage (UK)
	E	47.40	E	47.40	Nahuelsat S.A.	Buenos Aires (Argentina)
	F	100.00	F	100.00	Paradigm Secure Communications (Holding) Ltd.	Stevenage (UK)
	F	100.00	F	100.00	Paradigm Secure Communications Ltd	Stevenage (UK)
	F	100.00	F	100.00	Paradigm Services Ltd	Stevenage (UK)
	F	89.98			Sodern S.A.	Limeil Brevannes (France)
	E	40.03			Spot Image	Toulouse (France)
	F	100.00	F	100.00	TESAT-Spacecom Geschäftsführung GmbH	Backnang (Germany)
	F	100.00	F	100.00	TESAT-Spacecom GmbH & Co. KG	Backnang (Germany)
Other Businesses						
	F	80.00	F	80.00	Aerobail GIE	Paris (France)
	P	50.00	P	50.00	ATR Eastern Support	Singapore (Singapore)
	P	50.00	P	50.00	ATR GIE	Toulouse (France)
	P	50.00	P	50.00	ATR International SARL	Toulouse (France)
	P	50.00	P	50.00	ATR North America Inc.	Washington D.C. (USA)
	P	50.00	P	50.00	ATR Training Center SARL	Toulouse (France)
	P	50.00	P	50.00	ATRiam Capital Ltd.	Dublin (Ireland)
	F	50.10	F	50.10	Composites Aquitaine S.A.	Salaunes (France)
	F	50.00	F	50.00	Composites Atlantic Ltd.	Halifax (Canada)
			F	88.00	EADS Aeroframe services LLC	Lake Charles, Louisiana (USA)
	F	100.00	F	100.00	EADS ATR S.A.	Toulouse (France)
	E	49.99	E	49.99	EADS Revima APU S.A.	Caudebec en Caux (France)
	F	100.00	F	100.00	EADS Revima S.A.	Tremblay en France (France)
	F	100.00	F	100.00	EADS Seca S.A.	Le Bourget (France)
	F	100.00	F	100.00	EADS Socata S.A.	Le Bourget (France)
	F	100.00	F	100.00	EADS Sogerma S.A.	Mérignac (France)
	F	50.10	F	50.10	EADS Sogerma Tunisie	Monastir (Tunisia)
	F	100.00	F	100.00	Elbe Flugzeugwerke GmbH	Dresden (Germany)
	F	100.00	F	100.00	Maroc Aviation S.A.	Casablanca (Morocco)

F: Fully consolidated. P: Proportionate. E: Equity method.

The stated percentage of ownership is related to the respective parent company.

	2006	%	2005	%	Company	Head office
	F	100.00	F	100.00	Noise Reduction Engineering B.C.	Washington D.C. (USA)
	F	100.00	F	100.00	Socata Aircraft Inc.	Miami, Florida (USA)
	F	100.00	F	100.00	Sogerma America Barfield B.C.	Miami, Florida (USA)
			F	100.00	Sogerma Drawings S.A.	Mérignac (France)
	F	60.00			Sogerma Services S.A.	Mérignac (France)
	Additionally consolidated are 23 SPCs.					
Headquarters						
	E	23.15			Aero Precision	(USA)
			F	100.00	Airbus Financial Company Holding B.V.	Dublin (Ireland)
	F	75.00	F	75.00	DADC Luft- und Raumfahrt Beteiligungs AG	Munich (Germany)
			E	46.30	Dassault Aero Service	(France)
	E	46.30			Dassault Aircraft Services	(USA)
			E	46.30	Dassault Assurances Courtage	(France)
	E	46.30	E	46.30	Dassault Aviation	Paris (France)
	E	46.30	E	46.30	Dassault Falcon Jet	Teterboro N.J. (USA)
	E	46.30	E	46.30	Dassault Falcon Jet	Wilmington (USA)
	E	46.30	E	46.30	Dassault Falcon Service	Bonneuil en France
	E	46.30	E	46.30	Dassault International (USA) Inc	Paramus N.J. (USA)
	E	46.30	E	46.30	Dassault Procurement Services Inc	Paramus N.J. (USA)
			E	46.30	Dassault Sagem Tactical U A V	(France)
			E	46.30	Dassault-Reassurance	(France)
	F	97.11	F	97.11	Dornier Zentrale	Friedrichshafen (Germany)
	F	88.00			EADS Aeroframe Services LLC	Lake Charles, Louisiana (USA)
	F	100.00			EADS Airbus Holding SAS	Paris (France)
	F	100.00	F	100.00	EADS CASA France	Paris (France)
	F	100.00	F	100.00	EADS CASA S.A. (Headquarters)	Madrid (Spain)
	F	100.00	F	100.00	EADS Deutschland GmbH – Zentrale	Munich (Germany)
	F	100.00	F	100.00	EADS Deutschland GmbH, FO - Forschung	Munich (Germany)
	F	100.00	F	100.00	EADS Deutschland GmbH, LO - Liegenschaften OTN	Munich (Germany)
	F	100.00	F	100.00	EADS Dornier Raumfahrt Holding GmbH	Ottobrunn (Germany)
	F	100.00	F	100.00	EADS Finance B.V.	Amsterdam (Netherlands)
	F	100.00	F	100.00	EADS France	Paris (France)
	F	100.00	F	100.00	EADS North America Inc.	Washington D.C. (USA)
	F	97.11	F	97.11	EADS Real Estate Dornier Grundstücke GmbH & Co. KG	Taufkirchen (Germany)
	F	100.00	F	100.00	EADS Real Estate Objekt Nabern GmbH & Co. KG	Taufkirchen (Germany)
	F	100.00			EADS Sogerma Participant	Lake Charles, Louisiana (USA)
	E	23.15			Falcon Training Center	France
	E	46.30			Midway	USA
	E	46.30	E	46.30	Sogitec Industries	Suresnes (France)

F: Fully consolidated. P: Proportionate. E: Equity method.
The stated percentage of ownership is related to the respective parent company.

AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

To: The European Aeronautic Defence and Space Company EADS N.V. shareholders.

Report on the Consolidated Financial Statements

We have audited the accompanying 2006 consolidated financial statements which are part of the financial statements of European Aeronautic Defence and Space Company EADS N.V., Amsterdam, authorised for issue on March 8, 2007, which comprise the consolidated balance sheets as at December 31st, 2006, the income statements, the statements of changes in equity and the statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the report of the Board of Directors in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of European Aeronautic Defence and Space Company EADS N.V. as at December 31st, 2006, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the report of the Board of Directors is consistent with the company financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Rotterdam, 19. März 2007

KPMG Accountants N.V
L.A. Blok

Amsterdam, 19. März 2007

Ernst & Young Accountants
F.A.L. van der Bruggen

COMPANY FINANCIAL STATEMENTS

1. Balance Sheet of the Company Financial Statements

(in €m) Assets	Note	At December 31, 2006	2005
Fixed assets			
Goodwill	2	4,354	4,354
Financial fixed assets	2	12,298	12,706
		16,652	**17,060**
Non-fixed assets			
Receivables and other assets	3	4,387	3,959
Securities	4	1,660	5,005
Cash and cash equivalents	4	6,862	3,093
		12,909	**12,057**
Total assets		**29,561**	**29,117**
Liabilities and stockholders' equity			
Stockholders' equity (1)	5		
Issued and paid up capital		816	818
Share premium		8,160	8,715
Revaluation reserves		3,657	2,359
Other legal reserves		1.472	1.993
Treasury shares		(349)	(445)
Retained earnings		(741)	(386)
		13,015	**13,054**
Non-current liabilities			
Financial liabilities	6	320	357
Non current other liabilities	6	1,518	1,523
		1,838	**1,880**
Current liabilities			
Liability for puttable instruments	7	-	3,500
Current other liabilities	8	14,708	10,683
		14,708	**14,183**
Total liabilities and stockholders` equity		**29,561**	**29,117**

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

2. Income Statement of the Company Financial Statements

(in €m)	2006	2005
Income from investments	95	1,692
Other results	4	(16)
Net result	**99**	**1,676**

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1.1 General

EADS N.V., having its legal seat in Amsterdam, the Netherlands, is engaged in the holding, coordinating and managing of participations or other interests in and to finance and assume liabilities, provide for security and/or guarantee debts of legal entities, partnerships, business associations and undertakings that are involved in the aeronautic, defence, space and/or communication industry or activities that are complementary, supportive or ancillary thereto.

The company financial statements are part of the 2006 financial statements of EADS N.V.

The description of the company's activities and the group structure, as included in the notes to the consolidated financial statements, also apply to the company financial statements. In accordance with article 402 Book 2 of the Dutch Civil Code the statement of income is presented in abbreviated form.

1.2 Principles for the measurement of assets and liabilities and the determination of the result

For setting the principles for the recognition and measurement of assets and liabilities and determination of the result for its company financial statements, EADS N.V. makes use of the option provided in section 2:362 (8) of the Netherlands Civil Code. As from 2005, the Netherlands Civil Code allows that the principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as principles for recognition and measurement) of the company financial statements of EADS N.V. are the same as those applied for the consolidated EU-IFRS financial statements. These consolidated EU-IFRS financial statements are prepared according to the standards laid down by the International Accounting Standards Board and adopted by the European Union (hereinafter referred to as EU-IFRS). Please see note 2 of the consolidated financial statements for a description of these principles. Participating interests, over which significant influence is exercised, are stated on the basis of the equity method.

The share in the result of participating interests consists of the share of EADS N.V. in the result of these participating interests. Results on transactions, where the transfer of assets and liabilities between EADS N.V. and its participating interests and mutually between participating interests themselves, are not incorporated insofar as they can be deemed to be unrealised.

Undistributed results from investments are included in the other legal reserves.

1.3 Changes in accounting principles

The amendment to IAS 19 introduces the accounting for actuarial gains and losses in connection with pension plans outside the income statement within retained earnings as a third option. EADS has decided to apply the newly introduced alternative for the accounting for actuarial gains and losses arising from defined benefit plans. Consequently, EADS now recognises changes in actuarial gains and losses in full for all its defined benefit plans immediately in retained earnings. The change in accounting principles relates to subsidiaries. EADS NV itself does not have defined benefit pension arrangements.

Prior periods had been presented using the corridor approach . For purpose of comparison, the comparative figures have been adjusted on the basis of modified accounting principles.

For further information, please see note 2 of the consolidated IFRS financial statements.

1.4 Summary of the effect of changes in accounting principle

The effect of the modified accounting principle in the company balance sheets is presented in the summary below:

(in €m)	1st January 2005 Financial Fixed Assets	1st January 2005 Stockholders' Equity	31st December 2005 Financial Fixed Assets	31st December 2005 Stockholders' Equity
Reported in prior year	14,639	16,210	13,378	13,726
Effect change in accounting principle	(397)	(397)	(672)	(672)
Prior year adjusted	14,242	15,813	12,706	13,054

In 2006, the change contributes € 25 million to net income. Actuarial gains and losses in the shareholders' equity at year-end 2006 amount to € -1,363 million.

The prior years' company income statements were not affected by the change in accounting principle.

2. Fixed assets

The goodwill acquisition costs end of 2006 amount to € 5,676 million (2005: € 5,676 million) and the cumulative amortisation and impairments to € 1,322 million (2005: € 1,322 million).

The movements in financial fixed assets are detailed as follows:

(in €m)	Affiliated Companies	Participations	Loans	Total
Balance at December 31, 2005	**10,889**	**77**	**1,740**	**12,706**
Acquisitions/additions		5	548	553
Reductions/redemptions	(737)		(96)	(833)
SOP/ESOP	40			40
Net income from investments	92	3		95
Actuarial gains/losses IAS 19	(691)			(691)
Dividends received	(529)	(2)		(531)
Translation differences/other changes	993	(7)	(27)	959
Balance at December 31, 2006	**10,057**	**76**	**2,165**	**12,298**

The translation differences/other changes reflect mainly the impact in the other comprehensive income related to the application of IAS 39.

The reductions in affiliated companies relates mainly to a decrease of the determined fair value of the 20% Airbus share in connection with the put option BAE Systems exercised in June 2006. Further information is provided in note 4 of the consolidated financial statements.

Significant subsidiaries, associates and joint ventures are listed in the appendix "Information on principal investments" to the consolidated financial statements.

The loans are provided to affiliated companies.

3. Receivables and other assets

(in €m)	2006	2005
Receivables from affiliated companies	4,253	3,841
Receivables from related companies	22	26
Other assets	112	92
Total receivables and other assets	**4,387**	**3,959**

The receivables from affiliated companies include mainly receivables in connection with the cash pooling in EADS N.V.

All receivables and other assets mature within one year.

4. Securities, Cash and cash equivalents

The securities comprise mainly available-for-sale Securities.

For 2006 year-end financial statements, EADS restricted its interpretation of cash equivalents definition. EADS now strictly limits its cash equivalents to such investments having a maturity of three months or less from acquisition date. The previous year figures have been reclassified in an amount of € 4,159 million to Securities. For further information, please see note 2 of the consolidated financial statements.

5. Stockholders' equity

(in €m)	Capital stock	Share premium from contributions	Share premium from cash	Revaluation reserves	Other legal reserves	Treasury shares	Retained earnings	Total equity
Balance at December 31, 2004	**810**	**8,459**	**493**	**5,999**	**1,836**	**(177)**	**(1,607)**	**15,813**
Capital increase	9		178					187
Net income							1,676	1,676
ESOP/SOP IFRS 2							33	33
Cash distribution			(396)					(396)
Transfer to other legal reserves					488		(488)	
Purchase of treasury shares						(288)		(288)
Cancellation of shares	(1)		(19)			20		
Others				(3,640)	(331)			(3,971)
Balance at December 31, 2005	**818**	**8,459**	**256**	**2,359**	**1,993**	**(445)**	**(386)**	**13,054**
Capital increase	5		89					94
Net income							99	99
ESOP/SOP IFRS 2							40	40
Cash distribution		(299)	(221)					(520)
Transfer to other legal reserves					494		(494)	
Purchase of treasury shares						(35)		(35)
Cancellation of shares	(7)		(124)			131		
Others				1,298	(1,015)			283
Balance at December 31, 2006	**816**	**8,160**	-	**3,657**	**1,472**	**(349)**	**(741)**	**13,015**

For further information to the Stockholders' equity, please see note 20 of the consolidated financial statements.

The revaluation reserves result from positive reserves of € 3,188 million (2005: € 1,962 million) resulting from changes in the fair values of financial instruments, recognised directly in equity and € 469 million (2005: € 397 million) resulting from the fair value of Securities classified as available for sale. An amount of € 15 million belongs to revaluation reserves related to EADS N.V. activities.

The other legal reserves are related to EADS' share in the undistributed results from investments for € 664 million (2005: € 580 million) internally generated capitalised development costs of € 873 million (2005: € 462 million), € 1,298 million (2005: € 1,623 million) resulting from currency translation effects of affiliated companies, compensated by the recognition of actuarial losses arising from defined benefit plans in equity of € 1,363 million (2005: € 672 million).

6. Non current liabilities

The financial liabilities include a long term loan, granted by the European Investment Bank to EADS in the amount of US$ 421 million. The decrease in 2006 reflects the currency translation impact. For further details, please see note 22 of the consolidated financial statements.

The non current other liabilities are mainly liabilities to affiliated companies and included in the cash pooling.

7. Liability for puttable instruments

The liability for puttable instruments in 2005 was related to the written put option granted to BAE System to put its 20% stake in Airbus. In June 2006, BAE Systems exercised its put option and the related liability was settled in October 2006 for an amount of € 2,750 million. For further information please see note 23 of the consolidated financial statements.

8. Current other liabilities

(in €m)	2006	2005
Liabilities to affiliated companies	13,726	9,904
Liabilities to related companies	874	703
Other liabilities	108	76
Total	**14,708**	**10,683**

The liabilities to affiliated companies include mainly liabilities in connection with the cash pooling in EADS N.V.

9. Financial instruments

By the nature of the activities carried out, EADS is exposed to a variety of financial risks, especially foreign currency exchange rate risks and interest risks. EADS uses financial instruments in order to limit these financial risks. Information to the terms and conditions of the financial instruments and the respective fair values is provided in note 30 of the consolidated financial statements.

10. Commitments and contingent liabilities

EADS N.V. issues guarantees on behalf of consolidated companies. The commitments of these companies to third parties mainly relate to their operating business as described in note 29 to the consolidated financial statements. The company is heading a fiscal unity, which also includes EADS Finance B.V.

11. Remuneration

The total **cash remuneration** and related compensation costs of the members of the Board of Directors and former directors in 2006 and 2005 can be specified as follows:

	2006 (in €)	2005 (in €)
Fixum	4,564,086	4,908,190
Bonus (related to reporting period)	2,361,451	4,850,449
Fees	395,000	260,000
	7,320,537	**10,018,639**

The cash remuneration of the members of the Board of Directors was as follows:

2006	Fixum	Bonus related to 2006	Fees	Total
Directors	(in €)	(in €)	(in €)	(in €)
Manfred Bischoff	60,000	43,750	100,000	203,750
Arnaud Lagardère	60,000	43,750	100,000	203,750
Thomas Enders	1,195,225	542,468	-	1.737,693
Louis Gallois (since July 06)	450,000	257,612	-	707,612
Louis Gallois (until end of June)	-	-	-	-
Jean-Paul Gut	943,693	456,527	-	1,400,220
Hans Peter Ring	951,193	456,527	-	1,407,720
Francois David	30,000	21,875	40,000	91,875
Rüdiger Grube	30,000	21,875	75,000(*)	126,875
Michael Rogowski	30,000	21,875	30,000	81,875
Juan Manuel Eguiagaray Ucelay	18,750	21,875	50,000	90,625
Former director(**)				
Noël Forgeard	795,225	473,317	-	1,268,542
Total	**4,564,086**	**2,361,451**	**395,000**	**7,320,537**

(*) Including regularisation of € 30,000 relating to the 2005 attendance fees paid in 2006.
(**) Prorata in accordance with his membership with the Board of Directors.

2005	Fixum	Bonus related to 2005	Fees	Total
Directors	(in €)	(in €)	(in €)	(in €)
Manfred Bischoff	60,000	184,250	90,000	334,250
Arnaud Lagardère	60,000	184,250	80,000	324,250
Thomas Enders(**)	737,560	820,556	-	1,558,116
Noël Forgeard	1,136,928	1,201,408	-	2,338,336
Jean-Paul Gut(**)	777,568	769,583	-	1,547,151
Hans Peter Ring	780,062	789,762	-	1,569,824
Francois David	20,000	92,125	30,000	142,125
Louis Gallois	-	-	-	-
Rüdiger Grube	20,000	92,125	(***)	112,125
Michael Rogowski	30,000	92,125	35,000	157,125
Juan Manuel Eguiagaray Ucelay	-	57,578	25,000	82,578
Former directors(*)				
Philippe Camus	624,911	227,685	-	852,596
Rainer Hertrich	624,911	227,685	-	852,596
Eckhard Cordes	10,000	30,708	-	40,708
Pedro Ferreras	16,250	49,901	-	66,151
Jean-René Fourtou	10,000	30,708	-	40,708
Total	**4,908,190**	**4,850,449**	**260,000**	**10,018,639**

(*) Prorata in accordance with their membership with the Board of Directors.
(**) Full Year remuneration.
(***) Regularised in 2006.

The table below gives an overview of the interests of the members of the Board of Directors under the various **long term incentive plans** of EADS:

Stock option plans

Number of options Year of plan	Initially granted	As at Jan. 1 2006	Granted in 2006	Exercised during 2006	**As at Dec. 31 2006**	Exercise price (in €)	Expiry date
Thomas Enders							
2000	50,000	50,000	-	-	50,000	20.90	July 8, 2010
2001	50,000	50,000	-	-	50,000	24.66	July 12, 2011
2002	50,000	-	-	-	-	16.96	August 8, 2012
2003	50,000	25,000	-	-	25,000	15.65	October 9, 2013
2004	50,000	50,000	-	-	50,000	24.32	October 7, 2014(*)
2005	135,000	135,000	-	-	135,000	33.91	Dec. 8, 2015(*)
2006	-	-	67,500	-	67,500	25,65	Dec. 16, 2016
Louis Gallois							
2006	-	-	67,500	-	67,500	25,65	Dec. 16, 2016
Jean-Paul Gut							
2000	50,000	-	-	-	-	20.90	July 8, 2010
2001	50,000	-	-	-	-	24.66	July 12, 2011
2002	50,000	50,000	-	50,000	-	16.96	August 8, 2012
2003	50,000	50,000	-	25,000	25,000	15.65	October 9, 2013
2004	50,000	50,000	-	-	50,000	24.32	October 7, 2014(*)
2005	100,000	100,000	-	-	100,000	33.91	Dec. 8, 2015(*)
2006	-	-	50,000	-	50,000	26.65	Dec. 16, 2016
Hans Peter Ring							
2000	10,000	10,000	-	-	10,000	20.90	July 8, 2010
2001	28,000	28,000	-	-	28,000	24.66	July 12, 2011
2002	37,000	37,000	-	-	37,000	16.96	August 8, 2012
2003	50,000	50,000	-	-	50,000	15.65	October 9, 2013
2004	50,000	50,000	-	-	50,000	24.32	October 7, 2014(*)
2005	100,000	100,000	-	-	100,000	33.91	Dec. 8, 2015(*)
2006	-	-	50,000	-	50,000	25,65	Dec. 16, 2016
Total	**1,010,000**	**835,000**	**235,000**	**75,000**	**995,000**		
Former Director:							
Noël Forgeard							
2000	110,000	43,000	-	43,000	-	20,90	July 8, 2010
2001	88,000	88,000	-	88,000	-	24,66	July 12, 2011
2002	108,000	108,000	-	108,000	-	16,96	August 8, 2012
2003	108,000	108,000	-	54,000	54,000	15,65	Oct. 9, 2013
2004	108,000	108,000	-	-	108,000	24,32	Oct. 7, 2014(*)
2005	135,000	135,000	-	-	135,000	33,91	Dec. 8, 2015(*)
Total	**657,000**	**590,000**	-	**293,000**	**297,000**		

(*) As regards to the 2004 and 2005 stock options plans, vesting of half of the options granted to Directors is subject to performance conditions.

Performance shares plan

Number of performance shares(**):	Granted in 2006	Vesting date
Thomas Enders	16,875	Publication of the 2009 annual results, expected in March 2010
Louis Gallois	16,875	Publication of the 2009 annual results, expected in March 2010
Jean-Paul Gut	12,500	Publication of the 2009 annual results, expected in March 2010
Hans Peter Ring	12,500	Publication of the 2009 annual results, expected in March 2010
Total	**58,750**	

(**) Vesting of all performance shares granted to Directors is subject to performance conditions.

As detailed above, the number of outstanding stock options granted to the Executive Board Directors was 995,000 as at 31st December 2006. To the other members of the Executive Committee, to the Group's senior management and to former members of the Board of Directors, the number of the outstanding stock options amounted to 30,033,689 at the same date.

The number of outstanding performance shares granted to the Executive Board Directors, subject to achievement of performance results, was 58,750 as at 31st December 2006. To the other members of the Executive Committee and to the Group's senior management, the number of the outstanding performance and restricted shares amounted to 1,677,175 at the same date.

For further information, please see note 31 of the consolidated IFRS financial statements.

Former Director

In 2006, Noël Forgeard was no longer eligible to grants of stock-options, nor to grants of performance shares.

Under the term of his employment contract, Noël Forgeard was entitled to:

- a 6 months notice period, which represents an amount of € 1,223,317 (salary and bonus);
- a termination package of € 4,893,268 (i.e. 24 months of total annual income);
- a 2-year non competition indemnity, which represents a monthly gross amount of € 101,917 (from 2007 onwards).

The **pension benefit** obligation for the Executive Board Directors is as follows:

The Executive Board Directors have pension promises as part of their employment agreements. The general policy is to give them annual pension of 50% of their annual base salary after five years in the Executive Committee of EADS at the age of 60 to 65. In case of the CEOs, the retirement age is 60. This obligation increases to 60% after ten years of service in the EADS Executive Committee.

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

For the Executive Board Directors, the amount of the pension defined benefit obligation, amounted to 23 million as of 31st December 2006. This obligation has been partly funded and accrued for in the consolidated financial statements for its unfunded portion.

Other benefits

The amounts reported above for the Executive Board Directors are free of benefits in kind they are entitled to, as well as all national social and income tax impacts.

Such executives are entitled to a company car. The value of the company cars of appointed Executive Board Directors is as follows:

For Thomas Enders € 81,772, for Louis Gallois € 23,752, for Jean-Paul Gut € 69,483 and for Hans Peter Ring € 96,400.

Mr. Thomas Enders benefits also from a free accommodation in France. The monthly lease amounts to € 3,878 on average.

EADS has not provided any loans to / advances to / guarantees on behalf of directors.

For further information to the remuneration, please see note 32 of the consolidated financial statements.

12. Employees

The number of persons employed by the company at year-end 2006 was 3 (2005: 2)

SUPPLEMENTARY INFORMATION

1. Auditors' Report

To: The European Aeronautic Defence and Space Company EADS N.V. shareholders

Report on the company financial statements

We have audited the accompanying 2006 company financial statements which are part of the financial statements of European Aeronautic Defence and Space Company EADS
N.V., Amsterdam, authorised for issue on March 8, 2007, which comprise the balance sheet as at December 31, 2006, the income statement for the year then ended, and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the company financial statements and for the preparation of the report of the Board of Directors, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the company financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on the company financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the company financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the company financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the company financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the company financial statements give a true and fair view of the financial position of European Aeronautic Defence and Space Company EADS N.V. as at December 31, 2006, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the report of the Board of Directors is consistent with the company financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Rotterdam, March 19, 2007	Amsterdam, March 19, 2007
KPMG Accountants N.V.	Ernst & Young Accountants
L.A. Blok	F.A.L. van der Bruggen

2. Other Supplementary Information

Appropriation of result

Articles 30 and 31 of the Articles of Association provide that the board of directors shall determine which part of the result shall be attributed to the reserves. The general meeting of shareholders may dispose of a reserve only upon a proposal of the Board of Directors and to the extent it is permitted by law and the Articles of Association. Dividends may only be paid after adoption of the annual accounts from which it appears that the shareholders' equity of the company is more than the amount of the issued and paid-in part of the capital increased by the reserves that must be maintained by law.

It will be proposed at the Annual General Meeting of Shareholders that the net profit of € 99 million as shown in the income statements for the financial year 2006 is to be added to retained earnings.

Subsequent events

For further information please see note 37 of the consolidated financial statements.

SHAREHOLDERS INFORMATION

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

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

By car

From all directions, follow Ring Amsterdam (A10). Exit RAI (S109) and turn right at the traffic lights, direction RAI/ Centrum (S109). Follow direction Zuid (S109). After passing the roundabout, take the second street on your right (Scheldestraat). After 500 meters, Hotel Okura appears on your right hand side.

Parking at the Hotel Okura Amsterdam.

By public transport

From Schiphol Airport:

- First itinerary:Take the train (direct rail link of 15 minutes) to Centraal Station in the main arrival plaza, and then see the hereafter indications.
- Second itinerary: Take a stop train, direction Duivendrecht, to the second stop (RAI Station), and then, follow the hereafter indications.

From Centraal Station - CS

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

From RAI Station

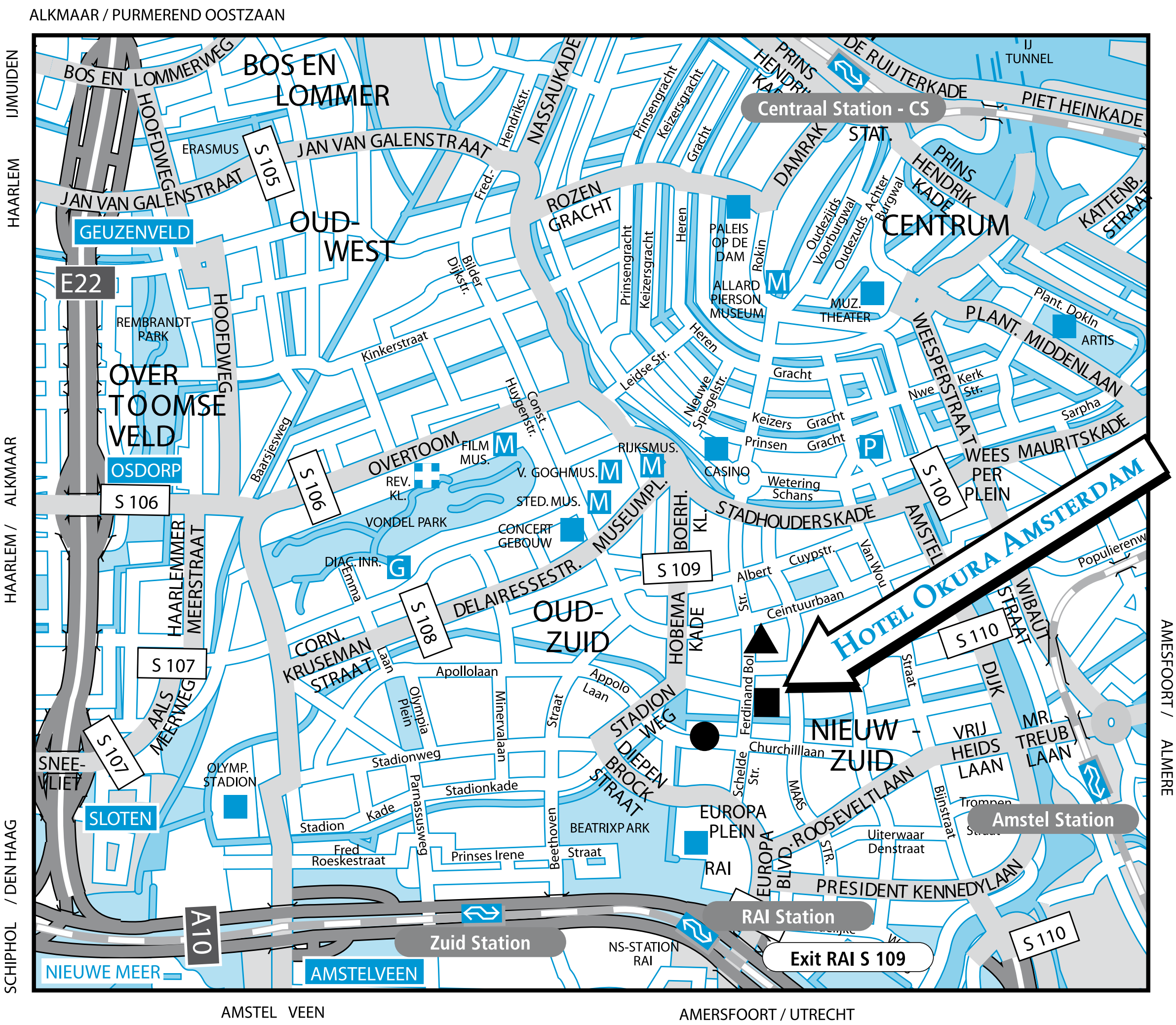
Walk in the direction of Europa Boulevard. Go straight away to Europaplein and then to Scheldestraat. After 500 meters, Hotel Okura appears on your right hand side, just after the bridge. Walking time: 10 minutes.

From Amstel Station

Take the tram number 12, direction Station Sloterdijk, to the fifth stop (Scheldestraat, see the map ●), or bus number 15, direction Station Sloterdijk, to the seventh stop (Scheldestraat, see the map ●). Walk in Churchilllaan for 100 meters, and then turn left in Ferdinand Bolstraat. After 100 meters, Hotel Okura appears on your right hand side, just after the bridge. Walking time: 3 minutes.

From Zuid Station

Take the bus number 15, direction Muiderpoortstation, to the fourth stop (Scheldestraat, see the map ●). Walk in Churchilllaan for 100 meters, and then turn left in Ferdinand Bolstraat. After 100 meters, Hotel Okura appears on your right hand side, just after the bridge. Walking time: 3 minutes.



ALKMAAR / PURMEREND OOSTZAAN
IJMUIDEN
HAARLEM
HAARLEM / ALKMAAR
SCHIPHOL / DEN HAAG
AMSTEL VEEN
AMERSFOORT / UTRECHT
AMESFOORT / ALMERE
BOS EN LOMMER
OUD-WEST
CENTRUM
OVER TOOMSE VELD
OUD-ZUID
NIEUW - ZUID
Centraal Station - CS
Amstel Station
RAI Station
Zuid Station
Exit RAI S 109
HOTEL OKURA AMSTERDAM
GEUZENVELD
OSDORP
SLOTEN
NIEUWE MEER
AMSTELVEEN
E22
A10
S 105
S 106
S 107
S 108
S 109
S 100
S 110

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(free call)

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Limited liability company (naamloze vennootschap)

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